

Evaluating the Impact of International Financial Institutions on State Bureaucratic Quality in Turkey

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ABSTRACT

The intense involvement of two prominent international financial institutions, the International Monetary Fund (IMF) and the World Bank, in the implementation of neoliberal policies, particularly after the 1980s, has a negative impact on bureaucratic quality in Turkey via conditionality practices offering administrative and structural regulations. According to Immanuel Wallerstein, a well-known sociologist, the world economy is basically divided into two geographic and cultural regions: the capitalist core, which has military and economic power and advanced technology; and the periphery, which is economically less advanced, focuses on labor-intensive production, and is heavily dependent on raw material trade. The dynamic between these two groups is mainly established upon the trade relations. Yet, as the neoliberal transformation has been accelerating since 1980s, weakening the bureaucratic quality, the international financial institutions take on the role of maintaining the core-periphery dynamics through a set of regulations and amendments imposed on periphery countries as conditions for the programs they offer. Turkey, as one of the peripheral countries, experiences its neoliberal transformation under the leadership of IMF and the World Bank starting from 1980s. Besides the economic catastrophes and crises as a result of neoliberal policy implementations under the supervision of these institutions, weakened bureaucratic quality is another very important consequence. An OLS estimation conducted in the thesis shows how the conditions applied negatively affects the bureaucratic quality in Turkey for the years between 1980 and 2008.

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The goal of this study is to uncover and assess the bureaucratic quality in Turkey after the introduction of neoliberal policies in 1980 with the assistance of the Bretton Woods twins, the International Monetary Fund (IMF) and the International Bank for Restructuring and Development (IBRD) also known as the World Bank. The roles and functions of both institutions are discussed through the lens of Wallerstein's world system theory with special attention to their role to ensure the continuity of the USA hegemony established after World War II and its transformations in parallel with alterations in the USA hegemony, to facilitate the neoliberal paradigm shift in 1980s, and to incorporate the Global South countries into the new order. In this context, the historical and economic-political contexts will be used to evaluate the establishment of these two organizations, their bureaucratic structures, member states, and the influence and involvement of these states in decision-making stages. Furthermore, the thesis explores the shifting policies of both institutions throughout time, as well as their involvement in the expansion of neoliberalization, which evolved as a response to capitalism's endogenous crises in conjunction with global economic transition, particularly since the 1970s. The intense and deep crises experienced in the Global South countries following the 1980s, as well as the social and economic transformations observed in these countries with the high intervention and involvement of these Bretton Wood twins, particularly after the 1970s, demonstrate that these institutes have moved away from their founding goals or shaped the economic order over time, developing policies in response to the newly shaped economic order and renewing their agenda. Turkey is one of the countries that has experienced neoliberal transformations with the rigorous presence of a military administration and with the assistance of the IMF and World Bank. Turkey's relationship with these institutions, which grew stronger after 1980, is evaluated in light of the country's own modernisation history: The thesis begins with the Tanzimat period and the first modernization period in this setting, and Turkey's connection with these institutions until the 1980s is addressed following

modernization theory and historical background. The post-1980 period is scrutinized, and all decisions made and programs implemented are reviewed along with their economic outcomes. The discussion in the literature for nearly forty years on, aside from the economic outcomes of growing involvement and participation of the IMF and World Bank in policymaking in Global South countries, is empirically questioned in this thesis for Turkey in the simplest form. The aim of the study is to evaluate the effects of IMF and the World Bank policies on the bureaucratic quality of Turkey for the years between 1980 and 2008 by constructing the bridge between the historical and theoretical background in the political economic context and the empirical findings.

The role of state capacity which highly relies on the enhanced bureaucratic quality is seemed as essential part for the economic development, especially for Global South countries throughout 20th century. It is perceived key for developing, improving and implementing effective economic policies. From the early years of the Republic till 1980s, Turkey put high effort to constitute effective economic development programs directly prepared and implemented by Turkish government.

The motivation behind selecting the Turkey case is crucial at this point. Besides the fact that Turkey case in explaining the influences of IFIs on bureaucratic quality gives a concrete framework to the theories explaining the newly formed relations between core and periphery, the Turkey case is important to show how dominant perception saying the state capacity is essential for economic development changes with the neoliberal transformation led by IMF and the World Bank. This focus is missing from the literature and this thesis fills this gap.

This thesis is a mixed study, with a focus on qualitative component from the political economy standpoint given the historical background, with the goal of bridging the theoretical framework and empirical findings. The empirical design of the study aims to investigate the

effect of the interventions of IFIs on the bureaucratic quality of Turkey for the years between 1980 and 2008. For this purpose, the International Country Risk Guide (ICRG) index, the outcome variable, is chosen as a representative measure of bureaucratic quality; to observe the total effect of IFI presence for the given years and a simple linear regression is conducted with IFI practices as independent variable.

INTRODUCTION

Turkey has a long history with International Financial Institutions (IFIs), dating back to the late 1940s¹, as a Global South country viewing that economic development, which is as an important part of a long modernization process that has its roots in the Tanzimat period and later became one of the republic's founding principles. It relies on integrating its institutions into Western doctrine (see, for example, Boratav, 2018; Kepenek, 2016). Turkey-IFI relations, as well as the decisions and practices that resulted from these relations, can be examined in two time periods: before and after 1980, which correspond to turning point in the IFIs' agendas and their direction, as well as the political and economic environment in Turkey. Despite their organizational similarities. The World Bank, and the International Monetary Fund (IMF) serve distinct functions in the global economy: the World Bank was established for, and has been running for decades with the goal of, supplying long-term loans to countries for investment; while the IMF has been responsible for short-term loans and exchange stability (see, Weaver, 2007; Culpeper, 2006; Barnett & Finnemore, 2004). Yet, in the 1970s, the practices of these two institutions began to converge as the World Bank's and international commercial banks' relationships in financial markets got stronger (Kazgan, 1988), and throughout the 1980s, both institutions served as promoters of neoliberal agents, actively promoting market-liberalizing reforms over some specific organizational practices on borrowing countries such as conditionality (Babb & Kentikelenis, 2018). The Turkish economic sphere began its transition to neoliberalism in the early 1980s, with the emergence of a stabilization and structural adjustment program introducing the trade openness through a new political agenda, under the supervision and notable assistance and support of the IMF and World Bank as one of the first

¹ The document announcing the act of membership of IMF and World Bank Group released on the website of Grand National Assembly of Turkey:
https://www.tbmm.gov.tr/tutanaklar/KANUNLAR_KARARLAR/kanuntbmmc068/kanuntbmmc068/kanuntbmmc06803066.pdf

"testing grounds" for them (Terzioglu et al, 2016). As “neoliberal agents” (Babb & Kentikelenis, 2018), these two Bretton Woods twins (The World Bank and the IMF) actively participated in putting pressure on Global South countries to pursue market liberalization.

Besides that, inclusion in Western institutions or adaptation of Western doctrines appears to be essential for the envisagement of economic development in political atmosphere of Turkey, one of the important cornerstones of the old-drafted modernization idea. Yet, some scholars place Western-dominant international organizations in a much different context in the literature centring around the idea that the foreign aids supplied by these Western-dominant international organizations undertake the role of extending the core-periphery relation roughly over "foreign aids" along with the new trade rules as a part of the conditionality practices; and have an enormous impact on the bureaucratic quality which is directly related to the policy-developing capacity of the states for the economic development (Reinsberg et al., 2019). When Turkey's relations with these two Bretton Woods twins are examined in the context of the post-1980 neoliberal paradigm change in the international economy, it is clear that Turkey is incorporated to the core as a periphery country through these institutions and their programs. Stability programs performed by these institutions might be viewed as catalysts for Turkey's incorporation process following the 1980s. The failures of previous stabilization initiatives, as well as the new programs created as a result of these failures, can be viewed as one of the primary causes of the economic crises that have occurred in succession since the 1980s. As a result, Turkey's experience with the IMF and the World Bank, particularly after 1980, might be viewed as Turkey's era of economic crises with the policies implemented by the weakened bureaucratic quality.

The goal of this study is to uncover and assess the state capacity in Turkey after the introduction of neoliberal policies in 1980 with the assistance of the Bretton Woods twins. The roles and functions of both institutions, which ensure the continuity of the USA hegemony

established after World War II and that have undergone transformations in parallel with alterations in the USA hegemony, the neoliberal paradigm shift in 1980, and the incorporation of the Global South countries into the new order, are discussed through the lens of Wallerstein's world system theory.

In his influential book, *Economy and Society*, Max Weber (1968) puts the bureaucracy as one of the institutional pillars of capitalist market economy, emphasizing the functional interaction between bureaucracy and the market economy. From this point of view, bureaucratization is essential for the growth of the capitalist market economy. In Weberian world, bureaucracy basically refers to the rationalization of the structures of administrative and legal functioning systems. So, the notion that rationalized bureaucratic structure is a necessity for economic development and effective economic policymaking is commonly found in the literature (for example; Amsden 1989; Wade 1990; Evans 1995; Weiss 1998; Evans and Rauch 1999; Waldner 1999; Chanda and Putterman 2002; Kohli 2004; Dincecco and Katz 2012; and Dincecco and Prado 2012; Hamm and King 2010; Mazzucato 2015). Besides the causal relationship between the administrative abilities and effective policy making and economic development, there is a large literature on determinants of state capacity, seeking for elements that affect or have control over bureaucracy and its building. After Tilly (1975) pioneered the use of external conflicts and war to explain historical drivers of state capacity creation, Centeno (2002) and Thies (2005), Cardenas (2010), Hendrix (2010), and Dincecco (2011) followed suit.

Endogenizing the previously omitted variables such as corruption in search of institutional effects in economic development, Acemoğlu (1998), focused on the role of incentives to invest in state capacity (Cingolani 2013). In contrast to Tilly's (1975) emphasis on external factors, some researchers concentrated on internal dynamics to explain state capacity influencing factors stating that the internal conflicts arising from the interaction between political and social groups are the main drives (see, for example Levi 1988, Geddes

1996). Furthermore, some scholars have incorporated the idea that international forces impact state capabilities into the literature, based on Wallerstein's global system theory (1974). Giving the studies of Hanley, King, and Tóth (2002), Panitch and Gindin (2012), and as examples, Reisenberg et al., (2019) opens a new way of thinking about the hypothesis that international organizations, such as the European Union and the World Bank are the new catalyst actors deepening the core-periphery relation introduced by Wallerstein in world-system theory.

From this point of view these international organizations are the actors keeping the system defined by Wallerstein balanced, by weakening the bureaucratic quality in peripheral countries. Given that the fact that international financial organizations pioneered the implementation of neoliberal policies that would lead to major economic crises after the 1980s in the Global South countries, and at the same time, keeping aside the fact that their policies or the way of implementation were the main cause of these crises, offering some conditions to these countries to overcome these crises, offering structural programs and making them debtors, it will be noticed that these international financial organizations are the executives of the post-core-periphery relationship in the Global South countries.

Turkey is one of the countries that has experienced neoliberal transformations under the rigorous presence of a military administration and with the assistance of the IMF and World Bank. Going back to the period of the establishment of modern Turkey and taking into account the economic and social modernization process of Turkey give hints about the institutional transformations and alterations have always been under Western influence. Considering the impact of a new neoliberal economic agenda introduced through 1980s by the IMF and the World Bank on the bureaucratic quality of Turkey, which has a very dynamic and sophisticated relationship with these institutions, Turkey represents a concrete example for the hypotheses that the IFI interventions weakens the state capacity and lower the bureaucratic quality which in turn amplifies the effects of wrong policy implementations.

1. HISTORICAL BACKGROUND AND LITERATURE REVIEW

1.1. The (Economic) Modernization Process of Turkey and the Idea of Adapting the Western Doctrine into Institutions: A Glance at the Bureaucratic Structure of Turkey

Renewing or improving the existing economic order through reforms and regulations that refer to the structure and influence of Western institutions is not a phenomenon unique to 1980s' Turkey; remarkably similar actions can be seen in the late nineteenth century, which corresponds to the Ottoman Empire's dying days. To understand the motivation behind Turkey's relationship with the IFIs especially after 1980, it is necessary to have a look at shortly and examine the regulations that began at the final days of the Ottoman Empire and aimed to reform institutions in accordance with Western bureaucratic principles. Inquiring about the motivational similarities between the Ottoman empire's actions at that time, which were incorporated into the rapidly industrializing core, and the Turkish Republic's actions during the 1980s, wanting to adapt its already unstable economy to the new world order in the face of neoliberal shift, provides important clues about Turkey's approaches to the building, transformation, and variables of bureaucratic quality.

The Ottoman Empire's socio-cultural transformation, known as the modernization or westernization movement, was accelerated in the nineteenth century by Ottoman intellectuals and bureaucrats' efforts to catch up with the West in lifestyle, technical knowledge, and education. With the signing of the British Trade Agreement in 1838, the Ottoman economy was opened to the capitalist world economy, and it played a significant role in the modernization movement, serving as a critical turning point (Berkes, 2022).

According to Kazgan (2022), the most noticeable changes in institutions during this period were as follows: some old traditional institutions were demolished, foreign schools were

established, and economics books were translated into Ottoman language. While the Ottoman was incorporated into the centre, its bureaucracy grew, and those educated in Western institutions took their place in this central bureaucracy (Pamuk, 2022). From this vantage point, it is reasonable to conclude that the most rapidly observed effect of the effort to transform institutes through modernization purposes is on the bureaucracy. Around all these transformations and changes, the bureaucratic structure takes on a new form. And again and again, it is an important detail to note that this transformation has occurred or is desired to occur in the axis of western institutions.

The Tanzimat Period, which introduced regulations in many areas, is critical for understanding the footfall of the Ottoman Empire's late periods and the new regime's bureaucratic foundations. Although the Tanzimat period's policies mainly aimed at westernization and institutional transformation did not directly offer a Weberian concept of rationalized bureaucracy, administrative changes indirectly provided the bureaucracy with the opportunity to develop (Lewis, 1978, p.90).

According to Mardin (1996) another factor that contributed to the bureaucracy's expansion was the participation of non-military elites educated in Western educational institutions in the bureaucracy. This indicates both western influence in the reforms and the establishment of the rationalized bureaucracy required for the market economy to function, and thus the first development in the context of Ottoman society and the young republic's relationship with the West and the market economy.

The impact of technocrat characteristics on the organizational formation of the Bretton Wood twins is significant, as will be discussed later. These institutions' technocrats are educated in similar educational institutions and come from similar economic schools of thought. In the context of Turkey, particularly after the 1980s, IMF and World Bank policies

are made under the leadership of Turkish technocrats working in these institutions. At this point, it is possible to assert that similar patterns in the shaping of the bureaucratic structure existed in different periods, and that a bureaucratic path was followed in accordance with the Bretton Woods twins' ideological agenda in the post-1980 period.

1.2. A Turning Point in 1980: Introducing the Neoliberal Agenda and the Role of IFIs

The 1980 program² is regarded as a pivotal point for the Turkish economy in terms of economic openness and liberalization (see Kazgan, 2022; Boratav, 2018; Pamuk, 2022; Kepenek, 2016). It should be noted that these decisions occurred during a period when democracy was disrupted by a military coup. Only the military regime, not any political party nor any civil group, has a say in major decisions and practices during this period. Nas (1992) interprets that Turkey's early 1980s atmosphere created through the military coup is very suitable for a new highly centralized policymaking style and technocratic initiatives. In fact, when the new constitution created in 1982 is examined, it is noticed that the centralized policy-making style is prioritized (please see www.mevzuat.gov.tr/mevzuatmetin/1.5.2709.pdf).

In addition to the new constitution, the delivery of the 1980 program to Turgut Özal, formerly the director of the State Planning Organization (SPO), is the first and most concrete indicator of this technocratic, centralized new style policy-making trend. Özal, on the other hand, contributes to this tightly centralized new technocratic initiative by promoting economists like himself who were educated in American-based schools and worked in policy-making departments at institutions like the IMF and World Bank. Even though this program

² The 1980 program or reform package, also known as the January 24 decisions, is a set of structural decisions that aim to open up the economy by giving up the dominant policy of the pre-1980 period, import substitution industrialization, and increasing economic competition (see Karluk, 1996; Kazgan, 1985; Oyan, 1988; Ulugay, 1984). It can be conceptualized as the institutionalization of the market economy. Among the prominent decisions of this program are strategies for devaluation, reduction of state interventions in market functioning, liberalization of foreign trade, and promotion of foreign direct investments (Yeldan, 2001) over three main elements: exchange rate policy, price policy and stabilization policy (Gürkan, 1996).

has been implemented by technocrats who have previously worked for the IMF and World Bank and are in contact with these institutions, there has been no official support or intervention from these institutions (Okyar, 1983). However, in June 1980, several months after the 1980 program was announced, an IMF agreement came to the stage, and the IMF and World Bank continued to provide assistance to Turkey throughout the 1980s.

Following the agreement signed on June 1980, Turkey had one-year stand-by agreements in June 1983 and April 1984. During this time, while the IMF focused on fiscal policies and requested Turkey to limit the expansion of the money supply; the World Bank, on the other hand, focused on trade liberalization through export support, structural reform in the public sector, capital market reform through financial sector strengthening, and agricultural and energy sector reforms (Ekzen, 2016, p. 99-100).

In its annual report in 1987, the World Bank declared that structural adjustment programs had been successful in terms of adaptation (Ekzen, 2016, p. 111).

All in all, by the end of the 1980s, Turkey had taken significant steps toward financial and trade liberalization, which was a global economic trend in the 1980s, through IMF and World Bank programs. However, despite being on the agenda and frequently discussed, financial liberalization had yet to be implemented (Ekzen, 2016, p. 118-119).

1.3. The 1994 Crisis and the 1997 Asian Crisis

The Turkish Lira appreciated as a result of trade liberalization: an increase in the amount of foreign currency entering Turkey in the 1990s led to rising demands for the Turkish Lira. The implementation of the Central Bank's monetary expansion policy in order to reduce interest rates increased demand for foreign currency at the time, leading to the domestic debt problem and pushing Turkey into the 1994 crisis (Boratav, 2018, p. 154-186). Following the emergence of the economic crisis in April 1994, Turkey and the IMF signed a one-year stand-by

agreement. This stand-by agreement was accompanied by the 'primary surplus' practice, which guarantees foreign creditors to secure foreign capital.

As previously stated, the IMF and the World Bank were the most vocal supporters and promoters of trade liberalization in Turkey in the 1980s. It was predictable that the economy would fluctuate, and some problems would arise following trade liberalization after years passed over import substitute industrialization policy; however, this could not be expected to turn into a crisis. As can be seen from the economic mechanism that led to the crisis explained above, the inadequacy and inaccuracy of the policies implemented is the most important cause of the crisis.

Contrary to what was stated in the World Bank report issued in 1987, it is appropriate to point out that adaptation has not been done well. Although it is considered a successful adaptation in terms of economic targets, the side effects of these economic targets are not emphasized or given much weight. It is clear that the weakened local bureaucratic decisions have pulled the economy into a crisis, and they are insufficient to manage this crisis.

The Asian Crisis of 1997, quickly escalated from a regional to a global crisis, had a direct impact on Turkey's participation in the global economy, or its incorporation into the neoliberal economy, as well as its relations with the IMF and World Bank. Heavily affected by the 1994 crisis and faced the inadequacy of its bureaucratic power, Turkey's relations with the IMF and the World Bank, changed after this date; beginning with the 1998 Monitoring Agreement, the IMF and the World Bank's influence in Turkey's economic, political, and social policies was “institutionalized” (Bağımsız Sosyal Bilimciler, 2007, p.7). After 1980, the impact of international economic organizations on national development policies noticeably grew (Kırmızıaltın, 2012, p. 55), and these organizations have become major players in national economic policies (Şenses, 2004, p.13-14).

1.4. The 1998 Program and the 2000-2001 Crises

The Monitoring Agreement signed with the IMF in 1998, as well as the economic targets promised in this agreement, resulted in radical changes not only in the economy but also in Turkey's entire social life. The IMF and the World Bank were in charge of Turkey's economic policies as the new millennium began (Çoban, 2007, p. 123-125). The IMF and Turkey signed the 17th stand-by agreement on December 22, 1999. As a result, Turkey entered the 2000 and 2001 crises under the IMF program.

The problematic structure of the banking system in Turkey played an important role in the 2000 and 2001 crises. The lack of public supervision, insufficient financial resources, the fact that public banks, which account for nearly half of the banking system, assumed the public debt with public debt securities, the state's constant demand for funds from banks, and the fixed exchange rate policy all harmed the capital structure of the banks, resulting in exchange and interest rate risk (Çoban, 2007, p. 189).

Economic historians agree on that the 2000 banking crisis was caused by free market practices that had been practiced in Turkey since the 1980s (see, for example, Kazgan, 2022; Boratav, 2018; Çoban, 2007; Kepenek, 2016); banking sector liberalizations were plagued by numerous issues, including a lack of legal regulations, the banks' problematic borrowing style, the systems foreign exchange deficit, and thus the rapid outflow of foreign capital, which exacerbated the crisis.

The fixed exchange rate regime specified in the IMF Monitoring Agreement, applied to combat inflation, and the political atmosphere were the main causes of the February 2001 crisis, which began in the financial sector initially and then spread to the real sector. The banking sector crisis that began in November 2000 evolved into a currency crisis in February 2001, and the three-year medium-term economic plan signed in 1999 came to an end. The IMF's crawling

peg program was abandoned, and a floating exchange rate system was implemented. Following the crisis, Turkey abandoned the IMF program, in which the foreign exchange rate was gradually reduced by tying it to a schedule, and the Central Bank's inflation targeting, primary surplus was targeted, and the classical IMF program, in which the floating exchange rate was followed, was reinstated. The IMF loaned \$80 billion during the 2001 crisis on the condition that the banking, telecommunications, and airline sectors be privatized, capital flows and foreign ownership be liberalized, and the Central Bank be autonomous.

The 2001 Crisis had a significant impact on Turkey's politics, economy, and social life. The Turkish economy has been in one of the worst recessions in its history. Following the crisis, the government summoned Kemal Derviş, one of the World Bank's vice presidents, to Turkey, and a new economic program was implemented on May 15, 2001. With this program, the exchange rate policies that had been in place were completely abandoned, and inflation targeting was implemented (Coban, 2007, p. 140-141).

For Kemal Derviş, a parenthesis must be opened here. Because of his work and position at the World Bank, the decision to hire Derviş as the program's main implementer is critical in terms of incorporating neoliberal policies and the core. In the early 2000s, a similar approach was demonstrated in the IMF and the World Bank to get out of the economic depression, despite the fact that it was the source of the problem. Under the influence of these two institutions, a new economic program is being implemented without addressing the bureaucracy's inability to produce effective policies and other structural issues. Furthermore, this time the savior figure comes directly from these institutions.

1.5. After the 2001 Crisis

As previously stated, Turkey's neoliberalization process occurred under the military coup atmosphere that disrupted democracy. It was emphasized that the policies implemented with

the support of the IMF and the World Bank at the time had a centralized structure and were the result of decisions that were not made democratically. By the end of the 1990s, this attitude had been maintained; IMF programs implemented in Turkey were adopted regardless of the political parties' or any civil groups' views.

While all parties running in the 1999 general election stated in their election manifestos that they supported the IMF and World Bank's economic policies, only one of the six parties running in the 2002 elections stated in their election manifesto that they would pursue a different economic policy than the IMF program (Bağımsız Sosyal Bilimciler, 2007, p. 20-23).

It was also stated above that the main goal of Turkey's stabilization programs implemented since 2000 has been lowering the inflation rate. This is motivated by encouraging foreign capital inflows, achieving high real returns in financial markets for this purpose, and continuing debt payments (Bağımsız Sosyal Bilimciler, 2007, p.76). Accordingly, Turkey has committed to reducing debt by generating a primary surplus in its letter of intent submitted to the IMF in order to secure a standby agreement. To accomplish this, tools such as cutting government (social welfare state) expenditures and eliminating subsidies were used: public resources were transferred to the private sector, and privatizations were implemented in a variety of areas ranging from health to education (Bağımsız Sosyal Bilimciler, 2007, p. 78-79).

By the early 2000s, the effects of neoliberal policies had become increasingly clear; production approaches and policies in Turkey had shifted. As a result of IMF policies, imports of overvalued currencies were encouraged in order to achieve inflation targeting, hampered domestic production. As the value of goods exported and imported in foreign currency depreciated in terms of the national currency, the export-oriented industry began to use imported inputs instead of domestic inputs to protect profits and maintain exports. Large enterprises substituted imported labor, imported equipment, and imported intermediate goods

for domestic intermediate goods, resulting in increased exports (please see Kazgan, 2022; Boratav, 2018; Çoban, 2007; Kepenek, 2016).

In a press release issued by the IMF in May 2005, Turkey's economic success was praised, emphasizing falling inflation and growth rates. This success has been attributed to free trade policy and integration into the global economy. In summary, globalization and Turkey's successful implementation of the IMF-prepared program were cited as the reasons for the country's success in meeting economic targets (Bağımsız Sosyal Bilimciler, 2007, p. 41-43).

The other side of the coin, however, depicts a different reality than IMF statements. Following the 1980s, 'periphery economies' specialized in production based on simple technologies and cheap labor, in line with the global economy's specialization-based division. Labor-intensive industries that require low investment rates and use cheap labor have emerged in peripheral economies. Parallel to these economic relations, while Turkey produces whatever it can cheaply produce, the manufacturing industry has evolved into an export-based structure that relies on imported intermediate (Bağımsız Sosyal Bilimciler, 2007, p. 52-53). As a result, between 2000 and 2004, exports increased by 19% per year, while manufacturing industry growth remained at 4% (Bağımsız Sosyal Bilimciler, 2007, p. 63).

2. LOOKING AT THE IFIs: THEIR BACKGROUND, PRINCIPLES, AND AGENDA SHIFT

Because of their close relationship with Turkey since 1940s, the Bretton Woods twins, the IMF and the World Bank, are included in the scope of this thesis. The foundation of these two institutions, their bureaucratic and organizational structures, target countries and missions, and their evolution over time will be discussed in this section. Lastly, some criticisms of these institutions' roles in the global economy will be included.

2.1. International Monetary Fund

The IMF was founded in 1944 in Bretton Woods, New York, with the participation of 45 countries to ensure financial stability in the global economy. The IMF was officially created in 1945, with the signing of a treaty agreement by 29 countries at a meeting organized to reduce and eliminate the devastating effects of the 1929 crisis and World War II (Kirmizialtin, 2012, p.56).

At Bretton Woods, two plans were likely to be implemented: the White Plan and the Keynes Plan. The Keynes Plan advocated for a union to balance international payments and the introduction of a new supranational currency valued in gold for international transactions. The White Plan, on the other hand, recommended the establishment of two institutions to handle financial stability and country restructuring in the international economy, as well as the use of the US Dollar as a reserve currency, the value of which was decided by gold (Kirmizialtin, 2012, p. 56-57).

The White Plan was chosen over the other two options. Thacker (1999) stated that the establishment of the IMF was designed in accordance with the ideology of western capitalism, and emphasized that, while the target countries are economically developing, IMF was shaped by industrialized countries, as will be discussed in detail in the following sections of the thesis.

In the case of the IMF, this is also supported by the voting mechanism at the decision-making stage: the quota in the IMF decision-making mechanism determines the number of votes, and according to figures provided on the IMF official website, the United States has the most voting power, accounting for 17.49% of the total quota. The United States is followed by Germany (5.59%), the United Kingdom (4.23%), and France (4.23%).

According to the IMF's official website, it primarily performs three functions: monitoring (surveillance), technical assistance (capacity development), and lending. While the role of monitoring is described as tracking the economic and financial policies domestically, regionally and globally, technical assistance covers the central bank monetary and exchange rate policy, tax policy and administration, and providing official statistics support. Finally, lending entails allowing member countries to use their loans to assist solve balance-of-payments difficulties, stabilize economies, and promote long-term economic growth. Among these three roles, lending is the one that allows for intervention in the country's economy and, as a result, in some other social and political aspects.

IMF loans are utilized for a specific purpose, with conditions and a limit. The country that will benefit from the IMF's financial resources must follow the necessary regulations and criteria for the resource from which it will benefit.

Stand-by agreements are one of the IMF's most essential credit arrangements. Many countries, including Turkey, are often funded through these agreements, and certain economic policy responsibilities known as "stability policy" must be met in order for this financing to be implemented.

2.2. The World Bank

The World Bank is another Bretton Woods organization. The Bretton Woods twins, the IMF and the World Bank, collaborated in structural transformations of Global South countries,

particularly in the post-1980 period. By the 1980s, they had moved away from their original goals and were working together as complimentary partners for an entirely different cause. Although their founding intentions differ, they have structural and administrative similarities as twins of the same conference.

The International Bank for Reconstruction and Development (IBRD) was established with the primary goal of rebuilding Europe after the Second World War and assisting it in its economic recovery. In other terms, it is to develop programs to strengthen European countries' infrastructures. During the foundation years, peripheral countries were not on the agenda; the goal is to rehabilitate the infrastructures of central European countries that were severely destroyed by the war. The International Finance Corporation (IFC) was founded in 1956 with the goal of assisting economically undeveloped countries in adapting to a liberal economy and developing private sector activity in these countries (Cohn, 2004, p. 331-331). As a result, by the 1950s, the World Bank had two distinct branches.

The International Development Association (IDA) was established in 1960 with the goal of eliminating poverty, and Robert McNamara was appointed as the bank's president in 1968, and with these two developments, the World Bank's impact on the Global South countries grew (Zabcı, 2009, p. 37). The bank's shift in focus to poverty indicates an important point: the mission of restoring Europe's post-war damage has been completed. During the McNamara administration, the state played a key role in bolstering the weak economy and combating poverty, and development plans were developed in which the state played an active role. However, this approach, which was popular throughout McNamara's tenure, fell out of favour as a result of the debt crisis that erupted in the 1980s, particularly in Latin America (Zabcı, 2009, p.40).

The World Bank's policies toward the Global South have been transformed by neoliberalism, a new economic paradigm, and the new economic order following the debt crisis. In the new era, the World Bank began to focus on economic restructuring under the guise of structural adjustment, while also taking debt repayment into account (Kirmizialtin, 2012, p70).

The World Bank suggests that the planned structural adjustments are necessary for the nations' development. When it comes to loans, the IMF and the World Bank, on the other hand, usually work together. For example, the World Bank's Structural Adaptation Loans are only issued if approved by the IMF, therefore the governments must accept IMF criteria (Zabcı, 2009, p.42). It is critical to comprehend how these two organizations collaborate with each other. The World Bank makes loans with the consent of the IMF; in other words, the IMF hold sway over the World Bank's decision-making process. However, there is an important point to note here: the IMF creates propaganda with the purpose of economic stability, whereas the World Bank creates propaganda with the goal of development. Despite their discourse differences, their economic policies are basically the same and they mostly behave together.

2.3. The Conditionality Practice and the World-System Theory

Since its foundation, the World Bank has granted loans on project-specific conditions, which include the duration suggested for project implementation as well as the period during which the project was implemented. However, with the adoption of structural adjustment programs following the 1980s, the scope of these conditions grew and began to cover issues such as balance of payments and economic development, which are directly tied to the country's economy, rather than being project-based. As before, macroeconomic reforms were sought at the national level rather than just the project-related sectors or sub-sectors. These reforms also contained various modifications and alterations that benefited in the process of liberalization (Boas, 2003, p.64). The expansion of structural adjustment programs resulted in many negative consequences; up to 100 conditions became harder to meet (Boas, 2003, p.67).

The IMF imposes conditions on countries seeking credit in order to decrease government intervention in the economy; this is known as the IMF's conditionality principle. The IMF's conditions vary for every country, but the devaluation of the national currency and the market-based exchange rate system, which are deemed crucial for preserving the current budget and trade balance, are shared by almost all of them. The government's financial regulations, which decrease the money supply and bring about wage cuts, serve as the basis for stability and adjustment programs. For this purpose, government spending is being cut. At the same time, the necessity to reduce tariffs for liberalization is in effect. In short, the IMF and World Bank programs seek to limit the role of the state intervention in the economy through conditions they put (Biersteker, 1990). As a result, the state acts as sort of a go-between for the private sector, employees, employers, and capital in relation to the IMF and World Bank's conditions. Decisions made in the guise of cutting government spending and liberalizing trade work against labourers, while privatizations reduce the role of the state in the economy.

Since the 1980s, the fundamental structure of global political economy has changed through the agenda and applications of IMF and World Bank, causing global political economy to globalize and liberalize. Governmental bodies were organized concurrently, and the state became transnational (Gill, 1998, p. 261).

Moreover, conditionality raises two major concerns, especially after 1980 turning point: legitimacy and efficacy uncertainty. Referring to Buira (2005b), Engler (2006), Best (2007), Lerrick (2007), Babb and Carruthers (2008) points out that the Bretton Woods twins are currently experiencing a legitimacy issue because although industrialized core have the highest vote power for setting the conditions for the borrower governments, they are not in the position to be imposed such conditions and so, they do not suffer from the consequences of the conditionality practices. In other words, wealthy, highly industrialized core countries are decisive on the economic and political policy-making procedure of the Global South countries.

When it comes to the issue of efficacy ambiguity, using Stiglitz's (2002) study as an example, Babb (2008) claims that during the 1980s and 1990s, when the IMF and the World Bank vigorously promoted market economies, most economies deteriorated after implementing stabilization programs and structural adjustments, and conditionality practices often collapsed because the requirements were not met.

Wallerstein (1974) defines world-system as a "multicultural territorial division of labour in which the production and exchange of basic goods and raw materials is necessary for the everyday life of its inhabitants" (p.60). The division of labour occurs basically between capital-intensive "core" and labour-intensive "periphery" countries. While core-states have sophisticated political systems and have power to control the key facilities of industry, transportation, and communication through advanced technology; periphery areas have weak state structure and are dominated by the core (Wallerstein, 1974, p. 349). The core nations want to incorporate peripheral areas into the capitalist world economy since they are wealthy in natural resources and tend to exploit peripheral areas' labor and material resources (Wallerstein, 1974, p.350). Initial studies focus the core periphery dynamics constituted over the raw materials, natural resources and trade relations which are based on labor-intensive products and capital intensive products (Reinsberg et al., 2019).

On the other hand, citing Dos Santos (1970), Hayter (1971), and Moyo (2009), Reinsberg et al. (2019) shows that some studies depicts that foreign aids are the extension of the dependency relationship that sought to maintain or worsen economic or structural disparities between core and periphery countries. Reinsberg et al. (2019) deepen the discussion in the same paper, using recent works such as Bradshaw and Huang (1991), Shandra et al. (2004), Harper and Snowden (2017), to highlight how IFIs extend core periphery dynamics through conditionality practices.

2.4. Interpreting the Turkey-IFIs Relations from the Viewpoint of the Neoliberal Transition: Focusing On the Turning Point in 1980

Turkey's relations with the IMF and World Bank have also been a part of the country's history of economic and political crises. The Bretton Woods system, which Turkey joined by devaluing its currency, also determined the country's role in the global economy. Between 1960 and 1980, Turkey positioned in the world economy as a peripheral country alongside the developed capitalist countries in the core, following an industrialization model based on import substitution that was also supported by the IMF and the World Bank. Because of this economic model's incompatibility with Turkey's economic structure, the importation of many inputs used in production, the use of nearly semi-finished products, and the model's reliance on foreign currency, it has opened the door to a series of deep economic and political crises since 1978.

While Turkey liberalized its financial and banking systems after the military coup in 1980, the lack of necessary legal arrangements resulted in the Bankers' Crisis in 1982 and the 1994 Economic Crisis. Turkey, which experienced a crisis in 1998 as a result of the East Asian crisis that lasted from 1994 to 2000, experienced a severe economic and political crisis in 2000 and 2001. The most significant factor distinguishing the 2000 and 2001 crises from other crises was the crisis experienced during the period of the Close Monitoring Agreement, which was implemented in 1998 and was expected to remain in effect until 2008, within the framework of the IMF's economic program. So, what occurred was the failure of the IMF programs.

The structural upheaval of Turkey's economic, political, and social life, which began with the 1978 Crises, has escalated progressively following each economic crisis. Following the crises of 2000 and 2001, the restructuring of society in accordance with neoliberal ideas and its integration, or precisely incorporation, into the global economy took on a new dimension. Foreign direct investments or inflows of direct foreign money impacted Turkey as well as other Global South countries. While unexpected and huge outflows of money caused economic

crises, the acquisition of the country's assets, which became cheaper with the return of the departing capital, moved in tandem (Erdem, 2010). As a result, Turkey began to encounter economic crises, with the frequency decreasing from 10 years to 3-5 years on occasion.

3. EMPIRICAL INQUIRY: HOW DID IMF INTERVENTION AFFECT BUREAUCRATIC QUALITY IN TURKEY?

3.1. The Method

In this part of the thesis, the question “How did IMF Intervention Affect Bureaucratic Quality in Turkey for the years between 1980 and 2008?” will be investigated empirically. Using the OLS model for simple linear regression, with the very basic intuition to understand the overall effect of the presence of IMF conditions on the bureaucratic quality. The main regression model will show the relation between bureaucratic quality and the presence of IMF conditions, and some control variables which may affect the bureaucratic quality will be added to the next models subsequently. The number of conditions imposed is used as the main independent variable. The motivation behind taking number of conditions imposed only is to keep the quantitative analysis very simple and show the main result. Being aware that proving the hypothesis I present in the thesis empirically requires a deeper analysis, I prefer to keep it very simple to show only the general framework.

3.2. The Regression Model

The regression model is:

$y = \alpha + \beta \times \text{Number of Conditions} + c$, where bureaucratic quality is represented by y .

3.3. Data

3.3.1. *The International Country Risk Guide (ICRG) Index*

For bureaucratic quality, bureaucratic quality variable of ICRG index is used prepared by PRS group³. According to the ICRG index, countries with a strong bureaucratic structure

³ The PRS group was founded in 1979 as a “quant-driven political and country forecasting and risk rating firm”. The team is currently working on a long-running data series created with the assistance of artificial intelligence (PRS Group 2022).

that is not overly sensitive to external changes in government administration have high bureaucratic quality. In contrast, bureaucratic quality is low in countries where the bureaucratic structure is highly responsive to external changes, such as the implementation of a new policy. ICRG index scores countries on the basis of this simple approach.

3.3.2. The Number of IMF Conditions

The data for IMF presence comes from a data set prepared for the IMF by Kentikelenis et al. (2016). The data set depicts the IMF conditions applied to the countries that have used IMF programs year after year.

4. RESULTS

Table 1: *Estimation Results for 25 Observations*

Dependent Variable: BUREAUCRATIC_QUALITY

Method: Least Squares

Date: 11/19/22 Time: 13:21

Sample: 1984 2008

Included observations: 25

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.323728	0.100940	23.02078	0.0000
NUMBER_OF_CONDITIONS	-0.007254	0.004457	-1.627478	0.1173
R-squared	0.103268	Mean dependent var		2.223333
Adjusted R-squared	0.064280	S.D. dependent var		0.412984
S.E. of regression	0.399490	Akaike info criterion		1.079363
Sum squared resid	3.670623	Schwarz criterion		1.176873
Log likelihood	-11.49203	Hannan-Quinn criter.		1.106408
F-statistic	2.648686	Durbin-Watson stat		0.454307
Prob(F-statistic)	0.117259			

Table 2: *Estimation Results for 15 Observations*

Dependent Variable: BUREAUCRATIC_QUALITY

Method: Least Squares

Date: 11/19/22 Time: 13:29

Sample: 1994 2008

Included observations: 15

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.506180	0.148827	16.83958	0.0000
NUMBER_OF_CONDITIONS	-0.011897	0.005107	-2.329814	0.0366
R-squared	0.294553	Mean dependent var		2.238889
Adjusted R-squared	0.240288	S.D. dependent var		0.421245
S.E. of regression	0.367163	Akaike info criterion		0.957544
Sum squared resid	1.752513	Schwarz criterion		1.051951
Log likelihood	-5.181582	Hannan-Quinn criter.		0.956539
F-statistic	5.428035	Durbin-Watson stat		0.516064
Prob(F-statistic)	0.036575			

Here, the variable of number of conditions is statistically insignificant. The main reason of this result is the outliers. In Turkey, for the years between 1980 and 1994, there are no conditions applied, and it manipulates the results. To solve this problem, outliers are omitted. Then the regression model is run for the years between 1994 and 2008.

Now being sure that the variable of number of conditions is statistically significant, it is observed that its sign is negative. It implies that for every 1% increase in the number of conditions applied, the bureaucratic quality index falls by about 1%.

4.1. Interpreting the Results with the Conditions Applied and the Aftermaths

The IMF-imposed conditions in Turkey between 1980 and 2008 can be classified according to the authorities involved in implementation. While some conditions are imposed directly by government agencies, others are imposed on the finance and banking sector such as reserve ratio regulations. The former clearly shows the transformation effect of IMF and World Bank intervention on bureaucratic quality. The conditions put by IMF on governmental agencies are mostly about taxation, privatization and budgeting⁴.

In terms of economic policies, 1980 marks a significant milestone in Turkey. While the dominant policy approach prior to 1980 was industrialization with a focus on relatively equitable income or wealth distribution under the state supervision, the dominant policy approach post 1980 was removing governmental intervention in the economy through accelerated privatization and adaptation to market economy rules. And, IMF and World Bank were the two main actors of this transition. The conditions directly applied by government, as mentioned above, targeted mainly taxation, privatization and budgeting. As the number of the conditions increased by time, the effectiveness of the policies decreased as experienced in

⁴ Budgetary transfers to SEEs, for example, were one of the conditions in the 1982 and 1983 programs. Fiscal deficit was one of the conditions in the scope of the 1994 and 1995 programs. The 1999 program, on the other hand, provided tax rate conditions (Kentikelenis et al., 2016)

many Global South countries. Moreover, they mostly lead to the economic catastrophes. Besides economic catastrophes, being highly involved in the implementation process, IMF and the World Bank had an effect in the administrative structures of the governmental agents which opened way to transform the state capacity and bureaucratic quality. Keeping in mind that reducing state intervention in the economy was one of the main targets of the neoliberalization, as catalyst institutions of the neoliberal paradigm shift, IMF and World Bank played an important role in hollowing out state capacity and curbing bureaucratic quality. With the privatization incentives and promoting private sector to involve in economic policy implementing, IMF and World Bank, directly or indirectly had effort to

CONCLUSION

Throughout the thesis, it is asserted that Turkey experienced its neoliberal transformation after the 1980s through the Bretton Woods twins and even under their leadership, and that this transformation also maintains the static balance of the core-periphery relationship proposed by Wallerstein in world system theory through these institutions, and that the most important and the most disregarded remainder of this process is the weakened bureaucratic quality. The conditionality practices put by these co-working institutions are the prominent reason of the weakened bureaucracy. Within the scope of this study, the historical background is evaluated closely, which has a significant role to understand the period. The evolution of this Bretton Wood twin as a parallel to the dynamics of world political atmosphere, and what brings after these changes are given under several different sections of the thesis in order to understand the synchronization of the Turkey's own political and economic agenda shifts and the actions taken and policies implemented in order to incorporate to the dynamics of the industrialized core. Economic policy making failures and the crises are given to demonstrate the weakened bureaucratic quality after the high and intense IFI interventions, especially after 1980s. Besides the examples of wrong policy implementations take Turkey to the catastrophic ends which is explained in detail, a very basic regression model is set to show the total effect of the IFI presence on the bureaucratic quality. The results show that the conditions have a negative effect on the bureaucratic quality. Moreover, the conditions directly applied by governmental institutions have the power to transform the bureaucratic quality since they are aiming to the process of developing and implementing of the economic policies. The aftermaths of the policies implemented as explained in detail in the second chapter shows the weakened bureaucratic quality.

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