

Turkey's slowdown is mainly caused by longer-term structural factors, pointing to an urgent need for fundamental reform. And this is where the economic track record of President Recep Tayyip Erdogan and the ruling AKP has begun to suffer. Even as the Turkish economy sputters, the AKP government is focusing on unsustainable, and sometimes destructive, short-term measures, such as pressuring the central bank to maintain a loose monetary policy, jeopardizing its independence and legitimacy in the process. Meanwhile, the structural reforms needed to ensure the country's longer-term development are being put off.

Among the most fundamental of Turkey's structural problems is its overreliance on foreign investment. Turkey's [excessive dependence](#) on capital inflows from abroad, as well as its persistently high current account deficit (6 percent of GDP at the end of 2014) has left it deeply vulnerable to external shocks. In fact, Turkey was one of the [worst-affected](#) countries during the recent global economic crisis: its economy shrank by a staggering 5 percent in 2009. This weakness also led Morgan Stanley to [list](#) Turkey in 2013 as one of the "Fragile Five" emerging countries most at risk of a downturn. The end of the U.S. Federal Reserve's quantitative easing program — which could come as early as June 2015 — could cause the flow of "hot money" to dry up. Many expect Turkey's current account deficit to remain in the unsustainable 5 percent territory despite the positive effects of the global drop in oil prices.

Even the widely touted political stability brought by the AKP has proved, in the end, illusory. Foreign investors and observers are growing increasingly nervous about the increasingly authoritarian nature of President Erdogan and the AKP government. Since the government crackdown on mass protests in 2013, the country's democratic trajectory has taken a marked turn for the worse. Significant deterioration in crucial indicators such as rule of law, freedom of speech, judicial independence, media freedom, and checks and balances has further shaken the confidence of investors. Turkey's rankings in corruption prevention and perception indices have slumped. Freedom House [downgraded](#) Turkey from "Partly Free" to "Not Free" in its 2014 report on press freedom around the world. The rising political risk indicated by these developments does not bode well for Turkey's economic and investment prospects.

Several open conflicts over economic policy have added to the jitters. In the recent [Bank Asya incident](#), Turkey's banking watchdog cited alleged irregularities as the justification for its seizure of shares from an Islamic lender — though most informed observers saw the move as a politically motivated outgrowth of the [continuing rift](#) between Erdogan and his bitter rival, the Gulen religious movement. President Erdogan also [clashed](#) publicly with Central Bank governor Erdem Basci on monetary policy decisions, pressuring him to cut interest rates. These conflicts have raised significant questions about the quality of Turkey's economic policymaking at a time when the country desperately needs foreign investment to keep flowing.

In order to tackle these challenges and to avoid the so-called "[middle income trap](#)," Turkey needs a more reformist attitude. Several structural and policy-related reforms need to be taken to achieve this. First, the independence of the central bank needs to be ensured. Erdogan's public attack on Basci demonstrated that political interference in central bank policies can only have a detrimental effect. Long-term interest rates are the ones that matter for a country's financing — but every time President Erdogan spoke about his desire for lower interest rates, long-term rates went up.

Furthermore, Turkey should move forward with a series of potentially costly but necessary reforms. Turkey ranks 55th in the World Bank's [Doing Business Index](#), lagging behind other developing-market success stories such as Poland (32nd), Chile (41st), and South Korea (7th). Labor costs remain high compared with Turkey's peers, and low productivity caused by inadequate human capital is constraining growth. Measures increasing accountability and funding for low-performing schools should be prioritized in order to tackle disparities in the education system. Women's low participation in the labor market must be addressed through incentive mechanisms.

In order to address chronic high current account deficits, the country should aim at boosting exports, particularly value-added ones, and reducing imports. The country's savings rate, one of the lowest among emerging market economies (14 percent of GDP), also needs to be addressed in order to reduce reliance on foreign capital inflows. Finally, rule of law should be improved, and basic freedoms protected. Such measures would address concerns about the arbitrary nature of decision-making and the formulation of policy.

Finding solutions to these problems will not be easy — even though the need to tackle them has long been clear. International organizations such as the IMF and World Bank have [stressed](#) the need for most of these reforms on numerous occasions. And yet very little progress has been made on these fronts by the AKP government. The AKP, which has single-handedly ruled the country for over twelve years, has so far shown little interest in pursuing corresponding measures, which are so crucial to the country's long-term development. The reform plan outlined by Prime Minister Davutoglu at the end of 2014 underwhelmed observers, who saw it as a mere wish list rather than a structured roadmap.

Governments around the world tend to be reluctant to tackle serious structural reforms, which tend to be politically costly, since some segments of society are likely to suffer over the short term. Turkey, for example, has one of the [most rigid](#) labor markets among OECD members, hampering its economic growth. Addressing this issue will require a transformation of the labor market, inevitably causing job losses that will lead to disgruntled voters.

But parliamentary elections are coming in June, and their outcome is anything but clear. Over the past decade, the AKP's main political strategy has been based on touting its economic success. As this storyline becomes strained, the political future of the ruling party may depend on its willingness — and ability — to lead Turkey through reforms to sustainable economic development. But Erdogan's 12 years in power so far offer little indication that he and the AKP are willing to do what it takes.