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## Article

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# Growth models, growth strategies, and power blocs in Turkey and Egypt in the twenty-first century

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*Analysis of the growth patterns in the Global South in the twenty-first century suggests there is room for authoritarian states to search for new growth models. Authoritarian states, such as Turkey and Egypt, benefited from global financial circumstances in the early 2000s and experienced shifts in growth strategies in the 2010s, suppressing political space further. Our main research question, thus, is focusing on what the main domestic political economy causes of these growth strategy and model changes are. To explain the changes in growth strategies and models amid the strength of reinforced authoritarian regimes in these two countries, we employ a hybrid research strategy, tying growth model changes to conflicts within the power bloc. We argue that in the mid-to-late 2010s, peripheral goods producers gained the upper hand in Turkey, while a military takeover in Egypt was followed by the promotion of exports and new investments. We also contend that power bloc reconfigurations in the last decade and the rise of new growth strategies both in Turkey and in Egypt aimed to change previous domestic demand-led demand and growth models.*

**Keywords:** comparative political economy, growth models, growth strategies, Turkey, Egypt

**JEL codes:** B52, E65, E66, F43, O43, P52

## 1 INTRODUCTION

Authoritarian states in Turkey and Egypt rejuvenated themselves in the 2010s. This was a development contrary to the widespread expectation that when faced with deep economic crises and brewing social discontent, authoritarian regimes are less likely to maintain their power. This study elaborates on the growth models of Turkey and Egypt in the twenty-first century. Despite significant differences regarding export capacity and macroeconomic indicators, political economic developments converge in various aspects in these two countries. Moreover, the authoritarian regimes in both Turkey and Egypt maintained their power while increasingly suppressing the political space in the 2010s (Tuğal 2016). We describe authoritarianism as a set of practices that isolates key policy-making processes from democratic oversight and excludes large groups such as working classes, ethnic minorities or subaltern groups from institutional politics (Salgado 2022). From a critical political economy perspective, authoritarian practices cannot be conceived as clearly cut from

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liberal democratic practices, since capitalist state responses to crises might assume similar forms in both democratic and authoritarian states (Tansel 2017). Still, authoritarian states systematically suppressed democratic mechanisms, violated the rule of law and excluded dispossessed subjects and working classes in the recent decades. Our cases can be explicitly classified as authoritarian states vis-à-vis varieties of democracies with different forms of creeping authoritarianism in the twenty-first century.

In this article, we contribute to three streams of literature simultaneously but in varying degrees. First, we contribute to the Growth Model Perspective (GMP) (Baccaro/Pontusson 2016; Baccaro et al. 2022) research by focusing on two authoritarian states in the Global South. Analyzing growth models and their social underpinnings in our cases enriches the comparative political economy studies, which started to pay more attention to the growth components in emerging countries and the Global South in recent years (Akçay et al. 2022; Mertens et al. 2022; Nölke et al. 2022).

Second, we emphasize the need for a dialogue between the GMP and the critical authoritarianism research highlighting various facets of authoritarianism and authoritarian statist responses in recent decades (Akçay 2024; Altınörs/Akçay 2022; Bekmen 2023; Bruff 2014; Chacko/Jayasuriya 2018; Güngen 2022a; Jayasuriya 2018; Scheiring 2020). Authoritarian state interventions attempt to stabilize the contradictions while limiting the material gains of the working classes and disempowering large sections of society. Authoritarian states not only coopt challengers and learn from each other but also persistently exclude working classes from policy-making processes regarding economic growth and social welfare. The shift in growth strategies and the search for new growth models in authoritarian states in the Global South can better be analyzed by integrating insights from critical research on authoritarianism.

Third, we introduce and expand on intermediary concepts, such as growth strategy (see also Akçay/Jungmann 2023; Hessel et al. 2020), to trace the gradual and contested changes in growth models. Growth strategies are the political-economic projects of the power blocs for increasing the tempo of accumulation. The components of these projects are unified and gain a systematic character against the background of struggles within the unstable compromise among different capital fractions. Thus, the growth strategy can be conceived as a concept useful to strengthen links between critical comparative political economy analyses and post-Keynesian macroeconomics (Akçay/Jungmann 2023).

We employ a hybrid research strategy consisting of critical macroeconomic analysis inspired by post-Keynesian growth regime research<sup>1</sup> and a critical political economy approach to explain the continuities and ruptures in the growth models of both countries. Regarding the former, we evaluate the components of growth in these countries in the twenty-first century following Hein (2012), Hein/Martschin (2020, 2021) and Akçay et al. (2022) to explain the main trajectory of the macroeconomic structures in both cases. Regarding the latter, we rely on the critical political economy tradition and benefit from the historical materialist state debate in the late twentieth century. We argue that the power bloc concept (Poulantzas 2000) helps explain the political economy of growth models, strategies and their changes.

Such a combination of research agendas can better illustrate the resilience of authoritarian regimes in adapting themselves to global financial circumstances and the reinvigorating growth strategies of capital groups and fractions, which are later presented as the collective interest of both these capital groups and societies. During the 2000s, economic growth in Turkey and Egypt continued to rely mainly on private consumption. These countries found it harder to continue domestic demand-led and debt-led private demand

1. Please see Hein (2023) for a comprehensive review of this literature.

growth regimes during the late 2010s, paving the way for the shift seen in recent years. We argue that the growth strategy shift in Turkey after 2013 and in Egypt in the late 2010s followed a power bloc reconfiguration in both countries. We also argue that new growth strategies in both countries aimed at shifting their growth models to an export-led one in Turkey, and a domestic demand-led model with increased contributions of investment to growth in Egypt. Hence, we suggest that these changes can only be explained through a balanced perspective that considers the domestic struggles and reconfiguration of power blocs amid changing global financial circumstances and the subordinated integration of these economies into global capitalism.

To analyze the recent rise of new growth strategies and growth model changes in these two countries, we use both macroeconomic data and secondary literature. Section 2 engages with the comparative capitalisms literature and locates our study in the latest research stream that emerged from the GMP (Baccaro et al. 2022). Section 3 describes the macroeconomic structure based on our investigation of the components of economic growth in the two cases, dividing our period of investigation into three subperiods (2003–2008, 2009–2013 and 2014–2019). Section 4 analyses how reconfigurations of power blocs led to the formulation of new growth strategies in both countries, while the conclusion relates this appraisal to the need to advance the GMP and a political economy investigation of authoritarianism. The conclusion summarizes our main findings.

## 2 THEORETICAL FRAMEWORKS FOR DIVERGENT GROWTH MODELS

Comparative political economy has always been concerned with economic growth and variegated performance of economic geographies. After World War II, the Japanese miracle and the success of *Modell Deutschland* indicated that competitors were being formed in the global economy, triggering comparisons of different capital accumulation strategies amid the post-war recovery. The French Regulation School and its American counterpart, the Social Structure of Accumulation theory, initiated an overall research agenda regarding the rise and later crises of post-war accumulation regimes (Aglietta 2015; Boyer 1990; Boyer/Saillard 2005; McDonough et al. 2021). Both approaches investigate the main dynamics that generate stability in the inherently unstable and contradictory capitalist mode of production. This research agenda is concerned with the main roles of the state – in particular, accumulation regimes like Fordism and post-Fordism, the power balance between capital and labor, and the institutional structures that moderate the tensions among different classes, class fractions and sectoral interests in developed capitalist economies (DCEs).

The literature on integration of the Global South economies into the post-1945 global economy was shaped predominantly by modernization theory and development economics (Rostow 1979). Competing growth strategies, specifically import substitution versus export-led industrialization, were central to this research agenda (Krueger 1984). This literature also included the political economy of development and industrialization strategies, providing room for analysis of the power blocs in the post-colonial era (Chibber 2003). In many Global South countries, these comprised local industrialists, state managers and multinational companies (Evans 1979). The implementation of indicative planning (Lewis 1966) as part of an import-substituting industrialization strategy (Hirschmann 1968) was of particular significance. However, both the structuralist Economic Commission for Latin America and dependency school scholars criticized the modernization school's optimistic promises about newly emerging countries catching up. These scholars provided a more realistic account of dependent development in the industrialization

trajectories of emerging capitalist economies (ECEs) (Kvangraven 2020). Although the sources of economic growth and growth coalitions have always been key topics within the field of the political economy of development, their significance was eclipsed by the neoliberal turn of the early 1980s and the hyper-globalism of the 1990s. Then in the late twentieth century, the mainstream globalization perspective changed the tone of scholarly discussion in both development studies and comparative politics. Many political economy scholars strengthened their expectation that various forms of market intervention would be replaced by minimal state intervention due to free capital mobility. In contrast, the Varieties of Capitalism (VoC) approach emphasized the path-dependency and legacy of institutional settings, suggesting that the differences between significant capitalism models would persist (Bruff et al. 2015).

As a firm-centered and institutionalist way of accounting for capitalist diversity, VoC paid particular attention to firm-level decision-making and market coordination (Hall/Soskice 2001). This first generation of VoC studies insisted on two major institutional configurations, labelled as liberal market economies (e.g. the US and the UK) and coordinated market economies (e.g. Germany and Japan). The value of the VoC objection was its emphasis on divergence, although first-generation VoC research fell short of accounting for different growth strategies. More problematically, VoC's ideal type methodology resulted in discussions on models of capitalism, which sometimes mistook abstraction for reality (Hay 2020). In critical conversation with the VoC approach, later studies expanded the typologies to account for a diversity that could not fit into just two varieties. For example, Amable (2003) added Asian, Scandinavian and Mediterranean types based on an analysis of their wage-labor nexus, social protection mechanisms and education policies. The VoC research agenda also expanded towards the European periphery by establishing the category of dependent market economies (e.g. Central and Eastern European Countries) (Nölke/Vliegenthart 2009). It is debatable, however, whether this research in the 2000s provided us with the necessary tools to explain the dynamism in terms of current models of capitalism and their adaptation to the financialization of global accumulation. In both the first and second waves of VoC research, the typologies were quickly pinned down so that the experiences of different economic regions were discussed in terms of pre-constructed types (Jessop 2011).

In recent years, many scholars have investigated the challenge to global governance from countries like Brazil, Russia, India, China and South Africa (BRICS), while various historical materialist and critical institutionalist studies have problematized the changing growth patterns and dynamics in emerging economies (Nölke/Claar 2013; Schneider 2013; Schedelik et al. 2021; Akçay et al. 2022; Stockhammer 2022a). This growing comparative capitalisms research agenda, which can be seen as part of the third wave, attempts to overcome the earlier preoccupation with Global North countries and presents a more dynamic analysis of growth strategies and accompanying regulatory frameworks.

One significant pillar of the third wave, sometimes labelled as the GMP, has opened new avenues for further collaborations among critical schools of political economy. Baccaro/Pontusson (2016) criticized the first-generation VoC framework for its reliance on New Consensus Macroeconomics and suggested using a post-Keynesian macroeconomic analysis that foregrounds demand formation dynamics in macroeconomic analysis. Based on this insight, Baccaro et al. (2022: 23) argue that as Fordist growth models declined, the declining labor share dampened domestic demand so that 'exports or debt have replaced real wages' as the main driver of demand formation and thus economic growth. The emphasis on post-Keynesian macroeconomic analysis within this context is consistent with heterodox research on financialization and the diverging paths of growth models (Stockhammer 2022b).

Financialization in various economies led to similar changes regarding declining labor shares in the economy (Akyüz 2018) and the slowdown of capital investments (Stockhammer 2004). As increased shareholder power imposed short-termism on corporations, financialization led to declining real investment in the capital stock (Hein 2012).

Against this background, 'some countries relied on debt-led soaring private consumption', while some others preferred 'mercantilist export-led strategies' (Hein 2012: 3) to generate GDP growth. By looking at the growth contributions of the main demand aggregates and at financial balances of the main macroeconomic sectors, it is possible to refer to various sub-types in the growth models research. For example, Hein et al. (2021) discuss four different sub-types: (1) a debt-led private demand (boom) regime, (2) a domestic demand-led regime, (3) a weakly export-led regime and (4) an export-led mercantilist regime. The post-Keynesian contributions to GMP further elaborated the analysis of changes in growth models before and after the 2008–2009 global financial crisis for DCEs (Dodig et al. 2016; Hein 2019; Hein/Martschin 2020) and ECEs (Akçay et al. 2022). This research agenda has been further expanded by investigating different growth drivers (Kohler/Stockhammer 2022; Jungmann 2023). Finally, Mertens et al. (2022) suggested an investment-led growth model as a new sub-type of growth models. From their perspective, this conceptual tool is required particularly for ECEs since the necessity of expanding infrastructure and productive capacities plays an important role in their growth strategies.

Apart from these macroeconomic typologies, the GMP research stream has primarily concentrated on the political economy elements of growth models. In this current study, we align with this research agenda, focusing specifically on (i) the societal foundations of growth models and (ii) the competing growth strategies that signify the unstable compromise among different capital fractions.

Regarding the first aspect, which concerns the societal basis of growth models, we align with the argument that 'growth models do not emerge out of thin air' (Bohle/Regan 2021: 77). On this issue, Amable/Palombarini (2009: 138) introduced the notion of the 'dominant social bloc'. They used it as a variable for explaining systemic crises, since these are the constellations in which 'political actors [could not] find any strategies to aggregate a social bloc that could become dominant'. In this article, we prefer to use the concept of the 'power bloc' instead of 'dominant social bloc' since the former specifically focuses on relations among the hegemonic capital fractions, political elites and state bureaucracy. We suggest that the power bloc is more suitable for analyzing authoritarian countries, because while the social bloc concept is developed for analyzing cross-class coalitions, the power bloc concept focuses on the balance of power among major capital fractions. The unstable compromise between capital fractions and political elites is more crucial in authoritarian countries to conceive growth strategies since lower classes are primarily excluded from decision-making processes in these settings. In Poulantzian terms, the power bloc denotes the unification of different fractions of capital and social groups, whereby some class fractions impose their leadership on others. The strategies of the hegemonic fraction determine the 'unstable equilibrium of compromise' (Poulantzas 1975) within the power bloc. Integrating Poulantzian insights, we can suggest that when the leadership of the hegemonic fraction within the power bloc deteriorates, this might end in a reconfiguration that encourages the emergence of a new growth strategy.

As for the latter aspect, which pertains to the competition between growth strategies, we concur with Hassel/Palier (2020) who introduced the concept of 'growth strategy' as a valuable tool for comprehending changes in growth models. Similarly, Akçay/Jungmann (2023) also proposed that we should analyze growth strategies because they reflect the economic and political initiatives of power blocs. This kind of analysis can help us uncover the different approaches employed by various sections of capital- or sector-specific interests.

They also argued that economic crises have heightened the rivalry among these diverse growth strategies. Furthermore, Baccaro et al. (2022) emphasized the concept of ‘dominant growth coalitions’, which represent a consensus on a particular growth strategy, serving as a crucial social element within any growth model. In a more recent study, Baccaro et al. (2023: 4) described growth strategies as the economic policies of governments.

More significantly, some growth models may be more strongly supported by certain groups within the power bloc because they increase the chances of certain capital fractions pursuing ‘differential accumulation’ (Nitzan/Bichler 2009). This is a crucial insight to explain the persistence of growth models despite economic turbulence and evident signs of economic problems before turning points. Nonetheless, we do not propose a direct one-to-one relationship between specific growth models and particular forms of authoritarianism or power bloc configurations. While domestic demand-led growth models strengthen a government’s coalition-building capacity, allowing to build larger growth coalitions until global financial conditions tighten, export-led growth models have a more limited societal base, reducing the government’s ability to build larger growth coalitions. To overcome this limitation, the export sector needs to expand or generous social assistance programs must be in place to redistribute export revenue to lower-income groups, generating support for the export-led models. Moreover, the transition from domestic demand-led growth to export-led growth often necessitates more authoritarian measures, including austerity measures and wage suppression, as part of the strategy to enhance export competitiveness. Similar domestic demand-led growth patterns in Egypt and Turkey, accompanied by loose global financial circumstances, provided the terrain on which the power blocs were shaped in these two countries in the early 2000s. Some of the seeds of the reconfiguration of these power blocs were sown during the 2008–2009 global financial crisis and its aftermath. These transformations can be grasped by analyzing both the growth models, their changes, and the reconfigurations of the power blocs that depend on specific authoritarian crystallizations.

### 3 GROWTH CONTRIBUTIONS OF AGGREGATE DEMAND COMPONENTS AND ECONOMIC GROWTH IN TURKEY AND EGYPT IN THE TWENTY-FIRST CENTURY

Based on the theoretical framework summarized above, we investigate growth models and their changes in Turkey and Egypt between 2003 and 2019. We divide this period into three to show transitions in the aftermath of the global financial crisis (Table 1). The periodization starts with 2003, as it marks the beginning of the Justice and Development Party’s (JDP) tenure in Turkey and a new reform period in Egypt. The interim period in both countries begins in 2009 and ends in 2013, the year of a political crisis in Turkey with the first signs of falling capital inflows and the military takeover in Egypt. The last sub-period starts in 2014 and ends in 2019, as it is still too early to discuss the COVID-19 pandemic era beginning in 2020. To present the relative contributions of aggregate demand components to GDP growth in a simplified way, we give their shares in Table 2. We also present the real GDP growth rates of Egypt and Turkey over the years in Figure 1. In all three periods, the most significant contributor to growth in Turkey is private consumption. A comparison of the different sub-periods indicates that there is a significant difference regarding the share of investment and net exports. While private consumption predominates domestic demand, changes in components of domestic demand are noteworthy in Egypt. The increasing share of investment in Egypt since 2014 is particularly noticeable.

Table 1 Growth in GDP and growth contributions of aggregate demand components in Turkey and Egypt (2003–2019)

	Turkey			Egypt		
	2003–2008	2009–2013	2014–2019	2003–2008	2009–2013	2014–2019
Real GDP Growth	6.23	5.62	4.29	5.47	3.20	4.45
Domestic demand	7.31	5.77	3.07	5.73	3.95	5.01
Private consumption	3.50	3.75	2.04	3.59	3.83	2.48
Public consumption	0.70	0.72	0.74	0.28	0.43	0.52
Investment	3.10	1.30	0.29	1.86	(-)0.31	2.00
Net exports	(-)1.06	(-)0.17	1.18	(-)0.82	(-)0.42	0.04
Net exports as a percentage of GDP	(-)3.62	(-)2.93	0.01	(-)5.65	(-)7.58	(-)10.89

Notes: Reference year is 2010. Each percentage represents average annual growth in GDP and its components in the respective periods. Data were extracted on 24 May 2021, and 1 November 2021.

Source: World Bank, World Development Indicators.

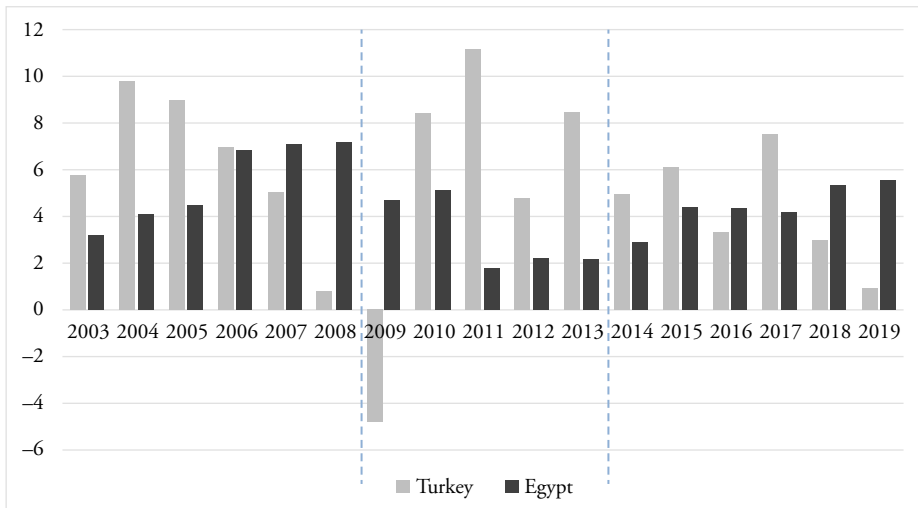


Table 2 Relative contributions to GDP growth in Turkey and Egypt (2003–2019)

	Turkey			Egypt		
	2003–2008	2009–2013	2014–2019	2003–2008	2009–2013	2014–2019
Private consumption	0.56	0.67	0.48	0.66	1.19	0.56
Public consumption	0.11	0.13	0.17	0.05	0.13	0.12
Investment	0.50	0.23	0.07	0.34	(–)0.10	0.45
Net exports	(–)0.17	(–)0.03	0.28	(–)0.15	(–)0.13	0.00

Notes: In principle, the relative contributions sum to 1. We used gross capital formation data to calculate the contribution of investment. Both over/under-estimating by World Bank and change in inventories might result in the sum either not reaching or exceeding 1 for Egypt. This does not change the overarching role of private consumption in each period.

Source: World Bank, World Development Indicators.



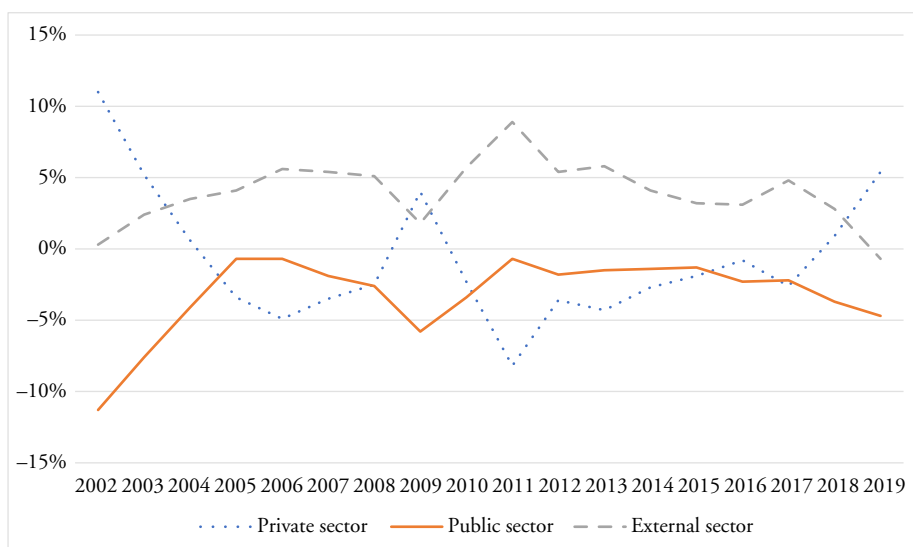
Source: World Development Indicators, authors' presentation.

Figure 1 Real GDP growth rates in Turkey and Egypt (2003–2019)

In line with the post-Keynesian growth regime research, we integrate an analysis of the sectoral financial balances with the GDP growth and composition of GDP. Consistent and decomposed sectoral financial balance data (i.e. data disaggregating the private sector into households and non-financial corporations) for both countries that cover the last two decades are missing. Below we present sectoral financial balances for Turkey and Egypt for three main sectors. The data for sectoral financial balances in Turkey show that the Turkish economy consistently ran current account deficits, financed by capital inflows (which declined relative to the previous years). The chronic current account deficits are reflected in the external sector financial balance as a surplus. Although the public sector financial balance was mainly negative in the post-2009 period, it improved after 2009 until the late 2010s. The disaggregated data covering the period from 2009 to 2017 reveals that both the household and private sectors incurred new debts in the aftermath of 2008–2009. In the post-2013 period, however, household debt growth stopped due to changing financial circumstances (see also Akçay/Jungmann 2023).

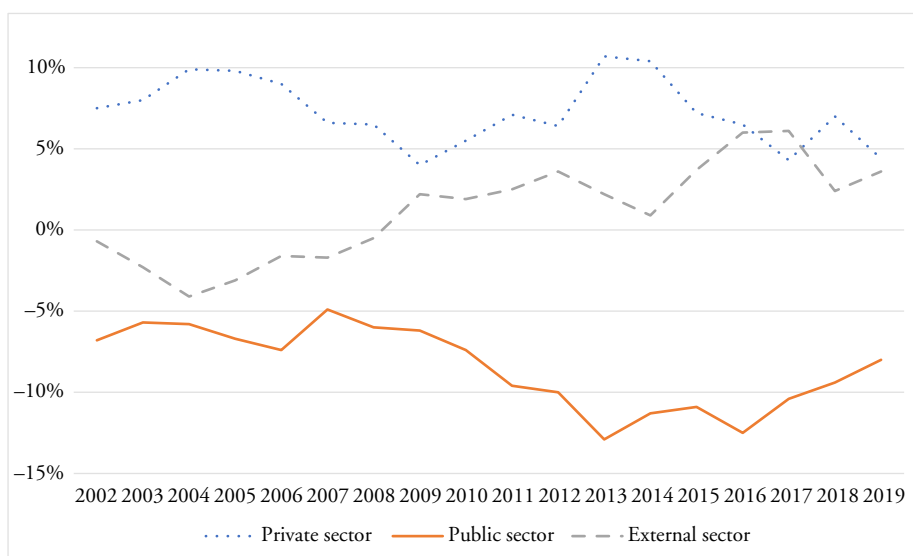
The financial balance data and macroeconomic indicators (such as the current account deficit) suggest that the economic growth started to decline after the 2013 taper tantrum (Akçay/Güngen 2022). The lower capital inflows to Turkey paved the way for lower growth rates and encouraged the search for alternative growth strategies in the ruling circles. Another crucial change in the post-2013 period was the gradual improvement in the corporate sector and household balances. The sectoral financial balance of the external sector declined slightly in the post-2013 period (Figure 2). In addition to the data on growth components, these changes in the financial balances suggest a gradual shift emerging in the late 2010s.

Despite the lack of disaggregated sectoral balance data for Egypt, we used the current account and public sector balances and derived the private sector balance from these two, to present financial sectoral balances for three main sectors. Chronic current account deficits in the aftermath of 2007 followed a brief period of current account surpluses from 2003 onwards (Figure 3). One of Egypt's most significant



Source: IMF World Economic Outlook (2022), authors' presentation.

Figure 2 Sectoral financial balances of Turkey, percentage of GDP (2002–2019)



Source: IMF World Economic Outlook (2022), authors' presentation.

Figure 3 Sectoral financial balances of Egypt, percentage of GDP (2002–2019)

economic problems in the early-to-mid 2010s was the dramatic increase in public debt, the growth of which, as a ratio to GDP, stopped in the late 2010s, following IMF surveillance (IMF 2021). The household sector did not incur high levels of debt during the initial opening years (2003–2007) and household debt levels as a ratio to GDP declined slightly in both the second (2009–2013) and third sub-periods (2014–2019) (CEIC 2023).

Such macroeconomic indicators were used by both regional supporters of the military-backed regime and the IMF to push further for a new growth strategy in the country in the late 2010s. The financial sectoral balances and the political and economic developments suggest that the 2008–2009 global financial crisis and the subsequent developments (from lower tourism revenues to decreased exports and political uncertainty) provided a turning point for Egypt's economic growth. The financial balance of the external sector increased dramatically in the early to mid-2010s. Moreover, chronic public sector deficits were not sustainable despite contributions from regional powers such as Saudi Arabia following the military takeover in 2013. Therefore, 2013–2015 served as another turning point since the public sector deficits and appreciated currency forced the acceptance of an austerity program coupled with a market-determined exchange rate system in 2016.

Based on the growth contributions of aggregate demand components, relative contributions to GDP growth from consumption, investment and exports, and the sectoral financial balances, we argue that Turkey's growth model in the early twenty-first century was domestic demand-led until 2008–2009. It shifted toward a debt-led private demand regime after 2009, and the growth regime has been gradually changing towards a weakly export-led one in the late 2010s (further explained below). In Egypt, the domestic demand-led regime continued throughout the 2000s and 2010s. Still there has been a gradual change toward an investment-led model in the late 2010s (further explained below).

#### 4 POLITICAL ECONOMY OF GROWTH MODEL SHIFTS IN TURKEY AND EGYPT

An analysis of growth models provides a concise summary of the turning points. To make causalities clearer, investigations should include changing compositions of the power blocs and their growth strategies. In this section we discuss the political economy of growth in our cases, emphasizing the political economy projects of power blocs in Turkey and Egypt. We elaborate on the forms of reintegration into the global economy (Egypt), the impact of changing global financial conditions and the uses of state financial capacity to navigate volatile capital flows (Turkey) to explain the gradual changes in growth models in these economies. We uncover the main domestic political economy dynamics of growth model changes and argue that the growing contribution of exports in Turkey's economy and investment in Egypt's economy, reflect the new power bloc configurations in the late 2010s, which was accompanied by new growth strategies, providing specific advantages for some fractions within the power blocs. In Turkey, this includes peripheral capitalists and new exporters operating on smaller scales than Turkey's already internationalized, large-scale capital. In Egypt, both the military and private capital benefit from partnerships, although these benefits accrue more to the military. The following subsections are dedicated to elaborating on the argument for changes in the respective growth models/regimes.

#### 4.1 Turkey: exhaustion of the debt-led private demand growth model and rise of an export-led growth strategy

During the 1990s, Turkey's economy suffered from crisis cycles. Due to political turbulence, IMF-recommended macroeconomic regulations were not completely adopted, leading to the biggest financial crisis in Turkey's history in 2001 (Akyüz/Boratav 2003). The new regulatory institutions of the post-2001 crisis framework attempted to depoliticize economic management to prevent political parties from interfering in economic decisions regarding critical sectors. Crucially, this included making the Central Bank (CB) independent and preventing the Treasury from using CB funds (Akçay 2023a). During the early twenty-first century, the restructuring of the banking sector also reshaped financialization in Turkey, where banks started to provide more consumer and mortgage loans. The first JDP government (2002–2007) increased social expenditures while complying with the IMF program and realizing high primary budget surpluses until 2008. Like other major Global South countries, Turkey's economic growth suffered a setback during the 2008–2009 global financial crisis, although renewed capital flows in 2010–2011 resulted in record growth rates. Until 2013–2014, relatively low interest rates stimulated household borrowing, thereby sustaining political support for the JDP from low-income groups despite stagnating real wages (Akçay 2018; Güngen 2018, 2021; Karaçimen 2015).

During the 2000s, the Turkish state supported capital accumulation via adopting inflation targeting by the CB and fiscal austerity. This monetary and fiscal policy combination was not only imposed by international institutions like the IMF, but also actively supported by the capitalists dominant in the power bloc. During the 2000s, the power bloc comprised both core goods producers and peripheral goods producers under the hegemony of the former. Productivity of labor and, to use the Marxian terms, relative surplus value production are more significant for the core goods producers (hereafter core capitalists), who are concentrated in sectors such as metal, automotive and durable goods, chemical industry, mining, and oil refining, as well as finance and banking. Peripheral goods producers (hereafter peripheral capitalists), on the other hand, have a lower productivity level, prefer competitive exchange rates, and tend to be smaller scale than core goods producers. While the core capitalists have direct access to the international financial markets and are more internationalized, peripheral capitalists are only able to get national-currency-denominated loans. These structural differences among capital fractions determine their growth strategies. While core capitalists prefer non-price competitiveness, peripheral capitalists demand price competitiveness as part of a growth strategy (Akçay 2023b; Akçay/Jungmann 2023; Deniz 2019). In short, the depoliticized mode of macroeconomic management of the early 2000s was compatible with the core capitalists' interests.

The technocratic approach to monetary and fiscal policy faced its first major challenge during the 2008–2009 global financial crisis. The government's primary responses were to reinforce securitization, widen incentive programs and liberalize borrowing in foreign exchange loans. From 2009 onwards, Turkish corporations started to borrow heavily in foreign currencies, with Turkish banks serving as intermediary institutions (Becker 2016; Akçay/Güngen 2022; Orhangazi/Yeldan 2021). During the 2010s, the government's short-term response to boost capital accumulation was to implement mega infrastructure projects and provide comprehensive support for the construction sector (Güngen 2020a). As evidenced by the government's extensive use of public financial institutions, counter-cyclical lending became a more prominent tool of crisis management (Güngen 2020b, 2022b). Following the 2001 crisis, FDI into Turkey jumped in the first period along with a dramatic increase in the household debt-to-GDP ratio (Akçay/Güngen 2022).

Although there were several attempts at a new industrial policy and diversifying exports in the previous years, it was only in the late 2010s that a new export-led growth strategy came to the fore.

After 2013, Turkey's boom-bust cycles became more frequent. The government's discretionary policymaking in the second half of the 2010s emerged as a reaction to increasing political challenges and a secular decline in annual growth rates. There were brief high economic growth episodes due to the state-sponsored credit expansion of the 2010s. It also became increasingly evident that higher interest rates (relative to the 2010–2013 period) would undermine the coalition-building capacity of the JDP (Akçay 2021). It would also destroy the social base of the power bloc that the JDP had built during the early 2000s. More specifically, heavily indebted households and peripheral capitalists required lower interest rates, whereas core capitalists favored price stability and orthodox monetary policies. Having tried to boost investor confidence when the two-year state of emergency ended in July 2018, the government implemented the transition to a presidential regime amid geopolitical tensions alongside the Turkish lira's collapse and a credit crunch in August 2018 (Akçay/Güngen 2022).

In Turkey, authoritarian statecraft in the early 2000s maintained disciplinary labor regulations and technocratic decision-making (Bozkurt-Güngen 2018), although tensions between different capital groups became more visible in the last period. A more discretionary form of policy-making prevailed (symbolized by the state of emergency and decisions taken under the new presidential regime after the 2018 transition) (Altınörs/Akçay 2022). Turkey witnessed a gear change in authoritarianism in the 2010s, culminating in the formation of a super presidential system following the coup attempt and the subsequent two years of state of emergency rule (2016–2018). Amid this background, the peripheral capitalists and capital groups with organic connections to the ruling circles gained further ground in the power bloc (Akçay 2023b). They initiated a new export-led growth strategy based on price competitiveness as the debt-led private demand growth model faced significant challenges. In other words, although Erdogan's administration implemented contradictory monetary and fiscal policies to maintain the bloc's unity (Akçay 2023b), worsening global financial conditions prevented the different capital groups within the same bloc from maintaining their harmonious co-existence. Instead, capital groups benefiting mainly from domestic credit channels and incentives, i.e. peripheral capitalists, have gradually gained ground and reinforced export growth.

#### **4.2 Egypt: persistence of domestic demand-led growth and search for a new growth regime**

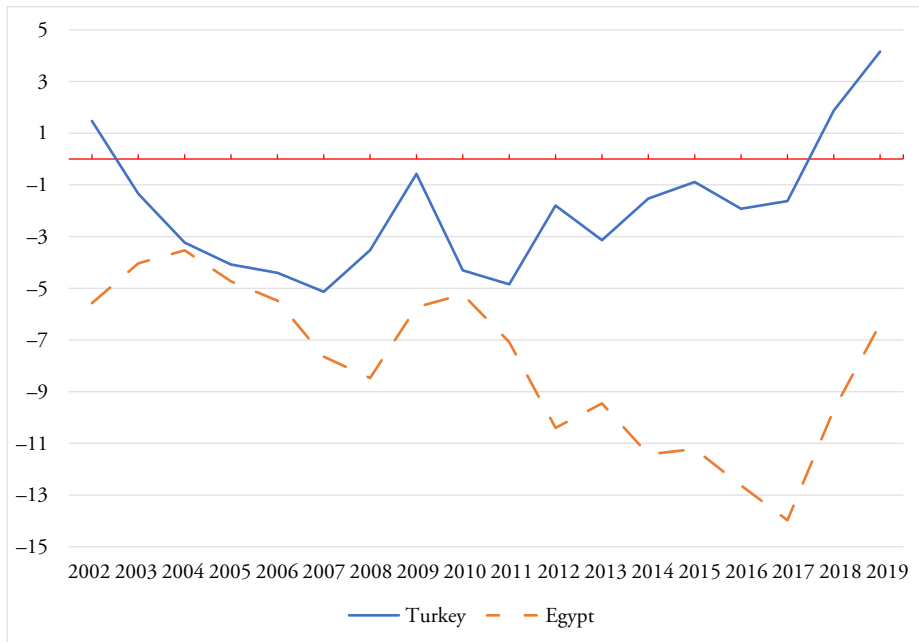
Egypt's economy changed significantly during the 1990s, with long-lasting effects in the early twenty-first century, mainly due to liberalization reforms. The key elements were restructuring the agriculture sector toward export-oriented goods and partly privatizing over half of public sector companies (Hanieh 2011). Combined with a wage squeeze and reduced tax rates for corporations, the market reforms further strengthened a few large conglomerates with strong ties to the Mubarak regime at the turn of the century. While the military sector maintained a privileged position in the power bloc in the early 2000s, more internationalized capitalists (core goods producers in the Egypt case) had gained the upper hand, and gradually sidelined the military during the 1990s (Joya 2020) while pushing further for financial sector reforms and new privatizations from 2003 onwards. Like many other Global South economies, Egypt recorded high

growth rates during 2006–2008, and became a poster child within the international financial community (Roccu 2020).

After 2011, however, GDP growth and economic activity both suffered while a contraction in remittances during the 2008–2009 global financial crisis and a food prices hike was followed by the adverse effects of the eurozone crisis. From the early 2000s to 2011, policies enacted to support capital accumulation included sweeping reforms that would eventually help financial deepening in Egypt. Two fundamental pillars of the financial deepening strategy were opening up new sectors that had previously been under public control to rising Egyptian capital and providing easier access to international capital (Hanieh 2011). Despite taking a more subordinated position within the power bloc, Egypt's military still controlled vast parts of the country's industry. However, the growth strategy of the 1990s and 2000s did not work as expected, leading to substantial social discontent that paved the way for a political revolution, following popular mobilization in 2011. The Muslim Brotherhood's brief rule ended with the ousting of President Morsi in 2013. It was followed by a new regime backed by the military, with support and aid from Gulf countries, such as Saudi Arabia and the United Arab Emirates.

Egypt's macroeconomic problems increased during 2011–2013 (Khalil/Dill 2018). Amid chronic balance-of-payments problems and reduced international investment, central bank reserves fell dramatically. The new military-backed regime of General Abdel Fattah al-Sisi, established after the 2013 takeover, was later forced into an IMF agreement by its patrons (particularly Saudi Arabia and the United Arab Emirates), who provided cheap credit and military aid up until 2015. The new, military-backed regime has partly succeeded in attracting investment and reorganizing the economy. Following the coup and the establishment of the new regime in 2013, the military has become the dominant capital fraction in the power bloc, finding new ways of cooperating with private capital groups and presenting itself as committed to providing stable growth framed by international financial institutions. Meanwhile, partnerships with the private sector in land development, extractivist industries and manufacturing are making an impact on economic growth and net exports (Figure 4). Still, there have been various problems faced by the military regime since the takeover. In its attempt to relaunch the economy, the regime adopted conspiracy rhetoric and imposed harsh austerity measures while expanding the military's reach into civilian sectors by enabling partnerships with the private sector. Meanwhile, public debt jumped dramatically due to the Sisi regime's easy access to new credit under the IMF agreement (Adly 2021). Faced by falling FDI since 2016, the regime has promulgated new investment laws and strived to lure investors (Joya 2020). The IMF (2021: 4) characterizes economic growth in Egypt in the 2010s as private consumption-led because of the minimal contribution of investment and exports. However, since the mid-2010s, the public sector balance has been gradually improving, and the contributions of investment to GDP are increasing (Figure 3 and Table 2). In short, the Egyptian economy gradually shifted to an investment-led model, to use the terminology proposed by Mertens et al. (2022).

Much like Turkey, Egypt's macroeconomic policy-making in the early twenty-first century has been characterized by strategies of internationalization (Joya 2020). Since 2016, the authoritarian state has relied on an austerity program along with an increased economic role for the military. As the military recovered its dominant position in the power bloc, subordinating Egypt's previously rising capital groups, the Sisi regime expanded foreign borrowing and increased partnerships with multinational corporations. Two significant elements of the government's developmentalism are its reliance on mega infrastructure projects and extractivism to kickstart the economy. However, these moves



Source: World Bank (based on GDP constant 2010 USD), authors' presentation.

Figure 4 Net exports as a share of GDP in Turkey and Egypt (2002–2019)

towards investment and export-led growth only emerged after several years. That is, although the dynamics within the power bloc changed dramatically from the Mubarak to Sisi regimes (Roccu 2020), the decisive change toward new investment projects and a new growth strategy happened gradually rather than abruptly.

Egypt has a long history of authoritarian management of labor power (Erol/Şahin 2022) and despite the political revolution accompanied by the biggest protests in the country's history, authoritarianism prevailed after the 2011–2013 interregnum. The military offshoots and capital groups with close ties to regime patrons gained the upper hand in the mid-2010s. The Sisi administration launched plans to increase investment levels dramatically. *Planning for 2030* emphasizes the role of the private sector, while the military foresees new partnerships with international capital (Joya 2020). As the country's largest employer, Egypt's military, with its material interests and critical role in economic life, is committed to maintaining its position within the power bloc. This, however, requires new steps to attract direct investment and initiate partnerships with Egypt's private sector. The internal structure of the power bloc changed following the 2011–2013 period, as the military gained the upper hand in making strategic economic decisions, while attempting to secure high economic growth (Joya 2020). The current collaboration between the military (as the dominant fraction in the power bloc), private capital (internationalizing capital groups that occupied the subordinate position in power bloc in the late 2010s), Gulf capital and international investors (as the other actors in the power bloc) may produce a different growth model, signs of which are evident in the new growth strategy of the late 2010s (see Table 3).



*Table 3 Growth models, strategies and power blocs in Turkey and Egypt (2003–2019)*

	Turkey	Egypt
Growth model	<ul style="list-style-type: none"> <li>• Domestic demand-led regime (until 2008–2009) and debt-led private demand and growth regime (post-2009)</li> <li>• Net exports' contribution to growth increased from 2014 to 2019</li> <li>• Growth model has been gradually changing towards a weakly export-led one (late 2010s)</li> </ul>	<ul style="list-style-type: none"> <li>• Domestic demand-led regime continued during the three sub-periods</li> <li>• Investments' contribution to growth increased in the last sub-period</li> <li>• Growth model has been gradually changing towards an investment-led one (late 2010s)</li> </ul>
Power bloc	<ul style="list-style-type: none"> <li>• Core capitalists were leading the power bloc until 2013</li> <li>• Reconfiguration within the power bloc took place in the mid-2010s</li> <li>• Peripheral capitalists and new and prospective exporters gained ground in the last sub-period (2014–2019)</li> </ul>	<ul style="list-style-type: none"> <li>• Core capitalists gained ground against the military in the power bloc until 2011</li> <li>• Reconfiguration within the power bloc in post-2013 period</li> <li>• Military as the dominant fraction (post-2013), IMF-monitoring of the economy (post-2016)</li> </ul>
Growth strategy	<ul style="list-style-type: none"> <li>• Shifted from non-price competitiveness (2003–2013) to price competitiveness (post-2013)<sup>a</sup></li> <li>• Support for appreciated domestic currency in the first two sub-periods and gradual devaluations in the last period (2014–2019)</li> <li>• Crisis management and contradictory macroeconomic policy to maintain the widest bloc possible</li> </ul>	<ul style="list-style-type: none"> <li>• Search for a new growth strategy, in which investments increasingly play an important role in the last sub-period (2014–2019)</li> <li>• Currency depreciation and export increases in the last sub-period</li> <li>• Austerity and credit dependency created tensions in the last sub-period</li> </ul>

*Notes:* <sup>a</sup>A growth strategy involves reorganizing different elements that drive growth. In Turkey's growth strategy after 2013, one of the key drivers has been price competitiveness. For an in-depth analysis of growth drivers in countries of the Global South, see Jungmann (2023).

*Source:* Our own elaboration.

## 5 CONCLUSION

In this paper we have sought to contribute to the burgeoning literature on divergent growth models in three ways. First, we propose that in order to move beyond mere descriptive assessments of macroeconomic data and enhance our analytical capabilities, we should incorporate intermediary categories such as 'power bloc' and 'growth strategy'. These categories assist us in comprehending the societal foundations of a specific growth model and the primary factors influencing its stability or transformation. Furthermore, these categories integrate actor-oriented political analyses to the analysis.

Second, examining the cases of Turkey and Egypt, we offer a mechanism for explaining growth model changes. Our analysis shows that Turkey and Egypt, two tumultuous countries in the East Mediterranean region, experienced significant changes in the 2010s. We argue that the reconfiguration of power blocs led to the formulation of new growth strategies in both cases, and these new strategies may pave the way for a new growth model in Egypt and Turkey in the 2020s. The transition to new growth models requires having more distinctly defined growth strategies that influence the perspectives of policymakers. It also involves the restructuring of power blocs and the reshaping of state interventions in response to evolving global financial conditions.

Finally, based on the GMP, we shed some light on country-specific dynamics of authoritarian statecraft in both countries. By tying GMP research to critical authoritarianism research, we explain why despite growing tensions, growth models maintained their strength for an extended period of time. This perspective also contributes to analyses documenting how the attempts to move onto a new growth model crystallize amid tensions within the power bloc and economic turbulence.

The domestic demand-led, and the debt-led private demand and growth models of Turkey and the domestic demand-led model of Egypt did not yield equitable growth in both countries during the 2000s, and the early 2010s. However, these growth models were functional for maintaining authoritarian statecraft and easing tensions within power blocs by enlarging governments' coalition-building capacities, specifically during loose global financial circumstances. In mitigating tensions, the lives of these growth models have also been shaped partly by the geostrategic struggles, and as evident in the mid-to-late 2010s in both countries by the levels of social discontent.

Future research is required to provide more comprehensive links between macroeconomic variables and their changes, and changes in the balance of powers among social classes, as well as political elites, as the organizers of power blocs. Regarding country-specific aspects, further research should trace the impact of refugees and credit campaigns on labor markets and new exporters in Turkey and whether the military-led investment plans will change the social fabric or lead to a new growth model, signs of which were more evident during the COVID-19 pandemic in Egypt.

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