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SEMPOZYUMU  
TEBLİĞLER KİTABI

- II -





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ANKARA SEMPOZYUMU  
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TEBLİĞLER KİTABI**

- 2-

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## Preface/Önsöz

Ankara tarihte Frigler'den Bizans'a, oradan da Selçuklulardan Osmanlı'ya kadar önemini hep korumuş ve birçok medeniyete ev sahipliği yapmıştır. İslamiyet'in kabulü ve Müslümanların hakimiyeti ile şehrin ilim, kültür ve edebiyat hayatında birçok gelişmeler meydana gelmiştir. Selçuklular devrinde bir sınır şehri olan Ankara, özellikle Osmanlı ile önemini sürdürmüştür. Hacı Bayram-ı Velî, Ali Semerkandî gibi gönül insanlarının mihmandarlığını yaptığı şehir İstiklal Harbi ile önemini artırmış ve yeni kurulan devletin başkenti olmuştur.

Ankara'da doğmuş, yetişmiş veya sonradan Ankara'ya gelip hizmetleri dokunmuş pek çok önemli şahsiyet bulunmaktadır. Bu çerçevede alim, şair, mutasavvıf, müzisyen, devlet adamının hayatları ve şehre sundukları katkılar mutlaka gün yüzüne çıkarılıp gelecek nesillere aktarılmalıdır. Bu düşünceden hareketle ilmi çalışmaların ve bunların paylaşıldığı organizasyonların yapılması faydalı olacaktır.

Ankara Yıldırım Beyazıt Üniversitesi İslami İlimler Fakültesi olarak Ankara Sempozyumları adıyla başladığımız ve her sene tematik bir başlıkla düzenlemeyi düşündüğümüz bu seneki etkinliğimizin alanını sosyal bilimler olarak belirledik. Sonraki etkinliklerde bilim ve kültür bağlamında tematik alanlarda düzenlemeyi düşünüyoruz.

Üniversitelerin bilgi üretme görevi yanında kültür ve sosyal alanda artı değerler ortaya koyma gibi görevleri vardır. Bilgi, bilen özne ile bilinen nesne arasında kurulan ilişki sonucunda ortaya çıkan üründür. Kültür ise tarihsel, toplumsal gelişme süreci içinde bir grup insanın bireysel ve toplu yaşamlarını anlamada, düzenlemede ve yapılandırmada kullandıkları inançlar ve adetler sistemidir. İslâm kültürü, tarihi seyir içerisinde İslâm dininin Müslümanlara bıraktığı maddi ve manevi miras zenginliğidir. Bu manada bilgi ve kültür birbirinin ayrılmaz parçasıdır. Ankara Sempozyumu bu anlamda bilim ve kültürün topluma faydalı değerlere dönüştürülmesinde vesile olacağı düşünülmektedir.

Batı Avrupa'da "Rönesans ve Reform hareketleriyle ortaya çıkan, "Aydınlanma" ve Fransız İhtilali sonrasında, Batı Avrupa ve dünya için yeni bir süreç başlamıştır. Bu sürecin öncesi 'geleneksel'e ilişkin iken devamı 'modern' diye nitelendirilmiştir. Kendisinden uzaklaşmaya çalışılan her şey bu eski olan kategorisinde değerlendirilmiş ve 'geleneksellik' olarak nitelendirilmiştir. Oysa "İhyâ-yı kadîm, inşâ-yı cedîd'ten evlâdır." vecizesinden hareketle, tecrübî bilgiyi ve tarihî şahsiyetlerin tecrübelerini keşfedip gelecek kuşaklara sunmak bilimsel bilgi üretme yolculuğunda büyük katkıları olacağı düşünülmektedir.

Sempozyum, bu bağlamda günümüz kuşakların zihninde oluşabilen geleneksel ve modernite kavramlarıyla alakalı yanlış algıların düzelmesinde katkı sağlayacaktır.

Seri halinde icra etmeyi düşündüğümüz Ankara Sempozyumu, bu anlamda mazi ile âtiyi tecrübî bilgi ile bilimsel bilgiyi; başka bir ifade ile ihyâ ile inşâyı birlikte değerlendirmeyi hedeflemektedir. Böylece ilim ve irfan geleneğinin izini takip eden, pergelin sabit ayağı tecrübî bilgiye dayanan diğer ayağı ise çağın gerektirdiği bilimlerle donanımlı zülcenaheyn (iki kanatlı) kuşakları yetiştirmeye vesile olacağı düşünülmektedir.

Günümüzde belli alanlarla muhasır kalan bilimsel çalışmalar, toplumun davranışlarını dönüştürmede bütüncül bir yaklaşım segileyememektedir. Aşırı kompartlaşma, sosyal gerçeklikten ve tecrübî bilgidен kopuk bilimsel faaliyetler, sahada beklenen neticeler vermeyebilir. Sahih bilgi ve bütünsel yaklaşımlar bu noktada önem arz etmektedir. Gerek mekânsal anlamda gerekse fikir ve ilim üretimi anlamında bu mülâhaza devam ettiği dönemlerde terakki ve müsmirlik devam etmiştir. İslam medeniyetinin doğu havzası sayılan Bağdat ve Nizamiye medreselerinde batı havzası olarak ifade edilen Endülüs ve Kayravan havzasında inşa edilen medeniyetin temelinde bu bütünlük vardır. Mesela mabed ile medrese aynıdır. Diğer bir ifade ile Cami ve Camia aynı şeyi ifade etmektedir. İlmiye sınıfı halk ile beraberdir. Bu gelenekten tevarüs edilen “Ders-i am” tabiri bu bütünlüğü ifade etmektedir. Günümüz şartları da sanki yavaş yavaş buna doğru evrilmeyi zorunlu kılmaktadır. Bu sefere mekânsal anlamda değil dijital kulvarda olacağına benzemektedir.

Selçuklu devrinde inşâ edilen ve İslam aleminde yaklaşık dört yüz sene örnek olan Nizamiye geleneğini başlatan saik de medrese ile toplumun, teori ile pratiğin, ilmî ve sosyal hayatın kaynaşmasıdır. Fakat zamanla bu birliktelik zayıflamış hatta ortadan kalkmıştır. İmam Gazzali, Ebü'l-Ferec İbnü'l-Cevzî gibi tarihî şahsiyetler, çok iyi birer sosyal gözlemcidirler. Toplumun içinde olup ve sahada rehberlik görevini dönemin şartlarına göre aynı anda ifa etmişlerdir. Bazen açık hava meydanlarında yüzbinlerce kişinin toplandığı irşad programları icra etmişlerdir. Sosyal gözlemlerden, sahadaki realiteden kopuk, salt teorik bazda üretilen bilgi ne kadar isabetli sonuçlar doğurduğu tartışılmalıdır. Günümüzde seminer, panel, sempozyum ve konferanslar şeklinde icra edilen faaliyetler, o geleneğin farklı versiyonları sayılabilir.

Günümüz bilim dünyasındaki belli bir alanda münhasır kalmak, belli bir formatın ve kabuğun içinde hapsolmek, meselelerin bir bütün olarak görüp değerlendirmeyi zorlaştırmakta, doğru muhakeme ve isabetli teşhis koymayı zorlaştırmakta olduğu bir gerçektir. Bu durum, dini ilimler için de söz konusudur. Kollektif çalışmalar, farklı disiplinlerden bilim insanların birlikte gerçekleştirdiği etkinlikler, bu bağlamda önem arz etmektedir. Sempozyum gibi

faaliyetler buna vesiledir. Baş döndürücü uğraşların çoğaldığı ve engellerin meydana geldiği günümüz şartlarında, imkan sınırları zorladığı da müsellemdir. Fakat imkan dışı olmadığını da vurgulamak gerekir. İslam kültür havzalarındaki bilgi bütünlüğü geleneğinde özellikle günümüze ışık tutacak tecrübeler mevcuttur. Sempozyumumuz bu gibi tarihî tecrübeleri ilim camiasına kazandırmaya vesile olacaktır.

Üniversitelerin ürettiği, paylaşp aktardığı bilimin topluma faydalı bir değere dönüşmesi için sadece hoca, öğrenci ve kampüs ile münhasır kalmayıp sosyal hayatla bir şekilde içli dışlı olmasını zaruri kılmaktadır.

Din, sosyal hayatın bir parçasıdır. Dinî ilimler, sosyal ve beşeri bilimlerin temel alanlarından biridir. Dini hayatın sahih bilgiye dayalı olarak düzenlenmesinde ve bu hususta toplumun davranışlarını iyiye doğruya yönlendirmede rehberlik görevi üstlenen kurumlar olarak sadece teorik bilgiyi üretmek ve belli bir kitleyle paylaşmakla yetinmeyip farklı vesilelerle toplumu da sürece katmayı gerekli kılmaktadır. Bu ve benzeri bilimsel ve sosyal etkinlikler aracılığıyla bilim insanların ürettiği çalışmalarını sahaya ve daha geniş kitlelere yansıtılması mümkün olmaktadır. Bu çerçevede her sene sosyal bilimlerden bir alanda bilimsel faaliyetler icra etmeyi hedeflemekteyiz. Topluma sosyal hayatın düzenlenmesinde hizmetler sunmak, üniversitelerin eğitim-öğretim ve temel bilimsel araştırmalar yanında temel vazifelerindedir. Ayrıca üniversitelerin toplumla iç içe olması gereğinden hareketle, bu gibi ilmi ve sosyal projeler geliştirilmektedir. Sempozyumun ana teması sosyal bilimler olmakla beraber, İslam kültür mirası çerçevesinde yetişmiş ilim adamı, şair ve mutasavvıfların hayatları ve ilmi şahsiyetleri alanın dahilindedir.

Sempozyum hedeflerini şöyle sıralamak mümkündür:

- Mahalli idareler, STK'lar gibi birimlerin paydaşlığıyla sosyal refah ve toplumsal kalkınmaya katkı sunmak.
- İslam kültür mirası çerçevesinde başkentin tarihini, ilim adamlarını ve fikir düşünce şahsiyetlerini araştırmak.
- Tarihi süreç içerisinde sosyal, ilmî ve kültürel alanda yapılan faaliyetlerin araştırılması ve gelecek kuşaklara aktarmak suretiyle ihya ve inşa bütünlüğü bağlamında farkındalık meydana getirmek.
- Başkentimizin inanç ve kültür turizmine katkı sağlamak. Ak Medrese'den Kara Medrese'ye, Hacı Bayram-ı Veli'den Sarı Kadı'ya, İmrüü'l-Kays'tan Agust tapınağına kadar, kültür ve inanç turizmi bağlamında önem arz eden tarihi

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şahsiyetleri, eserleri ve kültür mirasımızda önemli yeri olan tarihî mekanları gün yüzüne çıkarmak.

İslami İlimler Fakültesi olarak bu misyonla bilimsel faaliyetlerini icra ederken sosyal cenahta başkentimiz Ankara'ya bir vefa borcu olarak kalkınmada ve müreffeh geleceğe doğru yol almada katkı sağlamak, bilimsel ve sosyal alanda gelişmeleri desteklemek ve sahada dini hayatın sahih bilgiye dayalı olarak düzenlenmesine yardım etmek ile toplumun davranışlarını doğru bilgiyle dönüştürmede rehberlik etmek gibi hedefler yer almaktadır.

Son olarak gerek sempozyum düzenleme işleriyle ilgilenen heyete, tebliğleriyle ilim alemine katkıda bulunan akademisyenlere ve dinleyicilere teşekkürü bir borç biliriz.

Gayret bizden Tevfik Allah'tandır.

Prof. Dr. Mehmet Ünal  
Dr. Öğr. Üyesi Aydın Kudat

# ISLAMIC MANAGEMENT PERSPECTIVE AND ITS EMPHASIS ON SOCIETAL WELLBEING

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## Abstract

In this paper, as a management and organization scholar, we want to discuss potential contributions of Islamic perspective on modern businesses and society relations. Islamic management is underrepresented in the management and organization literature, yet it has been a growing field recently; with its prominence on thinking the businesses beyond the shareholders' interests and the societal wellbeing. In this paper, we will first try to summarize the modern need for alternative epistemologies to think business-society relations, and then illustrate authority and responsibility perspective of Islamic management. In this respect, Islamic concepts of succession, encouraging goodness, preventing badness and justice are emphasized.

**Keywords:** Islamic management, business society relations, management responsibility, encouraging goodness, justice

## Özet

Bir yönetim ve organizasyoncu gözüyle bu çalışmada İslami bakış açısının modern işletme dünyası ve toplum ilişkisine yapabileceği katkıları tartışmayı hedeflemekteyiz. Yönetim ve organizasyon literatüründe İslami yönetim yeterli seviyenin altında bir ilgi görmesine rağmen, son zamanlarda varlığını artırmaktadır. İşletmelerin hissedarların çıkarlarının ötesinde toplumsal yararı da düşünmesine ehemmiyet vermektedir. Bu çalışmada ilk olarak modern yönetim literatüründe işletme-toplum ilişkisini düşünürken farklı epistemolojilere olan ihtiyacı özetlemeye, ardından da İslami yönetimin otorite ve sorumluluk perspektiflerini özetlemeye çalışacağız. Bu bağlamda, hilafet, emri maruf nehyi münker ve adalet kavramlarının üzerinde durulacaktır.

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**Anahtar kelimeler:** İslami yönetim, işletme-toplum ilişkileri, yönetim sorumluluğu, iyiliği teşvik etme, adalet

### **Businesses and Societal Responsibilities**

Management and its impact on societies have taken more attention in recent years. Businesses' goals are historically accepted as maximizing their shareholders' interests (Eisenhardt, 1989; Jensen & Meckling, 1976) and it is an unfamiliar idea to prioritize other parties' (society, environment etc.) interests, because it gives the impression of being contradictory to the reason for existence of private enterprises (Friedman, 2007). Their impact on society has secondary level importance compared to organizational interests. When there is a conflict of interest between organizations and society, problematic dilemmas arise on whether an organization should try to maximize its gains in exchange of societal losses and damages or not. In this respect, scholarly attention has also been given more to social responsibilities of corporations (Margolis & Walsh, 2003).

Starting from 19<sup>th</sup> century, modern firms have achieved a significant success in creating economic wealth for societies; they have changed world's lifestyle and provided comfort and wealth which is not possible without the private enterprises. Nevertheless, they have failed to distribute these values among societies in an equal way. Firms create values through utilizing a range of resources provided by members of outsiders including stakeholders, government, and the broader society. Scholarly attention, however is claimed to be less for the societal wellbeing and development and redistribution of wealth for overcoming economic inequalities (Bapuji, Husted, Lu, & Mir, 2018).

There is an increasing awareness on the businesses intervention with social issues and meeting societal urgent needs. Businesses are claimed to be responsible for contributing to the development of sustainable societies and encourage community development (Saiia, Carroll, & Buchholtz, 2003; Scully, Rothenberg, Beaton, & Tang, 2018). In this respect, corporate social responsibility (CSR) and corporate philanthropy (CP) studies have been increasing. Yet, CSR's understanding and rationalization methods are also criticized because of their Western-centric focus (Melissen, Mzembe, Idemudia, & Novakovic, 2018). CSR and CP activities are claimed to be evidence of hypocrisy and bad intentions as well (Godfrey, Merrill, & Hansen, 2009). They are accepted as a future investment which lead companies to better positive financial outcomes (e.g. Porter and Kramer, 2006; Ramchander, Schwebach and Staking, 2012; Hogarth, Hutchinson and Scaife, 2018). Scholarly evidence exist illustrating that firms often

engage in CSR dissemblingly to legitimize their unethical activities (Godfrey, 2005), to have insurance-like benefits in case of wrong behaviors (Luo, Kaul, & Seo, 2018) and protect their reputations (Muller & Kräussl, 2011; Shu & Wong, 2018).

### **What would be the essentials of Islamic Management?**

I exercise caution that arguments in this paper belongs to my interpretations of Muslim scholars' Islamic management perspectives and I cannot claim that these are fully representing the religion of Islam. However, when I look after the Islamic value sets; I found two important perspectives that could bring valuable implications on the modern business & society relations: authority and responsibility.

#### **Authority Perspective**

In Western-centric MOK, authority relations are generally approached through the conceptualization of the agency problem. In this understanding, authority is accepted to belong to shareholders, and they delegate their authority to agents and expect them to manage organizational resources to create benefit for them. This delegation of authority, however, comes with some agency costs. In modern organizational economics literature, organizational actors are claimed to have different material interests/goals which cause moral hazard problems that increase the transaction costs and decrease the overall efficiency of the organization (Williamson, 1985). Moral hazard, opportunisms, dishonesty of agents are considered as likely risks because managers want to maximize their own interest and may not act in the best interest of shareholders (Fama & Jensen, 1983; Jensen & Meckling, 1976).

Modern perspective prioritizes the material interests/gains of shareholders and requires the usage of authority and power to maximize these. In other words, in organizational environment, authority and power is used to maximize shareholders' interests. In Islamic understanding however, ultimate authority is accepted to belong to God. Shareholders themselves were thought as agents of God. This religious boundary is conceptualized as "*succession*" and constitutes the basis of Islamic authority understanding.

## **2. Succession – Revealed Authority: Understanding of ownership & authority in Islam**

*'you have a higher position to people ... Allah has a higher position over you.'* In a letter of Caliph Ali (ra)<sup>2</sup> (601-661) written to one of his governors (Cavis, 2015; p.55)

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<sup>2</sup> ra: Radhe Allaho-ann (may Allah be pleased with him)

## Islamic Management Perspective and Its Emphasis On Societal Wellbeing

In Islamic perspective leadership, authority, ownership of property are all accepted as God's endowment towards humans. Therefore, human who are in leadership positions are firstly obliged to obey to God. Islam does not see these positions as giving superiority or priority over other people to get preferential treatment but a responsibility (El-Mevdudi, 1980). Rather than seeing firm as a nexus of contracts, Islamic notion of management would be more described as a trustor-trustee relation. In Islamic understanding, every human being is considered as successor (trustee) of God on the earth with religious responsibilities towards themselves, their families, society and natural environment (Gannuşi, 2017).

In the Islamic paradigm, managerial focus would not be on the "ownership" but "responsibility-entrustment" (Er-Rayyis, 2017). Shareholder – manager – worker relations would be understood through the existence of another actor: God. All kind of authority-related positions are considered as an endowment of God. This argument gives a position of entrustment to the human which was conceptualized under the term of *caliph* (successor, trustee). God describes humans as *caliphs* in the earth (Surah Baqarah, 2/30; Surah Sad, 38/26). Regarding this successor position, business shareholders should not be considered as the *owners* of the business but also *trustees (successors)* of God. This perspective signals the notion that principals themselves are also agents towards the real owner, God; they are temporary trustees of their authorities who should work for the sake and the consent of God. Then, what does such a perspective reflects to management practice?

Islam is claimed to be like an organization for society and institutions more than a religion; and it is also a guide for the individual conducts within these societal and institutional context (Aribi & Arun, 2015). In Islamic economic thought, economics and religion were thought to be mutually influencing factors. Material, economic goals alone are not considered sufficient for being the ultimate goal of doing business in Islam (Al-Alwani, 2005; Al-Faruqi, 1992; Orman, 2007). Islam is also concerned with the moral dimension of the economics (Hofmann, 2004). Muslim scholars, like Ghazali thought that Islam is interested in economics not for the economy itself, but a tool for realizing religious higher-level aims (Orman, 2007; Sidani & Al Ariss, 2015). Notion of succession and entrustment demands the spreading of justice, truth, good deeds and virtue by humankind (Al-Qaradawi, 2000). Economic life could have a positive or negative impact on religious life; and according to this impact economic activities is judged. Therefore, economic activities are seen as a tool for religious purposes, otherwise they alone do not have a positive or negative value inherently.

Applying this perspective to the modern business environment, an Islamic management notion would not limit organizational goals with economic ones but include spiritual and moral

dimensions for both individual and societal level. Organizational actors from all levels (shareholders, managers, workers) would subject to religious criteria as well as their business-related responsibilities. We can claim that Islamic management would enlarge the responsibility understanding of businesses. In the following section, we will discuss these additional responsibilities.

### **Responsibility Perspective**

In Euro-centric MOK, the main reason of existence of organizations are accepted to be maximizing organizational gains and interests. Organization-environment relations and organizational responsibilities are also approached accordingly. Modern organization theories try to understand and explain how firms can achieve/sustain these gains. With this purpose, they examine the organization and environment relations, speculate about the essence of this relation and the responsibilities of businesses. Organizational fitness to environmental requirements and thus, outperforming rivals to make more profits /gain market share was considered as the main responsibility by many theorists (Chandler, 1962; DiMaggio & Powell, 1983; Pfeffer & Salancik, 1978; Williamson, 1989). However, they mainly focus on the economic, material interests of the firms, and overlook the other parties' and societies' interests. Responsibility understanding is mainly limited with the economic gains of the firms. Ethical, moral, religious and societal responsibilities of the firms have been subject to academic and practical interest, yet these efforts had always been approached as dispensable and having a secondary level importance compared to the economic ones.

### **3. Additional Responsibilities: Encouraging Goodness, Preventing Badness and Justice**

Islam would never distinguish management and morality; management should be subject to moral criteria as well as its economic and material aspects. These moral criteria mostly would shape the relations with the society that the business operates in. Modern MOK approached businesses as the key actors that develop the societies in economic terms. However, businesses should also be contributing the moral development of the societies. Islamic management would aim for creating a society which is economically developed as well as having high virtue and wisdom.

Islamic perspective considers contributing to the societal well-being equal to gaining God's consent (Kudat, 2017). Businesses also have societal responsibilities in addition to their economic ones. They need to contribute societal material and moral development. In addition

### **Islamic Management Perspective and Its Emphasis On Societal Wellbeing**

to the purpose of maximizing economic gains and interests, Islamic perspective would enhance higher-level goals for organizations: justice, encouraging goodness and preventing badness. While justice implies the material responsibility towards the stakeholders that organizations interact with; encouraging goodness indicates the moral/religious responsibility of businesses.

An organizational action/outcome therefore needs to be both *materially just* and *morally good*, it is not considered to be enough when it only suits economic interests; it must not be bad or harmful for others at least. This notion sets some limits for business activities, highlighting the businesses' effects on the societal environment. Success was not only measured by economic or material gains, but justice is also presented as a legitimization factor as well. A business activity is considered as legitimate if only it is in accordance with overall wellbeing of all stakeholders who are affected by it.

An Islamic perspective would approach management as a triangular relationship among God, leaders and followers (Egel, 2014); and consider business owners and managers responsible towards God as well. The concept of succession would bring additional non-economic responsibilities to organizational actors. Two things matter here: (i) intention (of gaining consent of God ~ equal to contributing to the societal well-being) and (ii) action, transforming the outside world through production. Islam motivates Muslims to work and produce, but with does not let limiting the goal on profit maximization; it requires a production which contributes to the society. Profit is one of the results among the others, but should never be the only and the ultimate aim (Al-Faruqi, 1992).

When we think these principles, we can see that Islamic management would give more emphasis on the businesses' impacts on society. It would not consider businesses only with their economic contributions to the society but also moral ones as well. Quranic concept of encouraging goodness and preventing badness could also be defined as a responsibility of modern businesses. Since businesses cannot be isolated from society that they operate in, they also need to contribute the development of the society. This development is not merely economic but could also be moral and religious. In other words, a business is also subject to religious responsibilities; they need to support their societies, provide solutions to their problems, contribute to the economic and moral development of them. Moreover, any harm against to the society is not acceptable, societies' interests are considered as God's consent and have a priority over organizational interests.

## What is to be learned from Islamic management perspective?

Today's business environment is mostly shaped with capitalistic, secular, individualistic and Machiavellian values. Such a notion prioritizes business' interests over societal interests. Although there has been an increasing awareness on the societal responsibilities of businesses (CSR, CP, Business Ethics studies etc.) they are mostly Western-centric and fall short of solving modern worlds' problems. Islamic management would have two main different perspectives which could provide implications to solve these problems. First, it approaches authority differently, claiming God as the ultimate owner of everything (any property or ownership) and approaches organizational actors as successors. This fundamental notion eventually opens room for additional non-economic goals for businesses. Contributing to the material and moral well-being of the society is considered as responsibility towards God.

Such a notion is very different from the modern understanding of organizational actors having conflicting interests. Every organizational actor is accepted to have their own self-interests and try to maximize these, regardless of the damage/loss they create on the other actors and society. Islam creates clearer common goals for all shareholders, managers and workers to follow (Jordan, 2006). It includes God as an actor in organizational life who directs actors to the same goal of realizing their societal responsibilities, which is considered as "gaining the consent of God".

In summary, I can claim that Islamic management perspective would give importance to societal concerns, at least as much as the interests of business owners. Islam accepts that contributing to the society is equal to gaining the consent of God, and one of the responsibilities of businesses in addition to making profits. Islamic perspective would require more emphasis on societal impacts of businesses and approach the businesses beyond the shareholders' interests, and it would not consider solely economic contributions to the society but also moral ones as well. Islamic perspective could provide fruitful contributions in thinking and redesigning business & society relations; future studies on this topic are needed to enrich MOK and provide alternative solutions for today's problems.

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# A CONTENT ANALYSIS STUDY OF THE ORIGINALITY OF THE ECONOMIC POLICIES OF MENDERES AND ÖZAL

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## **Abstract**

This chapter, a comparative and interdisciplinary study of Turkish economic history, aims to explore and compare the adoption process of Adnan Menderes and Turgut Özal governments' economic policies. These governments came to power after shocking events, such as war and coup, respectively. They have been a source of hope for different segments of people who were longing for a change. They also gained the support of the majority with their policies that aimed to open the economy. International developments also affected these transformations to some extent, as well as domestic factors. Therefore, a large body of literature on Turkey's economic history emphasizes that Turkey's policies were not implemented independently but were somewhat influenced by the USA after World War II. Like many other developing countries, they assert that Turkey came under the United States' influence and imposition, one of the Cold War period's hegemonic powers.

While the transition to the multi-party system was the most critical change in the political field, the abandoning etatism was another breaking point in the economic system. A comparable rupture occurred when Özal adopted a free-market economy and export-oriented growth model. This chapter's primary focus is to understand whether there is an external effect in determining economic policies as of the periods we have chosen. In this regard, the emphasis was given more on external factors' impacts than the policies themselves.

For this purpose, firstly, we analyzed the leaders' economic policies and strategies thoroughly by employing the content analysis method on government programs. Secondly, we compared the economic policies of the leaders, as well as their implementations. Thirdly, we reviewed mostly the World Bank reports and the US Department of State's archival

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resources to determine the external impact. Finally, after presenting the key findings, we discussed Turkey's dependency predicament and made some suggestions regarding this issue.

In their government programs, both leaders gave more importance to the economy than any other subject. The main elements of Menderes's economic policy were the liberalization of the economy, which shortly evolved into a mixed economy, import-substitution growth model, and giving priority to agriculture. Likewise, essential elements of the economic policy of Özal governments were the implementation of a free-market economy, an export-led growth model, and giving priority to the industry.

The economic policies adopted by Menderes and Özal mostly comply with the suggestions of the USA and International Financial Institutions, and thus the leaders exhibited a reactive behavior. The regional conflicts and the necessity of foreign credits for domestic manufacturing and investments were the main reasons for Turkey's dependency. In other words, throughout the Cold War era, Turkey's undeveloped economy has become its soft spot in its international relations. Therefore, we expect that this study's findings might contribute to the debates, which claim that the economic policies implemented by Menderes and Özal are not original and adopted as a result of the pressure/direction of the external powers.

Political sovereignty would not be attainable without economic independence. Economic independence requires strengthening the infrastructures of social, political, and financial institutions. Some studies in the economic history literature ever-increasingly assert that institutions, rather than geographical location or cultural characteristics, determine countries' economic development levels. Additionally, the human capital of the state should be improved by investing in education and health. Finally, domestic savings and foreign exchange reserves, the most critical external financial dependency causes, should be increased.

## **INTRODUCTION**

The Turkish nation, who spent most of the first quarter of the 20<sup>th</sup> century in the wars, became more impoverished and tired from these wars, which decreased the country's financial means, reduced the productive male population, and adversely affected the production in all sectors, especially agriculture. The new administration led by Atatürk, which ended the War of Independence with victory, initiated political changes in the state

structure with the declaration of the Republic. Revolutions carried out in cultural, social, and economic fields, as a natural result and continuation of this change, revealed the new state's vision: *"To reach the level of contemporary civilizations."*

Turkey is the 19<sup>th</sup> biggest economy globally as of 2018, while it is the 52<sup>nd</sup> in per capita. Turkey ranks 53<sup>rd</sup> in the human capital index (HCI) ranking, which uses health and education as an indicator, and 59<sup>th</sup> in the human development index (HDI) listing includes national income in the HCI. As HDI shows, Turkey's industry ranking is behind Greece, Bulgaria, Cyprus, Romania, Hungary, even Middle Eastern countries such as Bahrain, UAE, Oman, Saudi Arabia, and Kuwait.

When we look at Turkey's progress of development in the last two hundred years of period, starting from the industrialization in the 19<sup>th</sup> century until the Democrat Party (DP) came to power in 1950, per capita income in Turkey increased as much as the same level of the world average. Although the Turkish economy kept growing within this period, it lagged behind the developed countries more due to rapid industrialization in these countries. Fast growth levels after the Second World War did not help close the gap. When we compare Turkey's average growth rate with that of developing countries, per capita income in Turkey increased a little faster until 1950 and started to grow at the same rate as developing countries. On the other hand, China and India have entered into a much faster growth process and increased the developing countries' average since the 1990s. While Turkey's growth rate has been more than that of South America, Africa, and the Middle East countries, its growth rate lags far behind Italy, Spain, Japan, and South Korea, which became high achievers in economic development after the Second World War.

On the other hand, the differences between the developed and the underdeveloped countries can be seen in the economic, political, and social fields. There are some indicators of the development such as production structure in the industry, agriculture and services sectors, distribution of national income, the infrastructure of education, health, and transportation services, cultural and artistic development level, human rights and the rule of law, right to elect and be elected, and freedom of expression. There is a need for a breakthrough to realize the vision of reaching the level of contemporary civilization.

In order to achieve total development and compete in other societies internationally, countries need to develop three types of infrastructure:

- Social Infrastructure
- Economic Infrastructure
- Institutional Infrastructure

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The social infrastructure consists of the demographic structure of the people living in the country (population, birth-death rate, average life expectancy, distribution of age groups), culture, education, health status, urbanization rate—the country's human capital increases as a result of the development of these factors.

The economic policies' success determines the development level of the economic infrastructure, the production value of the agriculture, industry, and services sectors, the country's technological level, foreign trade volume, and foreign direct investment. By developing the economic infrastructure in a country, physical capital increases, national income grows, and the accumulation of finance, which enables the development of social and institutional infrastructure, is secured.

The institutional infrastructure, on the other hand, is composed of the central and local structures of the institutions responsible for the administration of the state in both political and administrative capacity (ministries of internal affairs, foreign affairs, justice, education, national defense) and non-governmental organizations (foundations, unions, associations, professional institutions). Countries strengthen their administrative capital to the extent that they can improve public and non-governmental organizations' quality and accountability. The political institutions of democratic regimes, a sub-branch of the institutional infrastructure, come to power after elections to develop each of the three factors.

In this chapter, we examined the economic policies of Adnan Menderes and Turgut Özal by using the content analysis method. For this purpose, firstly, we analyzed five Governmental Programs of Menderes-led Democrat Party governments and two Governmental Programs of Özal-led Motherland Party (MP) governments. Democrat Party came to power in 1950 and 1960, while the Motherland Party served between 1983 and 1989. Menderes, the first Prime Minister of the free multi-party period, and Özal, becoming Prime Minister three years after the 1980 military coup regime, have been a source of hope for different society segments. Turkish people have longed for a better future and radical changes in their lives after encountering severe problems caused by the economic, social, and political issues of previous periods. Both leaders gained most people's support in the elections, promising more liberalization and opening up the economy.

On the other hand, their governments differ significantly from other governments and each other in terms of the economic system and growth model they adopted and the sectors they prioritize. The liberalization policy of Menderes was relatively short-lived, before reverting to the previous economic system, in which state intervention and the weight of the SEEs in

the economy continued. As another diversion from liberalization, import substitution policies have come to the forefront as a growth model, especially since the foreign exchange problem arose. In contrast, the agriculture sector has been given priority due to the country's socio-economic conditions. However, Özal initiated the free market economy system, introduced an export-oriented growth model, and an ambitious industrialization target. Unlike Menderes, Özal did not compromise from the policies during his Prime Ministry, and these policies have continued to date.

Both the Democrat Party and the Motherland Party governments differ from other governments in terms of coming to power, the timeline they remain in control, and the policies they pursue. Following the Republican People's Party, which ruled the country for 27 years in the one-party system, the DP came to power with free elections in 1950 after transitioning to a multi-party democratic system in 1946. The DP ruled the country for ten years but was removed from the government with a military coup. On the other hand, the Motherland Party came to power after the military coup and ruled the country for six years. Excluding the years when democracy was suspended in the single-party period and during the military coups, half of the democratic period was spent under their leadership.

Another common ground of Menderes and Özal governments is the nature of relations with the United States of America, who had been the dominant power after the Second World War when the new world order was established. The Cold War conditions, which led to new divisions in the international relations system and the country's social and political developments, had been important factors that helped Menderes and Özal come to power and formed their economic policies.

In this chapter, we evaluated these policies in terms of originality, that is, whether the leaders showed reactive or proactive behavior and whether these policies were imposed upon by the international financial organizations, i.e., the World Bank, IMF, OECD, as claimed by some economic historians, and discussed in the literature review section. Therefore, in this chapter, answers to these questions were sought:

- What policies and strategies did Adnan Menderes and Turgut Özal adopt to ensure the country's economic development?
- What are the differences and similarities between the two leaders regarding independence and originality of economic policies?

We evaluated the findings under the titles of "macroeconomics", "three main sectors (agriculture, industry, and services)," and "foreign trade regime". We believe that the findings might contribute to the discussions that the economic policies implemented by

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Menderes and Özal are not original; instead, they are adopted as a result of the pressure/direction of the outer circles.

### **1. Literature Research**

When we examine the economic policies implemented since the Republic's proclamation, we see some significant breakage points in the economic systems. It is possible to classify these transformations into specific periods based on internal and external factors that affect policies' formation and determine goals and applied strategies. Therefore, economic historians defined these periods in similar titles, and most mentioned the developments in the agriculture, industry and services sectors, monetary, foreign exchange, fiscal, and foreign trade policies.

Historians consider the first years of the Menderes period as a short-term liberalization attempt while drawing attention to the neoliberal practices in the financial and foreign trade areas in the Özal period. Besides, regarding the leaders' structural and sectoral preferences, during the Menderes era, the agriculture sector was prioritized, and mechanization was carried out intensely to increase agricultural production. On the other hand, Özal initiated an export-oriented industrialization program to contribute directly to the current account deficit. Moreover, historians have been interested in the decision-making process, along with the content of the policies. Öniş and Şenses (2007) studied the governments' economic policies in Turkey since the Second World War. The authors found that there were large-scale changes in policies, especially after the economic crises, which forced governments to adopt new policies mainly in line with international agents' directions, being the main factor behind the policy change, together with the support of domestic interest groups. Indeed, economic or financial crises are strong indicators of the inadequacy of current economic policies and show a need to change and open the door to external influence. The economic policies of DP towards integration to the world economy and transition from etatism to agricultural development were supported by large-scale landowners and the newly emerging industrial bourgeoisie, while these policies were previously recommended by the World Bank. Similarly, the neoliberal policies were implemented during the Özal period by the IMF's recommendations, the European Union, and the World Bank from outside, getting supports from the large export-oriented enterprises and export-oriented SMEs at home. In this context, the authors claim that the economic policies implemented by both Menderes and Özal can be considered as reactive behavior.

Kazgan (2006), evaluating the economic policies within the framework of the global trend, states that Turkey adopted the economic policies under Western powers' influence except for etatism during the 1930s. US-led international financial organizations such as the IMF and the World Bank imposed various policy proposals on developing countries, including Turkey. The rationale behind the imposition was to provide US companies with investment opportunities and prevent the spread of USSR-led communism. The struggle between capitalism and communism in the international arena enabled Turkey, mostly thanks to its geostrategic status, to benefit from generous financial and military support from the West. Both large landowners and traders supported Turkey's integration into the international system, seeing it compatible with their interests. Policy recommendations, such as leaving the heavy industrialization, discontinuing the etatism policies, and paving the way for foreign capital, came from the World Bank reports, prepared by Max Thornburg in 1946 and by Baker in 1950. Similar policies were cited at the Economic Congress in 1948. Although policy imposition from abroad started during the RPP era before the DP assumed power, the implementation of these policies took place by Menderes governments.

Ekzen (2009), evaluating Turkey's economy in terms of its global relations, claims that its economic dependency started with the devaluation in 1946. According to Ekzen, all successive governments continued these dependent policies. Indeed, the new world order was established just after the Second World War, and Turkey had to be a part of this system under the political and economic protection of the West. Thus, Ekzen asserts that the only period in which independent economic policy could be pursued was between 1929 and 1946. The new Republic started to determine its own customs duties after the Lausanne Treaty's restrictive provisions were revoked in 1929. Turkey's economic policies, which opened its economy to the external world with the 1838 Trade Agreement, were mostly imposed externally in all other periods except for the 17 years in question. The new world order demanded that Turkey should be incorporated into the international production chain. However, Ekzen emphasizes that Turkey's role in the global economic structure (in terms of raw materials, trade, foreign direct investment) is less valuable than its imposed political and military duties.

Boratav (2012) describes Turkey's external relations, especially with the developed Western countries, as "semi-colonial" since the late Ottoman period and as "dependent" since the beginning of the Republic. According to Boratav, the DP does not have a clear economic policy, except prioritizing capital accumulation in the private sector and supporting this sector through public business. He defines the 1980-1988 period when Özal was under the

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economy's management as a "counter-attack of capital". According to Boratav, Özal, becoming the Undersecretary of the Prime Ministry in 1979, believed that the remedy for the economic crisis was exporting while disciplining the wages to gain a competitive advantage in international markets. The process started with the January 24 Decisions and was implemented by the military coup regime. The distinctive feature of the neoliberal economic policies implemented during the Özal period is that it was not original. Still, it was created by the IMF and the World Bank's insistence. The United States, together with the IMF and World Bank, supported Turkey financially and imposed their economic policies to set an example of good practice to other developing countries. As a result, a significant growth rate in national income has been achieved by the support of international financial circles rather than economic policies' success.

According to Kepenek (2012), the Turkish economy's current structural problems result from economic policies pursued between 1946 and 1960. Because during the Second World War, especially the capital accumulation of the traders, the opening of rural areas to market, and the acceleration of urbanization, played a significant role in the social and economic development of the society. He states that the radical changes of the economy during the Özal period were the transition to the free market model, narrowing the public sector, and increasing exports with the help of devaluation of Turkish Lira, export incentives, monetary and fiscal policies. However, the economic system shift requests came from international organizations such as the World Bank and the IMF. They considered the country's comparative advantage was in labor-intensive manufacturing.

Ekzen (2009) states that Menderes, first voluntarily accepting external influences, adopted the policy of supporting the agricultural sector; however, later, especially after 1954, when foreign payment problems aggravated, started to prioritize the industry sector. The change in the economic policy bothered international credit institutions, mostly the USA. Consequently, Turkey could not get debt from these institutions until 1958, when the devaluation took place. Similarly, after the oil crisis of the 1970s and the collapse of the international monetary system, Turkey faced the imposition of neoliberalism that has been the mainstream policy in Western states. International organizations such as the IMF and the World Bank, which have undergone a similar change, have abandoned the developmental policies adopted after the Second World War, believed that the free market would solve all the problems within the framework of the Washington Agreement, they have started to compel the neoliberalism to surrounding countries. In this context, these organizations

forced Turkey to embrace the free market model and prioritize exports. Following the January 24 Decisions, Turkey signed Compliance Program with the World Bank in March 1980 and Stability Program with the IMF in June 1980, after significant financial resources were transferred to Turkey. According to Ekzen, under these organizations' patronage, Özal executed his policies, such as the liberalization of foreign trade and the financial system, the complete removal of foreign exchange controls, and the reduction of the economic activities of the public sector. However, due to the liberalization, short-term capital movements caused major economic crises in the following years.

Şahin (2014) claims that the core of DP's economic policy was to support the private sector by reducing the public sector's economic activities and liberalization. This policy's concrete practices were carried out by the Foreign Investment Incentives Law and the Petroleum Law. The author also states that the neoliberal policies, initiated within the scope of the January 24 Decisions, were maintained during the Özal period. The free-market model was the basic framework of the neoliberal policy, which required opening up the economy, limiting the public's economic activities, encouraging the private sector and foreign investment, and liberating the foreign trade and financial system. According to Şahin, the most successful policy was the liberalization of the financial system, while there was a big failure in inflation and budget balance.

Yülek (2015) states that the basis of the neoliberal policies recommended by the World Bank and the IMF was to reduce the activities of the state in the economy, to end the implementation of price controls, to privatize SEEs, to liberalize the foreign trade, and financial sectors and to liberalize capital movements.

Finally, Rodrik (2001) does not find it appropriate to recommend generalized policies for countries, such as the free market economy, liberalization, and privatization by the World Bank and the IMF. According to Rodrik, economic development requires implementing policies compatible with their internal dynamics and institutional structures, as was the case with the developed countries in the first half of the 20<sup>th</sup> century and Japan, South Korea, Taiwan, and even China after the Second World War.

## **2. Method**

In our study, we compared Menderes's and Özal's economic policies with the World Bank recommendations. For this purpose, we examined government programs, the World Bank reports, and the US Department of Foreign Affairs archive documents by using the content analysis method.

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The content analysis method, the first application found in 18<sup>th</sup> Century Scandinavia, has been widely used since the 19<sup>th</sup> century. Content analysis is mainly used to determine concepts by evaluating frequency and relationships between selected words or concepts in the examined text to interpret the texts' embedded messages (Hsieh and Shannon, 2005: 1278; Acun, 2005: 27).

The primary purpose of the content analysis is to reveal the information systematically. In this respect, it is possible to make general inferences and develop theories based on the information and findings obtained from the research. For this purpose, firstly, the words, sounds, images in the examined material should be grouped and classified into "categories" (the United States General Accounting Office Program Evaluation and Methodology Division, 1996: 2-10). Through these categories, text analysis is not just meant to be a word count but become meaningful expressions that point to a relationship between the words scattered in the text. In the first stage, "codes" are determined based on the conceptual phrases defined in the material. These codes must express a key idea and concept. In the second stage, sub-categories are created according to the relationship and connection status of the codes. In the third stage, the main categories are created by bringing together the sub-categories and dividing them into larger groups (Hsieh and Shannon, 2005: 1278-1279). In the fourth and final stage, as a result of creating codes and categories, it is possible to summarize, conceptualize, and ultimately develop a theory (Bryman and Burgess, 2002: 4-5).

In our study, we analyzed the government programs by using the qualitative content analysis method to determine the economic policies adopted by Menderes and Özal. As source documents, we employed the PDF versions of two books, based on Parliament Minutes Periodicals, namely *Governments, Programs, and General Assembly Meetings: Volume 2 (May 22, 1950 - November 20, 1961)*<sup>7</sup> and *Volume 7 in (November 12, 1979-November 9, 1989)*<sup>8</sup> prepared by the Grand National Assembly of Turkey. These books include all of the five government programs established by the DP and two government programs established by ANAP. However, to correct the spelling errors encountered in the books, we used a word processor, i.e., Microsoft Word 2019. The final version of the texts was recorded in Times

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<sup>7</sup> GNAT, (2013a). *Governments, Programs, and General Assembly Meetings: Vol 2 (May 22, 1950 – November 20, 1961)*, (Ed. Neziroğlu İ., Yılmaz, T.). Ankara: GNAT Office Publications, 750-1210

<sup>8</sup> GNAT, (2013b). *Governments, Programs and General Assembly Meetings: Vol 7 (November 12, 1979 - November 9, 1989)*, (Ed. Neziroğlu İ., Yılmaz, T.). Ankara: GNAT Office Publications, 5974-6143

New Roman font, and as a 12-point size, Word document to enable processing in the computer. The number of words used in the government programs of Menderes is 18,840, which makes 52 pages in total. The number of words used in Özal's government programs is 21,947, making 70 pages in total.

**Table 1. The total size of government programs**

| <b>MENDERES GOVERNMENTS</b> |          |           |              |           |          |              |
|-----------------------------|----------|-----------|--------------|-----------|----------|--------------|
|                             | <b>I</b> | <b>II</b> | <b>III</b>   | <b>IV</b> | <b>V</b> | <b>TOTAL</b> |
| NUMBER                      |          |           |              |           |          |              |
| OF PAGES                    | 10       | 9         | 18           | 5         | 10       | 52           |
| WORD                        |          |           |              |           |          |              |
| COUNTS                      | 3,748    | 2,846     | 6,725        | 1,789     | 3,749    | 18,840       |
| <br>                        |          |           |              |           |          |              |
| <b>ÖZAL GOVERNMENTS</b>     |          |           |              |           |          |              |
|                             | <b>I</b> | <b>II</b> | <b>TOTAL</b> |           |          |              |
| NUMBER                      | 37       | 33        | 70           |           |          |              |
| OF PAGES                    |          |           |              |           |          |              |
| WORD                        | 11,914   | 10,033    | 21,947       |           |          |              |
| COUNTS                      |          |           |              |           |          |              |
| <br>                        |          |           |              |           |          |              |
| <b>GRAND TOTAL</b>          |          |           |              |           |          |              |
| NUMBER                      | 122      |           |              |           |          |              |
| OF PAGES                    |          |           |              |           |          |              |
| WORD                        | 40,787   |           |              |           |          |              |
| COUNTS                      |          |           |              |           |          |              |

**Source:** GNAT, (2013), Governments, Programs, and General Assembly Meetings: Volumes 2 and 7

All topics in government programs are categorized under specific headings and subheadings by using a computer program named Atlas.ti. In the first step, sentences or word groups included in the programs were collected under the main categories. Eventually, the main categories were titled as; **1- Economical, 2- Social, 3-Political, 4- Administrative, 5- Other.**

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In the second step, sub-categories were determined for each main category by analyzing sentences or word groups in detail. The designations of these sub-categories are as follow;

1- **Economical** category; a-Macroeconomics, b-Industry, c-Agriculture, d-Services, e-Foreign Trade, f-Infrastructure (Transportation, Communication, and Energy),

2- **Social** category; a-General Social Issues, b-Education, c-Culture-Art, d-Health, e-Urbanization-Reconstruction, f-Environment, g-Sports,

3- **Political** category; a-General Political Issues,

4- **Administrative** category; a-General Administrative Issues, b-Foreign Affairs, c-Justice, d-National Defense,

5- **Other** category; a-Introduction, Greeting,

Finally, labeling the main and sub-categories required an induction method in which the texts had to be read numerous times. In other words, labeling the categories was not done according to the previous classification but took shape during and after the reading and evaluation process.

### **3. Economic Policies and Strategies of Menderes and Özal**

#### **3.1. Economic Policies of Menderes**

The general framework of Menderes governments' economic policy has been determined in light of the content analysis results, especially in terms of the essential elements that distinguish these policies from the previous governments. Therefore, the framework of the DP's economic policy is as follows;

**1- Economic System:** *Mixed Economy*

**2- Growth Model:** *Import Substitution*

**3- Priority Sector:** *Agriculture Sector*

#### ***Economic System: Mixed Economy***

Regarding the resource allocation system of the economy, the policy adopted by Menderes was formed in two stages. In the first period, spanning between 1950-1953, Menderes intended to implement a market economy that included liberalization and reducing state intervention, giving up public manufacturing except for primary industries, and privatizing the SEEs. However, the DP's liberalization policy could not be possible, and the state intervention had to be increased, the public sector started to open new industrial facilities,

and the privatization of SEEs was abandoned, especially after 1953 when the foreign exchange shortage started. However, within this period, the private sector continued to be supported as well. Therefore, the mixed economy system, which can be considered a combination of etatism and market capitalism, was effective in the DP period.

When we look at DP's government programs, we see that the economic system's policy has changed over the years. In the first government program, Menderes declared that they would pursue a liberal policy in the economy by saying, "*the economy will be protected from the harmful interventions of the state and all kinds of bureaucratic obstacles*"<sup>9</sup>. Additionally, Menderes criticized the previous governments who "*tended to keep the economy under their influence* " and "*consequently an interventionist capitalist, bureaucratic and monopolistic state type emerged over time.*"<sup>10</sup> According to this statement, single-party governments not only controlled the citizens politically and administratively, but they ruled the economy under pressure, which prevented the development of the private sector.

According to Menderes, the bureaucratic state structure formed during the single-party period hampered the production environment, prevented the development of economic resources, and caused the SEEs to function inefficiently. Moreover, while manufacturing and transportation of the public sector were costly to the country, state-owned banking and debt policy became irrational over the years.<sup>11</sup>

In this respect, while narrowing down the state's presence in the economy, it was necessary to seek private sector development opportunities. The first thing to be done in this regard was that "*economic activities public sector should be limited only to those that private sector cannot handle alone, and also to those that are in the nature of civil services*".<sup>12</sup>

From the statements given above, we understand that Menderes would move away from etatism and follow a liberal policy.

Similarly, the liberalization of foreign trade was included in the first two government programs. Within the scope of liberalization, the customs duties were supposed to be redefined. However, after partial liberalization of the foreign trade regime in 1950 and 1951, this policy was abandoned, and liberalization was not mentioned in the subsequent government programs.

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<sup>9</sup> GNAT Journal of Minutes, Term IX, Meeting 3, Session 1, v.1. (May 1950), 47

<sup>10</sup> GNAT Journal of Minutes, Term IX, Meeting 4, Session 1, v.1 (May 1950), 78

<sup>11</sup> GNAT Journal of Minutes, Term IX, Meeting 3, Session 1, v.1. (May 1950), 25

<sup>12</sup> GNAT Journal of Minutes, Term IX, Meeting 3, Session 1, v.1. (May 1950), 27

***Growth Model: Imported Substitution***

The growth model of DP, a complementary element of the economic system, also changed over time. In the period up to 1953, it was envisaged to reduce the state intervention within the liberalization policy framework, privatize the state enterprises, and remove the barriers to imports and exports. In other words, a growth model in which the private sector would outweigh manufacturing and exports was designed. However, there were significant difficulties in the imports of consumption and investment goods, mostly due to the foreign currency shortages due to the negative impact of bad weather conditions on the agricultural sector, which was the most important contributor to foreign exchange reserve. After this point, it became compulsory to produce essential goods nationally as much as possible and import substitution policies began to be implemented.

Although Menderes pointed out that the industrial production capacity should be increased in the first government program, the importance of import substitution policy was more clearly demonstrated in the fourth government program. Menderes stated that,

*"As we have already pointed out, in addition to our investment activities, we are determined to quickly eliminate the problems experienced on certain items, by allocating more resources to specific products, such as consumer goods, industrial raw materials, spare parts, etc. that our people need,*

*Our investments will be arranged by taking into consideration of the supply of substances that our people need, our development and reconstruction policies will continue up to the levels that the High Parliament approves."<sup>13</sup>*

Therefore, the public sector investments aimed to produce consumer goods, raw materials, and spare parts needed by the industrial sector. Thus, as of 1955, the DP's growth model was declared as import substitution, and the private sector was encouraged to produce industrial production, as demanded by this policy.

Menderes to express how successfully the import substitution policy had been implemented, he stated in the fifth government program;

*"We established numerous factories and facilities, such as cement, iron and steel, construction material, sugar, textile, paper, chemical, food, leather, which are the first condition of industrialization, agricultural progress, continuous development throughout the country, and meeting the needs of large masses of citizens regularly*

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<sup>13</sup> GNAT Journal of Minutes, Term X, Meeting 14, Session 1, v.1 (December 1955), 253

*and without a setback, belonging to the industry. In addition to these, we facilitated the production of plentiful of our needs, whether come to mind or not, instead of importing, as it was before."*<sup>14</sup>

A striking point here is that the governments invested in almost all the sectors cited by Menderes in the etatism period. The DP expected that by investing more in these sectors and establishing additional plants and factories, the economy could grow, provide employment for people, reduce imports, and save foreign currency.

On the other hand, it is not intended that the production envisaged by import substitution policies will be made only through the public sector. The DP desired the private sector to play an essential role in this matter; thus, it had been provided "... *various opportunities and incentives, such as bank loans, advantageous legal principles, transportation networks, and public infrastructure services, for the private sector and foreign capital to establish industrial and business enterprises insufficient scale*"<sup>15</sup>. The DP's policy on this issue has been successful, and the private sector started to develop enormously.

The DP intended to assign essential duties to the private sector, alongside the existence of a significant public sector, enabling them to function in a mixed economy and within the framework of import substitution policies. The private sector's interest in industrial manufacturing increased towards the mid-1950s when industrial products' prices improved against agricultural products (Kazgan, 2006: 82-91). In the process of transition to import substitution and its relatively successful implementation, the private sector had to be enthusiastic and passionate in this regard, in addition to the government's guidance. However, the private sector had been more interested in the assembly industry of consumer goods than the production of intermediate and investment goods. Ironically, the import substitution industrialization, adopted to reduce the need for foreign exchange, increased the need for it due to the payment of imported assembly inputs, and amplified the foreign exchange problem (Alkin, 2010: 118-120).

#### ***Priority Sector: Agriculture Sector***

In addition to the fundamental economic policies of DP, summarized above, it is also essential to identify which sectors were given priority by the DP, to determine strategies developed specifically for these sectors. In theory, it is expected that if limited resources are

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<sup>14</sup> GNAT Journal of Minutes, Term XI, Meeting 10, Session 1, v.1 (December 1957), 60-61

<sup>15</sup> GNAT Journal of Minutes, Term XI, Meeting 10, Session 1, v.1 (December 1957), 61

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used in the selected sectors, public and private investments would be directed to them. Consequently, the share of the sector in national income would increase.

Within this context, Menderes believed that the agricultural sector should be given priority to ensure economic development. Accordingly, the DP allocated more shares of agriculture than industry, including SEE policies in government programs. For example, the importance of agriculture for the economy was expressed dramatically in the fourth government program:

*"Agriculture is the foundation of our national economy. On the one hand, it provides the nation's need for nutrition and dressing and the raw material of our industry; on the other hand, it constitutes the main source of our exports."<sup>16</sup>*

It is clear that he correctly determined the importance of agriculture in the economy. Indeed, agriculture was the leading sector in the economy at that time due to its size. Between 1950-1953, the average share of agriculture in GDP was 44.4%, while it was 13.8% for industry and 41.6% for services (Şahin, 2012: 101). Even more importantly, in 1950, the employment rate in the agricultural sector was around 84%.

Menderes was not alone in believing that Turkey's economic development depends on the agricultural sector. Some reports, prepared by American experts on different dates, also stated that Turkey's comparative advantage was in the agricultural sector and that investment should be made in agriculture instead of industry.

However, as explained above, while the agriculture sector was given priority in the government programs, the DP realized the great importance of industry, especially since businesspeople started to show interest in industrial production.

To put it briefly, the basis of DP's economic policy emerged as a mixed economy in which the private sector coexisted and cooperated with the public sector, the import-substitution growth model was seen as a solution to the foreign exchange scarcity problem, and priority was given to the agriculture sector, which constituted a large part of the economy.

In addition to the fundamental elements of the economic policy, we also examined the strategies expressed by Menderes in the programs. In this respect, the macroeconomic strategies of money and finance, work, transportation and energy, sectoral strategies of agriculture, industry, services, and foreign trade strategies are listed below.

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<sup>16</sup> GNAT Journal of Minutes, Term X, Meeting 14, Session 1, v.1 (December 1955), 252

### 3.2. Economic Strategies of Menderes

Under the main heading of the economy in the DP's government programs, 22 different strategies are counted under six sub-headings. The first of these sub-headings is macroeconomics, which describes the economic system to be implemented, the state's role in the economy, and other policies such as public investments, budget, money, interest, tax, employee-employer relations.

**Table 2. Macroeconomic Strategies of the Menderes governments**

| TITLE          | STRATEGIES                                  |
|----------------|---|
| Macroeconomics | Reducing state intervention in the economy  |
|                | Adoption of budgetary equilibrium           |
|                | Protection of the value of the Turkish Lira |
|                | Promoting foreign investment                |
|                | Improvement in the taxation system          |
|                | Providing workers with the right to strike  |

**Source:** Governments, Programs, and General Assembly Meetings: Volume 2

In terms of the fiscal, monetary, and credit policies of DP Governments, some strategies come to the fore, such as implementing budgetary equilibrium, making improvements in the taxation system, protecting the Turkish Lira's value, and increasing the credit opportunities for the private sector. Issues such as employee rights, and employer-employee relations, were also covered by the DP Governments.

**Table 3: Sector Strategies of Menderes Governments (Industry)**

| TITLE    | STRATEGIES   |
|----------|--|
| Industry | Production-oriented investment in the industry sector      |
|          | Increasing the private sector's share in industrialization |
|          | Privatization of SEEs, excluding public services providers |
|          | Reducing monopoly practices                                |

**Source:** Governments, Programs, and General Assembly Meetings: Volume 2

Menderes believed that the industrial infrastructure of the country needed to be developed immediately. In this respect, the national budget allocated to investment should be expanded, and all other financial means that the government could use within the budget. The fastest way to increase the total production was via the use of all available capital for this purpose.

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Necessary measures should be taken to increase the share of the private sector in industrial production. It was important for the private sector to feel safe legally to grow and develop. Also, all kinds of necessary measures should be taken to attract foreign capital and technology to the country.

**Table 4: Sector Strategies of Menderes Governments (Agriculture)**

| <b>TITLE</b> | <b>STRATEGIES</b>  |
|--------------|--|
| Agriculture  | Ensuring agricultural mechanization<br>Acceleration the land redistribution<br>Increasing the capital of Ziraat Bank<br>Supporting the development of cooperatives<br>Supporting the development of intensive animal husbandry<br>Increasing forestry production |

**Source:** GNAT, (2013a), Governments, Programs, and General Assembly Meetings: Volumes 2

The agricultural sector grouped under the subheadings of "agriculture", "animal husbandry" and "forestry" in the government programs, was the most emphasized sector of the Menderes Governments in line with the economic and social structure of the country at that time.

**Table 5: Sector Strategies of Menderes Governments (Services)**

| <b>TITLE</b> | <b>STRATEGIES</b>                                |
|--------------|--|
| Services     | Supporting the development of the tourism sector |

**Source:** GNAT, (2013a), Governments, Programs, and General Assembly Meetings: Volume 2

As one of the three fundamental sectors in the national economy, the services sector, which provides an essential income source for a large part of the population, is the least important area of the Menderes governments. The only reference to this sector in the government programs is that the tourism sector, an important foreign currency earning sub-branch of the services sector, should be developed.

**Table 6: Foreign Trade Strategies of the Menderes governments**

| TITLE         | STRATEGIES   |
|---------------|--|
| Foreign Trade | Ensuring the stabilization of foreign trade<br>Revisiting the regulation of customs duties |

**Source:** GNAT, (2013a), Governments, Programs, and General Assembly Meetings: Volume 2

Issues, such as regulation of foreign trade and customs regimes, revisiting tariffs, increasing bilateral trade and economic cooperation opportunities, especially with European countries, were included in government programs.

**Table 7: Infrastructure Strategies of the Menderes governments**

| TITLE                                       | STRATEGIES   |
|---|--|
| Infrastructure                              | Improving road construction  |
| (Transportation, Communication, and Energy) | Emphasizing construction of thermal and hydroelectric power plants and dams<br>Realization of oil production |

**Source:** GNAT, (2013a), Governments, Programs, and General Assembly Meetings: Volume 2

The DP gave enough weight in the government programs to infrastructure projects, such as transportation, communication, energy, dams, and irrigation, as the main factors affecting the country's economy's growth rate. Menderes stated that the transportation and communication facilities of the country should be improved, and the construction of power plants and dams would be given importance. However, especially in the early periods of the DP governments, the highway's construction was preferred rather than the railway.

### 3.3. Economic Policies of Özal

In this part of our study, as it was done previously for the Menderes governments, using the content analysis method, the fundamentals of the economic policy of the Özal governments have been examined. Therefore, the framework of Özal's economic policy is as follows;

**1- Economic System:** *Competitive Free Market Economy*

**2- Growth Model:** *Export Oriented Growth*

**3- Priority Sector:** *Industry Sector*

#### ***Economic System: Competitive Free Market Economy***

Özal clearly stated that his government chose the economic model as a "competitive free market system". This preference was expressed in the First Government Program: "*Our*

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government is based on a competitive free market economy. The economic policies will be unique to us, per our conditions."<sup>17</sup> According to Özal, the free-market economic model, along with the policies it requires, should be adjusted to the needs of Turkey's economy.

Another reason for Özal to choose the free market model is "to ensure the development of the economy within the natural laws, and by minimizing interventions and threats to the economy, it is our economic system preference to implement a free market economy which is in line with the interests of the country. We believe that providing sufficient, good quality, and cheap products and services to large masses of people will mostly be possible within this system."<sup>18</sup> With this statement, Özal believed that the free market system would provide a general increase in production volume and the supply of quality and cheap products.

The free market system requires a minimum level of state intervention in the economy. Özal explained the role of the state in the new system;

*"Dear members, the primary function of the state in economic development is to regulate the economic relations of individuals and organizations, to settle the rules that do not frequently change to ensure economic stability and to increase productivity by removing obstacles.*

*The state's regulatory and guiding function should be at a general level, and it should not interfere with the details.*

*In terms of economic development, the activities to be carried out directly by the state are generally to perform the whole nation's infrastructure.*

*Areas such as forests, water, mines, and energy that can be open to the whole nation's use should be considered the state's property. Although the ownership of the mentioned natural resources belongs to the country, development and operation rights can be left to individuals or to enterprises established by individuals together within the principles to be set by the state.*

*In principle, the state should not act as a manufacturer or trader. As an exception, although industrial facilities can be established in*

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<sup>17</sup> GNAT Journal of Minutes, Term XVII, Meeting 10, Session 1, v.1 (December 1983), 65

<sup>18</sup> GNAT Journal of Minutes, Term XVII, Meeting 10, Session 1, v.1 (December 1983), 66

*underdeveloped regions, these enterprises should be privatized in a short time.*"<sup>19</sup>

Accordingly, while the state is only responsible for infrastructure activities, exceptionally, it would be able to establish production facilities in the less developed regions of Turkey, which eventually would be transferred to the private sector after a while later.

Another condition of the free market system is liberalization. For this purpose, the Turkish economy should be exposed to international trade more openly, and the Turkish Lira should be made convertible money. According to Özal, Turkey's, withdrawn into its borders, and trying only to be a self-sufficient country, was not on the right path to development Because economic development had been slow and costly in closed countries. Regarding this argument, in the First Government Program, Özal declared that;

*"Only by keeping the capital outflow under control, we will review thoroughly and simplify Decree No. 17 based on the Law on Protection of the Value of Turkish Currency No. 1567, consequently, outflow of capital, export, and import will be freed.*

*To ensure economic growth, increase in exports, healthy development of the domestic industry, and consumer protection, the customs rates will be reviewed entirely and adjusted based on sectors and products.*

*After examining the import lists, the goods deemed appropriate will be transferred to the liberation list. Restrictions on imports will be lifted, and goods forbidden to import will be reduced within a specific program.*

*Within our government period, we will ensure the convertibility of Turkish Lira.*"<sup>20</sup>

These new policies of Özal were the signs of a radical change of mentality in economic management. For decades, Turkey, suffering from an international trade deficit, needed to fulfill a comprehensive liberalization immediately. However, the risk of this kind of freedom was high due to the economy's current export and import structure. In addition to domestic production for local consumers, most of the exports were dependent on imports. In a situation where exports cannot meet imports, an additional liberalization might lead to a further increase in imports and a tightening of the foreign exchange bottleneck. Thus, exports have to increase more than imports to avoid the problem.

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<sup>19</sup> GNAT Journal of Minutes, Term XVII, Meeting 10, Session 1, v.1 (December 1983), 66

<sup>20</sup> GNAT Journal of Minutes, Term XVII, Meeting 10, Session 1, v.1 (December 1983), 72

***Growth Model: Export Oriented Growth***

Özal believed that the import substitution policy led to a shortage of foreign exchange and eventually brought the country's economy to a blockage. In this respect, Özal adopted the export-oriented growth model as a solution that could enable the growth of the economy, provide employment to large masses, and solve the foreign exchange problem as well.

According to Özal, import-substitution, which was implemented in the mixed economy period until 1980, prevented the development of the country's economy in many respects. First, this system was planned to be a closed economy in which the foreign exchange requirement in imports was intended to be reduced through import substitution. Secondly, within the closed economy, every ten years, the balance of payments came to a deadlock, after which the economic crisis broke out. Third, due to the social and political turmoil that occurred when the system was blocked, the army took over the administration. For these reasons, the import-substitution growth model that caused political, economic, and social problems should have been abandoned, and an outward-oriented growth model in which exports and foreign exchange revenues could be increased should have been adopted.<sup>21</sup>

By expressing exports as the source of growth in the First Government Program, Özal announced that *"Another important measure is reducing unemployment through export promotion. New markets will be opened through exports of labor-intensive goods, which is our comparative advantage; eventually, it will also increase employment opportunities. Besides, if it is taken into consideration that exports also meet the foreign currency need for new investments, the importance we attach to exports in terms of accelerating development and reducing unemployment will be better understood."*<sup>22</sup>. In this respect, *"the importance of exports ..."*, which contributes to the improvement of the balance of payments by opening the economy to the international competition, *"... is beyond anything."*<sup>23</sup>

Özal gave extensive weight to the export-based growth model, as he declared it as the most important foreign exchange earning activity, in the Second Government Program;

*"The remedy was to increase exports and other currency earning activities. However, in a closed economy, it was not possible to export*

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<sup>21</sup> GNAT Journal of Minutes, Term XVIII, Meeting 3, Session 1, v.1 (December 1987), 48

<sup>22</sup> GNAT Journal of Minutes, Term XVII, Meeting 10, Session 1, v.1 (December 1983), 80

<sup>23</sup> GNAT Journal of Minutes, Term XVII, Meeting 10, Session 1, v.1 (December 1983), 76

*goods to foreign markets of high competition by keeping the industry under the protection and manufacturing inefficiently.*

*The solution was to open our industry to controlled competition within the country, thus increasing productivity and entering the foreign markets. The solution was to develop tourism, to ensure that our workers' income entered the country not as goods but as money. The solution was to encourage our contractors to get construction projects abroad.*

*It was not possible to achieve a balance of payments by exporting agricultural goods consisting of four or five items and trying to meet our import needs for the domestic market by implementing import substitution."<sup>24</sup>*

Besides, to show the importance of exports, Özal developed detailed strategies to increase exports and demanded all the state's relevant institutions to support exporters.<sup>25</sup>

***Priority Sector: Industry Sector***

In the open and free market system designed by Özal, the industry was given priority. Although agriculture had a significant weight in both national income and foreign trade, according to Özal, export-oriented industrialization would provide the primary growth in the GDP and increase in employment. Özal explained the reasons why the industry could not develop in its current state: "*We cannot expect a healthy development of our industry in a structure that is protected by excessive subsidies, very high tariffs, and import prohibitions.*"

<sup>26</sup> For this reason, the protection of the domestic industrial sector, which needed to be developed by opening to international competition, should have been done only via the exchange rate policy and reasonable customs duties.

The importance of industry was expressed in the First Government Program as follows: "*Industry sector has the fastest development potential. The goal of our industrialization policy is to reach the industrialization level of modern and developed countries.*"<sup>27</sup> By saying this, Özal pointed out that the country could develop by industrial production rather than agriculture, and for this, the existing production structure should have been modernized. To develop the industrial sector, Özal believed that it was necessary "*to produce products that can compete in world markets in terms of production capacity, quality and price within*

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<sup>24</sup> GNAT Journal of Minutes, Term XVIII, Meeting 3, Session 1, v.1 (December 1987), 49

<sup>25</sup> GNAT Journal of Minutes, Term XVII, Meeting 10, Session 1, v.1 (December 1983), 77

<sup>26</sup> GNAT Journal of Minutes, Term XVII, Meeting 10, Session 1, v.1 (December 1983), 74

<sup>27</sup> GNAT Journal of Minutes, Term XVII, Meeting 10, Session 1, v.1 (December 1983), 73

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*a certain planning program, ... to focus on industrial products that we can compete with in terms of quality and price, and import products and semi-finished products that we cannot compete..."*<sup>28</sup> Therefore, Özal argued that the national industry should have been opened to foreign competition; in other words, it needed to be developed by exporting.

Reiterating the importance, the MP gave to the industrial sector in the Second Government Program four years later, Özal stated that,

*"The goal of our industrialization policy is to reach the industrialization level of modern and developed countries.*

*The import substitution policy, implemented for several decades, has been abandoned, and an export-oriented industrialization policy, which integrates into the world industry and trade, has been adopted.*

*We consider the basic principle of industrialization is to produce products that are competitive in world markets in terms of quality and price and to import products and semi-finished products that we cannot compete."*<sup>29</sup>

By saying that, Özal believed that by industrialization with products that could compete abroad and abandoning the import substitution policies, which left the industrial sector behind, the economy would be able to reach the highest level of development.

According to Özal, *"For the healthy development of our industry, the exchange rate must be realistic, and the customs duties must be reasonable. The industry can't develop soundly in a structure that is protected by excessive subsidies, very high tariffs, and import prohibitions."*<sup>30</sup> Özal claimed that after implementing market-determined exchange rates and realistic customs duties, the quantity and quality of industrial production increased.<sup>31</sup>

### **3.2. Economic Strategies of Özal**

When we examine the two government programs established under Özal's prime ministry in 1983 and 1987, under the main heading of the economy, we found 45 different strategies under six sub-headings. The first of these comes under the macroeconomics sub-headings, which describes the economic system, the state's weight in the economy, public investments, budget, money, interest, and tax issues.

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<sup>28</sup> GNAT Journal of Minutes, Term XVII, Meeting 10, Session 1, v.1 (December 1983), 74

<sup>29</sup> GNAT Journal of Minutes, Term XVIII, Meeting 3, Session 1, v.1 (December 1987), 58

<sup>30</sup> GNAT Journal of Minutes, Term XVIII, Meeting 3, Session 1, v.1 (December 1987), 58

<sup>31</sup> GNAT Journal of Minutes, Term XVIII, Meeting 3, Session 1, v.1 (December 1987), 58

**Table 8. Macroeconomic Strategies of the Özal governments**

| <b>TITLE</b>   | <b>STRATEGIES</b>  |
|----------------|--|
| Macroeconomics | Adopting a regulatory, guiding, and balancing planning approach in the free market system                                  |
|                | Strengthening the middle class   |
|                | Reducing high inflation  |
|                | Promoting foreign investment   |
|                | Reorganization of the taxation system  |
|                | Within the scope of the economic structure strengthening program, reorganization of the state institutions and legislation |
|                | Establishing the capital market  |
|                | Ensuring the convertibility of the Turkish Lira  |
|                | Increasing national savings and directing them to the most efficient investment areas                                      |
|                | Taking resource increasing measures by creating funds other than the general budget  |
|                | Enacting regulations regarding unions, collective labor agreement, strike, and lockout rights                              |
|                | Determining wages according to work and productivity, ensuring equal pay for equal work                                    |
|                | Improving the working conditions of workers, taking measures regarding occupational health and safety                      |
|                | Organizing on-the-job training, courses, and seminars for workers  |

**Source:** GNAT, (2013b), Governments, Programs, and General Assembly Meetings: Volume 7

Table 8 shows that the macroeconomics strategies mostly include the implementations required by the free market economy, which is the fundamental economic policy of Özal, such as reducing state intervention, establishing the capital market, and encouraging foreign investment. The strategies also cover various solutions regarding the economy's vital problems, such as inflation, income inequality, and employee-employer relations.

Strategies for industry, agriculture, and services sectors, which are the economy's primary sectors, are listed in Tables 9, 10, and 11, respectively.

**Table 9. Sector Strategies of Özal Governments (Industry)**

| <b>TITLE</b> | <b>STRATEGIES</b>  |
|--------------|--|
| Industry     | Launching export-oriented industrialization that can be integrated into the world industry and trade                           |
|              | Ensuring structural change in industrialization with the reorganization of the public administration                           |
|              | Paying more attention to organized industrial zones  |
|              | Granting exceptional investment and operating rights to individuals to accelerate the development in energy and mining sectors |
|              | Increasing production and exports of mine products   |
|              | Producing most of the military needs domestically via financing from the Defense Fund  |
|              | Gradual privatization of SEEs  |
|              | Making necessary arrangements in the privatization process to make SEEs more profitable and efficient enterprises              |
|              | Abolition of monopolies  |

**Source:** GNAT, (2013b), Governments, Programs, and General Assembly Meetings: Volume 7

Strategies for developing the industrial sector, align with the export-oriented growth model, clearly prove that the Özal governments gave the industry priority. Table 9 shows that industrialization was planned to be structured to increase exports, make necessary changes to establish organized industrial zones, privatize SEEs gradually, and abolish monopolies to ensure that the private sector carries out industrial production.

**Table 10. Sector Strategies of Özal Governments (Agriculture)**

| <b>TITLE</b> | <b>STRATEGIES</b>   |
|--------------|---|
| Agriculture  | Developing livestock, seed breeding, forage crops, fertilizer, agricultural tools and machinery industry and agricultural pesticide sectors |
|              | Paying attention to quality improvement, standardization, and packaging issues in agricultural products                                     |
|              | Increasing credit and marketing support for agricultural products   |
|              | Focusing on agricultural research and publication services  |
|              | Launching an agriculture reform to increase farmers' income   |

Taking measures to prevent agricultural land downsizing due to inheritance

Raising the forestry sector to an advanced level in terms of qualification and production

Allowing natural and legal persons to operate the state forests

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**Source:** Governments, Programs, and General Assembly Meetings: Volume 7

Table 10 indicates that the agricultural sector strategies were supposed to increase the quality and quantity of agricultural production. Furthermore, it was envisaged to carry out studies on quality improvement, standardization, and packaging of these products and provide marketing support to increase agricultural products' exports, which were of great importance in their share in exports in the 1980s.

**Table 11. Sector Strategies of Özal Governments (Services)**

| TITLE    | STRATEGIES  |
|----------|---|
| Services | <p>Developing the services sector, which consists of domestic and foreign trade, tourism, marketing, transportation, contracting, banking and insurance, communication</p> <p>To develop the tourism sector, accelerating infrastructure investments, reducing bureaucracy, encouraging investments</p> <p>Providing favorable credit, marketing incentives for craftsmen and artisans, developing consultancy and auxiliary units to provide technical assistance, information, and training</p> |

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**Source:** GNAT, (2013b), Governments, Programs, and General Assembly Meetings: Volume 7

As indicated in Table 11, particular importance was given to the services sector by Özal, who stated that "*... the services sector, both in developed and developing countries, makes half or more of the national income. Ensuring social development, the services sector is directly related to advancing the agricultural and industrial sectors. This sector has the most amount of employment.*"<sup>32</sup> Moreover, the issues of accelerating infrastructure investments, reducing bureaucracy, and encouraging investments were included in the government programs to develop the tourism sector, one of the leading foreign exchange earning activities besides exports.

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<sup>32</sup> GNAT Journal of Minutes, Term XVII, Meeting 10, Session 1, v.1 (December 1983), 76

**Table 12: Foreign Trade Strategies of the Özal governments**

| <b>TITLE</b>  | <b>STRATEGIES</b>   |
|---------------|---|
| Foreign Trade | Giving particular importance and encouragement to exports by all institutions                   |
|               | Liberalization of foreign trade and the exchange rate regime                                    |
|               | Promoting overseas construction services  |
|               | Establishment and development of free zones   |
|               | Developing economic cooperation with European Community countries                               |
|               | Increasing economic and commercial cooperation with the Soviet Union and other Socialist states |

**Source:** GNAT, (2013b), Governments, Programs, and General Assembly Meetings: Volume 27

Within the export-oriented growth model framework, which was one of the MP's fundamental economic policies, Özal mainly focused on international trade. As can be seen from Table 12, Özal emphasized the liberalization of foreign trade, the development of overseas contracting services, the establishment of free zones, and increase commercial relations with neighboring countries, especially with the European Community and the Soviet Union.

**Table 13: Infrastructure Strategies of the Özal governments**

| <b>TITLE</b>  | <b>STRATEGIES</b>  |
|---|--|
| Infrastructure<br>(Transportation,<br>Communication,<br>and Energy) | Developing domestic land, marine, and air transport                    |
|   | Developing international road and rail projects                        |
|   | Completing the Southeastern Anatolia Project in a short time           |
|   | Developing communication systems of telex and telephone                |
|   | Developing the Build-Operate-Transfer model in infrastructure projects |

**Source:** GNAT, (2013b), Governments, Programs, and General Assembly Meetings: Volume 7

Finally, when we look at the infrastructure strategies involving transportation, communication, and energy issues, we see that government programs were more specific in these issues. These strategies include the development of land, marine, air transportation, the completion of the Southeastern Anatolia Project quickly, and the implementation of the Build-Operate-Transfer model.

### 3.3. Comparison of Periods

Although the government programs of Menderes and Özal envisioned a specific goal of "advanced", "modern" and "peaceful" Turkey, which was most consistent with Ataturk's vision of "reaching the level contemporary civilization", their approaches and modality to achieve this goal varied considerably. Therefore, we see a significant difference between the two leaders in terms of economic policies and strategies. In the first years, when the DP came to power, while Menderes envisaged a liberal system in which state intervention in the economy reduced significantly, liberalization could not be fully realized due to the foreign exchange shortage. As a result, in the mixed economy system, located between etatism and the free market, aiming to increase the private sector's role in industrial production, import substitution policy was adopted, and the agriculture sector was prioritized. On the other hand, Özal implemented a policy of comprehensive liberalization of the financial system and foreign trade, in a competitive free-market economy, and an export-oriented growth model, under the leadership of the industrial sector dominated by the private sector,

Within the framework of the economic policy explained above, while Menderes adopted a total of 22 different strategies under the titles of "macroeconomics", "industry sector", "agriculture sector", "services sector", "infrastructure " and "foreign trade", Özal included a total of 46 strategies under the same subheadings in the government programs.

The DP's strategies for macroeconomics included issues such as "adopting of budgetary equilibrium", "preserving the value of the Turkish Lira", "improvement in taxation system" and "providing workers with the right to strike". Özal, on the other hand, in the field of macroeconomics adopted more strategies such as "implementing a regulatory, guiding and balancing planning ", "strengthening the middle class", "reducing high inflation", "within the scope of the economic structure strengthening program reorganization of the state institutions and legislation ", "establishment of the capital market", "ensuring the convertibility of Turkish Lira, modification of foreign exchange regime", "increasing national savings and directing them to the most efficient investment areas", "reorganizing the taxation system", "encouraging foreign capital", "taking measures to increase resources by creating funds outside the general budget", "establishing a union, collective bargaining,

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regulation of strike and lockout rights", "determining wages according to work and productivity, ensuring equal wages for equal work", "improvement of working conditions of workers, taking measures regarding occupational health and safety " and "organizing on-the-job training, courses and seminars for workers".

For the industrial sector, Menderes' strategies included "production-oriented investment in the industrial sector", "increasing the share of the private sector in industrialization", "privatization of SEEs excluding public services providers" and " reducing monopoly practices". Özal's strategies on this issue were "launching export-oriented industrialization that can be integrated into the world industry and trade", "reorganizing the public administration and ensuring a structural change in industrialization", "giving importance to organized industrial zones", "granting special investment and operating rights to individuals to accelerate the development in energy and mining sectors", "increasing production and exports of mine products", "producing most of the needs of the armed forces domestically via the Defense Fund ", "gradual privatization of SEEs ", "making necessary arrangements in the privatization process to make SEEs more profitable and efficient enterprises", and "abolition of monopolies".

Regarding the agricultural sector, Menderes' strategies were "ensuring mechanization", "accelerating land redistribution", "increasing the capital of Ziraat Bank", "supporting the developing cooperatives" and "supporting the development of intensive animal husbandry". In contrast, Özal's strategies were "developing livestock, seed breeding, forage crops, fertilizer, agricultural tools and machinery industry and agricultural pesticide sectors", "paying attention to quality improvement, standardization and packaging issues in agricultural products", "increasing credit and marketing support for agricultural products", "focusing on agricultural research and publication services "implementing agricultural reform to increase farmers' income", "taking measures to prevent fragmentation of agricultural land by inheritance", "raising forestry sector to an advanced level in terms of qualification and production", and "allowing the operation of state forests by real and legal persons".

The strategy adopted by Menderes for the development of the service sector was only one, which was expressed as "supporting the development of the tourism sector". Regarding this issue, Özal approached more comprehensively strategies such as "developing the services sector, which consists of domestic and foreign trade, tourism, marketing, transportation, contracting, banking and insurance, communication", "accelerating infrastructure

investments for the development of tourism, reducing bureaucracy, encouraging investments" and "granting favorable credit, marketing incentives for craftsmen and artisans, developing consultancy and auxiliary units to provide technical assistance, information, and training."

While the strategies of Menderes to ensure the development of transportation, communication, and energy infrastructure were "attaching importance to road transport", "giving emphasis on the construction of thermal and hydroelectric power plants and dams " and "realizing oil production", Özal's infrastructural strategies included "developing domestic land, maritime and air transport", "developing international land and railway projects ", "completing the Southeastern Anatolia Project in a short time ", "developing communication systems of telex and telephone" and "developing the Build-Operate-Transfer model in infrastructure projects".

Finally, when we look at the strategies expressed by the leaders in the government programs regarding the development of foreign trade, we see that Menderes briefly mentioned "stabilizing foreign trade" and "revisiting the regulation of customs duties". Regarding foreign trade Özal, included strategies such as "giving special importance and encouragement to exports by all institutions", "liberalization of foreign trade and the exchange rate regime", "promoting of foreign construction services", "establishment and development of free zones", "developing economic cooperation with European Community countries" and " increasing economic and commercial cooperation with the Soviet Union and other Socialist states".

As can be seen, there are essential differences between the strategies in terms of characteristics and quantity. While the total number of strategies Menderes expressed on the government programs was 22, Özal's added up to 46. In addition to the difference in quantity, most of the strategies of Menderes were ambiguous and vague, while Özal's explained them more clearly.

We can assume that the difference in feature and quality strategies is due to the periods' economic development and sectoral diversity levels. The country's social, economic, and administrative infrastructural structures in the 1950s have undergone significant changes and transformations until 1980. While the agricultural sector's share in the national income declined, the percentage of industry and service sectors increased, and the public's educational and cultural level improved noticeably. Moreover, exposure to political and cultural influences from outside amplified.

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As a result of these changes, the expectations from politicians and social institutions have also increased and differentiated. Political parties, which felt obliged to meet the different and increasing expectations of the people, underwent the same change and transformation. Therefore, we witness similar changes in the party programs and election promises, mostly reflected on the government programs accordingly.

### **4. Originality and Independency of the Economic Policies of Menderes and Özal**

In the previous sections, we examined the economic policies adopted and implemented in the periods of Menderes and Özal. It is also essential to analyze the decision-making process as well as the policies themselves. Therefore, in this section, we evaluated the originality and independence of the economic policies in detail. Because, as previously explained, a large part of the literature that examines the history of the Republic's economy state that Turkey experienced significant changes politically and economically in the new world order after the Second World War. While the transition from a single-party government to a multi-party system was the most critical change in the political sphere, the transition to more liberal management of the economy focusing on the private sector was the most crucial break in the economic field. Although domestic factors were influential up to some extent in these changes, the main driving forces behind the changes were the developed Western states, especially the USA, and international organizations such as the World Bank, IMF, and OECD.

The "power and dependency theory", being one of the international relations theories, explains the interactions between states and international organizations, non-governmental and intergovernmental organizations. According to the "power theory", a power relationship might be possible between A over B when B has a dependency on A. The dependency relationship between states can be triggered by economic reasons and the need for loyalty to a bilateral agreement (Emerson, 1962; 31-41). Our study examined the economic policies in terms of power and dependency theory within the conceptual framework explained above.

#### **4.1. The Originality of the Economic Policies of the Menderes Period**

As has been determined in the previous sections, the most critical elements of the economic policy adopted by Menderes are liberalization towards reducing state intervention and developing the private sector, giving priority to agriculture, and implementing the import substitution model. This section evaluates whether these policies were original and taken independently from the international pressure groups.

Öniş and Şenses (2007) claim that countries show two types of behavior: reactive and proactive in the process of determining their policies. It is possible to mention a reactive behavior if: 1-The most significant factor in policy change is external actors, 2-External actors may be global hegemonic powers (e.g., the USA) or international organizations (e.g., the IMF, the World Bank). 3-The influence of external actors is not enough for policy change; there is a need for a domestic interest group to support policy change, 4- Individuals, who have international links with transnational companies, might assume the task of mediating between external actors and domestic interest groups. Thus, we analyzed the economic policies of the Menderes period within the framework of these criteria.

In the bipolar world order after the Second World War, Turkey allied itself with the Western Block leader, the USA. The territorial demands of the USSR played a significant role in this preference to some extent. The international organizations of the new order were also established under the leadership of the USA.

In this respect, in our analysis, we examined the World Bank reports and compared their policy recommendations with government programs' economic policies.

"Economic Expert Reports" were prepared on different dates by the World Bank to guide the Menderes period's economic policies. The first of these reports belongs to Max W. Thornburg. Thornburg, the senior executives of the oil company, the Standard Oil Company of California, was commissioned to write reports about Greece, Turkey, and Brazil on behalf of the US government and financed by the Twentieth Century Fund. Throughout 1947, Thornburg met with government officials in Turkey and visited the mines and steel production facilities, observed farmers and other production resources. The USA expected Thornburg to demonstrate what kind of institutional changes Turkey was supposed to do to receive American aid. Therefore, his report included a general evaluation of Turkey's political, social, and economic institutions, rather than technical assessments (Franck, 1950: 191-192).

The Thornburg report, which was highly influential in the sight of the governments, suggested reducing the activities of state-owned industrial enterprises, including the Karabük Iron and Steel Enterprise, focusing on agricultural production, greater support of the private sector, encouragement of foreign capital, and adopting more liberal policies in foreign exchange and trade regimes. Thornburg stressed the need to implement his proposals for Turkey to benefit from the US' economic aid and private capital investment (Pamuk, 2016: 226).

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Another critical report, prepared by foreign experts, and its impact on economic policies, belongs to James M. Barker. Barker visited Turkey in 1950 on behalf of the World Bank to do the fieldwork and take a large inventory of the economy. The report's proposals included the sectors to be prioritized, measures to be taken to increase industrial and agricultural production, public finance, and management procedures required for economic development (Alkin, 2010: 89-90).

The Barker report states that three elements are needed to ensure the country's economic development: the habits and traditions of the people, the governments' behavior and attitudes, and the legal regulations. Since the development of the elements above is predominantly the government's responsibility, recommendations are primarily about the measures to be taken by the government. The government should first develop programs for the development of the private sector, and privileges provided to SEEs should be removed. Other suggestions that would improve the private sector are better governance of governments in determining and coordinating economic policies, developing the private sector, improving financial stability, ending improper taxing practices, and providing better health and education to the public. Following the taking of these measures, governments should also make investments that might not increase inflation, especially in the field of essential public services, and coordinate the investments made to ensure efficient use of available resources, as for the most vital areas that Turkey should give priority, which might provide economic development are 1-agricultural sector, 2-technical, administrative, and management personnel. Therefore, the available financial resources should be used in the development of these areas. However, the proposal for the development of the agricultural sector should not be perceived as a complete abandonment of the industrial sector; on the contrary, significant and stable agriculture growth should be seen as a steppingstone to accelerate industrialization. According to the report, great importance was attached to industrialization since the first years of the Republic, while the agricultural sector was neglected. However, when the agricultural sector does not develop, the rural population's income, which constitutes most of the country, would not increase. Consequently, the demand for industrial products would remain limited. If productivity in agriculture is not increased, many people will continue to be employed in the agricultural sector, and the labor force needed by the industrial sector will not be created (Barker, 1951: xxi-xxiv, 32-33). Thus, the report does not recommend ending the industrialization efforts in Turkey;

nevertheless, it stresses the importance of agricultural development to ensure industrialization afterward.

Barker's report gives detailed information about the foreign trade structure of Turkey and suggestions to be followed. Hence, Turkey exports mainly tobacco, cotton, grapes, nuts, the share of which is 60-65% of the total exports. The most critical exporting item among these products is tobacco, with a share of 30%. Turkey's import products are mainly consumer goods. However, due to industrialization's importance, there has been a tremendous increase in machinery and equipment imports in recent years. In the report, it is also stated that the import of vehicles, which increased in line with the demands of both the civilian and the military, in parallel with the expanding road network, increased the need for oil, and it is noted that this could seriously disrupt the balance of payments in the coming years. Identifying Turkey as not having a long-term export policy, the report also emphasizes the need to diversify its export products by establishing stable trade relations with countries producing products complementary to its exports, especially by focusing on overseas countries and strengthening the bonds with individual importers. It would be reasonable for Turkey to protect its public and private sector industries against the developed countries' competition through tariffs for a specific period. However, protection should be stopped from the point where the competitiveness of the domestic industry is increased. Otherwise, the need for protection of the domestic industry might continue for several years. Also, as a result of the protection, the domestic consumer might be penalized due to the rising prices. Turkey's import quota system, which was launched in 1931, began to slow down after 1946 when the liberalization program of the OEEC took place, and the imports did not increase significantly. Similarly, restrictions on exports have started to be lifted (Barker, 1951: 229-239).

Finally, the report, briefly touching on foreign capital, states that foreign capital is not only a foreign currency resource but also helps nations gain technical and administrative knowledge through foreign investments. Although foreigners could transfer profits abroad due to the liberalization carried out in March 1950, there are still numerous restrictions preventing foreign capital entry. Another issue preventing foreign direct investments is the instability of the value of the Turkish Lira. Even if foreign companies make significant gains in TL terms, they may suffer great losses due to a possible devaluation. Since Western European and American companies confront serious obstacles, especially in terms of the differences of language, the legal system, and economic and financial rules and practices,

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Turkey must generate satisfactory solutions to eliminate these obstacles (Barker, 1951: 244-246).

The common point of the reports prepared by foreign experts is that the heavy industry investments should be abandoned by giving up etatism, the agriculture sector should be given priority while supporting the domestic private capital and removing the obstacles to foreign capital. These proposals are broadly in line with the economic policies expressed by the DP in the government programs.

After the Second World War, the USA has become the hegemonic power of the new world order. The USA's growing political and economic power has enabled more liberal policies to prevail by affecting the balances in the international economy model. The expectations from Turkey in the new order, as noted above, was the reduction of public entrepreneurship in the economy, to take precautions to enable faster development of the private sector, to refrain from establishing heavy industries such as iron and steel, chemical fertilizers, and cellulose paper, instead to focus on industrialization in the sectors of light metal, construction material, leather, forest products, ceramics, and handicrafts as well as agricultural production. It seems that Turkey's place in the new international division of labor wanted to be drawn in this way (Kepenek, 2012: 89-90).

Obviously, in the new world order after the Second World War, Turkey entered the US domain indisputably. After military and political rapprochement took place between Turkey and the United States, economic cooperation began shortly. Another critical indicator of external influences resulting in significant changes in Turkey's economic policies after the Second World War is related to economic development plans. The first of these plans is the "1946 Urgent Industrial Plan", prepared by the Saraçoğlu Government in 1946 based on the pre-war dynamics. The Urgent Plan reflects the characteristics of the First and Second Five-Year Industrial Plans prepared in the 1930s and can be considered a continuation. In the plan, it was foreseen that industrialization efforts should resume, and the responsibility in this matter should belong to the state. Because Şevket Süreyya Aydemir and İsmail Hüsrev Tökin, publishers of the "Kadro" magazine, took part in the preparation of this plan. Therefore, the view of etatism prevails in the Urgent Plan, and the importance of planning activity is emphasized (Ay, 2012: 158).

On the other hand, the Urgent Plan not only imposes significant responsibilities on the state for economic development and industrialization but also puts the independence of the country at the forefront in foreign economic relations. As envisaged in the plan, it is essential

to develop the agriculture and transportation sectors all together to protect the country from external influences and pressures (Boratav, 2012: 97-98). It also emphasized that the state bears a great responsibility for preserving Turkey's independence. In the bipolar new world order, Turkey should not be entered into the domain of the socialist or capitalist system but should exploit both poles as much as possible (Ay, 2012: 159).

On the other hand, the 1946 Urgent Industrial Plan was not put into practice. The devaluation, which was realized in September of the same year, signaled that liberalization measures would be applied to get foreign aid and integrate the economy into the world economy (Boratav, 2012: 98).

Before the DP period, another indicator reflecting the transformation of the policies is the "Economic Development Plan of Turkey," prepared by Süleyman Vaner in 1947. In his plan, Vaner emphasized private companies' role instead of the public sector in economic development while prioritizing agriculture and energy sectors instead of industry. Thus, it removed etatism and protectionist policies from the country's agenda (Boratav, 2012: 98). Although these developments indicate that the foreign influences on Turkey's economy policies started before the Menderes era, Şevket Süreyya Aydemir claims that İnönü did not bow to the foreign control until 1950 when the DP came to power Aydemir, 2000: 287-288).

#### **4.2. The Originality of the Özal Period Economic Policies**

In the previous section, we examined the originality and independence of the Menderes period's economic policies; in this part of our study, we evaluate the Özal period's policies within the framework of the same criteria.

As shown previously, the essential elements of the economic policy adopted by Özal are the free market economy, prioritization of the industrial sector, and pursuing an export-oriented growth model. We evaluated these policies within the conceptual framework of independence to see whether the government showed reactive or proactive behavior. Our analysis is supposed to determine the degree of originality of the policies and the extent to which they can be obtained independently from the pressure or guidance from international interest groups. For this purpose, the economic policies included in the MP's government programs were compared with the World Bank reports.

Similar to the analysis and evaluations we have done for the Adnan Menderes period, the World Bank sent its experts to examine Turkey's economy and recommend policies during the years before the Özal era. However, during the 1970s, Turkey developed its relations with the World Bank, the IMF, and the OECD further, while these institutions have become the most important means of receiving foreign loans and aid. Therefore, in this section, we

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analyzed the World Bank reports that had recommendations regarding the Turkish economy shortly before Özal came to power.

In the report “Turkey: Policies and Prospects for Growth (Report No: 2657)”, prepared in 1980, it is stated that during 1974 - 1977, Turkey's economy got impacted negatively by two significant developments in the international economy, i.e., the sudden rise in oil prices in 1974, and the recession, inflation, and increase in unemployment in the developed countries. According to the report, although these developments have a large share of the economy's weakening, the domestic economic policies also harmed the deterioration. The deterioration of the international economic environment concurred with Turkish governments' efforts to expand the economy, by increasing the investment and consumption expenditures, especially in the public sector. In this period, the growth rate of public spending doubled, compared to the 1970-73 period, which caused an increase in budget deficits. Additionally, increasing the money supply to meet public expenditures caused inflation to rise significantly. Foreign debt, most of which was short-term, and another challenge for the economy, became a significant burden by 1978 when the government was forced to make debt relief arrangements. The first debt relief arrangement was settled through the OECD consortium in May 1978, when an overdue amount of 1.14 billion dollars of short-term and M&LT debt was consolidated. Despite the successful operation of debt relief, Turkey continued to experience difficulty in finding new foreign debt because of its creditworthiness (World Bank, 1980: ii-v, 17-20).

On the other hand, Report No: 2657 compares Turkey's economy with the economies of other developing countries with a similar population and per capita income; it claims that the structural change in Turkey could not be achieved as much as expected. First of all, the share of agricultural production in GNP is higher than expected, while the industrial sector ratio is low. Other structural problems that would affect Turkey's economic development: 1- the low level of export orientation, while the share of imports in GNP has been close to the world average, 2- high level of investment share in GDP, while the domestic savings rate much lower, 3- a high percentage of the agricultural labor force, which demonstrates the reality of hidden unemployment. Due to these structural problems, Turkey faces the balance of payments deficit, the need to find external debt, inflationary pressures, and the necessity to create new jobs (World Bank, 1980: 4).

Report No. 2657, after summarizing Turkey's economy's problems, also evaluated the Fourth Five-Year Development Plan (FFYDP) similarly. According to the report, the goals of the

FFYDP were ambitious, especially considering the domestic and international economic conjuncture. Because the economic crisis reduces domestic and foreign resources' availability and prevents the increase in growth rate in the short term, the first two years of the FFYDP would ensure the economy's stability and strengthening. Simultaneously, the industrial sector might reduce capacity utilization and output due to severe foreign exchange shortages. Thus, the first two years' growth rate would probably remain in the range of 3-4%, which makes the target growth rate of 8.2% impossible from 1979 to 1983 (World Bank, 1980: vii).

Released in 1982, the World Bank Report No: 3641 "Turkey: Industrialization and Trade Strategy" first summarizes Turkey's economy's problems. Turkey implemented import substitution policies, supported the industrial sector, and gave the public sector an active role in the economy. Although these policies have positive results in the short term, import substitution's cost-increasing effect combined with public enterprises' inefficiency has reduced investments' productivity. Due to the high share of GNP investments until 1977, there was an increase in national income. The financing of these investments was made possible by workers' remittances sent from abroad; after the four-fold increase in oil prices, it was mainly financed by foreign debt. However, the sudden increase in the amount of foreign debt caused the question of Turkey's creditworthiness. Since 1978, foreign borrowing came to a standstill, which led to a currency shortage crisis, adding to the current negative impacts of import substitution policies (World Bank, 1982: i).

Prepared in 1983, the World Bank Report No: 4287 "Turkey: Country Economic Memorandum: Recent Economic Development and Medium-term Prospects" states that Turkey's economic structure and development process has been highly vulnerable to external shocks in the 1970s. The economy was especially affected by the increase in oil prices and stagflation in the OECD countries, consequently causing a deterioration in the foreign trade balance. On the other hand, satisfactory growth rates were observed during First and Second Development Plans, covering 1963-1972, since the external resources were used at a reasonable level. The growth momentum continued in the Third Plan, which covered the years 1973-77. The financing required for the increasing investment and import expenditures was met from foreign exchange reserves and short-term foreign borrowings. The country's economy's growth rate, which reached an average level of 7.7% between 1973-76, started to stall towards the middle of 1977. The deterioration of the credibility, caused by the external debt burden, decreased imports, while the decline in industrial production started to increase the unemployment rate in the cities. Towards the end of 1979, inflation became one of the

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most critical problems. According to the report above, the main reasons for inflation were the government's budget deficit and the massive financing needs of SEEs. The precaution taken by the government regarding the shortage of foreign currency and the deteriorating economy was to make a significant change in the development strategy. The new economic program announced on January 24, 1980, had two main principles: 1-Establishing a system based on market forces and incentives instead of quantity restrictions, 2- Adopting policies that would ensure sustainable and high growth of exports in the medium term. The successful results of the new structural change program in 1980-82, especially the increase in exports, positively affected medium-term expectations (World Bank, 1983: i-iv).

In addition to the evaluations regarding the problems and the previous policies' results, the World Bank reports also gave comprehensive coverage to the policy proposals.

Report No: 2657 states that the government should prioritize exports to implement the investment program envisaged in the FFYDP and meet the import requirements, thus reducing the balance of payments deficit. To succeed this, it requires a reduction in the share of consumption expenditures in GNP and an increase in domestic savings to replace external borrowing. The second point that should be taken into consideration is the determination of the duty of the public sector in terms of reducing consumption and increasing savings, considering the share of the public sector in the imbalance in the economy, and then revealing the role of SEEs in these issues and increasing exports. The most important reason for the resource scarcity in the economy between 1972-1977 was the increase in public investments on the one hand and the decrease in public savings on the other. Thirdly, Turkey's economy has been in the process of undergoing major changes to adapt to the impact of the international environment. As a long-term result of these changes, Turkish workers' migration to Western Europe would come to an end, and the country's labor surplus would become more visible. Employment and income distribution issues were later included in the FFYDP, and priority was given to allocating investments to ensure growth and import substitution. Since the export industry had a more labor-intensive structure, it might be possible to increase employment and improve income distribution if economic development is realized through exports. Fourth, the lack of policy instruments available to the government underpins the basis of the short-term economic problems of Turkey. Due to this weakness, there were delays in adapting the government's measures to the new and more complex economic conditions. Indeed, the government's modernization strategy's success level has proven that the measures tried in previous years cannot help achieving its goals.

Finally, emphasis should be placed on macroeconomic balance and how to correct the imbalance. In the past, increasing investment needs were planned to be met by increasing domestic savings and obtaining external resources. However, although successfully realized, these investments were financed by rapidly increasing inflation and foreign borrowings due to the inability to increase domestic savings.

For this reason, measures to eliminate the macroeconomic imbalance should be implemented by taking the medium-term results into consideration and planning. Besides, considering the indirect taxation system's long-term target, it would be beneficial if the Value Added Tax comes into effect. Because the VAT system can be implemented effectively, and it would be possible to obtain much more tax revenues than the current tax system (World Bank, 1980: v-vii, xi-xii).

According to Report No: 2657, it would be only possible to ensure stable and sustainable growth if economic policies include 1-Adoption of export-oriented development strategy, 2-Implementation of economic strategies that would increase domestic savings, and ensure the establishment of macroeconomic balance by harmonizing domestic aggregate demand with total supply, 3- Providing support of various financiers and donors regarding long-term borrowings and extending the maturity of existing debts (World Bank, 1980: xxxi).

Report No: 3641 asserts that the successful results of the January 24 Decisions began to emerge rapidly. In 1981, the exports, direct investments, time deposits increased, and inflation decreased compared to the previous year. However, medium-term policies need to be adopted, complementary to the measures taken. It might not be easy for the public sector, in particular, to adapt to the change, which has been accustomed to the implementation of policies that are introverted and far from the free market system for several years. In this respect, it should adopt medium-term framework programs for the private sector to adapt to the new system. These programs should include policies that increase exports and import substitution efficiency, encourage savings and investments, provide modernization and technical change, and reform SEEs. There is a need to establish appropriate institutional structures to fulfill these objectives and simplify administrative legislation and practices (World Bank, 1982: i-ii).

Report No: 4287 suggests that Turkey, which abandoned the inward development policy, continue to structural changes by adopting a medium-term strategy. For this purpose, it is required to focus more on domestic resources that would decrease foreign borrowing, make necessary reforms in the financial sector to mobilize resources, implement taxing reforms to

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increase foreign direct investments, encourage new investments, adopt technology-oriented policies, and ensure that SEEs are operated more effectively (World Bank, 1983: vi).

According to Report No: 4287, reducing the financial burden by increasing the efficiency of SEEs is a critical problem waiting to be solved immediately. A consensus should be reached that the primary goal of SEEs is profitability and efficiency, professional experts should be positioned as managers instead of politicians, SEE investments should be made mostly in the fields of infrastructure, agriculture, and energy sectors, and industrial production should gradually be left to the private sector (World Bank, 1983: vi-vii).

### **4.3. Comparison of Periods**

Political institutions responsible for the country's development are expected to follow policies independent of external influences as much as possible. Considering that countries are in competition with each other in both political and economic fields, needless to say, that national interests can only be protected by following independent policies. Another issue that is as important as independence is that the policies should have the originality to enable the country to use its physical, human, and institutional resources most appropriately. Since each country's resources are different from others, the policies should be determined under its unique conditions.

In the new world order established after the Second World War, Turkey, mainly for reasons arising from the Soviet threat, had to be in the US-led Western Bloc. Since political and economic systems such as democracy, liberalism, and capitalism prevail in the Western Block, these systems have been imposed on developing countries in the same Block, especially by the USA. On the other hand, the USA preferred to convey its economic policy recommendations for developing countries through international organizations such as the IMF, the World Bank, the OECD, and the World Trade Organization.

Menderes, who came to power at the beginning of the Cold War, and Özal, who served towards the end of it, felt the need for US support in two matters. Firstly, Turkey, having severe security concerns in the Cold War's extraordinary circumstances, needed American aid, especially on military equipment and the technical education of the army. Additionally, Turkey needed a secure source of credit for its investments in agricultural and industrial production areas to ensure its development. The USA's timing and amount of in-cash and kind aids under the Truman Doctrine and Marshall Aid increased Turkey's sense of gratitude and dependence on the Western Block. Turkey's reliance on the USA for almost all the

military needs continued. Its economic dependence did not decrease due to the low domestic savings level and the lack of foreign exchange incomes from exports and tourism.

On the other hand, the USA considered Turkey's geopolitical position a significant advantage for its national interests. Therefore, believing that the Middle East's political stability required a strong Turkey, the USA continued to provide military and economic aid generously.

There were also periods when mutual trust was tested between Turkey and the USA. Turkey began to fall out with the USA in the 1970s due to poppy cultivation, and later the Cyprus problem led to the arms embargo on Turkey. Besides, the United States, which carefully monitored the military interventions in 1960, 1971, and 1980, wanted to make sure of the loyalty of military administrations to the Western Block and easily tolerated the damage of democracy after confirming that there would be no change in both political and economic policies.

The consequences of power and dependency relations between the two countries can be seen in Turkey's economic policies. Just after the Second World War, Turkey began to enforce its economic policies, which were similar to a large extent with the US's proposed guidelines to other developing countries. It is not possible to claim that the economic policies of the Menderes governments, such as reducing the intervention of the state in the economy and developing the private sector, giving priority to agriculture, as well as Özal's policies of the free market economy based on competition, giving priority to the industrial sector and full liberalization practices in foreign trade are unique and independent from foreign influences. On the other hand, although there is no significant difference between the two leaders in terms of adopting policies under foreign influences, it is seen that Menderes had more disagreement with the USA during the implementation of the policies. When Menderes, while attempting to increase agricultural output, began to focus on industrial production and wanted to protect the Turkish Lira's value, the USA disagreed and refused Turkey's demand of \$300 million credit, which was crucial for its economy's recovery from the debt crisis of 1954. The USA started its economic assistance to Turkey immediately after signing the Stand-by Agreement with the IMF in 1958.

## **CONCLUSION**

When we compare Turkey's development level in terms of its rankings among the world countries, it is obvious that Turkey has lagged behind all the industrialized countries and several countries in Eastern Europe and the Middle East. Turkey is in 52<sup>nd</sup> place in the

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national income per capita ranking, 53<sup>rd</sup> in the human capital index, and 59<sup>th</sup> in the human development index. As the centennial of the Republic is approaching, Turkey could not realize its vision of “reaching the level of contemporary civilizations”. It is also fair to assert that the most significant responsibility for this failure belongs to the political institutions.

There are disagreements among economic historians on what determines the development levels of countries. While some historians highlight the geographical effects, some state that the religious and cultural structures are more determinant, while others draw attention to political and economic institutions' role. However, because the difference between countries has widened the most after the Second World War, it is most likely that institutions' role is more dominant than geographical and cultural factors.

After the Second World War, as in various countries globally, Turkey experienced significant fractures in political and economic fields. Having to choose its place in a bipolar world, where receiving military threats from the USSR and expecting financial assistance from the United States, Turkey voluntarily entered the latter's gravitational field. Therefore, before the DP came to power in 1950, Turkey began to face the USA's ongoing propaganda of liberalization during the RPP era, which led Turkey to move away from etatism and adopt a multi-party system.

In our study, we examined the economic policies of the Democrat Party and Motherland Party, which served in about half of the period between 1950 and 1990, when the divergence between developed and developing countries grew more. Political institutions are expected to direct the available resources to areas that increase production the most appropriately, considering the producers' domestic dynamics in the agriculture, industry, and service sectors. Likewise, the political institutions should consider the external dynamics of states, international organizations, and transnational corporations and observe the country's interests to the maximum extent allowed by the global balance of power. Although it is inevitable for these internal and external players to struggle for power and influence, the political institutions' responsibility to pursue independent policies that protect national interests never disappears.

Both Adnan Menderes and Turgut Özal came to power with the support of a large segment of the people, with the promise of solving the accumulated problems of the previous periods and developing the country. Leaders had their versions of vision for the country's development and expressed this vision in their government programs. Menderes expressed his vision as an "advanced, civilized and prosperous Turkey". Özal articulated his image as

an "advanced, modern and peaceful Turkey", which is in line with the centennial goal of "reaching the level of contemporary civilizations". These visionary expressions imply that countries race with each other to pass onto the forefront of civilization.

Although the goals are clear, how to accomplish them is of greater importance. Leaders are responsible for setting goals and identifying the most appropriate tools and ways within the country's existing conditions.

The expected direct results of the economic policies, adopted and implemented by the political institutions, come up as sustainable growth in national income and fair income distribution among citizens. As important as evaluating the conformity and success of policies is the fact leaders' positions towards the imposition of internal and external interest groups and to what extent they can make their policies objectively and independently. In this respect, in our study, we focus on the independence and originality of economic policies.

Although the economic policies implemented by the DP and the MP differ significantly, they adopted the economic models, which were highly compatible with the Western Block countries, and even more with recommendations of the international financial organizations. Hence, as recommended in the reports of the World Bank, after the Second World War, Turkey adopted liberalization to reduce the state intervention in the economy, prioritized the agricultural sector, abandoned the etatism industrialization policies, while after 1980, ended the import substitution development model and adopted export-oriented and pro-market neoliberal policies.

Once showing that Turkey met the USA's expectations and the international organizations such as the World Bank and the IMF in terms of economic policies, and displayed a reactive behavior, it brings to mind that these policies might have served these organizations rather than national interests. On the other hand, it is not easy to measure the conflict of interest and decide how much they conflict, if any, and what the negative consequences would be. However, when governments are forced to implement the policies imposed on them, they cannot adequately fulfill their responsibilities.

The primary reasons for Turkey to rely more on external sources were the security problems in the region and the necessity for foreign debt to finance domestic production and investments. Turkey's underdeveloped economy had been its weakest point in international relations while facing serious security problems at the same time during the Cold War era. Feeling to develop its economy and secure its borders forced Turkey to apply to foreign powers, which only helped financially and militarily as long as their expectations were met. Therefore, one can claim that Turkey could develop only with their help and as much as they

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allowed. However, some Asian countries, such as Japan and South Korea, despite severe adverse conditions due to the wars, could develop their economies more proactively, still being under the United States' domination.

One of the essential measures to ensure economic independence is to improve the country's social, political, and economic institutions. As stated fully, both in the literature and in our study, institutions' effect on development is more significant than geographical coordinates and cultural characteristics. In this respect, the most significant responsibility for ensuring the institutionalization of the nation's relevant organizations falls on political institutions.

On the other hand, although the biggest responsibility is on the political institutions, all other actors must act with the same consciousness for the country's development. To contribute to the adoption of independent policies by politicians, bureaucrats, lawyers, and academics, as well as representatives of institutions and organizations such as think tanks, private sector umbrella organizations, should have a say in country affairs and should make original and independent studies in their fields and contribute to policy production. Because sustainable and fair development is only possible when people of different political thoughts, social classes, and ethnic groups can live, produce, and receive a fair share from production without exclusion and discrimination.

One of the most important indicators of the institutionalism of organizations is that employers have merit and competence. It is an essential step in ensuring economic independence when qualified people can analyze the domestic developments and other nations correctly and produce opinions and suggestions that would benefit the country.

Additionally, measures should be taken to address the lack of domestic savings and foreign exchange shortages, which happen to be other important causes of foreign dependency. Like Japan, South Korea, Taiwan, and China have done for the last couple of decades; if Turkey follows policies to increase export revenues, financial dependency may decrease significantly due to the shortage of foreign exchange. Lack of domestic savings and foreign exchange scarcity lie at the root of almost all economic crises Turkey has experienced so far. When a nation consumes more than its production and wants to make additional investments, the deficit must either be compensated by domestic savings or borrowed from abroad. However, major economic crises occurred when foreign currency generating activities such as exports and tourism could not meet the existing debts, and necessary loans could not be obtained. Each situation opened new doors for external influences and pressures, which ultimately led to the damage of economic and political independence.

Similarly, to reduce the necessity for external borrowings and technical assistance, human and physical capital should be increased. Issues, such as increasing the quality of the school, as well as out-of-school education of young people, improving the vocational knowledge and skill levels of the employees, and ensuring a healthy life for all of the people, constitute the social dimension of the economy that would provide an increase in production and productivity. Likewise, it is possible to increase the physical capital of the nation if businesses operating in agricultural, industrial, and services sectors have the opportunity to make investments that might increase productivity, engage in more R&D / product development studies, reach finance and loans quickly, and benefit from the most up-to-date technological developments. As a result of investments in human and physical capital, productivity and outcome increase in the short term and sustainable development can be achieved in the medium and long term.

To put it briefly, having never experienced any political independence problem during its long history, but having to compromise on its economic independence in recent times, Turkey should have learned a lesson: to “reach the level of contemporary civilizations”, it must strengthen and empower its social, economic, and institutional infrastructures.

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# THE IMPACT OF DEFENCE INDUSTRY ON DEVELOPMENT

Ali Bektaş ÇİFTÇİ<sup>33</sup>

## Özet

Her yüzyıl kendi ile beraber birtakım değişiklikleri getirmesine rağmen, 21. yy'da yaşanan gelişmeler aslında 20. yy'ın devamı diyebiliriz. Savunma sanayi alanında I. ve II. Dünya Savaşları sonrasında önemli gelişmelerin yaşanmıştır. Çeşitli modeller altında kendi sanayisini geliştirebilen ülkeler bugün gelişmiş ülke kategorisi altına girmektedir. Kendi sanayisini geliştirememiş az gelişmiş ya da gelişmekte olan ülkelere baktığımızda teknolojik anlamda dışa bağımlı olduklarını görmekteyiz. Zaten konu biraz daha detaylıca incelenecek olursa gelişmiş ülkelerin de bu bağımlılığın devamını talep ettikleri görülecektir. Ama asıl mesele gelişmekte olan ülkelerin bundan sonra nasıl bir adım atacağıdır. Ekonomik olarak büyüme ve refaha doğrudan ya da dolaylı olarak katkı sağlayan savunma sanayi, gelişmekte olan ülkelerin bağımlılıklarından kurtulup kalkınması için zorunludur. Örneğin, gelişmekte olan ülkelere biri olarak Türkiye, büyüyen yerli ve milli savunma sanayi ile dikkatleri çekmektedir. 1970'ler ve 1980'ler de hayal kırıklığı yaratan tecrübeler Türk Savunma Sanayinin kurulmasının arkasında yatan asıl itici güçtür. Askeri malzeme bakımından dışa bağımlı olmanın siyasi ve ekonomik yükümlülükleri olduğunu anlayan Türkiye, bu tarihten itibaren kendi kendine yeter olmanın yollarını aramıştır. Bugün, Savunma Sanayinde %70'lere varan oranda yerli malzeme ve teknoloji kullanan Türkiye, kendi silahlı kuvvetlerinin ihtiyacını karşılamakla beraber yaptığı ihracatlar ile ülke ekonomisine büyük katkı sağlamaktadır. Bu çalışmada savunma sanayinin kalkınma üzerindeki rolü incelenmiş, gelişmiş ve gelişmekte olan ülkelere örnekler verilmiştir. Bu açıdan savunma sanayi incelenirken tek yönlü olarak ele alınmadan konunun hem askeri hem siyasi hem de ekonomik boyutuna birlikte temas edilmiştir.

## Abstract

Although each century brings some changes with itself, the developments in the 21st century are a continuation of the 20th century. The aftermath of World War I and II,

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### **The Impact of Defence Industry on Development**

significant developments have occurred in the field of the defence industry. Countries that can develop their industry under various models are now under the category of developed countries. When we look at underdeveloped or developing countries that have not developed their industry, we see that they are technologically dependent on the outside sources. If the issue is examined in a little more detail, it will be seen that developed countries are also demanding the continuation of this dependency relation. However, the main point is how developing countries will take steps from now on. The defence industry, which contributes directly or indirectly to economic growth and prosperity, is imperative for developing countries to get rid of from their dependence. For example, Turkey, as one of the developing countries, draws attention to its growing domestic and national defence industry. The disappointing experiences which took place during the 1970s and 1980s were the main driving forces behind the establishment of the Turkish Defence Industry. Turkey, which understands that it has political and economic obligations to be dependent on the outside sources in terms of military equipment, has since looked for ways to be self-sufficient. Nowadays, Turkey, which uses up to 70% domestic materials and technology in the Defence Industry, meets the needs of its own armed forces and contributes significantly to the country's economy with its exports. In this study, the role of the defence industry on development is examined, and examples are given from developed and developing countries. In this respect, while reviewing the defence industry, it was not addressed unilaterally, but both the military, political and economic aspects of the issue were touched together.

To better understand the issue, I would like to start by defining what the defence industry is and what it means for a country. "The defence industry is defined as the industry that researches, develops and produces material and weapons for national security. As defined here, the defence industry has different characteristics from the civilian industry. In particular, the defence industry is a national industry. To develop the nation politically, economically and socially, it is required to ensure stable national security. To consolidate the national defence, we should maintain the existing military strength as well as reinforce the military power against the changing external environment. Based on the above reason, the defence industry is said to be a national industry."<sup>34</sup>

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<sup>34</sup> Lee, Yong Hak (1992); "Defence Industry and its Impacts on Economic Growth in Korea", Master Thesis, Naval Postgraduate School, p.11.

One of the biggest problems experienced in the past and present by countries that have not undergone the Industrial Revolution process is that they do not have a domestic and national defence industry of their own. I want to explain what the defence industry means to a country by giving an example. The neighbourhood where you live is one of the most dangerous areas in the city, and everyone in the district is responsible for their own security. Thieves who want to take your house by force are around a lot. Either you sit down without any precautions, or you will somehow provide the equipment to protect your home. In this case, two options appear; First, and the easiest one is to go to a store where protective equipment is sold and buy them for a certain fee. The second is to produce such equipment on your own at home, albeit painful. Although the first option looks easy, the store owner may not want to sell you a gun because of his personal dislike with you, or because it is a monopoly, the prices can be very high. But there is a house you need to protect. In other words, there is no other way to choose the second option and produce your own weapon yourself.

Now, back to our point, countries like the United States and the U.K. who have completed the industrialization process have always been the chief player in the field of the defence industry. This is two complementary situations. As such, research and development activities to develop the defence industry have formed the basis of many innovations that we use in civilian areas today. For example: "Modern Computer Technology Enabled by decades of defence advancements, computer technologies play a critical role in modern medicine by allowing medical professionals to analyze the human body and manage information in ways never before possible. Computer technologies provide critical medical functions such as monitoring vital signs and running MRI (Magnetic Resonance Imaging) and C.T. (Computed Tomography) scans. More recently, defence research has made advancements in related fields such as health informatics, which connect patients to doctors and pharmacies and facilitates the exchange of information about prescriptions and health records".<sup>35</sup>

The development of civil technology has also contributed to the defence industry. Many products produced in the defence industry consist of many parts and subsystems. The production of these parts increases the need for other companies and stimulates other industrial sectors. With the participation of different industrial sectors in production, the country's overall level of industrialization is rising. The countries that enable integration with

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<sup>35</sup> Defence Research and Development, Federal Investment Series, March 2014.

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other industrial sectors will accelerate their economic development by increasing their effectiveness in foreign markets. "A defence industrial base is also considered a good way to create high technology employment, value-added work and also backward linkages in support of small and medium scale industries, especially heavy manufacturing industries and dual-use technology. "This will lead to an increase in prosperity of countries. Defence industry interacts with many sectors due to its structure. The defence industry located in almost every area from the chemical industry to steel production, machinery industry to electronics."<sup>36</sup> Of course, if it is necessary to repeat, this is a good situation for developing countries that have not yet completed the industrialization process. We can even say that the share allocated to the defence industry for developed countries brings an extra burden.

Somebody can say that investments in the domestic defence industry are costly for developing countries. The main reasons for these costs are that defence industrial products are a high-tech area, requiring a qualified workforce, and difficulty in technology transfer. So, why are developing countries in particular budgeting the defence industry seriously? There are many reasons for this. But I am going to address a few crucial causes here.

First and foremost are political reasons, which often come across developing countries as an embargo. Yes, countries that have not yet completed the industrialization process or lived as the colony of another country for a long period have also remained dependent on the outside sources in the defence industry. And this dependency has been one of the biggest obstacles to domestic defence industry development. "After World War II (WWII), most countries in the developing world got rid of the shackles of colonialism or semi-colonialism, starting their independent pursuit of modern economic growth. Till 2008, only two of them moved up from low to middle income and finally to high income, and only 13 of such countries moved up from the middle to high income (Agenor et al., 2012). It means that, among around 200 developing economies, most have remained trapped in a low- or middle-income status since WWII, despite the latecomer advantage. As Keynes said, "it is ideas, not vested interests, which are dangerous for good or evil." These countries' poor development performance reflected the failures of developmental ideas".<sup>37</sup> Dependence on

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<sup>36</sup> Öksüz, Derya Yakıcı. Öztürk, Zafer (2019); "Türkiye'de Savunma Sanayinin Sanayi Sektörünün Gelişim Sürecindeki Rolü", *Dünden Bugüne Ekonomi Yazıları II*, Umuttepe Yayınları, p.62-63.

<sup>37</sup> Lin, Justin Yifu (2017); "New Structural Economics and Industrial Policies for Catching-Up Economies", Center for New Structural Economics, National School of Development, Peking University, Beijing, China, p.185.

outside sources can be managed in some way when it comes to the commercial products we use in everyday life, but the colour of the work changes when it comes to the defence industry. Because when you encounter elements that threaten your existence as a country and as a nation, as I mentioned at the beginning of the study, you cannot stand tied. The producer countries that supply you with weapons give them to you under certain circumstances. One of these conditions is that it is forbidden to use the weapons given to you against countries that are friendly to the producer country. So, what if the country or entity that is friendly to that country is hostile to you? What are you going to do if it threatens your national presence and sovereignty? Examples of this have occurred in history. For example, "The United States began imposing an arms embargo on Turkey on 5 February 1975, with law no. 93-559 adopted by the House of Representatives, citing the use of weapons given for defensive purposes in operation after Turkey's intervention in Cyprus. In accordance with the terms of the embargo, the sale of US-produced weapon systems spare parts directly or indirectly to Turkey through NATO countries has been blocked. Military equipment and weapons purchased but have not yet been delivered were included in the embargo. Air Force aircraft and navy destroyers and submarines were disrupted due to a shortage of spare parts. Turkey was unable to supply spare parts to its army, equipped with about \$6 billion worth of American weapons. Germany and Britain cut aid to Turkey in line with the United States' sanctions embargo decision. Paid Phantom planes were not delivered in Turkey. C-130 planes sent to the U.S. for maintenance not returned and Turkey had to pay every day for these planes were in the hangar."<sup>38</sup>

The second main reason is economic. The fact that every country cannot produce high-tech and serious time-requiring defence industry products with its own means has led to the formation of buyer and seller countries in this area. The producer countries that are sellers have had significant revenues from defence industry sales. When we think about the economies of developing countries, it becomes even more critical. Because in these countries, the continuation of defence industry production is extremely affected by these revenues that will be obtained/not obtained. "Third world countries that set up domestic arms production facilities often have at least two economic objectives: to spur their industrialization program and to reduce the financial costs, particularly outlays of foreign exchange associated with weapons procurement. The creation of military industry is said to

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<sup>38</sup> <https://tr.euronews.com/2019/05/23/abd-s-400-icin-turkiye-ye-ambargo-uygular-mi-1975-teki-ilk-ambargo>  
- internet access: 25.06.2020

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promote the industrialization process by upgrading both technology and workforce and making economies of scale possible in certain supply industries. The expectation that foreign exchange can be saved by producing weapons domestically is based on the belief that the cost of importing licenses, know-how, raw materials and components will be less than the purchase price of a complete weapon. Some saving might also occur because the cost of labour in third world countries, even skilled labour and technical workforce, tends to be considerably less than in the industrialized countries."<sup>39</sup>

When we consider countries that have been positively affected by the defence industry by budgeting significant amounts of money, we can give the example of Israel. "Israel is relatively unique in the sense that it has emerged as a rapidly growing and relatively developed economy over the last six decades yet continues to have one of the highest military burden (military expenditure as a share of GDP) in the world. At the same time, it has received very high amounts of economic and military aid from the United States which in turn contribute to both a higher defence spending (through an effective subsidy via military aid) but also to its economic growth (via the multipliers that foreign assistance may provide). Further, Israel's defence industrialization and its high ranking among developing countries in terms of its defence Industrial Base (DIB), implies that the macroeconomy is capable of benefiting from the spin-offs that the innovations in the defence industry can bring to the whole economy. If there is any one country where military spending would potentially increase economic growth, it should be Israel."<sup>40</sup> Yes, war-prone economies are economies that can produce the most positive results from the negative impact of defence spending on growth. Nevertheless, that does not apply to every country, of course.

For example, Korea is another country where defence industry spending has a positive impact on economic growth. "The Republic of Korea (South Korea, hereafter ROK or Korea) played an important role in this new wave. Though a late industrializer, Korea became the fifth-largest conventional arms exporter in the Third World (including China). The Korean defence industry, which began to accomplish the important national goal of self-reliant defence in the early 1970s, has contributed greatly to national security. The Korean defence industry has built a base for highly precise weapons production and is being

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<sup>39</sup> Lee, Yong Hak (1992); "Defence Industry and its Impacts on Economic Growth in Korea", Master Thesis, Naval Postgraduate School, p.15.

<sup>40</sup> Broude, Mark. Deger, Saadet. Sen, Somnath (2013); "Defence, Innovation And Development: The Case Of Israel", Journal of Innovation Economics & Management, p.38.

converted from a government-controlled system to a civilian-operated system. It now produces an almost complete line of conventional arms".<sup>41</sup>

"The relationship between economic growth and defence spending has become popular, especially after Benoit's premise study. The study highlights that defence spending has a positive impact on economic growth. Afterwards, the impact of the defence economy on macroeconomic variables such as employment, output and economic growth at both domestic and international level has been the subject of many studies theoretically and empirically."<sup>42</sup>

Benoit explained the effects of defence spending on growth as follows:

"Defence programs of most countries make tangible contributions to the civilian economies by (1) feeding, clothing, and housing a number of people who would otherwise have to be fed, housed, and clothed by the civilian economy – and sometimes doing so, especially in less developed countries, in ways that involve sharply raising their nutritional and other consumptional standards and expectations; (2) providing education and medical care as well as vocational and technical training (e.g., in the operation and repair of cars, planes and radios; in hygiene and medical care; in construction methods) that may have high civilian utility; (3) engaging in a variety of communication networks, etc., that may in part serve civilian uses; and (4) engaging in scientific and technical specialties such as hydrographic studies, mapping, aerial surveys, dredging, meteorology, soil conservation, and forestry projects as well as certain quasi-civilian activities such as coast guard, lighthouse operation, customs work, border guard, and disaster relief which would otherwise have to be performed by civilian personnel. Military forces also engage in certain R&D and production activities which diffuse skills to the civilian economy and engage in or finance self-help projects producing certain manufactured items for combined for civilian and military use which might not be economically produced solely for civilian demand."<sup>43</sup> If the impact of the defence industry on creating jobs and keeping the qualified workforce in the country is examined, we will see a positive picture.

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<sup>41</sup> Lee, Yong Hak (1992); "Defence Industry and its Impacts on Economic Growth in Korea", Master Thesis, Naval Postgraduate School, p.1.

<sup>42</sup> Karakaya, Ceylan., Sahinoglu, Tuba (2020); "Savunma Harcamaları ve Ekonomik Büyüme İlişkisi: Türkiye Örneği", Business and Economics Research Journal Vol. 11, No. 2, p. 340.

<sup>43</sup> Benoit, E. (1978); "Growth and Defence in Developing Countries," Economic Development and Cultural Change.

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The total turnover of the Turkish defence and aerospace sector in 2019 reached 10 billion 884 million dollars, an increase of 19.50% compared to 2018. On the other hand, the number of employment per capita increased by 6.532 people compared to the previous year and was 73 thousand 771 people, increasing by 13.23% to \$ 147 thousand 539.<sup>44</sup>

As can be seen from the above data, investments in the defence industry and new business areas have led to employment increasing over the years. For developing countries, these investments are high in the short term, but long-term returns are not at all. "In developed countries such as the United States, the defence industry is used as an important employment tool. One in five people working in the U.S. industrial field is employed in the defence industry. Considering the unemployment rate in our country, it is assessed that creating new jobs and using young workforce potential in this area by training for our defence industry, which develops value-added products, will be a driving factor for our economic development."<sup>45</sup> Developments in the defence industry also have significant aftershocks for the economic development of countries. For example, during World War II, a wide range of R&D activities was carried out in cooperation with the defence industries, science-oriented human resources and armies of the states and made significant discoveries in a wide range. "The effect of defence R&D expenditures on private sector innovation and economic growth has been a hotly debated topic for many years (see surveys by Mowery 2010 and Lichtenberg 1995, for example). Proponents of the benefits of defence R&D point to the commercial success of major innovations such as jet engines, computers, radar, nuclear power, semiconductors, GPS, and the internet as evidence that military R&D has been a crucial source of technological development with civilian applications (Lichtenberg 1984, 1988, Ruttan 2006, Mazzucato 2013). Some even argue that the Pentagon's role as the world's most generous investor in technological innovation during the Cold War – ultimately resulting in superior technologies for U.S. companies and enduring gains in their competitiveness (Braddon, 1999) – was an important reason that U.S. manufacturing became so dominant after WWII. More recently, defence R&D has been viewed as an important

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<sup>44</sup> <https://en.rayhaber.com/2020/04/turk-savunma-sanayisinin-2019-yili-verileri-aciklandi/#:~:text=The%20total%20employment%20of%20the,as%2073%20thousand%20771%20people.>  
internet access: 21.06.2020

<sup>45</sup> KORKMAZ, Göksel., TOPÇU, Mustafa Kemal (2019); "Savunma Alımlarının Ülke Kalkınmasına Etkisi Ve Rolü", Güvenlik Bilimleri Dergisi, Kasım 2019, Cilt:8 Sayı:2, p.322.

contributor to national economic growth through private sector spin-offs and agglomeration economies."<sup>46</sup>

"Unlike the invented weapon technologies, the optimization models that led to the minimization of resource allocation and used for a specific purpose were also invented in this period. As a result of these developments, new areas of use were sought for all these innovations after the war ended; income from exports for weapons and defence technologies has come into question; apart from that, it has been realized that mathematical techniques and systematic thinking styles are also used in the business world. After this period, the export of defence industry products and technologies to other countries through export-led to the formation of new markets." "According to Sweezy and Baran, defence spending stimulates effective demand, creating employment opportunities, thus saving the capitalist system from stagnation. Sweezy and Baran, who examined the situation of the capitalist system before and after the Second World War in their works, concluded that defence spending creates an important source of employment in the USA."<sup>47</sup>

"The military and defence industry is a significant driver of economic development in communities throughout the country. The positive benefits of military installations impact every citizen. Often overlooked, the companies that support the military are significant employers and tax generators. A report prepared by Deloitte and sponsored by the Aerospace Industries Association (AIA) earlier this year assessed the contribution and financial impact of the U.S. aerospace and defence industry. The indirect and induced employment associated with the U.S. aerospace and defence industry is a minimum of 3.5 million jobs. The companies providing these jobs generated \$324 billion in sales revenue in 2010, with \$15.6 billion in net income after tax at an average pre-tax reported operating profit margin of 10.5 per cent.

These companies paid \$5.5 billion in corporate income taxes on their earnings, as well as \$1.7 billion in state income and similar business taxes. With individual direct employee taxes, the whole industry generated an estimated \$37.8 billion in wage and income-based taxes to state and federal government treasuries, not including the taxes paid by indirect and induced industry employment.

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<sup>46</sup> <https://voxeu.org/article/how-government-spending-defence-research-benefits-private-sector> - internet access: 21.06.2020

<sup>47</sup> Demir, Ayşe (2011); "Türkiye'de İl Bazında Sivil Ve Askeri Savunma Harcamalarının Ekonomik Büyüme Üzerindeki Etkisi: Mekansal Ekonometri Yaklaşımı

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The report does not include the users of these products and services. However, the Department of Defence (DoD) reports that it employs 720,000 civilian employees and 2.2 million military personnel. It has approximately 431,000 facilities or assets in the U.S. Employee roles include aerospace and skilled defence workers at armed forces maintenance and repair depots, National Aeronautics and Space Administration (NASA), Federal Aviation Administration (FAA), other defence agencies including Defence Advanced Research Projects Agency (DARPA) and civilians working at DoD."<sup>48</sup>

Finally, I think it would be beneficial to look at the defence industry investments of Turkey, which has managed to enter the market late and their impacts on the country. "Although Turkish defence spending has significantly grown in the past two decades, the turnover of the Turkish defence industry has also doubled in the last seven years, with an average annual growth rate of 10%. While Turkey has significantly boosted its domestic capability in the defence industry, it continues to import a considerable amount of aerospace products. Turkish defence companies, Aselsan, TAI, and Roketsan are among the major players in the defence industry worldwide. Such Turkish defence companies have achieved significant economic successes, which are reflected in international comparison lists. Four national defence companies are among the world's leading companies, according to a list published by Defence News Top 100 – a U.S. magazine that tracks the global defence industry. The Turkish defence industry, which has succeeded in manufacturing many weapons and ammunition systems, reduces the foreign dependence of the Turkish Armed Forces on the one hand, and on the other hand, contributes significantly to the Turkish economy and foreign policy. As of 2053, Turkey's defence industry targets 100% independence, with an export capacity of USD 50 billion.

Turkey spent \$1.45 billion on defence research and development in 2018 along with employment in the defence industry, which increased to more than 67000. The scientific policy supports the upgrading of Turkish researchers and engineers so that Turkish defence companies are better able to assimilate the technologies transferred to them through compensation and, in the long term, to produce their technologies, ideally to compete with the foreign companies on the international market."<sup>49</sup>

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<sup>48</sup> <https://siteselection.com/issues/2012/sep/sas-military-economy.cfm#gsc.tab=0> - internet access: 21.06.2020

<sup>49</sup> <https://eraiturkey.com/news/aviation-and-defence-industry-in-turkey-2/> - internet access: 21.06.2020

## Conclusion

As some circles claim, it is easily understood from the above examples that the view that it is unreasonable for developing countries to invest in the defence industry is invalid. Of course, it is pointless to expect immediate results from today's investments. However, every step taken in the name of developing the domestic defence industry will be received one day. The contributions of each nail or every one of the employed engineers to the national economy by staying in the country will be seen in the long term. Let's think of the opposite scenario. Let's think of a country that has not taken any steps in the name of the domestic defence industry and provides all its needs entirely from the outside sources. He is going to spend a significant portion of his budget on military materials he will import from the outside. It is not enough just to buy it. They will also have maintenance, repair and spare parts expenses. Thus, you will become a country that is continuously dependent on the exporter country. Even if the initial costs are high, there will be a return of any investment to develop the defence industry. Because, without ensuring the security of the country, neither people can live in peace nor there will be a suitable environment for the development of science and technology.

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# THE ROLE OF THE ISLAMIC WORLDVIEW TOWARDS CORPORATE GOVERNANCE

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## Abstract

There is a growing concern emerged with a great profile regarding the Islamic principles of corporate governance. A major ethical component of any economic activity in Islam is to provide justice, honest and fairness and to ensure all parties their rights and dues. Islamic economy has progressed a great deal during these last two decades with impetus as an important concern in developing an Islamic corporate system.

This paper will attempt to answer this question by arguing the recommendations provided in the Western and at the same time propose the Islamic worldview as the core ingredient to improve effective corporate governance. The Islamic concepts and values on corporate governance will be dealt then. Subsequently the role of Islamic worldview on the effective corporate governance will be discussed in great depth.

Key words: corporate governance, Islamic Corporate governance, sharia complaint, AAOIFI,

JEL Classification: M12, M21

## I. INTRODUCTION

Today's world of business is facing grave corporate governance anxiety. The downfall of huge and well-known companies like Enron, WorldCom debacles, Global Crossing and Adelphia etc. have showed us that how critical the issues of corporate governance in 21<sup>st</sup> century. The trustworthiness of the accounting profession has been devalued severely due to these crises. Public start to criticize openly on how accountants perform their professional duties in providing the true and fair view of the financial position of their client's company.

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## **The Role Of The Islamic Worldview Towards Corporate Governance**

Many recommendations and solutions have been put forward to resolve these governance problems, yet none of them seems to be effective. Public then may wonder, “*Why it is so difficult to promote good corporate governance?*”

In actuality, the underlying concept of corporate governance is neither unknown nor alien from the Islamic point of view. Corporate governance as far as we are concerned is aim at enhancing accountability, transparency as well as trustworthiness. These values are at paramount in Islam. Hence, we could say that the principles and the objectives of corporate governance are verily familiar to us although some may say that the corporate governance concept is recently realized. In fact, Islamic approach is deemed relevant in promoting good corporate governance in business organization. Through the guidance of Islam, success could be attained by maintaining high human idealism, by fulfilling high spiritual and ethical requirement in all human affairs including business activities. In Islam, business activities concerned with two respects namely the physical aspects of life as well as meeting one’s spiritual needs.

## **II. ISLAMIC WORLDVIEW**

The word “Islam” is derived from the origin words of S L M. It epitomizes variety of connotations. Customarily, Islam typifies al-Din, submission, surrender, obedience as well as peace (al-Faruqi 1982). This has manifested that a man can only attain true peace of physical and spiritual via full surrender, obedience and submission to Allah the Almighty. This has been irrefutably mentioned by Allah in the Quran (13: 28-29). A man will become a Muslim once he has verbalized the “Shahadah”. “Shahadah” signifies there is no God except Allah and Muhammad (peace be upon him) is His prophet. A real Muslim will carry three essential elements namely “Iman” (faith), “amal” (action) as well as “ihsan” (Realization).

Worldview or underlying philosophy or *weltanschauung* on the other hand, epitomizes how man perceives this world. Worldview denotes “*a set of implicit or explicit assumptions about the origin of the universe and the nature of human life*” (Chapra 1992, pp. 1). Conventionally, every community or system is controlled or influenced by its own worldview. The different worldviews among these communities or systems will eventually lead to dissimilar end means of human life. Other aspects of life such as ultimate possession, cramped resources by virtue of human beings’ disposals, the relationship among men in term of rights and responsibilities, their surrounding environment as well as their interpretations of efficiency and equity will also be different (Chapra 1992).

On the other hand, according to Al-Attas<sup>52[1]</sup> (1994), from the Islamic point of view, worldview is considered as vision of reality and truth (ru'yat al-Islam li al-wujud). He then further interprets the Islamic worldviews as “*a metaphysical survey of visible as well as the invisible worlds including the perspective of life as a whole, is not a worldview that is formed merely by the gathering together of various cultural objects, values and phenomena into artificial coherence*”. (p. 26). Hence, as far as Islamic nature of reality (ontology) is concerned, Islamic worldviews concern with this universe (world) and the hereafter or the Day of Judgment. The belief in dual worldviews has made Islam look exceptional and peculiar (Izetbegovic 1984). Since these views are principally derived from the Quran, this reflects that Islamic worldviews are identical to Quranic worldview. Unlike in the West, their emphasizing is on logical reasoning as well as illumination of rationality. Due to this, Islam has distinguished itself from other available worldviews (Khurshid Ahmad as cited by Mawdudi 1988). For instances, the Western's and Christian's worldviews are secular and religious respectively.

The ontology as far as the Quranic view is concerned, entails diversity of purposes (Mawdudi 1998). Human being has been invented by Allah with the purpose to rule this world as a khilafah (vicegerent). As the best creature ever created, man has been equipped with remarkable qualities such as aql (mind), feeling (intuition) as well as the beautiful physical. These virtues on the other hand, have enabled man to better reflect, understand, and distinguish between good and bad. With all these advantages man ought to worship Allah and not to interpret himself as autonomous. Thus, this has made Islamic concept of leadership different from other systems.

Islam perceives world or earth only as a transit for man to the perpetual life in the hereafter. Muslims believe that world is a place where they are accountable to other Allah's creatures as well as to Allah Himself. These beliefs have limited the Muslims' conducts. Muslims can neither be free to act as they wish nor follow the wishes of any groups. Every man will be judged on the reckoning day for what ever deeds he or she has done during his or her life in this world. If good deeds are more than bad deeds, this will promise an everlasting place in Jannah (paradise) while hell is waiting for those who have chosen to defy Allah's command or bad deeds more than good deeds.

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<sup>52[1]</sup> Please refer to Islam and the Challenge of Modernity, Proceeding of the Inaugural Symposium on Islam and the Challenge of Modernity: Historical and Contemporary contexts, Kuala Lumpur, August 1-5, 1994

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Allah has manifested His right way by means of the Prophets. The ultimate duty of these prophets with revelations was to transform humanity from a state of Jahiliya (Lost in the earthly life) to a true Muslim. Allah manifests in the noble Qur'an: *"I have not created the jinn and ins (human beings) except to worship Me"* (51:56). Prophets such as Muhamad, Isa, Daud and Musa (pbuh) have received revelation from Allah in the form of scriptures. These prophets were inherently carried similar paramount messages from Allah which is to worship and obey all His commands. Although these Prophets carried similar ingrained commandments, the details were not identical. The differences were depending on the condition, nation as well as the Prophet who was in charge. Muhamad (pbuh) was the last Prophets govern this world. He was very special in the eyes of Allah. This has been evidenced by Allah via Quran. Quran is the last scripture revealed by Allah and It will lead man until the day of reckoning. Quran is a complete scripture as compared to others which consists all-inclusive doctrine as well as some particulars on many dimensions of human life.

Table 1: Implications of Different Worldviews on Man's Way of Life

| <i>Types</i> | <i>Worldviews</i>  | <i>Man's Way of Life</i>   |
|--------------|--|--|
| Western      | Secularism   | Separation between religion and other aspects of life, materialistic, individualistic, less socio economic justice |
| Christian    | Religious  | Less public relations, less concern with the worldly life  |
| Islam        | Dual worldviews: <ul style="list-style-type: none"> <li>• In this world</li> <li>• In the hereafter</li> </ul> | Maslahah of the ummah (public benefit), accountability, trustworthiness, transparency etc.                         |

**III. ISLAMIC CONCEPTS AND VALUES ON CORPORATE GOVERNANCE**

There are four values which the authors believe to be essentially associated with the concept of corporate governance namely khilafah, accountability, transparency as well as trustworthiness. These concepts are mainly derived from the Islamic worldview. Hence, this part will look at these concepts in quite depth.

### ***Khilafah***

Khilafah refer to the role, status as well as the man kind's responsibilities to themselves and to the ummah as a whole. According to Abdalati (1994), khilafah are the relationship between man and god, man and his fellow men, man and the other elements and creatures of the universe man and his innermost self. This means, every human has the responsibility to all Muslims for what ever deeds they have done with regards to the resources that God (Allah) has given to him or her.

Human principally has been assigned to safeguard this world which belongs to Allah (Quran 2:30). And, on the day of reckoning every human being will be accountable for his or her conduct in this world (Haniffa 2002) which will determine their true end whether to the heaven or to the hell. As what we have perceived, Khilafah has stem four implications which are universal brotherhood, trustees for God's resources, humble lifestyles, and human freedom in Islam (Chapra 1992).

In governing the corporation, man is seen as the central element for the system to be effectively working in the right route. As man is the shareholder, creditor, auditor, regulator, manager as well as the director thus, its manifest that man plays the paramount roles in managing and lead to the attainment of company's vision and mission. The issues of man in term of values, ethics and moral conduct therefore need to be well apprehended in the first place to ensure the anxiety of the society could be taken care. The concern among other things are upholding trust, maintaining integrity, exercising transparency and accountability, conservative in managing resources, caring and concern of the environment. The failure to ingrain these values may pose grave problem to the company as well as to the public at large.

### ***Accountability***

In terms of accountability Muslims believe that they will be accounted for whatever they do in this world in the hereafter (life after death). In Islam, Muslims verily have to fulfill the will of Allah in order to seek his rida' (pleasure) and the promised rewards in the hereafter. Thus, it requires every deed and word in this world must be in line with the Islamic teachings. It does not matter what activity the Muslims do either ibadah (solah) or purchasing shares in the stock market, they must follow the Islamic teaching framework carefully. The importance of accountability to the man's life also has been manifested by the prophet of Islam as: *"Each one of you is a guardian and each guardian is accountable to everything under his care"*.

In the view of corporate governance practices, as far as Islam is concerned, the company directors, management as well as the auditor should perform their professional duties with

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the objective of satisfying the needs of the shareholders and to Allah as well. Supposing, there should be no such malaise (i.e. fraud; material misstatement) exist in the company if this concept could be internalized and could be reflected in their conducts. Unfortunately, most of them have been shadowed by the material worldly life which has led to the bad conducts that cause the owners (shareholders) of the company suffer the consequences.

### ***Transparency***

The concept of transparency has been divulged by Allah in the following ayat: *“O you who believe! When ye deal with each other, in transactions involving future obligations in a fixed period of time, reduce them to writing. Let a scribe write down faithfully as between the parties...”* (Al-Baqarah 282, Beginning of the Ayat). This verse states that every transaction must be written to avoid justice.

As corporation is responsible to a wide spectrum of stakeholders, its aim should not focus strictly on monetary values but also on social responsibility to the ummah. Applying the concept of transparency, corporation should also disclose information regarding its policy, activities undertaken, contribution to the community and the use of resources and protection of environment (Haniffa, 2002).

### ***Trustworthiness***

The concept of trustworthiness has been irrefutably stated Via Surah Al Anfal (Verse 27): *“O ye who believe! Betray not the trust of God and the Apostle, nor misappropriate knowingly things entrusted to you”*. The Holy Prophet (pbuh) also spelt out the significance of trustworthy businessmen in the following: *“Righteous businessmen will be the first to enter paradise”*. In another saying, he said: *“A truthful merchant will be raised on the Day of Judgment together with the truthful and the martyrs”*. Trustworthiness is also parallel with the concept of accountability whereby man in his judgement towards his action is influenced by the fear that he will be accounted by Allah.

As trustworthiness is one of the highly regarded virtues in Islam, every individual within an organization is required to subscribe to ethical and moral practices while carrying out their commercial activities. The stewardship sense will lead all to utilize the possessions entrusted upon them by Allah to the best of their abilities as a form of submission to Him. Leaders will be judged not by how big the wealth has grown but by how well wealth is managed using the principles as clearly laid down by Islam.

In developing good corporate governance all these virtues are deem significant to be nurtured in the culture of the company. The so-called religious belief corporate culture will affect the

corporate governance to the great extent. It can also be considered as the system of shared values and belief in which people within the organization interact to each other. Such circumstances will impetus the system as well as the structure of the organization in producing values and norms.

#### IV. CORPORATIONS: AN ISLAMIC PERSPECTIVE

Historically, trade has been seen as a major contributor to the Islamic civilization. The special place of trade in Islam has also been manifested by Allah in the Quran. Although trade is encouraged in Islam but riba (usury) is totally unacceptable as Allah has mentioned in the Quran (2: 275-276) “trading is permitted but riba (usury) is forbidden”. Riba is prohibited because it concentrates wealth and nurture inequality via exploitation. In addition, Islam also forbids speculation, gambling and hoarding. This has been evidenced through these following ayahs:

يَا أَيُّهَا الَّذِينَ آمَنُوا إِنَّمَا الْخَمْرُ وَالْمَيْسِرُ وَالْأَنْصَابُ وَالْأَزْلَامُ  
رَجْسٌ مِّنْ عَمَلِ الشَّيْطَانِ فَاجْتَنِبُوهُ لَعَلَّكُمْ تُفْلِحُونَ

*O ye who believe! Intoxicants and gambling, (dedication of) stones, and (divination by) arrows, are an abomination, - of Satan's handwork: eschew such (abomination), that ye may prosper (5:90).*

يَا أَيُّهَا الَّذِينَ آمَنُوا إِنَّ كَثِيرًا مِّنَ الْأَخْبَارِ وَالرُّهْبَانِ لَيَأْكُلُونَ  
أَمْوَالَ النَّاسِ بِالْبَاطِلِ وَيَصُدُّونَ عَن سَبِيلِ اللَّهِ وَالَّذِينَ يَكْنِزُونَ  
الذَّهَبَ وَالْفِضَّةَ وَلَا يَنْفِقُونَهَا فِي سَبِيلِ اللَّهِ فَبَشِّرْهُمْ بِعَذَابٍ أَلِيمٍ

*O ye who believe! there are indeed many among the priests and anchorites, who in Falsehood devour the substance of men and hinder (them) from the way of Allah. And there are those who bury gold and silver and spend it not in the way of Allah. announce unto them a most grievous penalty (9:34)*

### **The Role Of The Islamic Worldview Towards Corporate Governance**

However, nowadays, the core anxiety of people is that trade can cause the economic entity to neglect ethical duty (Abdul Rahman 1998). As far as Muslims are concerned, Islam has the fundamental principles which could be used as guidance to coordinate corporate dealings. The concept of corporations has been existed since the age of Prophet Muhamad (pbuh). During this era, lots of people involve in commercial ventures by pooling their resources. This act was very similar to the notion of modern corporation nowadays. For instance, “al-inan” (limited partnership) in Islam is akin to the concept of joint stock companies which resembles the limited partnership. This concept of partnership (limited partnership) entails two or more individuals form a business where they agree to contribute capital, share the profits as predetermined before the business started and also have agreed to bear the losses based on their capital contribution in case the business face failure. Here, the partners’ liability is limited. The members’ works and performance will be monitored by the board of directors. As the representatives of the company’s shareholders board of directors carry a responsibility to ensure the members perform their duty within their capacity and act for the sake of the business instead of their personal interest.

Mudharabah is another form of partnership in Islam which akin to the modern joint stocks venture. It is a form of partnership where one party supplies the capital whereas another party will run or operate the business. The profit will be distributed based on the predetermined profit ratio. This notion of mudharabah has number of similarities with the modern joint stock companies. This is evidenced by the disaffiliation of control and possession or ownership. In other words, the capital providers will not going to involve in the daily business operations. Besides, there is unlimited number of shareholders being practiced. Also, share transfer is allowed and will not cause the company to dissolve.

The only problem of this modern corporation is the inability to comply with certain values in Islam as well as the Shari’ah requirements. Thus, in order to make this system in line with the Shari’ah, the companies act need to be revised accordingly to the Islamic Law and the ultimate goals of the corporation need to be altered from profit maximizing alone to also nurture the socio-economic justice (Abdul Rahman 1998). Apart from revising the law as well as to ultimate goals of the companies, the role of the leaders (managers) should not be ignored. In fact, perfect rules, regulations, and planning are useless without proper implementation as well as supervision by the managements and board of directors respectively.

According to Khalifah Ali, there ought to be certain qualities before a person can be a leader. Some of these qualities are outlined in the Quran where Allah addresses the prophet;

*"It was by the mercy of Allah that you (O Prophet) were lenient with them, for if you had been stern and hard-hearted, they would have dispersed from around you. So forgive them and seek mercy for them and consult with them in the conduct of affairs. And when you have resolved [on an issue], then put your trust in Allah. Lo! Allah loves those who put their trust in Him" (3:159).*

A few matters are pointed out here such as a leader must be kind hearted, compassionate and forgiving towards their people. If he is cruel to them, they will cease him. When a decision is made he must consult them. Allah then further mentioned that no weaknesses should be shown, and the policy be pursued with single-minded of purpose, determination and boldness. Khalifah Ali then concluded that the qualities of a leader are namely knowledge and *hikmah* (wisdom, insight), *taqwa* (piety), *‘adl* (justice) and *rahmah* (compassion), courage and bravery; *shura* (mutual consultation), decisiveness and being resolute, eloquence, spirit of self sacrifice and *sabr* (patience).

## **V. CORPORATE GOVERNANCE**

Corporate governance can be interpreted as the process in which the company is administered and controlled by a few parties such as board of directors, management, auditors etc. These parties have the duty to ensure that the company is heading towards the mission as well as the vision of the company. At the same time, they are also accountable to the companies' stakeholders (Abdul Rahman 1998; Shahul, 2000 u.p.). In Malaysia, the Finance Committee on Corporate Governance (1998) describes corporate governance as: *"the process and structure used to direct and manage the business and affairs of the company towards enhancing business prosperity and corporate accountability with the ultimate objective of realizing long-term shareholder value, whilst taking into account the interest of other stakeholders"*. It is basically the governing bodies which are responsible to the life of the institution as a whole. It takes into the consideration all the matters that affect feasibility, proficiency and ethical character of an enterprise.

Today's corporate boards, managers, auditors, and accounting standard setters are presumably all working together to create a financial reporting process of unparalleled integrity. However, certain aspect of the business operation raised the question of effective corporate governance. In the running of a corporation, owners and management are two separate parties. Owners cannot effectively manage a business, a task that would require

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significant and consensus-building whom realized the limitations of the corporate structure from its inception, form the corporate board of directors to serve on their behalf.

However, the fact that the Chief Operating Officer (CEO) influences the membership of corporate board of directors and controls the agenda of all that goes on at board meetings seems to be contrary with purpose of the board existence itself. In addition to that, most cash bonus plans as well as most stock option plans or stock award plans are based on accounting results (Bloedorn and Chingos, 1991; Ittner et al., 1997), financial statement has become the focal point of management's wealth maximization strategy.

Beginning 1970s, many corporate mergers and acquisitions took place. To keep up with the phase of business orientation, CPA firms also grow internationally in order to retain market share. As the CPA firms grew and merged, they became more strategic and more cost-conscious in their effort to obtain new clients. Firms sought to provide a full menu of consulting as well as the 'internal audit' services to clients in every industry to demonstrate their market strength and expertise. The downward pressure on auditing costs led to relative reductions in salary and quality of audit staff, less substantive test of details and more reliance on analytical review techniques, and factors that generally led to a lower quality audit. What investors and creditors do observe all too often lately are instances where it appears the auditors and/or the audit committees were not effective. These are the cases of fraud, material errors or misstatements, material omissions, restatements of multiple prior years' earnings because of accounting oversights or improprieties, or maybe just aggressive accounting called to the attention of the corporation by the SEC or shareholder advocates. Recent examples abound and include such icons as AOL Time Warner, WorldCom, Boeing, Computer Associates, Xerox, Enron, Tyco, IBM and on local front MAS and Renong are two examples.

### ***Recommendations for Effective Corporate Governance from Western Perspective***

The collapse of big and well established companies was mainly due to the ineffective and lack of keen-eyed surveillance functions of the board of directors and audit functions. American Institute of Certified Public Accountants (AICPA) (1993) in their report states that good and effective corporate governance could be nurtured via strengthening the role of the board of directors. In addition to that, President of United States of America (USA) George W. Bush also addresses comment on the grave corporate governance problem. During the recent State of the union address, he urged that the corporate must be made accountable to

employees and shareholders and held to the highest standards of conduct. According to him, this could be attained through tighter standards and tougher disclosure requirement.

On the other hand, the Blue Ribbon Committee (BRC 1999) has discovered three essential facts pertaining to the oversight responsibility of corporate governance as well as the audit committee. Firstly, in order to produce a so called quality financial reporting, a collaborative working environment, two ways communications among management, board of directors, audit committee internal auditors and external must be well developed and established. Secondly, to reduce the fraud in the financial statement, the role of the corporate governance needs to be strengthened. This fact is similar with the recommendation of the AICPA report in 1993. Thirdly, to enhance the confidence in the capital market, the elements of integrity, quality and transparency need to be cultivated in the financial reports. This confidence will be diminished if fraud is found to be existed in the financial statement.

In fact, the external auditors are required by the International Standards on Auditing (ISAs) to communicate pertaining to significant matters which struck their attention during their assignation with the governance body in their client's company. Besides, the internal auditors also given the authority to discuss paramount items they found with the governance body. This is the requirement of the authoritative Practice Advisories (Pas) as issued by the Institute of Internal Auditors (IIA). As far as auditing profession is concerned, the external auditors concern with the external users of the companies whereas the internal auditors concern with the internal matters within the organization itself. The existence of both groups is ultimately to shield the interest of the shareholders as well as lead the company to the right route in the most effective and efficient manner.

According to Baker and Wallage (2000, p. 173-174) 'an effective system of corporate governance requires an effective system of financial reporting and that an effective system of financial reporting requires a well-ordered system of financial accounting'. A look at financial reports will tell us that it consists primarily of audited financial statements prepared in accordance with accepted accounting standards and must be audited by statutory auditors. Baker and Wallage (2000) argue that this model of financial reporting possesses two difficulties. First, audited financial statement does not represent the economic reality and therefore gives an opportunity for directors to misrepresent or hide the true economic condition of their companies. Second, the independence of auditors is being questioned as they may be subject to the influence of the directors of the company. In resolving these issues, the authors studied recommendations made by Institute of Chartered Accountants of

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Scotland (ICAS) on *Auditing into the Twenty-first Century*. The summary of the recommendations is as listed in the table 2 and 3 below:

Table 2: Summary of the Recommendations to Improve Financial Report

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*The financial reports ought to provide assurance that:*

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1. The financial statements are right.
2. The company will not fail
3. There has been no fraud
4. That the company has acted within the law
5. That the company has been competently managed,
6. That the company has adopted a responsible attitude to environmental and societal matters.

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Table 3: Summary of Recommendations to Improve Auditor's Work

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*The auditors should be:*

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1. Independent of the managing directors of the company being audited
2. Responsible for reporting to a third party if they suspect that the managing directors are involved in fraud or other illegal acts
3. Accountable to a wide range of stakeholders
4. Financially liable if they fail in their duties.

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According to Baker and Wallage (2000) the implementation of this recommendations would give several implications. Firstly, the internal audit function is necessary. In this way, the external auditors would cooperate with, and assess the work of the internal auditors, and they would opine independently on the managing directors' statement concerning their responsibilities as directors. Secondly, managing directors are expected to have a greater accountability to a wider stakeholder and this would change the format of current audited financial statements that is prepared to fulfill decision usefulness criterion for investors and creditors. Next, companies are expected to have a two-tier board of directors, comprising a Supervisory Board and a Managing Director.

Detomasi (2002) suggest three independent elements to achieve effective corporate governance. First, a strong public sector governance is needed detailing how financial reporting and auditing practices are to be conducted. Second, a community of well trained managers and executives that are able to formulate and execute effective corporate strategies within the boundaries set by law and securities regulation. Finally, independent auditors capable of performing neutral and objective auditing practices of corporate behaviour must complement the work of managers and legislators.

## VI. THE ROLE OF ISLAMIC WORLDVIEW TOWARDS EFFECTIVE CORPORATE GOVERNANCE

Any attempt to make corporate governance effective must incorporate Islamic concepts and values that have been discussed in the above section. Corporate activities might just be the interaction of two or more parties in business dealing using money as the medium of transaction but if it is done within Islamic Shari'ah without any intercession or association of partners to Allah and with the intention to please Him, then this will be a sign of worship to Allah (see Bilal Philips 1994).

Abdul Rahman (1998) applies the concept of tawhid, khilafah and taklif in his Islamic corporate governance framework. According to him an Islamic corporate governance framework should integrate both the regulatory aspect that is based on Shari'ah and Islamic moral precepts as its core structure. He claimed that the institution of shura, hisbah and religious audit can be used to achieve effective corporate governance.

### *Shura*

Shura has been practiced since the time of the prophet Muhammad (pbuh) whereby he and his group of companions of highly knowledge discuss on certain issues. In the Holy Quran, there is one chapter entitled 'Shura' itself. Allah says

وَالَّذِينَ اسْتَجَابُوا لِرَبِّهِمْ وَأَقَامُوا الصَّلَاةَ وَأَمْرُهُمْ شُورَى بَيْنَهُمْ وَمِمَّا رَزَقْنَاهُمْ  
 ۖ يُنْفِقُونَ

*Those who hearken to their Lord, and establish regular Prayer; who (conduct) their affairs by mutual consultation; who spend out of what We bestow on them for Sustenance (42: 38)*

In worldly matters, the Prophet (pbuh) used to consult others and be consulted by them, while in religious matters, he referred to the revelation which took care of all matters related

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to faith. In the modern Islamic organization, a group of people comprising of representatives of shareholders, employees, customer can be formed acting as shura to assist corporate directors in the running of the business activities as well as to ensure consensus in decision arrived. To the Western, inviting all these groups in the decision making process might be unreasonable because their focus is mainly aiming at maximizing wealth for the shareholders and creditors (Kam, 1990; Shahul, 2001). However, Islam has a wider spectrum of users in which the overall organization's objectives should take account off making the institution of shura applicable at this time of science and technology just as at the time of camel and desert of the prophet!

### *Hisbah*

The Hisbah is essentially organized around safeguarding the limits of Allah from being violated, protecting the honour of the people, and ensuring public safety. It also includes monitoring the marketplace, craftsmanship, and manufacturing concerns to make sure that the laws of Islam are upheld by these entities. Allah states in the Holy Quran:

وَلْتَكُنْ مِنْكُمْ أُمَّةٌ يَدْعُونَ إِلَى الْخَيْرِ وَيَأْمُرُونَ بِالْمَعْرُوفِ وَيَنْهَوْنَ عَنِ  
الْمُنْكَرِ وَأُولَئِكَ هُمُ الْمُفْلِحُونَ ﴿١٠٤﴾

*“Let there arise from you a group calling to all that is good, enjoining what is right and forbidding what is wrong. It is these who are successful”* (3: 104)

In Islam, economic activities including business trading and its services are controlled by Shari'ah. Likewise, the system of Hisbah is an integral part of a just economy in a just society which also provides the same for non-Muslims as residents in an Islamic society. Off-hand, a Muslim should not cheat a non-Muslim in business whatsoever. Prophet Mohammad once said: "Who ever (a Muslim) causes harm to non-Muslim is also causing harm to me; and I shall be his opponent on the Day of Judgment". Hisbah institution operationalize through the function of *al-Muhtasib* whose responsibilities are almost open-ended in order to implement the foregoing principle: commanding the good and forbidding the evil of wrongdoing<sup>53[3]</sup>. Al-Muhtasib and/or his deputies as full judge must enjoy high qualifications of being wise, mature, pious, well-poised, sane, free, just, empathic, and learned scholar. He has the ability to ascertain right from wrong, and the capability to distinguish the permissible (halal) from

<sup>53[3]</sup>Please refer Al-Imam Al-Ghazali's book Ihya' Ulumuddin (Vol. II) on the procedure of al-Hisbah.

the non-permissible (haram). The Hisbah carries out these responsibilities in conjunction with the appropriate government agencies and other relevant establishments.

### ***Religious Audit***

Islamic religious auditing provides an institution to solicit advice and to monitor performance so that the company operates as a strictly Islamic concern. The Islamic precepts highlighted the differences between Islamic and Western business practices. For example, the Islamic Shari'ah prohibits, among other things, the payment and receipt of riba or usury (Quran 2: 275-276), gambling (Quran 5:90), hoarding (Quran 9:34) and speculation (Qureshi, 1976). Besides that, Islam also forbids any investing or dealing in alcohol, pork and other activities which are considered unlawful from an Islamic perspective. The need for religious audit stem from the requirement that organization should comply with the Shari'ah. If religious auditors find any violation of the Islamic principles in the operation of organization, then this should be reported in the organization's financial statement as in the case of external auditor reporting their opinion on the true and fair view of the organization's financial position.

### ***AAOIFI Approach for Effective Corporate Governance***

The issue of governance is also the concern of Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). Since the Muslim holds the concept of dual accountability, acting as the vicegerent of God, adherence to Shari'ah rules and principles are of primarily importance for an Islamic organization. As such, what is lawful should be distinct with the unlawful and must be reflected in the policies, product, activities, and transaction of the business as in accordance with the Islamic law of Shari'ah. In view of this, AAOIFI has established standards of governance known as Governance Standard for Islamic Institutions (GSIFI) to govern the manner in which Islamic Financial Institutions (IFI) are controlled and in which those responsible for the direction of the companies are accountable to the stakeholders with the principles mentioned above.

The first proposal made by AAOIFI is the establishment of Shari'ah Supervisory Board (SSB) which comprise of specialised jurist in fiqh almua'malat (Islamic commercial jurisprudence) to conduct a Shari'ah review on the activities carried out by IFI (GSIFI No. 1 and GSIFI No. 2). The membership of SSBs may also include other experts in the field of accounting, economics, lawyers and bankers. In short, the SSB will play the role as pilot towards management adherence to Shari'ah, examiner of IFI's activities and transaction, coordinator between IFI and external auditor and finally conclude all that in a report to the

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shareholders. Abdallah (u. p.) listed three reasons why SSB play a significant role for banks which offer Islamic financing:

1. 'The Islamic banking system is different from the usurious banking system. Areas of similarities and dissimilarities can be recognized with certainty through SSB.
2. Whereas the usurious banking system depends largely on the rate of interest in governing the bank's operations and services, the Islamic banking system prohibits a rate of interest in any banking operation.
3. The Islamic banking system is governed by the principle of *ghunm bil-ghurm*<sup>54[4]</sup> which, contrary to the usurious mode of finance, is a risk-bearing principle. This principle governs the mechanism of the Islamic modes of finance, which are different from those of the rate of interest in almost all respects.'

The function of SSB will be assisted by internal Shari'ah review (GSIFI No. 3) acting as an internal auditor assessing the Shari'ah compliance of IFI. Internal Shari'ah review is the intermediary party between SSB and the management by performing their activities based on guidelines, fatwa<sup>55[5]</sup> and instructions set by SSB and later prepare a report on the work done to SSB and the management. Another aspect of governance introduced by AAOIFI is an Audit and Governance Committee (AGC) as established in GSIFI No. 4. While SSB concentrates on the religious aspect of the company, AGC is seen as the responsible group for monitoring the overall conduct of the business covering from the internal control aspect, compliance with Shari'ah laws and the organizations adherence towards code of ethics.

### ***Problems with the Implementation of SSB & Internal Shari'ah Review***

There is no doubt for the need of supervisory on Shari'ah matters pertaining to the operation of IFI. Ideally, SSB should be from one organizational body since Islam does not recognise any separation between business and religion. However, the present situation in Malaysia does not enable the establishment of SSB and Internal Shari'ah Review group for each IFI. The reason for this is that those who are well-versed in the Shari'ah are not necessarily knowledgeable about the present state of affairs in banking, finance or accounting. Likewise,

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<sup>54[4]</sup> An opportunity for profit or loss due to the risk-bearing type of financing.

<sup>55[5]</sup> Fatwa is a ruling on a point of Islamic law given by a recognized authority

those who are well-versed in the latter are not necessarily knowledgeable in the Shari'ah. Due to this fact SSB has been operated at the central bank level, i.e. Bank Negara Malaysia, whereby their expertise is shared by all banks that provide Islamic financing. The implementation of SSB at the national level imposes several implications.

First, in performing their duties as Shari'ah supervisors, SSB might have come out with certain fatwa with regard to some issues on the Islamic financing of one bank. Since SSB is the religious authority governing the rules and regulation of Islamic financing, the bank has to practice as has been advised by them. The conflict arise when SSB issue a different fatwa on the same matter to another bank. As a result, we would find the impact on the financial report is that different banks disclose differently on the same issues due to diverse recognition and measurement policies of the banks.

Second, as the bank operate at the international level by opening up a branch in another country, the bank is most possibly governing by the Shari'ah rules set up by SSB of the host country which is based on different Islamic school of taught whether it be Shafie, Hanafi, Hanbali or Maliki. Therefore, a single Islamic bank might have different accounting consequences on the recognition, measurement and disclosure practice for the same Islamic financing services provided. Hence, the uniformity and consequently the comparability of financial statements will be an issue of great challenge for banks offering Islamic financing. Third, since the internal religious audit fail to come into existence as yet, the vacancy has been filled by SSB which in return raised the question of independence of SSB and hence the credibility of their report. However, since SSB are guided by their moral beliefs and obligations to religious peers and the community, they are expected to perform their duty with professional due care. Karim (u.p.) argued that SSB 'commitment to religious values and religious obligations provide members of the SSB with strong incentives to be independent'.

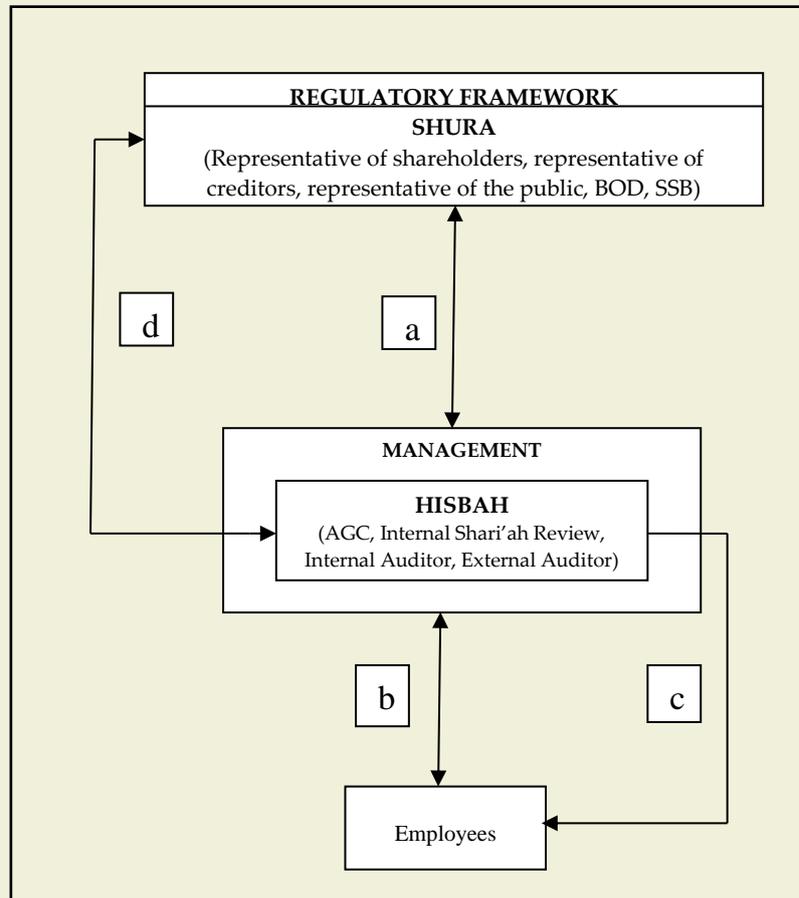
## **VII. EFFECTIVE CORPORATE GOVERNANCE FRAMEWORK: A PROPOSAL**

Bowie and Duska (1990) in their analyses recommended the taking up of the stakeholder approach in undertaking business activities. They explained that the stakeholder approach as applied to the moral management of organizational stakeholders is based on the view that profit maximization must be constrained by justice, that regard for individual rights should be extended to all constitutes that have a stake in business. Applying this concept from an

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Islamic perspective we propose a corporate governance framework as illustrated in Figure 1 below.

Figure 1: An Effective Corporate Governance Framework



With the view that the principle of Islamic Shari'ah strike a balance between the interest of individual and society, material and spiritual gain, success in this world and the hereafter, company should be assured that its decision making, action and control system will be constructed based on the concept of tawhid or oneness of Allah. This section will discuss how planning, action and control from the Islamic perspective can enhance effective corporate governance.

### *The Decision Making Process*

As company is responsible to a wide range of stakeholders, the decision making process of the company should take into consideration their interest. A group of Shura comprising of representative of shareholders, representative of creditors, representative of the public, BOD and SSB should be formed as the authority which is responsible for direction and setting of the corporation. As shareholders, creditors also contribute to providing capital in terms of

loan for the operation of the corporation. Therefore, both parties have their rights to say in the decision making process to safeguard their interest and consequently to be included in the shura team. Public concern on corporation operation is at also high alert with cases such as misuse and unreasonable losses of public fund, fraud cases among the public officers, pollution to the environment, etc. The role of BOD and SSB has been mentioned earlier. Exercising Shura demand that decisions made should be arrived through consensus by all parties involved. Since the decision made is governed by the tawhidic concept, this will be emerged elements like truth, sincerity, discipline, tolerance and prevent and eliminate activities prohibited by Islam.

Authors are in the opinion that establishing shura can resolve a number of issues. First, the joint efforts of shura members will ensure checks and balances for the need to satisfy the needs of all parties. For example, BOD inclination towards profit so as to pay a return on shareholders' investment without having consideration on Shari'ah principles or the environment will be counter by SSB and the representative of the public. However, this is not to say that higher monetary and materials are objectionable in Islam, provided the means employed are lawful and the gains legitimate. As all aspects are being taken care of, the *maslahah* of ummah or the public interest is ensured. By this way at least the essential needs of the Muslim ummah which include religion, family, property intellect and offspring as discussed by Kamali (1989) are protected and secured.

Second, some explained that corporate governance failures are contributed by single-handed control of chairman of BOD who is also the Chief Executive Officer (CEO) of the company. Conflict might arise because CEO will be able to control board meetings, the selection of agenda items, as well as the selection of board members. As a result, company's direction is very much influenced by the individualistic characteristics of the 'big boss'. The independent status of the chairman is at paramount in two respects. First and foremost, *"he should encourage a healthy debate on the issue and bring to the board a healthy level of skepticism and independence"*<sup>56[6]</sup>. Second, *"he should ensure that every board solution is put to a vote to ensure that it is the will of the majority and not that of the dominant owner that prevails"*<sup>57[7]</sup>. In addition, the finance committee through its report also promotes a balance in term of number for the executives and non-executives directors. This

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<sup>56[6]</sup> Please see Malaysian Code of Corporate Governance, para 4.21, page 31

<sup>57[7]</sup> Please see Malaysian Code of Corporate Governance, para 4.21, page 31

## **The Role Of The Islamic Worldview Towards Corporate Governance**

recommendation is aim at ensuring that neither individual nor group of people can exert their power as well as their influence to control the decision making.

Third, exertion of shura will allow the development of a sense of stewardship, responsibility and accountability to shareholders, who are the legal owners of corporations. Shura are therefore subjected to higher standards which cover not only the technical efficiency of operations, but also the implementation of an efficient management system through the use of best practices developed from high ethical values as opposed to one's greediness and egoistic.

Finally, success in good planning call for benefiting from the effort of all shura members, exercised not through disoriented individual action but through concerted effort. The Prophet, advises us that *"The hand of ALLAH is with the Jama'ah . Then whoever singles himself out (from the Jama'ah) will be singled out for the hell-fire."* Convinced with this principle, the barakah or blessing of Allah the Sustainer of this world and the hereafter with the practice of shura that is in line with the Islamic values.

### ***Executing Decision***

As shura comes out with a decision and the management carries out the plan, there exist a dual relationship between management and shura and management and employees as shown by the line label a and b respectively. Management entrusted with the responsibility to carry out decision made by shura in an Islamic manner. The manager is not merely responsible to his human superiority but simultaneously to Allah. The responsibility to Allah is in fact a function of the intrinsic quality of the manager's life as an amanah from Allah. The Islamic concept of accountability to Allah is the understanding that human beings will stand before Him in the Day of Judgment to take account for his deeds in this world. Therefore, managers should take their work as a form of ibadah (worship) and amal salih (virtues act).

On the other hand, management-employee relationship should be based on amanah (trust) and adl (justice). While employees should be amanah in performing their job, management should be just on the rights of the workers pertaining to their salaries, training, education and the religious obligation like performing prayers.

### ***Control System***

Hisbah function as a control mechanism within a corporation. This task will be carried out by AGC, internal shariah review as well as external auditor. As illustrated in the diagram, hisbah authority is placed inside the management team so as to portray that they are responsible to make audit on the management work. Besides that, they also make audit on

the work done by the employees of the corporation as depicted in label c. The findings of hisbah authority will be reported to the shura which serve as a source for shura to assess the overall running of the corporation and make plans on how to improve it. The relationship between hisbah authority and shura is shown in label d.

AGC plays an important role in assisting the shura by preserving the integrity of the financial reporting process and providing additional assurance on the reliability of financial information presented to the shura members. For AGC to play an effective and independence role, the composition of its members should be from non-executive directors. A study by Haniffa and Cooke (2000, p. 4) suggest that 'non-executive directors provide firms with links to the external environment due to their expertise, prestige and contacts'. Therefore, authors are in the opinion that ACG responsibilities include the review of internal controls, accounting practices and audit plan, accounts and financial reports, compliance with Shari'ah rules and principles and finally the use of restricted investment accounts' funds.

As the objective of hisbah existence is to ensure compliance with rules and regulation set up by Islam and the local authority, its position is best placed by internal Shari'ah review, internal auditor and external auditor. These auditors, when performing their duties should hold to God fearing concept with full sincerity that they are responsible to a wide scale of users and ultimately to responsible to Allah. These values will ensure that they will preserve their reputation so as to maintain their independence.

As a conclusion to their task, the internal Shari'ah review and internal auditor should produce a report to the management, shura as well as stakeholders together with the report of external auditor's annual report. The internal Shari'ah report should ensure readers that the financial statements of the company were in accordance with the Islamic Shari'ah and that they have access to all the documents and records deemed necessary in carrying their duties. Any deficiencies or breach in the conduct of management will be informed to shura so that corrective action can be taken.

The above suggestions would be an ideal framework considering those parties involve in the operation of an organization. With the current lack of Islamic scholars in fiqh almua'malat, it is deeming necessary to have such experts to be placed in the team of shura and hisbah within an organization. This implies a serious need for the education authorities to come out with a drastic plan to prepare professionals who is well verse in both accounting and fiqh almua'malat.

## **VIII. CONCLUSION**

Worldviews play a paramount role in the human being life. Its affect every single action of a man. Different worldviews will certainly shape different qualities of man kind which will eventually lead them to different end means of life as well. Western worldview and Christian worldview concern on secularism and religious respectively while Islamic worldview has dual worldviews which are in this world and in the hereafter. These remarkable and peculiar worldviews as compared to others have cultivated Islamic concepts, values and norms to the Muslims (assuming all Muslims adopt Islamic worldviews) at large.

The implications of these worldviews have nurtured positive contribution to the effectiveness of corporate governance. Although the Western have come out with a variety of connotations and recommendations pertaining to the effective corporate governance, the future of corporate governance globally still equivocal since none of them seems to be effective. Historically, such endeavors have shown failures. Hence, an important note to ponder is that the codes of upholding trust, maintaining integrity, exercising transparency and accountability, prudent management of resources, maximizing returns, caring and concern of the environment would remain as mere noble codes if the issues of man, his values, ethics and moral conduct are not tackled in the first instance. Corporate governance is basically the moral and ethical dimensions of managing a company's business. For the Muslims, the ethical codes of conduct based on the tawhidic worldview and Quranic values are considered more elevating than those, which are detached from religious moorings

As far as Islam is concerned, the Western solutions will resume to face failures as long as they are not able to cultivate a so called 'true accountability' (Islamic accountability) in their practitioners (i.e. accountants, auditors, board of directors, managers etc.). Islam believes that the dual accountability namely accountability to man to man as well as accountability to Allah are the best solution to attain good corporate governance.

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# **E-LEARNING CHALLENGES FACING THE EDUCATIONAL PROCESS IN IRAQ**

Shaima Ahmed Hassan<sup>58</sup>

Khalid Ilias Bahsheer<sup>59</sup>

E-learning has entered all areas of life through its various uses, including the educational / learning field. It has been followed by advanced educational systems as an educational technology in classrooms and scientific laboratories as well as individual learning via Internet networks, and in light of this the feature of modern educational institutions has become the use of computers in education and in self-learning through electronic learning (EL) strategies and applications because this technology takes into account the individual differences between Learners help them acquire scientific knowledge and thinking skills as well as the development of scientific skills.

With an objective view of the researcher on the reality of teaching in general in schools, it was noticed that the traditional teaching methods still prevail among most male and female teachers despite the educational directives of these male and female teachers by adopting modern teaching methods and strategies and employing computers in the field of school education, and in this direction the researcher found that the use of methods Traditional and lack of use of computers in education led to a decline in student achievement and its scientific applications .

The importance of research comes from its problem, which came in response to modern educational trends in keeping pace with modern scientific, technical and educational

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## **E-Learning Challenges Facing The Educational Process in Iraq**

developments in line with the nature of societies and their future aspirations in order to build an educated generation that is aware of the importance of the nature of these societies' importance and their material and human resources. The importance of e-learning has emerged greatly after the emergence of Corona disease, and most countries following this method in universities and schools, and among these countries, Iraq has made education electronically. The educational process in Iraq has faced great challenges due to Iraq's lack of prior educational experiences in the field of using e-learning, among the most important of these challenges:

1. Cheating during an exam or test, as the technical development that the Ministry of Education and Higher Education uses in order to conduct and apply e-learning is the same technology that students may employ in taking the exam and sending test answers to the professor.

2. The absence of live and direct interaction between the student and the professor, which is the most important factor in delivering the material to the student.

3. The weakness of the Internet connection, where a high speed of flow is required. According to the latest statistics, the speed of flow in Iraq has recorded very low scores in this area.

4. The weakness of the universities' sites, not to update them permanently and not to organize them due to the lack of specialists in this field.

5. Lack of awareness of the professor, as well as his lack of interest in this type of education, due to the lack of interest on the part of officials, in this type of education because they are from the generation of traditional education.

6. The university's lack of interest in this type of education, and its failure to activate it by states, by not harnessing all the capabilities of this type of education.

7. The student's lack of desire in this type of learning because they prefer ready-made lectures, and also prefer the traditional method, as the latter is characterized by a lack of effort on the part of the student who is content with just receiving.

**Main Solutions:**

1. Investing the summer vacation (in the event that the attendance starts within the next two months) in increasing the number of workshops and training courses for e-learning, as most of the workshops that were previously held are nothing more than routine and were not properly invested.

2. Appointing specialists to manage e-learning systems, as it is a non-trivial system that needs study and intelligence in implementation and application. Therefore, there must be a qualified and capable staff to manage this educational system synonymous with the teaching staff.

3. Intensifying media efforts towards society in order to spread the e-culture for e-learning. Community culture is a factor in the success of any scientific project.

4. Creating a special questionnaire for e-learning prepared by specialists from sociology, psychology, and education for students, with the aim of realizing the advantages and disadvantages of e-learning and the extent of its educational feasibility for the student.

5. Returning to the electronic lecture, it is necessary to form a ministerial, not a university, committee that grants broad powers that comprehensively examines the content of these lectures, both written and audio, to ensure that they comply with the scientific requirements.

In conclusion, it can be said that distance education is one of the solutions that countries have resorted to confront the spread of the "Corona" virus, and not completely disrupt the educational process at the same time; However, there are challenges facing this

### **E-Learning Challenges Facing The Educational Process in Iraq**

process in some countries due to the lack of the necessary technological infrastructure and the spread of electronic illiteracy.

# Attachments/Ekler

## Symposium Program

| Ek 1: Uluslararası I. Ankara Sempozyumu Programı/ International 1st Ankara Symposium Program |   |   |
|--|---|---|
| 28 KASIM 2020<br>(السبت / CUMARTESİ/ SATURDAY)   | 9.00 - 9.30   | Açılış  |
|  | Açılış Konuşmaları  | Ahmet Yıldırım (Türkçe)<br>Cafer Acar (İngilizce)<br>Aydın Kudat (Arapça)   |
|  | Davetli Konuşmaları<br>9.30-10:00   | İbrahim AYDINLI (Rektör)<br>Mehmet ÜNAL(Dekan)  |
|  | 11.00 - 12.30   | 1. OTURUM   |
|  | 13.00-14:30   | 2. OTURUM   |
|  | 15:00-16:30   | 3.OTURUM  |
|  | 17:00-18:30   | 4.OTURUM  |
| 29 KASIM 2020<br>(الأحد / PAZAR/SUNDAY)  | 9.00 - 10.30  | 1. OTURUM   |
|  | 10.30-12:00   | 2. OTURUM   |
|  | 12:00-13:30   | 3.OTURUM  |
|  | 15:30-17:00   | 4.OTURUM  |
|  | 17:00-18:30   | 5.OTURUM  |
|  | 18.30- 20:00  | 6.OTURUM  |
|  |   | DEĞERLENDİRME VE<br>SONUÇ   |
|  | Topic: AYBU SEMPOSIUM<br>(AYBÜ Sempozyum)<br>Time: Nov 28, 2020 (Kasım2020) | Join Zoom Meeting<br><a href="https://us02web.zoom.us/j/87678452416">https://us02web.zoom.us/j/87678452416</a><br>Meeting ID: 876 7845 2416 |

| <b>OTURUM- 28.11.2020 11.00 - 12.30</b>           |   |
|---|---|
| <b>Oturum Başkanı: Dr. Öğr. Üy. Aydın Kudat</b>   |   |
| <b>Dr. Öğr. Üy. Aydın Kudat</b>                   | Bir İnşa ve İhya Bütünsüğü Örneği Mimarzade Mehmed Efendi ve Sarıkadı Medresesi   |
| <b>Dr. Öğretim Üyesi Şemsettin Işık</b>           | Şeyh Alaaddin Ali Es- Semerkandi ve Tefsiri Bahru'l- Ulûm Üzerine Yapılan Spekülatif Yorumlar                                 |
| <b>Dr. Öğr. Üyesi Tahsin Yurttaş</b>              | Arşiv Kaynaklarında Geçen Ankaralı Âlimler ve Eserleri Hakkında Envanter Çalışması  |
| <b>Ender Şimşek, Seda Nur Şimşek</b>              | Tıbb ve Tasavvuf Doktoru Münir Derman (K.s.)  |
| <b>Arş. Gör. Aygün Yılmaz</b>                     | Cumhuriyet Dönemi Ankara'sında Ankaralı Olma Bilincinin Oluşumu   |
| <b>Zoom Toplantı Bağlantısı/ Zoom Meeting ID:</b> | <a href="https://us02web.zoom.us/j/87678452416">https://us02web.zoom.us/j/87678452416</a><br><b>Meeting ID: 876 7845 2416</b> |

## Symposium Program

| <b>OTURUM- 28.11.2020 13.00-14:30</b>             |   |
|---|---|
| <b>Oturum Başkanı: Prof. Dr. Nuri Adıgüzel</b>    |   |
| <b>Doç. Dr. Mehdin Çiftçi</b>                     | Baba ve Oğul Ankaralı iki Nakîbüleşraf ve Meşihat Arşivi'ndeki Nakîbüleşraf Defterleri  |
| <b>Doç. Dr. Cafer Acar</b>                        | Kur'an'da Adı Geçen Peygamberlerin Çocukları İle İlişkileri   |
| <b>Dr. Şakir Diclehan</b>                         | Bir Bilgin ve Mutsavvıf Olarak Abdülhakim Arvasi  |
| <b>Arş. Gör. Okan Uzunöz</b>                      | Ankaralı Bir Osmanlı Aydını Halil Halid Bey'in "Hilâl ve Salîb Münâzaası" Adlı Eseri Bağlamında Batı Eleştirisi               |
| <b>Doç. Dr. Yasin Yılmaz</b>                      | Ankara Vilayet Salnamelerine Göre Ankara Merkezdeki Eğitim Kurumları  |
| <b>Fahmettin Aydın</b>                            | Ak Medreseden Kara Medreye Hacı Bayram Veli   |
| <b>Zoom Toplantı Bağlantısı/ Zoom Meeting ID:</b> | <a href="https://us02web.zoom.us/j/87678452416">https://us02web.zoom.us/j/87678452416</a><br><b>Meeting ID: 876 7845 2416</b> |

| <b>OTURUM- 28.11.2020 15:00-16:30</b>                                  |  |
|--|--|
| <b>Oturum Başkanı: Prof. Dr. Abdurrahman Candan</b>                    |  |
| <b>Dr. Öğretim Üyesi Yüksel Salman</b>                                 | Fıkhî Kişiliği Ahmet Hamdi Akseki ve İçtihadı İlişkin Görüşleri  |
| <b>Muhammed Majed Absi</b>   | “Emzirme Miktarı ve Öldüren Kişide Aranan Şartlar”<br>Karşılaştırmalı İslam Ail ve Ceza Hukuku Dersi   |
| <b>Ayşe Kaş</b>  | Arap Edebiyatında Nizar Kabbani'nin ve Mahmut Derviş'in Şiirlerinde Arap Kimliği ve Vatan Sevgisinin İfade Ediliş Şekillerinin Karşılaştırılması |
| <b>Prof. Dr. Abdurrahman Candan</b><br><b>Arş. Gör. Seyid Bağçivan</b> | İslam'ın Temel Kaynaklarında Gençlerle İletişimin Psikolojik Temelleri   |
| <b>Dr. Öğr. Üyesi Aydın Kudat</b>                                      | Osmanlıdan Günümüze, İbnü'l- Cezerî'den Mehmet Rüştü Aşıkutlu'ya Kıraat İlmi Eğitimi   |
| <b>Dr. Öğr. Üyesi Fatih Kaplanhan</b>                                  | Ahlak, Kurumsal Değer, İdeoloji Ve Kalkınma  |
| <b>Zoom Toplantı Bağlantısı/ Zoom Meeting ID:</b>                      | <a href="https://us02web.zoom.us/j/87678452416">https://us02web.zoom.us/j/87678452416</a><br><b>Meeting ID: 876 7845 2416</b>                    |

## Symposium Program

| OTURUM- 28.11.2020 17:00-18:30                |  |
|---|--|
| Oturum Başkanı: Prof. Dr. Halil Çiçek         |  |
| Tareq A. Hussin                               | قصيدة رجال تركيا   |
| د. آيدن قضاة<br>د. خالد إبراهيم الدغيم        | الشاعر امرؤ القيس ( دفين أنقرة )<br>أغراضه الشعرية و أثرها في الشعر العربي<br>İmriu'l- Kays ve Araş Şiirindeki Rolü  |
| د. عامر خليل الجراح                           | الكتابة والإملاء بالعربية للأتراك<br>مناهج وقواعد<br>Türklerin Arapça Hat Çalışmaları  |
| عامر محمد برادعي و أ.د. محمد أونال            | İmru'ul- Kays ve Ankara ile İlişkisi   |
| علي محفوظ أحمد                                | تأسيس قواعد النظرية الاقتصادية الإسلامية<br>"أبو جعفر أحمد بن نصر المالكي الداودي أنموذجاً"<br>İmam Ebu Cafer Ahmed bin Nasr ed-<br>Davudi 'nin 14. Asırda İslam Ekonomisi<br>Hakkındaki Düşünceleri |
| Zoom Toplantı Bağlantısı/ Zoom Meeting<br>ID: | <a href="https://us02web.zoom.us/j/87678452416">https://us02web.zoom.us/j/87678452416</a><br>Meeting ID: 876 7845 2416   |

| <b>OTURUM- 29.11.2020 9.00 - 10.30</b>                |   |
|---|---|
| <b>Oturum Başkanı: Prof. Dr. Yakup Civelek</b>        |   |
| د. صلاح محروس زعرب<br>أحمد سعيد المسامحة              | مشروعية انضمام المسلمين إلى المنظمات الدولية<br>Müslümanların Uluslararası Projelere<br>Katılımı Projesi  |
| <b>Dr. Öğr. Üyesi Rami Alkhalafalabdulla.</b>         | معاني صيغ الزيادة في الأحاديث الأربعين النووية<br>İmam Nevevi'in Erbein'indeki Zait<br>Sığaların Manaları   |
| طالب: محمد بحاري ثاني                                 | بن فودي وجهوده العلمية والدعوية في غرب إفريقيا<br>İbni Fudi ve Batı Afrika'daki İlim ve<br>Davet Çalışmaları  |
| د. صالح محروس زعرب                                    | أثر تطبيق القاعدة القرآنية يف تعليم العربية لغري<br>( ُ الناطقني بها ) ال<br>قاعدة القرآنية أُنودجا<br>Arap Olmayanlara Arapça Eğitiminde<br>Kuran Kaidelerinin Öğretilmesinin Etkisi |
| <b>Hasan el-Habib</b>                                 | Şeyh Ahmet Zerruk'un Eğitim ve<br>Reformlardaki Rolü  |
| <b>Zoom Toplantı Bağlantısı/ Zoom Meeting<br/>ID:</b> | <a href="https://us02web.zoom.us/j/87678452416">https://us02web.zoom.us/j/87678452416</a><br><b>Meeting ID: 876 7845 2416</b>   |

## Symposium Program

| <b>OTURUM- 29.11.2020 10:30- 12:00</b>                     |  |
|--|--|
| <b>Oturum Başkanı: Dr. Öğr. Üy. Abdullah Hacıbekiroğlu</b> |  |
| د. أحمد لمات محمد عبد الله                                 | الإمام الطاهر ابن عاشور ومنهجه في الإفتاء<br>-فتاوى المعاملات المالية<br>Tahir bin Aşur ve Fetva Yöntemi   |
| الدكتور: محمد فال محمد محمود السالك                        | كتاب المعيار المعرب للونشريسي<br>مكانته وأثره في الفتاوى والنوازل الشنقيطية<br>Al Wanchrisi'nin "el-Miyaru'l- Muarreb"<br>Kitabının İlmi Konumu ve Şenkiti'nin Fetvalarına<br>Etkisi |
| <b>Ali Jamal Al- Minshawi</b>                              | العالقة بني اجلسني يف ميزان الشريعة السالمية<br>"دراسة مقارنة"<br>İslam Hukuku Dengesinde Cinsiyetler Arası İlişki   |
| عبد الحكيم عبد الحميد                                      | شيخ الإسلام في الدولة العثمانية - مصطفى صبري<br>(حياته وأثاره العلمية والفكرية والسياسية)<br>Osmanlı Şeyhu'l- İslam'ı Mustafa Sabri<br>(Hayatı, İlmi Fikri ve Siyasi Eserleri)       |
| حمد قريو نموذج   | مناهج الكتابة والتأليف عند العلماء المسلمين<br>Müslüman Alimlerin Telifte'ki Metodları   |
| <b>Zoom Toplantı Bağlantısı/ Zoom Meeting ID:</b>          | <a href="https://us02web.zoom.us/j/87678452416">https://us02web.zoom.us/j/87678452416</a><br><b>Meeting ID: 876 7845 2416</b>  |

| <b>OTURUM- 29.11.2020 12:00-13:30</b>             |   |
|---|---|
| <b>Oturum Başkanı: Prof. Dr. Ahmet Yıldırım</b>   |   |
| <b>Hafsa Aissani</b>                              | <p>الشيخ "آق شمس الدين" و تأثير إسهاماته العلمية في الدولة العثمانية</p> <p>Şeyh Akşemseddin ve Osmanlı Devleti'nin İlmi Gelişimine Katkısı</p> |
| أواره علي مصطفى الخطي                             | <p>عنوان البحث: مبادئ الإدارة الحديثة في الفكر الإسلامي</p> <p>İslam Düşüncesinde Modern Yönetim İlkeleri</p>                                   |
| أواره علي مصطفى الخطي حسني محمد العطار            | <p>عبد الرحمن بارود</p> <p>شاعر المقاومة</p> <p>Abdul Rahman Barud Direniş Şairi</p>  |
| <b>Ahmed S I AL-Masamha</b>                       | <p>شاعر المقاومة: عز الدين المناصرة</p> <p>Direniş Şairi Ez-eddin Elmanasre</p>   |
| . د مهند مهدي صالح قدوري                          | <p>كنود هولمبو الدنماركي المسلم شهيد المقاومة الليبية</p> <p>Libya Direnişinin Danimarkalı Müslüman Şehidi Knud Holembo</p>                     |
| <b>Zoom Toplantı Bağlantısı/ Zoom Meeting ID:</b> | <p><a href="https://us02web.zoom.us/j/87678452416">https://us02web.zoom.us/j/87678452416</a></p> <p><b>Meeting ID: 876 7845 2416</b></p>        |

## Symposium Program

| OTURUM- 29.11.2020 15:30-17:00                |  |
|---|--|
| Oturum Başkanı: Doç. Dr. Cafer Acar           |  |
| د. أسعد كمال محمد الهاشمي                     | منهجية الحوار في القرآن<br>Kuran'da Diyalog Metodolojisi   |
| محمد فال محمد محمود السالك                    | الكتابات الشنقراطية في علم السيرة النبوية<br>Şenkıti'nin Siyer İlmine Dair Yazdığı<br>Eserler  |
| Mustafa Acar                                  | " الآيات التي استدل بها الماوردي على حقوق التبعة في الأحكام السلطانية"<br>Maverdinin "el-Ehkamu's-Sultaniye"<br>eserinde teba'nin hakları konusunda delil olarak sunduğu ayetler |
| ا. د مهند مهدي صالح قدوري                     | الشيخ أبو القاسم القشيري<br>(376 هـ - 465 هـ)<br>Şeyh ebu'l- Kasım el-Kuşeyri ve Tefsir<br>İlimlerindeki Rolü  |
| أ. د. جعفر يايوش                              | المنحى العرفاني عند الشيخ عبدالرحمن الأخضرى (جدلية<br>الروحي والعقلي)<br>Şeyh Abdul Rahman Al-Akdari'nin İrfan<br>Yaklaşımı (Ruhsal ve Zihinsel Diyalektik)                      |
| Zoom Toplantı Bağlantısı/ Zoom Meeting<br>ID: | <a href="https://us02web.zoom.us/j/87678452416">https://us02web.zoom.us/j/87678452416</a><br>Meeting ID: 876 7845 2416   |

| OTURUM- 29.11.2020 17:00- 18:30                |   |
|--|---|
| Oturum Başkanı: Dr. Öğr. Üy. M. Mücahit Asutay |   |
| Dr. Mehmet Çakırtaş                            | دراسة إمكانيات تدريس التاريخ الإسلامي باللغة العربية في كليات الإلهيات<br>İlahiyat Fakülteleri'nde Arapça İslam tarihi öğretme imkânlarının incelenmesi |
| طارق حسين و أيدين قضاة                         | تجربة تركيا في تدريس اللغة العربية<br>Türkiye'nin Arapça öğretim tecrübesi - zorluklar ve çözümler -  |
| إعداد تميم فاخوري                              | الأخلاق في عرض الفخر القبلي في الشعر الجاهلي<br>Cahiliyye Şiirin'de Kabile Övgüsünü Amaçlayan Ahlak   |
| د/ محمد سيد أحمد                               | لشيخ محمد اليدالي (1096 - 1166)<br>آثاره العلمية وأدواره الاجتماعية<br>Şeyh Muhammed el-Yedali ilmi eserleri ve toplumsal rolü                          |
| د. أحمد لمات محمد عبد الله                     | الإمام الطاهر ابن عاشور ومنهجه في الإفتاء -فتاوى المعاملات المالية نموذجاً-<br>İmam Tahir bin Aşur ve Fetva vermedeki Metodu                            |
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## Symposium Program

| <b>OTURUM- 29.11.2020 18:30- 20:00</b>                                   |  |
|--|--|
| <b>Oturum Başkanı: Prof. Dr. Özcan Güngör</b>                            |  |
| <b>Prof. Dr. Mehmet Akif Tural<br/>Süleyman Candemir<br/>Ahmet Canlı</b> | A Content Analysis Study of the Originality of the Economic Policies of Menderes and Özal<br>(A Historical Comparative Approach) |
| <b>Waqar Badshah<br/>Fikri Kaplan</b>                                    | The Role of The Islamic World View Towards Corporate Governance  |
| <b>Shaima Ahmed Hassan<br/>Khalid Ilias Bahsheer</b>                     | E-learning challenges facing the educational process in Iraq   |
| <b>Semih Ceyhan, Aydın Kudat</b>   | Islamic Management Perspective and Its Emphasis on Societal Wellbeing  |
| <b>Ali Bektaş Çiftçi</b>   | The Impact of Defense Industry on Development  |
| <b>Zoom Toplantı Bağlantısı/ Zoom Meeting ID:</b>                        | <a href="https://us02web.zoom.us/j/87678452416">https://us02web.zoom.us/j/87678452416</a><br><b>Meeting ID: 876 7845 2416</b>    |

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