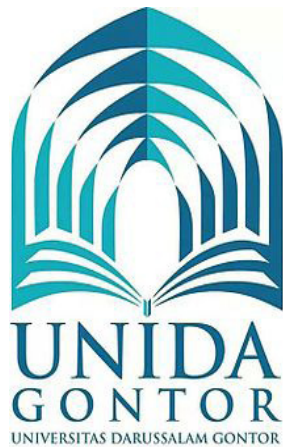


THESIS

**STRATEGY OF POST- CRISIS ECONOMIC DEVELOPMENT: A
COMPARATIVE STUDY BETWEEN MEDINA CITY STATE
622-623 AND TURKEY 2008-2009**



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1438/2018**

**STRATEGY OF POST- CRISIS ECONOMIC DEVELOPMENT: A
COMPARATIVE STUDY BETWEEN MEDINA CITY STATE 622-
623 AND TURKEY 2009-2009**

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ABSTRAK
STRATEGI PEMBANGUNAN EKONOMI PASCA KRISIS: STUDI
PERBANDINGAN ANTARA PEMERINTAHAN MADINAH 622-
623 DAN TURKI 2008-2009

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Krisis Eropa muncul pada 2008 dan semakin memburuk pada 2009. Pemicu terjadinya krisis Eropa adalah karena Yunani gagal membayar utang. Pemerintah Yunani yang sudah terlalu banyak berhutang akhirnya menyeret negara-negara di Uni Eropa ke dalam krisis yang mengerikan tersebut. Turki sebagai salah satu negara mitra dagang terbesar Eropa, juga terseret ke dalam krisis Eropa. Tujuan ekspor terbesar Turki adalah Uni Eropa dengan 44,5% jumlah ekspor Turki, tentunya krisis tersebut berdampak ke jalur perdagangan langsung Turki-Eropa. Dampak tersebut mempengaruhi pertumbuhan ekonomi Turki yang sebelumnya menunjukkan pertumbuhan yang positif. Penurunan dalam GDP dan produksi industri tidak dapat dihindari, bahkan pengangguran juga meningkat tinggi dari tahun sebelumnya. Melihat masalah ini, harus ada solusi dalam menanggulangi masalah tersebut. Penanggulangan krisis yang dilakukan Turki memiliki kesamaan dengan cara Rasulullah dalam membangun perekonomian Madinah ketika masa awal hijrahnya kaum muslimin dari Makkah ke Madinah pada tahun 622-623. Dengan strategi Rasulullah SAW dalam membangun perekonomian Madinah, penulis mencoba mengkomparasikan strategi Turki dan Rasulullah dalam menanggulangi dampak krisis dan membangun perekonomian negara sehingga berhasil bersaing di pasar global. Tujuan dari penelitian ini yakni untuk memberikan gambaran pengetahuan bagaimana Turki menanggulangi dampak krisis ekonomi Eropa dan menjadi salah satu negara dengan pertumbuhan ekonomi yang baik di masa depan yang dikomparasikan dengan strategi Rasulullah dalam membangun perekonomian Madinah. Penelitian ini menggunakan metode analisis komparatif dalam usaha membandingkan strategi Turki dalam menanggulangi krisis dan strategi Rasulullah dalam membangun perekonomian Madinah. Sedangkan metode pengumpulan data yang digunakan adalah dengan cara penelitian kepustakaan (*library research*). Library Research yang dimaksud yaitu mencari berbagai informasi, berita analisis, konsep-konsep hasil pemikiran para ahli yang dimuat dalam buku, jurnal, artikel, internet, media cetak yang berkaitan dengan tema.

Hasil penelitian berdasarkan penelitian kepustakaan membuktikan bahwa strategi yang dilakukan Turki dalam menanggulangi dampak krisis ekonomi Eropa memiliki kesamaan dengan strategi Rasulullah SAW dalam membangun perekonomian Madinah. Dengan memanfaatkan sumber daya alam, membangun pasar baru dan melakukan kontrak politik dengan negara-negara tetangga dan berperan penting dalam politik regional serta memanfaatkan letak strategis negara, Turki berhasil menanggulangi dampak krisis Eropa. Strategi ini menjadi solusi yang mampu membawa Turki ke ambang kesuksesan dalam membangun perekonomian negara.

Kata Kunci: Ekonomi Turki, Krisis Eropa, Strategi Rasulullah SAW, Studi Komparatif

ABSTRACT
**STRATEGY OF POST- CRISIS ECONOMIC DEVELOPMENT: A
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The European crisis emerged in 2008 and got worse in 2009. Triggers the onset of European crisis was because Greece has defaulted on debt. The Government of Greece that was already too much owed finally dragged the countries in the European Union into a terrible crisis. Turkey, as one of the country's largest trading partner Europe also dragged into crisis in Europe. Turkey's biggest export destination was the EU with 44.5% of the total exports of Turkey, obviously the crisis impacted a direct trade route between Turkey-Europe. That impact affected the economic growth of Turkey which previously showed positive growth. The decline in GDP and industrial production was unavoidable, even high unemployment also increased from the previous year. Regarding to this, there must be solutions in tackling the problem. The resolving crisis done by Turkey had in common with the way the Prophet in the developing economy of Medina when the early Muslims doing Hijra from Makkah to Medina in the year 622-623. With the strategies of Prophet Muhammad in the developing economy of the Medina, the author tried to compare the strategies of Prophet and Turkey in tackling the impact of the crisis and build the economy of the country so as to successfully compete in the global market. The purpose of this research is to provide an overview of knowledges how Turkey to cope with the impact of the European economic crisis and became one of the countries with good economic growth in the future compared with the strategies of Prophet in building the economy of Medina. This research used the method of comparative analysis in comparing Turkey's strategy in tackling the crisis and strategies of Prophet in the developing economy of Medina. While the data collection method used was by way of a research library (library research). Library Research is looking for a wide range of information, news analysis, concepts of experts thought the result embodied in books, journals, articles, internet, print-related themes. Research results based on research libraries prove that the strategy that carried Turkey to cope with the impact of the economic crisis in Europe had in common with the strategies of Prophet Muhammad in building the economy of Medina. By utilizing natural resources, building new markets and do political contracts with neighboring countries and played an important role in regional politics and make useful of the strategic location of the country, Turkey managed to cope with the impact of the European crisis and this strategy into solutions that are able to bring Turkey to the brink of success in building the economy of the country.

Key Words: European Crisis, Turkey's Economy, Strategy of Rasulullah, Comparative Study

ATTESTATION

Thesis

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COMPARATIVE STUDY BETWEEN MEDINA CITY STATE 622-623
AND TURKEY 2008-2009**

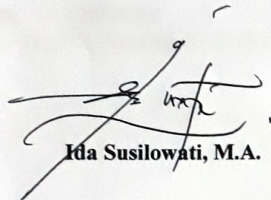
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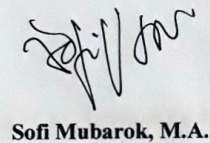
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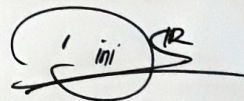
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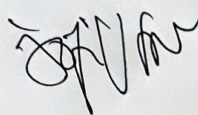


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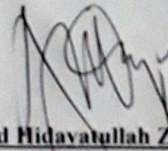
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CHAPTER 1

INTRODUCTION

1.1. Research Background

The development of dynamic World was marked with the increasing of the global economy that all countries have the desire to increase their economy in order to compete with another country in the global market. The Turkish economic was always affected by the various dynamics in global economy. The growing issues in 2008 are the crisis of economy of European countries that impact to countries who have relations with European Economic Cooperation. One of them is Turkey. Turkey is a country which has a special relationship with the European Union since it is the rawest materials supplier to several countries in the EU such as Germany, the United Kingdom etc. The condition of afflicting Europe has triggered a global crisis and it will negatively impact the actual active countries export to the EU countries.

Relations between Turkey and the European Union are very tight and the EU is one of the countries with the largest importer of Turkey after China. Such as Germany, caught a glimpse of Products that existed in Turkey. It will be seen as the magnitude; a product that comes from Germany. In addition, Turkey is also the biggest supplier of raw materials that Germany has long strained relations cooperation between the two. The onset of the crisis should have been anticipated by the Government of Turkey.

In the dynamics of the economy of Turkey, it has already two periods of the economic crisis facing Turkey. One of the causes of the crisis is instability on domestic and international revenue. The growth rate of GDP dropped to 0.7% in 2008, when the effects of the crisis started to be felt, and Turkey's economy further declined at a rate of 14.3% in the first quarter of 2009. In 2009, Turkey's exports decreased by 13.2% and unemployment

which is one of the main structural problems in this economy, reduced to 14.3%.¹

After the end of the economic crisis in 2001, Turkey managed to get out of its economic slump towards the transition program with a strong economy that reached an agreement with the IMF and the move to stable economic periods. Between the years 2002 and 2007 GDP was increased. Turkey reached an annual revenue of 7.8% and the Government had an important role in increasing certain sectors of the public and controlling inflation by imparting the nature of economic transparency. In this context, the international financial crisis that had cornered the economy of Turkey in 2008-2009 which forced Turkey to resolve its economic crisis of its own.

The global crisis surfaced at a time when the Turkish economy was already showing signs of changing direction from its earlier path, as demonstrated by slowing economic activity since the second half of 2006 and rising unemployment. The lowest quarterly growth since 2002 was recorded in the third quarter of 2008 (0.5%). The non-agricultural unemployment rate surged to 14.0% in 2008 from 12.6% in the previous two years.²

Turkey faced a crisis from the United States and the European Union. Turkey was required to resolve the financial crisis by resting on the policy to increase the GDP of the country to reduce the impact of the crisis. This crisis was the worst crisis faced by Turkey during the twice crisis period.

The impact of the financial crisis in Europe against Turkey was of magnitude through trade especially in Turkey's exports directly or indirectly, because of Turkey's main export markets is mostly to the European Union. With the decline in demand from Europe then the Government must looking for new markets to divert exports its products so that the crisis can be solved in significant.

¹ Rem Yendi, "The Turkish Economy and The Global Crisis". International Business, Research, Teaching and Practice. 2012. p. 54

² Akyuz, Abdullah, 2009. "Political Economy of Turkey: In Search of Stability Amid Domestic and Global Crisis. www.brooking.edu/cuse. Hal. 4

Since the level of magnitude of Turkey's export towards the EU, export performance resulted in Turkey depends on the conditions of the European countries requests. Declines and the weaknesses of the economy to members of the EU have an impact to export Turkey and manufacturing as depreciation. Turkey's trade relations with European Union decreased in line with the crisis. The current account improved macroeconomic data, deteriorating, Turkey has been affected by the bad from this crisis with negative growth rates, rising unemployment, and poverty.³

According to the report of Turkey to the OECD, the post-crisis period is an opportunity for Turkey to implement structural reform that is delayed to reduce dependence on foreign financing, and reduce the unemployment rate that is still high. Structural reform should focus on education, reform the labor market and industrial policies that encourage domestic production.⁴

The EU and Turkey need each other let alone both sides have healthy trading partners over the past few decades. Turkey is the country with the fourth largest export destination and fifth largest importer for the European Union. As for the main destination countries, Turkey's exports are Germany, the United Kingdom, Iraq, Italy, and the United States. While for Turkey, the European Union is the main market of the products of the land. Turkey aimed at export 44.5 percent to the European Union followed by Iraq, the United States, Switzerland, the United Arab Emirates and Iran.⁵

³ Bertelsmann, Stiftung, 2010, Turkey Country Report: Managing the Crisis. Hal.16 www.bertelsmann-transformation-index.de/crisis diakses tgl. 28 Agustus 2017

⁴ Rem, Yendi, 2012. "The Turkish Economy and The Global Crisis". International Business, Research, Teaching and Practice. P. 56

⁵ Organization for Economic Cooperation and Development: Economic complexity of Turkey. [Http://atlas.media.mit.edu/en/profile/country/tur/](http://atlas.media.mit.edu/en/profile/country/tur/) diakses tgl 20 April 2017

The Top Export Destination of Turkey to European Countries

No	Export destination	Total Export
1	Germany	9.9%
2	United Kingdom	7.9%
3	Italy	4.8%
4	France	4.7%
5	Switzerland	4.0%
6	Spain	3.4%
7	Russia	2.5%
8	Poland	1.8%

Sources: *OECD, 2010*

Turkey per-capita income decreased in 2008 that was caused by the crisis. 2008-2009 was the period in which Turkey was very slumped with their economy. It was only in the year 2010 Turkey slowly managed to improve its economy and even exceeds economic growth in countries with over Turkey. The crisis has a negative impact on countries in the European Union and for Turkey in particular. In the period of crisis before Turkey successfully emerged from a slump during the years 2002 to 2007 Turkey was able to stabilize revenue per average GDP-6.8% per year. The percentage decline since the crisis struck Europe.

On the elections in 2003, the AKP Party (Adalalet ve Kalkinma partition, the justice, and development party) was the Islamic-based party surprisingly won the elections that year. In general, the AKP Party powered the economy of the country, and was led by Recep Tayyip Erdogan alongside Abdullah Gul as the founder of the party calculated from 2003 to date. Turkey's any economic intersection rides down the face of some of the

problems the world economy that is changing every year.

It is noted that the economy of Turkey has increased after the crisis in 2001. In the year of 2002 to 2007, Turkey had succeeded in stabilizing their economies out of the global crisis by trying to be one of the few members of the European Union. Any policy is applied to the creation of a good economy.

The brilliance of AKP harked back to early legislative elections repeated in year 2007.⁶ Party leader Recep Tayyip Erdogan, now holds the strategic offices, i.e. the Presidency occupied by Abdullah Gul, Prime Minister Erdogan was occupied by and controlled a majority seats in Parliament after the elections of July 2007.⁷

Turkey is one of the countries with a very good economic growth. In 2010, Turkey's economic growth reached 11.7%. The last few years Turkey is included in countries with economic progress that the foreign exchange reserves of 17 of the world and ranked 6th in Europe. The impact of this positive growth, the financial center of Istanbul, Turkey, the US is now the number 4 of the the world (after New York, Moscow, and London). The total turnover reached up to 28 billion dollars. Currently, Turkey has also become the country's exporters of agricultural products, textile, motorcycles, transportation tools, materials transportation, construction materials, electronic and household appliances.⁸

As one of the countries affected by the crisis in Europe, the Government of Turkey needs a strategy in tackling the crisis. With the decline in demand from the European Union, it will affect the economy of Europe with Turkey as the main export destination country by Turkey. These negative impacts will attack Turkey with a large number of unemployed as

⁶ "Political Parties and Election System", <http://www.turkishembassy.org.>, akses tanggal 22 Juli 2017.

⁷ Ozel, Dosyalar, "Turkey: 22 July 2007-Election Results." <http://www.bbc.turkish>. akses tanggal 22 Juli 2017.

⁸ Dzakirin, Ahmad. *Kebangkitan Pos-Islamisme: Analisis strategi dan Kebijakan AKP Turki Memenangkan Pemilu*. Solo: PT Era Adicitra Intermedia. 2012. p. 240-244

well as reduce employment and poverty becomes a serious problem along with the onset of the crisis.

The economic crisis faced by Turkey is in common with the history of economic development of the Prophet while leading Medina. This history explains the strategies of Prophet in tackling the crisis faced by the Muslims when the Prophet and the companions did Hijrah to Medina where the economy was still controlled by Jews who monopolize their market. This circumstance made the economy of Medina needed improvement and economic development in line with building an effective Government for the passage of the new Government which wheel set all regulation of the life of society.

Lifting of the Muhammad as the Messenger is a new era for the history of mankind. When the Prophet in Makkah was assigned to strengthen the Foundation of religion, named the Islamic Aqidah, the Messenger was just preaching and as leaders of religion. The State of Medina was chaotic when first the Messenger and his companions migrated from Makkah. Medina had yet to have a leader who was sovereign when the economy was still weak, and Medina leaning on agriculture.⁹

History reveals that the Messenger has managed to build the economy of Medina and took out of the capitalist system and be respected in the country's economy and politics. His leadership in the fast-growing Medina. Within ten years, Medina became the great country than other countries in the Arabian Peninsula.

The Prophet put the economic and fiscal system of the country in accordance with the teachings of the Qur'an. The principle of Islam can be used as a pivot in the worldly affairs including in Economic Affairs is the highest power is merely God's (QS, 3:26, 15:2, 67:1) and man was created as the Caliph of his upfront Earth (QS, 2:30, 4:166, 35:39), in lieu of God in the face of the Earth to be managed well. The prosperity of the world is

⁹ Karim, Adiwarmarman Azwar. (2006). Sejarah Pemikiran Ekonomi Islam. Edisi Ketiga. Jakarta: Rajawali Press. p. 195

the gift of God and a man of mere will reach his salvation when using such prosperity well and can provide benefits to others.¹⁰

This study focuses on the strategy of the Government of Turkey in tackling the impact of the global crisis that hit Europe in 2008-2009 and to compare with the strategies of Rasullah in the developing economy of Medina. Cooperation done by Turkey with advanced countries in economics is very influential in improving economic growth in Turkey, starting from the cooperation with Iran in the import of natural gas to the defense cooperation with Russia in the fight against Syuriah. These strategies are similar with the strategies of Prophet in the developing economy of Medina by leveraging the strategic role of the State and a key role in regional politics.

Options of the strategies and motivations of economic development, as well as the form of Turkey's foreign diplomacy, is basically not the same with the willingness of the countries of Europe. Turkey seems to have its own style and scenario, by asking themselves want to get one seat in the European Union, Turkey prefers open diplomacy by playing a stronger role in the Middle East and neighbor to the North, the countries of the former colony Soviet republics and has roots in the same culture and language.

1.2. Question Research

Based on the background above, the question of the problem is formulated as:

How is the correlation strategy of the Turkey's Government in building the economy Post economic crisis 2008-2009 with Strategies of Prophet Muhammad in building the economy of Medina 622-623?

1.3. Framework Analysis

As for the framework analysis that the author use in this research is the application of **Strategy of Prophet Muhammad in building the economy of Medina.**

¹⁰ *Ibid*, p. 196

Strategies of Prophet in the developing economy of Medina is the strategy that carried out the post-Hijra of Prophet from Makkah to Madinah. This strategy States that utilize some of the dominant sectors of the Messenger which belonged to Medina.

The dominant sectors are in the form of:¹¹

1. The utilization of natural resources by expanding the land productive.
2. building new markets as role models the market of Islamic Sharia.
3. Doing political contracts with Arab tribes around Medina.

Strategies of Prophet had in common with the strategies undertaken in tackling economic crisis in Turkey 2008-2009. The utilization of natural resources by expanding the productive land was a strategy first implemented by the Prophet in the developing economy of Medina. The utilization of natural resources owned by Medina based on partnership with the House of emigrants and Ansar in managing resources were inadequate. In addition, the Messenger was also building a new market as role models market the Islamic jurisprudence. This market is finally breaking down the capitalist market system justifies Jewish usury in the economy. The last strategy was conducting a political contract against the Arab tribes around Medina. This strategy was the way of the Prophet in Medina with geographical harness that played an important role in regional economic cooperation to be able to do the export and import of goods to the income shortfall of Medina.

This strategy has in common with the strategy that applied to Turkey in tackling the impact of the economic crisis 2008-2009. Turkey's strategy is increasing the proportion of industrial production factors and search for new markets instead of the traditional market in this case is Europe. with the decline in demand from Europe, Turkey seek new markets to increase exports as the action in reducing the impact of the global crisis.

¹¹ Abd al-Mun'im (1981), *Mujtama` al-Madinah: al-Ijtima` al-Hadari*, Beirut: Dar al-Nahdah al-`Arabiyyah, p. 329

1.4. Thesis Statement

Based on the assumptions that correspond to a framework analysis, "the strategy that is applied to the Government of Turkey in boosting post-crisis economic growth 2008-2009, have in common with the strategies of Prophet Muhammad in building the economy of Medina".

Turkey as part of the European market, when a crisis happens in Europe than demand from European reduced, in 2009 dropped to 26 percent. In line, Turkey increased their economy in the export sector to the African countries.

1.5. The Range of Research

Limitation in the scope of this is done with the aim of achieving maximum results. In this thesis, the author limited the problems where the focus of the European crisis explained the impact to Turkish trade and reducing that negative impact and Government efforts against the trade crisis.

The range of the research in this thesis is in 2008 up to the year 2012 because European crisis began in late 2008 and to date the crisis still afflicting Europe, but does not shut down the possibility of a range of research under the year 2008 for the sake of completing this thesis.

1.6. Research Methods

The Comparative analysis method was used in attempt to compare between Turkey's strategy in tackling the crisis with strategies of Prophet in the developing economy of Medina. This comparison was intended to search and finding common ground between the two strategies. This method, which was in use to find similarities and differences about a thing that exists in a work about the procedures, ideas, criticisms of people, groups, against an idea or a work procedure.

While the data collection method used was a library research. Library Research is looking for a wide range of information, news analysis, concepts of experts thought the result embodied in books, journals, articles,

the internet, print-related themes. Therefore, analysis methods of the data to use was contextual and categorical methods.

1.7. The Purpose And Benefits Of Research

As for the research is aimed to:

1. Analyze factors of the economic revival of Turkey in the midst of the economic crisis Europe in 2008-2012.
2. Observe how strategies of Prophet in organizing early economy of Medina
3. Academically, this research aims to apply the theories that have been learned in writing scientific papers.

As for a benefits of this research are:

1. Providing knowledge about how Turkey economic relations with countries in Europe and how the European crisis affects economies against Turkey.
2. Knowing the strategies and policies of the Government of Turkey in increasing their economy.
3. Providing knowledge about the role of the Prophet in overcoming the conflicts of the economy at the beginning of the reign of Medina
4. Adding new knowledge about the correlation of Prophet's strategies with Turkey in response to the impact of the crisis 2008-2009
5. Providing knowledge for countries in building an economy with strategies of Prophet Muhammad

1.8. Systematics Of Writing

To make it easier to discuss problems in the writing of this thesis has been compiled systematic writing as follows:

CHAPTER I introduction Advanced consists of the reason of titles selection, research objectives, background issues, the principal problem, the basic framework of thinking, hypothesis, research methods, research outreach, purpose and benefits of writing, review writing and Systematics of writing.

CHAPTER II explain the crisis of the European economy that includes the cause of the crisis, a domino effect of crisis against countries of the European Union, the impact of the crisis againsts the trade of countries outside the European Union and the action and response it. Discusses the impact of the European crisis toward direct trade Turkey-EU

CHAPTER III discusses the strategy of Turkey's Government in facing the EU crisis

CHAPTER IV Analyzes of the strategies of Prophet in the developing economy of Medina

Chapter V is the closing from this thesis contains conclusions.

1.9. Literature Review

There are some researches that ever raised the theme of the economic development of Turkey, but more detail to bilateral cooperation with Iran and the thesis about the economic development of Turkey's financial capital flows and economic growth in Turkey in 1999-2008. The thesis discussed the economic development of Turkey one of them written by Waliyuddin entitled of "Turkey's Energy Cooperation with Iran during the reign of Adalet ve Kalkinme Partiton (AKP)", and the thesis written by Muammer Komurcuoglu entitled "Financial Capital Flows and Economic Growth: The Turkish Case".

Waliyuddin thesis tried to explain the reasons why Turkey maintained cooperation with Iran, but such cooperation was less advantageous for Turkey and also had political risks. In addition, there were still countries import new ones such as Azerbaijan and Algeria that would replace the position of Iran. While the second Thesis described financial capital flows and economic growth before the global crisis of 2008 Turkey.

There is also research on "political strategy of Islamic Economy" which was written by Sri Sudiarti that described the political economy of Islam gave positive bargaining power for acceleration of economic development through business partnerships with small and medium

businesses by developing the real sector in the fields of agriculture, industry, trade and services need to be continuously performed for the acceleration of economic development.

This research has differences with what has been described by the above thesis. when the thesis above more shows why Turkey maintain their cooperation with Iran and Turkey's economic growth before the global crisis, this research more focus to Turkey's economic development strategy when the global economic crisis that hit Europe in 2008-2009 and compare to strategies of Prophet Muhammad in building the economy of Medina with a way to move the export market, strengthen industrial and production factors played an important role in regional cooperation and political space with African countries as a form of overcoming the European economic crisis.

CHAPTER II

EUROPEAN ECONOMIC CRISIS

The economic crisis, its definition is “a situation where the economy of a country suddenly experiences a decline caused by a financial crisis. The financial crisis itself took place at the moment in the economy/country, the number of requests exceeds the amount of money supply of money. This means that banks and non-bank financial institutions more experience running out of liquidity. The economic crisis may take the form of a recession or a depression, also known as the crisis of the real economy. The decline in GDP (a recession) is the State that will be experienced by each country in the cycle of the economic crisis is no exception of developed countries like the U.S. and the European Union.¹²

The economic slump will be turned into an economic crisis. These changes will have an impact on the economic decline that resulted in a large number of unemployed and poverty afflicting a country or countries. The process of occurrence of economic crises have two properties; the crisis that happens suddenly with no signs, and no sudden crisis that is passing through a process of accumulation of sufficient length. The crisis that happens suddenly is always the economy unexpectedly. As an example of the increase in the price of crude oil is very high in the international market of the year 1974 by OPEC. Percentage of the world’s oil price increase of 16% in April 1973 became 51% in November 1973-March 1974.¹³ The oil price increased for a decline in oil supplies due to a political crisis in the Middle East that imposes to the decline of oil production itself. While the economic crisis which is not a surprise that is the crisis that passed the

¹² Nofansyah Ibrahim. “Upaya Pemerintah Indonesia Mengurangi Dampak Krisis Ekonomi Eropa”, Universitas Muhammadiyah Jogjakarta, 2012. p. 15-16

¹³ Tsui, Kevin K. 2012 “More Oil, Less Democracy: Theory and Evidence from Crude Oil Discoveries”. <https://are.berkeley.edu/fields/erep/seminar/s2006/KTsuijobmarketpaper.pdf>, accessed August 20, 2017.

process of accumulation of sufficient length. For example, the economic crisis in 2008-2009. This crisis started from the financial crisis that hit the United States and eventually penetrated into other developed countries like Europe, Japan, global financial interconnectedness passerby.¹⁴

The economic crisis can also be caused from within and outside the country. From abroad is such a rise in the price of production and rising inflation, this causes a rise in the price of goods that can be a major factor in the causes of the crisis in a country such as the global economic crisis that occurred in 2008-2009. In this case, the affected countries are importing goods from abroad. Sourced from within for example a decrease in the production of a quantity while the request anyway. This usually happens in the agricultural sector caused by failed harvests because of changing the weather or natural disasters.

The economic crisis that stemmed from the different sources also have the processor transmission lines of different impacts, beside, the economic sectors that are directly affected are also different.

*The European Union has always considered an area-based economic cooperation as the most ideal and the most successful in the world.*¹⁵ This assumption is now starting with the emergence of a series of the unwavering crisis afflicting the countries of the European Union. The domino effect is really happened, starting from one country and extends to other countries. Greece Crisis should be recognized as the cause of the beginning of the European crisis.

In this chapter is explained about the European economic crisis starting from the causes of the crisis why Greece failed to pay debts, the

¹⁴ Iorta, Ludovico dan Frederick Nixson, 2011, "The Global Financial Crisis and the Developing World: Impact on and Implications for the Manufacturing Sector", accessed <https://open.unido.org/api/documents/4808601/download/The%20Global%20Financial%20Crisis%20and%20the%20Developing%20World%20-%20Transmission%20Channels%20and%20Fall-outs%20for%20Industrial%20Development>, United Nations Industrial Development Organization (UNIDO) Working Paper 06/2010, p. 6

¹⁵ Budi Winarno. 2011. *Isu-isu Global Kontemporer*. Yogyakarta: CAPS. p,100

domino effect of the Greece debt crisis impact to other European countries as well as to explain the impact of the crisis against trade in countries outside the European Union, and describes actions taken by European Governments in tackling the economic crisis in Europe.

2.1. Defaulted Debt Greece As the Cause of European Economic Crisis

The crisis of the European economy has been running since its appearance in the years 2008 to 2012. The crisis increasingly severe because the impact is spread into the political and social crisis, and infect another countries. European economic crisis preceded by fragile EU design. One of the EU Member States, namely Greece had violated the agreement when it was merged into early members, in terms of the determination of the ratio of debt to the Gross Domestic Product (GDP) already exceeds 100%.

The high debts of Greece reached three hundred billion euros and the estimated of the above ratio penetrate 100% of GDP. Greece has exceeded limits on certain requirements such as the European-owned debt ratio of 60% maximum restricted and budget deficit reached 12.7% over other European countries 3.7% only. This crisis is propagated to some European countries such as Ireland and Portugal that has a fairly high debt ratio and eventually large countries such as Spain and Italy takes part affected by the economic crisis. It was made some steps to reduce the debts of Greece by Europe and the IMF during the years 2010 and 2011. However, the condition of the recession which occurred in several European countries such as Italy, Spain, and Portugal will give the potential occurrence of a wider crisis against other European countries.

The economic crisis due to the excessively indebted that Greece was not the first whack. As quoted by the economic team Bahana TCW Investment Management in the end of the year, Greece economic crisis never occurred during the reign of King Dionysius the Elder who ruled in 407-367 BC, Bankruptcy of the country due to flog fond Scatter the wealth of the Kingdom to fund military missions, creating war, built a variety of palaces, and held the Royal feasts. Dionysius instructed so that each coin drachma

(currency of Greece) were collected. Then the money was re branded so that one coin is split into two drachma coins. The action makes the wealth of the Kingdom of Ancient Greece go up 100 percent in a single day.¹⁶

The story of Greece's failure in managing the budget continued until the time of modern Greece. The State of modern Greece suffered debt defaulted first year of 1843. At that time, Greece owed to Russia, France, and the United Kingdom. Defaulted debt Greece repeated again in 1860, 1894 and 1932, when the great depression happened in the rest of the world. Year 1999, Greece is declared not to pass the Euro zone. However, with the manipulation of financial statements, especially debt, Greece received in the Eurozone two years later. Since then, Greece enjoyed access to cheap owes the developed countries, such as Germany and France.¹⁷

Greece debt got worse when Greece became the organizer of the Olympic Games Athens 2004. The splendor of the Olympics was inviting people to praise for luxury and sophistication. This was the beginning of the downfall of Greece more and with more indebted to developed countries for supporting this event.

These circumstances make Greece more difficult to raise the money needed to pay the debt. Recorded since the year 2005 to 2010 Greece negotiates with the EU Commission, the Central Bank and the International Monetary Fund to reduce the debt burden they have. The third institution was given the name "Troika". It was only in the year 2010 Troika provided loans to Greece under the condition that tax increases and cuts in it spending. The condition did not make Greece able to pay debts and rise to Greece's failure in paying the debt to the International Monetary Fund by the deadline specified.¹⁸

¹⁶ Lela Nurlaela Wati. 2010 "Krisis Yunani Serta Dampaknya Terhadap Ekonomi Indonesia", STIE Muhammadiyah Jakarta

¹⁷ Op Cit Nofansyah Ibrahim. p. 18

¹⁸ Op Cit Nofansyah Ibrahim. p. 19

Greece debt crisis that became the beginning of the crisis of Europe were derived from the accumulation of budget deficits which annually reaches on average 6% of GDP for 30 years. Greece did not seem to apply the principle of caution (prudent) in its deficit policy, so that the budget deficit reached double the EU maximum provision set of 3%. Meanwhile the bond market in the country was also still very limited, for it to sell Greece State (SUN) to investors in France, Switzerland, and Germany.

In addition, to cope with the impact of the crisis, Greece that is included into the European Union replacing the Drachma to the Euro as the currency in says of being able to improve the economy of Greece. With the Euro currency equalization but not offset Greece with its readiness in the face of such equations, Greece that only has a per-capita income in the amount of \$6340, are certainly not able to compete with the power consumption of other countries such as France with GNP \$20.380, Germany with 23.650 GNP, or small country but forward, Luxembourg with \$31.371 GNP. This is the cause of current turnover balance between Greece with its neighboring countries.

According to George Soros, the assessment that the inequality of perception concerning the Euro currency became a weakness for the use of the Euro currency itself. Soros saw that the Euro is a currency that is not complete, has central banks but do not have their financial department. In the early days of its formation, the eurozone is considered as a system that is able to reduce the financial risks facing the country. Eurozone applying the system in such a way that the central bank was able to mutually bound to each other. Then, this makes it easy for commercial banks in the accumulation of weak members.¹⁹

However, this is not in line with the practice that is happening in the field, euro as the currency is thus binding upon other countries in a financial crisis. Soros saw that Germany which has a decisive position on the future

¹⁹ George Soros, 2008, *The Crash of 2008 and What It Means: The New Paradigm for Financial Market*, New York Time, p, 23

of the eurozone. Given that Germany has a strong influence towards policies that are issued as well as the largest policymaker in the zone.

Germany's role in the EU is very dominant in doing the tightening State budget crisis-stricken countries, but it is not effective for a while and instead make things worse. It can be seen when the IMF intervened in tackling the crisis in Greece is not at all a positive impact to the State budget Greece, thus it worsened the atmosphere and Greece with worse financial conditions that cannot be healed.

The crisis of Greece then impacted to other European countries. Some people think that the crisis occurred because of an error in the system of Government of the eurozone that is applied in the countries of the European Union. This makes some people like to throw in Greece from the EU. By looking at the fact that Greece had violated some agreements as a member of the EU and the deficit quadrupled from the limit prescribed by the eurozone, it can be concluded that Greece does not deserve entry into EU members. This is a debate and questioned about their effectiveness against a currency area. In fact, these currencies can be beneficial but also could harm all concerned. It can be seen if one country is experiencing a crisis, then the Member State cannot be denied the crisis would have happened anyway.

The debate over the fate of Greece in the EU is becoming a problem that must be resolved. The majority of the public want to let Greece continue to use the euro currency to avoid the worse of his currency Greece if it must go back to the currency of drachma. This can only happen if Greece is able to overcome the policy of tightening its budget. But if the tightening budget is challenged by Greece, then Greece can only exit from the eurozone and back using the currency of drachma. It needs Greece budget tighten the policy that is not an error in the system of Government of Greece's budget and in order to survive in Europe as a prove that Greece is capable and deserve to be a member of the European Union.²⁰

²⁰ Op Cit, Nurlaili Lela

2.1.1. The Factors of The Greece's Crisis

a. Internal Factors

1. The huge government's spending and less reaches of the right target, lack of revenue enhancement programs budget, and large military budgets.
2. Outrageously large number of civil servants and the cost of Government-issued retirement fund Greece, Greece issued minimum wage.
3. The high level of corruption in Greece, which resulted in a bad bureaucracy. Many tax funds embezzlement committed by the Government of Greece.
4. Regulations in the ECB with the single currency is causing not as the country's eurozone to set its own monetary system and can lead to a competitiveness of the country.

b. External Factors

1. Easy to get funds loan of members of eurozone debt and less intense scrutiny will be the Member States that violate the Stability and Growth Pact (SGP).
2. Global financial crisis in 2008. This has resulted in low levels of investment and investor confidence in saving funds.

Membership of the European Union, Greece is a small country that donated approximately 2.6% of overall GDP in the eurozone. The question that arises is why crisis that hit Greece is highly feared by the countries of the European Union. Thus the right answer is because Greece one of the EU members that use the euro currency so that when one of the EU countries is experiencing the crisis then be expected all Member States will be affected by this crisis directly in line with the Domino Effect Theory which is often used by econom to describe the spread of the economic crisis around the world.

2.1.2. The Domino Effect of Greek Debt Crisis to Countries of the European Union

Along with the global economic situation deteriorated beginning in 2008 in the US, the crisis has spread to several countries in the world. Although Americans are experiencing a recession, the economic crisis is smoldering in the larger European countries named Greece. Although these issues are new to know the world in 2009, such issues have been arising in the year 2001 when Greece joined the European currencies, namely euro. Even when the currency in Greece drachma changed to euro, Greece admitted that they have not yet reached the requirements needed to enter the euro zone. From the moment that we can see that Greece's economy could fall because of unstable economy.

Greece's debt crisis spread to other European Union countries that is known as the term ' domino effect '. The term domino effect is taken from the analogy of a game of domino itself, when one domino is falling towards the ranks of next domino, everything will fall continuously until finally none of domino is standing. The definition of the analogy is, spreading a change that can be spread on an ongoing basis in the form of a chain reaction until the problem can be stopped. The domino effect is a State that occurs in Greece of the present economic crisis. With Greece owed by developed countries and cannot restore the debt, Greece economic crisis spreads to other countries.

Though by mid2000 Greece experienced a stable economy and the increase of GDP, Greece economic crisis continues as George Papandreou became Prime Minister of Greece. The actions of the Government of Greece cut the country's budget deficit in 2010 to 2011, the announcement of the austerity package that includes broader in public sector salary freeze and higher taxes for lower income households and intermediate. Since then Greece's economy became very fragile and weak, Greece continuously act with borrow and owed from other countries and ask for much help from developed countries.

The debt is reaching 340 billion euros so far. These actions in a long time makes, Greece economic crisis spread and spread to other EU countries.²¹

Europe is known as flourishing areas in economics. European economic organization have been there a few for centuries ago, but a new single currency was done after the second world war ended. After the passage of the single currency makes many European countries vying to establish themselves enter the European Union.

The determination of the single currency turned out to not always creates conditions in an area that can always be a stable economic conditions. Like Greece, the country has been a member of the EU since the year 1980 and replace its currency with the euro with the goal of keeping the country could compete with other European countries. But it is in fact backfire for Greece itself, and decline occurs in revenue Gross National Product (GNP) from 58% to 52%.²²

The Effects of the Greece's Crisis to Other European Countries:

A. The Decrease in the Economic Growth of the European Union

As a result of a domino effect caused by the debt crisis Greece towards the countries of the region to the EU, in a few months it has been a lot of the world as well as regional institutions that reported negative effects of the crisis; The Eurostat on September 6, 2011 stated the rate of economic growth was a member of the euro zone to just 0.2 percent in the second quarter of 2011. While based on the annual report from the European Commission issued in Brussels, Belgium on 12 September 2011 estimate of economic growth in the euro zone in 2011 amounting to 1.8 percent.²³

²¹ Kementerian perdagangan Republik Indonesia, *Agenda Perdagangan Indonesia*, 2010

²² Op Cit Nofansyah Ibrahim. p. 23

²³ Tambunan, Tulus. (2012). *Memahami Krisis: Siasat Membangun Kebijakan Ekonomi*. Jakarta : LP3ES

In General, the conditions of the European economy still suffused atmosphere attenuation with still large number of countries that reported economic contractions. Last news was GDP of Germany reported decline of 3% during 2009. Germany has experienced the worst recession since World War II. From the United Kingdom, the Government of the United Kingdom reported that their budget deficits in 2010 have reached £178 billion or about 13% of the GDP of the United Kingdom, it was the highest after World War. This has caused concern for many investors because of the high deficit is feared will be able to affect the United Kingdom's rating of AAA. Such things ever happened to Greece and made the market suffered a shock. The Government of the United Kingdom's own stated will still be trying to handle the problem of budget deficit. With the United Kingdom general election, took place in June of 2010, the budget deficit into substantial issues in the State of Queen Elizabeth.²⁴

Table 2. The Government's budget of Several Years deficit of European in countries 2004-2010 (percent of GDP)

Countries	2004	2005	2006	2007	2008	2009	2010
Germany	-3,8	-3,3	-1,6	0,3	0,1	-3,0	-3,3
Irlandia	1,4	1,6	2,9	0,1	-7,3	-14,3	-32,4
Greek	-7,5	-5,2	-5,7	-6,4	-9,8	-15,4	-10,5
Spain	-0,3	1,0	2,0	1,9	-4,2	-11,1	-9,2
France	-3,6	-2,9	-2,3	-2,7	-3,3	-7,5	-7,0
Italy	-3,5	-4,3	-3,4	-1,5	-2,7	-5,4	-4,6
Portugal	-3,4	-5,9	-4,1	-3,1	-3,5	-10,1	-9,1

Source: Eurostat, 2011

²⁴ Perkembangan Ekonomi Internasional : *Perkembangan Outlook Perekonomian 2010*. Pemantau Ekonomi Internasional, dalam kemenkeu.go.id/sites/default/.../PantauanEkonomi-okt2010.1.pdf, p. 5

The condition of weak economy reflected in slowing economic growth as well as employment conditions that reduced. In 2011, the economy of the Euro area (17) was growing slow of 1.2 percent. Economic slowdown occurred in almost all EU countries including Germany and France as the country of the cantilever. While the decline in the economy experienced by Greece and Portugal.²⁵

Crisis happened enough impact on the European economy not only from the growing deficit of the country but has also resulted in a high number of unemployment. The unemployment rate was high. This gives the risk on the economic development of Europe in the future. Information regarding the increase in the number of unemployed people in the euro zone, in particular the Member States were being hit by debt crisis, also began to appear from September 2011. The unemployment rate in Greece According estimates of trade unions in the country per the September 2011 reached around 23%, though the Government just issued the figures Greece 16% of Government estimates on the level of unemployment. Meanwhile, Spain was also facing similar conditions where in October 2011 the unemployment rate reached 22.8 percent, 11.5 percent points higher than in 2008.²⁶ Unemployment in 17 EU Member States again hit record highs since the start of the unified 13 years ago. The unemployment rate reached 11 per cent after the LAYOFF as many as 110,000 people. This position was the highest position after the last time in the year 2000. As many as 24,7 million people unemployed in April 2012, a total of 17.4 million of which were in countries that joined the European Union. The European Union States, the high unemployment figures another sign of the widespread economic

²⁵ Kementerian Perencanaan dan Pembangunan Nasional/ Badan Perencanaan dan Pembangunan Nasional, *Krisis Keuangan Eropa: Dampak Terhadap Ekonomi Indonesia*, dalam Tinjauan ekonomi triwulan IV 2011. p 3

²⁶ *Ibid*, Kementerian Perencanaan dan Pembangunan Nasional. p. 4

weakness accompanied by recession throughout the blue continent countries all around.

Unemployment continues to be a major problem in several European countries. This time the Ministry of Manpower France was reported to have stated that the number of job seekers in the country reached the highest level since the year 1999. This figure continues to rise in a row for 14 months until June 2012. Ministry data showed the number of registered job seekers rose to 23,700 people in June 2012. Total overall job seekers become 2,946,000 people. The unemployment rate recently, experiencing an increase of 0.8 percent over one month and 7.8 percent for one year. Unemployment remained the biggest crisis for France, although Francois Hollande, who became President of France in May, pledged to overcome the wave of unemployment.

Table 3. The Unemployment Rate of Some Countries of the European Union Years of 2008-2010 (percent)

Countries	2008	2009	2010
Germany	7,5	7,8	7,1
Irelandia	6,3	11,9	13,7
Greek	7,7	9,5	11,6
Spain	13,3	18,0	20,1
France	7,8	9,5	9,7
Italy	6,7	7,8	8,4
Portugal	7,7	9,6	11,0

Source: Eurostat, 2011

B. Banking Conditions EU Member States

Suffering against the financial sector and banking has no longer experienced by countries that are undergoing a crisis but also crept into the countries that still have an economy quite sturdy. In the last few days, the banks in the countries of Europe such as Germany's Deutsche Bank, UBS AG in Switzerland and Dexia Bank in Belgium has announced the existence of a prediction of the

occurrence of a loss during the third quarter of this year. Despite having no direct financial sector crisis as happened in Greece, Portugal and Italy, European banks are in fact also directly affected by the outbreak. The importance of the role of big European banks in the banking sector in crisis countries make experienced potential losses may occur.

One of the real evidence of the negative impacts is the fall of the stock price of the Dexia bank. The stock price of owned bank joint venture of France and Belgium on the trade Tuesday, October 4, 2011 slump of 30 percent of the price per day was below 1 euro per sheet, and this is the lowest price that never left it. Deutsche Bank, one of the largest banks in Germany on October 5th, 2011 released predictions of the decline in profit to 10 billion euros during the third quarter. These predictions were based on the existence of the report stopped funding 250 million euros due to bad credit happens in Greece.

Several other banks that experienced the same thing, France as many banks in the country which holds the bonds/State Government of Greece shunned by investors. Since Greece has defaulted or gone bankrupt, it means France banking also broke out. For an example on 19 September 2011 the stock price of three big banks in France; Societe Generale (SocGen), BNP Paribas, and Credit Agricole, each, amounting to fall 6 percent, 5 percent, and 10 percent. On September 13, 2011, SocGen's shared traded at the lowest point in history; 15.55 euros per shares and a month later, the bank's shared price plummeted again reportedly amounted to 3.7 percent in early trading in Europe.

The purpose of the entry of Greece into the European zone is helping to improve the economy of Europe, but all of that doesn't match the expectations since the entry of Greece was not even improve things but instead plunged Europe into a crisis that

Europe was not desired by the countries of the European zone. The determination of the single currency was that European economic shake-up affected vulnerable if one of the Member States having economic problems.

2.2. The Impact of the Crisis to the World Trade

After experiencing a high enough increase over five years, the world economy was rocked back by the crisis in September 2008. The growth of the world economy that was at level 5.2% in 2007 has decreased to 3% in 2008 and continued to decline at level-1.3% in 2009. The crisis is often referred to with the term “subprime crisis” namely, as the worst financial crisis since the Great Depression in 1930’s. The subprime crisis was a credit to the Housing Society for United States that had inadequate financial ability (non-bankable).

These crises were different from the Asian crisis 1998. It was not just an impact and breadth but also the origin cause of this crisis. A very big crisis affected all countries in the world and their impact was enormous. Not only the countries that flourish in the economy alone, but also developed countries that affected by the crisis. The origin of this crisis was not of a small State of its economy, but it is America that was the center of the world economy and is the State with the largest economy, and a country that has the dominant currency, US Dollar, as well as having the financial system an advanced and sophisticated.²⁷

At the root of almost all the American crisis was excessive loans (excessive) and given without caution (prudent) from the bank. For example, the loans granted by Washington Mutual for many home buyers (MORTGAGE) that had a high degree of risk and the absence of any limitation or anticipation of the defaulted borrowers ‘ economic circumstances under

²⁷ Alcorta, Ludovico and Frederick Nixon (2011), “The Global Financial Crisis and the Developing World: Impact on and Implications for the Manufacturing Sector”, United Nations Industrial Development Organization (UNIDO) Working Paper 06/2010, accessed 16 Agustus 2017

the average. Usually the bank provided loans to borrowers who failed to pay risk that was small. But this time the strategy of the bank which gives loans or MORTGAGES to borrowers who are at risk of failing and large unstable economy is in high interest loans.²⁸

In the case of Washington Mutual, the housing loan is then created bonds and then sold to credit guarantor institution (Fannie Mae and Freddie Mac) to get additional funds. Furthermore, the guarantor institution gathered rights dependents and created financial instruments called as Mortgage Backed Securities (MBS) and it was sold to the Wall Street stock markets. Wall Street's next do re-package top of MBS into other derivatives instruments called Collateralized Debt Obligation (CDO). Through this mechanism, the bank did not face a risk of debt again, because it has been "selling" the debt to that investors. Banks can take advantage of the difference between the number of MORTGAGES granted to the debtor (e.g. US \$1 million) and the price of CDO that are sold to investors (e.g. US \$1.02 million). Certainly, investors receive interest from CDO bought (e.g. 5.0% per year). At that time the number of MORTGAGES in the US was about US \$10 trillion, and \$1.2 trillion was about US subprime MORTGAGES (not Prime). From US \$1.2 trillion in subprime MORTGAGES, there were about US \$460 billion have been sold in the form of CDO to investors around the world.

Defaulted on subprime lending sector caused the fall of the value of the MBS assets and encouraged large investment bank in the U.S. that suffered heavy losses. In September 2008 Lehman Brothers declared bankruptcy, while Bear Sterns and Merrill Lynch were being taken over ownership by other banks. The collapse of 3 of the 5 largest investment bank in the U.S, was adding to instability in global financial markets. Two other investment banks Morgan Stanley and Goldman Sachs; opted to switch into commercial banks. The decline, in the value of the MBS assets, pushed investors the holder of the CDO losses. Insurance companies

²⁸ Basri, Muhammad Chatib dan Sjamsu Rahardja. (2010), "The Indonesian Economy amidst the Global Crisis – Good Policy and Good Luck", Asean Economic Bulletin Vol. 27, No. 1 (2010) pp 77 – 97

such as American International Group (AIG) and MBIA faced considerably potential of losses from CDO holdings. Even AIG up should get bailouts from the US Government because it has a large exposure of about \$440 billion.

2.2.1. The Impact of the European Crisis Against the Direct Trade Volume of Turkey-European Union

Krugman, an economic expert explained that the financial crisis against foreign trade was divided into two reasons. First, the deficits trading the financial crisis proved to be one of the most important factors in the mobilization. The deficit will lead to a decrease in foreign sources. Second, the financial crisis can be transmitted from one country to other trade relationships.²⁹ In this aspect, Turkey is the EU's trading partners even became one of the countries with the largest export and import purposes of European Union. It would certainly be a great issue for Turkey in its trading partner countries experiencing financial crises and impact to the trade volume of Turkey-European Union.

The biggest factor of the impact of the crisis is the declining demand for products and the uncertainty of the potential returns in investing. That uncertainty makes investors reluctant to invest with some reason that indirectly would be detrimental to investors. Declining demand for products will lead to a decrease in the GDP figures for export in the past. It was quite becoming a serious problem for the foreign trade of each country.

Although Turkey has close ties with the European Union; in terms of trade, but a European crisis still makes Turkey's exports to the European Union fell from 56% to 39% in the period 2009-2010. Before the onset of the crisis, Turkey's economy was in a high level of alignment with world trade and financial channels at the time. Therefore, the crisis was related to the alignment. The effects of the

²⁹ Ma Zihui and Leonard Cheng, *The Effects of Financial Crises on International Trade*, NBER-East Asia Seminar on Economics, Volume 14, 2005. pp. 254

crisis impact into three parts: the expectation channel, trade channels and financial channels.³⁰

The problems that occur due to the global crisis caused by the loss of consumer confidence, uncertainty, risk perception and decreased thus caused a decline in foreign trade. The impact of the crisis against Turkey is a big loss in export earnings because of the surprisingly requests from European Union financial income and slightly reduced passing trade.³¹

After the end of the economic crisis in the year 2000 on the economics of Turkey, Turkey economic indicators developed in a positive purpose. In this context, there was an significant in increase in the growth of exports and imports of Turkey after the crisis of 2001, and this trend continued until the end of 2008. Before crisis 2008, European trade goods or the export sector increased and Turkey reached 23.1% level or reached \$132 Billion. While in the import sector increased to 18.7% or equivalent to \$63.4 Billion. In the same year, Turkey's exports to the European Union (average 48% of total exports) increased to five percent or \$63.4. Moreover, imports from the EU (37% of total imports) increased to nine percent or equivalent to \$74.8. The trading volume began to fall in late 2008.³²

Turkey's exports volume increased 33.7% year by year in the period between september 2007 to August 2008, but was eventually reduced to 21.3% until the end of August 2009. On the other hand, imports of Turkey from the EU reduced to 35.9%. The presence of the automotive industry sector in stagnation and decline in the sector of machinery and equipment exports be determinant shrinkage

³⁰ AysanAhmetFarukandErgunErmışođlu,2013. EurozoneDebtCrisisanditsEffects on Turkish Economy, p. 20

³¹ Öniş Ziya, 2009. Crises and Transformations in Turkish Political Economy, Turkish Policy, p. 57

³² *Ibid*, Öniş Ziya, Hal. 59

performance of Turkey-EU exports.³³

In the same year, the current capital infusion also reduced from \$48.6 Milliyar at \$33.7 Billion 2007 become in 2008. In the last three months of the year 2008 there was a change of income into expenses. Between the period of August 2007 to July 2008, the increase in capital inflow to Turkey that was \$55.6 Billion, and decreased in the period 2009 to become \$2.3 Billion out of Turkey. Besides, the attack of this crisis was a disaster from the expectations of the customer. Customer trust was reduced, according to Turkish Statistical Institute Trust customers reduced from 92.1 at the beginning of 2008 into 71.6 in January 2009. But it could be cured into 81.3 in August 2009.³⁴

Since the level magnitude of Turkey's export towards the EU export performance resulted in Turkey depends on the conditions of the request of the countries of the European Union, declines and the weaknesses of the economy to members of the EU have an impact to the shrinking export of Turkey and manufacturing.³⁵ Turkey trade relations the European Union decreased in line with the crisis, the current account improved macroeconomic data, deteriorating, Turkey has been affected by the bad from this crisis with negative growth rates, rising unemployment and poverty.

Before the crisis of 2008, GDP of Turkey has increased. Since the crisis, it has made Turkey's GDP decreased to 6.4 percent during the final quarter of 2008 and declined to 14.3 percent in the first quarter 2009, and at the level of 7 percent during the 2009. On the other hand, sectors of employment were also affected. The number of unemployed in 2008 i.e. 2.2 Million and reached 3.8 million at the beginning of the

³³ Bertelsmann Stiftung, 2010, Turkey Country Report: Managing the Crisis. Hal.16 www.bertelsmann-transformation-index.de/crisis diakses tgl. 28 Agustus 2017

³⁴ Terzi Nuray, Global Financial Crisis and The Effects Of Its On Turkish Economy, 6th International Scientific Conference, 2010. TOBB 2009 Economic Rapor, 2009. p-90-91

³⁵ Yalçinkaya Onur, Analysis of Turkish Financial Market With Focus on EU Membership, Master Thesis, 2012. p. 179

year 2009, or unemployment figures of 9.2 percent in May 2008 to 16.2 percent in February 2009.³⁶ Here is an analogy of the impact of the Financial crisis in Europe against Turkey in General:

No	Sector	Before Crisis	During Crisis
1.	Private Investment	Increased by 3% during the third quarter of the year 2007 and the second quarter 2008.	Decreased 25.2% for the second quarter of the year 2009
2.	Private Consumption	Increased by 5.4% during the third quarter of 2007 and the second quarter 2008	Decreased 4.1% during the second quarter of the year 2009
3.	Export	Increased 5.9% during the third quarter of 2007 and the second quarter 2008	Decreased 6.5% during the second quarter of the year 2009
4.	stocks	Very high escalated during the third quarter of the year 2007 and the second quarter of the year 2008	Was substantially decreased during the third quarter of the year 2009

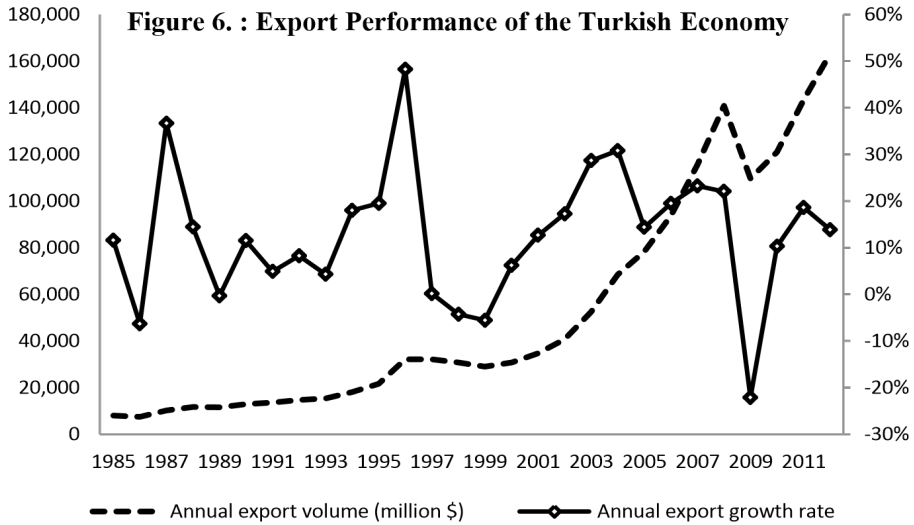
Source: *World Bank, 2010*

The table mentioned that Turkey export performance was declined during the past two years i.e. 2008-2009. Although the crisis in 1998 had increased the export volume of Turkey to the European Union, it was visible from several sources which are described after this. Export earnings reached more than 20.0% in 2009. The main reason of this shock was the largest export partner of Turkey, the EU deep in crisis and therefore, demand from most of the European area to a halt.³⁷

The graph below explains Turkey-EU export performance during the last two decades that was recorded since the year 1985 to 2011:

³⁶ *Ibid*, Stiftung, p. 17

³⁷ Op Cit, Terzi Nuray. p. 179



SOURCE: IMF, 2012

In the picture, the shares of the various countries of the contribution of total exports were declined from Turkey export performance which were largely devoted to the countries of the European Union. According to Cömert, h., Çolak, s. & (2013), the average shares of total export of Turkey was 63.0 percent, exceeding the number of shares from other regions. These images also showed that the total export of 70.0 percent decrease in 2009 came from the decrease in exports to Europe. In other words, the decline in exports to Europe in 2009 far exceeded the average share of Turkey's exports in the period 2006-8. This was due to the fact that despite the growth in overall exports of Turkey was decreased 22.0 percent, Turkey's exports to Europe declined 26.0 percent. Contribution to the fall of exports to GDP growth was negative in 2009 that was about 25.0 percent. By analogy, the decline in exports to Europe explained directly around 20.0 percent of the recession in 2009. We must always keep in mind that all the impacts of export reduction was solely through the direct impact of the decline in export earnings. Given the impact of the export decline in the transmission of other items of GDP (multiplier effect), it was believed that to be able to claim that the drop in exports, especially

to Europe, is a big part of the recession in 2009 in Turkey.³⁸

The impact of the crisis ultimately could not be dammed by the Government of Turkey. During the 2009, the crisis largely came from Europe made Turkey's exports to the European Union decreased dramatically while most export markets Turkey tied to the European Union. According to the report the OECD (Organization For Economic Cooperation and Development), Europe was the largest export destination country Turkey with 46% of the total exports of Turkey to the European Union.³⁹ The crisis became an economic sluggishness to Turkey and countries of the European Union. With the decline in demand from the countries of the European Union Turkey then the Government find a way out by diverting the export market so as not to rely just on to the European Union.

2.2.2. The Impact of the European Crisis to the Growth of Turkey's GDP

In 2009, the Government got the level of exports of engines, import engines, GDP dropped, and increasing unemployment. Declining export machine that was on the level of 25.4%, while imports decreased on a machine at the level of 33.7%. GDP (Gross National Product) fell to 6% per year, on the unemployment sector increased to 14.8% for the year 2009.⁴⁰

This new crisis period was seen in the last quarter 2008. The overall impact of the European crisis against the growth of GDP dropped dramatically and Turkey could not avoid pressure crisis. When

³⁸ Cömert, H., & Çolak, M. S. (2014). *Can Financial Stability be Maintained in Developing Countries after the Global Crisis: The Role of External Financial Shocks?* (No. 1411). ERC-Economic Research Center, Middle East Technical University. p. 11

³⁹ Organization For Economic Cooperation and Development: Economic complexity of Turkey. [Http://atlas.media.mit.edu/en/profile/country/tur/](http://atlas.media.mit.edu/en/profile/country/tur/) diakses tgl 20 April 2017

⁴⁰ Elitok Seçil Paçacı and Thomas Straubhaar, The Turkish Economy: A Winner of the Euro Crisis? HWWI Policy Paper, 2010. p. 8

a certain country or region crisis, then not only those countries which has slumped economy but also the country that has trade relations with these countries will also be affected. This has been demonstrated in terms of Turkey as one of the largest trading partners of the European Union which Turkey main export destinations were the European Union. For European, Turkey is the country with the aim of the EU's exports after the Middle East, Latin America, and Asia in the last ten years.

Turkey managed to repair the economy when the economic crisis the in 1999 cooperation with the IMF in some policies. In sector GDP increases ranging from year 2002 until early 2007. Turkey's GDP decreased to 0.7% in the third quarter of 2008 due to start dwindling demand from some trading partners Turkey in the European Union.⁴¹

Turkey's GDP growth after the devastating crisis of 1999 was marked by the relative income of domestic Turkey over a period of five years, starting from the year 2002 to 2007 with a percentage of the average of an annual 6.8%. During the crisis afflicting Europe started in late 2008, the GDP of Turkey dropped to 6%. The fall of the economy of Turkey further up to the 3rd quarter in 2009. Turkey's economy experienced real GDP growth of only 0.7 percent in 2008 and again declined-4.8 percent during 2009, and this is the worst period of the crisis experienced by Turkey. Turkey's economic performance was only better than in some countries in East Asia and countries exporting raw materials such as agricultural products, iron, steel, crude oil, olives, tobacco, electronic appliances and clothes. Negative economic growth performance deteriorated and weakened, diminishing employment.⁴²

⁴¹ Hasan Comert and Selman Colak, 2014, The Impacts of the Global Crisis on the Turkish Economy and Policy Responses, Department of Economics, Middle East Technical University Ankara, TURKEY. p. 5

⁴² CBRT (2014). *Markets Data*. Retrieved from <http://www.tcmb.gov.tr/> diakses 20 Agustus 2017

2.2.3. The Impact of the Crisis to the Industrial Production Sector of Turkey

The global financial crisis also affected aspects of industrial production in Turkey. Its effects began in 2008. Industrial production began to diminish in August and this trend continued until March 2009. Shrinkage in industrial production index was 23.5% in this term. Capital goods experienced the highest loss and a decrease of 42.2% compared to the previous year. Durable goods also declined by 28%. In addition to this, a decline in intermediate goods amounting to 22.2% and decreased consumption of undurable goods was 8.9%. In the sub-sectors of the industry, the highest loss rate was 53.1% in motor vehicles and trains. Office machinery and computers was declined by 41.8%, rocks, petroleum products were decreased by 40.7 percent, Textiles dropped on 20%, decreased 18.6% clothing manufacturing, base metals declined by 27% and furniture declined by 32.9%.⁴³

In early March 2009, the index of industrial production began to increase. The increase rose by 8.3% in December, compared with the same month of December of the year 2008. The global financial crisis had impacted on the balance of payments back Turkey's economy. An account of the financial deficit has been declining since November 2008. This can be seen as a positive situation for Turkey's economy. However, the reason for this decrease was the decline in exports and imports. This was feedback from the global financial crisis. The decline in the trade of the countries in the world have led to a decline in the economy of Turkey abroad.

In the same way, Turkey's economy has experienced a decrease in exports and imports since November 2008. At the end of 2008,

⁴³ ADB. 2009. Global Financial Crisis and Proposed ADB Response. ASEAN Development Bank [online] [accessed 16 October 2017]. Available from internet: <www.adb.org/Documents/Others/in17-09.pdf>. https://www.researchgate.net/publication/267565424_Global_financial_crisis_and_theeffects_of_its_on_Turkish_economy [accessed Dec 19 2017].

while exports amounted to \$142 billion, decreased to \$108 billion. In the import sector has also decreased to \$130 billion from \$198 billion between 2008 and 2009. When exports in Turkey were examined according to international standards regarding clarification of industry (ISIC), the highest depreciation was 97% in terms of manufacturing between 2008 and 2009 (first 6 months). At the level of sub sectors of the industry, the first contraction in six sectors was 70%. In particular, a contraction in exports of motor vehicles and trains was around 25%. The contraction in manufacturing metal base was 12%, rocks, petroleum products and nuclear fuels declined by 11.9%, textiles declined by 7.8%, apparel sector declined by 7.2% and machinery and equipment declined by 6.4%.⁴⁴

According to the classification of the major industrial groups in Turkey, the highest loss occurred in a medium was stuff of 50.7%. The decline in consumer goods was 30.5% and a decrease in capital goods was 18.4% between the years 2008 and 2009. Flowers began to decline since the beginning of 2009. Thus, causing capital flows decrease. Since November 2008, direct investment has decreased in Turkey's economy; in November 2009, the direct investments decreased to \$7.641 million from \$17.828 million in the U.S. in November 2008. In terms of investment portfolios, they follow the fluctuation process term. This indicated that the presence of the instability of the investor's portfolio of investments in the economy of Turkey was under the global financial crisis.⁴⁵

The following table describes the drop-in exports of Turkey during the crisis that occurred during the period of 2008-2009.

⁴⁴ CBRT. 2009. Statistics. Central Bank of Republic of Turkey [online] [accessed 16 October 2017]. Available from internet: <www.tcmb.gov.tr/yeni/eng/>

⁴⁵ Op Cit Nuray Terzi, p. 251

The Sector Distribution of Export Changes In 2008-2009

The type of goods that are exported	The sector's export Division in 2008	Change in per cent (first 6 months of 2009)	The impact of the decline in the export sector gratuities
Agriculture and Forestry	3.0	1.3	-0,1
Mining and Quarrying	1.6	-40.8	2.2
Manufacturing	94.8	-31.3	97.0
Manufacturing and Basic Metals	17.1	-21.9	12.2
Motor Vehicles and Trailers	14.7	-51.6	24.8
Wearing Apparel	8.7	-25.3	7.2
Textiles	8.6	-27.8	7.8
Machinery and Equipment	7.4	-26.3	6.4
Coke, Petroleum Products and Nuclear fuel	5.5	-65.5	11.9
Food Product and beverages	4.9	-7.3	1.2
Manufactur of Fabricated Metal Product	4.2	-28.8	4.0
Chemicals and chemical product	3.8	-25.9	3.2
Electrical mechnery and equipment	3.8	-27.1	3.3
Rubber and plastic products	3.6	-23.5	2.8
Other non-metlic mineral	3.3	-22.1	2.4
Furniture and other products	2.7	-26.1	2.3
Other transport	2.5	-32.5	2.7
Communication and apparatus	1.7	-34.6	2.0
<i>Total</i>	<i>100.0</i>	<i>-30.6</i>	<i>100.0</i>

SOURCE: TURKSTAT, TEPAV, 2010

Exports by major Industry Group in clarifying Turkey, 2008-2009

Type of goods	The sector's export Division in 2008	Change in per cent (first 6 months of 2009)	The impact of the decline in the export sector gratuities
Capital Goods	12.7	-44.4	18.4
Intermediated Goods	51.3	-30.2	50.7
Consumption Goods	35.7	-26.2	30.5
Other	0.4	18.6	-0.2

SOURCE: *TURKSTAT, TEPAV, 2010*

The decrease in the sectors mentioned above made the import-export and GDP of Turkey declined because of a reduce demand from trading partners in the European Union and a decline in some sectors of the industry it made Turkey should be looking for the other way which can recover the stability of the economy of Turkey as it was before the onset of the crisis in Europe.

CHAPTER III

**STRATEGIES AND POLICIES OF THE TURKISH-AFRICAN
TRADE IN REDUCING THE IMPACT OF THE EUROPEAN
ECONOMIC CRISIS**

The economy is the most important thing in building a country. The economy becomes a benchmark of a country's prosperity, even cooperation between countries is usually based on economic interests because the world community grows more and also needs requirements of every country. On the contrary, with a good economy system then all aspects will be improved. The political policy of a country e.g., the better the economy of a country, the better policy also taken by the Government. Economy is the source of the strength of a country. When the economy is weak, the other aspects are also weakened.

After discussing about the impact of the economic crisis on the economy of European Turkey in the previous chapters, this chapter analyzes "strategies and policies of Turkey-African's Trade in reducing the impact of the European economic crisis 2008-2009". There are at least some of the major strategies that affect the policies of Turkey, the Turkey's internal strategy that consists of a change in the orientation of Turkey's foreign trade policy and the proportion of production in Turkey. The second strategy is the external factors which consists of a diversified export markets Turkey and cooperation in overcoming the impact of the economic crisis in Europe. These strategies would result in the policies of Turkey-Africa economic cooperation as the Government's efforts in tackling the crisis of Europe.

3.1. Turkish-African's Strategy

A. Internal Strategy Increase the proportion of Production Factors in Turkey

Analysis of a country's foreign trade is certainly described a country's export products to other countries. In a country that is open to foreign trade is of course integrated into the global economy (free market). If export earnings reduced based on market demand, export earnings would plummet and cause economic instability a country. Countries that tend to have abundant quantities will export goods easily and have a lot of the market that won't fall much even though demand is reduced, but on the contrary, if abundant factors of production, while the market depends only on a region alone, it will potentially be instability in the demand declined from those countries.⁴⁶

These things happen to Turkey. With the number of the production factors, the proportion of Turkey could not resist the production and must establish a partnership with the new country in order to be able to export the products belonging to Turkey. When a request was from the European Union, Turkey economy got worse and factor production industry was also affected quite significantly. One of the internal strategies for the Turkey's Government is to increase production of Turkey's industry previously that has been slumped by the European crisis. The strategy in the form of increased productivity in some sectors such as industry, manufacturing industry, and agricultural industry.

Based on the statements of the Department of Development Strategy and policy in Turkey 2010-2014, that in increasing international competition in the export sector, Turkey must perform the transformation in manufacturing and agricultural experience so

⁴⁶ Newfarmer Richard , Shaw William, Walkenhorst Peter. (2009).”Breaking into new markets : emerging lessons for export diversification “World Bank, Washington, D.C.

that the structure of the production of increased height and increase in the high technology sector is achieved. Such strategies include:⁴⁷

1. Innovation and the ability of the company
2. Effective Cooperation between industry sectors
3. Renewal of technologies and sustainable production.

these three strategies are part of increasing productivity and domestic value added

1. An effective Contribution in the area of regional towards national productive activities
2. Diversify of the export market.

Both the last number are strategies to ensure sustainable production and a high growth rate.

The main objective of this strategy is to achieve sustainable growth in the economy of Turkey. It should improve the competitiveness of the private sector. At the end, the obstacles to competitiveness should be eliminated in achieving the success of this strategy.

Meanwhile, according to the Ministry of Industry and trade of Turkey about Turkey's industrial strategy is "to become the production base in Eurasia with intermediaries and high-tech products", this is a long-term strategy for Turkey. As for the overall strategy of the industry post-crisis Turkey is as follows: "to increase the competitiveness and efficiency of the Turkey industry and accelerate the transformation of the structure of the industry that has a lot more shares in world exports, particularly of products high tech with high value-added produced, which qualified labor

⁴⁷ Department Of Strategy And Policy Development Dg Regional Development And Structural Adjustment, 2015, Development Of Manufacturing Industry And Policy Context In Turkey, [Http://Www.Rsjp.Gov.Rs/Malodrovo/02_Industrial_Policy_In_Turkey_Nuri_Baris_Tartici.Pdf](http://www.rsjp.gov.rs/malodrovo/02_Industrial_Policy_In_Turkey_Nuri_Baris_Tartici.Pdf)

and at the same time be sensitive to the environment and society “.⁴⁸

To achieve the target of that strategy, the Ministry of Industry and trade of Turkey has basic strategies objective as follows:⁴⁹

1. Increase the weight of medium and high technology sectors in production and export,
2. Transition to high value-added products in low-tech sectors
3. Increase the company’s constant weights that can increase their skills.

The existence of the strategy is to make the creation of policies to build cooperation and for tackling the crisis of Europe. The specified policies relating to vertical and horizontal fields are expected to be implemented simultaneously.

As for the strategies taken in tackling this crisis are:

1. Strengthen the production of manufacturing industry

One of the strategies is reinforcing Turkey production in the manufacturing industry that are manifested by an increase in exports. Before the onset of the crisis, Turkey’s exports sector grew a pretty nice of CAGR (Compound Annual Growth Rate) of 7% from 2007, but the growth had declined during the crisis of the European 2008-2009 and again rose in 2010 until 2012 to reach the 13 % or more of USD 143 billion. Data analysis Turkey export manufacturing in 2012 revealed that the creation of the base metal had the highest production share of total exports with 20%, followed by textiles and clothing with a total of 18%. Turkey also imported sector that has increased since the year 2007 amounted to 5.6% CAGR until 2012 more than USD

⁴⁸ Ministry of Industry and Trade, 2010, Turkish Industrial Strategy Document 2011-2014 (toward EU Membership), https://www.ab.gov.tr/files/haberler/2011/turkish_industrial_strategy.pdf, diakses 18 January 2018. Hal. 13

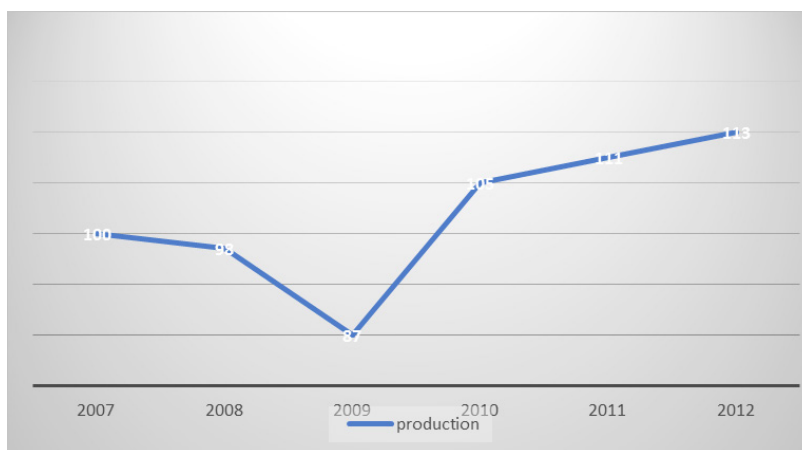
⁴⁹ *Ibid*, p. 14

176 billion.⁵⁰

The strategies of increasing productivity in the manufacturing industry has been listed in the National Development Program's transformation Plan. In the plan mentioned that increase productivity in the industrial sector was the main plan of the Department to improve National productivity and domestic value added.⁵¹

The manufacturing industry sector has a significant stake in Turkey's economy with the number of shares of 24.4% and a total of more than 29 billion TL, continuously during 2007-2012. This industry became the main driving force of the economy of Turkey.⁵² After the economic crisis of 2009, Turkey industry recovered quickly and exceed pre-crisis level of 8% CAGR from 2009 to 2012.

The chart below shows the index of industrial production of Turkey during 2007-2012.



SOURCE: *TURKSTAT, 2012*

⁵⁰ The Manufacturing Industry in Turkey, 2014, Republic of Turkey Prime Ministry Investment Support and Promotion Agency. www.invest.gov.tr diakses 21 Oktober 2017 hal. 11

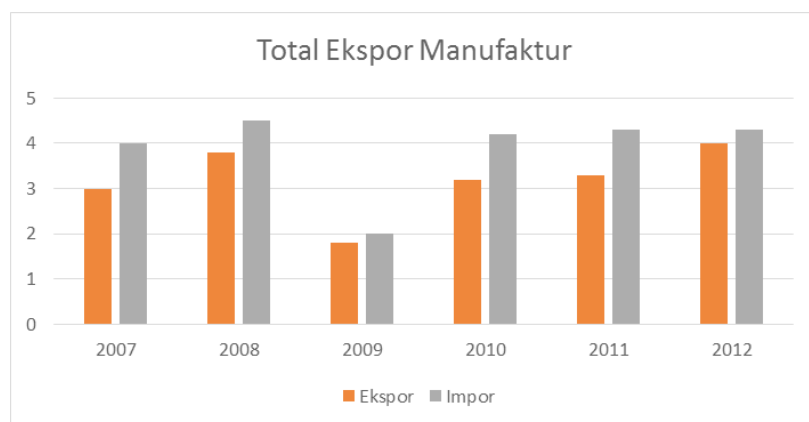
⁵¹ *Ibid*, Department Of Strategy And Policy Development Dg Regional Development And Structural Adjustment, p. 17

⁵² *Ibid*, p. 12

The graph shows that the dynamics of Industrial production systems Turkey is increasing every year, it's just that in the past the European crisis 2009 Turkey production had decreased but that can be solved only in a period of less than one year and surprisingly even recovered that may exceed the export market in the previous years.

The manufacturing industry has been growing very well since the crisis of 2009, as it seen in the chart above. Geographic proximity with Turkey to Europe, Asia, Africa and the Commonwealth of independent States (CIS), the countries of the Middle East and North Africa made trade increased and an attractive area for producing manufacturing company.

The increase in industrial production will certainly have an impact on aspects of Turkey's exports. Increased production is also increasing the exports of Turkey. Here is a graph of the increased export of Turkey:



Sumber: *TURKSTAT, 2012*

Based on the graph above, Turkey has a great potential for economic growth in the future by looking at it from a strategic region and of course by increasing economic ties with Asian countries, the Middle East and Africa that is geographically adjacent to Turkey.

The factors in favor of Turkey to improve the competitiveness of manufacturing are:⁵³

- Low corporate tax rates
- Low cost of labor and
- High growth rates for the per capita personal income

Based on geographical location, Turkey is located between Europe and Asia and it is very possible to make a link with the cooperation of three continents, Europe, Asia and Africa. As the main liaison between the two continents, Istanbul provides practical travel route from Ankara with maximum 4-hour flight direct to cities in Western Europe and Central Asia, the Middle East and Africa. With its geographical location Turkey and logistical capabilities, this is a unique position for Turkey in the midst of the intersection of trade routes and a thriving investment climate as the main factors that contribute to the strategic interests and regional Turkey.⁵⁴

2. Strengthen production sectors of agricultural

Employment in the sector of agricultural Turkey accounts is as much as 25%. In 2009 it was decreased to 8% which it dropped pretty low caused by the displacement of the inhabitants of the village to the city. So, the interest in the work of agricultural experienced any decline. In line with that, and productivity decreases and becomes a problem for the industry of agricultural.⁵⁵

In 2009, the agricultural sector in Turkey's foreign trade also declined at a lower level. The amount of agricultural exports

⁵³ Op cit, Republic of Turkey Prime Ministry Investment Support and Promotion Agency. p. 14

⁵⁴ Op cit, Manufacturing Industry in Turkey. pp. 15

⁵⁵ Atilla Yesilada, Murat Ucer, Ibrahim Aksoy, 2010, Turkish Agriculture Sector, Istanbul, www.egelico.com, diakses 18 Januari 2018. pp. 12

in foreign trade of Turkey was 4.4 – 4.5%, while the amount of imports was 3.3% by volume of 4.6 billion dollars. Analysis of food and beverages, tobacco products, cattle, vegetable oil, in industrial production, clearly shows that these groups contribute greatly in the export sector so far. However, it would still lose much with export earnings of Brazil and Poland. The export products of agricultural that produced two countries reached 72 billion dollars, while in 2008 they generate 16 billion dollars. The question that arises is “what Turkey can afford better?” the question is what then makes Turkey did the transformation in industry in achieving productivity production generated each year.⁵⁶

Strategies to strengthen agricultural industry is an important step for the Government in achieving the success of the objectives of the industry in General. As well as the manufacturing industry, the strategy of agricultural sector is also listed in the national development plan of the transformation Program which stated that Turkey that should improve productivity in the sector of agricultural, and enhance the business, and develop the investment in the agricultural sector. This strategy is aimed in sustainable development and high growth figures.⁵⁷

B. External Strategy

1. Export Destination Country as Diversification strategy of Turkey

The State opens to foreign trade and integrated into the world economy. If the income amount is less than the export market fluctuations and reduced external demand, it will cause economic instability of a country and potentially the onset of the

⁵⁶ *Ibid*, 13

⁵⁷ *Ibid*, Department Of Strategy And Policy Development, pp. 17

economic crisis. However, if based on product diversification and performed in many countries, export earnings won't fall much even though the demand dropped in certain countries due to the instability of prices. In this context, the political and economic relations Turkey against countries outside the European Union has been intensified. In particular, the global financial crisis that hit the European Union has made compulsory for Turkey to diversify the market based on the market. The decline in the value of the foreign trade and the rising deficit account has made Turkey to diversify based on products that are needed.⁵⁸

Africa is the aim to diversify the export market of Turkey. Before the onset of the European crisis, Africa was not a country which became Turkey's foreign policy agenda, and in 2008 was held the first high-level Conference Turkey-Africa cooperation in Istanbul with the participation of more than 50 representatives from the countries of Africa. Still in 2008, Turkey's Foreign Minister, Ali Babacan stated that Africa had special importance to Turkey in the context of Turkey's foreign policy. Thus, it was decided to open 15 new embassies in Africa in the next few years. Since then, Turkey's foreign policy orientation to Africa has attracted public attention as well.⁵⁹

Thus, to support Turkey's market diversification strategy, it goes by doing some of the following strategies:⁶⁰

⁵⁸ Affendy Arip M, Yee LS, ve Abdul Karim B (2010) Export Diversification and Economic Growth in Malaysia, *MPRA*. Unimas Reitaku University. Diakses 2 Agustus 2017, pp. 1-10.

⁵⁹ Ozkan, Mehmet, 2010, Turkey's Rising Role In Afrika, https://www.researchgate.net/publication/220048169_Turkey's_Rising_Role_in_Africa, diakses 28 Agustus 2017. p.94

⁶⁰ The key governmental agency carrying out humanitarian and development assistance, <http://www.tika.gov.tr>, diakses 28 Oktober 2017

- Increase the number of commercial Counsellor at the Embassy in Africa
- Increase the number of bilateral trade agreements and investment
- Increase the number of destinations from THY in Africa
- Increase the number of scholarships granted to African students to study in Turkey
- Encourage businessmen of Turkey to invest in and enhance activities in Africa
- Humanitarian activities through International Co-operation Agency (TICA) Turkey.

Strategies are a powerful tool for Turkey to create awareness among the African countries to establish bilateral relations with Turkey while creating awareness among Turkey's companies to improve relations with African countries through high-level conferences held by Turkey.

2. Follow-up of the Government in achieving diversification of export destination countries of Turkey

As for the actions, the Government since the establishment of cooperation Turkey-Africa is conducting as follows:⁶¹

- Turkey has opened 19 embassies in Africa and the increasing number of commercial counselor since May 2009, where there are plans to open an Embassy in the next few years. Turkey currently has 34 embassies in the continent, the 29 in sub-Saharan Africa. On the side of Africa, 25 African countries have embassies in Turkey and 10 countries in Africa have declared their decision to open an Embassy in Ankara.

⁶¹ Emre, Abdullah, 2012, "how has "Turkey's Africa Strategy" Been Affecting Turkey's Export to Africa?" p. 10

- Turkey has set up 23 a Joint Economic Commission, 4 free trade agreements, 8 double taxation prevention Treaty, 17 Council business with African countries.
- The value of direct investment Turkey in sub-Saharan Africa was on the rise, where the value of direct investment Turkey was around 3.2 billion USD in Ethiopia, 500 million USD in South Africa, 160 million USD in Sudan and 60 million USD in Nigeria at the end of 2012.
- In the years 2012-2013 Turkey had granted 561 education scholarships for students from sub-Saharan Africa and 142 scholarships for students from countries in North Africa, this marked around that year increased by 60% as compared to the scholarships allocated in previous years.
- Turkey has begun implementing the visa facilitation for the countries of Africa and other eligible citizens who have met the requirements of the valid passport and a visa while increasing the number of visa exemption agreement for diplomatic and Service passport holder with African countries.

Turkey-African trade relations defined in 2008. The main thing because the global crisis and the decline in demand from the European Union is Turkey's main trading partners. Turkey's exports began to search for new markets for their products. With geographic location and a steady foreign demand from Africa, along with the growing sectors of development in Turkey and the growing awareness of the African countries, Turkey's exports are increased significantly.

Turkey has shown to EU countries about the significance Turkey exports. Dependent with EU export markets become risk harmful for Turkey in the same time. The crisis that hit

the EU will have an impact to the trading partner countries of the European Union. In this context, Turkey's total exports has declined during the crisis that hit the EU. Turkey's exports began to increase when Turkey shifts its market to countries that are less affected by the crisis of Europe.

3.2. Changed the Orientation of Turkey's Foreign Trade Policies

Turkey has a foreign policy principle of "Peace at home, peace in the world". This principle put forward peace in his country and in the world. Therefore, it is necessary that a variety of policies exist to achieve these goals. The policy of a nation is affected by a variety of factors, one of which is a factor in domestic politics. After party *Adalet ve Kalkinme* Partition (AKP) came to power as a political actor in Turkey carries significant influence towards the implementation of foreign policy of Turkey. In the period before the AKP, Turkey's foreign policy are west-oriented. Turkey was more focus of the strained relations with Europe and the United States.⁶²

Since the AKP gained control of the Government in 2002, the foreign political orientation of Turkey was not only referencing to the EU and U.S. foreign policy of Turkey multidimensional. These changes are caused by changes in Turkey's foreign policy doctrine. Turkey's foreign policy doctrine during the AKP is known by the term *Strategic Depth*. *Strategic Depth* is a utilization factor conveniently located that naturally strengthens the defense capability of the country on the other side a challenge for a country that directly threatened by neighboring countries.⁶³ The doctrine is derived from the thought of Ahmet Dovutoglu; the former advisor for President 2003-2009 that emphasis on study of historical greatness back to Turkey (Usmany Dynasty) and the uniqueness of the geographic position of

⁶² Walliyudin. 2014. "Kerjasama Turki dengan Iran Pada Masa Pemerintahan *Adalet ve Kalkinme Partisi* (AKP). Skripsi Program Sarjana Fakultas Ilmu Sosial dan Ilmu Politik (FISIP), Universitas Islam Negeri Syarif Hidayatullah (UIN) Jakarta. p. 51-52

⁶³ *Strategic Depth Concept*, <https://nation.com.pk/16-Oct-2015/the-strategic-depth-concept> diakses 8 February 2018

Turkey located in cross-region of Afro-Eurasia.⁶⁴

In an International Conference at the University of Oxford, Dovutoglu explained that the doctrine of Strategic depth based on the four main contents. The fourth such content were:⁶⁵

1. creating security in the region,
2. proactively being involved in various political dialogue,
3. Being regional economic interdependence, and
4. Promoting peace as well as the harmonization of multicultural and multisectarian

In carrying out the fourth, there were five principles in implementing it:⁶⁶

First, providing the balance between security and democracy in the country. The legitimacy of the political regime comes from his ability to create security and democracy for its people. It should not sacrifice the security of freedom and human rights in the country. Clean administration and provides for freedom of opinion is the authority of the regime.

Second, a Zero Problem policy toward Turkey's neighbors, have successfully implemented four years earlier in 2004. Turkey's relations with neighbors have now become the right track compared to some years earlier. The most striking example is the success of Turkey in the region that is cooperate with Syria and Georgia. There is intense economic dependency with these countries.

Third, developing relations with the neighboring regions and beyond, Turkey's regional impact extends to the Balkans, the Middle East,

⁶⁴ Kramer, 2010. "AKP's "New" Foreign Policy Between Vision and Pragmatism." German Intitute for International and Security affairs: Working Paper, FG 2, 2010/01, June 2010, SWP (Stiftung Wissenschaft und politik) Berlin. p.3-5

⁶⁵ SEESOX (South East European Studies at Oxford). 2010. "Turkey's Foreign Policy in a Changing World: Old alignments and new neighbourhods." Internasional Conference, Oxford, 30 April-02 Mei 2010. Diakses 30 April 2017

⁶⁶ Dovutoglu, Ahmet. 2008. "Turkey's Foreign Policy Vision: an Assessment of 2007." Insight Turkey 10 (1): 77-80. Diakses 30 Oktber 2017

the Caucasus and Central Asia. Turkey became active in the Balkans, specifically because of the crisis that hit Kosovo and of Bosnia-Hezegovina.

Fourth is adherence of multi-dimension foreign policy, Turkey's relationship with other global actors aims to be complementary, not to be a competition. As the policy views of Turkey-American strategic relationship through the bilateral relations of the two countries and NATO that considered process of membership in the EU.

Fifth is rhythmic diplomacy. The seriousness of Turkey and of sustainable development in the field of diplomacy that became very clear if look at international meetings and organizations since 2003. The NATO Summit and the OIC clearly stated that Turkey's presence adds to great influence in international organizations. For example, Turkey had become an observer status in Africa. Through strategic depth, Turkey seeks to establish cooperation not just to compete. The fifth principle of the guidelines for Turkey is to establish relations with other countries, especially with neighboring countries.

In the field of foreign trade of Turkey, Turkey's main market is the European Union. Before the onset of the European crisis, trade policy of Turkey still largely directed to Europe. Turkey's main exports are directed to the EU were 44.5% of the total overall exports of Turkey.⁶⁷ It showed that almost half of the export market fell on Turkey to the European Union. The European crisis directly impacted very significantly to the economy of Turkey in the field of trade. It was evident during the crisis demand from European countries eased.

3.3. Create Policies That Reached Turkey-Africa

To restore the stability of Turkey's foreign trade, that was disturbed due to the occurrence of the European crisis, the Government of Turkey through the Turkey-Africa Cooperation SUMMIT that was first held on

⁶⁷ Organization For Economic Cooperation and Development: Economic complexity of Turkey. [Http://atlas.media.mit.edu/en/profile/country/tur/](http://atlas.media.mit.edu/en/profile/country/tur/) diakses tgl 20 April 2017

18-21 August 2008 in Istanbul, was considered as a new policy for the Turkey-Africa relations. Istanbul Declaration on Turkey Trade-Africa Partnership; Solidarity and partnership in the future General was adopted at this SUMMIT. The directions of the foreign policy of Turkey-Africa are:⁶⁸

1. Enhancing cooperation between Government Turkey-Africa
2. maintaining trade and investment
3. Managing agriculture, agribusiness, rural development, water resources and efforts of small and medium-scale enterprise (SME)
4. Maintaining health
5. Keeping Peace and security
6. Enhancing Infrastructure, energy, and transportation
7. Developing tourism and Culture Education
8. Growing Media information and communications technology and
9. Maintaining the environment.

In the second SUMMIT meeting, Turkey announced a partnership policy between Turkey-Africa. In this context Turkey pursues a policy more in Africa as follows:⁶⁹

1. Form of the political relationship was close to intensify bilateral visits and acts as the voice of Africa, defending the rights of African countries at the bilateral or multilateral level.
2. In partnership with African countries in the field of Economy to overcome their predicament through trade, investment and humanitarian aid.
3. When requested, to play a role through diplomacy in conflict resolution and disputes in Africa.
4. Cooperation with countries in Africa to make progress in the field of democracy and good governance.

⁶⁸ The Istanbul Declaration on Africa - Turkey Partnership: "Solidarity and Partnership for a Common Future" (2008), http://www.mfa.gov.tr/the-united-nations-organization-and-turkey_.en.mfa, diakses 26 Oktober 2017

⁶⁹ *Ibid*

5. In cooperation with international organizations and regional intergovernmental authority such as the African Union (UA), the economic community of West Africa (ECOWAS), the Intergovernmental Authority on Development (IGAD), the East African Community (EAC), the Common Market for Eastern and Southern Africa (COMESA), Southern African Development Community (SADC), the United Nations and others to enhance dialogue, understanding and peace in the region.
6. Participation in peace-keeping missions in Africa.

Turkey's policy is a policy that become maintained with Africa. Government policy measures are taken to keep Turkey's economy remains stable amid the crisis such as the application of Turkey-Africa cooperation in the field of import-export. The Government of Turkey plans to penetrate new markets in several countries in SSA. This policy is aimed at the establishment of an active cooperation between the two sides with the hope of mutual benefit to each other.

Based on the trip of the economy that is getting better after a crisis, then Turkey makes some trade policies include:

a. A Free Trade Agreement

This is the output of the policy strategies in order to achieve improved export Turkey's efforts. Boost free trade agreements around the world. Turkey makes negotiating treaties with countries that participate in the EU Free Trade Agreements. EU FTA does not mean only the countries that are members of the EU, but also a trading partner country of the European Union. The FTA supports the development of trading activities Turkey with the neighboring countries and to create a level playing field for exports of Turkey.

Thus, Turkey does not have to sign the FTA requirements as EU and customize their own agreements with third countries. In the year 2012, Turkey had been a free trade partnership with 19 countries. These countries were: European Free Trade Association

(EFTA), Macedonia, Bosnia and Herzegovina, Albania, Israel, Palestine, Morocco, Tunisia, Egypt, Georgia, Serbia, Montenegro, Chile, Jordan, South Korea and Mauritius. Countries with the largest exports of Turkey was Egypt with total export USD 3.7 billion, followed by the EFTA country with total exports amounting to USD 2.6 billion, followed by Israel by a total of USD 2.3 billion, and Morocco with a total of USD 1 billion.⁷⁰

Turkey has its own advantage which is supported by its strategic central location, trade cooperation easily interwoven, the abundance of manpower available, and supported with policies that allow the increase of competitiveness of production manufacturing can improve the position of Turkey in the global economy.

b. The Policy of Diversifying Import-Export Sector Market in Turkey

Trade, particularly exports, is one of the most important strategies for Turkey to stressed to Africa when European crisis impact to the economy of Turkey. Turkey's exports to Africa have been started since year 2008, from 2009-2012 Turkey Exports increased to Africa that reached 6.6% of total export of Turkey to the world.⁷¹

Turkey's main export to SSA (Sub-Saharan Africa) is the production of manufacturing such as iron, steel, food and consumer products, textiles, cement, plastic and a variety of industrial products. As for imported products Turkey from SSA is main products such as cotton, mineral water, precious stones, coal, bark, vegetable oil, timber and food. There is a little crude oil in Turkey who came from Africa. In the period from 2010 to 2014. It has been Turkey's energy partnership with countries such as Cameroon, Kenya, Nigeria and

⁷⁰ *Ibid*, p. 19

⁷¹ 'Africa prime destination for Erdoğan in bid to boost good relations', *Today's Zaman*, 11 January 2015, diakses 25 Oktober 2017

Sudan. Turkey's main export priorities addressed to countries in Africa to cope with the crisis.⁷²

Until recently, Turkey has signed bilateral investment treaties with 12 countries in SSA. In addition, Turkey also signed a free trade agreement (FTA) with Mauritius in 2011, and is in negotiations with Cameroon, DRC, and the Seychelles, though some of these negotiations have gone slowly, Turkey also aims to the FTA signed with the Governments of East Africa. South Africa until now refuses to sign the FTA with Turkey by reason of containing risk will damage the domestic industry of South Africa. Although there has been a trade agreement between the two countries, it appears that South Africa has a specific goal to limit the movement of Turkey's exports in Africa.⁷³

The five Biggest trading partners of Turkey in SSA, \$ million

Country	Export	Import	Total
South Africa	382	1,290	1,672
Nigeria	439	113	552
Ghana	224	303	527
Ethiopia	395	47	442
Sudan	280	11	291

SOURCE: IMF, *Direction of Trade Statistics Yearbook 2013*

Turkey bilateral agreements with some countries in Africa actually have long been intertwined, but the realization of the Turkey-Africa trade was starting in 2007 and it was only when the European crisis happens Turkey strengthened economic cooperation with Africa with hosted several agreement of export and import as well as expand economic cooperation through the FTA signing

⁷² 'Turkey plans to invest in Africa's energy industry', *Daily Sabah*, 18 August 2014, diakses 25 Oktober 2017

⁷³ Mustafa Gunay (TUSKON Secretary-General), 2011, 'Turkey-Africa relations', speech at Chatham House, 'Turkey Africa Trade Bridge to Yield 350 Mln in One Day', TUSKON press release, p. 11

submission to several countries in East Africa and SSA.⁷⁴

The Confederation of employers and industrialists in Turkey (TUSKON) has been very active in efforts to expand commercial and trade in Africa. In 2011, meetings between businessmen Turkey with 350 600 colleagues from 54 African countries held an annual event to discuss the Turkey-Africa economic cooperation. TUSKON and the organizations that had participated had organized more than 200 trade and investment delegation to Africa in the last few years.⁷⁵ Turkey's Foreign Minister Davutoğlu stated that his country had invested in Africa more than \$1 billion in 2011.⁷⁶ In 2012 Deputy Premier Bülent Arinç stated that Turkey had invested \$1.5 billion in Ethiopia.

An official of the Ethiopian Investment Agency noted that in the year of 2014, Turkey has invested about \$1.2 billion in Ethiopia in the last few years, especially in the textile industry, compared with only China investment amounted to \$836 million During this time.⁷⁷ Turkey expanded its market to some countries in Africa with its investing and economic cooperation in several fields such as construction, Manufacturing and agriculture. In the field of construction of Turkey had invested more than \$100 billion in Africa, Turkey finance 400 km railway project in Ethiopia at a cost of \$1.4 billion in mid-2013.⁷⁸ Turkey is also involved in the company's 64 projects in Sudan with a total value of \$2.2 billion. Agricultural cooperation was also interwoven between Turkey and Sudan, it is made the Africa-Turkey cooperation increasingly widespread and profitable.

⁷⁴ *Ibid*, 15

⁷⁵ Ahmet Davutoğlu, remarks at the opening of the Africa-Turkey Partnership Ministerial Review Conference, Istanbul, 16 December 2011. Diakses 25 Oktober 2017

⁷⁶ *Ibid*

⁷⁷ 'Turkey outdoes China in terms of Ethiopia investment', *World Bulletin*, 11 September 2014, diakses 26 Oktober 2017.

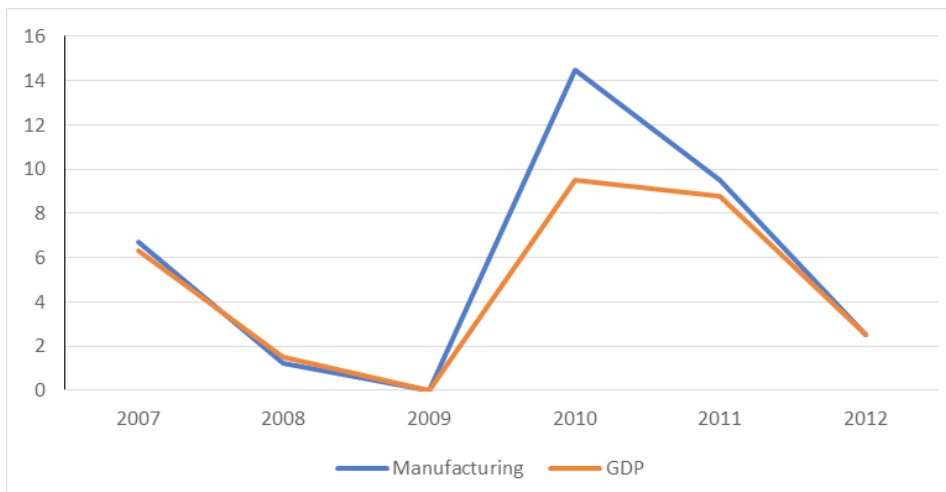
⁷⁸ Republic of Turkey Ministry of Economy, 2013, diakses 26 Oktober 2017

Although the amount of investment in SSA is relatively simple, but the company Turkey dare to take the risk of greater than on the West and it seems Turkey companies are interested in investing there. The majority of companies that invest in Africa, Turkey is an active small and medium and want to develop by the road to diversify. Turkey has also signed an agreement on investment protection and double taxation with Ethiopia, Sudan and South Africa.

3.4. The Results of the Strategy and Policy of Turkey-Africa Trade

It was found that the strategy of diversifying the market was succeeded and Turkey's export volume was increased. The reason was because Turkey was one of the countries affected by the global economic crisis but volatile economy was healed very quickly. Turkey's economy including the fastest growth in Europe. The average growth of economic numbers Turkey was 5.4% from 2002 to 2011. Turkey's economy grew 8.5 percent in 2011.⁷⁹

The following graph shows the growth rate of GDP before the crisis, Turkey during the crisis and after crisis with Turkey-Africa cooperation indication:



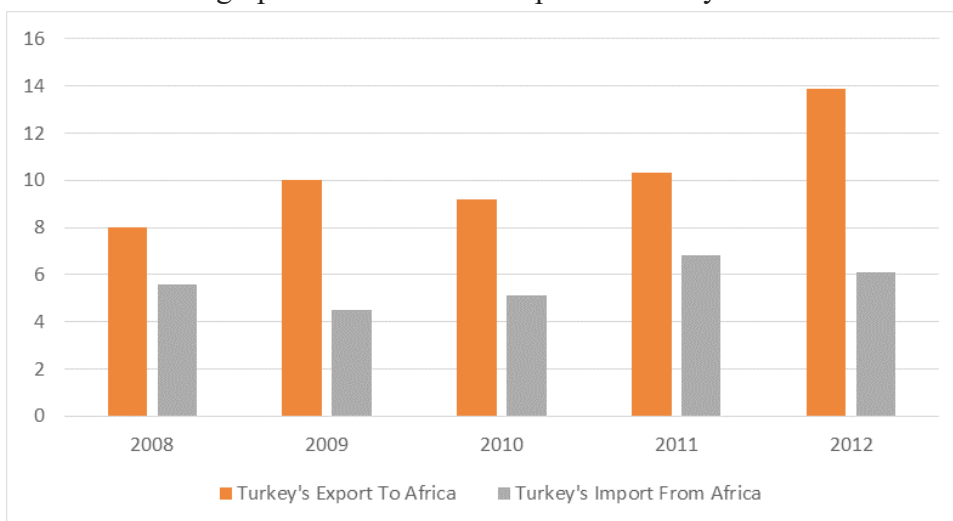
Sumber: *TURKSTAT, 2012*

⁷⁹ Turkey Economy Ministry Retrieved April 25, 2013, <http://www.invest.gov.tr/en-us/turkey/factsandfigures/pages/economy.aspx>, diakses 22 Januari 2018

From 2008-2012, total exports of Turkey was 18% on average annually to Africa. Exports to Africa there are more than 90% of total exports. In other words, 18% of the exporters concentrate exported its products to Africa. Meanwhile, companies that export to Africa were more than 50% and the total export of each company reached an average of 29% of the total export them to Africa. Every year nearly one-third of the exporter to Africa was aware that more than 50% of their total exports were to countries in Africa.⁸⁰

In Africa, a portfolio of products from Turkey Exporters was increased from 6.14% to 7.42 from 2008 until 2012. Meanwhile, the total product portfolio the same as exporters that was increased from 17.14% and 17.67% from 2008-2012. In other words, the exporter did not export all their products to Africa.

Here is a graph of the increased export of Turkey-Africa 2008-2012:



Source: Turkstat, 2012

Based on the graph above, the export of Turkey increased from 1.7 billion USD to 14.1 billion USD in 2012. Meanwhile, total imports of Africa also experienced an increase from 144.9 milliyar USD to 599.2 USD in 2012, with the sense that the total import of Africans from Turkey

⁸⁰ Op cit, Mustafa Gunay, p. 12

increased from 1.17% to 2.3% in the year 2012. On the other hand, Turkey's total imports from Africa also increased from 1.2 to 6 billion USD in 2012 which was still under the growth in 2011. The volume of trade between the two areas increased from 2.9 billion USD before the crisis, to 20.1 billion USD by the year 2012. In the second SUMMIT meeting between Turkey and Africa, Turkey stated that the development of bilateral trade is in the clarity of the indication of "Turkey wished to establish trade relations with Africa five times higher in the year 2023". Accordingly Turkey will be able to reach the goal that is 100 billion USD volume trade with Africa in the year 2023.⁸¹

The table below shows the export of Turkey to SSA countries
(Based On The Value Of Exports, Billion USD)

Countries	2008	2009	2010	2011	2012
Africa	9.6	10.17	9.30	10.34	13.6
North Africa	5.85	7.42	7.03	6.69	9.45
Egypt	1.63	2.60	2.25	2.76	3.68
Libya	1.08	1.80	1.93	0.75	2.14
Algeria	1.61	1.78	1.50	1.47	1.82
Morocco	0.96	0.60	0.62	0.92	1.02
Tunisia	0.78	0.65	0.71	0.80	0.80
Rest of Africa	3.21	2.75	2.28	3.65	3.91
Nigeria	0.28	0.26	0.25	0.39	0.44
Ethiopia	0.16	0.23	0.17	0.28	0.39
South Africa	1.24	0.87	0.37	0.51	0.38
Sudan	0.23	0.25	0.23	0.24	0.28
Togo	0.02	0.03	0.03	0.06	0.25
Angola	0.18	0.15	0.11	0.22	0.23
Ghana	0.10	0.07	0.10	0.22	0.22
Kenya	0.23	0.07	0.09	0.20	0.14
Congo	0.04	0.05	0.06	0.11	0.12
Cameroon	0.03	0.05	0.05	0.11	0.12

SOURCE: TIUK Data, 2012

⁸¹ Istanbul Declaration on Africa-Turkey Partnership, 2008, "Solidarity and Partnership for a Common Future",

<http://www.au.int/ar/sites/default/files/TurkeyAfrica%20Partnership%20High%20Level%20Officials%20Meeting.pdf>, 30 Oktober 2017

However, Turkey must be serious in its strategy to compete with other competitors such as China and India, with a design of its own strategy and development prospect of forward at the level of regional and global economy. If Turkey ignores the strategies of the competitors in the supply of a part of goods production, then the role of Africa would be weakened in future Turkey export market destination. Turkey needs to produce many products with advanced technology in the long term so that the Turkey's production always with a good quality.

CHAPTER IV

STRATEGIES AND POLICIES OF THE PROPHET MUHAMMAD IN BUILD THE ECONOMY OF MEDINA

Before getting into a discussion of the core, first it analyzes the economic challenges experienced by Muslims after the Hijrah to Madinah. The challenge in the form of a drastic population in which sectors of the economy that are still controlled by Jews in Medina, until the issue of reserve food, because brushed it off a dwindling supply of goods from outside due to the conflict between Medina and Mecca. The impact of the difficult economic life the time portion of the food for one person eaten by two to three people.

According to Asep Sobari, the solutions offered to overcome the crisis of the Messenger was handling in accordance with the economic potential of which belonged to the Muslims in Medina. The potential of natural resources (SDA) that Ansar in the form of the garden and the market even though inadequate, but because of the managed from Muhammad in utilizing the SDA with synergize the ability of human resources (HR), i.e. The muhajirun trading expert and Ansar who is an expert in farming.⁸²

Geographical location of Medina that was very potential as a transit line between the South and North of the Arabian Peninsula was also one of the deciding factors for the success of the Islamic economic development at that time. It did not take long, just in the past 8 years, the market of Medina became the most advanced markets in the Arabian Peninsula.⁸³

This research tries to compare the economic development strategies of Madinah under the leadership of the Prophet with strategies for tackling the impact of the European economic crisis on the Turkey's economy. The

⁸² Abdurrahman asy-Syarqani. *Muhammad Rasulul Hurriyah*, diterjemahkan oleh Ilyas Siraj, *Roman Sejarah Muhammad Sang Pembebas*, Yogyakarta: Pustaka Pelajar, 1997. p 142

⁸³ *Ibid*

correlation that Turkey is affected by the crisis in Europe that has to rebuild foreign markets by doing some of the strategies and policies that decide the fate of Turkey in the future. While the economic development strategies of Prophet was Medina in synergizing the strength of Muslims during the Apostleship of Muhammad in terms of Economics and politics who at that time controlled by the Jewish capitalists in Medina market. Here is the results are summed up as Turkey's success in tackling the impact of the economic crisis in Europe.

4.1. The Economic Conditions of Medina Before Hijrah

Before the Prophet Muhammad and the Muslims migrated to Medina the condition of economic of Medina was ruled by Jews. They controlled trade in clothing, agriculture, trade between cities, trading gold, agriculture, held all the reins of the industry of Medina. A more alarming the public and leaders of the community of Medina was a financial management system with lending money with interest/usury.

Jews controlled the economy of Medina from all sectors of trade in and out of the country. They could bring in the grain to Medina and Hejaz and exporting dried dates to other lands. They also ruled in the sector of animal husbandry and fisheries, trade and crafts, as well as gold craft iron. From all, the Jews gain was very high. Not only that, their main job was one who most ensnared community of Medina and surrounding areas. It was lending money with a very high interest.

The chiefs and elders of any Arab living in splendor with the Jewish flowering borrowed money and difficult to solve. This condition persisted until sometime post Messenger and the Muhajirin migrated to Medina. The arrival of the Messenger changed all the practices carried out by Jews. Jewish practice was considered as economic delinquency by making the practice entirely detrimental to customers. Differ to that conducted the trade practices of the Prophet, it was more worried about customer satisfaction with negotiating with the buyer about the profits that it wanted. With the frankness that then every enthusiast kept feeling needed as companions and

ultimately become customers.⁸⁴

When the Prophet migrated to Medina, he slowly managed to scrape the practice of usury by done Jews and managed to bring the economy of Medina to the verge of success. Honesty was very important in trade practices in Islam. What had the Prophet done proved that Islam upholds the practice of clean trademark with honesty and traders be more worried about the satisfaction of customers. With the diversity of the residents of Medina which consisted of tribes, different religions, and other diversity, initiated the drafting of the Charter of Medina that would later set up groups in Medina by limiting rights and obligations each.

Events of Hijrah of Prophet was inseparable from the participation of the community of Medina who wanted to have a leader who can mediate all issues that exist in Medina. The question of conflicts between tribes in Medina had long been the case, especially the Aws and Khazraj that were difficult to resolved that makes the community of Medina restless and in the end negotiated with the Prophet to Medina and proceed to lead the Medina with Treaty the Prophet Mohammed will be protected and given full authority in the life of society spearheads in Medina.⁸⁵

As time goes by, the problem of conflict of Khazraj and Aws was inseparable from the seizure of land economics. The Jews were certainly involved in this conflict, some of them chose to make peace with the Khazraj tribe and there were also coming to terms with the tribe of Aws. Each Jewish adherent had also participated in the civil war for the past 120 years that ended with the onset of war Bi'ath (Bi'ath Yaum). In this war, the tribe of Aws assisted in defeating the Jewish tribe of Khazraj and his partners i.e. the Jewish people reconcile, and the Khazraj lost many people and property.⁸⁶

⁸⁴ Nurman Kholis, *Hijrah Dari Sistem Ekonomi Yahudi*, Diklat Departemen Agama RI, diakses dari Hijrah+dari+Sistem+Yahudi.pdf 2009, p. 1

⁸⁵ Arthur Goldschmidt. *A Concise History of the Middle East*, Cet. V ; London & Boulder : Westview Press 1988. p. 34

⁸⁶ Nāshir al-Sayyid, *Yahūdu Yathrib wa Khaibar: al-Ghazawāt wa 'l-Shirā*, cet. I (Beirut: al-Maktabah al-Thaqāfiyyah, 1992), p. 26-27

Economically and politically the Jews had great influence in Medina. Aside from being a Jewish landlord, it could bring in material, such as industry and trade. The Jewish economic system was stifling the public who transact in a Jewish market and in a cooperative loan to the detriment of the customer.

The Prophet Muhammad came as the carrier of a new era for the people of Medina with overhaul all economic systems and build order of Government with the principle *Ukhiwah Islamiyyah* among the *Muhajirun* and Ansar who ultimately frees the Ansar from the practice of usury done.

4.2. Strategy of the Prophet Muhammad to Build the Economy of Medina

The economic state of Madinah in the early days of Hijrah was very concern, under the leadership of Muhammad Medina managed to become a prosperous country and a transit trade route between the South and North of the Arabian Peninsula. It was inseparable from the strategies of Prophet met the needs of the Community goods suppliers Medina by doing a political contract with the Arab tribes around Madinah in their *Aqedah* though conflicting but could provide a positive impact to the economic life of the Muslims at that time.

As for the strategies applied by Muhammad in building the economy of Medina were as follows:⁸⁷

1. Expanding the land productive for the utilization of natural resources.
2. building new markets as role models the market of Islamic Sharia.
3. Doing political contract with the Arab tribes around Medina.

These strategies had successfully brought the Muslims of Medina to the verge of success in the economy in the region of the Arabian Peninsula and could even beat the market the Jews who had previously become the largest trading center.

⁸⁷ Abd al-Mun'im (1981), *Mujtama' al-Madinah: al-Ijtima' al-Hadari*, Beirut: Dar al-Nahdah al-'Arabiyyah, p. 329.

Natural resources utilization strategy though less adequately was managed with a good management by the Prophet Muhammad with synergy the capability of human resources, i.e. the Muhajirun trading expert and Anshar who was an expert in farming. Unwittingly, the Messenger made a productive community of Medina society by having its own market and implementing a healthy rivalry with Jews without having to close their markets. And in the end, the Jewish economy that was hundreds of years old, roll mats and broke even they became poor and finally close their markets.⁸⁸

At the time of the Prophet, selling activity was focused on the market that was given the name of “*Suqul Ansar*” or Anshar’s market. It was found by Abdurrahman bin ‘Auf, a wealthy person who was filthy rich, under the direction of the Messenger. One hundred percent of this market was managed by Muslims themselves even the distance was not far from the Jewish market. All Muslims were called to do the buying and selling in this market. The Prophet implemented the business pattern with a healthy competition without the use of the authority the power to shut down the market. The goal was for the community to give judgment against both those markets.⁸⁹

The Arab nation was famous for a nation that was fond of doing business. It because they did not have adequate resources to meet the needs of the living. Filmed Arab lands was a barren area of nan barren. They could not manage agriculture except in a small part of its fertile soils. Although surrounded by desert, its territory was halfway around the world that bring together the world’s first line between the far East and the West. Thus, the Prophet Muhammad did a political contract with Region-Arab tribes around the Medina to meet the needs of the community of Medina by doing the trade.⁹⁰ In addition, the Quraish was described by Allah in Surah al-Quraishi as people who love to trade to meet their needs. Allah says:

⁸⁸ *Ibid*

⁸⁹ Dr. Euis Amalia, *Sejarah Pemikiran Ekonomi Islam*, (Depok: Gramata Publishing, 2010), p.79

⁹⁰ *Op cit*, Abd al-Mun`im, p. 330

لِإِيْلَافِ قُرَيْشٍ، إِيْلَافِهِمْ رِحْلَةَ الشِّتَاءِ وَالصَّيْفِ

“because of the habits of the people of Quraysh, (i.e.) the habit of doing a trade trip in winter and summer.” QS. Surah Quraisy: 1-2)

According to Philip k. Hitti in his History of the Arabs even mentioned the Arabs as a nation was the first to conduct international relations, and did the Prophet Muhammad who was a descendant of Quraish and had conducted the first ever since the age of nine. Blood merchants certainly flew inside the Messenger and became commonplace for him to trade with the Arab tribes around madinah to meet community needs. This strategy was the one who ultimately makes the Medina country that progress in the field of trade and not a few Arab tribes were interested in investing in the market.⁹¹

With the strategies applied, Medina became rich production with wheat crops, vegetables, fruit and barley also. In addition, the city was also the largest exporter of the fruit of the date Palm or tamar especially towards the dry season.⁹² In this income only, Medina could play an important role in the economy in the surrounding region. In addition, Medina also imported some staples such as wheat flour, beef fat, honey and some other types of food are imported from Neighbouring countries such as Jordan, Palestine and surrounding countries.⁹³

The main principle in applying strategies that was at-ta'awun. This principle was the principle of mutual help to help fellow Muslims in order to achieve the efficient use of social meaning how the economy can be managed together so well that prosperity and welfare could be achieved in the sense that indeed.

⁹¹ Al husaini M. Daud, 2011, Sejarah Sosial Arab-Islam Pada Abad VIII dan IX M (Studi tentang pranata social Era Abbasiyah), dalam: <https://media.neliti.com/media/publications/56776-ID-sejarah-sosial-arab-islam-pada-abad-viii.pdf>, p.342

⁹² Mansur, Peradaban Islam dalam Lintasan Sejarah (Yogyakarta: Global Pustaka Utama, 2004), p. 37.

⁹³ Op cit, Al Husaini M. Daud

وَتَعَاوَنُوا عَلَى الْبِرِّ وَالتَّقْوَىٰ، وَلَا تَعَاوَنُوا عَلَى الْإِثْمِ وَالْعُدْوَانِ، وَاتَّقُوا اللَّهَ، إِنَّ اللَّهَ شَدِيدُ الْعِقَابِ

«And help each other in (working on) virtue and piety, and do not help each other in sin and transgression. And piety summons you to God, verily, God is very serious punishment.» [al-Ma'idah/2 : 5]

The strategy had been created by the policies of a country i.e. the Charter of Medina. Based on the strategy on points, one and two authors took the conclusion that points were creating the life State. It was known that the Charter of Medina was a treaty between the Muslims and Jews and the other set of obligations and rights of the Muslims well Muhajirun or Ansar.

4.3. The Policies of The Prophet in Managing the Economy of Medina

Before discussing the problem of the economic policy of the time of the Messenger of Allah, it needs to know about principle economic policy in Islam. This principle is the Almighty God as the Supreme ruler and owner of the whole universe, man is merely the Caliph, should not hoard wealth, and eliminating the elements of usury, and assigning legacy systems as redistribution of wealth that can reduce a variety of individual conflicts.⁹⁴ In addition, the Prophet also established the foundations of the life of the community:⁹⁵

1. Built the mosque as Islamic Centre
2. Established Ukhuwah Islamiyya among the Muhajirun and Ansar
3. Established peace in the country
4. Pulled out the rights and obligations of citizens
5. made the Constitution state
6. Drew up the country's defense system

⁹⁴ Op cit, Dr. Euis Amalia, p.77

⁹⁵ Ikhwan A. Basri, Menguak Pemikiran Ekonomi Ulama Klasik, (Jakarta:Aqwam,2007), p.46

7. Put the financial fundamentals of the country

From the principle of economic and social life basics, resulting the policies in the economy of Medina, included:

1. Fiscal Policy and
2. Monetary Policy

Fiscal policy was the policy that governs the flow of funds that existed in the Government, in order to execute the function that carried out by development programs. Both of which were abstract like a moral or physical development such as economy.⁹⁶ While monetary policy was the Act of the sovereign to influence the amount of money in circulation that would affect the economic activities of the community.

a. Fiscal policy

Fiscal policy begets Bitul Mal. Bitul mal was a special institution dealing with treasure received by State and allocated for Muslims who were entitled to receive it, because Islamic Treasury was the most important economic policy at that time. The first establishment of the Baitul Mal as an institution was after the fall of the word of Almighty God, that at Badr after the war and the time of the companions at loggerheads about the treasure spoils.⁹⁷

It was narrated from Sa'eed Ibnu Zubayr who said: ' I've asked Ibn Abbas regarding Surat al-Anfal, then he answers: ' sura al-Anfal descended on Badr. ' He was the first property Badar retrieved the Muslims after he retrieved from the expedition (Saraya) Abdullah bin Jahsyi. At that moment, God explains the law about the Division and make it as a right of all the Muslims. In addition, God also gives authority to the messenger of Allah to share it by considering the benefit of Muslims, so that he could be the right Islamic Treasury. The treasure of the spending done by the Caliph in accordance with his opinion in order to realize the benefit

⁹⁶ *Ibid*

⁹⁷ Abdul Qadir Zallum, *al-amwal fii daulah khilafah*, (darul ulum:1982)

of them (Muslims).⁹⁸

As for the Islamic Treasury which meant storage of treasures that come in and the management of the property, then at the time of the Prophet yet was a particular. This was due to the sign at the time that was not so much. Anyway, it was almost always out of stock distributed to Muslims, as well as spent for the maintenance of their affairs. In short, very little of State Income was only stored in the Institute in a short period of time for further distributed entirely to the community.

As for the Islamic Treasury revenue into State revenue sources during the reign of the Prophet, he made up from several sources like the treasure spoils, zakat, ushr, khums, Jizya, the estate that no heirs and others. But the country's main source of income was zakat and ushr.

b. Monetary Policy

Monetary policy was closely related to money. Before knowing the period of monetary policy, the Prophet Muhammad, first we have to know what money was in effect at the time of the Prophet.

The Prophet set (with taqdir, usage), dirham and dinar and declared it as currency. The Messenger also set the scales of currency dinar and dirham as had been held on the Quraish.

From Thawus from Ibn Umar, the Prophet said: the scales are the scales of inhabitants of Makkah, and measure and then measure the inhabitants of Medina. Al-Baladzuriy narrated from Abdullah ibn Tha'labah bin Sha'ir:

Hirakliyy dinar and dirham Persian commonly used by the people of Makkah in the time of Ignorance. But they don't use it in selling, except making it (the scales) silver bullion. They already

⁹⁸ *Ibid*

knew the scales mitsqal. His scales are 22 qirath less (a dirham) D'andrea. And the scales of 10 dirham equals 7 mitsqal. One rithl equals 12 uqiyah, and every one uqiyah the same as 40 dirhams. And the Prophet let it. than did Abu Bakr, Umar, Uthman and Ali.

Thus, the Muslims had used the form, prints, and drawings Hirakliy dinar and dirham kisra in the time of Prophet Muhammad, the Caliph Abubakar and the beginning of the era of Caliph Umar. In the 20th year of Hijri in the 8th year of the reign of Caliph Umar, he scored a new dirham Sasanid based. Forms and scales remain referred to (dirham) kisra, pictures and writings patterned Bahlawiyah (Pahlevi). It is just that he added to his writing with بِسْمِ اللّٰهِ رَبِّي and with God's name (for example, بِسْمِ اللّٰهِ -kufi Arabic letters use (with the name of Allah is my God). Then the Muslims continued to use money that refers to the dinar (Forms) of the Byzantine and Sasanid dirham, there was only an additional word of Islam with the use of the Arabic alphabet. This state of Affairs continued until the time of the Caliph Abd al-Malik ibn Marwan. In the year of 75 or 76 H Caliph Abdul Malik ibn Marwan scored a dirham characteristic of Islam, containing the texts of Islam by using khath-kufi, while the shape of the Sasanid was abandoned. In 77 H, it was printed dinar which was the characteristic of Islam and engraved inside the Islamic texts with Arabic khath-kufi, while Byzantine shaped dinar was being abandoned. After the Caliph Abdul Malik ibn Marwan scored the dinar and dirham as the characteristic of Islam, Muslims had currencies that were characteristic of Islam, and put off other currencies.⁹⁹

From the explanation above about the money then it can be drawn the conclusion that the currency that was valid at the time of the Prophet was the dinar and dirham. It had many advantages compared to paper currency in circulation now. Its value relatively

⁹⁹ Abdul Qadir Zallum, *al-amwal fii daulah khilafah*, (darul ulum:1982)

stable that was one of the advantages of this currency. If the query increases money, money will be imported. If the demand for money has decreased, then the commodity to be imported. However, at that time there was a surplus of money in circulation in people relative to inflation that was not occur, because the money was converted into jewelry.

4.4. The Correlation of Strategies of Prophet and Turkey in Building the Economy of the Country

Turkey's success such as Prophet's success in the developing economy of Medina, that is, by making use of the strategic location of the country and was instrumental in the market area, in collaboration with several countries around the region in completing the needs of the State. At the time of the Prophet, the Medina was the area that connected between East and West that was central to the merging of the traders of the world to Transact commerce. While Turkey's territory is strategically located in the middle of three continents with easy to reach an agreement economic cooperation and there are no fundamental constraints in the supply of required goods. By leveraging strategic layout and production factors are adequate, easy for Turkey to reach an economic cooperation with Africa's mutually beneficial.

As for the similarities between Turkey's strategy and strategies of Prophet is as follows:

1. Both utilize natural resources and increase the factors of production in the country making a productive community in the state
2. Building new markets or seek new markets to improve the number of consumers so the production can increase domestic production factors
3. Doing political contracts with neighboring countries and played an important role in regional politics by making use of the strategic location of the country

The first correlation between strategies of Prophet and the strategy

of the Government of Turkey is equally make a productive society that can compete with the developed markets in the region. Turkey is a country which dropped the raw materials to Europe that certainly has adequate resources to complete those needs. Similarly, with Medina, when the Messenger knew that Medina was a rich city with staple food managed to turn into an advanced state of Medina at that time. While Turkey with a large proportion of production factors successfully run the cooperation with the countries of sub-Saharan Africa to cope with the impact of the crisis on the economy of European Turkey.

The second correlation is to build new markets to improve the consumer so that domestic production can be stable and the market is certainly self-administered in order not happen to cheat in the transaction. Role models of the Islamic market at the time of the Prophet was a form of a match against Jews who justified the market system of usury which society always harmed by their market. While the diversion of export market Turkey that is done to cope the crisis because demand from European countries is reduced and to prove that Turkey's export can compete in the global market.

The third correlation is doing political contracts with neighboring countries and played an important role in regional politics and utilize the geographical location of the country in order to achieve agreements in the economics and politics of mutual benefit. The strategic location of Medina that connects between the West and the far East were exploited by Prophet to do political and economic contracts with cooperate in export and import countries in food and industrial sector and maintain the security of the State of each other. What Turkey does currently is conducting a political contract and cooperate in economic as well as doing the Mission for peace in regional areas. For example, Turkey is a NATO member and includes 10 countries with the strongest military in the world that would certainly be a boon for countries that cooperated with Turkey.

From the correlation of the above it can be deduced that what Turkey has done is currently the same as Messenger did in the developing

economy of the country. Strategies of Prophet had proved to be a successful strategy in building the economy of the country. Turkey did so unwittingly, had become a strong country in politics and economics with a play role in regional areas utilize the geographical location of a country that can bring Turkey to the brink of success in political and economic sector.

CHAPTER V

CONCLUSION

The 2008 European crisis was a serious problem concerning the large-scale economy and practical monetary policy that directly impacted to the economic activities such as import-export. The European crisis began slumped since 2008 and continued until 2012. It began with the crisis of Greece attractive members of the EU to the brink of an economic slump that cannot be avoided any longer. The existence of errors in the past that Greece finally undermines their position in the European Union, followed by Italy and Spain which requested bailouts and loans both to the EU and IMF. It was due to some factor in the immaturity of some EU countries that recently joined difficult to adapt in the Eurozone that caused a crisis that happens. It also had a significant impact for the non-Euro countries are affected by significant trade.

The European crisis was a fear for many countries. Such as Turkey, one of the EU'S largest partner. Europe was the first largest market of Turkey and it indicated the dependence on European Union. The dependency will be very vulnerable in the presence of reduced demand from the EU. Not only Turkey, other countries were also deeply affected by the EU which had significant trade relations.

Turkey that relied on exports for the national income was also inseparable from the influence of the European crisis in the field of trade. Turkey-EU direct trade had made Turkey turn into crisis because it has no other significant markets such as the EU. The crisis made the European zone economy weakened and leads to a decrease in demand for associate countries that are actively exporting their products as it does happen with Turkey.

The impact of the crisis in Europe to Turkey which exported decline in dependence with Europe directly was forcing Turkey to get new measures

to tackle the crisis. The strategy was improving industrial production factors and strategy of diversifying export destination country into a strategy that relied on Turkey in the reduction of the impact of the European crisis in 2008-2009. The Government of Turkey through the Department of Development Strategy and policy designed a strategic plan 2010-2014 as an effort in reducing the impact of the crisis in the field of trade. In the strategic plan for the Government of Turkey stressed that Turkey needed to improve in order to achieve industrial production factor productivity and domestic value added. In addition, through the Ministry of Industry and trade in the Turkey-Africa SUMMIT held in Istanbul stressed that Turkey must develop broader export markets. The market development aimed to reduce the impact of the European crisis. The Government of Turkey diverted exports that were not absorbed Europe to a number of State SAA (sub-Saharan Africa) and were not affected by the outbreak of the crisis in Europe. The Government of Turkey, in writing, penetrated new markets including African countries such as South Africa, Egypt, Libya, Algeria, Morocco, Tunisia.

The Turkey's success was inseparable from the strategic role of Turkey in reaching agreement to several countries in Africa. Africa was the developing countries that needed more imports because it had inadequate resources. The potential that made Turkey wanted to dominate the African markets through the products they had. Turkey must be serious in their strategy to compete with other competitors such as China and India, with a design of its own strategy and development prospect of forward at the level of regional and global economy. If Turkey ignored the strategies of its competitors in the supply of a part of goods production, then the role of Africa would be weakened in future Turkey export market destination.

The strategy of Turkey had in common with the strategy that carried by the Prophet. As for the Correlation was seen of how Turkey wanted to make its population as a productive society that can compete in the global market. As for the form of the similarity of this strategy was:

1. The utilization of natural resources by expanding the land productive or strengthen industrial and agricultural factors of production.
2. Building a new market or find a market as a form of mutually beneficial cooperation.
3. Utilizing strategic role by conducting political contracts with countries around the region.

What had the Prophet shown that Islamic economic actually had provided solutions to problems of economic issues especially the financial crisis. The success of the Prophet showed that the Prophet Muhammad was an economist that was capable of tackling the problem of the economic crisis even in places that lack of resources though. Strategies of Prophet was that almost resembles the strategy of Turkey to become a respected country in the world of Commerce and politics as well as Medina during the reign of the Prophet who was respected by other countries of the economic and political sectors.

Unwittingly, Turkey's success in tackling the impact of the economic crisis turned out to have in common with strategies of Prophet Muhammad, strategies that was used by Turkey in managing that brought Turkey to a significant economic development characterized by good growth in 2010 from the industrial sector and exports of Turkey. Cooperation with neighboring countries entwined with harmonious and reach agreements that were mutually beneficial to each other.

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