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The Internationalization of the Turkish State, 1980-2006

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## **ABSTRACT**

This dissertation examines the role of social forces in the internationalization of the Turkish state between 1980 and 2006. The internationalization process refers to the processes by which the interests, strategies, and alliances of national and transnational capital are increasingly privileged vis-à-vis other social groups. It also includes the opening up of the Turkish economy to international competition and the restructuring of the hierarchy of the state institutions in favor of those agencies that act as links between the world economy and the national economy, such as the Treasury and the Central Bank. This process is neither the result of market constraints nor does it stem from domestic political institutions. It is also not an outcome of an ideational process that guides policymakers for following a specific path that is determined by neo-liberal ideas as put forward by constructivists. The dissertation contributes to the international political economy (IPE) literature by highlighting that existing studies on the transformation of states under global markets have failed to problematize the social forces' establishment of neo-liberal hegemony within a broader historical structure. Rather than focusing on the role of states and markets, this dissertation, rooted in a neo-Gramscian perspective, singles out social forces as the most important agents of state transformation. It is hypothesized that change can be located in broader historical structures that create new social forces as bases of power for the internationalization of the Turkish state.

The findings of the study indicate that economic reforms such as the privatization of state owned enterprises or giving autonomy to the Turkish Central Bank are a function of an alliance of diverse social forces composed of market-oriented capital groups, privileged workers, national bureaucracies, and government officials. These actors emerged in the post-1980 period due to dramatic transformations in Turkish society and the economy initiated by the process of neo-liberal globalization. The unification of diverse identities and interests around the strategy of further integrating with the global economy were crucial in the recent internationalization process of the Turkish state.

Another major finding reveals that internationalization of states should be seen as politically open and contested processes since counter-hegemonic groups challenge ongoing reforms and existing power relations. The dissertation shows that market-oriented social forces sidelined resistant groups through a discourse and practice that naturalized a consensus for restructuring the Turkish state along liberal lines. This process took place by disseminating the belief that liberal economic reforms would bring material and other

benefits to all and that the alternatives were worse. Such a communicative process played a crucial role in transforming the Turkish state into a more internationalized form at the end of 1990s. This central proposition of the dissertation is derived through an in-depth case study method which included intensive interviews with major social forces ranging from the representatives of trade unions and business associations to the market-oriented bureaucrats of the Treasury, the Central Bank, and the Privatization Administration that took active part in the internationalization process.

**Keywords:** Internationalization, social forces, Turkey, privatization, central bank independence

This work is dedicated to my family and Hasan.

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## **ABBREVIATIONS**

AKP	Justice and Development Party
ANAP	Motherland Party
BDDK	Banking Regulation and Supervision Agency
CHP	Republican People's Party
DİSK	Confederation of Revolutionary Trade Unions
DP	Democrat Party
DSP	Democratic Left Party
DYP	True Path Party
EU	European Union
FDI	Foreign Direct Investment
FTCs	Foreign Trade Companies
GDP	Gross Domestic Product
HP	Freedom Party
IMF	International Monetary Fund
IRAs	Independent Regulatory Agencies
ISI	Import-Substitution Industrialization
ISPs	Internet Service Providers
İŞKUR	Turkish Employment Organization
ISO	Istanbul Chamber of Industry
KESK	Confederation of Public Employees' Unions
KOSGEB	Presidency of Small and Medium Industry Development Organization
MİSK	Confederation of Nationalist Trade Unions
MHP	Nationalist Movement Party
MÜSİAD	Independent Industrialists and Businessmen Association

OECD	Organization for Economic Cooperation and Development
PA	Privatization Administration
PFPSAL	Programmatic Financial and Public Sector Adjustment Loan
PSSP	Privatization Social Support Project
SCF	Free Republican Party
SHP	Social Democrat Populist Party
SMEs	Small and Medium Sized Enterprises
SOE	State Owned Enterprises
SPO	State Planning Organization
TCMB	Central Bank of the Republic of Turkey
THY	Turkish Airlines
TESK	Confederation of Tradesmen and Artisans
TİP	Turkish Workers Party
TISSAD	Internet Service Providers Association
TKI	Turkish Coal Enterprises
TİSK	Turkish Employers' Association
TOBB	Union of Turkish Chambers and Stock Exchanges
TÜSİAD	Turkish Industrialists and Businessmen Associations
TÜRK-İŞ	Confederation of Trade Unions of Turkey
UNCTAD	United Nations Conference on Trade and Development

## **Chapter 1. Farewell to the Kemalist State: Internationalization of the Turkish State, 1980-2006**

### **Introduction**

Turkey, like many other parts of the developing world, has undergone a radical transformation in recent years. It has reversed the long-standing state-led model of development by shifting to a market-based economy in 1980. With this shift, it has been transformed from a protectionist and inward-looking Kemalist state into an ‘internationalized’ one, manifested in the opening up of its economy to international competition through diminishing administrative barriers to foreign direct investment (FDI), accelerating the privatization program, opening national public procurement markets to global investors, and creating an independent Central Bank (World Bank, 2006; Öniş, 2006a:15). Moreover, with the establishment of autonomous regulatory agencies in several areas of the economy including energy, banking, and telecommunications, the hierarchy of state institutions was restructured and the priority shifted to the agencies that act as links between the world economy and the national economy. Such a reshuffling of state institutions reconfigured the representational power of Turkish social forces; for instance, privileged capital groups getting access to the policy formation and implementation process at the expense of organized labor. The Turkish state increasingly tended to privilege the interests, strategies, and alliances of national and transnational capital vis-à-vis other social groups. What made this comprehensive transformation possible, namely the internationalization of the Turkish state, constitutes the puzzle of this dissertation.

The reasons for Turkish transformation have been located in a range of political and social factors, ranging from the desire to join the European Union (EU) and adjust the economy towards global markets (Öniş, 2006a; Yeldan, 2006) to an Islamic challenge to the secular Kemalist state (Çelik, 2000). From a neo-Gramscian perspective, however, this study

aims to illustrate how state transformations in a global economy are best explained by looking at the *social transformations* engendered by changes in *historical structures*, which I turn to below.

The world economic crisis of the mid-1970s was accompanied by a shift away from the Bretton Woods system of fixed exchange rates to the promotion of monetarism and a heightening of competitive pressures in developed countries (Cox, 1987:298; Overbeek, 2005a:1-2). A parallel process of restructuring also occurred in developing countries due to the problems in applying import-substitution industrialization (ISI) strategies. These problems were coupled with inflationary pressures and high interest rates resulting from the recycling of so-called petrodollars (Cerny et al., 2005:13). Accordingly, many developed and developing countries engaged in rolling back the state involvement in the economy as of the late 1970s. State structures were readjusted to integrate their economies with the global system of production and exchange (Gill, 1993:31). Market-oriented economic reforms, including macroeconomic stabilization, liberalization of economic policies, privatization, and deregulation took root in many parts of the world (Simmons et al., 2006:781; van Apeldoorn, 2005:114).

These developments were coupled with the revival of liberal economic ideas that legitimized and naturalized the neo-liberal policies by creating the common conviction that the nature of the state-led economy was anti-competitive and disruptive for economic growth (Overbeek, 2005b:25; Baker, 1999). With the rise of the discourse that there was no alternative to market supremacy and relying on markets was good for everyone; the premises of liberal economic ideas became the generally shared understanding, or ‘common sense’. Common sense refers to the conception of the world or the primary mode of thinking a society uncritically shares and employs (Gramsci, 1971:323). Motta (2008:308) suggests that

common sense should be thought of as a cognitive horizon or system of beliefs in which an existing social order is represented as natural and therefore legitimate.

This material and ideational shift resulted in an intensified transnationalization of finance expressed in the establishment of a globally integrated financial market and the transnationalization of production characterized by production processes being organized across borders (Cox, 1996a:298-300; Gill, 1995a:77; Bieler, 2008a:86; Scholte, 2000:116-120; 124-130). The transnationalization of production and finance gave rise to new configurations of *social forces* that became the bases of power within and across states (Cox, 1987:4). These social forces include those that identify their interests with the globalization of production and capital such as the top owners and key executives of transnational corporations (TNCs) and private financial institutions who manage transnational capital; bureaucratic managers and technicians who administer the international financial institutions (IFIs) such as the IMF and the World Bank; leading politicians and globalizing bureaucrats inside the state structure, particularly those who work for state agencies that are in close contact with the global economy; media corporations, and organic intellectuals (Sklair, 2001; Gill and Law, 1988:65; Robinson, 2004; 2001; Cox, 1987; Gill, 2003; Robinson and Harris, 2000; van der Pijl, 1998). These transnational social forces favor the logic of market supremacy and act as key actors of the process of transformation of states into a more internationalized form (Cox, 1987:271; Gill, 1995b:400; Bieler and Morton, 2001:212; Gill and Law, 1989:484).

An overemphasis on the transnational level has meant that social forces tend to be seen as shaping political, economic, and social interactions from the level of *global economy* to *domestic economies* (Cox, 1996b:154). Increasing growth of world trade and the structural power of capital are argued to make states internally and externally more responsive to the demands of large transnational corporations and the IFIs (Gill, 1998:11; Gill, 1993).

Moreover, the reshuffling of the hierarchy of state institutions such as the rise of market-oriented institutions, including the Central Bank and the Treasury at the expense of institutions engaged in social policy is seen as the prioritization of the interests of transnational capital over those of national social forces (Cox, 1996a:299-301). Transnational capital is argued to generate a transnational consensus regarding the requirements of global economy, and national governments and big corporations are seen as automatically transmitting this consensus into their policy-making channels (Cox, 1996a:301-2). Internationalization is thus depicted as a process whereby the state is ‘instrumentalized’ by transnational capital to implement policies that would increase its profit and capital accumulation (Tsolakis, 2008:8). While such an ‘outward-in’ explanation of state transformation is useful in accounting for ‘external’ and ‘transnational’ influences, it fails to take into consideration the interests, ideas, and autonomous efforts of domestic social forces within each state (Drahokoupil, 2006:24).

Given the emergence of market-oriented domestic social forces whose interests comply with global capital in Turkey, this dissertation goes beyond the assumption that the state has been transformed by the transnational capital that penetrates the national level in a uniform manner and national units fall into line with what it dictates (Cox, 1996a:301-2). Rather than subordinating the interests of national social forces to the needs and requirements of transnational capital, the focus is put on developments *within* Turkey and highlights the transformative role of market-oriented domestic social forces that emerged as a result of the change in the social relations of production during the 1980s. Moreover, the widespread acceptance of the neoliberal policy prescriptions in government ministries and economic departments of the Turkish state suggest that state institutions serve as articulating specific political strategies of social actors with access to the state apparatus and legitimating these strategies (Jessop, 2002). This points to an understanding of the state as an ensemble of

strategically selective institutions with different capabilities to engage in strategic political behavior and align with market oriented social forces (Jessop, 1990:268). Having structural selectivity, the state favours certain strategies over others (Jessop, 1990:268). The state in this sense is not considered as neutral.

Drawing upon this observation, the neo-Gramscian framework that examines change through historical structures composed of the social relations of production, forms of state, and world orders is combined with the strategic-relational approach that emphasizes the interaction between the strategic political behavior of state institutions and non-state actors. The starting point of this argument is changes in the social relations of production within a global economy (Cox, 1987:1-9; Bieler and Morton, 2003:475; van Apeldoorn, 2002:18; Gill, 1993). Changes in the global economic structure lead to changes in the balance of social forces that formulate specific strategies the implementation of which requires the reorientation of state institutions. The most internationalized state agencies serve as facilitating the implementation of these strategies that lead to the differential empowerment of social forces. In other words, the state as a site of social struggles have a major role in formulating and implementing hegemonic projects and thus in reshaping the balance of interests in society (Drahokoupil et al., 2009:10). Accordingly, the historical evolution of the nature of relations of social forces (labor, capital and the state) with respect to changes in historical structures is analyzed for understanding structural change (Cox, 1987; van Apeldoorn, 2005:115; Gill, 1993).

Historical structures are socially constructed inter-subjective frameworks for action that involve the interaction among ideas, material capabilities, and institutions (Cox, 1996b:149). Based on this interaction, structures that are formed by collective human activity over time, in turn shape the thoughts and actions of agents by imposing pressures and constraints (Cox, 1995:33). These pressures do not, however, determine actions in any direct or mechanical

way since it is agents that intersubjectively decide whether to adjust or resist structural constraints. Thus, structure can be thought as both determined by and determining the agency (Bieler, 2006a:123). Such dialectical or reciprocal relations between structure and agents overcome the understanding of structural change resulting solely from external pressure. Instead of attributing a causal role to external factors, the method of historical structures help to identify which social forces and what particular objectives lie behind change (Bieler, 2006a:123; van Apeldoorn, 2002:2). It particularly avoids reductionism by putting emphasis on the open-ended struggle among various social forces over the realization of change (Gill and Law, 1989:475; Gill, 1993).

Studying the Turkish case through the emphasis on the mutual relationship between social forces and historical structures would be useful not just for understanding Turkey but also transformations elsewhere. Turkey is selected as a case study because the Turkish state has been undergoing a neoliberal transformation since the 1980s. The Turkish state has been internationalizing through the strategic reorientation of state institutions in ways that enhance and facilitate the strategies pursued by market-oriented social forces. For instance, the reform that granted legal independence to the Turkish Central Bank (TCMB) in 2001 represents an institutional turning point within the state structure in Turkey as this policy shift prohibited TCMB's granting of credits to the Treasury and other public institutions. Moreover, with the legal independence of the TCMB, the primary goal of macroeconomic management was redefined, and emphasis on growth and employment was replaced by the objective of ensuring price stability. TCMB's shift in focus to price stability was crucial in terms of the internationalization of the Turkish state because the institutionalization of an anti-inflationary approach to macroeconomic policy not only altered the power balance between different state agencies, but also between social groups in favor of financial interests that benefit from monetary stabilization.

The Turkish case implies that the state acts as a generator of strategies, which bring market-oriented social forces together and gains a certain organizational unity and cohesiveness of purpose to achieve unitary action (Jessop, 1990: 261; 353). To achieve such coherence, state managers articulate the complex, incoherent and often contradictory ensemble of state institutions by developing a hegemonic project, which may give some operational unity to the state as an apparatus (Drahokoupil et al., 2009:17). The notion of a hegemonic project refers to a “temporary synthesis generated by an ascendant trend in the economy” and produced by social forces within the state in the context of a social struggle for hegemony (Drahokoupil et al., 2009:11).

### **1.1. Going Beyond Market and State-based Explanations: The Role of Social Forces and Strategic Selectivity of the Turkish State**

The mainstream literature on state restructuring emphasizes either market factors or the role of state institutions to explain the reconfigurations. For instance, scholars from an economistic perspective consider market pressure, transnational corporations, and the IFIs as the main factors that drive rapid political and economic changes within states (Strange, 1996:93; Scholte, 2000:89-106; Held et al., 1999:50). The literature on the transformation of the Turkish political economy considers EU conditionality (Ertugal, 2005) or IMF conditionality (Boratav, 2008, Yeldan, 1998; 2006) as the main ‘external’ dynamics of the change. From an institutionalist perspective, Öniş (2006b:1) emphasizes the complex interplay of domestic and external influences, however, he considers external agents such as the IMF and the EU as the main factors behind economic and political transformation in Turkey (Öniş, 2006c:8; Öniş with Bakir, 2007:2; Öniş with Şenses, 2007:2).

Cizre and Yeldan (2005) and Yeldan (2006) explain the restructuring process of the Turkish state through pressures emanating from the integration process with global capital

markets. Keyder (1987) and Boratav (2008) also attribute the transformation in the Turkish economy to structural factors such as the international division of labor and class relations. From a world-system perspective, Keyder (1987) sees the demands of global capital and its internal extensions for a more advanced mode of capitalist accumulation as major determining factors in the overall socio-economic change in Turkey. Leaning towards functionalist and instrumentalist forms of explanation, these scholars consider transformation as a structural requirement due to changing patterns in the international division of labor designed by the IFIs and as an instrument of serving the interests of international finance capital.

By privileging markets over politics, market-based approach explains change only through economic interests. Moreover, by focusing on external constraints alone, it fails to take into consideration the way domestic politics intermediates externally imposed structural constraints. Particularly, the argument that external factors determine the internal outcome is a reductionist and mechanistic view, which assumes an automatic relation between the external conditionality and the domestic political outcome. This relationship does not adequately explain how external actors force domestic social forces to accept reforms such as privatization or central bank independence as necessary and inevitable. Failing to consider the policy formation process, this approach does not provide a dynamic concept of politics as an active process. It neither grasps the complex interaction between economic, political and cultural dimensions of power, nor adequately assesses non-economic forms of domination (Atasoy, 1998:45).

Since these scholars take ‘market’ and ‘external actors’ as something actually existing rather than as a specific perception or presentation of a social reality, they do not problematize the ‘construction of the idea of the autonomous market mechanism’ (Yalman, 1997:92 cited in Akça, 2006:172). They fail to consider that the way agents perceive market

constraints is as important as its actual reality (Hay and Marsh, 2000:9; Hay and Watson, 2003:153). For instance, Milner and Keohane (1996:3) note that although there is no evidence that capital mobility is based on decisions about interest rates or governments' fiscal positions, the perceived potential for capital flight in response to changing interest rates may exert significant pressures on national administrations even if no capital movements actually take place. It implies that the real impact of market constraints may actually be socially constructed and rhetorical (Hay and Watson, 2003:147).

Moreover, holders of capital or governments who expect to benefit from pro-market reforms may invoke external constraints as justification for particular interests. Hay and Rosamond (2002) highlight how policymakers discursively construct the need for undertaking market reforms. For instance, in Turkey, market-oriented governments such as the Özal government (1983-1989) constantly stressed that economic growth could only be achieved through structural adjustment policies and international competitiveness. The aim was to convince voters that there was no alternative to the free market economy if they wished to become more prosperous. It can thus be noted that the material constraints and their implications for domestic actors are not given but may be created by collective human action.

The literature on the capacity and autonomy of the state, on the other hand, provides the theoretical basis for an explanation of economic reforms directly driven by institutions (Weiss, 2003; 1998; Berger and Dore, 1996; Crouch and Streeck, 1997; Coates, 2000). State-centered scholars see global markets as both embedded within and dependent upon states, thus economic activities are considered to be determined not only by markets but also by the norms, values, and interests of the social and political systems in which they are embedded (Evans, 1997). From a statist perspective, it is the government \_acting autonomously from social pressures and interests\_ that acts as the primary driver of the reforms. Accordingly, the

state in Turkey is conceptualized as an entity \_standing outside and above society\_ that shapes and imposes policies on social groups (Heper, 1985). This ‘strong state’ is considered to be the legacy of the particular characteristics of the Ottoman Empire such as the existence of a strong state vis-à-vis a weak society, elitism, and state-led modernization tradition (Bianchi, 1984:74; Heper, 1985).

Since statist scholars see a historical continuity with the Ottoman past they consider the state as indifferent to social actors and market forces, and thus explain changes in the forms of state by reference to the will of state actors rather than as a result of the complex struggle between various social groups (Akça, 2006:162-165). The emphasis placed on continuity in political arrangements becomes an impediment to analyze the dynamics of change in the structure of society and the state (Atasoy, 1998:26). Despite the changing institutional structure of the Turkish state through successive political and administrative reforms and the development of a new economic structure based on a free market economy since the 1980s, reforms are interpreted in terms of the desire to strengthen the state (Akça, 2006). This understanding conceives the state as the sole legitimate source of power and reproduces its domination (Mardin, 1973:172; Sunar, 2004:26; Heper, 1985).

This approach accounts for change only through the notion of external shocks or dramatic crisis, including commodity price fluctuations, natural disasters, and the role of the international economy that might make the existing rules and procedures obsolete for interpreting the world and creating meaning. However, it is not clear which specific shocks cause change, or why and how they are able to do so. Moreover, from a statist perspective, the autonomy of the state is taken for granted; it is seen as a unitary entity, which acts for its own sake, and the material power of markets, ideas, and social struggles among actors are ignored in the analysis. It is increasingly difficult to understand change with reference only to the state, thus, this theory is insufficient to explain complex processes of change.

Since the market-based and state-based perspectives see the restructuring process as simply imposed on or driven by the nation state, they fail to examine the transformation of the state by looking at the changes that take place in broader historical structures. In order to temper the tendency either to overestimate the capacity of the state or markets to institute changes in states, this dissertation considers the transformation of the Turkish state as a function of historical structures. The method of historical structures explains historical change ‘as the result of conflicts, in which the emergence of a new form of consciousness leads to a shift in power relations which makes the new form of consciousness supreme over the erstwhile dominant form of consciousness’ (Cox, 1996c:77) .

## **1.2. Explaining the Transformation of the Turkish State as a Function of Broader Historical Structures**

The changes that took place in historical structures in the late 1970s marked a turning point in Turkey’s political, social and economic structure. At the heart of these changes lies the January 1980 structural adjustment program that shifted the economic model based on import-substitution industrialization (ISI) to an export oriented free market economy. The acceptance of economic liberalization and shifting the focus of capital accumulation to private enterprise contributed to the development of a new *historic bloc* composed of outward-oriented social forces, including internationalized capital groups, market-oriented politicians, bureaucrats, and intellectuals. The concept of historic bloc reflects an alliance in which different class interests are incorporated into an active and largely legitimate system of rule (Gramsci, 1971:366). It is organized around a set of hegemonic ideas that forms the basis for an alliance between various social groups.

As will be examined in detail in the third chapter, benefiting from the liberalization of the Turkish economy since the 1980s, big capital, represented by Turkish Industrialists and

Businessmen Association (TÜSİAD) managed to increase its international competitiveness by diversifying and internationalizing its activities, and consolidated its role as an influential actor. The advantages and openness brought about by the economic liberalization process also triggered a process of capital accumulation in Anatolia which manifested itself with the rise of the export oriented Islamic/Anatolian capital, represented by Independent Industrialists and Businessmen Association (MÜSİAD). Expanding their market base overseas by establishing transnational partnerships, particularly in Europe, and becoming internationally competitive, both big capital and Anatolian capital became confident enough in their strength economically and politically to accept a new political and economic arrangement.

The greater openness and vulnerability of these capital groups to international competition created new needs such as foreign investment and international credibility. Adopting necessary economic reforms and achieving political stability would promote foreign investment and expand markets as well as overcome the uncertainties of the Turkish economy that was plagued by financial crises, high inflation, extremely variable growth rates since the early 1990s. These capital groups saw their material interests compatible with the liberalization of the economy. In line with a neo-Gramscian emphasis on the interaction between structure and agency, this thesis holds that internationalization of the Turkish state has been promoted by these social forces whose interests has been firmly rooted in material structures.

Considering the Kemalist state as an obstacle to rather than as a promoter of modernization, they thus asked for a significant reduction in the size and operations of the state as a means of creating a competitive market economy in Turkey. The Kemalist way of achieving progress through state driven modernization was presented as outdated and ineffective by these social forces that identified themselves with dynamism, progress and

change. Therefore, it can be argued that the shift to market economy contributed to the declining hegemony of the Kemalist interpretation of modernity (Baban, 1999:152).

The position of these pro-reform groups was strengthened with the rise of the Justice and Development Party (AKP) to power in November 2002. In order to respond to its base of electoral support that had its roots in market-oriented social forces, the AKP based its political discourse on the promise to transform the social and economic structure of the country and bring it into in line with neo-liberal policies and accordingly emphasized the market economy, privatization, structural transformations, economic stability, disciplining public spending, international competitiveness, and the importance of foreign capital for the development of the Turkish economy. This pro-market position of the AKP also served its own long-term political ambitions, namely undermining the Kemalist basis of the Turkish state.

The interests of the market-oriented AKP government, TÜSİAD, and MÜSİAD converged around the objective of transforming the Kemalist Turkish state. This thesis contends that these social forces promoted liberal economic ideas and policies regarding market openness at the domestic level and brought together diverse political and economic interests around the hegemonic project of economic liberalization. Together with the globalizing bureaucrats and the mainstream media, these actors constituted the historic bloc that dissolved the Kemalist ‘commonsense’ in the economic realm. The new normative and cognitive map, economic liberalism, challenged the power of the state in economy. Thus, it is put forward that Kemalist ideas on state-led economic governance, what we can refer to as Kemalist ‘common sense’ were undermined by two decades of neo-liberal structural adjustment reforms and globalization process that engendered new market-oriented social forces. As the consensus around Kemalism began to erode, the Kemalist state was no longer seen as the only legitimate actor of modernization and development. This thesis, instead,

argues that social forces organized around new modes of thinking emerged as the main agents of the recent economic transformation in Turkey.

The question of *how* that transformation was made possible is explained by analyzing the *consensus* formation process of social forces through the concept of hegemony. Based on Gramsci's work (1971), the concept of hegemony reflects the interaction between the economic base, civil society, and political society (the state). It can be understood as the dominance of a certain way of life and thought that is diffused throughout society by the ruling groups and classes to pursue their interests in such a way that they are seen by ruled groups and classes as common or general interests (Gramsci, 1971:160-161, 182; Cox, 1996d:133; Morton, 2007:113). It thus refers to a relation between social forces, in which one group takes a leading role in gaining the active consent of other classes and groups through moral and intellectual leadership (Gramsci, 1971). Hegemony, thus, can be seen as a combination of political and ideational power within a historic bloc. This bloc maintains its hegemonic status not primarily through coercion, but rather through the creation of consensus as the result of a specific hegemonic project.

The market and state-based perspectives fail to consider this consensus formation process of social forces. Thus, in their analysis, the process by which certain ideas were diffused, accepted, and adopted by policymakers and various social groups remains largely unexplored. The role of ideas is crucial in the organization of hegemony since they play an important role in shaping political struggles and outcomes. In a hegemonic struggle, several ideas confront each other until one of them tends to prevail; and the prevailing ideas contribute to the establishment of intellectual and moral unity and thus facilitate the dominant group's enforcing hegemony over subordinate ones (Gramsci, 1971:181-182). For Cox (1981), human beings have relationships with social, political and economic phenomena, and act upon them, by having ideas about them. This, for Cox, is not a statement of ideational

ontology, but rather an assertion that ideas matter (Berry, 2007). For him, ideas refer to both historically conditioned inter-subjective meanings that play a significant role in the consolidation of hegemony and agent-specific collective ideas that contain particular views of what is good, just, and legitimate in a society (Cox, 1981:137-138). Ideas in the form of inter-subjective meanings are accepted as part of the global political economy itself (Bieler and Morton, 2003:479; Bieler, 2006a:123). This is significant because ideas, developed for example by organic intellectuals, can play a crucial role in forging hegemony by legitimizing particular policies (Bieler and Morton, 2003:479; Bieler, 2006a:123).

Organic intellectuals are considered to bind together the members of an historic bloc into a common identity (Cox, 1993:57; van Apeldoorn, 2002:30). According to Gramsci (1971:5-6), in its battle for consent and its effort to maintain its hegemonic status, a dominant class relies heavily on organic intellectuals that promote the ideas of and political and economic interests of this class as natural, inevitable, and universal. Thus, organic intellectuals are not seen simply as producers of ideas, but also as ‘organizers of hegemony’ in the sense that they provide intellectual leadership to a given class by persuading people to join or reject the established way of life (Gramsci, 1971:182; Gill, 1990:51). Intellectuals in official bodies such as the IMF, the OECD, the Bank for International Settlement and in unofficial forums such as Trilateral Commission, Mont Pelerin Society, Bilderberg Conferences, and World Economic Forum can be considered as organic intellectuals as they are essential for the formulation and spread of liberal economic ideas (Sklair, 2001:24; Overbeek, 2005b:25; Cox, 2006:41; Carroll and Carson, 2006:66-67; Holman and van der Pijl, 2003:80). These complex transnational networks of interests and actors are seen to act as agencies of political and cultural leadership as they promote international patterns of elite interaction between business, state officials, bureaucrats, and members of international organizations (Cox, 1996a: 301-302; Gill, 1995a:86; Carroll and Carson, 2006:67).

By institutionalizing economic, political, and intellectual bonds, they contribute to the formation of transnational compromises and consensus regarding the requirements of global economy (Carroll and Carson, 2006:53), and ultimately generate a dominant global discourse, designed to inform public policy-making throughout the world (Baker, 1999:81; Carroll and Carson 2006:57-58; Cox, 2006:41). By shaping the discourse within which policies are defined, as well as the terms and concepts that circumscribe what can be thought and done (Cox, 2006:41; Cox, 1996b:151), they orchestrate resistance against state-led economic governance (Sklair, 2001).

However, in order not to reduce the domestic social forces to merely a transmission belt that automatically transforms the transnational consensus into national economy, the mutual relationship between market-oriented domestic social forces and the prevailing international discourse needs to be emphasized. In the case of Turkey, it is shown that domestic social forces, including capital groups, business-oriented think tanks and research centers, political parties, the Central Bank of Turkey, and the Privatization Administration promoted structural reforms such as privatization and central bank independence as indispensable for creating an internationally competitive, efficient, and stable economy in Turkey. Thus, they used the international consensus that emphasized causality between ‘private ownership and economic efficiency’, between ‘central bank independence and price stability’ or between ‘competition and economic growth’ to construct a common sense within the society on the necessity of such reforms. For example, central bank independence as organizational structure and legal standard is presented as an example of modernity. It should be noted that domestic social forces used the discourse of modernization that had been central to Kemalism, but they turned it upside down by arguing that the state was an obstacle to modernization, not its guarantee.

To legitimize reforms, these social forces attributed macroeconomic improvements such as reduced inflation levels and interest rates, and sustainable economic growth of the 2002-2006 period to the liberalization process; and presented reforms such as privatization and central bank independence as an indispensable part of this process. Therefore, consent was sustained due to the persuasive discourse of economic liberalization which was presented as serving the ‘general interest’. The motto ‘there is no alternative’ served as an important discursive tool in the Turkish political scene. By shifting the common sense of the Turkish people from state-led development towards market-based one, these discourses were influential in the recent restructuring process of the Turkish state. It can therefore be argued that the struggle for hegemony by social forces is not restricted to the productive sphere, but is also waged at the ideational level (Motta, 2008:34-5).

### **1.3. Understanding Change in Turkey**

This dissertation seeks to go beyond the existing studies that have examined the post-1980 transformation of the Turkish political economy. The existing studies from a Gramscian perspective have attributed the political, social and economic transformation in Turkey to the hegemonic project carried out by a political figure, Turgut Özal, and his party ANAP (Özkazanç, 1996, 1998; Tünay, 1993; Akdoğan, 2001; Duman, 2005). These scholars have conceived Özal as the representative of the new-right and argued that he managed to overcome the political and economic crises of the late 1970s through the introduction of a new hegemonic project based on a new form of capital accumulation, which is export-led growth. Emphasizing the role of ideational elements in building social consensus/hegemony, they examined how Özal used ideas and discourse to articulate social groups having different interests and demands to his project.

Their effort to bring ideas to political analysis brought a new insight to the analysis of post-1980 period in Turkey. However, whereas they rightly emphasized the role of political parties as key mediators between the state and society in the construction of hegemony, they ignored the strategies pursued by other social forces including market-oriented capital groups and globalizing bureaucrats. In this way, they reduced the effort to legitimate a new way of thinking and acting along with market values to the ambitious project of a single political leader and his party. Another weakness of these studies results from the fact that they overlooked the role of powerful external actors like the IMF and the EU in the consent building process. Therefore, production of consent through specific relations between state, society and external actors has been left under-analyzed.

Since the struggle for hegemony is not limited to the national, but also takes place at the global level (Cox, 1987), this dissertation emphasizes the role of the IMF and the EU in the institutionalization of a set of macro-economic policies such as market efficiency, market confidence, policy credibility, and competitiveness. These external actors are thus seen as part of a ‘new constitutionalism’, which acts as the political-legal dimension of the wider discourse of market discipline (Gill, 1998:5-9; 1995b:399; 2001:47). This concept, which has not figured significantly in previous studies on the transformation of the Turkish state, refers to “the construction of legal or constitutional devices to remove or insulate substantially the new economic institutions from popular scrutiny or democratic accountability” (Gill, 1992:165). From a neo-Gramscian perspective, the power of ideas and discourse is not enough to ensure compliance with liberal economic policies; legal or administrative enforcement is required (Gill, 1996:216). For instance, as we will see in Chapter IV, privatization efforts in Turkey were consistently blocked by legal impediments despite efforts by Özal and his government to create support for them. It was only with the creation of structures like the Privatization Administration and independent regulatory agencies, and

constitutional amendments that incorporated the concept of privatization into the Constitution that Turkey could manage to accelerate the privatization process in the early 2000s.

Ideational and material shifts in the global economy have thus been complemented with the creation or empowerment of institutions, which are particular amalgams of certain ideas and material power (Cox, 1993). Institutions complement market discipline with binding constraints or rules, which are crucial for sustaining neo-liberal arrangements by ensuring that certain kinds of political changes in the future become more difficult (Gill, 1992:165). The constitutionalist arrangements are spread by IFIs such as the IMF and the World Bank that promote free market economy vis-à-vis state-led development. These institutions naturalize and legitimize the prevailing neoliberal policies by consolidating ideas of free trade or a deregulatory economy as generally accepted truths, thus they delegitimize counter-hegemonic ideas and challenges (Cox, 1993:62; 1981).

Displaying the patterns of interaction between the transnational actors and the social forces at the national level, the concept of *new constitutionalism* offers a more complete vision of the relationship between the international and domestic political contexts. This concept thus puts into light how external actors mediate the institutionalization of legal constraints into domestic structures. Turkey is an excellent case for analyzing the complexities involved in the interaction between domestic and the transnational dynamics given the influential role the IMF and the EU play in the country through their financial conditionality and membership prospect, respectively.

Although these institutions served as an instrument for disseminating the notion of market supremacy in Turkey, they should not be seen as actors enforcing change in the country externally. As will be shown in Chapters IV and V, the transnational interaction was particularly influential in the acceleration of the privatization process and the increasing power and autonomy of key institutions such as the Central Bank of Turkey. Such reforms

were the conditionalities of these two external actors, but at the same time, there was a growing base of popular support for monetarist ideas and discontent with the idea of a big government among major domestic social forces. In order to create consent within society, the domestic social forces presented conditionalities either as a more general and beneficial outcome (membership to the EU) or as the very condition of continuing economic growth in a competitive economic environment (Hay and Rosamond, 2002). Therefore, it should be stated that the acceptance of the structural coercion of these external actors was facilitated by the hegemonic consent, in the creation of which domestic social forces played a crucial role. Emphasizing this domestic and external interaction, thus, prevents the reduction of the role of states to adjusting national economies to the requirements of global economy under the pressure of external actors.

#### **1.4. Contribution to the Literature**

This thesis seeks to contribute to the international political economy (IPE) literature in two respects: 1) by emphasizing the role of ideas as a ‘material social process’ (Bieler and Morton, 2008:103); and 2) by highlighting the resistance of opposition groups against the prevailing order within states. First, despite its strength of taking into account the power of ideas to explain social phenomena, thereby improving on neo-realist and liberal institutionalist perspectives, neo-Gramscian approaches are criticized for giving primary causal weight to the economic variables, namely prioritizing the material side of production (Schechter, 2002:2). The approach is claimed to prevent the conceptualization of ideational or institutional changes independent of economic forces (Schechter, 2002:6). Since the inter-subjective dimension is understood to be derivative of the production of material life, our understanding of what is sustaining the current political supremacy of open markets or sound money ideas is argued to be restricted (Baker, 1999:80).

The constructivist perspective that emphasizes the role of the socially created inter-subjective meanings in shaping our outlook on reality (Wendt, 1992) would claim to be a panacea for these criticisms. Nevertheless, although constructivist approaches (Goldstein and Keohane, 1993; Wendt, 1992) conceptualize the relevance of ideas by outlining *how* a particular idea can gain dominance, they nevertheless fail to explain *why* certain ideas dominate over others at a particular moment in time (Bieler, 2006a:124; Bieler and Morton, 2008:103). Like the neo-Gramscian approach, constructivist perspectives emphasize the role of ideas in the formation of economic policies (McNamara, 1998). However, constructivism fails to bound ideas and material reality together by isolating ideas from interests and limiting their role to manipulation (Bieler and Morton, 2008:104).

To overcome the constructivist's inability to bound material and normative aspects of reality, the constitutive function of ideas should be emphasized and ideas should be conceived as 'material social processes', which serve particular interests within a specific hegemonic discourse (Bieler and Morton, 2008:103; Cox, 1996d:132). It is through a material basis of ideas that a particular constellation of social forces may establish the hegemony that sustains validity within the consciousness of people's common sense (Gramsci, 1971; Bieler, 2001). What needs to be emphasized, therefore, is how liberal economic ideas serve to legitimize certain interests.

Blyth (2002:209-219), inspired by Polanyi, takes a step further by linking the emergence of new ideas to material relations through his emphasis on the importance of capital groups in the promotion and dissemination of neo-liberal ideas in Sweden from the mid-1970s onwards (Bieler and Morton, 2008:108). However, due to his methodological individualism that identifies capital, labor, and the state as collective homogenous actors (Bieler and Morton, 2008:108), Blyth (2002) ignores the contradictions that exist between nationally- and transnationally-based capital and labor. This contradiction results from the

increasing mobility of capital (Gill and Law, 1989:66) and marginalization of organized labor as of the late 1970s (Gill, 2003:59). Engendered by national production systems, nationally-oriented domestic capital opposes an open global economy due to its reliance on national or regional protectionism against global competition (Gill and Law, 1989:66; Bieler, 2006a:122). On the other hand, the material interests and key ideas of transnational capital and labor are bound up with the liberalization of the global economy (Gill, 1990:37; van Apeldoorn, 2002:26-30; Bieler, 2006a:122). More importantly, by being educated and socialized within the dominant system, their common sense is in favor of promoting a stable and liberal international economic order.

Parallel to the division between transnational and national capital, Cox (1991:339) identifies divisions within the working class due to a shift away from 'the older forms of mass industrial employment towards more efficient, high-tech and capital-intensive industrial production and towards services' (Gill, 1990:98). Cox (1981:235, 1995:40; 1996b:299) emphasizes the fragmentation of workers into established and non-established nature which may create a rift between the former that have secure employment, often within the core workforce of TNCs, and the latter that have temporary and part-time positions at the periphery of the labor market.

This emphasis on forms of the state reflects the existence of contradictory and heterogeneous relations internal to the state and implies that the ideas, identities, and interests of these groups differ from each other depending upon their position within the social relations of production (Bieler, 2006a:122; van Apeldoorn, 2002:8; Morton, 2007:124). For Cox (1991:336), the position of an individual or group in relation to production shapes and defines how they understand themselves and how they come to construct their identities, favoring greater proximity with some categories of attachment while marginalizing others. The fact that ideas are shaped by one's interest that is embedded in a broader production

structure is important to understand *why* certain ideas prevail over others. This dissertation thus emphasizes how liberal economic ideas might be interpreted differently (negatively or positively) by social forces depending whether they are losers or winners in the liberalization process. It highlights that ideas are used by ‘winners’ of the market economy to serve their interests and construct their hegemony over subordinate groups through consensual means. Since they contain particular views of what is good, just, and legitimate, ideas are used to sideline alternative formulations and dissident groups within a society (Cox, 1981).

Second, the neo-Gramscian framework not only identifies the sources of change but also the forces for resistance against change. Although neo-Gramscian scholars (Gill, 2000; Morton, 2003; Morton, 2007; Bieler, 2006b; 2008) attempted to deal with issues of resistance by emphasizing mobilizations against the World Trade Organization in Seattle (November 1999), protests against the IMF and the World Bank in Washington and Prague (April 2000 and September 2000), the G-8 meeting in Genoa (July 2001), as well as the struggle of the Zapatistas in Mexico (1994), and the anti-globalization movements within the European Social Forum (2002), they under-examine the counter-hegemonic action within the countries themselves.

What is crucial in the concept of hegemony is that it cannot be consensus alone; it necessarily includes conflict (Gramsci, 1971; Morton, 2007:78). Hegemony is an active, dialectical, ongoing process that always incorporates significant elements of opposition, while seeking to marginalize political, cultural or strategic alternatives (Gramsci, 1971). In any order, hegemony is neither complete, nor a once-and-for-all achievement (Gramsci, 1971). This open-ended and conflict-ridden nature of hegemony implies that it is a process in which there are always dissident forces that resist the dominant system and do not give their consent and the possibility always exists for the formation of social struggles and counter-hegemonic projects. For instance, in Turkey resulting from the antagonisms between

nationally- and transnationally-based capital and labor, trade unions, statist oriented intellectuals, and nationalist groups emerged as counter hegemonic groups that attempted to challenge the privatization process through various actions such as bringing lawsuits in the courts, press releases, organizing mass activities like demonstrations, open-air assemblies and marches, organizing seminars and conferences. Therefore, in the particular case of Turkey, the counter-hegemonic struggles will be taken into consideration and the social relations of specific actors will be examined to see which agents supported the restructuring process and which ones challenged it.

Drawing upon these arguments, the central proposition examined in this dissertation is that the transformation of the Turkish state into an internationalized one in the 2000s was shaped through social forces that were engendered by changes in historical structures. In contrast to existing state and market-based explanations, the Turkish transformation is more a function of historical structures than external constraints or state institutions. This dissertation explores the hypothesis that social forces engendered by the changes in historical structures account for the transformation of states into a new form.

### **1.5. Methodology**

This dissertation is based on an in-depth case study of the transformation of the Turkish state between 1980 and 2006. In order to explore the hypothesis outlined above, this study utilizes the form of ‘historical narratives’ that ‘account for outcomes by identifying and exploring the mechanisms that generate them’ (Chima, 2005:7). Despite efforts since the early 1980s to liberalize its economy, Turkey failed to undertake long-term structural reforms such as privatization and the retreat of the state in the economy until very recently. Only with the emergence of a market-oriented historic bloc, did the Turkish economy shift in a more liberal direction. A historical analysis has thus been useful for analyzing the historical

evaluation of this transformation by tracing changing social relations of production, emergence of international-oriented social forces, changing interests, ideas, social struggles, alliances, and changing commonsense of Turkish people over the years.

The dynamic nature of the causal process can be sought by detailed process tracing that attempts to figure out the stimuli of the actors; the decision process that makes use of these stimuli; the actual behavior that then occurs; the effect of various institutional arrangements and other variables on processing and behavior (Chima, 2005:8). Identifying causal mechanisms derived from process tracing can provide a solid ground for a causal inference on which the central proposition of the dissertation is based on.

From a methodological perspective, a statistical model might probably support the overall relations proposed in this study, however it would not be helpful for uncovering the dynamics of the ongoing liberalization process and the emergence of new power configurations in Turkey. Critics of case study method contend that it is not possible to generalize the findings of a case-study to the other cases at large (Flyvbjerg, 2006:219; Chima, 2005:14). It is also argued to be unsuitable for hypotheses testing and theory building or containing a bias toward verification (Flyvbjerg, 2006:219). In response to these criticisms, it can be stated that testing of hypotheses through case study method relates directly to the question of general applicability (Flyvbjerg, 2006:229). Moreover, the culmination of case studies about a particular political or social phenomenon combine to provide a much more rich and accurate description and explanation of the phenomenon in question, and thus also contribute to theory-testing and theory-reconstruction in the social sciences (Chima, 2005:10). Since a case study requires in-depth information, the study yields in depth findings about the mechanisms involved. These can be applied to understanding other cases with similar patterns. This study on Turkey with a focus on the role of agency and contingency through a historical analysis has made contributions to further knowledge about

the role of social forces and historical structures in transforming states into new forms. Much can be learned from other case studies to determine the exact mechanisms that come into play in the transformation of states in broader historical structures.

Concerning the data for the analysis, interviews comprised one of the most significant sources for the dissertation. To illustrate the views of various social actors, interviews were conducted with the Turkish bureaucrats employed in the Privatization Administration (PA), the Office of the Prime Ministry, the Treasury, the Central Bank, the State Planning Organization, members of Parliaments, and representatives of trade unions and business associations between the periods February 2006-March 2007. The aim was to obtain first hand insights and information from selected individuals. Interviewees were selected on their current position, on the degree and the nature of their participation in the discussion about recent economic reforms in public. The duration of the interviewees lasted from 50 to 90 minutes; first with general questions and then specific ones in an open-ended manner to allow the respondent to reflect his or her opinions at length in a conversational manner. In contrast to tightly defined questionnaire and closed questions, through this open and flexible interview method I attempted to capture the common understandings and meanings regarding the role of the state in economy. Thus, I tried to ensure that respondents understood that the aim was to capture their sense of ‘reality’. These inter-subjective realities were particularly crucial in revealing that the recent economic reforms in Turkey were not a function of the sole pressure of the external actors. When asked the counterfactual, domestic social forces emphasized that even in the absence of intervention by the IFIs and the EU, the form of the Turkish state would not have been any different than its current internationalized form.

Primary sources such as parliamentary records for the years 1983-2005 were compiled and analyzed. Five year development plans and laws and regulations related to privatization and central bank independence were consulted. The IMF letters of intent, the

EU Progress Reports on Turkey, the World Bank and the IMF reports on the Turkish economy were examined. The speeches, statements, and interviews of leading political figures and high-level bureaucrats were collected from the websites of public institutions such as the Privatization Administration, Central Bank of Turkey, and the Treasury. Moreover, the websites and various publications of business associations such as the TÜSİAD and the MÜSİAD were used to obtain up-to-date information. In addition to using the websites of trade unions, I received brochures, booklets, and hand-outs during the interview with trade union representatives. Statistical and other forms of quantitative data were collected from institutions such as the State Statistics Institute, State Planning Agency, Privatization Administration, and Treasury. Secondary sources such as books and articles from journals were consulted to complement primary sources. Major newspapers that are influential in the formation of public opinion such as *Hürriyet*, *Milliyet*, and *Radikal* were also analyzed.

## **1.6. Organization of the Dissertation**

The historical narratives method which forms the basis of this case-study usually starts with a guiding theory or conceptual framework, which Chima (2005:10) calls ‘thin forms of reasoning’, then moves to in-depth historical narrative (‘thick description’), and finally back to elaborating on the ‘thin forms of reasoning’ by reassessing the guiding theory or conceptual framework in light of the causal mechanisms identified in the empirical analysis (Chima, 2005:10). Accordingly, this chapter that analyzes competing arguments regarding the transformation of states under global markets is accompanied by two broad historical chapters.

In neo-Gramscian theory, the distinctive feature of the analysis is to show the historical specificity of a certain phenomena, which requires a lengthy historical research of the

background issues. Therefore, an integral part of the dissertation is the historical overview of the Turkish political economy since the early decades of the Republic. In the second and third chapters, I present two broad historical analyses that depict the framework for understanding the change in social interests, struggles, and alliances that were formed in accordance with the prevailing ideational framework and the social relations of production of the period. The Kemalist cognitive framework and strategies of industrialization such as *etatism*, import substitution industrialization (ISI), and post-1980 Turkish political economy is examined in order to reflect the social and historical origins of social forces that became the main agents of transformation in the Turkish economy in the 2000s. The focus of these overviews is not on historical events themselves, but on the impact of past events on the current situation. The relevance of these two chapters to the overall argument of the dissertation is that historical analysis shows how the contemporary commonsense of the Turkish people evolved over the years and something new happened in the contemporary Turkey.

The third chapter examines the post-1980 Turkish economic transformation in three consecutive phases and highlights that the transition from one stage to another has been shaped by the interaction of domestic and transnational dynamics rather than being imposed on Turkey externally. The first phase (1980-1989) was marked by commercial and financial liberalization with a focus on export promotion through subsidies and wage suppression. The main characteristic of the second phase (1989-1999) was the integration with the global financial markets through the liberalization of the capital account. The third phase (1999-) was characterized by a new orientation towards global integration on the basis of increased productive capacity of capital groups. The chapter highlights that this new direction necessitated a more comprehensive transformation of the institutional and legal structure of the Turkish state in line with the requirements of the market-oriented social forces. The

constitutional amendments in 1999 that locked in privatization, the establishment of independent regulatory agencies that disconnected the neoliberal reform agenda from the political choices of the governments in the early 2000s, the launch of the reform program for the improvement of the investment climate in Turkey, and giving legal independence to the Turkish Central Bank in 2001 were among the specific reforms of this phase.

The fourth chapter examines privatization as part of the process of change in the function and organization of the state. It highlights that more than 70 percent of all privatization concluded in Turkey since the mid-1980s was realized during the 2002-2006 period, and almost \$18 billion revenue was realized from these privatization applications (PA Activity Report, 2007). Unlike the early decades of the privatization process, Turkey realized a sustainable large-scale privatization in highly profit making, strategically important enterprises such as the TÜPRAŞ oil refinery, the steel and iron producer ERDEMİR, and Turk Telekom. This reorientation is depicted as an important policy shift in Turkey where the state traditionally took an active part in the industrialization efforts of the country by founding major enterprises in all areas of economic activity since its foundation. The chapter accordingly argues that privatization sets a clear example for the increasing power of the market-oriented social forces and constitutes one of the main elements of the recent internationalization of the Turkish state.

Chapter V deals with the Turkish Central Bank's (TCMB) gaining legal independence in 2001, which represents an institutional turning point within the state apparatus, basically altering the TCMB's relation with the government and the Treasury. The chapter highlights that endowing a central bank with independence restricts the room for maneuver of governments to influence monetary policy-making. Moreover, the traditional emphasis on growth and full employment are replaced by the objective of ensuring price stability. The chapter attributes such a restructuring to the historic bloc's exercising hegemony by shaping

national conceptions regarding the appropriate state institutions and changing the role of the government in monetary policymaking. It argues that this bloc was successful in establishing a consensus that emphasized that central bank independence was rational, efficient, and necessary for a modern economy. Since this inter-subjective belief assumed on an almost taken-for-granted quality, central bank independence is now generally accepted as the best way to achieve and maintain price stability, which is crucial for the internationalization of states.

## **Chapter 2. The Historical Background to Turkey's Political Economy, 1923-1980**

### **Introduction**

This chapter provides a brief historical background of Turkish political economy during the 1923-1980 period. The aim is to show how the Kemalist bloc has undergone a transformation over time and its unity slowly eroded due to the emergence of rival social forces in line with changing economic structures. To achieve that the chapter starts with an analysis of the social relations of production and alliances that were formed during the earlier decades of the Turkish Republic. The emphasis is given to the official framework of thought of the Turkish state, Kemalism, which shaped economic policies and developed the state structure as well as society in a top-down manner. Kemalism is highlighted in order to clarify how the ways of knowing and doing, namely 'commonsense' among ordinary people, for a state-led economic development was constructed. This makes it easier to understand the material and ideational limits of the possible for restructuring the Turkish economy in later periods and also provides the basis for understanding how the contemporary 'commonsense' of the Turkish people evolved over the years.

This chapter also highlights that like most developing countries Turkey followed the general pattern of late industrialization over the course of the 20<sup>th</sup> century. Striking similarities with other developing countries ranged from the pursuit of an open economy in the 1920s and state-led industrialization through *etatism* in the 1930s to the specialization in the exports of raw materials during the Second World War. Other parallelisms included the efforts for rapid industrialization through import-substitution industrialization policies in the 1960s and 1970s, and the transition to a neoliberal political economy in the 1980s after experiencing politico-economic instability accompanied by severe balance of payments problems in the late 1970s (Ünay, 2006:27-28).

The first part examines how Kemalism brought different sectors or groups together around the objectives of rapid industrialization and modernization. This part stresses that with the shift towards the *etatist* strategy based on state ownership of industrial enterprises in the 1930s, the state elite aimed to create an entrepreneurial class by providing cheap credit, raw materials, and intermediary goods. This point is highlighted because such active state support towards certain sections of society constitutes the basis and reflects the historical origin of contemporary Turkey's capital groups.

The second part deals with the establishment of the import-substitution industrialization strategy in the 1960s as was the case in many developing countries. It emphasizes that, unlike the 1930s, most of the industrialization in this period was facilitated by private entrepreneurs through joint ventures with foreign companies. It demonstrates how the ISI strategy was influential in the rise of the biggest private industrial conglomerates, such as Koç and Sabancı family holdings and well-organized labor groups in Turkey. The third part examines the processes leading to the abandonment of ISI in favor of an export-led accumulation strategy. It argues that the ISI model ended in Turkey due to the industrial groups' loss of general belief in state-led economic development. It also highlights that Kemalism lost its unitary function since the political elites, the bureaucrats, trade unions, and capital groups polarized into different interests and thus different normative and cognitive frameworks in the late 1970s.

The last part focuses on the development of social forces like big capital and their particular interactions with external forces such as the IMF and the World Bank in order to challenge the state's role in the economy. The chapter concludes with the emphasis that big capital's interaction with external actors was crucial for the gradual dissolution of the Kemalist economic development project and the emergence of alternative discourses towards an export-oriented economic model.

## **2.1. Understanding the Basis of the State Intervention in Turkey: Modernization through Kemalism**

The Turkish Republic was converted from the multi-ethnic and multi-religious Ottoman Empire into a nation state under the guidance of Kemalism.<sup>1</sup> Based on the Kemalist principles, the Republican People's Party (CHP) dominated Turkish politics from the foundation of the Republic in 1923 until the transition to the multiparty era in 1945. This one-party period can be considered as one of nation building and the construction of the state structure in Turkey. The emphasis was put on breaking ties with the Ottoman past and building a modern society. The Kemalist understanding of creating a modern nation meant a complete Westernization of society by changing the life-style, manners, behavior and daily customs of the people (Heper, 1981).

Atatürk envisioned a comprehensive process of modernization that would create a monolithic nation committed to catching up with the civilized nations of the West. To create such a nation, the Republic was constructed on the basis of secular nationalism, and Islam was targeted as the obstacle to development (Yavuz, 2003a; Atasoy, 1998:147-8; Taş, 2005:69; Adaş, 2003:2). Religion was considered responsible for the backwardness in the Ottoman Empire, thus anything that was associated with Islam was presented as backward, reactionary and therefore against modernity (Yavuz, 2003a:46; Atasoy, 1998:147; Adaş, 2003:103). Secular nationalism, constructed on rationalistic and scientific grounds, came to be seen as modern and progressive, thus was embedded into the modernization project (Yavuz, 2003a:48). One of the distinctions of the Kemalist modernization in comparison to other modernization movements in the Islamic world was its greater emphasis on secularism

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<sup>1</sup> In the fourth congress of the Republican People's Party that was held in 1935, Atatürk conceptualized his ideas and goals as Kemalism which consisted of six principles, the so-called six arrows, which would guide the party and the state (Taş, 2005:69; Çakı, 2001:42; Bagdonas, 2008). The principles republicanism, secularism, nationalism, populism, *etatism* and reformism are considered as the founding ideology of the Turkish Republic.

that was seen as an instrument for creating a modern society based on rationalism (Özbudun and Kazancıgil, 1997:3).

The Kemalist elite, composed of the military, bureaucrats, and intellectuals, imposed modernization from above with little relation with the base of the society, which remained passive recipients of change conveyed by the elites (Çakı, 2001:34, 64; Keyder, 1987; Heper, 1985).<sup>2</sup> The ruling elite identified itself as the sole and legitimate agents of modernity and used Kemalism as a reference map through which a classless and a homogeneous society would be created (Taş, 2005:21, 59; Sayın, 2006:66). The focus on a classless society hindered the emergence of left-wing political establishments and a working class since trade unions, associations, and political parties were not permitted in the one-party period (Heper, 1991:14-15). Such a conceptualization of society enabled the ruling elite to put the sole emphasis on the common good or ‘the public interest’. More importantly, Kemalism functioned as a parameter of legitimacy for every belief, comment and idea in political life and facilitated the ruling elite’s carrying out the modernization project (Sayın, 2006:66). It can be argued that the Kemalist elite managed to establish modernity as a hegemonic discourse and as Mardin (1997: 210) maintains, all actions of the ruling elite were justified on the basis of ‘catching contemporary level of civilization’, the most widely used slogan of Kemalism.

The importance of the Kemalist framework of thought and the related process of modernization for this dissertation results from the fact that one of the major pillars of the modernization process was achieving economic independence and the creation of a self-sufficient national economy. State elites tried to reach that objective by means of

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<sup>2</sup> Mardin (1973) calls this relation as the center-periphery model. The center was composed of military-civilian bureaucrats and the intelligentsia. The periphery constituted the conservative and traditional rural areas. The center viewed the periphery as locations where reactionary forces could derail the process of modernization (Baban, 1999:189). Thus, the Republican elite attempted to put periphery under tight control.

protectionist policies that were influential in the emergence of social forces with vested interests in state-led industrialization.

## **2.2. Economic Development Project: 1923-1945**

In the early years of the Turkish Republic, the state was heavily involved in restructuring an economy inherited from the Ottoman Empire.<sup>3</sup> In the early Republican era, there was neither enough capital nor sufficient entrepreneurial groups to initiate industrialization and economic development without state support (Boratav, 2008:23-24; Önder, 1999:12-13). During the Ottoman Empire, while the Turkish people were mostly occupied with agriculture and bureaucracy, more than half of the production facilities, business, and commercial activities were realized by non-Turkish groups such as Greeks, Jews, and Armenians (Boratav, 2008:23; Atasoy, 1998:155).<sup>4</sup> The dissolution of the Empire and the mass migrations which accompanied the War of Independence during the early 1920s resulted in a major reduction in the minority population.<sup>5</sup> Consequently, in the absence of an entrepreneurial base and finance capital, the state undertook the economic development process (Keyder, 1987; Hershlag, 1968:34).

In order to lay down the principles of the new economic policy and establish the guidelines for public and private sector activity, the National Economic Congress was held in Izmir between 17 February and 4 March 1923. At the Congress, Atatürk focused on the necessity of industrialization as a vital component of national economic sovereignty (Boratav, 2008:42). The social groups- merchants, farmers, and industrialists - represented at

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<sup>3</sup> When the Republic was created, the population was 12 million and per capita national income was \$45 and except a few textile and carpet factories there was almost no industry, and the agriculture was primitive (Turhan, 2004:47). In 1923, the share of manufacturing in GNP was 12 percent; the share of agriculture in GNP was 40 percent. Despite the industrialization efforts, the share of agriculture in labor force was 80 percent in 1929 (Owen and Pamuk, 1998:244).

<sup>4</sup> For instance, while the share of Muslim Turks in both capital and labor was 15 percent, the share of Greeks in capital and labor were 50 percent and 60 percent, respectively (Kazgan, 2004:52)

<sup>5</sup> For instance, as a result of the population exchange agreement between Turkey and Greece, more than 1.200.000 Greek Christians left Turkey (Kepenek and Yentürk, 2007:36; Hershlag, 1968:24; Keyder, 1987:92).

the Congress insisted that development should be realized by improving the private sector and a protective and national economic policy should be followed. These groups in addition to the Kemalist elite constituted the then historic bloc of the Republic.

In the Congress, merchants, farmers, and industrialists asked for the creation of the conditions for the rise of private entrepreneurship, including the provision of credits and the establishment of infrastructural arrangements such as education, transportation, and communication (Kepenek and Yentürk, 2007:34-5; Hershlag, 1968:52). As far as specific demands of the groups were concerned, the commercial groups demanded that no concessions be given to foreign capital, which should be welcomed as long as it did not threaten the national interest. The industrialists asked for protection through customs tariffs and the establishment of industrial banks (Kepenek and Yentürk, 2007:35). The farmers asked for the liberalization of the production and trade of tobacco, abolishment of the tithe tax, creation of new schools for agricultural education, and the provision of machines and equipments for the mechanization of agriculture. Workers asked for the right of unionization and the recruitment of only Turkish people to vacant positions. Since industry was not developed at that time, industrialists and workers were not organized as much as merchants and farmers. The merchants from Istanbul were organized under the Association of National Turkish Commerce and they were the most prepared group in the Congress (Kepenek and Yentürk, 2007:34). The Congress served mostly the interests of the big landlords and the merchants.

It was decided in the Congress that a national bourgeoisie would be created through the state that would play a leadership role during the early stages of development but would recede into the background once the private sector developed (Kepenek and Yentürk, 2007). Parallel to the decisions that were taken in the Congress, the state followed a liberal foreign

trade policy and sought foreign capital and investment, joint ventures, etc.<sup>6</sup> This policy can also be related to the conditions of the Lausanne Peace Treaty of 1923, through which Turkey undertook to keep tariffs at a relatively lower level (Barkey, 1990:44).<sup>7</sup> Based on the legacy of the Ottoman trade relations, this implied that the economy would keep on focusing on the growth of agricultural production for exports in exchange for imported manufactured goods. This open trade regime served the interest of the Turkish commercial groups as they accumulated capital thanks to the increasing volume of imports between 1924 and 1929 (Tezel, 1994:120-122).

In this period, although the state was not involved in the economy as a direct producer, it engaged in ensuring private accumulation by providing incentives and monopolies to private firms (Tekeli and İlkin, 2004:173). The İş Bank was established in 1924 to raise loans and credits for industrialists and to break down the role of foreign banks in finance capital.<sup>8</sup> The bank also embarked on investment activities ranging from the construction of a railway system, coal production, food processing, cement, sugar, and textiles to glass industries (Üşenmez, 2007:133). In 1925, the Industry and Mining Bank was established to create partnerships with the private sector and to operate state owned enterprises which would then be transferred to the private sector. The state also attempted to provide free land for companies and sell public land by installments through the Law of Encouragement of Industry adopted in 1927 (Hershlag, 1968:52-54).

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<sup>6</sup> Between 1923 and 1929, the share of imports in GDP was 14.4%, and the share of exports in GDP was 10.6% (Boratav, 2008:49-50).

<sup>7</sup> The Lausanne Treaty (1923) stipulated that Turkish government would make concessions regarding customs duties and debt payments in exchange for the Allies' willingness to dismantle the capitulations imposed during the previous century (Barkey, 1990:45). In accordance with the trade accord signed as an annex to the Lausanne Treaty, the customs duties that were applied by the Ottoman Empire in 1916 would be valid for 5 more years, thus Turkey could not control the customs duties until 1929 (Boratav, 2008:44).

<sup>8</sup> İş Bank reduced the share of foreign banks in total credit capital from 53 percent in 1924 to 12 percent in 1950 (Tezel, 1994:125).

Foreign investment was encouraged in industry particularly in the form of joint ventures with Turkish entrepreneurs.<sup>9</sup> Between 1920 and 1930, 201 Turkish Joint Stock Companies were established, 66 of which were financed mostly by foreign capital (Boratav, 2008:42).<sup>10</sup> Civil-military bureaucratic cadre participated in the founding of numerous Turkish joint stock companies. For example, Prime Minister, İsmet İnönü and Finance Minister, Celal Bayar, were among the shareholders of the Turkish match company that was established as a joint venture with a Belgium firm in 1925 (Atasoy, 1998:161).

This quasi-liberal period concluded with the end of the limitations of the Lausanne Treaty on customs duties in 1929.<sup>11</sup> The obligation to pay the foreign debt of the Empire that was assumed by the Turkish Republic was another important reason for ending relatively open economic policies.<sup>12</sup> The first installment of the debt, 15 million TL, that was due in June 1929 led to problems in the process of capital accumulation (Boratav, 2008:44; Yenal, 2003:75). More importantly, the world economic depression of 1929 enforced the arguments on the necessity of change in the economy towards *etatism*.

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<sup>9</sup> Until the mid 1920s, foreign capital was controlling railway companies, banks, and commercial enterprises, but was not interested in industrial investment. In 1924, for example, the share of foreign capital in industrial enterprise was only 12% as compared to 58% in commercial companies and banks (Hershlag, 1968:40). However, with the encouragement of foreign investment to industry, foreign firms invested in sectors such as tobacco, alcohol, salt, sugar, and port service (Tezel, 1994).

<sup>10</sup> The aggregate capital of these companies was about 73 million Turkish Liras, 43 percent of which was foreign capital (Boratav, 2008:42; Tezel, 1994:196). For example, in 1923 a concession was granted to Chester Group, an American capital group, for the importation of agricultural machines and equipments, in return for 400 million Turkish Liras of American capital that would be used in the construction of railways and ports (Tezel, 1994). Some of the other concessions given to foreigners are: Istanbul-Seyitköy Gas and Electric Company to Belgium (1924), Izmir Telephone Company to Sweden (1925), Izmir Electric and Tramway Company to Belgium (1926), South Eastern Manganese Mining Company to Germany (1927), Adana Electric Company to Germany (1928), concessions to Ford motor company for automotive assembly factory (1929) (Tezel, 1994:196).

<sup>11</sup> The Lausanne Treaty allowed Turkey to impose 13 percent protection rate on its imports. With the end of the customs sanctions, the protection rate rose to 45 percent in 1929 (Boratav, 2008:48-49).

<sup>12</sup> Concerning the debts of the Ottoman Empire that would be assumed by the new Turkish Republic, the creditor countries established the Foreign Debt Commission in 1928 in accordance with the Lausanne Peace Treaty. Turkey signed an agreement with the Commission that identified the terms and conditions in which the debts would be paid. Accordingly, Turkey was supposed to pay two thirds (65%) of the Ottoman debt, which amounted to almost 85 million TL, since the debt was distributed between Turkey and the states that have been detached from the Ottoman Empire after the Balkan wars of 1912-13. Turkey was supposed to start paying its debts in June 1929 (Hershlag, 1968:19-21).

### 2.3. The *Etatist* Period, 1930-1939

Turkey shifted in a more protectionist direction within the framework of the global conditions of the Great Depression that discredited reliance on liberal economic policies. The world depression had challenged the conventional wisdom that the free market economy was basically self-regulatory, and that periodic cycles in economic activity would be smoothed by market forces (Hale, 1980:103). Various countries like the US through the New Deal, Germany through national socialism, and Italy through fascism responded to the depression by launching nationalist protective measures (Atasoy, 1998:167). Turkey also took part in this rising pattern of protectionism through *etatism*.

The depression affected Turkey negatively due to the contraction in the world export market (Keyder, 1987:101). The substantial reduction in the prices of agricultural products in world markets sharply reduced Turkish export revenue, thus limiting Turkey's capacity to import basic commodities such as flour and sugar (Barkey, 1990:45).<sup>13</sup> Therefore, to reduce the dependence on foreign goods and establish enterprises in textiles, sugar, cement, paper, mining, etc, ideas supporting state-led industrialization gained importance and the state took measures which brought the economy under state control.<sup>14</sup> Moreover, as of 1928, the policy of encouraging foreign capital was set aside, and foreign firms engaged in fields like commerce, banking, railways, transportation, utilities, mines and port facilities were nationalized (TBMM Records, 12.10.1989:429 B:16 0:1; Boratav, 2008:69).<sup>15</sup>

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<sup>13</sup> The prices of Turkey's export items declined between 60 and 75 percent during the depression years. For instance, in comparison to the prices for the year 1929, the prices of hazelnuts and opium fell by 73 percent, wheat by 63 percent, fig by 52 percent, cotton by 48 percent, olive oil by 44 percent in 1932 (Tekeli and İlkin, 2004:244-253; Yenal, 2003:63).

<sup>14</sup> The reliance on imports for basic commodities was reduced by the establishment of the domestic market for producing the previously imported goods. Some of the factories established for this objective are: Bakirkoy Bez Fabrikası (textile) in 1934, Kayseri Bez Fabrikası (textile) in 1935, Paşabahçe Cam (glass) in 1935, İzmit Kağıt Fabrikası (paper) in 1936, and Karabük Demirçelik (iron & steel) in 1937 (Yenal, 2003:70). For other protective measures taken, see Boratav, 2008:68.

<sup>15</sup> Some of the companies nationalized are: Anadolu and Mersin-Tarsus-Adana Railways (1928); Haydarpaşa Port (1928); İzmir-Afyon, Manisa-Bandırma Railways (1934); Istanbul-Rıhtım and Antrepo Turk Inc. (1934); Ereğli Company (1937); Şark Railways (1938); İzmir Tramway and Electric Inc. (1943) (TBMM Records, 12.10.1989:429. B:16 0:1; for more detail see Avcioğlu, 1969:216-217).

It also should be noted that even before the eruption of the world economic crisis, the proponents of the closed economy were emphasizing the necessity of state-led industrialization to overcome the agrarian nature of Turkish society and the weakness of the bourgeoisie (Barkey, 1990:50). The Prime Minister, İsmet İnönü, and the General Secretary of the Republican People's Party (CHP), Recep Peker, were strongly in favor of state-led industrialization as they believed that the private sector was unable to sustain economic development and overcome the adverse effects of the Great Depression (Kalyoncu, 1999:164-9; Turhan, 2004:49). İnönü and Peker considered *etatism* as a tool to create an industrial basis under the ownership of the state (Kalyoncu, 1999:166; Gülfidan, 1993:44-45). Moreover, intellectuals such as Şevket Süreyya Aydemir, İsmail Hüsrev Tokin, Vedat Nedim Tor, Burhan Asaf Belge, and Yakup Kadri Karaosmanoğlu organized around the journal, *Kadro*<sup>16</sup>, argued that the private sector had failed in Turkey during the 1920s due to their rent-seeking activities, their avoidance of taking long-term risks, their lack of interest in industrial investments, etc. For them, the state was to acquire the means of production (Barkey, 1990:47).

On the other hand, Fethi Okyar, the leader of the short-lived opposition party, the Free Republican Party (SCF), was strongly against *etatist* policies. Okyar instead suggested the implementation of liberal foreign trade, reduction in tax levels, encouragement of foreign capital, and removal of state intervention in economy (Kalyoncu, 1999:143). Liberal intellectuals like Ahmet Ağaoğlu and Ethem Menemencioğlu believed in the self-regulating capacity of the market, challenged the *Kadro* movement, and rejected *etatist* policies (Kalyoncu, 1999). They saw state intervention as unnecessary and even harmful for economic development. However, due to the Great Depression, other liberal intellectuals

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<sup>16</sup>*Kadro* was published from 1932 to 1935 by a group of Soviet-educated Turkish intellectuals. These intellectuals commonly argued that the *etatist* development strategy represented a third path, an alternative to capitalism and socialism. They supported the idea that industrialization would be realized by the state and large private enterprises would be nationalized. Seeing private foreign capital as an instrument of imperialism and exploitation, they were against its inflow to Turkey (Timur, 1971:211-219).

such as Hüseyin Cahit Yalçın and Ahmet Emin Yalman modified their old conception of the virtues of market relations and acknowledged the need for state economic enterprises (Kalyoncu, 1999).

The world economic crisis, the desire to achieve rapid industrialization, and the closure of the liberal opposition party, SCF, in 1930 increased the power of statist oriented groups in Turkey leading to a shift in the economic orientation towards *etatism*. Moreover, the relative success of Soviet planning in constructing and operating new industries even under the world depression encouraged those who believed in the necessity of *etatism* (Tekeli and İlkin, 2004:205-210). To ensure the consent of the society, *etatism* was presented with a nationalist rhetoric of developmentalism and supported by the discourse of a classless society (Güney, 2002:74). Accordingly, Turkey embarked on industrialization and capital accumulation by creating various state owned enterprises (SOEs) financed by the subsidies and low interest borrowing provided by the state.<sup>17</sup>

The state form of the period rested on the political alliance between bureaucrats and large industrialists that benefited most from the state-led development policy. Between 1932 and 1939, private industrialists grew in several sectors and increased the share of their profits in national income from 3.4% to 6.2%.<sup>18</sup> As far as workers were concerned, real wages declined 25% between 1934 and 1939 (Boratav, 2008:76). Since the Labor Law of 1936 and the Association Law of 1938 denied the existence of classes and the establishment of class-based organizations, workers were not allowed to form unions or strike (Nichols and Sugar 2004:144). Their interests would be looked after by the state, which was organized on the principle of national unity and social solidarity (Mello, 2007:212). Moreover, prices for

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<sup>17</sup> Some of the enterprises created within this period were Türkiye Şeker İşletmeleri AS (sugar), Sümerbank, Etibank, Maden Tetkik ve Araştırma Enstitüsü (mining), Elektrik İşleri Etüd Idaresi (electricity), Halk Bankası, Denizbank, Emlakbank, and Toprak Mahsulleri Ofisi (agriculture).

<sup>18</sup> The most significant example for the development of large scale private industry was in the textile sector (Atasoy, 1998:168). Towards the end of the 1930s, 80% of textile consumption was met by domestic production, carried out by both public and large private firms (Hershlag, 1968:102).

agricultural products were kept low, thus the burden of financing the industrialization project fell also on small producing farmers (Boratav, 2008:79). This increased the discontent of peasants, wage earners and various groups of private capital against statist economic policies. These groups played an important role in the rise of an opposition party that would end the 27 year of CHP period in Turkey and shift the direction of the economy to agriculture-led development.

#### **2.4. The Post-war Period: Liberalization of the Economy, 1947-1954**

The Cold War state system that emerged after the end of the Second World War marked a move towards liberalization both in the economy and the political regime in Turkey (Tekeli and İlkin, 2004:365-366). The new international political and economic order that was emerging under the leadership of the USA, Turkey's desire to benefit from Marshall Aid, and its accession to NATO required the liberalization of Turkey's political regime and economic policy (Boratav, 2008:99; Önder, 1999:14; Atasoy, 1998:180). The Marshall Plan regarded as the 'principal instrument of American hegemony in the post-war period' (Cox, 1987:214) was influential for Turkish economic liberalization. It directed Western Europe toward trade liberalization and exchange rate convertibility that were the basic conditions for the new open economy (Cox, 1987:214). The beneficiary states adjusted their own institutional structures and their national economies to the requirements of the new world order. Accordingly, the Marshall Plan committed Turkey to undertake measures such as the reduction of barriers in both domestic and foreign trade, the construction of highways and communication infrastructure, and the mechanization of agriculture (Kepenek and Yentürk, 2007:94). In order to benefit from the Marshall Plan and to ensure that Turkey would take its place in the new international order as a democratic European state, the CHP government shifted to multi-party politics in 1945 and revised its state-led industrialization policy.

At the national level, the one-party regime dominated by the military-bureaucratic elite faced increasing challenges coming from domestic social forces. By the end of the Second World War, the national bourgeoisie had gained sufficient strength to challenge the bureaucratic elite's control over the economy (Keyder, 1987:112). The conditions of the war economy had created opportunities for black markets due to the shortages of goods and increasing prices (Boratav, 2008:84).<sup>19</sup> This situation was influential in the rapid accumulation of commercial capital. The commercial bourgeoisie was willing to use its newly acquired economic power to break down the monopoly power of the bureaucratic elite (Keyder, 1987:118). Moreover, the peasantry and urban workers that were negatively affected by the conditions of the war economy were also discontented with the single party's elitist rule (Önder, 1999:13; Akça, 2006:254-6).<sup>20</sup> This alienation of social forces from the ruling elite can be explained with the latter's arbitrary application of measures such as the National Defense Law of 1940 and Wealth Tax of 1942. Through the former, the ruling elite set prices, enforced compulsory labor, and confiscated private property; and through the latter, it acquired some of the profits businessmen generated under wartime conditions through speculation and black market activities (Buğra, 1994:113-116; Keyder, 1987:112-114).<sup>21</sup>

Under these domestic and international pressures, the major dilemma of the ruling elite at that time was how to reconcile the target of national industrialization with the objective of adjusting to the world economy (Aydın, 2005). Although the ruling government and the bureaucratic elite had put strong emphasis on state-led industrialization as the basis of

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<sup>19</sup> The general price level increased by 90% in 1942 and 75% in 1943. The price of cereals increased by 200% and 120% in 1942 and 1943, respectively (Boratav, 2008:84).

<sup>20</sup> The real wages declined by 55% between 1939 and 1945 (Boratav, 2008:90).

<sup>21</sup> Until the end of Second World War, the labor had to endure 11-hour work days under martial law (Silva, 2007). The National Protection Law of 1940 also dictated that males over sixteen years of age who had miners in their family should become miners as well. A labor agency was created to ensure compliance, and by 1942, 58,000 forced laborers, mostly working rotationally (forty-five days on, forty-five days off) were employed in Zonguldak mines (Mello, 2007:212). The Wealth Tax of 1942 was particularly heavy for non-Muslims. Of the total amount collected in the sixteen months, 53% came from non-Muslims, 10.5% from foreign businessmen, and 36.5% from Muslims (Boratav, 2008:85).

Turkish independence and sovereignty, they began to attach importance to the role of private capital (Kepenek and Yentürk, 2007:94; Atasoy, 1998:211-3). In the 1947 General Assembly of the Republican People's Party, *etatism* was reinterpreted as a tool for improving private initiatives and most of the liberal economic demands of the capital groups were accepted (Boratav, 2008:98; Çakar, 2006:3; Atasoy, 1998:214). It also was decided in the Assembly that the economic activity of SOEs would be restricted only to fields where the private sector would have difficulty in succeeding on its own (Atasoy, 1998:214). The CHP committed to shift economic policy from *etatist* model to a market-oriented model based on rural-agricultural development.<sup>22</sup>

Despite the liberal and agriculture oriented shift of the CHP, the Democrat Party (DP) that arose in the political arena in 1946 began to challenge the CHP with an anti-elitist and anti-statist discourse (Akça, 2006:257).<sup>23</sup> The main themes emphasized by the Democrat Party during its opposition period were the freedom of enterprise, democracy, and freedom of religion (Keyder, 1987:117; Çakar, 2006:3). The Party campaigned against *etatism*, promised to establish a free market system, and to dismantle SOEs by selling them to the private sector (Barkey, 1990:51).<sup>24</sup> This discourse appealed to larger segments of society. In the economic congress organized by the Istanbul Merchants Association in 1948, trade and industrial bourgeoisie, and big-land owners called for a more decentralized economic administration and condemned excessive intervention of the state in the economy in the preceding era (Akça, 2006:258). Moreover, the DP mobilized society on the basis of religious freedom by criticizing the CHP's strict interpretation of secularism that left no space for Islam in public

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<sup>22</sup> The CHP began to liberalize the foreign trade regime in 1946, adopted the encouragement law of foreign direct investment in 1947, put more emphasis on the agricultural sector in the 1947 Economic Development Plan (Buğra, 1994:118-119).

<sup>23</sup> Democrat Party was established in January 1946 by four prominent members of the CHP: Celal Bayar, Adnan Menderes, Fuat Köprülü, and Refik Koraltan (Yavuz, 2003a:61). Bayar was a recognized economist that served under Atatürk as the Minister of Economy (1923-37) and Prime Minister (1937-1938). Menderes, a wealthy cotton farmer and large landowner, had a degree in law. Köprülü was a prominent professor of history and Koraltan was a lawyer.

<sup>24</sup> In 1947, the SOEs accounted for more than 40 percent of the value added in the manufacturing sector and employed about 20 percent of the industrial workforce in the Turkish economy (Turhan, 2004).

life. The DP also managed to appeal to workers by supporting the right to strike and collective bargaining that were denied by the CHP's 1947 Law of Unions.

By getting the support of peasants, merchants, religious conservatives, and the urban poor, the Democrat Party came to power in 1950 by attaining 53.4 percent of the votes cast and 408 seats in the Parliament (Atasoy, 1998:200). Once in power, unlike the CHP's focus on state-led industrialization strategy, the DP committed to centralize agriculture as the main source of economic development. Given the exclusion of the agricultural sector, namely a large portion of the population during the *etatist* period, the DP aimed at integrating these excluded groups into the political and economic spheres.<sup>25</sup> Attempts of incorporating these groups into the national economy brought Islamic beliefs and practices into public life and thus provided the historical basis for the emergence of Islamic capital in later years (Atasoy, 1998:121).<sup>26</sup> This point is important to highlight because already in the 1950s, economic liberalization was closely related to moves to de-secularize the Republic; that is, as with the current government and Islamic capitalism, economic liberalization was the means by which to break the power of the bureaucratic elite, the state and the existing capital bloc.

## **2.5. The Shift towards Protectionist Industrialization: 1954-1960**

The process of economic liberalization and the policy of agriculture-based development began to accelerate after the Democrat Party (DP) came to power in 1950.<sup>27</sup> Between 1950 and 1953, the increase in agricultural production coupled with the favorable prices stemming from the Korean War increased the volume of agricultural exports

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<sup>25</sup> In 1950, out of a population of 20 million, 80% lived in the countryside (Keyder, 1987:118).

<sup>26</sup> The Democrat Party strengthened the role of Islam in society by making references to religion and by taking certain symbolic decisions, such as making the call to prayer in Arabic again (it was made Turkish by the Republican elites), and increasing the number of Imam Hatip schools (school for training prayer leaders and preachers) (Üşenmez, 2007:143).

<sup>27</sup> To accelerate agricultural development, taxes on agriculture were eliminated, credits allocated to agriculture were increased, high rates of minimum prices were set for agricultural goods and the agriculture was mechanized. The number of tractors increased from 6000 in May 1950 to 25000 in May 1952 (Altunışık and Tür, 2005).

approximately by 50 percent (Keyder, 1987:294). However, the boom in agricultural production and exports faced a setback in 1954 when the prices of Turkey's major export items, such as cotton and wheat, began to decline in world markets and the agricultural production dropped by 20 percent compared to the previous year due to bad weather conditions (Atasoy, 1998:222). The increasing agricultural protection in Western Europe after the establishment of the European Coal and Steel Community and the end of the Korean War were also influential in the falling export earnings of Turkey.

Until 1954, the agriculture-based development strategy of the DP was successful in terms of economic growth; however, the decline in exports led to deterioration in external trade balances of Turkey, followed by a foreign exchange deficit. The DP government kept on pursuing expansionist economic policy and granted state subsidies to the agricultural sector at the expense of high inflation and budget deficits at the end of the decade (Boratav, 2008). It also shifted to a protectionist trade policy and introduced import restrictions with the decree no.4/3321 in 1954 (Boratav, 2008:110). It became more interventionist despite its liberal discourse for undertaking privatization or trade liberalization.<sup>28</sup> Although the DP came to power with a promise to roll back *etatism* and to disengage the state from the economy, the overall weight of the state in economic affairs increased between 1954 and 1960 (Boratav, 2008:108-109; Barkey, 1990:5).<sup>29</sup> It can, thus, be noted that despite changes in the governing party, the power of the Kemalist form of state endured.

Given the drop in the quantity of imports as a result of foreign exchange shortages, resources were diverted towards industrial development through measures such as

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<sup>28</sup> Investment in light consumer goods was highly profitable and the private sector was unwilling to take over large state-owned enterprises that functioned as supplier of cheap inputs and as source of high profits through government contracts. This was influential in the failure of the DP to privatize SOEs. Moreover, its anti-statist discourse was more a discursive strategy to ensure the consent of the private capital. The DP government subordinated SOEs to the requirements of private accumulation (Keyder, 1987:168).

<sup>29</sup> The share of the state sector in total industrial investment increased from 57 percent in 1950 to 60 percent in 1955, and to 78 percent in 1962 (Kepenek, 1983:152; Kepenek and Yentürk, 1994:101). Some of the state owned enterprises created in this period were PTT (post & telecommunication), TCDD (railways), THY (airlines), EBK (fish & meat), Türkiye Çimento Sanayi (cement), Yem Sanayi (feed), Gübre Sanayi (fertilizer) (Kepenek and Yentürk, 2007:113; Kepenek, 1983:151).

overvalued exchange rate, controls on the use of foreign exchange, and more emphasis on state investments. This shift contributed to the reconfiguration of social forces as a group of domestic industrialists emerged to produce consumer goods for the domestic market under favorable protection. New SOEs were created to produce previously imported capital and intermediary goods for the private industry. The SOEs were used to transfer capital to these industrialists through partnerships. Many firms were established with direct partnership or support of the SOEs such as the 15 percent share of State Material Office in Arçelik, the partnership of Turkish Sugar Factories with Tat Konserve, the partnership of Turkish Electricity Establishment with Çanakkale Seramik (Güney, 2002:81).

Another important characteristic of this period was the encouragement of foreign private capital. The regulations of the Law on the Protection of the Value of the Turkish Lira were modified and the Foreign Capital Law was legislated in January 1954 to encourage foreign investors to establish joint ventures with Turkish partners. The ventures established with foreign enterprises such as GE, Pfizer, AEG, Pirelli, Unilever, Mobil, BP and Shell and the cheap credits provided by the government were instrumental in the development of the manufacturing sector and urban capitalists.<sup>30</sup>

Although industrial groups benefited from the state's protection of domestic manufacturing, their discontent increased due to the haphazard and autocratic nature of this protection. The DP government used its power of controlling imports through quotas and tariffs for extending market privileges to favored industrialists. Moreover, the industrialists of the Istanbul region held the view that exclusive dependence on agricultural exports would not provide a sufficient base to finance increasing demand for imported goods for both production and consumption (Keyder, 1987:145). Industrialists, thus, supported the foreign pressure exerted by the OECD on the DP government for shifting towards rational planning,

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<sup>30</sup> Many well-known industrial groups such as Borusan, Tekfen, Enka, Profilo, Alarko and Altinyıldız were established in the 1950s and most of them cooperated with foreign firms in this period (Buğra, 1994:67).

coordination, and import substitution (Keyder, 1987:145). This pressure increased in 1958 when Turkey appealed to the IMF to overcome its balance of payment crisis. The IMF emphasized the establishment of the Import Substitution Industrialization (ISI) regime and the creation of a state institution responsible for planning under the technical assistance of the US and the OECD (Gülalp, 1985:338).<sup>31</sup> The IMF's stabilization program also required the government to reduce budget deficits, increase the price of SOE products, and adopt more planning to bring control over public spending and the allocation of foreign exchange (Atasoy, 1998:269). The DP government was not willing to undertake such a structural change in the economy as the implementation of IMF prescriptions would eradicate the support DP received from the majority of the population that dealt with agricultural production. However, in exchange for rescheduling Turkey's debt of \$600 million and provision of \$359 million of new credit, the DP government signed a stand-by agreement with the IMF (Boratav, 2008:111; Aydın, 2005). Despite this agreement, the DP opted for temporary measures and continued to implement its expansionist policies that aggravated economic problems. Under worsening economic conditions, the opposition groups composed of civil and military bureaucracy, intellectuals, the CHP, and significant portion of the private sector increased their opposition against the DP government.

The economic crisis deepened the political crisis that started in the post-1954 period due to the authoritarian stance of the DP government vis-à-vis the opposition, the press, the intellectuals, and the working class. For instance, the intelligentsia criticized DP's economic policies and its anti-democratic arbitrary rule for undermining the rule of law. Criticizing the anti-democratic policies of the DP government, 28 Parliamentarians from the liberal wing of

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<sup>31</sup> The IMF's positive stance towards planning can be understood with the nature of the ISI method of production, which is closely sustained by the available volume of imports as inputs for manufacturing. Keyder (1987:151) argues that the dependence on imports would not decrease or prevent world economic integration. Shifting from the import of consumer goods to import of investment goods would not constitute an obstacle to the functioning of the world economy (Keyder, 1987:152).

the party established a new party, the Freedom Party (HP) in 1955.<sup>32</sup> The working class whose number increased due to industrial development in the second half of the 1950s was alienated from the DP rule since the party returned to a discourse denying the existence of social classes and did not grant them the right to strike and collective bargaining (Akça, 2006:264, 271; Mello, 2007:217).<sup>33</sup> When workers began to support the opposition party, CHP, which had started to defend the right to strike, the DP government closed down several unions on the grounds that they engaged in politics. Moreover, military officers were discontent with the failure of DP to realize economic development within a balanced social and political order. The industrial fraction of the Istanbul based capital that began to develop international links was also criticizing the government for its populist policies (Keyder, 1987:142). Thus, in the late 1950s, industrial capital, urban middle classes, the intelligentsia, and the military formed an urban oppositional bloc against the authoritarian rule of the DP government.

Particularly the intellectuals initiated a campaign against the government through the formation of the journal, *Forum*.<sup>34</sup> Inspired by the European welfare state model, *Forum* writers attempted to reconstruct Kemalism as a progressive modernization project with a liberal orientation. Criticizing the unplanned state interventionism of the DP government, *Forum* emphasized the need to replace highly politicized economic management with rational planning that would overcome the economic underdevelopment of Turkey. In order to change the agrarian nature of the Turkish economy, the Freedom Party similarly

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<sup>32</sup> Freedom Party emphasized political freedom and planned economic development. Criticizing the DP for pursuing inflationary policies based on loose financial and credit policies, budget deficits, and subsidies for agricultural goods, the HP put emphasis on rational planning. Although it was not successful in the 1957 elections (it could get only 3.8% of the votes), it had important impacts on the public opinion after it joined the CHP in November 1958.

<sup>33</sup> The DP government only offered some concessions to workers such as minimum wage, health service, reforms of social security, and housing provisions.

<sup>34</sup> *Forum*, a journal published twice a month was founded in 1954 by intellectuals such as Bahri Savcı, Osman Okyar, Aydın Yalçın, Turan Güneş, Bülent Ecevit, and Kemal Salih (Akça, 2006:273). *Forum* writers criticized DP's authoritarianism and advocated the principles of pluralism, rule of law, independence of the judiciary, establishment of a Constitutional Court, and the defense of individual and collective rights and freedoms.

formulated an urban/industrial-based development project rather than rural/agricultural one (Akça, 2006:278). When the HP joined the CHP in 1958, this project was promoted by the latter that acted as the representative of the urban social coalition.

Faced with growing unpopularity, the DP tried to silence and undermine the opposition groups through undemocratic measures.<sup>35</sup> The increasing tension between the DP government and the opposition led to the paralysis of the state and the polarization of Turkish society. The Kemalist bloc, who had lost power in the 1950s, sought to protect the socio-political order as established in the early decades of the Republic (Özbudun, 1993:256). The military, supported by the civil bureaucracy and intellectuals, thus, intervened in May 1960 to overthrow the DP government.<sup>36</sup> The military regime changed the capital accumulation strategy from agricultural based to industrial development by laying down the framework of economic planning and an ISI strategy (Önder, 1999:15). The military leaders thus intended to ensure that the IMF plan would be implemented and international support for the coup would be guaranteed.<sup>37</sup>

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<sup>35</sup> The DP government put restrictions on electoral politics, the autonomy of universities, and judiciary. It abolished the job security of high-level officials, of members of high judiciary, and of university members. In 1956, in order to increase governmental control over opponents, the DP government amended the Meetings and Demonstrations Law and the Press Law and penalized collective action such as protest and repressed the press, respectively. It banned politics for university professors and used military and police forces against student protests (Akça, 2006:270). These repressive measures were influential in the rise of an urban opposition against the government in the second half of the 1950s. Although the urban opposition was successful in the declining support to the DP government, it managed to win national elections in 1957 thanks to rural votes.

<sup>36</sup> The military leaders justified the coup by emphasizing the crisis of democracy, the social polarization, authoritarian regime of the DP and the loss of legitimacy of the Parliament, the violation of the Constitution, inflationist fiscal policy and high cost of living (Akça, 2006). The military rule lasted one year and a half. After a new constitution was prepared and approved in a referendum in 1961, competitive elections were held and power was transferred to a civilian government.

<sup>37</sup> International support, particularly American support for the coup was also related with the Democrat Party's search for Soviet economic assistance due to US criticisms against the inflationary public spending of the government and its stopping American U-2 spy planes from flying via NATO bases in Turkey by the late 1950s. The United States thus welcomed the coup leaders that ended the DP rule and declared that they were not interested in improving relations with the Soviet Union. The coup leaders also rejected Soviet offer of \$500 million worth of economic and technical aid for Turkey (Atasoy, 1998:268).

## **2.6. Import Substitution Strategy in the 1960s and the New Form of State Intervention**

The 1960s were a period of both political and economic restructuring in Turkey. Due to the weakness of the export potential of Turkish industry, import substitution was seen as an alternative for maximizing foreign exchange resources, eliminating balance of payment problems, and assuring economic growth (Barkey, 1990:64; Gülfidan, 1993:46). As a result, the ISI strategy was accepted and declared as the new development strategy and the state played a direct role in creating the conditions and infrastructure for industrialization. Overvalued exchange rates, quantitative restrictions of imports, a strict system of exchange rate control, high tariffs on imports, and a variety of tax and credit incentives for industrial investment were used as the main tools of trade and industrialization policy (Şenses, 1994:52). The new strategy was in line with the international economic conjuncture of the time since the state took an active role in the economy in both developing and developed countries.

The State Planning Organization (SPO) was established in 1960 for the implementation of the ISI model. Accordingly, state industries were directed to be involved in the production of intermediate capital goods while the private sector was encouraged by tax reductions for certain sectors and high tariff walls that restricted the amount of imports. The SOEs were used as major policy instruments to create the necessary industrial infrastructure that would contribute to the rapid development of the country. Moreover, through their large scale investments and operations, the SOEs were also charged with social goals such as creating employment, reducing regional imbalances and providing low consumer prices for basic goods and services like food, energy and transportation to eliminate income inequalities (Tecer, 2005: 59; Keyder, 1987:168).<sup>38</sup>

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<sup>38</sup>Between 1963-67, the share of the SOEs in the total investments was 18.4%; between 1968-1972, 22.7%; between 1973-1977, 27.3%; between 1979-1983, 32%.

In addition to establishing the basis for the ISI strategy, the military coup also played an important role in creating the conditions for a consensus within society by restructuring the relations between the state and civil society (Yalman, 2002a:34). For instance, the new constitution adopted in 1961 emphasized the state's role to realize both economic development and justice for the social and economic welfare of its citizens and enhanced civil liberties in the field of expression, thought, press, and association (Akdoğan, 2001:47). The strategy also aimed at building a coalition amongst the bureaucratic elites, big business circles, the intelligentsia, peasantry, and organized labor in order to eradicate inter-class as well as intra-class conflicts (Barkey, 1990:60). The ISI strategy was promoted by a strong nationalist message which emphasized that the goods that were previously imported would be produced domestically as a major step towards economic independence (Barkey, 1990:9). This nationalist rhetoric was instrumental in building the coalition and creating the commonsense for the inward-looking ISI.

The interventionist ISI model was consistent with Kemalist objectives and particularly served the interests of those of ascending manufacturing sector whose share of the GNP rose significantly (Önder, 1999:18).<sup>39</sup> The private sector benefited from the protection of domestic industry from international competition and joint ventures and subsidiary agreements with foreign capital that was encouraged by the state. Thanks to these joint venture deals, Turkish private industry began to assemble the foreign manufactured parts of consumer durables, like cars and refrigerators throughout the 1960s and 1970s (Boratav, 2008:119). The assembly industries and associated profits increased the rate of concentration of capital and tendencies of monopolization in Turkish industry, especially in automotive, textiles and consumer durables (Üşenmez, 2007:232). Contemporary Turkey's two biggest conglomerates, the Koç and the Sabancı groups, initiated partnerships with foreign investors and increased their

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<sup>39</sup> The manufacturing sector's share in GNP increased from 12% in 1962 to 16.5 in 1965, to 19.34 in 1970 (Barkey, 1990:80).

profits through being the sole technological suppliers to the Turkish economy (Üşenmez, 2007:221-22). For instance, the Koç group established its automobile company, TOFAŞ, in 1968 by partnership with the Italian auto company, FIAT. TOFAŞ can be seen as the symbol of import-substitution policies since it received state protection from foreign competition by strong regulations on importing foreign cars (Çakı, 2001:137).<sup>40</sup>

The articulation of the working class interests into the new development strategy was an important aspect of the ISI model (Keyder, 1987:160). A number of social and economic rights were included in the constitution. Articles 46 and 47 of the constitution granted workers the right to organize, form trade unions, and engage in collective bargaining and strike.<sup>41</sup> Powerful and organized labor arose forcing the ruling elites to take into account their demands. This was also coupled with rising wages for workers and urban professionals, which made them the primary consumers of domestically manufactured goods (Önder, 2006:100; Üşenmez, 2007:222; Keyder, 1987:160).<sup>42</sup> Small capital and the peasantry also benefited from these policies since the protection of the domestic market provided an opportunity to the former, and high agricultural prices and subsidies were in favor of the latter. In accordance with the infant industry argument, Turkish small industrialists were dependent on state subsidies and protectionism in order to survive.<sup>43</sup> Moreover, agricultural interests organized under the Union of Agricultural Chambers; artisans and shopkeepers organized under the Confederation of Tradesmen and Artisans; commercial groups and industrialists organized under the Turkish Union of Chambers and Stock Exchange (TOBB) were the main vehicles of representation in the conduct of the ISI strategy during the 1960s (Bianchi, 1984).

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<sup>40</sup> Koç Holding had joint ventures also with Siemens in the production of electrical devices and American Express in the banking sector.

<sup>41</sup> The right to strike was legally granted with the Act on Trade Unions and the Act on Collective Bargaining, Strikes, and Lockouts adopted in 1963.

<sup>42</sup> Real wages in the organized sector increased by 5 to 7% each year in the 1960s (Keyder, 1987:160).

<sup>43</sup> According to the infant industry argument, the nascent industries that do not have the economies of scale to compete with their older competitors from other countries need to be protected until they can attain similar economies of scale.

Consequently, it can be said that although the ISI process was generally in favor of the industrial bourgeoisie, it did not lead to a conflict among industrial, commercial, labor and agricultural groups (Yalman, 2002b:328; Gülalp, 1993:37). The ISI instead served as an instrument that ensured the consent of different sections of the society (Yalman, 2002b:328). Nevertheless, as will be explained later, when the growth rates started to diminish in the 1970s, tensions between these groups emerged and the consensus began to fall apart.

## **2.7. The Crisis of the State and Search for an Alternative Model of Development**

The ISI process in Turkey showed significant similarities to that in other developing countries in terms of its pattern as well as its impacts (Şenses, 1994:52). In some Latin American countries like Argentina, Chile and Brazil, the ISI model initially led to a rapid rise in both GNP and real wages, and kept prices relatively stable in the early phases (Barkey, 1990:11). However, it ended with GNP and real wages falling and inflation increasing rapidly accompanied by a severe balance of payment crisis (Barkey, 1990:11). Similarly, during the period of 1963-1977, through the ISI model, Turkey managed to achieve high growth rates.<sup>44</sup> However, the ISI model faced a structural crisis in the late 1970s, manifesting itself mainly in the form of severe balance of payment difficulties, high inflation and shortage in foreign currencies (Barkey, 1990:11-3; Önder, 1999:31). The overprotection leading to a highly inefficient industrial structure, maintenance of overvalued exchange rates and nominal interest rates below the rate of inflation, technological backwardness, expansionist policies, and the small size of domestic markets are cited as the most important reasons for the failure of the ISI policies (Barkey, 1990:11-13; Şenses, 1994:53-54).

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<sup>44</sup> During this period, the average growth of GDP was 7.0 percent and the average growth rate of industrial production was 9.0 percent (Öniş, 1998:126). As a reflection of this growth performance, Turkey ranked fifth in 1984 among developing countries (behind China, Brazil, Mexico, India, and South Korea) in terms of the size of manufacturing value added (Şenses, 1994:53).

Turkey's geo-strategic importance within the international system and the related capital inflows to Turkey, along with the remittances of the Turkish workers working abroad were instrumental in sustaining the ISI strategy and maintaining high economic growth.<sup>45</sup> After Turkey concluded a bilateral agreement with the Federal Republic of Germany in 1961 in order to assist the reconstruction of Germany, remittances constituted a significant source of foreign currency in Turkey.<sup>46</sup> They were particularly influential in the rapid rise of manufacturing investment in the 1970s. Unfavorable developments such as the oil crisis, the related acceleration of inflation in industrial countries that closed their borders for more Turkish workers in 1974, the subsequent fluctuations in the remittances of the Turkish workers, the Cyprus intervention of 1974 and the resulting American arms embargo on Turkey were all influential in the worsening of the economic situation (Barkey, 1990).

Failing to obtain new loans in the international financial markets, Turkey faced a debt crisis in 1977. GDP growth was negative for the first time in decades and since the SOEs were subsidized with high rates of credit from the Central Bank at very low interest rates, inflation level increased from 10% in 1975 to 85% in 1979 (Atasoy, 1998:297). In the 1978-1980 period, activity in the manufacturing industry sharply declined, investments halted and unemployment increased to very high levels. In such a setting, the inward-looking economic strategy that was the main driving force of capital accumulation turned out to be an impediment for capital accumulation and the economy as a whole. There emerged an increasing domestic pressure for change resulting from the intra-capital cleavages based on differences over the economic growth strategy and the role of the state in the economy.

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<sup>45</sup> The literature envisages a positive impact of remittances on savings, investments, growth, consumption, poverty, and income distribution. The impact of remittances on growth in the receiving economies is argued to act through savings and investment. Short-run effects on aggregate demand and output act through consumption. Remittances also serve as a component of foreign savings and they complement national savings by increasing the resources available for investments (Solimano, 2004).

<sup>46</sup> Destination countries for Turkish workers have multiplied in the course of time and over 2 million workers migrated for employment to 30 countries since the 1960s. By 1973, there were 528,474 workers only in Germany. The remittances of these workers totaled DM 2.5 billion (Çepni, 2003:35). After the mid-1970s, the flow of Turkish workers to Europe stagnated, and was directed instead towards the Arabic countries and towards Russia after the dissolution of the Soviet Union.

### **2.7.1. Breakdown of the Broad Alliance of the ISI Era**

The inability to receive foreign capital and the decreasing remittances of the Turkish workers abroad made the availability of foreign currency extremely difficult in the 1970s.<sup>47</sup> As access to resources such as cheap credit, foreign exchange and import licenses guaranteed high profits under a heavily protected domestic market, the competition for them increased (Öniş, 1998:245; Barkey, 1990:109-113). This struggle over the allocation of scarce resources became an important part of the economic and political conflict leading to a break-up of the coalition of various capital groups that had sustained the industrialization strategy (Keyder, 1987:165; Barkey, 1990).

Since the State Planning Organization was the main institution in the allocation of tax rebates, low cost-credits, and foreign exchange for private capital, private sector representatives established contacts with the SPO to have access to state resources (Keyder, 1987:167). The private sector was represented by the Union of Turkish Chambers and Stock Exchanges (TOBB), which was in charge of preparing and distributing import quota allocations determined by the government between industrialists and commercial importers (Barkey, 1990:111; Gülfidan, 1993:32). This function gave the TOBB the right and power to control imports. The contacts between the TOBB and the SPO were crucial, then, for converging the interest of capital with that of the bureaucracy.

The unity between the bureaucrats and capital was broken as a result of the fragmentation within TOBB itself due to a split between the large industrialists in Istanbul versus the smaller merchants in the inner Anatolia (Bianchi, 1984:261). During the ISI era, the majority of public investments, state credits, public contracts, and various economic incentives were transferred to entrepreneurs that were located primarily in Istanbul (Adaş,

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<sup>47</sup> After the oil crisis, remittances of Turkish workers fell by 25% between 1975 and 1976.

2003:123).<sup>48</sup> The concentration of capital in large holding companies of Istanbul area was influential in the divergence of interests with small and medium size capital concentrated in Anatolia. Large industrialists of the Istanbul region that were assembling imported capital goods in partnership with foreign industrialists were against the protective industrialization strategy, while Anatolian industrialists operating at a smaller scale were in favor of protection (Atasoy, 1998:346).<sup>49</sup> Moreover, commercial groups involved in foreign trade like the importers of the Istanbul Chamber of Commerce insisted for an end to the protectionist policies while the Anatolian commercial groups that were not engaged in foreign trade welcomed the protective strategy (Barkey, 1990:113-4). Anatolian chambers of TOBB argued that they were incapable of surviving competition without protection (Barkey, 1990:115). Thus, the rivalry between the winners and the losers of the ISI strategy within TOBB increased.

Intra-capital divisions accelerated after Turkey signed the Supplementary Protocol with the EEC in 1971 as part of the Ankara Agreement concluded on 12 September 1963. The Protocol envisaged the establishment of a customs union between Turkey and the EEC, and required Turkey's gradual liberalization of its trade regime. Given the objective of the customs union to increase the volume of intra-European trading via tariff cuts within a framework of free internal trade and common external tariffs, tensions between the proponents of protectionism versus liberalization increased in Turkey (Atasoy, 1998). Within the framework of the Protocol, the EEC reduced customs duties for a number of industrial

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<sup>48</sup> The quota system that encouraged oligopolistic tendencies, the relative small size of the market, the lack of export opportunities, and the increasing capital intensive nature of the manufacturing process led to the concentration of capital in Turkey (Barkey, 1990:89). In 1980, out of 421 largest private companies, 253 were organized in the Istanbul region and accounted for 61.5% of the sales realized by the private sector and 62.4% of its capital. Aegean region followed Istanbul region with 59 companies, 10.9% of private sector sales, and 8.6% of its capital (Barkey, 1990:89).

<sup>49</sup> Large industrialists from the Istanbul region were involved in the production of consumer durables for domestic markets in assembly industries. They were assembling imported capital goods, produced largely in EEC countries and favored a more open import regime. Out of 89 industrial firms in the assembly industry, 42 percent of the total capital of the firms belonged to foreign capital groups (Atasoy, 1998:347).

commodities imported from Turkey. This opened up export opportunities for those industrialists who produced textiles, leather, and processed food (Atasoy, 1998:351). As intermediate products would cost significantly more under an ISI system than under free trades, large export-oriented industrial groups began to support an export-oriented economic model to integrate with Europe and asked for an open trade regime (Gülfidan, 1993:39). However, Anatolian industrialists argued that within a customs union, Turkish industry would not be able to survive European competition. Thus, the industrialists who opposed a customs union with the EEC were those engaged in production for domestic markets.

Changes that were introduced to the banking system in the mid-1970s further accelerated the divergence of interests between large vs. small capital groups. To increase credit availability for the private sector, banks were allowed to participate in industrial and commercial activities. When banks were allowed to lend unlimited credit to a firm if they owned more than 25% of any firm, large holding corporations established their own banks and began to control the banking sector (Atasoy, 1998:347; Oğuz, 2008).<sup>50</sup> This increased the conflicts among private industrialists since banks owned and controlled by large holdings limited credit to small and medium size enterprises (SMEs).

When the power of big business was enhanced due to the significance of their activities in the national economy, a group of leading industrialists began to oppose the dominance of commercial interests and small and medium size industrialists in the TOBB.<sup>51</sup> As a reaction to their under-representation in TOBB, the country's largest industrialists established a voluntary association, the Turkish Industrialists and Businessmen Association

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<sup>50</sup> Some of the holding companies that established their own banks included Koç Holding (Garanti Bank), Sabancı Holding (Akbank), Çukurova Holding (Yapı Kredi Bank, Pamukbank), Has Holding (İstanbul Bank), Cingilloğlu (Demirbank), Doğu Holding (İmarbank), and Zeytinoğlu Holding (Esbank).

<sup>51</sup> Traditionally, small and medium sized companies dominated the organization as a result of their size and the system of one vote for each member in the elections of the organization.

(TÜSİAD) in 1971 (Buğra, 1994).<sup>52</sup> By creating TÜSİAD, they committed themselves to further industrial interests of large companies operating in the Istanbul and Aegean areas.

Another point of controversy among the social groups resulted from the rising wage levels at the end of 1970s. In state-owned and large private industrial firms, labor was highly organized, well-paid and also benefited from job security.<sup>53</sup> TÜSİAD and Turkish Employers' Association (TİSK) challenged wage demands as well as the growing power of the trade unions. According to TİSK, it was the workers' increased power in the economy that was responsible for both inflation and political instability in the country. Thus, to challenge an organized labor movement, various business associations such as TÜSİAD, TİSK, TOBB, the Confederation of Shopkeepers and Artisans and the Turkish Union of the Chambers of Agriculture formed a common front called the Free Enterprise Council in January 1977 (Bianchi, 1984:271-273). Their aim was to get public opinion and to exert pressure on the government for the adoption of measures such as restrictions on the number of trade unions and their financial resources, restrictions of strike activity, and wage restraints to increase their ability to compete in external markets. In addition to the conflict between organized labor and capital, the divisions within the working class itself further contributed to the increasing tensions within society.

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<sup>52</sup> Some of the leading Turkish businessmen who founded TÜSİAD were Vehbi Koç (Koç Holding), Nejat Eczacıbaşı (Eczacıbaşı Holding), Sakıp Sabancı (Sabancı Holding), Selçuk Yaşar (Yaşar Holding), Raşit Özsaruhan (Özsaruhan), Ahmet Sapmaz (Güney Sanayi), Feyyaz Berker (Tekfen), İbrahim Bodur (Bodur), Hikmet Erenyol (Joint Stock Co. Electro-Metallurgy), Osman Boyner (Altinyıldız) and Muzaffer Gazioğlu (Joint Stock Co. Cement Industries). The declared intention of TÜSİAD was to 'defend the *raison d'être* of the private sector; consolidate the business community as a social class; and establish the social position of its members as the vanguard of the business community' ([www.tusiad.org.tr](http://www.tusiad.org.tr)).

<sup>53</sup> The rate of unionization rose from 10.8 percent in 1963 to 46 percent in 1977. As far as wages are concerned, in the public sector, wages as a percentage of value added in manufacturing rose from 27.5% in 1976 to 51.8% in 1979. The figure for the private sector was 34.8% in 1976 which reduced to 32.3% in 1979 (Boratav, 1990:207).

### 2.7.2. The Division and Increasing Militancy of Labor Groups

The Confederation of the Trade Unions of Turkey (Türk-İş) was established in the image of the American AFL-CIO in 1952. Türk-İş adopted the principle of being above-party politics according to which the Confederation was to abstain from establishing any links with political parties and engaging in political activities (Gülfidan, 1993:36). However, while claiming to be a neutral power, it gave importance to maintaining good relations with the party in power (Işıklı, 2005). It was not, however, a monolithic entity and disagreements between some of the affiliated unions of Türk-İş and the confederation's leadership grew particularly after the establishment of the Turkish Workers Party (TİP) in 1961. Some of the more radical unions began to support the TİP and act independently of the confederation's politics. They, for instance, called strikes without the approval of the confederation (Silva, 2007:54). In 1967, when the leaders of Türk-İş rejected to support striking Paşabahçe (glass) workers, the internal divisions erupted, and four socialist unions, including Maden-İş (mining), Lastik-İş (tyre works), Basın- İş (press), and Gıda-İş (food stuffs) broke away from Türk-İş to form the Confederation of Revolutionary Trade Unions (DİSK) (Nichols et al, 2002).<sup>54</sup>

Because Türk-İş was predominant in the public sector, DİSK organized mainly in the more competitive, often smaller scale firms of the private sector. DİSK shaped its policy and activities on the basis of the notions of class conflict and class struggle. It promoted the idea that economic class struggle could not be separated from political class struggle, thus DİSK aimed at challenging the institutions and the rules of the existing order in contrast to the Türk-İş, which put the emphasis on collective bargaining and defending workers' interests (Önder, 1999). Greater competitive pressures in the private sector pushed DİSK to be more proactive in its collective bargaining and radical in its strike action.

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<sup>54</sup> The leadership of Türk-İş gave importance to distance itself from militant union actions and punished affiliated unions that supported striking factory workers at the Paşabahçe Glassworks in 1966 (Mello, 2007:222).

When DİSK was engaged in increased militant actions ranging from strikes to workplace occupations to demonstrations, the then Justice Party government attempted to legally disenfranchise the confederation in June 1970 through the Act no. 1317, which would require a union to have one third of the registered workers in an industry organized in order for it to be recognized at the national level. In order to protest this law, which would put DİSK in a disadvantaged position vis-à-vis Türk-İş especially in those sectors dominated by the latter, DİSK organized massive street protests in the Istanbul region.<sup>55</sup> These protests soon grew beyond DİSK's control and resulted in the declaration of martial law and the suppression of the protest (Silva, 2007:56). Following these demonstrations, some radical student groups continued a campaign of urban violence, which was eventually brought to an end by the military intervention on 12 March 1971. The military gave an ultimatum to the government for its resignation and established an interim government that ruled the country until general elections were held in 1973, in which Bülent Ecevit' CHP came to power (Silva, 2007:56).

Political rivalry within the union movement culminated in the foundation of a third confederation in 1971. In order to suppress the left-wing ascendancy, the extreme right-wing Nationalist Movement Party (MHP) initiated the founding of the Confederation of Nationalist Trade Unions (MİSK) (Önder, 2006:103). The foundation of the ultranationalist MİSK was followed by the establishment of a confederation of religious conservative workers, Hak-İş, in 1976. Four major confederations with distinct ideologies divided and complicated the workers' unions (Cizre-Sakallıoğlu, 1991:58). As divisions intensified through the 1970s, any hope for unity in the working class seemed to dissolve and contributed to the decay of the political order in Turkey.

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<sup>55</sup> On 15-16 June 1970, 150.000 workers marched against this plan.

### **2.7.3. The Collapse of the Political Order and the Decline of Kemalist Framework of Thought**

As the conflict of interests increased and the social forces became more and more divided over a variety of issues, it became difficult for the ruling political party to articulate and maintain a specific position over economic policy. By the end of 1970, it became clear that the political alliance among social groups was no longer strong or united. The political parties tried to use existing rivalries among social forces to their advantage. The Justice Party that was in power between 1965 and 1971 and during most of the 1970s became increasingly incapable of dealing with the intra-capital and labor-capital disputes. The increasing diversity of interests within the private sector between large and small-size sectors, between importers and exporters, between capital and labor provided the basis for the break-up of the coalition politics.

Thus, the period of the 1970s in Turkish politics witnessed ever shifting political alliances and constant political tensions over economic policy in terms of the path of industrial development, the allocation of import quotas, bank credits, and wages (Buğra, 1997:191). With the break-up of the social coalition of an industrialization directed to the domestic market came the fragmentation of a unifying political framework. It can be argued that Kemalism, which put strong emphasis on national unity and state-led modernization, lost its unitary function since the political elites, the bureaucrats, and the intelligentsia polarized into different interests. These divisions set the stage for a link between economic demands and political articulation of opposition around the issues of Islam and nationalism (Atasoy, 1998:355).

The fragmented nature of Turkish politics and economy at the time prepared the ground for the proliferation of Islamic movements in the 1970s (Adaş, 2003:124). The growing private sector cleavages and the neglect of the Anatolian small and medium size

manufacturing interests were instrumental in the rise of a pro-Islamic party under the leadership of Necmettin Erbakan in the 1970s.<sup>56</sup> The articulation of the economic demands of the periphery to a political opposition constituted the basis for such a party which was at the same time opposed to the Kemalist secular state. The rise of a fascist movement represented by the Nationalist Action Party (MHP) to counter the leftist movement was another factor that contributed to the collapse of political order in Turkey in the late 1970s. The Anatolian-based small enterprises were the main source of support for the MHP (Adaş, 2003:124). The Party's attempt of suppressing leftist activists through street violence brought the country to the edge of civil war.<sup>57</sup> With the collapse of the political order, the decay of parliamentary democracy, labor militancy, student revolts, armed struggle between extreme right and leftist groups, Turkey came across a hegemonic crisis by the end of 1970s (Tünay, 1993; Yalman, 2002a).<sup>58</sup>

#### **2.7.4. Looking for a way out of the crisis**

The disintegration of the political alliance and the urgent need for foreign currency put the then Ecevit government (1978-1979) under the strong pressure of the IMF and the World Bank, who demanded that Turkey open its economy to international competition, liberalize its trade, foreign exchange, financial and capital markets, and downsize its public sector (Gülalp, 1993:38). This demand for liberalization can be explained with the dramatic change

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<sup>56</sup> When Erbakan was elected to the leadership of the TOBB in 1968, he made it clear that he aimed at changing the policies of TOBB in such a way that would favor Anatolian interest not the large industrialists of the Istanbul region. The then Prime Minister, Demirel's forcing Erbakan out of the TOBB represented the beginning of the mobilization of Islamic politics under the leadership of Erbakan (Barkey, 1990).

<sup>57</sup> The number of victims reached to 20 deaths per day during the weeks that preceded the 1980 military intervention. Mainstream political parties, especially the Justice Party (JP) and Republican People's Party (CHP), were blamed for the escalation of violence. Because neither party held the majority in the parliament, their cooperation was essential to deal with terrorism. However, rather than cooperating with each other, both parties formed coalition governments with the radical parties, namely the Islamist National Salvation Party and the ultra-nationalist National Action Party. One major result of this type of cooperation was the paralysis of the parliament (Aydın-Düzgüt and Gürsoy, 2008:9).

<sup>58</sup> For instance, the parliament could not select a president for several months despite multiple voting sessions, which completely disabled legislative work for six months prior to the 1980 coup.

in the position of the IFIs as a result of the shift from Keynesianism based on managing aggregate demand through fiscal policy towards monetarism in the 1970s.

The then global economic environment, which involved higher inflation and interest rates and deteriorating export performance, accompanied with the debt crisis, largely in Latin America, posed a threat to the stability of the international financial system (Boughton, 2001). When many developed and developing countries shifted towards monetarism to overcome their macroeconomic problems, the IFIs adapted to the new circumstances and began to take a more influential role in the world's economic system (Boughton, 2001:1). The IMF, for instance, shifted from tendencies such as governmental planning and control over economic activity toward policies based on open international trade and finance (Boughton, 2001:3). Instead of monitoring fixed exchange rates, the IMF took on the responsibility of exercising firm surveillance over its members' exchange-rate policies and increased its role as an international lender, which demanded that indebted countries undertake fiscal, financial, and monetary reforms.

Within the framework of structural changes in the world economic governance, Turkey signed a stand-by agreement in 1978 with the IMF that would provide SDR 300 million, the disbursement of which depended on the implementation of restrictive monetary and fiscal policy (Okyar, 1983:534). Convinced of the virtues of state intervention in the economy, the Ecevit government was reluctant to comply with the IMF-prescribed austerity measures that would open the Turkish economy to world markets. The unwillingness of the government coupled with the negative developments in the economy such as increasing inflation, rising unemployment, foreign exchange shortages, emergence of black markets led to the failure of the stand-by agreement. For the IMF, the rigidity of the Turkish exchange rate policy and the

large wage increases given to the trade unions were responsible for the adverse developments in the economy.<sup>59</sup>

Given the scale of the political-economic crisis in Turkey in 1979, the OECD member states expressed their concern for the Turkish situation and announced that they were ready to provide an assistance of around \$1 billion to Turkey (Okyar, 1983:536). However, they made it clear that the granting of that amount would be dependent on Turkey's concluding a new agreement with the IMF. It also became apparent that rescheduling short-term credits to Turkey depended on the same agreement. Accordingly, the Turkish government prepared another Letter of Intent on 30 June 1979 asking for one year stand-by for an amount of SDR 250 million (Okyar, 1983:537). When the Fund approved the new stand-by, it paved the way for the provision of OECD aid package of \$1 billion and also the conclusion of an agreement with foreign banks on debt rescheduling. The stand-by also opened the way for various World Bank project credits and to a program credit of \$150 million (Okyar, 1983:538).

Despite this external support, the stand-by agreement collapsed again mainly due to the fundamental divergence of views between the Turkish government and the IMF about the nature of the Turkish economic crisis and the measures to correct it. For the Ecevit government, there was nothing structurally wrong with the Turkish economy; nor with the economic development policies followed since the 1960s (Öniş, 1998). Thus, all that was needed was additional external financing and the rescheduling of short-term foreign debts (Öniş, 1998). On the other hand, the IMF held that long-term structural changes in the economy were necessary. Given such a fundamental divergence of views, both the 1978 and 1979 stand-by agreements failed. As a result, international banks and OECD countries were unwilling to provide Turkey with new loans. Unable to receive the urgently needed credits,

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<sup>59</sup> After a decrease of 10% during the two years of military regime (1971-1973), real wages increased by 21% in 1975, by 5% in 1976, by 22% between 1976 and 1978 (Keyder, 1987:160).

the Turkish economy was stuck in a deep crisis.<sup>60</sup> Moreover, the increasing tension between leftist groups and right-wing extremists resulted in severe political violence. The Ecevit government's failure to stop worsening economic conditions and the rising social unrest resulted in the erosion of his popularity. Particularly, TÜSİAD launched an offensive against the Ecevit government and asked for the withdrawal of the state from those operations which restricted private initiative.

#### **2.7.5. The Challenge of Big Capital in Collaboration with the International Financial Institutions**

In October 1978, a group of Turkey's leading businessmen, namely TÜSİAD members visited the US. They had meetings with senior officials of the IMF, the World Bank, the Federal Reserve Board, the Carter Administration and with the top executives of six commercial banks having business relations with Turkey such as Citibank and American Express (Gülfidan, 1993:88; Önder, 1999:32). The representatives of international financial institutions expressed their recommendations on what Turkey needed to do to get out of the economic crisis (Gülfidan, 1993:88). The international circles emphasized the necessity of creating favorable conditions for the promotion of exports such as devaluating the Turkish lira (Öniş, 1998). The policy proposals of the IMF and the World Bank provided further justification for Turkish big capital that was already in favor of a move away from import substitution to export promotion.

Claiming that there was no alternative, TÜSİAD presented the recommendations of the external actors to the government and to the public. In a 1979 report submitted to the

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<sup>60</sup> By 1979, inflation had reached three digit numbers, unemployment had risen to almost 15%. GNP growth rates declined from 10.7 percent in 1971 to -1.1 in 1980. Growth in the industrial sector decreased from an average of 9.3 percent in the first half of the 1970s to 1.9 percent in the second half. The current account deficit was usually financed by external borrowing and Turkey's external debt rose to about \$16.2 billion which was more than one quarter of the GDP (Aydin-Düzgüt and Gürsoy, 2008:10)

directorate of the State Planning Organization, TÜSİAD emphasized that Western countries should not be expected to continue to provide credits to Turkey to finance its balance of payments (Gülfidan, 1993:88-89). It also stressed that if Turkey wanted to be an integral part of the Western community, it had to modify its economic policies in a more liberal and outward-oriented direction. TÜSİAD claimed that Turkey would have short-term and long term benefits once it opened up its economy in accordance with the IMF proposals. In the short run, urgently needed credits and foreign exchange would flow to Turkey. In the long run, new sources of capital would be attained and joint ventures with transnational corporations would be established (Önder, 1999:31; Önder, 1998:46). The prevailing trend toward market-oriented policies and liberalization in the world economy strengthened TÜSİAD's arguments for changing economic governance.

TÜSİAD (1977-1979) also published figures in its activity reports comparing the performance of its members to that of the state in areas such as productivity, employment, and contribution to value added to illustrate it could be more efficient than the state (Yavuz, 2006:126). It stressed the economic problems of the country, such as the shortage of foreign exchange, unemployment and rising inflation and proposed policies to solve these problems. The policy proposals included reduction in the economic activities of the state, greater reliance on market forces and private sector, promoting exports, competition and foreign investment as a means to promote efficiency and better resource allocation and sustainable economic growth over the medium term (TÜSİAD, 1980:75; Arat, 1991:140; Gülfidan, 1993:90-91). These proposals revealed that the stance of the IMF, the World Bank and TÜSİAD concerning the adaptation of a new export-oriented economic strategy overlapped (Ercan, 2002).

As will be explained in greater detail in subsequent chapters, this demand for a shift in economic policy can be explained by the development of the interests of TÜSİAD

members to a level that they would not be satisfied with concentration on the domestic market (Ercan, 2002). An important link was thus formed between the international financial institutions and Turkish big capital that put emphasis on the liberalization of the economy (Önder, 1998:46). As a reflection of this external and domestic coordination, ‘opening to the world economy’, ‘free markets’, ‘reducing state intervention in the economy’ began to dominate political discourse.

To pressure the Ecevit government as well as to mobilize public support for its policy proposals, TÜSİAD launched a campaign against the government in major Turkish newspapers and a weekly news magazine for four weeks in May 1979 (Gülfidan, 1993:90; Yavuz, 2006:126). Such a campaign was unprecedented in Turkish political history. This was the first time that a private sector association publicly positioned itself in such open opposition to a government (Adaş, 2003:57). Under these pressures coupled with his party’s sharply decreasing votes in the by-elections of October 1979, Ecevit resigned and Süleyman Demirel’s Justice Party formed a minority government with the backing of the Nationalist Action Party and the Islamist National Salvation Party in November 1979. In urgent need of foreign credit, the Demirel government responded to the demands coming from both the IFIs and the representatives of big capital that favored a shift towards outward-looking model of development. Demirel introduced an economic and financial stabilization program known as the ‘24 January decisions’ in 1980 (Önder, 1999:42). These measures started the process toward a market-based economy which would shape both the state and society in Turkey in the following decades.

## **Conclusion**

This chapter examined major shifts that occurred in the national economic development trajectory of Turkey between 1923 and 1980. It argued that changes in the economic model

pursued restructured social forces within the national economic space. Each stage of economic development strategy since the proclamation of the Republic in 1923 was characterized by a particular state form that had a significant impact on the evolution of social forces with long-term implications. The chapter showed that during the early years of the Republic, the secular and statist Kemalist elite emerged as the sole and legitimate agent of change and modernity. Given the absence of an entrepreneurial base and finance capital, the Kemalist leaders undertook the economic development process. With the adoption of an *etatist* model in the 1930s, the Turkish state assumed direct control of resource allocation by means of economic planning and the ownership of public enterprises. Until the 1980s, this state-led development model was used as a reference map through which the economic level of the country would be raised.

Kemalism served to bring different sectors or groups together around the objective of national development. Particularly, Turkey's embarking on an import substitution industrialization strategy in 1960 created a political alliance composed of the bureaucracy, big industrial groups, and organized labor through rising wages and protection from international competition. Nevertheless, the ideational foundation of the political consensus constructed through Kemalism was shattered with the emergence of social forces whose interest did not any more lay in an inward-looking economy in the 1970s. The rise of rival social forces led to the polarization of views and the bureaucracy's exposure to partisan and clientelistic pressures that brought about a paralysis of the decision-making structure of the state in the late 1970s.

The chapter argued that an important consequence of this crisis emerged at the ideational level challenging the general belief in the Kemalist legacy of state-led development. The chapter concluded that this challenge pushed the then Demirel government to undertake development by initiating a market-oriented economic model and shifting from

protectionism to economic liberalization. Such a shift in Turkey's economic governance was also an expression of a global movement represented by the globalization of production and trade that was promoted by the IFIs such as the IMF and the World Bank. The chapter demonstrated that change in the economic policies in 1980 was not only the result of the imposition of these external actors, but social forces that aimed at integrating with the world market were behind the radical turn in economic management.

### **Chapter 3. The Shift to an Outward-Oriented Model of Economic Development, 1980-2006**

#### **Introduction**

This chapter aims to show the transformation of social forces in Turkey as a result of the shift from import substitution strategy (ISI) to an outward model of economic development. It argues that the rupture with the political economy of the protectionist ISI era led to specific changes in the relationship between political and economic spheres, as well as the interests and worldview of various social forces. Particularly, the emergence of internationally-oriented actors constituted the historical basis for the gradual demise of the state-centric Turkish modernization and development.

The chapter starts with the emphasis that the 1980 military coup was decisive in restructuring the political and social configuration of the country in line with a neo-liberal economy. The military regime (1980-1983) set the Turkish economy on a new course and laid the foundation of a new state form that was based on the dominance of capital groups and the exclusion of organized labor from the political process. It is emphasized that the subsequent civilian governments ensured the continuation of the restructuring of the economy towards an open market economy.

The diffusion of a market culture in Turkish society and dismantling of the tradition of *etatist* development were preconditions for the viability of the new liberal economic order and for the transformation of inherited *etatist* values. Therefore, the Özal government (1983-89) is particularly emphasized as it succeeded to legitimate a new common sense by disseminating market values among Turkish people and redefined their social and economic values, aspirations, and interests in accordance with market principles and norms. Moreover, by emphasizing Özal's replacement of the traditional, statist-oriented bureaucracy with the American educated Turkish technocrats, this part also illustrates how Özal established the

ground work for the rise of new bureaucratic elite committed to market principles. As will be further elaborated in chapters IV and V, market-oriented bureaucrats served as important agents of change in the recent restructuring process of the Turkish state.

The second part provides a comprehensive picture of the Turkish capital groups by examining characteristics such as size, sector and their history of development, their location in the Turkish economy, and their approach to change. It highlights that economic liberalization generated two different trends: a strengthening of big capital organized in large holdings and an opening for small and medium-size capital linked to religious and social networks concentrated in Anatolia. This part shows that with the changing economic environment, growing international trade, and transnational flows of goods, capital, and ideas, outward-oriented capital groups, including Islamic capital, began to emerge more powerful in Turkey. These groups, in their own way, represented a challenge and saw an obstacle in what had become the established Kemalist order and model; and saw in economic liberalization the tools to undermine the Kemalist state form.

The third part shifts to the implications of the twin economic crises Turkey experienced in November 2000 and February 2001. This part emphasizes that crises shaped public opinion in Turkey and served as a window of opportunity for generating broad-based support for longer term structural reforms guided by external actors such as the EU and the IMF. It is also highlighted that the crises were particularly crucial in the marginalization of the resistance coming from the statist elites (some part of military and bureaucracy), the labor unions, and nationalists against the liberalization policies.

The last part stresses that the emergence of outward-oriented Islamic capital in Turkey since the 1980s had taming effects on the Islamic politics. It is underlined that growing Islamic business interests were influential in the emergence of a moderate Islamic party, the Justice and Development Party (AKP), which emerged as an active agent of

change. Personal ties between the Islamic banks, religious order communities, Islamic capital, and the AKP government are explored in detail to understand the AKP's strong emphasis on the need to adjust the economy to global market premises in line with the prescriptions of the IMF. Moreover, the consensus established amongst the capital groups, the AKP government, globalizing bureaucrats, the mainstream media, and intellectuals is highlighted to show the rising common sense among Turkish people for restructuring the Turkish state.

### **3.1. Initiation of the 24 January 1980 Structural Adjustment Program: The First Phase of Economic Reforms (1980-1989)**

As mentioned in the previous chapter, Turkey shifted to an outward-oriented and market-based development model in 1980 through the structural adjustment program, popularly known as the 24 January Decisions. The program introduced a series of changes and measures such as the devaluation of the Turkish Lira, gradual liberalization of the foreign exchange regime; promotion and diversification of exports; liberalization of the foreign trade and interest rates; and elimination of public subsidies on goods and services (Official Gazette, 25 January 1980, issue: 16880). Through these measures, Turkey entered into export-oriented free market economy (Öniş, 1998:17; Aydın, 2005:43-44). This economic reorientation of Turkey corresponded with the then economic and ideational trends relating to market-based growth promoted by the IFIs such as the IMF and the World Bank. These institutions contributed to establishing a new material and ideational basis upon which new foundations, with regard to economic organization, economic policies, and individual behavior in economic affairs have been established (Okyar, 1983:557).

Considering the adjustment program as a project that would consolidate the newly emerging economic order, Turkish business circles welcomed and supported the economic

reforms. The then chairman of TÜSİAD, Koçman, stated that ‘it is not right to expect any economic achievements from the January 24 decisions. It is a way of life, there is no alternative’ (Güney, 2002:125). However, there was strong opposition in society coming from labor unions, the opposition parties, and bureaucratic circles (Önder, 1998:48). The labor unrest was related to the wage restraint that was implemented to attain international competitiveness for promoting exports.<sup>61</sup> The bureaucracy was also reluctant to apply the new measures that it believed would weaken its power (Akdoğan, 2001). The political parties from the extreme nationalist, Islamist, extreme left, moderate left and right of the spectrum were in severe fight with each other. A significant section of the parliamentary opposition challenged the new economic program. The Islamist National Salvation Party, for instance, attacked the government’s policies for surrendering the country to the IMF and western powers (Önder, 1999:53). Thus, Demirel’s minority government, lacking a legislative majority, did not have the power to justify the new economic program and was not able to create a national consensus around this new project.

In the atmosphere of increasing violence and the breakdown of order, the deep disagreements between the leaders of political parties were seen as an impediment for the restructuring of the Turkish economy and the stability of political regime, thus opening the path to the 12 September 1980 military coup (Akdoğan, 2001:54). The military justified the coup on the grounds that the state and its principal organs had been made inoperative and political parties lacked the consensus necessary to deal with the country’s problems (Ahmad, 1981:5). Nevertheless, as will be explained below, the historical significance of the 1980 military coup results from its contribution to the transformation of the Turkish accumulation model from import substitution into an export oriented one.

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<sup>61</sup> To challenge the 24 January Decisions and anti-labor legislation that restricted the rights of collective bargaining and strike, DİSK organized demonstrations in March 1980 (Önder, 1999:48-52).

### **3.1.1. The Restructuring of Social Forces under the Military Regime**

The military regime (1980-1983) established after the 1980 coup was instrumental in consolidating the economic reform process, reorganizing the institutional structure of the state, and changing the balance of social forces in Turkey in favor of big capital (Tünay, 1993; Önder, 1998; Savran, 2002). The military leaders declared the end of the ISI model and accepted the structural adjustment program drafted by the international financial institutions (Buğra, 1994:206). Turgut Özal who drafted the 24 January Decisions, was appointed as the deputy prime minister responsible for the management of the economy. Tünay (1993:19) states that without the military intervention, liberalization policies initiated in 1980 would not have survived.

Paradoxically, the most nationalist apparatus of the Turkish state, the military, supported a new economic program that would privilege the market in the allocation of resources and subject the Turkish economy to the exigencies of the global market. With such an opening, the military aimed at the preservation of the authority of the state at a time when both the parliament and the government were paralyzed and ceased to function effectively (Önder, 1999:53; Önder, 1998:49). The perceived link between the economic crisis and political disorder made it all the more important for the military to find a solution to the country's severe economic difficulties. In parallel with the structural shift in the world economy from demand-side Keynesian policies to supply-side monetarism in the early 1980s, the military aimed at overcoming political and economic crises of the late 1970s through a new outward-oriented economic strategy. Moreover, being the owner of a large corporate conglomerate, namely the Army Mutual Aid Association (OYAK), the military had also a stake in the well-functioning of the Turkish economy.<sup>62</sup> Integrating itself into the

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<sup>62</sup> OYAK was established in 1961 as a pension fund and accumulated considerable assets over time. It undertook investments in various industrial and commercial sectors and established partnerships with foreign capital (Akça, 2006:342-45; Demir, 2005). OYAK currently developed into a conglomerate consisting of vast holdings with activities ranging from supermarket chains to real estate, from insurance to tourism (Akça,

circuits of national and international capital through OYAK, the military capital began to emphasize the importance of globalization instead of development plans in accordance with the hegemonic strategy of the time based on the idea of market. The military held the view that it could manage this new process that would serve its interests and as well as contribute to the preservation of social order in Turkey.

With its image as the guardian of the national interest, the military was successful in consolidating the new economic model by portraying the previous one as highly undesirable and characterized by economic crises and disorder (Yalman, 2002a:41). Moreover, the law and order rhetoric of the military became effective in gaining the support of society, which suffered from the civil unrest of the 1970s. Indeed, the military did not leave much scope for opposition to the new politico-economic model by acting as a hegemonic force (Önder, 1999:58). It conducted a ‘passive revolution’<sup>63</sup> and excluded masses from exerting influence over political and economic institutions. In addition to closing down all political parties, the military leaders banned three trade union confederations- DİSK, Hak-İş, and MİSK and excluded organized labor from the political process (Tünay, 1993:20; Cizre-Sakallıoğlu, 1991:61).

The military government focused on reversing the previous gains of the working classes, which were the main obstacle to implement the export oriented development strategy. Through the 1982 constitution, the leftist groups and their channels of political representation were marginalized and the trade union movement was suppressed (Şenses,

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2006:312; Demir, 2005). It employs around 17,000 people and has shares in forty companies, twenty-eight of which are majority and twelve are minority stakes. It owns a 49 per cent stake in OYAK-Renault, the biggest car manufacturer in the country; 20 per cent of Turkey’s total cement producing capacity; 20 per cent of Turkey’s total paper sack production; and an 11 per cent stake in the tyre company, Goodyear (Akça, 2006:325; Demir, 2005). In addition, it owns a major bank (OYAK Bank, including the recently reprivatized Sümerbank), and a portfolio management company which is ranked among the top seven brokerage firms in its sector. Many of these companies are affiliated with large domestic and international firms such as Sabancı and Koç in the domestic market, and DuPont, Goodyear, Mobil, Renault and Shell in the external market (Akça, 2006; Demir, 2005).

<sup>63</sup> Passive revolution is a term used by Gramsci (1971) to refer to movements that are organized from above without the mass mobilization to realize a social transformation.

1994:56; Önder, 1998:56). Based on the highly restrictive labor legislations, the Trade Unions Act no. 2821 and the Collective Bargaining, Strike and Lockout Act no.2822 introduced in May 1983, the government could deny the legality of a strike that might damage society or destroy national wealth (Nichols and Sugur, 2004:150).<sup>64</sup> Accordingly, strikes were banned and many union leaders were accused or arrested for politically motivated strikes (Üşenmez, 2007: 253-54). Due to the suppression of organized labor, coupled with the devaluation of the Turkish lira wage incomes fell substantially; the index of real wages declined from 100 in 1980 to 89.3 in 1989 (Şenses, 1994:57).<sup>65</sup> The suppression in real wages and the policy of disciplining and controlling the organized labor were part of the strategy of ensuring the international competitiveness of Turkish firms (Boratav, 2008). Unlike the ISI period, in the new economic model, wages lost much of their functional importance for the economy as ‘purchasing power’ and became primarily a ‘production cost’ (Önder, 1998:51). It is worth pointing out that while in the past trade unions were restricted because they were seen as a threat to national unity; they were now seen as a threat to the interests of capital thus to the interest of the state. While the military disciplined organized labor, it conducted policies and created institutions that would restructure capital in favor of those segments able to compete in the global market and integrate with transnational capital.

Another crucial dimension of the military regime in terms of the balance of social forces was ending its strong resistance against Islam under a new cultural policy, the Turkish-Islamic Synthesis that aimed at combining Turkish nationalism with Islam (Adaş, 2003).<sup>66</sup> This policy aimed at using religion as an effective instrument for containing radical

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<sup>64</sup> These acts substantially limited the strike rights of the workers and defined the boundaries of the union activities. The unions were prohibited from undertaking political activities. Particularly, the 1983 Trade Unions Act (Articles 9-19; 40-6) regulated in detail the internal organization and financing of the trade unions, including the procedures for the selection of delegates to general conventions and the elections of the union officials in those conventions (Önder, 1999).

<sup>65</sup> The Turkish lira depreciated by 23% in real terms in 1980 and 13% in 1981, and 10.5% in 1982, 3% in 1983, 0.4% in 1984, 0.6% in 1985, 12.7% in 1986, 6.7% in 1987, and 1.6% in 1988 (Aşkoğlu, 1992:111).

<sup>66</sup> The Turkish-Islamic Synthesis was the product of leading conservative politicians, intellectuals, and bureaucrats organized under a semi-official think tank called ‘Hearths of the Intellectuals’ (Aydınlar Ocağı) in

leftist groups and the Islamic religious orders that were active underground (Adaş, 2003:67-8; Üşenmez, 2007). For the military leaders, the rise of the left could only be cut if the popular culture was harmonized by the religious and nationalist sentiments of the people. As such an initiative would curb leftist movements in Turkey, capital circles and conservative groups supported the Turkish-Islamic Synthesis.<sup>67</sup> Thus, Islam was recognized as an important part of the Turkish national identity and incorporated to the secular structure of the state (Yavuz, 2003a:71).<sup>68</sup> The military leaders held the belief that conciliatory approach towards Islam would also create a more homogeneous and less political society. The 1982 constitution thus put more emphasis on Turkish historical, cultural, and moral values (Yavuz, 2003a:72).

The military also attempted to use Islam to buffer the negative effects of the process of neo-liberal restructuring of the Turkish economy and society. As expressed in the 1983 State Planning Organization document, the role of religion was deemed as significant in safeguarding the state, national unity, and the stability of the economy in a period of rapid industrialization and social transformation (Adaş, 2003:67; Tank, 2005). In this way, the military leaders reacted the way they always did; that is, they tried to use the powers of the state to temper Islam and use it as a way to manage the introduction of market forces. Nevertheless, as will be explained later, the state's flexible approach to religion contributed

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1973 (Adaş, 2003:67). These scholars attributed the anarchic situation of the 1970s to ideologies like Marxism or to the activities of imperialist countries (Savran, 2002:18). Thus, they began a nationwide movement in order to reconsolidate the Turkish-Islamic traditions of Turkish society against these external influences, with a significant amount of state support. Under the leadership of İbrahim Kafesoğlu, this movement advocated that the pre-Islamic Turkish culture and Islamic civilization overlap around certain values such as justice, morals, family and the belief in one God, thus proposed a social and cultural alternative for the Turkish people around the Turkish-Islamic Synthesis (Religioscope, 9 May 2005).

<sup>67</sup> Moreover, this state-controlled and tamed version of Islam was considered as necessary against the possibility of radicalization of Islam in Turkey as was the case in Iran.

<sup>68</sup> The leader of the coup, General Evren, made references to verses from the Koran and Prophet's sayings in his speeches. The military authorities attempted to consolidate Islamic values of the society through the education system. The article 24 of the 1982 Constitution made religious education compulsory for all elementary and secondary schools (Tank, 2005:5). The number of religious schools increased from 7 in the 1950s to 588 in 1980. From 1980 to 1986 their number increased by 22%, from 588 to 717 (Türünç, 2007:84). New mosques built with the help of state funds reached almost 1500 a year (Adaş, 2003:68).

to Islamic resurgence in Turkey. More explicitly, the state's aim of using Islam as a unifying force to be mobilized for the consolidation of state power turned out to be an instrument of challenging the traditional role of the state in society and economy (Tünay, 1993:20; Buğra, 2002). As Üşenmez (2007:9) indicated, the endorsement of this cultural policy by the subsequent civilian governments backfired on the state as it fostered the basis for the simultaneous rise of Islamic politics and capital in the 1990s.

### **3.1.2. The Transition to the Civilian Regime: The Özal Period**

The Motherland Party (ANAP) of Turgut Özal, who embraced the idea of a free market ideology and technocratic understanding of the state, came to power in 1983. By combining liberals, extreme rightists, Islamic radicals, and social democrats, Özal aimed to create a nationwide popular hegemony for the implementation of a large-scale reform program to establish a market economy (Tünay, 1993:21; Akdoğan, 2001:91). He gave priority to entrepreneurship and the shift of ownership from public to private actors through deregulation and privatization. He accelerated market reforms to break the structures of *etatism* by lifting quantitative restrictions on imports, simplifying the procedures for foreign direct investment and promoting exports of goods and services, and strengthened the basic infrastructure of the economy, especially in telecommunications and transport (Öniş, 1998:185; Jang, 2005:141). Özal presented these economic reforms to the nation as measures of 'last resort' (Barkey, 1990:175).

Conceiving the market economy as the only policy alternative for Turkey, Özal attempted to spread market values and convince the Turkish people of the benefits of the free market system. He was particularly successful in convincing people that the only way to escape from economic crisis was to apply new economic policies (Yalman, 2002a:42). To this end, in order to analyze the recent economic transformation in Turkey, Özal's crucial

role in the redefinition of the beliefs, expectations, and interests of various social groups along with market principles need to be emphasized. Özal himself acknowledged his personal effort in the transformation of Turkish society as follows: ‘If we compare with the past, there is a big change in the way individuals think and evaluate problems’ (Özal, 1986:243); he later stated, ‘The most important change that we did in the last six years is the change of mentality, the change in the mind (Özal, 1989:330).

Özal’s diverse background in the economic bureaucracy, private sector and the World Bank were instrumental in generating confidence and building a broad base of support for his program (Öniş, 2004:2). This support can be explained by the loss of faith in the Kemalist visions of state-led development after the severe politico-economic crisis of the late 1970s. As explained in the previous chapter, the inability of the previous ISI policies to create competitive industry due to high levels of protection and the emergence of export oriented domestic capital were influential in the loss of general belief in state-led economic development. However, establishing a market culture in Turkey would still be a difficult task due to the legacy of a strong state in the economy and the absence of a market culture in Turkish society at large (Akdoğan, 2001). Thus, Özal attempted to spread liberal principles such as individualism, private ownership, efficiency, competition, and maximization of self-interest (Akdoğan, 2001:175-85). These values were naturalized and spread through his discourse which often made reference to the most recognized and respected moral sources of the Turkish society, Atatürk and Islam (Akdoğan, 2001:263, 279). Concerning the role of Islam as a discursive element, Özal’s moderate Islamist leanings enabled him to appeal to the conservative part of Turkish society, while at the same time through his focus on modernization and closer integration with the Western world, he appealed to secular elites (Öniş, 2004:6).

Another important characteristic of the Özal government was enhancing the executive vis-à-vis the parliament. The basis of this institutional configuration of the state was laid by the military regime through the 1982 constitution (Öniş, 1998:188). Özal increased the state's discretionary power by a significant concentration of economic and political power in the Office of Prime Minister (Öniş, 1998:186; Gülfidan, 1993:96). He restructured the bureaucracy that continued to share the belief that Turkey's rapid development required state-led industrialization (Akdoğan, 2001:155). For instance, the State Planning Organization (SPO), producing the five-year development plans and enforcing their implementation was the most prestigious institution in the economic bureaucracy during the import-substitution era (Keyder, 1987:148). The bureaucrats of the Economic Development Section of the SPO conceived the state as the guardian of the industrialization process (Keyder, 1987). The staff and the managers of other important institutions such as the Ministry of Finance believed in the efficacy of state-led development.

To take power from these old, *etatist* bureaucrats, Özal created new institutions like the Undersecretariat of Treasury and Foreign Trade and Privatization Administration and tied them to the Prime Minister's Office (Öniş, 1998:188). He thus aimed to curb the influence of the traditional bureaucratic structures and procedures which were designed for conducting a state-led economic development (Öniş and Webb, 1994:148). The old agencies were given less crucial functions. For instance, the Ministry of Finance was largely reduced to an agency of revenue collection, while the SPO assumed a function of forecasting. Moreover, in order to stop any possible *etatist* initiatives that may have come from traditional figures, liberal-oriented policymakers were appointed to the leading government agencies. The appointment of Yusuf Özal, Özal's brother, to the State Planning Organization and Ekrem Pakdemirli to the Ministry of Finance in 1987 are good examples (Öniş, 1998:341; Öniş and Webb, 1994:149).

Özal also shifted power in administrative decision-making from bureaucratic to non-bureaucratic experts who had a strong commitment to liberal economic principles (Öniş, 1998). The new technocrats were recruited from Turkish graduates from American universities, from the private sector, and some from the IMF, the World Bank, and American corporations (Önder, 1999; Jang, 2005:196).<sup>69</sup> These technocrats, known as ‘Özal’s princes’, were appointed to important state economic agencies and became key figures in the implementation of the new economic program (Buğra, 1994: 56; Öniş, 2004:15). For instance, Rüşdü Saraçoğlu, recruited from the IMF, was appointed as the Governor of the Central Bank. Bülent Gültekin and Cengiz İsrail, as the Chairman and Vice-Chairman of the Privatization Administration respectively, were among the prominent princes.<sup>70</sup> These technocrats were conceived as necessary for establishing a ‘managerial bureaucracy’ that would ensure bureaucratic cohesion needed to implement structural adjustment reforms (Öniş, 1998:253; 367). The concentration and centralization of public decision-making in the Office of Prime Minister established the ground work for the rise of new bureaucratic elites committed to market principles (Önder, 1999:337).

The decline of those state institutions embedded in the ISI model contributed to labor’s exclusion from policy-formation process. Organized labor that used to participate in the making of five-year development plans in the specialized committees of the State Planning Organization during the 1960s and 1970s lost an important platform for participating in economic policy-making as development plans lost their significance with

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<sup>69</sup> This coincides with Latin American experiences where American-educated technocrats played crucial roles in neo-liberal restructuring of their countries (Öniş, 2006c). Domingho Cavallo played a central role in implementing the Argentine neo-liberal program, and notably the convertibility plan of the 1990s; Pedro Aspe was a central figure in Mexican neo-liberal restructuring; the Chicago University educated group of technocrats, the ‘Chicago Boys’, played a central role in Chile’s first wave of neo-liberal restructuring under Pinochet during the 1970s (Öniş, 2006c). These technocrats served as mediators between transnational and domestic policy elites.

<sup>70</sup> Some of the other technocrats brought from the US were: Adnan Kahveci, Ahmet Söylemez, Bülent Semiler, Cüneyt Ülsever, Cem Duna, Can Cangır, Coşkun Ulusoy, Turgay Özkan, Yılmaz Argun, Ökkeş Özüygür, and Engin Civan.

the transition to the new economic model (Önder, 1998:64). At the same time, it failed to gain access to those newly created state institutions that became the main center of policy-making and implementation. Although the reshuffling of state institutions and bureaucracy put labor into a disadvantaged position, it contributed to the emergence and development of Turkish capital groups favoring an outward orientation.

The measures that were created to promote the structural transformation of the economy strengthened the position of capital groups in society and institutionalized the dominance of financial capital and big firms linked to transnational capital. The fragmentation of interests between nationally and internationally oriented social forces led to the emergence of resistance groups that acted as a counter movement in the 1990s. Before elaborating more on the rise of opposition groups, the following section will examine the rise of those market-oriented social forces that became crucial agents of change in the internationalization process of the Turkish state in the following decades.

### **3.2. The Emergence of Outward-Oriented Capital Groups**

Under the export promotion strategy that was the main policy objective of the Özal government, export-oriented entrepreneurs began to grow in Turkey thanks to tax incentives and subsidies, the depreciation of the Turkish Lira, duty free imports, and a regulated foreign exchange system (Yeldan, 2005:5; Şenses, 1994:57). The Act on Foreign Trade Companies (FTCs) adopted on 18 July 1980 was also crucial in the consolidation of export oriented entrepreneurs. Influenced by the East Asian experiences, notably the cases of South Korea and Japan, this act aimed at providing export tax rebates to those companies that surpassed a pre-specified export target (Öniş, 1998:186; İlkin, 1991:90-91). Foreign trade companies were also provided with additional incentives in the form of exclusive trading rights with specific countries, including Eastern Europe and the Middle East (Öniş, 1998:187). Based on

these incentives, exports rose from \$2.9 billion in 1980 to almost \$13 billion in 1990 (www.dtm.gov.tr).<sup>71</sup>

Through the export promotion incentives, the large export-oriented companies had the opportunity to expand their economic activities.<sup>72</sup> The share of large companies in total exports increased from 9.2 percent in 1981 to 38.8 percent in 1984 (Şenses, 1990:65). By the end of the 1980s, these large FTCs accounted for approximately 50 percent of Turkish exports (Atasoy, 1998:390). In 1988, 21 out of 22 foreign trade companies were subsidiaries of some of Turkey's largest industrial holding companies, construction companies, iron-steel groups, and textile groups (İlkin, 1991:92; Yavuz, 2006:161). For instance, two of the largest FTCs, RAM and EXSA were linked to leading industrial conglomerates, Koç and Sabancı Holdings, respectively (Güney, 2002:204; Yavuz, 2006:161). The emergence of FTCs made these holdings, which traditionally produced for domestic market, more outward-oriented.

In addition to state incentives such as tax rebates and cheap credits that were given primarily to exporters, big capital also benefited largely from the capital account liberalization realized in 1989. Similar to many other developing countries at the time, Turkey ensured the full convertibility of the Turkish lira with the enactment of the degree no.32 in 1989 (Yeldan, 2006:196-9). With the liberalization of financial markets, the Turkish economy was opened to global financial competition. Encouraged by high interests rates, foreign capital began to flow to Turkey (Aydın, 2005:115). The great majority of the Turkish business community also preferred to invest in state bonds which guaranteed high returns in a short period.<sup>73</sup> Increasing interest rates also encouraged Turkish firms to establish their own

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<sup>71</sup> Unless otherwise indicated, all figures account for inflation.

<sup>72</sup> A major shift occurred in the composition of exports, the share of manufactures increased from 36 percent in 1980 to 80 percent in 1990 (www.dtm.gov.tr). Textiles, clothing, iron and steel constituted approximately two-thirds of the total manufactured exports (Şenses, 1990:62-64). In the case of the textile industry, the Sabancı Holding was the largest beneficiary of these measures. In the case of construction, by involving in the Middle East and Soviet construction projects, ENKA Holding was the most important transnational company to emerge in the 1980s (Atasoy, 1998:391). For the incentives granted to exporters see İlkin, 1991:93-94.

<sup>73</sup> The government budget interest payments rose from 0.6% of GNP in 1980 to 3.5% of GNP in 1990 and to 9.9% of GNP in 1996 (Önder, 1998:59).

banks to finance government deficit. For finance capital, governments' borrowing from domestic markets through high interest rates served as a mechanism of transferring resources from the state budget.<sup>74</sup> The annual surveys undertaken by the Istanbul Chamber of Industry (ISO) revealed that during the 1990s an increasingly high proportion of profits of big companies were due to non-industrial investments, namely financial activities involving holding of government securities (Alper and Öniş, 2003).

Diversifying their activities in different sections of the economy, including industry, banking, marketing and foreign trade in a vertical and coordinated manner under the big holding conglomerates, big capital organized under TÜSİAD emerged as the most advantaged section of Turkish capital (Buğra, 1994).<sup>75</sup> Influential TÜSİAD members such as the Koç and Sabancı groups became large holding companies owning the biggest banks, insurance companies, construction firms, and other service enterprises, and have built partnerships with foreign multinational companies. The Sabancı group, for instance, is currently involved in business activities ranging from the automotive sector, paper and packing materials to tourism and trading (Çakı, 2001:138). In the early 1990s, it established an automobile plant in partnership with Toyota. Other multinational business partners of the Sabancı group include Bridgestone, DuPont, Philip Morris, Kraft, Carrefour, IBM, BNP, Hilton, Heidelberg Cement, Mitsubishi Motor Co., etc. (Çakı, 2001:138; [www.sabanci.com.tr](http://www.sabanci.com.tr)). The Sabancı group also served as a major outward investor having operations in Europe, the United States, Asia, and North Africa.<sup>76</sup>

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<sup>74</sup> The share of interest payments in total budget expenditures increased from 2.9% in 1980 to 20.8% in 1990 and to 37.9% in 1996 (Önder, 1998:59).

<sup>75</sup> In 1979, 57.4 percent of the private sector companies were controlled by a single person or a single family, and among 34 holding companies, the top three accounted for 41.3 percent of the total capital (Kılıçdağı, 2006).

<sup>76</sup> For instance, in 1999, DuPont and Sabancı merged their polyester fibre, resin and intermediates into DuPontSA (DuPont Sabancı Polyester Europe) B.V., based in the Netherlands, the largest polyester company in Europe. DuPont and Sabancı are equal partners in this joint venture with annual sales of about \$1 billion and about 4,500 employees (Erkilek, 2003:98). Dusa International LLC, another 50/50 joint venture between DuPont and Sabancı Holding, is the world's biggest industrial nylon yarn and cord fabric producer. It accounts for 40% of total nylon and 66% of total yarn and cord fabric production of the world (Erkilek, 2003:98). It operates nine manufacturing sites worldwide, employing 2,300 employees (Erkilek, 2003:98).

The Koç group with consolidated revenues of \$6.7 billion and exports of \$2.2 billion in 2002 employed almost 50.000 workers in more than 100 companies, concentrated in a wide range of activities including consumer durables, foodstuffs, retailing, energy and mining, tourism and services, foreign trade, and banking ([www.koc.com.tr](http://www.koc.com.tr)). The company had license agreements and joint ventures with MNCs such as General Electric, FIAT, Ford, and Siemens (Çakı, 2001).<sup>77</sup> Koç Holding also engaged in outward foreign direct investment in the services sector. In financial services, Koçbank Nederland N.V., established in May 1996, is an affiliate of Koç Financial Services (KFS), with a major focus on commercial banking and private banking activities. The Koç group also had several distributions, servicing and trading affiliates in the United States, Europe and Asia. Koç Holding's 23 foreign affiliates' total sales amounted to \$1.1 billion in 2002 (Erkilek, 2003:97).

Another large TÜSİAD member, with total net sales over \$1 billion (excluding financial services) in 2001 was Anadolu Group, which is active in manufacturing, financial services, beverages, and tourism. It has joint ventures with several foreign investors. For instance, in soft drinks, it has a partnership with Coca Cola and owns 40% of all seven bottling and distribution Coca Cola plants in Turkey. It also has a joint venture in Turkey with Germany's A.W. Faber Castell to produce writing instruments (Erkilek, 2003:99). Anadolu Group's automotive division has joint ventures in Turkey with Isuzu, Itochu, Honda, Kia, Lada, and Lombardini to produce passenger cars, commercial vehicles, motorcycles and industrial engines (Erkilek, 2003:99). Anadolu Group holds the sales, marketing and distribution rights for Kia and Lada vehicles in the Commonwealth of Independent States (CIS) countries (Erkilek, 2003:99).

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<sup>77</sup> For instance, its white goods producer, Arçelik bought the Blomberg unit in Germany (which produces washing machines and dryers) in April 2002, the Elektra Bregenz unit in Austria (which produces cookers, stoves, and vacuum cleaners) in May 2002, and also two British cooker brands, Leisure and Flavel, in July 2002 (Erkilek, 2003:95-6). In September 2002, Arçelik bought a majority stake in the Romanian refrigerator maker Arctic. Arçelik also announced plans to establish a washing machine factory in Russia and two refrigerator factories in Central and Eastern Europe (Erkilek, 2003:96).

Composed of such internationally-oriented members, TÜSİAD is considered to be the cornerstone of the Turkish economy, with activities accounting for almost half of the production and employment of the manufacturing industry (Buğra, 1994:185; Öniş, 1998: 337, Öniş and Türem, 2002:450). As of December 2006, it had 566 members operating in the Turkish manufacturing and service sectors concentrated mostly in Istanbul. The number of companies represented by these members was approximately 1300, employing more than 583,000 people ([www.tusiad.org.tr](http://www.tusiad.org.tr)). In 2006, the volume of exports and imports generated by TÜSİAD members was \$28.1 billion (38.2 percent of Turkish exports) and \$26.7 billion (22.9 percent of Turkish imports), respectively ([www.tusiad.org.tr](http://www.tusiad.org.tr)). According to TÜSİAD's 2005 membership profile, member companies' total sales volume was \$121.9 billion, which implied a \$53.6 billion of value added. Thus, TÜSİAD produced 43.2 percent of Turkey's value added in the industry, financial institutions and the construction sectors ([www.tusiad.org.tr](http://www.tusiad.org.tr)).

The economic liberalization policies initiated in the early 1980s not only served the interests of big capital, but also brought about a new business group, the so-called Anatolian/Islamic capital that is small and medium sized, export-oriented and located in the Anatolian periphery. The majority of these new entrepreneurs came from the ranks of traditional petty bourgeoisie and was born and raised in a conservative religious social and cultural milieu in provincial towns and cities in Anatolia (Adaş, 2003:35). Thus, these entrepreneurs are generally called Anatolian or Islamic capital which refers to companies: a) owned by conservative and religious businessmen; b) companies owned by religious sects or religious communities, and c) companies with many shareholders.<sup>78</sup>

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<sup>78</sup> Companies that have any of these features are considered to be part of Islamic capital.

### 3.2.1. The Rise of Anatolian/Islamic Capital

The growth of transnational networks and opportunities that arose as a result of globalization and liberalization of the Turkish economy contributed to the emergence and rise of Anatolian capital in Turkey (Adaş, 2003). Anatolian capital benefited from the development and spread of Islamic banks and transnational ties between local entrepreneurs and the Turkish workers in Europe, and liberal policies of the Özal government. Özal, known for his Islamic leanings,<sup>79</sup> and the pro-Islamic wing within his party managed to combine Islamic cultural values with the economic development project of the period (Atasoy, 1998: 429-430).

A more tolerant approach shown by the Özal government to various domestic religious orders such as the Nurcu, Süleymanî, İskenderpaşa, and Işıkçılar communities was crucial in the development of the Anatolian capital. The social networks of these religious communities accelerated the upward mobility and expansion of the Islamic business groups. These religious orders provided Islamic businessmen important connections from transnational markets, especially from the Gulf states (Buğra, 1999:29; Jang, 2003). By promoting intra-community solidarity, these religious orders not only helped their members share religious beliefs and practices, but also developed an environment of cooperation and mutual support for their economic development. Many of them established their own companies, private TV channels, hospitals, and schools in the 1980s (Jang, 2005:201; Adaş, 2003; Üşenmez, 2007). For instance, the leader of the Nurcu community, Fethullah Gülen favored a free market economy and encouraged its members to take part in the market. During the Özal period, the Nurcu community so actively participated in the market that they were defined as a community that turned into a holding (Bilgili, 2006:56). In 1992, the community established Asya Holding, which in 1996 created Asya Finans, an interest-free

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<sup>79</sup> Turgut Özal, belonged to a conservative, religious family from the central Anatolian town of Malatya with ties to the Naqshibandi sufi order. After moving to Istanbul, Özal and his older brother, Korkut Özal joined the Naqshibandi İskenderpaşa lodge, which was a forum for the political and business elite (Beinin, 2004).

bank that was instrumental in supporting the newly developing Nurcu firms, universities, high schools, private academic institutes, dormitories, and summer camps in Turkey and Central Asia (Yavuz, 2003b:36-39).<sup>80</sup> Asya Holding also owns a large media empire, including the daily newspaper Zaman; an English-language newspaper, Fountain; a science monthly, Sızıntı; an environment-related magazine, Ekoloji, a theological issues journal, Yeni Ümit; a weekly magazine, Aksiyon; the news agency, CHA; the television channel STV; the radio station, Burç; and an advertising agency, IŞIK (Religoscope, 9 May 2005; Buğra, 1999:35; Çakı, 2001:118; Yavuz, 2003b:36).<sup>81</sup>

The İskenderpaşa community<sup>82</sup> aims at enriching its members as a means of competing with the Kemalist establishment in economic, political and intellectual life (Religoscope, 9 May 2005). This community set up its own business whose rise was supported by its contacts with powerful families, such as the Özal and Topbaş families, in the sectors of finance, trade, construction and oil industry (Religoscope, 9 May 2005). The community established a large Islamic media empire that includes radio and television stations, comic books, and science periodicals among others. ‘İslam’, ‘Mektup’ (Letter) and ‘Kadin ve Aile’ (Woman and Family) are the three Naqshbandi journals (Smith, 2005:319). Vefa Yayıncılık, Albaraka Turk, Esmâ Hatun Hospital, Afîyet Hospital, İspa Turizm, Server Communication, Clup Familia Hotel are among the İskenderpaşa community’s economic

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<sup>80</sup>Those institutions are Fatih University, Çankaya Medical Center, Fırat Educational Center, Ufuk Education Corporation, Çağ Teaching Corporation, Istanbul FEM Academic Institution, Özel Maltepe Academic Institution, Fatih Education and Teaching Association, Türkiye Teachers Foundation, and Türkiye Journalists and Writers Foundation (Aras and Çaha, 2000).

<sup>81</sup> The other Nurcu community economic organizations are Aydınli Giyim, Memorial Hospital, Güvender Yayınları, Procelik Ltd., and Cihan Ajans (Bilgili, 2006).

<sup>82</sup> The İskenderpaşa Community belongs to the Naqshbandi Sufi order which was founded by Bahaeddin Naksibendi back in the 14<sup>th</sup> century. Banned by Atatürk after the establishment of the Turkish Republic, the Naqshbandi order sustained an underground activity and gradually reemerged after 1950. The community motivated the members of his community to take part in the market activity and to add financial strength to their political and social power (Bilgili, 2006:25). Today there are thought to be about 2 million Naqshbandis in Turkey (Smith, 2005:315).

enterprises (Bilgili, 2006). The network among companies was realized when they were united under the Server Holding in 1995 (Buğra, 1999).<sup>83</sup>

The Süleymancı community is another branch of the Naqshbandi order with established firms such as Arslan Nakliyat (transportation), Hilal Denizcilik (shipping & trading), Hisar Incontinental Hospital, and Ödemiş Giyim (textile). The community established a strong web between their firms in order to support their educational activities (Bilgili, 2006). The Işıkcılar community, which is a conservative branch of the Naqshbandi order, owns a powerful holding, Ihlas, which is composed of 100 companies that are engaged in publishing, construction, healthcare and education (Religoscope, 9 May 2005). The community also owned a financial institution, Ihlas Finans that went bankrupt in the 2001 economic crisis. It also owned the television channel TGRT, the daily newspaper, Türkiye, which combined a nationalist and Islamic spirit, and the advertising agency, ÖNCÜ (Buğra, 1999:18-19; Religoscope, 9 May 2005).

The relative flexibility shown towards Islam was also influential in opening the domestic market to the Islamic capital of Muslim countries. In order to attract Arabic capital, the Özal government passed the decree no. 83/7506 on interest-free banking in December 1983.<sup>84</sup> With this decree, Islamic banking that began to spread worldwide as a result of the accumulation of large amount of petro-dollars after the oil crises in 1973 was introduced in

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<sup>83</sup> Server Holding company led by Iskenderpaşa branch of Naqshbandi order acts in various sectors with enterprises such as Ümraniye Sağlık Tesisleri, Haksa Sağlık Hizmetleri and Zinde Sağlık Hizmetleri (health); ASFA Eğitim Tesisleri (education); Fuzul Otomotiv (automotive); Gökkuşluğu (construction industry); Vera Dış Ticaret (trade) (Çemrek, 2002:142). Server Holding acts also as retailers abroad having 3 shops in England and Scotland with its annual turnover of \$ 25 millions. Fuzul Otomotiv became one of the most leading automotive sales organizations in Turkey. Its 110 branches all over the country reached 25.000 in sales annually. Akra FM, one of the first radio stations in Turkey, is one of the largest private radio communication network with its 252 transmitters and it also broadcasts to Europe, North Africa and Central Asia (Çemrek, 2002:142).

<sup>84</sup> Interest is forbidden in the Koran, thus Islamic banks that operate as an alternative to the interest-banking system emerged in the mid-1970s. They replace interest with profit-sharing (or revenue-sharing) and participation-sharing (risk-sharing). Under the profit and participation sharing, instead of a fixed percentage return, namely interest, depositors, lenders, and investors receive a predetermined share of any income created by the projects financed through their contributions to the borrower's business transactions. They also share any losses (Jang, 2003:2).

Turkey (Üşenmez, 2007:262; Adaş, 2003:79).<sup>85</sup> Accordingly, two Islamic banks, Al Baraka Turk and Faisal Finance were established in 1985. These banks were joint ventures between Saudi Arabian finance institutions and Islamic oriented Turkish businessmen. For instance, Korkut Özal, Primer Minister Özal's brother, was a Naqshbandi-affiliated businessman and had close business relationship with Sheikh Saleh Kamel, the main shareholder of the Al Baraka Turk (Yavuz, 2003a:89).<sup>86</sup> Another joint venture, the Kuwait Turkish Finance, between the Kuwait Finance House and Türkiye Vakıflar Bankası was established in 1989 (Jang, 2003:3).

This interaction between the expansion of Saudi and Gulf capital and the Turkish state's moderate stance towards Islam provided an opening for the resurgence of Islamic politics and acceleration of the growth of new Islamic business groups in Turkey (Jang, 2003). Both Al-Baraka Turk and Faisal Finance engaged in financing of Turkish exporters and importers; over 90 percent of their funds were used to finance trade. They financed Turkey's oil imports, valued at some \$200 million annually (Beinin, 2004). The main beneficiaries of these institutions were the newly emerging pro-Islamic companies, particularly the ones operating in chemicals, petrochemicals, machinery and equipment sectors.<sup>87</sup>

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<sup>85</sup> The financial operations of Islamic banks are based on three different concepts. First, murabaha, in which the Islamic bank would buy an asset that a particular customer needs, for example heavy machinery, and then through negotiations of a reasonable profit rate it leases the equipment or asset to the customer. Second, in the mudaraba, a customer and the Islamic bank engaged in a joint venture in which the bank supplies credit for the initial business and the customer provided his/her labor. At the end, the resulting profits and losses are shared according to the primary banking agreement signed by the two sides. The third concept, musharaka, means that both the customer and the bank are responsible for supplying credit and labor, like partners whose profits and losses are shared as argued above. These banks' dealings, unlike conventional banks, aim to provide funds for productive enterprises and form partnerships with the customer rather than being just a financial instrument for the bank (Üşenmez, 2007:264-65; Adaş, 2003:74-78).

<sup>86</sup> Prince Mohammed Al-Faisal was the main shareholder of the Faisal Finance and Salih Özcan, Ahmet Tevfik Pakso, and Cemal Külahlı were the main Turkish shareholders. Prince Mohammed Al-Faisal sold the bank to the Islamic Kombassan Holding in 1998, which resold it to the Ülker Group, a leading food producer with 22 companies in 2001 (Jang, 2005:142-43). The name of the bank was changed into the Family Finance House.

<sup>87</sup> In 1986, Al-Baraka Turk invested 40.7 percent of its funds in the chemical and petrochemical sector and 28.2 percent of its funds to the machinery and equipment sector (Atasoy, 1998:417).

As a result of the increasing role of Islamic business groups in the economy, domestically-financed Islamic banks such as the Anadolu Finance House (1991) owned by İstikbal Group<sup>88</sup>, a leading furniture manufacturer; the İhlas Finance House (1995)<sup>89</sup> owned by the İhlas Holding, and the Asya Finance House (1996) owned by the Nurcu community emerged in the 1990s (Adaş, 2003:79). As of 2000, the share of six Islamic banks in the banking sector was around 4 percent (Demir et al, 2004:171). These Islamic banks provided Islamic entrepreneurs with transnational linkages as well as financial support and contributed to the Islamization of capital (Adaş, 2003:93). Their credit schemes provided support to newly industrializing towns in Turkey such as Kayseri, Denizli, Gaziantep, and Konya (Üşenmez, 2007:265). This triggered a process of production and capital accumulation in these towns which manifested itself with the rise of the export oriented small and medium-size enterprises (SMEs) (Demir et al, 2004:169).

The remittances of Turkish workers abroad also constituted an important source for capital accumulation in Anatolia. The conservative Anatolian entrepreneurs attracted the savings of Turkish workers in Europe and established large joint ventures in the form of multi-share holding companies such as Kombassan, Büyük Anadolu Holding, Yimpaş, Endüstri, Sayha, İttifak, and Jet-Pa in Anatolian cities like Konya, Yozgat, Çorum, and Aksaray (Demir et al, 2004:168; Jang, 2005:214). These companies were founded on the basis of Islamic loss and profit sharing principle and their shares were not quoted on the stock market and the collection of millions of dollars from thousand of individuals was entirely based on trust relations (Demir et al, 2004:170; Adaş, 2003:45;83-4). The profits were shared in proportion to the capital contribution.

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<sup>88</sup> The İstikbal Group began its production and marketing activities in 1940s. The main companies of the Group are Merkez Çelik Company, İstikbal Mobilya Company, Boytaş Mobilya Company and Hes Hacılar Electric Company. The first three companies focus on manufacturing home textile and furniture while the forth one produces telecommunication and electric cables. In 2000, the export volume in these four companies exceeded about 35 million US dollars (Jang, 2003:4).

<sup>89</sup> İhlas Finance House went bankrupt in 2001.

Participating as small shareholders to the profit and loss of multi-share companies became popular in the conservative-religious business circles of Turkey (Adaş, 2003:89). In the 1990s, in Konya alone at least 40 companies were founded on this model. Most of these holdings constituted a network of firms representing the combined capital of more than 80,000 shareholders (Çemrek, 2002; Adaş, 2003). For instance, Kombassan Holding that is located in Konya was established in 1989 as a small enterprise, Konya Printing & Packaging Inc. However, by implementing the multi-share holder system of raising capital among small shareholders, Kombassan attracted a huge flow of capital from the Turkish workers in Europe. Kombassan collected 2 billion DM from 30 thousand people in Germany in 1990 (Adaş, 2003:84; Çemrek, 2002). In this way, in a ten year period, it became a holding company owning more than 30 industrial plants, nearly 100 companies engaged in machinery, automotive engines, petro-chemical products, construction materials, mining, leather, textile, and employing almost 25 thousand people throughout Turkey, Germany, Malaysia, the US, Bosnia-Herzegovina and Kazakhstan (Çemrek, 2002). The Kombassan Holding purchased the state-owned Petlas tire factory in 1997 and also owned supermarket and gas station chains, a film production, travel agency, and basketball team (Jang, 2005:209).

Yimpaş was established in 1982 as a small commercial company, but grew to be a large holding in a short period by incorporating more than 60 thousand small investors in Europe and Turkey (Jang, 2005:210). It has 60 hypermarket chains in Turkey and 20 market chains in Europe, has investments in the construction sector, and is one of the largest shareholders of TV channel, Kanal 7. During the mid-1990s, Yimpaş expanded into hotel and restaurant chains, computer, telecommunication, and furniture industry and employed more than 10 thousand workers (Jang, 2005:210). According to Adaş (2003:28), these

transnational networks and connections between Islamic entrepreneurs and Turkish migrant workers in Europe created a ‘transnational Islamic space’ between Europe and Turkey.

The emergence of Anatolian capital also coincided with the changes that occurred in the global patterns of production and trade due to the accelerating pace of the globalization process (Koyuncu, 2003:216; Köse and Öncü, 1998:151). When Islamic working relations that were based on flexible production systems and decentralization became the main features of the working relations in a globalized world, the Islamic vision became more compatible with global market relations (Koyuncu, 2003:268). With the decentralization of the vertically integrated enterprises and the shift towards flexible production, the SMEs became important in an environment characterized by diverse linkages among suppliers, sub-contractors and final users (Çemrek, 2002). To this end, with an export-oriented strategy, the Anatolian entrepreneurs adopted a flexible production system based on small but effective production units, which had the advantage of rapid expansion and adaptation to changing domestic and market conditions (Cizre-Sakallıoğlu and Yeldan, 2000:499-500).

The rise of these multi share holding companies, the SMEs, the Islamic-oriented enterprises, and interest-free finance institutions driven by cultural and religious values led to the emergence of an Islamic bourgeoisie that united under the Independent Industrialists and Businessmen Association (MÜSİAD) in 1990.

### **3.2.2. MÜSİAD: Combining Islam with Modernity and Economic Liberalization**

As a result of the strengthening of the private sector under liberal economic policies, voluntary business associations began to proliferate in Turkey. While the total number of business associations did not exceed 50 until the early 1980s, their numbers were more than 400 by the end of the 1990s and reached around 1000 by 2006 (Kılıçdağı, 2006:1). The business associations created with a cultural or ideological emphasis, such as the nationalist

business associations, young businessmen's associations, women entrepreneurs' associations, and Islamic business associations of different groups and sects were influential in this rise.<sup>90</sup> Religiously and culturally motivated, MÜSİAD was founded in 1990 by a group of conservative businessmen in order to bring together the small and medium-sized entrepreneurs of Anatolia and help them to increase their business and export potential.<sup>91</sup> As indicated earlier, the majority of the Islamic entrepreneurs in Turkey emerged after the 1980s with the implementation of the structural adjustment reforms that revised the traditional role of the state in the economy and the flexible approach adopted towards Islam. As the table below illustrates, 75% of the MÜSİAD members were founded after 1980 (Adaş, 2003:61).

**Table.3.1. The Foundation Date of MÜSİAD Members:**

<b>Date</b>	<b>Number of Firms</b>	<b>%</b>
Before 1950	28	1.6
1950-1959	42	2.4
1960-1969	85	4.8
1970-1979	283	16.1
1980-1989	739	42.1
After 1990	579	33.0
Total	1756	100.0

Source: Adaş, 2003:33

MÜSİAD member companies were traditionally clustered in the rising sectors of the post-1980 era, such as textile and clothing, construction, and service sectors. However, since the mid-1990s, in addition to these labor-intensive sectors, Islamic entrepreneurs have

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<sup>90</sup> The Islamic oriented MÜSİAD, more religious, community/sect-based businessmen associations like AGİAD (Anatolian Young Businessmen Association), İSHAD (Business Life Solidarity Association), and the Anatolian Lions Businessmen's Association (ASKON) were formed by a group of conservative, Muslim businessmen. The Contemporary Industrialists' and Businessmen's Association (CUSİAD) was created by the Alawi community as a reaction to the rise of Islamic oriented business associations, while the National Industrialists' and Businessmen's Association (USİAD) was created by secular and leftist-nationalist businessmen (Kılıçdağı, 2006). These culturally and ideologically organized business groups constitute 44 percent of the total business associations in Turkey (Kılıçdağı, 2006).

<sup>91</sup> Erol Yazar, Ali Bayramoğlu, Natik Akyol and Abdurrahman Esmerer were among the founding members of the Association.

engaged in highly diversified economic activities.<sup>92</sup> Covering the SMEs, the enterprises of religious communities, multi-share holdings, and Islamic banks, MÜSİAD illustrates the wide scope of Islamic business activity. Particularly, the leading members such as Kombassan, Ülker, Yimpaş, and İhlas Holding expanded their markets into more diverse sectors such as grocery retailing, furniture, computer, construction, automobile, travel, media industries, and Islamic banking both in Turkey and abroad. Despite the existence of these large holding companies, almost 90% of the association can be classified as SMEs, employing less than 100 employees (Adaş, 2003:45; Demir et al., 2004).

Both small and large-scale MÜSİAD companies engage in import/export activities that link them with global economic processes and actors. For instance, Burkay Textiles, one of MÜSİAD's leading members, based in Bursa, markets its woven, and readymade curtain goods under the brand name 'Demor,' to the US, Europe, Asia, Middle East and North Africa (Dinar Standard, 2006). Another company, Altınbaşak, a Denizli based manufacturer of home textile products, exports half of its production to the US, Europe, Saudi Arabia, Russia, Ukraine and Australia (Dinar Standard, 2006). Due to their highly export oriented, flexible manufacturing practices and receiving little or no subsidy from the state, the SMEs in Anatolia were popularly described as the 'Anatolian tigers' (Öniş, 2001:289-90).

With such members engaged in diverse sectors, MÜSİAD is the largest voluntary organization for businessmen in Turkey (Adaş, 2003:31). In 2005, it had 2200 members, distributed in 36 branches throughout the country, and related with 7500 companies (Religioscope, 9 May 2005). In 2002, it had nearly 35 billion dollar share in GNP (Koyuncu,

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<sup>92</sup> According to a research report investigating the sectors in which MÜSİAD members are operating, 17.4% of the members are engaged in the textile sector, 16.7% are in the construction and construction equipments sector, 11.3% are in the services sector, 10.7% are in the chemicals, plastic and oil products sector, 10.1% are in the food sector, 8.0% are in the machinery sector, 7.4% are in the durable goods sector, 7.1% are in the automotive sector, 5.9% are in the furniture and wooden products sector, and 5.4% are in the electric-electronic sector (MÜSİAD, 1999:1; Jang, 2005).

2003:209), more explicitly generated a 10% of the Turkish GNP, and their investment totaled about \$2.5 billion in the late 1990s (Dinar Standard, 2006; Buğra, 2002:193).

This rising Anatolian capital led to the formation of a new group of conservative businessmen loyal to religious values, but open to changes that result in both economic liberalization and a weakening of the Kemalist state. These Islamic entrepreneurs, whom Adaş (2003:27) call as ‘newly urbanizing provincial elites’, are highly educated, well aware of the global issues, and strongly connected to global economic and cultural discourses and networks. Öniş (1997:748) holds that they are part of a rising elite and trying to consolidate their position in society on the basis of a common Islamic identity. MÜSİAD successfully mobilized religion to bring these businessmen located in different regions of the country together under a coherent community (Buğra, 1998). MÜSİAD tries to keep Islam and traditional cultural values intact while integrating with the modern global world. It tries to blend economic liberalization with cultural and religious values (Yavuz, 2003a:93; Koyuncu, 2003).

MÜSİAD’s emphasis on religious values, namely Islam, created an important cultural division within capital which manifested itself with the rivalry between secular and Islamic oriented capital. According to Erol Yarar, the first president of MÜSİAD, the values of small and medium sized enterprises contradict with those of large scale and capital intensive enterprises organized under TÜSİAD (Buğra, 1998:11). Adopting Atatürk’s principles and reforms, TÜSİAD reflects the secular side of capital ([www.tusiad.org.tr](http://www.tusiad.org.tr)). In terms of its strategy to be integrated with the global world, TÜSİAD takes the western model of development as its target, making it both pro-secular and pro-western. TÜSİAD differs from MÜSİAD in terms of values and lifestyles.

In addition to the division of Turkish capital along cultural lines, the main controversy is observed between big (both industrial and financial capital) vs. small capital. Considering

the small and medium size enterprises as the real force of the Turkish production, MÜSİAD criticized TÜSİAD for financing the public debt and emphasized that MÜSİAD members ‘don’t earn from Treasury bonds, but production’ (Çemrek, 2002:138). As mentioned before, high interest rates above the inflation rate encouraged Turkish industrialists to shift their resources to speculative capital or establish their own banks to take advantage of financing the state deficits. While most of the TÜSİAD members became key agents in money markets through their banking activities, the small and medium size firms suffered setbacks due to a credit shortage stemming from increasing interest rates. This situation increased the existing tension between big and small capital and created a cleavage between industrial and financial capital. In its 2003 report on the Turkish economy, MÜSİAD (2003:4-5) highlighted that the productive sector should be favored and the system that rewards rent-seeking through high interest rates should be changed. Despite this cleavage between big secular capital groups and small and medium sized Islamic capital, as we will see below these contradictions become invisible when it comes to the issue of restructuring of the Turkish state along liberal lines.

### **3.3. Capital Groups as Agents of Change**

Benefiting from the internationalization of the economy since the early 1980s, both TÜSİAD and MÜSİAD members expanded their market base overseas and became internationally competitive. Emphasizing the shortcomings of state intervention in the economy, these capital groups demanded a new political and economic arrangement and strongly asked for state reform (Yavuz, 2006). Based on his interview with influential TÜSİAD members, Yavuz (2006) indicates that due to their greater integration into the world economy and thus the challenge of staying competitive, TÜSİAD members asked for the restructuring of the role of the state in the economy. Greater openness and vulnerability of

the Turkish private sector to international competition created new needs such as foreign investment and international credibility (Yavuz, 2006). TÜSİAD, thus, asked for a significant reduction in the size and operations of the state as a means of creating a competitive market economy (Öniş, 2001:16). It suggested reforms such as privatization, attracting foreign capital and incentives to renew technology; and developing institutional restraints on state spending (Yaka, 2006).

TÜSİAD made these opinions public through its periodicals such as *Görüş*, *Privateview*, *TÜSİAD Quarterly Economic Survey*, *TÜSİAD Bulletin*, and *TÜSİAD Newsletter*.<sup>93</sup> Moreover, influential TÜSİAD members supported the establishment of a number of research centers, private universities, and business-oriented think tanks such as TESEV (Turkish Economic and Social Studies Foundation) that brought together academicians, politicians, and bureaucrats. For instance, Koç and the Sabancı holdings established the Koç University and the Sabancı University, respectively. TÜSİAD and Koç University jointly formed the Economic Research Forum in 2004 to formulate policies for the big and highly internationalized Turkish capital groups.<sup>94</sup> TÜSİAD, in this way, positioned itself as a leading think-tank and conducted research on weaknesses of country's economic, social and political issues and disseminated its findings through regular publications. It initiated public debate by communicating its position supported by

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<sup>93</sup> *Görüş* discusses issues on the way to integrate the globalization process. TÜSİAD's demands for political and economic stability and the application of reforms in those areas have been the main theme of the periodical. The issues range from privatization, inflation, globalization, world economy, the EU to industrialization, finance. *Privateview* mostly deals with EU-Turkey relations. *TÜSİAD Quarterly Economic Survey* provides analyses and future projections about the Turkish economy based on the recent data and estimates. *TÜSİAD Bulletin* informs members about the activities of the organization and *TÜSİAD Newsletter* provides information about TÜSİAD's activities, publications, views and positions to the concerned circles in Washington and Brussels.

<sup>94</sup> Moreover, the Union of Turkish Chambers and Stock Exchanges (TOBB) established the TOBB University of Economics and Technology and research center, TEPAV (Economic Policy Research Foundation of Turkey) in 2004 to formulate strategies for the internationalizing small and medium-sized capital groups.

professional research directly to the Parliament, the government, the media, international organizations and other states (Yavuz, 2006:143; Gülfidan, 1993:78-81).<sup>95</sup>

Mobilization of public support through mass media was another significant strategy that TÜSİAD used effectively (Yaka, 2006). Due to the integration of the media and big capital in Turkey, TÜSİAD enjoyed tremendous prestige and power in the media (Kaya, 2006:182; Adaş, 2003). With the wave of privatization and the elimination of public monopolies and other protectionist measures as of the 1980s, big capital began to invest in the media sector and the ownership of the media began to be concentrated in the hands of a few huge conglomerates (Kaya, 2006:175-179). With its 8 daily newspapers, 15 national TV channels, 23 magazines and various other enterprises in different areas of the media, the Doğan Holding dominates the sector. Besides the media sector, Doğan Holding operates companies in the energy, industry, trade, insurance, and tourism sectors (Yaka, 2006:83). This illustrates the integration of big capital and the media in Turkey.<sup>96</sup> Moreover, the top executives of Doğan Holding undertake significant roles in the representation of big capital. For instance, Arzuhan Yalcındağ, a member of the Board of Directors and the chairman of the Executive Board of the TV channel, Kanal D, is currently the president of TÜSİAD. The national media, being one of the most important instruments to form public opinion, to put pressure on political power and to affect the political decision making process, was directly oriented by a few big capital groups owning the biggest media conglomerates (Yaka, 2006:83-4).

What made TÜSİAD successful in its efforts of promoting liberal economic reforms was that it did not seem pursuing narrow instrumentalist demands. It consistently emphasized

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<sup>95</sup> To make publications, TÜSİAD established permanent commissions in eight research areas, including Foreign Relations, Economic Research, Relations with Trade Organizations, Parliamentary Affairs, Industrial and Firm Affairs, Social Politics Research, Technology and Quality Management. For further information on its research activities see Yavuz, 2006:120-121.

<sup>96</sup> Some of the other important holdings that owned TV channels or newspapers were: Doğu Holding (NTV), Çukurova Holding (Akşam Newspaper and Channel 6), Bayındır Holding (BRT), Medi Group (Sabah Newspaper and ATV), Rumeli Holding (Star Newspaper and Star TV) (Koch and Chaudhary, 2001:479).

that economic reforms would lead to political liberalization in Turkey. Unlike its counterparts in countries such as Brazil, Mexico, Argentina, and Chile, TÜSİAD drew a link between the performance of the economy and political institutions and thus followed broader political concerns such as further democratization in the country (Yavuz, 2006). Comparing the structure, broad membership characteristics, and the nature of economic and political demands of business associations in Latin American countries with that of TÜSİAD, Yavuz (2006:271) reveals that there were elements unique to TÜSİAD. When compared to such associations as the CNI (National Confederation of Industry) in Brazil or the CCE (Business Coordinating Council) in Mexico, TÜSİAD had the advantage of smaller membership and more cohesive interests. According to Yavuz (2006), business associations in Latin American countries had mostly the status of semi-official organizations and interests represented through such associations were too diverse. This prevented Latin American business associations from distancing themselves from the state and voicing a common goal.

TÜSİAD did not face such collective action problems created by larger membership and could solve potential ones through member participation in commissions organized around a wide range issues (Yavuz, 2006:274). While associations in Chile and Mexico moved towards a more corporatist representation of business, TÜSİAD started to break from the state (Yavuz, 2006:289). Mexico was most similar to TÜSİAD in the existence of some associations like COPARMEX, which adopted a discourse of democratization in its pursuit of liberal economic reforms. However, the access that the business enjoyed to the state at a central level through organizations such as the CCE made them more timid than TÜSİAD (Yavuz, 2006:284).

Although associations in Brazil, Mexico and Chile were as much outward-oriented as TÜSİAD, they failed to create pressures for change in the manner the latter succeeded. For instance, IEDI (Board of the Industrial Development Research Institute) in Brazil intended

like TÜSİAD to focus on the longer term goals of larger capital and solve collective action problems by keeping membership as narrow and small. However, it failed to achieve the same success in formulating broader demands and touching on radical political issues as much as TÜSİAD (Yavuz, 2006:284). This mainly resulted from the fact that Brazilian business was highly fragmented as the Brazilian state granted access to business leaders on an individual level (Yavuz, 2006:257). Although Brazilian business was excluded from central politics, its individual leaders were highly influential and managed to influence the decentralized bureaucracy individually. Entrepreneurs were highly represented in party politics, were offered key ministries in governments, and got favors by using their personal ties to officials from government (Yavuz, 2006:257-258). Such a state-capital relationship greatly increased the opportunity cost of collective action and made Brazilian associations strong individually, but weak collectively (Yavuz, 2006:259).

In short, unlike its international counterparts, TÜSİAD acted as a homogeneous group effectively promoting the idea that the only strategy to be adopted to attract necessary foreign capital and to consolidate Turkey's place in the Western world was to privilege the private sector in a competitive system. TÜSİAD at the same time defended the idea that an open market economy and free enterprise needed to be complemented with a liberal political system. Such a discourse made TÜSİAD seem as an association that is working for the general well-being of Turkish society and thus were influential in the rise of a consensus for economic and political reforms in the country.

Like TÜSİAD, MÜSİAD members perceived globalization as an irreversible process and engaged in integrating themselves into the global world (Koyuncu, 2003:217). Since Islamic entrepreneurs owed their success to the liberal economic and political transformations in Turkey, they supported a free-market economy with minimal state intervention (Adaş, 2003). For MÜSİAD, downsizing of the state could be done only within

a well-functioning free market economy (Koyuncu, 2003:235). The Association, thus, suggested that the state structure, with its huge bureaucracy, should be withdrawn from the economic sphere. Such a discourse was disseminated through its publications such as MÜSİAD Bülten, Çerçeve, MÜSİAD Bülten Sektör, and EKOMÜSİAD as well as through organizations such as seminars, international fairs and conferences (Adaş, 2006:123). Daily newspapers such as Zaman and Türkiye and television channels such as STV and TGRT also contributed to the MÜSİAD's effort of spreading its discourse.<sup>97</sup>

It can be argued that neo-liberal projects do not necessarily need a coherent monolithic bloc behind them since capital groups in Turkey was fragmented into different and often competing interests. Nevertheless, as we can see from the positions of TÜSİAD and MÜSİAD, these competing capital groups had some points in common and both emerged as the main agents of the recent economic transformation in Turkey. They promoted liberal economic ideas and policies regarding market openness at the domestic level through many press releases, public debates, and various publications that contributed to the establishment of a general consensus in society on the necessity of economic reforms. The emergence of that consensus does not imply, however, that liberal economic orientation of the country was not challenged by resistance groups. Particularly labor, excluded from the redistribution and democratic participation mechanisms since the 1980s, attempted to build an alliance against those ascendant groups that benefited from the neoliberal project in the 1990s.

### **3.4. The Second Phase of Economic Reforms (1989-1999) under Weak Coalition Governments in Turkey**

The first phase of economic liberalization that was based on export-promotion through subsidies and wage suppression reached its limits in the late 1980s, when the export

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<sup>97</sup> Islamic capital owned 19 daily newspapers, 110 magazines, 51 radio stations, and 20 TV channels in Turkey (Adaş, 2003:145).

drive lost its momentum and a new wave of labor protests led to a substantial increase in wage incomes. Moreover, contrary to his anti-state discourse, Özal's liberalization agenda was also accompanied by the expansion and concentration of the state's economic power (Buğra, 1994; Öniş, 1998; Eder, 2001). The public sector still dominated the economy in terms of its contribution to the GNP and overall investment, and the problem of endemic fiscal deficits and rising external and internal debt remained unresolved (Eder, 2001).<sup>98</sup> This contradiction resulted from Özal's commitment to undertake infrastructure investments in fields such as energy and telecommunications in order to contribute to the operations of the private sector.

The creation of the extra-budgetary funds (EBFs), such as those for public housing and public transportation, were under the direct control of the Prime Minister and thus beyond legislative control. This allowed the government considerable discretionary power in terms of revenue collection and expenditures. The total number of such funds ranged from 96 to 134, and total assets in the 1987-88 periods ranged from \$3.5 billion to \$5.7 billion (Eder, 2001:203). The use of these funds to finance the expansionary policy of the Özal government contributed to the emergence of a macroeconomic environment characterized by high inflation and increasing interest rates (Öniş, 1998). Restrictive measures taken to respond to these problems put the Turkish economy in a stagflation situation during 1988-89 (Öniş, 1998: 251).

In order to overcome this economic situation, Özal liberalized financial markets in 1989 to attract foreign capital that would finance the borrowing requirement of the public sector and increase private investment. The liberalization of the capital account marked the

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<sup>98</sup> Throughout the 1980s, the public sector accounted for more than 50% of total fixed capital formation, and the contribution of the SOEs to the GNP did not decrease during the 1980s (Güney, 2002:209). The share of the SOE sector in GNP rose from 15% in 1980 to 20% in 1986 and the SOE share of total investment increased from 33% in 1981 to 40% in 1985 (Öniş, 1998:141). The public sector's share of financial markets remained high as well, and the share of public banks was 51% of total bank deposits in the 1980s (Güney, 2002:209).

second turning point in the post-1980 Turkish political economy. Due to the liberalization of the financial system without macroeconomic stability and the necessary institutional and structural changes such as measures for more transparent balance sheets and more careful risk management, the economy's performance became heavily dependent on highly volatile short-term capital flows (Serdengeçti, 16 May 2005; Öniş with Bakır, 2007:5). As a result, the Turkish economy, already characterized by a combination of large fiscal deficits and high rates of inflation, and volatile real GDP growth rate, became vulnerable to frequent economic crises in the 1990s (Yilmaz, 14 December 2006; Serdengeçti, 16 May 2005; Boratav, 2008:172).

Frustrated with the negative outcomes of Özal's economic policies, various social groups, particularly the labor, mobilized to improve their economic situation. Although the Özal government substantially increased the wages of public employees (by 142%) and the support price for agricultural goods to give more material concessions to subordinated groups, support for him decreased at an increasing pace and his party, ANAP, was voted out of office in the October 1991 elections (Boratav, 2008:177). As no political party won enough votes to form a majority government, the major opposition parties, the centre-right True Path Party (DYP), and center-left Social Democrat Populist Party (SHP) formed a coalition government. While in opposition, both parties had attacked the unequal consequences of the structural adjustment programs pursued by Özal, and they had promised social justice to those groups that were marginalized in the process of neo-liberal reforms (Önder, 1998:69). Once in power, however, the coalition government did not foresee any major changes in the economic strategy. It failed to realize the promised commitments as its objective of improving the social welfare functions of the state encountered fiscal constraints and the financial crisis in April 1994.<sup>99</sup>

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<sup>99</sup> High real interest rates and a booming stock market attracted a large amount of short-term capital inflow in 1993, however, this trend was reversed with the downgrading of the Turkish credit rating in international

To overcome the 1994 economic crisis, the coalition government adopted a new stabilization program and signed a stand-by agreement with the IMF in May 1994. The IMF agreed to provide Turkey \$742 million over a 14-month period in exchange for accelerating privatization, wage cuts, and reducing public spending (Özgür, 2004:59).<sup>100</sup> Public sector employees responded to the implementation of the austerity program with mass demonstrations and spreading strikes (Önder, 1998:70). As will be elaborated in the next chapter, particular resistance was directed against the government's privatization agenda. Amid large-scale strikes and mounting labor unrest, the SHP (renamed as CHP in February 1995) withdrew from the coalition in September 1995. After the collapse of the coalition government, the Islamist Welfare Party that promised abandonment of the IMF-based austerity program as well as commitment to social and economic equality emerged as the largest party in the early elections held in December 1995.<sup>101</sup> The elections results failed to produce a parliamentary majority, and the Welfare Party came to power in coalition with the center-right DYP. However, the Islamist-led government was not able to stay in power for long due to increasing pressure from the military and civil society as a result of the perceived threat of political Islam.<sup>102</sup>

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markets due to the unstable nature of the economy. The rating institution Moody's downgraded Turkey's long term debt rating to BA1 from BAA3 in January 1994. Standard and Poor's also reduced the long term foreign currency rating of Turkey to BBB- from BBB (Çepni, 2003:50). Fiscal problems combined with a current account deficit that reached 3.5% of the GDP and a heavy inflow of speculative funds paved the way for the eruption of an economic crisis in 1994 (Yeldan, 1998). In the crisis, GDP declined by -5.4%, with the inflation rate soaring to almost 150%, and the number of unemployed increasing by at least 600 000 (Yeldan, 1998:397).

<sup>100</sup> The ratio of public sector borrowing requirement (PSBR) to GNP rose from 5.3% in 1989 to 11.3% in 1993 (www.tcmb.gov.tr).

<sup>101</sup> In the December 1995 general elections the religious Welfare Party got 21.3 percent of the national votes cast and 158 seats in the Parliament.

<sup>102</sup> The Prime Minister, Erbakan made his first foreign trips to Islamic countries in Asia and Africa, including Iran and Libya, engaged in building relations with militant Islamic groups such as the Algerian Islamic Salvation Front, Palestinian Hamas, Lebanese Hezbollah and the Egyptian Muslim Brotherhood, and welcomed the leaders of the various religious sects in the Prime Ministry on the occasion of a Ramadan dinner. Moreover, the mayor of Sincan called for the restoration of sharia in Turkey. These episodes made the military and some segments of civil society already uncomfortable with the idea of a religious party in power perceive the Erbakan government as an Islamic threat to the republican regime (Tank, 2005; Üşenmez, 2007). The National Security Council Meeting held on 28 February 1997 was the catalyst for starting the process that dissolved the Erbakan government. At the meeting, the military commanders strongly criticized the government for rising religious fundamentalism and asked the then Prime Minister, Erbakan to take the necessary precautions to conform to the secular constitutional order. The business associations such as the TİSK, the TOBB, and the Confederation of

Although the Turkish political system during the 1990s was characterized by successive weak coalition governments and the rise of opposition groups, the integration of the Turkish economy to global markets through trade liberalization continued with the membership in the WTO in 1995 and the conclusion of the Customs Union agreement with the EU in 1996. However, the economic and political instability of the 1990s prevented the implementation of long-term structural reforms such as privatization and fiscal tightening. The Ecevit coalition government (DSP-MHP-ANAP) that came to power in May 1999 gave the impression that it had the commitment to implement such structural reforms. Nevertheless, it soon became clear that the coalition lacked the cohesion and conflicts began to emerge among its members. Two dominant members of the coalition government, the Democratic Left Party (the DSP) under the leadership of the Prime Minister Bülent Ecevit, and the Nationalist Action Party (the MHP) under the leadership of Devlet Bahçeli, were quite nationalistic in outlook. Given that their base of electoral support was primarily derived from poorer segments of society, they were reluctant to endorse key elements of the IMF-inspired reform package (Öniş with Bakır, 2007:10). Particularly, the MHP opposed the central elements of the program such as the reduction in agricultural subsidies and the privatization of Turkish Telecom to foreign investors on the grounds of income distribution and loss of national sovereignty, respectively. The unwillingness of the government to implement the structural reforms disappeared after the severe economic crises of November 2000 and February 2001 that acted as a catalyst for economic transformation in Turkey.

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Tradesmen and Handicrafts (TESK) and trade unions such as the Türk-İş and the DİSK actively participated in this so-called soft or post-modern coup process initiated by the military. The collaboration of civil society organizations against the Erbakan government was called the 'Five Civilian Initiative' and played an important role in the resignation of the government on 18 June 1997.

### **3.5. The Consolidation of the Economic Liberalization Process: The Third Phase of Economic Reforms (1999-)**

The Turkish economy was in an unsustainable situation with chronic fiscal deficits and high rates of inflation by the end of the 1990s.<sup>103</sup> To end the volatile nature of the economy, the the Turkish state has embarked on a comprehensive transformation of the institutional and legal structure in the country in line with neoliberal prescriptions. Ecevit coalition government concluded a three-year stand-by agreement in December 1999 with the IMF that undertook to provide almost \$4 billion to Turkey. With this support, Turkey embarked on a Disinflation and Stabilization Program in order to reduce fiscal deficits and achieve single digit inflation by 2002 (Cizre and Yeldan, 2005).<sup>104</sup> The aim was to reduce the chronic inflation that fluctuated around 60 to 80 % for more than two decades. Moreover, it was expected that the disinflation program would reduce real interest rates which would contribute to the growth potential of the economy. With the onset of the disinflation program, there appeared to be considerable optimism concerning the prospects for stabilization in Turkey during the early months of 2000. The upgrade by the credit rating agency Moody's and the IMF-led stabilization program bolstered investor optimism (Ghoshal, 2006). To a significant extent, this optimism was the outcome of the EU's Helsinki Summit which was held in December 1999. The announcement of the Turkish candidacy for full membership in the EU at the summit provided the key political and economic actors with a powerful incentive for undertaking political and economic reforms (Öniş, 2003:15).

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<sup>103</sup> In 1999, the inflation rate was around 65%, the real GDP growth rate was -4.7%, the proportion of general government budget balance to GDP was -21.8%, current account balance was -0.7%. ([www.tcmb.gov.tr](http://www.tcmb.gov.tr); EU Progress Report on Turkey, 2001:35).

<sup>104</sup> As had been implemented in Argentina in 1991 and Brazil in 1994, the major instrument of the stabilization program was to use the exchange rate as an anchor to guide inflationary expectations; this was to be accompanied by attempts to check the fiscal deficit, which had risen from 8.4 percent of GDP to 13 percent in 1999 (Ghoshal, 2006). Accordingly, exchange rate targets were announced in line with the targeted inflation. Monetary policy was set in a framework that strictly linked liquidity creation to the inflow of external capital (Çepni, 2003:52; Öniş, 2003:9).

Although the 1999 Disinflation Program was successful in reducing interest rates, slowing down inflation and stimulating domestic demand and production, the pegged exchange regime led to the real appreciation of the Turkish lira and thus increased the trade deficit. From 1999 to 2000, imports increased by 35.9%, jumping from \$39.7 billion to \$54 billion, while exports increased by 7.9%, from \$29.3 billion to \$31.6 billion (Aydın, 2005:120). The increase in the price of oil and natural gas was another factor that had a negative impact on the success of the program (Çepni, 2003:53). Another crucial point was the increased vulnerability of the banking system due to the large capital inflows that ‘increased foreign currency liabilities, and risk exposure due to maturity and currency mismatches in the balance sheet of domestic banks’ (Ghoshal, 2006:6). The banks were gambling on the success of the country’s disinflation program, borrowing short in both local and international markets and investing long in Turkish government securities, setting up currency and maturity mismatches (Ghoshal, 2006:6). Moreover, due to the inflow of capital, the total external debt increased from \$79.6 billion in 1997 (43% of GNP) to \$101.8 billion in 1999 (55% of GNP) (Ekinçi and Ertürk, 2004:4) and climbed to \$117.84 billion in 2000 (58% of GNP) (Aydın, 2005:120).<sup>105</sup>

The cautious approach of international capital towards emerging markets due to developments in Asia, Argentina, and Russia coupled with the political uncertainties in Turkey led to the reversal of capital flows in November 2000 (Ekinçi and Ertürk, 2004). While the cumulative net portfolio investment in Turkey from the third quarter of 1999 until

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<sup>105</sup> The private sector accounted for most of this debt. Particularly the commercial banks with a debt of \$13 billion accounted almost half of the total private sector short-term debt, which was 23.4 billion in 1999. The total short-term external debt of the private sector was approximately equal to the total foreign exchange reserves of the central bank, \$24 billion (Ghoshal, 2006).

the crisis was \$8 billion, the net outflow in November was \$5 billion (Ekinçi and Ertürk, 2004:9). In order to compensate capital flight, on 6 December 2000 it was announced that the IMF would provide \$7.5 billion in additional loans from the Supplemental Reserve Facility (SRF) (Ghoshal, 2006:8) in addition to \$5 billion from the World Bank (Çepni, 2003:54). The Treasury also obtained a \$1 billion loan from international banks to signal their support for the program (Çepni, 2003:54). The pegged exchange rate regime was not abandoned and confidence was restored for a while through the funds received. However, even in the presence of the IMF support, the program failed to ensure the confidence of investors.

This lack of confidence triggered a banking crisis in November 2000 when one of the private banks, Demirbank, was refused foreign credits, leading to a liquidity crisis. Demirbank began a massive sale of government bonds on 20 November (Ghoshal, 2006:7); other banks soon followed, when it was understood that most of them were hugely indebted and state banks were backed by the state subsidies that were not included in the state expenditure figures (Altunışık and Tür, 2005:85). Public banks were struggling to receive the return of the credits they provided to some companies that were in close co-operation with the politicians (Altunışık and Tür, 2005:85). The total deficits of the state banks reached around \$15 billion. In a couple of months, it was seen that the situation of the private banks were no different, with almost empty reserves, looted by their owners (Altunışık and Tür, 2005:85). As a result, these insolvent private banks were overtaken by the Savings Deposit and Insurance Fund (TMSF).<sup>106</sup>

After the banking crisis of November 2000, the government reaffirmed its commitment to the stabilization and disinflation program and to the acceleration of structural reforms, particularly privatization. However, this commitment failed to ensure investor confidence and Turkey faced a more devastating crisis in February 2001, leading the

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<sup>106</sup> Demirbank, Esbank, Yaşarbank, Egebank, Yurtbank, and Sümerbank were among the insolvent banks overtaken by the TMSF.

government to abandon the pegged exchange rate regime and a 40% drop in value of the Turkish lira against the US dollar.

### **3.5.1. Turkey in the Aftermath of the Economic Crises**

The experiences of November 2000 and February 2001 were the deepest crisis Turkey had experienced and had a profound effect on all segments of society. The GNP declined by 9.4%, leading to a dramatic decrease in per capita income and massive increases in unemployment, including highly educated and skilled workers. Based on the data of the State Institute of Statistics, Aydın (2005:124) reports that during the first half of 2001, more than 800.000 people lost their jobs; 239.000 in manufacturing industry; 312.000 in construction industry and 287.000 in commerce and services. Moreover, according to the Ankara Chamber of Commerce, the number of businesses closed during the first five months of 2001 reached 15,317 (Altunışık and Tür, 2005:85).

The economic crisis was influential in shaping the distribution of power between different state agencies (Bakır, 2007). New market oriented political actors with transnational ties became key players in the policy-making process. For instance, in order to eliminate the crisis and establish confidence and stability, Kemal Derviş, one of the vice-presidents of the World Bank, was appointed as the Minister of Economy. With his transnational ties, he was central in building mutual trust among external and domestic actors and engaged in the restructuring and supervision of the banking sector, privatization of the public enterprises, strengthening the financial structure and regulation of the private banks through the economic recovery program called the Transition to a Strong Economy.<sup>107</sup>

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<sup>107</sup> The new program included 15 draft laws that would restructure four strategic sectors: banking and finance, energy, telecommunications, and agriculture. For instance, the Electricity Market Law introduced private sector competition in the electricity market and called for the establishment of an independent Energy Market Regulatory Agency. The Telecommunications Law aimed at accelerating the privatization of Turk Telecom through the elimination of the company's monopoly position in fixed line services.

Another important aspect of the crisis was to improve the role of key external actors such as the IMF and the EU in accelerating the momentum of the reform process (Öniş, 2006d). These external actors strengthened the existing reform-oriented groups that sought to justify their liberalization efforts. The crisis served as a window of opportunity for the reform-oriented social forces to argue that resources used for populist redistribution or clientelistic ties were responsible for acute inflation, high levels of domestic-external debt and corruption needed to end. This discourse was influential in shaping public opinion and helping to generate support for longer term structural reforms guided both by the EU and the IMF (Öniş, 2006d:13-17).

The Economic Reform Program adopted for overcoming the February 2001 crisis was financed by the IMF and supported by the World Bank, and it was an important attempt to restructure the state on the basis of macroeconomic stability and a new governing rationality (Keyman and Koyuncu, 2005:107). The IMF undertook to provide \$12 billion credit under a new three-year stand-by agreement (2002-2004) that committed Turkey to realize market-oriented structural reforms (Çepni, 2003:59). The European Union also emerged as an important actor by catalyzing the reform process through the membership bid. Before the crisis, the EU was mainly involved on the political side of the reforms as there was an ongoing IMF program to take care of the economic side (Öniş, 2005). However, this pattern changed quite radically in the post-crisis era and the EU emerged as a crucial element of the market-oriented groups in the economic sphere (Öniş, 2005). Given the severity of 2001 crisis, it became much easier to gather support for EU membership and its associated conditionality as the material incentives associated with the EU seemed extremely favorable in the midst of a crisis (Öniş with Bakır, 2007:13; Öniş, 2005). Therefore, Turkey pledged to transform its state structure in accordance with the European norms by preparing a 'National Program' for the adoption of the EU's *acquis communautaire* in March 2001.

The Ecevit coalition government accordingly passed laws both in the economic and highly sensitive political areas until 2002. Important measures, such as the amendments in the budget law, public borrowing law, public tender law, the Central Bank law, banking law, job security law, economic and social council law, telecom law and a framework law on foreign direct investment were adopted (Çepni, 2003:59). As will be examined in more detail in Chapter V, the government retreated substantially from the implementation of monetary policy as the Central Bank of Turkey was given legal independence in April 2001 (Öniş with Bakır, 2007: 18). Moreover, the independent regulatory agencies (IRAs) were established to regulate the key markets such as banking, energy, telecommunication, sugar, and tobacco, etc. With their establishment, authority shifted from executive power to these autonomous boards such as the Energy Markets Regulatory Agency (2001), the Sugar Agency (2001), the Tobacco, Tobacco Products, and Alcoholic Beverages Markets Regulation Agency (2002), and the Public Procurement Agency (2002). These IRAs were different from standard bureaucratic structures as they were established by special laws in the form of separate legal personalities that were insulated from direct political control by the executive (Zenginobuz, 2008:476). They had representatives of business associations or private companies on their executive boards. With their technical expertise, flexible, transparent and outcome-oriented public administration practice, IRAs served as an alternative to central bureaucratic structures (Zenginobuz, 2008). Overcoming the intra-state conflicts through their legislative, executive, and judicial powers, IRAs were influential in the acceleration of the Turkish privatization program in the 2000s.

What is striking is that the National Program prepared for EU membership required similar commitments with the IMF programs with regard to domestic regulation in a broad range of areas. The commitments ranged from the privatization of high-profit yielding state economic enterprises such as TÜPRAŞ, Turk Telecom, THY, SEKA, PETKİM to the

reforms in the Turkish Corporate Law and Commercial Law to secure property rights of the international actors in accordance with the EU Law and international agreements (National Program, 2001). The pressures of both institutions have been mutually reinforcing processes that constituted a powerful engine for change in Turkey. Nevertheless, it should be noted that despite the existence of those powerful external actors, it was the high degree of societal support that facilitated the implementation of these reforms. The external pressure was internalized and represented by domestic social forces driving the process of change. The reform-oriented groups used the EU membership process and the associated conditionality as a justification for implementing key institutional reforms that would transform the existing state structure. Moreover, while the economic crisis of 2000-2001 led to major economic transformations, the crisis itself was not enough to bring about the key changes that were sought by domestic social forces. It was only a catalyst for the transformations whose underlying causes were structural and linked to a series of structural changes in the world economy. When the crisis hit the country, the response was not arbitrarily chosen but reflected a long-term trend that reflected the emergence of a new historic bloc that, while having divergent interests, shared a desire for change and were undermining the statist established order for some time.

After the economic crisis, this new historic bloc, by and large, has marginalized the statist bloc and produced a large scale alliance in civil society for improving the investment environment in Turkey. This objective coincided with the ‘new competitiveness agenda’ promoted by external actors such as the IMF, the World Bank, and the OECD (Oğuz, 2008:123). The civil society organizations led by business associations such as TÜSİAD, TOBB, Turkish Exporters Assembly (TIM), and the International Investors Association (YASED)<sup>108</sup> were key elements of this new agenda. These social forces played an important

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<sup>108</sup> YASED was established by 14 multinational corporations operating in Turkey to represent the interests of foreign capital.

role in linking the Turkish economy to global markets, and acted as internal actors of the restructuring process.<sup>109</sup> The desires of these domestic and external actors for further undertaking liberal economic reforms to increase Turkey's international competitiveness were formulated into concrete actions by the Justice and Development Party (AKP) that emerged as an influential social force in 2001.

### **3.6. The Rise of the Justice and Development Party as an Influential Agent of Change**

Growing Islamic business interests in Turkey since the 1980s were influential in the diffusion of Islamic policies and the creation of the Justice and Development Party in August 2001. The AKP, founded by Islamic liberals from a young generation within the Welfare Party, began to project a moderate posture in terms of its programs and electoral manifestos, showing a remarkable transition from the previous Islamic parties (Jang, 2005:190). The reformist AKP rejected anti-western attitudes and advocated membership in the EU, democratic consolidation, and economic liberalization (Bagdonas, 2008:109; Üşenmez, 2007:302; Jang, 2005). It can be argued that the AKP as a moderate Islamic party reflected the desires of the changing social forces in Turkey.

In order to appeal to the market-oriented actors in Turkey, the AKP (2002a, 2002b, 2002c) based its political discourse on the promise to transform the social and economic structure of the country in line with neo-liberal policies. It declared the party's commitment to a functioning free market economy with all its rules and institutions, in order to limit the state's role in the economy to a mere regulatory and supervisory function. The AKP also undertook to promote the IMF's structural adjustment program and expressed that it was

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<sup>109</sup> For instance, YASED was influential in mobilizing the World Bank to prepare a report on Turkish investment environment in 2000. After this report, the Ecevit government enacted a degree on 'Improving the Investment Environment in Turkey' in December 2001. The Coordination Council for the Improvement of the Investment Environment was established to identify and remove barriers to private investment (Oğuz, 2008:124). In 2004, TOBB established a Board on Foreign Direct Investment that brought together senior executives of influential TNCs operating in Turkey with internationally operating Turkish companies. This Board cooperated closely throughout the reform process (Oğuz, 2008:125).

crucial for Turkey to integrate into the global market in order to attract foreign direct investment (Öniş and Keyman, 2003).

By moving in a moderate direction and committing itself to a market economy and the EU membership process simultaneously, the AKP came to power after November 2002 elections by getting 34 percent of the votes cast.<sup>110</sup> Rural voters, artisans and small traders in the cities, and more importantly, the rapidly rising Islamist bourgeoisie that favored free market economy and globalization constituted the key electoral base for the AKP (Özbudun, 2006:547). Insel (2003:298) argues that the rise of the AKP should be examined corresponding to that of a new middle class that is ‘culturally conservative, economically liberal, or rather, on the side of free enterprise’. Similarly, Öniş (2005) emphasizes the moderating role of the conservative middle class that are the winners of the globalization process and demand further economic and political liberalization. To this end, the AKP pursues a culturally conservative and economically liberal agenda attempting to bridge Islamic cultural values with modern economy (Jang, 2003:9). It, thus, represents an orientation that is very close to the cultural and economic agenda of Islamic bourgeoisie represented by MÜSİAD (Jang, 2005:218).

### **3.6.1. The Relation between the AKP and Islamic Capital**

There are strong personal ties between the Islamic banks, religious order community such as Nakshibendi and Nurcu communities, MÜSİAD, and the AKP government (Jang, 2005:227-234).<sup>111</sup> Abdullah Gül, the current President of the Turkish Republic, had a close

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<sup>110</sup> It also should be noted that the dissatisfaction of large segments of the Turkish electorate with the political and economic instability in the country after severe economic crises was also crucial for the AKP victory. The widespread unemployment, corruption, and clientelism provided strong incentives to vote for change, thus the reactionary votes of the electorate helped AKP to come to power while the major parties of the centre-right and the centre-left failed to pass the 10 percent electoral threshold (Mecham, 2004). In the 2002 general election all the political parties representing the old, statist, clientelistic, and crisis-ridden Turkey were penalized strongly by the Turkish electorate (Keyman and Koyuncu, 2005:124).

<sup>111</sup> The connection between the AKP and Islamic capital was consolidated during the political ascendancy of the Welfare Party in the mid-1990s (Adaş, 2003:141; Jang, 2005:230). When the current Primer Minister, Tayyip

connection with Islamic banking since he worked as a specialist at the Islamic Development Bank from 1983 to 1991 (Jang, 2005:186). Kemal Unakıtan, the former Minister of Finance, known as a member of the Nakshibendi religious order, was one of the board directors in the Al Baraka Turkish Finance House during the 1980s, and also a founding member of the Faisal- Family Finance House (Jang, 2005:187). Another Nakshibendi-affiliated politician, Ali Coşkun, served as the board member of the İhlas Finance House in the late 1990s and became an Industry and Trade Minister of the AKP government (Jang, 2005:180, 232). Moreover, it is observed that many of the founding members and deputies of the AKP, including Ali Babacan, Ali İhsan Arslan, İbrahim Çağlar, Muammer Kaki, Erdal Öner, İbrahim Reyhan Özal, M. Yaşar Öztürk, Ziyattin Yağcı, Murat Yalçıntaş were simultaneously MÜSİAD members (Jang, 2005:227-8). For instance, Ali Babacan, the Minister of Foreign Affairs of the AKP government, is a member of MÜSİAD operating his own company, the Ali Babacan Textile trading company.

This interconnection between Islamic capital and Islamic politics shows where the support base of the AKP government lies. However, the AKP was also supported by big capital, certain NGOs, mainstream media circles, liberal, and liberal-leftist intellectuals who considered the free market economy and the EU membership as the essential basis for political freedom and democracy in Turkey. These agents worked together to convince public opinion on the necessity of restructuring the Turkish state. Indeed, the real base of this alliance was constituted by the EU membership project. As Yaka (2006:82) argues intellectuals and journalists such as Mehmet Barlas and Mehmet Altan from *Sabah*, Mehmet Ali Birand from *Posta*, İsmet Berkan and Erdal Güven from *Radikal*, Osman Ulagay from *Milliyet*, Ertuğrul Özkök, Cüneyt Ülsever, and Hadi Uluengin from *Hürriyet* contributed to

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Erdoğan, was the mayor of Istanbul from the Welfare Party between 1994 and 1998, he established many contacts with Islamic businessmen, particularly through several bidding processes and contracts. The companies highly involved with Erdoğan's municipality were influential MÜSİAD members such as Kombassan, Yimpaş, Ülker, and Albayrak (Jang, 2005:230).

the formation of a general political climate by disseminating certain ideas and neutralizing others and shaped the public opinion for political and economic reforms with their intellectual influence over the ordinary people. Yaka (2006:82) also puts forward that some of the intellectuals acted as the organic intellectuals by spreading the certain ideas of the big capital with an aim to generalize and publicize their objectives.

Drawing upon these insights, it can be argued that the restructuring of the Turkish economy since the early 1980s led to the emergence of diverse social forces whose interests converged around the objective of further economic liberalization as an instrument for dismantling the Kemalist form of state. The market-oriented governments, bureaucrats, capital groups, and the mainstream media managed to establish a consensus on the need to restructure the Turkish state and economy along market principles. Saying that there was a consensus does not imply that it was not challenged. The challenge came from potential counter-hegemonic groups, namely trade unions. However, the neo-liberal transformation of almost three decades, particularly the introduction of flexible employment relations weakened labor materially, ideationally, and politically (Kabasakal, 2006:4). As will be elaborated in the remaining chapters, although trade unions attempted to reverse the economic liberalization process, they failed to act as a counter-hegemonic force as they could not provide a concrete alternative model.

Market-oriented social forces managed to marginalize the resistance coming from the anti-EU circles such as the statist elites (some part of military and bureaucracy), the trade unions, and the nationalist groups. They justified both the EU conditionalities and the IMF stand-by agreements in terms of their embeddedness in the ongoing process of Turkish modernization, Europeanization, which was crucial for the creation of the ‘common sense’ in Gramscian sense. This commonsense was influential in the acceleration of the structural

economic reforms, including privatization and central bank independence which will be the focus of analysis of the following chapters.

## **Conclusion**

This chapter identified the social forces that emerged in the post-1980 period as bases of power to shift the Turkish state towards a more liberal direction. It argued that with the reorientation of the economy from protection to a free market economy combined with the transnational economic opportunities and networks, the Turkish state acquired a new form that was characterized by a new configuration of social forces underpinning its power. It also highlighted that the creation of new structures of production brought about new social groups and alliances that posed a serious challenge to the state intervention in the economy. State-centrism in Turkey encountered with a crisis, and the legitimacy it once enjoyed in the eyes of the Turkish society at large was dissolved; state-led modernization and economic governance was seriously challenged and replaced by neo-liberal economic rationality.

The chapter provided a comprehensive analysis of the emergence and development of outward oriented capital groups that extended their social base of power in parallel with the globalization of the Turkish economy. It was shown that TÜSİAD members moved towards more capital intensive sectors to produce higher value added goods thus became more international and developed partnerships with foreign enterprises. The chapter also demonstrated that the shifts in the state's cultural and economic policies in the post-1980 era opened new opportunities for the Islamic actors at national and transnational levels and led to the emergence of Islamic banks, financial institutions, small-and medium size enterprises, and large holding companies operating in various sectors of the economy. The overseas activities of these enterprises were particularly emphasized to illustrate transnational networks and connections that integrated them into global economy. It was thus argued that

being able to compete in the global market and integrate with transnational capital, both TÜSİAD and MÜSİAD asked for a state that would adjust national policies to the dynamics of the world economy. In accordance with their future visions and interests, they acted as an effective and powerful agent who had a great influence both on the political decision-making process and the formation of the public opinion. Particularly, the media owned both by the big and Anatolian capital played an important role in the legitimization of Turkish transformation.

The chapter also showed how political Islam grew in parallel with the expansion of Islamic business activity in Turkey. It is highlighted that political and economic Islam contributed to each other's growth and transformation. The discourse of political Islam changed in parallel with the discourse of new Islamic entrepreneurs that aspired to integrate with world economy. This transformation led to the emergence of a moderate Islamic party, AKP, as another important social force that committed itself to transform the social and economic structure in Turkey.

These social forces, including globalizing bureaucrats, outward oriented capital groups and politicians that underwent a process of change during the neo-liberal opening of the Turkish economy, united around a common objective, which is to restructure the Turkish state and economy. The severe economic crises of November 2000 and February 2001 were crucial in generating a huge support from the majority of Turkish people for the attainment of this objective. The crises were also influential in the rise of the two externally powerful actors, the IMF and the EU that strengthened the existing outward-oriented groups to justify their liberalization efforts. The following chapters will illustrate how these dynamics were at play in two important policy changes, namely the privatization of state owned enterprises and the independence of the Turkish Central Bank.

## **Chapter 4. Privatization in Turkey: A Reflection of Broader Historical Structures**

### **Introduction**

This chapter explores the privatization process in Turkey as part of a broad economic reform program that aims to reduce the role of the state in the economy. The public ownership of firms was rolled back in many parts of the world during the 1980s and 1990s after expanding for most of the 20th century. Between 1990 and 2003, 120 developing countries carried out 7,860 transactions, generating close to \$410 billion in privatization proceeds (Kikeri and Kolo, 2005:3). Like many developing countries, Turkey privatized more than 180 public enterprises between 1986 and 2006, and received \$25.8 billion in revenue from these transactions ([www.oib.gov.tr](http://www.oib.gov.tr)). As of 2002, Turkey accelerated its privatization program and realized a sustainable large-scale privatization in highly profit making, strategically important enterprises such as the TÜPRAŞ oil refinery, the steel and iron producer ERDEMİR, and Turk Telekom. After these comprehensive privatizations, the value added of state-owned enterprises (SOEs) in GDP decreased from 6.24 percent in 1985 to 1.89 in 2006 ([www.treasury.gov.tr](http://www.treasury.gov.tr)).

Brune et al. (2004), Bortolotti and Pinotti (2003), and Perotti and Bortolotti (2005) attribute the privatization initiatives of developing countries to the pressures of IFIs, such as the IMF, that imposed privatization as a condition for lending. Although external actors were crucial in Turkey's initiating and accelerating its privatization program, the process cannot be explained solely by external pressures. Attributing privatization to the coercive power of the IFIs ignores the deeply political and contingent character of privatization as external actors are seen as 'given', independent from the actions and choices of domestic social forces that are embedded in the broader context of transnationalization of production and finance.

Others, arguing from an institutionalist perspective, claim that the orientation of political parties in power were decisive for the adoption of privatization (Siniscalco et al.,

2001). Emphasizing domestic factors as explanatory variables, institutionalist scholars attribute economic reforms such as privatization to path-dependencies and a state's particular national traditions, identities and political culture (Weiss, 1998; 2003). From this perspective, technological and economic developments since the 1980s created a gap between the state's goals and its capacities. As a response, governments chose the option of privatization in order to achieve objectives such as raising revenue and reorganizing state control. As this approach sees privatization as a state-driven reform, it loses the insights provided by external variables and also misses the role of social forces that are able to act transnationally and influence the privatization process.

The theoretical and empirical literature on privatization from an economic perspective identifies 'economic efficiencies' as the primary motivation for privatization. Drawing upon the public choice<sup>112</sup>, property rights theory<sup>113</sup>, and principal-agent relationship<sup>114</sup> arguments, various scholars argue that privatization is conducted to address a diverse range of 'problems' such as economic inefficiency, political interference in the management of enterprises, lack of innovation in the public sector, and the need to reduce public expenditure, etc. (Kikeri and Nellis, 2004; Megginson and Netter, 2001; World Bank, 1995; Boycko et al., 1996; Shleifer, 1998). These arguments present privatization as a rational response to functional requirements of the economy without questioning the basis of these claims. Treating privatization as a technical instrument to achieve productive efficiency, this

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<sup>112</sup> This perspective refutes the arguments that markets fail, instead argues that the governments fail and political intervention in markets for protection leads to distortions. Its main assumption is to regard all actors - governments, politicians, bureaucrats, interest groups, voters- within the domestic policy framework as rational utility maximizers.

<sup>113</sup> According to this perspective, the structure of ownership brings about a particular pattern of incentive and control. The profit motive in private firms creates incentives for a more efficient use of inputs. Moreover, managers of private sector are more flexible and face less constraint in responding to external shocks. On the other hand, public sector receives subsidies from government, does not face the risk of take-over or going bankrupt, and is not subject to the discipline of the market, thus public managers have little interest in making the SOEs efficient.

<sup>114</sup> This perspective briefly holds that since the daily operation of the SOEs is delegated from the owner (the state) to agents (the SOEs), problems exist when managerial behavior does not reflect owner's objectives. The managers may try to maximize their own interests, giving less priority to the needs of the SOEs efficiency.

approach fails to consider it as a political choice that redistributes costs and benefits among diverse groups in society.

Others stress the role of ideas and their international diffusion as catalysts of privatization. An intellectual disillusionment with the Keynesian approach (McNamara, 1998), rational learning (Ramamurti, 1999) and cross-national process of emulation (Meseguer, 2004; McNamara, 1998) are argued to be important factors in the decision to privatize. A globally dispersed epistemic community and American-trained economists (Kogut & MacPherson, 2008) are also seen as decisive actors that drove the privatization process. Considering privatization as a value-neutral policy, this approach ignores why certain actors promote this particular idea and prevent the consideration of alternative ideas. Moreover, as a policy idea, privatization may be easy to adopt; however, as a practice it is difficult to implement and leads to debates over its desirability among various social actors as it creates important distributional effects. Thus, although this perspective is successful at highlighting the role of actors in convincing others to comply with privatization, it fails to explain why some others choose not to agree.

While these different explanations provide useful insights, understanding the implementation of privatization in Turkey, a country with a strong legacy of state intervention in the economy, requires a more comprehensive analysis of the dynamic process of decision-making. Drawing upon a neo-Gramscian perspective, the chapter attributes the recent acceleration of the privatization process in the country to the broader structural transformation in the world economy and its consequences for Turkish society. As we saw in previous chapters outlining a broader historical process, the Turkish political economy has undergone a structural transformation process since the 1980s. The post-1980 restructuring of the Turkish economy changed preferences, ideas, and power of major social forces, including key government officials, leading businessmen, globalizing bureaucrats, and mainstream

media. These actors that benefited from the greater opening of the Turkish economy began to promote market-oriented economic policies such as privatization instead of inward-looking and protectionist ones.

This chapter starts with the general overview of the privatization transactions worldwide and then shifts to the privatization process in Turkey. In addition to explaining *why* privatization occurred, this part also explains *how* it occurred. It argues that the consent/hegemony generated and the intellectual leadership exercised by market-oriented social forces was crucial in directing Turkey to downsize the public sector in the economy through the privatization of state firms. This part attributes the privatization process to the individual and collective agents' decisions and discursive patterns. It identifies social forces such as the Privatization Administration (PA) staff, capital fractions, market-oriented politicians, and external agents like the IMF and the EU as crucial actors in producing hegemonic consent for privatization. It highlights that to create a broad consensus on the need to privatize, these social forces presented the theoretical and empirical literature on privatization as scientifically-accepted theoretical frameworks. Particularly, their rhetoric of cutting waste and eliminating inefficiencies helped bring popular support to the privatization process.

In the last part, the social relations of specific actors are examined to see which social and political forces supported or rejected the Turkish state's disengagement process from the public sphere through privatization. It emphasizes that there was a struggle between the competing social forces as to whose interest would become the general interest in the country. It concludes that the neo-liberal social forces, strengthened by the globalization process gained the upper hand over those that favored a protectionist model of development. The ascendant social forces put the forces embedded in the Kemalist model of development

in a defensive position as the latter's preferences, ideas and policy solutions seemed inappropriate, irrational and outmoded in a competitive world economy.

#### **4.1. Global Trends: Internationalization of Production and Privatization**

Privatization is a global trend that aims to reduce the role of the government as a dominant actor in the economy (Boubakri et al, 2009:367). The origin of this trend goes back to the late 1970s when the emergence of increasingly integrated global financial markets was accompanied by the transnational organization of production. Transnational production networks of goods and services were managed by transnational corporations (TNCs) whose number increased from 35,000 in 1992 (UNCTAD, 1992: 11) to 77.000 in 2005 (UNCTAD, 2006:xviii).<sup>115</sup> The investment undertaken by TNCs abroad in order to control assets and manage production activities in foreign countries contributed to the growth of foreign direct investment in developing countries. Foreign direct investment flows to developing countries increased from \$32 billion in 1990 (UNCTAD, 1992:22) to \$334 billion in 2005 (UNCTAD, 2006:xviii). In order to attract higher amounts of foreign investment, numerous developing countries have liberalized their economies since the 1980s. Privatization constituted an important means for stimulating foreign investment as it provided transnational capital with broad opportunities for buying profitable public enterprises or concluding concession agreements with governments for the construction of motorways, electricity production, and water treatment, etc. (Pellerin and Overbeek, 2001). The governments' quest for privatization and foreign direct investment which were expected to contribute to growth, transfer of technology, dynamic productive management, and to the development of exports coincided directly with the interests of mobile transnational capital.

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<sup>115</sup> With more than 770.000 foreign affiliates, transnational corporations generated \$ 4.5 trillion in value added, employed 62 million workers and exported goods and services valued at more than \$ 4 trillion (UNCTAD, 2006).

A general change at the level of ideas from Keynesianism to neo-liberalism was crucial in the redefinition of the role of the state in the economy. Until then, consensus prevailed on the role of the state as an economic mediator and on the benefits of public intervention as a means for economic growth and political stability. Beginning in the 1970s and continuing into the 1980s, however, when traditional economic tools appeared unable to explain or solve new macroeconomic problems such as stagflation, big government and discretionary public expenditure started to be considered part of the problem rather than the solution. The concern for efficiency and price stability required the liberalization and deregulation of the economy, and the privatization of SOEs (Cox, 2001:4). These Embedded in this broader structure, ‘states were not only less able to fulfill a protective role, but also less willing to do so’ (Bieler and Torjesen, 2001:116).

Within such a broader framework, initially gaining prominence in the United Kingdom in the early 1980s, privatization turned out to be such a world-wide trend that total privatization proceeds amounted to \$937 billion between the years 1990-2000 ([www.oib.gov.tr](http://www.oib.gov.tr)). In terms of sectoral distribution, the World Bank privatization database (2007) puts forward that it started with non-utilities and extended to network industries, first telecommunications, then gas and electricity. As Chong and Galdo (2006) indicate, telecommunications was the most extensively privatized sector in the world and accounted for about 36% of all privatization proceeds between 1990 and 2000.<sup>116</sup> Particularly the break-up of AT&T into seven different regional carriers in 1984 and the liberalization of the telecoms market in the UK triggered the process of restructuring in the telecommunications sector all around the world (Göktepel, 2003).<sup>117</sup>

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<sup>116</sup>The shares for other important sectors are: energy (16%), financial institutions (15%) and oil and gas (10%).

<sup>117</sup>Yilmaz (1999:14) reports that the revenue generated from the telecommunication privatization in the world rose from \$582 million in 1987 to almost \$23 billion in 1996. Some of the countries privatizing their telecommunications operators are: Belgium, Belgacom (1995); Germany, Deutsche Telekom (1996 and 1999); Jordan, Telecom Jordan (2000); Czech Republic, SPT Telecom (1994); Italy, Telecom Italia (1997), Spain,

As far as the regional distribution of privatization is concerned, Megginson (2000) reports that between 1988-1998, Western Europe accounted for 52 percent of the global privatization share, while Latin America 15 percent; Middle East and Africa 3 percent; the Asia-Pacific region 23 percent; North America and Caribbean 3 percent; Eastern Europe and former USSR 4 percent. The first major privatizations in Western Europe occurred in the United Kingdom. The total value of British privatization sales reached £65bn in 1997, and the share of nationalized industries in GDP fell from 9 percent in 1979 to under 2 percent in 1997 (Parker, 2003:105).<sup>118</sup> In each of Latin America's three largest economies, Argentina, Brazil, and Mexico, total privatization revenues over the 1988-1997 period exceeded \$25 billion (Brune and Garrett, 2000). Kikeri and Kolo (2005:6) similarly indicate that these three countries accounted for virtually 64 percent of the total privatization proceeds in developing countries between 1988 and 2003.

In East Asia, Malaysia, Indonesia, and China were the top three privatizers in the 1990s (World Bank Privatization Database, 2007). China, for instance, received \$17 billion privatization receipts between 1988 and 1997 (Brune and Garret, 2000). Three post-communist countries, Hungary, Kazakhstan and Macedonia privatized roughly one-quarter of their economies over the same period (Brune and Garret, 2000). Because of this widespread privatization, the global value added generated by the SOEs decreased on average from 9 percent to 6 percent of GDP in the 1978-1991 periods (World Bank, 1995; Siniscalco et al., 2001). Sheshinski and Lopez-Calva (1999) demonstrate that the SOEs' share of GDP in low income countries reduced from 15 percent in 1980 to 3 percent in 1997 and for lower middle

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Telefonica (1997); Guatemala, Telgua (1998); Sweden, Telia (2000); South Africa, Telkom (1997); Korea, Korea Telecom (1999), etc.

<sup>118</sup> From 1977 to 2000, there were 736 privatizations in Western Europe with an average value of \$894 million. For instance, in the late 1990s, strategic sectors, such as ENI (petroleum) in Italy and ENDESA (electric utility) in Spain were divested (Bortolotti and Milella, 2006). As of 2003, privatization through large public offering were realized in telecommunications (France Telecom, Deutsche Telekom, Telekom Austria, and Telia Sonera); in the financial sector (Eulian in France and Deutsche Postbank in Germany); in the oil and gas industry (French Total) (Bortolotti and Milella, 2006). For further information on privatization in Western Europe see (Köthenburger, 2006).

income countries from 11 percent in 1980 to 5 percent in 1997. Privatization worldwide continued to increase between 2000 and 2006. As the figure below shows, more than \$100 billion worth of privatization was realized in the year 2006.

**Figure 4. 1. Global Privatization Proceeds, 2000-2006**



Source: World Bank Privatization Database, 2007

[http://rru.worldbank.org/Images/Privatization/Graphs/Region/global\\_proc\\_trans.gif](http://rru.worldbank.org/Images/Privatization/Graphs/Region/global_proc_trans.gif)

While privatization transactions conducted in the 1990s was primarily centered in Western Europe; subsequent sales tended to be primarily in developing and transition economies. According to the World Bank privatization database (2007), in 2004 and 2005 developing countries generated \$90 billion from 400 privatization transactions. Kikeri and Kolo (2005) inform that the recent transactions were generally in telecommunication, power, and banking sectors in countries such as China (additional share offering of China Telecom), the Czech Republic (partial sale of Transgas), Slovakia (partial sale of the electricity company), India (telecoms), Pakistan (United Bank), and Saudi Arabia (telecoms). Moreover, Morocco generated \$2.5 billion through the sale of Maroc Telecom and engaged

in large privatizations in sectors such as cement, fertilizer, petrochemicals, oil, and telecommunications. Egypt generated \$892 million simply through the sale of Telecom Egypt. With Tanzania and Ghana taking the lead, African states like Sudan, Kenya, Rwanda, South Africa, and Madagascar carried out privatization transactions in the telecommunication sector (World Bank Privatization Database, 2007).

This widespread diffusion of privatization has not left Turkey unaffected and in the early 2000s the country emerged as the major driver of the privatization process amongst developing countries by privatizing sectors ranging from transportation, petrochemicals, aluminum, and oil to banking and telecommunications (World Bank Privatization Database, 2007; [www.oib.gov.tr](http://www.oib.gov.tr)). As will be examined below, privatization was on Turkey's political agenda since the 1980s as one of the fundamental tools of the free market economy. However, despite the commitment of various governments to the implementation of privatization as of the mid-1980s, the actual transfer of the SOEs to the private sector was limited in its magnitude and scope in Turkey until very recently. The privatization process progressed much more slowly than originally intended and proved much more problematic (Ertuna, 1998). Only with the emergence of outward oriented social forces embedded in the internationalization of production and finance did privatization gain momentum in Turkey in the 2000s.

#### **4.2. The Privatization Process in Turkey: General Overview**

As part of the structural adjustment program pursued in the early 1980s, Turkey's endorsement of the privatization process started under the leadership of Özal who believed in the promotion of market-oriented policies as the most effective way of stimulating economic growth and democracy (Özal, 1989:175). His appeal to the market implied a reversal from the tradition of the state's undertaking a leading role in economic development. For Özal,

inefficient and wasteful SOEs were the main reasons behind inflation and constituted an unnecessary burden on the economy (TBMM Records, 19.12.1983:64, 75). When he was elected for the second time in 1987, in his presentation of the Government Program to the Parliament he ensured that, ‘for the sustainability of economic development, the practices that will strengthen the free market system will be implemented... Privatization process will be accelerated... and the privatization of the SOEs will be our main line of activity’ (TBMM Records, 28.12.1987:82-83).

The Deputy Prime Minister of the ANAP government, Kaya Erdem stated that ‘since we do not allow for new investments, the share of the SOEs in the economy will reduce. If the SOEs currently have a share of 25 percent in the economy, this will come down to 5 percent in ten years. Once divested, the SOEs won’t be any burden on the economy’ (TBMM Records, 22.5.1986:326). Within this framework, the prices for SOE products were deregulated; the state monopoly on various goods and services like tobacco, tea processing and packaging, and electricity was removed; the tax and credit privileges or the exemptions given to the SOEs were abolished (Şenses, 1994:61).<sup>119</sup> Moreover, the SOEs’ undertaking of new investments in the manufacturing sector was substantially restricted. The share of the manufacturing industry in total fixed capital investments decreased from 7.6 percent in 1984 to 5.7 percent in 1986 and down to 2.1 percent in 1989 (Petrol-İş, 1992:500).

With the objective of downsizing the public sector, the Özal government began to establish the legal and institutional foundations of the privatization program. Accordingly, the Law No. 2983 (Official Gazette, 17.3.1984/18344) that set out the legal framework of the privatization process was adopted in 1984. By this law, the Housing Development and Public Participation Administration (PPA), which was directly responsible to the Office of the Prime Minister was established. The PPA governed the largest extra-budgetary fund and was

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<sup>119</sup> For instance, the production and distribution monopoly of Çaykur (tea processing), TEKEL (tobacco), and Sugar Factories was abolished in 1984, in 1991 and in 1995, respectively.

not subject to normal budgetary discipline and Parliamentary control. It was given the authority to privatize public enterprises through issuing revenue sharing certificates and transferring operational rights of the SOEs to individuals and legal entities with the aim of encouraging savings and accelerating public investments in infrastructure. To this end, 34 percent of the annual revenues of the Bosphorus Bridge in 1984 and 22 percent of the annual revenues of the Keban Dam in 1985 were sold to the individuals and legal entities ([www.oib.gov.tr](http://www.oib.gov.tr)). The government's main justification of these initial attempts of privatization was that they generated resources for undertaking new investments which would contribute to the development of the country, making the SOEs operate rationally and thus improve efficiency in the industrial sector, and reducing excessive employment in the state enterprise system (TBMM Records, 28.2.1984:179-181).

In 1986, privatization law no. 3291 (Official Gazette, 3.6.1986/19126) was enacted.<sup>120</sup> It did not provide a sufficient legal environment to administer privatization and to solve some of the problems related to the labor, managerial and financial restructuring needs of the public establishments (Ertuna, 1998). Nevertheless, with the support of the World Bank, the Özal government engaged in the preparations of a Privatization Master Plan in order to implement the privatization program. Morgan Guaranty Bank was assigned with the task of preparing the Plan, which was concluded in 1986.<sup>121</sup> While drafting the list of the privatization objectives in Turkey, Morgan Guaranty Bank gathered the opinions of

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<sup>120</sup> With this law, the Council of Ministers was authorized to decide on the transfer of the SOEs to the Public Participation Administration (PPA) and the High Planning Council was authorized to transfer partially SOEs and their subsidiaries to the PPA for privatization.

<sup>121</sup> By studying 32 enterprises which then represented about 40 percent of industrial production and 60 percent of fixed capital in Turkey, the Privatization Master Plan classified the SOEs into categories according to the order of priority for privatization (Tecer, 1992). In the first category, companies such as TURBAN (a tourism chain), THY (Turkish Airlines), and USAS (an airline catering company), YEMSAN (animal feed company) and ÇİTOSAN (cement factory) were identified as ideal for privatization. Companies such as SÜMERBANK (textile), Meat and Fish Corporation, PETKİM (petrochemicals) were included in the second category; and enterprises like DMO (state purchasing office) and TCDD (railways) were included in the third category (TMMOB, 2005:13). The Plan also emphasized the need to establish a proper legal framework and identified foreign investors as the principal candidates for taking over the companies since they would bring technical and managerial know-how (Öniş, 1998:152-53).

ministers, undersecretaries, directors in the public sector through a questionnaire (Ertuna, 1998). The questionnaire results produced fourteen objectives ranging from the mobilization of the economy through market forces, acceleration of the development of capital markets to increasing productivity and efficiency in the public sector (Yeldan, 2005; TMMOB, 2005).

After the institutional and legal arrangements had been made and the Master Plan concluded, the privatization process gained momentum with the sale of TELETAS, a telephones and telecommunications company, by a public offer in 1988. The state owned 40 percent share of the company, with 22 percent of the firm was sold in the Istanbul Stock Exchange Market (ISE) in exchange for \$13 million and the remaining 18 percent was sold to an international company, ALCATEL in 1993 (Yeldan, 2005; Ertuna, 1998). The share offer of TELETAS met very high demand and shares were sold to about 42 thousand small investors (Ertuna, 1998). Out of the total proceeds of 15.4 billion TL, 5.9 billion were received from the sale of shares to employees.

The implementation of the privatization program and attempts to establish capital market institutions proceeded simultaneously. Broadening share ownership through privatization was expected to consolidate Turkish capital markets by increasing the number of investors willing to purchase corporate equities. This would lower the cost of capital for firms and enable the companies to raise capital at prevailing rates (Megginson et al, 1994:407). Politically, broadening share ownership was perceived to increase public willingness to support market-oriented economic policies and also to make it very difficult for subsequent governments to attempt to renationalize privatized enterprises. Inspired by the financial and political consequences of share ownership, the Özal government established the Istanbul Stock Exchange in 1986. However, the steady decline in value of the TELETAS's shares by the end of 1988 showed that capital markets in Turkey were not advanced enough (Ertuna, 1998). The limited size of the capital market restricted both the pace and scale of the

successive privatization attempts. When domestic investors failed to emerge as candidates for taking over the state owned enterprises, attention shifted to the external investors as was previously suggested by the Morgan Stanley Report (Ertuna, 1998).

The shift to foreign investors started in 1989 with the sale of 90 percent of ÇİTOSAN (cement factory) to a French firm, Societe Ciment Francais<sup>122</sup>, in return for \$105 million, followed by the sale of 70 percent of USAŞ (airline catering) to Scandinavian Airlines<sup>123</sup> in exchange for \$14 million. The then president of the Privatization Administration justified the USAŞ privatization as bringing the firm up to international standards and enabling it to acquire new technology and know-how to develop its structure and organization (Karataş, 2001:97). However, the sale of USAŞ and ÇİTOSAN through bloc sale to foreigners without first offering to the public as foreseen in the law increased opposition to the privatization program.<sup>124</sup>

Erdal İnönü, the Chair of the Social Democratic Populist Part (SHP) criticized the attempt to transfer the public enterprises to the ‘private interest groups’ and stated that ‘we are against such sales, if privatized, we don’t hesitate to renationalize them’ (TBMM Records, 28.12.1987:121). Cevdet Selvi from SHP criticized the involvement of the foreign consulting companies such as Morgan Guarantee Bank, Chase Manhattan Bank, Boston Consultant to the privatization process by indicating that these companies remind him of the capitulations given to the foreigners by the Ottoman Empire (TBMM Records, 28.12.1987:121). Tevfik Ertuzun from the True Path Party (DYP) stated that ‘we are not against privatization, but the method of the sale and the identity of the potential buyer is

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<sup>122</sup> The French firm committed itself to undertake investments at the level of \$75 million for four years. 10% of the nominal capital would be held by the government as golden share. 39% of the shares would be sold to the public in the future, and 10% to the employees working in the cement factories concerned (Tecer, 1992).

<sup>123</sup> Scandinavian Airlines committed itself to make an annual dividend payment of 21% of gross profit to the Privatization Administration for ten years. It would also sell 30% of capital to individual investors after a certain periods of time and give priority to workers of the USAŞ (Tecer, 1992).

<sup>124</sup> In line with the law no. 3291 of 1986, the shares were first to be offered to its employees, then to domestic investors, Turkish workers abroad and lastly to foreign investors. For the parliamentary discussions on the privatization of these enterprises see the TBMM Records of the period.

important for us. We do not just sell firms, but the Turkish market that is endowed with special concessions (TBMM Records, 12.10.1989:428). Questioning the constitutionality of the bloc sale of ÇİTOSAN and USAŞ to the foreign investors, both DYP and SHP challenged the sales in the court. Adnan Keskin from SHP argued that ‘neither the law no. 2983, which enabled the sale of revenue-sharing certificates for infrastructural projects, nor the privatization law no. 3291, which foresaw the spread of ownership to society at large, endowed the government with the right of selling the SOEs through bloc sale to the foreigners’ (TBMM Records, 12.10.1989:419-423).

The Administrative Court cancelled the sale of ÇİTOSAN on 30 March 1990 (TBMM Records, 20.09.1990:313) and the Council of the State upheld the decision on 19 June 1991 upon the government’s appeal (TBMM Records, 16.6.1992:196).<sup>125</sup> However, the DYP and SHP coalition government that came to power after the 1991 elections decided on 27 April 1992 not to abide by the ruling of the court on the grounds that the sales gained an international dimension making international law prevail over domestic law (TBMM Records, 16.6.1992:197-198). Although the DYP and the SHP were the ones who first raised the issue in the courts when they were in opposition, once in power they authorized the privatization of enterprises to foreign investors despite the ruling of the court on the contrary.<sup>126</sup> Their shift in position can be explained with their political motivations to discredit the then Özal government rather than any substantive objections to the sale of these companies (Tallant, 1993:144).

The DYP-SHP coalition government stressed that privatization would serve as a means to improve productivity and competitiveness in the economy (TBMM Records, 4.5.1994:431). This stance was also in line with the sixth development plan (1990-1994) that

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<sup>125</sup> The Court annulled the sale of the enterprises on the grounds that the sales were finalized without first offering shares to the enterprises’ employees and the public, as required by the privatization law no.3291 (Önder, 1999).

<sup>126</sup> The coalition government took a decision called the ‘Council of Ministers Decision of Principle’ on 27 April 1992 to bypass the Court’s ruling that cancelled the sales of ÇİTOSAN and USAŞ.

focused on the necessity of increasing the productivity and profitability of the SOEs through restructuring ([www.dpt.gov.tr](http://www.dpt.gov.tr)). When Tansu Çiller, representing the neo-liberal wing in the DYP, became prime minister in 1993, privatization attempts were accelerated. The program of the new coalition made clear that the government adopted the policy of rapid and comprehensive privatization which also included closing down those enterprises that were constantly loss-making or could not be sold (DYP Government Program, 1993). Moreover, it was emphasized that necessary measures would be taken to encourage the participation of foreigners in the privatization process (Government Program, 1993). In its 24 December 1995 election declaration, the DYP made clear that the state would no longer be an economic actor and thus would retreat from investment in industry completely, and other economic activities would be restricted.

The stand-by agreement signed with the IMF to overcome the 1994 economic crisis provided the Çiller government the opportunity to implement privatization transactions. One of the crucial components of the adjustment program was accelerating privatization and closing a number of public enterprises, the sale of which would not be possible given their high indebtedness, overstaffing or technological backwardness (Yeldan, 1998). However, the policy of rapid privatization could not be materialized due to the political and legal obstacles coming from both within the social democratic partner of the coalition, SHP, and resistance from the trade unions. Although the SHP put its signature on the government program, including the policy of rapid privatization, this policy came under attack from some of its own members (Önder, 1999). When the privatization of the telecommunication section of the Postal, Telegram and Telephone Corporation (PTT) by a governmental decree came onto the agenda on 20 August 1993, some members of the coalition did not approve this initiative and used the Constitutional Court to stop the sale. There were substantial disagreements within the SHP and the coalition regarding how far privatization would go and the SHP

parliamentary group initiated motions of interpellation against their Social Democratic ministers for having signed the decree (Önder, 1999:573).

Moreover, when the privatization initiatives did not produce the declared outcomes such as solving economic problems, inflation, unemployment, etc., the opposition groups began to raise their voices. The labor front comprising diverse groups such as workers' unions, civil servants' unions and professional organizations, came together under the Democracy Platform (DP) in October 1993 (Önder, 1999).<sup>127</sup> With a press release dated 29 November 1993, the DP declared that it was opposed to the privatization that served the interests of international and domestic monopoly capital, and led to unemployment and de-unionization (Önder, 1999). The employees and the trade unions in those public enterprises that were to be privatized or closed organized mass protest actions.<sup>128</sup> Particularly, in places where a public enterprise was crucial for the local economy, like the Karabük Steel and Iron Corporation for the town of Karabük, and the Turkish Coal Mine Corporation for the city of Zonguldak, local residents also joined the workers in protest actions against the government (Petrol-İş, 1995:299; TBMM Records, 27.7.1994:412).<sup>129</sup>

The rising opposition coupled with the absence of an adequate legal framework largely prevented any considerable progress for privatization in Turkey. The weakness of the legal infrastructure strengthened the position of those who used it as a way to block the progress of the privatization program. Many of the cases were challenged in the Constitutional Court and privatization decisions were reversed. For instance, when the

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<sup>127</sup>Türk-İş, DİSK and Hak-İş as the confederations of workers, Public Servants' Unions Platform, and professional associations such as the Union of the Engineers and Architects' Chambers and the Union of Dentists' Associations were some of the members of the Platform.

<sup>128</sup> Over 56,000 employees were employed at those public enterprises planned to be closed by the end of 1994, and there were around 270,000 employees at the enterprises scheduled for immediate privatization (Önder, 1999).

<sup>129</sup> Faced with the resistance from the local community, the government announced in November 1993 that it would transfer Karabük Iron and Steel Corporation to the employees and local people. The enterprise was sold for a symbolic 1 TL, with 35% of the company going to the employees, 25% to the people in the region and retired employees of the company, 30% to Karabük-Safranbolu Chamber of Industry, 10% to Karabük-Safranbolu Crafts Association.

government passed, on 5 May 1994, a new law no. 3987 (Official Gazette, 11.5.1994) that authorized the Council of Ministers to carry out privatization transactions, it was challenged in the Constitutional Court by Mümtaz Soysal taking the lead from the SHP. When the Constitutional Court annulled the legislation on 7 July 1994, decree laws on privatization enacted by the Council of Ministers based on the said law were also repealed by the Court.

In its justification, the Court explained that the law was incompatible with the constitutional principles of the protection of ‘national interests’ and ‘economic independence’ since it did not discriminate against foreign capital, and failed to introduce restrictions on foreign investors that would attempt to buy the SOEs (Constitutional Court decision no.1994/45.2).<sup>130</sup> The Court argued that increasing the influence of foreign capital in the economy might harm the country’s independence. Thus, it ruled that there should be restrictions on the sale of enterprises in strategic sectors like telecommunications and energy to foreigners (Constitutional Court decision no.1994/45.2). To this end, Bakan et al. (2002) argue that the Constitutional Court emerged as a key instrument in translating the demands of the opposition into a concrete obstacle to the privatization program. The opposition forces’ building an alliance against those groups whose interests lay more in the open economy and the Court’s acting as part of the nationalist resistance groups reflected the fragmentation within the state apparatus in Turkey between nationally and internationally-oriented social forces.

The nationally oriented groups whose interests were embedded in the state-led economy or who considered state enterprises as symbols of national pride and developmental aspirations challenged the privatization attempts of the SOEs. The legacy of state intervention and the perceptions about the importance of the SOEs in the economy lay within the historical inheritance of Kemalism, which can be defined as a state-centered and elite-

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<sup>130</sup> The Constitutional Court also put forward that the law no. 3987 would enable the executive to overtake the functions of the legislature as it gave too much power to the Council of Ministers, which violates the principle of the balance of power (Constitutional Court decision no.1994/45.2).

driven modernization project. The reasoning that the SOEs managed by the government would better serve the ‘public interest’ was crucial in the delays and setbacks to the privatization process. As Öniş (1998:150) put it ‘that the SOEs were considered to be part of the Kemalist era constrained the possible transfer of ownership from the public to the private sector’. To this end, the tensions between the legacy of *etatism* and the free market ideology limited the speed and extent to which Turkey’s economy could be altered. Bakan et al. (2002) argue that the competition between these two economic ideologies continues to define Turkey’s economic structure: Turkey’s economy remained an amalgam of its *etatist* past and its free market present.

Although the counter movement of nationally oriented social forces could not stop the liberalization of the Turkish economy, it slowed down the process substantially in the 1990s. For instance, although the Özal government was strongly in favor of privatization, between 1988 and 1991 the revenues totaled only 1.6 percent of GDP, while the revenues generated from privatization accounted for almost 12 percent of GDP in Britain and 14.1 percent of GDP in New Zealand during the same period (Simga and Yüce, 2003:85). From 1984 to 1992 there were 112 SOEs offered for sale, but only 32 were effectively privatized and majority of these were small enterprises (Fıçıcı, 1998). Although the coalition governments of the 1990s remained substantially loyal to the neo-liberal economic program, less than 10% of the privatization program’s goal was achieved. In a 1996 World Bank report on privatization, Turkey ranked among the worst three privatizing countries (Eder, 2001:204). Moreover, as can be seen in the table below, since only small portions of companies were privatized, the majority of ownership remained unchanged. For instance, the public offer of THY (airlines), TÜPRAŞ (refinery), ERDEMİR, and Petrol Ofisi (petroleum distribution) was all less than 5% stakes.

**Table 4.1. Some Transactions in Which Majority of Ownership Remained Unchanged**

<b>Name of the firm</b>	<b>PPA (%)</b>	<b>Ownership sold</b>	<b>Sale Date</b>	<b>Method of sale</b>	<b>Sales proceeds (\$)</b>
THY (airlines)	100.0	1.55	29.11.1990	Public Offer	4.976.165
TÜPRAŞ (refinery)	100.0	1.64	27.05.1991	Public Offer	6.036.589
Petrol Ofisi (petroleum distribution)	100.0	4.02	27.05.1991	Public Offer	14.386.888
ERDEMİR (steel)	51.53	2.93	09.04.1990	Public Offer	53.105.700
Çukurova Elektrik (April 1990)	25.46	5.45	16.04.1990	Public Offer	38.829.409
Tofaş Turk Oto Fab. (automotive)	23.13	0.85	13.06.1991	Public Offer	6.119.572

Source: Privatization Administration, [www.oib.gov.tr](http://www.oib.gov.tr)

In order to accelerate the privatization implementations and weaken the power of the opposition groups that attempted to reverse privatization decisions in the courts, the Çiller government enacted the privatization law no.4046 on 24 November 1994 (Official Gazette, 27.11.1994/22124).<sup>131</sup> This law, defining the basic principles and methods of privatization, substantially strengthened the legal-institutional framework of privatization as it was prepared in accordance with the Constitutional Court's rulings. Creating a comprehensive legal base for privatization, it opened the way for changing the economic structure in Turkey.

With the law, the Public Participation Administration was renamed the Privatization Administration (PA) and was assigned with executive tasks such as carrying out the technical work, implementing the decisions of the Privatization High Council (PHC), preparing studies and evaluations for privatization, and also managing the Privatization Fund

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<sup>131</sup> For the Parliamentary discussions over this law, see TBMM Records, 26.10.1994. vol. 69 session. 24 pp: 245-277. For the motions prepared against the law, see TBMM Records, 27.10.1994 session:25 pp: 48-100.

([www.oib.gov.tr](http://www.oib.gov.tr)).<sup>132</sup> The Privatization High Council was defined as the decision-making unit that was authorized to make decisions on which firms to include within the scope of privatization, to decide to downsize or closedown the entities as deemed necessary, approve the final decisions of the tender committees, determine the privatization methodology of the entities and assets, set out the principles for the scope of retaining a Golden Share and to define the strategic fields and entities, and to control the Privatization Fund into which revenues were channeled ([www.oib.gov.tr](http://www.oib.gov.tr)). It was to be composed of the Prime Minister, a State Minister, the Ministers in charge of Privatization, of Finance, and of Industry and Commerce.<sup>133</sup>

Concerning the privatization of strategically important enterprises, a golden share was reserved for the state.<sup>134</sup> The law also listed certain companies, Turkish Airlines (THY), T.C. Ziraat Bank, TÜPRAŞ, Turkish Petroleum Company, and TMO Alkoloid Company for which the golden share was to be set if public ownership fell below 50 percent ([www.oib.gov.tr](http://www.oib.gov.tr)).<sup>135</sup> Subject to certain limitations, foreign ownership of the assets of privatized public enterprises was allowed. The law also included a social safety net for the employees who would lose their jobs because of privatization ([www.oib.gov.tr](http://www.oib.gov.tr)). The measures included redundancy compensation for workers, an early retirement scheme and the transfer of civil servants in privatized enterprises to other public institutions

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<sup>132</sup> Under Article 9 of Law No. 4046, Privatization Fund was set up in an account to be opened in T.C Ziraat Bank, in order to collect the revenues obtained from privatization transactions. Privatization Fund is used to cover privatization related expenditures such as contributing to the capital increase of the companies in the privatization portfolio, providing debt financing for the companies in the portfolio, paying for redundancy compensation and providing with education and training services.

<sup>133</sup> With the law no 4971 enacted on 15 August 2003, it is currently up to the Prime Minister to determine the members of the Privatization High Council.

<sup>134</sup> The Privatization High Council was entitled to retaining a golden share, which has special voting rights in a company to be privatized if it decides the company has strategic importance (Privatization Law No. 4046/Article 13). The purpose of the golden share stipulation is to protect national interests in the economy and security. It includes the right to approve amendments to the articles, incorporations of new companies or joining in companies already established, and transfer of registered shares to an extent that will affect the control of management. Golden share provides the government with a privileged share, which allows the Treasury to be represented by a member on the board of the enterprise.

<sup>135</sup> Currently, the golden share is retained in the companies such as THY, PETKIM, TÜPRAŞ, and Turk Telekom.

([www.oib.gov.tr](http://www.oib.gov.tr)). The social safety net attempted both to bring some solutions to labor redundancy problems and also diffuse the resistance coming from the public sector employees and the trade unions.<sup>136</sup>

Given its broad mandate, the privatization law laid the legal ground on which further privatization decisions would be based. Such an institutionalization considerably weakened the power of opposition groups that attempted to reverse privatization decisions through the courts. Moreover, the lack of consensus among coalition governments began to change in the late 1990s, as political parties began to emphasize privatization as a measure of their commitment to reducing the direct involvement of the state in economic affairs (Öniş, 2000). In 1999, the Ecevit coalition government incorporated the concept of privatization into the Turkish Constitution with the enactment of the law no. 4446 in August 1999 (TMMOB, 2005).<sup>137</sup> This initiative opened the way for the privatization of large and profitable enterprises that were taken into the 1998 privatization agenda such as Türk Telecom, POAŞ (petroleum distribution), GSM licensing, electricity distribution, SEKA (paper), and ORÜS (forestry products) in the following years (Karataş, 2001). Moreover, with the amendment of the Article 155 of the Constitution, the Council of State's supervisory function of protecting the 'public interest' and public services were eliminated. This amendment enabled the private provision of public services through private law contracts.<sup>138</sup>

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<sup>136</sup> Given the lack of safety nets, or training opportunities for workers to find new jobs it was not easy for Turkey to privatize the SOEs where high labor redundancies exist, especially if these SOEs were in less developed regions. To this end, under the new law, a worker losing his/her job during or after privatization implementations was entitled to a supplementary unemployment indemnity in addition to the severance payment. Moreover, the law induced early retirement benefits in the form of 30 percent premium for the workers who applied for retirement within two months following their acquisition of the right to retire (Ertuna, 1998).

<sup>137</sup> The title of the Article 47 of the Constitution was changed from 'Nationalization' to 'Nationalization and Privatization'.

<sup>138</sup> Before this constitutional amendment, the opponents of privatization used to appeal to the Council of State for the annulment of public service concession contracts in specific contracts. For instance, following an appeal by the Chamber of Electrical Engineers (EMO) in 1999, the Council of State cancelled the public service concession contract signed between the Aktaş Electric Company and the Ministry of Energy and Natural Resources for the distribution of electricity on the Anatolian side of Istanbul. As a justification, the Council of State indicated that the public interest has not been considered (Oğuz, 2008:175).

Another important initiative was accepting the rules of international arbitration that were introduced with the amendments made in Article 125 of the Constitution (TMMOB, 2005:81). This amendment ‘constitutionalized’ the Turkish state’s relationship with transnational capital as international arbitration was allowed to resolve disputes arising from state contracts awarded to foreign companies. These reforms served to ‘lock in’ privatization and internationalization of capital and also contributed to the elimination of conflicts between the market-oriented governments and the judiciary used by the opposition groups to a great extent. Accepting the rules of international arbitration and incorporating the concept of privatization into the constitution was directly related with the reconfiguration of social forces in Turkey as a result of the post-1980 structural changes in the Turkish economy.

### **4.3. The Reconfiguration of Social Forces and the Acceleration of the Privatization Process in Turkey**

#### **4.3.1. Outward-oriented Capital Groups**

As discussed in the previous chapter, the liberalization of the Turkish economy in line with the globalization of production and finance changed dramatically the objectives, future prospects and growth perspectives of capital groups in Turkey. Having increased interest in government policies that encouraged economic efficiency, Turkish capital groups asked for the implementation of a privatization process that would accelerate the growth of domestic capital through the transfer of large-scale profitable state enterprises. This demand was embedded in neoliberal ideas that promoted privatization as a way of liberalizing markets, increasing efficiency and growth, decreasing debt, increasing revenue, and solving budgetary problems. It is within this broader framework that the major and influential part of the Turkish business community was involved in the privatization process and attempted to change the role of the state in the economy (Ercan and Öniş, 2001).

Turkish capital groups saw privatization also as an important means for attracting foreign direct investment to Turkey (TÜSİAD, 2004a). As FDI flew to those countries which had the most business-friendly environment including favorable privatization strategies (Holman, 2001:181),<sup>139</sup> business groups encouraged FDI in Turkey with the expectations that it would contribute to the introduction and application of modern technologies and new forms of industrial organization, the creation of new jobs, and improved skills in the Turkish workforce (TÜSİAD, 2004a). In the 1990s, inflows generated through privatization accounted for about 90 percent of FDI in the Czech Republic, and about 50 percent in Poland and Hungary (Koldaş, 2005). As compared to these international experiences, the FDI inflows related to privatization in Turkey turned out to be very low (TÜSİAD and YASED, 2004).<sup>140</sup>

In the 1988-2004 period, the total amount of foreign investment in privatization was only \$1.4 billion, which accounted for 7.3 percent of total FDI inflows (Koldaş, 2005:22).<sup>141</sup> In 2005, however, more than 70 percent of the total FDI flows coming to Turkey (almost \$9.7 billion) was related to privatization transactions (World Bank, 2006:8). Due to the privatization of the most attractive parts of the Turkish public sector, foreign investors emerged as influential participants in the process. As the former Deputy Prime Minister Abdullatif Şener stated foreign capital had the tendency of concentrating on four sectors like retailing, electricity generation and distribution, banking, and telecommunications in Turkey (Aksiyon, 3.10. 2005). In 2006, FDI inflows increased significantly to 4.9% of GDP, more

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<sup>139</sup> According to the United Nations Conference on Trade and Development, some other factors that affected inward FDI included labor cost, labor skills, integration prospects, and macroeconomic stability ([www.unctad.org](http://www.unctad.org)).

<sup>140</sup> According to UNCTAD calculations (2002), the minimum annual FDI attraction potential of Turkey is \$35 billion. However, Turkey could only attract \$ 1 billion foreign investment on the average in the 1990s (TÜSİAD, 2004a:1).

<sup>141</sup> Only in 1994 (due to the sale of the 16.7% public sector share in TOFAS), in 1998 (due to the sale of 7.4% public sector share in Türkiye İş Bankası A.Ş), and in 2000 (due to the sale of 6.8% public sector share in TUPRAŞ), Turkey attracted substantial amounts of FDI flows through privatization (Koldaş, 2005).

than 85% of which were equity investment in financial services (40%), communication (36%), wholesale and retail trade (9%) and chemicals (3%) (EU Progress Report, 2007:31).

Privatization served as an instrument for the opening up of new investment opportunities for both domestic and transnational capital. For instance, privatization in the cement industry started in 1989, with the initial sale of five factories to the French firm Cement Francais (SCF).<sup>142</sup> Before the privatizations started, the share of public sector in the industry was nearly 40 percent (Altıntış et al, 2009). The privatization program covered 33 state enterprises in the cement industry. The privatization proceeds amounted for \$1.043 billion when the privatization process was completed in 1998 (Müslümov, 2005:66). As the state completely withdrew from the cement industry, currently all of the 57 factories (39 of them are integrated facilities and 18 are grinding and packaging facilities) operating in the industry are private enterprises, some owned by large industrial holdings and others by small companies (Müslümov, 2005:66).

Although the aim of this dissertation is not to examine the post-privatization situation of public firms, it can be stated that privatization in the Turkish cement industry led to a higher market concentration in some regions, while it increased competition in other regions. Cement companies in Turkey had regional monopoly power before privatization and when holding companies such as Rumeli Holding, Oyak, Ciment Francais, and other private investors bought public cement companies, privatization served to create private regional cement monopolies in Turkey (Müslümov, 2005:68).<sup>143</sup> For instance, in the wealthy regions Marmara and Central Anatolian regions, privatized firms were purchased by incumbents, thereby leading to a higher concentration (Altıntış et al, 2009). On the other hand, after

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<sup>142</sup> Currently, four foreign investors, namely French firms Ciment Francais, Lafarge Coppee, Ciment Vicat and German Heidelberger Zement/CBR operate in the industry (Saygılı and Taymaz, 2001:1395).

<sup>143</sup> Rumeli Holding bought 28%, Oyak 24%, Ciment Francais 17%, and other private investors 31% of the privatized cement factories. Due the 7.5 trillion TL (nearly \$ 5.5 billion) debt of the bankrupted İmar Bank owned by the Rumeli Holding, the state took over the control of the cement companies sold to the Rumeli Holding through the Deposit Insurance Fund in the beginning of 2004.

privatization the state monopoly was broken in the Eastern Anatolia and the Black Sea region, as private firms such as Rumeli Holding and OYAK entered the market for the first time.

In the iron and steel industry, based on its decision no. 2005/51, the Privatization High Council announced that 49.9% of ERDEMİR, Turkey's largest iron and steel producer, was to be privatized through bloc sale on 5 May 2005.<sup>144</sup> As indicated by Güleşen Demirbaş, Project Group Head, ERDEMİR's privatization received a lot of interest from important international investors such as Mittal Steel, Arcelor, Severstal, POSCO, NLMK and many other strategic investors (personal interview).<sup>145</sup> In a public auction held on 4 October 2005, the domestic company OYAK (the Armed Forces Mutual Assistance Foundation) was chosen as the winning bidder for the 49.29% stake in ERDEMİR for a price of \$2.77 billion. The transaction was the largest steel privatization worldwide in 2005.<sup>146</sup> With the privatization of ERDEMİR, Turkish steel industry became a sector completely operated by private investors.

Capital groups were particularly interested in the privatization of large public monopolies like TÜPRAŞ, which was the largest petroleum refinery in Turkey.<sup>147</sup> When

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<sup>144</sup> ERDEMİR was included in the privatization scope on 30 April 1987. Only 2.93% of its shares were offered to the public in 1990, and 6.05% were privatized through sales at the Istanbul Stock Exchange in 1994. Total revenue from the sale of 8.98% of its shares was \$53.105.711. In October 2004, the advisory consortium, HC Istanbul Menkul Değerler A.S. & Raiffeisen Investment A.G. & Tekinalp Avukatlık Konsorsiyumu, was selected by the PA as a consultant for the privatization of ERDEMİR. The stake that was privatized comprised the PA's shareholding of 46.12% and a 3.17% stake owned by the Development Bank of Turkey (TKB).

<sup>145</sup> Out of almost 40 initially interested parties, 19 pre-qualified for the second round out of which 6 investors delivered bids and took part in the auction (Güleşen Demirbaş, personal interview).

<sup>146</sup> As Demirbaş reports, being an important sector for the Turkish economy, some conditions were put in the tender specifications for the new owner of ERDEMİR. Accordingly, OYAK was supposed to undertake necessary investments in the ERDEMİR group with the purpose of establishing one or more flat steel hot rolling mills with 3.5 million tones of capacity until 31.12.2008 (personal interview). ERDEMİR was also supposed to continue its integrated steel production, and hot rolled production capacity should not fall below 6 million tons at any time. In order to protect minority rights and to secure the undertakings committed by the buyers, the PA would be represented on the ERDEMİR's Board of Directors and Audit Board. The PA would hold a group of privileged shares (Golden Shares) to have a say and approval right on such issues as closing down, selling, division or merging with other companies or liquidation of any of integrated steel production facilities or mine facilities owned by ERDEMİR and/or by its dependent partnerships in Turkey (personal interview).

<sup>147</sup> TÜPRAŞ has a diverse field of activity such as crude oil supply; crude oil refining; importing and exporting petroleum products; establishing and operating factories and plants in the petrochemical industry and trading of these materials in domestic and foreign markets; establishing and operating power stations and plants in energy

ATAŞ, the only private refinery plant, retreated from the refinery section and concentrated only on marketing activities in 2004, the petroleum refinery sector became a completely public-owned industry (Yeldan, 2005). TÜPRAŞ ranked 480 among the world's biggest 500 companies, with a capacity of processing 27.6 million tones of crude oil and also had a storage capacity of 50 percent, ranking it seventh in Europe (Petrol-İş, 2005a:23). With the value added it created, TÜPRAŞ had a share of 13.6 percent in the manufacturing industry in 2003 (TMMOB, 2005:145). Furthermore, due to Turkey's advantageous geopolitical location, TÜPRAŞ had a very rich portfolio of crude oil supplies, which minimized its operational risk.<sup>148</sup> The large size of TÜPRAŞ, high profit potential of the sector, and its geographical location giving the enterprise the opportunity of accessing energy resources easily and cheaply, made the enterprise an important target for both domestic and international investors. Accordingly, one of Turkey's leading holdings, Koç Group established a consortium with Shell and bought TÜPRAŞ by offering the highest bid, \$4.140 billion, in the public auction held on 12 September 2005.

The table below lists the privatization of other profit making, strategically important enterprises such as Turk Telecom, PETKİM, TEKEL, and Turkish Airlines, the large shares of which were bought by influential domestic and foreign investors.<sup>149</sup>

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sector and related fields; distribution and marketing of all kinds of petroleum products, LPG and natural gas in the wholesale and retail market within and outside of Turkey ([www.tupras.com.tr](http://www.tupras.com.tr)).

<sup>148</sup> In addition to the domestic production and the conventional supplies of Saudi Arabia, Iran, and Libya, TÜPRAŞ also has term contracts for crude oil supply from Russia, Algeria and Syria. Having twelve different crude sources, TÜPRAŞ minimizes operational risk while optimizing raw material costs (Arzu Atik, Project Group Head, personal interview).

<sup>149</sup> Moreover, public banks that were considered to be of strategic importance and thus exempted from the privatization scope in the 1990s, Halk Bank and Ziraat Bank, were also scheduled to be privatized. The law no. 4603 on Public Banks Law enacted on 15 November 2000 enabled the privatization of these banks. Accordingly, Halkbank was included in the privatization program upon PHC's Resolution no.2006/69 on 11 August 2006. Based on the PHC's Resolution No.2007/8 dated 5 February 2007, 25 percent of the stakes of Halkbank was privatized through public offering in May 2007. After several failed attempts to privatize since the late 1990s, Vakıfbank was partially privatized (25%) through a public offering in November 2005.

**Table 4.2. Selected Privatization Transactions**

Name of the Company	PA Shares	% of Shares Sold	Industry Type	Sales Method	Purchased by	Sales Date	Sales (\$ mn)	Number of Applications
PETKİM	99.97	8.08	Petro-chemical	Public Offering		June 1999	150.0	76.119
PETKİM	88.86	34.50	Petro-chemical	Public Offering		April 2005	274.0	23.054
PETKİM	54.36	51	Petro-chemical	Bloc Sale	Socar and Turcas-Injaz Consortium	July 2007		
TÜPRAŞ	100	1.6	Petroleum Refineries	Public Offering		May 1991	6.0	15.456
TÜPRAŞ	96.42	30.65	Petroleum Refineries	Public Offering		April 2000	1.1	369.566
TÜPRAŞ	65.77	51	Petroleum Refineries	Bloc Sale	(Koç –Shell)	Nov. 2005	4.1	2.488
THY	100	1.55	Airlines	Public Offering		Nov. 1990	5.0	
THY	98.17	23	Airlines	Public Offering		Dec. 2004	191.0	29.280
THY	75.18	28.75	Airlines	Public Offering		May 2006	207.0	10.757
TEKEL	100	100	Alcoholic Beverages		Mey İçki San. ve Tic.A.S.	Nov. 2003	292.0	
TEKEL	100	100	Tobacco	Bloc Sale	British American Tobacco	Feb. 2008	1.7	
Halkbank	99.96	22.98	Public Bank	Public Offering		May 2007	1.8	50.502
Türk Telekom	100	55	Telecommunication	Bloc Sale	OGER Telekom	Nov. 2005	6.5	

Source: Privatization Administration, [www.oib.gov.tr](http://www.oib.gov.tr)

The domestic capital groups justified the privatization of such important enterprises on the grounds that privatization accompanied by competition would lead to increases in efficiency and growth by subjecting public firms to the discipline of the market (TÜSİAD, 1998). They also argued that excessive government intervention hindered the efficient allocation of resources through the market mechanism, thus impeding necessary adjustments to the changing global environment (TÜSİAD, 2004b). Their economic discourse rested on organized and systematized ideas in favor of privatization that were embedded in theories produced in institutions such as leading universities, think tanks and international financial institutions. The theoretical literature that established the rationale of privatization as

insulating public enterprises from political interference, providing incentives to managers and ensuring their efficient monitoring eventually made their way to Turkey. The positive association between privatization and increased growth (Cook and Kirkpatrick, 2003:214<sup>150</sup>; Barnett, 2000; World Bank, 1995; Nellis, 2006); privatization and efficiency (Megginson et al., 1994; Boubakri and Cosset, 1998; Megginson and Netter, 2001); privatization and FDI flows (Davis et al., 2000) were rephrased into universalistic value formats and published in the research reports of business associations such as TÜSİAD and TOBB.

In its various publications, TÜSİAD (1989; 1992; 1998; 2004b) promoted liberal economic arguments in favor of privatization and aimed at ensuring that all segments of society would support the necessity of the privatization of the SOEs. As indicated in one of its earlier reports on privatization, 'Privatization in Turkey' (1992), TÜSİAD saw privatization as having a broader meaning beyond the ownership and management transfer of the SOEs to the private sector; it was seen rather as a basic instrument to establish a free market economy. Invoking the inevitability of globalization, and thus the need for economic adjustment, TÜSİAD provided the Turkish public and political decision-makers with a neo-liberal interpretation concerning the causes of socioeconomic difficulties. It maintained that the loss-making SOEs were a burden for the budget and the fact that their losses were financed through the Treasury led to crowding-out and distortion in the rational allocation of resources. It argued that Turkish public sector lacked efficiency and transparency due to high rigidity and the red tape in bureaucratic organizations and a lack of internal competition hindered technological progress and economic growth. TÜSİAD (1989:161; 1991:22; 2004b:60) thus suggested that the most rational thing to do was to privatize public enterprises that would contribute to the use and distribution of resources effectively; increase

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<sup>150</sup> Cook and Kirkpatrick (2003:214) report that on average, privatization increased economic growth by 0.8% in 1984-88 and by 1.5% in 1988-92.

competitive power of the country; spread capital to the society, and accelerate the technological transformation.

Representing the internationally competitive biggest firms of the country, TÜSİAD acted as a privileged agenda-setting and policy planning group, privileged in its access to government institutions and in its capacity to influence the political agenda. It played a central role in existing networks at the domestic and global level as influential members of TÜSİAD figured prominently in transnational networks such as the Trilateral Commission, Bilderberg Conference, the World Economic Forum, and the European Roundtable of Industrialists.<sup>151</sup> Moreover, by appealing to a wider set of interests and identities, the association tried to transcend its members' material interests and justify its demand for privatization by claiming to represent the general interests of the country (Öniş and Türem, 2001). In this way, TÜSİAD elevated its strategy towards a 'higher, more universal level', which was the 'universal plane of hegemony' (Gramsci, 1971:181; van Apeldoorn, 2001:78). The role of the association can thus be seen as operating primarily at the level of ideas and consensus formation (van Apeldoorn, 2005:121). It was at this level that TÜSİAD was an important actor in the struggle over the privatization of public enterprises.

MÜSİAD (1993:5) also supported privatization as a necessary component of economic liberalization for curtailing the power of the state. It emphasized that entrepreneurs who provided the best proposal in terms of providing production and employment and bringing new technology should be preferred (MÜSİAD, 1994). As one of its consultants,

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<sup>151</sup> For instance, two influential TÜSİAD members, the CEO of the Eczacıbaşı Holding, Bülent Eczacıbaşı and the CEO of the Sabancı Holding, Güler Sabancı are current members of the ERT. Şarik Tara from Enka Holding, Bülent Eczacıbaşı from Eczacıbaşı Holding, Jack Kamhi from Profilo Holding, Mehmet Emin Karamehmet from Çukurova Holding were permanent members of Bilderberg Conference. Other TÜSİAD members such as Sinan Tara from Enka Holding, Suna Kırac from Koç Holding, Muharrem Kayhan from Sektas A.S., Erkut Yüceoglu from MAP/TURKUVAZ group, Arzuhan Yalçındağ Doğan from Doğan Group were among Turkish businessmen that participated Bilderberg meetings.

İbrahim Öztürk, indicated, MÜSİAD held that privatization should not lead to private monopolies, and competitive conditions in the economy should be maintained (personal interview). Öztürk also emphasized the necessity of conducting privatization transactions in a transparent and accountable manner in order to generate the support of the society (personal interview). Although it supported the privatization of large and profitable enterprises such as PETKİM, TEKEL, National Lottery, and Halkbank, MÜSİAD favored putting limits to the share of foreign capital in the privatized SOEs, except in high-tech sectors.

As for the TOBB, privatization was the first and foremost condition for establishing a competitive free market economy. TOBB (1993) stressed that it should constitute a priority position in the Turkish economic agenda as privatization contributed to the development of individual creativity and entrepreneurship. In the economic summit held on 8 February 2001, TOBB submitted a report to the government called, ‘The Views and Proposals Concerning the Enhancement of the Real Sector’. In this report, TOBB emphasized that the role of the state in the economy should be reduced in line with the principles of a ‘small and efficient state’. TOBB also stressed the necessity of accelerating the process of divesting the SOEs which would ensure that the state retreat from the economic field.

Considering state-owned enterprises responsible for inflation, insufficient investment, low productivity and unemployment, the Turkish Confederation of Employers Associations (TİSK) argued that the SOEs constituted one of the biggest problems of the Turkish economy. Thus, they demanded that the share of the state in the economy be reduced through a radical privatization program (TİSK, 1992). The Istanbul Chamber of Industry (ISO) similarly believed that rapid and determined privatization would overcome the clumsiness of the economy and the state would get rid of the hunchback it carried for years. The mobility generated by privatization would increase the general welfare of the society to a great extent (ISO, 1993:3).

By using their agenda-setting position and their role at the level of discourse production these capital groups acted as the primary agents of creating social consensus for privatization. They attempted to shape public opinion in favor of privatization by using all the means including major newspapers, TV programs, reports, press releases, panels, meetings, etc. As discussed in the previous chapter, there was an organic link between media and capital groups in Turkey. It can be argued that the mainstream media acted as organic intellectuals for generating support for privatization transactions. Analyzing the privatization news covered in the mainstream media between 1980 and 2000, Yıldız (2002:109) argues that the media was a crucial instrument for shaping public opinion for the inevitability of privatization. Yıldız (2002:161) informs that news presented SOEs as loss-making and badly managed enterprises that should be privatized in order to increase productivity in the economy, encourage competition and facilitate economic integration with the EU (Yıldız, 2002:161). For instance, Erdal Sağlam from *Hürriyet* (25 November 2003) argued that, ‘768 workers of Sümer Holding’s Istanbul branch (textile), 104 workers in SEKA’s Karasu enterprise (paper) and 500 workers in Murgul Bakır enterprise (copper) go to work everyday, play backgammon, knit wool and then go back home. The spending for workers in this situation is 8 trillion liras per month’.

Tırman (2007:25) similarly demonstrates that mainstream papers presented the SOEs as functioning with backward technology and with positions occupied by partisans. The structural defects of the SOEs were shown as negative influences over the economy and the privatization was presented as a solution for overcoming economic problems and as a way of adjusting to new international economy (*Hürriyet*, 21 October 2004). The confidence in the capacity of market mechanism to solve the economic problems was produced and reproduced through statements related to privatization that were built upon a negative causal relationship between inflation, budget deficit and the public sector. Tırman (2007) argues that in this way

mainstream newspapers presented the privatization policies within a ‘having no alternative’, ‘universal’ and ‘unobjectionable’ economic frame. The so-called ‘neutral’ and ‘scientific’ data regarding the ‘economic failure’ of the SOEs worked to demonstrate the necessity of privatization as a ‘scientific reality.’ As privatization was elevated to the position of a scientific fact, any alternative or opposing discourse on privatization was excluded or represented in a distorted manner (Tirman, 2007:83-84).

The existence of such market-promoting actors were instrumental in the creation of additional formal and informal structures of authority such as independent regulatory agencies which assigned ‘more political weight to technocratic cadres’, including neo-classical economists and financial administrators (Gill, 2001:59). As mentioned in the previous chapter, the proliferation of ‘quasi-governmental organizations’ (Gill, 2001:56) such as the Banking Supervision and Regulation Agency, the Energy Markets Regulatory Agency, and the Telecommunications Agency facilitated the acceleration of the privatization process by transforming the state into an agency engaged in the monitoring and regulating activities in order to provide well functioning of the markets instead of direct production and provision activities.

#### **4.3.2. The Establishment of Independent Regulatory Agencies and the Acceleration of the Privatization Process in Turkey**

Many scholars draw attention to the importance of creating a competitive environment as being more significant than the transfer of ownership per se. Bortolotti and Siniscalco (2004), Megginson et al. (1994), and Vickers and Yarrow (1988) argue that private ownership increases efficiency and that this effect is more relevant in competitive markets. Petrazzini (1996) and Stiglitz (2002) add the importance of regulation into the analysis and argue that privatization does not lead to economic efficiency, unless competition

and regulation are established. Drawing on the lessons from the Russian experience, Stiglitz (2002) emphasizes the importance of timing and sequencing in privatization. He argues that due to too much emphasis placed on speedy privatization, not enough concern was devoted to fostering competition, creating property rights and an efficient judicial system to enforce them. Stiglitz (2002) emphasizes the necessity of establishing well-functioning institutions before embarking on privatization.

The need for a sound regulatory framework for the sustainability of economic reforms was recognized by policy-makers in the 1990s, particularly following the financial crises in emerging markets. The IMF, the World Bank, the OECD, and the WTO promoted regulatory agencies as the ‘best practice’ lying at the heart of governance for liberalized and privatized sectors (Sosay and Zenginobuz, 2008). Independent agencies regulating sectors particularly in finance and utilities/infrastructure began to proliferate in emerging markets, including Turkey.<sup>152</sup> Turkey engaged in establishing a regulatory framework prior to liberalization and privatization of industries by the end of 1990s. The restructuring of the regulatory framework started with the banking sector with the creation of the Banking Regulation and Supervision Agency (BRSA) in 1999. BRSA was followed by the establishment of the Telecommunications Agency (TA) in 2000. The Energy Market Regulation Agency (EMRA) was instituted in 2001 to regulate the electricity and natural gas industries. Unlike international practices, Turkey also established two IRAs in the agriculture sector. The Sugar Agency (SA) was created in 2001 to regulate the sugar industry and the Tobacco, Tobacco

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<sup>152</sup> In 1992, Colombia, Mexico, Peru, and Venezuela created new competition regulatory agencies and strengthened those established earlier (Sosay and Zenginobuz, 2008:9). Examining regulatory authorities of 19 Latin American countries in sectors such as financial services, securities and exchange, competition, telecommunications, electricity, gas, water, environment, and food safety, Jordana and Levi-Faur (2005:103) puts forward that the overall number of IRAs had grown to 138 by 2002.

Products and Alcoholic Beverages Market Regulation Agency was created in 2002 for the tobacco industry.

These agencies subsequently contributed to large-scale privatizations, including sugar factories and energy distribution companies, and public monopolies such as Turk Telecom and TEKEL (tobacco and beverages). This was a basic difference of the IRAs in Turkey from their counterparts in the advanced capitalist countries. While those countries established IRAs to regulate the already privatized sectors, Turkey established them to accelerate the privatization process (Oğuz, 2008:186). One of the major developments that affected the political economy of Turkish telecom sector, for instance, was the transfer of the regulatory authority from the Ministry of Transport to a sector-specific independent regulator, namely the Telecommunication Agency.

As it was the case in many other countries, Turkey's telecommunications networks and services were carried out by state-owned PTT monopoly, a public economic enterprise performing also postal services. Influenced by legal and institutional restructuring of the global telecommunications markets, Turkey took the first major step towards the liberalization of the telecommunications sector in June 1994 with the enactment of the law no. 4000 that separated the PTT into two different organizations. PTT was divided into General Directorate of Posts to provide postal and telegram services and Turk Telecom as a public economic enterprise to provide telecommunications services with some regulatory power such as issuing licenses to private sector firms (Aydemir, 2008:104). Other regulatory functions were kept within the Ministry of Transport.

With this law, a further step was taken for the liberalization of the mobile telecommunications services as the two GSM 900 mobile operators, Turkcell and Telsim, started to operate by concluding revenue-sharing agreements with Turk Telekom.<sup>153</sup> Revenue

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<sup>153</sup> 63% of Turkcell was held by Cukurova Group and 37% by Sonera. 98% of Telsim was held by Rumeli Group and 2% by Motorola (Göktepeli, 2003:112)

sharing agreements of the two mobile operators were transformed to 25-year licenses (concession agreements) issued by the Ministry of Transport in April 1998 in exchange for \$500 million. The revenue-sharing agreements stipulated that Turk Telekom would obtain 67 percent of the revenues, and the rest would be retained by the operators; and all infrastructure investment was to be undertaken by the operators themselves. The introduction of licenses increased competition and investment incentives in the sector (Aydemir, 2008:105). Due to the increased demand in mobile communication, the Ministry of Transport opened a tender for two GSM 1800 licenses in April 2000. The Is Bankasi-Telecom Italia consortium (Aria) won the tender in exchange for almost \$3 billion. Turk Telekom (Aycell) also began to operate in the sector by gaining a GSM 1800 license in August 2000. Aycell and Aria were merged in 2004 and the new operator, Avea, started to operate in February 2004. With the addition of a new operator, the sector moved toward a more competitive environment from its former monopolistic nature.

The Competition Authority that was established in 1994 contributed to the liberalization process of the telecommunication sector by engaging in regulatory supervision.<sup>154</sup> For instance, upon the request of the TISSAD (Internet Service Providers Association) and a number of internet service providers (ISPs), the Competition Authority launched an investigation in 2001. Turk Telecom was blamed for the abuse of dominant position in the markets for internet services and internet infrastructure by preventing and making harder the entrance of new internet providers into the market (Ünver, 2004:144).<sup>155</sup> Examining these claims, the Competition Authority in its decision no. 02-60/755-305 dated 2.10.2002 concluded that Turk Telecom had the dominant position in the market for

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<sup>154</sup> Competition Authority began to operate in November 1997.

<sup>155</sup> Turk Telecom that was providing infrastructure for ISPs was accused of setting monthly access charges below the cost, which, in turn, distorted the competition in the market; doubling the tariffs for leased lines used by ISPs with no apparent increase in costs though it did not increase the tariffs of services provided by its subsidiary, TTNNet; limiting the capacity it leased to ISPs up to 65 Kbps while providing five times higher capacity to TTNNet; and forcing ISPs to disclose confidential commercial information relating to customers, such as subscribers' names, addresses and telephone numbers (Aydemir, 2008:152).

infrastructure needed for the provision of broadband internet services to corporate users; in the market for infrastructure needed for the provision of narrowband internet services to residential users; in the market for infrastructure needed to provide broadband internet access services to residential user; and in the market for satellite-based international data transfer (Aydemir, 2008:155).

In addition to the Competition Authority, which enforced economy-wide competition rules, a sector-specific independent regulator was established in 2000. Until the enactment of the law no. 4502 in 2000, Turk Telekom acted as both an operator and a regulator in the sector. The law no. 4502 separated the policy-making, regulatory and operational functions of the government by establishing the Telecommunications Agency (TA). Regulatory functions of the Ministry of Transport and Turk Telekom were transferred to the TA (Aydemir, 2008: 106). The enactment of the law no. 4673 that transferred the right to issue all kind of authorization (general authorization, telecommunications license, authorization agreement or concession agreement) from the Ministry of Transport to the TA in May 2001 was another major step towards the full liberalization in the sector. The abolishment of monopoly rights of the Turk Telekom over national and international fixed line voice services and establishment and operation of telecommunications infrastructure on 01.01.2004 paved the way for the full liberalization of all telecommunications networks and services. Moreover, the foreign ownership restriction on Turk Telekom was abolished by law no. 5189 in June 2004.

After all these steps were taken, the Turk Telekom was privatized with the block-sale of the 55% of its shares to the Oger Telecoms Joint Venture (a consortium led by Saudi Oger and Telecom Italia) in exchange for \$6.5 billion in June 2005. In order to prevent the Turk Telecom to turn into a private monopoly, with the law no.5335 enacted in May 2005 cable TV network was separated from Turk Telekom prior to privatization as it was accepted as an

alternative competitive infrastructure to Turk Telekom's infrastructure. This was realized in accordance with the opinion of the Competition Authority, which made it clear that positive outcomes such as network expansion, increased efficiency, increased labor productivity, and decreased costs could be realized if privatization process was supported by a market structure that was conducive to competitive environment (Aydemir, 2008:110).

Due to the abolishment of the monopoly rights of the Turk Telekom and full liberalization of the telecommunications markets, the Turkish telecommunications sector made a considerable progress towards competition and increasing consumer benefits. For instance, long distance charges decreased from 29 Ykr/min in 2004 to 9 Ykr/min in 2007. International call charges decreased from 77 Ykr/min in 2004 to 12 Ykr/min in 2007. Charges for calls from fixed line to mobile decreased from 72 Ykr/min in 2004 to 38 Ykr/min in 2007 (Aydemir, 2008:114). Although customers benefited from the liberalization process, some private sector actors that managed to sell equipment to the TT at higher prices were potential losers in the post-privatization process.<sup>156</sup> Moreover, since the competition in the telecommunications markets developed slower than expected, private investors in cable TV or internet service sectors could not benefit much from the post-privatization process. Cable TV infrastructure could not be a real competitor against the Turk Telekom's existing fixed line infrastructure due to the legislative delay and legal problems concerning ownership (Aydemir, 2008:114).

Although Internet service providers operated since the second half of the 1990s under revenue-sharing agreements with Turk Telekom, they failed to come out as real competitors competing effectively with Turk Telekom. Turk Telekom as the dominant broadband internet provider had a huge market share in the broadband service market. According to the records

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<sup>156</sup> For instance, TT opened a tender to buy 15.000 DSL ports in 1998 and bought 3000 ports in exchange for \$100 each. Although in 2002, the price per port was half of what it was in 1998, TT bought the remaining 12.000 ports for \$100 each (Göktepe, 2003:176).

of Telecommunication Agency, Turk Telekom's subsidiary providing ADSL services, TNet, had 94.95% market share in the broadband market by March 2008 (Aydemir, 2008:115). Other ISPs, providing ADSL service, had 4.23% market share in the broadband market. Moreover, although TA granted a large number of licenses, including infrastructure licenses, only a small number of new market entrants have yet become operational in fixed line telephony. This means that effective competition on the fixed telephony market was limited (EU Progress Report, 2007). These findings imply that liberalization and privatization did not automatically lead to the emergence of competitive telecommunications markets in Turkey. Although there was not an automatic relationship between privatization and competition, a brief look at the following discourse of policymakers and bureaucrats reveal that the relationship between privatization and competition or privatization and efficiency was constructed and presented as a generally shared fact.

#### **4.3.3. Globalizing Bureaucrats**

As explained before in Chapter I, the dynamics of globalization fragmented states by giving precedence to certain state agencies such as Office of the Prime Minister and the Central Bank and generated particular coalitions among these institutions that were directly in contact with the IFIs and private social forces involved in capital accumulation (Cox, 1981:109; 1991:337). Against the domestically-oriented state agencies, those agencies linked to transnational capital became crucial actors of liberalization efforts (Tsolakis, 2008:6). The Turkish Privatization Administration attached to the Office of Prime Minister consolidated its place in the state apparatus within such a framework.

Interviews conducted by the author (2006-2007) with the bureaucrats employed in various public institutions such as the Turkish Treasury and Privatization Administration indicate that Turkish bureaucratic elites attributed a 'progressive meaning' to the

liberalization process and believed in the necessity of restructuring the Turkish state. It can be noted that whereas the Kemalist bureaucracy was once the guardian of the state, the new bureaucratic elite looked to reduce its role. The findings illustrate that these market-oriented bureaucrats served as crucial actors for the acceleration of the privatization process in Turkey. They strongly criticized the widespread impression that structural programs implemented in Turkey were the dictates of the IMF and the World Bank. They instead considered economic reforms as initiating domestically in line with the requirements of the global economy. As far as privatization was concerned, emphasizing the ‘poor performance of the SOEs’, ‘government budget constraints’, ‘necessity of promoting private sector’, ‘integration with the world economy’, the bureaucrats strongly believed in the necessity of privatization. More importantly they believed that a reform of the current system might change the economic and political landscape of the country leading to a stable macroeconomic environment (personal interview).

For instance, according to Hasan Köktaş, the Vice-President of the Privatization Administration (PA), ‘the basic philosophy of privatization is to reduce the role of the state in the economy, increase competition, productivity, and efficiency, reduce the burden of public sector on the general budget, combat corruption, and enhance transparency’(personal interview). Köktaş claimed that the SOEs had contradictory objectives since considering the ‘public interest’ contradicted the profit motive leading to higher costs and lower productivity. He also believed that in Turkey, public ownership was inherently inefficient and enterprises under public ownership were destined to be corrupted. Köktaş, for instance, presented the Turkish Coal Enterprises (TKİ) as a symbolic case that demonstrated the irrationality of the public sector. In the mid-1990s, the TKİ employed about 32.000 employees, where some feasibility studies indicated that 12.500 employees would be enough for profitable operations (Ertuna, 1998). Köktaş suggested that for the management of public enterprises, the

corporate governance principles of OECD such as transparency and accountability should be applied. However, he expresses that, ‘the legislation is ready, but the mentality is not, thus these principles cannot be practiced in the public sector’ (personal interview).

İsa Altıntaş, Project Group Head in the PA, indicated that, ‘market pressures of competition act as a better discipline on the private sector than the public sector. The need to earn profit and reduce costs lead to the more efficient use of both workers and equipment in the private sector. In order not to lag behind their competitors, the private sector is more inclined to adopt new technologies and practices’ (personal interview). Ayhan Kabaktepe, Project Group Head, added that, ‘the SOEs cannot undertake necessary investments for catching up with technological developments in time because of the bureaucratic procedure and lack of capital’ (personal interview). Kabaktepe also commented that the claim about the degree of influence from international actors was exaggerated. He held that, ‘even in the absence of the IMF and the EU, Turkey would embark on privatization due to the globalization process. Globalization makes national economies operate according to the principle of free competition. This process is inevitable; you have to play according to the rules of the game’ (personal interview).

The internalization of privatization by these outward-oriented, “globalizing” bureaucrats, and their presenting it as a necessary, appropriate and inevitable policy tool for the liberalization of the economy contributed to the ascendancy of this policy to a hegemonic position in Turkey. The establishment of hegemony was evident in what was perceived as the ‘unquestionable fact’, such as that ‘the state should retreat from economy’ (Güveloğlu, 2003:135). The discourse of the market became the determinant of social reality in Turkey (Yalman, 2002a) and was functional in the coming to power of a market-oriented political party, the AKP in 2002. In addition to market-oriented bureaucrats, capital groups, and

mainstream media, the AKP government constituted an influential agent of the historic bloc that was crucial in the organization of consent for privatization.

#### **4.3.4. The Enabling Role of the AKP Government in Creating Consent for the Privatization Process**

The pace of privatization in Turkey accelerated with the rise of the AKP to power as a majority governing party in 2002. In the Election Declaration, the AKP (2002b:27) emphasized privatization as a priority and stated that ‘...efficiency and the productivity will be the basic criteria for the privatization’. Once in power, in its Government Program, the AKP maintained that the SOEs benefiting from their monopoly positions distorted market mechanisms. The government program also emphasized that due to political intervention, the SOEs did not work in economically rational terms, thus they were burden to the state ([www.akparti.org.tr](http://www.akparti.org.tr)). In the Emergency Action Plan (2003), the AKP government declared its commitment for the privatization of the SOEs and made it clear that the role of the state would be restricted in basic fields such as education, health, justice and security.

Concerning the Action Plan of the government, Kenan Işık, the former Vice President of the PA, stated that, ‘AKP’s views on privatization differ from the positions of the previous governments. First of all, the AKP government treats privatization as a way to achieve a free market economy; this is different from the other governments that aimed at solving the budget deficit problem through privatization’ (personal interview). Işık emphasized that the main objective of privatization for the AKP government was to withdraw the state from business enterprises in the economy completely. He also stressed that privatization process was crucial for modernizing the Turkish economy that would be part of the European economic area through the EU membership (personal interview).

In order to generate support for liberal economic reforms, the AKP presented the reforms as the only way of ensuring competition, efficiency and stability within the country. Attempts were made to explain and justify issues such as how privatization-induced unemployment would be dealt with, how productivity would be maximized, and how the sale of shares would be conducted. To this end, with the participation of politicians, bureaucrats, representatives of the business associations, stock exchanges, banks, domestic and foreign consulting companies, and academics, the AKP government adopted the Turkish Privatization Strategy Plan on 18 May 2003. This plan suggested that by organizing panels and conferences, by informing universities, NGOs, business associations and trade unions about the benefits and merits of privatization and about the decisiveness of the government on the issue, the consciousness of public opinion would be increased. The Plan further highlighted the necessity of emphasizing successful privatization cases that had been concluded, and of explaining how privatization related unemployment would be compensated in the future by the economic growth that privatization would generate (Privatization Strategy Plan, 2003).<sup>157</sup>

Kemal Unakitan, the Minister of Finance, stated that the strong and steady dedication of the AKP government towards the privatization issue led to significant developments in privatization applications (PA Annual Activity Report, 2007). As the figure below demonstrates, Turkish privatization took off recently and more than 70 percent of all privatization concluded in Turkey since the mid-1980s was realized during the AKP period in government. While the privatization revenues generated between 1986 and 2002 was \$8 billion, the amount reached to almost \$18 billion between the periods, 2002-2006 (PA Annual Activity Report, 2007).<sup>158</sup> As indicated in the Progress Report of Turkey (European Commission, 2006:27), most of these proceeds came from the privatization of highly profit

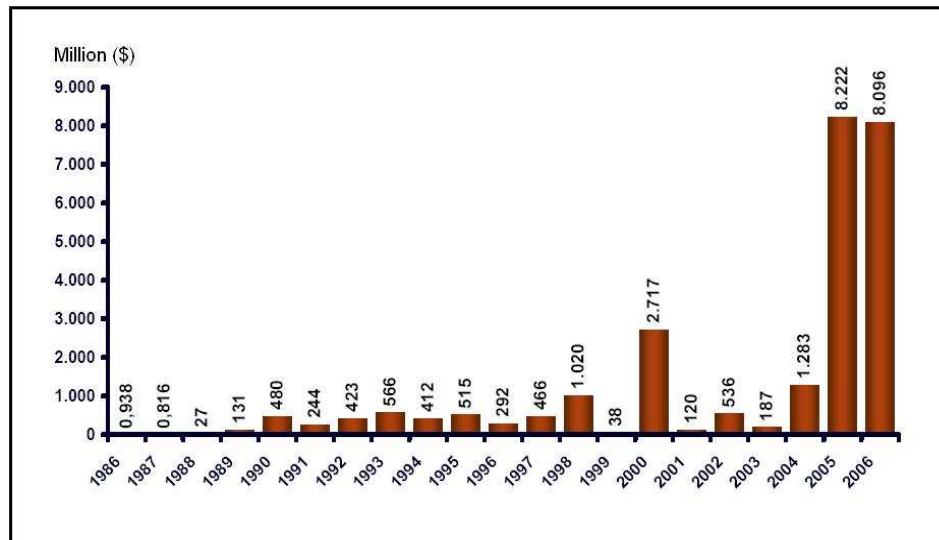
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<sup>157</sup> The Plan was given to the author by Hasan Köktaş, the Vice-President of the Privatization Administration.

<sup>158</sup> Figures account for constant dollars.

making, strategically important enterprises such as TÜPRAŞ oil refinery, the steel and iron producer ERDEMİR, and Turk Telekom.

**Figure 4. 2: Privatization Implementation on an Annual Basis (1984-2006)**



Source: Privatization Administration Activity Report, 2007:73

After these comprehensive privatization transactions, the role of the SOEs in the economy substantially decreased in Turkey. As can be seen below, the value added of the SOEs in GDP decreased from 6.24 percent in 1985 to 1.89 in 2006. The employment costs of the SOEs also reduced from 2.06 billion TL in 1985 to 0.94 billion TL in 2006. Moreover, contrary to the official discourse that privatization would be realized through public offers in order to spread the ownership of the means of production to society, block sale was the dominant form of privatization in Turkey.<sup>159</sup> Out of the \$25 billion amount of privatization revenues, almost \$18.1 billion came from block sale, \$3.3 billion from public offerings, \$3 billion from the asset sales, \$1.2 billion from the Istanbul Stock Exchange, and \$4 million from uncompleted asset sale ([www.oib.gov.tr](http://www.oib.gov.tr)).

<sup>159</sup> In Turkey, privatization methods ranged from bloc sale, sales through Istanbul Stock Exchange (ISE), public offering, transfer of ownership to employees, give-away, granting operating rights, breaking government monopoly by allowing free entry or closing down.

**Table 4.3. Value added by SOEs, 1985-2006 (current prices)**

Years	GDP (Billion TL- Thousand YTL)	Total Value Added % of GDP	Profit - Loss	Current Year Depreciation	Employment Cost	Interest Payments	Provisions
1985	47.177	6.24	2.70	0.79	2.06	0.61	0.07
1986	68.663	5.48	1.64	1.13	1.87	0.77	0.07
1987	100.445	5.69	1.20	1.28	2.02	1.10	0.09
1988	173.709	4.90	0.67	1.33	1.91	0.91	0.08
1989	305.579	5.89	0.49	1.39	2.58	0.91	0.52
1990	528.369	5.18	-0.27	1.09	3.06	0.86	0.44
1991	847.032	5.23	-2.41	1.01	3.91	1.34	1.38
1992	1.469.755	5.34	-2.10	0.97	3.91	1.53	1.04
1993	2.664.116	4.87	-1.87	0.80	3.74	1.51	0.68
1994	5.200.119	5.46	-1.62	0.85	3.01	1.71	1.51
1995	10.434.647	4.75	0.16	0.96	2.14	0.89	0.59
1996	19.857.343	4.63	1.01	0.74	1.84	0.58	0.45
1997	38.762.506	4.78	1.37	0.67	2.03	0.44	0.26
1998	70.203.147	4.85	1.63	0.56	1.98	0.35	0.34
1999	104.595.916	4.45	0.71	0.57	2.47	0.32	0.38
2000	166.658.021	3.47	-0.07	0.56	2.47	0.29	0.21
2001	240.224.083	4.81	0.26	0.66	2.40	0.35	1.13
2002	350.476.089	4.98	1.18	1.03	2.06	0.21	0.49
2003	454.780.659	4.13	1.13	0.70	1.95	0.14	0.21
2004	559.033.026	3.43	0.97	0.64	1.60	0.09	0.14
2005	648.931.712	2.01	0.29	0.41	1.17	0.06	0.08
2006	758.390.785	1.89	0.34	0.42	0.94	0.06	0.14

Source: [www.treasury.gov.tr](http://www.treasury.gov.tr)

Unakitan emphasized that to increase competition and efficiency, to reduce the adverse impact of the excess employment and to minimize the financial burden on the public sector, and to attract the interest of national and foreign capital to new investments, privatization applications would continue with the same dedication (PA Annual Activity Report, 2007). As we saw in the previous chapter, this market-based economic emphasis of the AKP not only enabled it to seem modern and international but also respond to its own base of electoral support that had roots in MÜSİAD and other outward oriented capital groups. This decisiveness of market-oriented politicians and bureaucrats accompanied with the strong commitment of the business community towards the liberalization and the related privatization process reflects a radical departure from the Kemalist approach that had dominated macroeconomic policy-making since the establishment of the Turkish Republic. Kemalist emphasis on public intervention as a means for economic growth and public

involvement in private economic decision-making began to be seen as generating inefficiencies and creating undesirable market distortions in Turkey. Due to this shift in the common sense of the Turkish people from state-led development towards market-based one, the Kemalist state was no longer seen as the only legitimate actor of modernization and development. Instead, social forces organized around the discourse of supremacy of markets provided the basis for the acceleration of the privatization process that would restructure the Turkish state along liberal lines.

The 2001 economic crisis reinforced the efforts of the domestic coalition for creating consensus regarding greater efficiency of market mechanisms and the need to reduce or reverse the state's involvement in the economy. The crisis served as an opportunity for the outward-oriented groups to present the conditionality of the transnational actors such as the IMF and the EU as serving the general public good in Turkey. These external actors served as 'ideationally legitimating the norms of the world order', 'embodying the rules that facilitate its expansion', and 'absorbing counter-hegemonic ideas' by cooperating with market-oriented elites in Turkey (Cox, 1996d:138). They were, thus, crucial in the 'constitutionalization' of privatization-friendly rules that enabled the acceleration of profitable public enterprises. By relying on the constraints of globalization and Europeanization, many privatization transactions were justified to society through discourses that emphasized the necessity and appropriateness of fulfilling the IMF and the EU conditionality for increasing general prosperity in Turkey.

#### **4.3.5. The Role of the Transnational Actors in Consolidating Privatization Transactions in Turkey**

The IFIs such as the IMF and the World Bank played an important role in generating transnational capitalist consensus for responding market pressures (Cox, 1987:259). Both

institutions spread the hegemonic discourse of a free market economy vis-à-vis the state. They particularly played a crucial role in elaborating and spreading the basic principles of the so-called Washington Consensus for arranging state-market relations. Both through the Washington Consensus and the recently emphasized Post-Washington Consensus<sup>160</sup>, the World Bank and the IMF were also the key players in the evolution of economic policy in Turkey. The terms of conditionality and the contents of letters of intent illustrated the ways in which they tried to influence the role of the state in the economy.

In its letter of intent submitted to the IMF on 9 December 1999, the Turkish government undertook to realize a large scale privatization that would account for at least 3.5 percent of GNP (US\$7.6 billion) in 2001 and 2 percent of GNP in 2002 (US\$4 billion) (IMF Letter of Intent, 9 December 1999). The privatization receipts to be received from the telecommunication and energy sectors (\$4.5-5.5 billion) would be transferred directly to the Treasury and were to serve as performance criterion ([www.treasury.gov.tr](http://www.treasury.gov.tr)). To achieve these targets, privatization would be accelerated through ‘legislative changes’ that would, for instance, enable Turk Telekom to act as a private entity by making it subject to the Turkish commercial law (IMF Letter of Intent, 9 December 1999). There was also envisaged a ‘regulatory body’ for the telecom sector within three to six months following the enactment of a telecommunication law by the Parliament by 31 January 2000 (IMF Letter of Intent, 9 December 1999). In the letter sent to the IMF for the request of the completion of the second review under the stand-by arrangement (22 June 2000), the Turkish government undertook to

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<sup>160</sup> When criticisms began to increase against the assumptions of the Washington Consensus after the Asian financial crisis, a shift occurred in the IFI’s development discourse from strict structural adjustments towards poverty reduction, country ownership and institution building for developing countries (Ruckert, 2006:5). Some revisions and additions have been made to the original policy recommendations, though not affecting the main rationale. It was emphasized that macroeconomic structural reforms were necessary but not sufficient, and institutional reforms were recognized as an indispensable complement of the working of markets. This reframing emphasizes the ‘regulatory role of the state’ (Öniş, 2006a:4) and is called as Post-Washington Consensus. The current recommendations emphasize to reduce poverty and improve equity without sacrificing growth through measures such as schools for the poor; taxing the rich and spending more on the rest; giving small business a chance; and protecting workers’ rights.

transfer new public enterprises such as TSFAS (sugar), ÇAYKUR (tea), MKEK (machinery and chemicals), and ETİ holding to the privatization program by the end of August 2000.

The government also indicated its intention to privatize TEKEL (tobacco and alcoholic beverages monopoly) by enacting necessary laws that would ‘de-monopolize’ the production of alcoholic spirits thereby allowing private sector entry into the industry; and also enable the privatization of TEKEL’s production facilities for spirit, salt, and tobacco products (2<sup>nd</sup> Review, 22 June 2000). In another letter sent to the IMF for the request of the completion of the 3<sup>rd</sup> and 4<sup>th</sup> reviews (18 December 2000), it was stated that the tender for the sale of 51 percent of Turkish Airlines was announced on 14 December 2000, and the sale would be finalized by the end of March 2001. The government also ensured that the privatization of the sugar and tobacco factories would be realized in the context of agricultural reform program supported by the World Bank (8<sup>th</sup> review, 26 June 2001).

In the three-year stand-by arrangement approved on 11 May 2005, the IMF committed to support Turkey’s economic program for the period 2005-2008 with a financial assistance of SDR 6.7 billion (approximately \$10 billion). At the Board meeting approving the arrangement on 11 May 2005, directors welcomed Turkey’s recent success in privatizing state enterprises (IMF Country Report No. 06/268, July 2006). They appreciated the privatization of 25 enterprises in 2005, including some of the largest and most profitable ones such as Turk Telekom, TÜPRAŞ, and ERDEMİR. Court rulings, which derailed past privatization efforts, were found to be supportive and encouraging. Directors also welcomed the commitment of the PA to continue with the sale of the remaining enterprises and with the liberalization of the energy sector (IMF Country Report No. 06/268, July 2006). Nevertheless, directors stressed the need to deepen reforms, particularly in the fiscal and financial sectors, and to reduce vulnerabilities linked to the structure of government debt and external financing (IMF Country Report No. 06/268, July 2006).

In another letter for the request of the completion of the Fifth Review (27 November 2006), the AKP government assured the IMF that the privatization receipts by the end of 2006 would be no less than \$4.2 billion and this target would be regarded as performance criteria of the successful implementation of the IMF program. The government repeated its commitment to continue the privatization program with the sale of TEDAŞ electricity distribution networks, power generation facilities, the National Lottery, TEKEL, and PETKİM (Fifth Review, 27 November 2006).

The World Bank also contributed to the process of shrinking the spheres of influence of the Turkish state. For the World Bank (1995), the overstretched state was the main problem of many developing countries and the solution was a fundamental reorientation of economic structures from a state-led economy to a market-led system. Its World Development Report (1997) outlined a program for strengthening the capacity of national governments to catalyze economic growth through privatization and deregulation. In another study, 'Reforming Infrastructure: Privatization, Regulation and Competition', the World Bank asserted that privatization enhanced efficiency, broadened access to essential services and helped solve many development problems (Kessides, 2004).

The World Bank's primary role in Turkey was to establish an appropriate policy environment for privatization transactions. For the period 2001-2003, the World Bank undertook to provide Turkey with \$6.2 billion financial assistance that was subject to certain conditions consistent with the macroeconomic framework endorsed by the IMF. For instance, when the Turkish government signed the US\$1.35 billion Second Programmatic Financial and Public Sector Adjustment Loan (PFPSAL II) that would support the financial and public sector reform programs in May 2002, the government undertook to liberalize agriculture, energy, and telecommunications for the easy entry of the private sector to these markets. The

government also committed to withdraw from production activities through restructuring and privatization of the SOEs.

To counter the problems that emerged in the post-privatization phase such as unemployment, the World Bank carried out the Privatization Social Support Project with the PA. This project, which entered into force in December 2000 (Official Gazette, 22 December 2000/24268), was designed for the benefit of unemployed people affected by privatization. Job training courses were given to the unemployed throughout the country and consultancy and work development center services were also organized for entrepreneurs. The Second Privatization Social Support Project (PSSP) with a budget of €450 million was signed on 27 December 2005 ([www.oib.gov.tr](http://www.oib.gov.tr)). The World Bank undertook to provide €360 million to compensate redundancy payments, and to give support to those who intend to set up their own enterprises (PA Activity Report, 2007). The PSSP also involved the active participation and collaboration of a number of ministries and agencies, such as the Turkish Employment Organization (İŞKUR) and Presidency of Small and Medium Industry Development Organization (KOSGEB) that provide labor redeployment services.<sup>161</sup> For instance, KOSGEB created a national network of 6 business incubators (İŞGEM). Within the context of İŞGEM and other KOSGEB schemes, 1631 persons were placed in employment in 553 completed projects (PA Activity Report, 2007). The commitment by the World Bank to the privatization process in Turkey was important in addressing the criticisms that privatization threw large numbers of people out of work.

Apart from the IMF and the World Bank, the European Union emerged as an important actor catalyzing the privatization process through membership conditionality. Concerning the economic dimension of the membership conditions, the EU had made it clear that the

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<sup>161</sup> İŞKUR has undertaken a large scale service delivery for the unemployed under PSSP (Labor Redeployment Services). 775 projects have been approved serving 26,704 participants in 75 provinces and 14,027 participants have been placed in employment. Funding allocated to the above-mentioned programs has amounted \$ 25.8 Million. (PA Activity Report, 2007)

candidate countries should have a 'functioning market economy', which required the liberalization of trade, an enforceable legal system, macroeconomic stability, a well-developed financial sector and the absence of significant barriers to market entry and exit (Eder, 2003:231-232). The Progress Reports on Turkey also emphasized the need to overcome macroeconomic instability associated with excessive public borrowing requirements, the dysfunctional financial system, agricultural protection, the lack of competition, and insufficient privatization (Eder, 2003:233). The recent European Commission Progress Report on Turkey (2007) thus welcomed the acceleration of the privatization process in Turkey but indicated that the agenda was not yet finished as 5% of GDP and 15% of value added in manufacturing was still accounted for by state enterprises. As part of its membership process with the EU, Turkey was supposed to undertake further privatization transactions.

Privatization conditionality of the EU to a large extent overlapped with that of the IMF (Eder, 2003:227; Ertuğrul, 2004) and their conditionalities were presented to society as essential to strengthen the economy vis-à-vis domestic and external shocks by creating a competitive and rule based market economy (Dervis et al., 2005:72). Presented as such, these transnational actors altered the domestic political balance of power in favor of reform. As a result of differences in ideology or economic interests, domestic groups in a country may hold different views about a market-oriented reform. As some groups in society benefited from privatization more than others, there were losers and winners in this process. The losers were trade unions and those who were vulnerable to unemployment and wage cuts after privatization. Business circles, bankers, financial advisers and management consultants, who received commissions and fees for arranging the sales, and certain politicians gained from privatization. In this case, by providing legitimacy and rhetorical arguments, these powerful

external actors contributed to shifting the balance of power toward the latter groups favoring reform.

The material constraints of the IMF and the EU were influential in shaping the dominant ideas, the interests and thus the behavior of the actors in Turkey. Nevertheless, the acceptance of the structural coercion of these external actors was facilitated by hegemonic consent, whose creation was shaped by domestic social forces. To put it differently, external pressures related to the world economy was internalized through the internationalized actors in Turkey. Based on this transnational interaction, the concept of privatization rose to a hegemonic position in Turkey. Nevertheless, since hegemony is always constantly under construction and contestation, policy changes are not smooth; rather they are filled with social conflict and struggle (Bieler and Morton, 2001:212).

The attempt to constitute hegemonic consensus for privatization should not be seen as historically inevitable act but the outcome of social struggle between those already integrated into global production networks, operating on the world market and having a ‘globalist’ outlook, and those that were oriented towards, and dependent upon, the domestic market, thus adopting a more protectionist perspective (van Appeldoorn, 2001:77). This division implies that hegemony reflects both consent and possible resistance for an alternative form of hegemony. Thus, the following part will examine the role of Turkish trade unions that stayed at the other end of the spectrum and tried to provide an alternative to the ongoing privatization process by emphasizing social, economic justice and national independence.

#### **4.4. The Anti-Privatization Response**

The PA bureaucrats interviewed commonly identified the groups that were opposed to privatization as employees in the companies to be privatized, the trade unions, the managers and executives of the companies, suppliers, customers/clients, and some local pressure

groups (personal interview). Several cases were opened against the PA by alleging that ‘privatization transactions led to rent seeking’, ‘the new owner bought the enterprise to stop production and to sell the land of the enterprise’, ‘the PA staff abused their power’, ‘privatization harmed public interest’, ‘privatization led to the creation of private monopoly’, and ‘privatization led to the emergence of unfair competition’. Metin Kilci, the President of the PA, indicated that between 2003 and 2006, the Administration concluded 150 tenders for privatization and only four of them were found illegal by the court (Referans, 14.01.2008). He also indicated that there were almost eight thousand lawsuits, five-six thousand of which were opened by the workers of the privatized companies against the PA (Referans, 14.01.2008). Concerning the opposition and criticism against the privatization process in Turkey, Celalettin Okcu, Project Group Head, states that, ‘privatization is a transition process that changes the role of the state in the economy. Thus, it is normal that we come across oppositions in this process’ (personal interview).

Among the resistance groups, trade unions emerged as the most vocal opponents of the privatization process since it was clearly seen as a threat for the workers of the SOEs and the trade unions themselves. In Turkey, labor contracts in the private sector were different than in the public sector. While it was easy for the private sector to hire and fire or employ part-time workers, the public sector workers mostly enjoyed secure employment. Thus, for the employers, privatization of SOEs meant that they would not have to compete with the public sector in labor markets. However, for the workers, privatization of public enterprises meant the loss of a main source of guaranteed employment, loss of income and social benefits. Tansel (1998, 2002) examining how privatization influenced the income level and welfare of the workers that were dismissed from the SOEs after being privatized found that privatization led to both income losses as well as welfare losses for the workers. Through the interviews with cement workers, and the workers of PETKİM (petro-chemical), Tansel found

that the former lost an average of 61 percent and the latter 57 percent of their earnings. In addition to income losses, dismissed workers experienced welfare losses, such as the lack of job security, fringe benefits, health and retirement benefits, after privatization.

For the trade unions, privatization meant losing a significant base of their membership and thus bargaining power. Trade unions often had an easier time bargaining with the state than the private sector, as the former relied upon political support of labor and had less concerns over its market competitiveness in terms of labor costs, and treated its own industries as a social welfare system (Silva, 2007:20-21). In addition to the concerns about the welfare or job losses of workers, the opposition of trade unions against privatization can be also explained through historical reasons since the public sector was crucial for the activation of the social policy measures and for the consolidation of trade unions in Turkey. Moreover, the trade unions were organized mostly in the public sector; while the rate of unionism in the public enterprises operating in the industrial sector was 90 percent, this amount was 40 percent for the private sector in 2005 (Zaman, 29.09.2005).

This was related to the 1980 military regime's attempt to weaken trade unionism in general and left-wing trade unions in particular. DİSK, which was predominantly organized in the private sector was closed after the 1980 coup and was legally prevented from reopening for over 10 years. After DİSK was dissolved, the Türk-İş, which was predominantly organized in the public sector absorbed many of DİSK members.<sup>162</sup> Türk-İş's dominance was also insured through the introduction of the double threshold requiring a union to have both 10% of workers at sector level and a majority of workers (50%) in individual enterprises in order to obtain collective bargaining rights (Silva, 2007:88). Thus, it can be argued that through the privatization of public enterprises, where most of the trade

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<sup>162</sup> DİSK consisted of 568.298 members when it was closed in 1980. In 2006 DİSK had 132.000 members ([www.sendika.org.tr](http://www.sendika.org.tr)).

unions were organized, not only would the trade unions lose their base of membership, but also the distribution of power among the trade unions would change. Any reduction in the importance and size of SOEs through privatization directly challenged Türk-İş, who received the majority of its membership and influence from these enterprises.

Interviews with the representatives of the trade unions such as Petrol-İş (petroleum), Yol-İş (road and construction) and Harb-İş (military industry) reveal that they generally associated the SOEs with the economic independence of the country and argued that privatization aimed to open the public economic space to the profit motive and to intensify labor's subordination under capital (personal interview). Unlike the business associations and the bureaucrats, they attributed the structural reforms, including privatization to the pressures of external actors like the IMF and the EU. Emphasizing the dominance of new right-wing ideas promoted by the IFIs, the Head of the Petrol-İş Ankara Branch, Mustafa Özgen argued that, 'due to the influence of the IMF and the World Bank, the notion of the social state that provided guaranteed employment or just and equal income distribution in Turkey is now viewed as an inefficient and outdated notion that destabilizes Turkish economy' (personal interview). Based on these aspects, trade unions tried to challenge the privatization process through various actions such as bringing lawsuits in the courts, press releases, organizing mass activities like demonstrations, open-air assemblies and marches, organizing seminars, and conferences.

#### **4.4.1. The Trade Unions as a Counter-Force to the Privatization Process**

Consisting of 33 trade unions, Türk-İş is the largest confederation in Turkey.<sup>163</sup> It had a mixed approach to privatization. Emphasizing the SOEs' social functions and their continuing significance for the country's economic development and economic

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<sup>163</sup> Türk-İş had 691.000 members in 2006 ([www.sendika.org.tr](http://www.sendika.org.tr)).

independence, Türk-İş defended the reorganization and reform of the public enterprises rather than their privatization.<sup>164</sup> It saw privatization as an instrument for transferring public assets to domestic and international capital and claimed that the sale of the public enterprises to foreigners would weaken the national defense capacity of the country (Türk-İş, 1989. issue.241). Türk-İş, on the other hand, declared that it would agree to the privatization of some enterprises if it would serve the country's interests (Türk-İş, 1995. issue.300). It also made clear that trade unions should be included in the decision-making process and adequate social protections should be provided for the employees (Türk-İş, 1995. issue.300).

This conflicting stance reflected internal divisions within the confederation, with a radical leftist wing and the conservative right-wing. While some sector unions strongly opposed privatization on every occasion, some others remained silent and they showed their opposition only when the enterprise which they represent was scheduled to be privatized. As will be explained later, the Petroleum, Chemicals, and Rubber Workers' Union (Petrol-İş), emerged as the most vocal representative of the radical wing within Türk-İş, and launched a comprehensive attack against the privatization process in Turkey. Apart from Petrol-İş, Harb-İş, Yol-İş, and Hava-İş (air transportation) were also strongly opposed to privatization.

For instance, Mustafa Atlı, consultant to the President of Harb-İş and Mustafa Özgen, the Head of the Petrol-İş Ankara Branch, argued that, 'through privatization it is highly likely that public monopoly will turn into a private monopoly leading to increased unemployment, domination of foreigners, deterioration of quality and quantity in the delivery of public goods and services' (personal interview). Yıldırım Koç, from Yol-İş put forward that, 'privatization is not just a sale of the SOE, but the sale of the country' (personal interview). He considered privatization 'as an assault of imperialism not just against the workers, but against Turkey and Atatürk' (personal interview; Koç, 2005:21-24). Based on the research conducted by the

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<sup>164</sup> For the details of Türk-İş position on privatization see Türk-İş. January 1986, issue:196; May 1987, issue:212; September 1989 issue:239; November 1989 issue:241; March 1993, issue:275; June 1993, issue:278; December 1993, 284; July 1994, issue:291; April 1995, issue: 300.

Istanbul Chamber of Industry, Koç (2005:120) reported that in 2004 out of the biggest 500 industrial enterprises in Turkey, 158 of them included foreign capital. He also associated the high share of foreign capital in Istanbul Stock Exchange that rose to \$22.5 billion in August 2005, accounting for 62.7% of the total value in the stock exchange with the privatization process (Koç, 2005:120). He considered the rising involvement of the foreign capital in the Turkish economy as an attack on the economic independence of the country (personal interview).

The Revolutionary Trade Union Confederation (DİSK) argued that the state was the catalyst of economic development through the SOEs, which contributed to the country's industrialization and development. Moreover, DİSK (1993) maintained that the SOEs assumed the mission of capital accumulation and provided cheap raw material to the private sector. Given the importance of the SOEs for the Turkish economy, DİSK did not consider privatization as a solution to the problems of the SOEs. Rather, it (1993) suggested management methods be changed and the technology used in the SOEs improved. Moreover, DİSK (1993) based its opposition against privatization in class terms. It claimed that privatization was not a technical issue, but one of class and argued that it put the national resources of the country at the disposal of the bourgeoisie which would increase the level of exploitation in the country.

Hak-İş Confederation was not in principle opposed to privatization, but maintained a 'yes-but' approach. Ünal Özdem, the press consultant of Hak-İş Confederation, stated that,

[w]e do not oppose privatization in principle. We look at the sector, the enterprise that will be privatized. We resist the privatization of enterprises that are of strategic importance for the national security of the country, and we are also against the privatization of the SOEs that perform social functions like providing cheaper goods and services for low income groups. However, as privatization process is inevitable, we try to assure that the rights and interests of the workers are guaranteed in this process (personal interview).

The moderate stance of the confederation towards privatization can be seen in its efforts to buy privatized enterprises. The Hak-İş affiliated Öz Gıda-İş (food industry) attempted to

purchase the Meat and Fish Corporation (EBK) and the Milk Industry Corporation (SEK) in 1994.<sup>165</sup> Although in its ‘No Privatization’ declaration published in July 1993, the Öz-Gıda İş trade union had called people to oppose to privatization and to defend their own enterprises, it maintained that if a public enterprise was to be privatized anyway, the workers, the producers and the local people should be given priority. The consortium led by Öz Gıda-İş was awarded the tender for the Meat and Fish Corporation, however, the Privatization High Council cancelled the sale. Explaining the reasons for the cancellation, Jülide Sarıeroğlu, expert in Hak-İş stated that, ‘social democratic parties, DSP and CHP, alleged underpricing of shares and land belonging to the Meat and Fish Corporation and the other two confederations, Türk-İş and DİSK criticized Öz Gıda-İş Union for their taking part in a privatization tender’ (personal interview).

As far as the civil servants’ confederations were concerned, the President of the Confederation of Public Employees’ Unions (KESK) İsmail H. Tombul, argued that privatization cannot be separated from the context in which the ideological hegemony of liberal policies were conducted in Turkey for the last 25 years (TMMOB, 2005). He did not regard privatization just as a transfer of ownership of public enterprises but ‘as the redefinition of the principle functions of the state, withdrawing of the state from its social functions, and considered privatization as the marketization of public services’ (TMMOB, 2005:31). As a reaction to the privatization of enterprises like Seydişehir Aluminum and PETKİM, Tombul states that ‘the 70-80 years of accumulation of the country is transferred to the private sector almost free of charge’ (TMMOB, 2005:31).

Despite the reactions of these trade unions against the privatization process, labor groups failed to unite and exercise an effective struggle against privatization. The loss of the labor movement’s organizational and ideological cohesiveness since the 1980s was important

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<sup>165</sup> Öz Gıda-İş led the consortium composed of workers, producers’ cooperatives and local businessmen and their associations for taking over EBK and SEK.

in the decline of the scope of the resistance movement in Turkey. As discussed in the previous chapter, to consolidate the implementation of the economic adjustment program adopted on 24 January 1980, the military regime, through the 1982 Constitution marginalized the leftist groups and their channels of political representation and suppressed the trade union movement. The right-wing governments that were hostile to the idea of strong labor and SOEs portrayed them as a burden on the state and introduced measures that included temporary, non-unionized contract workers becoming the dominant new employees in the public sector. The number of contract workers increased from 20,000 in 1988 to 500,000 in 1994 (Silva, 2007:85). As a result, union density amongst workers with social security in the public sector fell from almost 100 percent in 1988 to 70 percent in 1994 and again to just under 60 in 1999 (Yücesan- Özdemir 2003:193).

The different classification of labor force into civil servants, workers, contractual workers or temporary workers and their subsequent conflicting interests also prevented labor from acting together efficiently in the struggle against privatization. Splits within the labor movement were also related to the location of various unions in different production sectors, differently affected by international competition. Labor groups employed in sectors subject to international competition were more likely to be in favor of economic liberalization, while labor in less competitive areas favored various forms of protectionism (Bieler and Torjesen, 2001:118). The interests of public sector workers that relied on high levels of public spending differed from those of internationally-oriented labor situated in Turkey's export sectors, which were heavily dependent upon unrestrained access to the world market. Material rewards for the latter were depended on the acceptance of a joint commitment with employers to success in competitive markets (Bieling, 2001:107). Thus, the interests of labor such as worker's rights and full employment policies were rejected, reduced or marginalized in Turkey's political sphere.

The marginalization of the labor increased the power of the market-oriented groups that aimed at creating a new consensus around economic liberalism to replace that surrounding the Kemalist state and Kemalist vision of modernization. This bloc's promotion of privatization through hegemonic discourses such as 'ensuring efficiency and competitiveness' sidelined the alternative ideas and the opposition groups, and created a commonsense/hegemony on the necessity of privatization. As the privatization of the highly profit making and strategically important enterprise TÜPRAŞ illustrated, the opposition groups like the trade unions were marginalized in Turkey since 'alternatives were not fully considered because they lacked weight, plausibility, credibility for practical effectiveness' (Gill, 1994:181).

#### **4.4.2. The Struggle of Market-oriented and Counter-hegemonic Social Forces over the Privatization of TÜPRAŞ**

TÜPRAŞ was placed under the privatization program in July 1990 in accordance with the decree no.90/3 of the PA ([www.oib.gov.tr](http://www.oib.gov.tr)). The privatization process was initially undertaken via public offerings. In 1991, 1.64 percent of its shares were sold to the public on the Istanbul Stock Exchange Market. A further 31.5 percent of its shares were sold in the second public offering realized in April 2000.<sup>166</sup> In July 2003, the PA announced a tender for the block sale of the remaining 65.76 percent of the public shares, which started a long process of legal struggle over the privatization of the enterprise. The tender was finalized on 13 January 2004 and a consortium of Efremov-Kautschuk group, an affiliate of Tatarstan oil producer Tatneft, purchased TÜPRAŞ in exchange for \$1.3 billion. After the Competition

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<sup>166</sup> This second offering, which generated sales revenue of \$1.2 billion, was the largest privatization of a Turkish company realized through a domestic and international public offering at the time (Arzu Atik, project group head, personal interview). As a result of these sales, TÜPRAŞ shares were sold to 369.665 individuals (TMMOB, 2005:146).

Board had approved the take-over transaction on 29 January 2004, the Privatization High Council confirmed the privatization on 6 February 2004 (TMMOB, 2005:147).

The opposition to the privatization of T  PRA  increased as the enterprise was sold to the Efremov-Kautschuk group whose 51 percent of shares belonged to the Tatarstan petroleum conglomerate, Tatneft, and the remaining 49 percent was owned by Renix Finance Corporation (Petrol-  , 2004; Yeldan, 2005). As Petrol-   (2004:14) reports, the two members of the Competition Board, Z  ht   Ayta  and R  fk     nal, were against the sale of T  PRA  to Efremov Group on the grounds that there was a lack of information on the new owner. The journalists and scholars, who did not want to see the state authority reduced and who maintained that T  PRA  should remain state owned, expressed their concerns about the privatization of T  PRA . For instance, in their columns Yi it Bulut (Radikal, 26.03.2004) and Deniz Som (Cumhuriyet, 02.04.2004) declared that ‘the sale of T  PRA  should be cancelled’. Korkut Boratav, a leftist scholar, contended that the privatization of T  PRA  to an ambiguous Russian company meant ‘the sale of the country’ (Cumhuriyet, 25.02.2004).

Besides the above-mentioned criticisms and oppositions, the major resistance against the privatization of T  PRA  came from the Petrol-  , whose activities ranged from following legal procedures against the PA to organizing demonstrations, press conferences, panels on privatization, and mobilizing T  PRA  workers for the industrial action or work-stoppage (Mustafa   zgen, personal interview). As the Petrol-   lawyer, G  khan Cando an, reported, the trade union brought a court case against the PA on 13 January 2004 on the grounds that the tender procedures violated the Privatization Law no.4046 (personal interview). The Petrol-   contended that the Privatization Tender Commission acted against the ‘public interest’ by failing to make it clear that the tender would be concluded with a closed offer, thus the participants refrained from making higher offers with the expectation that the auction procedure might be followed. For him, the failure of the Tender Commission

not to go for auction although the final proposals of the two investors were very close to each other was against the ‘public interest’ (personal interview).<sup>167</sup>

Moreover, Petrol-İş claimed that the fact that the Efremov Group put forward some conditions in its tender proposal such as the enactment of the new Petroleum Market Law by the Turkish Parliament violated the privatization law no.4046 ([www.petrol-is.org.tr](http://www.petrol-is.org.tr)). Petrol-İş challenged the privatization of TŪPRAŞ at the Ankara 10th Administrative Court, which ruled that the tender was supposed to be finalized with an open auction for the sake of the ‘public interest’ and for the creation of a competitive bidding process and the bidders were not supposed to propose any conditions according to the privatization law no.4046 (Gökhan Candoğan, personal interview; [www.petrol-is.org.tr](http://www.petrol-is.org.tr)). Judging that the privatization of TŪPRAŞ was against the ‘public interest’ and against the Competition Law, the court annulled the act on 29 December 2004 (Petrol-İş, 2005a:41).

Another attempt by the PA that ended up with a court case was the sale of 14.76 percent of TŪPRAŞ shares in the Istanbul Stock Exchange Wholesale Market to international institutional investors on 3 March 2005.<sup>168</sup> Petrol-İş challenged this act in the Ankara 12<sup>th</sup> Administrative Court on the grounds that there was no decision of the Privatization High Council that authorized the PA for the sale of TŪPRAŞ shares<sup>169</sup> (TMMOB, 2005:149). Finding the act baseless, the Court annulled this sale on 23 May 2006 ([www.petrol-is.org.tr](http://www.petrol-is.org.tr)).

On 29 April 2005, the PA made the tender announcement for the privatization of the remaining 51 percent of TŪPRAŞ shares through a bloc sale.<sup>170</sup> Nine investors submitted

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<sup>167</sup> Efremov group proposed \$1.302.000.000 while Anadolu Girişim Grubu proposed \$1.216.000.056.

<sup>168</sup> Investors in TŪPRAŞ shares included Global Securities, Nordic Pacific, Singapore Investments, Viclov Holdings Ltd., Baer Emerging Markets, Diversified Markets (Radikal, 24.05.2006).

<sup>169</sup> In accordance with law no. 4046 enacted in 1994, Privatization Administration should be authorized by the Privatization High Council for selling shares through bloc sale. In 1999, Privatization Supreme Council took a decision that enables Privatization Administration to carry out privatization through the method it chooses, however, this authorization does not include selling shares at Istanbul Stock Exchange through bloc sales.

<sup>170</sup> Unlike the previous tender, the investors were required to meet the prequalification criteria defined in the Tender Specifications in order to participate. The criteria were as follows: Total assets of the participant must be at least \$750 million, shareholder’s equity of the participant must be at least \$500 million, if one of the members of a consortium is a private investment fund, its funds under management must be a minimum of \$2

their proposals to the Privatization Administration.<sup>171</sup> The tender was finalized on 12 September 2005 through a public auction in which the Koç-Shell consortium won the tender by offering the highest bid, amounting to \$4.140 billion. On 13 September 2005, Petrol-İş challenged this transaction at the Council of State that suspended the bloc sale of the 51 percent of TUPRAŞ on 2 February 2006 on the grounds that the Tender Document failed to commit the potential buyer to the maintenance of investment and production at TUPRAŞ which was seen as a clear violation of the principle of ‘public interest’ (Gökhan Candoğan, personal interview; [www.petrol-is.org.tr](http://www.petrol-is.org.tr)).<sup>172</sup>

Upon this ruling, the Chairman of Petrol-İş, Mustafa Öztaşkın, stated that, ‘TUPRAŞ must be returned to the state without any delay’ (Bloomberg Markets, May 2006:103). Petrol-İş also undertook various activities such as marching, work-stoppage, protesting when the legal process went on (Hürriyet, 11.10.2005; 28.2.2006; 27.3.2006). Evaluating the ongoing actions of the TUPRAŞ workers, a daily commented that ‘Demonstrations plague TUPRAŞ privatization’ (Turkish Dailynews, 21.02.2006). Nevertheless, the recent study by Saka (2006:76) revealed that out of 3739 workers affiliated with Petrol-İş, only 350-400 of them took part in anti-privatization activities. Examining the TUPRAŞ workers’ stance towards privatization, post-privatization expectations and their understanding of struggle, Saka (2006) informed that 60.8 percent of the TUPRAŞ workers questioned considered that the SOEs had important functions in the economy, but only 24.5 percent of them thought that the SOEs were successful in terms of profitability and productivity (Saka, 2006:59-60).

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billion, and participants must have direct or indirect experience in the energy sector (Arzu Atik, personal interview).

<sup>171</sup> The bidders included TUPRAŞ Acquisition Consortium OGG-Petrol Ofisi OGG; PKN Orlen SA-Zorlu Holding; Koç Holding-Aygaz-Opet-The Shell Company of Turkey Ltd-Shell Overseas Investment B.V OGG; and Indian Oil Corp.-Çalık Enerji OGG. Individual companies were Oyak, OMV Aktiengesellschaft, ENI Refining and Market Division, MOL, and the Anadolu-Çukurova Group (Turkish Dailynews, 9.9.2005).

<sup>172</sup> The Petrol-İş lawyer, Gökhan Candoğan claimed in his petition that ‘there is no provision in the tender specification that guarantees the employees, the investment and the production. It is crucial that the potential investor be obliged to respect the rights of the employees and the interests of the country through such provisions’(personal interview).

Believing that the sale of T  PRA   to Ko  -Shell consortium would lead to a private monopoly and thus high prices, the head of the Petrol-   Ankara Branch,   zgen, claimed that the losers of T  PRA   privatization were not T  PRA   workers but the Turkish people at large (personal interview;).   zgen emphasized that although Shell would have a minority share in T  PRA  , it would make high profits in the Turkish market since the agreement concluded between Ko   and Shell allowed T  PRA   to import at least 40 percent of its crude oil from Shell (personal interview; see also Cumhuriyet, 21.09.2005). Making projections about the post-privatization situation of T  PRA  ,   zgen said that, ‘under a private monopoly in the refinery sector, it is highly likely that Turkey’s domestic production will fall beyond the rising demand; the country’s import dependence will rise, and this will put other sectors at risk making Turkey vulnerable to world markets. This is a threat to our national interest’ (personal interview).

In order to create a strong counter movement against the T  PRA   sale, the Petrol-   President Mustafa   zta  kın called for increasing reaction against the overall privatization process, but particularly against the T  PRA   case (Petrol-  , 2005b). He suggested that intra-union solidarity should be brought to the highest level possible for the creation of public resistance fronts (Petrol-  , 2005b). He emphasized that the counter-struggle that was going on at the firm, sectoral or regional level should be spread to the national level. On 30 May 2005, T  rk-  , Petrol-  , T  rk Metal-   (metal sector), T. Haber-   (telecommunications) had a press conference in Istanbul and announced that they would act together in the struggle against the privatization of T  PRA  , ERDEM  R, and Turk Telecom (Petrol-  , 2005b).

Major political parties also expressed their discontent with the privatization of these important enterprises (Petrol-  , 2005b:28). Osman Co  kuno  lu and Kemal Kılı  dar  lu from the opposition the Republican Peoples’ Party (CHP) emerged as the most vocal opponents of the privatization process in Turkey. Co  kuno  lu considered privatization as a

‘passion’ and stated that ‘although there is no empirical evidence that private firms operate better, the AKP government claims that they will perform better if privatized’ (personal interview). Coşkunoglu also criticized TÜSİAD for taking the lead in manipulating the people for the benefits of the privatization process (personal interview). Similarly, Kılıçdaroğlu claimed that the government and capital were manipulating the public opinion by linking the merits of privatization to multiple goals such as economic growth, stability, deficit reduction, and democracy (personal interview). He attributed the privatization of the SOEs in Turkey to the IMF’s conditionality that tied the release of the loan tranches to certain reforms. He thus considered privatization transactions as violating the ‘national interest’ (personal interview).

When asked about the criticisms coming from the opposition groups on the national or public interest arguments, Atik from the PA confirmed that TUPRAŞ had a very significant role in national security by supplying the 700-800 thousand tones of fuel requirement of the armed forces (personal interview).<sup>173</sup> Upon the question whether there was a reaction coming from the military over the privatization of TUPRAŞ, Atik stated that, ‘in order to ensure the supply of the fuel required by the armed forces after its privatization, some precautions were taken by the new law. The amount, quality, timing, and continuity of the production were guaranteed in the articles of Petroleum Market Law no.5015’ (personal interview).<sup>174</sup> Moreover, Atik added that ‘the PA will continue to retain 1 Class C share in the company,

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<sup>173</sup> Emphasizing the petroleum sector’s strategic importance for Turkey, Ahmet M. Yaşa (TBMM Records, 28.2.1984:174 Period. 17.Vol. 2 Session.38) reports that during the Cyprus intervention in 1974, the private refinery ATAS refused to provide fuel and Turkey had to provide it from Libya.

<sup>174</sup> On 20 December 2003, Petroleum Market Law no.5015 went into effect. The new law, in principle, shall apply to downstream activities in the petroleum sector (i.e. activities other than the production of crude oil and natural gas) and aims to create a competitive market structure in the Turkish petroleum market. Upstream activities will continue to be regulated by the existing Petroleum Law. Under the Petroleum Market Law, the role of the government will move away from intervention and market participation towards supervision and control. With the enactment of this law, sectoral uncertainty was abolished for investors who wanted to invest in the petroleum sector in Turkey. According to this law, prices began to be set under market conditions. The Energy Market Regulatory Authority was created for the independent regulation and supervision of petroleum market activities. Under this law, the refineries are allowed to own distribution companies and are obliged to maintain continuous production and supply of refined oil products required by Armed Forces.

providing it with a right to elect one board member and to influence key corporate decisions that may impact national security' (personal interview). To this end, Atik contended that 'since national security issues are guaranteed by law, the opposition on national security arguments are groundless' (personal interview).

The government and PA technocrats attempted to justify the privatization of such an important enterprise on the grounds that the petroleum sector was a capital intensive sector that required constant technological updates and new investments. Arzu Atik indicated that when privatized, the necessary investments would be undertaken by the private sector (personal interview). She also stated that even the general director of T  PRA  , H  samettin Dani  , was in favor of its privatization as the company suffered from brain drain when most of its high quality employees left T  PRA   for the already privatized Petrol Ofisi (petroleum distribution) (personal interview). Dani  's comments about the privatization of T  PRA   to a daily confirms Atik's remarks:

[i]n order for T  PRA   to survive, we say yes to its privatization, because it is not possible to run this company through state intervention. Our profit is more than that of a big bank or a big company, but if we were a private company, we would have started investments for a new refinery... We need more staff, but we cannot hire even single one for years... There is no flexibility that I can use for my customers; the laws do not let me to do so. Under these restrictions, it is difficult to run this company. Thus, T  PRA   should be privatized; however the privatized T  PRA   should be very well supervised (Referans, 11.04.2005).

Defining the claims of Petrol-   as irrational and ideological, Aykut Bakırcı, the legal counselor of the PA, stated that, 'all the steps we took for the privatization of T  PRA   were completely in accordance with the law, so we did not leave any room for maneuver for the opposition groups like Petrol-   to challenge the legality of our transactions at the courts. However, since Petrol-   could not challenge the act on procedural grounds; it challenged it on the public interest arguments' (personal interview). Considering the argument of public interest as vague and ambiguous, Bakırcı stressed that, 'Petrol-   is asking for a guarantee for the sustainability of production and investment in T  PRA  , for me the best guarantee

provided by the Koç-Shell group is their purchasing TUPRAŞ by paying more than 4 billion dollars, how can you expect a company to stop production or investment after paying that amount of money?’ (personal interview). İsmet Berkan, a liberal journalist from Radikal (19 February 2006) also criticized the Council of State’s basing its ruling on TUPRAŞ privatization on the public interest argument. He emphasized how vague the concept of public interest was and asked whether it was the state’s failure to undertake the necessary investments for the production of unleaded-fuel for decades thus increasing the fuel import that violated the public interest or it was the handing over of TUPRAŞ to a private entrepreneur that undertook to realize this investment was against the public interest? Such a presentation of privatization as ‘technical’, ‘rational’ and ‘concrete’ and that of their opponents as ideological and abstract was influential in delegitimizing the ‘public interest’ argument of counter forces.

Even the courts that used to reverse privatization transactions on the abstract and vague argument of public interest began to rely on discourses about markets as something concrete. When the PA appealed for the reversal of the ruling on the suspension of the privatization of TUPRAŞ, the 13<sup>th</sup> Branch of the State of Council that was to give the final decision on the TUPRAŞ case approved the sale to Koç-Shell consortium. The court justified its verdict on the grounds that ‘it is taken for granted that TUPRAŞ will undertake necessary investment and production within the framework of the ‘market economy’; the fact that Tender Document fail to include a provision that guarantees investment and production in the enterprise does not constitute an obstacle to the privatization of TUPRAŞ legally’ (Hürriyet, 9.5.2006). The Court also emphasized that the act was legally carried out in accordance with the objectives of achieving ‘economic efficiency’ and reducing public expenditures that are indicated in the privatization law no. 4046 (Hürriyet, 9.5.2006). This ruling of the Court which based its arguments in favor of the ‘market’ and ‘efficiency’ rather than ‘public

interest' indicates that the Court embraced market principles that challenge the long-term survival of the Kemalist state form.

Candoğan associated the market-oriented ruling of the court with the indifference and insensitivity of the Turkish people to the privatization issue. He stated that,

[t]he reasons of the reversals of the privatization transactions began to change as of the 2001 economic crisis. Before, the public opinion at large was more sensitive towards privatization. Due to this sensitivity in society, the rulings of the courts were mainly based on the argument of 'public interest'. Today, the situation is different. The courts do not question whether privatization should be done or not, they just examine the legality of the text and no longer base their rulings on public interest arguments (personal interview; for similar remarks, see Radikal, 21.03.2005).

Baki Çınar, the General Secretary of Haber-Sen (trade union in the telecom sector) similarly attributed the indifference of the Turkish people to the privatization of TÜPRAŞ and Turk Telecom to the pro-privatization groups' downgrading the prestige of the SOEs through the media. He indicated that, 'the anti-privatization struggle is difficult because the media does not cover our position and persuade people to the merits of privatization' (personal interview). He also complained that trade unions could not mobilize people for resisting against privatization attempts. He stated that both politicians and domestic capital used the media for persuading people that 'no monopolies remain in the world any more', 'the prices will get cheaper after privatization', 'the quality of goods and services provided will increase' (personal interview).

Petrol-İş president Özgen stated that Petrol-İş did its best to stand against the privatization process, particularly against the privatization of TÜPRAŞ. Taking into consideration the legal struggle the trade union undertook, TÜPRAŞ became a legal war between the PA and Petrol-İş, making the latter the main counter force against the privatization of the enterprise. However, it only led to a delay in its privatization without changing the final outcome. The AKP government's strong commitment to its divestiture, the belief of the PA officials and the TÜPRAŞ managers in the necessity of privatizing the enterprise, the emergence of the Koç group, which is one of the prominent members of TUSİAD as the new owner of the

company, these social forces' relying on the constraints of the IMF conditionality for the privatization of TÜPRAŞ, and finally the court's interpreting the case not on the basis of 'public interest' but on the basis of the 'market economy' illustrates how some options were favored over alternatives.

## **Conclusion**

The movement towards the privatization of state-owned enterprises was the most visible part of the process of disengagement of states from the economic sphere, extending to developed and developing countries alike. Turkey also engaged in a process of reducing the role of the state in economic governance by engaging in privatization. This chapter examined privatization in Turkey as a hegemonic process, based on market-oriented social forces' creating consent for the reversal of state intervention in the economy. Unlike the arguments that explained the Turkish privatization process only by the material constraints of the IMF and the EU, this chapter attributed it to the agency of social forces whose identities, interests, and strategies took shape within a changing global structural context, and who struggled over the direction and content of the Turkish liberalization process. This chapter thus considered privatization not as a process imposed on the nation state from above, but rather as a hegemonic project that can be contested or consented by social forces.

The chapter highlighted that the broader historical structure provided the ideational and material framework that guided Turkish social forces in accelerating the privatization process. The introduction of market principles as of the 1980s brought new configurations of social forces with a market outlook and structural link with the global economy, including capital groups, globalizing technocrats/bureaucrats, and politicians. Changing economic conditions in Turkey were important in shifting the perceptions and interests of these social

forces towards institutional changes that would establish a legal and regulatory framework within which market transactions could be protected and enforced.

Moreover, due to cross-investments, strategic alliances, and transnational networks, the idea of 'national champions' within the context of protectionist and nationalist developmental policy were changed (Gill, 2001:49). Considering the public ownership of enterprises as an obstacle in front of Turkey's further integration with the world economy, these outward oriented actors promoted market mechanisms such as privatization rather than state-led instruments. In collaboration with external actors like the IMF and the EU, these domestic groups tried to institutionalize new practices of economic governance that would give credibility to governments and confidence to investors. They thus promoted privatization as an integral part of economic reform that would create an internationally competitive and efficient economy.

Discursively, domestic social forces attempted to generate support by claiming that there was no credible alternative to privatization. They used all the means of mass communication to convince the public opinion on the need to privatize. The SOEs were declared to be 'burden on the economy', and it was argued that reducing the role of the state in the economy would provide greater economic prosperity for all. Terms like reform and liberalization were used as 'a way of persuasion to indicate that all economies operate according to the same laws' (Cizre and Yeldan, 2005:400). With their increasing rhetoric about the virtues of the free market economy and private ownership, and the discourse about the inevitability of globalization, the emphasis was put on restricting the role of the state with the regulation and supervision of the economic activities, giving an end to its producer and entrepreneur role; and privatization was presented as contributing to this new role of the state.

Discourses about the state intervention as obstructing efficiency, preventing competition, and thus distorting stability in Turkey played an important role in defining, legitimating and reproducing the intersubjective understandings about the supremacy of markets as a hegemonic idea. Trade unions' protests against privatization were the basic impediment to this attempt at hegemony. Moreover, the most effective means of protest were through the legal channels of what remained of the Kemalist state. However, the chapter demonstrated that the hegemonic ideas extended eventually to judicial institutions as well and voices against the neo-liberal discourse were neutralized by pro-reform social forces. The privatization process was presented as the ultimate solution to economic and social maladies that Turkey was facing. These discursive elements worked for the justification of highly profit making and strategically important enterprises, including Turk Telecom and TÜPRAŞ. The chapter concluded that the privatization of these enterprises despite the existence of counter-hegemonic groups were very good examples of showing the changes in actors' perceptions concerning the role of the state, changes in institutional factors and in interests over the years in Turkey.

## **Chapter 5. Independence of the Turkish Central Bank**

### **Introduction**

Central bank independence from political authorities and state bureaucracies has been one of the key aspects of the economic reform programs in both developed and developing countries over the last two decades (Maman and Rosenhek, 2007:252; Maxfield, 1997:3; Polillo and Guillen, 2005; Cukierman, 2006; 2007; Marcussen, 2003). It has been a condition for entry into the single currency in the EU and a criteria used by credit rating agencies to set the risk score of sovereign bonds issued in the international capital markets (McNamara and Castro, 2003:2). As a legal standard, it has been diffused widely including countries such as Albania, Argentina, Czech Republic, Sweden, Kazakhstan, Belgium, and New Zealand (Polillo and Guillen, 2005:1770; Marcussen, 2004; McNamara, 2002).<sup>175</sup> Marcussen (2004:6) states that 65 percent of all central banks are legally independent from other state authorities. Accordingly, it can be noted that independence has become a well-established standard of the contemporary monetary order which makes ensuring price stability the primary responsibility of a central bank (Cukierman, 2006:2). In May 2001, with the law no.4651, the Central Bank of the Republic of Turkey (TCMB) was also granted independence and the primary objective of the TCMB was to achieve and maintain price stability (Serdengeçti, 27 October 2005:5).

This legislative amendment conducted in line with central banking practices in the world represented an institutional turning point within the state apparatus, basically altering the TCMB's relationship with the government (Yılmaz, 19 January 2006). When the TCMB was endowed with independence, the room for maneuver for governments to influence monetary policy-making was restricted, the primary goal of macroeconomic management was redefined, and emphasis on growth and full employment was replaced by the objective of ensuring price stability (Maman and Rosenhek, 2007:254; Cukierman, 2006). The

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<sup>175</sup> Before 1989, only the central banks of the US (1913 redefined in 1946, 1973), Switzerland (1953) and Germany (1957) had legal independence.

TCMB's shift in focus to price stability was crucial in terms of the internationalization of the Turkish state because such a change not only altered the power balance between different state agencies, but also between social groups in favor of business interests that benefit from monetary stabilization. Due to its role in redefining the mode of state intervention in the economy, the decision to create the independent body is the central focus of this chapter.

A country's choice for granting independence to its central bank may be influenced by the same set of factors that were attributed to the spread of privatization. Some scholars like Cukierman (2006:6-7), Polillo and Guillen (2005)<sup>176</sup>, and Maxfield (1997) explain the worldwide spread of central bank independence through the globalization pressures stemming from intensive capital flows. Stiglitz (2002) also attributes the adoption of liberal economic reforms including central bank independence to the pressures exerted by external actors. He emphasizes the coercive power of the IMF, the World Bank and the US government over developing and underdeveloped countries that need financial assistance in the process of liberalizing economic reforms. Although this approach highlights the coercive power exercised by external actors, it overlooks how that pressure is mediated, processed, and justified by domestic social forces that promote specific interests and related ideas.

State-based explanations focus on partisan and electoral politics (political business cycle) arguments that offer central bank independence as an 'institutional solution to the partisan and electoral cycles in the money supply', respectively (Bakır, 2008:3). The partisan politics argument claims an affinity between central bankers' authority and the partisan affiliation of government (Hicks, 2004:33). Leftist governments are thought to prefer dependent central banks to enhance economic growth and employment, while rightist governments are believed to opt for independent monetary responsibility to secure financial

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<sup>176</sup> Polillo and Guillen (2005:1773-1780) assume that states are in cultural, political, and economic competition with each other. They argue that states' seeking to maintain their position and status by adopting organizational forms or practices make them isomorphic with their environment. They predict that countries delegate independence to their central bank as their exposure to foreign trade, investment, and multilateral lending increases.

stability (Hibbs, 1977 cited in Byun, 2006:7).<sup>177</sup> The electoral politics argument focuses on the impact of periodic elections on economic policy choices and implies that a government, whether rightist or leftist, chooses policies to maximize its votes in the next election (Byun, 2006:9; Hicks, 2004:39).<sup>178</sup> Explaining the shortcomings of the state-based approaches for ignoring organizational and political strength of different interest groups with different preferences for employment and price stability, society-centered scholars argue that groups that benefit from the distributive consequences of tighter monetary policy will pressure the government for a more independent central bank to enhance their interests (Posen, 1995).

Others like McNamara (2002; 1998) and Marcussen (2004) point to the cognitive dimension of central bank independence. Similarly, King (2005) draws attention to the role of ideas and epistemic communities in shaping macroeconomic institutions and policies. McNamara (1998:62) emphasizes that ideas can guide policymakers by illuminating a specific path; one that is determined by neo-liberal ideas that stress that inflation creates uncertainty over future price levels, high nominal interest rates, and distorts growth. Neo-liberal ideas also stress that growth and employment can be attained only if price stability is achieved by preventing governments from intervening in the economy with expansionary policies. By focusing on the role of economic ideas, this literature explains how politicians were convinced of the positive effects of greater central bank autonomy promoted by

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<sup>177</sup> On the contrary, Bernhard (1998 cited in Byun, 2006:8) and Hicks (2004) hold that in a globalized world economy leftist parties that want to appease international investors may establish an independent central bank to demonstrate their commitment to responsible economic policies. Rightist parties have more credibility in the markets and, consequently, less incentive to choose an independent central bank. Hicks (2004:1) argues that it was the Labor Party in Britain (1997) and the Luiz Inacio's leftist party in Brazil (2002) that decided to give more independent monetary and financial authority to their central banks in order to appeal to both markets and more moderate constituencies.

<sup>178</sup> Opportunistic and self-interested politicians are expected to manipulate the economy to lower unemployment rate that will be immediately raised after an election victory to combat inflation caused by pre-election policy exploitation (Byun, 2006:9). This act of following unemployment and deflation in early years with an inflationary boom as an election approaches is called as political business cycle (PBC) (Nordhaus, 1975 cited in Byun, 2006:9). This explanation that the central bank independence will fluctuate according to electoral cycles offers insights into the relationship between democratic political competition and independence, but an empirical study shows that there is no correlation between inflation rates and the timing of a move to central bank independence (McNamara and Castro, 2003 cited in Byun, 2006:9).

economists. However, it fails to explain why some countries that would benefit economically from a more independent bank failed to implement such a reform.

Although acknowledging these arguments, this chapter argues that the TCMB's independence and its willingness to maintain it cannot be seen either as a pure process of rational or effective adaptation to the globalization process or as a pure ideational one; but rather as a hegemonic process in which social forces struggle for hegemony within a framework of a broader historical structure. This chapter argues that the TCMB acquired independence due to the consent/hegemony generated and the intellectual leadership exercised by the historic bloc composed of key government officials and leading businessmen in order to free central banks from political authority. The chapter shows how changes in the historical structure such as the globalization of finance and the rise of monetarist ideas led to the emergence of domestic social forces that united around the principle of price stability, shaped national conceptions regarding appropriate state institutions, and changed the role of government in monetary policy-making.

The discussion starts with the definition of the central bank independence. It then proceeds with the emergence of price stability oriented social forces, including globalizing bureaucrats (particularly, TCMB officials) and domestic capital (particularly, the finance fraction) that constituted the base of power for the delegation of autonomy to the TCMB. The last part examines the TCMB's acquiring of independence and its strong emphasis on maintaining price stability. In this part, since central banks stand at the interface between states and markets, international and national governance (Quaglia, 2005:549), both domestic and external conditions as well as the actions and interactions of domestic and external actors are examined. The TCMB staff, capital fractions, and external actors like the IMF and the EU are presented as crucial actors in creating favorable conditions for the expansion of the market economy in Turkey and producing hegemonic consent for the central bank reform.

## **5. 1. Defining Central Bank Independence**

The functions, priorities, and the role of central banks have evolved substantially over the years. Historically, central banks had functions such as issuing notes, acting as lender of last resort, regulating and supervising the financial system, and conducting monetary policy. During the classical gold standard (1873-1914) period, central banking was basically considered to be a technical endeavor since the general idea was that a general economic equilibrium should not be disrupted by political intervention (Marcussen, 2006:7). Although central banks were not legally independent, they de facto behaved in an independent manner. Under the gold standard, central banks pursued an interest rate policy and focused on external stability objective, namely a relatively stable currency defined in relation to a certain amount of gold (Marcussen, 2006:7). The price level was determined by inflows and outflows of gold. Internal stability such as employment and growth were secondary objectives. With the outbreak of the First World War, a large number of barriers were introduced for the free movement of capital and goods and the consensus about the priority of the external stability of the currency broke down. During the 1930s, due to the worldwide recession, central banks and their focus on stability were often accused of being the main sources of unemployment and social unrest.

In the post-war period, based on the compromise between John Maynard Keynes' focus on internal stability and Harry Dexter White's focus on external stability and openness, central bankers were asked to pursue several objectives at once such as growth, employment, financial, and price stability (Marcussen, 2006:7). With the adoption of quasi-fixed exchange rates under the Bretton Woods system, the exchange rate was used as a nominal anchor of monetary policy and domestic monetary policy was subordinated to the fiscal policy (Siklos, 2002:12). With the breakdown of the Bretton Woods system in 1972, the accession to power of Ronald Reagan and Margaret Thatcher, and the promotion of the monetarist paradigm by

neo-liberal think tanks and the financial media, many central banks started to establish monetary targets for a certain rate of growth of the money supply in the late 1970s and early 1980s (Marcussen, 2006:12).<sup>179</sup> The ascendancy of monetary policy in much of the industrialized world had profound implications for the role of the central bank in economic governance. As will be further elaborated later, with the failure of the monetarism in theory and practice in the mid-1980s, central bank practice has evolved toward inflation targeting with a focus on the short-term interest rate rather than money growth in the 1990s. Moreover, central banks were increasingly endowed with legal independence, signaling credibility and stability to the financial markets.

Central bank independence is based on economic and political independence that are crucial for achieving and maintaining the objective of price stability (Grilli et al., 1991:366). Economic independence refers to the capacity of the central bank to control its own balance sheets, affect liquidity levels and interest rates to implement its targets (Gutierrez, 2003:8). It is also referred to as a combination of goal and instrument independence (De Haan, 1997).<sup>180</sup> The former requires that governments do not influence the goals of monetary policy and the latter enables the central bank governors to autonomously choose among the operating targets such as interest rates, exchange rates and required reserve ratios for achieving the goal of the monetary policy (Grilli et al., 1991). Since direct or indirect financing of government expenditures can mitigate the central bank's control over the monetary base and the short term interest rates, economic independence requires that central bank lending to government

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<sup>179</sup> In the United States, the idea of monetary targets entered political discourse in 1974, but it was implemented in 1979 by Paul Volcker, the President of the Federal Reserve.

<sup>180</sup> De Haan (1997) calls instrument independence as financial autonomy or financial independence which implies that monetary policy won't be used to finance government deficits. Financial independence also implies that thanks to an independent monetary authority, fiscal and monetary policy will be coordinated for ensuring sound economic management (Eijffinger and de Haan, 1996). Neyaptı and Özgür (2007:147) also argue that central bank independence as a mechanism of credible commitment to the price stability ensures monetary discipline and may also contribute to fiscal discipline by constraining the spending tendency of the government. Thus, it can be said that instrument or financial independence enables the central bank to avoid the pursuit of time-inconsistent policies. The public opinion polls indicate that instrument independence is the most important indicator of central bank independence (Serdengeçti, 24 February 2005:7).

and non-financial institutions is restricted or abolished (Gutierrez, 2003:8; Eijffinger and de Haan, 1996).

As far as political independence is concerned, it can be defined as the ability of the central bank to choose its policy without the influence of the government (Grilli et al., 1991). Central banks with wider authority to formulate policy and resist government in cases of conflict are classified as more independent in terms of policy formulation (Cukierman et al., 1992a). Moreover, the composition of the board members, the procedures for their appointment and dismissals, as well as their term in office determines the degree of political independence of the central bank (Gutierrez, 2003:8; Grilli et al., 1991). Central banks in which the term of office of the governor is longer and in which the government has little legal authority in the appointment or dismissal of the governor are classified as more independent (Cukierman et al, 1992a). Political independence is also related with the strength of the governor and his/her ability to establish good relations with other state institutions and the public. The expertise, experience and the personalities of the governor and high level bureaucrats of the bank are important in shaping the actual level of central bank independence. A governor that wins the confidence of the public uses this public support as a weapon against the government and by this way, he/she is expected to eliminate political pressure to a great extent (Cukierman, 2006).

Based on these definitions, it should be noted that central bank independence takes different forms in different countries. For instance, it does not necessarily require the prioritization of the price stability objective over other goals. In the United States, the Federal Reserve enjoys a high degree of independence and is expected to maintain long run growth of the monetary and credit aggregates in compliance with the economy's long run potential to increase production, to promote the goals of maximum employment, stable prices, and moderate long-term interest rates ([www.federalreserve.gov/GeneralInfo/fract/sect02a.htm](http://www.federalreserve.gov/GeneralInfo/fract/sect02a.htm)).

Although goals of monetary policy are indicated, specific weights are not assigned. It is up to the Federal Reserve to decide on the weights it will attach to employment and price stability.

Unlike the Federal Reserve, the primary objective of the European Central Bank (ECB) is defined as maintaining the price stability. The Art.105(1) of the Protocol on the Statute of the European System of Central Banks and the European Central Bank stipulates that the European Central Bank shall support the general economic policies in the Community only without undermining the objective of price stability. The ECB is also excluded from any influence of politicians and the EU institutions. In accordance with the Art.108 of the Treaty, the ECB and national central banks are prohibited from seeking or taking instructions from Community institutions or bodies, from any government of a member state or from any other body (Forder, 2002:52).

With the central banking reform conducted in April 2001, Turkey adopted the European Central Bank model whose ultimate objective is ensuring price stability. Article 4 of the law no.4651 made a clear commitment to the TCMB's achievement and maintenance of price stability and stipulated that all monetary policy shall be carried out by the TCMB (Official Gazette, 05.05.2001/24393; TBMM Records, 24.4.2001:97, B:90 0:3; Yılmaz, 1 June 2007:8; Yılmaz, 19 January 2006). The same article indicated that the TCMB shall support the growth and employment policies of the government only if it is not in conflict with the objective of price stability. Article 4 put forward that the TCMB shall determine the inflation target together with the government, but be fully independent in the conduct of monetary policy in compliance with that target. In addition, in accordance with the Article 56 of the law no.4651, the TCMB's granting of credits to the Treasury and other public institutions was prohibited (Official Gazette, 05.05.2001/24393; TBMM Records, 24.4.2001:157, B:90 0:5; Serdengeçti, 12 April 2005:8). The TCMB shall not purchase debt instruments issued by the Treasury or by public establishments and institutions in the primary

market (Yılmaz, 19 January 2006; Kara, 2006). This implied that public sector deficits would no longer be financed with credits and advances from the TCMB.

By restraining one of the major historical roles of the TCMB, namely the monetization of fiscal deficits, Article 4 established strict lines between the duties of the TCMB and the Treasury and opened the path toward the emergence of an independent central bank with the capacity to affect significantly the structure and functioning of the economy (Bakır, 2007). Moreover, under Article 25 of the TCMB law, governors shall be elected for terms of no less than five years and shall only be dismissed under circumstances of serious misconduct or inability to perform their duties.<sup>181</sup> These mandates confined the TCMB to the conduct of monetary policy and contributed to its de-politicization process. This institutional transformation was a function of changes in the historical structure observed by the rise of transnational financial interests and technocratic elite promoting ideas of ‘price stability’ and ‘anti-inflationary growth’.

## **5.2. Changing Historical Structure: The Rise of Transnational Capital and Monetarist Ideas**

With the closing of the gold window in 1971, the United States ended its obligation to exchange its currency with gold at \$35 per ounce.<sup>182</sup> This structural turning point marked the demise of the Bretton Woods system as the fixed exchange rates were abandoned in favor of a floating exchange rate mechanism (Germain, 1993:158). This shift together with the oil shocks that soon followed, and higher rates of inflation contributed to the deregulation of financial markets by lifting of restrictions on cross-border capital flows (Kirschner,

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<sup>181</sup> After these arrangements, the political and economic independence of the TCMB were increased from 0.37 in 1930 to 0.61 and ranked fourth after the European Central Bank (ECB), the Riskbank of Sweden (RBS), the National Bank of Switzerland (NBS), and the Reserve Bank of New Zealand (RBNZ) in terms of total legal independence (Bakır, 2007:101; 2008:1).

<sup>182</sup>The closure of the gold window implies that dollar was made inconvertible to gold directly.

2003:651; Helleiner, 1994<sup>183</sup>). The liberalization of capital controls was first initiated by the United States in 1974 and followed by Britain in 1979, West Germany in 1981 and Japan in 1984 (Germain, 1993:216).<sup>184</sup> After the financial liberalization, net American long-term capital outflows doubled from \$12 billion in 1974 to over \$24 billion in 1975 (Germain, 1993:242-3). The 1984 Yen-Dollar agreement, which opened the Tokyo capital market to foreign investors increased Japanese capital outflows from \$20 billion 1983 to 64 billion in 1985 and then to \$134 billion in 1986 (Germain, 1993:243).

Investment opportunities stemming from capital account liberalization in industrialized countries contributed to the acceleration of the flow of international capital that had suffered a severe setback in the 1980 debt crisis (Germain, 1993:206). Whereas daily global gross capital flows were less than \$2 trillion in 1990, they rose to \$7.5 trillion in 2000 (Häusler, 2002).<sup>185</sup> An important aspect of the structural transformation in the global financial system was the substantial growth in transnational capital mobility to developing countries (Prasad, et al., 2003:16). Latin America and Asia alone received a sum of \$670 billion of foreign capital from 1990 to 1994 (Calvo et al., 1996 cited in Balkan et al, 2002:1). Furthermore, in addition to the change in the direction of capital flows, the composition of capital flows shifted from predominantly commercial bank lending to portfolio and other short-term capital flows (www.unctad.org).<sup>186</sup> The following table illustrates the magnitude and the changing nature of capital inflows into developing countries between 1977 and 1994. As we see in the Table 1, average annual net capital inflows to developing countries

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<sup>183</sup> According to Helleiner (1994), this general trend toward deregulation was the result of the conscious choice of leading states pursuing their interests.

<sup>184</sup> Netherlands (1986), France and Sweden (1989), Italy (1990), Austria, Finland, and Norway (1990), and Spain (1993) are other European countries that realized capital account liberalization in the 1980s and early 1990s.

<sup>185</sup> Unless otherwise indicated, all figures account for inflation.

<sup>186</sup> Moreover, the quasi-public nature of the international monetary order changed with the annual rise of the international private investments that increased from \$23 billion (1972-76 average) to \$36 billion between 1977-81 period and to \$124 billion between 1982-86 (Germain, 1993:161). The increase in private investments overshadowed that of public long term capital investments during the same period. Public long term capital investments were worth of \$11 billion during 1972-76 period. This amount rose to \$25 billion between 1977-81 period and to \$36 billion between 1982 and 1986 (Germain, 1993:191-2).

amounted to \$51 billion in the period 1977-82, but it rose to around \$173 billion in 1994 (Altinkemer, 1995:14).<sup>187</sup> While the amount of the foreign direct investment (FDI) developing countries attracted between the 1977-82 periods was \$8.5 billion, this rose to almost \$80 billion in 1994.<sup>188</sup>

**Table 5.1. Net Private Capital Inflows to Developing Countries, 1977-1994 (\$Billion)**

	1977-1982	1983-1990	1991-1992	1993	1994
Foreign Direct Investment	8.5	16.0	50.2	66.6.	77.9
Investment in securities	0.0	1.3	22.9	46.9	39.5
Investment in bonds	2.6	2.6	22.5	42.1	50.5
Bank credits	40.3	15.1	12.7	3.6	5.0
Total private capital	51.4	35.0	108.3	159.2	172.9

Source: Altinkemer, 1995:14

With the rise of the non-bank financial firms or the so-called institutional investors, including pension funds, insurance companies and mutual funds as key players driving international capital flows to emerging markets, a further shift occurred in the nature of financial intermediation (Prasad, et al., 2003:20). The assets under management of institutional investors increased from \$21 trillion to \$53 trillion between 1995 and 2005 (IMF, 2007:67).<sup>189</sup> Moreover, assets managed by other less regulated institutions such as hedge funds accounted for \$1.6 trillion in 2005 (Chandrasekhar, 2008:5).

Given the density of global financial markets and the multiplicity of actors involved under open capital markets, central banks had to interact with much larger and broader participants in both domestic and foreign markets and lost their control over the exchange rate and the interest rate as policy instruments independent of each other (Yeldan, 2006:194-

<sup>187</sup> Average annual net capital inflows to developing countries kept on growing in the 1990s, and it rose from \$360 billion in 1997 to \$785.5 billion in 2006 (Chandrasekhar, 2008:6).

<sup>188</sup> In 2005, FDI inflows to developing countries was about \$314 billion, portfolio flows about \$110 billion and bank loans about \$140 billion (Okusanya, 2008:14).

<sup>189</sup> Insurance firms accounted for close to \$17 trillion, pension funds for \$12.8 trillion and mutual funds for \$16.2 trillion (Chandrasekhar, 2008:5).

5). The worldwide differences in the rate of interest and foreign exchange rates became decisive for the 'exit options' of mobile capital asset holders (Milner and Keohane, 1996:19 cited in Phillips, 2005:93).<sup>190</sup> Therefore, the liberalization of capital movements increased the structural power of financial capital (Gill and Law, 1988:87) that made it considerably more difficult for central bankers to control monetary policy in the case of serious financial speculation (Marcussen, 1998; Yeldan, 2006:196).

The globalization of financial markets implied a situation in which expansionary fiscal and monetary policies raised the risk premium for states and non-state actors to have access to transnational capital and generally limited their ability to borrow. In the absence of credibility, the outflow of financial capital led to severe consequences for the macroeconomic stability of countries, thus domestic structural policies had to be perceived as credible by investors. Quaglia (2005:557), Cukierman (2006), and Maxfield (1997) suggest that competitive capital markets require ensuring price stability and raise the importance of central bank independence as a signal of macroeconomic responsibility. For these scholars, the depoliticization of monetary policy through the establishment of an independent central bank represents the means through which domestic monetary policy is adjusted as a necessary response to the structural imperatives of market economy.

Although this explanation points to the role of market forces that impose the 'best practice' on states, adjusting national policies to the requirements of global markets is not automatic, and central bank independence cannot be seen as an inevitable outcome of market pressures (Kirshner, 2003:647). The 'investor confidence', 'credibility' or 'economic efficiency' arguments that independent central banks perform better under conditions of financial globalization constitute more a justification for central bank independence rather

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<sup>190</sup> Raising interest rates higher than world markets would trigger a large foreign capital inflow; fixing them lower, however, would lead to a large foreign capital outflow. Similarly, setting exchange rates higher than equilibrium levels could lead to a current account deficit; fixing them lower than equilibrium would stimulate capital flight and investment abroad, preparing grounds for a currency crisis (Yeldan, 2006:195).

than an explanation for its adoption (Kirshner, 2003:653). Moreover, the ‘financial needs of governments’ argument fails to explain sufficiently why a government delegates power to a central bank in order to attract private capital when there are a variety of other ways for generating revenue such as increasing taxes, printing money, cutting the budget, and issuing bonds (Byun, 2006:12). What needs to be emphasized about the globalization of finance for the purpose of this dissertation is the rising importance of financial interests and technocratic elite such as central bank officials as social bases of power that strengthened the role of market forces in the global financial system by reordering the prevailing ideas and priorities of macroeconomic governance (Gill and Law, 1988:174-6; Gill, 1995a:77).

With the deepening of global financial markets, central banks with their technical expertise increased their relatively limited role in the economy, began to monopolize monetary policy-making, and promoted the idea of independence for ensuring macroeconomic stability (Marcussen, 2006:8-9; Quaglia, 2005). The issue of central bank independence was supported by the financial sector that has a great stake in price stability since inflation harms this sector by distorting the credibility and predictability of the economy (Posen, 1995). An independent central bank being in charge of the maintenance of price stability would serve better the interests of the financial sector by protecting them against unsound governments that respond to the pressures of other socioeconomic constituencies and pursue expansionary monetary policy (Peck, 1999:118-9). Central bank independence thus can be conceptualized as the recentering of social power in the hands of economic technocrats and financial interests that are embedded into the anti-inflationary policies of governments (Polillo and Guillen, 2005:1769). In order to understand how these social forces promote and justify central bank independence, the rise of monetarist ideas about the need to control inflation during the late 1970s should be emphasized (Gill and Law, 1988:87).

### 5.2.1. Arguments for Central Bank Independence

The failure of the Keynesian ‘managed money’<sup>191</sup> to provide solutions to the stagflation of the 1970s led to the rising influence of monetarist assumptions that favored limiting a government’s discretion in economic policy (van Apeldoorn, 2002:66; 2005:117). Although monetarist ideas had been promoted as early as the 1930s, they became politically relevant in the 1970s after the first oil crisis (McNamara, 1998:114). Milton Friedman (1963) laid down the principles of the monetarist doctrine by declaring that inflation was always and everywhere a monetary phenomenon. For monetarists, the monetary expansion higher than the growth of the potential level of national output was the sole source of inflation (Hicks, 2004:35; Marcussen, 1998).<sup>192</sup> Moreover, inflation was argued to stem from ‘the interventions of the state into an otherwise naturally self equilibrating economy’ (Blyth, 2002:147 cited in Bieler, 2008:89).

Monetarists offered an interpretation for the deteriorating relationship between unemployment and inflation in the 1970s. By denying the existence the Phillips Curve<sup>193</sup>, which guided policymakers throughout the 1960s and early 1970s in the first place, Friedman (1968 cited in McNamara, 1998:146) argued that each economy had a natural, non-accelerating inflation rate of unemployment, independent of the rate of inflation and impossible to change through the monetary policy. Moreover, expansionary monetary policies used by governments to achieve short-term gains such as creating employment were argued to bring about inflationary bias in the long term and distort the allocation of resources

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<sup>191</sup> As part of Keynesian doctrine, monetary policy was employed as a tool to promote economic growth and full employment, or at least it was subordinated to these goals (Maman and Rosenhek, 2007:254).

<sup>192</sup> For monetarists changes in the money supply alter the value of nominal variables but do not much affect real national income in the long-term. Therefore monetary expansion only exacerbates inflationary pressures.

<sup>193</sup> In 1958, A.W. Phillips showed that there was a strong historical relationship between the unemployment rate and the inflation rate. He held that over almost a century, as inflation rose, unemployment fell, and vice versa. Thus, postwar policymakers generally acted on the belief that expansionary monetary policies, while causing some inflation, would also decrease unemployment. Most industrialized countries relied on this relationship throughout the 1960s, but in the 1970s, they confronted conditions that contradicted the Phillips Curve relationship. Inflation and unemployment seemed to move together: high rates of inflation were accompanied by high rates of unemployment and slow growth, leading to the emergence of stagflation (McNamara, 1998:146).

in the economy, create uncertainty, impair economic growth, and undermine macroeconomic stability (Persson and Tabellini, 1993:53 cited in Posen, 1997:1; Barro and Gordon, 1983; Krueger, 2005).

Since inflation was seen as a problem that plagued economic activity, it was suggested that monetary policy should be isolated from political discretion (Rogoff, 1985). Concerning the conduct of economic policy, monetarists sought to maintain business confidence through the delivery of a consistent and credible climate for investment and thus for the accumulation of capital (Gill, 1998:15). The key policy prescription that the monetarists centered on to achieve that objective was the monetary targeting. The monetarists held that the quantity of money had a major influence on economic activity and the price level; and the objectives of monetary policy could be best achieved by targeting the rate of growth of money supply (Cagan, 1991:449 cited in McNamara, 1998:145). The strict control of the money supply by setting goals or targets for a stable, predictable annual increase in the aggregate money supply was seen as the best way to avoid inflation and create the conditions for stable economic growth and employment (Friedman and Schwartz, 1963 cited in McNamara, 1998:145).

The monetarist principles such as controlled growth of the money supply and the primacy of inflation reduction were adopted by the majority of industrialized countries. For instance, under Margaret Thatcher, Britain endorsed monetarist policies during the 1980s. The United States also began to follow a monetarist policy in 1979 by contracting the money supply. However, failing to predict or explain major changes in the price level, monetarism came under attack as a theory. The difficulties of accurately measuring the stock of money made monetarist targeting of the money supply problematic. The uncertainty about the stability of the links between the money supply and inflation damaged the reputation monetarism enjoyed in the late 1970s and the first half of the 1980s (McNamara, 1998:173).

It also failed as a practice particularly after the United States and Britain abandoned monetarist policies in 1982 and 1986, respectively. Monetarist policy was influential in the fall of inflation levels in the United States and Britain, but low inflation came at the cost of a severe recession in both countries.<sup>194</sup> Although monetarism failed in theory and practice, its rhetoric was maintained by policymakers. Particularly, due to the development and growing sophistication of the financial system in the 1990s, price stability rhetoric of monetarism guided the move towards central bank independence.

The theoretical rationale for central bank independence is based on the idea that separating monetary policy from politics is necessary because it provides a solution to the problem of time inconsistency addressed by Kydland and Prescott (1977). This problem refers to the incapability of governments in credibly committing to anti-inflationary policies.<sup>195</sup> For instance, when the monetary authority deviates from the announced inflation target after the private sector takes for granted the level of inflation announced by the government and accordingly conclude fixed wage contracts, it is assumed that the public will anticipate future price shocks and act rationally by taking into consideration the monetary authority's inflationary tendency, resulting in an inflationary bias (Kydland and Prescott, 1977; Gutierrez, 2003:5). This inconsistency between the public expectations and government decisions are seen as the primary reason of inflation (Kydland and Prescott, 1977; Barro and Gordon, 1983; Cukierman, 1992).

The solution suggested for avoiding the time inconsistency problem is to replace the discretion at the disposal of governments with rules that would insulate central banks from

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<sup>194</sup> For instance, between 1979 and 1984, manufacturing output fell 10 percent, manufacturing investment fell 30 percent, and unemployment soared from 5.4 to 11.8 percent in Britain (Pugh and Garratt, 1994:152).

<sup>195</sup> Policymakers intend to take advantage of inflation by reducing the cost of real wages to encourage employment, but they create illusory high wages in nominal terms which then increase consumption. The motivation to increase inflation is not only to increase employment, but also to generate government revenue through seigniorage (revenue received from printing money) and to finance balance of payments deficits.

political influence (Kydland and Prescott, 1977; Barro and Gordon, 1983). In this way, the governor of the independent central bank is expected to act in a conservative manner in order not to increase money supply excessively.<sup>196</sup> By removing the bank from political influence, the central bank is expected to convince market actors that it has no incentive to manipulate the money supply for political gains (McNamara, 2003). Central bank independence is thus argued to serve as a credibility/reputation enhancing device (Marcussen, 2003:15; Cukierman, 1992; Grilli et al, 1991; Backus and Driffill, 1985; Rogoff, 1985; Barro and Gordon, 1983).

The theoretical arguments on central bank independence also assume an inverse relationship between the degree of central bank independence and the level and stability of inflation. The empirical research reveals that the relation between central bank independence and low inflation rates stems from the credible commitment of the central bank to the objective of price stability (Grilli et al. 1991; Cukierman et al., 1992b; Alesina and Summers, 1993; Eijffinger and De Haan, 1996, Berger et al. 2001).<sup>197</sup> Price stability is argued to be achieved through an independent central bank that will be more averse to inflation than politicians, who might be guided by electoral or partisan politics (Watson, 2002:188; Alesina and Summers, 1993; Rogoff, 1985; Eijffinger and de Haan, 1996).

Within the framework of this broader historical structure, as can be seen in the Figure 1 below, the number of countries that granted independence to their central banks increased

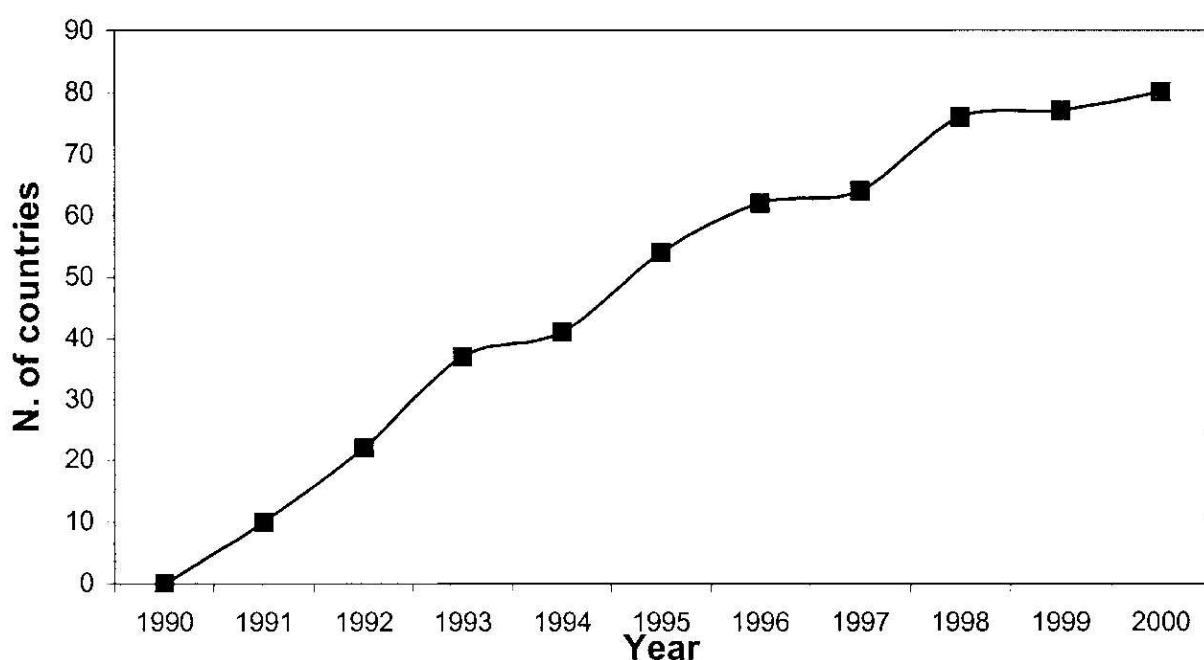
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<sup>196</sup> Rogoff (1985) argues that central banks are more conservative with a longer view of policy process. Central bankers are assumed to be better placed than politicians to enforce rules, since there is no clear symmetry of interest between the central bank and the labor market in the way that there is between the government and the labor market (Watson, 2002:184). Central bankers are assumed to be less constrained by social pressures for accommodating inflation. This ensures that they can commit more credibly than governments to operating monetary policy in line with low inflation equilibrium and, as a result, produce superior inflation performance (Watson, 2002:184).

<sup>197</sup> For the empirical challenge to the assumption of a correlation between central bank independence and superior inflation performance see Iversen et al. (2000:18-21) that pay particular attention to the way in which differences in the wage bargaining process can lead to different inflation outcomes, even in the presence of identical central bank inflation preferences.

during the 1990s.<sup>198</sup> With the enactment of the law no 4651 in 2001, Turkey also delegated independence to its central bank. The following section turns to the reasons of that policy shift.

**Figure 1. Cumulative Legal Changes toward Higher Central Bank Independence**



Source: Polillo and Guillen, 2005:1771.

<sup>198</sup>During the 1990s, countries such as New Zealand (1990), Belgium (1993), France (1994), Greece (1997), Japan (1998), Finland (1998), Ireland (1998), Italy (1998), Netherlands (1998), Sweden (1999), and Switzerland in the Western world (Daunfelt and de Luna, 2002); Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Kyrgyz Republic, Latvia, Lithuania, Macedonia FYR, Moldova, Poland, Slovak Republic, Slovenia, Ukraine, Uzbekistan, Serbia/ Montenegro in Eastern Europe; Argentina, Bahamas, Bolivia, Chile, Colombia, Costa Rica, Honduras, Nicaragua, Peru, Uruguay, Venezuela in Latin America; Botswana, Democratic Republic of Congo, Egypt, Ethiopia, Ghana, Kenya, South Africa, Tanzania, Zimbabwe in Africa; Republic of Korea, Japan, Indonesia, Philippines in Asia granted independence to their central banks (Polillo and Guillen, 2005:1770).

### 5.3. Central Bank Reform in Turkey

The macroeconomic situation in Turkey changed very dramatically with the implementation of the 1980 structural reforms, including the deregulation and liberalization of financial markets. Reforms such as ending quantitative and price controls and relaxing entry barriers into the financial system were extended with the elimination of controls on capital flows in 1989.<sup>199</sup> After this liberalization movement, Turkey opened its domestic asset markets to global financial competition and thus to speculative capital movements (Öniş with Bakır, 2007:5; Yeldan, 2006). With the liberalization of capital markets, the Turkish economy became dependent on short-term capital flows, which increased from \$83 billion in 1990 to \$470 billion or 5.6% of the GNP in 1993 (Yeldan, 1998:406). In order to attract transnational financial capital that would finance increasing growth in public expenditures, Turkish governments followed a policy of domestic currency appreciation and high real interest rates for Treasury bonds (Bakır, 2008:6). This policy led to major structural changes in the domestic capital groups by linking their accumulation strategies to global markets through capital inflows (Ataç and Grünewald, 2008:50).

In the 1990s, large interest rate differentials between foreign borrowing rates and government debt offered generous profit margins for financial circles in Turkey.<sup>200</sup> Although the annual inflation rate averaged almost 78% during the 1990s, Turkey offered real interest rates of 100% in January 1996; 60% in December 1998; 80% in March 2001 (Cizre and Yeldan, 2005:395). The real appreciation of the Turkish Lira also made it attractive to finance the Treasury via foreign borrowing. Domestic public and private banks channeled most of their funds into the government debt market and the share of government securities

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<sup>199</sup> Due to the low saving rates of Turkey, which was 19% during 1980-1994 compared to 22% for non-oil exporting developing countries (Brune, 2006:16), the then Özal government realized capital account liberalization to finance development by borrowing from abroad.

<sup>200</sup> Turkish banks obtained credit denominated in dollars with an interest rate of 6-7% from international markets and lent it to governments with high real interest rates (TÜSİAD, 2002:77).

in total bank assets increased from 10.3% in 1990 to 21.4% in 2000 (Bakır, 2008:7).<sup>201</sup> Between 1990 and 2000, while the real gross domestic product (GDP) grew only by 3.4% annually, the annual real rate of growth of the banking sector assets exceeded 13% (Balkan and Yeldan, 2002). This divergence between the performance of the real economy and the financial sector was seen as a result of the rapid acceleration of short-term foreign capital inflows (Cizre and Yeldan, 2005).

Benefiting from high interest revenues, finance capital became the most advantaged segment of society.<sup>202</sup> As a result, since the late 1980s, the Turkish banking sector experienced a significant expansion and development in the number of banks, in employment, diversification of services and the technological infrastructure (BDDK, 2002). The number of banks increased from 43 in 1980 to 66 in 1990 and to 79 by the end of 2000 (BDDK, 2002).<sup>203</sup> The important point about the Turkish financial system is that almost all of the private banks belong to industrial groups and holding companies, thus the industrial and the financial sector are interconnected. Due to the cross-ownership of banks and industry, the industrial capital organized under the form of holding companies appropriate banking profits as well (Ercan, 2002:30). This explains why the preferences of the manufacturing and the financial sector overlap in Turkey. Most prominent holding companies that own their banks include Sabancı Holding (Akbank), Koç Holding (Koç Bank), and Çukurova Holding (Yapı Kredi Bankası). The following table presents some other private banks that are owned by Turkish industrial conglomerates.

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<sup>201</sup> The ratio of net domestic debt to GNP increased from 6% in 1990 to 42% in 1999 (Bakır, 2008:7).

<sup>202</sup> The profits of banks increased from 11.7 billion TL in 1992 to 760 billion TL in 1998 (Ercan, 2002:30).

<sup>203</sup> Due to the re-structuring process in the Turkish banking sector initiated after the 2000 economic crisis, the number of banks fell to 59 in 2002 and to 50 in 2006 ([www.bddk.org.tr](http://www.bddk.org.tr)).

**Table 2. Some Turkish Holding Companies Owning Banks, 2000**

<b>Holding Company</b>	<b>Bank</b>
İhlas Holding	İhlas Finance
Medi Group	Etibank
Doğan Holding	Dışbank <sup>204</sup>
Doğuş Holding	Garanti Bank
Bayındır Holding	Bayındır Bank
Zeytinoğlu Holding	Esbank <sup>205</sup>
Nergis Holding	Interbank <sup>206</sup>
Rumeli Holding	İmar Bank <sup>207</sup>

Source: Koch and Chaudhary, 2001:479

Since central bank independence is primarily a device to ensure low inflation and more generally to promote stability-oriented economic policies, Posen (1995) and Goodman (1991) argue that the socio-economic actors that benefit from it demand the delegation of monetary power to an independent central bank. The politics of high interest rates and appreciated currency complies especially with rentier interests (Posen, 1995; Ataç and Grünewald, 2008:49). Capital liberalization in Turkey thus strengthened financial markets' quest for stability-oriented policies, of which independent central banks were seen as guarantors. Those social groups that benefited from disciplinary monetary and financial policies, primarily the holders of mobile capital such as TÜSİAD and banking sector represented by the Banks Association of Turkey emerged as the key private sector actors supporting the central bank reform (Bakır, 2008:13). The TCMB's independence of instructions from national governments and exclusively committing to the objective of price stability would substantially alter the balance of social power in favor of these groups. The financial sector thus formed the heart of the historic bloc supporting the policy of monetary stabilization and central bank independence as a safeguard to market instability that would be a hindrance to international capital flows (Ataç and Grünewald, 2008:49).

<sup>204</sup> Doğan Holding sold Dışbank to Fortis in May 2005.

<sup>205</sup> Esbank was taken over by the Banking Regulation and Supervision Agency (BDDK) in December 1999.

<sup>206</sup> Interbank was taken over by the BDDK in January 1999.

<sup>207</sup> İmar bank was taken over by the BDDK in June 2003.

The preferences of the non-financial, namely manufacturing sector on central bank independence are not predetermined, but depend heavily on the exchange rate regime and the relationship between banks and industry (Quaglia, 2005:553). In fact, the industrial sector does not favor the idea of central banks focusing solely on the objective of price stability at the expense of growth. However, due to the overlap of financial and industrial interests in Turkey, the Turkish industrialists supported the TCMB's independence as the sector earned an increasingly high proportion of its profits from non-industrial activities, to a large extent the interest earnings from holding government securities (Alper et al, 2001). According to a survey carried out by the Istanbul Chamber of Industry (ISO), the share of non-industrial profits in the total profits of Turkey's 500 largest industrial establishments increased from 33.3% in 1990 to 219% in 1999 (Yeldan, 2001:156). In 1999, banks owned by Turkish holding companies controlled 85.3 percent of all government bonds (Ercan, 2002:30; Aydın, 2005:134).

The export sector is not a natural supporter of central bank independence as the primary focus on price stability may lead to appreciated currency that decreases the competitiveness of export-oriented groups and may prove disadvantageous for the production structure (Quaglia, 2005). On the other hand, import-oriented groups benefit from appreciated currency as international products become cheaper (Quaglia, 2005). However, in the Turkish case, due to the internationalization of the dominant fractions of capital in Turkey, appreciation of the currency serves the interests of both inward and outward-oriented capital due to the high stock of foreign debt that they accumulated in recent years (Ataç and Grünewald, 2008:49). Since devaluation would increase their debt stock sharply; both capital fractions had a common interest in the overvaluation of the Turkish Lira.

According to Hakan Kara, the general director of the Research Department of the TCMB, the structural dependency of the productive sector on imported products was another

factor why both importers and exporters were in favor of a strong Lira (personal interview, see also Ataç and Grünewald, 2008:49). This holds true particularly for the car and household appliances industries in the export sector (Ataç and Grünewald, 2008:49). Nevertheless, this is not the case as far as labor-intensive sectors such as textile are concerned. The textile sector was strongly opposed to the overvaluation of the Turkish Lira that would weaken its competitiveness in world markets (Hakan Kara, personal interview). The suppression of wages, however, was influential in the unification of different factions of capital around the policy of appreciated currency and high interest rate policy (Ataç and Grünewald, 2008:50). Between 1999 and 2002, real wages declined by nearly 30 percent and did not increase until 2006 (Ataç and Grünewald, 2008:50). The repression of real wages enabled the Turkish export sector to keep its competitive position on the world market.<sup>208</sup> Based on these features, business associations such as TÜSİAD, heavily involved both in the finance and industrial sectors, and MÜSİAD, operating in the export sector supported the reform process that granted independence to the TCMB. These actors identified the government's access to the TCMB's resources as one of the major problems leading to inflation.

The consultant of MÜSİAD, İbrahim Öztürk, indicated that MÜSİAD backed the TCMB reform as it reduced the role of government in monetary policy-making (personal interview). Eyüp Vural Aydın, the deputy general secretary of MÜSİAD, added that the Association saw the TCMB reform as an indispensable part of economic reforms that should be implemented to cope with the globalization process (personal interview). As was the case with its efforts to shape public opinion in favor of privatization, TÜSİAD, through its various research reports, engaged in promoting ideas that claimed a positive relation between low inflation levels and macroeconomic stability. In its publications, TÜSİAD (2000:65, 2001:91,

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<sup>208</sup> In the same period, the productivity of Turkey's productive sector rose around 40 per cent (Ataç and Grünewald, 2008:50).

2002a:50; 2002b:16) presented inflation as a social and political crisis that threatened social and macroeconomic stability for decades in Turkey. In its report “Inflation and Growth Dynamics”, TÜSİAD (2002a:38, 73) suggested the need to replace the traditional economic belief that inflation was the key to economic development with ideas that presented a reverse relationship between inflation and growth. It put forward that 50% reduction in the inflation level would increase growth rates by almost 2% to 3% (TÜSİAD, 2002a:17). TÜSİAD also portrayed the issue of central bank independence as an economic necessity for the rational and efficient functioning of the economy. It emphasized that independent central banks better resist inflationary demands emanating from governments and interest groups wishing to use central bank policies for their own interests. Through this discourse, TÜSİAD aimed at sidelining alternative implementations in the conduct of monetary policy in favor of price stability that would privilege financial interests.

As labor benefits from macroeconomic policies which aim at employment and growth, it is expected that they will be more skeptical about increasing the autonomy of the central bank whose main function is to prevent inflation at the expense of other macroeconomic objectives. The interviews conducted by Toptaş (2005) and the author (2006) with the leaders of the trade unions reveal that these groups consider inflation as an important economic problem to be tackled. They thus supported the initiative of granting the TCMB independence as this would ensure low and stable inflation in Turkey. The trade union representatives commonly argue that ‘inflation leads to undesirable social and economic consequences such as arbitrary redistribution of income and wealth, economic instability, lower growth and lower job creation, and high levels of interest rates’ (personal interview). For them, a credible commitment to maintaining low inflation is important for improving the living standards of society. However, trade unions at the same time emphasize

that central banks should not pursue price stability at the expense of employment (personal interview).

In his speech on the occasion of celebrating the 75th of anniversary of the TCMB (1 June 2007:7) Durmuş Yılmaz, the current governor, highlighted that the Central Bank of Turkey was granted independence by the Turkish Parliament in May 2001 as a response from society to the decades of macroeconomic instability in Turkey. Yılmaz (19 January 2006) highlighted that the Turkish economy went through 30 years of high and volatile inflation rates and massive dollarization<sup>209</sup> together with financial sector instability, high public sector debt burden and unstable and low growth rates. The former undersecretary of the Treasury, Faik Öztrak (2001-2003) added that the currency crisis of 1994, contagion effects of Asian and Russian crises in 1997 and in 1998, and finally the Turkish financial crisis in 2001 were among the many events that increased the vulnerability of the economy (personal interview). Öztrak thus suggested that, “all these developments that negatively affected economic and social life, highlighted more and more the importance of price stability as the primary goal of monetary policy and made society realize the importance of a transparent framework for monetary policy” (personal interview, see also Yılmaz, 19 January 2006). This broad consensus based on the proposals of the domestic actors concerning the strengthening of the

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<sup>209</sup>Dollarization is a response of economic agents to inflation uncertainty that reduces the confidence in domestic currency. It results in higher and more volatile inflation, reduces the monetary authorities' control over domestic liquidity by rendering money demand less stable, affects the choice of exchange rate regime, and increases the exposure of the banking system to additional risks on account of uncovered foreign liabilities (Bahmani-Oskooee and Domaç, 2003). The share of foreign currency deposits in total deposits was 38.4 percent in 1990, it rose to 64.3 percent during the economic crisis in 1994 and it was 57.9 percent in 1999. These figures indicate that there were substantial amount of dollarization in Turkey. After the independence of the TCMB in May 2001, the share of foreign exchange deposits in the total deposits and in the broad money supply became 38 percent and 35.5 percent, respectively in November 2006. Also the ratio of foreign currency loans to total loans in the banking sector decreased to the level of 16 percent in the same period. Moreover, the share of the foreign currency denominated and the indexed debt of the government to total domestic debt decreased to 15.8 percent as of October 2006 (Yılmaz, 14 December 2006).

position of the TCMB within the state apparatus was influential in the adaptation of the legal amendments to the TCMB law (Yılmaz, 19 January 2006).

The structural changes realized in the Turkish economy during the 1980s not only contributed to the emergence of capital groups that demanded a stable macroeconomic environment but also changed central banking in Turkey in organizational and ideational terms. With the globalization of finance coupled with the rise of anti-inflationary ideas, institutions linked to the global economy such as central banks were given priority within a country's economic governance (Cox, 1981). Once being a background agent at the service of the Treasury, the TCMB moved *forwards* in the political process by undertaking a modernization process and reorienting the monetary policy toward contemporary central bank practices.

In accordance with global financial and monetary imperatives, the TCMB insisted on focusing on the objectives of sound money (stable exchange rates and low inflation) and sound finances (low public deficits and debt) so as to create macroeconomic stability and thus investor confidence ([www.tcmb.gov.tr](http://www.tcmb.gov.tr)). Its quest for achieving macroeconomic stabilization created the basis for natural alliances between actors in financial markets who sought stable and predictable conditions for their operations (Baker, 1999:93). More importantly, with its focus on price stability, the TCMB reflected the priorities of market forces in the financial system, enabled the penetration of the interests of the financial services into the state apparatus (Maman and Rosenhek, 2007:258), and therefore 'tilted the balance of power towards private monetary agents' (Germain, 1993:246).

### **5.3.1. Changing Central Banking in Turkey: The Emergence of Globalizing Bureaucrats**

The Central Bank of the Republic of Turkey (TCMB) was founded on 11 June 1930 by the law no.1715 as a joint stock company in which the state and other entities held shares (Yılmaz, 1 June 2007:4).<sup>210</sup> The purpose of establishing it as a joint stock company was to isolate the newly created TCMB from the political pressures while conducting its monetary and credit policies (Bakır, 2007:20). In one of his speeches on the establishment of the TCMB, the then prime minister of Turkey, İsmet İnönü (quoted in Yılmaz, 1 June 2007:3) stated that “I knew from the very start that the TCMB had to be an independent institution, operating with the integrity and robustness that would be required even against the government and the Ministry of Finance, let alone its relations with other private banks”. This concern for respecting the political autonomy of the TCMB coincided with the international reactions against the worldwide financial instability that emerged as a result of monetary expansion under government pressures during the World War One (Toptaş, 2005).

In order to prevent the use of the TCMB resources for financing government expenditures, and thus to avoid inflation and to maintain fiscal discipline, the TCMB law no. 1715 did not stipulate any provisions for granting short term advances to the government. However, over the years the law was amended several times and the autonomy of the TCMB was substantially restricted. The increase of the leverage of the Treasury in monetary policy-making was important in the restriction of the autonomy of the TCMB. During the Second

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<sup>210</sup> A-class stocks were owned by government institutions and this total share could not surpass 15% of the bank's capital. B-class shares were sold to national banks operating in Turkey, C-class shares were sold to foreign banks and to privileged companies, and D-class shares were sold to Turkish business companies and private individuals. It should be stated that the relationship between the ownership structure and central bank independence has become less significant. Nowadays, the most independent central banks are wholly state-owned and the central bank independence involves much more than just ownership (Yılmaz, 1 June 2007:4). Analyzing the ownership structures of 101 central banks, Lybek and Morris (2004:7) indicates that only 9 of the 101 central banks are joint stock companies.

World War, temporary amendments were made with the law no. 3492 in 1938 concerning the short-term advances to the government in order to finance increasing defense expenditures through the TCMB resources (Bakır, 2007:42). In 1942, the first credit was extended to the Treasury in an amount of 250 million TL. This was the beginning of a pattern in which the TCMB began to be used as an instrument for financing the government. As of 1947, the Treasury was entitled to use up to 15 percent of the general budget appropriations as advances (Bakır, 2007:43).

The recourse to the TCMB resources began to increase when the Democrat Party (DP) came to power in 1950. With an amendment to the Banking Law in 1953, 20% of the deposits collected by commercial banks were to be kept in the TCMB as reserve requirements and that amount would be used by the government to provide cheap credit to the public sector (Bakır, 2007:45). With this amendment, the DP resorted to monetary expansion to sustain economic growth and used the TCMB as an instrument of financing its populist policies such as providing credits to the agriculture sector or engaging in infrastructural and industrial investments. The deficit financing policy through the TCMB credits increased inflation levels from 3.2% (1940-1950 average) to 8.6% annually (1950-1960 average) (Önder, 2005:109-114).

Most central banks in the world were expected to achieve various objectives such as attaining high growth rates and employment, providing funds to government for the finance of public expenditures, and for addressing balance of payments problems (Maman and Rosenhek, 2007:252; Cukierman, 2007:1). They also were expected to maintain financial and price stability, but the latter was one among several other objectives (Cukierman, 2006:1). In parallel with the world experiences, particularly after the 1960s, the TCMB was seen as an institution at the service of the governments to achieve the goals of rapid industrialization, employment and financing deficits. For instance, in order to use the monetary and credit

policies for achieving industrialization, the 2. Five-Year Development Plan (1968-1973) emphasized the need to amend the Central Bank Law no 1715.

In order to adjust the duties and responsibilities of the TCMB to the requirements of the Development Plan, the law no. 1715 was replaced with the law no. 1211 enacted on 14 January 1970. The new law enabled the TCMB to extend credits and advances to the Treasury and the state owned enterprises and monetary policy was subordinated to the fiscal policy of the government (Serdengeçti, 24 February:15-16). The TCMB's function was defined as implementing the monetary and credit policy within the framework of development plans (Article 4 of the law no.1211). Although the capital of the Treasury (A class shares) could not exceed 15 percent of the total capital of the TCMB (Article 26 of the law no. 1715), with the law no. 1211 this amount was increased to a level that would not be less than 51 percent of the total capital of the TCMB (Serdengeçti, 24 February 2005:14). The law no. 1211 also made the Treasury the sovereign body in the elections of the board members of the TCMB which began to function as if it were a department of the Treasury (Bakır, 2007). As an integral part of the development project, the TCMB conducted expansionist monetary policy to finance the economic development of the country.<sup>211</sup>

However, the economic liberalization process started in the 1980s provided the basis for the increasing role of the TCMB in the conduct of monetary policy. The removal of controls on interest rates (1981) and the liberalization of foreign exchange trade (1984) were followed by several institutional changes such as the introduction of the sale of the Treasury papers by the TCMB through the auction system in 1985. In 1986, the inter-bank money market was established, and the TCMB started open market operations in 1987. Particularly, during the governorship of Rüştü Saraçoğlu (30.7.1987-2.8.1993), the institutional changes gained momentum under his strong personality. Accordingly, in 1988 and 1989, the gold

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<sup>211</sup> The total amount of TCMB credits increased by 38% in the First Development Plan period (1963-1967), by 92% in the Second Development Plan period (1968-1972), and by 528.9 in the Third Development Plan period (1973-1977) (Kepenek and Yentürk, 2007).

market and the foreign exchange market were opened, respectively. These regulations contributed to the autonomous conduct of the monetary policy as they created market oriented instruments like the gold market and the foreign exchange market (Gökbudak, 1996:33). The establishment of Eximbank on 21 August 1987 was another initiative achieved in terms of the institutionalization of the autonomy of the TCMB. Until then, the TCMB had important duties for promoting foreign trade. Transferring its duties to a bank specialized in the promotion of exports was an important step in the TCMB's focusing on its primary objectives (Gökbudak, 2000:140).

The opening of money and foreign exchange markets under the auspices of the TCMB and deepening of financial markets during the 1990s made monetary governance an increasingly technical issue. Based on their specialized macroeconomic expertise, central bank officials gained professional legitimacy and political authority (Johnson, 2006; Marcussen, 2003:18). With its increased professional legitimacy, the TCMB started gradually monopolizing the monetary policymaking and its relations with the Treasury began to change (Bakır, 2008:8). In 1989, the rules regulating the extension of short term advances to the Treasury were laid down in an agreement between the TCMB and the Treasury (Gökbudak, 2000:144; Altinkemer and Ekinici, 1992:20). It set a ceiling on the Treasury's recourse to the advance extended by the TCMB at a preferential interest rate, limiting the rate of increase to 22 percent (Gökbudak, 2000). The agreement was important in terms of independence as it put limits on the availability of the TCMB resources.

The announcement of the first monetary program in 1990 constituted another important step towards increasing the autonomy of the TCMB (Gökbudak, 2000:139). The program emphasized that TCMB should not be used as a means of promoting employment. The medium term objective of the TCMB was identified as ensuring the stability of the domestic and external value of the TL. The program also stressed that inflation expectations

could be reduced if the monetary program were made credible and the money supply of the TCMB were not increased in the medium term (Gökbudak, 2000:140-1). The program reorganized and restructured the TCMB balance sheet and explained to the financial community and to the general public how monetary policy operated (Yılmaz, 1 June 2007:6). Under this program, the credit allocated to the public sector fell by 20% compared to 1989. Moreover, the rate of increase in the emission levels decreased from 86% in 1989 to 68% in 1990 (TCMB, 1990:32). The announcement of this monetary program was important in terms of increasing the credibility of the TCMB; however the program failed to achieve its objectives since public sector deficits continued to be financed through borrowing or monetary expansion which in turn put pressure on interest rates, exchange rates, and inflation (Gökbudak, 1996). The ratios of the public sector borrowing requirements (PSBR) to the Gross National Product (GNP) substantially increased between 1980 and 2001. The PSBR/GNP ratio that was 4% in 1981 rose to 16.5% in 2001. After the TCMB was granted independence in 2001, this ratio fell to -0.4% in 2005 ([www.tcmb.gov.tr](http://www.tcmb.gov.tr))

Stability measures adopted after the 1994 economic crisis contributed to the TCMB's drive towards independence by restricting easy access for the government to the TCMB resources. In response to the perceived growth in the power of internationally mobile capital after the crisis, the Treasury and the TCMB restructured their institutional relations and objectives. Faik Öztrak, the former undersecretary of the Treasury, indicates that the diversity of opinion between the officials of both institutions lessened considerably on the big macroeconomic questions, and they both agreed on the fight against inflation (personal interview). In order to achieve counter-inflationary credibility, market-based criteria were increasingly used to determine public policy.

This change in orientation was institutionalized with the law no. 3985 enacted on 21 April 1994. The law limited short term advance to be extended to the Treasury by 12 percent

of the excess of the current budgetary appropriations (Official Gazette, 25.04.1994/21915). This amount would be limited to 10 percent for the year 1996, 6 percent for the year 1997, and 3 percent for 1998 and the following years (TBMM Records, 24.4.2001:130, B:90 0:4). The TCMB loans to other public sector institutions were also limited by this law (Bakır, 2007). These defined limits restricted the usage of the TCMB as an easy alternative for the government to finance its deficit. Accordingly, from 1998 to 2002 Treasury did not appeal to the TCMB resources. It can thus be noted that with the TCMB's appeal to market sentiments, the interests of internationally mobile capital progressively penetrated the core of the national policy process.

Another important development was the conclusion of another protocol between the Treasury and the TCMB on 30 July 1997 during the governorship of Gazi Erçel (18.04.1996-01.03.2001). Accordingly, both institutions agreed that the economic priority of Turkey was fighting against inflation and ensuring price stability (Gökbudak, 2000:144). The Treasury was supposed to act in a way that would not distort the monetary objective of the TCMB. When the Treasury used short term advances, it repaid them at the end of the month in compliance with the protocol signed with the TCMB. The TCMB was also entitled to determine short term interest rates for the conduct of the monetary policy. Article 7 of the protocol aimed at making both institutions more transparent, which was an important aspect of the central bank independence (Gökbudak, 2000:144).

In addition to the convergence of the objectives of the TCMB and the Treasury officials, establishing the ground for able technocrats that would assume the responsibility of an independent central bank was another factor that increased the leverage of the TCMB in monetary policy-making. As Hakan Kara, the head of the Research Department of the TCMB highlights, the staff with a high level of technical quality and motivation for research would resist better the pressure coming from the political decision-makers (personal interview; see

also Bakır, 2007). Thus, the TCMB undertook to strengthen its Research Department that would promote an independent central bank. By focusing on the improvement of the education level and expertise of the staff, the TCMB took important steps such as personnel reforms aiming at the retirement of lesser-qualified personnel while attracting the best economics graduates (Hakan Kara, personal interview; see also Bakır, 2007:62). It also supported professional training and academic education of the central bank officials, which included graduate programs in the US and exchange programs for the TCMB personnel at the IMF and OECD (Bakır, 2008:8; 2007:62). Two former governors of the TCMB, Rüştü Saraçoğlu (1979-1984) and Gazi Erçel (18.04.1996-01.03.2001) had worked for the IMF prior to becoming governors. The first real steps concerning the independence started during the governorship of Saraçoğlu and the draft treaty that provided the basis for the law no 4651 concerning the independence of the TCMB was prepared during the governorship of Erçel.

Bakır (2007:116, see also Marcussen, 2004) indicates that 33% of the 89 governors of the central banks worldwide completed some part of their education in the US universities. The 6 governors of the TCMB also had their graduate studies in the foreign universities (Bakır, 2007).<sup>212</sup> The head of the general directorate of the Communication Department of the TCMB, Tangül Hincal, states that the independence is related with highly qualified personnel, thus the TCMB pursued the strategy of sending its staff abroad for graduate studies (personal interview). Completing his graduate studies in the US, Hakan Kara adds that, “the aim of encouraging our personnel to study abroad in prestigious universities is to endow the TCMB with staff that knows the central banking system and culture with strong

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<sup>212</sup>Dr. Cafer Sadıklar (12.07.1976-19.09.1978) had his Masters degree at Wisconsin University; Ismail Hakkı Aydınoğlu (20.09.1980-21.12.1987) had his Masters degree at Leland Junior University; Yavuz Canevi (16.01.1984-11.11.1986) had his Masters degree at Southern California University; Rüştü Saraçoğlu (30.07.1987-03.08.1993) had his Masters and PhD degree at Minnesota University; Dr. Nihat Bülent Gültekin (02.09.1993-31.01.1994) had his MBA and PhD degree at Pennsylvania University; Süleyman Gazi Erçel (18.04.1996-01.03.2001) had his Masters degree at Vanderbilt University; Süreyya Serdengeçti (15.03.2001-14.03.2006) had his Masters degree at Vanderbilt University; Durmuş Yılmaz (18.04.2006-) had its Bachelors degree at the London City University and his Masters degree at University College of London (Bakır, 2007:235-238).

theoretical background” (personal interview; see also Bakır, 2007: 61).<sup>213</sup> A former governor similarly highlights that the independence of the TCMB started when its officials gained technical knowledge and experience in financial markets (Bakır, 2008:9).

The technical knowledge of TCMB officials to a large extent was shaped by academic work and prevailing global discourse on central bank independence. More importantly, as part of their strategy of building the ground for a change in central banking management in Turkey and legitimating the required reform, the policy-makers appealed to theoretical and empirical works on central bank independence. Thus, the following section will show how these arguments were applied to Turkey.

#### **5.4. The Internalization of Arguments in Favor of Central Bank Independence**

Theoretical and empirical works have been widely accepted and diffused by transnational networks such as the Bank for International Settlement (BIS) (Marcussen, 2004). The BIS was crucial in the promotion of the principles, norms and rules such as ensuring the price stability as the first priority of central banks, ending the financing of the public deficits through central bank resources, and developing the principles of transparency and accountability in central banking (Marcussen, 2004; Simmons, 2006).<sup>214</sup> The IMF’s International Monetary and Financial Committee (IMFC)<sup>215</sup> which brings together central bank governors and/or ministers of finance from 24 countries is another important forum that

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<sup>213</sup> In 2006, out of the 4582 staff employed in the TCMB, 66.33% had undergraduate degree, 8.84% had masters degree and 1.16% had PhD degree (Bakır, 2007:61).

<sup>214</sup> The Bank for International Settlements produces standards for national and international banking through the Basel Committee on Banking Supervision, which was established in 1974. The principles of the BIS on the transparency of central banks can be found at <http://www.imf.org/external/np/exr/facts/mtransp.htm>.

<sup>215</sup> Until 1999, this Committee was referred to as the Interim Committee. The IMFC has the responsibility of advising, and reporting to the Board of Governors on matters relating to supervising the management and adaptation of the international monetary and financial system and also reviewing developments in global liquidity and the transfer of resources to developing countries. Algeria, Argentina, Belgium, Brazil, Canada, China, Finland, France, Gabon, Germany, India, Italy, Japan, Korea, Malaysia, Netherlands, Nigeria, Russia, Saudi Arabia, Spain, Switzerland, United Arab Emirates, United Kingdom, United States are the 24 members of the IMFC (<http://www.imf.org/external/np/exr/facts/groups.htm>).

produces norms and standards for central banking (Marcussen, 2004).<sup>216</sup> In its 1999 “Code of Good Practices on Transparency in Monetary and Financial Policies” developed for central banks and financial agencies, the IMF emphasized the importance of the transparency and accountability principles of central bank independence.<sup>217</sup> The IMF developed these principles in cooperation with the BIS, and in consultation with a representative group of central banks, financial agencies, relevant international and regional organizations, and selected academic experts.<sup>218</sup> These principles enable the public to be aware of the goals and instruments of monetary policy and whether the authorities make a credible commitment to their announcements (McNamara, 2003:11-12).

The General Manager of the BIS and the Managing Director of the IMF also often made public speeches to emphasize that sound macroeconomic policy required for keeping inflation and public deficits low (Marcussen, 2004:18). They also emphasized that an integral element of a sustainable macroeconomic polity was a truly independent central bank that decreased inflationary expectations and thus achieved the goal of price stability (Marcussen, 2004:18).<sup>219</sup> These central banking forums thus provided a testing ground for new ideas and approaches by facilitating the exchange of information among central bankers who had the opportunity to understand what was going on in other countries and could adapt their postures accordingly. The importance of these transnational forums results from the fact that they enabled central bank officials to share a set of inter-subjective beliefs about how the

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<sup>216</sup> This committee produces a series of norms and standards concerning the issues of transparency in monetary and financial policies, payments systems, fight against money laundering, corporate governance, and auditing standards (Marcussen, 2004:17). The IMF also issues a series of “Reports on the Observance of Standards and Codes” that summarize the extent to which countries observe these internationally recognized standards and codes. The IMF uses these reports to help sharpen the institutions’ policy discussions with national authorities, and in the private sector, including rating agencies for risk assessment (<http://www.imf.org/external/np/rosc/rosc.asp>).

<sup>217</sup> These principles can be seen at [www.imf.org/external/np/mae/mft/code/index.htm](http://www.imf.org/external/np/mae/mft/code/index.htm).

<sup>218</sup> See [www.imf.org/external/np/exr/facts/mtransp.htm](http://www.imf.org/external/np/exr/facts/mtransp.htm).

<sup>219</sup> The IMF and the BIS are not the only international economic institutions that promote central bank independence. The central bank forums worldwide, including the African Development Bank, the Asian Development Bank, the European Bank for Reconstruction and Development, the Organization for Economic Cooperation and Development, etc. are all actively promoting the ‘sound policy discourse’ (Marcussen, 2003:17; Marcussen, 2004:35-36).

economy should be organized. In a transnational interaction with the BIS and the IMF officials, TCMB officials developed a coherent central bank culture around the principles of low inflation, sound finance and central bank independence (Bakır, 2007:59).

A former TCMB governor notes in an interview conducted by Bakır (2008:9) that the BIS meetings in Basel were a fundamental learning opportunity as governors exchanged central bank governing experiences concerning the implementation of independence, transparency and accountability. The governor indicates that, ‘we formed such common views that price stability should be the only objective...I got central banking culture from there’ (Bakır, 2008:9). Another former governor highlights that,

[c]entral bank culture is reproduced inside the transnational central bank network through various meetings, seminars and courses. Central bank governors and personnel in international central bank organizations spend a considerable amount of their time in public to develop their ideas about sound economic and financial policies. The idea behind the legal independence of the TCMB emerged out of the regular meetings in the BIS, and the influence of the academic works in this field’ (Bakır, 2007:59, 77).

The interviews conducted by Bakır (2007) and the author (2006- 2007) with senior bureaucrats of the TCMB reveal that the idea of an independent central bank was highly internalized among TCMB officials. The officials interviewed, the speeches made by the various governors of the TCMB, and the research reports of the TCMB staff ([www.tcmb.gov.tr](http://www.tcmb.gov.tr)) indicate that the TCMB believes in the necessity of having independent central banks that seek to ensure the country’s financial and monetary stability without facing the pressures of the government and the interest groups. They consider themselves as the counterweight of short-term thinking politicians and as contributing to a solid basis for a growing and stable economy by pursuing the objective of monetary stability. Central bank officials thus consider that it is a must for Turkey to fully comply with the universal norms and standards of global economy.

For instance, Fatih Özatay, the former deputy governor of the TCMB (May 2001-April 2006), emphasized that the rationale for an independent central bank was that it

enabled the central bankers to implement monetary policy without having to share any short term political concerns of the government (personal interview). Ozatay stated that,

[b]ecause of their tendency to shift from the monetary rule, governments are the source of uncertainty. Governments may not comply with the announcement about their monetary policy which paves the way for inflationary expectations of the society. As a result, the economic agents reflect their expectations to their wage demands, prices or investment decisions. For instance, workers demand more salary increases to compensate the potential decrease in the value of their salaries, or producers raise prices to compensate the potential decrease in the value of the TL. Inflationary expectations themselves create actual inflation” (personal interview).

İbrahim Turhan, the current deputy governor of the TCMB, indicated that, “funding governments is no longer the main purpose of a central bank; no modern central bank aims at achieving full employment any more. Today’s central banks have only one aim, which is to maintain price stability. The TCMB, which seeks to become integrated with the Western economies, takes these trends and modern central banking into account while determining its long-term strategies” (personal interview). Turhan also highlighted that, “an independent central bank contributes to the minimization of economic fluctuations arising from political uncertainties. Today, it can clearly be seen that strong economies are those that maintained monetary and financial stability through independent central banks” (personal interview).

Based on these interviews, it can be argued that the TCMB was eager to change its position within the state configuration and alter its relationships with the government. Having been educated in mainstream universities and interactions with transnational institutions such as the BIS that produced norms and standards and recommended specific strategies concerning the reshaping of national state structures and policies (Marcussen, 2004:4) were important in TCMB officials’ demand for such an institutional change (Bakır, 2007). However, it should be noted that TCMB officials acted not only as recipients of policy ideas about central bank independence, but also as their promoters. The argument that price stability would be the most appropriate objective for monetary policy was promoted by

various governors of the TCMB since the 1990s (for speeches of governors see [www.tcmb.gov.tr](http://www.tcmb.gov.tr)).

In a speech delivered at the 64th Shareholders Executive Board Meeting on 25 April 1996, the then governor Gazi Erçel (18.04.1996- 01.03.2001) defined the concept of central bank independence and emphasized that the most important responsibility of central banks was to prevent inflation thus to ensure price stability (Erçel, 1996). To achieve that objective, the TCMB and other social forces that asked for an independent central bank aimed at winning the hearts and minds of subordinate groups. Since subordinate groups gave their consent if they perceived a certain policy benefited the whole society (Gramsci, 1971), the TCMB was presented as an apolitical agency, working according to scientific criteria on behalf of the common good. Discursively, such perception was created through the insistence that low inflation and flexible markets provided greater economic prosperity for all (Gill, 1998:17).

For instance, Süreyya Serdengeçti (12 April 2005; 21-22 November 2005), the former governor of the TCMB (March 2001- May 2006), and Durmuş Yılmaz (8 June 2006), the current governor, constantly emphasized that price stability was the primary precondition for achieving economic and social stability, sustainable growth rates, and employment in Turkey. Serdengeçti (26 April 2002:5; 21-22 November 2005) attributed the distorted distribution of wealth across Turkey to the failure of achieving price stability for long periods of time and claimed that an independent TCMB would contribute to the welfare through achieving price stability. Serdengeçti in his various speeches made between 2001 and 2006 ([www.tcmb.gov.tr](http://www.tcmb.gov.tr)) indicated that in order to ensure stable prices, central banks should be insulated from political pressures to follow expansionary monetary policy for short term gains. Serdengeçti (12 April 2005:37) argued that endowing central banks with legal

independence enabled the governors to adopt a long term horizon of the central bank management, therefore, he insisted that central banks should be granted independence.

Yılmaz (12 September 2006) similarly emphasized that the main contribution that a central bank could make to economic welfare in the long run was achieving and maintaining price stability. For him, maintaining price stability gave people the confidence that money would retain its value over time, ensured that price signals functioned as a guide for markets to function efficiently and established trust among economic agents in society. Yılmaz also (12 September 2006) expressed that an independent central bank constituted a cornerstone for structural transformation towards good governance and good institutions in Turkey. The mobilization of these arguments and their presentation in the public arena as scientific truth serving the common good played a crucial role in the politics of TCMB reform (Gabel, 2003 cited in Maman and Rosenhek, 2007:255).

In addition to preparing society for the idea of central bank independence, the TCMB drafted a new central bank law between 1996 and 2000. Having prepared the draft law that would create an independent central bank in Turkey, the TCMB mobilized the Ecevit coalition government (1999-2002) to legislate it. The then TCMB governor Gazi Erçel stated in a press conference in October 2000 that, “the success of the inflation targeting system depends on the existence of a strong institutional commitment regarding the price stability. Institutional commitment requires a central bank that is isolated from political influence, exerts a full control on monetary policy instruments and has a single objective of price stability” (TBMM Records, 24.4.2001:101, B:90 0:3).

The support for the reform culminated after the November 2000 and February 2001 economic crises that provided the TCMB with the evidence of the importance of ‘sound money’ as the primary goal of economic policy (Bakır, 2006, 2007). Policy-makers promoted the monetarist approach as a scientific and hence persuasive model to explain the reasons of

economic crises. With the draft treaty on central bank reform, the TCMB offered a concrete and technical package of policy measures necessary to resolve the crisis. Economic crises opened a window of opportunity for these technical policy measures taking on the appearance of being right in the eyes of the public. As Turkish society put the blame of the economic instability on irresponsible governments manipulating economy for their populist aims, economic crises enabled market actors to present the supremacy of markets as good, legitimate and the only means of benefiting society at large. The former governor, Serdengeçti (16 May 2005:10) thus considers economic crises as an opportunity that paved the way for taking substantial steps to ‘remove distortions in the Turkish economy, renew the financial system, change the dynamics of the economy with the purpose of achieving price stability, sustainable public finances and sustainable growth in the long run’.

#### **5.5. The Economic Crises as a Window of Opportunity for Generating Consent/Hegemony for the TCMB Reform**

The economic crises shaped the prevailing distribution of power between state and society and between different state agencies (Bakır, 2007). New market-oriented actors became key players with the capability to introduce new policy and institutional models on the agenda. As was already pointed out earlier, Kemal Derviş was recruited from the World Bank in order to overcome the 2001 economic crisis. Once in power, he established bureaucratic coherence and collaboration in the policy process around the Ministry of Economy which he led. Market-oriented actors such as the governor of the Central Bank, Süreyya Serdengeçti; the Chairman of Banking Regulation and Supervision Agency, Engin Akçakoca; and the Undersecretary of Treasury, Faik Öztrak were appointed by Derviş between 14 March and 3 April 2001. Quickly forming the much needed coordination and collaboration among the key economic bureaucratic agencies (Bakır, 2008:12), Derviş played

a critical role in the implementation of the structural reform program in Turkey that aimed at creating macroeconomic stability and restructuring the Turkish state (Keyman and Öniş, 2007:12). He was also central in building mutual trust among the external and domestic actors involved in the process (Faik Öztrak, personal interview; see also Öniş with Şenses, 2007:8).

The economic crises also increased the leverage of important external actors such as the IMF and the EU that defined, legitimated and enforced inter-subjective understandings about the necessity of central bank independence. The IMF wanted Turkey to restructure its banking sector which was seen as the main reason of the 2001 crisis and give legal independence to the TCMB in exchange for the loans to be extended (Bakır, 2007:75). In the December 2000 Letter of Intent concluded between the IMF and Turkey, the then Ecevit government had undertaken to shift to inflation targeting policy and to enact a new central banking law in April 2001 to make the TCMB independent. When Turkey granted the TCMB full operational independence to pursue the goal of price stability, Derviş and Serdengeçti ensured the IMF that they would consolidate the independence enshrined in the TCMB law (18 January 2002; IMF Letter of Intent).

The EU was another important external actor that was influential in the reform of the TCMB. In the early 1990s, the EU member states themselves embarked on a process of granting independence to their central banks since such a reform was a precondition for membership in the European Monetary Union.<sup>220</sup> In 1993, Belgium and Austria delegated

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<sup>220</sup> The conditions for participating in EMU are known as the Maastricht criteria and involve four primary requirements: 1) the achievement of a high degree of price stability: rate of inflation should be close to that of the three best performing member states in terms of price stability; 2) the sustainability of the government financial position; 3) the observance of the normal fluctuation margins provided for by the exchange rate mechanism of the European Monetary System, for at least two years, without devaluing against the currency of any other member state; and 4) the durability of convergence achieved by the member state and of its participation in the exchange rate mechanism of the European Monetary System, as reflected in the long-term interest rate levels. The European Central Bank interpreted these criteria to mean inflation rates of no more than 1.5% (and long-term interest rates of no more than 2%) above the average of the three member states with the lowest inflation rates; a public debt less than 60% of GDP and a budget deficit below 3% of GDP; and

monetary policy to their central banks, followed in 1994 by France and Spain (Daunfeldt and De Luna, 2002).<sup>221</sup> In its Progress Report (2000:48), the EU made it clear that Turkey failed to make progress in reforming the TCMB in line with the EU requirements. The EU suggested that price stability should be the first priority of the TCMB and the government's discretionary access to the TCMB resources should be prevented. The Turkish government undertook to realize these requirements in the 2001 National Program submitted to the EU.

It should be noted that neither the IMF nor the EU had to force domestic actors to adopt certain ideas about macro-economic policy-making. Particularly, the technocratic elite had already agreed to global norms on central banking and had adopted them as their own. The then Minister of the Economy, Derviş, stressed that the economic reforms, including the central banking law were prepared by Turkey by its own cadres due to world experiences and economic necessity, not as a result of the conditionality of the IMF or any other external donor (Derviş et al, 2005:73; *Hürriyet*, 04.08.2001). What was important about the overlapping conditionalities of the IMF and the EU was their strengthening the pro-reform groups that used international opinion to influence ongoing domestic debates. The prevailing international consensus supported by these external actors was used by those domestic actors who sought to justify that a particular policy was technically correct. These external actors only facilitated the institutionalization of practices such as the insulation of monetary policy-making from political pressures. The conditionalities of these external actors can thus be identified as 'new constitutionalism' as the economic liberalization process in Turkey embedded in the IMF stand-by agreements and EU's membership negotiations constitute a decisive factor in the institutionalization of new relations between state and economy (Ataç and Grünewald, 2008:50).

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participation in the European Monetary System for at least two years within an exchange rate band of up to  $\pm 15\%$  (Johnson, 2006:370).

<sup>221</sup> Some of the other EU countries that realized central bank independence reforms are Finland (1998), Ireland (1998), Netherlands (1998), Sweden (1999), and the UK (1998) (Daunfeldt and De Luna, 2002).

Serdengeçti (27 October 2005:12) emphasized the role EU membership process played in establishing a favorable framework for the conduct of reform process. For him, the membership prospect acted as a much needed reform anchor for Turkey as it increased predictability of the economy. For the current governor of the TCMB, Durmuş Yılmaz (27 September 2006), the IMF and the EU were two important external anchors in the management of medium and long term expectations in Turkey. Serdengeçti (16 May 2005:13) argued that the IMF and the EU complemented each other in the sense that the prospects of the EU membership coupled with the standby agreements with the IMF help the Turkish economy to operate in the ‘equilibrium of appropriate expectations’.

Mobilizing the support of external and domestic actors for macroeconomic stability in Turkey, Kemal Derviş and reformist bureaucrats prepared the Strong Economy Program that concentrated on tight monetary and fiscal policies along with an intensive structural reform agenda in fields ranging from banking, agriculture, and energy to tax system. With the motivational slogan ‘15 laws in 15 days’ in April 2001, Derviş insisted on the enactment of major laws such as central bank law that was foreseen in the Program (Derviş et al, 2005:73). Derviş presented the reform that provided legal independence to the TCMB as a major solution for the maladies of the Turkish economy (Bakır, 2008:13). He effectively linked independence and macroeconomic stability to the legislative process. In his visit to the Turkish Parliament to defend the new central bank law in a commission hearing on 18 April 2001, he strongly argued that the legal independence of the TCMB was vitally important to bring inflation down in the long-term (Referans, 19 April 2001 cited in Bakır, 2008:13). In his speech in the Parliament, Derviş justified the new law on the grounds that inflation led to inequality in the income distribution and high real interest rates (TBMM Records, 24.4.2001:88, B:90 0:3).

The central bank reform was supported both by the parties constituting the coalition government (DSP, ANAP and MHP) and by one of the opposition parties (DYP). Nesrin Nas from ANAP, Masum Türker from DSP and Ufuk Söylemez from DYP argued for the separation of the TCMB from political interference and presented the price stability as an opportunity to modernize the TCMB that would be able to catch up with new developments and standards in the world and the EU (TBMM Records, 24.4.2001:76-78, 81-83, B:90 0:2).<sup>222</sup> The only opposition came from the Virtue Party on the grounds that TCMB was granted independence due to the conditionality imposed on Turkey by the IMF (TBMM Records, 24.4.2001:110, B:90 0:3).

The legislative amendment achieved an important milestone in tackling decades of high and chronic inflation in Turkey (Bakır, 2007; Serdengeçti, 27 October 2005:5; Serdengeçti, 12 April 2005:8). The new law no.4651 not only insulated the TCMB from pursuing conflicting objectives such as financing fiscal deficits, the allocation of subsidized credit, and full employment, but also contributed to changing dynamics in the Turkish financial system (Serdengeçti, 16 May 2005). The TCMB independence was accompanied by the Banking Sector Restructuring Program that was put into practice in May 2001. The main goal of the program was to eliminate the distortions in the financial sector, improving its intermediary function and enhancing its competitiveness by international standards. Restructuring and strengthening public and private banks, and consolidating the regulation and supervision of the banking sector were among the priorities of the program (Serdengeçti, 16 May 2005:11).

Another important development was that fiscal discipline emerged as the main policy anchor that would complement central bank independence (Kara, 2006:11; Bakır, 2007:82).

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<sup>222</sup> For the discussions in the Parliament concerning the central banking law see TBMM Records, 24.4.2001:64-79, B:90 0:2; TBMM Records, 24.4.2001:81-110, B:90 0:3; TBMM Records, 24.4.2001:130-6 B:90 0:4; 130-6; TBMM Records, 24.4.2001:157-168, B:90 0:5.

A new law was enacted to discipline the Treasury's borrowing requirement and contribute to the conduct of debt management in accordance with the fiscal and monetary policy. On various occasions, the TCMB governors explicitly stated the importance of the fiscal discipline in containing expectations, stabilizing the economy and maintaining low inflation. Yılmaz (20 February 2008), for instance, stated that low inflation and tight fiscal policies strengthened the credibility of the government by signaling to investors the government's commitment to achieve macroeconomic stability. For Yılmaz (20 February 2008), to reduce and control inflation rates, governments were now supposed to eliminate high levels of budget deficits and public debt that generally required excessive monetary growth.

After these reforms that institutionalized monetary and fiscal constraints, the TCMB consolidated its position as the voice of market discipline within the national policy process. The decision to replace the traditional emphasis on growth and employment with the objective of price stability also reflected an inherent bias towards interest rate rises and appreciated currency to reduce inflation. Such a bias clearly benefited the holders or lenders of capital that were increasingly internationalized. In this sense, the new monetary framework not only institutionalized an anti-inflationary approach to macroeconomic policy but was also an expression of these changing patterns of social relations. Since the sentiments of the markets would be prioritized in the process of taking monetary policy decisions, the financial and business sector would receive expression at the core of domestic policy debates.

Considering central bank independence as an instrument that was a must for rational economic management or necessary capital flows facilitated its internalization among the larger population. Nevertheless, the issue of TCMB's independence was not free from contestation. Since the rate of inflation and the exchange rate have significant distributive effects, the social basis of demands for sound monetary policies was by no means spread evenly throughout society (Watson, 2002). Just as exporters and importers have opposing

preferences with regard to the exchange rate, debtors and creditors have different preferences with regard to inflation (Kirshner, 2003:647). Therefore, due to the highly politicized nature of monetary policy (Watson, 2002:194), there were also resistance groups in Turkey that acted as vocal oppositions to the stability programs and the related disinflation policy pursued by the independent TCMB (Serdengeçti, 12 April 2005:4).

The opposition came from the capital groups negatively influenced by the outcomes of central bank independence. The average annual inflation rate in Turkey was 25% between 1970-79; 50% between 1980-1989; 75% between 1990-2001, but fell to 27% between 2001-2002. The inflation rate further fell to 17% in 2003, 8.6% in 2004, and 8% in 2005. This sudden decrease in the inflation rates negatively affected the interests of some parts of the capital groups (Bakır, 2007:129). Serdengeçti (21-22 November 2005) indicates that, “those groups that anticipate a general fall in the interest rates and the value of the TL try to distort expectations. They are against floating exchange rates and anti-inflationary policies and they believe that tight fiscal policy does not lead to economic growth” (Serdengeçti, 21-22 November 2005). When the value of the TL began to increase under floating exchange rates, these groups, not exclusively exporters began to lose money. These groups that used to make their investments in foreign currencies claim that the value of the TL is too high and demand that the TCMB decrease short term interest rates. Serdengeçti (21-22 November 2005) states that, “these people that were used to make profits from the decades of economic instability are disturbed by the recently achieved economic and financial stability in Turkey. They want monetary policy to follow their aims, interests, it is normal that they have objections to our policies”. Those groups that demand that interest rates fall and foreign exchange rate increases put pressure on the TCMB intensively through the Foreign Trade Minister and the Turkish Exporters Council (TIM) (Bakır, 2007:130). It can, thus, be argued that TCMB

governors had to maintain the independence of the TCMB not only vis-à-vis the government but also various interest groups.

Moreover, it should be noted that the process of credibility building was a challenging task for the TCMB and the main obstacle resulted from the resistance in the minds of the people (Serdengeçti, 12 April 2005:4; Kara, 2006:8-9). The current governor, Durmuş Yılmaz indicates that, “I can say that the thirty-year experience of high and chronic inflation has made us face the challenge of convincing both the public and the financial markets that we are committed to bringing inflation down and maintaining price stability”. For instance, the year- end inflation expectation at the beginning of 2002 was close to 50% whereas the announced target of the TCMB was 35% (Bakır, 2007). When expectations are above the target, the monetary authority is expected to increase interest rates (Kara, 2006). However, the TCMB did not increase interest rates between 2002 and 2005, instead pushed for fiscal reforms and directed all communication efforts to convince the public that economic fundamentals were getting sounder under the new stabilization program (Kara, 2006).

#### **5.6. Effective Communication Policy for the Maintenance of Central Bank Independence in Turkey**

McNamara (2002) stresses the importance of the financial and public support for low and stable inflation as important determinants of central bank independence. Giving the example of Germany, she holds that the real source of the Bundesbank’s effectiveness is not its legal independence but rather a widespread public acceptance of the need to make price stability a primary goal of economic policy. McNamara (2002) also emphasizes the Bundesbank’s ability to act in concert with the social partners, that is, labor and business, in keeping down wage and price increases. Tangül Hıncal, head of the Communication Department of the TCMB, similarly stresses the relationship between society’s support for

price stability and the high level of central bank independence (personal interview). She indicates that the public opposition to inflation or the public support for price stability is crucial for maintaining central bank independence. According to Hıncal, the establishment of respect and the confidence of the public for the central bank operations are as important as the institutional framework and legal arrangements. She indicates that transparency and accountability are crucial instruments for gaining that confidence (personal interview). She emphasizes that the TCMB pursued an active communication policy to ensure the consent of society by making the general public understand the importance of price stability objective (personal interview).

Serdengeçti (12 April 2005:38) also stressed that enacting a law that ensures independence was not enough for the successful implementation of this reform. In most of his speeches (Serdengeçti, 24 February 2005:17; 12 April 2005:38), he emphasized that TCMB's independence was a crucial structural reform whose importance should be understood and supported by the whole of society. He insisted that a consensus on the necessity of independence should emerge among society at large and the people should believe in the necessity of price stability for economic prosperity. Serdengeçti (12 April 2005:38) stated that, "the thing that is as important as the law itself is the mentality the people and institutions have. A mentality change is necessary for the institutionalization of independence principles in our country". Serdengeçti (26 April 2002) also considered transparency and accountability as important instruments for maintaining public support.

As political independence requires the delegation of authority to a non-elected institution, good governance notions such as transparency and accountability has gained significance in central banking (Cukierman, 2006; Cukierman, 2007). Transparency means that the necessary information is freely available and directly accessible to those who will be influenced by decisions and their enforcement. Accountability reflects the responsibility and

liability of an institution for its decisions and actions to those who will be affected (Yılmaz, 3 April 2007). Gutierrez (2003) emphasizes the importance of the central bank regularly reporting to parliament and public about its policies and publishing regularly its audited financial statements to ensure transparency and accountability. Such behavior facilitates the control of central bank activities, policies and operations and protects the central bank from government intervention in the implementation of its policies (Gutierrez, 2003). Accountability and transparency can thus be identified as principles institutionalizing the depoliticization of macroeconomic policy-making by locking in central bankers to the single objective of price stability.

The Bank of England and the Federal Reserve are inclined to be accountable and transparent as the former reports to the Parliament and the latter to the Congress.<sup>223</sup> The European Central Bank has also precise reporting obligations. Article 15 of its Statute stipulates that the ECB shall publish quarterly reports on the activities of the eurosystem as well as prepare an annual report on its activities and on the monetary policy of the previous and the current year (<http://www.ecb.int>). The annual report has to be addressed to the European Parliament, the European Commission, and the European Council (<http://www.ecb.int>). Similar to international practices, Article 42 of the law no.4651 stipulates that the TCMB policies shall be conducted in a transparent and accountable way. Accordingly, The TCMB, in line with the accountability principle, informs Parliament concerning its activities twice a year, and informs the public, when the inflation deviates or is likely to deviate from the target (Yılmaz, 25 December 2006). Yılmaz (1 June 2007:9)

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<sup>223</sup>The Bank of England publishes regularly Monetary Policy Committee (MPC) minutes, Financial Stability Review, Inflation Report, and public speeches made by bank officials. Members of the MPC are required to meet the Treasury Select Committee quarterly, answer questions about the Bank's monetary policy and explain its actions. Furthermore, the Bank's annual report is debated in Parliament every year ([www.bankofengland.co.uk](http://www.bankofengland.co.uk)). The Fedederal Reserve publishes transcripts of the Federal Open Market Committee (FOMC) meetings with a five year delay.

highlights that the TCMB in line with the transparency principle, gives more importance to sharing views about the general economic outlook, current inflation and inflation outlook and informing about monetary and exchange rate policies through press releases, announcements, reports and every other means such as interviews, speeches and presentations.

Good communication appears to be an important condition for generating public support, reducing uncertainties, and enhancing confidence by rendering the TCMB's policies more understandable and predictable (Yılmaz, 19 January 2006; 25 December 2006). Yılmaz (12 September, 2006) expresses that the TCMB uses communication policy effectively as an instrument for credibility building. He indicates that “we base our communication policy on the grounds of trust, transparency, consistency and decisiveness. In every platform we participated and in every announcement we made, we emphasized our policy objective, which is to achieve and maintain price stability” (Yılmaz, 12 September, 2006). In that way, the TCMB aimed at shaping the expectations of economic agents in accordance with the targeted inflation.

The TCMB institutionalized its efficient communication strategy by founding a new communication department within the Bank. It has the responsibility of preparing documents and booklets, and organizing meetings and conferences to explain monetary policy as well as updating the information provided through the web page of the Bank (Yılmaz, 19 January 2006; 25 December 2006). Apart from sharing knowledge and forecasts with the public, the TCMB staff made visits all around Turkey for explaining the targets of monetary policy clearly. The TCMB often publicly stressed the importance of continuing with a tight fiscal policy and completing structural reforms without delay or compromise in order to ensure the credibility of inflation targets (Yılmaz, 19 January 2006).

In order to strengthen their argument, policymakers in Turkey also appealed to the experience of successful and stable economies such as Germany and Switzerland (Bakır,

2006, 2007). The success of the highly independent German Bundesbank and the Swiss National Bank in maintaining low rates of inflation for a long time (Cukierman, 2007; McNamara, 1998) reinforced their arguments for sound economic policies. Policy-makers argued that it was necessary for Turkey to follow the model of countries with stable economies (Serdengeçti, 27 October 2005). Moreover, in an attempt to mobilize legitimization from domestic actors, recently achieved macroeconomic developments in Turkey were shown as an evidence of the success of central bank independence for ensuring economic stability (TÜSİAD, 2006:80).

The Turkish economy grew by a total of 28% between the end of 2001 and the first half of 2005 (Serdengeçti, 27 October 2005:6). The growth was achieved while the inflation rate was decreasing continuously, contrary to the widespread belief in Turkey up to 2002 that inflation made growth possible (Serdengeçti, 27 October 2005:6). Even more important than achieving high growth rates was that the dynamics of growth in Turkey were changing. Growth was mainly driven by the productivity increases, the good performance of the private sector, and increases in exports (Serdengeçti, 16 May 2005:13). During this period, the productivity surge in the economy and the private sector was the engine of the growth performance (Serdengeçti, 16 May 2005:13). The cumulative increase in labor productivity between 2002 and 2005 was about 35% (Serdengeçti, 16 May 2005:13). Besides, the total foreign trade volume increased by 120% between 2001 and 2005. The tight fiscal policy and sound debt management brought substantial improvement to the debt dynamics. The gross public debt declined from 107.5% in 2001 to 74.6% by the second quarter of 2005 (Serdengeçti, 27 October 2005:6). Nominal interest rates fell from 70% to 14 %, and reel interest rates fell from 30 to 8% between 2002 and 2005 (Serdengeçti, 21-22 November 2005). Although Turkey attracted foreign direct investment in an amount of \$500 million

annually between 1980 and 2000 (Serdengeçti, 21-22 November 2005), this figure rose to \$20 billion in 2006 (www.treasury.gov.tr).

The effective communication strategy<sup>224</sup> of the TCMB was crucial in Turkey's achieving macroeconomic stability in recent years (Serdengeçti, 12 April 2005:8). Due to the tight monetary and fiscal policies, intensive structural reforms coupled with effective communication policy, inflation targets have been reached in three consecutive years and the inflation rate of 73.2 % in January 2002 came down to 8% in September 2005 (Serdengeçti, 27 October 2005:5; 12 April 2005:5-6). As the price stability objective made it harder for politicians or interest groups to put pressure on the central bank to pursue short term expansionary policies, central bank independence functioned as a signal that ensured investors that national economic policy would be stable and consistent (Gill, 2003:130). As a result, the fall in inflation rates was accompanied by the decrease in the credibility gap between the inflation target and the actual expectations of the people. While the credibility gap was 13.3 points in 2002 (48.3%, expected inflation vs. 35%, target inflation), it fell down to 0.4 points (8.4%, expected inflation vs. 8.0%, target inflation) in 2005 (Serdengeçti, 12 April 2005:5-6). More explicitly, the credibility index or the inflation expectation index<sup>225</sup> fell from 13.3 in 2002 to 0.4 in 2005. For Serdengeçti (12 April 2005:5-6) and Bakır (2007:177), this illustrates the increasing confidence of the people in the credibility of the monetary policy.

Serdengeçti (12 April 2005:8) and Yılmaz (19 January 2006; 25 December 2006) indicate that this change in inflation dynamics and the decrease in the uncertainties came as a result of a very transparent communication policy, which has been instrumental in changing

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<sup>224</sup> The inflation report of the TCMB published at the end of January, April, July and October is the basic communication instrument to express its monetary policy (Bakır, 2007: 151-152).

<sup>225</sup> Inflation expectation questionnaire is conducted in order to determine the expectations of policymakers and experts concerning the consumption inflation, foreign exchange rate, current account balances, and the GNP growth rates.

the expectations of the public about monetary policy. TCMB's explaining its evaluations concerning the economic situation, risks and opportunities and accordingly mobilizing politicians, civil society, financial and industrial groups, namely every section of society through an effective communication policy was an important part of central bank independence (Serdengeçti, 12 April 2005:37). As the inflation targets were reached between 2002 and 2004, the public had greater belief in the determination of the policymakers to fight against inflation. As a result, policies have gained credibility and a consensus on the necessity of central bank independence emerged (Serdengeçti, 16 May 2005; 24 February 2005; Yılmaz, 25 December 2006). Accordingly, it can be argued that the trend towards central bank independence facilitates the reduction of the number of potential sites of resistance to the overall orientation of government economic policy. Central bank independence, therefore, creates an institutional guarantor for the continued reproduction of the current balance of social forces favoring macroeconomic stability (Watson, 2002:195).

## **Conclusion**

This chapter examined the TCMB's gaining of independence in May 2001 as a hegemonic process, based on the market-oriented social forces' creating consent for independence and the principle of price stability as rational and effective institutional innovations. The existence of market-oriented bureaucrats, politicians, and capital groups were identified as a function of the structural changes in the global financial markets such as increasing mobility of capital across borders coupled with the rise of anti-inflationary ideas.

The globalization of financial markets and capital liberalization in Turkey in 1989 led to the rise of domestic finance capital that benefited from high real interest rates and arbitrage opportunities, and focused on government deficit funding via largely open foreign exchange positions. The main source of bank profitability was the banks' government

securities portfolio, which generated high real interest income. Moreover, the increasing flow of transnational capital to Turkey due to high interest rates increased financial markets' surveillance of Turkish macroeconomic policies. Investors sought sound money, namely low inflation and preservation of the value of the currencies in which bonds were denominated (Gill, 1998). Since governments' keeping budget deficits and foreign debt sustainable enhanced their credibility towards financial markets (Gill, 1997:218-219), the markets regarded greater central bank independence as a guarantee of macroeconomic discipline. Gaining credibility vis-à-vis domestic and foreign investors was particularly important in Turkey that often experienced economic fluctuations.

Central bank independence institutionalizes the priority of low inflation and 'sound money' by making both central bankers and national macroeconomic policy-makers accountable to the financial markets (Marcussen, 1998). It also binds them to explicit rules identified in the concept of 'sound finance' that implies that public budgets should be in surplus and that foreign deficits should be reduced (Marcussen, 2003:15). The domestic capital therefore promoted the idea of central bank independence to ensure the credibility and predictability of the Turkish economy. The direction of change in the realm of financial capital coincided with the direction of change in the TCMB that tended to have a 'shared framework of thought' with capital groups as regards the processes of social and economic policy (Gill, 1997:220). Based on its technical expertise, the TCMB increased its relatively limited role in economy. As the TCMB took into consideration market sensitivity to inform its policy decisions, it reinforced prevailing patterns of social power in favor of capital group that benefit from sound monetary and fiscal policies (Watson, 2002:193).

Both the globalizing bureaucrats and the domestic capital groups united around the principle of price stability and identified governments' arbitrary use of fiscal and monetary policy, reflected in the accumulation of public debt and inflation, as the source of economic

problems. They demanded a clear definition and prioritization of the objectives of the TCMB for enhancing the credibility and effectiveness of monetary policy. To create consensus for a new central bank reform that would insulate monetary policy from political influence, they formulated concrete policy and institutional alternatives based on scientifically-accepted theoretical arguments.

The theoretical rationale for central bank independence rests on the assumption of a persistent inflationary bias of politicians' monetary policy preferences; and this bias can only be overcome by vesting authority in central bankers that are uniquely committed to the objective of price stability. According to the literature, the more the TCMB is formally separated from the government's influence, the more the inflation bias will be reduced, provided that the TCMB is held accountable for its monetary policy performance (Gutierrez, 2003:3). Market-oriented social forces in Turkey used these ideas that became taken-for-granted norms to legitimate their discourse and action. Particularly, the goal of achieving price stability for ensuring the credibility of the economy established the wider frameworks of thought and conditioned "the way individuals and groups are able to understand their social situation and the possibilities of social change" (Gill and Law, 1988:74).

These ideas which legitimate the discourse and action of market-oriented social forces were important in Turkey's delegation of the conduct of the monetary policy to an independent central bank in 2001 with the law no.4651. The law prohibits the TCMB from providing loans to the government to finance budgetary deficits and from introducing inflationary monetary policies. This shift in the position and functioning of the TCMB is part of the general transformation of the interventionist Turkish state into an internationalized state, which implies a basic change in the power relations between different state agencies. The TCMB's gaining autonomy refers to the reconfiguration or reorganization of the Turkish state along more technocratic lines that benefit holders of internationally mobile capital.

## **Chapter 6. Conclusions**

### **Social Forces in the Making of the Internationalized Turkish State**

By examining why and how the Turkish state has been transformed from a protectionist and inward-looking Kemalist form into an internationalized one, the dissertation has contributed to the body of literature on state transformation under the globalization process (Cox, 1987; Baker, 1999; Robinson, 2002; Shields, 2004; Drahokoupil, 2006; Brand, 2007; Motta, 2008; Tsolakis, 2008). By tracing the process of the reconfiguration of domestic social forces within a broader historical structure and by examining how different parts of the state apparatus are used for the institutionalization of particular social relations, the thesis has investigated how those fractions embedded in global production and finance networks have driven the hegemonic transformation process and expanded neo-liberal market rules and practices in Turkey. By investigating why particular social forces asked for and promoted the adoption of specific policy choices such as privatization and central bank independence rather than others, the thesis has also addressed the issue of the role of agency, ideas, and discourse in state reconfiguration. Drawing upon a neo-Gramscian framework extended by the strategic-relational approach, it has demonstrated that the internationalization of the Turkish state has been carried out through a hegemonic program of social restructuring engineered by transnational fractions of Turkish businessmen and technocrats and implemented by successive governments from 1980 to 2006.

The thesis has located those social forces underpinning Turkish transformation within a global political economy in which production and finance have been undergoing a transnationalization process since the 1980s. This broader structural transformation in the world economy provided the initial impetus for Turkey's abandonment of its interventionist Import Substitution Industrialization (ISI) and adoption of the outward-oriented growth strategy in 1980. The ISI model that rested on extensive state intervention constituted the

main characteristic of the Turkish political economy throughout the 1960s and 1970s. This protective and inward-looking economic growth strategy was based on a specific configuration of social forces and an interventionist state form, which has been identified as the Kemalist state. An inward-oriented industrial capital, a growing working class and state elite constituted the then Kemalist historic bloc and exercised power through a specific set of political institutions such as the State Planning Organization. It has been argued that the Kemalist historic bloc and interest/power relations of the ISI model have undergone a transformation with the placement of the Turkish economy and its actors into the global production and consumption networks. The subsequent opening up of national production, distribution, and accumulation processes to the participation of transnational actors and their increasing influence within the new economic and political setting has been the key for understanding what happened to the Turkish political economy in the later periods.

The greater integration of the Turkish economy within global markets since the 1980s have particularly served the interests of outward-oriented industrial and financial capital and thus have given rise to internationally-oriented social forces in Turkey. Within Turkish capital, for instance, the TÜSİAD with its big, internationally connected and competitive members emerged as the most transnationalized fractions of Turkish capital. Benefiting from the growth of transnational networks and opportunities, a new business group that was small and medium sized, export-oriented and located in the Anatolian periphery was organized under the MÜSİAD and rose to prominence within the Turkish economy. With the emergence of this new configuration of social forces, the old Kemalist alliance began to fall apart as big industrial and financial capital decided that their interests were no longer served by a state-led model. Moreover, this bloc was complemented by a new social force, the AKP, that had economic as well as cultural reasons for undermining the Kemalist state. Due to their embeddedness in global financial and production networks via foreign trade and investments,

both TÜSİAD and MÜSİAD advocated a development model based on sound money, anti-inflationary growth, and state contraction through privatization. More importantly, they attempted to overcome the legacy of the Kemalist state by promoting competitiveness and convincing subordinate groups to transform the economic, social, and legal structures of the country.

The restructuring process involved the reshuffling of the hierarchy of state institutions; namely power was transferred from institutions of the ISI era such as the State Planning Organization to market-oriented ones, including the Central Bank, the Treasury, and the Privatization Administration attached to the Office of the Prime Minister. These economic public agencies assumed responsibilities and functions that would respond to the requirements of the global economy. The restructuring of the hierarchical order within the state apparatus led to the decline of the previously dominant group of bureaucrats who believed in state-led development and the ascendancy of a new group of technocrats committed to economic liberalization. This was crucial to the convergence of the ideational position of the top bureaucracy with that of market-oriented capital groups.

The thesis has argued that the reorganization of state institutions and the ideational affinity between bureaucrats and capital groups had significant consequences for the representation of winners and losers of the liberalization process in the policy-making process. Whereas capital groups became privileged in getting access to and representation in the policy formation and implementation process, organized labor could exert only a slight influence in the new dominant centers of economic policy-making. Such a reshuffling of the representational power of social forces was influential in changing the form of the Turkish state. The new state form was founded on the dominance of big capital and the exclusion of organized labor from the political process as the latter lost its allies within the bureaucracy and judiciary in the struggle against neoliberal reforms. The labor was either marginalized or

absorbed into the neo-liberal consensus through the discourse of economic efficiency and competition. The process in which state institutions that link the world and the national economy gained precedence over others and responded to the needs of the winners of the liberalization process has been referred to as the internationalization of the Turkish state.

### **6.1. Possible and Alternative Explanations**

These findings draw from a neo-Gramscian framework extended with strategic relational approach that acknowledges the ontological primacy of social relations of production and emphasizes the role of the social forces in state restructuring. Unlike the mainstream literature that emphasizes either the ‘constraining’ role of market forces or the ‘enabling’ role of the state for explaining the neo-liberal direction that states took in a globalized world economy, the transformation of the Turkish state has been explained through the intellectual and moral leadership of domestic social forces embedded within a broader historical structure.

Although market-based and state-based arguments manage to capture different aspects of reality, explaining transformation of the Turkish state solely in terms of economistic and statist theories would be inadequate. Hay and Marsh (2000:3) argue that ‘an account which privileges empirically or causally one moment (whether social, cultural, political or economic) can but only fail to capture the complexity and contingency of contemporary change’. This point serves as an important point of departure for neo-Gramscian scholarship, which rejects the separation of economics from politics and develops a theoretical framework that analyzes the unity of the social forces, namely the economic, the political, and the ideational aspects of the social relations of production. This inclusiveness helps overcome the functionalist, instrumentalists and reductionist character of the market and state-based approaches.

Moreover, the thesis suggests that considering the EU and the IMF conditionality as the main ‘external’ dynamics of the change provides a limited understanding of state transformation. Contending that the EU and IFIs imposed neo-liberal reforms onto Turkish society neglects the wider transnational production and organizational networks in which these external actors themselves are embedded. The thesis thus acknowledges that the analysis of state transformation at any national level cannot be comprehended without taking changes in the wider structural environment into account. This work has highlighted that the globalization of production and finance coupled with the revival of neo-liberal economic ideas have engendered new social forces that have identified their interests with this broader historical structure and favored the logic of market supremacy. The change in the structural environment has transformed wider social relations which in turn has restructured the Turkish state into an agent increasingly oriented towards facilitating capital accumulation for the most internationalized social forces. The TCMB’s shifting to exclusive focus on price stability that secure financial gains or the acceleration of the privatization of highly profitable state firms were typical examples of this role assigned to the state.

The TCMB, which was used as an instrument of enhancing the economic development of Turkey during the ISI period, now emphasizes investor confidence, credibility, and price stability at the expense of the aims like economic development and full employment. Good governance notions such as transparency and accountability are incorporated into the central banking and the TCMB now implements monetary policy open to public and is held accountable for reaching targets under the inflation targeting regime. Underlying these choices is financial capital’s aversion to inflationist policies, which erode the real value of financial assets. In order to lock in capital gains through an anti-inflationary monetary policy, market-oriented social forces promoted significant legal and institutional changes that would ensure price stability.

This finding contradicts the assumptions of some of the scholarship on the external determination of state transformation. The analysis of the Turkish case makes it possible to complement the understandings of the nature of the external pressures and of their internalization by domestic social forces. The dissertation has demonstrated that the constraints and permissiveness of world order pressures have been crucial in shaping the Turkish political economy. However, world order pressures have not acted on the Turkish state merely from the outside. Certainly, Turkey's high level of indebtedness did make governments vulnerable to IMF and World Bank pressures. Still, outside-in approaches cannot explain why, for instance, despite the existence of the close relationship between Turkey and the IMF since 1958, structural reforms such as the acceleration of the privatization process and TCMB's gaining legal independence occurred only in the 2000s and not before. These reforms were not simply an outside-in imposition by the IFIs. As in the case with the transition from inward to outward oriented policies in the late 1970s, the efforts of social forces such as TÜSİAD to change the direction of the economy through a number of research reports and press releases from the late 1990s onwards were remarkable in this sense.

This dissertation, thus, aims to challenge prevailing arguments in the Turkish political economy literature that attribute too much reliance on the structural power of transnational capital and IFIs as something existing above the nation state. It suggests that rather than subordinating the interests of national social forces to the needs and requirements of transnational capital, the focus should be on the internal determination of state transformation and the internalization of transnational pressures. The findings of the empirical analysis reveals that in the Turkish case, domestic social forces have been quite autonomous in the conduct of their hegemonic projects related to the privatization of SOEs and giving legal independence to the TCMB. Moreover, rather than being imposed on Turkey from above,

these policy changes have been a result of nationally-specific struggles of social forces and their competing projects. The dissertation, thus, stressed that the internationalization of the state should be explained both from ‘external’ pressures related to the world economy and the ‘internal’ articulation of these pressures, its mediating force being the internationalized social forces and state institutions at the national level (Holman, 2001:178). Such an approach attempts to overcome the unresolved tension between ‘outside-in’ and ‘inside-out’ transformations of states in the IPE literature.

The emphasis on the need to highlight the importance of the domestic dimension as a way of adopting a more holistic study of state transformation raises a number of theoretical and empirical questions that need further examination. For instance, there is a need to further clarify the role of the state in its own restructuring. In this work, the state agencies have been treated according to their place in the global mode of social relations of production. Officials of those agencies linked to global production and finance have been viewed differently from those dealing with national problems such as the Ministry of Labor. By emphasizing this hierarchical order among political and economic groups into nationally and transnationally-oriented fractions, the dissertation not only has avoided an individualistic/pluralist analysis but also has treated the Turkish state as a fragmented actor rather than a unitary one. Nevertheless, it is important to specify the conditions under which governments and certain parts of the bureaucracy undertake reforms that take away many of the tasks and duties from the ministries and other administrative organs, thus decreasing their policymaking autonomy. This contradiction constitutes the main issue that future research should try to understand and explain.

## **6.2. Establishing the Neo-Liberal Hegemony and the Possibility of Counter-Hegemonic Alternatives**

This study directly has engaged in the current debate over the role of ideas in state transformation as it explored how non-material motivations shaped patterns of support and opposition of social forces regarding economic liberalization. Unlike the mainstream theories that generally treat ideas as exogenous to interest formation, post-positivist approaches such as constructivism posits that ideas and interests are linked in a mutually constitutive relationship, and in the process of interaction new identities and thus new interests may be acquired (Wendt, 1992). From this perspective, ideas provide part of the overall structural conditions in the form of intersubjective meanings -that is, collectively held beliefs. Accordingly, economic ideas in the form of conventional wisdoms can become 'self-fulfilling prophecies' without having received prior empirical support (Krugman, 1995 cited in Leiteritz, 2004:8). For instance, the belief in the positive relation between central bank independence and low inflation levels can in itself be sufficient to bring about the predicted actions by governments. Thus, it can be said that power and interests may be effective due mainly to the virtue of the ideas that make them up. Nevertheless, while this approach successfully shows how specific ideas might become part of the overall structure, it is unable to explain why a particular set of ideas rather than others are embedded in the structure at a particular moment in time (Bieler and Morton, 2008:104). The relation between the emergence of new ideas and social relations of production, more specifically the underlying power structures promoting specific ideas, are neglected.

One finding of this dissertation is that those individuals and groups that benefited from the globalization of production and finance promoted neo-liberal ideas and practices that have reinforced the promotion of privatization, control of inflation and public expenditure, and labor market flexibility. These 'intersubjectivities' have been crucial in

influencing Turkish policy-makers by shaping their imagination about what is possible and what is legitimate- in other words, by redefining the 'limits of the possible' in economic policy-making (Gill, 2003:17; 1993:23). In the Turkish case, the evolving economic needs of Turkish capital in response to structural changes in the world economy directed those internationally-oriented fractions, particularly TÜSİAD, to construct and maintain a particular formulation of what counts as neo-liberal common sense in the form of intersubjective meanings. Considering the Turkish state as incapable of adequately responding to the new needs of capital, TÜSİAD has targeted sources of uncertainty such as high inflation and fragile growth rates and raised issues such as good governance and the re-evaluation of existing policies in Turkey. The types of change proposed by TÜSİAD represented a radical break from the state.

This finding reveals that the empowerment of certain social forces and particular liberal economic ideas rests upon the material social conditions. This relationship between the material and ideational context in which actors make their choices enhance our understanding of why certain outcomes prevail in economic policy-making. Since most Turkish capital has come to perceive its interests as laying in the embrace of neoliberal ideas, it can be suggested that 'agency' and their particular 'ideas' mattered in the Turkish state's disengagement process from the public sphere through structural reforms such as privatization and central bank independence. There is nothing inevitable about this outcome; rather the changing nature of Turkish capital interests and ideas under globalization has been crucial in the implementation of these reforms. Such an approach facilitates our understanding regarding whose interests are best served by the dominant economic order, who is pushing for an internationalized form of state, and which subordinated social forces are integrated into this type of state.

Developing answers to these questions calls for attention to the politics of ideas that become consensual when actors start believing in their value and become convinced of their validity. By providing actors with meaning and orientation to action, ideas are crucial in the construction of hegemony through consensual means. Therefore, the power of ideas not only lies in their inherent properties, but also in the success of their presentation. Thus, the way liberal economic ideas are presented is important to gain the consent of the society. Accordingly, the process of disengagement of states from the economic sphere is closely related with the promotion of certain economic ideas such as ‘small and efficient state’. Each of the two cases studied, the acceleration of the privatization and giving legal independence to the TCMB, reveals that social forces’ promotion of market-based mechanisms as the most efficient ways of organizing economy were influential in generating consent/hegemony for the decrease in the role and size of the Turkish state in the economy.

Communicative processes, namely discourse, serves as a necessary condition in the organization of hegemony and ensures that certain ideas appear both natural and inevitable (Rosamond, 1999:659-60). Discourse thus has an impact on change because it helps to transmit ideas and create an opening to policy change by altering actors’ perceptions of the policy problems by influencing their preferences, and thereby enhancing their political institutional capacity to change (Radaelli and Schmidt, 2004:188). Ideas are indeed often used to legitimize particular policies and in the case of Turkish privatization, it is actually presented as a technical economic tool which can be used to increase the efficiency, profit, and productivity of state enterprises. It is also promoted as contributing to the establishment of a national economy that is free from state intervention and thus in total compliance with the competitive global system. Moreover, as part of the strategy of building the ground for a change in central banking management in Turkey and legitimating the required reform, social forces appealed to theoretical and empirical works on central bank independence that have

been widely accepted and diffused by transnational networks such as the Bank for International Settlement (BIS) and the IMF. The independent TCMB was presented as an apolitical agency, working according to scientific criteria on behalf of the common good. Discursively, such perception was created through the insistence that low inflation and flexible markets provided greater economic prosperity for all.

In this way, social forces led the public to accept the argument that, overall, the Turkish economy would benefit from reforms, restructuring was necessary for economic development and welfare. Neo-liberal ideas have, thus, permeated the Turkish social forces to such an extent that any strategy other than economic liberalization appeared to be economically unsound and irrational. This finding reveals how certain ideas based on scientifically-accepted theoretical frames have become naturalized and accepted as common-sense, and thus considered ‘unquestionable objective facts’ (Shields, 2009:6). Suggesting that ideas provide the framework in which economic and political interests are constructed and their potential alternatives neutralized does not imply that intersubjectivities are not contestable. On the contrary, the transformation of the Turkish state has been a dynamic and evolving outcome of a contested political economy rather than a smooth one. This finding shifts our attention to the possibility of the creation of counter-hegemonic projects.

The final finding of the dissertation speaks to the debate on the resistance to neo-liberal hegemony. By analyzing changes in the production structure and the material side of ideas, this work has identified and explained the emergence of alliances of collective actors that either promoted or challenged the Turkish transformation process depending on whether they were the winners or losers of this process. This focus on the historical emergence of diverse sociopolitical alliances (the historical bloc), which may support and legitimize or equally challenge existing power relations, leads to an understanding of state transformation as a politically open and contested process. Although hegemony ensures the prevailing power

relations and hardens the emergence of challenging alternatives, there is always the possibility of the emergence of counter hegemonic initiatives through a concrete program of action. What this suggests is that social change does not automatically follow economic developments, but is instead produced by historically situated social agents whose actions are enabled and constrained by historical structures better referred as ‘intersubjectivities’.

The thesis has shown that there has been a resistance movement in Turkey coming from the trade unions, statist oriented intellectuals, leftist political parties or nationalist groups against the privatization process and central bank independence. Since these policy changes have presented a challenge to the power and advantages of certain individuals and groups within the society, namely leading to a change in the internal balance of power, it has triggered controversy and struggle among social forces. Whereas the traditional Kemalist political-economic elite were against free market reforms and supported an economic protectionist model in which the state played a central role, the emerging political and economic elite linked to IFIs and TNCs were proponents of a free market-oriented liberalization of the economy. While a group of nationalist political figures such as Enis Öksüz (former Minister of Transportation) of the MHP advocated restrictions on foreign capital in strategic sectors, the internationalist bureaucrats represented by Kemal Derviş in the economic administration opposed any restriction. Particularly, the privatization process of state enterprises such as Turk Telecom, TÜPRAŞ, and ERDEMİR revealed a series of conflicts among different sections of capital, within the state, and between capital and labor.

Privatization has been one of the most contentious features of structural adjustment programs especially for trade unions. The Turkish unions’ resistance to privatization mainly results from the fact that the most heavily unionized sectors are the public ones, which privatization directly targets. The workers in these sectors are often used to guaranteed employment, which is threatened by privatization. In the 1990s, unions through national

courts embedded in the Kemalist state form have been somewhat successful at slowing the process of privatization. In an attempt to stop the state from selling its firms, the unions have generally appealed to the public and its sense of nationalism, however, the process of privatization has not been stopped, and has accelerated considerably in the last few years.

The dissertation, thus, argued that during the process of economic liberalization, the pro-reform groups formed a solid structure of political and civil society, namely a historic bloc in Turkey. It encompassed both institutions of the state apparatus, such as the TCMB, the Treasury, the Privatization Administration, and the organizations of civil society such as the Justice and Development Party (AKP), the MÜSİAD, and the TÜSİAD. The empirical analysis has shown that this bloc gained more economic and political power vis-à-vis opposing social forces, such as labor, national capitalists, and the traditional state elite. Reform-oriented social forces used their increasing leverage to mobilize support for their neo-liberal projects and change the Kemalist common sense within Turkish society. Sound money, anti-inflationary growth, and minimal state intervention have been central to the framework of the new economic strategy. It has been shown that by winning the struggle against nationalist social forces over the implementation of such a market-based economic strategy, internationally oriented social forces transformed the Kemalist Turkish state into an internationalized one, most clearly articulated in the shift from a focus on ‘public interest’ to an emphasis on ‘efficiency’ and ‘competition’.

Moreover, the global restructuring of labor and the emergence of flexible working conditions and highly fragmented workforce in Turkey intensified the pressure on trade unions and employees for being ‘embedded into a historical bloc dominated by the hegemony of neo-liberal ideas’ (Bieling, 2001:103). Material rewards for workers and institutional influence for labor were dependent upon the acceptance of a joint commitment with employers to success in competitive markets. As the interviews conducted with several

trade union representative revealed Turkish trade unions also acknowledge that a new neo-liberal commonsense has emerged in Turkey and a consensus around a new modernization project is now what guides public support. Nevertheless, despite the existence of such a consensus, in terms of further research directions, it is important to put more emphasis on Strange's (2006: 201) 'oppositional agency', thus consider strategies of resistance to neo-liberal policies. Further investigation is required to reveal the possibilities for counter-hegemony that can emerge through the unification of different forces of resistance into a potential coalition capable of engaging in a strategy to gain power. The current global financial crisis makes it easier to envisage an alternative, and more socially and politically inclusive version of the neo-liberal project.

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\_\_\_\_\_ 27 September 2006. Governor's Speech made at the Istanbul Chambers of Industry. Istanbul.

\_\_\_\_\_ 25 December 2006. Governor's Speech made at the Hacettepe University. Ankara.

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\_\_\_\_\_ 1 June 2007. Governor's Speech made at the 75th Anniversary of the Turkish Central Bank. Ankara.

\_\_\_\_\_ 20 February 2008. Governor's Speech made at the "12th Euro-Mediterranean Conference on Economic Transition". Brussels.

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## **List of Interviewees**

### **Privatization Administration**

Hasan Köktaş (Vice-President of the Privatization Administration)  
İsa Altıntaş (Head of the Project for TEDAŞ)  
Ayhan Kabaktepe (Head of the Project for THY)  
Arzu Atik (Head of the Project for TŪPRAŞ)  
Gülefşen Demirbaş (Head of the Project for ERDEMİR)  
Celalettin Okçu (Head of the Project for Sümer Holding)  
Ayhan Sarisu (Head of the Project for TEKEL)  
Peker Çınar (Head of the Project for Turkish Telecom)  
Mustafa Özel (Head of the Project for PETKİM)  
Özge Alpay (World Bank Social Support Project Coordinator)  
Aykut Bakırcı (Legal Counsel, responsible for TŪPRAŞ case)  
Özlem Çortoğlu (Lawyer, responsible for the privatization of Turkish Telecom case)

### **Office of the Prime Minister**

Kenan Işık (Former deputy chairman of Privatization Administration and the consultant of the Deputy Prime Minister)  
Murat Karakaya (Expert and consultant to the Deputy Prime Minister)

### **The Central Bank of the Republic of Turkey**

İbrahim Turhan (Deputy Governor of the TCMB)  
Hakan Kara (General Director of the Research Department)  
Nuran Gökbudak (Expert)  
Fatih Özatay (Former Deputy Governor of the TCMB)  
Tangül Hıncal (Head of the Communication Department of the TCMB)

### **Undersecretariat of Treasury**

Faik Öztrak (Former Undersecretary of the Treasury)  
M. Sefa Pamuksuz (General Director of the Department of State Economic Enterprises)

### **State Planning Organization**

Hikmet Parmaksız (Expert)  
Yusuf Ziya Türk (Expert)

### **KİGEM (Center for Improving Public Management)**

Ayla Yılmaz (General Secretary)

### **Petrol-İş (Petrochemical Union)**

Mustafa Özgen (Head of Ankara Branch)  
Gökhan Candoğan (Lawyer, Responsible for TŪPRAŞ case)

### **Haber- Sen (Telecommunication Union)**

Baki Çınar (General Secretary)

### **Turk Haber-Sen (Telecommunication Union)**

İsmail Karadavut (President)

Fahri Ocak (General Secretary)

### **Yol-İş**

Yıldırım Koç ( Head of the Education Office)

### **Harb-İş**

Mustafa Atlı (Consultant to the President)

### **Hak-İş Trade Union Confederation**

Osman Yıldız ( Assistant to the President and responsible for International Relations)

Ünal Özdem (Press Consultant)

Jülide Sarıeroğlu (Expert)

### **TÜSİAD**

Bahadır Kaleağası (Head of the TÜSİAD Brussels Office)

### **MÜSİAD**

İbrahim Öztürk (Consultant)

Eyüp Vural Aydın (Deputy General Secretary)

### **TESK (Confederation of Turkish Small and Medium Size Enterprises)**

Meliha Sevim (Head of the Research and Development Department)

### **Republican People's Party (CHP), Opposition Party**

Kemal Kılıçdaroğlu (MP for İstanbul)

Osman Coşkunoglu (MP for Uşak)

