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**GLOBAL INTEGRATION OF TURKISH FINANCE CAPITAL:
STATE, CAPITAL AND BANKING REFORM IN TURKEY**

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of the requirements for the degree of
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Statement

This thesis is entirely the result of my own research.

A handwritten signature in black ink, enclosed in an oval shape. The signature appears to be 'Derya Gültekin-Karakaş'.

Derya Gültekin-Karakaş

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ABSTRACT

The Turkish banking sector has been comprehensively restructured since the late 1990s. Historically Turkish private banking has been integrated into commercial-industrial conglomerates (called Finance Capital), so the reform of banking caused a wider restructure of capital within Turkey. This thesis explores the contradictory interests within Turkish Finance Capital and how state policies, under the supervision of the International Monetary Fund (IMF), mediated those interests during the restructure of Turkey's banking system.

The class analysis of the thesis shows that there is no such set of right policies to be followed by the state on behalf of national interest as mainstream and nationalist economists assume. There are (fractions of) classes and state, as the constellation of particular class forces, pursues the advance of accumulation in line with the interests of the dominant fraction of capital. The Turkish case reveals the relationship between the state and the hegemonic part of Finance Capital which seeks for an inclusion into international capital.

The thesis's empirical findings contrast with the nationalist interpretation which sees the state- (and IMF-) supervised reform as an assault on the Turkish economy. The analysis shows that the reform was rooted in the specific needs of certain fractions of capital in Turkey. As the dominant fraction within Finance Capital pursued further articulation into global accumulation, the state managed the reorientation in accumulation from state-based financial rents towards global competitiveness. While managing the shift in the form of accumulation, the state at the same time ensured stable decline for capitals judged incapable of making the transition towards global integration. Hence, the state (and the IMF) involvement in the fractional conflicts of banking reform process can best be understood as mediation between different spatial patterns of accumulation within capital.

Drawing from the Turkish case, the thesis argues that current 'globalisation' debates which center on weakening or enduring power of nation state neglect that as a node of global accumulation, nation state oversees the reproduction of social relations of capital globally.

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LIST OF ABBREVIATIONS

| | |
|-------|---|
| ASO | Ankara Camber of Industry (<i>Ankara Sanayi Odası</i>) |
| BAT | Banks Association of Turkey (<i>Türkiye Bankalar Birliği</i>) |
| BIS | Bank for International Settlement |
| BRSA | Banking Regulation and Supervision Agency (<i>Bankacılık Denetleme ve Düzenleme Kurumu</i>) |
| BSBIG | Independent Social Scientists- the Economists Group (<i>Bağımsız Sosyal Bilimciler İktisat Grubu</i>) |
| CAR | Capital Adequacy Ratio |
| CBT | Central Bank of Republic of Turkey |
| CEO | Chief Executive Officer |
| CIS | Commonwealth of Independent States |
| CUP | Committee for Union and Progress (<i>İttihat ve Treakki Partisi</i>) |
| EU | European Union |
| FC | Finance Capital |
| FDI | Foreign Direct Investment |
| FX | Foreign Exchange |
| FYP | Five-Year Plan |
| IAV | Economic Research Association (<i>İktisadi Araştırmalar Vakfı</i>) |
| IDI | International Direct Investment |
| IMF | International Monetary Fund |
| ISI | Import Substituting Industrialisation |
| ITO | Istanbul Chamber of Commerce (<i>Istanbul Ticaret Odası</i>) |
| M&As | Mergers and Acquisitions |

| | |
|--------|--|
| MUSIAD | Association of Independent Industrialists and Businessmen (<i>Türkiye Müstakil Sanayici ve İşadamları Derneği</i>) |
| NBR | National Bank of Romania |
| NICs | Newly Industrialised Countries |
| NIDL | New International Division of Labour |
| OECD | Organisation for Economic Cooperation and Development |
| OYAK | Turkish Armed Forces Pension Fund (<i>Ordu Yardımlaşma Kurumu</i>) |
| SDIF | Savings Deposits Insurance Fund |
| SEEs | State Economic Enterprises |
| SMEs | Small-to-Medium Scale Enterprises |
| SPO | State Planning Organization |
| TCC | Transnational Capitalist Class |
| TEB | Türk Ekonomi Bank |
| TGNA | Turkish Grand National Assembly |
| TNCs | Transnational Corporations |
| TNS | Transnationalisation of the State |
| TOBB | Union of Chambers and Commodity Exchanges of Turkey (<i>Türkiye Odalar ve Borsalar Birliği</i>) |
| TUSIAD | Turkish Industrialists' and Businessmen's Association (<i>Türk Sanayicileri ve İşadamları Derneği</i>) |
| US | United States of America |
| WB | World Bank |
| YKB | Yapı ve Kredi Bank |

CHAPTER 1

INTRODUCTION

With financial markets now globally integrated there are ambiguities in the very concept of a 'national banking system'. Indeed with banks themselves operating internationally, and finance circulating across national borders effectively at will, the institutions of finance cannot be considered in isolation.

However, in general, banks are regulated on a national scale, and many banks could be generally understood as having national histories and, perhaps still national identities. Any restructuring of a 'national banking system' will therefore undoubtedly show characteristics that are both nation-specific and global at the same time. The latter dimension may be thought of as universal — the tendency towards 'globalisation' of financial flows. The nation-specific dimensions are historically determined.

Accordingly, this thesis, analysing recent banking reform within Turkey, must address both the global tendencies of capital and the specific historical evolution of Turkish banking: its dynamics and its contradictions.

Turkey has experienced a rapid capitalist development since the establishment of the Republic in 1923. As a late capitalising country, the development of a national banking sector has been central to accumulation. This process has had two characteristics. First, the banking sector has functioned as part of state development policies. Second, banks have been incorporated into conglomerates which operated in diversified sectors.

The formation of a national banking system was initiated under the guidance of the state for the nourishment of Turkish-Islamic bourgeoisie. Starting from the early 20th century, during the Ottoman period, many national, mostly local, banks were established in order to break down the dominance of foreign banks in finance and to channel financial resources towards burgeoning Turkish-Muslim bourgeoisie.

The formation of a national banking system gained momentum with the foundation of the Turkish Republic. The state took the initiative to boost domestic capital accumulation through industrial plans in which newly created state banks had played a

central role in the 1930s and 1940s. As the nascent bourgeoisie achieved necessary capital formation, burgeoning conglomerates started to move into the finance sector and gained control of banks in the 1940s onwards, which is a formation that will be called 'holding banking' in Turkey. The joint ownership between banks and industrial-commercial conglomerates became more prevalent as part of the Import Substituting Industrialisation (ISI) policy by the late 1970s. The policy of utilising holding banking to fuel capital accumulation for those handful of conglomerates was not abandoned when the economy was integrated into global accumulation via 'trade and finance liberalisation' after 1980. In the so-called liberalisation era, the sector provided privileged access to financial resources for those capitals which had organised themselves mainly into a holding structure which brought affiliates from various sectors under the control of a family conglomerate. Other non-banking large scale industrial/commercial capitals also benefited from the easy access to finance through their participation in state debt finance during this period. The rise of the integration between banking and industrial capital provided a shelter for those conglomerates in finance at a time of economic crisis during the outward-oriented restructuring in accumulation in the post-1980 era.

Having such a central role in accumulation, but especially on behalf of the leading edge of capital, the banking sector has been comprehensively restructured since the late 1990s under the supervision of the IMF. More than 20 banks have been taken over by state rescue programs and have been rationalized in the reform. The state's effective subsidy of banking via high interest state borrowing has been put in a gradual termination. Furthermore, the surviving banks needed to transform themselves for global financial markets through comprehensive legislative and institutional changes. The state-subsidised consolidation process in banking brought about rising concentration of banking capital along with the rising participation of foreign banks.

The underlying rationale that has driven banking reform is the issue explored in this thesis. It will be seen that in a country where there are traditionally close ownership links between banking and industrial capital these reforms have deep significance for total capital.

At the dawn of banking reform, government officials, IMF executives, top bankers, corporate executives, business associations and academia in unison complained

about the 'distortions' in banking. They accused the state of creating those distortions and demanded the launch of the painful, but necessary 'healing' of the sector. However, in those debates it was systematically overlooked that the operation of Turkish banking in the pre-reform era and associated state policies met the needs of certain fractions of Turkish capital that arose in the domestic accumulation process.

This thesis seeks to develop an alternative explanation of the recent reform of banking by tracing its roots in the historical dynamics of capital accumulation process in Turkey. By utilising categories of Marxian political economy, the thesis recognises the central role of class dynamics underlying the transformation of banking. More specifically, the thesis explores contradictory interests between fractions of Turkish capital and the role of Turkish state (and IMF) policies in mediating between those tensions within the context of the rising integration of the domestic accumulation process into global process. This approach will make possible the clear and systematic exposition of a concrete historical subject.

Overall, it will be seen that the state has been pivotal in the change process. In particular, state policy has played an important role not only in the integration of banking and industrial capital, but with the IMF also in setting up the conditions for accumulation. The state intervened in the process of construction of a hegemonic fraction of capital.

From this perspective, banking reform becomes part of a comprehensive restructuring of capital accumulation in Turkey under the supervision of the state and the IMF. The social security reform, the elimination of state subsidies in the farm sector, the deregulation of the energy and telecommunication sectors, the taxation and public finance reform, privatisation and international arbitration, etc. have been various facets of this restructuring. In this process, residuals of the welfare state have been liquidated and labour markets have been made further flexible so that conditions of accumulation have been adjusted to the rules of global competition. For 'domestic' capital, this shifted the source of profit from state-based financial rents to the requirements of productivity growth.

The discussion of banking reform will shed light on how the widely contended tense relationship between 'nation state and globalisation' is played out in a specific

country. The case study will provide empirical evidence for the theorisation of the state within the context of internationalisation of capital.

Amid a wide spectrum of arguments, from 'the end of nation state', to 'the state that has still some scope of manoeuvre for governance', this thesis approaches the state as a moment of capitalist class relations. The argument progresses from abstract theoretical propositions about capital and the state to focus to a particular capitalist state (the Turkish state) and the analysis of particular banking conglomerates. The analysis shows how the state mediates between contradictory interests within capital while pursuing the agenda of global competitiveness by some of its fractions. Briefly, this thesis seeks to explain the process of banking reform within the broader context of capital accumulation, and in terms of the way in which bank reform is being used to support and transfer the hegemonic fractions of capital in Turkey.

I chose the Turkish banking reform as a case study for the discussion of the nation state in the context of global accumulation for three reasons. Firstly, banking reform has exposed wider conflicts within Turkish capital, particularly due to the ownership of banks by conglomerates and permitted to gain an in-depth understanding of the role of the state in terms of underlying fractional tensions within capital. Therefore, the study of banking reform reveals significant explanations not only on the restructuring of a national banking sector, but also on a much broader transformation in Turkey.

Secondly, the close involvement of the IMF in the reform process makes it possible to shed light on the role of the IMF in the reorganisation of Turkish capital. The nature of the relationship between national and supra-national governance mechanisms of capital is one of the fundamental issues in the current debates on the nation state.

Thirdly, the role of the IMF is considered in a country case, Turkey, which is assumed to be part of the so-called 'Third World'. The hierarchy of nations in world capitalism is also one of the critical references in the nation state debate. The analysis of the Turkish banking reform will question the analytical validity of the primacy of the nation.

By challenging the dominant interpretations on banking reform, the thesis argues that banking reform could not be analysed by approaching to banking in isolation. Turkish banking has been characterised by the ownership of conglomerates that

accumulate in various sectors beyond banking. Therefore, this thesis utilises *a finance capital approach* in order to specify underlying fractional conflicts within capital that paved way to banking reform. In doing this, not only banks, but also banking conglomerates as a whole will be focused on.

The class analysis of the thesis is specifically clarifies the fractional tensions within Turkish Finance Capital (FC). Therefore, the thesis is not particularly concerned with productive and commercial capitals since a detailed discussion of the implications of banking reform for these fractions remains beyond the confines of this thesis. Therefore, productive and commercial capitals will be included in the analysis only to the extent that it would contribute to the elaboration of the main fractional focus of this thesis on FC.

On this basis, two key questions will be explored in the study of Turkish banking reform:

- What are the tensions among fractions of capital during banking reform?
- What are the different implications of the state (and the IMF) policies for different fractions?

The desire for the analysis of contradictions within Turkish capital and state mediation of those tensions comes from the recognition that transformation of the state apparatus on behalf of the working class requires first an understanding of the vested interests that state policies serve. Moving from this point, *to be able to develop effective strategies for a working class movement, the left needs to grasp the current structural change in Turkey.*¹ The analysis of the transition in Turkish banking/Turkey with a class perspective becomes particularly vital given the limitations in the analyses developed by dominant schools of political economy.

The thesis, therefore, challenges the argument of the irrelevance of class in the analysis of social reality in the current era of world capitalism. The thesis is framed within a Marxist approach to capital and class. It does not seek to argue a defence of this approach, but to argue that the legitimacy of the theory is to be found in its capacity to generate coherent, distinctive and persuasive analysis. Accordingly, the thesis is based on extensive use of detailed empirical material — In the exploration of fractional tensions

¹ This view is consistent with Radice (1984, 113), (1999, 13, 19) and Panitch (1994, 61-62).

within capital associated with banking reform, firstly, content analyses of reports published by official/non-official institutions such as the IMF, Turkish government, banks, corporations and business associations have been made. Secondly, newspapers and financial journals have been extensively surveyed back to the early 1990s. Thirdly, interviews in the financial press with key figures in leadership positions in corporations and banks as well as with government officials have been utilised. Fourthly, official web pages of corporations and banks have been searched. Lastly, public pronouncements of bank and corporate executives and government and IMF officials have provided an additional source of information.

Throughout the analysis it will be seen that *competing and often contradictory agendas of fractions of Turkish capital in the process of capital accumulation are central to the change and the state (and the IMF) intervention in those tensions serves the global advancement of accumulation mainly on behalf of some parts of the Turkish capitalist class.*

In the analysis of the nation state within the context of globalisation of capital, Chapter 2 discusses the theoretical issues that will be explored in the case of Turkish banking reform. Among different interpretations of the current change in the functions of nation state three issues appear central: the conceptualisation of the state vis-à-vis capital; the concepts of fractions of capital, and the position of the nation state within the emerging multi-level governance mechanisms of world capitalism (here the relation with the IMF comes to the fore).

Drawing from the theoretical discussion of Chapter 2, Chapter 3 looks at how different schools of political economy explain the changes in Turkey accompanying the Turkish banking reform. On the basis of this review, the thesis signifies the importance of the consideration of the ownership of banks by industrially diverse conglomerates. This characteristic leads the restructuring in banking to have wider ramifications beyond banking. The reform reconfigures intra-capital class dynamics in Turkey for a new capital accumulation regime.

Chapter 4 discusses the historical development process of FC in Turkey as a basis for the fractional analysis of the reform in the following chapters. It develops a

periodisation, different from that commonly used, which gives focus to the central changes in FC.

On the basis of this exploration of the formation of FC, Chapter 5 lays out a general framework for the analysis of banking reform as a class process. In addition to considering the mediative role of the state regarding tensions within Turkish capital, the IMF involvement in the reform process is taken into account as the representative of supra-national governance mechanisms of world capitalism. In this way, the linkage between state policies, fractions of capital (domestic and foreign) and the (global) capital accumulation process is investigated. This chapter provides a bird's eye view on fractional conflicts within the reform process before narrowing the focus of the fractional analysis in the following chapters.

Chapters 6, 7 and 8 concentrate on the fractional divisions within FC as the driving logic of banking reform. This specific fractional focus carries the class analysis to a finer level. This fractional discussion is especially significant for the Turkish case because intra-capital class dynamics behind the transformation in Turkey remain widely unexplored.

Within this context, Chapter 6 provides a methodological consideration in identifying a coherent pattern to the determination of which banking conglomerates survived which went into liquidation during banking reform. It will be seen that the fractional divisions accompanying the reform are rooted in different patterns of accumulation (including various forms of global integration) by two groups of conglomerates. These are the conglomerates that 'won' in the reform and these that 'lost'. These are termed, respectively, the dynamic accumulators and the primitive accumulators. The chapter argues that the difference between these two is to be explained by their patterns of accumulation and, in particular, their mode of acquisition of surplus value. Yet beyond broad generalisations that support this binary division, it must be recognised that there is not one 'recipe' for dynamic accumulators, nor primitive accumulators.

Accordingly, Chapter 7 specifies the first division of FC, the primitive accumulators, which are excluded from finance through bank seizures. Chapter 8 focuses on the second division of FC, the dynamic accumulators, which have strengthened their

existence in banking. Both chapters distinguish the characteristics of patterns of accumulation which led conglomerates to either seizure or survival in finance.

After the analysis of fractional divisions within FC, the state (and the IMF) intervention in those fractional tensions is exemplified. To this end, the following two chapters analyse two main mechanisms that were used for the reconfiguration of holding banking in Turkey. Chapter 9 addresses new regulations that shape the new era of FC. In particular, legislative changes which rearranged relations of credit and equity holdings between banks and their owner conglomerates are the foci.

Chapter 10, on the other hand, illustrates how the state and the IMF intervention played out itself in the case of bank seizures. The clarification of the actual process of reconfiguration of holding banking in Chapters 9 and 10 will provide a deeper understanding of the fractional conflicts as well as the state (and IMF) mediation between those tensions in the reform process.

Chapter 11 analyses how the surviving banks' conglomerates solidified their hegemony in finance through the consolidation process. As a controversial issue of banking reform, the role of foreign participation within the consolidation of banking is also considered in this chapter.

While the analysis here is detailed, it is not exhaustive of all financial issues in Turkey. The thesis will focus on the most central ones of the new codes that rearranged the relations between banks and their conglomerates — relations of credit and equity holdings — in order to exemplify state intervention in setting-up new conditions for accumulation. Also, the analysis of banking reform will concentrate on private domestic deposit-taking commercial banks which accounted for about one-half of the banking system's assets and liabilities as of August 2001. Banks which are not owned by Turkish conglomerates — state-banks, development/investment banks and foreign banks — are included in the analysis as long as they are relevant with the discussion of private commercial banking in Turkey. Furthermore, not all aspects of the seizure process will be addressed. Takeover of financial groups made up of leasing, factoring, insurance and brokerage companies as well as some other affiliates operating in other sectors will not be discussed.

Finally, there is a need for three points of clarification. The first is a clarification of terminology used relating to the concepts of 'foreign' and 'international' banks. To prevent any confusion, the term 'foreign banks' refers to international banks that are owned by foreigners. But the term 'international banks' is more general as it also cover some Turkish banks that play in the global banking league. Essentially, the last decade has seen 'Turkish' banks joining 'foreign' banks in the development of international banking.

Second, the references in this thesis follow the Harvard style.² However, given the extensive number of sources from newspapers, news portals as well as corporate and other web pages, full citations of those sources appear only in the footnotes, but not in the bibliography.

Third, many sources used in this thesis are in Turkish language. These sources which appear in the footnotes and bibliography as titled in Turkish are translated by the author.

² I have consulted *Referencing-the Harvard Referencing System*, Educational Services and Learning Support, Central Queensland University, January 2002.

CHAPTER 2

THE STATE WITHIN THE CONTEXT OF GLOBALISING CAPITAL ACCUMULATION

- 2.1 Introduction
- 2.2 Framing the Globalisation Debate
- 2.3 The Neo-Liberal Globalisation Thesis
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 - 2.6.1. Nation State in Global Accumulation of Capital
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- 2.7 Does a Nation State Occupy a Single Position in the Global System?
- 2.8 Questions to be explored in the Turkish Case
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2.1 Introduction

This thesis analyses the recent reform in Turkish banking which served the reorientation in accumulation towards rising global integration. The case study shows the links between the nation state, supranational governance institutions and the dynamics of the capital accumulation process in the context of Turkish banking. How these connections are to be framed is not self-evident, but presents a theoretical problem to be solved. This is not to suggest that these connections can be 'solved' at the level of formal theory, but it is important to consciously debate the way the connections should be framed.

Where to draw the lines around theoretical debate is always difficult – which issues warrant deep investigation, and which are peripheral – is never entirely clear, so it is important to state some theoretical benchmarks up front, for these are necessary to focus the debates.

The theoretical focus here is the question of the role of the nation state in the globalisation, and that immediately opens up its own spectrum of debate: is the state in decline? Conversely, is the state part of globalisation?

This thesis takes as its theoretical starting point that there is a need to bring the analysis back to the fundamental characteristics of capitalism. In particular, the objective position of the state in maintaining social relations of capital provides a solid starting point for the analysis of the current changes in the functions of the state. What the process of globalisation refers to is the expanding trans-territorial accumulation by capital. The state, as part of capitalist accumulation, serves the realisation of the inherent tendency by capital towards global expansion. This framing points to the issue of particular constellation of class forces within states. Various forms of integration of domestic processes of accumulation into global process rise on a conjunctural balance of class forces.

Accordingly, this thesis argues that *a class fractional analysis of state policies* is a helpful approach to such issues for it casts the role of the state in terms of the diverse ways in which different parts of capital integrate globally, and hence in terms of conflicting demands on the state. This thesis approaches to the state as ‘the political location in which divisions between classes and, divisions between fractions of capital are mediated’ (Bryan 1987, 271). Consideration of inter-state relations as well as supranational governance institutions of world capital, such as the IMF, also requires first addressing which particular forms of accumulation (pursued by certain fractions of capital) that nation state seeks to oversee in the domestic context.

When these general issues are applied to a study of Turkish banking reform and the role of the IMF therein, three issues emerge crucial. Firstly, in the reform process the IMF plays the role of a promoter and co-ordinator of the globalisation of capital, performing the role of overseer of the Turkish state’s mediation of relations between capitals. This conflicts with the widely held view of the IMF as an external imposer of a

neo-liberal policy agenda on behalf of advanced countries' capital. This thesis contends that the IMF is better seen as part of the Turkish state *process*. The state and the IMF together managed and supervised the reform in banking.

Secondly, *the nature of the determination of fractions of capital* is central to the study of the Turkish reforms. The divisions within capital are not contingent on the scale (large/small) or nationality of ownership (foreign/national) of capital, etc. They are more usefully seen as *fractions based on different circuits of accumulation*. That is, the conflicts between capital that the reform process mediates and conflicts about the particular paths down which capitals seek to expand, with the state facilitating some paths and inevitably blocking others. Two critical criteria come to the fore in defining the divisions: firstly, how individual capitals integrate globally; and secondly, how they capture surplus value. Both of these criteria point to the relationship between the state and capital. State policies play a crucial role in the construction of the patterns of accumulation, and thus, of the divisions of capital.

Thirdly, approaching the state as a mediator between fractions of capital *challenges the popular argument that Turkey as a whole (the 'Turkish economy') occupies a particular 'position' in the global system*, such suggested in the theory of the New International Division of Labour (NIDL) and the World Systems Theory. These theories and the national positioning that follows from them serve to occlude consideration of divisions between capitals *within* nation, and impute nationalist agendas onto state policy. Accordingly, this thesis rejects the idea of an IMF imposition as it is a more complex process than that. The study of the Turkish banking reform verifies that the issue is not the loss of policy autonomy by the nation state in the so-called Third World countries; the Turkish state and the IMF acted together to systematically reposition capital over accumulation globally and the reform process could not occur without the state and the IMF.

In the context of these propositions, this chapter addresses the relationship between the nation state and globalisation. The objective is not to determine in abstraction the explanation of Turkish bank reform, but to make explicit that any empirical investigation of this topic must be predicated on a clear set of theoretical insights.

2.2 Framing the Globalisation Debate

In the study of the relationship between the state and globalisation, different, albeit overlapping, classifications of globalisation theories have been adopted. For example, Held, McGrew, Goldblatt and Perraton (1999) offer a widely-recognised tripartite classification: the hyperglobalizers, the transformationalists, and the sceptics. These are, in essence, those who see the decline of the nation state; those who challenge the reality or national impact of globalisation on the capacity of nation states, and, in the middle, those who see that the role of states has been transformed, but not increased or decreased.

The problem with this taxonomy is that views from different theoretical perspectives, (e.g. neo-liberalism and Marxism), are merged under the same category. According to Held and McGrew (2002, 2) 'the very idea of globalisation appears to disrupt established paradigms and political orthodoxies', but the effect is that different theoretical premises underlying those theories becomes secondary to taxonomy and it is therefore impossible to 'graft' an analysis of globalisation onto established theoretical debates.

Nordhaug (2002) also defines a tripartite classification: liberal globalisation theory, globalisation scepticism and Marxist globalisation theories. In this classification, the liberal theory claims that the nation state has been enfeebled by globalisation. Scepticism has two strands. One, in contrast to the neo-liberal view, posits the autonomy of national policies and institutions from globalisation. In the other, it is argued that the pressure for convergence between national policies stems not from anonymous market forces but from dominant states which also control international organisations. Marxist globalisation theories are also divided into two categories: moderate and strong versions. Both versions link economic transnationalisation to the transnationalisation of capitalist classes (class fractions); the second version additionally contends a tendency towards the formation of a non-territorial state. Despite the difficulty in terms of equating these groups directly with particular authors, Nordhaug's work provides a more solid base from which to develop a more useful classification of globalisation theories.

This chapter adopts three categories in the study of the theories of globalisation:

1. The neo-liberal globalisation thesis,
2. The neo-Weberian sceptical thesis, and
3. The Marxist globalisation theories.

The chapter will consider these theses in turn, with a particular focus on the third, Marxist approach. Marxist theories of globalisation will be discussed under two categories: one which claims the primacy of the nation state in the organisation of global capitalism and the other which points to a transnational ruling class as the engine of the globalisation process with direct implications for the understanding of nation states. Other Marxist debates on globalisation will be included under the following discussions of two critical issues for the Turkish case study: what will be called 'position' theories and the role of IMF vis-à-vis nation states.

2.3 The Neo-Liberal Globalisation Thesis

In the 1980s and early 1990s, rising fragmentation of discrete national economies led some scholars to argue the end of the nation state. Starting with an absolute dichotomy between 'national and 'global', these scholars contended that the increasing mobility of capital contrasted with the relative territorial boundedness of the state and undermined the state capacity to manage the national economy. For example, among the so-called 'hyperglobalists', Ohmae (1990; 1993) and O'Brien (1992) asserted that the era of the nation state was over, that national level governance was ineffective in the face of globalised economic and social processes.¹

These scholars claimed that transnational corporations (TNCs), rather than states, are the key actors in this 'borderless world', developing global production, sales and financial strategies relatively free from the restrictions of territorial state borders. Therefore, nation states in this perspective became local authorities of the global system and lost their capacity to manage the level of economic activity within their territories independently. From a neo-liberal perspective, though not a nationalist one, there were

¹ This end of state thesis is readily understandable as a neo-liberal, pro-market perspective. Interestingly, it is also shared, though with different conclusions, by the radical nationalist tradition. They describe essentially the same logic, but see the decline of the nation state as a process that must be resisted in (e.g. Strange 1995).

benefits for all countries from the shift to this one dominant global economic system: trade and capital market liberalisation, minimised state intervention and the pursuit of international competitiveness would serve to generate global growth and efficiency (Ohmae 1990, 216).

The claims of the decline of the nation state have not been verified empirically. On a global scale, we see the emergence of not *laissez faire* (the so-called Washington consensus), but what Stiglitz (1998) has termed the 'post-Washington consensus': the recognition that global markets need systematic regulation. At the national level, the case explored in this thesis is an emphatic illustration of the on-going centrality of state regulation. It shows that markets are not self regulating, but require state management. Moreover, this management is not an exercise in securing 'efficiency' of markets, but in managing accumulation: an altogether more political and contested process.

2.4 The Sceptical Thesis

The neo-liberal globalisation thesis has been challenged by some who see its emphasis on global flows of trade and investment highly exaggerated. They contend that these movements, relative to the size of global production are still less than in a previous period of so-called globalisation: the late nineteenth century. Rather, they contend that the world economy is increasingly a regionalised economy with the three major trading blocs (Europe, Asia-Pacific and North America) (Hirst & Thompson 1995; Drache 1996). In this framework, internationalisation has been accompanied by the growing economic marginalisation of many 'Third World' states as the intensifying trade and investment flows within the rich North exclude much of the rest of the globe (Hirst & Thompson 1995).

Yet, despite the agreement on the exaggeration of 'globalisation', sceptics part company regarding the extent of the loss of regulatory capacity of nation states. Some argue that nation states have lost capacity to manage their domestic economies. There is a need for states to regain control of their economies to protect national interest against the volatility of global business cycle (Drache 1996).

On the other hand, some other sceptics argue that nation states remain an important locus of accumulation (Wade 1996). Even though certain traditional powers of nation states (such as sovereign power or as autonomous national economic management) are declining, nation states are the key source of legitimacy and the delegator of authority between international and sub-national agencies of economic coordination (Hirst & Thompson 1995).

The pressure for the convergence among national policies does not stem from transnational market forces, but from elsewhere. For some, convergence comes from multilateral organisations, such as the IMF, which have become tools of US foreign policy (Wade 2001).² Others emphasise domestic drivers (e.g. Weiss 1999b),³ especially states seeking to promote the internationalisation of national corporations. 'Catalytic states' which facilitate coordinated and collective action with other states, transnational institutions, and private sector groups have emerged in order to create more real control over their economies (Weiss 1997). If nation states can take advantage of the opportunities offered by global economic activities they can improve the position of the nation within the world economy (Weiss 1997; Hobson & Ramesh 2002).

There is, of course, debate about the potential for such policies to deliver national growth. But it is important to notice in the context of this thesis the nationalist premises that underlie the sceptical position. At the basis of their scepticism is the proposition that, despite the indicators of 'globalisation', nations remain core economic units, such that evidence of the on-going significance of national economic units is thought to constitute a refutation of 'globalisation'. As a corollary, they also frame the capacity of nation states in terms of the capacity to deliver 'national' benefits.⁴ If, however, we question the cohesion of nations as economic units, and instead identify divided interests within

² As an example, Wade (2001) notes the US role in the rapid financial liberalisation in Asia which caused the financial crises in the region throughout the 1990s.

³ For example, the Asian crisis was originated in the decomposed institutional capacities of the states and the role of the US policy, partly through the auspices of the IMF, only deepened the crisis (Weiss 1999b, 319).

⁴ For instance, Hobson and Ramesh (2002, 11) assert that states play off the domestic and global realms against each other when they face constraints from any of them. Yet, the authors neglect that when states push through measures by resisting opposition from some 'powerful domestic groups', this means that state policies support other parts of capital. For other examples of this analytical problem see Weiss (1999a, 72, 86, 88).

nations with respect to 'globalisation', the issues look rather different. Rather than the nation state pursuing national benefits in the national interest, states can be seen to be mediating between divided interests within the nation

The neo-liberal and sceptical theses of globalisation have been criticised by Marxist scholars on the basis that the state and capital are misleadingly conceptualised as two independent spheres rather than as part of a totality. Most of the debates on 'globalisation' mask the continued importance of the nation state in the global reproduction of capital and of the continued pre-eminence of national structures of political economy (e.g. Pooley 1990; Panitch 1994; 1996).

2.5 The Class Determined Nature of the State

The analysis of the state, as Marx states, needs to start from the specific form of the extraction of surplus value from the direct producers by the owners of production. On this basis, the consideration of the 'political' (the state) can be introduced (Burnham 2002, 118).

The specific economic form in which unpaid surplus labour is pumped out of the direct producers determines the relationship of domination and servitude, as this grows directly out of production itself and reacts back on it in turn as a determinant. On this is based the entire configuration of the economic community arising from the actual relations of productions, and hence also its specific political form. It is in each case the direct relationship of the owners of production to the immediate producers... in which we find the innermost secret, the hidden basis of the entire social edifice, and hence also the political form of the relationship of sovereignty and dependence, in short the specific form of state in each case. (Marx 1894, 927)

In capitalism, the main relationship which marks the whole social structure is the class relation between capital and labour. The separation of labour from means of production and fulfilment of exploitation through commodification of labour power allow the abstraction of immediate force from the capitalist production process. As Holloway and Picciotto (1977, 179) put it:

The abstraction of relations of force from the immediate process of production and their necessary location (since class domination must ultimately rest on force) in an instance

separated from individual capitals constitutes (historically and logically) the economic and political as distinct, particularised forms of capitalist domination.

The role of the state in capitalism is not to organise the production process directly, but to create necessary preconditions for the private organisation of this process and to oversee its reproduction. Thus, the state takes place in the public sphere to provide general conditions for capital accumulation which is realised by the capitalist class in the private sphere (Gülalp 1993, 77). In this framework, the state is understood *as a moment of the class relations*; neither as 'autonomous' nor as 'determined' by a supposed economic base (Burnham 2002, 116). Therefore, the development of the forms and the functions of the state needs to be tracked down within 'the antagonistic and crisis-ridden development of capitalist society' (Holloway & Picciotto 1979, 5; Holloway 1994, 128).

Yet the state is not seen here simply as the 'referee' in relations between labour and capital, but as the manager of capital's domination over labour. Radice (1984, 119-120) puts it succinctly:

The central conflict in the capitalist mode of production is seen as being between capital and the state, rather than between capital and labour. But it is not enough to insert 'labour' into the analysis on an equal footing, forming as it were a triangular disposition of social forces... It is necessary to highlight the evolving patterns of domination by capital over labour, and how the state...fits into this. The increasing role of the state over the last century should be seen...as the consequence of an ad hoc accretion of state functions, arising from a sequence of conjunctural pressures on capitalist class rule...From this perspective, the 'weakening of the state'...signals, rather, a complex process of restructuring of the class relations of capitalism.

Statements such as this are clearly at odds with propositions about the decline of nation state power. The state remains central, but with a class agenda, not simply a national one. Moreover, as capital tends to expand globally, so the state's conception of national policies (and 'national goals') is itself globalised. Bryan captures this point when he contends that capital, in its concept, is neither national nor international: the process of capitalist exploitation (sites of the production and appropriation of surplus value) is not intrinsically reducible national (or international) level in the geography of global capitalism (Bryan 1987).⁵ 'The international movement of capital is therefore a historical

⁵ See also Ruccio et al. (1990, 18).

product of the (spatially) expanded reproduction of the capitalist mode of production within a system of nation states' (Bryan 1987, 253). Yet at the current stage of world capitalism, the reproduction of social relations of capital is still basically secured by nation states:

So while capital value may tend to move internationally, the class relations necessary for the production of capital value arise and are reproduced politically within the space of the nation, and by means of the nation state, thus, in the period of internationalisation of industrial capital, it is the nation state which secures the political preconditions for international accumulation by ensuring the reproduction of the class relations of capitalism.

The issue therefore is that the nation is not the "natural" space of the circulation and reproduction of capital, but capital nonetheless requires nation states to secure its social and economic conditions of reproduction. (Bryan 1987, 254)

According to Bryan (1995), the contradiction between the internationality of accumulation and the national regulation of the conditions of accumulation arises because 'the space of the nation is increasingly just one (spatial) section of an international process of accumulation' (Bryan 1987, 255; 1995, 422). Therefore:

[T]he state plays a contradictory role. On the one hand, it must secure the domestic conditions of accumulation, including class relations, and, on the other hand, it must integrate these processes into international accumulation, in a way which reflects the domestic balance of forces. (Bryan 1995, 429)

This finding clarifies the conflicting nature of the relationship between the nation state, domestic accumulation process and globalising accumulation of capital. Accordingly, a central issue for Marxist approaches to the state and capital is the different and contradictory ways in which capital accumulates, and the demands this places on nation states.

Therefore, for example when Holloway (1994, 30-32) and Burnham (1996, 102-103) define the state as a node of global accumulation, (i.e. part of the political management of the global circuit of capital), there is a need to stress that it would be misleading to simply argue that the state fulfils the necessities of global accumulation. That is, 'global accumulation' should not be seen *a priori* to class. In contrast, the

dynamics of global accumulation are continuously redefined by specific state policies which mediate conflicting demands of (fractions of) classes arising from the accumulation process.

Accordingly, an understanding of these conflicting demands of capital is integral to an understanding of the role of the state in general, and especially in relation to issues of globalisation, where capital has ambiguous relations with 'nations' and hence also with nation states. A conventional point of entry into this matter is the depiction of a circuit of capital, as outlined by Marx (1885) in Volume II of *Capital*.

M-C...P...C'-M'

Throughout its circuit, capital takes three different forms: Money is transformed into money capital (M) when it is used for the purchase of production inputs. M is exchanged for commodities (C) that are physical means of production (MP) and labour power (LP). When LP is combined with MP in the capitalist production process, capital takes the form of productive capital (P). The commodities (C') produced in this process embody surplus value produced by labour power. That is, C' has a greater value than the commodity capital (C) which entered production process. When C' is converted into the money form (M') by exchange, the quantity of money is larger than which entered the circuit. In this circuit, capital appears the social relation of value in movement.

This circuit shows the fundamental class relation in capitalist accumulation as the relationship between labour and capital, depicted as the creation of new value (and surplus value) in production. But it also gives insight regarding relations between individual capitals which are intertwined with each other within the total social circuit of capital. As Marx put it:

Capital, as self-valorizing value, does not just comprise class relations, a definite social character that depends on the existence of labour as wage-labour. It is a movement, a circulatory process through different stages, which itself in turn includes three different forms of the circulatory process. Hence it can only be grasped as a movement, and not as a static thing. (Marx 1885, 185)

Marx's formulation of circuits of capital assists to see there is a number of phases in the reproduction of each capital. As Bryan (1984, 86) states, in each of the different forms that the individual capital assumes (money, commodities and production) in its overall movement, it is subject to different conditions of and constraints on its reproduction. This gives the basis to differentiate fractions of capital as money, productive and commodity capital (or in the reified forms banking, industrial and commercial capital). Capitals form into fractions according to shared conditions and of constraints on each of the metamorphoses of their reproduction. Accordingly, the state must mediate these different 'circuits of capital', (or different fractions of capital, as they have come to be called) and their contested claims on state policy

How the differences (and conflicts) between these fractions of capital are to be specified remains an open and contested theoretical issue. A prevalent interpretation here has been to define fractions in terms of specialisation within the circuit – a conflict between financial, commercial and industrial capitals. This interpretation is most widely associated with Poulantzas (1968) and Clarke (1978).⁶ This division of capital helps to explain fractional conflicts as individual capitals specialise in one of these functions within the circuit of capital – each appropriates surplus value in a different form: finance as interest, commerce as mark-up pricing, and industry as profit. But it cannot be presumed that individual capitals always specialise in one or other of these functional forms. They may, but they may not, and, in the case of Turkey, with a predominance of conglomerates which occupy all three 'positions' in the circuit, this is not going to reveal all tensions within capital, and certainly not the tensions that arise with 'globalisation'.

This tripartite definition of fractions refers to a higher level of abstraction and there is a need for a further level of analysis in mapping out the fractional structure of capital in specific contexts. The critical issue is here that fractions of capital cannot be pre-ordained rigidly because the issue on which capital divides is historically specific. A Marxist theory of fractions can argue that there will be division because the circuit of

⁶ The criticism of Poulantzas by Clarke can be noted here. Poulantzas (1968, Chapter 2) argued that to constitute a fraction those individual capitals must have 'pertinent effects' at the political level. The definition of fractions according to their political effects led to the neglect of the economic basis of fractions. Clarke (1978, 36) criticised the Poulantzian theory on the basis that this definition of fraction led the fractional analyses to be concerned with attaching interests to the particular organisations or institutions (as in the analyses of South Africa).

capital itself is a contested process, but how capitals divide depends on specific issues. What can be expected, in the context of Turkish banking and globalisation, is that divisions will arise over the form of integration into global accumulation. At this point, an alternative definition of fractions by Bryan (1987) is helpful. Bryan defines fractions of capital according to position in the international circuit of capital in which the state intervention is accounted for as a factor:

Fractions have been differentiated according to the stages in the process of its accumulation at which each individual capital is integrated into (isolated from) the international arena. (Bryan 1987, 271)

Bryan's theorisation of capital fractions shows the structural basis for shared interests between 'domestic' and 'foreign' capital in particular kinds of state policies (Glassman 1999, 680).⁷ In the identification of capital fractions, the consideration of *the position in the international movement of value* becomes critical for the analysis of the nation state within the context of global circulation of capital.⁸ While some capitals expand internationally and some remain nation-based, state policies which regulate global movement of capital affect individual capitals differently according to their various forms of global integration.

From this perspective, this thesis contends that the observed changes in state policies in line with neo-liberalism serve the advance of global accumulation on behalf of particular fractions of capital rather than implying the transcendence of the state by the globalisation process.

Underlying this is a tendency for capital to expand spatially there are implications for the state. In the process of capital's transformation 'from its embryonic form to a fully developed global entity', the state must re-organise its role in order to reproduce relations

⁷ For example, TNCs which invest to produce for local markets may benefit from import substitution policies together with domestic capital that produces for home-market.

⁸ Yaghmaian (1998, 249) points to the fractional conflicts within capital within the context of global accumulation as follows: 'Different forms [of internationalisation of accumulation] coexist and accordingly affect nation-state policy. Individual capitals' uneven integration into international economic activity and their involvement in various forms international accumulation become the context of fierce competition of capitals and their conflicting demands on state policy'.

of capital in this expanded scale (Bina & Yaghmaian 1991, 119). This continuing adaptation by the state (see Arrighi 1997, 4) needs to be addressed by the debates on globalisation.

2.6 Marxist Globalisation Theories

Starting from the need to understand whether there is a change in the form of the 'political' to sustain accumulation of capital within an increasingly globalised context, some Marxist scholars observe rising transnational accumulation by capital; but there is no agreement within Marxist tradition on the primacy of the national form of state accompanying the process of transnationalisation of classes. Some scholars note an ongoing role of the nation state while capital increasingly circulates globally. Others stress *changing character of the form of 'political' in relation to the circuit of capital,* instead of enduring nature of nation state (Burnham 1996, 97; 2002, 115). On this basis, the rise of transnational capital claimed to give way to the supersession of the nation state system as the organising principle of capitalist development.

The following section addresses these debates among Marxist analysts on the relationship between the transnationalising accumulation and the nation state. It will be seen that these debates have some relevance to the practice; but, the different analytical levels that those Marxist discourses focus on cause an overlook of some dynamics of the relationship between the state and capital within a global context.

2.6.1 The Nation State in Global Accumulation of Capital

Irrespective of the tendency for capital to expand spatially, some Marxist scholars contend that global capitalism remains nationally organised and irreducibly dependent on nation states. (e.g. Wood 1999, 2002; Tsoukalas 1999). In this view, the nation state continues to be critical in a global context for two reasons. Firstly, capitalism remains dependent on the nation state for the reproduction of social relations of capital (Wood 2002, 31). Tsoukalas (1999, 71) claims that nation state serves better than a model of 'Super-State':

The symbolic and functional presence of national states is more necessary than ever for the cohesion of social formations at the same time that their economic and ideological interventions are far more "deregulating" than before.

Secondly, it is contended, we are still a very long way from a truly global capitalist class (Wood 1999, 6; 2002, 26-28). National classes are likely to persist precisely because global integration itself intensified competition among national capitals. Much of what goes under the name of globalisation consists of national states carrying out policies to promote international competitiveness of their own national economies, maintain or restore profitability to domestic capital. According to Wood, to the extent that capitalists who operate on the global stage have interests in common with others across national boundaries and to the extent that these transnational capitalists have certain international agencies at their command, they could (with great caution) be said to constitute a global capitalist class. But even they must rely on the coercive powers of national states:

It is no doubt true that national governments are now more than ever obliged to act in the interests of 'global' no less than local capital, including the interests of 'transnational' capital with its home base elsewhere. But this is significant not only because those capitalist interests are global but also because they need the nation-state to sustain them. (Wood 2002, 27)

For Wood, therefore, the critical point is the organisation of capital on national principles even if there is a global capitalist class in formation. Indeed, capitalism has spread by reproducing its national reorganisation.

The formation of the global capitalist class is also acknowledged by Tsoukalas. Following Poulantzas (1974), Tsoukalas stresses that 'autonomous national bourgeoisies' are being increasingly disarticulated as parts of this class must 'de-localise' and become part of 'international capital' in order to remain viable (p.62). Accordingly, contradictions between fractions of capital within nation states are 'internationalised'

In this framework, 'international agencies of capital, like the IMF or the World Bank (WB), are above all agents of specific national capitals, and derive whatever powers of enforcement they have from nation-states – both the imperial states that command them and the subordinate states that carry out their orders' (Wood 1999, 5)

Therefore, these agencies reflect state-sponsored processes of globalisation (Tsoukalas 1999, 61).

This Marxist approach gives the analytical priority to political processes and builds the analysis of contemporary capitalism on the primacy of national units of accumulation. Wood emphasises that nation states have been carrying out policies mostly to promote international competitiveness of their own national economies. This is, no doubt true, but it avoids a question central to this thesis: how does the state mediate the relations between fractions of capital when different parts of capital have different expectations of the state with respect to the global mobility of capital.

2.6.2 The Thesis of the Transnational Class Formation

Another group of Marxist analysts, similar to Wood and Tsoukalas, also claim that capital still relies on a national base for reproduction of its social relations as well as for expansion across borders. What distinguishes them is that they argue an emerging *transnational capitalist class* (TCC) is the material force that drives rising globalisation of capitalism (Gill 1990; Cox 1987; Van der Pijl 1998; 2001/2002).

These neo-Gramscian scholars treat capital as globally-integrated and see that there are political forces that cross national boundaries. *Yet within this apparent transcendence of a national taxonomy of capital there remains an underlying nationalism* not dissimilar from that of Wood. This shows through when a transnational class is defined in terms of the affinity of a number of different national capitalist classes. Such a class can be said to be, 'transnational' because it is constituted by an aggregation of national capitalist class interests, not because it has a distinctive, transnational class interest. An alternative conception emphasises not national affinity, but an international integration of capital, and hence a single interest. Sklair (2001, 2002), for example, stresses the need for conceiving classes outside state-centrism by arguing that the formation of a transnational capitalist class hollows out the notion of national interest.

However, Sklair fails to adequately theorise the state within the context of rising transnational integration of capital.⁹

Rooted in the post-imperialism theories of 1980s (e.g. Becker et al. 1987), some other scholars, on the other hand, criticise the nation-state-centred concept of class¹⁰ and develop the theory of the transnationalisation of the state (TNS).¹¹ These Marxist scholars argue that the old international alliance of national bourgeoisies has mutated into a transnational bourgeoisie which is a bourgeoisie whose coordinates are no longer national (Robinson 2002, 215).¹²

The thesis of the TNS claims that the nation state is becoming *transformed and absorbed into a larger structure of a transnational state*. The global decentralisation and fragmentation of the production process and the supranational integration of national productive structures redefine capital accumulation, and classes, in relation to the nation state (Burbach & Robinson 1999; Robinson & Harris 2000; Robinson 2001a, 2002). Corresponding to the emergence of transnationalised fractions of 'local' dominant groups in every country in recent years (Robinson & Harris 2000, 23) (with ramifications for a transnational proletariat), the state as a class relation is also becoming transnationalised. The nation states and a wide variety of supranational institutions, as part of a transnational state, aim to convert the world into a single unified field for global capitalism through standardisation in the codes and rules of the global markets (Robinson & Harris 2000, 29; Robinson 2002, 220-223). In this framework, supranational institutions are not merely instruments of a world bourgeoisie against world labour; they are also instruments of some fractions of capital against others (Robinson & Harris 2000,

⁹ Sklair, by conflating class with state, includes 'globalising bureaucrats and politicians ('the state fraction') among the components of transnational capitalist class.

¹⁰ See Robinson & Harris (2000) and Robinson (2001/2002) for the critique of Van der Pijl, Cox, Gill and Sklair.

¹¹ Glassman (1999, 673) also introduces the concept of the internationalisation of the state which he defines 'as a process in which state apparatus becomes increasingly oriented towards facilitating capital accumulation for the most internationalized investors, regardless of their nationality'. Glassman acknowledges the simultaneous representation of national and foreign capital within the state in the process of the internationalisation of capital; but, he does not make such a claim that a new form of non-territorial state is in formation.

¹² Yet, in response to the criticism made by Block (2001), Robinson (2001b, 232) acknowledges at the same time conflicting pressures within this fraction which prevent its real internal unity.

29). *They suppress national fractions and promote the interests of transnational fractions.*¹³

Overall, both the post-imperialist and neo-Gramscian theorists explain the developments in global political economy since the 1970s with reference to *the international self-organisation of the capitalist ruling class*. Their emphasis on the agency of TNCs or the more complex ideological and institutional mechanisms that characterise hegemonic world orders respectively¹⁴ makes these theories over-prescriptive. For example, by giving the priority to the international scale, Robinson and Harris readily accept that nation states are captured by the will of a TCC. This disregards that the nation state is continuously redefined through the conflicts between (fractions of) classes. These Marxist accounts not only leave no place for class struggle between labour and capital, but also easily assume that national fractions of classes became spontaneously subordinated to the more globally organised fractions of capital. The current rise of globally oriented fractions of capital as the hegemonic part of capital in many country contexts corresponds to a certain historical phase in the development of world capitalism.

The study of Turkish banking reform does indeed present elements of this theory, for the outcome of the reform process has indeed been to advance the connections between big 'Turkish' banks with some of the world's largest banks. Yet the state intervention in the reform process also had some elements which oversaw the reproduction and advance of accumulation for total capital, including the less globally

¹³ The thesis of the TNS is criticised on the ground that it is not supported by much empirical evidence (see Mann 2001/2002; Arrighi 2001/2002). Robinson (2001/2002, 500) indeed accepted the need for more empirical researches to test their thesis. Robinson states that their works are early approximations in an ongoing research agenda which intended to lay out the theoretical argument and map the direction of further investigation. Yet Robinson and Harris (2000, 20-21) stress that the argument of the continued existence of the phenomenon of nation state within the globalisation *process* of capital does not validate their view of globalisation as an epochal shift in the development of world capitalism. National and transnational class fractions and contradictions among them can coexist. Yet 'what is important for materialist analysis is the capture of the direction of historic movement and the tendencies underway, even when such historic processes are open-ended'. And Robinson and Harris assert that *the tendency is towards a transnationalisation of the state corresponding to the process of the transnationalisation of capital*.

¹⁴ For a critical review of these two approaches see Colas (2002, 197-203).

oriented fraction. In brief, there is a need to put the class determined nature of the state at the centre of analysis and, on this basis to study historically-specific and contested state mediation between fractions of capital.

Here, as we found in relation to the theory of fractions, there are dangers of over-generalising about the way in which contradictions will be played out. Accordingly, it is appropriate to focus on the issues raised in our consideration of Marxist theory, and apply them to Turkish banking reform in some preliminary way.

2.6.2.1 Implications for the Analysis of Turkey

Whether the nation state is being superseded by a supranational form of state or will continue to be a fundamental pillar in the reproduction of global social relations of capital is an open-ended and historical question. Yet the following arguments by Marxist theorists of transnational class formation are observed in the Turkish case.

1. The process of the formation of a TCC and the role of nation state within this process:

The main issue that arise from the Marxist debates is the formation of a TCC that shares transnational interest vis-à-vis domestically oriented capitals. Consistent with Robinson and Harris, we see the Turkish state, in collaboration with the IMF (and some other supranational institutions), promoting global advancement of accumulation on behalf of a particular fraction of Turkish capital, which is concentrated, globally oriented and pursuing further global accumulation.

2. The transnational orientation by the Third World's capital:

Robinson and Harris (2000, 35) assert that even if it is in the Third World where transnational class formation is weakest and where 'national' bourgeoisies may still control states, some sections of Third World's capital are increasingly being part of transnational capital by their own international direct investments (IDIs) and by integrating into global circuits of accumulation. This point is crucial because, as the

following sections will discuss, the idea of the polarisation between the North and the South continue to be prevalent even among Marxist scholars. Consistent with Robinson and Harris (2000), the empirical analysis shows that during the recent restructuring of capital, the leading Turkish conglomerates oriented more towards global accumulation, including via their rising IDIs. To allocate a position to Turkey in the international division of labour neglects the divergent positions of individual Turkish capitals in the global circulation of capital.

3. The transnational concentration of capital through global merger and acquisitions (M&As) contributes to the rise of transnational bourgeoisie

The argument by Robinson and Harris (2000, 34) that is the rising concentration of capital through global M&As is being observed in Turkish banking with the search for foreign partners by the leading Turkish conglomerates. In order to get stronger in global financial markets, with the support of the state, the conglomerates restructured their banking arms and have tended to establish partnerships with leading world banks. These conglomerates increasingly seek inclusion into global capital not only in their production operations, but also in their financial arms. This is an ongoing process, indicating that the TNS thesis gives important signals for the future direction of capitalism in Turkey. Robinson & Harris (2000, 38) acknowledge this point on a global scale:

There are of course still local and national capitals, and there will be for a long time to come. But they must “de-localise” and link to hegemonic transnational capital if they are to survive. Territorially restricted capital cannot compete with its transnationally mobile counterpart.

4. The effects of the unfolding world economic crises in terms of accelerating transnational integration of local capitalists of affected countries:

Robinson and Harris (2000, 39) note the restructuring in the powerful financial-industrial capital groups of South Korea (the chaebols) in the aftermaths of the Asian crisis. The chaebols have been compelled to sell off national assets to TNCs and at the same time they have forged partnerships with corporations from other areas of the world. This observation is also valid in the Turkish case. Under the adverse effects of the recent Asian and Russian financial crises, which were aggravated by two crises in Turkish

financial markets in 2000 and 2001, the Turkish conglomerates also needed to reorganise their overall corporate strategies, including their banking arms. This restructuring towards global market orientation, as the thesis will explain in detail, involved foreign partnership searches inside and outside Turkey as well as rising IDIs.

These scholars argue that the IMF 'used' the crises 'to place greater leverage on Third World countries to further open up to global corporations' (Robinson and Harris 2000, 44). This argument by Robinson and Harris is not verified by the empirical study of the Turkish case. The analysis of Turkish banks (and their conglomerates) indicates that their restructurings were not originated simply in the IMF's trap. One fraction of Turkish FC, together with other large and externally-oriented capitals, led the change in Turkey and solidified their hegemony within the Turkish bourgeoisie.

5. The IMF may pursue transnational capitalists' interests which should not be reduced to specific national interests:

Mann (2001/2002, 466), in his critique of Robinson and Harris, argues that the staff of the IMF, WTO, etc. are the protectors of national capitalists interests of their own country of origin. Yet Robinson (2001/2002, 504-505) criticises this view as it comes from the 'fatal nation-state-centric-flaw in Mann's reasoning'. Robinson claims that fractions of hegemonic transnational capital have gained a commanding influence over most nation states. Seen in this light, officials from particular governments who staff the IMF may well be pursuing transnational capitalists' interests within these organisations and not 'American', 'German' or 'Japanese' interests of their country origin. 'This then becomes an empirical question as to state policies and practices and particular and shifting historic constellations of social forces that drive them', Robinson adds. Some other authors (e.g. Panitch & Gindin (2004), Gowan (2003)) see the IMF as the expression of the hegemony of a distinctly US version of capitalism. The thesis does not engage the debate about whether the current form of global capitalism can be attributed to the US hegemony of a distinctly US form of capitalism. It simply contends that,

irrespective of this, the IMF is not the agent of particular capitals according to their nation of origin.¹⁵

The analysis of the IMF involvement in the Turkish bank reform shows that seeing the IMF, and other international institutions, as simply the agents of advanced countries' capital overlooks the more complex relationship between the nation state and those institutions. In the Turkish case, the IMF acted effectively as part of the Turkish state on the basis of a particular constellation of domestic class forces. Therefore, the IMF is better to be presented as the institution of world capital (advanced particular capital) within particular national agendas. The IMF seeks the expansion and reproduction of the global circuit of capital.

2.7 Does a Nation State Occupy a Single Position in the Global System?

An underlying issue that informs many of the above theoretical debates, and is certainly important in the Turkish debate, is the notion that nation states occupy positions in a structure (usually hierarchy) of nation states. Nations and their states are often labelled 'core', 'periphery', 'semi-periphery', etc. with the presumption that this is some explanation of the pattern of accumulation within a nation. This thesis contends that attributing nations with particular single position in a global structure occludes an understanding of the restructuring of capital that sees some fractions of capital, and some individual capitals occupying some sorts of relations with global accumulation, and other fractions and individual capitals occupying other positions. *An analysis of structural change must see 'positions' as transforming, and with no reason to assume that all capitals within a nation occupy the same position.*

Nonetheless, the notion of nations occupying positions is prevalent, and warrants some consideration.

The early theories of imperialism before the First World War and the second wave of theories of imperialism after the Second World War started from the supposed hierarchy of the world on the basis of nations. First wave of theories mostly focused on

¹⁵ This thesis does not take the strong position that the world is structured under the hegemony of US capital. It is an important debate but not germane to the Turkish case.

the power struggle among major European countries for the domination of the globe (e.g. Bukharin 1915, Hilferding 1910, Kautsky 1914 and Lenin 1917). The latter wave of theories was more concerned with the inequality between developed and underdeveloped countries (Sutcliffe 2001, 139). The central idea in these position theories has been the polarisation between the core and peripheral countries through a transfer of surplus product from the latter to the former and the resultant oppressed economic development in the periphery (e.g. the Dependency Theory (Baran 1957, Frank 1966, Amin 1974), the World Systems Analysis ¹⁶ (Wallerstein 1974), and the NIDL Thesis (Fröbel, Heinrichs & Kreye 1980)).

The NIDL thesis emerged in the early 1980s. It is centred on the idea that nation states keep functional positions within the world capitalism. This thesis argued the relocation of industries to the periphery and de-industrialisation of the centre whose capital was in the search of low-abundant wages of the former. The NIDL theorists see this division of labour as driven by TNCs' pursuit of maximum profit, especially via use of cheap labour while bringing no genuine development for Third World.

The issue of the international division of labour has been central to recent debates in Turkey. As Chapter 3 will address, the nationalist/developmentalist scholars, who pose the debate in the context of Turkey, have attributed the neo-liberal orientation in the economy to the NIDL, imposition of foreign capital and its global institutions, making Turkey a branch plant for TNCs at the cost of an independent, nationally-integrated, state-led development strategy.

The above discussed TNS thesis challenges this division of the world economy. This theory argues that the transnational integration of fractions of capitalist classes within a global production system leaves behind spatial dimensions of the global division of labour (see Robinson 2001/2002, 502-503). On this ground, the *geographic* core-periphery polarisation is being replaced by a *social* core-periphery polarisation which cuts across all societies and regions of the world (Robinson 2001a, 558; Robinson 2001/2002, 502-503).¹⁷ The process of globalisation leads to de-nationalisation of capital

¹⁶ While there are notes of a 'semi-periphery', the theoretical framework is nonetheless conceived through a theoretical binarism.

¹⁷ 'Transnational integration of production systems cutting across the North-South divide suggest the need for rethinking development not as a national process, in which what "develops"

which is the opposite idea of imperialism: class not nation forms only fundamental basis of division of the world social system (c.f. Sutcliffe 2001, 148).

In contrast to the TNS thesis, world systems analysts and other polarisation theorists see recent developments in the globalisation process as a new form taken by imperialism in the polarisation/dependency sense (c.f. Sutcliffe 2001, 147). The globalisation process, it is argued, is deepening the polarisation between the North and the South. Third World's economies are opened up to Northern capital since otherwise they would be subjected not only to economic stagnation, but also to political destabilisation (c.f. Radice 2001, 14). The neo-liberal restructuring under the supervision of the international institutions such as the IMF, WB, etc. increases the power of the countries of the North over those of the South. The Southern state has become more subordinate than any time since the colonial era (e.g. Wood 1999, 2002; Hoogwelt 1997; Scholte 1997).

For instance, Arrighi (2001/2002), from the perspective of the World Systems Theory, agrees that a world state is indeed in formation (pp. 473-4). Yet the North-South division has continuous significance, particularly in shaping processes of world-state formation. The dispersal of manufacturing activities in the South has not resulted in any reduction of the income gap between the two formations (Arrighi 2005, 34).¹⁸

The main deficiency in position theories is that change in domestic economies of the 'Third World' is too readily attributed to external forces and 'internal' class dynamics of those countries are neglected. As Overbeek (1990, 13-14) states, the argument that position in the international division of labour is the main determinant in the structure of the world economy regards *primarily the position of geographical units, not that of classes or class fractions* (see also Jenkins 1984). Indeed, capitalist class relations were, from their very inception, located in a global context (the world economy).

is a nation – but in terms of developed, underdeveloped, and intermediate population groups in a transnational environment' (Robinson 2001/2002, 502).

¹⁸ Robinson (2001/2002, 502) in response criticises Arrighi's use of Gross National Product (GNP) per capita as an indicator of the continued inequality between the North and the South. This is a nation-state-centric data which in fact disguises the processes involved in transnational class formation, Robinson argues.

This issue is of critical importance in the study of Turkish restructuring. Instead of depicting Turkey as a 'peripheral' country, with an associate of propositions about the subordination of 'Turkish' capital and the incapacity of the Turkish state to secure the conditions of accumulation, this thesis develops a vastly different analysis. Later chapters show that different parts of Turkish capital have integrated globally in different ways, and that this difference has been overseen by the state (and the IMF).

Related to position theories, IMF structural adjustment programs are widely evaluated as imposing neo-liberal restructuring in developing countries, and locking these countries into certain policies that generate certain economic structures that are then judged functional for global capital. In other words, an 'outside-in' approach is almost unquestionably adopted in the literature. For example, Yaghmaian (1998, 259, 261) asserts that IMF policies help national institutional restructuring and wage regulation conducive to international accumulation in order to facilitate integration into the world market. It is labour that bears the cost of international competitiveness through lower real wages and higher productivity. These latter observations are not disputed here. What is contested is the impetus that drives this subordination of labour. Yaghmaian stresses that these policies have been enforced in different national sites by supranational institutions, including the IMF:

Loan-seeking states are required to accept the structural and regulatory conditions of capitals in the global circuit by removing national obstacles to international accumulation.

The apparently assertive stance of the IMF over the Turkish state during the reform could have led to such a conclusion. Indeed the IMF put pressure on the Turkish state to implement some policies which the state itself found hard to implement. But the empirical analysis of the Turkish case shows that the IMF acted effectively as part of the Turkish state in the process of banking reform. Seeing the IMF as an agent of Western capitalism and with objectives contrary to those of Turkey implies there is a collective interest in Turkey and that the IMF wants Turkey play a certain role in the world economy, and imposes policies to secure this role. Here it needs to be considered that certain fractions of capital within 'developing countries' also seek this national restructuring in order to facilitate their inclusions into international capital.

This issue points to the opposing interests of fractions of capital within the accumulation process and state mediation between those interests. The following section lays out the basis for the empirical study of the thesis in light of the reviewed literature.

2.8 Questions to be explored in the Turkish Case

In order to understand the restructuring of capital within Turkey, the thesis started from the question of how ‘endogenising’ those so-called external forces can allow us to think about Turkey differently. This permits the study of Turkey as part of global accumulation and the analysis of the Turkish state as a mediator between different parts of capital having various spatial agendas. This particular way of framing the question will bring about a very different explanation of the change in Turkey from the wider debates on the relationship between the state and globalisation.

On this ground, the issues explored in this chapter raise the following questions to be studied in the Turkish case:

- The role of the state in the reproduction of capital in the context of banking sector crisis,
- State mediation between fractions of capital with different spatial patterns of accumulation,
- The participation of foreign capital in banking reform as being *integral* to the restructuring by Turkish FC,
- The manifestation of global integration of Turkish FC as an accumulation strategy for the Turkish state, and
- The role of the IMF in the domestic policy.

The objective of this thesis is to present state mediation of contradictory relations between fractions of capital during the Turkish banking reform, and particularly within the context of the close supervision of the IMF. The thesis utilises the circuit of social capital as the basis of defining fractions of Turkish FC. When these fractions are defined with respect to their circuits of accumulation, it becomes apparent that this definition does not correspond particularly closely with differentiation on the basis of size or

nationality of ownership: the 'usual' way divisions are defined. In the definition of the links or alliances between individual capitals on state policies of bank reform, two criteria are crucial. Firstly, at which point in the circuit of social capital the individual capitals capture surplus value; and secondly, at which points in the circuit do they participate in global integration, and what particular form of integration, with respect to the production and distribution of surplus value.¹⁹

Framed in this way, the state policy has impacts on these criteria. The Turkish state (under the supervision of the IMF) managed the reform of banking by advancing particular forms of global integration by certain divisions of FC. To do this, it had to shut down other forms of accumulation, undertaken by other capitals.

In this framing, globalisation is not an outside force, but integral to the reproduction of relations of production within the nation. That is because space of accumulation and space of nation territory are not the same. Different parts of capital integrate with global accumulation process in different ways and the state mediates between fractions of capital having various spaces of agendas.

2.9 Conclusion

Most of the debates on globalisation are imprisoned to the counterposition between the nation state and globalising capital. Where analysis has been able to move beyond this counterpositioning, the role of the nation state remains contentious.

This thesis argues that the nation state oversees the integration of domestic accumulation process into global process on the basis of domestic balance of class forces. Here the state is approached as a constitution that is continuously redefined by class struggle. Thus, the state mediation between divided interests of capital, including foreign

¹⁹ In the application of the fractionalist approach to any change process, there is a danger of too rigid definition of fractions. The determination of fractions relates to divisions between circuits of capital, and especially spatial divisions and corresponds to a particular stage of capitalist development. So the application of the factionalist approach to any specific context needs to avoid of over-formularisation or pre-determinism. This means that we can identify fractional divisions separately for each specific context, which is suitable for the exposition of that particular case.

capital, becomes the central issue in the theorisation of the nation state within the context of global expansion of capital.

This proposition does not, however, provide a formula from which state policy can be 'read-off'. On the contrary, it involves framing the contradictions of state policy in a way that points to the need for detailed case studies in order to find out particular class forces that underlie particular state policies in different spatial and historical contexts.

The study of Turkey involves an historical exploration of the relationship between the nation state and the globalisation of capital. The details of this study are presented in subsequent chapters, but two propositions form its starting point.

First, it is not helpful to depict Turkey as a 'peripheral' economy if the implication is that all state policy is destined to enforce that status for all capital. Different capitals in Turkey have particular histories, and they are not inherently shackled by such national branding. Their particular patterns of accumulation need to be explored, so that the contradictions which the state must mediate can be defined.

Second, while the IMF was integral to bank reforms in Turkey, it should not be presumed that its role was to impose a single reform 'script' on the Turkish state, and certainly not a script that read 'deregulate'. The IMF may have over-arching agendas, but in a particular reform process, it confronts the same contradictory interests of capital as does the state, and, certainly in the Turkish case, these contradictions cannot simply solved by decree, but involve the playing out of class processes.

We can now begin the detailed story.

CHAPTER 3

DISCOURSES ON TURKISH BANKING REFORM

- 3.1 Introduction
 - 3.2 The Neo-liberal Approach
 - 3.3 The Institutionalist Approach
 - 3.3.1 Populism and the Fiscal Crisis of the State
 - 3.3.2 The Asymmetric Relation of Capital with the State
 - 3.3.3 The IMF with a Short-Term Policy Vision
 - 3.4 The Nationalist/Developmentalist Approach
 - 3.5 The Marxist Approach
 - 3.5.1 Nationalism vis-à-vis the Logic of Capital Accumulation
 - 3.5.2 State Policies in the Context of the Global Orientation in Domestic Accumulation
 - 3.5.3 The Need for a Fractional Analysis of Banking Reform
 - 3.6 Conclusion
-

3.1 Introduction

As the Turkish economy slumped into a severe recession which was accompanied by the outbreak of two financial crises, bank reform came to form the core of the debates in Turkish mass media with a particular focus on the embezzlement of banks. What were the reasons for those bank failures? What might be the solution for the recovery of banking?

Among different schools of political economy there has been a deep disagreement about the origin of the problem faced by Turkish banking, the way crises have been handled, and the required structural reform. It must be acknowledged that this debate has been often at cross purposes — different themes, generating different interpretations.

This chapter addresses how various theories explain changes in the Turkish economy accompanying the reform of banking. This discussion will show how their different world views and analytical categories point these discourses to particular interpretations of the reform.

The review of different schools' stance on banking reform will begin with an analysis of their general analytical frameworks on the Turkish economy before discussing their specific arguments on banking. This focus is adopted for three reasons.

Firstly, Turkish banking reform has been paid little attention among different schools of political economy. Indeed, the majority of the literature is limited to stating empirical facts and chronological events regarding the reform. Also, in many works, banking reform is not given primary attention and appears only as a secondary issue in the discussion of other topics. Therefore, this literature review will address not only how different schools analyse banking reform, but also, where they situate the reform within broader economic change.

Secondly, the banking reform represents a new stage in the global advancement of Turkish capitalism in the post-1980s era. The reform is closely related to other important aspects of the period such as state borrowing policy and financial liberalisation. After the mid 1980s — especially the 1989 capital account liberalisation — the state borrowing policy (in which banks were the largest customer) became a source of protectionism for FC. The banks placed foreign loans and other deposits in government securities, which earned them unprecedented margins. Due to the organic links between banks and industry, banks became a bridge between their conglomerates and state borrowing in channelling money capital. Hence, locating the discussion of banking reform within the broader context of the change in Turkish economy will show how different schools explain the links between those important aspects of capital accumulation regime and position banking reform.

Thirdly, the ownership of banks by conglomerates requires consideration of the wider ramifications of this ownership structure in the analysis of the banking sector. To isolate the banking sector for discrete analysis fails to recognise the pervasive effects of the conglomerate structure. Thus, departing from general analytical frameworks of

different schools will allow us to see how they approach to the articulation between finance and production spheres.

On this basis, the neo-liberal, institutionalist, nationalist/developmentalist and Marxist approaches will be reviewed: how they explain the transformation that Turkey has been experiencing; their policy agendas; how they analyse banking reform and the role of the state and the IMF within it; and the contributions/limitations/contradictions in these explanations.

This thesis is conceived within a Marxist framework. The Marxist interpretation, it will be seen, brings the dynamic class dimension of bank reform to the fore, and later chapters will utilise this approach to give the details of bank reform a wider social and economic meaning. This opens up a quite different analytical agenda to one based solely on inefficiency and market forces, or institutional relations which retard national development. Just why these alternative views are seen as limited in the context of Turkish banking reform is the subject of this chapter. Moreover, there is no unified Marxist approach and no absolute divide between the Marxist paradigms, so this chapter is also an attempt to develop a particular set of Marxist-informed questions which address the process of bank reform.

3.2 The Neo-liberal Approach

The neo-liberal discourse contends that market forces, if allowed, serve the interest of the whole society. The approach explains the failures in the economy as a result of inefficient and rent-seeking state intervention. In order to put into effect the rule of market forces, the neo-liberals demand a smaller economic role for the state (Aktan 1997). Accordingly, fiscal austerity and anti-inflationary policy, increased competitiveness and privatisation are advocated as the solution to financial crises and rebuilding macro-economic balances in the economy. In particular, it is argued that there is a need to eradicate state subsidies for agriculture and social security, remove high government deficits and public sector borrowing (see Çolak 2001; Akçay, Alper &

Özmucur 1996; Akçay, Alper & Özmucur 2001, Akçay 2001).¹ Yet, an interrogation of interest payments to benefactor fractions of capital from the budget is systematically excluded and primary surpluses are supported to reduce state debt stock. The policies implemented in line with the neo-liberal policy agenda meant squeezed welfare state expenditures and repressed income policy for labour during the recent fiscal crisis of the state.

As such, as a program of reform, neo-liberalism also demands a clear state agenda to implement the reforms, including supervision by the IMF. The state is both the source of the problem (distortions) and the source of the solution (the removal of distortions). Hence, the neo-liberal approach is at once a political agenda of breaking down vested conservative interests and eradicating associated corruption in the interests of facilitating market forces. The failure of reforms is therefore posed as a failure of the state (see Alper 2001, Eğilmez 2001a).²

Specifically, in relation to banking, Ersel (1999), Çolak (2001) and Akçay (2001) point to the state as the party responsible for the distortions in banking: the existence of full-insurance scheme, the problems associated with state banks (such as their unfair competition, weak financial structures due to duty losses), insufficient regulation and supervision of banking which caused corruption and misuse of some banks, foreign banks' limited participation in the sector and their high engagement with arbitrage gains, etc.³

¹ More left-liberals contend breaking down the conglomerates so as to create (so-called) competitive markets.

² When the three-year IMF stabilisation program collapsed almost 12 months after its launch, the neo-liberals criticised improper management of the government authorities and some design flaws in the program which was otherwise the cure for macroeconomic imbalances and non-sustainable growth.

³ Within the neo-liberal discussion, a common stress is made on the 'puzzle' between high profitability and limited foreign presence in the banking sector. For instance, Akçay (2003, 170-171) argues that 'astonishing question' on Turkish banking is that though the sector enjoyed 'above-normal economic profits' why foreign banks with their higher efficiency and scales were not lured to the sector and the presence of foreign banks remained extremely low compared to similar emerging markets. He explains this situation with lax and arbitrary supervision in the sector which created 'a potentially non-competitive environment open to favoritism'. He also indicates that the paradoxical situation disappears 'when one realizes that the presence of foreign banks had exceeded their visibility. In other words, the share of foreign assets held by those banks had been substantially lower than their share in government securities transactions.'

Furthermore, considering the unstable macroeconomic environment *created by the state*, the engagement of banking with state debt finance instead of credit allocation becomes justifiable to the public as it led banks to arbitrage gains (Alper et al. 2001). For Akçay 'a permanent solution to the banking sector ultimately boils down to the reduced borrowing need of the Treasury, and thus to increased fiscal discipline and improved public sector balance' (Akçay 2003, 186). Establishment of macroeconomic balances will allow banking to realise its financial intermediary role effectively.

From this brief summary, we can raise a number of concerns about the neo-liberal approach – apart, that is, from its ideological starting point, which is taken as given.

Firstly, this approach views finance as a discrete sector without concern for the catalytic role of banks within their conglomerates' overall accumulation (Ertuğrul & Selçuk 2001; Erzan, Akçay & Yolalan 2001). Even if 'the misuse of banks by their owners' is sometimes mentioned (e.g. Akçay 2001; Akçay 2003), it is considered merely as an issue of treated at the level of corruption by the owners of small banks and politicians, not as a systemic part of capital accumulation in Turkey.

Secondly, the concern for market efficiency as a historically conceived goal leaves the issue of conflicts within banking, which drives the analysis of later chapters, as a rather minor and untheorised issue. The conflicts within banking are considered mainly between small and large banks as well as between private and state banks. The explanation of the reform also centres only on state-driven distortions. For example, Akçay (2001, 40-42) contends that the misused banks owed their existence to the state due to the allocation of bank licences to people 'whose creditworthiness as credit customers would be questionable at best', insufficient supervision of banking, full insurance scheme, etc. The state banks, on the other hand, are accused of increasing the fragility in banking along with small banks: 'the abuse and mismanagement had been limited to the "small bank" sub-sector of the banking industry, but coupled with the humongous problems of the state banks, the systemic risk to the entire banking community had become quite sizable' (Akçay 2001, 40). By indicating the absence of a prudent regulatory environment as the underlying factor for these distortions, Akçay (2003, 172) continues:

A 100 percent guarantee deposit insurance scheme that was enacted during the 1994 crisis served as an extreme case of “moral hazard” and distorted the system in favor of the improperly managed, inefficient, and aggressive banks at the expense of the properly managed ones. Reckless behavior by small and aggressive banks in collecting deposits, in a way similar to that of the state banks who had a free hand in creating the so called “duty losses”, weakened the status of the overall sector as the full guarantee worked as a risk cover for the small sharks, while the risk was being taken care of by the state.

Hence, the neo-liberal political analysis is posed in terms of individual actors, not systems and of equilibrium, not conflicts. Therefore, they cannot explain a systematic realignment in relations between capitals, which this thesis argues is at the core of the restructuring.⁴

Thirdly, it follows that the role of the state is framed only in terms of its facilitation or distortion of the market, not in terms of its role in managing conflicts over banking reforms. The effect is a rather limited conception of politics in the neo-liberal analysis. Instead of framing the entrenched interests that the state has to combat in implementing reform, the role that the state played in rebuilding capital accumulation, and the delicacy of managing the closure of financial institutions without creating financial crises, the neo-liberals tend towards making absolutist stands on ‘correct’ and ‘incorrect’ policy. But bank disclosures cannot be reduced to a moral hazard problem, and bank reform cannot be conceived in terms of simulating perfect competition. The neo-liberal analysis, centring on relations of exchange and sphere of circulation and

⁴ There are many other works that classify banks according to changing combinations of financial ratios by using different statistical methods and periods of time. In these works, firstly, it is generally argued that foreign and private banks were more efficient than state banks in the post-1980 period (for a literature review on this issue see İnan 2000).

The second argument is that while small-to-medium scale banks suffered in their performance after the 1994 crisis, large scale banks had a relatively better performance (Merican & Yolalan 2000). Thirdly, via ordering individual deposit banks according to their calculated efficiency scores, many works try to prove that the banks that were transferred to the Savings Deposits Insurance Fund (SDIF) were the most inefficient banks in the sector (Canbaşı & Vural 2002; Pekkaya, Aydoğan & Tosuner 2002).

However, even though the confiscated banks were likely to be the weakest ones in the sector, this kind of grouping of banks does not clarify what led those banks to perform so poorly. Thus, the link between overall accumulation strategies of the owner conglomerates and bank financial performances remains unaccounted for. Secondly, just considering banks’ financial ratios causes confusion in understanding the seizure process, as it is possible to see that some of the most ailing banks are placed above non-confiscated banks in many efficiency sequences of banks (see for instance Canbaşı & Vural, 2002, Pekkaya et al. 2002).

surface reflections of capital accumulation process such as interest, inflation and exchange rates, leads to disregard of the class issues of bank reform (Ercan 2002a, 6).

3.3 The Institutional Approach

'Institutionalism' is a loosely defined term in the Turkish context, as it is generally. Clearly, it gives focus to institutions, but it does not present an alternative theory or world view. Yet there is a spectrum of opinion in Turkish social science that self-identifies as 'Institutionalist' (e.g. Öniş and Buğra) and their works are focused here.

The institutionalist approach presents a more political and less mechanistic understanding than does the neo-liberal approach of the ongoing transformation in the Turkish economy. At the centre of this discourse is the state, its policies and, in relation to banking, its relationship to major financial institutions. While the neo-liberals criticise the state for the creation of distortions, institutionalists criticise the state for not focusing on 'limited and well-defined objectives' for enhancing productivity and competitiveness in global markets. Instead, in the view of institutionalists state policies have led to macroeconomic imbalances and to the outbreak of financial crises.

Their policy proposals accordingly focus on the creation of macro balance. It is argued that to avoid the 'overload' expenditure demands, the state should focus on 'a limited number of well-defined objectives' (Öniş 1999b, 506). To do this, there is a need for a transition to the 'post-populist state'. This state should play a complementary role as opposed to a direct entrepreneurial role for enhancing productivity and accumulation via infrastructural investment, support for key infant industries, and utilisation of non-populist instruments of income distribution (such as tax reform and better education and health care) (Öniş 1999a, 470-472).

This thesis shares some key common approaches to the interpretation of Turkish economy with the institutionalists, in particular the emphasis on the 'state-created-nature of the bourgeoisie' and the fractional structure of capital. Yet the institutionalist approach takes a specific focus on the institutionalist framework, and one that proves limited in explaining bank reform as a class fractional process. It is therefore appropriate to present

the general framework of the institutionalist analysis so that this more particular issue can be placed in context.

4.3.1 Populism and the Fiscal Crisis of the State

The Turkish state's mounting debt is posed, in the framework of O'Connor (1973) as a fiscal crisis of the state in terms of demands for state expenditure which exceed state revenue-raising capacity. These systemic state deficits are explained as 'populist cycles', which are themselves linked to *the distributional forces* at work in the society (e.g. Öniş 1999b, 496).

During the 'populist cycle' of 1987-1993, the state expenditures increased due to the distributional pressures which are mainly attributed to wage earners and agricultural producers (Öniş 1999b, 500; Alper & Öniş 2003a, 10). With the relaxation of restrictions on political parties and union activity after 1987 that had been put into effect after the 1980 coup, workers and agricultural producers ('the losers' of the early phase of stabilisation and export orientation in the post-1980 era) were able to create distributional pressures to counteract their losses. Also, subsidies to capital that compensated 'the winners' (such as low tax, cheap import inputs and preferential access to public banks' credits) are secondarily referred ⁵ to as the source of the distributional pressures (Öniş 2001, 501; Alper & Öniş 2003, 16).

Capital account liberalisation in 1989 is linked to the aim of the government to regain electoral support under these distributional pressures (Alper & Öniş 2003a, 11; Öniş & Aysan 2000, 129). This is not presented as an argument against capital account liberalisation. It is an argument that the state mismanaged the process under distributional pressures. The existence of populist cycles is the reason leading the economy to periodic fiscal crisis of the state and encountering with the IMF, rather than the process of financial liberalisation itself (Öniş 2002, 3). The liberalisation process only contributed to a higher frequency of crises. Öniş (2002) accepts the unstable nature of global capital

⁵ 'It would be misleading to equate the emergence of populist cycles of the neo-liberal era purely with the distributional pressures from below. In fact, governments tried to distribute rents to both winners and losers of neo-liberal reforms in order to build broad-based electoral coalitions' (Alper & Öniş 2003a, 15).

movements, but in his view, *Turkey could have benefited from financial liberalisation by attracting FDI if the state had withdrawn itself from short-term politics and clientelistic relations and channelled resources to improve export competitiveness.*

Here, the concept of *democracy* becomes crucial. Turkey is classified as 'a fragile or weak second wave democracy' with an all powerful leader, the relative absence of intra-party democracy, electoral support based on clientelistic ties, etc. (Alper & Öniş 2003a, 8). Then, by linking capital account liberalisation to this political structure, it is argued that a country's 'democratic deficits' may undermine its political and institutional capacity for fully capitalising on the benefits of the financial globalisation (p.3). Conversely, 'the benefits of financial globalisation are crucially dependent on overcoming the democratic deficit and the resulting cycles of economic populism' (p.22).

In terms of bank reform, *the state liberalised the financial system without sufficient regulation and prudential supervision of banking.* This neglect arose, it is argued, because of the specific political structure of Turkey:

In the context of a highly fragmented party system, successive coalition governments in the 1990s lacked the capacity and the incentives necessary for undertaking fiscal stabilisation and regulation of the banking sector, measures which are critical to the success of both financial and capital account liberalisation. (Öniş 2002, 9)

Therefore, despite this specific stress on the country's political structure, the institutionalists share a similar interpretation of banking reform with the neo-liberals. The distortions in banking are attributed again to the state (Alper & Öniş 2002, 10-12): the use of state banks for rent distribution (subsidised lending to SMEs and agriculture); the engagement of private banking with float income and arbitrage opportunities under soft budget constraints of the state; and the counterproductive, negligible presence of foreign banks in the sector that collaborated with domestic banks in sharing excess profits from state debt finance. As a result, the banks appear as passive agents such that their engagement in state finance was simply following profit signals, with the risks incurred by the state, and not the banks.⁶ This conclusion is similar to that of the neo-liberals.

The essential issue here, which differs from the approach of this thesis, is that the institutionalists in Turkey have explained state policy, including capital account

⁶ For a similar analysis see also Yenil (2000).

liberalism and bank reform, in terms of the state's populist political agenda (Öniş 1999a). The problem, as will become apparent later, is that bank reforms cannot be explained by reference to populism. Many elements of the reform were greeted in a hostile manner by powerful parts of capital and wider Turkish society (indeed, it will be argued, the state was happy to hide behind the authority of the IMF in order to avoid populist criticism of its reforms).

Therefore, the evaluation of the source of populism determines the policy suggestions of the institutionalist approach. This approach recognises that large business significantly benefited from lending to the state (see Öniş 1999c, 519). Yet, by linking fiscal deficits to the pressures of workers and agricultural producers (the losers of the '*gross disparities of income and wealth*'), privatisation and elimination of direct redistributive policies in favour of low-income groups such as agricultural support system is justified (see Öniş 1999b, 509). Meanwhile, while the state should focus on improving competitiveness in global markets (Öniş 1999a), improvement in income distribution is to be a *long-run objective*. For the sake of 'the long-term development interest of the country', first the populist cycle is to be broken (Öniş 1999b, 510). Therefore, in these works, populist/distributional pressures appear to be filtered according to the objective of 'development' which is based on an implicit idealised concept of the state who serves 'long-term, common interests' of a homogenous society.

We can now see how this framework is applied to a fractional analysis of capital.

3.3.2 The Asymmetric Relation of Capital with the State

In the institutionalist discourse, the relationship between the state and the bourgeoisie is a central theme. It is posed as an asymmetric relationship in which the state nurtures the development of capital, while capital seeks autonomy from the state. This overall 'struggle' is framed as integral to the process of 'development'.

As a well-known example, Buğra (1987, 1994, 1995, 1997b, 1998) depicts the *tense* nature of the relationship between the state and capital.⁷ For her, all developments in the formation process of the bourgeoisie (such as its improved or retarded progress, its

⁷ For a summary of her description of this tense relationship see Buğra (1994, 16-17).

engagement with rent-seeking rather than production,⁸ and its organisation in business associations) are explained with reference to the asymmetrical relationship between the state and the bourgeoisie.⁹ The state shapes the bourgeoisie 'in conformity with the imperative of international competition and economic development' (Buğra 1994, 14), but also creates uncertainty and ambiguity by precluding the formation of 'a self-confident class' (Buğra 1997b, 106).¹⁰ Conversely, the Turkish bourgeoisie is depicted as struggling to be emancipated from the domination of the state throughout the history of Turkey. For Buğra the key question is the changing *degree* of the dependence of bourgeoisie on the state.¹¹

In this framework, where capital is a creation of the state and the state dominates capital 'for the national development goal', institutionalists have a narrow definition of fractions of capital and the terms of their conflicts. These fractions divide on observable, policy-driven issues. The main divisions are defined on the basis of *scale* (small and large capital) and *function* (productive, commercial and industrial) and the fractional tensions are explored via the business associations, the Turkish Industrialists' and Businessmen's Association (*Türk Sanayicileri ve İşadamları Derneği- TUSIAD*) and the Association of Independent Industrialists and Businessmen (*Türkiye Müstakil Sanayici ve İşadamları Derneği MUSIAD*), in which these divisions are organised. They are empirically highly

⁸ See Buğra (1994, 19, 29).

⁹ For instance, Buğra, besides some other entrepreneurial concerns (1994, 24), links the development of multiactivity firms in some developing countries to the preference of governments to lessen the burden on government planning (1997b, 104) as well as to ambiguities in business-state relations (1994, 28).

¹⁰ Indeed, Buğra (1997b, 102-108) recognises that businessmen benefited from the 'arbitrary and particularist nature of state-business relations in late-industrialising countries'. While big business firms had little difficulty in gaining access to government authorities, labour and small-business remained 'at the mercy of the state — big business partnership'. Yet, she continues to limit her analytical framework to making the point that the bourgeoisie is shaped/nurtured/limited by the state as part of a national development project.

¹¹ For example, if an indigenous business class is virtually nonexistent, as in the case of the early years of the Turkish Republican period, the business class becomes more subordinated to the state, in contrast to the case of Latin American economic development in the twentieth century.

Besides the pre-existence of indigenous business class, this degree of subordination is dependent on the possibility of industrial capital's forming alliances with foreign investors or with landowners as well as rootedness of the legal system and bureaucracy (Buğra (1994, 20, 23)). In such a framework, the participation of foreign capital in the economy helps to limit the state control over big business rather than to be in conflict with national interests as argued by the nationalists (see Buğra (1994, 28)).

visible divisions, not defined according to opposed positions in accumulation. We will see in later chapters that the divisions over banking reform are explicable neither in terms of division over policy nor size, but over forms of global integration: a 'line' of division outside the institutionalist discourse.

Despite this, the works of Öniş & Türem (2001a, 2001b, 3-9) do come close to this thesis's preferred analysis. They identify a fractional division of capital on the basis of the scope of 'global reach of activities'. Yet, they also explore the fractional tensions through business associations, as the *TUSIAD* (representing big business) pursues competitiveness and success in the global market, while the *MUSIAD*'s members are classified as national-based and lacking global reach. The business associations and their relations to fractional conflicts during the bank reform process will be the focus of Chapter 5.

These works offer significant empirical information regarding the formation of the capitalist class in Turkey. They highlight many aspects of the Turkish business associations. Yet, as will be seen in the following sub-section, there is a need to carry the analysis of fractional tensions beyond business associations. Moreover, the definition of fractions on the basis of observable processes becomes particularly limited in the study of Turkish banking reform. The institutionalists cannot clarify, for example, the divisions within banking capital that are organised under *TUSIAD*.¹² Later chapters will highlight different patterns that banking conglomerates accumulate as a solid base for the discussion of banking reform at a deeper level.

3.3.3 The IMF with a Short-Term Policy Vision

The institutionalists see the IMF involvement in bank reform in an eclectic combination of neo-liberal and nationalist terms.

¹² As opposed to the older generation businessmen with closer links to the state, the sub-groups within *TUSIAD* that lead the change in state-capital relations are indicated as more-externally oriented members with close links with the EU and as younger businessmen, as well as those who have looser links to the state and are less dependent on state resources (Öniş & Türem 2001a, 21). This sub-grouping does not provide a solid basis for tracking down contradictions among banking conglomerates.

On the one hand, they see the IMF as easing the radical reform of banking by making controversial legislative changes feasible and providing relative autonomy from domestic resistance to the regulatory agency (Alper & Öniş 2003b). On the other hand they criticise the IMF on a number of grounds: pandering to vested interests (e.g. intervention in the choice of the board members of the Banking Regulation and Supervision Agency (BRSA) (the state branch that oversaw the liquidation of insolvent banks) as undermining the credibility of the BRSA (see Alper & Öniş 2002, 23); focusing on a return to fiscal balance rather than having a concern for bank restructuring (Öniş 2002, 14-16; Alper & Öniş 2002, 24). Therefore, this view holds that with a different sequencing of reforms and policy design, recent financial crises might have been averted and some banks could have been saved from collapse.

In later chapters we argue that the IMF's agenda was primarily restructuring with an international orientation, rather than advocating an agenda of domestic 'efficiency'. This involves pursuing a program to make some banks large and internationally viable, rather than pursuing domestic 'competitive conditions' in banking.

On the other hand, the developmental agenda that pervades the institutionalist approach leads institutionalists to see the long-term impact of the IMF in terms of domestic efficiency. For example:

Long-term growth, however, depends critically on building up domestic capacity and improvement in the country's competitiveness in international markets, issues, which are tangentially addressed by IMF programs... A key challenge therefore is to transform the state from a soft state to an effective, market augmenting "competition state" in the economic realm, whilst softening the "hard state" in the political realm through a process of democratic reforms. (Öniş 2002, 23)

But the focus on democracy also leads the institutionalists to argue the potential for the IMF to pursue agendas contrary to the national interest (Alper & Öniş 2003b, 4).¹³ This takes some institutionalists into the realm of developmental nationalists whose ideas will be considered shortly.

¹³ The institutionalists prefer a change process not primarily driven by external forces (as happened in the case of Turkey) but mainly driven by domestic forces, namely through the actions of civil society organisations and balanced media coverage care (see Alper & Öniş 2003b, 25).

Overall, the institutionalist approach focuses mainly on political phenomena such as populism and weak democracy but fails to consider adequately the structural dynamics of the capital accumulation process (Ercan 2002a, 8). The key feature of this approach is that the state is brought to the fore as an institution and all social developments are attributed to the state.

The institutionalists recognise the power of conglomerates, as in the case of the 'fierce resistance' by Çukurova Group, (which succeeded in restructuring its massive debts with the BRSA in the seizure process of Pamukbank) (Alper & Öniş 2003b, 22). As such, the institutionalist scholars recognise that big business, while getting less dependent on the state, benefits from a range of policies and processes: state debt finance; the socialisation of the losses in the context of bank failures; the acquisitions of media companies to support other business ventures; and links with the military (Öniş & Türem 2001a, 23; 2001b, 20). However, the state's role, especially in relation to capital, is given a limited perspective in the institutionalist approach. The institutionalists may refer to the role of banking lobbies,¹⁴ for example, but there is no attempt made to explain the material basis of these lobbies (the economic basis of their interests). As well, the lobbies are seen as exogenous to the state and are treated as political pressures on an otherwise independent state. Moreover, in this independent role, the state is simply presumed to pursue a national developmentalist agenda, and this framework precludes asking which particular fractional agendas state policies serve. The institutionalists attribute the causal relationships in the state-capital relation proceeding from state-led-development towards capital rather than from fractional interests towards particular state policies.

It will be seen in later chapters that the relation between the state and capital is more complex than can be captured by this institutionalist framework.

3.4 The Nationalist / Developmentalist Approach

The nationalist/developmentalist approach has been the most prominent line of critique in the study of the Turkish economy, undoubtedly because it focuses directly on

¹⁴ For instance, 'banking lobbies' are indicated as resistant to the formation of the BRSA as an independent actor (Alper & Öniş 2002, 21).

the controversial issue of the post-1980 increasing articulation of the Turkish economy with world capitalism. In Turkey, as elsewhere, a nationalist response has emerged to challenge the negative impacts that have come with increasing global integration. The economic dimension of this challenge is termed here the 'nationalist/developmentalist approach'. This is so as invariably its advocates pursue nationalist agendas because these scholars believe these agendas will generate greater and more equitable economic development within Turkey.

Whereas the institutionalists start with a Turkey-specific political structure and demand restructuring of the state in order to benefit from 'globalisation', the nationalist/developmentalists stress the negative effects of foreign imposition, especially via the IMF, TNCs and deregulated international capital flows. They demand an active state that pursues independent national development by keeping out advanced capitalist countries and 'their' international institutions. With this perspective, banking reform appears a state response to a general fragility in the economy that has been caused by externally imposed neo-liberal economic policies.

The nationalist/developmentalist approach makes a significant contribution to understanding some dynamics of the transformation of the Turkish economy, although, this thesis contends, it is pre-disposed to judge rather than understand. The propositions of a nationalist approach (border controls on financial, investment and trade flows, and a state that pursues investment in growth and income redistribution) are well understood, so the focus in this review is on the conceptual propositions that underlie this framework.

The central pillar in the nationalist/developmentalist discourse is the focus on the role given to Turkey as a peripheral country in the so-called 'New International Division of Labour' (NIDL) (see Chapter 2, section 2.7). They see IMF policies as steering the NIDL project.

To briefly reiterate, the central proposition of the NIDL thesis is that manufacturing was leaving the advanced capitalist countries in search of low wages, and that states in low wage countries were being compliant in terms of tax rates and labour and employment conditions. This process has been part of the division of world capitalism between the 'centre' and the 'periphery', in which surplus is continually transferred from the latter to the former through unequal exchange and technological

dependence (for descriptions of Turkey in these terms, see Somçağ 2002b, 2002c; Somel 2001, 2002, 2003).

On these grounds, economic policies in Turkey as a peripheral country have been determined by Western capitalism (Önder 2003). Turkey, it is said by the NIDL thesis advocates, has been developing as a branch plant for international corporations, seeking cheap labour to produce goods for export.

In this process, foreign capital (and its 'agents' such as the IMF) are the source of the problem, but the state is culpable for failing to stand up to these initiatives. The shift from the ISI to an export-led strategy in the 1980's served to lock Turkey into the peripheral role depicted in the NIDL thesis (Artun 1987). The consequence is that low wages have become locked in as the basis of Turkey's viability. Industry has become dominated by TNCs and there are no developmental spin-offs within Turkey itself (Manisalı 2003).

Central to the developmentalist agenda is that the state must ensure that finance is directed towards productive, not 'circulatory' or 'speculative' uses. The nationalism that attaches to developmentalism sees the flow of foreign capital into Turkey as a drain on the economy and at the core of its economic crises. As such, the IMF is posed as the source of the problem, rather than the solution.¹⁵

According to the nationalist/developmentalist scholars, the state has also failed to protect Turkey from speculative attacks of international finance capital. Moreover, the argument develops, Turkey was systematically thrown into debt by the advanced capitalist countries so that interest payments could be extracted. After the Latin American debt crisis, Turkey, with some other developing countries, was integrated into 'the depressed international monetary system' as '*a borrowing economy*' and the export-led strategy adopted after 1980 was to provide regular debt service (Artun 1987).

In this context, the IMF stabilisation and structural reform programs are seen as part of a larger project defining Turkey's role in the NIDL as a peripheral economy (Yeldan 2002, 12). According to the Independent Social Scientists — the Economists

¹⁵ This discourse overlooks the fact that state intervention in financial markets in the last two decades has set up conditions for internationalised accumulation mainly on behalf of large Turkish conglomerates and instead criticises it, since it served rentier type of accumulation (Yeldan 2000, 2001a; Boratav & Yeldan 2001).

Group (*Bağımsız Sosyal Bilimciler İktisat Grubu-BSBIG*) (2001, 12), (which is formed by the nationalist/developmentalist scholars), the economic program ¹⁶ aims at continuing the policies of the last twenty years in order to integrate Turkey with the world capitalist system as a dependent country. The program:

...plans the realisation of industrial investments by foreign companies, the liquidation of the state-owned banks and their replacement with foreign banks..., the determination of our agricultural production structure by commodity prices and surpluses of other countries. Instead of an internally integrated economy, this vision is a project of creating an economy that is integrated with the developed countries in a marginalized and sub-contracted position along with being unprotected... against external shocks. (*BSBIG* 2001, 36)

The analysis of class formation within Turkey follows accordingly. With the capitalist class structure dominated by TNCs from the advanced capitalist countries, there has been no real focus on domestic class conflicts since the 1980s. There is, therefore, no perspective with which to identify opposed interests of capital within Turkey that arise with and in turn influence, the reform program. Two consequences follow from the nationalist/developmentalist view which juxtaposes Turkey and the 'world capitalist economy'.

First, the international aspirations of Turkish capital are framed in terms of becoming a mere extension of foreign TNCs' global marketing-production networks, through the rising control of TNCs in the joint-ventures. The large Turkish conglomerates, it is argued, preferred to save themselves by sacrificing a domestically integrated Turkish economy in which its capital, state, working class and farmers would have been in a union of destiny to develop the national economy (Manisalı 2003). In later chapters, we will see that the way in which Turkish banks (and conglomerates) have sought to expand their international linkages has been a key determinant of the bank restructuring process, and that this has been played out as a fractional conflict within Turkish capital, and cannot be reduced to Turkish companies simply 'attaching' to foreign TNCs.

Second, where it is apparent that some parts of capital in Turkey have indeed benefited in the post-1980s neo-liberal period, these capitals must be rationalised as not

¹⁶ Strengthening the Turkish Economy — Turkey's Transition Program, which was announced with the agreement of the IMF after the February 2001 crisis.

'truly' Turkish: their gains are contrary to the national interest. The developmentalists point to 'domestic globalist large scale capital' as a 'comprador' bourgeoisie (*BSBIG* 2001, 36) or an oligopolistic 'second-class bourgeoisie' (Önder 2003) that is in conflict with national interests. In finance, this gets associated with the formation of a rentier class (Boratav, Türel & Yentürk 1996, 19).¹⁷

Not surprisingly, the nationalist/developmentalist school sees the process of bank reform as externally driven (especially by the IMF) (Yeldan 2002, 5).¹⁸ The turmoil in banking during the reform process which intersected with recent financial crises appears as an extension of the general fragility in the economy caused by international finance flows (Boratav & Yeldan 2001). In this framework, there is no particular need to focus on the details of the reform process – the details of political and economic conflicts in the various twists and turns of the reform process are unimportant in the light of overarching nationalist concerns.

The only specific explanation for banking reform is provided by Somçağ (2002a). He argues that Turkey applied to the IMF in 1999 because the owners of around 20 'cartoon banks' which had developed through financing state borrowing in the last decade lobbied for the reform of banking. The owners of those ailing banks were aware that the state-indebtedness was unsustainable, but could be reversed by the IMF. With this program, they could have saved their banks. Yet, Somçağ argues, as the inherently crisis-tending IMF-program collapsed, not only those banks went bankrupt, but the whole banking system was harmed. In this context, the main aim of the IMF program was to guarantee the repayment of international loans and so to draw surplus out of Turkey.

This preoccupation does not explain the deeper agenda that the state and the IMF have pursued. Their agenda was about more than making banking profitable again. As

¹⁷ As Tanyılmaz (2004, 29) quotes from Boratav, the reason for not having a 'Korean miracle' in Turkey was the parasitic, rentier and speculative character of Turkish bourgeoisie instead of a creative and dynamic one.

¹⁸ Bank seizures are also explained as a result of the adverse effects of the Russian and East Asian crises in addition to the major earthquakes of 1999 which led the economy to a deep recession (Akyüz & Boratav 2002, 9). Hence, the banks simply end up being pressurised by external dynamics and swept to liquidations. Despite the validity of the adverse effects of these external factors, since banks cannot be considered within the overall accumulation strategies of their owner conglomerates, bank seizures cannot be systematically explained.

will become apparent in later chapters, the state and the IMF wanted to make accumulation in Turkey reach a new level via reconfiguration of FC as globally integrated, dynamically accumulating and competitive.

The disagreement that this thesis has with the nationalist/developmentalist approach goes to the fundamental categories of this approach: that Turkey as a unit can be seen to occupy a particular spot in the global economy, that there is a single 'national interest', and that all 'Turkish' capital is seen to be determined by this aggregated position. The alternative perspective developed in this thesis contends that the interests of different parts of capital vary, according to how they integrate into the global accumulation processes.

Hence the basic point of divergence of this thesis from the nationalist/developmentalist approach is whether it is useful to conceive of Turkey as a discrete economy with a discrete set of interests occupying a discrete (and exploited) position in the world economy. The proposition of this thesis is that this depiction is not analytically verified – a point that shows through in the difficulty that the nationalist approach has in explaining 'Turkish' capital that is flourishing in the current era. This part of Turkish capital must be dismissed as 'comprador', and in some deep sense traitorous.

While competition and relations among capitals are increasingly organized as intertwined global networks, macroeconomic performances of countries do not coincide with individual performances of capitals (Ercan 2003a, 616, 651). As rising global expansion of capital has been increasingly fragmenting distinct national economies, the demand by nationalists for an independent, nationally integrated, state-led development strategy loses its material basis that is the national form of capital: 'The partial confinement of capital to national sites — the national form of capital — has been a changing phenomenon, declining in scope with the development of the forces of production' (Yaghmaian 1998, 247). We can no longer operate with a simple differentiation of 'Turkish' and 'international' capital (except as a statement about historical origins) because Turkish capital is itself becoming 'international'.¹⁹ The

¹⁹ For instance, a foreign-national dichotomy precludes explaining the participation of foreign banks in the consolidation of banking, as will be seen in Chapter 11. As such, the

transformation of Turkey may in some senses be 'imposed' by the IMF, but, more broadly, it is the expression of the aspirations of 'Turkish' capital for global expansion, and the Turkish state and the IMF trying to give order to that expansion.

Therefore, the crucial point in this thesis is that *the Turkish state itself was at the centre of the policy design. Seeing the state as a mere tool responding to the IMF intervention (and having failed to defend 'the national interest') ignores the multiple dimensions in which the Turkish state has sought to systematically steer the advance of accumulation during the restructuring process.*

3.5 The Marxist Approach

The Marxist approach locates state policies within the broader context of capital accumulation processes and focuses on the fractional interests of capital underlying these policies. It draws attention to the rising integration of certain fractions with the global circuit of capital which is a process that undermines nation-based coalitions for the developmental policies yearned for by the nationalists. By moving beyond the dichotomy between foreign and national capital and seeing the nation state as the facilitator of the global accumulation of capital, this discourse allows simultaneous consideration of the domestic and international determinants in the transition of the Turkish economy.

3.5.1 Nationalism vis-à-vis the Logic of Capital Accumulation

In contrast with nationalists' emphasis on wrong state policies imposed by foreign capital, Marxist works *draw the analysis back to domestic class processes, recognising at the same time that 'domestic' and 'international' processes are not mutually exclusive.*

The analytical departure point for Marxists is the process of capital accumulation which (re-)produces capitalism as a system. This brings the centrality of fractional divisions and conflicts into the analysis. For the case under consideration in this thesis, the principal concern is the articulation of financial and industrial capital within Turkey.

international expansion of Turkish banking cannot be adequately analysed within a context of national banking damaged by foreign banks.

Moving from these basic points, the need for a multi-level analysis is indicated by Marxist scholars:

To be able to reach a complete analysis of capitalist social relations, it is necessary to develop a multi-level and dynamic framework including domestic total circuit of capital, the historical development dynamics of this circuit, the linkages of these dynamics with the international circuit of capital, at a more concrete level, domestic class and intra-class dynamics, and lastly the strategic position of the state in the face of these variables. (Ercan 1998, 27)

This approach allows consideration of the roles of domestic fractions of capital and the state so that *neither foreign dynamics are perceived as the unique origin of transformation, nor is the domestic dynamic discussed in isolation from the global one.*

While the nationalists argue that large domestic bourgeoisie has collaborated with Western capital and has been an obstacle to independent national development, Marxist scholars challenge the concept of national development itself in favour of an approach that focuses on contradictory class interests that are not nation-specific (Türkay 2002; Ercan 2002a).

Given that capital has its own logic of motion at the global scale which does not fit into limitations of national dynamics, Türkay (2002) stresses that *the bourgeoisie which inherently bears internationalisation within itself uses nationalism as long as it serves its own accumulation.* This emphasis gains more relevance considering that the nation state itself increasingly becomes functional in facilitating the international integration of those fractions of capital pursuing global accumulation.

The Marxist discourse argues that national development in the so-called underdeveloped countries led to unequal integration of those countries into the hierarchical structure of world capitalism as a result of the law of uneven and compound development. Notwithstanding, in terms of its fractional implications, it is recognised that despite the unequal nature of this integration, national development practices allowed one fraction within capital in those countries to mature and pursue the agenda of internationalisation (Türkay 2002).

Accordingly, Marxists point out that it would be misleading to analyse a domestic economy on the basis of highly aggregated macroeconomic data in an era of globalising

accumulation (Ercan 2002a, 27). The performances of factions of capital which are in the process of integration with international capital will not be consistent with generalisations on the national economy. In this process, the distinction between national and foreign capital gets blurred:

Today the historical contradictions of the process of unequal articulation of capital accumulation in Turkey into world capitalism have become clearer. The fundamental determinant of this contradiction is that the interests and strategies of certain individual large scale capitals and the interests of the country's economy do not necessarily coincide.

...In an age when capital accumulation processes take place on the world scale, the choices and strategies of capitals that have reached a certain level have begun to be determined by alliances on the world scale. (Ercan 2002b, 34)

In what follows, how Marxist scholars explain the change in Turkey within this broader framework is discussed.

3.5.2 State Policies in the Context of the Global Orientation in Domestic Accumulation

The Marxist discourse challenges the widely held view of the suppression of civil society by the authoritarian Turkish state and emphasises the necessity of approaching the state as a moment of capitalist social relations in which contradictory interests between and within classes are represented (Dinler 2003; Ercan 2003a). With such an approach, state policies which neo-liberals and institutionalists depicted as 'inefficient' and 'populist' and the nationalists depicted as 'foreign-imposed' and 'irrational', are seen to be enhancing accumulation by certain conglomerates which are pursuing global integration.

From this perspective, the neo-liberal orientation in Turkey was not a foreign imposition; it was a consequence of a simultaneous and dialectic determination by the restructuring process of capital at the global scale (following the crisis in advanced capitalist countries in the 1970's) and the need of a hegemonic part of domestic capital for integration into the 'new division of labour' (Tanyılmaz 2004, 34).

There were two domestic reasons that pushed some parts of productive capital, in particular producers of durable consumer goods, to reorient their accumulation internationally after 1980. The first reason is the saturation of the domestic market for durable consumer goods. The second reason is that more FX was needed to import high technology inputs for the production of intermediate and capital goods as this would provide higher surplus value creation (Ercan 2001, 4-5). In this process, significantly, money capital gained a strategic importance given the outward oriented restructurings of conglomerates under crisis conditions (Ercan 1998, 38; 2001, 5).

Accordingly, a range of fractional tensions are identified by Marxists: in particular between globally more and less integrated capitals (Ercan 1998, 46-47; 2001, 2) and between conglomerates incorporating banks and those without banks (Ercan 1998, 38; 2002b, 29-30).²⁰ These two foci reflect the key preoccupations of Marxist economic analysis: global integration and the relationship between finance and production. State policy is understood as the process of mediating these broad divisions.

Marxists approach state policies of the period in terms of the fractional agendas that they serve. In the face of international competition, in addition to further extraction of absolute and relative surplus value through real wage erosion and limited technological development, the state socialised the costs of the global orientation of capital through privatisation, lower tax on capital and export subsidies (Ercan 2001, 56; 2002b, 26-27).

Accordingly, issues such as Turkey's indebtedness and the 'rent economy' are posed not in terms of centre-periphery/NIDL models of the role of Turkey in the global economy, but in class fractional terms. The so-called 'rent economy', in fact, has provided the transfer of domestic and international financial resources to a limited number of individual capital groups. This aimed to accelerate the transition towards a new capital accumulation regime in which the state borrowing policy has been also functional (Ercan 1998, 49). This process, according to Ercan, made individual

²⁰ In contrast to the institutionalist argument that bank ownership was not crucial to the formation of holding companies (such as by Buğra 1994, 199), Marxist scholars emphasize that control over money capital through bank ownership reinforced those holding companies during this period (Ercan 2002b, 29-30).

conglomerates that could control money capital more able to reproduce profitably as productive and commercial capitals.

On the specific issue of bank reform, it follows that, in contrast to the common tendency of considering banking in isolation, Marxist scholars consider the particular articulation between finance and industry in the analysis of state policies. By acknowledging the ownership of banks by conglomerates, i.e. the formation of FC in Turkey, Ercan argues:

When talking about the profits of banks, one should not assume that these profits accrue to agents [who are] different from the owners of productive capital. Hence, the concept of a “rent economy” should be viewed rather critically, for it is the domestic sectors of productive capital that organize under the form of holding companies that appropriate banking profits as well. (Ercan 2002b, 30)

Ercan’s broad approach appears to set the framework for a number of Marxist studies that directly address the subject of this thesis: bank reform.

3.5.3 The Need for a Fractional Analysis of Banking Reform

There are studies by Köne and Sönmez that are relevant here.

Köne (2003) stresses the necessity of evaluating the role of banking in capitalist economies within the totality of the social circuit of capital instead of a counterposition between ‘finance and real spheres’. Also, she recognises the rise of holding banking in Turkey in the 1970’s. Yet, Köne fails to develop an explanation of banking reform within the context of capital accumulation process and the emerging contradictions of capital.

In Köne’s analysis, the shift in Turkish banking to state debt finance in the post-1980 period is consistent with global trends towards lessening the financial intermediary role of banking due to the availability of alternative finance sources for the corporate sector. However, as will be addressed in Chapter 4, banks continue to be the most important institutions of money capital in Turkey. Turkish banking did not engage in state deficit finance because of the rivalry of developing capital markets; indeed, it was a strategy to support the international orientation in accumulation by large Turkish conglomerates. Instead, by disregarding domestic fractional dynamics, in particular, the

ramifications of holding banking structure in the post-1980 period, Köne falls back on the nationalist/developmentalist approach. Köne claims that financial liberalisation did not provide expected economic development, but instead left the structure of production in a state of volatility. As a result, the IMF program appears to be aimed at the recovery of money capital from the crisis, but is not part of a fundamental reconfiguration of capital for a new accumulation regime in Turkey. Thus, even though Köne stresses many aspects of the reform process (such as increasing concentration through the consolidation process and the socialisation of the associated cost by the state), neither of these can be included in a systematic fractional analysis for a Marxist explanation.

Sönmez (2003), on the other hand, focuses on media ownership by conglomerates and analyses fractional divisions within capital through the conflicts which have emerged within the media sector. On this basis, he explains recent developments in the media and finance sectors as interrelated processes.

Importantly, Sönmez provides insight regarding fractional divisions within Turkish capital accompanying the recent financial crises and IMF stabilisation program. He groups the large Turkish bourgeoisie into two divisions and states that this divide has recently revealed itself through the media sector (pp. 24-25). The conglomerates whose banks were confiscated collaborated in the media by criticising the BRSA and the IMF while the conglomerates of the surviving banks supported the IMF reforms again through the media (pp. 67- 68). Thus, the developments in this sector became a reflection of the struggle in banking between the two divisions of large capital.

Sönmez's analysis shows the fruitfulness of the finance capital approach: it contributes to understanding some fractional dynamics by addressing developments in the media and finance sectors simultaneously. It shows that the tensions in the media were rooted in a general distribution struggle between two groups of conglomerates extending to banking and other sectors. The author also highlights many facts on banking conglomerates, and gives company histories of conglomerates which lost their banks.

However the analysis of FC is left unresolved, for it is only at the level of the media that contradictions are identified. Hence, the sub-divisions among banking conglomerates could not be specified and a deeper fractional analysis has not been

developed.²¹ Nonetheless, Sönmez's work on bank reform will be further referred to in later chapters.

While existing Marxist works can provide a cogent explanation for the general change process in Turkey, there is still a need for a systematic fractional analysis of banking reform.

This thesis' analysis of banking reform is not only an applied study within an existing Turkish Marxist framework. It brings new developments into this framework, particularly in terms of how fractions are conceived. This thesis will elucidate how the elements of the NIDL thesis in existing Marxist works are obstacles to explaining banking reform. Also, Sönmez argues that power struggles among conglomerates in banking and other sectors and the coalition among survival banks' conglomerates, the state and the IMF are all driving the reform process. Yet, these surface power struggles are inadequate in explaining the deeper criteria in the selection of which banks are to be confiscated. In Chapters 6, 7 and 8, the fractional divisions within FC will be identified according to different forms of global integration and foci on capturing surplus value among banking conglomerates.

This thesis's analysis needs to incorporate two crucial points that are neglected by other discourses: Firstly, the integration of finance and industry is a crucial aspect of the transition. Secondly, there is no clear division between national and 'foreign' capital in an era of the globalising accumulation of capital. Therefore, state finance policies to promote accumulation in Turkey cannot be finance-specific and cannot be (narrowly) nationalist. The thesis' focus on banking reform within the broader context of the capital accumulation process will fill the aforementioned gap in the Marxist literature by challenging the limitations of the neo-liberal, institutionalist and nationalist/developmentalist schools.

²¹ For instance, Sönmez claims that of the seized banks, Pamukbank and Demirbank should be classified along with other older, surviving banks which were established to finance the industrial investments of their conglomerates. Here, as Chapter 7 will discuss, by beginning from an old/new bank division, Sönmez fails to note that these two banks shared similar characteristics with the newcomer banks which were used to mediate in state borrowing and were embezzled.

3.6 Conclusion

In the explanation of the fragility in banking among mainstream schools of political economy, we see a common emphasis on inadequate state policies. Yet they attribute this inadequacy to different sources: inefficiency of the state (by the neo-liberals), weak democracy and distributional pressures (by the institutionalists) and foreign imposed neo-liberal policies (by the developmentalists) appear responsible.

All these schools treat banking in isolation from the overall process of accumulation and agree that rebuilding macroeconomic balances and restructuring banking would restore the intermediary role of banking for growth. To this end, state prudential regulation is needed as banking is a special industry.

Crucially, however, none of these schools adequately explain the tensions within banking/capital accompanying reform and how the state and IMF mediation among those tensions is itself played out in the reform process.

The dominant free market rhetoric points out the tensions between large and small banks as well as private and state banks; but, the rhetoric claims that once the distorting state intervention in banking is eliminated and sufficient prudential supervision is established, self-regulative market forces will work effectively.

Even though the institutionalists refer to domestic forces such as 'banking lobbies' that resisted the change and see IMF involvement as a counter force that eases the reform of banking, the discussion of tensions cannot extend beyond the small-large, private-state bank distinctions.

On the other hand, nationalist rhetorical focuses on the IMF as an exogenous enforcer of a neo-liberal agenda and brings forward national interest; yet the issue is not national interests, but particular interests. The fractional divisions of capital and their compelling agendas cannot be systematically included in the explanation of banking reform by the developmentalists.

Marxist analysts explain state policies in the post-1980 era by considering the dynamics of domestic and global accumulation simultaneously. They stress that capital in Turkey has been changing its process of accumulation by being more globally integrated, via finance, trade and, for some capitals, production. The Marxists argue that this IMF-

supervised industrialisation process did not mean a loss for total capital (see Tanyılmaz 2004). There were winners and losers within Turkish capital. The winners have been those capitals that are the export-oriented (also dominant in the domestic market) and integrated into the global production chains of TNCs. On the other hand, those domestically-oriented and not integrated with TNCs have faced losses.

Therefore, while mainstream schools fail to adequately engage with the class issue, by utilising the Marxian analytical categories, this thesis stresses the class dynamics behind the agenda. More specifically, it considers the integration between banking and productive capital and defines the divisions within banking/FC in terms of different patterns of accumulation of the banking conglomerates.

The formation of FC in Turkey will be addressed in Chapter 4. Then, after the discussion of tensions accompanying banking reform at a general level in Chapter 5, the finer divisions within FC will be the focus of the following chapters. These analyses will permit us to understand the conflicts within FC which led to banking reform. In brief, the thesis will develop a systematic analysis of FC in order to achieve a finer grasp of banking reform within the Marxian analytical framework.

CHAPTER 4

THE EVOLUTION OF FINANCE CAPITAL IN TURKEY

- 4.1 Introduction
 - 4.2 Elaboration of the Concept of Finance Capital
 - 4.3 The Period before 1945: The Integration of Banking and Industrial Capital as State Enterprises
 - 4.4 The Period of 1945-1979: The Proliferation of Private Holding Banking under the ISI
 - 4.4.1 The Rise of Private Banking in the 1940s and 1950s
 - 4.4.2 The Proliferation of Holding Banking
 - 4.5 The 1980s onwards-Trade and Financial Liberalisation: A Further Rise in Holding Banking
 - 4.5.1 Continuous Attraction of Holding Banking with the Pivotal Role of Banking in Financial Resource Allocation
 - 4.5.2 Mechanisms for Penetration into Banking by Conglomerates
 - 4.5.3 Legislative Amendments on Banks' Connected Lending and Equity Participations
 - 4.5.4 The Internationalisation of Turkish Banking: Expansion of the Integration between Banking and Industrial Capital to the Global Scale
 - 4.6 Conclusion
-

4.1 Introduction

This chapter develops the general theoretical themes discussed in Chapter 2 in the context of Turkey since the establishment of the Republic in the 1920s. *The objective is to give an account of the evolution of holding banking in Turkey in order to have a sound basis for the exploration of the tensions within capital that provide the context for banking reform.*

The Turkish economy is a good example of the concept of finance capital (FC) given the unified control of many conglomerates over the circuits of money, commercial and industrial capital. In contrast to the Anglo Saxon banking model, the interlocking ownership of banks with industrial/commercial corporations has fostered capital accumulation in Turkey despite transformations in capital accumulation regimes over time. Therefore, understanding the formation of Turkish FC appears critical in the discussion of banking reform. However, although focusing on only *finance* rather than *finance capital* causes misinterpretation, finance is generally looked at as a sector in the analysis of the reform, as discussed in Chapter 3. Accordingly, despite the significance of holding banking, there has hitherto been no systematic analysis of the evolution of the integration of banking and industrial capital in Turkey. Hence, this chapter will clarify the historical formation of Turkish holding banking in order to have a sound basis for the analysis of banking reform.

Chapter 3 presented a critique of the literature on the new capital accumulation regime that has been evolving for the last 20 years in Turkey and the role of banking reform therein. This analysis addresses *the way in which the relations between financial and industrial capital have been transformed* under the auspices of the state. This is basically about change in the balance of domestic forces, and four key elements are prominent. The first is the critical role of the state in transforming the relations between financial and industrial capital. The second is the way in which, under the auspices of the state, some key individual capitals in the Turkish economy have themselves transformed their process of accumulation between the circulation of finance and the production of value. The third issue concerns the way in which these transformations have changed the form of engagement between capital in Turkey and the international process of capital accumulation. The fourth element, which comes later historically in the process (and is considered in detail in later chapters), is the role of the IMF in this transformation of accumulation.

The contemplation of economic change in Turkish FC considered here is to be understood as partial, focusing on those issues that will lay the foundations for a *systematic class analysis of changes in finance and banking* since the 1990s. Accordingly, the concept of 'class' is to be used in a narrowly economic sense, with the focus being on relations between different fractions of capital (or forms of accumulation). This is not a comprehensive approach to class, but serves well the objectives of this chapter.

To explore the transforming relationship between money and industrial capital, the role of legislative arrangements, development plans and general economic policies will be considered within the broader context of the capital accumulation process. To this end, the significance of the banking system in the allocation of financial resources, as well as changing forms of engagement of FC in Turkey with international capital, will be analysed.

The evolution of holding banking will be traced back to the establishment of the Republic in the 1920s, but the main focus of this chapter will be on the post-1980 period in which FC became mature. The analysis will be developed under three sub-periods. First, the period before 1945, which involves the formation of FC through state enterprises, will be briefly reviewed. The historical analysis will continue with the period of 1945-1979 in which burgeoning private holding banking proliferated as part of the ISI policy. Then, mechanisms facilitating the rise in holding banking in the post-1980 financial liberalisation era will be analysed.

Overall, an understanding of the historical dynamics of holding banking will provide a solid base from which to analyse the Turkish banking reform via the fractionalist approach. This is because, as Chapter 5 will discuss, reconfiguration of the integration of banking and industrial capital for a new capital accumulation regime was at the core of the reform. The underlying tensions between fractions of capital and how these tensions were played out during the reform will be the issue of the following chapters. The objective here is to set the ground for the fractional analysis by shedding light on the development of the banking arm of FC. This will serve to clarify the divisions within FC by allowing for the consideration of the link between historical characteristics of the entries to banking and overall corporate strategies of the conglomerates.

4.2 Elaboration of the Concept of Finance Capital

In popular usage, finance capital has come to be applied to only the growing influence of financial institutions with industrial capital and the wider economy. Financial markets, in a dichotomy with productive capital, are widely seen as an outlet for speculation and rent-seeking. As addressed in Chapter 3, this view has been widely applied in the study of the Turkish economy, particularly by the developmentalist school. The juxtaposition of banking and industrial capital and the

priority given to industrial capital over banking capital contrasts with Marxist theory that treats money and productive capital as essential elements for the realisation of the total social circuit of capital.

In the Marxist tradition, starting with Hilferding, the evolving links between industrial conglomerates and finance institutions have been acknowledged. Yet the analyses have generally remained within the confines of empiricism, focusing on institutional linkages rather than a systematic explanation for the basis of labour value theory.

The original work of Hilferding (1910) became the grounds for subsequent Marxist analyses on FC. According to Hilferding (1910, 301), FC:

signifies the unification of capital. The previously separated spheres of industrial, commercial and bank capital are now brought under the common direction of high finance, in which the masters of industry and of the banks are united in a close personal association.

Hilferding has been criticised for over-generalising his findings drawn from the German case and claiming that they mark a new stage of capitalist development: the 'Finance Capital' stage. However, given that both German and Turkish banking have financed industry not only through credit allocation, but also through interlocking ownership between banks and industrial corporations, this concept of FC becomes critical in understanding the Turkish case.

Nevertheless, in order to map out the links between industrial/commercial and banking capital in Turkey, some clarification needs to be made of the applied concept of FC. Hilferding's conceptualisation of FC centres on the dominance of banks over industrial corporations. He links banks' control over industrial capital to the concentration and centralisation tendencies of capital. Increasing credit demand by industrial capitals along with the expansion of the scale of capitalist production, the growth and concentration of banking capital and the generalisation of the joint-stock company, enabled banks to exert a greater control over industry. Even though Hilferding stressed the conversion of banking capital to industrial capital, his main emphasis remained on the dense network of institutional links between banks and industrial enterprises.

In his critique of Hilferding's analysis, Ercan (1997) reminds us that treating banking and industrial capital as separate, specialised units in the capital accumulation

process contradicts the historical dynamics of capital. He emphasises the tendency to incorporate three functions of capital within one individual circuit of capital along with its rising concentration and centralisation tendencies. In particular, in this process, industrial capital would tend to establish its own financial institution. Here, the integration is not simply an issue of institutional linkage, but the establishment of systematic control over the forms of value (commodity and money) within the circuit of capital. Ercan's definition (1997, 167) of FC therefore includes:

- the establishment of a coalition between individual money, productive and commodity capitals, or
- simultaneous inclusion of the three functions of capital in the circuit of individual capital.

The joint control of money and industrial capital helps those individual capitals to achieve extended reproduction in times of expansion, and also to avoid devalorisation in times of crisis (Ercan 1997, 163).

When we look at the Turkish case, consistent with Ercan, the traditional tertiary division of money, commodity and productive capital lacks relevance to the conglomerates that have tended to gain control over these three functions simultaneously. Those conglomerates took advantage of the control over money capital particularly during the outward orientation in accumulation in the post-1980 era. However, in order to achieve the return of invested money capital as more money, money capital must enter the production process for the creation of surplus value.

As will be seen in Chapters 6, 7 and 8, this point becomes crucial in the analysis of FC in Turkey. With their different patterns of accumulation, conglomerates forming FC displayed divergences in terms of where they capture surplus value in the total circuit of capital. This variation provided the material basis for the divisions within FC. Some conglomerates used their controls over banking capital to capture a higher share in the redistribution of surplus value via state mediation; some oriented themselves towards achieving absolute surplus value (low wage low productivity) producing activities; some others channelled money capital for the production of absolute and relative surplus value (high productivity) with a more long-run-viable accumulation basis. The different stances in accumulation, with various forms of global integration, determined which conglomerates would decline

and which ones would solidify their positions during the recent restructuring within Turkish capital.

Moreover, although the unified control over money, industrial and commercial capital has been used to fuel accumulation by those conglomerates, the form of this merging was challenged by the pressures some parts of FC in the 1990s felt to internationalise. That is because this form of integration which is contingent upon state-based rents turned out to be an obstacle under the fiscal crisis of the state and needed to be reconfigured in order to facilitate the global advancement of accumulation, as Chapter 5 will discuss.

Before addressing the reconfiguration of this form of integration via banking reform in the following chapters, its historical development process will be clarified.

4.3 The Period before 1945: The Integration of Banking and Industrial Capital as State Enterprises

In addition to the characterisation of Turkish banking as having close links with industry, the strong state involvement in the creation of this link distinguishes the Turkish case from many others.

As Öncü and Gökçe (1991, 106) argue, the strong presence of the state in the banking sector and the high degree of interpenetration between finance and industry are a historical legacy of the early decades of the Republic. Although the formation of national banking goes back to the 1860s,¹ to the era of the Ottoman Empire, its development gathered momentum after the foundation of the Republic in 1923. During that period, despite the existence of some national banking,² foreign banks

¹ Memleket Sandıkları (1863) as the origin of today's Ziraat Bank was the first national bank established in the Ottoman Empire in order to finance agriculture. Yet national banking in the form of local banks started to develop in the Ottoman Empire particularly after the Committee for Union and Progress (*İttihat ve Treakki Partisi*) (CUP) (1908-1918) came to power in 1908. The CUP supported the establishment of local banks under its strategy of creating an Islamic-Turkish bourgeoisie through the replacement of minorities. As a consequence, under the CUP government, 15 of 24 banks were founded by Islamic-Turkish merchants and landowners (Buğra 1994, 40) to overcome the difficulty in getting credits from foreign and/or minority banks. In this process, the CUP became 'the vanguard of the nascent Turkish bourgeoisie' with the high involvement of CUP members in the establishments of joint stock companies and banks (Buğra 1994, 42). However, many of these local banks faced liquidation before the Republican period because of the competition with dominant foreign banks as well as adverse economic conditions (Oksay 2003, 59).

² In 1923, there were 18 national (mostly local) and 13 foreign banks in Turkey.

were dominant in the credit market as well as in foreign trade finance.³ Therefore, *given the insignificant level of private capital accumulation in Turkey, the state itself took the initiative to develop a national banking system to support capital accumulation.* At the *First İzmir Economy Congress* (1923), it was decided that the state needed to enhance national banking so as to end the dominance of foreign capital and to further Turkey's economic development (Akgüç 1992a, 19-20). Following the decisions taken at the Congress, new national banks were established between 1923-1932, either directly by the state or under significant influence of the state.⁴ Many single-branched local banks were also established for the credit and banking needs of local merchants (Oksay 2003, 56-57). During this period the liquidation of foreign banks in Turkey was initiated with the result that their shares of deposits fell from 78% to 19% and credits from 53% to 15% between 1924 and 1945 (Oksay 2003, 60).⁵

In the 1930s and 1940s, *state involvement in the economy itself took the form of integrating industrial and money capital:* industrial development plans were fulfilled through the creation of a number of state banks. Because of the insufficient level of private capital accumulation and the negative effects of the Great Depression on the economy,⁶ the government abandoned its policy of privately driven

³ These banks provided credits basically to foreign and minority capital that operated in the Ottoman Empire. Furthermore, in the pre-republican period, the most important function of the foreign banks was to mediate between the Ottoman governments and foreign capital for the purpose of raising external debt (see Oksay 2003, 50-51).

⁴ For example, İşbank was established as the first national bank in 1924 with the aim set by Atatürk, the founder of the Republic, to give credit and invest in different sectors (see 'History of İşbank', URL: <http://www.isbank.com.tr/english/history.html> (accessed 8 November 2002)). Hence, as one of the largest conglomerates today, İşbank represents the early integration of finance and industrial capital in Turkey.

Importantly, with the establishment of the Central Bank of Turkey (CBT) (1930) domestic currency started to be issued by the national bank whereas earlier it had been carried out by the foreign capital Ottoman Bank. The other banks established at that period were the first development bank 'Türkiye Sanayi ve Maadin Bankası (1925)', and Emlak ve Eytam Bankası (1927) which specialized in the construction sector.

⁵ Akgüç (1992a, 111-112) notes that after the establishment of the Republic, foreign banks continued to enter Turkey between 1924 and 1929, as the economy remained externally open and foreign trade had a high share in national income. However, following the Great Depression, increased controls in foreign trade and foreign exchange (FX) transactions limited the operations of foreign banks. Therefore, between 1929 and 1977, no single foreign bank or bank branch was opened in Turkey. The number of foreign banks continuously declined from 15 to 4 between 1924 and 1980 and then gradually increased to 26 in 1990 under the new regime (Akgüç 1992a, 95-97).

⁶ The Great Depression caused the bankruptcies of ten local banks between 1932 and 1938. Because of the adverse effects of the depression especially on the export-oriented

industrialisation. Consequently, from the 1930s onwards, the state became the driving force in the industrialisation: 'most industrial plants were set up as state enterprises or, if in private hands, owed their existence to official support and protection' (Vorhoff 2000, 145). In order to provide credit and to facilitate infrastructural and industrial investments stipulated by economic development plans, state banks were established in specialised sectors such as Sümerbank (1933), Belediyeler Bank (1933), Etibank (1935), Denizbank (1938) and Halk Bank (1938). Sümerbank, for example, fulfilled the First Industrial Plan (1933-1938) by establishing 13 of the 20 factories covered in the plan in the manufacturing sector. Etibank, on the other hand, was expected to facilitate, manage and finance the enterprises in the field of mining and energy under the Second Industrial Plan, which started to be implemented in 1936, but could not be carried out completely (BAT 1998, 11; Kocabaşoğlu, Sak, Sönmez, Erkal, Gökmen, Seker, Uluğtekin 2001, 260).⁷ The role of these state banks, therefore, was to orient public savings and foreign credits to national capital accumulation.

4.4 The Period of 1945-1979: The Proliferation of Private Holding Banking under the ISI

4.4.1 The Rise of Private Banking in the 1940s and 1950s

During the state-led industrialisation period, the national bourgeoisie was nurtured via state policies, as the young state aimed to take control of trade and proto-industrial production from Turkey's Greek, Armenian and Jewish minorities. Within this context, today's largest Turkish conglomerates produced the first capital accumulation in the areas of services, trade and building (Sönmez 1992a, 113). Selling commodities to the state, marketing the products of newly established State Economic Enterprises (SEEs) and building state institutions were the main channels of capital accumulation for the bourgeoisie. For example, Buğra (1987, 146) indicates

agriculture sector, increasing non-performing credits played a vital role in those bankruptcies (Yay 1983, 158).

⁷ The Banks Association of Turkey (BAT) notes that the plan could not be implemented due to increasing defence expenses stemming from World War II and the absence of financial resources for industrial investments (see BAT 1998, 11).

the role of close contacts with government officials and members of the Republican People's Party in the development of Koç Group in the 1930s and 1940s.⁸

The banking sector also helped to develop local capital: *the inadequate level of capital accumulation was buttressed by cheap bank credits created from small public savings* (Günlük 1985a, 192). Private capital accumulation gathered further momentum during the Second World War years owing to high inflation and scarcity, especially in the areas of trade and agriculture.

Under a nascent bourgeoisie, the integration of the Turkish capitalism into world capitalism accelerated after the Second World War. In the process, economic policy became more liberal. Accompanying this change was an increase in credit opportunities from Western capitalist countries, especially under the Marshall Plan. Rising investments in trade, industry and agriculture brought developments in transportation, mechanisation and urbanisation (Ateş & Eroğlu 1999, 261-262). The consequent monetisation of markets and rising credit demand in the expanding economy brought about a *rapid development in private banking in Turkey between 1945 and 1959*.

As interest rates and banking commissions were determined by the state and only the CBT was authorised to undertake FX transactions, branch banking and competition over deposit collecting gained importance. As a consequence, 30 new banks (including mergers between existing banks) were established while the number of branches in the sector multiplied four-fold between 1944 and 1959 (Akgüç 1992a, 43-44). The process of branch banking contributed to the elimination of local banks (BAT 1998, 13). Also, the number of foreign banks decreased from 9 to 6 between 1943 and 1958 (Ateş & Eroğlu 1999, 274).

Access to cheap credit was the driving force leading industrial and commercial capitals to establish new banks in this period. The large banks of today, such as Yapı Kredi Bank (YKB) (1944), Turkey Garanti Bank (1946), Akbank (1948) and Pamukbank (1955), were established in this period. Thus, Artun (1983, 46) declares that 'the 1940s could be evaluated as the years of formation of the private sector banking of today'. Of these early banks, Akbank represents Turkey's first

⁸ The founder of Sabancı Group also benefited from similar opportunities (see Buğra (1987, 147). As well, some monopoly concessions given to İşbank (such as the monopoly right on glass production given with a law in 1935) contributed to the Group's rapid expansion.

example of a holding bank controlled by a family conglomerate. Increasing control also over the other early banks was established by today's large conglomerates in the following decades.⁹

4.4.2 The Proliferation of Holding Banking

Under the ISI policy of the late 1950s onwards, commercial capital, the dominant fraction of capital by then, gradually converted to industrial capital (Ercan 2002a). The rapid accumulation process under the ISI was supported by the state through many mechanisms. This showed itself in three key ways. Firstly, in addition to the protectionist trade regime and a lower exchange rate, *'the state banks played a key role in channelling foreign aid and credit as well as domestic public credit to private industry'* (Öncü & Gökçe 1991, 106, emphasis added). Secondly, joint ventures with SEEs as well as their artificially low-priced inputs supported industrial capital (Sönmez 1992a, 114-115). Thirdly, while the sectors which became profitable together with the rapidly growing market were left to the bourgeoisie, the state increasingly focused on the production of intermediate and capital goods requiring high technology and scale economies (Sönmez 1998, 67).

The establishment of the Industrial Development Bank of Turkey (1950), in which İşbank, Koç and Sabancı Groups were among the shareholders, had a special place in the formation of industrial capital. This bank channelled credits with the sponsorship of the WB by accelerating the conversion to productive capital.¹⁰ For

⁹ The control of the YKB was acquired by Çukurova Group from Doğu Group in 1979. Çukurova Group, a shareholder during the establishment of Pamukbank, also acquired its total control in the mid-1960s. Hence, in the process, the Çukurova Group gained control over three banks: The YKB, Pamukbank and Selanik Bank. Selanik Bank, which started to operate in 1888, was acquired by the Çukurova Group in 1969. It was later renamed twice (first Uluslararası Endüstri ve Ticaret Bank, then Interbank) and sold to Nergis Group in 1996.

Garanti Bank, on the other hand, after an unresolved struggle between Koç and Sabancı Groups to gain control of the bank, was sold to Doğu Group in the early 1980s. The struggle between Koç and Sabancı Groups over Garanti Bank in the late 1970s was related to their competition in the automotive industry. Koç Group wanted control of the bank, which then had a large stake in a Sabancı-owned tire company that was becoming a danger to a Koç-dominated tire manufacturer. When the two Groups could not gain a majority stake, they eventually sold their interests in the financial institution. Koç eventually acquired its own bank, Koç Bank, to rival Sabancı Holding's Akbank, one of Turkey's largest commercial banks ("Koc-Sabancı Rivalries Divide Turkish Economy", Turkish Daily News, 8 August 1996, URL: http://www.Turkishdailynews.com/old_editions/08_08_96/feature.htm).

¹⁰ See Ateş & Eroğlu (1999, 272).

example, Sabancı Group built Bossa (producing cloth and thread) as a product of this period (Buğra 1987, 147; Sönmez 1992a, 73).

Therefore, these leading family conglomerates have prospered under supportive state policies in the name of 'creating' a national bourgeoisie throughout the history of Turkey. Despite this nationalist focus, however, it must be stressed that close links with TNCs have accelerated their rapid expansions inside and outside Turkey since the early period. Besides gaining control over banks as the financial engines of their rapid accumulation since the 1940s,¹¹ these conglomerates started local manufacturing investments which replaced imported goods via partnerships with TNCs. Some of these conglomerates had already been representative agencies of the exporter TNCs.

In addition, via the establishment of a network of trading companies covering many parts of the country for the distribution of the finished products, the integration of productive and commercial capital was enhanced.

Hence, these conglomerates grew to their present size due to the close collaboration with international industrial capital from the very beginning and joint ventures with foreign firms provided their entries and expansions into industry. For example, according to the official company history of Koç Group, the founder Vehbi Koç realised the necessity of establishing foreign relations and by the end of 1940s, the Group had become active in the manufacturing sector via licence agreements. It established the first light bulb factory in cooperation with General Electric in 1948 since 'at that time, it simply was not possible to establish a light bulb factory with local means only'.¹² The relations of Koç Group with foreign capital have proceeded with joint ventures in various sectors. Therefore, the developments of these conglomerates are a result of their links with the state and international capital. According to Barham and Field:

Turkey's most powerful conglomerates grew to their present size in the hothouse environment of closed markets and nurtured by a paternalistic state...The most successful Turkish groups have all drawn heavily on connections with multinational corporations. Most of the companies owned by Koç Holding are joint ventures with some of the world's leading corporations, such as Fiat, Unisys and Ford. Koç provided access to Turkish markets which were otherwise closed to foreigners, while

¹¹ With the exception of İşbank that was founded in the 1920s.

¹² "Transition to Industry", URL:

<http://www.Koc.com.tr/english/kurumsal/endustriyegecis.asp> (accessed 8 November 2002).

foreigners contributed capital and technology. Turkish groups, sheltered behind ferocious trade barriers, coddled by thickets of regulation and nourished by close political links with Ankara, grew in every direction, vertically and horizontally. The Sabancı Group, Turkey's second-largest industrial conglomerate, has interests in almost every conceivable industry and almost always in association with foreign partners, such as Toyota, Philip Morris, IBM, and Dupont. (Barham and Field 1997, 12)

Contributing to this rapid accumulation, *the formation of holding companies uniting affiliates in different sectors under the control of a founding family* became the distinctive feature of the ISI period. The model of the multi-functional holding company united commercial, industrial and banking capital for a higher capacity of surplus value production via rising industrial investments. As a result, while only two holding companies were established between 1949 and 1962, the numbers were 39 between 1963 and 1971, and 142 between 1972 and 1979 (Kazgan 1985, 2398).

The formation of the holding structure was accelerated by the state through new legislation and development plans during the ISI. Firstly, a new banking law passed in 1957¹³ had special importance: a bank could not give credits amounting to more than 10% of its own funds to a company; however, the bank could give unlimited credit if it owned more than 25% of the firm's capital. This encouraged capital to establish industrial firms with the partnership of a bank (Tekeli & Menteş 1982, 267). Consequently, while some industrial-commercial capitals tended to have their own banks, some banks expanded their activities to other sectors (Tekeli 1985, 2390-2391). Thus, as in the cases of İşbank, Akbank and the YKB, a cluster of affiliated companies around banks had already appeared even before the legislative incentives (Tekeli & Menteş 1982, 267).

The second incentive for the proliferation of holding companies was Commerce Law no. 6762 (1957) which made it easier to establish joint-stock companies. This facilitated the graded structure among companies within a holding organisation through equity control (Tekeli & Menteş 1982, 265-266). Thirdly, tax advantages were an important factor (Buğra 1994, 184). Amendments in the corporate taxation system in 1963 eliminated double taxation by exempting from tax the revenues which a central holding company derived from its participation in affiliated firms.¹⁴ Fourthly, the legislation (no.903 in 1963) that facilitated the establishment of

¹³ Act No.7129-Clause 38.

¹⁴ This exemption was abolished in 1986 (Buğra 1994, 184).

foundations within the holding structure was effective in the establishment of more holding companies.¹⁵ These foundations served to establish control over holding companies as well as to reduce the overall tax burden within the holding structure (Tekeli & Menteş 1982, 268-269). These legislative changes met the demands of the capitalist class at that period: the Koç Group, for example, had lobbied for these changes (Tekeli & Menteş, 1982).

In this process, as indicated above, *'interlocking ownership of banks and corporations gained further momentum as the nascent private conglomerates began to move into financial markets towards the end of the 1950s'* (Öncü & Gökçe 1991, 106, emphasis added). The state supported the formation of an oligopolistic holding banking structure to accelerate capital accumulation.¹⁶ With a negative real interest rate policy, holding banks collected low-costs deposits and provided cheap financial resources to their holding companies (Kazgan 1985, 2402). Thus, in the 1960s and 1970s, bank ownership became *the conditio sine qua non* of comparative advantage in financial markets (Öncü & Gökçe 1991, 106).¹⁷ Consequently, almost all private deposit banks became subject to the control of certain conglomerates and the ownership of some banks was also transferred between conglomerates in the 1970s.¹⁸

¹⁵ Foundations which had been an important component of the pre-republican law system were ended along with the Republican regime in 1926. While these institutions were re-included in order to support the holding formation in 1963, it was determined that if they allocated 80% of their incomes to the areas which were dealt with general, private and supplementary budget administrations, they would be fully exempted from tax (Tekeli & Menteş 1982, 268).

¹⁶ For a similar emphasis by the BAT see (BAT 1998, 15).

¹⁷ Buğra (1994, 199) argues that incorporation of banks by large holding companies did not centrally serve to enhance their accumulation. Not all major holding companies had their own banks and the acquisitions or sales of banks were not turning points in the development processes of those companies as in the case of Koç Group which sold off Garanti Bank and remained without any activities in banking until the 1980s. Buğra also claims that bank ownership did not reduce the financial dependence of Turkish holding companies on the state.

This point of view contrasts with the thesis' findings. Not all major conglomerates had their own banks because there were restrictions on bank establishments and therefore, even high competition was observed among conglomerates for bank ownership. On the other hand, having their own banks eased access to state subsidised credits for holding companies as part of the state policy for using holding banking to enhance accumulation. Yet Buğra's explanation of the formation of holding banking as a process against the authoritarian state precludes her drawing this conclusion.

¹⁸ For example, the majority shares in Istanbul Bank established in 1953 by a group of businessmen from Istanbul were acquired by Kemal Has-Has Holding in the early 1970s (Sönmez 1992a, 299). See also footnote 10.

As such, the development plans aimed at increasing the concentration of banking through bank mergers and restrictions on new bank establishments (Akgüç 1992a, 54-55).¹⁹ Bankruptcies of many banks – especially local and small ones – following the economic turmoil at the end of the 1950s and stabilisation measures of 1958 also contributed to the rise in the sectoral concentration. This led to a run on bank deposits. Liquidations and mergers within banking continued in the following years. In sum, 15 banks were liquidated between 1960 and 1964 (Akgüç 1992a, 52; Aytekin 2000b, 18).²⁰ Meanwhile, since investment/development banks were preferred to support the projected sectors in the development plans (Aytekin 2000b, 19),²¹ only seven new banks (five development and two commercial banks²²) were allowed to be established and the number of banks decreased to 40 in 1980 from 47 in 1963 (Ateş & Eroğlu 1999, 321). As a result, the market became dominated by large private and public banks.

The *credit system* was also functional in the integration of banking and industrial capital. In this period, new legislation encouraged banks to give credit to their subsidiaries investing in prioritised sectors (BAT 1998, 15). Öncü and Gökçe note the functioning of the credit system as follows:

Both the price of foreign currency and the price of credits were administratively defined at below market rates, and bureaucratically allocated according to 'policy and/or political priorities'... Hence, *numerous sectors of the economy were subsidised through low cost credit*...specific quantity directives, interest surcharges and rebates, preferential tax treatments, and the like further served to manipulate the cost of credit. The extensiveness of these administrative controls meant that only an *estimated one quarter of total credit was free from government controls*. It also meant that in practice, all investments benefited from encouragement schemes of one

¹⁹ The state interventions strengthened large banks at the expense of smaller banks as in the example of criteria for branch opening which served to hinder the growth of small banks (Tunay & Uzuner 2000, 117). As such, banking law allowed banks to collect deposits in proportion to their scales and 50% of the deposits, which exceeded this limit, were to be placed at the CBT (Reisoğlu 1999, 6). For more details on banking policies stipulated in the Second Five-Year Plan (FYP) (1968-1972) see Ateş & Eroğlu (1999, 317).

²⁰ For more details on these bankruptcies see Yüzgün (1983, 168).

²¹ The insufficiency of the commercial banks in raising medium and long-term finance for the stipulated investments in the development plans led to the establishment of these investment banks (Kurnaz 1999, 92).

²² The commercial banks, Amerikan Türk-Dış Ticaret Bank (1964) and Arap-Türk Bank (1977) were the first examples of external opening of Turkish banking during the planned period (Akgüç 1992a, 63). Amerikan Türk-Dış Ticaret Bank (after 1970, Türk Dış Ticaret Bank-Dışbank) was the first bank established with foreign capital participation (American and Italian) in the Republican period and aimed at financing foreign trade. Arap-Türk Bank, on the other hand, was the first bank built with foreign capital majority (60% Libya and Kuwait) in this period in order to attract Arabic capital (see Akgüç 1992a, 62-64).

type or another, that is, the policy of low cost credit...*'Cheap' loans, or State subsidized credit at preferential interest rates, were in turn channelled into 'The Group' investments;* the interlocking ownership of financial institutions and corporations was accompanied by less than arm's length lending and underwriting practices. (Öncü & Gökçe 1991, 110-111, emphases added)

Given that major industrial corporations controlled an important part of banking through the ownership of holding companies, these corporations tended to rely excessively on bank credit, encouraged by the banking law for connected lending rather than equity and direct security issues (Değirmen 2003, 57-58).

In this process, as can be followed from Table 4.1, some conglomerates, which could not own their banks because of restrictions on bank establishment, tended to transform local banks of the 1920s into national banks. It was the only way for those capitals to eliminate their disadvantageous positions with other bank owning conglomerates.

Table 4.1 Local banks that were converted to national banks

| Conglomerate | Local Bank | National Bank |
|---------------------|----------------------------------|--------------------------------|
| Yaşar | Akhisar Tütüncüler Bank (1924) | Tütüncüler Bank (1981) |
| Kozanoğlu-Çavuşoğlu | Afyon Terakki Servet Bank (1926) | Hisarbank (1979) |
| Kozanoğlu-Çavuşoğlu | Elazığ İktisat Bank (1929) | Odibank (1980) |
| Çolakoğlu | Kocaeli Halk Bank (1927) | Türk Ekonomi Bank (TEB) (1982) |
| Ergür & Erikoğlu | Denizli İktisat Bank (1927) | İktisat Bank (1980) |
| Özkat | İzmir Esnaf ve Ahali Bank (1928) | Egebank (1975) |
| Sürmenler | Manisa Bağcılar Bank (1917) | Bağbank (1982) |

Sources: Developed from Sönmez (1992b, 160); Yüzgün (1983, 156, 166).

Consequently, the banks that were controlled by conglomerates in 1981-1982 could be summarised as in the following Table 4.2:

Table 4.2 Holding banks in Turkey (1981-82)

| Conglomerate | Bank |
|---------------------------|---|
| Koç Group | Garanti Bank |
| Sabancı Group | Akbank |
| Çukurova Group | YKB, Pamukbank, Uluslararası Endüstri ve Ticaret Bank |
| İşbank Group | İşbank, Dışbank |
| Has Group | Istanbul Bank |
| Cavuşoğlu-Kozanoğlu Group | Hisarbank, Odibank |
| Özkat Group | Egebank |
| Doğuş Group | İmarbank |
| Yaşar Group | Tütünçüler Bank |
| Zeytinoğlu Group | Esbank |
| Çolakoğlu Group | TEB |
| Ergür Group | İktisat Bank |
| Cingilioğlu Group | Demirbank |
| Sürmen Group | Bağbank |

Source: Summarised from Kazgan (1985, 2406).

Overall, in the planning period, through the significant state control over the banking sector, ‘the limited resources in the sector, under limited competition conditions, tried to be allocated in line with the development plans’ (BAT 1998, 14). Öncü and Gökçe (1991, 111) describe the 1950-1980 period as ‘riskless banking’ since banks worked in a market in which there was no risk of interest and exchange rate fluctuations and no price and commodity competition. They bought and sold Turkish money at administratively defined low interest rates with an elaborate branch network. This ‘riskless banking’ continued in the post-1980 era despite the process of financial ‘liberalisation’ due to the socialisation of the risks through state intervention in financial markets. A banking crisis was inevitable!

4.5 The 1980s onwards-Trade and Financial Liberalisation: A Further Rise in Holding Banking

The neo-liberal argument for the liberalisation and deregulation of financial markets in developing countries is that rising financial resources will enhance

development along with increasing efficiency in resource allocation. Developmentalists, on the other hand, contend that this process has made developing countries' financial markets playgrounds for arbitrage-seeking capital of advanced countries and thus, conflicts with developmental objectives.²³

Nevertheless, despite the dominant 'deregulation' rhetoric and its nationalist critique, the Turkish experience shows that the financial liberalisation process and accompanying state finance policies brought about different implications for divisions of capital. Crucially, they played an important role in the historical formation of the hegemonic fraction of capital. Accompanying the financial liberalisation process, large conglomerates which formed FC used their rising control over the use of financial resources for international expansion. However, mostly small-to-medium scale capitals faced rising costs of funds and more limited access to bank credit. All aspects, therefore, contributed to the rising centralisation and concentration of capital.

Turkish financial markets have been further integrated with global markets through banking reform. Before the discussion of this further integration, the following section will review the financial deregulation process in the post-1980 era and accompanying developments in the formation of FC.

4.5.1 Continuous Attraction of Holding Banking with the Pivotal Role of Banking in Financial Resource Allocation

In the late 1970s, the crisis in the import substituting accumulation, which manifested itself in the form of a FX crisis, led to the transition to the outward-oriented accumulation regime. The large conglomerates, having increased control over domestically-oriented accumulation, faced constraints under the ISI together with the saturation of domestic markets, especially the market for consumer durables. The scarcity of FX was a globally-derived constraint on industry expansion. As Ercan (2002a, 44-46) indicates, the production of surplus value was inherently limited by the dominance of assembling operations in manufacturing industry. These industries could not achieve internationally competitive prices and quality under the heavy protection of the ISI; with insufficient level of exports, Turkey could not earn the needed FX. Moreover, given the dependence of industrial production on imports of

²³ See Chapter 3, Section 3.4.

necessary inputs, the planned transition to the next phase in the ISI (the production of intermediate and capital goods) required even more FX for their imports.

The acute crisis of FX was also reinforced by the contraction in foreign aid and credits that came with the global recession. As Western governments and supra-national institutions became more reluctant to issue state-to-state loans or project credits for the finance of development plans based on the ISI, the Turkish state tried to continue implementing its plan by relying essentially on short-term borrowing from private creditors. This continued despite the first oil shock of 1973-74. A combination of these forces led to balance of payment difficulties in 1977: Turkey was unable to service its foreign debt which had become increasingly short-term in nature. The rapidly deteriorating macroeconomic balances during 1978-1980 and the rising tension between the IMF and the Turkish state heralded a turning point in economic policies.²⁴ The stabilisation package announced in January 24, 1980 opened a new era of trade and financial liberalisation, a shift that was heavily backed by the IMF and the WB.

Hence, in the face of the limits of the ISI, the dominant parts of capital, having made the transition from commercial to industrial capital, wanted to expand their operations internationally. Posed from a national perspective, the export-led accumulation regime after 1980 provided the needed environment for these conglomerates to expand into the rising FX-earning sectors of the 1980s such as tourism, finance, international transportation and foreign trade.²⁵ From the perspective of the dominant capitals themselves, this was the opportunity to expand. As Sönmez (1992b, 154) states, achieving competitive price and quality in external markets required restructuring in their production.

The internationalization of these large conglomerates continued with the first burgeoning of IDIs in the late 1980s and they pioneered the steadily increasing internationalisation of productive capital throughout the 1990s. For example, the Koç Group established facilities for the production of household appliances in the early 1990s in some North African countries (Sönmez 1992b, 171).

²⁴ For the tensions between the Turkish state and the IMF see Ekinçi (1996, 3).

²⁵ The overwhelming majority of the Foreign Trade Companies operating in this period were set up by large holding companies and they captured the main share of foreign trade incentives (see Buğra 1994, 183).

Yet, given that those conglomerates 'were very important at the domestic scale but insignificant at the international scale' (Tekeli & Menteş 1982, 262), collaboration with international capital continued to be a key to accelerate global expansion.²⁶ In this process, a limited number of family conglomerates established control over the economy and they have been surrounded by a sea of small scale firms (Ercan 2002a, 32).

Along with trade liberalisation and export promoting policies, the *financial system was deregulated and gradually integrated into global financial markets*. The end of the inward-looking process of capital accumulation under the protection of the state also necessitated a structural change in its financial system. Hence, *to meet increasing capital needs of the bourgeoisie in the transition to the outward-oriented accumulation, capital, money and FX markets were developed by the state*.²⁷ In this process, the elimination of control on interest rates provided a wider deposit base for banking.²⁸ In addition, gradual removal of restrictions on FX transactions during the 1980s and finally on capital movements in 1989 (with decree no. 32) allowed the free international flow of funds. Thus, banks became the central agent in *the domestically mediated external borrowing* of the state over the following decade.

The continuous dominance of banking in the allocation of financial resources attracted new conglomerates to enter the banking industry. Indeed, given that margins between interest rates of bank credits and deposits were high in the period 1980-1990, Turkish capital markets were expected to be developed as a cheap source of finance for the corporate sector. However, at the start of the 1990s, in spite of some progress,²⁹ especially in terms of establishing the necessary institutional and legal base for

²⁶ For example, to compensate for its backwardness in foreign partnerships compared to Koç Group, Sabancı Group gathered more foreign partners after 1980 (Sönmez 1992b, 158).

²⁷ The main elements of this development process were: the permission for banks to keep foreign currency abroad and so to become involved in FX transactions in international markets in 1984; the introduction of open market transactions in 1987; the beginning of the sale of government securities through periodic auctions in 1985; the inclusion of special finance houses and leasing companies in 1985; the establishment of the Interbank Money Market for the Turkish Lira in 1987, Foreign Exchange and Foreign Banknotes Markets in 1988 and Gold Market in 1989.

²⁸ Interest rates were liberalised in 1980 and the CBT was authorised to fix interest rates on deposits again in 1983 since competition (via offering higher interest rates by some small banks and brokerage firms) threatened the financial system. The determination of interest rates was left to the market again in 1988 (for the details see Akkurt, Eğinli, Hakioglu, Karayalçın, Koç, Özçet, Şenel, Usta & Varol 1992, 7-9).

²⁹ See Eser (1995, 27); Ünal (1996, 40).

capital market development, *the banking sector, particularly commercial banking, continued to dominate the financial system of Turkey.* Actually, the financial sector in aggregate was almost equal to the banking sector.³⁰ The dominance of banking in the financial system continued into the late 1990s.³¹ Moreover, while the funds that industrial corporations gathered through capital markets tended to decrease, banks raised increasing resources from these markets between 1987 and 1993 (Eser 1995, 45),³² indicating that banks were increasingly mediating corporate fund raising. BRSA (2002d) describes the dominance of banking in Turkey's financial system as follows:

A significant part of the flow of funds is performed through the banking sector in Turkey. Although the number and size of non-bank financial institutions tended to increase in the recent years, the banking sector has still a share of 75% in total financial sector assets. The fact that a significant part of non-bank financial institutions are subsidiaries of banks increases the dominance of the banks in the financial sector.

Importantly, another factor that made bank ownership critical in accessing money capital during that period was *the state debt finance by the banking sector.* As explained in Chapter 3, the state borrowing, mainly from the banking sector, became a source of protectionism mainly for FC in the post-1980 era. The state indebtedness channelled money capital to FC and other benefactor large scale industrial/commercial capital in a period when they sought to internationalise their accumulation.³³

As will be specified below, in the 1980s and 1990s, the state took some measures to loosen the integration of industrial and banking capital and to bring the

³⁰ In the total balance sheets of financial institutions, including the CBT, the share of special financial houses, insurance and leasing companies and stock exchange was less than 6%. The same situation was also valid in the secondary markets. In the period 1982-1990, while the share of capital market instruments in financing private sector remained at a low level, bank credits had a share of 95%; as such, the share of banks in secondary markets was around 90% (Erdem 1993, 176-177).

³¹ While the share of the banking assets in total financial system was 72% in 1998, special financial houses, insurance and leasing companies had a share of only 5.2% (Gürlesel 1999, 75-76). Also, between 1997 and 1999, around 90% of the transactions in the Istanbul Stock Exchange bond market were made by commercial banks (Tunay 2000, 99).

³² Following the opportunity for raising funds through capital markets with the Capital Market Law in 1981, industrial corporations could obtain 87.9 % of the funds derived from capital markets in 1987, whilst this share decreased to 55% in 1993. On the other hand, partly due to the initiated participation of banks in the process of public issue in 1989, banks increased their shares in the raised funds from capital markets (Eser 1995, 42).

European Union (EU) banking standards to the sector. However, the financial deregulation measures of the post-1980 period did not displace or undermine the *pivotal role of the Turkish banking sector in the allocation of financial resources. Owing to the relative backwardness of capital markets and the wide activities of banks in these markets, holding banking continued to be highly attractive to conglomerates. In addition, the lucrative state-debt-finance in the 1990s increased the appetite of individual capitalists to enter banking as all private banks became the beneficiaries of the associated arbitrage gains and float income.*

4.5.2 Mechanisms for Penetration into Banking by Conglomerates

Conglomerates used different mechanisms to penetrate into banking throughout the 1980s and 1990s, indicating the continuous attraction of holding banking.

The relaxation of entry barriers into banking with decree no. 70 (22.7.1983) led to a decrease in sectoral concentration. Some conglomerates, which had been able to add banking capital to their circuits, established new national banks, some with foreign partners. As a consequence, between 1980 and 1990, 19 commercial banks (eight of which were foreign banks) and eight development/ investment banks (four of which were with foreign capital) were established. The entry of 19 new foreign banks was especially remarkable. The number of banks continued to rise in the 1990s and, by 1998, there were 36 private banks (up from 19 in 1980) and 18 foreign banks (up from 4), whereas the number of state banks decreased from 8 to 5 via privatisation. The number of private banks especially increased in the 1990s.

One of the driving forces leading non-banking conglomerates to have their own banks in the 1980s was *the desire to take advantage of expanding foreign trade and capital markets*. Öncü and Gökçe summarise the trend succinctly:

By 1985, many of the prominent private Groups, had given birth to a new generation of 'trade-finance banks', either in joint ventures with foreign banks or independently. ...the slowness of the over-branched, over-staffed traditional deposit banks in shifting into foreign currency markets also provided scope for the emergence of a number of new and small independent trade-finance banks of domestic origin. These enterprising new mavericks, employing aggressive Madison Avenue techniques, were able to take advantage of the expanding foreign trade and funding markets, and

³³ For more information on state borrowing policy see Ekinci (1996), Gürlü (1998).

established themselves in a banking sector long dominated by the 'Groups' [such as] Esbank, Netbank, Finansbank, İktisat Bank, Ekonomi Bank, İthalat/İhracat Bank, Adabank... (Öncü & Gökçe 1991, 113)

Consequently, banks that conducted wholesale banking with limited branches and small/medium scale increased in number, while the market share of large-scale private banks was reduced. These wholesale banks mainly engaged in foreign trade financing, leasing, factoring, forfeiting, brokerage and short-term credit-giving by drawing on funds from international financial markets. Table 4.3 shows the banks that were established or acquired over this period.

Table 4.3 Established/acquired holding banks in the 1980s

| Bank | Conglomerate | Year |
|------------------------------|--|------|
| Garanti Bank | Doğuş & Sabancı (from Koç) | 1983 |
| Titibank (later Impexbank) | Ulusoy & Yılmaz (later Can Elyeşiller) | 1984 |
| İktisat Bank | Avrupa ve Amerika (from Ergür) | 1984 |
| Adabank | Uzan | 1985 |
| İmarbank | Uzan (from Doğuş) | 1985 |
| Tekstilbank | Akın | 1986 |
| Finansbank | Fiba | 1987 |
| Netbank (later Marmara Bank) | Net | 1988 |
| TYT (Turizm Yatırım) Bank | Lapis | 1988 |

In the post-1980 period, the deregulation of interest and exchange rates had momentous implications for banking. In addition to the removal of price controls over foreign currency, commercial banks were allowed to engage in foreign currency operations. As Öncü and Gökçe (1991,112) state, the most immediate consequence of the decentralisation of foreign currency operations, when coupled with the softening of restrictions on capital inflows from abroad and the introduction of an export encouragement scheme, was *the arrival of international banks which had so far eschewed Turkish financial markets*. As well, Turkey's relatively rapid economic growth and gateway position with respect to the Commonwealth of Independent States (CIS) countries attracted foreign banks (Denizer 2000, 8).

While foreign banks (mainly US, European and Middle Eastern origin) first entered via agencies or branches (e.g. Citibank, Manufacturer Hannover Trust, Chase

Manhattan and First National Bank), a different mode of entry started to be observed in the mid-1980s: *building corporate banks with Turkish conglomerates* (Sönmez 1992a, 77-78). In this process, Yaşar, Koç, Sabancı, ENKA and Doğuş Groups became partners with foreign banks.³⁴ In addition, in 1991 and 1992, some of the foreign bank branches³⁵ turned themselves into corporate companies to benefit from the revaluation fund³⁶ that could not be utilised by small taxpayers until 1992. Some of these banks had domestic partners. For example, the First National Bank of Boston was transformed into an independent Turkish bank in which OYAK (Turkish Armed Forces Pension Fund-*Ordu Yardımlaşma Kurumu*), Alarko and Cerrahoğlu Groups together controlled a majority stake.³⁷ The foreign capital banks established in the 1980s can be seen from Table 4.4.

³⁴ Irving-Thrust became a partner in Tütünbank of Yaşar Group; Koç-Amerikan Bank was a joint venture between Koç Group and Amerikan Express; BNP-Ak was a Bank Nationale de Paris and Akbank joint venture. ENKA Group which had been one of the non-banking conglomerates established Chemical-Mitsui Bank with Japanese and American capital. Doğuş Group, on the other hand, after selling off the YKB to Çukurova Group in 1983 and İmar Bank to Uzan Group in 1985, re-entered banking with Körfezbank, a joint venture with Qatar capital.

³⁵ First National Bank of Boston, Manufacturers Hanover Bank, Türk Bank Ltd (became Turkish Bank), Banque Indosuez, Bank of Bahrain and Kuwait and Credit Lyonnais are examples.

³⁶ The revaluation fund allowed banks to revalue their fixed assets every year according to increases in the wholesale price indices and to add the hidden reserves arising from inflation to bank's own funds.

Table 4.4 Foreign banks in Turkish financial markets in the 1980s

| Bank | Year | National Origin |
|--------------------------------------|------|-------------------------------------|
| Citibank | 1981 | American |
| Bank Mellat | 1982 | Iranian |
| BCCI | 1982 | Luxemburg |
| Türk Bank Ltd. | 1983 | Cypriot |
| Habib Bank Ltd | 1983 | Pakistan |
| M. Hanover Trust ³⁸ | 1984 | American |
| Chase Manhattan | 1984 | American |
| F.N.Bank of Boston ³⁹ | 1984 | American |
| Saudi-American | 1985 | Saudi-American |
| Chemical Mitsui ⁴⁰ | 1985 | Amer.-Japanese-Turkish (ENKA Group) |
| Irving Trust/Tütün ⁴¹ | 1985 | Amer.-Turkish (Yasar Group) |
| BNP-AK ⁴² | 1985 | French-Turkish (Sabancı Group) |
| Koç-Amerikan ⁴³ | 1986 | American-Turkish (Koç Group) |
| Bank of Bahrain/Kuwait ⁴⁴ | 1986 | Bahrain-Kuwait |
| Banque Indosuez ⁴⁵ | 1986 | French |
| Standard Chartered ⁴⁶ | 1986 | British |
| Credit Lyonnais | 1988 | French |
| Körfezbank ⁴⁷ | 1988 | Qatar-Turkish (Doğuş Group) |

Sources: Developed from Öncü & Gökçe (1991, 112); Baysal & Koç (1993, 116-117)

³⁸ It was renamed Chemical Bank in 1991 and became Sitebank in 1997 as a national bank.

³⁹ With the partnerships of OYAK and Alarko Groups, it was renamed Türk Boston Bank in 1991.

⁴⁰ Its name was changed to Türk Mitsui Bank in 1989 and renamed Türk Sakura Bank in 1991. All of the bank's stakes of the bank were bought by Fiba Group in 1999 and was renamed Fiba Bank in 2000.

⁴¹ Irving Trust sold off 40% of its stakes to Yaşar Group in 1987 and it was renamed Türkiye Tütünçüler Bank-Yaşarbank in 1996.

⁴² Dresdner Bank became a partner and the bank was renamed BNP-AK-Dresdner in 1989.

⁴³ It was established in 1981 as American Express. In 1986, with Koç Group's partnership, it became a national bank and was renamed Koç Amerikan Bank and in 1993 Koçbank.

⁴⁴ In 1992, it was converted to a national bank with the name 'Tasarruf ve Kredi Bank'.

⁴⁵ In 1992, it became Banque Indosuez Türk and in 1993, Banque Indosuez Generale Euro Türk (EuroTürk Bank). Following the change in its shareholder structure, it became a national bank in 1995 and was renamed Bank Kapital Türk.

⁴⁶ It was renamed Westdeutsche Landesbank Europa (West LB) in 1990.

⁴⁷ Birlesik Türk Körfez Bank. Its statute changed it to a private national bank in 1995 with a change in its capital structure.

Despite the high number of entries in the 1980s, the shares of foreign banks in terms of assets, loans, credits and deposits did not increase over time. One reason for this trend was that these banks focused on wholesale banking and foreign trade financing with limited-numbered branches (BAT 1998, 18; Denizer 2000, 9).⁴⁸

Also, foreign participation in Turkish banking remained low throughout the 1990s as many of foreign banks sold their banking franchises and left Turkey. As of 1999, the shares of foreign banks in total deposits and credits were 2.7% and 3% respectively (Akgüç 2000, 41). In accounting for this tendency, Münir (1998) cites the chairman of one of the largest banks of Turkey:

Erol Sabancı, chairman of Akbank, agrees that the family stress of Turkish banking is the biggest obstacle to foreign participation. "A well-established foreign bank wants to deal with an institution, not with a family," he says. "Many families exploit their banks. Many banks have bad assets arising from loans to parent companies - the family lends itself money and then does not repay. This constitutes a large-scale risk which a foreign bank will not tolerate."

But "clean banks" are not attractive either, says Sabancı, because buying them involves an unpalatable amount of exposure to Turkey risk...

Importantly, Alper and Öniş (2002, 12) indicate that while foreign banks, in general, were unwilling to participate on a meaningful scale in a system characterised by weak supervision and high volatility, only certain types of foreign banks tended to enter the sector. Those banks collaborated with domestic banks in sharing excess profits derived from state-debt finance.⁴⁹

As those foreign banks left Turkey in the 1990s, *purchases of foreign banks and foreign capital shares in joint venture banks became a new channel for further infusion into banking by conglomerates*. Table 4.5 shows nine banks that were the result of these acquisitions:

⁴⁸ In 1990, the share of foreign markets in total deposits and credits was 2.4% and 3.5% respectively (Akgüç 1991, 6).

⁴⁹ For more data on the high share of government securities in foreign banks' assets see Erzan, Akçay & Yolalan (2001, 13).

Table 4.5 Purchases of foreign banks by Turkish conglomerates in the 1990s

| Foreign Capital Bank | National Capital Bank | Conglomerate | Year |
|--------------------------------|--------------------------------|--------------|------|
| Koç Amerikan Bank | Koçbank | Koç | 1991 |
| Bank of Bahrain | Tasarruf ve Kredi Bank | Doğuş | 1992 |
| Bank of Boston | Türk Boston Bank ⁵⁰ | OYAK | 1991 |
| Eurocredit Bank ⁵¹ | Yurtbank | Balkaner | 1994 |
| Banque Indosuez | Bank Kapital | Ceylan | 1995 |
| Osmanlı Bank ⁵² | Osmanlı Bank | Doğuş | 1996 |
| Chemical bank ⁵³ | Sitebank | Surmeli | 1996 |
| Saudi American Bank | Ulusal Bank | Cıngılhoğlu | 1996 |
| Türk Sakura Bank ⁵⁴ | Fiba Bank | Fiba | 1999 |

Sources: Derived from Akgüç (1991, 1992b, 1993, 1994, 1995, 1996, 1997, 1998, 1999, 2000, 2001); 'Faal Bankalar', URL: http://www.tbb.org.tr/Türkce/diger_bilgiler/faalbanka.xls and URL: 'Kapalı Bankalar', http://www.tbb.org.tr/Türkce/diger_bilgiler/kapalıbanka.xls (accessed 25 February 2003).

In addition to the new generation of trade-finance banks and the acquisitions of foreign banks, the third form of entry for conglomerates into the sector was through development/investment banking. In the second half of the 1980s, seven development-investment banks were established and their number reached 12 in 1992 (up from 6 in 1980). *This trend was led by state policy, as the government tended to give new bank licences for investment banking rather than commercial banking.* Yavuz Canevi, the Undersecretary of the Turkish Treasury, explained the reason for this policy as follows:

⁵⁰ Later Oyakbank.

⁵¹ Eurocredit Bank (Euro Credit Türk Fransız Ticaret Bank) was established in 1993. Seventy percent of its shares belonged to Çarmıklı Group and 30% to Compaigne Financiere De Camondo of France. Its name was changed to Yurt Ticaret ve Kredi Bank (Yurtbank) in 1994 and sold to Balkaner Group in 1996.

⁵² French capital.

⁵³ Its name was changed to Sitebank in 1997.

⁵⁴ It was renamed Fiba Bank in 2000.

After overcoming the crisis of Kastelli⁵⁵ [the bankers' crisis in the early 1980s], in the period of 1984-1986, since banking was living its golden years by selling and buying foreign exchange with a premium of 2-2.5 %... everybody wanted to own their own banks. In front of the door of the Treasury, tens... of individuals, groups appeared. We started to worry. Since we had announced that the entry to banking had been liberalised, how could we give a licence to everyone who had the necessary minimum capital? We found a tricky way...and we thought that if there were a banking type that did not risk savings deposits, we could both please these people and we could remove the closeness of the system simultaneously...We were convinced of the idea of 'investment banking'. We said "everybody who wants to do banking can do it, but we do not allow deposit banking... If you want to establish an investment bank, you can do so. We shall see your performance in the market first...and after 2-3 years, you can apply for the conversion of your banks to deposit banks... (İAV 1990, 70-71)

Therefore, the state saw investment banking as a way to reduce the risk of excessive number of deposit taking commercial banks.

The WB also played a role in the establishment of these investment banks. Alkin (2002, 40) notes the credit conditionality by the WB on the reduction of an excessive number of deposit banks and the development of investment banking in Turkey. Alkin indicates that despite the initial conformation to this 'suggestion', when the incumbent government gave new deposit banking licences in 1991, the WB froze the release of subsequent credits.

Nevertheless, investment banking had a special attraction for conglomerates. The established private investment banks *were* dominantly *either in the form of joint ventures with foreign banks or in the form of subsidiaries in which the largest shareholders were foreign banks*. This foreign partnership was needed ⁵⁶ because

⁵⁵ Cevher Ozden, better known as Kastelli, was a broker whose name became synonymous with the Bankers' period of the early 1980s. After positive real interest rates came into force in the 1980s via the adjustment of nominal interest rates for inflation, despite lags, in Turkey there was a rapid expansion in private brokers ("Bankers" as they came to be called in Turkey) who offered extremely high interest rates in order to fund their lending to firms which were badly in need of money. As Ekinci (1996, 6) states, while the operations of private brokers soon turned into a case of Ponzi finance, some banks that marketed their negotiable certificates of deposits through the brokers were also drawn into the Ponzi scheme. In this process, some holding companies which had their own banks such as the Çukurova Group, and non-banking ones such as Transtürk Holding, Eczacıbaşı Holding and Profilo Holding, established their own brokerage firms. 'Within a short time, the nation came to boast one broker per 45,000 people' (Ateş, Uras & Kaban 1999, 393). For details of the collapse of the brokerage system in 1982 which resulted in thousands of unpaid deposit holders as well as in bankruptcies of three cooperating banks (İstanbulbank, Hisarbank and Odibank), see Ateş, Uras & Kaban (1999, 334-335; 388-394) and *Asomedyä* (2001, 43-46).

⁵⁶ See the statement by Mehmet Çekinmez, Director of Banking Department of Turkish Treasury and Foreign Trade Undersecretary in *İAV* (1990, 77).

conglomerates' needs for finance could not be met due to the decreasing subsidised credits provided by the state.⁵⁷ Buğra explains this trend as follows:

The growing shortage of public funds used to support the private sector has thus been instrumental in leading private enterprises to reconsider their financial strategies. These developments coincided with changes in banking regulations which enabled banks to deal with foreign currency operations and greatly liberalised the activities of foreign banks operating in Turkey. In this environment, it became more attractive for banks to engage in merchant/investment banking rather than remaining in their traditional general commercial banking activities, often through the formation of joint ventures with foreign partners. *This new orientation was especially attractive for holding companies because investment banks are not limited by the same regulations which restrict the amount of credit that a group bank can extend to any single enterprise on the one hand and to affiliated enterprises within the group on the other. Moreover, through joint ventures with foreign banks, group banks could raise much-needed capital resources in an environment in which subsidized credit was becoming scarce.* In the second half of the 1980s, big Turkish enterprises have thus begun to consider joint ventures with foreign banks as a way of dealing with financial bottlenecks. (Buğra 1994, 204-205, emphasis added)⁵⁸

The amendment to the banking law⁵⁹ in 1993 also encouraged the establishment of investment banks. Firstly, *investment and development banks were allowed to be converted to deposit banks with the permission of the Council of Ministry.* Secondly, investment banks gained rising importance in the primary securities market as this legislative change authorised these banks to deal with

⁵⁷ The preferential credit system that was used to support prioritised sectors during the ISI was simplified after 1983. 'Banks were no longer obliged to lend a certain proportion of deposits to specific sectors and differential reserve ratios to specific sectors were abolished' (Değirmen 2003, 51).

The CBT's rediscount credits were used to support preferential sectors until 1989 by applying lower rates to the credits extended to these sectors, especially to the exporter or export-promising sectors. However, the volume of these credits was continuously diminished throughout the 1980s and the allocation of medium-long term credits used in financing the industrial sector was ceased in 1989. The new credit policy focused on controlling and supporting the liquidity need of the banking sector on the basis of short-term credits (for more details see Ada (1993, 82); IAV (1990, 44-49)). As a result of the cessation of medium-term industrial credits, the share of commercial credits in the CBT credits to banking increased and as of November 1999, it approximated almost 100% (Akgüç 2000, 27).

⁵⁸ The developments that generated a potential market for investment banking after 1980 were the following: the deregulation of interest rates and exchange rates; the allowance for fund raising from abroad; the rise in capital market operations; the establishment of the Istanbul Stock Exchange; and the easing of foreign entry into the domestic banking sector in the 1980s (see IAV 1990, 75). Furthermore, expected competition from European companies in the ongoing process of Turkey acquiring EU membership compelled changes in the capital structure of Turkish companies either through being quoted on the stock exchange or having a foreign partner. This has been cited by Mehmet Nazmi Erten as another potential source for investment banking, in addition to the intensified privatisation attempts in the 1980s (IAV 1990, 84).

security issues by the corporate sector together with brokerage agencies (Şengül (1993, 14). Table 4.6 displays the investment banks established in this process.

Table 4.6 Investment banks established in the second-half of the 1980s

| Investment Bank | Owner | Year |
|--|---|------|
| Tekfen Yatırım ve Finans Bank | Tekfen Group (Turkish capital majority) | 1988 |
| Birlesik Yatırım Bank ⁶⁰ | Kavala Group (Turkish capital majority) | 1989 |
| Türk Merchant Bank ⁶¹ | Bankers Trust & Is Bank& Dışbank | 1988 |
| Yatırım Bank ⁶² | Foreign capital-owned ⁶³ | 1988 |
| Avrupa Türk Yatırım Bank ⁶⁴ | Foreign capital-owned | 1990 |

Sources: Developed from IAV (1990, 76); Akgüç (1992a, 114).

Owing to eager pressure exerted on the Government and the Treasury by conglomerates for banking licences, four new deposit and two investment bank licences were given in 1992 which resulted in the establishment of six new banks (Alternatifbank, Bank Ekspres, Toprakbank, Kentbank, Park Yatırım Bank and Tatbank). Subsequently, around 30 conglomerates made new applications to the Treasury. However, the bankruptcies of three banks (TYT Bank, Impexbank and Marmara Bank) during the 1994 crisis created an adverse environment for new bank allowances by the Treasury.⁶⁵

The full insurance scheme for deposits, which began during this crisis to prevent a run on banks, discouraged new bank licence to be given by the state.

⁵⁹ Banks Act No. 3182 (25.4.1985) through the Governmental Decree in Force of Law no. 512 (16.9.1993).

⁶⁰ Its banking permission was ended in 1999.

⁶¹ The shares of İşbank were purchased by Banker Trust in 1992 and it was renamed Bankers Trust in 1997. After the purchase of Banker Trust by Deutsche Bank worldwide, Banker Trust Turkey was renamed Deutsche Bank in 1999 (*Finans Dünyası* 2000c, 64).

⁶² It was renamed Taib Yatırım Bank in 1997.

⁶³ Ninety-five percent of the bank belonged to Trans Arabian Investment Bank E.C.

⁶⁴ EuroTürk Bank. It was renamed Indosuez Euro Türk Merchant Bank in 1995 and then Credit Agricole Indosuez Türk Bank in 2000.

⁶⁵ The sudden rise in interest rates and the devaluation of Turkish Lira in 1994 affected the whole banking sector, but especially small-to-medium scale banks because of their high foreign currency open positions. Those banks tended to rely on external resources rather than domestic funds in the pre-crisis years. The sudden rise in FX prices put those banks under a high burden in proportion to their foreign currency open positions. In addition, the run on deposits during the economic turmoil further affected those banks. Therefore, three banks, namely TYT Bank, Impexbank and Marmara Bank went bankrupt as they could not

Following the decree of 22 June 1994, previous applications were annulled and conglomerates that had applied for a banking licence were asked to renew their applications, but with quadruple the necessary minimum capital for a bank establishment (Yeşiloğlu 1996a, 26).

Abram Rutgers, Turkey's General Director of Holantse Bank Universal, warned that if permission were granted for new bank licences (which then stood at 23), the sector would be overbanked (Baysal & Koç 1993, 116). Turkey's General Director of Chase Manhattan, Isak Antika also pointed out that there was an excess number of banks in corporate banking and branches in retail banking such that a consolidation of the banking sector would be necessary in time (Koç 1993, 55).

On the other hand, the Undersecretary Representative of the Treasury and Foreign Trade, Osman Ünsal, explained the stance of the state on new bank establishments as follows:

At this stage, our preference is to evaluate new bank establishments after sales of the state banks which are either currently undergoing a privatisation process or will be privatised in the future. (Babuşçu & Kutlay 1993, 10)

Under these circumstances, after 1992, only one bank licence was granted to EGS Investment Bank of EGS Group in 1995. Table 4.7 displays the banks established in the early 1990s.

Table 4.7 Banks established in the early 1990s

| Bank | Founder | Year |
|-----------------------------------|-------------------|------|
| Alternatifbank | Doğan Group | 1992 |
| Bank Express | Ibrahim Betil | 1992 |
| Toprakbank | Toprak Group | 1992 |
| Kentbank ⁶⁶ | Süzer Group | 1992 |
| Park Yatırım Bank | Karamehmet Family | 1992 |
| Tat Yatırım Bank | Tatlıcı Group | 1992 |
| EGS Investment Bank ⁶⁷ | EGS Group | 1995 |

Source: Developed from Bilen (2000b, 31).

meet their liabilities (for more details of these bankruptcies see Gündoğdu 2000, 53-54; TGNA 1999e, 17).

⁶⁶ Its original name was Türkiye Konut ve Endüstri Bank and renamed Kentbank in 1994.

⁶⁷ It was converted to a commercial bank in 1996.

Nevertheless, after overcoming the 1994 financial crisis, in the mid-1990s many conglomerates sought to have their own banks to profit from the lucrative state debt finance and to ensure reliable access to financing. As a result, it was predicted that there were around 70 bank licence applications waiting in the Treasury (Yeşiloğlu 1996a, 26). However, because of the reluctance of the Treasury to facilitate new bank establishments, *purchases of banks from other conglomerates* appeared as a feasible alternative leading to heavy inflation in the acquisition cost of banks.⁶⁸ Therefore, in the 1990s, many banks changed ownership between conglomerates as Table 4.8 shows.

Table 4.8 Bank transfers between owners in the 1990s

| Bank | Previous Owner | New Owner | Year |
|---------------------------------------|------------------------|-----------------------|------|
| Egebank | Özkat Group | Bayraktar Holding | 1990 |
| Impexbank | Asil Nadir | Can Eliyeşil | 1991 |
| Bank Ekspres | Ibrahim Betil | Doğuş Group | 1994 |
| Bank Ekspres | Doğuş Group | Korkmaz Yigit | 1994 |
| Dışbank ⁶⁹ | İşbank Group | Doğan Group | 1994 |
| Alternatifbank | Doğan Group | AnadoluEndustri Group | 1996 |
| Interbank | Çukurova Group | Nergis Holding | 1996 |
| Garanti Investment Bank ⁷⁰ | MNG Group | Doğuş Group | 1997 |
| Derbank ⁷¹ | Dervis Temel | BayındırGroup | 1998 |
| Egebank | Bayraktar&İhlas Groups | Demirel Group | 1998 |

Sources: Developed from Yeşiloğlu (1996b, 169); Taşdemir (1997, 34); Akgüç (1998, 3); Arslan (2001, 230).

In addition, the *acquisition of privatised banks* became another alternative path to enter banking (Yeşiloğlu 1996b, 169-70), as Table 4.9 indicates. Forty-one offers for the three privatised banks in 1997 indicate the wide interest in the acquisitions of these banks (Taşdemir 1997, 32). Of the privatised banks, Sümerbank was bought by Garipoğlu Group in 1995. Zorlu, Başaran, Nergis and Medya Groups also succeeded

⁶⁸ See Barham & Field (1997, 47-48).

⁶⁹ Previously American Türk Dış Ticaret Bank.

⁷⁰ Later MNG Bank.

⁷¹ Later Bayındırbank.

to enter banking through privatisation in 1997.⁷² Some of the unsuccessful groups in the acquisition of privatised banks, such as Ceylan, Anadolu Endüstri and Sürmeli Groups, purchased other holding banks as mentioned above.

Table 4.9 Acquisitions of privatised banks by conglomerates

| Privatised bank ⁷³ | Conglomerate | Year |
|-------------------------------|------------------------------|------|
| Sümerbank | Garipoğlu | 1995 |
| Etibank | Nergis & Medya ⁷⁴ | 1997 |
| Denizbank | Zorlu | 1997 |
| Anadolubank | Başaran | 1997 |

The last mechanism that was utilised to penetrate banking was a new wave of investment banks in 1998. While the establishment of deposit banks was restricted, investment banks were approved during the ministry of Güneş Taner.⁷⁵ From that year, a new condition was to be introduced for new bank licences: according to a draft law aiming to reform the financial sector, for deposit banks some US\$ 40 million (10 trillion TL) , and for investment banks some US\$ 25 million (6 trillion TL) would be required to be paid to the Treasury. Taner stated that many bank applications were waiting for a licence and added: 'instead of making them wait, let's give the licences and let the money come to the Treasury'.⁷⁶

⁷² Sumerbank and Etibank were confiscated by the state during banking reform.

⁷³ The state bank 'Etibank' was divided into three as Etibank, Denizbank and Anadolubank and these three bank licences were sold by the state.

⁷⁴ The first privatisation bidding was won by the Doğan Mensucat Group. But this group failed to pay the instalments, thus, Etibank was sold to Nergis Holding of Cavit Çağlar and Medya Holding of Dinç Bilgin who became the bank's partner with Çağlar in the bank after the bid. For the controversial sale of Etibank see Turkish Daily News, 14 November 2000, URL: http://www.Turkishdailynews.com/old_editions/11_14_00/unver.htm and "Çağlara Satış Usulsüz mü", URL: <http://www.netbul.com/superstar/ozeldosyalar/ekonomi/icibosaltilanbankalar/caglar.asp> (accessed 13 December 2002).

⁷⁵ There are two common forms of investment banking. The first one is the investment banking which is done by commercial banks and the second one is characterised by the separation of investment banking from commercial banking (Bilen 2000a, 66). In Turkey, Capital Market regulations allowed commercial banks to do investment banking until 1997. After that, a new arrangement was made to separate commercial and investment banking (Bilen 2000b, 31).

⁷⁶ Harun Gürek, "Parayı Veren Bankayı Açar", Milliyet, 29 May 1998.

It was argued that charging for bank licences would discourage some conglomerates from entering banking. In addition, Taner announced that the full state guarantee on deposits would be removed. This was expected to discourage especially small-to-medium scale banks

As a result, seven of the ten new bank licences given by the Treasury in 1998 were for investment banks (Bilen 2000a, 65). In this process, some non-bank conglomerates such as Okan, Nurol, Diler and Çalık Groups entered FC for the first time while some conglomerates that already owned commercial banks, GSD,⁷⁷ Süzer and Toprak Groups, also built investment banks. Table 4.10 shows the seven investment banks established during this period. Consequently, in 1998, the number of banks rose to 81 and in the process almost all media owners also became owners of one or more banks.⁷⁸

Table 4.10 Investment banks established in 1998 and 1999

| Investment Bank | Conglomerate |
|-------------------------|---------------------|
| Okan Investment Bank | Okan |
| Nurol Investment Bank | Nurol |
| Diler Investment Bank | Diler |
| Çalık Investment Bank | Çalık |
| GSD Investment Bank | GSD |
| Süzer Investment Bank * | Süzer |
| Toprak Investment Bank | Toprak |

* It was renamed Atlas Investment Bank in 1999.

A closer look at the underlying forces that led to the establishment of these investment banks reveals information consistent with the thesis' conglomerate analysis of Turkish banking.

During the period in which the Treasury discouraged commercial bank establishments, conglomerates viewed investment banking as a first step to enter banking since investment banks could be later converted into deposit banks (Hatisaru 1998, 60). The Treasury had a more positive attitude for investment bank establishments since these banks were contributing to the development of financial markets. In addition, they were creating their funds from domestic and international investment banks and international institutions instead of deposit collection.

from deposit banking. While these banks opposed the removal of the full insurance scheme, large banks supported it ("Bankacılık Sektöründe Büyük Şok", Finansal Forum, 2 June 1998).

⁷⁷ The General Director of GSD Holding, Ferruh Tanay, stated that the Treasury gave an investment bank licence to GSD Holding because of its shareholder structure as well as its export volume (Uygun 1998, 38). The Holding then had 96 textile producers as shareholders.

Investment banks were also desired by conglomerates since these banks were able to perform most of the financial activities of deposit banks, including operating in money and FX markets, undertaking treasury transactions and leasing. The only function that they could not fulfil was deposit collection. Furthermore, investment banks were exempted from some legal liabilities such as a required reserve ratio, precisely because they did not collect deposits. Additionally, while commercial banks could only extend credit in proportion to their capital, there was no such limit for investment banks (Hatisaru 1998, 61).

Özdemir and Türker (1999) provide a clear account of the determinants which led conglomerates 'consciously' to establish these investment banks. They point out that the Capital Market Board prohibited banks from conducting capital market intermediary activities (pursuant to Decision no. 3, dated 15/8/1996). Because of this decision, banks were compelled to establish separate brokerage institutions so that they could deal with these activities. The regulations of this decision were arranged with another Board decision numbered 1996/35. Even though this decision was eventually cancelled by the Council of State on November 3 1998, in the meantime, the banks that wanted to undertake capital-market-intermediary activities had already become partners in established brokerage institutions, or established their own legally distinct brokerage companies. As of July 2000, 46 of the 131 brokerage institutions that worked in the Istanbul Stock Exchange belonged to banks (Bilen 2000a, 67). Özdemir and Türker (1999, 36) affirm that investment banking lost its former attraction once capital market transactions had composed a large part of investment banks' operations and the Capital Market Board had made its decision.⁷⁹

Hence, the question of why these conglomerates still sought to obtain investment bank licences would appear to be critical. This pursuit of an investment bank licence is also ambiguous since Turkey has been a country with a volatile macroeconomic environment, in which it has been difficult to raise and place long-term funds. Özdemir and Türker (1999, 38) draw attention to the fact that although investment banks could be used as a first step to enter banking, there had not yet been

⁷⁸ Banu Salman, "Türkiye Banka Cenneti", Cumhuriyet, 12 October 1998.

⁷⁹ For the complaints by investment banks about the restriction on capital market intermediary activities see Mehmet Ali Kantarcı, "Yatırım Bankaları Uygulama Şaşkınlığı", Dünya, 25 May 1999.

many examples of this tendency (indeed, the only example of this was EGS Bank).⁸⁰ Hence, they argue, the main reason for the establishments of these investment banks was actually to benefit from reciprocal transactions between their legally distinct subsidiary banks. This provided two advantages. Firstly, by being exempted from the crucial limitations of banking law arranging credit and equity share relations between banks and their conglomerates,⁸¹ having an investment bank as the second bank of the conglomerate offered important advantages. For example, deposits collected by the deposit bank could be transferred to the investment bank with the aim of being placed as group credits and/or for equity holdings by getting rid of legal restrictions on deposit banks.

Secondly, having both deposit and investment banks made it possible to relocate non-performing credits and other negative items of one bank's balance sheet to another bank for 'balance sheet-make-up'. Finally, the authors draw attention to the possibility of this misuse not only within the same conglomerate but also among different conglomerates on the ground of a 'gentlemen's - agreement' (Özdemir & Türker 1999, 39). However, as the restructuring of banking occurred so soon after the establishment of these investment banks, it is probable that these banks were of little use for conglomerate expansion.

While new conglomerates continually entered banking in the post-1980 period, *exit from the system* was highly rigid. The Banks Act⁸² was biased against direct liquidations of weak banks so that risky banks continued operation. According to clause 64, regulating measures for banks in financial trouble after their 'supervision', those banks were to be merged with or transferred to another bank, generally a state bank as it mostly happened in practice.

The more solid banks criticised this rigidity in the elimination of weak banks since their existence in the system was in conflict with full competition. This situation

With a new communiqué by CMB no. V/46 and issued in Official Gazette dated 7.9.2000 and no. 24163, the disadvantageous position of development/investment banks was eliminated and they regained their function for capital market activities (Bilen 2000b, 32).

⁸⁰ Ismail Canseven, General Director of EGS Bank, (Savaş 1997, 84-85) indicated that the reason for applying to the Treasury for a commercial banking license was that the investment banking operations of EGS Bank could not meet the wider banking service needs of the bank's 500 shareholders who were the customers of the bank. In addition, Canseven noted that the decision of Capital Market Board made investment banks fully dysfunctional at that period.

⁸¹ For the list of these exemptions see Özdemir and Türker (1999).

⁸² No.3182 (25.4.1985).

would also serve to bias mergers in favour of weak banks rather than in favour of global mergers and hence global competitiveness.⁸³

In response to this pressure, in 1993, with the amendments in Banks Act No.3182, this rigidity was removed and exit from banking became viable. Alternatifbank General Director Çetin Hacaloğlu supported the change by stressing that it would encourage banks to work more rationally.⁸⁴ However, in practice, Clause 64 interventions had ceased to have any meaning. The government did not get shareholders to improve the balance sheets of their banks. While ailing banks which were under Clause 64 had distinct advantages such as being absolved from reserve requirements, the more viable banks continuously complained about this implementation (see *Euromoney* 1998a). These factors then set the scene for the dawn of the banking reform period. The conglomerates that formed FC at this time are shown in Table 4.11.

⁸³ See the statements by General Director of Akbank, Hamit Belli and General Director of İşbank, Ünal Körükçü in *Bankacılar Dergisi* (1993, 19).

⁸⁴ "Kamu Bankaları Bir An Önce Özelleştirilmelidir", *Dünya*, 21 September 1993.

Table 4.11 Holding banks and owner conglomerates (1998)

| Conglomerate | Bank |
|---------------------|---|
| İşbank | İşbank, Sınai Yat.Bank, Türkiye Sınai Kalkınma.Bank |
| Sabancı | Akbank |
| Doğuş | Garanti Bank, Körfezbank, Osmanlı Bank |
| Koç | Koçbank |
| Çolakoğlu | TEB |
| Tekfen | Tekfenbank |
| OYAK | Oyakbank |
| Anadolu Endustri | Alternatifbank |
| Zorlu | Denizbank |
| Başaran | Anadolubank |
| Fiba | Finansbank, Fiba Bank |
| GSD | Tekstilbank, GSD Investment Bank |
| Doğan | Dışbank |
| MNG | MNG Bank |
| Çukurova | YKB, Pamukbank |
| Zeytinoglu | Esbank |
| Toprak | Toprakbank, Toprak Investment Bank |
| Süzer | Kentbank, Atlas Investment Bank |
| Korkmaz Yiğit | Bank Ekspres |
| Garipoğlu | Sümerbank |
| Rumeli | İmarbank, Adabank |
| Yaşar | Yaşarbank |
| Cingilhoğlu | Demirbank, Ulusal Bank |
| Avrupa ve Amerika | İktisat Bank |
| EGS | EGS Bank |
| Balkaner | Yurtbank |
| Sürmeli | Sitebank |
| Medya Sabah | Etibank |
| Bayındır | Bayındırbank |
| Şevket Demirel | Egebank |
| Nergis | Interbank |
| Okan | Okan Investment Bank |
| Çalık | Çalık Investment Bank |
| Diler | Diler Investment Bank |
| Tatlıcı | Tat Investment Bank |
| Nurol | Nurol Investment Bank |
| Karamehmet | Park Investment Bank |

This list shows an impossibly large number of banks and bank reform would inevitably see the list contracted. The critical issue was: which banks would survive and which would not?

4.5.3 Legislative Amendments on Banks' Connected Lending and Equity Participations

The penetration of conglomerates into banking through the use of the above-indicated various mechanisms was accompanied by legislative amendments designed to restrict holding banking.

Banking laws were re-amended so as to place further limitations on banks' party-related credits and equity holdings in 1979, 1983 and 1993. However, lax supervision of these limits, permission for new bank establishments during the deregulation process, and the continual pursuit by conglomerates to have their own banks led to a further rise in holding banking in the post-1980 era.

Upon the diffusion of holding banking, the first legislative change that restricted holding banking was made in 1979. A special decree imposed ceilings on connected lending and equity holdings (see Turkish Government 1979, 23-24, 30-31).⁸⁵ According to the decree, the grand total of capital to be assigned by banks to their participations could not exceed 10% of their total paid up capital (clause 47).⁸⁶ Also, total credits to participations could not exceed 20 % of the bank's total paid up capital. Yet the previous legislation allowed unlimited credits to participations provided they operate in the sectors indicated in annual programs of the development plan. This exemption had led banks to allocate credits much higher than this 20% limit (Uras 1982, 18). Therefore, with the new legislation, banks could open credit to those participations up to 15 % of the total cash credits they opened the previous year

⁸⁵ Decree law no.28 (31.8.1979), modifying the relevant clauses of Act no.7129 (23.6.1958).

According to the general reasoning of the amendment, the policy objective was to prevent the use of bank resources by certain capitals via the bank acquisition. The diffusion of bank ownership was expected to preclude concentration of capital in the same hands (Taşcıoğlu 1998, 90).

⁸⁶ Yet those operating in sectors indicated in annual programs of the development plan, the partnerships founded by a special law, developments and investments banks and the subsidiaries of state banks could be participated by banks without any limit.

or up to 3 times of their total paid up capital (clause 39).⁸⁷ However, these limitations could not stop holding banking and as mentioned above, some small and local banks were taken over by conglomerates in the early 1980s.

The second change to restrict party-related bank transactions was made via a new decree in 1983.⁸⁸ With this decree, the binary division in equity participations allowing more equity holdings in selected sectors was ended and the total capital to be assigned by banks to participations was limited by the bank's own funds (clause 47-1). Also, credits to participations could not exceed three-fold the bank's own funds and 15% of total credits (clause 39). This clause also widened the definition of 'bank participation' in order to further limit holding banking.⁸⁹ According to the reasoning of the decree, this clause aimed at converting banks to institutions providing credits to wider sectors rather than financing their own participations (Reisoğlu 1983, 38).⁹⁰

The conflicts within capital over the allocation of financial resources paved the way for this legislative change. Conflicts arose between conglomerates which had been able to integrate with international capital (due to neo-liberal policies) and those capitals which had not, especially on interest and exchange rate policies of the period (Ercan 1998, 47). After the liberalisation of interest rates in 1980, due to rising fund costs, holding banks increasingly tended not to give credits beyond their groups' companies. This led some other groups in search of lines of credit to acquire local banks and convert them to national banks. Other smaller groups as well as small-to-medium scale enterprises (SMEs) that had limited access to bank credits resorted to accessing brokerage firms' credit at higher interest rates. These high rates of interests, in turn, led to the bankruptcy of many SMEs when sharp reductions in inflation rate and demand contraction reduced the debt servicing capacity of the firms. Hence,

⁸⁷ Bank participation was defined as a partnership where a bank owned at least 20% of the capital.

⁸⁸ With this decree (no. 70 (22.7.1983)), the Banks Act no.7129 was abandoned. The decree was converted to a law with the Banks Act no.3182 (2.5.1985) with some modifications.

⁸⁹ It decreased the minimum share in capital to 15% from 20% in the definition of participation. Moreover, the companies of which at least 25% of the capital was separately or collectively owned by those bank participations, as well as other natural or legal persons under guarantee of the participations were included in these credit limits on participations.

⁹⁰ Taşcıoğlu (1998, 109) describes the general reasoning of the decree as follows: 'The ownership and management in a majority of private banks were concentrated in certain hands. As a result, these banks have lost their neutrality; by digressing...from banking principles, they have been operating according to the objectives of the ones who have their

limitations on the party-related credits of banks needed to be enhanced (*Cumhuriyet Dönemi Türkiye Ansiklopedisi* 1983, 172).

However, despite the new restrictions on connected lending and equity holdings, the 1980s witnessed the forging of closer links between banks and conglomerates via two channels. *Firstly, the conglomerates in which money capital was dominant further expanded their activities to industry and service sectors. Secondly, other non-banking conglomerates added money capital to their circuits via acquisitions of banks.* İşbank and Çukurova Groups serve as examples of the former (Sönmez 1992b, 160). According to Kazgan (1985, 2405, 2407), the need for these groups which oriented towards export to own trade-finance banks contributed to this cohesion of banking and industrial capital. She also notes that this cohesion was facilitated by the takeovers of bankrupted companies following 1980-stabilisation measures.⁹¹

Nevertheless, the rising equity participations of banks⁹² in response to the growing non-performing credits of debtor firms in the 1980s became a problem for the sector. This increase in banks' equity holdings was indeed facilitated by legislative changes which allowed banks to participate in debtor corporate firms by being exempted from the limitations on equity holdings in banking law.⁹³ As a result, in 1989, the 'free capital'⁹⁴ of the banking sector became negative for the first time (Ada 1993, 86). Therefore, at the *Third İzmir Economic Congress* (4-7 June 1992), the banking working group, composed of executives from different banks and

ownership and management. This situation has created significant mismanagement and abuse in some banks'.

⁹¹ After 1980, many companies that could not adapt to high interest and exchange rates went bankrupt. For example, between 1985 and 1987 the number of those bankrupted companies was around 623 (*İktisat* 1990a, 34). The firms that had limited funds, worked with bank credits and could not adjust their domestically-oriented activities towards external markets were the first to be eliminated. These eliminations were realised mainly through transfers to the creditor banks or sales to other holding companies (Sönmez 1992b, 153). As a result, the restructuring in the accumulation regime contributed to the rising concentration and centralisation of capital.

⁹² In the work of Ada (1993, 85-86), using data from 14 private and state banks that had the largest credit, deposit and asset size in the sector, the average ratio of equity participations and fixed assets to total bank assets is indicated as 3% in the 1980-82 period, 4.5% in the 1982-87 period and 7-8% in the 1988-90 period.

⁹³ The law no. 3332 (31.3.1987). This law also included some incentives to encourage the sale of the equity holdings which were driven by the non-performing credit-problem (Ada 1993, 90).

government officials, contended that equity participations in various sectors had become a burden for banking:

Most of the funds placed in participations can not bring enough profit... To make banks allocate more resources for banking activities, the new banking law draft proposes a reduction in the ratio between banks' own funds and participations.... Though some banks want to sell off their participations, the stagnation in the stock exchange as well as the large size of some of these participations have slowed down this tendency. (SPO 1993, 36)

Banks needed to sell off equity participations to strengthen capital structures in the face of rising global competition, in particular by the single European market.⁹⁵ This necessity for a stronger capital structure prompted the state to introduce several measures which also led banks to reduce their equity participations and non-performing credits. The arrangements which increased the minimum capital requirement and CAR as well as required banks to disclose their bad loans and set aside adequate provisions accelerated the sale of equity holdings in the late 1980s and early 1990s.⁹⁶

In such a conjuncture, the amendments to the Banks Act in 1993 (Turkish Government 1993) imposed even stricter limitations on banks' party-related credits and equity shares. The share that banks might acquire of a company other than financial institutions was capped at a maximum of 15% of their own funds. In addition, the total amount of such shares was not permitted to exceed 60% of the bank's own funds instead of the previous bank's own funds-upper limit. The total credits to participations were also restricted to up to two-fold of a bank's own funds, and in any case, 10% of the total sum of credits⁹⁷ contrary to the previous three-fold

⁹⁴ Free capital is calculated by extracting equity participations (affiliates and subsidiaries) and fixed assets from banks' own funds and shows the funds that could be allocated for banking activities.

⁹⁵ See the statements by bankers from Akbank and Turkey Development Bank in Okur (1993, 45) and *Iktisat* (1990a, 19).

⁹⁶ CAR was put into effect to induce banks to keep enough capital with respect to the riskiness of their assets in line with the Basle standards of the Bank for International Settlement (BIS) (for related arrangements see Akkurt et al. 1992, 21; Erdem 1993, 161, 179). The classification and provisioning of non-performing loans, which were at the discretion of the banks which had any legal obligations in the 1982-83 period, were strictly arranged in accordance with international practices in adherence to the decrees dated December 1985 and May 1988. Hence, while only 18 % of the past due loans were covered by provisions in 1986, this ratio increased to 70.3 % in 1990 (Akkurt et al. 1992, 23-25).

⁹⁷ The following decree no.538 (22.6.1994), revising the banking regulations as part of the April 5, 1994 economic stability package, kept only the limit of 'up to two fold of the

and 15% limit respectively. Credits to bank-shareholders were restricted further, as well.⁹⁸

The then State Minister Yıldırım Aktuna evaluated the changes to the Banks Act as bringing European standards to banking and indicated that the adjustment process would be completed by 1999.⁹⁹ The banking law in 1993 did synchronise the restrictions on banks' non-financial equity participations with the EU in the same year that the EU put in force equal limitations on its member countries (with a ten-year adjustment period).¹⁰⁰ Selçuk Demiralp, General Director of the Bank and Foreign Exchange Directorate of the Treasury, considered that the restrictions on banks' equity holdings and connected lending would prevent banks from financing their participations since banks were channelling funds collected from the public to their participations (*Uzman Gözüyle Bankacılık* 1994, 58).

The legislative change was expected to accelerate the sale of equity holdings—a change which was initiated well before by some banks such as İşbank to strengthen bank's own funds.¹⁰¹ Furthermore, the changes to corporate tax law allowed banks to add revenue from the sale of equity participations to their capital without being taxed (*TOBB* 1996, 85). Therefore, it was not surprising that the new restrictions on banks' party-related credits and equity participations were evaluated by some banks positively. For instance, Hamit Belli, the General Director of Akbank, argued that these changes would make the sector stronger and consistent with the EU standards.¹⁰² The banks had to bring their ratios in line with the new legal limits in two years. As a result, the ratio of equity participations to total actives which was 2.9% in 1980 decreased from its peak of 3.2% in 1989 and 1990 to 2.7% in 1991, 2.3% in 1992 and to 1.7% in 1993 (Yıldırım & Altun 1994, 80). The downward trend also continued in 1994 and 1995 with the ratios of 1.7% and 1.5% respectively (*TOBB*

bank's own funds' and excluded '10% of total sum of credits' limit (see Turkish Government 1994, 46).

⁹⁸ According to clause 41, total credits that may be extended to bank shareholders holding 10% or more of the capital or to natural or legal persons having an indirect credit relation with them were limited half of the own funds of the bank. The limit was previously up to total bank own funds and in any case, 5% of total credits.

⁹⁹ "Bankacılığa AT Normu", *Dünya*, 28 August 1993.

¹⁰⁰ For the related regulation in the EU, see *AB Danışmanlık ve Yatırım Hizmetleri AŞ* (2001).

¹⁰¹ "İş Bankası, 3.4 Trilyon Liralık İştirakle Birinci", *Dünya*, 28 August 1993.

¹⁰² Nilgün Karataş, "Bankalar Değişiklikten Memnun", *Dünya*, 24 August 1993.

1996, 85). The Banks Association of Turkey pointed out the reason for the downward trend in equity participations in the post 1980 era as follows:

After 1980, banks' equity participations were not profitable any longer due to the high fund-costs and thus, banks started to sell off their equity participations. This tendency was accelerated by the increase in the prices of the equity holdings following the opening of the *Istanbul Stock Exchange*.¹⁰³ Therefore, the share of equity participations in permanent assets decreased to 5 percent in 1997. [However,] banks' equity participations in financial institutions increased in the recent years. (BAT 1998, 28-29)

Although banks started to sell off their non-financial equity holdings, they increased their financial participations. *Banks tended to establish their own leasing, factoring, brokerage and insurance companies with the encouraging legislative changes* and increasingly became financial holdings throughout the 1990s. The IMF notes this structure as the following:

Deposit money banks [DMBs] are typically not permitted to engage in such non-banking financial services such as insurance, factoring, leasing, investment banking, and brokerage activities. However, most banks are within a holding company that includes companies engaged in such activities, as well as nonfinancial institutions. ...The banking sector is concentrated, with the largest ten banks accounting for 70 percent of total assets (p.119).

Private DMBs are typically part of larger holding companies encompassing other financial and nonfinancial entities, giving rise both to connected lending and the ability of banks to tap the financial resources of the holding company. Most of Turkey's insurance companies, brokerage firms, and leasing companies are affiliated with banks through such holding companies. (IMF 1998, 122)

In 1993, when a bank's equity participation to a company was restricted to a limit of 15% of bank's own funds, *participations in financial institutions were exempted from this limitation*. Şengül (1993, 12-13), an inspector in the Capital Market Board, pointed out that this development would *encourage banks to become financial holdings*. This prediction by Şengül became real as banks established their own leasing, factoring, brokerage and insurance companies in the 1990s under legal incentives.¹⁰⁴

The decrease in the ratio of equity participations to bank assets in the 1990s does not refute the argument of this thesis which is the continuous rise of holding

¹⁰³ See Akkurt et al. (1992, 20).

¹⁰⁴ See Özeroğlu (2000) and Şengül (1993) for the legal incentives.

banking in Turkey during that decade. The decrease in this ratio must be traced separately for the two groups of banks that appeared within banking in the 1990s. Importantly, a division within FC started to emerge as one part of FC gradually restructured itself in line with state regulations bringing European banking standards and aiming to convert banks to independent profit-making units within holding structures. These conglomerates were aware of the unsustainability of using banks as *their easiest and biggest source of profit under the pressures of global accumulation forcing the elimination of state protectionism*. However, another part of FC, mostly the rising conglomerates of the 1980s and 1990s, continued to use their banks to finance their aggressive expansion policies and this stance resulted in the confiscation of their banks during the restructuring of the banking sector.

4.5.4 The Internationalisation of Turkish Banking: Expansion of the Integration of Banking and Industrial Capital to the Global Scale

The internationalisation of Turkish banking also started to speed up after 1980, accompanying the external orientation in accumulation. While some Turkish banks had agencies abroad over a long period,¹⁰⁵ after the mid-1980s foreign branches, corporate banks with foreign capital and wholly Turkish capital banks formed the channels for the international expansion (Sönmez 1992a, 78). For example, Pamukbank of Çukurova Holding bought Bank Kreiss in Germany in 1987, the first important banking initiative abroad. Sabancı Group also established Ak-International in London in 1987. İktisat Bank of the Avrupa ve Amerika Group bought a 70% share in Banque Internationale de Commerce in France in 1989 as the first Turkish bank building a joint venture abroad. Consequently, at the end of 1990, there were 18 foreign branches of the Turkish banks in total and seven banks were the owner or the partner of a foreign bank abroad (Sönmez 1992b, 40).¹⁰⁶ This process displayed two main characteristics: almost all of the direct investments were realised by five main conglomerates and two geographical regions, Europe (especially Germany) and North Cyprus, accounted for almost three-quarters of the total overseas banking investments (Ekren 1996, 5). These overseas banks/branches aimed to sell banking services to

¹⁰⁵ İşbank was the first Turkish bank that had an overseas branch in 1932 (Kocabaşoğlu et al. 2001, 549).

¹⁰⁶ For the list of the overseas banks established at that period see Ekren (1996, 6-7).

Turkish firms seeking to expand abroad, enter the European markets and collect deposits from Turkish communities living in those European cities.

The attraction of free-entry and operation in the EU before the year of 1993, in which the European Single Market would start to be implemented, accelerated the international banking activities of Turkish banks in the early 1990s. In 1993, bank establishments and participations in existent banks would become subject to a permission procedure on the basis of the reciprocity principle (Erdem 1993, 158). The international expansion of Turkish banks continued throughout the 1990s and over a wider geographical area. Former Soviet Bloc countries, especially Turkish speaking CIS countries and East European countries, had priority by assisting international productive and commercial expansions of their owner conglomerates.

Although the international expansion of Turkish banks after 1980 reflected the degree of concentration in the sector, a pre-condition for internationalisation (Sayılğan 1999, 83), the insufficient level of capital still hindered progress. To overcome this, in the early 1990s, some private banks and state banks established joint venture banks abroad.¹⁰⁷ Hence, as of 1999, the number of financial participations of Turkish banks increased to 91 and the number of overseas branches also reached 48 (Akgüç 2000, 7).

Crucially, throughout the 1990s, almost all private banks opened their off-shore banking units in countries offering tax advantages such as Ireland, Malta, the Cayman Islands, Bahrain, Luxemburg and North Cyprus. One of the fundamental reasons that made off-shore banking attractive for the banks was the ability to avoid some legal obligations that increased costs of credit allocation and deposit collection, such as the Required Reserve Holding. In conjunction with this, channelling revenues of group companies to off-shore banking units and using these funds as foreign credits by avoiding their legal responsibilities was a lucrative strategy for conglomerates (*Finans Dünyası* 1999, 96). Furthermore, in many cases, off-shore banking units were used as a means of bank embezzlement which resulted in with the confiscation of banks by the state during banking reform.

¹⁰⁷ For instance, Banque de Bosphore was established by Emlak Bank, Bank Worms, Finansbank and Vakıflar Bank in France in 1991; Demir-Halkbank (Netherland) N.V. was also built by Demirbank and Halk Bank in the Netherlands in 1992 (*Ekonomi-Politika* 1993, 77).

4.6 Conclusion

The development of a national banking sector and the building of close links between banking and industrial/commercial capital under a state guidance have enhanced capital accumulation in Turkey. During the ISI period, a limited number of family conglomerates established control over the domestic circuit of capital by organising themselves in the form of holding companies. In this process, the proliferation of holding banking accelerated those individual capitals' conversion from commercial to industrial capital. These conglomerates, together with newcomer ones, continued to be sheltered by their participation in finance during the trade and financial 'liberalisation' of the post-1980 era, as the state socialised the costs/risks of their outward orientation. In this period, the control over banking capital was a crucial determinant in terms of which parts of capital would solidify their positions within Turkish capital during its restructuring.

This chapter provided a concise account of the development of FC in Turkey with a specific emphasis on its banking arm. This gives a solid ground for the analysis of banking reform with a FC approach in later chapters. Crucially, the analysis permits further insight into which conglomerates established control over banking capital, through which mechanisms, and at which stages of their developments. As will be addressed in Chapters 6 to 8, the differences/similarities in this respect are one of the determinants of the divisions within FC.

It will be seen that banking reform has become a means by which the relations between banking and industry were reconfigured for a global economy under the supervision of the state and the IMF. As a result, banking reform brought about the decline of the old structure of holding banking — a process that was key in fostering capital accumulation for FC for over a half-century in Turkey.

CHAPTER 5

READING TURKISH BANKING REFORM AS A CLASS PROCESS: A GENERAL FRAMEWORK FOR THE FRACTIONAL ANALYSIS OF BANKING REFORM

- 5.1 Introduction
 - 5.2 A New Periodisation of Economic Change
 - 5.3 The IMF as the Catalyst of the Change
 - 5.4 The Sources of Tensions within Capital
 - 5.5 Conflicts among the Turkish Business Associations Preceding the Banking Reform
 - 5.6 A New Economic Program: Papering over the Contradictions
 - 5.6.1 Labour
 - 5.7 The Reconfiguration of Holding Banking for the Reorganisation of Turkish Capital
 - 5.8 Conclusion
-

I do not know what kind of a Turkish model
Derviş [State Minister] and others are struggling
for. Do they have a model? Or are they just
pruning the country?
(Güngör Uras, Milliyet, 21 June 2002)

5.1 Introduction

As discussed in Chapter 3, banking reform is predominantly addressed in terms of restoring macroeconomic balances and eliminating state-based distortions in the Turkish economy. It is argued that this will allow efficient allocation of financial resources so that the economy will return to growth path.

However, the reform has much wider ramifications than this; it has served to restructure Turkish capital. As will be discussed in the rest of the thesis, *the driving agenda in the Turkish banking reform should be seen as a class process having*

transforming effects on fractions of capital rather than just increasing the soundness and supervision of banking or rebuilding macroeconomic balances in the economy.

The latter interpretation, which is widely held, gives the impression that the process of restructuring was a matter of the implementation of 'rational', 'pro-market' policy and that the outcome of the process of restructuring is a more rational and efficient macroeconomy. This is at odds with the analysis that follows, which shows the formation of policy as a product of class and class fractional conflicting interests, in which a single 'rationality' does not exist. This class approach explains reform as an attempt by the state, with the support of the IMF, to reorganise Turkey's capitalist class and give it an international orientation.

The idea of the pursuit of efficiency in banking is at odds with conglomerate analysis: that banks and productive capital are the same. Perhaps it is more that there is a structural conflict – and needs to be posed this way. Throughout the 1990s, productive/commercial capital was in conflict with banking capital. While limited access and high costs of bank credits put the former in a disadvantageous position, banks participated in state debt finance at high rates of interest and hence with large implicit rents (subsidies). This became a conduit in the redistribution of surplus value towards conglomerates that owned the banks as well as other large scale capital: a process I will shortly term 'finance protectionism'. Furthermore, tensions within FC intensified in the mid-1990s and its two main divisions started to develop on the basis of their different relations to these state-based financial rents.

While state borrowing policy served to secure rents for FC, the state's financial viability was coming under challenge in the late 1990s because of its unsustainable debt burden. This would hinder the continuity of capital accumulation and meant that Turkey was going to become a 'basket case'. Furthermore, state insolvency created a systemic risk for international finance markets. It was under these circumstances that the IMF was called in to help resolve an imminent financial crisis.

Consequently, under the close surveillance of the IMF, reforms in banking and in state borrowing policy were introduced. These reforms, which were backed by the authority of the IMF, were the means by which the government could restructure the finance sector to make it viable. But it also signalled the gradual end of rents to banks via public borrowing. Given the dependence of banking in particular, and FC in general on these implicit subsidies, the question of which banks would remain viable,

and how they would have to amend their patterns of accumulation to secure viability, became a central question. Herein is the basis of a fundamental conflict between different parts of capital in Turkey, as that class faced the need to accumulate without extensive state subsidies.

This chapter is an introduction to reading the Turkish banking reform as a class process. The aim of this chapter is to prepare the ground for the analysis of the divisions within FC as the main fractional focus of the thesis which will be analysed in the following chapters. Hence, in this chapter, the broader tensions within capital, including the tensions between productive/commercial capital and banking capital will be discussed at a general level.

To this end, this chapter first presents a new periodisation of economic change in the discussion of the post-1980 period in Turkey. Then, what drove the reform of banking and thus the breakdown of protectionism for FC will be discussed. In particular, five main points will be addressed. First, the blockage in the capital accumulation regime and the stances of the IMF and the state on this issue will be addressed. Second, the fear of a crisis of 'systemic risk' for international finance markets will be stressed as a motivating factor for the IMF (and international banks) to push the restructuring of Turkish banking. After the exploration of the justification by the IMF and the Government for the breakdown of implicit subsidies to FC, conflicting demands by business associations for the change (reflecting the broader conflicts within capital) will be addressed as the third issue. The chapter will proceed with an emphasis on labour as the final bearer of the cost of the reorganisation of capital. Lastly, the chapter will address the reconfiguration of holding banking as a mechanism for the reorganisation of capital in Turkey.

5.2 A New Periodisation of Economic Change

As discussed in Chapter 4, the high integration of finance and industrial capital is a historical legacy of Turkey. This issue, it will be seen, is of great importance in explaining the distinctive periodisation of economic change in Turkey.

A standard textbook analysis of a developing country such as Turkey would point to a period of import substituting industrialisation (industry protection) followed, at different times in different countries, by the realisation of the gains from

trade and so a shift to export-led-growth. In many cases, this has involved export subsidies (export protection).

In Turkey, specifically, the integration of finance and industrial capital accelerated under the state guidance during the ISI policy of the 1960s and 1970s. Development plans in line with import substitution built a domestically oriented capital accumulation regime which was based on the domestic complementarity of finance and industry. Banks, as financial arms of conglomerates, exploited the preferential and cheap credit mechanism of the ISI to channel funds to 'in-house' industry.

After 1980, trade and financial liberalisation of the economy saw the loosening of restrictions on new bank establishments. In this context, the fusion of money and industrial capital gained a further momentum as many other conglomerates sought to include banking to their capital circuits.

The conventional wisdom posits, in broad terms, a Turkish economy that shifted in the early 1980s from the ISI to export promotion. This is posed as the shift from protectionism to open and free markets. Yet, when developments in finance are addressed along with trade and industry policy, it is apparent that this shift did not generate an export-oriented, free market economy. Those parts of capital protected under the ISI remained protected throughout in the era of export promotion, but through policies of financial protectionism rather than trade protectionism.¹

Finance protectionism refers to the process in which the Turkish state borrowed at inflated (above commercial) interest rates, ensuring profitability to the banks purchasing government bonds. Moreover, this involved more than subsidies to banks *per se*. This was the process, as addressed in Chapter 4, where, during the post-1980 restructuring, conglomerates that were expanding internationally and/or domestically found a shelter in the finance sphere as they acquired needed money capital through their bank ownership. In other words, there were systematic means by

¹ Deputy Chairman of the Union of Chambers and Commodity Exchanges of Turkey (TOBB) Ali Osman Ulusoy colourfully indicated the state protectionism for Turkish capital as follows: 'Between 1983 and 1998, abnormal amounts of money were earned in this country. No one can earn that much money even if he or she works for 100 years in this country. In 1983, the markets were opened up and some people benefited from this excessively. I do not think anyone can earn that much money anymore' ("TOBB Deputy Chairman: Turkey Getting Better", Turkish Daily News, 2 August 1999, URL: http://www.turkishdailynews.com/old_editions/08_02_99/econ.htm).

which finance protectionism ensured the protection of wider conglomerates via their privileged access to credit.

Since the mid-1980s, especially the 1989 external financial liberalisation, the banking sector became the main beneficiary of state borrowing policy. The sector heavily purchased high-yielding government securities. Since almost all of the Turkish private commercial banks have been part of corporate conglomerates with some industrial-trade bases, the banks channelled money capital derived from state debt finance to expand their conglomerates. Therefore, while mainly small-to-medium scale productive capitalists were increasingly excluded from the credit system, banks provided a kind of protection for their holdings' activities.² Intra-group credit channelling, exceeding legal limits,³ created such a situation that 'no-one [dared] to reveal the true account of how much money the shareholders have taken out of their banks and which ministers lived with the knowledge of this' (*Euromoney* 1998a).

In addition to industrial firms belonging to large holdings incorporating banks, other industrial firms with better liquid positions have also benefited by purchasing lucrative government paper. As one journalist put it, 'the country's top 500 companies made more money from government paper than they did from manufacturing'.⁴ As an insider, the following statement by İbrahim Betil, an experienced banker and founder of Bank Ekspres, strikingly reveals the nature of state protectionism:

Unfortunately, the full insurance scheme for deposits still continues and I do not find it appropriate. If the state guarantee is diminished, softened, and competition among banks becomes higher, there will be more different developments. In Turkey, the media and banking sectors are heavily protected by the state. For the last decade, every holding [company] has tried to have its own bank, newspaper, TV channel and lastly powerhouse. Economic activities in Turkey are still controlled by the state. A free market economy is not being experienced. (cited in Şener & Atam 1998, 39)

² The IMF (2001a, 12) indicated the high concentration of bank loans as follows: 'Turkish banks have relatively small loan portfolios...Loan concentration is very high with only some 5,000 borrowers (0.1 percent of all borrowers) counting for nearly 40 percent of total loan value. This is a reflection of a traditional heavy concentration of lending to related group companies, a practice that the authorities are seeking to correct through legal and regulatory means'.

³ While some conglomerates benefited from their banks' funds under legal limits, some others had limit-exceeding practices despite the restrictions on party-related transactions of banks. To this end, various mechanisms were used such as back-to-back credits between banks, off-shore banking, and credit allocation to fictitious companies under lax supervision of banking.

⁴ Leyla Boultan, *Financial Times*, 20 November 2000.

The preceding quotation suggests that the conventional periodisation of economic restructuring is misleading. In contrast, I shall employ the following alternative. The period between late 1980s and late 1990s will be called 'finance protectionism' in Turkey. This focus, it will be shown, reveals *a systematic class fractional policy by the state* – an order that will not be apparent in an analytical framework that focuses simply on a policy shift from ISI protectionism to export growth that was followed by 'the boom-bust period of hot money flows' (see Table 5.1).

Table 5.1 Periodisation of economic change in Turkey (late 1950s-1999)

| A standard periodisation | An alternative periodisation |
|--|---------------------------------------|
| ■ ISI (late1950s-1979) | ■ ISI protectionism (late1950s-1979) |
| ■ Export-led growth (the 1980s) | ■ Export-based accumulation (1980-88) |
| ■ Boom-bust period of short-term money flows (the 1990s) | ■ Finance protectionism (1988-99) |

The late 1990s has seen a further change in economic direction, with the end of finance protectionism and the need to address *full global integration* (i.e. industrial, commercial and financial integration) and a reliance on less explicit and extravagant forms of protection. (This might be called a protection-free period, although, as the thesis shows, there really has been a shift towards more subtle forms of assistance, and 'free market' remains but a rhetorical label).⁵ This shift has involved a confrontation with the power of capital that thrived under finance protectionism, but which was also retarding overall accumulation in Turkey.

⁵ As Chapters 9, 10 and 11 will demonstrate, the socialisation of the costs of the bank restructuring gives many examples of these more subtle forms of assistance, such as the takeovers of the ailing banks to ensure that the sector does not suffer from systemic crisis, facilitation of M&As (even though it may transgress 'competitive' markets) and giving survivor banks access to their choice of assets of the SDIF banks. That is, the state is 'constructing', in a very conscious way, a viable banking sector to meet local retail, funding of SMEs and global, 'big league' banking.

Hence the period of economic change, which has confronted the interests of finance protectionism, has centred on the breakdown of holding banks:

Banks proliferated in Turkey because banking was made very profitable by the government's large public sector borrowing requirement, which was satisfied by local banks effectively lending at extremely high interest rates and short maturity.

Over the years many banking licences were issued to unsuitable businessmen by corrupt politicians in exchange for favours. Though the future for Turkish banking is not clear, it seems that their time is coming to an end. (Münir 2000)

Given the interconnectedness of banks and industry, any change in the operation of banking inevitably had wider ramifications within industrial/commercial capital. Critically, the shift away from finance protectionism led not simply to a reliance on 'market forces', but to a program of reform that explicitly privileged the agenda of global integration that is pursued by the most internationalised fraction of Turkish capital. This new program is centring on the capacity of large Turkish companies to expand internationally and to engage in partnerships with 'non-Turkish' international capital. In essence, Turkish banking reform implies restructuring the domestic conditions of accumulation for the Turkish bourgeoisie so that it will integrate globally and reduce its reliance on state protectionism.⁶

Verifying this, the State Minister Kemal Derviş defined a two-stage-transformation in the Turkish economy.⁷ The first transformation he characterised as *the creation of a competitive industry by stopping the struggle for rent*. This I have called the end of finance protectionism. The second transformation Derviş characterised as *the adjustment of Turkey to the global economy*. Mete Başol, Executive of Bankers Trust of Turkey, explained the accompanying transformation in the banking sector dramatically:

The institutions and individuals living on interest income, persons addicted to interest earnings like heroin will falter. Everybody will have to return to their main jobs. In the new period, banks have to do banking; supermarkets have to work like

⁶ For instance, the following statement by Koçbank General Director Engin Akcakoca indicates the diminishing capacity for banks to secure state protection from meeting international standards on profitability: 'Until now, there were not any charges on credit cards, we [banks] did not charge any fee, but now we have to do this. We might charge a service fee on money transfers and we will start to charge a commission fee on EFT [Electronic Fund Transfer]. *In the past, the state was replacing customers who benefited from paying no fees*. Now, all the charges will be paid [by customers]. In other words, we will earn money from doing banking' (Dünya, 21 January 2000, emphasis added).

⁷ "Uygarlık AB'nin içindedir", Cumhuriyet, 24 October 2002.

supermarkets. This is not an easy thing to do. Hence, there will be a shaking and waving. There is a serious intention for change. (*Finans Dünyası* 2000c, 65)⁸

On this basis, we observe a reconfiguration of the dominant fractions of capital as internationally integrated industrial capital rather than rent-seeking domestic FC. With the changing borrowing policy of the state, banking reform meant that *the banks and their conglomerates had to give up their easiest and largest source of profit*. In this context, capital had to reform its accumulation out of reliance on domestic finance. For some, that meant getting out of banking altogether. For all, it meant the end of a protected domestic market. In this process, *large productive capitalists should have started to change their source of profit from rent seeking, towards industrially and technologically oriented productive activities realised by a more globally integrated capitalist class*. The effect of finance protectionism had been to delay a reorientation towards relative surplus value production through higher technology rather than relying basically on the extraction of absolute surplus value or the redistribution of surplus value by the state.

Keynesian analysts cite wrong state policies as the reason for the failure of Turkish industrial development in the post-1980 era, and especially in the 1990s, when the finance sector grew at the expense of industrial production and exportation. However, a Marxist approach would suggest that absolute surplus value production via cheap labour and bad working conditions was being undermined. That is because the policy of subsidising profits through first tariffs and then export subsidies went down as Turkey gradually liberalised its trade regime and integrated with global capital. However, relative surplus value production did not grow correspondingly because it was easier for companies simply to lend to the state. As a result, there developed no systematic agenda to increase labour productivity as the basis for future profitability. This brought the Turkish economy to a crisis and the involvement of the

⁸ Aclan Acar, Executive of Tansaş, the supermarket arm of Doğuş Group, stated that the period of earning money from money under high inflationary conditions is over in Turkey. By stressing that the retailing sector would earn money through value-added production, he added: 'We will earn money from doing business, not from money. Turkey lived a different way of life in the last eight-ten years than the one that should have been. This period is over anymore. For everybody, a period of more savings, less expenditures and a rational spending has just started' ("Aclan Acarın 2001 Yılı Değerlendirmesi", URL: <http://www.Dogusholding.com.tr/sayfa.cfm?Manu=1&NO=373&Sayfa=Haberler> (accessed 28 November 2002)).

IMF in the restructuring of the economy was precisely to generate international competitiveness via productivity growth.

5.3 The IMF as the Catalyst of the Change

The IMF involvement in the change process has functioned as a catalyst and an excuse for the Turkish state to undertake a restructuring which, while unpopular with many parts of capital, was nonetheless essential for the future of capital in Turkey. The IMF permitted the state to undertake a reform process that was self-evidently necessary, but politically most difficult.

The IMF had growing concerns: that state debts were becoming unsustainable, that accumulation within Turkey was coming under threat, and it feared international contagious effects of a financial crisis.

On this basis, the IMF at once insisted on the necessity of reforming the state and banking sector in Turkey. For instance, Stanley Fischer, Vice-President of the IMF, stated: 'Turkey has come to the end of the road. It can not go any further with this economy. Shock decisions that can redeem the economy should be taken'. Fischer stressed that Turkey was on the verge of a potential crisis due to large budget deficits, high interest payments and high inflation: 'high interest rate implementation must be avoided; the money earned from repos is coming from the poor's pocket'.⁹ The IMF was not particularly worried about the poor,¹⁰ but pursued a structural change as the necessary corollary of the ending of finance protectionism.

The 'clearly unsustainable trend in public finances' (IMF 2000c) and the heavy dependence between the Treasury and the banking sector on financing government borrowing (e.g. IMF 1998, 118, 127) were underlined by the IMF in its evaluations of the Turkish economy towards the end of the 1990s.¹¹ Accordingly, Willy Kiekens,

⁹ "IMF: Yolun Sonundasınız Şok Kararlar Alın", *Hürriyet*, 20 October 1999.

¹⁰ However, in the context of the Asian crisis, there was widespread criticism of the IMF for the effects of its reform packages on the poor.

¹¹ Yet, the IMF (1998, 118; 2000, 40) evaluated the banking sector in line with neo-liberal arguments. The Fund stressed that macroeconomic instability, which was mainly rooted in government large budget deficits, created 'a difficult environment' for banks and led them to shorter-term lending and arbitrage activities. However, thanks to this 'difficult environment', as the IMF (2000, 37; 42) confessed, Turkish banks did achieve higher profitability than other OECD countries.

IMF Turkey Director,¹² indicated that the Turkish economy came to the threshold of bankruptcy in the late 1990s and the state domestic debts reached ‘unacceptable’ levels of 14-15% of GNP. Having highlighted over-banking in the financial sector, Kiekens concluded that the time came for real banking after banks’ getting used to easy money for a long time. Thus, for the IMF (1998, 118), banking sector inefficiency, (which had hitherto been masked by high inflation and arbitrage income), would inevitably need to be addressed as economic stability would be restored and banks reorient their operations toward traditional activities.¹³

These concerns of the IMF were put strongly and continually to the Turkish state, no doubt with added emphasis because previous IMF and WB proposals of liberalisation had been largely neglected. Ekzen (2003, 658-661) stresses that while the IMF and WB programs in the post-1980 period saw the Turkish economy significantly deregulated and markets liberalised, the banking system was left to the supervision of the Treasury while the state heavily affected the dynamics in the financial market with its borrowing policy. Meanwhile, the Treasury did nothing to avert bank dependence on the state for its revenues.

Perhaps the IMF, at least for a time, turned a blind eye to this practice for two reasons. First, it was a means by which Turkish banking developed international operations. Second, some of the world’s leading international banks were also profiting from finance protectionism in Turkey and they, too, could be thrown into crisis by its sudden removal. Thus, the IMF accepted a degree of finance protectionism as long as the Turkish finance sector could offer a profitable market for global financial capital even though it created a ‘distorted’ financial market within

¹² *MUSIAD* Press Bulletin, 8 September 2000, No.068, URL: <http://www.musiad.org.tr/basinbulteni/08eylul2000.htm>.

¹³ Indeed, the IMF warned the Turkish state against a possible banking crisis in 1995 (Erdal Sağlam, “IMF: Banka Krizine Her An Hazır Olun”, *Hürriyet*, 13 June 1995). By pointing out the distortions in Turkish banking, the IMF argued the necessity for a more detailed plan to manage a possible new banking crisis after the 1994 financial crisis. The IMF stressed the need for legislative changes that would arrange for the liquidation of insolvent banks and that would hold bank owners responsible from those insolvencies. The crucial point is here that during the 1994 crisis, the foreign liabilities in the three bankrupted banks (which were not then under the state guarantee) created tension between the government and international creditors. Therefore, since then, it had become a central issue for the IMF to facilitate necessary legislative framework for the liquidation of insolvent banks and to obtain state guarantee for foreign banks’ credits in bankrupted banks. Chapter 10 will show that such a guarantee was provided during banking reform.

Turkey. But as finance protectionism soon came to threaten the financial solvency of the state, the process had to be gradually terminated by the IMF.

In retrospect, holding banking was seen to be a source of 'distortion' in Turkish banking by the IMF:

Most private national banks (29 out of 31 commercial banks) are owned by families and/or industrial groups, as the legal framework in Turkey does not call for a separation of banking and nonbanking enterprises. The widespread *cross-ownership of private banks with industrial conglomerates* complicates the task of prudential supervision, because of the additional risk pressures on bank management to allocate credit to related parties regardless of creditworthiness considerations. (IMF 1996, 32, emphasis in original)

On this basis, the IMF (1995, 19-20; 1996, 34) stressed the necessity for stricter limits on credits extended to related parties and on non-financial equity participations, which had been tightened in 1994, but remained well in excess of international standards.¹⁴

If the IMF's concerns about the internal viability of Turkey's financial system were not enough to justify its active participation in reform, concerns about the international implications of a Turkish financial crisis – (i.e. the possibility of a systemic crisis with effects beyond Turkey) – added a 'higher order' rationale.

IMF Executive Köhler (IMF 2001d) raised the risk of systemic crisis: '[F]inancial crises are not only triggered in emerging markets but also in the global financial centers of industrial countries'. Accordingly, he emphasised 'the recent difficulties in Turkey and Argentina have also heightened consciousness of the downside risks and interdependencies in the global economy'. Therefore, 'strengthening the financial systems in member countries [serves] the soundness of the international financial system as a whole' Köhler said (IMF 2001j).

Köhler also warned 'business leaders' against the growing criticism of globalisation and the potential for a political backlash against capital market liberalisation and integration into the global economy. Then, he admitted that 'both economic theory and policy application are clearly lagging behind developments in financial markets. This is also an area where the IMF itself needs to catch up' (IMF 2001d). On this basis, Köhler pointed out the necessity of completing the financial liberalisation process with a sufficient regulatory mechanism:

¹⁴ For the legal changes during banking reform consistent with the IMF's demands see Chapter 9.

The further liberalization of capital flows remains an important goal. However, progress in this regard, has to draw on the experience gained in the past. That means, in my view, that *capital account liberalization must be carefully sequenced*, in terms of timing and degree, with the *development of a sound financial sector*, including of adequate regulatory and monitoring frameworks. (IMF 2001d, emphasis added)

The BAT (Özince 2002, 82-83) confirmed that the rising frequency of crises since the mid-1990s and resultant instability in the world economy led advanced countries and international institutions to build a stable and transparent macroeconomic environment and to strengthen national and international financial systems. Banking reforms gained importance in the context of strengthening national financial systems.

Yet the IMF played an additional role to that of calling for sound national financial and macroeconomic policy in Turkey. Even though the blockage in the accumulation regime was obvious, no government by itself could electorally start a reform process that would lead to bank insolvencies and bank confiscations, without the backing of the IMF. Indeed, it was possible, at critical stages, for the Turkish state to attribute responsibility for the reforms directly to the IMF, thereby abrogating itself of responsibility and blame.

This need for the 'higher' authority of the IMF was all the more apparent because of clear conflicts that emerged within banking about who would win and who would lose in the restructuring. It would have been unreasonable to expect that all the fractions within capital would agree on the breakdown of the old structure of holding banking and associated elimination of insolvent banks. The owner holding companies of ailing banks would undoubtedly resist the reforms, preferring to be saved by the state and continue their current accumulation.¹⁵ But the IMF gave the Turkish state the capacity to enforce reform as an externally demanded, non-negotiable condition of short-term assistance.

The effect, however, was that reform was steered towards the IMF's vision of a globally-integrated process of capital accumulation with 'Turkish' accumulation merged into global processes. There was not going to be just the promotion of a 'free market' (and especially financial market) that was specific to Turkey.

In this context, banking reform constitutes part of the second wave structural adjustment reforms of the IMF and the WB. As Ercan (2003d) indicates, the first

¹⁵ See Chapter 10.

wave of the structural reforms in the early 1980s onwards *deregulated* markets for a shift from the ISI to external orientation in accumulation. The current stage in this restructuring re-regulates markets for a further articulation with global circuit of capital via establishing the necessary institutional and regulatory basis at the world scale and minimises risks for any capital, from wherever part of the world, which pursues global expansion. The market-based rationalisation from banking to energy and the social security system, from telecommunications to privatisation and international arbitration, aims to standardise the conditions for accumulation in every site that the capitalist logic of accumulation has penetrated (see Ercan 2003b, 2).¹⁶

In unison with the IMF, government officials declared that macroeconomic imbalances were unsustainable. For example, the Turkish Daily News quoted from the Finance Minister Sümer Oral as follows:

Oral explained that the financing of public sector spending with debt instead of regular sources causes excessive increases in interest rates. He added that extremely high interest rates leave no funds for the private sector and increase production costs. Lending to the state has become more profitable than investing, Oral noted.

Interest payments on debt [are] the most significant spending item in the budget. "Interest payments have reached a level which cannot be sustained and have deadlocked the budget," Oral said. He told deputies that because budget expenses are met by borrowing, interest payments on debts have to be paid off through more borrowing.¹⁷

Accordingly, in the Letter of Intent (dated December 9, 1999) given to the IMF, the adverse effects 'on private capital of the unsustainable path in public finances' were stressed:

By undermining confidence in the Turkish lira, inflation has also resulted in high and unstable nominal and real interest rates, with dramatic consequences for the society. Speculative and arbitrage activities have attracted more and more resources, and have distorted the working of financial markets and institutions. When the government has to pay on its debt real interest rates of 30 percent or more, private capital moves away from job-creating activities into financial investment. When banks have to charge even higher real interest rates on their loans, the credit process is disrupted and

¹⁶ This process may signal the end of small scale capitals that cannot face the challenge of large scale, concentrated and established capitals at the global scale. However, the most internationalised fractions of capital in the late capitalised countries have already established strong links with global capital, in some cases locating themselves in global networks of production of TNCs. Therefore, they obviously expect higher returns from the rising integration with global capital and lead the second-wave of reforms in collaboration with capitals of advanced capitalised countries that chase higher global profitability.

¹⁷ "Banking Bill Passed, Budget on Hold", Turkish Daily News, 27 June 1999, URL: http://www.turkishdailynews.com/past_probe/06_27_99/Ecomp.HTM#e2.

enterprises that have limited access to external capital suffer. (Turkish Government 1999a)

Thus, with the support of the IMF, the Turkish state acquired the power to transform the accumulation regime which indeed meant insolvency for some parts of capital. However, the IMF, as a body of neo-liberalism, projected the ultimate goal that Turkey needed to attain in the reform of banking. Yet the crucial issue was the necessity of managing the change under a transition period. For banking is not just a sector; it is central to accumulation and so critical to the overall economy. Therefore, the problem for the state was to choose the path to a new banking regime since every different path would mean different winners and losers within capital.

5.4 The Sources of Tensions within Capital

Because of the holding banking structure, the implications of the financial sector reform have been wide. There was no clear path during the transition; instead it was contingent on how intra-class conflicts played out. Therefore, given the fractions within capital, neither the neo-liberal, nor institutionalist, nor nationalist/developmentalist arguments, (all of which were discussed in Chapter 3), could have been a solution for the state to sort out the path for the change.

This section will identify the structurally opposed interests within capital before discussing how tensions between these interests were played out.

A high degree of tension between banking and productive /commercial capital could be readily observed throughout the 1990s. Finance protectionism was seen by non-bank capital as generating 'unfair' and short-term processes of accumulation. Four are observable. Firstly, finance protectionism was inflating interest rates, increasing the cost of capital to non-banks. High finance costs became the main source of the tension between banks and productive/commercial capitalists, whose investment capacities were undermined. Industrialists continuously stressed the discouraging effects of high interest rates and directly accused state borrowing policy as the source.¹⁸

¹⁸ See, for example, "Finansman Maliyetleri Sanayicinin Kabusu", *Dünya*, 20 November 2000.

Secondly, and closely related, holding banking, drawing on the easy profits of finance protectionism, was choking competition and crowding out investment opportunities for non-banks.¹⁹

Thirdly, finance protectionism by drawing capital into Turkey, was generating an overvalued exchange rate which not only contrived an unsustainable pattern of international trade, but could be seen to advantage the larger corporations which had the flexibility to adapt their production between sectors as opportunities for competitiveness changed.

Fourthly, and most generally, high real interest rates along with overvalued domestic currency discouraged or postponed investments (indeed, it also channeled them into non-tradable sectors) and damaged exports. The effect was to further orient capital towards financial profits and at the same time, to diminish the generation of new surplus value in production. As Ercan explains, this gave capital accumulation a decidedly short-term orientation:

In a certain sense, the Turkish economy or Turkish capital has had to adapt to the major tendency displayed by world capitalism on the basis of an inadequacy of capital accumulation. This adaptation has manifested itself as an orientation toward[s] financial means in order to survive in an environment of crisis and stagnation. Thus the Turkish economy has had to react to the negative impact of the crisis in a short term manner. However, this reaction is but a negation of the capacity to create surplus-value, the very condition of the existence of capital itself. However much the option of adopting the short term interest-oriented dynamics of money-capital in place of the long term profit-oriented dynamics of productive capital may be an alternative for individual capitals, in general, this option implies stagnation and the permanence and intensity of the crisis of the economy of which these individual capitals make a part. (Ercan 2002b, 32-33)

These four factors are often seen as exerting negative effects on the whole Turkish economy. But the critical point is that the effects were profoundly uneven as between capitals. As Ercan (2002b, 31) puts it: 'This drop in private investments is not equally distributed to all capitalist groups. We have to underline the fact that a limited number of holding companies with special access to financial means have achieved significant development'.

¹⁹ See Chapter 4 for a discussion of the dominance of conglomerates.

5.5 Conflicts among the Turkish Business Associations Preceding Banking Reform

While government officials and the IMF stressed the necessity of change, tensions between banks and chambers of industry and commerce had already come to the surface. Business associations were in agreement on the unsustainability of the old regime and so the necessity for change. However, they differed over the path of reform.

Here, it must be noted that fractions of capital do not equate with particular business associations as they are not purely made up of only one specific fraction of capital; there are conflicts within the associations, as well. Yet the fractional positioning of these business associations was important, in so far as each of them was dominated by a particular fraction of capital. As a more detailed fractional analysis of reforms unfolds in later chapters, this thesis will return to the issue of the specific interventions of business associations. In this context however, a focus on business associations is a way to bring fractional conflicts 'to life' as active drivers of the restructuring process.

Of particular relevance, the tension between banking and industrial capital was that banks (and their conglomerates) were subsuming industry and also taking a disproportionate share of profits. In 1999, for example, the list of the top corporate tax payers showed 32 banks and 11 insurers, with Akbank on top of the list. Following the release of the list by the Finance Ministry, the business associations that represent productive-commercial capital complained about the high profitability of banks. Regarding the source of this profitability, banks were accused of getting involved in non-bank activities as declared by Fuat Miras, Chairman of the Union of Chambers and Commodity Exchanges of Turkey (*Türkiye Odalar ve Borsalar Birliği, TOBB*).²⁰ The Turkish Daily News quotes various chairmen of some chambers as follows:

"Banks are engaged in commerce and industry," Miras said. "There is no banking sector addicted to doing business in such highly-profitable sectors in any other place in the world."

²⁰ The *TOBB* is a semi-official business association whose membership is compulsory for all registered business units in Turkey. It is the umbrella organisation of the local chambers of commerce and industry. The *TOBB* has positioned to represent mainly the interests of small and medium scale capitals in time.

Ankara Chamber of Industry (ASO) Chairman Zafer Caglayan said that taxes paid by banks constitute only a tiny part of the money earned in the banking sector. Istanbul Chamber of Commerce (ITO) Chairman Mehmet Yildirm said, "When banks become top taxpayers, then that means the [nonfinancial] private sector is becoming insolvent."

Miras told the Anatolia news agency that since the banking sector is a very profitable sector, everyone is trying to join in. "However, the finance sector cannot fulfil the requirements of existence in an economy. The banking sector is trying anything to earn higher profits, just like a merchant."

Caglayan said: "I must say that this is a regrettable day for Turkish private-sector banking, the Turkish nation and for the Turkish economy and industry." Caglayan said that such high profit rates were the result of banks lending to a government which borrowed in desperate conditions.

He said that high banking sector profits means that a lowering of real income for the masses of people. He added that it was upsetting that 42 banks which appeared in the top taxpayer rankings are owned by some of Turkey's biggest holding companies.²¹

Thus, productive-commercial capitalists cited the holding ownership in banking as the cause of unfair competition. The Turkish Daily News quotes Zafer Çağlayan, Head of Ankara Chamber of Industry (ASO), as follows:

Focusing on financial problems, Caglayan said competition has been stifled by Turkish conglomerates, all of which bought banks to finance their operations. Recently he wrote a letter to the Competition Authority urging it to probe the situation.

"Industry and particularly small-to-medium-sized enterprises [SMEs] are facing financing difficulties. SMEs are getting a tiny chunk from banks' total lending, yet they constantly have to add to their inflation-chewed operating capital to invest in new technology, research and development, machinery and equipment so as not to go bankrupt. On the other hand, Turkey's financial sector is already in misery," he said.²²

As such, the ASO criticised high real interest rates and overvalued domestic currency as they damaged exports.²³

The chambers of commercial and productive capital were not the only voices of capital in conflict with banking. This concern about the overall rate of

²¹ Turkish Daily News, "Industrialists denounce high bank profits", 13 May 2000, URL: http://www.turkishdailynews.com/old_editions/05_13_00/econ.htm.

²² Elif Kelebek, "Industry leader says the king is naked", Turkish Daily News, 4 October 2000, URL: http://www.turkishdailynews.com/old_editions/10_04_00/econ.htm

²³ See "ASO : Structural Reforms are needed", Turkish Daily News, 5 November 1997, URL: http://www.turkishdailynews.com/old_editions/11_05_97/econ.htm.

accumulation led some organisations to adopt positions that appeared contrary to the interests of some of their own members, which had their own banks and benefited from finance protectionism. The *TUSIAD*, the business association of large capital, was in this position. The Association agreed on the necessity of structural transformation, including banking. There was, in *TUSIAD*, a clear understanding that the policy of finance protectionism was starting to hamper the continuity of accumulation for total capital.²⁴ Since *TUSIAD* members are generally large capitalists, they came to see that sectional subsidies to banks, which were stifling long term investment, were not in their own long-term interests. The *TUSIAD* explained the necessity for restructuring in the economy as follows:²⁵

The current budget finance, high inflation and short-term capital inflows have made growth policies unsustainable in Turkey. In an economy in which the ratio of public deficits to national income is 100%, the total tax income is just equal to interest payments, without necessary structural reforms, feasible policies cannot be envisaged. The last reforms should be seen as efforts to integrate the Turkish economy into the changing global economy.

Central to *TUSIAD*'s agenda was bank sector reform. As Chairman Özilhan declared: 'a healthy banking system which can finance private sector investments is indispensable for sustainable growth. To this end, banking restructuring should be completed and any systemic risk should not be left'.²⁶ And the state would be responsible to lead this 'long and painful' process as well as to allocate its burden equally among related parties...'²⁷

Indeed, the *TUSIAD*'s demand for bank reform was part of its agenda of a comprehensive structural transformation of the economy, which it has demanded for over a decade. As the representative of large corporations, the *TUSIAD* expressed its members' willingness to integrate with global capital, to become global players. The

²⁴ Önis and Türem (2001a, 23) recognize the dilemma for the *TUSIAD* as the long-term interests of the *TUSIAD* members are in the direction of a more accountable state and better governance, while there is wide variations in its membership profile in terms of the degree of dependence on the state, degree of international orientation, etc. On this basis, the authors raise the question of how many *TUSIAD* members have actually benefited from the socialization of their losses by the state in the context of recent bank failures.

²⁵ Speech by Chairman Tuncay Özilhan, *TUSIAD* Press Bulletin, No.TS/BAS/02-64, 13 August 2002, URL: <http://www.tusiad.org.tr>.

²⁶ Speech by Chairman Tuncay Özilhan at the *TUSIAD* meeting, 25 September 2002, URL: <http://www.tusiad.org.tr>.

²⁷ See the statement by Korkmaz İlkorur, Member of Board of Directors of the *TUSIAD*, "Bankalar Kader Kurbanı", *Sabah*, 14 September 1999.

Chairman of the *TUSIAD*, Erkut Yücaoğlu (1999, 50-51) affirmed that Turkish businessmen had made immense progress in adapting their accumulation internationally, thanks to the neo-liberal policies of the state in the post-1980 era. Indeed, as we shall see in Chapter 8, from as early as the beginning of the 1990s, some large productive capitalists in *TUSIAD* had started to build a long-run viable, globally-oriented industrial accumulation basis not dependent on finance protectionism, while at the same benefiting from the protected domestic banking system as a source of profit. Nonetheless, Yücaoğlu stressed that at the 'current' level of global integration attained by Turkish businessmen, their competitiveness was negatively affected by some features of the domestic economy. For instance, high interest rates (associated with high budget deficits and spiralling inflation) diminished the competitiveness of Turkish industry. Accordingly, a restructuring in government finances was demanded to end the crowding-out of real sector by public budget deficits.²⁸

The *TUSIAD*, having a strong pro-EU membership stance, demanded necessary adjustments to be undertaken in domestic political and economic spheres. The following issues were included in the *TUSIAD* agenda: market-based reform of the social security system, privatisation of public enterprises, tax reform shifting the tax burden from large firms to unrecorded economy, further incentives for FDI. This willingness for extensive and permanent integration to global accumulation, anchored in the level of accumulation already achieved by these large scale capitalists, was the basis of the *TUSIAD*'s advocacy of domestic reforms. Thus, it was prepared to forgo the conspicuous short term benefits of financial protectionism. The members of the *TUSIAD* were in need of further international expansion if their source of capital accumulation was going to change from state-based financial rents towards global competitiveness.

The *TUSIAD*'s agenda, therefore, was to differentiate the accumulation agendas of its members from those of other conglomerates whose banks relied entirely on finance protectionism, and the path to this was entry into the global

²⁸ See "Komili: Inflation, budgetary deficit could derail economy", Turkish Daily News, 21 June 1996, URL: http://www.turkishdailynews.com/old_editions/06_21_96/dom.htm; Yücaoğlu 1999; and, the speech by Tuncay Özilhan, *TUSIAD* Press Bulletin, No.TS/BAS/02-64, 13 August 2002, URL: <http://www.tusiad.org.tr>.

economy. For instance, Pekin Baran of the *TUSIAD* demanded public reform for effective integration with global economy:²⁹

In Turkey, the debates on public reform, which started with economic liberalisation, have two bases: the first is the necessity of reforming the state because of its clumsy structure; and the second is the requirement for a reorganisation of the state structure, which has worked according to patronage instead of economic rationale.

A stable and predictable macroeconomic environment had become much more important for these large corporations than relying on finance protectionism, because they needed to foster their capital accumulation through global competitiveness. As Öniş and Türem (2001a, 12) put it:

Although big business [represented by the *TUSIAD*] prospered under the direct assistance of the state throughout the Republican era, it managed to attain a significant degree of maturity by the 1990s. Big business was now composed of internationally competitive firms, with an increasingly global orientation. Its dependence on the state has been significantly reduced during the process. Hence, what these large entities needed from the state involved the creation of a predictable economic and legal environment as opposed to large favors often distributed on a highly arbitrary and clientelistic basis.

Large scale, globally ambitious capital was not the only advocate of reform. Another voluntary business association, the *MUSIAD* also demanded state policies of structural change.

The *MUSIAD* became the representative of mainly small-to-medium sized businesses, which found themselves in a disadvantageous position *vis-à-vis* larger conglomerates, in terms of access to investment funds and state incentives. As they could not represent their interests either through the *TOBB* or *TUSIAD* (Alkan 1998, 47; Uğur & Alkan 2000, 140-146), they established the *MUSIAD* in 1990 as the representative of rising Anatolian capital.³⁰ As Vorhoff (2000, 160) indicates, although some managed to expand their businesses to larger multi-functional holding

²⁹ The Head of the *TUSIAD* Commission for Parliamentary Issues; Speech at the meeting for "Independent Regulatory Bodies and the Turkish Case", 26 March 2003, URL: <http://www.tusiad.org.tr>.

³⁰ Buğra (1998, 528; 1999, 29) notes that the *MUSIAD* uses Islam at the international and domestic level as: (a) a basis for cooperation and solidarity between producers; (b) as a device to create secure market niches or sources of investment finance; and (c) as a means of containing social unrest and labor militancy. On this basis, the *MUSIAD* appears against both standard welfare state provisions and organised representation of interest by labour unions. Instead, informal and personal support networks that involve kinship ties and religion come to the fore (see Buğra 1997).

companies within a decade, even these relatively large corporations are merely conglomerates of small and medium-sized enterprises. Consequently, the economic power of the *MUSIAD* membership is still equal to only a small fraction of that of the *TUSIAD* membership.³¹

Nonetheless, like the *TUSIAD*, *MUSIAD*'s members have been strong advocates of reform. Excluded from holding banking,³² they have regarded themselves in a disadvantageous position *vis-à-vis* large capital, which has been heavily subsidised by finance protection. They identified the existing practices as inefficient and tantamount to embezzlement. The *MUSIAD* (2002) contended 'corruption would cause unfair competition between its beneficiaries and non-beneficiaries, in addition to decreasing total productivity in the economy'. Moreover, its members have endured the high interest rates as a result of these policies (*MUSIAD* 2001 and 2002).

Therefore, *MUSIAD* (2001; 2002) stressed the necessity of radical precautions to limit state domestic borrowing 'which, in the 1990s, had become a resource transfer mechanism to banking from other sectors' (2002, 7). In order 'to dry up the marsh of domestic debts', the *MUSIAD* demanded monetisation and consolidation of state debts (2002, 5). Indeed, the Association defined the roots of bank embezzlements as the bank permissions by the state to businessmen who had sought funds for their own businesses. The *MUSIAD* also emphasised the adverse effects of the full insurance scheme for deposits, which removed the distinction between 'good and bad banks'. Finally, the Association stressed that banks should not be allowed to be part of holding companies and, in particular, it demanded a restriction on bank partnership of persons who were effective in 'manipulative sectors' such as the media.

³¹ The strong influence of the *TUSIAD* on state policies rests on the significance of the *TUSIAD*'s large members for the economy. Öniş and Türem (2001, 18-19) cite that the *TUSIAD* account for 40.9 percent of total value added in manufacturing, construction and banking services. On the other hand, the corresponding figures for the *MUSIAD* are 10 percent of GNP. Thus, the authors state that the members of the *MUSIAD* represent the economic and political challenge to the interests of the large business community by the rising Anatolian capital, which prospered during the neoliberal era of the 1980s.

³² Some members of the *MUSIAD* found an alternative way to raise funds for investments. Vorhoff (2000, 161) notes the channelling of the savings of Turkish workers in Europe as loans for the consolidation of the small-scale enterprises which were called 'multiple share holder enterprises' (*Çok Ortaklı Şirketler*). However, as a whole, the *MUSIAD*'s members remained in a disadvantageous position regarding finance opportunities in the considered period.

In sum, the *MUSIAD* (2002) wanted to minimise the state 'in order to make the free market economy work'. But this was not an aspiration of a small state for libertarian reasons. The *MUSIAD* simply aspired to 'a minimised state which could do its main jobs more efficiently'. By a more efficient state, the *MUSIAD* meant two things: the abolition of corruption in business-state-politician relations and the allocation of a larger share of state subsidies and financial resources to SMEs.³³ The Association clearly stated that 'some segments of the private sector' have been supported by the state throughout history in the name of creating a national bourgeoisie, and that this policy has led to the 'formation' of 'powerful elites' and hence has been accompanied by negative economic effects (2002, 31).

The chambers of commercial and productive capital, the *TUSIAD* and *MUSIAD* tell an important story of the tensions that were to result from banking sector reform. All were staunch advocates of the reform, but for different reasons, and hence with different aspirations of the effects of any reforms. The *TUSIAD*, representing large, globally integrating capital, wanted regulation in Turkey to be compatible with global norms, and so, a stable, low inflation Turkish macroeconomy. Combined, these would facilitate the merging of large Turkish capital with the 'big league' of international accumulators. The *MUSIAD*, on the other hand, supported reforms more with a national vision (or with a view to nationalistic outcomes), basically demanding support for SMEs.

The positions of the chambers of commercial and productive capital portended the tensions that would arise in the shaping of reform policy and its implementation. There were conflicting interests between capitals which were the beneficiaries of financial protectionism, and there were conflicting interests between the opponents of protectionism. The opponents were united in their condemnation of corruption and inefficiency, and in their advocacy of sound macroeconomic management. But how they wanted reform to achieve that goal depended on where they stood in the overall accumulation process. In Chapters 6, 7 and 8, these differences will be explored in detail.

³³ The *MUSIAD* increasingly switched its stance from the glorification of the East Asian model (Asia-Pacific-centred global integration) to a pro-EU one in the late 1990s by expecting to benefit from the integration with the EU for SMEs (Öniş & Türem 2001a; 2001b).

5.6 A New Economic Program: Papering over the Contradictions

Before the divisions between capitals are further explored, it is important to consider the apparently unified advocacy of sound economic management. In the context of reforms that would eradicate finance protectionism and attack corruption, it was clearly important for the state to project a unifying agenda. Terms like 'efficiency', 'sound economic management' and 'macroeconomic stability' project exactly that agenda. But at the same time, behind the scenes, as it were, the reforms were an incursion into the relations between capital, in which some parts of capital would loose, and others win. This outcome, while unavoidable, had to be minimised and postponed by the state.

Hence, the state sought to accentuate what capital shared in common. Two factors stand out. The first is that all capitals like growth and stability, and the state reforms in banking were framed politically to meet that aspiration. The second, which will be addressed in the next section, is that all capitals have a shared relation to labour in the desire to secure higher productivity for lower wages, and the state continually invoked that shared opposition to garner support from capital.

The new economic program that was announced after the financial crises in May 2001 spoke precisely the language of sound economic management: 'Strengthening the Turkish Economy - Turkey's Transition Program' (Turkish Government 2001e).³⁴

Added to the discourse of growth and stability was the admission of responsibility for past failures, as the precondition for promising future successes. Indeed, in the introduction of the program, the State Minister Kemal Derviş frankly depicted the distortions of the previous period. He conceded that the reason for the problems that Turkey had suffered was the *accelerating debt burden of the state*. Whereas the state had previously been able to borrow with very high real interest rates for years, this process had now become *unsustainable*. Derviş also emphasized that this negative debt dynamic was rooted in the relationship *between politics and the economy*. The rent-seeking link between the state and the private sector was the

³⁴ It was a continuation of the Staff Monitored Program started in June 1998 and the subsequent three-year stand-by agreement with the IMF in 2000.

source of all the problems experienced in the banking sector, energy sector etc. This he saw as the main source of the chronic inflation problem in Turkey. Derviş also added:

Imagine an industrialist. If other industrialists have an opportunity to borrow with cheaper and more convenient conditions from a bank, then the industrialist naturally will want to have a bank or to provide the same advantage from a public bank through political support. When such behaviours extend throughout the economy, the losses accumulate in public banks and the private banks that give credit out of banking standards go bankrupt. (Turkish Government 2001e, i)

The aim of the economic program was said to be the development of competitiveness on the basis of market-orientation and openness to the world economy. While it gave all the signals about growth and stability, it predictably exposed the tensions between capitals.

The *TUSIAD* was broadly supportive of the reform as structural reforms which redefined the state's role in the economy lied at the core of the program. The program included fifteen legal arrangements that would provide restructuring in four strategic sectors (viz. banking-finance, energy, telecommunication-transport and agriculture), besides other policy measures, such as increasing budget discipline and transparency, and changing public employment and wages policy. Crucially, all these changes implied the further integration of Turkey into the circuit of global accumulation. The *TUSIAD* said of the program that it suggested a fundamental change in the relationship between economics and politics in Turkey³⁵ and therefore, it was 'a good start for the solution of the problems which have accumulated in the Turkish economy for the last decade'.³⁶ However, the *TUSIAD* was opposed to tax increases as a means of reducing state indebtedness and instead demanding an enlargement of the tax base via an inclusion of non-recorded business and a fundamental restructuring of the public sector.³⁷

The *MUSIAD*, on the other hand, criticised the program on the ground that it did not include a serious solution for the domestic debt problem as had the previous IMF programs.³⁸ The Association demanded immediate and radical solutions to break

³⁵ Chairman Tuncay Ozilhan, Speech in the *TUSIAD* meeting, 19 June 2001, URL: <http://www.tusiad.org.tr>.

³⁶ Chairman Tuncay Ozilhan, Press Bulletin, No. TS/BAS/01-47, 23 May 2001, URL: <http://www.tusiad.org.tr>.

³⁷ Chairman Tuncay Ozilhan, Speech in the *TUSIAD* meeting, 19 June 2001, URL: <http://www.tusiad.org.tr>.

³⁸ *MUSIAD*, "1990-2001-MUSIAD Ne Dedi Ne Oldu", URL:

down the vicious circle of domestic borrowing such as partial monetisation and consolidation.³⁹

Despite the contradictory views held by among business associations, the economic program was consistent with the IMF/*TUSIAD* stance. First, it aimed at guaranteeing debt-service and interest payments. This meant plans to reduce state domestic borrowing and associated high interest rates over a transition period. While small-to-medium scale capitalists and productive capitalists (who did not own their banks demanded an immediate end on resource transfer to FC through interest payments, both the IMF (and international creditors) as well as large capital incorporating banks, favoured a soft transition rather than a radical break with the past. Moreover, besides the concern over protecting the domestic and international benefactors of this policy, continuous state borrowing was envisaged also as a tool in the state's taking over the expected high financial cost of banking reform, as Chapter 10 will address.

5.6.1 Labour

The framework of responsible economic management pointed directly to fiscal austerity and low inflation. Hence, the critical question was: who would bear the burden of this reform. Eventually, as Chapter 7 will discuss, some part of capital was

[http:// www.musiad.org.tr/NeDedikNeOldu/NeDedikNeOldu.htm](http://www.musiad.org.tr/NeDedikNeOldu/NeDedikNeOldu.htm) (Accessed 16 October 2002).

³⁹ The *MUSIAD* (2002) criticised Kemal Dervis on the ground that he worked within a narrow circle of businessmen and bankers and excluded itself from that circuit. The Association indicated that the economic program and the Letters of Intent given to the IMF basically pursued 'to maintain the unsustainable borrowing policy' via primary budget surpluses. Therefore this meant, according to the *MUSIAD*, decreases in all kinds of state expenditures such as social security, personnel and investments, but not interest payments from the budget. The *MUSIAD*, on this basis, argued that the real sector was overlooked and therefore, the economic crisis had become more severe. Accordingly, all the efforts that were made for the banking sector by then became palliative, the Association concluded.

In brief, the *MUSIAD* declared that the distorted relation between the state and finance sector had to be removed if the economy were to be recovered. Yet the Association was opposed to further primary budget surpluses that were demanded by the IMF. The *MUSIAD* demanded the withdrawal of tax increases and the channelling of resources, which would be created through partial monetisation of domestic debts, to consumption and investments with the mediation of the banking sector (see Press Bulletins, No. Bas.Kom. 05-236, 7 January 2003, URL: [http:// www.muisad.org.tr/basinbulteni/07ocak2003.htm](http://www.muisad.org.tr/basinbulteni/07ocak2003.htm) ; No. Bas.Kom. 05-241, 3 January 2003, URL: [http:// www.muisad.org.tr/basinbulteni/30ocak2003.htm](http://www.muisad.org.tr/basinbulteni/30ocak2003.htm); *MUSIAD* 2002).

going to be sacrificed; but, before that, the collective interests of capital required that labour take on the burden.

Consistent with the policies of the post-1980 era, in which the intensification of the exploitation of labour power mainly underlaid the 'success' of the export-orientation of those individual capitals,⁴⁰ the burden of the reorganisation of capital was mainly put on labour. Amid debates regarding the monetisation and consolidation of state debt, the IMF (2001a, 11-13) applauded the final strategy to combat the state debt problem:

[T]he authorities could have fulfilled markets' expectations and monetized the debt... But...the authorities believe that it is in Turkey's best interest to avoid a return to high inflation rates, which would ultimately undermine Turkey's long-term growth prospects.

The authorities' strategy is strongly based on market-orientation and openness to the world economy; it aims to strengthen domestic policies and resume the adjustment process with support from the international community and private sector involvement sufficient to ensure that the program is financed, and thereby restore confidence...

Despite the stress on the support from 'international community', primary budget surpluses were used as the main policy instrument to reverse the increasing trend of the net public sector debt-to-GNP ratio. This meant a reduction in public expenditures on investment, wage-salary payments and agricultural support prices, by indexing these to the *expected* inflation rate rather than the *past* inflation rate.⁴¹ As the IMF (2001a, 13) noted, the primary budget surpluses derived from cuts to public expenditure have been used for interest payments on debt, in addition to the use of the income from privatisation and a large part of the state's tax revenue. Therefore, the economic program noted:

⁴⁰ Owing to a strong suppression of labour movement after the 1980 coup, real wages are estimated to have declined by almost 40% between 1980 and 1988, while real profits almost doubled. The exploitation of labour has been intensified through increasingly dismantled welfare services as well as rising labour market flexibility (see Onaran & Yentürk 2000; Onaran 2002). At the same time, there was a high disparity between productivity and wage levels. Özar and Ercan (2002, 167) quote Voyvoda and Yeldan who note that despite a 160% rise in average value-added per worker between the years 1980-1996, in 1996, real wages only reached their level of 1980.

⁴¹ See Kocabaşoğlu et al. (2001, 579, 583). The authors cite that the reason for the policy of using primary budget surpluses was not only to eliminate inflationary pressures, but also to maintain debt repayments. The Turkish state wanted to convert domestic debt to external debt. To do this, the state needed credibility in international finance markets, so that new external funds could be raised.

In order to keep the increase in the public sector debt stock under control, it is critically important that non-interest public expenditures be subject to discipline and that maximum savings be achieved. This is the framework within which the program's primary surplus and public finance targets have been established. (Turkish Government 2001d, 28)

Most of all, the manipulation of state budget policies for a reduction of the value of labour power was complemented by a new labour law (no. 4857) in 2003 which redefined the conditions for employment and work security. In a time when individual capitals have been pursuing integration into global capitalism, the new law provided an increased control of capital over labour by facilitating rising flexibility in work conditions and weakening the organisational power of labour (Ercan 2003c). All this meant wage cuts and declining welfare services, revealing the class dimension underlying the rhetoric of 'stability' and 'growth'.⁴²

5.7 The Reconfiguration of Holding Banking for the Reorganisation of Turkish Capital

The conflicts between different parts of capital, which were apparent throughout the 1990s in the demands for reform, became critical with the introduction of state policy to reconfigure holding banking. The State Minister Derviş heralded that the banking sector would withdraw from industrial activities in seven years:

We came to the conclusion that banks will not perform any industrial activities, and industrialists will not operate banks anymore. In some countries, these two are intertwined. In Turkey, since the state did not have enough opportunities, banks became involved in industrial activities. We will also end this policy anymore. We scheduled a seven-year period for this.^{43 44}

⁴² Also, thousands of bank workers lost their jobs during banking reform.

⁴³ "Güven Sürdükçe Bu Arabayı Kullanırım", *Hürriyet*, 11 January 2002.

⁴⁴ James Wolfensohn, Executive of the World Bank, also warned about the links between the state and Turkish conglomerates incorporating banks: 'If there are weaknesses in the finance sector, markets can get into turmoil. In [South] Korea, the state and holding companies have had close relations and transparency has disappeared. The state took its power from those holding companies but these relations did not work and became fragile. Therefore, the Turkish financial system should be restructured from the top to bottom...Turkey should rearrange and supervise the banking holdings which have been getting more complicated' ('Devlet-Holding İlişkisi Uyarısı', *Cumhuriyet*, 26 May 2000).

For Turkish banks, adapting to this new era became the dominant agenda, (as Chapter 11 will show). For instance, General Director of Koçbank Engin Akçakoca stated the reorientation in banking as follows:

We [Turkish banks], who have worked by lending to the state so far, ...will think 'what was our previous job. We should start doing it again'. In this way, some of us will merge, some of us will be eliminated under market conditions, we may change our products and will specialise further. (*Finans Dünyası* 2000a, 63)

This was exactly the issue that was at the core of the IMF's interventions. Given the small total asset size, capital deficiency and insufficient supervision and risk management, the banking system needed to be restructured according to international banking standards. It was crucial to increase the competitiveness of local banks *vis-à-vis* giant international banks. This first required the return of banks to traditional banking activities instead of financing state debt. As the IMF contended:

The transition to low inflation will necessitate a reorientation of banking sector activities toward traditional lending, and a rise in banking sector efficiency. As macroeconomic stability is established, the high cost structure of the banking system will no longer be masked by high inflation and arbitrage profits. However, disinflation is expected to increase bank intermediation, a process that should benefit banks, provided that they adapt their operations to more traditional banking in good time. (IMF 1998, 131)

Adaptation also required the centralisation of capital to permit the scale economies required in efficient banking, as Chapter 11 will discuss. The growing international integration of banking accentuated this need; for the larger banks gained the greater acceptance in international financial markets.⁴⁵ This proposition was confirmed by State Minister Derviş who initiated state-facilitated M&As.

As a reflection of their conglomerates' overall accumulation strategies, the banks which could fulfil (or have the ability to fulfil) the requirements of the new era continued to exist. However, the banks which could not adapt to the change were to

⁴⁵ The executive banker Hasan Ersel (2000a, 46) states that, because of the rising world-wide application of risk management in banking according to the principles of the BIS, international banks increasingly tend to work with the most credible/large banks in other domestic financial markets. Therefore, Ersel claims, while Turkish banks extensively raised funds from international finance markets in the post-1980 era, this opportunity will be available only for a limited number of banks in the new period.

be eliminated or merged.⁴⁶ The following statement by Engin Akçakoca, the Head of the BRSA, explained the change in banking as follows:

2001 ...symbolises a break from the past and transition to a new banking period. Market discipline, competition and risk management will be the main values of this new period. Successful finance players of the new period will be the institutions which can monitor and manage their risks through the most suitable and developed methods at every moment, which can compete with financial institutions on a global scale, which will continuously seek to develop new services/products...and to develop strategic cooperation. (BRSA 2001c, ii)

The transformation in banking necessitated a fundamental shift in banking-industry relations; that is, in the ownership structure of holding banks. This defines the crisis (need for change) for FC. However, this crisis has had different implications for different fractions of FC, as will be seen in Chapters 6, 7 and 8.

The market-oriented reform of banking not only required the restructuring of banks, but, at a broader level, went hand in hand with the restructuring of all conglomerates. The clumsy holding structures, which were adequate for the previous accumulation regimes, were now in conflict with the necessities of global competition and had to be rationalised:

In Turkey, not only the large capitals but the whole business world got into the process of building holding structures which could only survive in the controlled economies of the East Asia...This structure, which emerged from the desire of risk allocation or from the preference for 'small but mine', has been able to survive so far due to custom tariffs and the bubble economy brought by inflation. Governments also supported the building of a holding structure which is in conflict with the current trends through incentives. (Yıldırım 2000, 6)

Thus, considering the global M&A trend, Turkish conglomerates had to revise their sectoral range for higher competitiveness, implying specialization on main and strategic areas and withdrawal from uncompetitive businesses.

The processes by which these changes were affected are discussed in detail in later chapters. Here, the objective has been to set the scene of a complex and fractured process of restructuring attached to the state's policy to reconfigure holding banking. In exploring financial sector reform as a process of fractional relations (rather than

⁴⁶ At further stages of the reform process, Engin Akçakoça, Head of the BRSA, (*Activeline Activity* 2002, 2) stated that the adjustment to international standards in the sector was attained and added 'as you see, the ones that could not adjust were eliminated'.

simply the realisation of 'market forces'), *the following chapters will show that it is important to look systematically at the different forces within banking and the different ways in which different sorts of conglomerates have been rationalised under the new regulations.*

5.8 Conclusion

Reading banking reform as a class process allows a very different interpretation of the change in Turkey from that found in the wider literature. It shows that banking reform was rooted in the contradictions within capital in the pre-reform era. As the previous regime started to hamper the continuity of capital accumulation for total capital, the conflicts within capital became more acute and the state and the IMF stepped in to manage the necessary reorganisation of capital under the supervision of the latter.

Although the proposed reasons given by the IMF for such a transformation in banking have been in line with the standard arguments (such as those which express concern about high interest and inflation rates, inefficiency and lack of prudential supervision), *the impulse leading the IMF to this demand is related to deeper, underlying features of the capital accumulation process.*

It had already been obvious that the budget and borrowing policy of the state had reached its limits. Finance protectionism was not sustainable because both banks and industry were diverting funds out of 'real' accumulation and into treasury bills.

Additionally, and critically, the influence of the IMF meant that the reform process would not be an avowedly nationalist one, seeking to build a strong 'national economy' in the Keynesian sense of nation-centred accumulation. The IMF demand was for openness, such that the building of strong capital in the reform process meant support for those parts of capital that were most likely to succeed in globally integrated processes of accumulation.

Moreover, reform of banking, perhaps more so than reform in any other sector, is a delicate policy matter. While reform in another sector may simply see some companies become unprofitable and close down, this cannot happen to banks without the creation of a systemic crisis of confidence in the whole financial system. The reconfiguration of holding banks had to be secured in a way that protected the integrity of the banking system generally. In part, this was to be done by ensuring that

labour would take on the burden of making 'real' profits for capital, via reduced government expenditure on living standards and ultimately via the intensification of competition in the labour market. But in part too it was unavoidable that some parts of capital would lose out in the reform process. But which parts? There was no simple answer.

The reform process was, therefore, not an 'innocent' process of simply introducing market forces and waiting to see the outcomes. It was a systematic process to liquidate those parts of capital that could not meet the IMF criteria (but to liquidate them in a way that did not create financial crisis) and to facilitate those parts of capital that did meet the criterion. The problem is that it could not be known before the fact of the reform which individual holding banks fitted within each category. The reform process itself was therefore a process of selection (or differentiation of fractions).

On the basis of this chapter's bird's-eye-view of the conflicts within capital and the state-IMF involvement in the change process, the following three chapters will focus on the central tensions within capital preceding and accompanying the banking reform: the contradictions and associated divisions within FC.

CHAPTER 6

A CLASS FRACTIONAL APPROACH TO THE TURKISH BANKING REFORM

- 6.1 Introduction
 - 6.2 Methodological Consideration
 - 6.3 The Need to Refocus Accumulation (the late 1990s)
 - 6.4 The Issues Determining Fractional Divisions in Bank Restructuring
 - 6.5 An Alternative Classification
 - 6.6 Conclusion
-

6.1 Introduction

There is universal agreement that the Turkish banking system of the 1990s was unsustainable. Finance protection was leading systematically to a state financial crisis. But the reform of finance and banking is always more complex than the rationalisation of just another industry. Two factors were critical.

First, given the centrality of finance to accumulation, and the predominance in Turkey of bank integration with industry, any broader developmental agendas of the Turkish state (and IMF) would have to confront the role of finance and banking. That is, financial sector reform went much further than cleaning up the banking sector – it was also to redirect the nature of Turkish capitalism towards a more advanced form of accumulation ,

Second, banking, as the institutional face of the money system, is based in trust (Ingham 2004). This involves trust in the Turkish currency – (that lira can be converted into ‘real assets’ at predictable rates) - and trust that banking institutions – (that book entries in financial institutions will indeed be honoured). Financial protectionism was threatening the first form of trust, via hyperinflation. But the danger was that the reforms

that would rid the economy of inflation might threaten the second form of trust, for in the process of reform, certain financial institutions may become insolvent. Should that perception develop, a financial crisis would inevitably ensue.

So the project for the Turkish state and the IMF was to rid the financial sector of protectionism and redirect accumulation towards more advanced capitalist processes, but do so without creating any perception that any banks themselves would be unable to meet their commercial obligations.

The objective of the next three chapters is to identify how banking reform in Turkey addressed this agenda. In Chapters 7 and 8, the thesis looks at the banks themselves: which banks survived and which did not; the rationale for the state's strategy, and the way in which certain banks were liquidated without creating a financial crisis. This chapter sets up the broader preliminary issues. It considers the new momentum in Turkish capital accumulation and the methodological question of how our analysis can best pinpoint the accumulation criteria that determined which banks survived the reforms and which did not. In meeting this objective, this chapter moves from the conceptual issues developed in Chapter 2 and applies them to the specific context of Turkish banking reforms in the 1990s.

6.2 Methodological Consideration

In Chapter 2, the conception of the state that underlies most of the ongoing debates on the capacity of nation states in the face of 'globalisation' is challenged. It is argued that, instead of 'a weak-strong state' dichotomy, capital and state should be seen in a dialectical unity to maintain capitalist social relations: the state is continuously redefined according to the balance of class forces and their needs that arise from within accumulation process. On this basis, it is contended that the nation state is still the basic organisational unit providing the reproduction of class relations of world capitalism. While fulfilling this basic function, furthermore, the nation state has an increasing importance/role in the integration of 'national' accumulation processes into global processes. The preferred approach to this question developed in this thesis addresses the

way in which the state mediates the opposed interests of different parts of capital associated with their various integration into (or isolation from) global accumulation.

With the fractionalist approach to the discussion of any change process, the divided interests of capital are brought to centre stage. While every fraction of capital pursues its own agenda, the state needs to mediate between those contradictory demands for the continuity of overall capital accumulation. Under this requirement, a particular fraction (or fractions) of capital establishes its hegemony within total capital through state policies and, under this new hegemony, the contradictory continuity of capital accumulation can be secured.

In the following two chapters, the theoretical propositions developed in Chapter 2 will be applied to an explanation of the Turkish banking reform to identify a coherent pattern to the determination of which banking conglomerates survived the IMF-driven restructuring, and which went into liquidation. The proposition developed is that the coherence of the restructuring is to be found in the way in which the Turkish state, in combination with the IMF, sought to develop a globally-integrated financial sector in which globally-integrated finance capital would be the 'leading edge' of Turkish capital.

This explanation of financial sector reforms is significantly different from others that are based on a different conception of the role of the nation state in global accumulation. As discussed in detail in Chapter 3, those who see the nation state as being undermined by (and the basis of resistance to) 'globalisation' poses the process of bank restructuring quite differently. They see it in terms of a market-state dichotomy and the need of national policy to rebuild macroeconomic balances. But this framework, we will see, identifies only the *need* for restructuring (which is not in dispute) and an asserted desire to rebuild a Keynesian system of state management. It does not explain the process of restructuring and how the conflicts and contradictions within that process were 'resolved'. They focus on the IMF as an exogenous enforcer of a developmentalist agenda, imposing a neo-liberal vision onto Turkish economic policy. Here, as well, there is superficial support for this position, for Turkish state policy has indeed gravitated towards a broadly neo-liberal policy program. But this proposition systematically ignores the multiple dimensions which the Turkish state has sought to manage during the restructuring process. It is not sufficient to see the Turkish state as the passive

mouthpiece of the IMF: too many important facets of the restructuring do not fit this depiction. Crucially, an understanding of current (and future) conditions framed within the developmentalist agenda fails to identify the class dimension of the reorganisation of finance.

Another conspicuous explanation of bank restructuring, the neo-liberal discourse, demands deregulation of markets and withdrawal of state 'intervention'. Accordingly, this discourse stresses the necessity of elimination of state-sourced distortions in banking for efficient resource allocation. However, at the same time, the neo-liberal view concedes the moral hazard problem as a form of market failure and so the need for state prudential supervision on banking. The moral hazard issue does, indeed, point to the necessity of bank restructuring, especially the end of state subsidies, and the importance of verification of the viability of financial institutions. But here, as with the Keynesian explanation, too many details of the restructuring are left unexplained by the neo-liberal discourse. The political dimension of neo-liberal recommendation is simply outside the discourse, and policy outcomes inconsistent with the neo-liberal agenda are simply depicted as 'distortions'.

This thesis challenges both the Keynesian and neo-liberal schools' state concepts of either passive carrier of externally imposed agenda or independent arbiter. The thesis agrees with the Keynesian proposition about the critical, on-going role for state management, and it supports to the neo-liberal view that market-driven profitability determines the outcomes of restructuring; but contends that, in both cases, the relationship between the state and capital has been inadequately theorised. Here, the state is approached as a moment of reproduction of social relations of capital. Hence, this thesis is concerned to develop an analysis of banking reform via a framework that emphasises the divisions within banking capital within Turkey and the way the state (and IMF) have sought to mediate these divisions while at the same time transforming the process of capital accumulation away from state dependence and towards global integration. Through the analysis, it will be seen that this reform, which has been driven by the requirements of capital accumulation itself, has had transforming effects on fractions of capital and via these effects it has been laying foundations for a new capital accumulation regime in Turkey.

With this focus, the explanation of banking reform looks very different from the now-standard explanations mentioned above. The Turkish state actively manages and regulates the further integration of a protected domestic banking system with global accumulation.

6.3 The Need to Refocus Accumulation (the late 1990s)

At this point, it is important to explain why banking reform has to be seen in the context of broader processes of capital accumulation in Turkey. Part of the explanation, which has already been raised, is that banking cannot be disentangled from wider issues of accumulation. But, more than this, it is clear that (as a response for the needs of some fractions of capital) the Turkish state (and the IMF) have determined a course for Turkish capitalism in which bank reform is integral. It is therefore important to specify that path so that the reform can be understood in this light.

After exploiting low real wages as the basis of the export orientation of the industry in the post-1980 period, *Turkish capital needed enhanced mechanisation and higher-value added production if it was to achieve a higher level of capitalist development*. Given the concentration and competitiveness in low-technology manufacturing sectors,¹ the Turkish economy diverged from the Organisation for Economic Cooperation and Development (OECD) average trend which is towards high technology-based production and export (Saygılı 2003, 53). The State Planning Organisation (SPO) pointed out that the Turkish economy was far short of the technological transformation needed for a healthy long-run growth (Saygılı 2003, 26).

Turkey had specialised in labour- and resource-intensive sectors through increasing flexibility of labour markets during the post-1980 export orientation period (Köse & Öncü 2000, 84). However, the Eighth Five Year Development Plan Foreign

¹ Saygılı (2003) showed that in 1990-1997 period, low technology sectors, with an increasing trend, achieved the highest share of 40% in Turkish manufacturing industry production, value added and investments. Among these sectors, food-beverages-tobacco and textile-clothing sectors constituted the highest share in production and value added, 36% and 32% respectively. Yet, high-technology sectors had a share of only 4.5% in production and 5.5% in value-added (p.14). In terms of share in manufacturing industry's export, high technology sectors raised their share from 2.46% in 1989 to only 7.53% in 2000 (p.46).

Direct Investment Commission (SPO 2000, 5) argued that, in attracting FDI, relative cheapness of labour was losing its importance as labour costs comprised such a low share (10-15%) of total costs. Moreover, Turkey was losing its edge on absolute surplus value because primitive accumulation conditions in former Soviet Bloc countries offered a fresh source of cheap labour for global capital. Also, after 2005, quotas in textile and clothing industry, which constitutes the core of the Turkish manufacturing industry's production and export,² were to be removed. This means that producers in Turkey would soon face fierce competition from low wage countries such as China. Thereby, traditional industrial sectors of Turkey were being forced to improve their competitiveness by moving into much higher quality segments which require advanced design and marketing skills.

The SPO (2004, 23) points to financial incapability and the widespread existence of SMEs³ as the main weakness of the industry to this end. Besides such need for change in traditional sectors, a structural transformation was increasingly required to increase the shares of high technology-based sectors in the manufacturing industry's production and export. All these developments heralded further deteriorating conditions for labour that was already used as the primary basis of the outward orientation in the post-1980 period. The passing of a new labour law in 2003 (which is discussed in Chapter 5) supports this argument.

Therefore, as finance protectionism fulfilled the mission of accumulating money capital at the hands of those capitals who were in need of further internationalisation, the Turkish state has recently redefined the industrial policy for a higher level of capitalist development. With the Eighth Five Year Development Plan (2001-2005), higher competitiveness and productivity of the manufacturing industry in the face of increasing global competition was projected (SPO 2004). For such a transformation in the export structure in line with the world trends, the SPO (2003, 46) proposed 'policies ensuring a transition of the industrial structure from consumer goods, raw material and labour

² Textile and clothing industry had a share of 21.5% in the manufacturing industry's production in 2002 and 36.2% in the export. It also provides more than one third of employment in this industry (SPO 2004, 22-23).

³ The share of SMEs with up to 250 employees in 2000 is 99.6% of total number of establishments, 63.8% in total employment and 36% in value added (SPO 2003, 37).

intensive goods towards information and technology intensive goods and increasing market share by creating new technologies'.⁴ This implies that capital accumulation be reoriented to productivity growth. For labour, this shift means a focus on higher skilled, higher value-added production (in Marxist terms, the production of relative surplus value). Yet the transition towards productivity growth does not mean a lessening significance of the extraction of absolute surplus value for capital. Rather, the ongoing restructuring in Turkish capitalism is based on the intensification of both absolute and relative surplus value production.

In order to achieve *a productive capital-based accumulation*, the banking sector had to be transformed accordingly. Crucially, the need for the integration of the Turkish financial system into global markets was rooted in the global integration need by Turkish productive capital, consistent with Bina and Yaghmaian (1998, 259). To orient industrial production towards mechanisation and high-tech sectors, funds have to be placed increasingly into fixed capital investments. Having more access to domestic and global funds is not only needed for extended reproduction of circuits of FC, but also by the whole corporate sector.⁵ This need explains the leading role in banking reform which was played by the conglomerates whose banks survived to follow a long-term banking policy without state finance protectionism.⁶

The class implications of this reorientation in accumulation are profound. For labour in Turkey, this shift of the source of profits from the state to global capitalism has distinct effects. It is a shift from taxation and deficit-induced inflation as the burden of

⁴ At the current stage of capital accumulation, the state projects to implement new policies to nurture industrial capitalists. To this end, among many components of the new industry policy of the Turkish state, which the SPO (2003) declared, ongoing privatisation of SEEs forms one of the mechanisms that reinforce the dominance of the bourgeoisie by whom more than 80% of production and about 95% of gross fixed investment is realized in the manufacturing industry, as the SPO (2003, 36) notes. In addition to the continual withdrawal of the state from industrial sector, public sector investments will be intensified mainly on economic and social infrastructure in order 'to direct public and private sector resources into rational and complementary investment areas' (SPO 2003, 45). As well, new regulations have been introduced to attract FDI into Turkey. Also, the state will enhance its role in supporting strategic sectors and their orientation to global markets along with policies increasing global competitiveness of SMEs.

⁵ See the statement by Alternatifbank General Director Murat Arı in Kenan Şanlı, "Abank Kurumsalla Tasarruf Yaptı", Finansal Forum, 24 March 2003.

⁶ The rise of SMEs as an important market segment in the new banking era is linked to this overall change, as well.

labour to enhanced surplus value creation in production. That is, labour once enjoyed the benefits of working for companies with guaranteed profitability, but it bore the burden of paying the taxes by which profitability was secured. With the shift away from guaranteed profits, labour finds that it continues to be at the centre of profitability not so much via taxation, but now explicitly via the competitive process to increase the production of surplus value.

For the bourgeoisie, this end has meant an adjustment for capital in general, and for FC in particular to a new accumulation regime in which profits are to be derived through international competitiveness. The shift has created some 'losers' within capital as one fraction of FC was excluded from finance and, in the process, lost its capacity to accumulate in other sectors to varying degrees. On the 'winners' side, however, the leading fraction of FC has strengthened its position by overriding its dysfunctional members. The state stepped in to oversee the change in the reproduction of accumulation on behalf of the leading fraction of FC that has been dominant, but not able to transform its accumulation regime by itself.

While the thesis analyses contradictory relations between fractions of capital in the context of the Turkish banking sector, tensions within banking coincide with wider divisions within total capital. Since banks have been owned by conglomerates, the circuits of individual capitals operating in banking extend beyond banking to various other sectors of the economy. Thus, the characteristics of overall accumulation strategies of these conglomerates, not just their banking operations, determine the fractional divisions within banking. Due to the wider ramifications of this ownership structure in banking, the reform has become an effective tool for the Turkish state and the IMF in order to reconfigure broader intra-capital class dynamics for a further articulation with global capital.

6.4 The Issues Determining Fractional Divisions in Bank Restructuring

The need to refocus accumulation towards global competitiveness provides the broader context for the analysis of divisions between fractions of capital over banking reform. What the state and the IMF wanted from banking reform was to reorient patterns

of accumulation of Turkish conglomerates; not just to distinguish between prudent and imprudent banks. In deciding who might achieve the IMF-Turkish state standards for a certain conceived form of global accumulation, the judgment involved patterns of accumulation and forms of global integration rather than just corporate treasuries being prudent. This is not to say that the state's judgment on which banks survived and which went into decline was always 'right' (for there are no water-tight criteria here). Yet, the general rationale for state policy can be depicted in this way, revealing a more comprehensive explanation of banking reform that has hitherto been presented.

Briefly, in determining the line between the failing and surviving banks, the state and the IMF sought to support the conglomerates with the capacity to accumulate competitively in globally integrated markets. While the state and the IMF were never explicit about the characteristics that determined the viability of FC, three were apparent:

- ability to make investments in globally dynamic industries with growth potential,
- potential to generate international capital flows from/to Turkey, and/or to raise export revenues, and
- capacity to interact with the globally most advanced individual capitals.

These are not simple indicators of bank performance, for with banking integrated into conglomerates there was more at stake than just prudent banking: the whole direction of capital accumulation in Turkey was at issue. Accordingly, these are the criteria that the IMF and the Turkish state appear to have used to form their model for what a successful, restructured corporation looks like. The conglomerates having these attributes by and large passed the threshold of seizure and constructed the new FC of Turkey.

6.5 An Alternative Classification

According to three criteria identified above there is a distinction between those conglomerates which did, and those which did not meet the criteria. Accordingly, two fractions of capital can be identified:

- *The conglomerates that lost their banks were the **primitive accumulators**⁷ that based their accumulation on rent seeking and were dependent on it for their viability, and*
- *The conglomerates that kept their banks were the **dynamic accumulators** that had a real accumulation basis in addition to benefiting from state-based rents of finance protectionism.*

Accordingly, the banks will be grouped into two in line with their conglomerates' different relations to state finance protectionism in the post-1980 era.

In contrast with a division between large and small banks, this grouping of conglomerates (and their banks) explain why some of smaller banks were demanding the same reform policies as some larger banks.⁸ As well, while some smaller banks succeeded in surviving, we need to explain why some relatively more important players such as Demirbank and Pamukbank were eliminated by state reform. That is, both of the above-indicated sub-divisions will include relatively large and smaller banks simultaneously so that a large-small dichotomy, while a convenient starting point for explanation, proves insufficient.

Thus, focusing on conglomerates themselves instead of only banks will explain why the large/small, old/new and risky/conservative banker are limited explanations – that the grouping of banks has to be based on the patterns of accumulation of their conglomerates. Then the critical aspects of accumulation – e.g. rent-seeking finance; relations between financial and industrial components; types of industrial expansion; and forms of global accumulation (export, direct investment (and where); joint venture (and with whom)), etc. – will come to the fore in exploring the tensions within banking.

The critical point of differentiation between the primitive accumulators and the dynamic accumulators is how they accumulated during the 1980s and 1990s. All of those conglomerates benefited from finance protectionism, but some focused their rapid accumulation in a range of sectors based on easy finance secured via their banks. These

⁷ Regarding primitive accumulation see Marx (1867, Chapter 31).

⁸ For instance, small-scale Koçbank and large-scale İşbank demanded the removal of the full insurance scheme for deposits since the scheme allowed some banks to offer high interest rates and this created unfair competition for other banks (see "Engin Akçakoca: Mevduattaki Devlet Güvencesi Sınırlandırılmalı", Dünya, Financial Institutions Supplement, 26 April 1999, p.6; "Haksız Rekabeti Durdurun", Cumhuriyet, 28 March 2001).

were the primitive accumulators, dependent on state-based rents and thus, vulnerable in their accumulation on a long-run basis.

They mainly relied either on redistribution of surplus value via the state and gathered speculative sorts of profit or at best on extraction of absolute surplus value. Even though some did produce relative surplus value it was insufficient to sustain the whole conglomerate: they were caught up in state-based rents and hit by the cycle of downturn.

The other group of capital, the dynamic accumulators, while gaining rents from finance protectionism, so long as they were on offer, were also accumulating via the production of new value on a substantial and independently sustainable basis. Hence, the dynamic accumulators were distinguished by their capacity to capture relative surplus value on a global scale unlike the primitive accumulators who were 'locked in' to the surplus value captured by the Turkish state. The dynamic accumulators were the conglomerates with flexibility for new forms of accumulation, especially those related to global integration.

While the dynamic accumulators did reap the benefits of state finance protectionism, more importantly, they base their accumulation on a long-term viable pattern along with. Indeed, almost as if portending a financial crisis, the dynamic accumulators started to reorient their banks towards traditional banking activities even before the imposition of banking reform. The sectors that they have activated in as well as their capacity and forms of integration with global capital allowed them to solidify their positions at the leading edge of Turkish capital.

On the contrary, the primitive accumulators did not fit into this industrial reorientation. Despite being sheltered by their existence in finance, they could not establish a long-run, sound accumulation basis, with their concentration in low-value added/ highly volatile/ subsidy dependent sectors.

6.6 Conclusion

This chapter has sought to set up the theoretical framework for making sense of bank restructuring as part of a broader reorganisation of capital in Turkey to give it an

international orientation, and one in which capital from Turkey participates as an active player. The categories are by no means obvious. The existence of conglomerates means that the lines of division within banking are neither clear nor simple.

But seeing Turkey's banks as part of conglomerates is the key. They are a completely organised 'system' of accumulation, and the division between them must be understood in this dimension – not whether banks are large or small, new or old, etc.

Before developing a detailed explanation of the fractional divisions within banking conglomerates, two important points must be emphasised. First, there have not simply been two types of conglomerates: primitive and dynamics accumulators. There are indeed diverse capitals within each group; and the following two chapters will explore these diverse patterns by reference to sub-divisions with the two primary categories. Indeed, these sub-categories can be read as tensions within each of the two types of accumulation.

Second, however, it must be noted that there will be some overlapping characteristics among these sub-divisions, i.e. these categories are not entirely mutually exclusive, but two ends of a continuum. As a result, some corporations do not fall neatly onto one category or the other. The aim is here to identify the fractions according to the centre of gravity among the characteristics of their patterns of accumulation (such as scale of conglomerates (small/large), focused sectors (industrial/non-industrial), domestic/international orientation, forms of global accumulation (export/productive investments), and link with TNCs). The object is not to label industrial conglomerates definitively in one fraction or the other – the object is to identify broad patterns of accumulation that help to give meaning to the reform process.

Accordingly, the argument by Sönmez⁹ that is 'confiscated banks were chosen by a coalition among surviving banks' conglomerates, the state and the IMF' ignores some deeper criteria in the selection process. Sönmez contends that in the seizure cases of Pamukbank and Demirbank, the issue was not bank-efficiency; but, the market struggle between rival conglomerates extending beyond banking such as the GSM market. That point may be true of itself, however, as later chapters will show, it is

⁹ See Tuncay Mollaveisoğlu, "Oyun İçinde Oyun", *Akşam*, 20 September 2002; Tuncay Mollaveisoğlu, "IMF-BDDK Gerçeği", *Akşam*, 21 September 2002.

divisions within banking, as a reflection of wider divisions within accumulation, that provides the key.

On the basis of the general analytical framework developed in this chapter, the following two chapters will decompose Turkish FC into the primitive and the dynamic accumulators. The discussion of fractional tensions within FC will show that the nation state's mediative role between fractions of capital is becoming even more significant as capital accumulation becomes increasingly global.

CHAPTER 7

THE PRIMITIVE ACCUMULATORS

- 7.1 Introduction
 - 7.2 The Primitive Accumulators: New and Old
 - 7.3 The New-Primitives
 - 7.3.1 First Sub-division within the New-Primitives
 - 7.3.2 Second Sub-division within the New-Primitives
 - 7.4 The Old-Primitives
 - 7.5 High-Performing Primitive Accumulators: Drawing the Line
 - 7.6 Conclusion
-

7.1 Introduction

The bourgeoisie has been created and nurtured by the state throughout the history of Turkey. The tension involved in this process is that not all parts of capital always receive equal nurturing. Indeed, some parts may be nurtured to the exclusion of others. The difficulty for the state is to determine which parts of capital (forms of accumulation) will be facilitated in their expansion, and which will not.

In the post-1980 era in Turkey, it appeared that the state could nurture a wide variety of capitals through a process that we earlier characterised as ‘finance protectionism’, but it became well-recognised that this was an unsustainable regime. For the macroeconomists, the unsustainability was expressed in high interest rates, hyper inflation and a blow-out in government debt. For analysts of the dynamics of capital accumulation, the unsustainability was expressed through the process of what Marx (1867) called ‘primitive accumulation’ (*Capital* Volume 1 and Chapter 31). The problem

of finance protectionism lay in the fact that the state was nurturing primitive accumulation to the exclusion of 'real' capitalist accumulation.¹

Marx's distinction here is important. Real capitalist accumulation occurs in fully capitalist economies of commodified labour and capital and extensive market relations. Profits can be equated with efficiency in the production of value. Primitive accumulation is a developmentally prior process. It is associated with the entry of capitalist accumulation into essentially non-capitalist contexts. Profits come not from capitalist efficiency under competitive conditions, but from the capacity to utilise cheap, non-commodified labour, free land, and state patronage.

It is the latter process that connects primitive accumulation to banking. Marx (1867, 919-920), in the context of 1600s' Europe, pointed out that state debts were the source of primitive accumulation for banks:

The public debt becomes one of the most powerful levers of primitive accumulation. As with the stroke of an enchanter's wand, it endows unproductive money with the power of creation and thus turns it into capital, without forcing it to expose itself to the troubles and risks inseparable from its employment in industry or even in usury...

At their birth the great banks, decorated with national titles, were only associations of private speculators, who placed themselves by the side of governments and, thanks to the privileges they received, were in a position to advance money to those governments. Hence the accumulation of the national debt has no more infallible measure than the successive rise in the stock of these banks....

Similarly, at the end of 20th century, the Turkish state heavily borrowed from Turkish-based banks at grossly inflated rates of interest, creating a process of primitive accumulation. Banks, owned by conglomerates, and other large scale capital placed funds to government securities at higher than market rates of interest. Hence, state borrowing succeeded in enhancing not only banking capital, but it also nurtured commercial/industrial capital.

As the Turkish state, under the direction of the IMF, sought to withdraw its support of primitive accumulation and redirect capital to real, dynamic accumulation, it

¹ However, 'the exclusion of real accumulation' is not used here in a Keynesian sense which points to wrong state policies that could not promote industrial development. Rather, the thesis stresses that the promotion of primitive accumulation by the Turkish state was a transitory phase which temporarily subsidised some fractions of capital to reorient their accumulation competitively and globally.

faced the reality that private sector profits of banking would decline (at least in the short run). The state had to determine which banks (and attached conglomerates) would be nurtured and which would be sacrificed. The state had to determine which capitals could flourish in the absence of state subsidies and which were irretrievably tied to primitive accumulation.

In this chapter, the conglomerates of banks that were liquidated – the primitive accumulators – are identified. In the following chapter, the dynamic accumulators are identified. In both cases, the object of the chapter is to identify the patterns of accumulation of individual conglomerates. In the context of the primitive accumulators, the chapter shows a range of forms of accumulation that, while profitable under financial protectionism, and possible even viable after it, were not deemed to have the hallmarks of growth, productivity and global competitiveness.

Before identifying the different patterns of primitive accumulation, three guiding principles need to be addressed.

First, during the period of finance protectionism all bank owners profited from financial protectionism. Accordingly, the dividing line between the primitive and the dynamic accumulators is not simply related to bank prudence. For instance, the IMF pointed out the differentiation within private deposit banking as follows:

The net income of private DMBs [Deposit Money Banks] accounted for almost three fourths of the after tax net income of the banking system... The average structure of income... masks a wide variation among private DMBs. A number of these banks – accounting for almost one third of total banking sector assets – are heavily reliant on interest income from securities, with such income amounting to well over one third of total interest income. While many of these banks are large, well capitalised and engaged in a wide range of other activities, some are quite small and appear to rely almost uniquely on income from securities transactions. (IMF 1998, 128)

*Hence, there were also dynamic accumulators whose banking practices were dubious.*² This is why we need to look deeper into the accumulation strategies. For some

² For instance, Sabuncuoğlu (2002) indicates that Koçbank of Koç Group bore a substantial interest rate exposure in 1998 associated with an aggressive maturity gap arising from the ratio of commitments from repo transactions to total assets. However, while Koçbank could manage to reduce this ratio in 1999 and 2000, Demirbank whose off-balance sheet repo commitments to assets ratio jumped to 83% in 1999 was caught to November 2000 crisis with this dangerous imbalance in its funding structure.

(the dynamic accumulators) state debt finance was utilised to restructure their accumulation towards global competitiveness. The dynamic accumulators benefited hugely from finance protectionism, but it was not their life-line. But for others (the primitive accumulators) there was no such long-term viable basis in their accumulation and instead, they faced decline when state borrowing started to contract through the changes in the finance system. *So the issue for primitive accumulators is not that they benefited from finance protectionism, but that they were not viable without it.*

Second, it is important that we do not conflate the age or size of banks with their forms of accumulation. There may be a tendency to presume that the unsustainable corporations were those that had entered banking only recently in order to share the rents from state borrowing, and that they would be likely to be small because they were new. But this was not the determining factor of survival, *for it is the pattern of accumulation, not size or age that determined viability.* The IMF, cited above, noted that there were larger and smaller banks which were not viable and, as will become clear below, there were old, established banks as well as new entrants to banking which were confiscated.

Having said that, size and age are irrelevant to a corporation's pattern of accumulation, below there is a distinction between old primitive accumulators and new primitive accumulators. Newer banks are likely to be smaller, and smaller banking conglomerates are likely to have a different spread of investments from conglomerates that have evolved over 80 years. But the point is that size and age *per se* are not the determining factors in themselves – it is only the extent to which those characteristics affect a corporation's pattern of accumulation that they matter.

Third, while the following analysis (and in the next chapter too) seeks to identify particular conglomerates with particular patterns of accumulation, the 'fits' are not always exact. After all, individual capitals accumulate in all sorts of particular ways –

As such, some other conservative banks, such as Alternatifbank, Anadolubank, Denizbank, Tekstilbank and Finansbank, despite having better asset quality compared to the primitive accumulators' banks, expanded their open currency position in 1999 and 2000 and thus, had weakness originating from currency mismatch (Sabuncuoğlu 2002, 70-71). The fragility created more serious problems for these banks following the February 2001 crisis. During that time, Turkey abandoned its currency peg and Turkish Lira was devalued up to 60% within 2001 and closed the year with a year-on-year devaluation rate of 54%. This was the reason for a debt-swap operation by the Treasury, an issue to which Chapter 11 will return.

they are not driven by the needs of taxonomy. So the taxonomy below should be seen as depicting a range of processes, not a literal depiction of the accumulation of each and every primitive accumulator.

7.2 The Primitive Accumulators: New and Old

The primitive accumulators are the conglomerates that lost their banks (and for some, other financial/non-financial companies) because of confiscations. They showed two general characteristics. Firstly, they aggressively exploited the opportunities of finance protectionism to accelerate their accumulation throughout the 1990s. In many cases, they entered banking simply to plunder funds. The opportunity to exceed legal limits on connected lending facilitated the transfer of funds to subsidiaries in other sectors often when these companies would not have been viable without subsidized credit.

Secondly, they were centrally involved in state debt finance as a primary form of accumulation. Thus, the second complementary attraction for their penetration to banking in the 1990s was to be involved in state debt finance. For these banks, there was no difficulty in offering high interest rates to collect deposits since all deposits were under the full state guarantee (after the 1994 financial crisis) and the state was paying higher rates of interest 'to close the ever-yawning budget deficit' (Münir 1998). Furthermore, the interest-exchange rate anchor encouraged banks to hold open positions³ in order to finance state borrowing. As a result, weak financial structures characterised these banks.⁴

Most of these bank embezzlements were done by some rising conglomerates of the 1980s and 1990s while some old/large conglomerates also extensively used their banks for dubious purposes. In many cases, bank resources were siphoned off through credit allocations to subsidiaries over legal limits through a complex network of mechanisms such as the use of fictitious companies, off-shore bank transactions and back-to back credits between banks (e.g. Sümerbank, Esbank, İnterbank, Egebank, Yurtbank and Bank Ekspres).

³ FX deposits and credits from international financial institutions.

⁴ High market and credit risks were accompanied by lower CARs than the sector average.

As can be seen in Table 7.1, the seized banks can be grouped into two according to the announced legal basis for their transfers to the SDIF. The official reasoning for the first group of the banks was their weak financial structure/insolvency (Article 14/3 of the Banks Act No. 4389). The BRSA (2003a, 11) explained that these banks were taken over because their financial positions were seriously distorted and that they lost their solvency and liquidity during the financial crises. The second group of banks, on the other hand, were seized because of the use of bank resources in favour of the majority shareholders and the associated bank losses (Article 14/3 and /4 of the Banks Act No. 4389).

Table 7.1 Official reasoning for the bank transfers to the SDIF

| Insolvency/illiquidity | Embezzlement |
|-------------------------------|-----------------------|
| Yasarbank | Interbank* |
| Demirbank | Bank Ekspres* |
| Sitebank | Egebank |
| Ulusbank | Yurtbank |
| | Sümerbank |
| | Esbank |
| | Etibank |
| | Bank Kapital |
| | İktisat Bank |
| | Bayındırbank |
| | Kentbank |
| | EGS Bank |
| | Toprakbank |
| | Parnukbank |
| | İmarbank ⁵ |
| | Adabank ⁶ |

Source: Developed from SDIF (2003, 9-10).

* These banks were taken over by the SDIF according to the abrogated Banks Act No. 3182.

⁵ The İmarbank case followed a different procedure than the previous embezzlement cases. First its banking licence was revoked and the bank's management and control was taken over by the SDIF (according to Articles 14/3 and 16/1 of the Banks Act No. 4389). This was followed by the liquidation of the bank. The BRSA preferred the liquidation of İmarbank to its seizure because over 95% of the banks' liabilities were formed by deposits. The BRSA did not want to take over these liabilities under the announced guarantee for all bank liabilities by the government during the November 2000 financial crisis (see Chapter 10). This allowed the payment only for saving deposits covered under insurance and the use of bank assets to meet its liabilities (see BRSA 2003b; also the statement by Engin Akçakoca, Head of the BRSA, in Derya Sazak, "Sohbet Odasının Konuğu BDDK Başkanı Engin Akçakoca", *Milliyet*, 22 July 2003).

⁶ After the takeover of the control of İmarbank, the SDIF also took the control of Adabank (the second bank of Uzan Group) as the bank shareholders lost the status of bank owner according to the banking law.

Despite the legal articles explaining bank takeovers as inept management and/or embezzlement, the fractional analysis of this thesis will show that what led the primitive accumulators to be excluded from finance was anchored in the characteristics of overall accumulation of the overall conglomerates. A focus on bank treasuries becomes a limited explanation for the takeovers.

What we see of the conglomerates whose banks were confiscated was that their accumulation outside of banking was driven by a reliance on low wage, low productivity industries where profits are derived from long working days and oppressive working conditions, and investment in unstable, newly-emerging sectors and locations, where profits may be high, but so too were the risks.

The primitive accumulators with these characteristics did not form a single pattern of accumulation: there are many paths to being unviable! It is therefore useful to classify them into two broad groups: new primitives and old primitives, for the time of entry into banking does indeed generate different patterns of accumulation. Within these two categories, there can be identified some sub-categories, signalling different corporate strategies within each of the old and new primitives. Table 7.2 will help clarify our categories before they are explained in detail.

Table 7.2 Primitive accumulators

| | |
|----------------|---------------------|
| New primitives | First sub-division |
| | Second sub-division |
| Old primitives | |

New-primitives were the rising capitals of the 1980s and 1990s.⁷ They were the conglomerates that were a direct product of finance protectionism. When they diversified, it was into low investment and/or high turnover industries, especially labour intensive production, mainly in the service sector or construction. Thus, they relied on speculatively-driven profits and redistribution of surplus value via the state. Some others, besides investing heavily in the service sector, at the same time engaged in export-oriented, but low-value added, non-growth industries (with shrinking export potential in the long-run) such as textiles and wood products. Their common characteristic was that they relied on absolute surplus value production and tried to accelerate their low levels of accumulation by supporting those activities with their banking leverages and, in many cases, close links with politicians.⁸ With these characteristics, as a whole, the new-primitives were not viable accumulators in the long-run.

Old-primitives, on the other hand, refer to some older/larger conglomerates operating in a wider range of industrial sectors. These conglomerates mainly matured during the ISI and, internationalised their circuits of capital through export after 1980. But they remained in the culture of that earlier period. They expanded from the industries

⁷ While some of these conglomerates were established after 1980, some started to operate as local companies before then as in the case of Süzer Group. The owner Mustafa Süzer entered contracting and trade businesses in 1953 in Gaziantep City and became well known with his foreign trade operations during the post-1980 export orientation. However, as a common feature, all these conglomerates rapidly developed in the post-1980 period.

⁸ In the cases of Korkmaz Yiğit, Garipoğlu and Nergis Groups, the owners' names were also mentioned with mafia links. For instance, the Türkbank tender that was won by Korkmaz Yiğit was cancelled by the government since the mafia was involved in the bid process. The decline of the Bayındır Group related to the involvement of the owner Kamuran Çörtük to this mafia link. This involvement caused a loss of prudence for Bayındır Group and as a result, the TUSIAD annulled Çörtük's membership in the Association.

These kinds of relations were used to finance acquisitions of some banks as well as other state tenders. For instance, although Garipoğlu Group offered the highest price for the bid of POAŞ petroleum distribution company in 1998, it not only lost the bid, but also the source of the money that the Group offered was investigated by the Financial Crimes Inspection Board (Arslan 2001, 344; see also for the link between the owner Hayyam Garipoğlu and Nesim Malki, a famous Jewish usurer, during the acquisition of privatised Sümerbank in Arslan 2001, 342-349).

Besides using their banks' funds, in many cases, these conglomerates also utilised credit from state banks. For instance, the management of Halk Bank was accused of giving high risk credits to Demirel Group of companies (see "Ustülsüz Kredi", Cumhuriyet, 7 October 2000). In some cases, the conglomerates used those credits to finance acquisitions of banks, such as Sümerbank and Egebank.

that were their ISI base and, despite engaging with profitable, surplus value producing activities, these companies heavily based their expansion on the finance of their holding banks. Therefore, they were caught up in high debts and rapidly became unprofitable when the global recession and the following crisis in the domestic market contracted the economy and banking. As a result, during the reform, these conglomerates had difficulty in reducing their debt ratios and this limited their capacity to inject capital into the banks in order to avoid seizures. However, it was not only unsuccessful corporate management that led their banks to insolvency and eventually to the seizures. As will be discussed below, some of these old primitives may have been viable in the long run, albeit without a capacity to adapt to global competition. But from the perspective of the IMF and the Turkish state, they needed to be discarded from finance so that banking capital could be the centralised.

Hence, in common with new primitives, these conglomerates relied on the easy finance of their banks in spite of having a stronger industrial focus in their accumulation. However, unlike many dynamic accumulators, despite some bourgeoning in the late 1990s, they could not expand into global accumulation via IDI.⁹

Overall, the primitive accumulators were unable to adapt to a globally-integrated, competitive environment. The division between the old and new primitives highlighted essentially where they got 'stuck' in their accumulation. The old primitives got stuck in the dependency of their expansions/productions on excessive finance of connected lending. The new primitives got stuck in ISI period — especially in industries that were outmoded, low-growth and/or non-industrial sectors with a highly volatile (boom-bust) character. In a time of downturn, these characteristics led them to be further dependent on finance-based rent seeking that was not globally competitive. The new and old primitive accumulators will therefore be considered separately. Particular conglomerates will be identified within these categories. But, of course, even within these sub-groups, individual conglomerates were not identical in their patterns.

⁹ Here the large Çukurova Group was an exception with its IDIs.

7.3 The New-Primitives

The new primitive accumulators were made up of two somewhat distinct sub-divisions, based on their process of capturing surplus value and accompanying different forms of internationalisation. While the first new-primitives based their construction and service sector operations on state finance protectionism (state-secured, redistributed surplus value), the second new-primitives used state-based financial rents mainly to support industrial accumulation in outmoded-low value added sectors (absolute surplus value).

7.3.1 The First Sub-Division within New-Primitives

This sub-division refers to the conglomerates that grew in the service sector (mainly finance), media and construction rather than manufacturing industry. They accumulated in the sectors that were domestically-oriented which were, to some degree, immune from competition via regulation. These conglomerates entered the sectors in which state monopolies had been opened to Turkish capital since the 1980s such as the media (TV and radio broadcasting), the defence industry, aviation and energy (Sönmez 1992b, 154). In addition, they entered internationally-oriented activities that were subsidised significantly by the state such as tourism, international construction and finance. *The crucial characteristic is that this group entered banking in the 1980s and especially in the 1990s¹⁰ as a means to secure cheap lines of credit to these service sector/construction activities that were themselves only viable due to state regulation which created monopoly rents.¹¹* Accordingly, the 'surplus value' they appropriated was due not to high productivity production (relative surplus value) but to state protection, and hence, redistributed surplus value. For the construction-oriented ones, for example, they could make profits as long as property prices went up, i.e. they were asset-contingent and speculatively driven in their profitability.

¹⁰ Except Demirbank of Cingilioğlu Group which was in banking since the 1950s.

¹¹ The rate of return on the new activity of finance was so high that this became the primary focus of accumulation, and it spread into finance-related and leverage-dependent mercantilist activities, like leasing, factoring, brokerage and insurance throughout the 1990s.

In this sub-group, we see the following conglomerates:

- *mainly construction focused* Ceylan Group of Bank Kapital, Balkaner Group of Yurtbank, Sürmeli Group of Sitebank, Bayındır Group of Bayındırbank, Süzer Group of Kentbank,¹² and Korkmaz Yiğit Group of Bank Ekspres,¹³
- *media & finance-focused* Medya Sabah Group of Etibank and Avrupa ve Amerika Group of İktisat Bank and,
- *finance focused* Cingilioğlu Group of Demirbank and Ulusal Bank.¹⁴

The reason for these conglomerates to focus on service sector/construction rather than other industries was related to overall conditions of accumulation making industrial activities less profitable in the 1990s. The high real interest rate and overvalued exchange rate policy, which lured short-term money inflows to Turkey, shifted investments from tradable to non-tradable sectors and encouraged imports at the expense of exports. Hence, the higher profitability of non-tradable sectors than commodity export industries led these conglomerates to operate in finance, construction, tourism, energy, aviation, media, publishing, transportation and the health industry. As a result, given their lower levels of accumulation, they sought rapid growth in those highly profitable and relatively competition-immune non-industrial sectors.

Besides publishing by the media-focused conglomerates, the main 'productive' activity that they moved into was construction – notable for both its links to finance, state bids and for its boom/bust character (big profits in the booms, then insolvency). Indeed,

¹² The Turkish Daily News reported that Süzer Group's Atlas Investment Bank (1998) was also closed down by the SDIF because of weak financial structure due to connected party lending. The Group had established this bank to support its investment projects in Black Sea and Caucasus Region (see "Turkey bails out five insolvent banks, closes two others", Turkish Daily News, 11 July 2001, URL: http://www.turkishdailynews.com/old_editions/07_11_01/econ.htm#e1).

¹³ The transfer of Bank Ekspres to the SDIF followed a different path from the other banks. The owner Korkmaz Yiğit needed to sell the bank to the SDIF since the bank faced financial difficulties after his involvement with mafia in the tender of Türkbank was revealed. The SDIF opened a lawsuit on the ground of bank-embezzlement following the purchase of the bank ("Yiğit'in Banka Sevdası Devlete 350 Milyon Dolara Patladı", Hürriyet, 25 October, 2002).

¹⁴ The recent annulation of the takeovers of Kentbank and Demirbank by the Council of State does not invalidate the thesis' analysis. In contrast, it is consistent with the argument that the state and the IMF could save some ailing banks via subsidies, but the need to increase the concentration of banking capital required the elimination of some primitive accumulators.

being aware of this volatile nature, the construction-originated conglomerates moved to other sectors in order to balance fluctuations in this sector.¹⁵ These conglomerates, however, expanded into other volatile/marginal sorts of sectors such as tourism, health, wholesaling, and finance rather than industrial activities. Consequently, within this sub-division, the stress on quick accumulation gave focus to the high risk, high volatile, and high margin sorts of activities – accumulating as if current conditions in the domestic finance, international banking and domestic and international construction would last forever.

Indeed, even though they established themselves in these lucrative non-industrial sectors of the 1990s, before banking reform, some of the conglomerates (particularly Bayındır and Süzer Groups) tried to internationalise/diversify beyond their leverage-dependent, high volatile, high margin sorts of activities. They started to place capital to industry and were recognised by their attempts to internationalise through IDIs and foreign partner searches inside and outside Turkey.¹⁶ As well, these conglomerates hoped to capture a share of the ongoing privatisation process in the strategic energy and telecommunication sectors via foreign partnerships.¹⁷ Nonetheless, *their main focus*

¹⁵ For instance, Kamuran Çörtük of Bayındır Group (Geviç 1998, 141) explained the reason for their penetration to other sectors as follows: ‘While in Europe there are many old firms in construction sector, here [in Turkey] one can not see surviving companies after some period. This is not related to skilfulness or incompetency of contractors. This is the destiny for the countries living the “boom-bust economy” very often such as Turkey. Once the approach towards investments is too volatile, one cannot remain in construction for a long period. Since we knew this fact, we always tried to develop into other sectors’.

¹⁶ See the statements by Chairman of Süzer Group, Mustafa Süzer in “Süzer: Turkey's EU membership 10 years away”, Turkish Daily News, 20 December 1999, URL: http://www.turkishdailynews.com/old_editions/12_20_99/feature.htm and “Süzer takes stakes in cardboard producers”, Turkish Daily News, 30 May 2000, URL: http://www.turkishdailynews.com/old_editions/05_30_00/econ.htm ; and the statement by Chairman of Bayındır Group, Kamuran Çörtük, URL: http://www.Bayindir.com.tr/KURUM/ingiliz/bask_mesaj.htm (accessed 27 November 2002).

For instance, Süzer Group bought the export-oriented carton production plant (ZMK Nikopol) in Bulgaria via privatization and entered the insurance sector with Italian Assicurazioni Generali (Nurten Erk, “Süzer, Et ve Süte Giriyor”, Hürriyet, 24 July 2000). Süzer Group also planned new projects in contracting and tourism with international partners besides expanding in fast-food business with Pepsi-Cola with whom the Group already operates the Kentucky-Fried Chicken and Pizza-Hut franchises (see Poyraz 2000a, 46-47).

¹⁷ Bayındır Group identified the energy and health sectors as its strategic focus in the 2000s. The Group aimed to be the first or second operator in the energy sector through

*remained on non-industrial sectors and domestic accumulation.*¹⁸ As a result, the volatile nature of their sectoral focus severely affected these basically inward-oriented/non-industrial groups when there was the dramatic shrinkage in domestic demand during the crises. Meanwhile, as in the cases of Ceylan, Balkaner and Korkmaz Yiğit Groups, there was an attempt to use their banks as a cushion for survival during the slump.¹⁹

The other area of expansion of some of the new primitives was international finance. Perhaps surprisingly, some of these new primitives such as Bayındır, Süzer and Avrupa ve Amerika Groups expanded their financial arms to the international arena through establishments/acquisitions of overseas banks and branches.²⁰ Hence, given their international operations, it can be questioned that they did not appear to be banks that were going to be seized. However, a closer look at their international banking

collaboration with foreign capital such as English National Power and American Mimag (see Karataş 1998).

As such, Süzer Group projected energy and telecommunication sectors as strategic. This Group won some electricity distribution bids in Turkey and made a partnership agreement with an American energy company. In addition, it joined to GSM tender bids with some domestic and foreign partners (see "Fondaki 8 Banka Birleştirilsin", *Dünya*, 4 January 2000). Ceylan and Avrupa ve Amerika Groups took part in the bidding of electricity distribution projects, as well.

¹⁸ Bayındır Group entered industry in 1994 via the acquisition of Sağra, an established company in food-industry. On the other hand, Süzer Group, besides entering paper industry, was in the process of launching meat and dairy production (see Nurten Erk: Süzer, Et ve Sute Giriyor", *Hürriyet*, 24 July 2000). However, given the insignificant level of involvement in industry, the owner Mustafa Süzer stated that they were not assertive in this sector (see Poyraz 2000, 46).

¹⁹ For instance, Mahmut Ceylan of Ceylan Group stated that they faced difficulties as a result of the crisis in the tourism and construction sectors in 1998. This forced, he argued, the group companies to utilize loans from their holding bank 'Bank Kapital' which followed a prudent policy on connected lending by then (see "Former Managers of Bailed out Banks Banned from Travelling Abroad", *Turkish Daily News*, 30 October 2000, URL: http://www.turkishdailynews.com/old_editions/10_30_00/dom.htm#d2; "Ceylanların Bank Kapital'i 191 Milyon Dolarla Battı", *Hürriyet*, 26 October 2002).

Also, Ali Balkaner of Balkaner Group contended that the economic crisis and the Marmara earthquake adversely affected the Group. The group companies could not repay their bank loans because they could not sell the real estate, he added (see "Balkaner Defends Himself with Tears", *Turkish Daily News*, 20 March 2001, URL: http://www.turkishdailynews.com/old_editions/03_20_01/dom.htm).

²⁰ For example, Avrupa ve Amerika Group firstly entered finance in 1984 with İktisat Bank which became an important foreign trade specialist bank and then in the 1990s, media became the second focus. In finance, the Group expanded domestically with Turkey's first leasing (1986) and factoring (1990) companies and also became an early representative in the international expansion of Turkish banking with four overseas banks in the following years (the Park Avenue Bank N.A., Banque Internationale de Commerce-Bred, İktisat Bank Moscow and Trade Deposit Bank).

operations reveals that they were not long-term-growth oriented even though the degree of dependence on primitive accumulation varied among the new primitives.

Crucially, while many of these conglomerates internationalised their banking operations, they were getting into areas without strong prudential supervision that could be run as an extension of their leveraged, Turkish operations. Off-shore banking units, overseas banks and other financial companies were used to complete the embezzlement networks which also included the Turkish bank branches of the conglomerates. Most of these overseas banking activities were performed in the East European countries, the EU and Republics of Former Soviet Union especially Turkish speaking CIS countries. They expanded to these sites, however, not to enter into the globally competitive banking industry, but simply to support their own industrial expansions into these transitional economies – investments that were themselves in the pattern of primitive accumulation, generally using cheap local labour and often outmoded equipment to produce labour-intensive output. The point is that these global expansions were only profitable so long as the transitional economies were in the phase of primitive accumulation, and their financial expansions were similarly dependent. Neither would have been viable in the advanced capitalist environment of Western Europe.

Among these conglomerates, distinctively, Cingilhoğlu Group did not expanded into other sectors by exploiting bank resources and remained finance focused.²¹ The Group aimed to become a regional/global player in international finance markets. To this end, it established banks in Kyrgyzstan, Bulgaria, Romania and the Netherlands, sometimes in partnership with international institutions such as IFC, EBRD and FMO.²²

²¹ The history of Cingilhoğlu Group goes back to the 1920s, but it had a dramatic expansion in the 1990s thanks to the state debt finance; except two of 22 group companies were younger than eight years of age (Polat, Bahadır & Çelik 2000, 24).

Despite the finance focus, the Group has an interest in a company that has distributed power in central Turkey since 1926. It also established Demir Energy in 1998 to provide technical advice on energy projects in Turkey and Central Asia and has been active in air transportation since 1997.

Demirbank was not an embezzlement case, but had a heavy reliance on state deficit finance. This overdependence on government securities, the high interest rates and liquidity squeeze during the November 2000 financial crisis led to its seizure.

²² Distinctively, Cingilhoğlu Group did not give up operating in finance despite losing its banks. The Group restarted its finance activities through the purchase of factoring and brokerage companies. Also, since the Group did not lose its banks because of embezzlement, but mismanagement, the bank shareholders could legally retain the status of bank owner. Therefore,

Süzer Group also aimed to be a regional banking player in Eastern Europe and purchased National Commercial Bank of Albania together with EBRD and IFC besides applying for bank permission to enter Europe.²³ However, apart from the objective of being a regional banking player, the main rationale for the establishment of overseas banks by these conglomerates, as stated above, was to support the growth of their international non-finance businesses that were mainly in service sector and construction.²⁴

they were able to buy Toprak Investment Bank from the SDIF-bank and renamed it as '*C Kredi ve Kalkınma Bankası-C Bank*' which operates as a one branch-investment bank (see Şeyda Ağırşöl, "Finanstan Vazgeçemiyor", Finansal Forum, 24 July 2003). Moreover, while Demirbank was sold to HSBC after its confiscation, its subsidiaries abroad went through separate privatization procedures. Cingilhoğlu, however, was successful to keep some of its banks abroad. In late 2001, the Cingilhoğlu-Doğan consortium bought Demirbank (Bulgaria), Demir Halk-Bank N.V., Demir-Kırgız International Bank and Demir Kazakhstan Bank ("Demirbank Bulgaria AD Business Card", URL: <http://www.demirbank.bg/right-ci.htm> (accessed 18 November 2002).

²³ See the statements by Chairman of Süzer Group, Mustafa Süzer in "Süzer: Turkey's EU membership 10 years away", Turkish Daily News, 20 December 1999, URL: http://www.turkishdailynews.com/old_editions/12_20_99/feature.htm and "Süzer takes stakes in cardboard producers", Turkish Daily News, 30 May 2000, URL: http://www.turkishdailynews.com/old_editions/05_30_00/econ.htm.

²⁴ For instance, to enter the European market, the Bayındır Group had its first bank in Romania 'Banco Turco Romania' in 1993 before having Bayındırbank in Turkey in 1998. This overseas bank supported the Group's construction investments in Romania (see Karataş 1998).

Indeed, Banca Turco-Romania went bankrupt after there was a run on the bank following articles in the press regarding the sale of the equity interests owned by Banco Comerciala Romana and Bayındır Holdings, the significant shareholder of the bank. National Bank of Romania (NBR) (2001, 87) notes the process that brought the end for the Bayındır Group in Romanian finance market was as follows: 'The liquidity crisis was sharpened by the bank managers' failure to convert into cash the deposits placed fraudulently with banks abroad in the form of collateral for some lending transactions carried out by the respective banks in favour of Bayındır Holdings, and deceitfully recorded by the banks as time deposits instead of collateral deposits (in off-balance sheet accounts). The wrongful recognition of the respective commitments rendered impossible the accurate assesment of the bank's financial standing before the breakout of the crisis. The NBR Board, assisted by the Romanian Government, tried to gain the support of the Turkish authorities to find and implement solutions to put an end to the crisis. The financial and banking crisis that hit Turkey in November 2000 thwarted this endeavour'.

In order to prevent the bankruptcy of its Romanian bank, some companies of the Bayındır Group were apportioned between two banks in Turkey. First of all, the Turkish government ordered the state bank, Vakıfbank, to strike off Bayındır's debts totalling \$93 million and sent \$25 million to the troubled bank. In exchange, Vakıfbank obtained minority shares in Bayındır's two companies. The use of Vakıfbank caused tension between the President and the Prime Minister as the President asked to his inspectors to investigate the case and then asked the Prime Minister to prosecute the managers of the bank. Prime Minister Ecevit defended himself saying that 'he was fearful of the adverse effects of the bank's possible collapse could have on Turkish Romanian relations and Turkish companies doing business in Romania' (*Euromoney* 2001a). On the other hand, Bayındır Group had to transfer its company operating in the health industry to İş Bank in exchange for its credit debts to this bank (see Nurten Erk, "İş Bankası Zorla Girdiği

Those conglomerates which did not have overseas banks used their presence in domestic banking to expand their domestic and international investments in other sectors. The domestically-oriented Ceylan Group, for instance, pursued a policy of opening-up to foreign markets and secured some large construction contracts in Israel, Kazakhstan and Bulgaria even though the Israel and Bulgarian contracts were cancelled after the confiscation of Bank Kapital.²⁵ The tendency for using overseas banking activities to support international expansion was also observed in Ceylan Group. The conglomerate declared that it could establish a bank in Israel after winning a construction bid in Israel (Hatisaru & Uz 1998, 21).

Therefore, members of this sub-division of new primitive accumulators were indeed profitable companies in the post-1980 period. They might have become viable in the long-term. Yet, under the crisis conditions which retarded the realisation of surplus value, they went into decline. Banking reform, with strict control over bank-conglomerate relations in line with international standards, came at the wrong time for these conglomerates. Banking reform not only ended the opportunity of further backing holding companies with banks; the reform accelerated their decline also due to the seizure of other holding companies along with the banks.

The dependence on protectionism relied on political connections. In many cases, owners of these conglomerates were known for their close links with politicians and bureaucrats and it is widely argued that their rapid growth in the 1980s and 1990s was contingent on those links. For example, the rapid development of Ceylan Group in the 1980's was said to be due to its close relations with then Prime Minister Turgut Özal.²⁶ In the case of Bayındır Group, which gathered its first accumulation from infrastructural

Sağlık Sektörünü Sevdii", *Hürriyet*, 8 September 2003; "Romanya Yakaladı Kamuran Bey İki Bankayı da Yedi", *Hürriyet*, 22 October 2002).

²⁵ "Ceylan secures much-coveted Israeli airport contract", *Turkish Daily News*, 21 August 1998, URL: http://www.turkishdailynews.com/old_editions/08_21_98/econ.htm; "Ceylan Holding to build three dams in Bulgaria", *Turkish Daily News*, 29 July 1999, URL: http://www.turkishdailynews.com/old_editions/07_29_99/econ.htm.

²⁶ "Deprem Zengini Ceylanlar", URL: <http://www.netbul.com/superstar/ozeldosyalar/ekonomi/icibosaltilanbankalar/deprem.asp> (accessed 13 December 2002).

state bids in Turkey, ²⁷ a similar political connection was observed. The owner Kamuran Çörtük acquired large motorway projects in Romania and Pakistan during the prime ministry of Süleyman Demirel who was known having close relationships with Çörtük. Yet, although part of their primitive accumulation relied on political patronage, their connections with politicians could not save them from decline when the time came for 'objective' criteria to be applied in the selection of conglomerates/ banks.

To sum up, looking at general patterns of accumulation within FC gives a deeper insight into the understanding of what led banks to be confiscated. As banking reform eliminated the ailing/embezzled banks under this sub-division, overall accumulation strategies of these conglomerates underlay their weak financial structures. These conglomerates did not fit the successful, globally competitive corporation model of the Turkish state and the IMF and faced decline in varying degrees with the seizures of their banks and some other financial/non-financial companies. ²⁸

7.3.2 The Second Sub-Division within the New-Primitives

While the first sub-division of new-primitives specialised in construction and/or service sectors and relied on state monopolies (in multiple countries) to secure surplus value, the second group of the new primitives relied basically on absolute surplus value production. They operated in old ISI industries such as textiles and/or in privatised, former state sectors where there were still monopoly practices like broadcasting and the defense industry. However, both of these sub-divisions within the new-primitives owed their rapid rise to moving to finance sector as well as their political connection. Nergis Group of Interbank, EGS Group of EGS Bank, Demirel Group of Egebank, Garipoğlu Group of Sümerbank and Rumeli Group of İmarbank-Adabank are covered under this second sub-division. ²⁹

²⁷ As of 2001, the Bayındır Group invested US\$ 1.4 bn in 13 state projects (see "İhaleyle Büyüdü Bankalarıyla Çöktü", Sabah, 11 July 2001).

²⁸ For instance, Ceylan Group withdrew from the media, retailing and finance sectors. It sold off its Bonus retailing chain to Doğu Group (see Fırat 2002b).

²⁹ Garipoğlu and Rumeli Groups are attached to this sub-group even though they operated in a wider range of industries. Garipoğlu Group operated in chemicals, plastic, food, textiles and metal industries. Rumeli Group, on the other hand, first accumulated in the media, construction

As with the first sub-division of the new-primitives, these conglomerates had grown with close links with the state. For instance, Cavit Çağlar of Nergis Holding, one of the majority shareholders in Interbank and partner in Etibank, was a long time associate of President Süleyman Demirel as an independent member of Parliament and former state minister. Murat Demirel of Demirel Group-Egebank was the nephew of President Süleyman Demirel and this contributed to the rise of the Group.³⁰

These conglomerates realised their objective of moving into finance in the second half of the 1990s (with the exception of Rumeli Group which entered banking in the 1980s) to accelerate their growth. In common with the first sub-division of the new primitives, they also tended to accumulate in lucrative, but highly volatile/margin industries such as housing, media, publication, aviation and the defence industry.

However, unlikely the first-sub-division that internationalised their non-industrial operations mainly via international banking and construction, these conglomerates internationalised through export. They put the money accumulated from trade/construction into the old-ISI industries such as textile/food/wooden products in the late 1970s onwards and these operations evolved towards export activities in the post-1980 period.³¹ Yet, as indicated in the previous chapter, when the state redefined Turkey's industrial policy so as to shift accumulation to capital intensive, high value-added sectors (i.e. relative surplus value production) and away from the dominance of cheap labour-resource intensive sectors, the second division of the new primitives was unable to make

and finance sectors in the 1980s and then expanded into the cement industry and power distribution through the state privatisation program. Also, the Group achieved the second highest market share in the telecommunication sector with its mobile operator Telsim, following Çukurova Group's Turkcell.

³⁰ For instance, due to a letter sent by President Süleyman Demirel to Azerbaijan President Aliyev, Demirel Group could establish Azerbaijan Economy Bank (see Arslan 2001, 231). It also appears that Murat Demirel was informed one night before Egebank's confiscation through his political connections, but this could not be verified (Arslan 2001, 265).

³¹ For instance, Nergis Group's Yeşim Tekstil (1983) which was the second most important clothing company in terms of turnover, was ranked 77th out of a total of 500 major companies in Turkey, as disclosed by Istanbul Chamber of Industry for the year 2000. Yeşim Tekstil produces for a number of major US and European brands through subcontracting (Corporate Magazine 'Önce İnsan', URL: http://www.yesim.com.tr/yesim_english/dergi_eskisayilar/mm1_sm6_3ocak02.htm (accessed 24 May 2004)). For the export success of Yeşim Tekstil see also Gözütok (2005). However, in the development of Nergis Group, fictitious export activities in the 1980s also played a role (Arslan 2001, 357).

this transition. Based on low-wages, low productivity production, they could not produce surplus value in the long-run even though they had been profitable in some of the largest producer and exporter sectors of the Turkish manufacturing industry.

The tendency to use overseas banking operations to support domestic as well as international expansions (mainly through export) was also observed within this subdivision. Preceding banking reform, EGS Group³² pursued an overseas bank to back the Group's rising export activities which were also supported by its overseas retailing companies.³³ Demirel and Garipoğlu Groups' overseas banking activities³⁴ and the acquisition of a state-owned oil refinery in Romania by the Garipoğlu Group (a contract that was cancelled after the Group lost credibility together with Sümerbank's confiscation) indicated that these conglomerates were in the process of international opening-up via the support of their overseas finance activities. Rumeli Group also had an interest in the privatisation of the cement and telecommunication sectors in the ex-soviet transition economies and they also wished to complement its banking arm in those markets.³⁵

³² Small-to-medium scale Aegean industrialists and exporters operating in textiles jointly established a foreign trade company, EGS Clothing Industry and Foreign Trade Company, in 1993. The rapid growth of the company (Turkey export champion in 1995 and 1996) led to the establishment of other holding companies in insurance, transportation, factoring, retailing, textile production, energy and off-shore banking.

The main motive for the establishment of EGS Bank was the limited credit access from other banks by EGS Group. For example, EGS Bank General Director Ismail Canseven stated that the bank would give financial services in order to support the much higher export potential of the Aegean textile industrialists who established the bank (*Uzman Gözüyle Bankacılık* 1995, 88). In addition to EGS Group, some other small-to-medium scale industrialists were also shareholders in the bank.

Before the confiscation, the EGS Group pursued wider collaboration with foreign capital. Besides gathering a foreign partner in its retailing business in 1998, the Group aimed at setting up new free trade zones with foreign partnerships (*Ekonomist* 1998, 24-25). Also, the Group planned to enter electricity production and distribution businesses (see, EGS Enerji ve Eğitimde de İddialı", *Yeniyüzyıl*, 25 August 1998). However, the EGS Group could not reap the benefits of these investments as it faced severe decline after the seizure of EGS Bank.

³³ Serdar Alyamaç, "EGS landing in Southeast again, going public in September", *Turkish Daily News*, URL: http://www.turkishdailynews.com/old_editions/08_09_99/dom.htm; Savaş (1997, 86).

³⁴ Demirel Group had a bank in Azerbaijan and also attempted to acquire a bank in Austria (see Arslan 2001, 263). As well, Garipoğlu Group had Romanian International Bank - 1998, West Euro Finance in Ireland- 1997 and was interested in purchasing a bank in Germany.

³⁵ See "Rumeli Invest in Cement Plants", URL: <http://www.warsawvoice.pl/v397/BusInBrief.html> (accessed 12 December 2002); "Austro-US-Croatian Consortium Awarded Second Mobile Phone Network", *Turkish Daily News*, 9 September 1998, URL: http://www.turkishdailynews.com/old_editions/09_09_98/econ2.htm.

Hence, while these latecomer conglomerates tried to grow rapidly through the use of political links as well as bank-leverages in the post-1980 period, this rapid expansion was not viable in the long-run (absolute surplus value) and brought about their decline when they faced the adverse effects of global recession and domestic crises after the mid-1990s. They were trapped in outmoded sectors and low value-added production. In addition, they had high capital need/debts associated with incautious expansion policies. Consequently, they were affected more severely by the Asian and Russian financial crises in 1997 and 1998 which caused substantial drops in external demand for the traditional industries in which they were active. In order to compensate the decline in their domestic and overseas operations, the conglomerates intensified the misuse of the banks as in the cases of Nergis,³⁶ Demirel and EGS Groups. Furthermore, their banks, having weak financial structures along with high risk exposure, were severely hit by the financial crises.³⁷ For example, EGS Group became an inspiration to many other single- or multi-sector, multi-shared-ownership companies due to its rapid development.^{38 39} However, the Group could not escape from a sharp decline accompanying the seizure of EGS Bank. After the seizure, EGS Group acknowledged the adverse impacts on the holding companies of the two recent crises in Turkey as well as the Asian crisis in 1997, which particularly struck Turkey's textile and ready-wear sectors. This was when EGS Group supported the shareholder textile industrialists through bank loans.⁴⁰ The founder of EGS

³⁶ See Arslan (2001, 355).

³⁷ For instance, as Hasan Turhan of EGS Group (Yiğit 2001, 30) indicated, EGS Bank also faced losses as a result of high interest rate exposure during the 2000 crisis in which market rates rose up, whilst T-bill portfolios had fixed yields.

³⁸ "EGS landing in Southeast again, going public in September", Turkish Daily News, 9 August 1999, URL: http://www.turkishdailynews.com/old_editions/08_09_99/dom.htm.

³⁹ EGS Group attempted to join together many small capitals since 'it was difficult to achieve similar high levels of accumulation with the larger conglomerates such as Koç and Sabancı Groups given the competitive conditions' as İsmail Canseven, General Director of EGS Bank, indicated (Savaş 1997, 86). Since it represented the combined power of SMEs for export in the face of international competition, the Group became a case study in Harvard Business School ('EGS to be Harvard Business School Case Study', Turkish Daily News, 29 November 1997, URL: http://www.turkishdailynews.com/old_editions/11_29_97/econ.htm).

⁴⁰ Verifying this, Sabuncuoğlu (2002, 63) in his doctoral thesis found that the failure probability of EGS Bank which was 28.3 % in 1998 had risen to 84.5 % in 1999 mainly due to the contribution of increasing '(non-performing loans+accrued income)/total assets' ratio. Indeed, in 1997, EGS Bank General Director İsmail Canseven (Savaş 1997, 85) said that the strength of the bank was due to the 500 exporter shareholders and added that this made EGS Bank luckier than many other banks in terms of ability to survive during a possible economic crisis. However,

Holding, Hasan Turhan (Yiğit 2001, 30) stated that they did not expect such a severe crisis in Turkey and, as a result, they had confronted unexpected surprises as a Group 'which grew very rapidly within a highly volatile environment'. Turhan admitted that they could not manage the crisis.

Rumeli Group was in a unique position. The Group's twin banks, Imarbank and Adabank, were the last banks eliminated in 2003. After the withdrawal of the banking licence of Imarbank, the BRSA declared that the Imarbank case was the largest organised-corruption case ever to be experienced.⁴¹ The disguise of true bank records from the authorities allowed continuous use of the bank funds in favour of holding companies. Rumeli Group's rapidly grown business power had been controversial. Blackmail⁴² as well as failed debt repayments were part of the Group's ambitious expansion strategy. For instance, Rumeli Group had a litigious record at the international level because of its debts to the minority shareholder Motorola by its mobile telephone provider Telsim.⁴³ As well, Siemens and Nokia were among other world giants to whom it failed to meet debt repayments. Rumeli Group not only utilised the bank funds that were collected with distinctively high interest rates for years, but also channelled resources from its power distribution companies, Çukurova Elektrik and Kepez Elektrik, which were acquired through their privatisation in 1993.⁴⁴ As a result of this general stance, international investors with shares in some holding companies faced losses.⁴⁵

when the bank shareholders were hit by the simultaneous domestic and global crises, this was the end for EGS Bank.

⁴¹ See "İmar'daki Yolsuzluk Büyük Boyutta", ntvmsnbc news portal, 6 December 2003, URL: <http://www.ntvmsnbc.com/news/246830.asp?0m=-1AY>.

⁴² See "İş Bankası Star'ı 'Çete'den DGM'ye Göttürdü", 7 September 2001, URL: <http://arama.Hurriyetim.com.tr/devam.asp?id=14489>.

⁴³ As Turkish Daily News quotes, Rumeli Group had been also in dispute with Turkey's Capital Markets Board, the market regulator, since 1994, when Motorola's involvement with Telsim began (see FT: Motorola, Nokia Hire Investigator to Probe Uzan Family", Turkish Daily News, 20 July 2001, URL: http://www.turkishdailynews.com/old_editions/07_20_01/econ.htm).

⁴⁴ See "Raids on Two Uzan Companies Expose Mismanagement History", Turkish Daily News, 9 July 2000, URL: http://www.turkishdailynews.com/past_probe/07_09_00/Econp.HTM.

⁴⁵ "Motorola: Çukurova Elektrik'e Bakın, Uzan Yağmasını Görün", 2 February 2002, URL: <http://arama.Hurriyetim.com.tr/devam.asp?id=52293>.

Crucially, the energy and telecommunication sectors in which Rumeli Group was active are also sectors in which the dynamic accumulators have shown interest.⁴⁶ Thus, as Rumeli Group tried to use a primitive form of accumulation in order to fuel its expansion, it was inevitable that it would disturb the dynamic accumulators and would need to be stopped by the state.^{47 48}

In conclusion, as stated by an executive banker, Hasan Ersel (2000a, 50-51), the newcomer conglomerates of the 1980s that acquired banks to finance their own companies tried to replicate the post-1950 era. At that time, large capital was increasingly organised as holding companies and holding banks became functional in channelling subsidised credits of the ISI to their conglomerates. Thus, the holding banks played a vital role in the formation of today's powerful conglomerates such as Koç and Sabancı Groups. Yet, Ersel argued, those newcomers could not see that the conjuncture that had given life to the early conglomerates since the 1950s was over and it was impossible to repeat the same path in the current context of globally-integrated accumulation. However, it must still be acknowledged that the newcomers had a chance to use a similar mechanism in order to back their expansion during the outward

⁴⁶ Rumeli Group was interested in many strategic privatizations in the energy and telecommunication sectors. For instance, for the auction of Türk Telekom, Rumeli, Koç and Sabancı Groups expressed their interests (see "Rumeli Interested in Telekom Sell-off", Turkish Daily News, 20 December 2000, URL: http://www.turkishdailynews.com/old_editions/12_20_00/econ.htm). In the case of the Petkim auction, Rumeli Group won the tender in which Zorlu Group (in partnership with Sanko) offered the second best offer. Yet, the sale was later cancelled as the Rumeli Group could not fulfill the conditions of the tender (see Petkim İhalesi İptal, Cumhuriyet, 6 August 2003).

⁴⁷ For instance, in power distribution, Sabancı Group confronted Rumeli Group. Sabancı Group applied for the cancellation of the monopoly right of Rumeli Group to be able to use and sell the electricity that its Enerjisa produces (see "Sabancı Niye Taraf Oldu", Sabah, 18 June 2003). Çukurova Elektrik and Kepez Elektrik were taken over by the state due to both companies' violation of the Electricity Market Law ("İmar Bankası'na BDDK Yönetimi", Dünya, 4 July 2003; HC Istanbul Equity Research, "Corporate Governance on Display", February 9, 2004, p.5, URL: http://www.teb.com.tr/2004/download_file/res_res_rep-17.pdf (accessed 5 December 2003). The takeover of this subsidiaries triggered the seizure process of İmarbank, as the bank faced liquidity squeeze after losing the cash flows from these two companies ("Para Ödeyemedi, Merkez Bankası'nın İstedığı Teminatı da Veremedi", Vatan, 4 July 2003).

⁴⁸ The BRSA did not eliminate İmarbank while confiscating more than 20 banks because Rumeli Group disguised its true bank records as well as supported the bank by taking cash flows from the bank's subsidiaries, Çukurova Elektrik and Kepez Elektrik (see *Ekonomistler Platformu* 2003, 6-7; also the statement by Engin Akçakoca, Head of the BRSA, in Derya Sazak, "Sohbet Odasının Konuğu BDDK Başkanı Engin Akçakoca", Milliyet, 22 July 2003).

orientation in accumulation. Even so, it took more than a decade before banking reform excluded from banking the conglomerates that could not succeed to structure their accumulation in line with global competitiveness despite benefiting from state finance protectionism.

7.4 The Old-primitives

Although most of the banks that were eliminated were the new primitive accumulators, some established, older/larger conglomerates also lost their banks. This division is particularly important as the counterfactual to analyses which simply explain banking reform in terms of new/small and large/old banks. These conglomerates are Çukurova Group of the YKB-Pamukbank, Yaşar Group of Yaşarbank, Toprak Group of Toprakbank and Zeytinoglu Group of Esbank.

On the surface, these looked like the sorts of institutions that would survive the reform. In common with the surviving institutions, the dynamic accumulators, they had a strong, sustainable base in industry as well as receiving state subsidies through their banking operations. They started in trade⁴⁹ and converted to productive capital during the ISI period.⁵⁰ These conglomerates, as a whole, achieved large scale export activities in the post-1980 period from this industrial focus and built foreign trade companies to promote those export activities.⁵¹ In brief, they established control over industrial, commercial and banking capital before the new primitives had entered banking.⁵² Also,

⁴⁹ Çukurova Group initially operated also in agriculture.

⁵⁰ Toprak Group, which started in construction in 1977, despite being one of the rising conglomerates of the 1980s and entering banking in the early 1990s, is also included within the old-primitives. This is because industrial accumulation is the defining characteristic of the Group and it achieved a larger industrial base than the other newcomer conglomerates (for a wide range of industries that it activated see "Toprak Holding Industry Group", URL: http://www.toprak.com.tr/topraksite/end_site/html/1.1.htm (accessed 15 November 2002)).

⁵¹ For instance, Toprak Group's foreign trade companies in Germany, the United Kingdom, France, Poland and the US; Yaşar Group's foreign trade companies in Germany, Dubai and Russia.

⁵² Under the then prevalent restrictions on new bank establishments, through the conversions of acquired local banks to national banks, Zeytinoglu and Yaşar Groups, which were established in the 1920s and 1940s respectively, were able to penetrate into banking in the late 1970s and early 1980s. Zeytinoglu Family that had stakes in Esbank since the 1950s gained control of the bank in 1977. The bank was then converted from a regional bank to a national bank (see "Zeytinoglu Holding'in Yeni Hedefi Enerji Sektörü", Dünya, 9 September 1998). Among

they initiated international production activities as well as international banking operations⁵³ Regarding IDI, the large Çukurova Group, (a leader in information technology-related industries),⁵⁴ and Yaşar Group,⁵⁵ (with its recent progress), came to

these conglomerates, despite being one of the largest conglomerates in Turkey and having operated since the 1920s, the Çukurova Group could not isolate itself from the seizure process and was forced to withdraw from banking.

⁵³ Çukurova Group has been operating in international financial markets through overseas banks and branches since the 1980s: for example, Bank Kreiss in Germany in 1987, Yapı Kredi Deutschland which was established as a branch of the YKB in 1990 and converted to a bank in 1998, Yapı Kredi Moscow in Russia (previously Yapı Toko Bank) in 1993 and Banque de Commerce et de Placements in Switzerland in 1991 shows the wide existence of the Group in international banking. The other large conglomerates also expanded their financial activities to international markets: Zeytinoglu Group's Esbank AG in Austria (1996) and Yaşar Group's Yaşarbank GMBH in Germany (1992).

⁵⁴ Çukurova Group had a recent emphasis on communication and related new economy ventures and aimed to become a leader in mobile telecommunication in neighbouring Asian Countries. The Group was an early mover into the telecommunication sector.

Its Turkcell, established as a joint venture among Turkish, Swedish and Finnish companies, has quickly become one of the top five networks in Europe and number seven globally since 1994 (*Euromoney* 1998c). As well, Turkcell is the first Turkish corporate whose stocks are traded in NYSE (New York Stock Exchange). The company wants to become a major network operator in Central Asia, Eastern Europe and the Middle East. With its GSM network, it controls the markets of Kazakhstan, Azerbaijan through joint ventures with national telephone operators and Georgia and the Turkish Republic of Northern Cyprus through with other partners. ("Communication and Information Technology", URL: <http://www.Çukurovaholding.com/Çukurovaholding/comm-information/index-comm.htm> (accessed 8 November 2002).

⁵⁵ Yaşar Group, having trade deals with over 40 countries, now pursues further international expansion through productive investments mainly in the EU, Eastern Europe, Middle East, Russian Federation and Turkish Republics of the former Soviet Union. For instance, the Group overcame the EU's restrictions on the export of animal products from Turkey by producing in member countries, mainly Germany, and by establishing a marketing company in Romania ("Yaşar Holding Go to Public", Turkish Daily News, 9 June 1999, URL: http://www.turkishdailynews.com/old_editions/06_09_99). As well as investments in Romania for paint production, the Group plans to establish a joint venture with domestic capital in Egypt for the production of meat and dairy goods and then to export these commodities to Middle East and African countries (Poyraz 2001,40).

The orientation towards international production was part of the Group's recent restructuring to recover from the economic crisis. That is why Yaşar Group planned to earn 25% of its total revenue through international trade and direct investments in the 2000s (see Devrim Dördüncü, "Yaşar Holding Yatırım Atağında", *Dünya*, 18 May 1998). It also gathered foreign partners in its two leading companies, Pınar and DYO, in order to ease the Group's global expansion (see "Yaşar Grubu Evlilik Arifesinde", *Finansal Forum*, 6 February 2003). Yaşar Group's Pınar Food Group is a leader in its sector and its ultimate goal is to be a world brand.

the fore. On the other hand, Toprak and Zeytinoğlu Groups have had mainly export focus despite some initial attempts for IDIs.⁵⁶

In terms of foreign partnerships, however, contrary to Çukurova and Yaşar Groups,⁵⁷ Toprak and Zeytinoğlu Groups concentrated on domestic growth as sole initiatives. Therefore, they did not benefit from global capital to ease the cost of investment funding. Instead, they needed to base their expansions on their banks' finance. However, contrary to many dynamic accumulators, while basing their 'legitimate' surplus producing/exporter industrial operations on the excessive connected lending, they did not expand into global accumulation via IDI. Importantly, these conglomerates were in need of internationalising their production activities as well as further international banking and trade operations. Therefore, they were deprived of the opportunity to benefit from collaboration with foreign capital that could have mitigated the adverse effects of economic crises, especially through easing their international expansions or sales of stakes in some businesses. They could not develop collaborative ventures because they were in sectors that were not appealing to TNCs, or they had corporate management practices that, for whatever reason, were not compatible with joint management.

Despite the common characteristics with the dynamic accumulators, nonetheless, the old-primitives, in general, could not restructure themselves competitively and suffered from over-diversification and lack of focus. As will be discussed in Chapter 8, the dynamic accumulators succeeded in adapting to the changing conditions; they revised the sectors in which they operated and overhauled their overall strategies for higher

⁵⁶ Zeytinoğlu Group established its company Tunus Turk Konteyner Sanayi ve Sinai AS in 1991 in Tunisia (see Berna Beyhan and Burak Toğrul, "Tarımsal Üretimden Sanayiye 70 Yıllık Uzun BirYürüyüş", Finansal Forum, 30 February 1997). On the other hand, Toprak Group was planning to establish a ceramic factory in the United Kingdom in 1998 (see Mine Şenocaklı, "Toprak ile Beko İngilizler'i Şaşırttı", Sabah, 30 July 1998).

⁵⁷ For instance, Çukurova Group had established joint ventures with international companies since ISI. As such, Yaşar Group had collaborated with foreign capital in industry and finance. The group, for instance, started foreign capital production in DYO in 1963 with Danish paint producer Sadolin ("Ortak Yaşama Katkı-İlkler" URL: http://web.Yaşar.com.tr/ortak_yasama_katki/ilkler.jsp (accessed 7 June 2004)). Also, Tuborg's malting/brewery operations started in 1969 as a joint venture between Danish Carlsberg and Yaşar Group. By 1987, Yaşar Group acquired a majority stake. During the recent restructuring for specialisation within Yaşar Group, Carlsberg acquired whole stakes of Yaşar Group in Tuborg ("Turkish Beverages Sector", see URL: http://www.isikun.edu.tr/isam/diger_doc/Beverages_Sector.html (accessed 8 June 2004); Firat 2004).

profitability (such as reducing costs, foreign partnerships and mergers). Yet, for example, despite being a leader in the strategic telecommunication sector, Çukurova Group did not have a rational diversification and continued to finance its wide business profile with non-performing group credits.⁵⁸ Therefore, even though Çukurova Group has been one of the largest conglomerates and implemented a more prudent policy in its other bank YKB,⁵⁹ it eventually failed in its finance division. It fell into the same category as the primitive accumulators with its use of Pamukbank. Because of the wide debates on the Pamukbank seizure, the BRSA (2002c) for the first time published a detailed report that explained the reasons of a bank-takeover. The following extract from the report demonstrates the similarity between many other primitives and Çukurova Group:⁶⁰

The bank [Pamukbank] has had high Group and FX risks, low quality assets, insufficient own funds and low liquidity. Hence, its financial structure was highly distorted. The Group used the funds of the Bank for its own purposes, to the extent of endangering the bank's safe functioning. (BRSA 2002c, 10)

The most important problem of the bank was non-performing group loans. The BRSA noted that the bulk of these group-loans (82%) was extended to Çukurova Group companies operating in industry and the construction sectors (BRSA 2002c, 4, 6).

Therefore, even though the old-primitives had many characteristics of the dynamic accumulators, they did not emerge in the 1990s as dynamic accumulators because, despite the capacity to achieve this state, they were not managed well.⁶¹ Their

⁵⁸ See Capital (2002b).

⁵⁹ However, it must be noted that Çukurova Group companies had credit debts to the YKB as well, and these debts were restructured under the corporate debt restructuring of the so-called Istanbul Approach as part of the agreement made between the BRSA and the Group.

⁶⁰ Çukurova Group also used Interbank to back its expansion before selling it to the Nergis Group in 1996 and after the confiscation of Interbank in 1998, the SDIF found out that Çukurova Group was still in debt to Interbank (see Arslan 2001). According to inspector reports in 1994 and 1995, more than half of the non-performing credits in this bank belonged to Çukurova Group companies (URL: <http://www.netbul.com/superstar/ozeldosyalar/ekonomi/icibosaltlanbankalar/kredi.asp> (accessed 13 December 2002)).

⁶¹ For instance, in addition to the confiscation of the bank's financial subsidiaries (Es Factoring, Es Leasing, Es Yatırım, Esbank Aktiengesellschaft in Austria), Zeytinoğlu Group also lost its four industrial firms (Eşçim Eskişehir Çimento, Esen Eskişehir Makine ve Tesis İmalatı, Esyem Eskişehir Yem Sanayi and Jamak Jant ve Makine İmalatı). After the bank seizure, the Group owner Halit Cingilloğlu argued that they made these industrial firms shareholders in Esbank to overcome adverse effects of 1994 financial crisis on the bank as then advised by the

managers chased the easy revenues of finance protectionism and failed to develop their dynamic competitiveness.⁶²

7.5 High-performing Primitive Accumulators: Drawing the Line

It would be false to suggest that there was a wide gulf between some of the old primitives and the successful, dynamic accumulators. Any line drawn — as to which profiles were deemed viable and which warranted confiscation — has to be somewhat arbitrary.

Some seizures did give rise criticism of the BRSA by the primitive accumulators on the grounds that their banks could have been rehabilitated/saved instead of being subject to seizures. Yet, the state (and the IMF) gravitated towards seizures over rehabilitation in order to ensure sufficient concentration in banking.

The underlying reasons were obvious. Firstly, the need for scale in the banking sector allowed only a certain number of accumulator banks to remain in existence. Secondly, selection of survivors ensured that all survivor banks would develop global integration.

The question was which banks would survive? Which investments are likely to guarantee long-term surplus value cannot be known with certainty in advance and many seized banks protested the judgement that they were not viable. For example, the owner

Treasury. Moreover, eight of the remaining 16 companies out of the original 25 companies needed to be closed down during the recent crisis (see Şentürk 2001, 52-53). All this caused a substantial decline for Zeytinoğlu Group.

⁶² For instance, Toprak Group was distinguished by its investments in the Eastern Anatolia 'to serve to the development of the region' while, in general, Turkish conglomerates tended to generally avoid investing there since it was less profitable. Toprak Group financed those new investments with its bank funds as the expected finance from state investment scheme failed. Furthermore, Toprak Group became one of the conglomerates that made the largest investments in the 1990s. The continuous investment tendency of the owner Halis Toprak who was known as 'one cannot have enough of it' (İşinbark Küçükyıldırım 2001, 27) created conflicts with professional managers in holding companies as he wanted to make new investments without enough feasibility analyses. Thus, this irrational investment policy was a factor for the difficulties that Toprak Group faced during the economic crisis. Also, this strategy contributed to the insolvency of Toprakbank as the holding companies began to overuse the bank resources because of their high capital needs.

of Balkaner Group, Ali Balkaner, who was accused of siphoning money from Yurtbank through a complex network of front companies and off-shore bank, stated:

The vast majority of offshore accounts, which will total \$60 million once they mature, has been spent on real estate investment and has earned value both to the bank and the state...The money has not gone bankrupt, nor has it fled.⁶³

And Balkaner maintained in his defense:

It is true that my group companies took bank loans, but the allotment of the bank loans was legal. It made a contribution to the economy of the country by building housing estates with the bank loans. The existing economic crisis and the Marmara earthquake affected us. We could not pay the loans because we could not sell the real estate. Our problem was caused by a shortage of liquidity.⁶⁴

Similarly, Korkmaz Yiğit, the owner of Bankekspres, declared:

It was said in the complaint that how the \$128 million was put to use was unclear. We used this money for investments. I demonstrated with documents where this money went. We did not waste it. They showed the reports of the bank auditors as proof of the allegations. These reports do not reflect the truth.⁶⁵

It would appear that these conglomerates' investments were not the sorts that the state (and the IMF) wanted to support: they did not fit the globally competitive corporation model of the Turkish state and the IMF. Investment in real estate may have been profitable, but it did not produce relative surplus value and relative surplus value (labour productivity based on technology) was the state's and (especially) IMF's model for global viability.

The application of the same criterion became apparent also during the confiscations of five banks (Bayındırbank, EGS Bank, Kentbank, Tarihbank and Sitebank) in July 2001. At that time, high tensions arose among some bank owners, the state and

⁶³ "Insolvent Yurtbank's ex-boss assures depositors", Turkish Daily News, 11 January 2000, URL: http://www.turkishdailynews.com/old_editions/01_11_00/econ.htm.

⁶⁴ "Balkaner defends himself with tears", Turkish Daily News, 20 March 2001, URL: http://www.turkishdailynews.com/old_editions/03_20_01/dom.htm.

⁶⁵ "Yigit and other suspects in BankEkspres trial released", Turkish Daily News, 12 May 2001, URL: http://www.turkishdailynews.com/old_editions/05_12_01/dom2.htm.

the IMF since the IMF wanted their immediate seizure while the BRSA tended to give more time to improve the banks' financial structures.⁶⁶

The vital importance of the IMF influence on banking reform can be seen here by the fact that these banks were seized only hours before the IMF was expected to endorse a \$4 bn stand-by loan for the Turkish state.⁶⁷ As such, after the controversial seizure of Demirbank, the owner Cingilloğlu accused the state and the IMF of creating a liquidity squeeze that caused to the bankruptcy of Demirbank. He contended that the CBT continued to enforce the strict implementation of the stabilisation program during the November 2000 crisis even though more liquidity could have seen a number of banks stay viable: 'the CBT could bring down even the largest players of banking such as Isbank and Akbank. The job of CBT should be to harmonise the market, not to make profit' he argued.⁶⁸ Even the Cingilloğlu Group contended that Demirbank was one of the biggest supporters of the stabilisation program with its large T-bills portfolio and they paid the cost of this support. The BRSA, however, replied that the responsibility for the huge risks belonged to the management of Demirbank itself.

So the restructuring of the Turkish economy for global integration required financial conglomerates that look attractive to the international financial world for cooperative arrangements: i.e. large scale, concentrated and high relative surplus value producing capital. The question, therefore, for the state and the IMF, was how to create the needed large-scale capital in Turkey. The elimination of some possibly viable dynamics (old primitives) contributed to this end. That is why the confiscation of Pamukbank of the large Çukurova Group was the most difficult one for the state.⁶⁹ The following statement by the General Manager of Denizbank, Hakan Ateş, reflects well the

⁶⁶ See "Ex-owners of EGS Bank say bailout unfounded", Turkish Daily News, 3 August 2001, URL: http://www.turkishdailynews.com/old_editions/08_03_01/econ.htm#e1.

⁶⁷ "Government takes over five troubled banks", Turkish Daily News, 23 December 1999, URL: http://www.turkishdailynews.com/old_editions/12_23_99/dom.htm

The BRSA (2001d, 2) declared that these banks were confiscated as their recapitalisation plans to raise CARs to 8 percent by end-2001 'were considered either unacceptable or the banks were not able to comply with their plans'.

⁶⁸ "Cingillioğlu Merkez Bankası'nı Suçladı", ntvmsnbc news portal, 7 June 2003, URL: <http://www.ntvmsnbc.com/news/219188.asp?0m=-16J>.

⁶⁹ See "BDDK Ends Çukurova Control on Two Banks", Turkish Daily News, 20 June 2002, URL: http://www.turkishdailynews.com/old_editions/06_20_02/econ.htm.

need for cooperation with global financial capital by the banks of the dynamic accumulators:

When we ask that “if holding banking is finishing, what will follow it?” we can say that we are orienting towards a world with larger-scales and more different partnerships. In fact, foreigners are aware of the reality of Turkey better than us. Their correspondence relations cover all developing economies of the world. If they get monthly one telephone call from Israel and twice from Egypt, they get daily five calls or job proposals from Turkey. Naturally, Turkey cannot meet these with today’s shallow banking system. We have to deepen and enlarge the scales. How can it be provided? Of course, it can be obtained through more capital allocation by shareholders who have real enthusiasm for banking and ... If the currently implemented program becomes successful, banks’ earnings will be so much higher that they could not be compared with the past, with the T-bills *since having share in financial institutions that are integrated with global systems will bring huge incomes to you*. Thus, this [scale] expansion has emerged as a necessity for the banking sector. (Activeline 2000a, 5-6, emphasis added)⁷⁰

7.6 Conclusion

The common characteristic for the primitive accumulators was the *perceived absence of a long-run-viable pattern of accumulation*. Instead, they retained dependence on the state (profits from government securities; privatisation; highly regulated industries; and excessive connected lending) and, in general, could only expand into low technology industries and undeveloped areas. They could not survive in a competitive, advanced capitalist environment. Some of these conglomerates *such as Çukurova and Toprak Groups, despite having large industrial activities/ wider sectoral range, tended to overuse their banks in order to further accelerate their accumulation*.⁷¹ In a time of

⁷⁰ See also the statement by İşbank General Director Ersin Özince regarding expectations for rising synergies of Turkish banking with global financial markets, “Bankacılığın geleceği çok parlak”, ntvmsnbc news portal, 26 October 2001, URL: <http://www.ntvmsnbc.com/news/115357.asp>.

⁷¹ It is argued that Toprak Group had followed a cautious strategy in Toprakbank in the face of a possible consolidation and did not place bank funds to government securities. In addition, the Group used the bank resources in favour of holding companies under legal limits. However, during the financial crises, the Group lost control (see Işınbark Küçükylıdırım 2001, 27). The owner Halis Toprak admitted that from its establishment until 1997, the Group did not get credits from Toprakbank. However, because the state did not pay promised investment incentives in time, the Group ‘compulsorily’ turned to the use of bank resources. Therefore, he argued, the seizure by the BRSA was not wrong. The wrong step was made by the state with the

economic downturn or intensified competition (that came with global integration), the primitive accumulators could not adapt their accumulation strategies to the new conditions.

In addition, the new primitive accumulators of the 1980's and 1990's had *weak/non-existent industrial bases and a limited level of their accumulation* compared to the more established larger conglomerates. Therefore, *their capital deficiency was an acute problem* hindering expansion. Thus, it appeared as a more effective reason for these conglomerates to plunder bank resources. Moreover, they based their accumulation on high volatile/margin sorts of activities for a quick expansion. This, in turn, made them more vulnerable against fluctuations in those sectors and recessions in global/domestic economy.

Whatever the existence of an industrial base and the acuteness of capital shortage, these conglomerates tended to manage their banks towards the easy profits derived from state debt finance and used them for rapid but speculative accumulation. However, when banking reform started to contract, state lending these banks could not make the necessary restructuring. Their weak financial structures were further hit by financial crises. As the IMF notes:

At year-end 2000, the four large banks had an average risk-weighted capital adequacy ratio (CAR) of 23 percent, while the remaining 23 commercial banks had a CAR of 13 percent. Since then, the financial condition of most of the largest and some small commercial banks, altogether representing nearly half of the commercial banking system, has been strengthened as a result of exceptionally high earnings during the recent crises episodes. At the same time, the remaining commercial banks have experienced substantial losses from high interest rates and the depreciation of the lira. (IMF 2001a, 12)

As a result, while the IMF and the state put pressure on the bank owners to inject new capital into their banks,⁷² the primitive accumulators lacked the necessary capacity to achieve this end. They had some failed attempts to establish alliances with domestic-foreign partners to save their banks, as in the cases of İktisat Bank, Bank Kapital and EGS Bank. However, these ailing banks, most of which were monitored by the Treasury

failure in the payment of those incentives (see "Bir Daha Tokat Yersem Tesislerimi Kapatırım", Milliyet, 25 March 2002).

⁷² See IMF (2001a, 11-12); IMF (2001b, 19), IMF (2001i, 21).

under the Code 64 of banking law for years, could not escape from the elimination during banking reform.

To sum up with the words of Rahmi Koç, the Chairman of Koç Group:⁷³

The challenges of 2001 cleared the deck so to speak. Strong companies with viable businesses weathered the storm and emerged stronger; companies that grew very fast on political influence and largess were swept away by harsh market conditions and changing government policies prevalent during the year. We see this as a significant and hopeful change in business culture in Turkey. It is now clear to all that in the long run companies cannot make money without adding value to their products and services.

But insofar as all capital was hit by cyclical downturn, where is the line between the dynamics and old primitives? It would appear, though it cannot be verified, that the line was determined by the number of banks that was needed to form a dynamic and globally linked finance sector. Here the IMF presence became critical in steering the Turkish state. The IMF made the state liquidate potentially viable capital to keep the number low as only a certain number of banks could continue to exist profitably. Also, the cooperation with global finance required a limited number, but larger scale, Turkish banking players.

The line between the dynamic accumulators and old-primitives could only be drawn by the IMF not by the Turkish state itself because the state was too enmeshed with some of these old-primitives to make the decision on its own. Some old-primitives could have survived, but they did not. At this point a quite political decision came in. Less dynamic, but possibly viable companies were eliminated by the decision of the IMF.

This implies that, without the IMF, the restructuring in banking could not have taken place as it did. The Turkish state alone could not easily contrive the insolvency of some of Turkey's largest and most prominent corporations. Yet the longer term interests of capital, as articulated by the IMF, required a reorientation of capital accumulation. The IMF demanded a shift in industrial accumulation away from primitive accumulation and production of absolute surplus value towards relative surplus value extraction.

⁷³ "Chairman's Message", URL:
http://www.koc.com.tr/english/kurumsal/baskanin_msg.asp (accessed 8 November 2002).

CHAPTER 8

THE DYNAMIC ACCUMULATORS

- 8.1 Introduction
 - 8.2 The First Division within the Dynamic Accumulators
 - 8.3 The Second Division within the Dynamic Accumulators
 - 8.4 The Third Division within the Dynamic Accumulators
 - 8.5 Overall Characteristics of the Dynamic Accumulators
 - 8.6 The Role of the Dynamic Accumulators in Capital Restructuring
 - 8.7 Reflections on Alternative Interpretations
 - 8.8 Conclusion
-

8.1 Introduction

Financial restructuring was not a process of bringing 'deregulated' market forces to bear on the Turkish financial sector. It was a systematic process of selecting which banks and which conglomerates were to remain viable and which were to be liquidated.

In Chapter 7, we saw how the process of selection applied to those banks that were liquidated. As a rule of thumb, the characteristics of the liquidated banks' conglomerates were their fundamental dependence on state subsidies and the dominance in their industrial investment portfolios of industries that relied on low wages (absolute surplus value) or speculation to secure their profitability. They were not long-term viable.

But the lines of demarcation between projected viability and non-viability are not clear. We saw that the category of 'primitive accumulator' is a quite general one, and each individual bank and conglomerate had diverse characteristics and investments. They didn't all fit neatly into a single category. But, for the most part, they were seen to lack a predisposition for the production, on a global scale, of relative surplus value. However,

there were some conglomerates (amongst the 'old primitives') which could credibly claim they had the required characteristics for survival, but were nonetheless liquidated. There is not a many of clear and categorical difference between those conglomerates which were and those which were not likely to be viable in the long-term.

Where the state drew this line was both difficult and somewhat arbitrary, and there should be no suggestion that the state is the custodian of all wisdom and drew the line at exactly the 'right' point. The state has no such privileged status, and there is no right point.

But it is apparent, as was shown in Chapter 7 that the Turkish state, under the influence of the IMF, wanted a relatively small number of survivors. If Turkish banking was to enter the 'big league' of globally-integrated finance, there was only room in that league for a handful banks that are large in assets and profile. They have to be appealing allies of the established large banks and large industrial capital.

So the banks that did survive are differentiated from those that were liquidated not just by their viability (for some primitive accumulators were apparently viable) but by their ability to compete with the big league of international banks and industrials. Hence they are called in this thesis the dynamic accumulators because they have the characteristics and patterns of expansion that are most like those of the world's leading banks and industrial corporations.

In this chapter, the characteristics of these dynamic accumulators are identified and an attempt is made to determine why the state and the IMF chose them to be the future of Turkish banking.

In general, two characteristics are apparent. First, the profitability of banking operations in these conglomerates was not contingent upon state subsidies during the period of finance protectionism. Certainly profits were boosted by the subsidies, but the decrease of subsidies did not throw these banks into crisis. Second, and associated, they systematically developed a base in competitive accumulation in industry outside of a dependence on finance protectionism. In particular, they diversified via international investment into high-value added (and high relative surplus value) locations and industries. As a result, they have become part of global capital seeking global expansion

and profitability rather than a fraction of capital dependent on favourable domestic conditions of accumulation and therefore, ultimately on state protectionism.

Certainly, it is the older conglomerates that have been most active in this form of restructuring, but so too have been some rising capital groups of the 1980s. In this chapter, three different forms of accumulation are identified amongst the dynamic accumulators, each playing a particular role in the on-going integration of Turkey's finance sector into global accumulation.

8.2 The First Division within the Dynamic Accumulators

This division of the dynamic accumulators is composed of some of the largest/oldest conglomerates of Turkey dating back to the birth of the Turkish Republic in the 1920s. They have a long-term base in industry. They expanded under the ISI and, critically, converted from commercial capital to productive capital. These large conglomerates also penetrated into banking from the 1940s onwards¹ and have the top banks of the country today.²

But their distinguishing characteristic is more than size — for some relatively large banks were liquidated in the restructuring. These banks are internationalised, both in their banking activities³ and their industrial conglomerates: they accumulate in an internationalised circuit of capital.

¹ The exception is İşbank, founded in the 1920s.

² The peculiarity of Koç Group is that it had a small share in banking with KoçAmerikan Bank (1986) after selling off its stakes in Garanti Bank (see Chapter 4). The Group decided to expand in finance in 1994 and established overseas banks (Koçbank Netherland (1996), Koçbank Azerbaijan (2000), leasing, insurance, factoring, and consumer finance companies (see Erus 1999, 42). It continues to expand in domestic and global finance markets. As Chapter 11 will address, the Group has already become one of the larger players of Turkish banking during banking reform via the merger of Koçbank with Unicredito of Italy.

³ Since the 1980s, these conglomerates have had a presence in international financial markets via overseas banks. In this process, especially Sabancı and Doğuş Groups have come to the fore. Sabancı Group was the first conglomerate having an overseas bank (in England) in 1983 with Ak International Bank (after 1993, Sabancı Bank) and then established Akbank International N.V. Netherlands in 2001. Other conglomerates followed Sabancı Group by having many overseas banks in various regions of the world throughout the 1990s and the early 2000s. For instance, Doğuş Group built United Garanti Bank International in Netherlands (1991), Garanti Bank Moscow in Russia (1996), Garanti Funding Corp 1 & 2 in Cayman Islands (1996), Ci Investment Ltd in Malta (1996), Doc Finance SA in Switzerland (1992), and Instruments Finance

In general, these conglomerates began to internationalise via exports in the post-1980 period and, commenced international productive investments in the 1990s in the form of joint ventures or sole initiatives. From this basis, even before the Turkish state/IMF sought to restructure banking, these capitals had already made the transition and they thereby stood out as conglomerates largely immune from the decline of finance protectionism.

But the critical issue was not just international expansion (for some of the primitive accumulators were also expanding internationally) but how and where the conglomerates expanded. In particular, amongst these dynamic accumulators there was a propensity to develop foreign partnerships in both their domestic and international expansion. Foreign partnerships provide implicit benefits such as access to technology and finance, hedging risk, opportunities to further expand, etc. But in the context of Turkish restructuring, these partnerships provided rapid expansion through two key benefits: shared costs and, more importantly, technology know-how.

Koç Group of Koçbank, Sabancı Group of Akbank, İşbank Group of İşbank⁴ and Doğuş Group of Garanti Bank⁵ could be grouped under this first division of the dynamic accumulators. There are two common characteristics in their restructuring:

Company in Cayman Islands (1997). On the other hand, the İşbank Group established İşbank GMBH in Germany in 1992.

⁴ The distinctive feature of the İşbank Group is that it is organised as a bank-centred conglomerate from its start. Having a quasi-state bank mission in its establishment, (some of its shares were owned by Atatürk), İşbank participated in the economic program of the newly established Republic. The companies with which İşbank has had equity participation formed a quasi-holding structure, the bank being at its centre (see Kocabaşoğlu et al. 2001, 609).

Therefore, İşbank was not established as a family holding banking, but has been a public company (Kocabaşoğlu et al. 2001, 597; 610). Its ownership evolved towards a private bank shareholder structure from the 1980s. As of March 2004, İşbank's own private Pension Fund held 43,42 % of the stakes; 28,09% were Atatürk's shares that were represented by Republican People's Party and 28, 49% were free floating. In May 1998, 12.3% of the Bank's total shares previously held by the Turkish Treasury were sold to national and international investors ("Bizi Tanıyın", URL: <http://www.İşbank.com.tr/bizitanıyın/ib-taniyin-ortaklik.html> (accessed 6 June 2004)).

⁵ The peculiarity of Doğuş Group, which originated in construction in the 1960s, is that today it is mainly finance-focused and industrial production has only a small share in the Group's activities. Ferit Şahenk of the Group stated that '...our main sector is finance. Finance covers 62% of our group. Second one is automotive 20%. Retailing is 12%. Construction is 3%. And there are tourism and food in the 'others' group' (from press meeting by Ferit Şahenk, 18 October 2001, Ferit Şahenkin Basın Toplantısı Konuşma Tam Metni",

- Firstly, they have been concentrating in anticipated high-growth as well as high productivity sectors in which they can be expected to be competitive in deregulated markets over the next decade, and they have dropped investments that do not meet this criterion.
- Secondly, accompanying the narrowed focus, they have been reducing dependence on the domestic market and orienting themselves more towards external markets in their main businesses.

We will identify these characteristics in turn.

The concentration in key sectors has been a major development for these conglomerates. As older companies, they share a similar history of growth. They began to diversify across sectors early,⁶ but have started to rationalise their operations since the 1990s away from low productivity areas such as textiles and into high productivity operations, capable of export competitiveness, such as consumer durables. Sabancı Holding was typical of this trend: ‘having a global vision and aiming to expand beyond Turkey’,⁷ the Group left textiles to develop in information technology explicitly as a strategy to leave absolute surplus value production based on low wages and to enter specialist, high technology (relative surplus value) production for global markets.⁸ Similarly, the Koç Group restructured its broad business portfolio to narrow its focus on the sectors that they could be competitive in the coming period such as

URL:<http://www.Dogusholding.com.tr/sayfa.cfm?Menu=71&NO=355&Sayfa=Haberler> (accessed 28 November 2002).

⁶ The over-diversification of the large Turkish conglomerates was a matter of criticism by international investment banks. For instance, regarding the Sabancı Group see the arguments by Thomas Chadwick, Merrill Lynch analyst, in Karaağaçlı (1999).

⁷ Sakıp Sabancı, Head of Board of Directors of Sabancı Holding (Şengönlü 2002).

⁸ Sakıp Sabancı explained that he was quitting the textile business because of the need to shift towards automation from labour-intensive sectors to be able to compete in world markets (Poyraz 2000c, 33-40).

The Group also sold off its stakes in Toyota SA. This was consistent with the Group’s policy of focusing on its main business. As domestic demand for automobiles remained far below expectations in 2000, Toyota Japan decided to restructure their production unit in Turkey as an export-base to Europe and so to locate it within the global chain of Toyota. As the Sabancı Group has a strong domestic sale network (while Toyota has in Europe), Toyota and another partner Mitsui bought the stakes of Sabancı Group in the joint venture while Sabancı Group has the majority stake in another joint venture established for the sale and marketing of Toyota cars in the Turkish market (see Tekinay 2004a, 88, 92; Fırat 2004).

telecommunications.⁹ It planned to withdraw from the sectors in which it was not a leading producer and without growth potential.¹⁰ Ferit Şahenk, Head of the Board of Directors of Doğu Holding, expressed this same agenda when he spoke of the need for 'structural change according to the necessities of globalisation'.¹¹ To be a regional company that keeps up with competition, Şahenk stated, the Group decided to focus on finance, automotive, food retailing, construction, tourism and TV broadcasting while withdrawing from food production,¹² internet service provision, and aviation.

İşbank Group, which was the most diversified of this sub-division, started a process of sales from the mid-1990s which accelerated during banking reform. The major restructuring within the Group, started in 2002, reduced the vulnerability from over-diversification.¹³ The conglomerates' overall restructurings went hand in hand with the reorganisation within their banking arms via the sales of non-financial equity participation by banks (an issue which will be addressed in Chapter 11).

In relation to investment within Turkey itself, there has also been a shift to the new strategic sectors. Notable here have been the benefits of state privatisations of key industries, ranging from telecommunication to energy. These high-growth-potential sectors have been at the forefront in the leading conglomerates' future plans. Like Sabancı¹⁴ and Koç¹⁵ Groups, which project energy and telecommunications to be amongst their main businesses, İşbank Group has recently made large scale investments

⁹ See Abdurrahman Yıldırım, "Sanayicilik Artık Hamallık Oluyor", Sabah, 25 January 2000.

¹⁰ "Koç İki Misli Büyüyecek", Radikal, 21 January 2003.

¹¹ Zeynep Tuğrul, "Keşke Türkiye'de Birçok Doğu Olsa", Sabah, 14 May 2003.

¹² Some stakes in three food companies were sold to the Group's partners. For instance, the stakes in its subsidiary Filiz Makarna was sold to the Italian partner, Barilla in 2003 (see the statement by Ferit Şahenk in 'Ferit F.Şahenk: Bardağın dörtte üçünü dolu görüyoruz', News from Doğu Holding, 10 April 2003, URL: <http://www.dogusholding.com.tr/default.asp?lang=tr>).

¹³ For the details of the subsidiary policy by İşbank Group see Kocabaşoğlu et al. (2001, 602-607). In the recent sale process, concern over conforming to the new legal limits was also given as a reason for new large investments of the İşbank Group in petroleum distribution and telecommunication (see footnote 16).

¹⁴ See "Sabancı: Yeni Sektörlere Gireceğim", Dünya, 15 August 2000.

¹⁵ See the statement by Ali Koç in Poyraz & Köfteoğlu (2002, 26). Koç Group, which did not have a strategy for the telecommunication sector by 1997, made a partnership deal with world giant SBC in 1998 in order to accelerate its expansion in this sector. Koç Group aims at being the main player in the Turkish market and within the triangle of Europe-Asia-Africa (*İktisat Yatırım* 1999).

in these sectors.¹⁶ Furthermore, as Seçkin (1999, 182) indicates, in the 1990s, Turkish conglomerates oriented to non-tradable industries in which they would have higher competitiveness and market power, such as retailing, finance, media (entertainment industry), and internet services.¹⁷

The second characteristic of this division is its increasing international focus and reduced reliance on the domestic market. To this end, export and overseas production grew particularly in the late 1990s. For example, in 1999, Rahmi Koç, Chairman of the Koç Group, stressed that they had to make huge efforts to increase their export and international activities:

Our turnover is still dependent on the Turkish market. In the free competition environment in which all foreign companies are coming to Turkey, we are conscious that growth cannot be realized by relying on the domestic market. We seek to increase our export over 1 billion US dollar with a 33 % rise.^{18 19}

¹⁶ The bank joint venture with Doğan Group won the auction sales for the GSM 1800 tender and the privatisation of petroleum distribution company Petrol Ofisi A.S (POAS) in 2000 (see Yeşiloğlu 2000b).

¹⁷ In the case of retailing, its high growth potential, cash advantage as well as expected synergy with other sectors attracted all of these large conglomerates. For instance, the Doğu Group declared that it aimed to use its supermarket chains as an alternative distribution channel for bank branches (see the statement by Ferit Şahenk in "Ferit Şahenk Finansal Forum Gazetesi Röportajı (21 May 2002), URL: <http://www.Dogusholding.com.tr/sayfa.cfm?Menu=71&NO=400&Sayfa=Haberler> (accessed 28 November 2002). To this end, the Group bought Macro supermarket chain from Tekfen Group and merged it with its Tansaş.

The Koç Group, besides growing in the domestic market with its Migros chain of stores that is Turkey's biggest retailer of food and basic consumer goods, has also been establishing supermarket chains abroad (e.g. in Russia, Kazakhstan, Azerbaijan, Bulgaria). As well, the Group acquired 50% share in Opet, the gas distribution company, with the expectation of new synergies ("Message from Rahmi M. Koç", URL: http://www.Koc.com.tr/english/kurumsal/baskanin_msg.asp (accessed 7 May 2003)).

Also, Sabancı Group has been expanding in retailing (in food, ready-wear and electronic-optic segments) with foreign partners such as the Carrefour SA hypermarkets (Karaağaçlı 1999, 119-122). In 2002, Sabancı Group allotted 1/3 of the total investment plan of US\$ 350 million to the retailing group (Poyraz 2002a, 25), indicating the significance of this sector for the conglomerate. With the purchase of Gima and Endi retailing chains from Fiba Group in May 2005, Sabancı Group became the market leader followed by Migros of Koç Group.

¹⁸ See 'Koç'ta Global Yönetim', Sabah, 27 March 1999.

As a result of this stance, for example, the consumer durable business of Koç Group became less dependent on domestic market than ever before: it set an export target of 80% of total production in 2002 (Rahmi Koç, URL: http://www.Koc.com.tr/english/kurumsal/baskanin_msg.asp (accessed 8 November 2002)).

¹⁹ In particular, with the entry to the Custom Union with the EU in 1996, the Koç Group faced intensive competition in its two main businesses, household durables and automotive, in

The objective for the Koç Group reflected this same agenda:

Today's strategic goal for us is to be an international institution and a world company which is centred in Turkey. With this objective, we aim at strengthening our domestic competitive power and to enlarge our international activities through a restructuring.²⁰

Other corporations in this division signal a similar strategy. Crucially, in this process, they prefer collaborations with corporations outside Turkey. Some of these investments have been with large domestic companies in other countries, but the leading international investments have been with larger TNCs. For Sabancı Group, collaborations with leading world corporations continue to be the key for global expansion.²¹ Koç Group has intensified its international production investments both as sole initiatives and as part of the global networks of its partner TNCs.²² Doğuş Group set up partnerships with Volkswagen in automotive and with CNBC-e of NBC Group in media. Also, as part of the trend towards having an outward orientation, the Group turned to its traditional,

which the Group faced productivity problems (as did many other companies that had been sheltered under custom barriers for years). To overcome this problem, some Group companies were merged (see *Power* 1999b, 55). Besides the intensifying competition, during the recent crises, the Group was negatively affected by demand contraction in automotive and white household appliances covering 80% of the total Group turnover in 1998 (Oğuz 1999, 34). These two factors led the Group to reduce its dependency on these businesses in the domestic market. As well, in an attempt to decrease its dependency on the EU (as it continues to be the main market for the Group), the Koç Group started to diversify its activities in developing markets, especially in Russia, Morocco, Algeria, Poland, India, Egypt, Azerbaijan, Uzbekistan and Kazakhstan (see Faruk 1997, 36-37; "Koç'un Kriz Endisesi Yok", *Finansal Forum*, 14 October 1998).

²⁰ See the statement by Rahmi Koç in 'Koç Önce Güçlü Siyasi İdare', *Yeniyuzyıl*, 1 April 1998.

²¹ For example, in 1999, Sabancı Group established a 50/50 joint venture company with Dupont of America, DuPontsa, which owns Sabancı's and DuPont's polyester business in Greater Europe and it has become the largest producer in the region. As another example, the Group established 50/50 joint ventures with DuPont and founded Dusa Argentina and Dusa Brazil to serve the South American tyre market in 1999 ("Sabancı Group in Brief", URL: http://www.Sabanci.com.tr/english/hakkinda_hakkinda.htm) (accessed 11 November 2002). As a result, 'the nylon and polyester businesses as the global business of the holding currently make a turnover reaching ¼ of the total turnover of the Group. Almost half of this turnover is being produced and sold outside Turkey' Ali Sabancı of Sabancı Group stated (see Poyraz 2002a, 29).

²² For instance, its household durables producer Arçelik has become a European company with production facilities there. The Group also made large investments in the automotive sector in 1998 following agreements with its partners Fiat and Ford, and besides Kazakhstan, Tunisia and China, it opened new production units in Uzbekistan which was chosen as the automotive centre of the Central Asia ('Koç'ta Global Yönetim', *Sabah*, 27 March 1999).

core business of construction²³ and follows an international expansion strategy of chasing construction projects in many countries (e.g. Bulgaria, Morocco, Kazakhstan and Ukraine) preferably as joint business with foreign capital.

Thus, the leading conglomerates' future strategies are remarkably parallel, involving them in international expansion and indeed in some degree of competition with each other. *This intersection implies the new importance of the finance sector in these strategies: the synergy potential of banking activities has come to the fore as the banks' role in financing group-expansions has been further restricted under new regulation, an issue which will be discussed in Chapter 9.*

It is important to note that, while these dynamic accumulators represent a significant break with the business culture and protectionism of the past,²⁴ they continue to be the driving force of accumulation in Turkey with their multiple activities inside and outside Turkey. As a result, financial sector reform, *deregulation and privatisation have not led to the neo-classical ideal of a competitive market, but the respecification of the hegemonic part of capital.* This point is also verified by Barham and Field (1997, 14):

It is somewhat ironic that, while a wealth of new business opportunities has been generated over nearly 20 years of liberalisation, the powerful holding companies whose names are almost synonymous with Turkey's economic history have not loosened their grip. These conglomerates remain a cornerstone of the country's business edifice. Their management and financial strength have enabled them to evolve with surprising speed and agility while maintaining an often dominant presence in a bewildering range of markets. Core industries such as cars, may face difficulties and new groups may arise and compete relentlessly, yet the tycoons have shown an impressive flexibility and maintained their ability to detect new business opportunities and line up finance and international backing for them. The opening of new markets in Eastern Europe, Russia and the Turkic republics of the Caucasus and central Asia has further fired the ambitions of Turkey's business class.

²³ The share of construction in total Group turnover steadily diminished in the last decade. Gönül Talu, Head of the Board of Directors of Doğuş Construction, linked the diminished share of construction to the rise of the finance sector. She also pointed out the domestic focus of their Construction Group had brought further decline during the recent crises (see Firat 2002a, 86).

²⁴ Although the large conglomerates lead the change in business culture in Turkey in many ways (such as through institutionalisation of management and sales of businesses), they face difficulties in this process. For example, they want to sell some businesses, but finding buyers among Turkish capitalists is difficult, while foreign capital is cautious of investing in high risk country (see the statement by Hasan Bengü, Head of Foreign Trade Group of Koç Holding in Poyraz 2001b, 47). However, the change process is running slowly, but surely under the leadership of the largest conglomerates.

8.3 The Second Division within the Dynamic Accumulators

Apart from the largest conglomerates, some other surviving banks belonged to old and large conglomerates: for example, the Tekfen Group of Tekfenbank, OYAK Group of Oyakbank, Zorlu Group of Denizbank, Anadolu Endüstri Group of Alternatifbank, Çolakoğlu Group of the TEB, Başaran Group of Anadolu Bank and GSD Group of Tekstilbank.²⁵ These form the second division within the dynamic accumulators. They have three distinctive characteristics:

- Firstly, like the first division, these conglomerates have a sound industrial basis in the production of surplus value. They also expanded into industry during the ISI period and completed the integration of productive and commercial capital before 1980.

But they are different from the largest conglomerates in key ways.

- Secondly, their entry into banking dates only from the 1980s and 1990s.²⁶

As they were late entrants to banking they are not intrinsically finance capital,

²⁵ GSD Group could be included here because of its shareholders' industrial focus even if it is one of the relatively small rising conglomerates of the 1980s.

The nucleus of GSD Group was based on the GSD Foreign Trade Company built in 1986 by 96 garment and textile manufacturers. This company was established to break the control of large trade houses, which aimed to take advantage of lucrative incentives for companies with high export volumes, on small- to- medium scale textile producers. The GSD Foreign Trade Company, which became 'one of the country's top export houses' (*Eürömoney* 1998b), was converted into a holding structure when it expanded into finance with the establishment of leasing, factoring, insurance brokerage, international investment companies and GSD Investment Bank throughout the 1990s ("GSD in Brief", URL: <http://www.gsdholding.com.tr/brief.htm> (accessed 6 December 2002)). In this process, GSD Group first purchased a 30 % stake in Tekstilbank, which was then owned by Akin Group, a major textile manufacturer and exporter, and became the major shareholder with 74.79 % share in 2002 when Akin Group could not afford a necessary capital increase in the bank.

²⁶ While seeking to include banking capital to their circuits in the 1980s, under some restrictions on new bank establishments, Çolakoğlu Group entered banking by converting a local bank to the TEB. On the other hand, Tekfen Group secured an investment banking licence in 1988, given the state preference for investment banks rather than commercial banks. OYAK Group entered banking by purchasing shares in a foreign bank and then acquired the whole stake in 1993. In addition, the 1990s offered a new mechanism for bank acquisition: privatisation of state banks. Zorlu and Başaran Groups were successful in winning the privatisation bids of Denizbank and Anadolu Bank respectively. For the detailed discussion of this entry process see Chapter 4.

but (sustainably) profitable industrial corporations. Accordingly, their restructuring followed different lines from the older companies.

- Thirdly, and critically, they tend to be smaller than the older companies. With those smaller scales, they have gone to less competitive/smaller sites in their IDI, particularly Eastern Europe and the former Soviet Union Republics, especially the Turkish speaking CIS countries.

So while the first division of the dynamic accumulators represents a sustainable Turkish presence in the global centres of capital, this division has a sustainable presence in newly-emerging sites of global accumulation.

In terms of the first characteristic, there is little difference with the older and larger dynamic accumulators, except for scale. Like the older conglomerates, these smaller and newer ones avoided complete dependence on finance protectionism. Their banks, which form the small-to medium scale part of the sector, are distinguished by their solid financial structures and prudent approaches towards liquidity and credit structure. For example, the TEB,²⁷ Tekstilbank²⁸ and Tekfenbank²⁹ have reputations for prudence and conservative management. Accordingly, the bank-conglomerate relations within this sub-division differed from the protection-dependent primitive accumulators from the very beginning. For example, Denizbank has become an early representative of the new form of holding banking in Turkey.³⁰ The President and CEO of Denizbank, Hakan Ateş (see *Activeline* 2000a) stated that Zorlu Group bought the bank with the aim of doing banking instead of transferring bank resources to holding companies:

I would like to stress that this is unique to Turkey. Since the beginning, our shareholders had committed themselves to maintaining a strong capital base by increasing the paid-in capital every year on top of each year's profit. Consequently,

²⁷ Şengönül (2001a; 2001 b) indicated that the TEB did not have open currency positions and was not active in the government securities market. The low T-bill and repo exposure allowed the bank not to be harmed by the rising interest rates during the recent financial crises. Moreover, the bank had a high active quality thanks to its low credit concentration on SMEs. See also Munir (1998).

²⁸ See Levent (2002c).

²⁹ See Demirci (2003b); "Tekfenbank Targets 25 pct '98 Asset Rise", Turkish Daily News, 11 June 1998, URL: http://www.turkishdailynews.com/old_editions/06_11_98/econ.htm.

³⁰ In contrast to the embezzlement cases of other privatised banks (Sümerbank and Etibank), Denizbank and Anadolubank have followed a prudent banking strategy since their acquisitions in 1997 by getting ready for disinflation.

Denizbank's capital adequacy ratio has averaged above 20% for the 1997-2001 period whereas the compulsory ratio is 8%.³¹

These banks also participated in state debt finance. Yet, their more cautious policy and accompanying high liquidity positions helped them to survive during the financial crises when high risk exposure by the primitive accumulators' banks made them weakened and ultimately contributed to their exclusion from banking.³² Thus, in contrast with the primitive accumulators, which had capital shortages or were in debt, the cash holdings by the second division's conglomerates not only allowed them to cover the costs of the crisis, but also to take advantage of rising interest rates during the crisis.

Their expansion in production is also parallel with the older dynamic accumulators. Their ISI activities, as a whole, led logically to export growth and under the wide export support of the 1980s, rising export activities had a crucial role in the acceleration of capital accumulation for these conglomerates. For example, the Çolakoğlu Group, focusing on iron and steel production, and Başaran Group, mainly engaging in the production of industrial and medical gasses, iron and steel, were in the top-10 list of largest exporters in Turkey.³³

They were like the older-larger conglomerates in two further respects. Firstly, these conglomerates sought to capture a share from the ongoing privatisations of state-owned industries in Turkey's strategic sectors such as energy and telecommunication. Zorlu and OYAK Groups were the most determined ones on this regard.³⁴

³¹ URL: <http://www.denizbank.com.tr/english/index.htm> (accessed 15 November 2002).

³² Oyakbank's General Director Foley evaluated the state borrowing policy in the 1990s as a very profitable source for especially small banks and added that having large open positions was a kind of gamble, but not real banking. He stressed that Oyakbank did not have large T-bills portfolio and had tried to do real banking although many other banks would continue to finance the state as long as state borrowing went on (Öztürk 1999, 58).

As such, Ahmet Nazif Zorlu of Zorlu Group stressed that the strong liquidity position of Denizbank during the recent crises was helpful since no bank could survive by borrowing from the interbank market with 6-7000 % interest rates at that time (see Şişman 1998, 97).

³³ As regard to international banking, apart from Başaran, Zorlu and Tekfen Groups, this division's conglomerates established/acquired banks abroad throughout the 1990s: Oyakankerbank in Germany (1996) of the OYAK Group, a Dutch-based bank-The Economy Bank NV (1998) of Çolakoğlu Group and many off-shore banking units and financial service companies show that these conglomerates have already been in a process of internationalizing their financial arms by following behind the largest conglomerates.

³⁴ See Volkan-Mutlu (2003, 48).

Secondly, this second division of the dynamic accumulators increased their efforts in international trade and production activities. They set up new partnerships with foreign capital to facilitate their global and domestic expansions. For instance, OYAK, as an export-oriented conglomerate,³⁵ is now on the verge of IDIs. Coşkun Ulusoy, General Director of OYAK Group, stresses the necessity for global opening-up in order to reduce the risk from being domestically-oriented (see Volkan-Mutlu 2003, 50).

Investment in the transition economies was also undertaken by some of the liquidated conglomerates - the new primitives, as described in Chapter 7. But the critical difference, which is central to the survival of this second division of the dynamic accumulators, is the sorts of exposure they carried in the transition economies. These dynamic accumulators invested in more stable, long-term investments in core industries such as household consumer durables and brewing, while the primitive accumulators were vulnerable to the uncertainty of returns from their investments in high risk industries such as housing construction and finance.

For instance, as the Turkish beer market has a limited potential for growth,³⁶ Anadolu Endustri Group focused on IDIs and established production facilities for brewing and soft-drinks in Romania, Russia, Azerbaijan, Kazakhstan, Kyrgyz Republic, Turkmenistan and Ukraine with its foreign partners throughout the 1990s.³⁷ Tekfen Group³⁸ further expanded its core business of international construction in the 1980s and

³⁵ OYAK Group, originating in the pension fund of the Army (1961) that developed itself into an industrial and financial group, became 'one of the country's most successful business empires' (Leyla Boulton, Financial Times, 9 October 2001). The Group has joint ventures with well-known international names and activates in various sectors such as cement (1963), automotive (with Goodyear (1961) and Renault (1969)), finance, food, chemical, tourism, trade, retailing, construction, transport, security, finance and insurance.

³⁶ During the 1980s, the Anadolu Endustri Group was negatively affected by government restrictions on the sales of beer. However, due to debt consolidation with banks and the sales of some large companies such as BMC, Anadolu Export and Nasaş, it recovered in the 1990s (see Oğuz 1998) and continued to its expansion during the recent crises.

³⁷ The high degree of global orientation can be followed from the following quotation: 'The mission of the group is to become the leading beverage group from the Adriatic to China. In addition to this with all the investments outside Turkey, the domestic consumption and exports Efes Pilsen was the 10th biggest brewery in Europe. After the latest additions in Russia and Moldova at the end of 2003 the company is estimated to be the 6th largest brewery in Europe' ("Turkish Beverages Sector", URL: http://www.isikun.edu.tr/isam/diger_doc/Beverages_Sector.html (accessed 8 June 2004)).

³⁸ Tekfen Group began in construction in 1956 and has become known around the world today. International contracting, mainly in the energy sector, and agro-industry are the core

1990s especially in the Eastern Gulf Area, the Caspian Region and Russian Federation, besides having other direct investments in Germany and Uzbekistan. Its construction operations are distinguished from the new primitives' construction activities in the sense that they are highly-sophisticated projects, including engineering, production, constructing and assembling.³⁹ Also, as in the case of Zorlu Group, they diversified their geographical range. The Zorlu Group established production facilities in France, South Africa, the US, Iran, Russia, and Bulgaria with foreign partners in some of these.⁴⁰ The Group planned to further expand in textile production worldwide via partnerships with leading international corporations in the 2000s and has been negotiating to this end.⁴¹ Its subsidiary Vestel also plans to establish a production facility with local capital in Mexico as an export base in America.⁴²

Further, they also revised their business portfolios to drop businesses which were not core or growth-promising. For instance, Tekfen Group restructured between 1998 and 2000, and dropped its left unprofitable textile and light bulb production. It also sold off its 'Makrocenter' supermarket-chain to Doğuş Group as it did not want to make large investments in retailing which required scale economies. On the other hand, OYAK Group, with the strategy of quitting the sectors which it could not lead,⁴³ dropped unprofitable businesses before the crisis such as retailing⁴⁴ and aimed to grow in priority

activities of the Group with foreign partners. The distribution of the Group's turnover in 2003 was contracting 47,2%, agro-industry 35%, banking 13,2%, and others 3,8% (see Tekinay 2004b, 78-80).

³⁹ For instance, Tekfen Group was chosen by BP as one of the five world corporations to participate in some projects which were parts of Baku-Ceyhan petroleum pipe line (see Tekinay 2004b, 80).

⁴⁰ Zorlu Group bought French Bel-Air Textile Company having a large distribution network in Europe in 1998.

⁴¹ See Nur Özkan, "Zorlu'da Hedef 5 Milyar Dolar Ciro", *Dünya*, 13 July 1998. For instance, the Zorlu Group wants to overcome possible obstacles for textile export from Turkey through production and marketing activities in the US. These barriers are expected to come with new agreements on textile export which will replace current quotas in 2005 (*Para* 2001a, 34).

⁴² See Nurten Erk, "Vestel Amerika Kıtasına Amerika'dan Açılacak", *Hürriyet*, 19 February 2001.

⁴³ The President and CEO of OYAK Group Cöskun Ulusoy says that 'we have to be in the front position in everything we do'. 'If any of our companies is not in the top five, we'll sell it' (see *Euromoney* 2001c).

⁴⁴ Cöskun Ulusoy stated that their retailing chain-OYPA's activities had ceased, but since retailing is one of the strategic sectors and OYPA needed to reach a large scale to compete, it may

areas of telecommunication, information technologies, energy, banking, finance, housing and mining.⁴⁵

Many of the conglomerates under this sub-division also used joint ventures as a way to hedge against volatility. Having joint ventures with foreign capital provided flexibility for restructuring during the recent crises. For instance, Tekfen Group sold off its equity-shares in Mis Süt, producing milk, to the foreign partner Nestle as its operations started to contract under the global strategy of Nestle and so did not promise as much growth potential as expected by the Group (see Poyraz 2002b, 32-33; Tekinay 2004b, 79). Also, Anadolu Endustri Group left its Honda partnership with the Japanese and is determined not to enter new sectors apart from energy.⁴⁶

To sum up, the first and second divisions of the dynamic accumulators achieved rapid accumulation by integrating the three functions of capital, (money capital, productive capital and commercial capital) within their circuits. Even though the larger conglomerates of the first division have progressed more than the second division's industrial conglomerates, they have all made important steps in internationalising their circuits of productive, commercial and money capital in ways that show the capacity for long-term profitability. Hence, together with their solid accumulation basis, further levels of internationalisation and prudent banking policies, these conglomerates not only passed through the storm of crisis, but also emerged stronger and successfully thrived after the end of finance protectionism.

continue to operate with a foreign partner after the crisis period in Turkey (see Volkan-Mutlu 2003, 49).

⁴⁵ See 'OYAK Bor İşine Giriyor', *Hürriyet*, 20 July 2002; "CEO's Message", URL: <http://www.OYAK.com.tr/english/about-message.html> (accessed 3 December 2002).

⁴⁶ The sale of stakes by Anadolu Endustri Group in the joint venture with Honda was because of the conflicts over two issues. First, Anadolu Endustri Group wanted to increase exports while Honda wanted to focus on the domestic market. Second, Honda asked for a capital increase by themselves implying their shares would rise at the expense of their Turkish partner. Hence, even if Anadolu Endustri Group preferred to expand in the automotive sector instead of leaving, the disagreement on the future direction of the joint venture led Anadolu Endustri Group to drop it out (see the statement by Metin Ecevit of the Anadolu Endustri Group in Fırat 2004; "Japon Honda'yla Yolumuzu İhracat ve Yerlilik Oranı Ayırdı", *Hürriyet*, 7 March 2002).

8.4 The Third Division within the Dynamic Accumulators

This sub-division refers to the rising conglomerates of the 1980s and 1990s that do not have a (significant) industry focus. They aimed at niche markets rather than rapid industrial expansion, and show sustainability by this modest role. These are not international banks, but can serve the Turkish and (some) to other national retail banking markets.

In addition to finance, these conglomerates mainly operate in service industries such as media, retailing and construction and, thus, resemble the first-division within the new-primitives which have accumulated in highly volatile/marginal sectors. However, despite this similarity, the banks within the third division of the dynamic accumulators were not seized due to some specific characteristics of their accumulation patterns. Doğan Group of Dışbank, Fiba Group of Finansbank and MNG Group of MNG Bank are covered under this sub-division.

Like the other dynamic accumulators, this sub-division benefited, but was not dependent upon finance protectionism. They were not reliant on subsidized finance to fund their other investments.^{47 48}

Accordingly, their investment strategies were integrated and sustainable. For instance, Doğan Group, as a leading media group, first accumulated in trade. During the ISI period, it worked as the sales agency of Koç Group's automotive companies and commercial accumulation accelerated in the 1980s via marketing automobiles and household durables produced by large conglomerates. Doğan Group developed with state-incentives in tourism, media⁴⁹ and finance⁵⁰ in the 1990s.⁵¹ The Group currently

⁴⁷ For instance, Dışbank stated its position in banking as follows: 'In a volatile operating environment, Dışbank's defensive posture enables the Bank to remain in the game for the long-run, effectively gaining a solid market share as others exit. High liquidity, a low repo portfolio and a relatively low gross open foreign exchange portfolio leave Dışbank well positioned to manage the financial crisis in Turkey' ('Doğan Group in Brief', URL: <http://www.Doğanholding.com.tr/brief.html> (accessed 27 November 2002)).

⁴⁸ This conclusion is also verified by the non-industrial, small MNG Group. This 1970s' construction-origin Group expanded into tourism in 1996 and finance, air cargo, media, and recently the defence industry. Today, the Group is one of the largest groups in the tourism sector. The Group's MNG Bank still continues to operate as a small player in banking.

⁴⁹ Having the largest share in the print media sector (with horizontal and vertical integration, from publishing to distribution and marketing), Doğan Group has also

seeks to create further synergies between the finance, energy and telecommunication sectors in which it benefited from the ongoing liberalisation and privatisation processes in Turkey.⁵² Hence,

despite having Turkey's biggest media companies, fuel oil distribution and energy have become its main lines of business, followed by finance.⁵³

The Fiba Group, on the other hand, has a finance-retailing focus and the synergy between these two sectors is the core of the Group strategy both domestically and

internationalised its printing and broadcasting activities. It also started joint ventures with foreign partners in 1996 such as Egmont, Burda and AOL-Time Warner in the mass communications sector (see the statement by Mehmet Ali Yalcindag, CEO of Doğan Holding Publications, URL: <http://www.Doganholding.com.tr/news/highlight2.asp> (accessed 8 June 2004)). The conglomerate continues its international expansion in newspaper publishing and broadcasting in the EU, the US, Australia, Canada and New Zealand.

As regard to industrial activities, the Group entered industry in 1977 via Otokar operating in automotive industry, and further expanded with the acquisitions of Ditaş and Çelik Halat. As Tufan Darbaz, CEO of the Group stated, the share of industrial activities has a minor share in total Group turnover even though Ditaş and Çelik Halat are the market leaders (see Globus 2003, 12).

⁵⁰ Doğan Group entered banking with the establishment of Alternatifbank in 1992 and also acquired Dışbank as the second bank during the 1994 crisis. Alternatifbank was sold to Anadolu Endüstri Group in 1996. The Group expanded its financial arm internationally through subsidiary banks in Malta and the Netherlands.

⁵¹ The expansion was due to the use of its high cash position for new acquisitions during the 1994 financial crisis. Its 'discovery of the stock-exchange', with the public float of some Group companies before the crisis, allowed the Group to face it with high liquidity (see Nurten Erk, "Barmanbek: Telekomunikasyon Sektöründe Mutlaka Olacağız", *Hürriyet*, 7 August 2000).

⁵² The latest important step made by Doğan Group was the acquisition of POAŞ, the market leader for retail sales and the distribution of petroleum products in Turkey, from the Privatisation Board in partnership with İşbank Group. Doğan Group expects to take advantage of the wide distribution network of POAŞ for the group's existing retail and financial service activities, mainly in banking ("Chairman's Message", URL: <http://www.Doganholding.com.tr/chairman.html> (accessed 27 November 2002)). The Group aims to internationalise the activities of POAŞ and is interested in privatized companies in Romania and Bulgaria in petroleum (see Globus 2003, 12) to expand towards energy generation from distribution (see Akı 2000, 80).

⁵³ See the statement by Tufan Darbaz, CEO of Doğan Holding, URL: <http://www.doganholding.com.tr/news/highlight1.asp> (accessed 8 June 2004).

internationally.⁵⁴ Forty percent of the Group's activities are internationally oriented and its growth strategy centres on international markets as of 2001.⁵⁵

Here, their pursuit of synergy, along with a cautious growth policy, appears to be an important factor leading these conglomerates to pass through the storm of the reform while many new-primitives operating in similar sectors faced decline. For instance, while Bayındır Group, the retailing ex-partner of Fiba Group in Romania, lost substantial market share (because it used its domestic and overseas bank branches to finance its more ambitious expansion), the Fiba Group itself followed a cautious/focused growth policy along with bank prudence.⁵⁶

Ömer Aras, Vice-Executive of the Board of Directors of Fiba Holding,⁵⁷ stated that since they did not have large industrial investments, there was no need to fund such corporations during the crises. In addition, due to the synergy between retailing and finance, he added, they could continue to grow even in a time of crisis. Furthermore, Finansbank was not seriously affected by the devaluation in 2001 because of its extensive overseas links with financial affiliates (see Şengönül 2001c).⁵⁸

In summary, the members of the third division have remained mainly focused on finance and other service sectors and thus, unlike the first two divisions of the dynamic accumulators, do not capture surplus value through industrial production. This has made them commercially viable but with limited capacity for expansion. However, even though this characteristic of their patterns of accumulation has allowed them to take a place in the newly formed FC of Turkey, it has also made them the most vulnerable fraction of the dynamic accumulators. In particular, they are vulnerable to future takeovers by foreign banks or by other dynamic accumulators, most obviously by those of the second division which will be looking to increase their scale to secure long-run competitiveness.

⁵⁴ The Chairman Hüsni Özyeğin indicated that the Group will grow through creating synergy between the two fields (see "Fiba Holding Chairman Hüsni Özyeğin 'The Future is Retailing' ", URL: <http://www.fibaholding.com.tr/e-b-perakende.html> (accessed 15 November 2002)). Meanwhile, the Fiba Group withdrew from the media sector, while expanding in retailing via new acquisitions (see Çoban 2003).

⁵⁵ For instance, in addition to the largest shopping centre in Romania, the Group plans to open a second one in Romania as well as in Ukraine (see Hilal Işık Arı, "Özyeğin'den Finansbank Yaklaşımı", Finansal Forum, 2 April 2002).

⁵⁶ Nürten Erk, "Fiba: Hem İyimseriz Hem de Temkinliyiz", Hürriyet, 14 January 2003.

⁵⁷ Nürten Erk, "Fiba: Allah'tan Sanayi Sektöründe Değiliz", Hürriyet, 21 May 2001.

⁵⁸ The Fiba Group has banks in Russia, Romania, the Netherlands and Switzerland.

Supporting this proposition, Fortis of Netherland-Belgium recently made a deal with Doğan Group for the purchase of Dışbank, as will be discussed in Chapter 11.

8.5 Overall Characteristics of the Dynamic Accumulators

With a bird-eye-view it is seen that the first division engages with large TNCs investing generally in advanced capitalist countries along with expansion in transition economies.

The second division plays an almost imperial role, assisting Turkish finance and capital to move into developing and transition economies of the old Soviet empire, consolidating especially on the Turkish language regions. But while there have been quick profits to be made in these frontiers, the dynamic accumulators (unlike the primitive accumulators who have also sought to expand there) have invested in stable, long-term investments in core industries.

The third division plays a different role again. They have been less aggressive in their industrial expansion, and following a pattern of accumulation centred on the provision of banking facilities, enjoying their conglomerates' synergies with service industries. This sub-division, being the least linked into surplus value production has a lesser role to play in industrial restructuring and the international expansion of Turkish capital. It can be conjectured that they are viable, well performing banks whose destiny will be determined in future bank rationalisations.

The dynamic accumulators, especially the first and second divisions, are distinguished by their orientation to expand accumulation via surplus value production rather than remain reliant on finance protectionism afforded by the state. In particular their dynamism lay in their global orientation, and the sense that accumulation within Turkey alone was not sustainable. Moreover, they not only gravitated to international accumulation, but they did it predominantly in activities that had long-term competitive potential. This showed up in a number of ways.

Firstly, the dynamic accumulators successfully managed the transition period for the new banking era. Although almost all private deposit banks benefited from high-yielding T-bills, the confiscated banks appeared as unsuccessful in managing the

associated risks which made them vulnerable in the liquidity squeeze of the November 2000 crisis and the sharp devaluation of Turkish Lira during the February 2001 crisis. For the dynamic accumulators it was different. For example, İşbank General Director Ersin Özince stressed core banking focus of the bank alongside the engagement with state debt finance as follows:

İşbank has always done a very wide based banking. I mean it was also one of the institutions that relatively benefited from high real interest rates and state borrowing policies in the past. However, it benefited relatively because today it is being said that the sector is returning to real banking....İşbank has never gone far away from real banking. It is impossible for the bank to do this.

...

Infact, we were not much focused on T-bills. We had to be like that. One can not manage a bank having over 850 branches with the revenue from T-bills. Smaller, dynamic balance sheets can be managed [by relying on T-bills]. (Ayyıldız 2000, 7)

Some dynamic accumulators even could take advantage of the financial crises, which severely hit the primitive accumulators' banks and left them insolvent.⁵⁹ Thus, the crises functioned to draw the line between the primitives' and dynamics' banks more clearly. As an IMF report (2001a, 11) verifies, the banks that had loanable liquidity provided a resource transfer from the primitive accumulators as well as the state:

These fiscal costs [to the state of the interest rate hike because of the large overnight exposure of the state and SDIF banks] are partly mirrored by the increase in interest receipts of the private banks that are net lenders in the interbank market, including the major private banks, the core of the private banking sector in Turkey. While these banks had to face an increase in their borrowing from domestic and external customers, their financial position was strengthened by the interest payments received from state and SDIF banks. At the same time, some small-and medium-sized banks were instead more severely hit by the crisis.

⁵⁹ Even if the financial crises created losses in banking as a whole, some dynamic accumulators could compensate their losses at some degrees (see Soydan & Karagüllü 2001). For instance, Akbank succeeded to take advantage of its high liquidity position when interest rates soared while facing currency losses because of its high open FX positions (see Nurten Erk, "Akbank: Kriz Bize Dokunmadı", *Hürriyet*, 11 January 2001; Soydan & Karagüllü (2001, 22)). As a result, according to Ali Sabancı, while in 2001 the trade and industrial turnover contracted about 1/5 in dollar terms, their finance group has a performance exceeding the expectation of the Sabancı Group (see Poyraz 2002a, 28).

Secondly, the dynamic accumulators not only managed the transition in banking well, but could also overhaul their overall group strategies by redetermining the sectors and locations in which to accumulate. Indeed, the revision of the sectoral range was linked to the change in bank-conglomerate relations in the new era. As finance protectionism started to wither away, the functionality of banks in overall accumulation strategies needed to be reconsidered. The dynamic accumulators seemed to be successful in doing the necessary preparations to this end in the pre-reform era. Banks started to be seen much more functional in creating group-synergy through interactions among various sector activities.⁶⁰ Furthermore, these conglomerates shifted their focus simultaneously to retailing, energy, telecommunication and information technologies not only because these are strategic, high growth potential sectors of the current period, but also because they could create the sought synergy effect with other sector activities such as finance, media, etc.⁶¹

Thirdly, accompanying this overall restructuring, the Turkish conglomerates in general and FC in particular have been accelerating their internationalisation efforts which imply further integration with global capital. As Ercan (2003b, 2) notes, especially large scale capitals could not achieve the same rising export performance of 1980-1989 period and tended to orient to the domestic market instead in the 1990s. Accompanying the recent restructuring, however, it was observed that the domestic orientation phase is over. The conglomerates have been increasingly chasing global expansion.

Fourthly, despite the common characteristics, there are differences among the divisions of the dynamic accumulators; the three divisions represent different agendas of restructuring. In Chapter 11 it will be seen that they followed different paths during the early stages of the consolidation process in banking: the first division tended to get stronger through partnerships with global capital; the second and third divisions tried to solidify their positions through mainly the state-facilitated acquisition process, for some

⁶⁰ The conglomerates aim at using distribution channels (customer databases) in various sectors in common to increase total Group-turnovers. For instance, Oyakbank provides automotive credits for OYAK Group's car company, OYAK-Renault (see Levent 2005).

Restructuring of banks by the dynamic accumulators will be the issue of Chapter 11.

⁶¹ Verifying their success in managing the transition, for example, Doğu Group reduced the share of finance in its portfolio from 83% in 1998, to 63% in 2000 and to 56% in 2003 as other sectors came to the fore due to the restructuring within the conglomerate (see Akı 2004a).

to be ready for foreign partnerships in the future. In the current context the importance of the difference is that they engage with different forms of global integration.

Between these sub-divisions of the dynamic accumulators, the basis is laid for a new regime of accumulation in Turkey which is profoundly based in global integration.

8.6 The Role of the Dynamic Accumulators in Capital Restructuring

The adjustment of the Turkish banking sector to international banking standards is part of global capital's pursuit for standardised conditions for value creation on a world scale; an issue addressed in Chapter 5. These conditions placed inevitable pressure on relations between capital and labour within Turkey, as well as between different parts of capital.

The dynamic accumulators understood that domestic accumulation driven by profitability and productivity, rather than rent-seeking, had become necessary and rules of competition were destined to be rationalised as Turkey opened up to global capital. (This required raising finance from international capital markets, and attracting FDI as well as increasing exports). Moreover, this necessitated the elimination of the primitive accumulators which were still dependent on and sought to be nurtured by state finance protectionism.

To this end, the dynamic accumulators stressed the necessity for a decrease in state borrowing which was the primitive accumulators' basic source of expansion. As long as the state continued to borrow with higher interest rates, this would lead to a rising costs of fund and prevent the return to 'real' banking. The General Director of İşbank, Ersin Özince indicated as much:

It is more true to say that the real banking period is coming up. Why is it coming? Today Turkey has a hope for a gradual elimination of unfair competition within the domestic market also under the pressure of international competition. This means that everybody will be equally subjected to the rules. The ideal situation has not been yet achieved in the banking sector. However, in my opinion, if our preference is for a liberal capitalist system, free market system, its indispensable first condition is the management of money and capital markets with the norms of advanced markets without concession. Real banking will come when it is done with the rules of today's advanced economies. It means that real banking starts in a country if state domestic borrowing policies change, if it orients towards retail banking or commercial banking

from T-bills. Rules of competition work equally for everybody; the rules equally work for the state, private, domestic, foreign but there are still some deficiencies that need to be removed at this respect. (*Nokta* 2000, 8)

Moreover, the global integration and associated command of the rule of markets required not just financial sector reform, but wider industrial reform, as well. With the long history of FC in Turkey, one could not occur without the other. Despite high profit rates and dramatic erosion in real wage rates in the post-1980 period,⁶² profits were not fully converted into new investments, as state borrowing under finance protectionism offered a much easier and lucrative source of placement to the fractions of capital that had available funds. The source of the increase in the manufacturing industry's production and export was mainly based on the rise in the utilization of installed capacity even though some conglomerates also developed to varying degrees via new fixed capital investments. Consequently, Turkish manufacturing industry was increasingly outdated, and faced the need to become internationally competitive or dissolve. The consequences of bank restructuring for industry will be addressed in Chapter 12.

The dynamic accumulators understood these needs because their own aspirations for global expansion were being impeded by the various forms of state protectionism that dominated the Turkish economy. But more than simply appreciating IMF and state policy as affirming their accumulation aspirations, what is distinctive about the dynamic accumulators is that they actually led the state's reforms. The dynamic accumulators were already internationalising and rationalising their accumulation while the era of financial protectionism was at its peak. Indeed, it was precisely the fact that these capitals had already globalised that the Turkish state/IMF reform could develop policies to make them the hegemonic fraction of capital. Had these dynamic accumulators not already made the transition, the financial deregulations would have seen all banks in Turkey become insolvent! The state and the IMF needed the dynamic accumulators in order to implement their policy of global integration.

Hence, it was not surprising that the dynamic accumulators demanded a state-managed change in the accumulation regime towards increasing international

⁶² Regarding the position of labour within the restructuring in capital accumulation regime in the post-1980 period see Chapter 5, Subsection 'Labour'.

competitiveness. For instance, Rahmi Koç of Koç Group stressed: ‘the politics should not be used in interest allocation anymore and politics should not be done through the allocation of state resources’. ⁶³ Accordingly, he demanded a state which ‘...will create a private sector that works freely and under competitive market conditions and will eliminate unfair competition’. ⁶⁴ Zorlu and Anadolu Groups also demanded that the state focus on ‘the transition from a rent economy to a production economy’. ⁶⁵

Nor is it surprising that these conglomerates were extolling the virtues of globally-integrated accumulation. For instance, Rahmi Koç of Koç Group emphasised the need for integration with Europe and the world because of both the Custom Union with the EU and World Trade Organization treaties. According to Koç, these treaties put responsibility on the Group to compete with the world. ⁶⁶ The following statement by the Chairman of Doğu Group, Ferit Şahenk, verifies this need for adaptation to the global rules of competition:

This program is a program for change. The situation in Turkey was not created by only a finance crisis. The world wants us to work and perform to certain standards. If we also want to grow, we have to be consistent with the world. If we want to bring these funds to Turkey, we have to be a member of this club. There are conditions for being a member. This is an imperative brought by globalization. ⁶⁷

Therefore, the leading conglomerates led the state reforms in Turkey. The following statement by Ferit Şahenk reflects their consciousness in adhering to standards of global corporations:

The [Doğu] Group had already been a forerunner of the execution of organizational requirements such as corporate governance, audit requirements and transparency of financial disclosure, in line with the necessities imposed by Western financial markets. These were later introduced by the Government as statutory requirements through the aegis of the IMF as long overdue market reforms aiming to increase the investor appetite and corporate transparency. ⁶⁸

⁶³ “Derviş Son Ümidimiz”, Sabah, 21 March 2001.

⁶⁴ “Koç: Önce Güçlü Siyasi İdare”, YeniYüzyıl, 1 April 1998.

⁶⁵ Nurten Erk, “Özilhan: 2001 Zor Geçer”, Hürriyet, 5 January 2001.

⁶⁶ “Devlerin Yolu 21. Yüzyılda Kesişecek”, YeniYüzyıl, 21 August 1998ç

⁶⁷ Ruhi Sanyer, “Kriz Boyun Eğmeye Başladı”, Radikal, 12 November 2001.

⁶⁸ “From the Chairman”, URL:

<http://www.Dogusholding.com.tr/sayfa.cfm?Sayfa=DHolding&Menu=BaskanMesaj> (accessed 28 November 2002);

8.7 Reflections on Alternative Interpretations

A focus on fractional divisions and patterns of accumulation clearly gives a very different interpretation of reforms from both the neo-classical economists and the nationalist/developmentalist political economists.

The former need not divert the analysis here. It is readily apparent that analyses that invoke the logic of market forces provide at best a limited perspective on the processes that have driven change and the interests that are served by change. The fractional analysis verifies that the need for the change in banking cannot be attributed to distorted market forces because of inefficient state policies. Instead, relations between fractions of capital (i.e. the conflicts between productive-commercial capital and FC in general, and between the primitive accumulators and the dynamic accumulators within FC in particular) constituted the underlying dynamics for change.

Of more interest is the contrast of this study's analysis with the analyses of the nationalist/developmentalist political economists. They base their analyses on the dichotomy between the IMF/foreign capital and national interests. As discussed in detail in Chapter 3, these scholars tend to hold the IMF responsible for imposing a change process on Turkey which conflicts with national interests (Boratav and Yeldan 2001, Yeldan 2001a, Manisalı 2003). They also criticise 'large capital' in Turkey for collaborating with TNCs.

On the contrary, the fractional analysis shows that change has been mainly anchored in domestic class dynamics. Rather than an imposed rupture, reforms have secured the continuity of the hegemonic part of capital, now freed of the costs of financial protectionism and transformed it into global accumulators. In the process, our analysis

Rahmi Koç of Koç Group also praised his Group's leading role in applying superior standards of corporate governance and its being the first Turkish company that implemented inflation adjusted international accounting standards in its financial disclosures ("Chairman's Message", URL: http://www.Koc.com.tr/english/kurumsal/baskanin_msg.asp (accessed 8 November 2002)).

has showed the limitations of a nationalist discourse when capital itself is strategising and circulating on an inter-national scale.

The nationalists developed the view that neo-liberal policy in Turkey has made the country the playground for speculative attacks of international finance seeking arbitrage gains. Therefore, the ongoing transformation of Turkey is attributed to foreign imposition and inadequate state policies. They argue that these transformations conflict with the national interest. This approach, however, fails to grasp the structural dynamics of 'domestic' capital accumulation process which have led the conglomerates to articulate with global capital in specific forms.

For instance, Manisalı (2003) argues that large Turkish holding companies placed themselves in a dependent position with TNCs, sacrificing a domestically-integrated Turkish economy in which capital, the state, the working-class and farmers would have been in a union to collectively support national prosperity. The result, he contends, is de-industrialisation and dependency.

This interpretation is a limited perspective, contingent more on its nationalist assumptions than on detailed analysis. While competition and relations among capitals are increasingly organised as intertwined global networks, macroeconomic performances of individual countries do not coincide with the performances of individual capitals (Ercan 2003a, 616, 651). Therefore, while the needs of internationalising individual capitals and nation-centred collaborations (among fractions of capital, the state, working-class and farmers) have diverse spatial bases, developmentalists yearn for a different form of internationalisation for individual 'national' capitals. Manisalı, for example, is opposed to the diffusion of foreign TNCs inside Turkey. He also draws attention to increasing control of TNCs over Turkish partners in joint ventures. He suggests that Turkish capital is becoming part of global marketing and production networks of Western capital (although no specific evidence is given in support of this). He advocates an independent (from TNCs and international institutions), integrated development strategy with other domestic agents on the basis of a long-run collaboration in the national interest.

Our analysis of the dynamic accumulators (and, indeed many of the primitive accumulators) shows that individual capitals seek to accumulate internationally irrespective of nationalist considerations. Three issues warrant consideration here. Firstly,

some advance their accumulation by being part of global networks of TNCs, but with Turkey a key site of production.⁶⁹ For instance, Koç Group's Tofaş follows this strategy in its partnership with Fiat, using Turkey as a production and export base.⁷⁰ Secondly, some others enter partnerships based entirely on off-shore production. They prefer joint ventures with partners from those sites to start production if they think that it will provide a more rapid expansion in those markets. For instance, Zorlu Group has sought collaboration with Mexican capital to produce televisions in America. Thirdly, some other capitals pursue global expansion via sole initiatives. Koç Group successfully implements this strategy in Arçelik which has become one of the leading producers of household whitegoods in Europe. Similarly, Zorlu Group's home-textile production in Europe displays another successful example of this form of internationalisation. The scope of manoeuvre in specific sectors determines each individual capital's expansion strategies. After setting up partnerships with world giants in automotive and media and then seeking for foreign partners in finance and retailing, Ferit Şahenk of Doğuş Group colourfully verifies the thesis's argument:

At which point are we [the Doğuş Group] now [after the restructuring of the Group]? We operate in the sectors that are currently part of Turkey's strategy, as well. We will collaborate in those sectors with world institutions, the institutions which compete at the world scale and will see Turkey as part of their growth and development. Some of them will be partnerships while we will have strategic alliances in some others. (Aki 2004a, 2)

However, it must be said that Manisalı's scenario is not entirely without foundation. Koç and Sabancı Groups, in some of their partnerships with the TNCs, have become integrated with global production/sale networks of the TNCs instead of mainly producing for the local market. But the reasons for such cases only confirm the approach taken in this thesis. In the case of Koç Group, the reason leading its Tofaş to be part of the global network of Fiat was related to the intensified competition caused by the Customs Union with the EU. As the international investment bank Merrill Lynch (see *Power* 1999b, 62) advocated, after pursuing the strategy of selling outmoded models with

⁶⁹ Regarding the worldwide trend for international integration of production through strategic alliances and other cooperative agreements between large corporations and complementary partners see Hoogwelt (1997, 111).

⁷⁰ See Löle (1999, 40-41).

high prices under the protection of trade barriers, Tofaş rapidly lost its share of the domestic market and so decided to resolve this problem through integration with Fiat's global strategies as its producer and exporter. This strategy change allowed Tofaş to be converted from a local producer to a global producer.⁷¹ Thus, in this case, Koç Group elevated itself to a global player albeit under the command of Fiat. Rather than implying de-industrialization and dependency for Turkey, these strategies are assisting Turkish capital to expand systematically into both the advanced capitalist countries and into transition economies.

It is argued that in the recent withdrawals of Turkish conglomerates from some sectors of the Turkish economy (e.g. automotive) occurred also because of the changing strategies of foreign partners (see Fırat 2002a). After entering Turkey with a domestic partner, some became more confident in doing business in Turkey alone and began to separate from their Turkish partners (e.g. Toyota & Sabancı). In this process, Turkish capitals reviewed their business strategies and if the partnership was not their core business, or beyond their capability of acting alone, they separated; otherwise, they continued without foreign partner. There are cases in which Turkish conglomerates preferred to end the partnerships when they saw that the global strategies of TNCs had become a barrier to their own expansion. For instance, Sabancı Group left its partnership with the French company Danone in 2003 as it could not achieve its expected levels of profitability with this partnership and now continues to grow in food production on its own (see Fırat 2004). This is also the circumstance in which Anadolu Endüstri Group ended its partnership with Honda (see footnote 48). Thus conflicts, as much as collaborations between capitals, continue!⁷²

⁷¹ For the high export success of Tofaş after the agreement with Fiat in 1994 see Gözütok (2005).

⁷² It would be interesting to find out how many overseas mergers and acquisition cases that the leading Turkish capitals have benefited from as a counterfactual to the argument of acquisitions of Third World corporations by TNCs.

8.8 Conclusion

This chapter, in combination with Chapter 7, has posed Turkish banking reform in terms of the underlying contradictory interests of fractions of capital. It depicts how intra-capital class dynamics are being transformed from domestic-centred capital accumulation to global accumulation under the state and IMF supervision.

This approach is significantly different from the standard interpretations of banking reform which pose finance and banking as a discrete sector with its own determinants and equilibrium. We have seen, on the contrary, that the driving logic of banking reform was deeper than just bank treasuries. That is because the tensions within banking preceding and accompanying the reform coincided with wider conflicts within total capital beyond banking. Given the ownerships of banks by holding companies with investments in diversified sectors, the fall or survival of the banks was determined by overall accumulation strategies of their conglomerates, not just their financial practices.

The finance protectionism of the pre-reform period provided resources for accelerated accumulation for certain fractions of capital but especially for FC was a deliberate state policy. The state boosted financial incomes through its borrowing policy on behalf of the benefactor fractions. It also condoned, at least implicitly, the move into banking by unqualified capitals as well as the use/embezzlement of banks by their conglomerates.

With the end of finance protectionism, a new regime of accumulation required a restructuring in the patterns of accumulation of conglomerates. Accordingly, as the IMF-supervised regulations have been established by the state for 'serious' accumulation, this led to an elimination and reorganisation within capital and FC in particular.

Crucially, in this reorientation, as finance protectionism has withered away, the dynamic accumulators needed to further internationalise their accumulation and thus, they needed to increase their engagement with global capital (given the capital scarcity in Turkey). *This need for further articulation with global accumulation by the dynamic accumulators caused further state-managed change in the late 1990s and early 2000s.*

Despite the widespread argument of weak nation states, under the pressures of globalisation, deregulating their financial (and other sectors) according to neo-liberal

postulates, this study has shown that the Turkish state actually facilitated the necessary transformation in the capital accumulation regime in line with the interests of the fractions of capital that seek to accumulate globally further. The post-1980 period is marked by the socialisation of the costs of this global expansion of Turkish capital. The state support for export-based accumulation and the following state finance protectionism were functional to this end. Moreover, the pursuit of further globalisation coincides with the intensifying competition among late capitalised countries which in turn aggravates the need for capital (Ercan 2003b, 10). Thus, consistent with (Ercan 2003b), collaboration with global capital to accelerate accumulation has become the key issue in the current agenda of Turkish capital.⁷³

⁷³ Therefore, it was not surprising that Turkish capital in unison demanded from the state to do necessary change 'in the climate of investment' in order to attract FDI. As a result, the recent passing of Foreign Direct Investment Law (no. 4875, 5.6.2003) encouraged foreign investments in Turkey (Ercan 2003a). For a short review of the law see also Özeke (2003).

CHAPTER 9

THE BREAK-DOWN OF HOLDING BANKING-I: REDEFINITION OF BANK-CONGLOMERATE RELATIONS

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- 9.1 Introduction
 - 9.2 Setting-up the New Relations between Banks and Conglomerates
 - 9.3 Legislative Amendments to Banks' Non-Financial Equity Holdings and Connected Lending
 - 9.3.1 The Banks Act No. 4389: the First Step towards the Anglo-Saxon Model
 - 9.3.2 Law No.4491: the Abrogation of the Specific Limits on Banks' Non-Financial Equity Holdings
 - 9.3.3 Law No.4672: the Redesign of the Specific Limits on Banks' Non-Financial Equity Holdings
 - 9.3.4 The 'Inconsistency' between Law No. 4491 and Law No. 4672: The Gradually Drawn Line between the Dynamic and Primitive Accumulators
 - 9.3.5 A Mollified Transition
 - 9.4 Conclusion
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9.1 Introduction

In previous chapters it was stressed that banking reform reorganised Turkish capital via further integration with global capital. For this reorganisation, it is contended, state finance protectionism had to be eliminated. The end of finance protectionism required the reconfiguration of holding banking.

For the reconfiguration of holding banking, the state mainly used two mechanisms and set up the legislative base to this end. The first mechanism, bank seizures, eliminated the organic links between the primitive accumulators and their banks (as will be

discussed in the following chapter). The second mechanism was the increasing legal restrictions on the control of banks by the dynamic accumulators. This chapter looks at the new legislation that rearranged the funding relations between the surviving banks and the owner dynamic accumulators.

For many people in Turkey, the changes to the banking system were assumed to be part of the process of Turkey becoming a member of the EU. This argument was also promoted by some politicians. This chapter, however, develops two alternative propositions. First it shows how the Turkish nation state facilitated the integration of domestic accumulation with global capital. This contrasts with the widespread depiction of the Turkish state as 'the feeble state'. This chapter presents evidence of the legislative changes the state introduced. It will be shown that the Turkish state mediated between competing interests within capital by pursuing the agenda of further integration with global capital, and at the same time secured the integration under a mollified transition for Turkish capital.¹ Second, this chapter takes a closer look at the actual process of legislative change and shows that the state did not only enforce structural change, but its policies helped to construct (in part) the sub-fractional divisions within FC. The argument that Turkey had to 'fit in with the EU's banking standards' however was important because this argument helped to legitimise the changes that the state introduced.

9.2 Setting-up the New Relations between Banks and Conglomerates

Banking reform was a process of the state breaking-up holding companies and of re-establishing the hegemony of a particular fraction within FC. Analysing the state's legislative initiatives will provide a deeper understanding of the state's intervention into the fractional conflicts.

The official statements by governments and Ministers that were provided when they were introducing legislative amendments gives some insights into the logic of the state. For instance, a report by the Turkish Parliament's Planning and Budget Commission (Turkish Grand National Assembly (TGNA) 1999b) on the draft Banks Act

¹ This finding supports the proposition by Sassen (1996) who argues the central role of nation states in producing or legitimating new legal regimes in the process of globalisation of capital.

No 4389 is highly revealing. The parliamentary report pointed out the negative implications of the proliferation of holding banking. The report emphasised that the high profitability of Turkish banking was based on state debt finance and that this aggravated the state's debt burden. To prevent bankruptcies of banks, which were misused by their conglomerates, the report said, necessary judicial and administrative precautions should be taken.

In the Parliamentary Assembly, many deputies pointed out how the links among holding banks, the state borrowing policy and the full insurance scheme undermined Turkish banking. For example, Ali Coşkun, Deputy of the Virtue Party, argued (TGNA 2001c, 4) that this link brought the economy and political will under the pressure of 'a rent sector' and made the country 'a colony' which was financially under IMF control. On the same basis, Sait Abça of the Virtue Party indicated holding banking was a crisis-prone feature of Turkish banking:

While the banks were cleaned out, we can clearly see that unfortunately the supervision mechanism has not worked. The system has been cleaned out in two ways; within the triangle of politics-mafia-bureaucracy, we see two channels for the bank embezzlements which were based on political corruption and holding banking.

While on the one hand, through the establishment of fictitious companies, resources have been transferred to those companies, on the other hand non-performing credits have been given to subsidiaries. In this way, banks have been embezzled and unfortunately, we see that the governments have been merely a spectator. (TGNA 1999c, 32)

On the basis of these sorts of arguments, a sweeping judicial and regulatory change was implemented to break down holding banking.² A detailed discussion of each legislative/regulatory arrangement is beyond the confines of the thesis. However, what is crucial here is that every single component of this comprehensive regulatory process served the same agenda of setting-up the new relations between banks and their conglomerates. These state-provided changes included:

- the gradual decrease in the full insurance for deposits,

² Even though the direction was towards breaking-down holding banking, the Assembly was not unanimous. Some deputies supported holding banking for the country. For instance, Ekrem Pakdemirli, Deputy of the Motherland Party, (TGNA 1999c, 46) argued that under the new regulations, banks would not be able to finance highly-needed large projects, especially export-oriented ones, without forming consortiums.

- the establishment of internal control and risk management systems,
- the adoption of international accounting standards and ensuring transparency in financial statements,
- the establishment of control over off-shore banking activities,
- the strengthening of regulations over affecting bank establishment and bank ownership, and
- the setting-up of further restrictions on banks' overall group exposures, etc.

These all functioned to break down the close links between holding banks and their conglomerates.

As Chapter 4 addressed, many banks have financed their group companies with loans and equity holdings despite the legislative restrictions introduced since 1979. As noted in *Euromoney*:

Historically, private-sector banks have evolved as financing arms of the families behind them. Shareholders used bank funds to finance new projects and in the 1970s it was not unusual for a bank to allocate 75% of its loans to its owners. Since the 1980s, though, there has been a trend, encouraged by government legislation, to restrict lending to shareholders and for banks to turn into independent profit centres. But old habits die hard and the field is getting crowded with newcomers with big appetites. The extent to which bank and family business is separated differs from bank to bank but in general the borders are undelineated and invisible. (Münir 1998)

With Turkey's banking reforms, the policy of using holding banking as the financial source of the enhanced accumulation ended.

The following analysis will address how laws to limit interlocking ownership between banks and conglomerates developed during the reform process. Of the many comprehensive judicial and regulatory arrangements, the amendments to banks' connected lending and non-financial equity holdings will be focused on because the new codes on the group exposures of banks are at the core of the redefined relations between holding banks and their conglomerates.³

³ For other legislative arrangements that modified the relations between holding banks and their conglomerates see BRSA (2003c).

9.3 Legislative Amendments to Banks' Non-Financial Equity Holdings and Connected Lending

In June 1999, December 1999 and May 2001, banking law were amended in order to restrict the overall group exposure of banks. In what follows, these three amendments on banks' non-financial equity holdings and connected lending will be discussed.

9.3.1 The Banks Act No. 4389: the First Step towards the Anglo-Saxon Model

The government launched its financial sector reform program with Parliament passing a new banking law in June 1999 (WB 2000, 97). The Banks Act No. 4389 (18.6.1999) introduced restrictions on bank credits that were similar to the norms of the EU (Reisoğlu 1999, 3). The Clause No.11 (see Turkish Government 1999a) generated four critical controls. Firstly, it preserved the restrictions of the previous Banks Act No. 3182: the clause limited the share that banks could acquire from a non-financial institution with 15% of a bank's own funds and required that the total amount of such shares should not exceed 60% of a bank's own funds. Secondly, the limit on total credits to subsidiaries were to not be more than twice a bank's own funds.^{4 5}

Thirdly, a new restriction was put on bank credits. The law introduced the concept of *large credit* in line with EU standards: the Act defined credit which was more than 10% of bank's own funds (as direct or indirect credit, to a person or firm) as large credit and restricted the total of large credit to a maximum of eight times the bank's own funds.⁶ Fourthly, the state aimed to make the limits on direct (25%) and indirect credits (50%) closer to each other (Reisoğlu 1999, 8). To this end, the Act further limited *total credits*

⁴ However, the Act No.4389 removed the total credit limit of 20 times the bank's own funds. Hence, the relation between credit and a bank's own funds was not considered in terms of *total credits*. Reisoğlu (1999, 6) contended that it could not be argued that the state did not see benefits of keeping the limits or saw a drawback in building a link between banks' own funds and total credits because the state did not give any reasons for this change.

⁵ The new law removed the previous arrangement that 'any shares in a company, which were less than ten percent of that company's capital, should not be taken into account in the calculation of the foregoing limits for banks' participation' (see Reisoğlu 1999, 10, 35). The government said the reason for this change was to limit the exceeding practices of holding banks (TGNA 1999a).

⁶ Under a four-year transition period.

given to bank shareholders.⁷ As such, total credits given to real or legal persons having indirect credit relations were limited to 50% of bank's own funds.⁸ On the other hand, the limit on credits given to a real or legal person was increased to 25% of bank's own funds instead of the previous limit of 20%.

The government's reasoning for these legislative changes was that it would prevent the concentration of risk.⁹ Reducing credit risks of banks by restricting indirect credits given to groups of companies as well as to bank shareholders was effective. In addition, allowing banks to give more credit to a single company was expected to provide a relief to the finance problems being faced by SMEs. Furthermore, the upper limit on total large credits was seen as reducing the opportunity for large scale capitals to obtain large amounts of credit.¹⁰ *All these changes made it legally possible for bank resources to be used outside their conglomerates.* The significance of this orientation was that it signalled the standardisation process of conditions of accumulation for Turkish capital in line with global competition.

9.3.2 Law No. 4491: Abrogation of the Specific Limits on Banks' Non-Financial Equity Holdings

The Banks Act No.4389 was amended only six months later by Law No. 4491 (19.12.1999) (see Turkish Government 1999b). This amendment restricted direct or indirect lending to a real or legal person, to connected parties and to bank shareholders with 25% of a bank's own funds (Özeroğlu 2000, 1). To this end, the direct and indirect credit limits were matched at the same level of restriction (25%) (Reisoğlu 2000, 1).¹¹

⁷ To this end, the previous limit of 50% of bank's own funds was preserved, but the definition of this credit was widened by including of the credit given to the second-degree relatives (blood and affinity) of bank shareholders (in a four year transition-period) (see Reisoğlu 1999, 8).

⁸ Instead of the previous 75% maximum rate (under a five-year-transition period).

⁹ See TGNA (1999a); the statement by Recep Önal of Democratic Left Party in TGNA (1999c, 13).

¹⁰ Gülcem Aktaş, "Banka Kredileri Tabana Yayılacak", Finansal Forum, 5 July 1999.

¹¹ The limit on total credits to bank shareholders was further restricted as those were to be evaluated under the general credit limit of 25 % of bank's own funds instead of the previous specific limit of 50%. To this end, the distinction between bank shareholders and other real or legal persons was removed and Clause No.11/8 which separately arranged credits to bank

All these changes caused the concentration of risk on any one particular group to be reduced.

Importantly, with this amendment, *subsidiary shares were accepted as credit* and the limits of 60% of a bank's own funds on total subsidiary shares and of 15% on shares from a single subsidiary were annulled. Since subsidiary shares were included in the definition of credit, the limit on credit extended to a subsidiary became 25% of a bank's own funds. On the other hand, the limit on total credit to subsidiaries (which was two times of a bank's own funds) was annulled. *Whether or not these changes on subsidiary shares restricted the opportunity of fund transfers from holding banks to their conglomerates became controversial.*

When the limit on total subsidiary shares was removed, this meant that banks could increase their number of subsidiaries as much as they wanted. Yet, given that the shares in a subsidiary higher than 10% of a bank's own funds were accepted as large credits, Reisoğlu (2000, 2) contended, the upper limit on total large credits was expected to restrict the subsidiary shares which were larger than 10% of a bank's own funds.

However, some newspaper columnists criticised the amendment on the grounds that it might reinforce the holding banking structure despite the large credit limit. The criticisms were based on the argument that since the previous limit on total credits to subsidiaries (up to the double of a bank's own funds) was removed, and large credits could be expanded up to a total of the eight times the amount of a bank's own funds, large credits to subsidiaries found room for expansion. This limit was so high, it was as if it was removed completely. Cemal Ersin of Akşam Daily¹² contended: 'in the past, banks were finding various formulae to have new subsidiaries because of legal limits. Now, it is as if there is no limit on new subsidiaries'. Vahap Munyar of Hürriyet Daily noted that bankers unanimously said that this amendment opened the door for banks to establish the holding structure themselves instead of being part of a conglomerate.¹³ *This meant FC could recentralise as a result of the new legislation.*

shareholders was abrogated. Furthermore, the *indirect credit limit* was decreased to 25% of bank's own funds from 50%.

¹² Cemal Ersin, "GSM İhalesi ve Bankalar Kanunu", Akşam, 28 April 2000.

¹³ Vahap Munyar, "Bu Kanun Bankaları Holding Yapacak", Hürriyet, 24 April 2000.

In the Assembly debates, however, the amendment was evaluated as limiting the banks' overall group exposures. There were two lines of opinion within the opposition parties. Some deputies were cautious/critical about the proposed restrictions on banks. Some others, however, stated their support for the legislative change in order to break down holding banking.

The cautious/critical ones¹⁴ drew attention to the fact that the restrictions implied that Turkey was leaving a policy of using bank subsidiaries for the industrialisation of the country. Those deputies were the voice of the dynamic accumulators which still needed to adjust their portfolios of connected lending and subsidiary shares to the new limits. Among those accumulators, İşbank came to the fore. As Chapter 11 will show, İşbank continued to sell off subsidiary shares during banking reform in order to conform with the new limits and particularly because of its new investments in the privatized telecommunication and energy sectors. The stress on the continuous importance of bank subsidiaries for the country's industrialisation has been explicitly declared by İşbank management itself.¹⁵

The deputies who were most critical of the changes argued that, although this amendment was a reaction to the embezzlement of some banks in the past, it would force all banks to sell off their subsidiaries. Using the example of the large scale POAS privatisation which was won by İşbank,¹⁶ it was contended that the state would face difficulty in the privatisation process as the banks would not be able to make successful bids if they could not realise substantial capital increases.¹⁷

However, even the critical deputies' concern was more on giving a long enough transition period for banks to adjust to the new limits rather than a radical opposition to the break-down of holding banking. The large-scale subsidiaries owned by İşbank were pointed to and it was reported that some large banks would be unable to sell their

¹⁴ See for example the statements by the Deputies of the True Path Party Kemal Kabataş, (TGNA 1999f, 4; 50-51); Ali Naci Tuncer (TGNA 1999g, 4); Ufuk Söylemez (TGNA 1999g, 56); and the Deputy of the Virtue Party, Aslan Polat (TGNA 1999g, 54).

¹⁵ See Chapter 11, sub-section 11.4.1.

¹⁶ In partnership with Doğan Group.

¹⁷ See the statement by Aslan Polat of the Virtue Party in TGNA (1999g, 54).

subsidiaries within the proposed six-year period.¹⁸ For instance, Kemal Kabataş, Deputy of the True Path Party, (TGNA 1999f, 4; 50-51) contended that the inclusion of subsidiary shares in the definition of credit was not a criterion of the EU: 'this arrangement is specific to us, it is a peculiar implementation which is derived from our narrow approach and, to a large extent, it is being imposed by the IMF stand-by program'. According to Kabataş, since subsidiary shares were accepted as credits, the high value of some bank subsidiaries would easily exceed the 25% general credit limit.¹⁹ Therefore, Kabataş asserted: 'the banking sector is being trapped; it faces a high pressure for the contraction of credits and the liquidation of subsidiaries'. These arrangements, he argued, *primarily concerned 'leading private banks* and would lead these banks to find a solution to get rid of the prestigious bank subsidiaries which were established due to the state subsidies'. Even though Turkey was giving up the policy of bank subsidiaries which had created significant industrialisation in the country, Kabataş argued, since the state had encouraged that model itself, at least banks should be given a longer period of time for adjustment.

On the other hand, some deputies from the opposition parties supported the proposed restrictions by pointing out the link between holding banking, bank embezzlements and the full insurance scheme for deposits. Their position was mainly in line with the agenda of productive and commercial capital, particularly with the small and medium scale ones. For instance, Bekir Sobacı of the Virtue Party, (TGNA 1999f, 49) justified the inclusion of subsidiary shares in the definition of credits: 'because powerful capital groups have established their banks and financed their subsidiaries in such a country that has been heaven for deposits thanks to the given guarantee'. Cevat Ayhan of the Virtue Party (TGNA 1999g, 57) added that these restrictions would allow small-to-medium scale firms to have access to credits that were currently allocated by banks to their subsidiaries.

¹⁸ See the statement by the Deputies of the True Path Party Ali Naci Tuncer in TGNA (1999g, 4) and Ufuk Söylemez in TGNA (1999g, 56).

¹⁹ Kabatas implied the inclusion of indirect subsidiary shares under the general credit limit of 25% of a bank's own funds. That is because the limit on shares in a single subsidiary was already restricted with a lower one, 15% of bank's own funds, previously.

The governing coalition parties, not surprisingly, supported the restrictions. Masum Türker, Deputy of the Democratic Left Party, (TGNA 1999f, 52) assessed the inclusion of subsidiary shares in the definition of credits would encourage banks either to increase their bank's own funds or to eliminate some indirect credits and subsidiaries to adjust to the new limits. Minister Recep Önal (TGNA 1999f, 56) supported the establishment of the 25% limit that restricted direct and indirect credits and subsidiary shares on the grounds that this would prevent high concentration in bank resources and allow their allocation to a large number of firms with minimal risk. Önal stated that subsidiary shares were considered as credits also in the EU and the risk that could be put on one person, (including subsidiary shares and credits), was limited to 25% of a bank's own funds. Önal maintained: 'we want to make our banks adjust to this 25% risk limit in the next six years'.

9.3.3 Law No. 4672: the Redesign of the Specific Limits on Banks' Non-Financial Equity Holdings

One year later after the above legislative change, the Banks Act was amended again. Law No. 4672 (29.5.2001) put back the previously-removed separate restrictions on subsidiary shares (see Turkish Government 2001a). This was critical to the determination of whether banks would be classified as primitive or dynamic accumulators.

The new law brought in stricter restrictions to limit overall exposure to related parties. In line with EU directives, the law required the redefinition of a bank's own funds, the introduction of a consolidated bank's own funds and the calculation of lending limits on a consolidated basis.²⁰ These changes aimed to limit banks' group credits even further. The BRSA's power to influence lending limits and CARs increased through the

²⁰ The position of banks is evaluated by consolidating the financial statements of their direct and indirect affiliates and of their partnerships as well as the partners, and of the financial and non-financial partnerships owned and controlled directly and indirectly by these partners.

Agency's ability to define 'own funds' at its discretion.²¹ In addition, the definition of credit was broadened with the inclusion of forwards, options and other derivatives.²² More importantly, the amendment re-established the separate limits on banks' subsidiary shares. A bank was now allowed to participate with up to 15% of its own funds (for each such participation) in a non-financial institution, provided that the total sum of such non-financial participations did not exceed 60% of its own funds.^{23 24} Although changes to the separate limits on subsidiary shares were considered, their inclusion in the definition of credits continued.

The redesign of the separate limits on equity holdings was a shock for the banks which had recently acquired new subsidiaries. They protested that the amendment left two options for them: either some subsidiaries would have to be (completely or partially) sold off or the banks' own funds would have to be raised (Bilgin 2001, 23).

The amendment aimed to reconcentrate banking capital as a preparation for global competition. The banks which could increase their capital (with or without the sales of subsidiaries) might have a chance to fall into the category of the 'dynamic' accumulators (i.e. not to face seizures). In this respect, the legislation was critical in drawing the line between the primitive and dynamic accumulators.

The transition inevitably created tensions within FC as individual capitals had different capacities to cope with the change. Because of protests by some banks, the first extension of the deadline (four years) was prolonged to eight and a half years.²⁵ As a

²¹ Kemal Kabataş, Deputy of the True Path Party, (TGNA 1999g, 5) stated that the BAT had opposed the implementation of the consolidated basis for standard ratios and other legal limits by arguing that it was not feasible under the existent subsidiary structures of banks.

²² Furthermore, by a new regulation by the BRSA (the Regulation on Establishment and Operations of Banks) on June 27, 2001, additional measures supported the amendment in the banking law. This regulation categorises banks' shareholders and subsidiaries in the same risk group and calculates loan exposures for a single group considering direct and connected lending in order to prevent (credit) risk concentration (see BRSA 2002e, 38).

²³ For the amendment in May 2001 see also (Canevi & Çetinkaya 2001).

²⁴ However, the subsidiary shares which were less than 10% of that company's capital were excluded in the calculation of the limit on subsidiary shares. This was criticised by the deputies who put their opposition to the change in the Banks Act during the commission negotiations in the parliament. They argued that this would allow banks to transfer more resources to their subsidiaries (see TGNA 2001b and 2001c).

²⁵ Nursel Karsavuran, "Bankalar 8 Yıl Daha Sanayide", Finansal Forum, 4 May 2001.

result, banks had to adjust their subsidiary shares to these new limits by 31 December 2009.

Parliamentary debates regarding the amendment give further insight into the economic and political dimensions of the legislation. The amendment was criticised on the basis of the tension between national and foreign interests. The following statement by Deputy Nevzat Yalçintas of the Virtue Party reflected this tension:

Banks are now crying out. They are sending us letters, they are calling us. Some people look at [the issue of] subsidiaries doubtfully. Why do they do this? In the development of Turkey ...banks played an important role because capital accumulates in banks. In developed countries, capital has already accumulated and even overflowed and turned to become international capital. Now we can see the tracks of that international capital in the letters of President Bush...He says "be brave with the telecommunication [Law]. In my opinion, he is threatening us and saying "if you do not do this, you are a coward". (TGNA 2001c, 39)

Some other deputies considered the redesigned limits on bank subsidiaries to be 'a death sentence for national banking'. Firstly, they were concerned about the privatisation process in key sectors as the state might need the participation of the Turkish conglomerates incorporating banks in those privatisation bids. For instance, Aslan Polat of the Virtue Party (TGNA 2001c, 86) drew attention to the objection by İşbank and the BAT to the redesign of the separate limits on subsidiary shares in May 2001. Polat stated that İşbank had offered two privatisation bids and provided more revenue to the state than expected. But because of these stricter restrictions, it could not bid for Turkish Airlines. Since other banks were also limited by the same restrictions, they could not bid either, and as a result, no local buyer could be found to buy Turkish Airlines.

Secondly, it was argued that the subsidiaries of national banks might be captured by foreign capital, as Ali Coşkun of the Virtue Party (TGNA 2001c, 6) indicated. Coşkun stated that, in the nine-year transition period, İşbank would have to sell off its 85% stake in its worldwide corporation Şişe Cam, but no domestic capital could afford to buy it.

Aslan Polat, also of the Virtue Party, (TGNA 2001c, 86) mentioned a letter sent by the management of İşbank to the Assembly commissions. In this letter, *İşbank asked for the removal of the inconsistency between the indirect credit limit and the total subsidiary share limit*. This inconsistency, it was said, was caused by the inclusion of subsidiary shares in the definition of credit. This brought indirect subsidiary shares and

indirect credits to subsidiaries all together under the indirect credit limit. Therefore, *it restricted the total resources that could be allocated to subsidiaries having indirect credit relations (both in the form of shares and credits) to 25% of banks' own funds. This meant that, in the case of perseverance of the indirect credit definition (i.e. not the exclusion of indirect subsidiary shares from the definition of indirect credits), the total subsidiary share limit (60% of a bank's own funds) would become ineffective.* İşbank warned that if a change was not made, it would have to sell off Şişecam. However, a proposal to the Assembly to address this inconsistency was not accepted.²⁶

The BAT (2001b) contended that because the risks on subsidiary shares were redesigned, these shares should no longer be included in the definition of credit. However, Orhan Emirdağ, the then General Director of Pamukbank and Member of the Board of Directors in BAT (BAT 2001b), claimed that as subsidiary shares continued to be included, only direct subsidiary shares should have been considered instead of direct and indirect subsidiary shares altogether. However, despite all these objections, the pursuit of looser restrictions was not successful.

9.3.4 The 'Inconsistency' between Laws No. 4491 and Law No. 4672

The government stated that the change in the Banks Act in June 1999 would provide full synchronisation with the EU standards (see TGNA 1999a). The BRSA (2001b, 5) also confirmed that the amendments to bank credits in December 1999 were consistent with EU directives. This argument was also repeated by the government regarding the May 2001 amendment:

With the change in the Banks Act No.4389 through the law no. 4491, all subsidiary shares of banks were allowed to be considered under the general credit limit with the

²⁶ Özince evaluated the nine-year-transition period to be suitable for the adjustment of bank subsidiary relations in the Anglo-Saxon model. However, regarding the other dimensions of this adjustment process, such as the effects on small shareholders, he pointed out the shortness of the deadline and warned that 'accumulation of national banking will be wasted'. Özince also drew attention to the supportive arrangements which were made in the EU to facilitate mergers, separations and equity changes among companies in the 1990s and demanded similar arrangements to be made in Turkey: '...in the past two years, any facilitating law was not passed in terms of either taxation or capital markets. How will İşbank be able to sell off Şişe Cam which is one of the most important factories of the Turkish glass industry?' (Dünya, 11 May 2001).

treatment of all kinds of subsidiary shares as credits. However, moving from the principle that banks should operate mainly in financial markets, as consistent with both the EU arrangements and other international implementations, direct or indirect investments of banks through subsidiaries in non-financial sectors are separately restricted. In this framework ...in addition to the continuity of the [previous] general credit limit, a specific restriction was put on equity investments of banks in non-financial partnerships (TGNA 2001a)

Since the EU standards had remained constant throughout the period of the bank reform legislation, the rationale of the redesign of bank limits (Law No. 4672) in terms of the EU standards is far from convincing. More convincing is that there was a systematic reason for the state policy: as the findings of this study show, the state was actively and strategically restructuring the banking sector to make it globally competitive.

The clear effect of the two stages of the reform was that it facilitated acquisitions of more subsidiaries by banks, recentralising capital under FC. This, it was argued in Chapter 5, was central to the state's strategy for developing a concentrated, globally integrated banking sector.

During the Assembly debates, Cihan Paçacı of the True Path Party (TGNA 2001c, 47-48) drew attention to the inconsistency between the reasoning of the synchronisation with the EU standards and the legislative change at the end of 1999. Paçacı stated that with this change, banks were allowed to have subsidiaries and give them credits without any restriction apart from the 25% bank's own fund limit. This last change, he argued, encouraged banks to become holding companies whereas previously holding companies tended to have their own banks. Paçacı pointed to the newly acquired bank subsidiaries in the telecommunication and energy sectors. He maintained that *if there was no special reason for the removal of separate restrictions on subsidiary shares in December 1999 and their redesign in May 2001*, this implementation could be accused of 'incompetence and ignorance'. It would appear Paçacı was not fully aware of the significance of the legislative change. He simply advocated that a suitable adjustment period needed to be given for the new restrictions 'since the banks that acquired new subsidiaries in the meantime are innocent'. But the wider significance for our analysis should not be lost.

The chief bank auditor Özeroğlu (2000, 2) also asserted that, as long as banks acted within the limit of 25% of a bank's own funds (in having shares and giving credits to a single subsidiary), they could acquire an unlimited number of subsidiaries. Özeroğlu

added that there was no other obstacle for banks apart from the limit on large credits and it was so high that it did not form even an actual limit. Hence, contrary to the argument that banks would sell off their subsidiaries and not acquire new ones, banks were establishing holding structures. The acquisitions of the last privatised SEEs by some banks showed this was the case, Özeroğlu stressed.

A similar argument was made by the BAT (2001b). The Association stated that the December 1999 amendment provided a wider scope for banks to have more subsidiaries (in order to justify its demand for the exclusion of subsidiary shares from the definition of credit in the May 2001 amendment). The Association contended that, when subsidiary shares were included in credits, a bank could place funds up to 25% of its own funds into a subsidiary and hence, total resources that could be placed in subsidiaries could be much more than the 60% total subsidiary share limit.

In summary, the December 1999 amendment aimed to limit the concentration of risk by banks in real or legal persons, bank shareholders and a group of holding companies with 25 % of a bank's own funds. This required the sale of the subsidiaries that exceeded this limit and meant a fundamental restructuring of banks, particularly for leading banks such as İşbank. However, on the other hand, banks were allowed to place more funds into subsidiaries, which were under this limit, in the forms of credits and shares. In other words, the banks were allowed to have more subsidiaries, but in lower value subsidiaries (lower than 25% of banks' own funds). The May 2001 amendment reversed these total limits.

Why did the state 'change its mind' and reverse its position by amending the Banks Act in December 1999 and May 2001 – a period of less than two years? It seems clear that the EU standards, which did not change over this period, were not the driver of change. The next section provides an answer to this question.

9.3.5 A Mollified Transition

What was the material basis of the legislative discontinuity? This study suggests the underlying reason which led the state to allow banks to have more subsidiaries under

the general credit limit of 25% of a bank's own funds was related to the then crisis conditions in Turkey.

Under the adverse effects of the 1997 Asian and 1998 Russian crises, the contraction in external and domestic demand augmented the rate of non-performing credits especially in the textile, automotive and trade sectors from 1998 onwards. In the process, banks preferred to take over new subsidiaries and fixed assets in exchange for unpaid credits rather than recording them as non-performing assets and setting aside necessary loan-loss-provisioning in their balance sheets. For example, the value of subsidiary shares increased to 1.8 quadrillion TL up from 655.3 trillion TL and fixed assets also rose to 1.7 quadrillion TL up from 952 trillion TL between June 1998 and June 1999. Despite these 'involuntary' acquisitions, non-performing credits also increased around 591% in TL terms (399% in \$US terms). The rate of non-performing credits to total credits increased to 10% in June 1999 up from 2.5% in June 1998 (Yeşiloğlu 1999, 217). Erhan Ersöz, the General Director of Vizyon Consulting, stated :

The banks have benefited from tax incentives for a couple of years and sold off their non-financial subsidiaries. Now, they have been acquiring new subsidiaries for one year willy-nilly. Hence, the value of permanent assets in the balance sheets is rising. (Yeşiloğlu 1999, 217)

The increase in the non-performing credits mostly belonged to the SDIF and state-banks while private banks had the largest share in the rising equity participations and fixed assets.²⁷ Meanwhile, the sudden increase in permanent assets²⁸ in 1998 halved the

²⁷ For example, private banks had subsidiaries amounting to 1.5 quadrillion TL of total subsidiaries which were equal to 1.8 quadrillion TL. Three banks which were then owned by the SDIF (Türk Ticaret Bank, Interbank and Bank Ekspres) had non-performing credits amounting to 335.6 quadrillion TL equal to one-third of the total non-performing credits of the sector (Yeşiloğlu 1999, 217-218).

The state banks had non-performing credits equal to 594.5 quadrillion TL while private banks, foreign banks and development-investment banks had a low volume of non-performing credits that amounted to 140 quadrillion TL at that period (Yeşiloğlu 1999, 217). See also Dündar (1999).

²⁸ Non-performing credits, equity participations, affiliated companies and fixed assets.

net working capital²⁹ of banking, but especially private banking. The decline in net working capital can be seen in Table 9.1.

Table 9.1 Net working capital of banking (USD mn)

| Year | Net Working Capital |
|------|---------------------|
| 1995 | 923 |
| 1996 | 1,313 |
| 1997 | 2,612 |
| 1998 | 1,296 |

Source: *IAT* (1999, 46).

Before the 1999 legislative amendment, Engin Aras, General Director of Yurtbank pointed to the adverse affects of the crisis on banks' balance sheets, reflected through increasing permanent assets. He stated: 'one should look at whether permanent assets are exceeding the banks' own funds or not. If they are exceeding, precaution should be taken. If they are not exceeding, it means that the situation can be managed with the banks' own funds' (Yeşiloğlu 1999, 218).

However, the non-performing credits reached US\$ 11 billion by June 1999 by exceeding even the total banks' own funds which were then equal to US\$ 7.7 billion. Therefore, it became essential to manage the growing voluntary/involuntary acquisitions of subsidiaries. To do this, increasing banks' own funds and/or selling off some subsidiaries and fixed assets became critical. However, this was almost impossible for the banks to do under the then prevailing crisis conditions (Yeşiloğlu 1999, 218- 219).

From these data it can be contended that the December 1999 amendment aimed to facilitate the legal basis for the increased equity holdings under the problem of rising non-performing credits. Importantly, this facilitation was beneficial for the survivor banks of the period (although some of these banks were later seized).³⁰ The overall effect

²⁹ Shareholders' equity + current year income + previous year income - (non-performing assets + equity participations + fixed assets + affiliated companies).

³⁰ It must be noted that three days after the Banks Act came in force, five other banks were confiscated by the SDIF in 22 December 1999. These banks were Egebank, Yurtbank, Sümerbank, Esbank and Yaşarbank.

was the legislative facilitation of increasing subsidiary shares and fixed assets. In effect this constituted a state subsidy to the banking sector under the prevalent crisis conditions.

While the 2001 legislation provided the legal base for the ongoing expansion in the banks' subsidiaries, this expansion did not cause any sudden adjustment. Banks were given a transition period until 2009 in order to adjust their equity holdings to the limits. The following statement by Orhan Emirdağ, the then General Director of Pamukbank and Member of the Boards of Director in the BAT, is striking:

The restrictions on equity participations, which were previously removed via the Banks Act No.4491, were put again. If a transition period was not given, the redesign ...could have caused important economic consequences. You make an arrangement, open your front side [the legislative change allowed the banks] and in the meantime, also some developments have occurred in Turkey. Some banks have acquired significant [volume of] subsidiaries. Now, six months later to tell 'sell off' [to them was not suitable]; furthermore, the state gained significant revenues from some of those subsidiary acquisitions [the privatized SEEs]. It was not right now to reverse the bridges and to expect the sales of those subsidiaries in a short time. To this end, a nine-year adjustment period was given. For the first time we succeeded [to obtain such a long transition period]. (Emirdağ 2001)

The state support continued, via new incentives given for the sales of subsidiaries and fixed assets, when the restrictions on subsidiary shares were put again in 2001.³¹ Therefore, the state not only decisively managed the legislative process for the breakdown of holding banking, but also mollified the transition under the then prevalent crisis conditions.

9.4 Conclusion

The legislative arrangements during banking reform are popularly considered to have involved the Turkish banking sector adapting to suit to the EU banking regulations

³¹ With the amendment in Corporate Taxation Law (The temporary clause no.29/6 which was added by the Law No.4684), if the revenues from the sales of subsidiaries and fixed assets (which were owned by banks and the shareholder institutions in those banks altogether) were added to bank capital, the revenues would be exempted from corporate and some other taxes on July 3, 2001 onwards. In addition, the same exemption was given to the firms that had credit debts to banks. The transfers of subsidiary shares and fixed assets by debtor firms to banks in exchange for the debts were covered under the same exemption (Güngör 2001, 22). See also Yayla (2001).

as part of the process of Turkey becoming a member of the European Union. Yet, behind this rhetoric, there was an agenda to restructure capital in Turkey.

First, the legislation helped build a market-oriented, competitive banking structure through a reorganisation within FC: that is, the legislation redefined the relations between banks and their conglomerates. To this end, the limits on banks' connected lending and subsidiary shares were further restricted along with increased consolidated supervision and improvements in the monitoring of banks' operational risks.

Second, the process of legislative change had implications for the dynamic accumulators as they solidified their hegemony within FC and formed the core of the new banking sector whilst the primitive accumulators were eliminated. The redefinition of bank-conglomerate relations assisted the transition to the new accumulation regime (the increasing international orientation in accumulation) which had been sought by the dynamic accumulators.

Third the legislative changes also mattered in terms of making a distinction between the dynamic and primitive accumulators. The expansion in bank subsidiaries was a central issue that determined which conglomerate would survive and which would not. We saw in Chapters 7 and 8 that, before the restructuring itself, there was not a clear division between the many old primitive accumulators and the dynamic accumulators. But, it was argued, the distinctive characteristic of the old primitives was that the types of exposure they had left them vulnerable to an economic downturn. This, indeed, is what happened.

As well as using legislation to break down holding banking in Turkey, the state also was active in supervising the adjustment of the sector. The state provided time for the transition to occur so that it would result in little disruption to the banks that were benefiting from the new regulations

As a result, Turkey's banking capital became concentrated and centralised and more likely to survive global competition, and the banks of the dynamic accumulators had to increasingly orient themselves towards funding beyond individual circuits of their owner capitals. This indicated the standardisation of the rules of competition for Turkish capital.

The Turkish state was not a 'feeble state' but central to the restructuring of Turkish capital. The state facilitated a globally-oriented banking reform as a requirement for further integration of domestic process of accumulation with global capital.

CHAPTER 10

THE BREAK-DOWN OF HOLDING BANKING-II: THE BANK SEIZURES

- 10.1 Introduction
 - 10.2 The General Rationale Underlying the Bank Rationalisation Process
 - 10.3 Conflicts within Capital about Bank Seizures
 - 10.4 The Establishment of the Legal Basis for Bank Seizures
 - 10.5 The Implications of the IMF Involvement for the Interests of Creditor Foreign Banks
 - 10.6 Tensions within Finance Capital about Bank Rehabilitation: Seizures versus Alternative Modes
 - 10.7 Conflicts within Capital about Apportioning the SDIF banks
 - 10.8 Conclusion
-

10.1 Introduction

What led some banks to be seized but not others was explained in the previous chapters within the broader context of the patterns of accumulation of conglomerates. It was argued that bank seizures excluded the primitive accumulators from finance so that the dynamic accumulators solely could form FC under the redefined parameters of bank-industry relations. In finance the relative power balance among conglomerates was altered as the seized banks were either liquidated by the state or acquired by the dynamic accumulators and foreign capital.

This chapter discusses how the seizure process proceeded. The analysis of the seizure process will show how the state mediated between opposing interests within capital within the context of IMF supervision.

The seizure process involved more than 20 banks, and in many important respects, each case was different. However the objective of this chapter is to identify the role of the state in the rationalisation of failed banks, and it will be shown there were five general strategies used by the state to rationalise the banks. Table 10.1 identifies the five ways in which seized banks' assets were rationalised: takeover, merger with the other SDIF-banks, sale, liquidation, and merger with state banks. Takeover by the dynamic accumulators was clearly the dominant form of rationalisation.

Table 10.1 Rationalisation of Turkey's Banks by the SDIF and Current Status (as of June 2005)

| Taken-over | Merged with other SDIF-banks | Sold | Under Liquidation | Merged with State Bank | Under SDIF's Control |
|-------------------|-------------------------------------|--------------|--------------------------|-------------------------------|-----------------------------|
| Türkbank | Sümerbank | Bank Ekspres | Türkbank | Pamukbank* | Bayındırbank |
| Bank Ekspres | -Egebank | Sümerbank | İmar Bank | | |
| Interbank | -Yurtbank | Demirbank | | | |
| Egebank | -Yaşarbank | Sitebank | | | |
| Yurtbank | -BankKapital | Tarişbank | | | |
| Sümerbank | -Ulusalbank | | | | |
| Esbank | | | | | |
| Yaşarbank | Bayındırbank | | | | |
| Etibank | - Etibank | | | | |
| Bank Kapital | - Interbank | | | | |
| Demirbank | - Esbank | | | | |
| Ulusalbank | -EGS Bank | | | | |
| İktisat Bank | -Toprakbank | | | | |
| Sitebank | -İktisat Bank | | | | |
| Tarişbank | -Kentbank | | | | |
| Bayındırbank | | | | | |
| Kentbank | | | | | |
| EGS Bank | | | | | |
| Toprakbank | | | | | |
| Pamukbank | | | | | |
| İmar Bank | | | | | |

* Pamukbank merged with the state-owned Halk Bank.

Source: Updated from SDIF 2003 (9-10).

This chapter's focus on bank seizures includes both the management of the seizure process and the resolution of the seized banks (these two processes together are called 'bank rationalisation'). In particular, the chapter addresses how bank rationalisation served to protect the interests of the dynamic accumulators and foreign banks. It shows that Turkey's bank rationalisation involved a complex interaction between three forces: contradictions within capital, actions by the national state, and pressure from the IMF. The first section of this chapter explores the rationale behind the bank rationalisation process. Second, it discusses the contradictory interests within capital about bank seizures and which particular fractional agenda the state intervention served. The third section considers the legal framework the state established to allow the bank rationalisations to occur.

Drawing from these issues, the chapter next discusses the role of IMF involvement in the process of bank seizures by considering the issue of the protection of the interests of foreign creditors. The analysis shows that banking reform removed the weak members of FC to enhance its strong parts for a more globally integrated FC. Fourthly, the fractional analysis further looks at opposing interests within FC on the mode of bank rehabilitation for a deeper understanding of the state (and IMF) intervention in the seizure process. The fifth section considers how the state intervened in the conflicts between the different fractions of capital, including providing subsidies to support the bank rationalisation.

This chapter's analysis challenges with the nationalist interpretation of banking reform which argues that bank seizures served to protect foreign interests. Yet as will be seen throughout this analysis, the bank rationalisation process provided relief mainly for 'Turkish' capital (particularly for the dynamic accumulators).

10.2 The General Rationale Underlying the Bank Rationalisation Process

In Chapter 6, the dynamic accumulators were identified as the survivors of the bank reform process. Yet their survival was not fully independent of the elimination process of the primitive accumulators. Indeed, this elimination process was fulfilled in a

way that strengthened the dynamic accumulators and rationalised the strong Turkish banks for global competitiveness.

The state assisted the dynamic accumulators via the bank rationalisation process in five ways. Firstly, the state intervention avoided systemic crises in financial markets. Secondly, the state accelerated the rationalisation process so that the dynamic accumulators could quickly unburden the remnants of the old regime. Thirdly, state intervention provided the dynamic accumulators with access to good assets of the primitive accumulators' banks. Fourthly, the state guaranteed the risks of foreign banks in Turkish banking as a protection which went ultimately also to local banking conglomerates. And lastly, the management of the bank rationalisation process assisted the rising centralisation and concentration of (banking) capital, which was a precondition for international banking expansion by the dynamic accumulators.

Therefore, the IMF wanted bank seizures in order to get rid of finance protectionism, but it does not follow that this was done in the name of 'free markets', for we find the state continuing to protect the dynamic accumulators throughout the bank rationalisation process. The seizures were not only to eradicate the primitive accumulators without causing a financial crisis. The driving logic, indeed, was more systematic: the advancement of accumulation by the dynamic accumulators including the advancement of the relationship between foreign banks and the dynamic accumulators.

Nor should the IMF be seen simply as the enforcer. The IMF certainly oversaw the process of banking reform, including legislative amendments, so that very detailed arrangements were stipulated in the Letters of Intent. Furthermore, the IMF overruled the Turkish state as the state tried to go softly, trying to mediate between fractions of capital. For instance, during the takeovers of five banks in July 2001, Engin Akçakoca, the Head of the BRSA, strikingly revealed the role of the IMF in bank seizures:

The banking watchdog had planned to give these banks three to four weeks to improve their conditions after the passage of tax favors, a plan which was shelved due to IMF resistance. More appropriate solutions than a bailout could have been devised if this opportunity was granted to these banks.¹

¹ "Ex-owners of EGS Bank say bailout unfounded ", Turkish Daily News, 3 August 2001, URL: http://www.turkishdailynews.com/old_editions/08_03_01/econ.htm#e1.

Being aware of possible political implications of such an explanation, however, Akçakoca needed to add: 'it wasn't an imposition but joint action.'²

Thus, the IMF position was controversial during the reform, and especially criticised by the nationalist/developmentalist view.³ However, rather than being an imposer of 'external forces', the IMF was an integral part of the realignment of capital within Turkey, where it both served the interests of global financial management and facilitated parts of Turkish FC in becoming globally viable.

10.3 Conflicts within Capital about Bank Seizures

There was conflict between the primitive accumulators, the dynamic accumulators and industrial/commercial capital over the restructuring of the bank system and over who would pay for the costs. As would be expected, the reaction of the primitive accumulators to bank seizures was self-defence. As would be expected, the reaction of the primitive accumulators to bank seizures was self-defence. The primitive accumulators opposed confiscations which expelled them from finance and contributed to their decline in other sectors. They demanded state support for their banks to make them viable and cope with the transition to the new era. For instance, before the confiscation of his bank, Kentbank Vice-General Director Uğur Gürses stressed the role of the state in the engagement of banking with state debt finance as follows:

There is a criticism that the banks are buying and selling T-bills and not doing real banking. If the banks are on the streets, it is because of financing the state. None of us is innocent ...In Turkey, as regard to open positions, it is argued that banks have been assuming an excessive interest burden and risk. Banks cannot do this by saying 'let's make profit'. If the banks did this, it means that one side condoned it. Therefore, the issue should be seen within a broader picture and *the Banking Regulation and Supervision Board should work in such a framework*. (Bozkuş 2000, 44, emphasis added)

Similarly to other primitive accumulators, Gürses wanted to remind the state of one fact: both the state borrowing policy and accompanied underwriting practices of

² "Turkey bails out five insolvent banks, closes two others", Turkish Daily News, 11 July 2001, URL: http://www.turkishdailynews.com/old_editions/07_11_01/econ.htm#e1.

³ See the statement by Deputy Kemal Kabataş of the True Path Party in (TGNA 1999f, 2).

banks to support their conglomerates were the products of the state. Hence, Gürses implied, although finance protectionism was to come to an end with banking reform, the BRSA, as the orchestrating institution of this change, should consider the state's obligations, too. The BRSA should not seize the banks that simply responded to incentives provided by the state itself.

On the other hand, the dynamic accumulators were strong supporters of the elimination of the primitive accumulators. They wanted to get rid of the bank players that had been mainly depended on state-based rents. The dynamic accumulators, as indicated in Chapter 8, needed this elimination as a precondition for the restructuring of their own accumulation globally. Not only did they fear the systemic risk that might follow from the protracted decline of the primitive accumulators once finance protectionism ended, they also sought to command the some of the operations abandoned by the declining primitive accumulators. The consequence, said the dynamic accumulators, would be the increased strength of remaining banks and increased confidence in the banking sector generally. The General Director of Akbank, Zafer Kurtul, opposed the argument that seizures led to distrust in banking: 'on the contrary, the trust on large banks has been strengthened. This is a very healthy development. If you notice, the seized banks were very small banks; as known, they were financially weak banks'.⁴

The dynamic accumulators demanded a quicker elimination of weak banks by stressing their negative effects on the whole economy. For instance, after the takeovers of Etibank and Bank Kapital, Chairman of the Koç Group Rahmi Koç complained about the ease with which people could establish banks in Turkey and added: 'the banks should not have been so easily unleashed'.⁵ According to Koç, if necessary interventions had been made in time, the losses of the sunken banks would have been cut by half. The following statement reflects well the frustration by the dynamic accumulators regarding the slowness in the seizure process:

The disturbance in the banking system and the non-elimination of ailing banks caused the crisis conditions. In September [2000], we asked [the state] to eliminate the banks that could not adapt to falling interest rates, but they were not [eliminated]. They tried to be kept alive by undertaking the burden on the state with high funding costs. Their

⁴ "Kurtul: Sorunlu Bankaları Artık Doğrudan Tasfiye Edin", *Hürriyet*, 16 July 2001.

⁵ "Koç: Bankalar Başibos Bırakıldı", *Hürriyet*, 30 November 2000.

continuity in the system has damaged the healthy banks, as well. Because of the weaknesses or high risk exposures of a few banks at the end of November, we ended up this point... If during the November crisis ailing banks had been seized by the SDIF, we might have not been experiencing the problems today... Banks should be taken under control and problematic banks should be excluded from the system. This period should not be very long; it must be done at most within one or two months according to a timetable... Until the elimination of unhealthy banks, [foreign capital] will not trust the system and foreign funds will not come into Turkey in the long-run... For the interests of the country, this selection should have been done at once or twice.⁶

However, while the primitive accumulators' banks were being transferred to the SDIF and the burden of the bank rationalisation was put on the state, the question of who should pay the cost of bank losses arose.

The business associations of productive/commercial capital, such as the *TOBB*, *ASO*, *ITO* and *MUSIAD*, were angry about bank embezzlement and criticised the takeover of bank losses by the state. For example, at the early stage of the reform, Zafer Çağlayan, Chairman of the *ASO*, warned the state not to bear the cost of banking reform which was estimated then as US\$ 5bn. He said of the process of bank seizure:

These banks did not have difficulties because of a conjunctural deterioration in the economy. These banks became ailing because they were badly managed and hollowed-out. This trend was known at least for two years. If the reports of inspectors had not been swept under the carpet and intervention had been taken in time, the bill would not have been so high. Hence, the responsible bankers and officials should be prosecuted.⁷

For these associations, the real question was who had lost money in the primitive accumulators apart from their owners? After the confiscations of five banks in July 2001, Çağlayan complained about the high cost of bank seizures to the state amounting by then to US\$ 20 bn:

Banks are returning to their real owner, to the state who has given the guarantee to them and has composed the system for years. We will pay the cost of these seizures as citizens. I wish we [industrialists] could have said to the state that "you have saved these five banks. Come...and save also us whom you have ruined". (Çağlayan 2001, 91)⁸

⁶ See the statement by Burhan Karacam, Head of Board of Directors of Koçbank, in Nurten Erk, "Bu Bankacılık Sistemi ile Sorunlar Bitmez", *Hürriyet*, 26 March 2001.

⁷ "Çağlayan: Program Bankalar Operasyonu ile Delinmesin", *Dünya*, 28 December 1999.

⁸ See also the statement by Deputy-Chair of the *TOBB*, Ali Osman Ulusoy in "TOBB: Bu Kadar Banka Türkiye İçin Çok Fazla", *Hürriyet*, 27 November 2000.

As these business associations represented those capitals who did not have their own banks, the associations did not *directly* benefit from the takeover of financial burden by the state. Therefore, they opposed the bailouts that came with bank seizures and instead, demanded direct bank liquidation. For instance, the Head of the *ITO*, Mehmet Yıldırım slammed the government for implementing an economic program which only favored the financial sector.⁹ On this basis, Yıldırım criticized the authorities for bailing out banks and urged them to let banks fail as would happen in a liberal economy. Yıldırım added: 'as long as you keep bailing the problem banks out, you will not prevent abuse'.¹⁰

The *MUSIAD* also criticised takeovers of ailing banks by the state and, instead, demanded their bankruptcy in order to prevent becoming a burden on the Treasury.¹¹ The Association claimed that the state created unfair competition in favour of those 'dishonest businessmen' who misused their banks by spending money for bank rehabilitation. Instead, the *MUSIAD* demanded that the state channel these funds to 'the real economy' in general, and to SMEs in particular via the encouragement of banks by the state.¹²

The *TUSIAD* also stated there was a need for state policies that would support productive capitalists. Yet the Association was the biggest supporter of bank restructuring with a *priority* over the 'real sector'. The *TUSIAD* adopted this position for two reasons. Firstly, the leading capitals composing the membership profile of the Association were

⁹ See "Businessman urges government revision", Turkish Daily News, 19 December 2000, URL: http://www.turkishdailynews.com/old_editions/12_19_00/econ.htm ; "Mehmet Yıldırım: Zorlanırsak Milli Koalisyon Yapalım", Hürriyet, 18 December 2000, URL: <http://arsiv.Hurriyetim.com.tr/hur/turk/00/12/18/ekonomi/29eko.htm> .

¹⁰ "Yıldırım: 10 Bankaya Daha El Konulacak", Dünya, 11 August 2000.

¹¹ For example, after the seizure of five other banks in July 2001, the *MUSIAD* criticised the intermittent bank takeovers. The Association argued that this either served to give further time to ailing banks or proved that the state policies used for strengthening these banks in the meantime were useless (see Press Bulletin, No. Bas.Kom. 05-61, URL: <http://www.musiad.org.tr/basinbulteni/11temmuz2001.htm>).

¹² See *MUSIAD* Press Bulletins:

No. 062, 27 July 2000, URL: <http://www.musiad.org.tr/basinbulteni/27temmuz2000.htm> ;

No.104, 20 November 2000, URL: <http://www.musiad.org.tr/basinbulteni/20kasim2000.htm> ;

No.Bas.Kom.05-3, 9 January 2001, URL: <http://www.musiad.org.tr/basinbulteni/09ocak2001.htm>;

No.Bas.Kom.05-61, 11 July 2001, URL:

<http://www.musiad.org.tr/basinbulteni/11temmuz2001.htm>.

Also see *MUSIAD* (2001); "İşadamları:Sektördeki Belirsizlikler Kalkmalı", Dünya, 23 December 1999; and *MUSIAD* (2002).

the fraction most attuned to the norms of global accumulation; they sought further adaptation to these norms in their pursuit of being global players. These leading capitals knew that the restructuring in banking served this end. Secondly, and more fundamentally, the *TUSIAD* represented conglomerates incorporating banks. Mostly these conglomerates benefited from the smooth decline of the primitive accumulators through bank seizures and from the socialisation of the costs of the bank rationalisation.

In brief, business associations of productive/commercial capital, who had been disadvantaged in accessing financial resources, supported banking reform. However, these associations also demanded that priority be given to the corporate sector over the banking sector and especially criticised the financial burden of bank rehabilitation to be taken over by the state.

10.4 The Establishment of the Legal Basis for Bank Seizures

Analysing the establishment of the legal basis for bank seizures reveals crucial insights into the reform as a class fractional process.

Despite the opposing views between the *TUSIAD* and the other business associations that represent productive/commercial capital, bank seizures became the dominant mode in bank rehabilitation. Legislative arrangements were made under the close surveillance of the IMF. As will be discussed below, the Turkish left criticised bank seizures on the basis that the seizures mainly protected the interests of foreign banks which had credit receivables in Turkish banks. However, bank seizures meant more than this. Firstly, the bank rationalisation process was managed in a way that the dynamic accumulators could safely unburden the dysfunctional members of FC. Secondly, the dynamic accumulators found a source of expansion through the accompanying consolidation in the finance sector.

To this end, the SDIF became the mechanism for the state to manage bank rationalisation and losses. To do this, first there was a need to remove a legal deficiency that might have prevented the use of the SDIF by the state.

The SDIF was established in 1983.¹³ It had been administered and represented by the CBT and then transferred to a new authority, 'the Banking Regulation and Supervision Agency (BRSA)' that began operation in 2000. From December 2003, the SDIF has been managed and represented by its own board instead of being a legal entity under the BRSA's control.

The aim of the SDIF was limited to protecting depositors against financial breakdown through the insurance of *savings deposits* under certain limits. Therefore, the SDIF was not authorised to assist the rehabilitation and the liquidation of financially weak banks (Akkurt et al. 1992, 27). The then-prevailing law authorised the Treasury to liquidate or to rehabilitate problem banks. However, it did not enable the government to take over banks, inject new capital when necessary, or buy non-performing bank assets; but these were the processes required to terminate the primitive accumulators. An amendment to the banking law to authorise the SDIF to perform those measures was already a matter of discussion in the early 1990s.¹⁴ Then, with the amendment to the banking law in 1994,¹⁵ the SDIF gained the authority to strengthen banks' financial structures and if necessary to restructure them.¹⁶

The Constitution Court cancelled the authority law No. 3991 that the decree No.583 (16.4.1994) had depended on in November 29, 1994. Banks Act No. 3182's 41 articles (over 96 articles) had been changed via this decree.¹⁷ Therefore, the decree was deprived of its constitutional base and a legal inconsistency established in the banking

¹³ With decree No.70 (22.7.1983) modifying Banks Act No.7129 (see Turkish Government 1983). Previously, according to Banks Act No. 7129, the Banks Liquidation Fund (*Bankalar Tasfiye Fonu*) had the effect of helping banks which were in financial trouble (Gökçe 1996, 1795).

¹⁴ See Akkurt et al (1992, 27).

¹⁵ With decree No.538 (22.6.1994) modifying Banks Act No.3182 (see Turkish Government 1994).

¹⁶ Intervention in ailing banks and their rehabilitation had been a concern for the IMF since the 1994 financial crisis. See IMF (1995, 20) for the IMF's view on the legislative changes which formalised the respective roles of the Treasury and the SDIF, and also on the establishment of a formal lender of last resort in 1994 for troubled banks by the CBT.

¹⁷ Indeed, the Court also cancelled the previous decree No.512 which amended the banking law in 1994 by stating that banking law could not be modified by a decree and gave a deadline until June 1994 for a new banking law. However, instead of a new banking law, decree No.538 was issued and therefore, the legislation problem had remained unresolved since 1994 (see the interview with Öztin Akgüç in "Bankalar Yasa Tasarısı Kamuoyunda Neden Tartışılmıyor?", *Dünya Daily Financial Institutions Supplement*, 26 April 1999, p.6).

system (Eşsiz & Yamakoğlu 1999, 6). However, new legislation could not be passed¹⁸ and the High Court started to cancel the related clauses of the banking law as an application for cancellation occurred. The cancellation by the High Court in December 1998 was related to the clauses arranging the transfer of banks to the SDIF (clauses 64/2 and 65)¹⁹ and the Court gave a six months period for a new legislation.²⁰ *This meant that if a new law was not passed by June 1999, the Turkish state would have lost the right to confiscate ailing banks under its full guarantee.* The new banking law could not be passed until the last month of the deadline because of conflicts within the TGNA.²¹

What would have happened if the banks had not been transferred to the management of the SDIF? Öztin Akgüç answers as follows:²² Operations of the banks would have ended through another clause (no.68) of Banks Act No.3182. With the implementation of this article, the liquidation of the bank would have started and since the bank probably could not have met its obligations, its bankruptcy would have been declared. In this situation, the SDIF would have been responsible only for savings deposits and could have gained access to the bankrupt's estate as a privileged creditor. Therefore, *all commercial deposits, other banks' deposits as well as foreign banks' credits in these banks, which were not covered by the full insurance scheme, would have been under risk.*²³

As the deadline for a new banking law came closer, under the persistent insistence by the IMF (see IMF 1999b), Banks Act No. 4389 was passed in the Assembly in June 1999 just before the six month-deadline.²⁴ The government's reasoning for the law

¹⁸ For the reasons for not passing a new banking law see TGNA (1999c, 15-16).

¹⁹ This annulment occurred owing to the application to the Council of State for the cancellation of the takeover of Turk Ticaret Bank in 1997 (see TGNA (1999c, 28); Tevfik Güngör, "Bankalar ile İlgili '11 Haziran 1999 Sendromu' Nedir?", Dünya, 8 June 1999).

²⁰ Öztin Akgüç, "Yanlış Kararın Ağır Faturası", 2 February 2001, Cumhuriyet.

²¹ See "Bankacılık Reformu Kadük Oldu", Dünya, 12 February 1999.

²² Öztin Akgüç, "IMF ve Bankalar Kanunu" Cumhuriyet, 14 February 1999; Öztin Akgüç, "Yanlış Kararın Ağır Faturası", Cumhuriyet, 2 February 2001.

²³ Indeed, this occurred in the recent past of Turkey. During the 1994 financial crisis, when TYT Bank, Impexbank and Marmara Bank went bankrupt, foreign private creditors lost their loans in these banks and demanded compensation from the Treasury by threatening it with a possible decrease on the credit rating of Turkey. Finally, the Turkish government undertook the foreign loans in these bankrupted banks (see Kazgan 2001, 29).

²⁴ See BAT (1999a, 2).

pointed out the possibility for losing the policy tool of bank seizures owing to the cancellation of the provision No.65.²⁵

An important aspect of this new law was related to transfers of banks to the SDIF. With this change, article No.14 (which took place of article No.64 of the previous Banks Act No.3182) provided the legal base for confiscation. In addition, legal exemptions of state banks ended with Banks Act No. 4389 and state banks became subject to the all clauses of the Act just like private banks (see Reisoğlu 1999, 8). As state banks became free from the obligation of takeovers of ailing banks (consistent with Banks Act No. 3182), this change had significant implications in terms of how the burden of bank seizures was undertaken by the state.²⁶

The first draft of the new banking law allowed the BRSA to merge an ailing bank with another bank without necessarily having the consent of the receiver bank. Yet this statement was removed because of the opposition by private banks.²⁷ Then, it was rewritten so that '*voluntary*' banks – private or state – could merge with or takeover ailing banks with the support of the SDIF if such support was necessary (clause no. 14/3-b) (Reisoğlu 1999, 13-14). As a result, the other mode – seizure – became a real possibility: the burden of rehabilitation of ailing banks was taken over by the SDIF as a result of Banks Act No. 4389.

²⁵ See TGNA (1999a); also the statement by Aydın Ayaydın, Deputy of the Motherland Party (one of the then governing coalition parties) in TGNA (1999c).

²⁶ Although according to this Act's Clause No.64/2 takeovers of banks by the SDIF or their transfers to any other bank were possible, no bank was transferred to the SDIF in the pre-restructuring period. Reisoğlu (1999, 17) explained this situation as follows: 'in the previous period, there was no transfer to the SDIF and indeed, it was not possible to do this. This was because, until the bankruptcy of a bank after the cancellation of its banking license, a long process, huge efforts and time were necessary.' Accordingly, the state banks were used to socialise the losses of the sunken banks in the preceding period (Sümer, E.H. 1999, 23; Karahanogulları 2003, 263).

²⁷ Regarding the opposition by the BAT see Okan Müderrisoğlu, "Bankalar 'Görücü Usulüne' Karşı", Sabah, 9 June 1999.

10.5 The Implications of the IMF Involvement for the Interests of Creditor Foreign Banks

The IMF's support for bank seizures and state bailouts showed that its role could not be cast simply as a neo-liberal enforcer. Yet the IMF did face dilemmas in the process. The IMF credits given to Turkey after the 1999 stand-by agreement were a matter of criticism at the international level. For instance, Martin Wolf of the Financial Times²⁸ argued that the IMF should not finance creditors against their risks or the governments that implemented wrong policies. Wolf said that the then ongoing economic program could bring stability to the Turkish economy, but one thing should be made clear to the Turkish government: 'this is the last chance'. The US administration warned the Turkish government that the support for this economic package might not be provided again.

However, IMF Managing Director Horst Köhler backed the IMF credits to Turkey by stressing the high probability of success of the economic program:

I think the Turks have gone through a difficult, painful process of recognizing reality...The Turkish people are solid people, hard working, well known for paying back loans, debt...Under the leadership of Minister Dervis an adjustment program has been put together that goes very far. It withstands all comparisons to other adjustment programs. And, in particular, it is true that they make a strong stab in restructuring the bank sector, which is the core problem.

This program is also based on clear commitment and action to combat corruption and to make the political process more transparent, to depoliticize the economy. All of the political parties in the coalition are involved in the program. (IMF 2001c)

While the IMF supported the credits given to Turkey, it was at the same time concerned with the moral hazard problem. Private creditors should not have expected to be 'bailed out' by the official sector and instead, should have shared the burden in the crisis resolution efforts. 'Debtors and private creditors must always be aware that the IMF's financial assistance is not there to relieve them of their responsibility for the risks they take. The IMF is not an international lender of last resort, in the sense of providing unlimited liquidity' (IMF 2001d). The IMF was pleased with the involvement of private creditors in the resolution of the Turkish financial crisis:

²⁸ Martin Wolf, "A Last Chance for Turkey", Financial Times, 23 May 2001.

We have applied this approach most recently in both Turkey and Argentina. In each of these countries, the authorities deliberately chose to use a growth-oriented policy approach and market-oriented solutions for meeting their large external financing requirements and restoring access to private capital markets. The adjustment programs of Turkey and Argentina reflect *strong commitments not only to fiscal discipline, but also to eliminating state interference in the economy, integrating further into the global economy, and preserving a culture of respect for property rights*. All of these are crucial ingredients of a good investment climate. Although there are risks, the IMF's members unanimously agreed that this way of proceeding deserves support. An integral part of their supportive approach to Turkey and Argentina was and is the expectation that the private sector remains engaged. Given Turkey's strong, market-oriented adjustment program, it should be quite natural that Turkey's private creditors will maintain and even increase their exposures. (IMF 2001j, emphases added)

In brief, the IMF applauded the 'market based, extraordinary measures'²⁹ taken by the Turkish state and called on private creditors to share the burden. However, while the IMF praised the workings of the free market, the economic reality was that the 'solid, hard working' Turks paid for the bank rehabilitations as the costs of bank restructure were socialised through the SDIF and, indirectly, state consolidated revenue.

During banking reform, the IMF assured credit risks of foreign private creditors in Turkish banks. This was done by two means. Firstly, bank seizure rather than liquidation was facilitated. Secondly, as will be addressed below, the protection was extended via a state guarantee for all domestic and foreign liabilities of private deposit banks during the November 2000 financial crisis. This meant that the financial burden of bank rehabilitation was taken over by the SDIF under IMF auspices. As a result, the SDIF (and so the Turkish state) became the lender of last resort for both Turkish bourgeoisie and foreign creditors. Yet the IMF did not see a contradiction with its free market ideology; instead the Fund saw it as a 'free market' outcome!

Akgüç links the legislative arrangement in June 1999 to *the intention of the IMF to provide the state guarantee for foreign banks' credits given to Turkish banks*.³⁰ Since

²⁹ See IMF (2001e) and IMF (2001f).

³⁰ Öztin Akgüç, "IMF ve Bankalar Kanunu" Cumhuriyet, 14 February 1999; Öztin Akgüç, "Yanlış Kararın Ağır Faturası", Cumhuriyet, 2 February 2001.

The BRSA (2003a, 12) indicated that the foreign liabilities of the SDIF-banks, which amounted to US\$ 2 bn, were equal to 6.4% of the total liabilities of these banks. In addition, before the announcement of the guarantee for all liabilities of banking, of US\$ 26 bn total deposits, US\$ 16.8 bn were covered by the insurance scheme for deposits.

transfers of banks to the SDIF were assured with this legislation, all foreign credits given to these banks were under the state guarantee.³¹

On the other hand, the BRSA (2003a, 13-14; 2003b, 21-22) stated that the agency could have rehabilitated the banking system via the liquidation of ailing banks by repaying only savings deposits liabilities which were covered up to TL 50 bn. The BRSA emphasised that *in this case, net liabilities to foreign banks (US\$ 1,3 bn) would not be covered*. This would have created an internal and external loss of confidence in the financial system ultimately leading to runs on bank deposits as well as closure of foreign credit limits to solvent banks. Therefore, the BRSA contended that it needed to first transfer the problem banks to the SDIF and then resolve them under the auspices of the SDIF.

This solution was preferred by the BRSA for four reasons. Firstly, it was cheaper than the liquidation alternative since some banks had collected funds with extremely high costs. Secondly, the legal process was short compared to direct liquidation. Thirdly, through the transfers of deposits from the SDIF-banks to solvent banks, the rehabilitation process was made easier. Lastly, the BRSA believed that the employment in the sector was partially secured via the sales of branches/banks. As a result, the legal base for bank seizures was facilitated through Banks Act No. 4389. As Akgüç argued, with this change, the IMF aimed to guarantee bank confiscation instead of direct liquidation.³²

This approach of the IMF became obvious again during the November 2000 financial crisis when the existing guarantee for the failed banks was extended to the whole banking sector. On December 6, 2000, the government announced a temporary state guarantee on all bank liabilities. In other words, the state accepted a full guarantee for foreign banks' credits even though the domestic banks might have gone bankrupt.

³¹ Consistent with Akgüç, Güngör Uras of Milliyet Daily drew attention to how the insurance scheme, which had been limited to savings deposits, became pointless since bank confiscations (instead of their direct liquidations) brought also commercial deposits and foreign credits under the guarantee of the SDIF. This meant that the state undertook extensive guarantees, including for foreign banks' risks in the banks of the primitive accumulators (see Milliyet, 21 October 2000). As such, prominent Turkish economist Korkut Boratav evaluated this guarantee as a concession given to international finance capital by the state that was blackmailed to cut external credits ("Bankaların Borçlarını Hazine Üstlenmemeli", Cumhuriyet, 25 February 2001).

³² Öztin Akgüç, "IMF ve Bankalar Kanunu" Cumhuriyet, 14 February 1999; Öztin Akgüç, "Yanlış Kararın Ağır Faturası", Cumhuriyet, 2 February 2001.

Therefore, the potential bank risk for the SDIF was transformed into an actual guarantee.³³ This was a kind of double guarantee. Indeed, the then-implemented seizure process guaranteed foreign banks' credits. However, the announced guarantee gave reassurance that any bank facing difficulty was definitely going to be taken over by the SDIF and thus, foreign creditors would not carry any risks.³⁴ Foreign banks as well as Turkish private deposit banks needed this reassurance because private deposit banks had syndicated credits due that needed to be renewed.³⁵

The full state guarantee for foreign creditors was expected to encourage the involvement of foreign creditor banks in the resolution of the November 2000 crisis. Therefore, in exchange for continuous foreign credit flows, the Turkish state was to bear an immense risk for entire liabilities of all domestic deposit taking banks. On the day of the Turkish Prime Minister's announcement of the guarantee, IMF Managing Director Kohler (IMF 2000e) applauded the decision by the government 'to protect depositors and other creditors in Turkish banks'. In the process, an amendment to the banking law in May 2001 (Law No.4672, clause No.14-6/b)³⁶ made the funding of this guarantee legally explicit (see Turkish Government 2001b), giving rise to criticism within the Assembly. In the Assembly debates, Oğuz Tezmen of the True Path Party (TGNA 2001c, 16) criticised the state's guaranteeing debts of sunken banks which might have resulted from the misuse of their owners. Tezmen also questioned why foreign banks did not take on their credit risks in the sunken banks and added that the IMF credits would return to those foreign banks while it would eventually be paid by Turkish citizens.³⁷

While the full state guarantee was criticised in the Assembly, on the IMF side, it was necessary to eliminate risks for foreign banks in the Turkish market (see IMF 2001g, 22). The guarantee helped to prevent further turmoil in the market during the November

³³ See "IMF Dayatmasıyla Garanti", *Cumhuriyet*, 19 January 2001.

³⁴ See Zülfikar Doğan, *Finansal Forum*, 25 January 2001.

³⁵ "Özel Bankaların Borcu Korkutuyor", *Cumhuriyet*, 15 June 2001; for the legislative and finance procedure of this guarantee see Turkish Government (2000).

³⁶ The guarantee came into effect until then through the Budget Law (see Banu Salman, "Banka İyileştirme Modeli Çöktü", *Cumhuriyet*, 4 October 2001).

³⁷ Reflecting the tension within the assembly, some other opposition deputies also criticised the arrangement. They predicted higher borrowing costs for the private sector than the Treasury and questioned the logic of giving guarantee to these bank debts (see the statements by Celal Adan of the True Path Party (TGNA 2001c, 51), Aslan Polat, Deputy of Erzurum City, (TGNA 2001c, 53-54) and Cevat Ayhan, Deputy of Sakarya City, (TGNA 2001c, 56 and 65).

2000 and February 2001 financial crises and facilitated continuous flows of credit from foreign banks to Turkish banks.³⁸ That meant the extension of the protection to private Turkish banks and finally to their conglomerates.³⁹

Meanwhile, while the conglomerates incorporating banks provided a shelter in finance from the state during the crises, this was not true of private investors. As the IMF (2001a, 22) stated:

The private investors have generally not been protected from the impact of the crisis. The government has allowed the corporate sector to independently carry the burden of a depreciated exchange rate and high interest rates on their balance sheets.

In terms of the fractional analysis of the thesis, this statement reveals that the global integration of capital was the first priority of the reform. The further internationalisation pursued by large capital groups necessitated the rising concentration and centralisation of capital which, in turn, created some 'losers' within Turkish capital.

The analysis of the seizure process shows that although the link between the legislative facilitation of confiscations and foreign creditors' interests was credible, the bank seizures did more than this. *Confiscations of ailing banks by the SDIF were necessary to make the restructuring process of banking manageable for the state and for the dynamic accumulators.* Vural Akışık, Member of Board of Directors of Dışbank, (Yiğit 1999, 50) contended that the state preferred seizure to direct liquidation because bankruptcy of banks could have caused a systemic risk, in other words, bankruptcy of other banks and turmoil in corporate sector, as well.⁴⁰ *Therefore, confiscations secured*

³⁸ The negotiations between the Turkish state and foreign banks through the IMF continued during the February 2001 crisis (see IMF 2001a, 23) and open credit lines to Turkish banks were secured due to the state guarantee (see IMF 2001h; Turkish Government 2001c).

³⁹ In the Letter of Intent dated 28 January 2002 (clause 29), it was committed that once soundness in the banking sector was restored, the general guarantee might be lifted with due prior notice (see Turkish Government 2002). As a result, in July 2003, the BRSA announced that the blanket guarantee protecting all depositors and other creditors in intervened banks as well as the limited deposit scheme fully protecting individuals in banks that were liquidated without intervention were going to be abolished in July 5, 2004 (see IMF 2003, 21). On July 5, 2004 both schemes were abolished and replaced with a limited deposit insurance scheme in line with the EU standards.

⁴⁰ The Prime Minister Bulent Ecevit stated that the government was most careful not to allow bank bailouts to cause production losses and unemployment in the industry and would try to keep the bailed out banks on-stream, he added (see "Turkey Plans Major Step to Overhaul

*the needed trust in the banking system for the dynamic accumulators by blocking possible adverse effects of bankruptcy of banks on viable banks. Furthermore, seizures allowed the state to undertake the high financial burden of bank rehabilitation and supported the hegemonic part of capital and ultimately the Turkish capitalist class in general through the socialisation of the costs.*⁴¹

10.6 Tensions within Finance Capital about Bank Rehabilitation: Seizures versus Alternative Modes

We have identified the broader conflicts within capital on bank seizures. Here we explore the opposing interests *within* FC as the prior issue for a deeper understanding of state policy under the influence of the IMF.

The IMF, with its global vision, pushed the state to support a particular resolution as the state tried to go softly in discarding the primitive accumulators. The seizure process was carried out despite the demand by the primitive accumulators for support and the preference by some dynamic accumulators for direct liquidation. Under the decisive pro-seizure stance of the IMF, the state managed the seizure process in a way which served the interest of the dynamic accumulators as a whole.

As the IMF opposed supportive measures for ailing banks, the December 1999 and May 2001 amendments to the banking law increasingly eliminated those kinds of measures and eased the seizures. This trend continued until almost all weaker banks were eliminated. Towards the end of 2001, the use of non-seizure methods started to be discussed among the government, the IMF and the WB. This shift heralded that banking reform was moving to a new stage in which the state increasingly focused on

Banking", Turkish Daily News, 2 November 2000, URL: http://www.turkishdailynews.com/old_editions/11_02_00/econ.htm)

⁴¹ The BRSA (2003c, 24) indicated that the accumulated loss of the SDIF-banks as of takeover dates amounted to US\$ 17.3 bn: 'A remarkable portion of the total loss of the SDIF-banks is due to funds used by majority shareholders from their own banks in excess of the legal limits. Indeed, total funds used by majority shareholders directly or through other SDIF-banks amount to US\$ 11 billion'. The BRSA (2003c, 26) stated that of a sum of US\$ 22.5 bn was required for restructuring of the SDIF-banks. Of this amount, US\$ 17,3 bn was obtained from the public sector and the remaining US\$ 5,2 bn from 'private sector resources', i.e. from the SDIF's own resources (which included insurance premiums, fines, collections, revenues from bank sales and over-due deposits).

strengthening the remaining viable banks under the supervision of these international financial institutions.

Table 10.2 The list of seized banks

| Bank | Date of Seizure | Critical Legislation/event |
|--------------|------------------------|-----------------------------------|
| Türkbank | November 1997 | Banking law no.3182 |
| Bank Ekspres | December 1998 | Banking law no.3182 |
| Interbank | January 1999 | Banking law no.3182 |
| Egebank | December 1999 | December 1999 amendment |
| Yurtbank | December 1999 | December 1999 amendment |
| Yaşarbank | December 1999 | December 1999 amendment |
| Esbank | December 1999 | December 1999 amendment |
| Sümerbank | December 1999 | December 1999 amendment |
| Bank Kapital | October 2000 | 2000 Financial crisis |
| Etibank | October 2000 | 2000 Financial crisis |
| Demirbank | December 2000 | 2000 Financial crisis |
| Ulusalbank | February 2001 | 2001 Financial crisis |
| İktisat Bank | March 2001 | 2001 Financial crisis |
| EGS Bank | July 2001 | May 2001 amendment |
| Kentbank | July 2001 | May 2001 amendment |
| Sitebank | July 2001 | May 2001 amendment |
| Tarişbank | July 2001 | May 2001 amendment |
| Bayındırbank | July 2001 | May 2001 amendment |
| Toprakbank | November 2001 | Winding up of seizure process |
| Pamukbank | June 2002 | Winding up of seizure process |
| İmar Bank | July 2003 | Winding up of seizure process |
| Adabank | July 2003 | Winding up of seizure process |

As Table 10.2 shows, until the December 1999 amendment which made bank seizures easier, there were only three banks under the receivership of the SDIF: Turk Ticaret Bank, Bank Express and Interbank. Just three days after the amendment on December 19 (with the beginning of a three-year stand-by program with the IMF), the

main wave of bank seizures started. Five other banks, (Egebank, Yurtbank, Sümerbank, Esbank and Yaşarbank), were confiscated on December 22. This was followed by the seizures of two other banks (Etibank, Bank Kapital) and by the seizure of Demirbank during the 2000 crisis. Then, two new banks, (Ulusal Bank and İktisat Bank), were confiscated during the 2001 crisis. Soon after the May 2001 amendment, five more banks (Bayındırbank, EGS Bank, Kentbank, Tarihbank and Sitebank) were seized in July. This was followed by the seizures of Toprakbank in November 2001, Pamukbank in 2002 and lastly the takeovers of İmarbank and Adabank in 2003. The insistence of the IMF on seizure as the main mode of rehabilitation and consistent legislative changes between 1999 and 2001 facilitated these confiscations despite resistance by the primitive accumulators and divisions within the BAT.

A closer look at the sequence of legislative changes reveals that the new Banks Act No.4389 in June 1999 (clause No.14) facilitated further support for ailing banks from SDIF funds.⁴² Reisoğlu (1999, 13) asserted that these precautions aimed to save ailing banks instead of forcing their bankruptcy as happened previously.⁴³ Yet the same article also permitted bank confiscation without having necessarily arduous conditions (Reisoğlu 1999, 16). Misuse of bank resources by majority shareholders, (which caused losses that exceeded the banks' own funds), and their non-repayment to the SDIF, were reasons enough to transfer the stakes belonging to those shareholders to the SDIF. In other words, the seizure process was also made easier at the same time.

The banking law was modified again in December 1999 and alternative measures for ailing banks were mostly replaced with a more radical stance.⁴⁴ The General Director

⁴² The sub-items no.2 and no.3 provided support through the BRSA at the initial stages of deterioration in the financial structure of the bank. For instance, according to the sub-item no.2, to strengthen liquidity position of an ailing bank, the BRSA was authorised to purchase its subsidiaries and real estates or to provide advances in return to these assets or to make deposits or takeover its receivables and to guarantee obligations of the bank.

⁴³ However, the law at the same time provided some precautions against risky activities of ailing banks. As Reisoğlu (1999, 12) stated, clause No. 14 aggravated precautions against ailing banks compared to the previous Banks Act No.3182. Therefore, one of the early precautions under the sub-item no. 1-c was to increase insurance premiums for deposits or to impose 100% provisioning for deposits collected by these banks. In this way, their risky activities, which were based on the collection of deposits with extremely high interest rates, were blocked.

⁴⁴ The above measures, which were covered under the sub-item no.2, were placed in Clause No. 14/6-b in the subsequent Banks Act No. 4491. This replacement meant that these supportive measures could be used for the banks that were under the receivership of the SDIF (for

of Pamukbank and Member of Board of Directors in the BAT, Orhan Emirdağ (2001) drew attention to the IMF pressure at that time to make bank seizures the main mode in bank rehabilitation. According to Emirdağ, the reason was that the seizure method was assumed by the state and the IMF to be the 'least cost' form of bank rehabilitation. However, Emirdağ advocated the need for alternative mechanisms beside seizure (such as liquidation, rehabilitative measures before confiscation, mergers, etc.).⁴⁵

Importantly, regarding the mode of the bank rationalisation, there were different views within banking and so within the BAT. Here Emirdağ appeared as a voice of a particular fraction: the primitive accumulators. As the bank that he represented (Pamukbank which was confiscated in 2002) had been monitored by the Treasury for years and seizure was a real possibility, Emirdağ demanded some alternative measures for ailing banks. However, Emirdağ's explanation shows that the primitive accumulators were not effective within the BAT in influencing the design of the banking law regarding bank seizures.

On the other hand, the dynamic accumulators agreed with the elimination of weak banks, even though they had opposing preferences on the form of this elimination. The material basis for these differences was the various growth paths in finance that were projected by individual dynamic accumulators. For the ones that might not benefit from the acquisition of seized banks, direct liquidation was a better alternative as it would not put the burden of the losses on the state. For example, one of the top-players, İşbank expressed its preference for direct liquidation instead of seizures. General Director of İşbank Ersin Özince (*Finans Dünyası* 2002, 20) stated that during his chairmanship in the BAT, he opposed a full burdening of all debts of ailing banks by the state. Özince stated that the elimination of weak members was an outcome of a free market system and added: 'it is very inconvenient that this selection has occurred through the transfers to the SDIF instead of usual liquidation mode'.⁴⁶ According to Özince, banks should have been

the ones that were not seized because of misuses of bank resources). This implied that these measures continued to be used for bank rationalisation, but for the rationalisation under the SDIF-management.

⁴⁵ For a similar critique of bank takeovers by the management of the YKB, which was owned by Çukurova Group together with Pamukbank, see Karacan (2002, 36).

⁴⁶ "ODTU Bankacılık Konferansında Sıkı Denetimin Önemine İşaret Edildi", *Cumhuriyet*, 4 December 2001.

liquidated and their savings deposits been paid as happened previously.⁴⁷ However, as will be addressed in the discussion of the rehabilitation of the SDIF-banks, for the banks that could capture seized banks, the confiscations (along with state subsidies for their sales) were preferable because they offered an opportunity for rapid expansion.

Despite the opposite views within the dynamic accumulators, the BAT demanded the subsidised sales of the seized banks instead of direct liquidation. Three factors might affect this stance. First of all, power balances within the BAT might lead the Association to demand a state-subsidized bailing-out. A second factor that made direct liquidation inapplicable for the Association could be the fear of a systemic risk for the dynamic accumulators. Third, the obvious preference by the IMF for seizures must also have been an influence. Indeed, the use of seizures was a precondition for the stand-by arrangement request by the IMF Board. The Letter of Intent dated December 9, 1999 puts it as follows:

Taking an insolvent bank from its owner is a very important market discipline on the behaviour of banks and the prompt intervention by the Agency in the event of insolvency protects the assets available to depositors and the other creditors. Therefore, the Banks Act will also be amended to require the take over by the Saving Deposits Insurance Fund (SDIF) of all insolvent banks. The new amendments will give the SDIF the authority and responsibility to restructure a problem bank to facilitate its sale in full or in part, or to liquidate the remainder based on existing laws. (55th clause) (Turkish Government 1999c)

The IMF (2000f) praised the amendment to the banking law and new bank takeovers which came just three days after the passing of the law.⁴⁸

The prioritisation of seizures over other mechanisms caused debates within the assembly during the negotiations on the banking law. In December 1999, some opposition parties criticised the preference for seizures and contended that while the management of the SDIF might turn to an impasse, this amendment would mean a rescue operation for the cleaned-out banks.⁴⁹ In response, the State Minister Recep Önal (TGNA 1999g, 71) argued that the change in the banking law was not made to facilitate bank seizures by the SDIF since the Treasury already had such an authority. However,

⁴⁷ "Herkes Evlenecek", *Akşam*, 4 December 2001.

⁴⁸ See Levent Akbay, "Bankacılıkta Kritik Karara Ramak Kaldı", *Dünya*, 15 December 1999.

⁴⁹ See the statements by Kemal Kabataş, Deputy of True Path Party in TGNA (1999f, 4-5); and by Veysel Candan, Deputy of Virtue Party in TGNA (1999f, 33).

Önal did not mention that some pre-supportive measures for financially weak banks, which were covered in the previous banking law, were eliminated.

Some private banks tried to provide supportive measures for ailing banks during the 2001 amendment to banking law.⁵⁰ However, once again the state and the IMF preferred seizures.⁵¹ The General Director of Pamukbank, Orhan Emirdağ (2001) recalled the BRSA suggestion for supportive measures for ailing banks in the draft Banks Act No 4672 in 2001. Emirdağ stressed that whilst these measures were included in the draft that was sent to the BAT, they were excluded from the version which was later sent to the TGNA. Accordingly, Emirdağ indicated 'the things which had not succeeded with Banks Act No.4491 would be tried this time' and added 'indeed, an important chance was missed out'.⁵² In other words, the state and the IMF were still pro-seizure at that stage of banking reform, signalling that there were still more banks to be seized. Despite the demands of the primitive accumulators, the IMF was decisive in the completion of the confiscation process for ailing banks so that the next stage in bank rehabilitation which was strengthening remaining viable banks could begin.

However, the dynamic accumulators for whom the SDIF-banks did not offer a critical alternative for expansion started to publicly criticise the seizure strategy. For instance, the General Director of Akbank, Zafer Kurtul, stated:

⁵⁰ For example, the release of required reserve holdings during a crisis and repurchases of undue T-bills from banks by the BRSA.

⁵¹ Emirdağ (2001) gave the example of one of the last seized banks by then. He stated that even required reserve holdings were not released to that bank and thus, it had to borrow at 7000% overnight interest rates. Therefore, he argued, even if the bank was going to be confiscated, at least by releasing these holdings, the cost of seizure could have been decreased significantly (the implied bank was probably Demirbank which was confiscated in the November 2000 financial crisis).

⁵² Zulfikar Doğan also asserted that during the preparation of Banks Act No.4672, a provision that would warn banks to improve their financial structures through recapitalisation and sales of properties before seizure was dismissed after the objections by the IMF and the WB (see "Banking Law: Three Changes in 18 Months", Turkish Daily News, URL: http://www.turkishdailynews.com/old_editions/05_09_01/econ.htm).

Tarık Yılmaz of Milliyet Daily stated that the WB opposed the planned changes in the banking law providing support for ailing banks. The WB argued that those kinds of supports would not be effective in rehabilitating ailing banks, but would transfer the resources to bank shareholders. Thus, according to Yılmaz, these pre-seizure mechanisms were eliminated from the law draft (see "Bankalar Yasası'na Dünya Bankası Röttüşü", Milliyet, 2 May 2001).

Problematic banks should be liquidated directly [instead of being transferred to the SDIF]. That is because a huge burden for the Treasury has occurred due to the full guarantee being given for all domestic and foreign liabilities of seized banks and a negative environment has been created in terms of achieving equilibrium in interest rates.⁵³

Along with the criticism made by some of the dynamic accumulators, towards the end of 2001, the seizure method started to be discussed among the IMF, the WB and the Turkish state. This heralded a change in the bank rehabilitation strategy. In those discussions, instead of confiscation, capital injection to banks through the state support became an alternative. The high cost of bank seizures was generally reported as the underlying reason for the change in the mode of bank rehabilitation.⁵⁴ However, a deeper reason also existed. The primitive accumulators had already been largely eliminated from the system due to confiscations.⁵⁵ Therefore, it was time to move to the next stage and support the remaining, more viable banks in order to build the new banking system. This phase began the major involvement of the WB in banking reform. The mechanisms that were used by the state to support the more solvent banks throughout the reform will be discussed in Chapter 11.

10.7 Conflicts within Capital about Apportioning the SDIF banks

The next problem to be solved as part of the restructuring of Turkey's bank system was how to dispose of the banks, debts and assets that had been acquired by the

⁵³ "Kurtul: Sorunlu Bankaları Artık Doğrudan Tasfiye Edin", *Hürriyet*, 16 July 2001.

⁵⁴ For instance, Kerem Alkin of *Finansal Forum* Daily pointed out that the IMF was concerned that further confiscations would have been much more costly to the state (Kerem Alkin, "Krueger, Bankacılık ve IMF'nin Duyarsızlığı", *Finansal Forum*, 25 October 2001).

Also, Banu Salman of *Cumhuriyet* Daily indicated that a satisfactory result could not be achieved by accelerating the collection of the receivables of the SDIF-banks and keeping responsible the ex-owners/managers of the cleaned-out banks with their all properties. In the mean time, banks' CARs declined because of the two financial crises and bank owners had difficulty in finding the necessary resources they needed to increase their banks' capital. In addition, of the funds that were transferred to the SDIF-banks amounting to US \$ 20 bn, 7.6 bn was in foreign currency and together with the continual devaluation of Turkish Lira, the cost continued to grow (Banu Salman, "Banka İyileştirme Modeli Çöktü", *Cumhuriyet*, 16 July 2001).

⁵⁵ While these discussions were made in public, there were only two more banks to be confiscated (in November 2001-Toprakbank and in June 2002-Pamukbank) by excluding the late takeovers of İmarbank and Adabank in 2003.

SDIF. The tensions that the state tried to mediate during this clean-up process require consideration.

The dynamic accumulators, business associations and some international finance institutions agreed that a quick resolution by the state was needed as the operation of these banks under the SDIF-management slowed down the transition to the new accumulation regime. In response, the state accelerated the resolution process. This helped the dynamic accumulators, which preferred state subsidies to the uncertainties of a market-based rationalisation, in two ways: Firstly, they removed the remnants of the old regime more quickly and accelerated their restructuring for the new era. Secondly, the resolution process offered a cheaper and faster expansion opportunity in finance for the dynamic accumulators.

Indeed, the December 1999 amendment to the banking law not only eased bank seizures, but also accelerated the exit of these banks from the SDIF by giving authority to the SDIF to more rapidly restructure the failed banks. Praising the legislative change, the WB explained the need for a quicker resolution process as follows:

To ensure a smooth resolution process, the new amendments gives [sic] the BRSA and SDIF top authority to take over all insolvent banks. The amendments also provides [sic] the two institutions authority and responsibility to restructure a problem bank to facilitate its sale in full or in part, or to liquidate the remainder based on existing laws...

The amended banking law established a clearer framework for resolving failed banks. Previously, the role of the SDIF under the law was institutionally very complex and very broadly defined as the primary liquidity provider to illiquid banks, capital provider to insolvent banks, and generally to act as the banking rehabilitation agency. This definition has led to the undesirable outcome where it was rather easy for a commercial bank to enter the SDIF with all the incentives supporting such an entry, but where no clear and quick exit strategy for the banks to be removed from the SDIF existed. Thus the banks tended to continue to stay in the SDIF till such time a buyer could be found. (WB 2000, 100-101)

On this basis, the WB (2000, 101) contended that the SDIF should be granted further operational flexibility to liquidate insolvent banks in the speediest and least costly manner, for example, through the purchase and assumption of transactions and insured deposit transfers.

However, despite the amendment for quicker exits of banks from the SDIF, the rehabilitation process of the SDIF-banks was widely criticised in 2000 and 2001. The

pace of the resolution process was not enough to please the dynamic accumulators, business associations and international institutions. Further accumulated losses of these banks led to questioning of the management performance of the SDIF (see *Activeline* 2001b, 3). The dynamic accumulators complained about the high market interest rate driven by the SDIF-banks which raised funding costs in banking as a whole.⁵⁶ As the BRSA (2003c, 26) indicated, the SDIF-banks faced high funding costs and growing currency losses with the outbreak of the 2000 and 2001 financial crises. Also, setting aside necessary provisions for their non-performing loans increased the losses of the SDIF-banks after their takeover by the SDIF. Therefore, Turkish business associations,⁵⁷ the IMF, the WB⁵⁸ and foreign banks⁵⁹ called for rapid merger and sales of the SDIF banks, pointing out their growing losses and negative effects on banking.

Crucially, on the question of who would suffer the financial cost of this resolution, the BAT (2000) pointed to the state. In order to make the sales of the SDIF-banks more attractive, the BAT demanded that the state offer new alternatives rather than usual liquidation procedures in which the sales of assets of the banks were simply used to meet their liabilities. Therefore, as discussed in the previous section, despite two contradictory points of view within the dynamic accumulators, the fraction which wanted state-subsidized rationalisation (which would facilitate a lucrative acquisition opportunity) rather than the fraction which preferred market-based rationalisation was successful in pursuing its interest through the BAT. The following statement in a report of the BAT shows this:

⁵⁶ See for example the criticisms made by Akbank in "Kurtul: Sorunlu Bankalari Artık Doğrudan Tasfiye Edin", *Hürriyet*, 16 July 2001; and by Dışbank in Nurten Erk, "Barmanbek: Telekomunikasyon Sektöründe Mutlaka Olacağız", *Hürriyet*, 7 August 2000.

⁵⁷ For the views of the *TUSIAD*, *MUSIAD* and *TOBB* see "Business leaders caution government against lethargy", *Turkish Daily News*, 30 September 2000, URL: http://www.turkishdailynews.com/old_editions/09_30_00/econ.htm; "TUSIAD slaps government for crisis", *Turkish Daily News*, 16 December 2000, URL: http://www.turkish.dailynews.com/old_editions/12_16_00/econ.htm; see also the speech by *TUSIAD*'s Chairman Bülent Eczacıbaşı in September 2000, URL: <http://www.tusiad.org.tr>; "TOBB: Bankacılık Sistemi Tıkandı", *Sabah*, 11 November 2000.

⁵⁸ For instance see the statement by Charles Dallara, the Director of International Finance Institution (IIF) of the WB, in *Finansal Forum*, 3 November 2000; also WB (2000, 101).

⁵⁹ For instance see the statement by Ann Lopez, Credit Suisse First Boston Regional Head of Emerging Market Credit Risk Management in Elif Kelebek, "Investment banker urges caution, quick action on problem banks", *Turkish Daily News*, 20 January 2001, URL: http://www.turkishdailynews.com/old_editions/01_20_01/econ.htm.

For example, problematic banks can be recapitalised and then sold to another bank. Restructuring of these problematic banks and their sales to another financially-strong bank is a very complex transaction and *the recapitalisation need requires the use of state funds* (p.7).

Since the SDIF-owned banks have huge bad assets, they cannot improve their situations and balance sheets. The money transferred to these banks, thus, has not been enough to make them sound. Hence, *there is a need to develop a system which can provide a separation of non-performing credits from the balance sheets. This requires legal amendments.*

The state should create an opportunity for the use of its financial instruments for the buyers of the SDIF-banks. The new Banks Act provides this opportunity for the SDIF. (Such as issuing government securities and allocating this income to the banks that will take over the SDIF-banks).⁶⁰ (BAT 2000, 14, emphases added)

The completion of the liquidation and/or sale processes of the SDIF-banks by the end of 2001 was a commitment to the IMF in the Letter of Intent dated 3 May, 2001 (see Turkish Government 2001b). To this end, specific deadlines to take bids for the SDIF-banks were pledged in the letters of intent.⁶¹ The IMF sought a quick resolution as follows:

The SDIF had so far limited success in selling intervened banks. This was partly the result of macroeconomic conditions, but could also be attributed to a protracted sale process. The staff noted that since a bank's franchise value is lost quickly, especially if it stays too long as an intervened bank with limited operations, the SDIF should seek the assistance of outside financial advisors to avoid undue delays in the sale process. (IMF 2001b, 20)

On 17th of November 2000 the BRSA announced an action plan to sell the eight SDIF-banks on 17th of November 2000 (and planned to be finished by the end of April 2001).⁶² Some private banks (such as Körfezbank and Kentbank) supported the plan, but also called for tax incentives for M&As which would make the SDIF-banks more

⁶⁰ The Association also indicated that foreign banks should be attracted by the state's repackaging of the SDIF-banks as they had much higher levels of global experience as well as capital at their hands. Also, verifying that the fraction which sought to expand by acquiring the SDIF-banks succeeded in having their interests supported by the BAT, the report argued the SDIF-banks should not be sold to large groups that had their own banks in order to prevent an oligopolistic structure in the sector which was increasingly formed by large-scale banks (p.12).

⁶¹ "Sumerbank on sale, bids until June 22", Turkish Daily News, 1 June 2001, URL: http://www.turkishdailynews.com/old_editions/06_01_01/econ.htm.

⁶² This plan was later widened by including other confiscated banks. See BRSA (2000).

attractive.⁶³ However, some other banks demanded liquidation instead of sales. For instance, Tuncay Özilhan, the CEO of Alternatifbank, argued that the action plan was not realistic since it would not be possible to find buyers, especially domestic buyers, in such a short time.⁶⁴

The different reactions showed that banks were not in unison on the rehabilitation process of the SDIF-banks. The different opinions can be related to the various needs of individual banks in different divisions of the dynamic accumulators: the ones that planned to expand through domestic M&As, (thus SDIF-banks were an attractive solution to this end) preferred state subsidies (such as Körfezbank and Kentbank). On the other hand, those which planned to restructure their banks through foreign partnerships or organic growth demanded the liquidation of the SDIF-banks.

Under the aforementioned action plan for the SDIF-banks, their short-term liabilities were liquidated; FX open positions were significantly closed; deposit rates were adjusted to market rates; deposit and FX liabilities were transferred to other state and private banks in exchange for T-bills; and the numbers of branches and personnel were reduced.⁶⁵ In addition, various incentives were facilitated for M&As.⁶⁶ In this process, crucially, non-performing credits of the SDIF-banks were transferred to the Asset Management Unit of the SDIF. In return for these non-performing credits, special

⁶³ See Kenan Şanlı, "Bankalar Cazip Hale Getirilmeli", Finansal Forum, 18 November 2000.

The line between the primitive and the dynamic accumulators became clear during the reform process. This is verified also by the fact that some primitive accumulators' banks, such as Kentbank, tried to capture a share from the ongoing consolidation process while they were also prey within the process.

⁶⁴ Ayfer Arslan, "Batık Bankaların Satışı Zor", Dünya, 22 November 2000.

⁶⁵ See BRSA (2003a, 16).

Furthermore, the main obstacle for the sale of Demirbank, which had the largest T-bill-portfolio bearing low-interest rates, was removed via swapping these bills with higher interest rates ones and the cost of this operation to the state was calculated as minimum US\$ 2 bn (Dünya, 18 May 2001).

⁶⁶ For example, a temporary clause no.29 was added to the Corporate Tax Law no.5422 (3.6.1949) with a new law no. 4605 (30.11.2000). This clause exempted banks involved in M&A from various tax burdens by 31 December 2003 (Dorukkaya 2001, 75). These exemptions were valid for all M&As that might be realised both between operating banks and between operating and SDIF-banks. According to Çömez (2000, 122), the main reason for this exemption was the increasing number of banks transferred to the SDIF. Furthermore, in 27 June 2001, the BRSA (2001e) issued its regulations on bank M&As that facilitated additional incentives for banks.

issue bonds granted by the Treasury for the SDIF were channelled to these banks in order to increase their CARs.⁶⁷

Consistent with Akgüç's prediction,⁶⁸ the resolution of seized banks served to provide the dynamic accumulators with public resources as the state took on the burden of the unwanted assets/liabilities of the SDIF-banks while purchaser banks selected the profitable ones. Moreover, the resolution process eliminated negative effects of the SDIF-banks on market prices as demanded by the dynamic accumulators. As the General Director of Körfezbank, Hüsnü Akhan, stated,⁶⁹ one of the expected outcomes of this operation was to decrease the high liquidity needs of the SDIF-banks since these banks had to collect funds from the market with high interest rates to finance their non-performing credits. Hence, state intervention in the SDIF-banks relieved the dynamic accumulators from the burden of these banks and also converted them into a profitable source of expansion for this fraction as well as foreign banks.

While the SDIF was a key agent in rehabilitating banks, the SDIF resources were far from meeting the growing costs of bank seizures. Thus, its financial resources were guaranteed by the Treasury. Once again, state debt replaced private debt, i.e. the state guaranteed billions of Turkish Lira to underwrite private debt. In addition to the SDIF's usual resources,⁷⁰ Banks Act No.4389 (Clause No. 15-2/f) allowed the SDIF to borrow

⁶⁷ These T-bills were supposed to be paid back to the Treasury by the SDIF as the non-performing credits of the SDIF-banks were collected by the Asset Management Unit. In addition, expected revenues from the sales of the SDIF-banks and contributions from the SDIF were regarded as the other sources to clear the debt to the Treasury in ten years from December 2002.

⁶⁸ With the amendment to the banking law with the law no. 4491 (Clause No.14-5/a) in December 1999, the SDIF was authorised to *transfer assets that are deemed appropriate* to a bank that would be newly-founded or an operating one that would volunteer. This arrangement also included the transfer of organization, personnel who agreed, and insured savings deposits, and the reserves in liabilities.

Öztin Akgüç claimed that the criterion for appropriateness would be determined by the preferences of the purchaser banks and this would cause non-performing credits to be left to the SDIF while valuable assets of the SDIF-banks would be acquired by purchaser banks. In addition, since the same clause also allowed the SDIF to pay the difference in cases where transferred assets of a bank were less than the transferred liabilities, Akgüç evaluated the arrangement as a rescue operation for purchaser banks by public funds (see Öztin Akgüç, "Bankalar Kanunu Niçin Değiştirildi?", Cumhuriyet, 6 February 2000). For the examples of this form of subsidy see Chapter 11.

⁶⁹ Kenan Şanlı, "Bankalar Cazip Hale Getirilmeli", Finansal Forum, 18 November 2000.

⁷⁰ These were insurance premiums; deposits, custody accounts and claims which had been prescribed by Article 10; contributions deposited by the founders of a bank, which had been

resources from the Treasury. As the restructuring process of the SDIF-banks has placed ever greater demands on the finances of the state, Banks Act No.4491 widened the opportunity for the SDIF to use Treasury resources⁷¹ and for the financial needs of the SDIF continued to be covered by loans from the Treasury (see Turkish Government 2000).

The IMF justified state subsidies of the SDIF-banks on the grounds that the banking system had to be restructured urgently. The explanations of the IMF highlighted that the state funds were going to be used for meeting these banks' domestic and foreign liabilities (see IMF 2001a, 15).

In the process, the government encouraged Turkey's top four banks (İşbank, YKB, Garanti Bank and Akbank), to acquire/merge with some of the SDIF-banks and other small-to-medium scale banks in the sector.⁷² However, these large banks did not agree, putting forward onerous conditions for mergers. They also demanded tax incentives for company mergers since subsidiaries of the SDIF-banks would cause problems in mergers with these banks.⁷³

Meanwhile, the November 2000 and February 2001 crises made the sales of these banks more difficult. Thus, one of the main reasons for the amendment to the Banks Act (with Law No.4672) in May 2001 was to facilitate the rapid rehabilitation and sales of the SDIF-banks (see TGNA 2001a). The 'Strengthening the Turkish Economy - Turkey's

granted permission for establishment; fifty percent of judicial and administrative fines on account of violations of the provisions, etc. (see Banks Act No.4389 Clause No.15-2). In addition, the Fund was already authorised by the previous Banks Act No.3182 Clause No.66 for cash advances from the CBT. This was also covered under the new Banks Act Clause No. 15-5/b.

⁷¹ The CBT was also given a lender of last resort role for ailing banks. The WB highlights this as follows: 'The role of lender of last resort should appropriately be the role of the Central Bank, as envisaged under the current Central Bank law, whereby the Central Bank can provide up to two times the capital of a bank in temporary liquidity difficulties. Banks that remain illiquid in spite of the liquidity support provided by the Central Bank should be declared insolvent and transferred for resolution as "failed banks" to the SDIF. The December 1999 banking law amendment incorporated these principles in the law' (WB 2000, 101). See also TGNA (1999f, 7-8, 21).

⁷² "Özel Bankalara Teklif", Radikal, 6 December 2000; "Hem Kağıt Hem Banka Alın", Milliyet, 7 December 2000; "Government Embarks on IMF-Backed Bank Clean-Up", Turkish Daily News, 7 December 2000, URL: http://www.turkishdailynews.com/old_editions/12_07_00/econ.htm.

⁷³ "Hem Kağıt Hem Banka Alın", Milliyet, 7 December 2000; "İMF İstedi 7 Banka Daha Gitti", Hürriyet, 11 July 2001; tax incentives for mergers between subsidiaries were also arranged later in the process (see "Fon Yıl Sonunda Bosalacak", Finansal Forum, 13 July 2001).

Transition Program', (which was put into effect after 2001 crisis), identified the swift resolution for the problem of the SDIF-banks as essential for the stability of the financial system (Turkish Government 2001e, 24-27). The general approach of the program to the SDIF banks was to secure *their sale or liquidation under the full guarantee of the state*. To meet the financial obligations of the full guarantee, which was given to the depositors and creditors of the SDIF banks, the Banks Act was modified in May 2001. *This permitted debts arising from government borrowing securities, issued by the Treasury in order to provide loans to the SDIF, to be abolished by the Council of Ministers* (see Turkish Government 2001a, clause no. 15-2). Veysel Candan, Deputy of the Virtue Party, indicated that this was evidence that embezzled bank resources might not be recovered (TGNA 2001c, 44).

Whilst the cost of bank seizures were nationalised through the SDIF, the losses were partially met by the sales of SDIF-banks' subsidiaries and real estate. The state also tried to collect the receivables of the SDIF-banks (Sönmez 2003, 71).⁷⁴ However, as limited success was achieved on this regard, the losses of the sunken banks continued to be a controversial issue in Turkey.⁷⁵ Finally the debts of the SDIF to the Treasury were cancelled with legislation in 2005.

⁷⁴ The slowness of the judicial process related to previous bank liquidations caused some cases to be dropped they exceeded the statutory time limit. The state tried to accelerate collections of the receivables by the SDIF via legal changes. With the change in Banks Act No.4672, bailed out banks' claims were treated as a Finance Ministry tax claim (Clause No. 15).

In the process, the collection effort by the state had to be slowed down so that the interests of the dynamic accumulators could be protected during the resolution process. The priority of collecting receivables of the SDIF-banks caused tensions within banking. The private banks criticized this as unfair since they also had receivables from the same debtor firms. According to Deputy Aslan Polat of the Virtue Party (TGNA 2001c, 19), a *TUSIAD* report evaluated the arrangement to accelerate the collection of receivables from the SDIF-banks as conflicting with the constitutional equality and property rights. The *TUSIAD* stated that this privilege for the SDIF-banks might increase unfair competition in the sector (see *TUSIAD* Press Bulletin, No. TS/BAS/01-43, 8 May 2001, URL: <http://www.tusiad.org.tr>). The BAT also opposed the arrangement. As a result, the consideration of the receivables of the SDIF-banks as a Finance Ministry tax claim was restricted to the receivables from shareholders of the SDIF-banks and from their subsidiaries (see Emirdağ 2001).

⁷⁵ The discussion of this process is beyond the confines of this thesis. For an official description see BRSA (2003c).

Despite the incentives offered to the SDIF banks and interested domestic and foreign banks, such as Citibank, Standart Bank, Kazkommertsbank, Demirbank,⁷⁶ Akbank, Dışbank, Finansbank, Doğuş Group, and Koçbank,⁷⁷ the sale process of the SDIF-banks did not work as well as expected. Of the potential domestic and foreign buyers, some were eliminated by the BRSA because they did not have the necessary qualifications for bank ownership, while some others withdrew their applications during the sale process because of the then ongoing economic crisis. As the time for finalising the sale/liquidation process of the SDIF-banks by the end of 2001 (a commitment to the IMF) came closer, deposits of the SDIF-banks were sold in auctions by transferring T-bills in exchange for these deposits to the purchaser banks to ease liquidations.^{78 79} As Chapter 11 will address, the dynamic accumulators and foreign banks became the beneficiaries of these sales.

The bank rationalisation process played a crucial role in the reorganisation of capital during banking reform. This process served to secure the conditions of accumulation for the dynamic accumulators while appeasing the primitive accumulators so as to avert a deeper financial crisis. The dynamic accumulators captured the seized banks, their financial and non-financial subsidiaries and their chosen assets and liabilities.

⁷⁶ Cingilhoğlu Group of Demirbank expressed its willingness to buy a bank from the SDIF even before the confiscation of Demirbank. After the seizure, the Group wanted to take back Demirbank when persons whose banks went bankrupt because of extraordinary conditions such as crises were allowed to be bank owners again with the banking law (see "Cingilhoğlu Eski Bankasına Talip", Sabah, 9 May 2001). As a result, the owner Halit Cingilhoğlu bought 70% shares of Halkdemirbank which was transferred to the SDIF with the partnership of Doğuş Group (35% -35%). The remaining 30% shares continued to be owned by statebank "Halkbank" (see Necati Doğru, "Yalılama!Kafeslerme!Cingillama! Zırlama!", Cumhuriyet, 20 April 2002).

⁷⁷ See "Fon Bankalarına Talip Çok", Milliyet, 15 December 2000; "11 Alıcı Masaya Oturuyor", Milliyet, 24 February 2000.

⁷⁸ "Mevduat Devri 10 Aralık'ta Tamam", ntvmsnbc news portal, URL: <http://www.ntvmsnbc.com/news/122188.asp>; "Türkiye IMF Taahhütlerini Yerine Getirmeye Hazırlanıyor", Finansal Forum, 28 November 2001.

⁷⁹ The IMF (2001i, 22) indicated the need to finalise the resolution process as follows: 'To complete the resolution, the authorities would auction any deposits that were unsold, along with matching government securities, to other operating banks. Since Ziraat (the largest state bank) had agreed in principle to act as the residual buyer, all SDIF bank deposits should be successfully sold and transferred, without having to directly pay out depositors in cash. Finally, any remaining assets and liabilities of the SDIF banks would be transferred to the Collection Department (COD), which the authorities were considering to merge with a possible bridge bank'.

Some of the seized banks which were not acquired by local capital groups or foreign banks were liquidated by the state. These liquidations relieved the dynamic accumulators from their liabilities in the name of rationalization. And the residual costs of the process were carried by the state as the lender of last resort.

10.8 Conclusion

In this chapter, state intervention in the fractional conflicts was considered in the case of the bank rationalisation process. The analysis focused on how this process was managed in favour of the dynamic accumulators. It was seen that, despite the demands by the primitive accumulators to be saved, the seizure process was completed under the decisive supervision of the IMF in such a way that it protected the interests of the dynamic accumulators as well as the interests of foreign creditor banks.

Accordingly, the bank seizures played a pivotal role in the determination of the line drawn between the dynamic and the primitive accumulators.⁸⁰ The crucial point here is that the continual selection of the failed banks throughout the seizure process distinguished the two divisions within FC, implying the historically determined nature of its hegemonic fraction.

Despite the free market agenda that is widely attributed to the IMF, the IMF supported the socialisation of the cost of the bank rationalisation. The legislative changes for bank seizures made it possible for the state to carry the huge cost of the reform that nobody else could have undertaken. This relieved the bourgeoisie from the cost, while also reducing the foreign banks' risks in Turkish banking. By eradicating the systemic risk, the dynamic accumulators could restructure themselves in order to further advance their accumulation internationally. Thus, neither the argument of external intervention by the IMF nor corruption in banking could provide a solid explanation for the driving logic

⁸⁰ As Oyakbank General Director, Mehmet Özdeniz, (*Activeline* 2002b) indicated, the era of holding banking 'as the use of banks in favour of their own group companies' is over in Turkey. To this end, the legislative superstructure that was established by the state for the continuity of capital accumulation in the country was effective. Thus, as Özdeniz stated 'there have always been solid, well-managed banks in Turkey. While these banks might get stronger during banking reform, new robust banks might join them. In this way, Turkish banking which would be formed by these strengthened banks may get much closer to the world banking standards'.

of banking reform. The reform was rooted in the contradictory interests within Turkish capital which arose from the various accumulation strategies of its fractions. The breakdown of holding banking through state initiatives restructured Turkish banking for a new capital accumulation regime in Turkey.

CHAPTER 11

THE CONSOLIDATION OF THE DYNAMIC ACCUMULATORS

- 11.1 Introduction
 - 11.2 Rising Concentration of Banking Capital for Competitiveness
 - 11.3 Gradual Dissolution of the Independent Controls of Banks by the Dynamic Accumulators
 - 11.4 Bank Restructuring within the First Division
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 - 11.5 Bank Restructuring within the Second and Third Divisions
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 - 11.5.2 Partnership Attempts with Global Capital
 - 11.6 Foreign Banks as Part of the Consolidation of the Dynamic Accumulators
 - 11.7 Conclusion
-

11.1 Introduction

The elimination of the primitive accumulators from finance was only the first step in the reform of banking. In order to reconstruct Turkey's FC, the dynamic accumulators' banks also needed to be strengthened.

The dynamic accumulators restructured their banks as part of their overall corporate reorganisations (see Chapter 8). While the reorientation of accumulation for global competitiveness reduced reliance on state finance protectionism, it nonetheless needed state facilitation to enter alliances with the most advanced global capital. The state subsidies facilitated M&As to secure the concentration and centralisation of banking capital.¹ In this process, especially large banks became the main beneficiaries by

¹ Throughout the restructuring process, the dynamic accumulators wanted a softer transition to solve the problems that had accumulated in banking over years. They were

increasing their market share. On the other hand, some of the small-to-medium scale banks increased their scale while some others pursued a strong niche player position.

Apart from M&As, there were other state initiatives to support the dynamic accumulators' banks. These mechanisms aimed to relieve the dynamic accumulators from credit and market risks.

Firstly, the voluntary debt swap operation with the Treasury in June 2001 helped private domestic banks to reduce their open currency positions and increase their devalued capitals during the financial crises.²

Secondly, state support for private banks through the corporate debt restructuring (via the so-called Istanbul Approach and the establishment of Asset Management Company) aimed to eliminate the blockage in the credit system which became more severe as rising non-performing credits during the crises sharply reduced credit exposure of banking (see BRSA 2002a, 3-4).

Thirdly, the state stepped in to strengthen banks' capital structures through the bank recapitalisation program. The ongoing economic crisis, the difficulties in finding domestic and foreign partners, and difficulties in selling fixed assets all served to limit banks' ability to raise their CARs by themselves (see BRSA 2003a, 25-26).

These various mechanisms that were utilised to consolidate the dynamic accumulators are beyond the confines of the thesis and will not be discussed in detail.³

concerned that the banking sector was being restructured under crisis conditions in Turkey (for example, see the statement by Akin Öngör, Member of Board of Director of Garanti Bank in Nurten Erk, "Öngör: Hızlı Davranıp Bankaları Boğmayın", *Hürriyet*, 12 Februray 2001).

However, bank consolidation was not immune from tensions within capital. The state support for banks triggered further tension between productive/commercial capital and the dynamic accumulators. While the former did not support bailouts of failed banks, the state provided new resources to banking. According to productive/commercial capital, to overcome the crisis in Turkey, the state should have first supported the 'real sector' instead of banking. Thus, at different stages of this consolidation of the finance sector, those tensions continued to come to surface through public debates.

The dynamic accumulators were the main beneficiaries of state policy. However, banking reform was a pre-condition for the overall restructuring of the capital accumulation regime to give Turkey's economy a global orientation. The priority on the restructuring of banking was a first step in removing blockages in the credit system. Thus, state subsidies for the banks/dynamic accumulators, indeed, did make the transition smoother for total capital.

² With this swap operation, a portion of TL denominated domestic debt securities maturing in 2001 and 2002 was exchanged with three and five year FX-linked and one and two year TL denominated floating rate bonds (for more details see *Activeline* 2001c; Sönmez 2001; Yeldan 2001b).

Yet it is important that the reform of banking was not simply a free market solution; the Turkish state and the IMF were constructing a globally viable Turkish FC.

Among these various mechanisms, this chapter focuses on M&As with particular attention on two issues. The first issue is the process of domestic centralisation of capital by the selective takeovers of assets of the primitive accumulators. The second issue refers to the global concentration of Turkish capital, especially via partnerships with leading global banks. In both dimensions, the state's policies have been central.

This chapter's objective is to address how the dynamic accumulators consolidated and the role of foreign banks in their consolidation. Accordingly, it addresses how we are to understand the relationship between 'foreign' and 'Turkish' banks. The analysis begins by looking at how banking capital concentrated and centralised in the pursuit of competitiveness in Turkish banking. Secondly, under the pressure of global competition, the chapter shows how independent control of banks by conglomerates has been gradually dissolving. The chapter proceeds with bank restructuring within the first division of the dynamic accumulators. Two dimensions in this restructuring appear critical: the pure banking orientation through the sales of non-financial equity participations and searches for partnership with global capital. Thirdly, bank restructuring within the second and third divisions of the dynamic accumulators is analysed with particular attention on two issues: the acquisitions of the SDIF-banks and unsuccessful attempts at partnerships with global banks. Lastly, the role of foreign banks in the consolidation of the dynamic accumulators is discussed. It will be seen that foreign banks cannot be seen as exogenous, but have been part of the restructuring of accumulation within Turkey.

This chapter's analysis challenges the nationalist interpretation of the reform. The continuous state intervention during the consolidation of surviving banks shows that the Turkish state critically managed the transition to a more globally integrated banking system. This finding verifies the proposition of this thesis that the nation state is not external to 'globalisation'. Instead, the state is part of the reproduction of social relations of capital and functions in the integration of domestic processes of accumulation into global accumulation in line with the agendas of particular fractions of capital.

³ For more detail see BRSA (2003a).

11.2 Rising Concentration of Banking Capital for Competitiveness

A central theme of bank restructuring is 'competitiveness'. In the context of conglomerates, this refers to both competitiveness in the finance 'sector', but also in the supporting forms of accumulation that attach to banks.

'Competitiveness' has become something of a buzz word in economic policy since the 1980s: indeed, it is a core element in the ideology of neo-liberalism. We saw in Chapters 5 to 8 that competitiveness was the main rationale given for the Turkish bank reforms. Generally, competitiveness is cast in two related dimensions, the difference usually reflecting differences in policy domains of the nation state, although with a theoretical dimension, as well. One dimension is competitiveness of 'local' producers: the capacity of local production to compete without subsidies against imports, or to compete in export markets. Here, the agenda is the withdrawal of state subsidies and a program of regulatory reforms with the intention of emulating in reality the ideal type of competitive markets. For the neo-classical economists, the view is that, with this policy regime, policy in an international context will become self-selecting: those industries and firms which are 'efficient' will naturally come to the fore. In the absence of trade barriers, there is no difference between local and international competitiveness.

The second dimension addresses the competitiveness of 'national' firms in global markets. While the neo-classicals recognise no difference between these dimensions, there is often a policy difference (different jurisdictions of the state) and also a theoretical difference. Reference here is most obviously to Michael Porter's well recognised concept of 'competitive advantage', which differs from comparative advantage not on the need for domestic market forces, but precisely in respect of the role attributed to state policy in the construction of international competitiveness. In the service sector, for example banking, competitive advantage can be promoted through policies that generate the capacity of banks to operate in globally integrated financial markets, including offshore, as 'foreign' banks.

In accordance with both these notions of competitiveness, we can interpret the policy of the Turkish state and the IMF. The dynamic accumulators, with decreasing

profits from T-bills, tended to increase their profitability from core banking operations.⁴ The development of domestic policies for competitiveness was central to the reforms. Some of the dynamic accumulators had been nurtured to fill competitive gaps in the domestic market, especially in retail services and the provision of capital to SMEs. But the largest project of reform was the integration of Turkey's largest surviving banks into global banking. This project was the dominant objective of banking reform: the promotion of bank M&As, the selective takeover of assets of the primitive accumulators and the nurturing of partnerships with foreign banks. The purpose of these restructures was not to create a 'free market', but involve the state and the IMF directly in the construction of a banking elite of dynamic accumulators that could integrate Turkish capitalism into global accumulation.

The dynamic accumulators were not unified, i.e. immune from internal conflicts. For some small and medium scale banks, survival became dependent on either scale expansion or niche market focus. However, the first tier-banks demanded from the state a more oligopolistic sector. For them, 'the rapid decrease in concentration in the last years should increase to an acceptable level again'.⁵ The *TUSIAD* (2000) and the BAT (2000) also saw that, without a rising concentration of banking capital, Turkish banks could not face competition by the world's largest and most profitable banks. If they were to compete or to collaborate with globally mobile money capital, the dynamic accumulators needed to strengthen their banking arms. Therefore, these associations asked for state subsidises to help these corporations undertake M&As.

The key here was surviving banks gaining access to the assets of the defunct primitive accumulators. The state accelerated this process through direct incentives⁶ so that the dynamic accumulators (and foreign banks) attained a higher market share. This is what the BRSA expected:

The rehabilitation of the state and SDIF banks will significantly reduce the pressure on interest rates and provide a level playing field for the banking sector. As the [government] securities given to the state and SDIF banks for recapitalisation purposes are retired, these

⁴ See the statement by Semih Bilgin, Vice-General Director of Koçbank in Gözütok (2000, 41–42).

⁵ See the statement by Ersin Özince, General Director of İşbank and Chairman of the BAT in Özince (2002).

⁶ For the incentives in the M&A process, see BRSA (2002e); BRSA (2001e).

banks' asset size will decline and thus their weight in the financial sector will decline. As a result, the private banks will be able to mobilize larger volume of domestic deposits and at lower costs. (BRSA 2001a, 16)

The rising concentration through M&As can be seen in Table 11.1. Prior to the reform, the sector had the European Union's fourth highest concentration rate following the Netherlands, Belgium and Denmark (Sayilgan 1999, 82). The domination of the largest five and ten banks (in terms of asset, deposit and credit size) fell between 1980 and 1997-98 as finance protectionism attracted a large number of new banks.⁷ Despite the falling sectoral concentration, however, the largest five banks had a market share of around 50% in the mid-1990s. With the banking reform of 1997 onwards, the tendency to fall reversed and both the largest five and the largest ten banks increased their shares sharply in total assets, deposits and loans.⁸

Table 11.1 Concentration in the banking sector (% share in sector total)

| | 1980 | 1985 | 1990 | 1995 | 1997 | 1998 | 1999 | 2000 | 2003 * |
|-----------------------|------|------|------|------|------|------|------|------|-----------|
| Largest Five** | | | | | | | | | |
| T. assets | 63.4 | 63.5 | 54 | 48 | 44 | 44 | 46 | 48 | 59.9 |
| T. deposits | 69.4 | 70.4 | 59 | 53 | 47 | 49 | 50 | 51 | 54.7 |
| T. loans | 71.2 | 65.0 | 57 | 50 | 46 | 40 | 42 | 42 | 62.5 |
| Largest Ten | | | | | | | | | |
| T. assets | 82.2 | 80.9 | 75 | 71 | 67 | 68 | 68 | 69 | 82.2 |
| T. deposits | 88.3 | 89.0 | 85 | 73 | 70 | 73 | 69 | 72 | 76.3 |
| T. loans | 89.7 | 81.0 | 78 | 75 | 72 | 73 | 73 | 71 | 86.8 |

* As of November 2003.

** The 2003 ratios for the first five *private* banks are 44.3, 52.0 and 44.6 respectively.

Sources: BAT (2001a, 2); Sayilgan (1999, 82); BRSA (2004, 3).

In this process, the bank numbers decreased as can be seen in Table 11.2.

⁷ The falling concentration rate was especially due to the creation of new Turkish banks. As Denizer (2000, 11, 15-19) notes, foreign banks, operating in retail banking, had a minimal impact on the concentration rate. However, despite their small scales, they enhanced competition and reduced domestic bank profitability, Denizer indicates.

⁸ However, with an amendment to Banks Act No.4672, merged banks were not allowed to control more than 20 percent of the total sector assets.

Table 11.2: Number of banks in Turkey (1980-2003)

| | 1980 | 1990 | 1994 | 1999 | 2001 | 2003 |
|----------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| Commercial Banks | 31 | 54 | 55 | 62 | 46 | 36 |
| Public | 8 | 7 | 6 | 4 | 3 | 3 |
| Private | 19 | 25 | 29 | 31 | 22 | 18 |
| Foreign | 4 | 22 | 20 | 19 | 15 | 13 |
| SDIF | - | - | - | 8 | 6 | 2 |
| Investment and Development Banks | 6 | 10 | 12 | 19 | 15 | 14 |
| Public | 4 | 3 | 3 | 3 | 3 | 3 |
| Private | 2 | 4 | 6 | 13 | 9 | 8 |
| Foreign | - | 3 | 3 | 3 | 3 | 3 |
| Total | 37 | 64 | 67 | 81 | 61 | 50 |

Sources: Developed from BRSA (2002d, 2), BAT (2004, 19).

There are now four-to-five large banks and another four-to-five banks trying to capture a higher share in multi-specialised banking. Two foreign banks, HSBC and Citibank, are also aiming to join the largest players. Some 30-40 small-banks, on the other hand, operate in niche markets.⁹

11.3 Gradual Dissolution of the Independent Controls of Banks by the Dynamic Accumulators

As Chapter 4 noted, Turkish conglomerates have used their control over banking capital to fuel their accumulation since the 1940s. Holding banking formed the basic channel for conglomerates to reap state subsidies. While enjoying privileges in accessing financial resources in a protected domestic financial system, the conglomerates faced change under the pressure of global competition. This was not only limited to the primitive accumulators which lost their banks. Crucially, the dynamic accumulators have also been experiencing the gradual dissolution of their independent control over banking to varying degrees and in different forms. This is the issue addressed here.

Interestingly, prior to banking reform, the dynamic accumulators had started to criticise holding banking as an obstacle to M&As. They argued that the persistent attitude by the conglomerates to sustain their independent bank ownership precluded overall efficiency of the sector:

⁹ See Tasasız (2002, 32).

There are some banks whose financial structures do not fit the banking sector. These have caused a financial burden on the economy. The troubles given by the problematic banks should be ended. To this end, they must be either merged or liquidated... Family banks have been an important factor preventing mergers in the sector so far. They do not accede with wide partnerships. Together with the falling inflation rate, the sector can lose its attractiveness and thus, the family banks could think more positively about mergers.¹⁰ (*Para* 1999, 62)

However, instead of domestic mergers, the dynamic accumulators have tended to maintain their independent ownership. This fact shows two things: Firstly, the aforementioned critique of holding banking by the dynamic accumulators was mainly aimed at the elimination of the primitive accumulators so that the former could then benefit from M&As. Secondly, it also suggests that the dynamic accumulators saw their independence in finance as crucial for their overall accumulation. This independence allowed them to keep synergy gains between finance and other sector activities within their conglomerates instead of sharing with rival Turkish conglomerates.¹¹ This may be a reason for why the dynamic accumulators, as this chapter will show, mostly prefer foreign partners to domestic ones as they need to establish alliances in finance under the pressure of global integration.

Some dynamic accumulators preferred to acquire the SDIF-banks, while some others, having more than one bank, merged their own banks. For others, a foreign partner was more attractive. Although only two of these attempts have reached fruition so far, it can be expected that this is the most likely future path to growth. After all the acquisitions of the SDIF-banks and the mergers among those banks with common owners

¹⁰ Alev Göçmez, General Director of Alternatifbank; see also the statement by the Vice-Executive of Denizbank, Fikret Arabacı in Finansal Forum, 26 November 2000; and BAT (2000, 6).

¹¹ Bank mergers with other conglomerates conflicted with the interests of bank owners. However, other cooperation mechanisms came to the fore such as the common use of ATMs and POS terminals, strategic alliances and joint ventures. The Vice-General Director of Denizbank, Dinçer Alpman (Bayar 2003a, 59) complained that doing business separately eroded competitiveness in banking via higher costs; see also the statement by Garanti Bank General Director Ergun Özen in Özen (2002).

It can be expected that with the ongoing contraction in profit margins for many banking products and services, further collaboration will be required in Turkish banking. Verifying this, for instance, Denizbank and Garanti Bank realised a first in Turkish banking by collaborating in credit card markets via the use of same credit card 'Bonus'.

are completed, the merger process is likely to continue *between* conglomerates as global competition pushes them more in this direction.

Indeed, a second wave in the consolidation process is expected to start as falling profit margins and pressure for higher productivity will force voluntary mergers.¹² In particular, those banks which have a small credit and deposit base will find it difficult to increase their size and profitability. Therefore, while the number of banks will further fall, the dominance of large banks will rise along with an increase in the share of foreign banks. In addition, the number of niche banks is expected to rise to fill the spaces not covered by the large banks.

11.4 Bank Restructuring within the First Division

This group of banks includes the top-tiers of the sector: Akbank of Sabancı Group, İşbank of İşbank Group and Garanti Bank of Doğuş Group.¹³ Their solid position in banking parallels the higher levels of accumulation by the leading owner conglomerates, as Chapter 8 indicated. Koçbank is also located within this division of banks as the banking arm of Turkey's leading conglomerate Koç Group. Despite its smaller scale before the reform, Koçbank was successful in catching-up during the consolidation process and entered the first division.

The first division of the dynamic accumulators are distinguished not only by their size, but also their operation in the internationalised circuit of capital. These leading conglomerates have a number of key characteristics:

- They were already large enough to survive in a globally exposed market after the reform.
- They began their restructuring in the 1990s, before the reform, and were mostly rationalised before the reform.

¹² See the statement by Garanti Bank General Director Ergun Özen in Levent (2003, 232).

¹³ The YKB, which is among the top-tier banks, has a unique position. Despite not being seized, the bank had to change ownership as part of the protocol made between the BRSA and the owner Çukurova Group after the seizure of other Group bank Pamukbank. As it lies between the dynamic and primitive accumulators' banks, the YKB is not included in the discussion of the dynamic accumulators' banks.

- They rationalised their banking arms to develop partnerships with large global banks.

We discussed the first two characteristics in Chapter 8. Here, the third issue is discussed in detail.

The first division's banks were already capable for keeping their leading positions by themselves. Hence, their tendency for collaboration with global financial capital derived from a strategy to be stronger rather than an immediate compulsion to which some other small-to-medium scale banks have been subjected during the consolidation process. They tend to utilise partnerships with foreign capital instead of domestic capital as a way to accelerate their transformation into global accumulators.

The individual restructuring of these conglomerates preceded the state-managed reform of banking. This group of banks started their preparations from as early as beginning of the 1990s. In addition to the ongoing process of reducing non-financial equity participations by Akbank, İşbank, and Garanti Bank, (preparing for the day when inflation and interest rates subside), this group of banks as a whole has put greater emphasis on efficiency, developing new products and traditional lending along with extensive investments in technology. They also solidified their multi-specialist banking focus to keep their high rank positions. Also, as a preparation for foreign partnerships, the conglomerates reorganised their finance arms by merging their own banks and/or gathering financial companies under one roof of a financial group.

In this restructuring process two characteristics particularly distinguish this division's banks: the sale of non-financial assets, and a tendency to enter into partnerships with foreign capital. These will now be addressed in turn.

11.4.1 Sales of Non-Financial Equity Participations

The early start of break-down of holding banking within the first division helped Akbank, Garanti Bank and İşbank to weather the storm during banking reform.

Among the top-tiers, Akbank and Garanti Bank were distinguished by their orientation towards pure banking activities. These two banks foresaw the forthcoming

consolidation process and started their preparation in the mid-1990s.¹⁴ For instance, Akbank sold off its non-financial equity participations to the Sabancı Holding Company between 1996 and 1998 (Soydan 1999, 132). The bank also reduced exposure to group companies well below the legal maximum.¹⁵ The arms-length policy between banks and industrial companies was also implemented by Garanti Bank, 'the crown jewel of Doğuş Group' (Barham & Field, 1997, 48). Having large investments in finance since the 1980s, the group solidified its position by transferring its non-financial equity participation to Doğuş Holding and also taking over the financial equity holdings of Doğuş Holding.¹⁶ This restructuring made Garanti Bank a financial supermarket in which all financial services were available. What drove this orientation was firstly the expectation that growth would be derived from the synergy between banking network and other financial as well as non-financial activities such as automotive, trading and retailing.¹⁷

Secondly, Akbank and Garanti Bank had a concern for bank profitability and competitiveness. Industrial subsidiaries were a burden and risk for banks, according to Erol Sabancı, the Head of Board of Directors of Akbank.¹⁸ Given that even giant foreign banks focus on pure banking, Sabancı contended, banks should only engage with banking: 'banks should not be partners in industrial companies. Akbank sold off all its industrial subsidiaries. Akbank does only banking'.¹⁹ *Euromoney* (2001b) covered the success of Akbank as 'Top-performing Akbank mulls joint venture':

During this time [since the 1960s] the government encouraged banks to invest in industry. Few matched the Sabancı's success. In the past two years nearly 20 stricken banks have been taken into government administration chiefly because shareholders illegally appropriated or unwisely invested their funds. Many other banks got saddled with cumbersome and unprofitable investments and find themselves as quasi-holding companies.

¹⁴ See the statements by Suzan Sabancı, Vice-General Director of Akbank in Yeşiloğlu (1995, 142-143) and by Akin Öngör, Member of the Board of Directors of Garanti Bank, in Nurten Erk, "Öngör: Hızlı Davranıp Bankaları Boğmayın", *Hürriyet*, 12 February 2001.

¹⁵ See Münir (1998); URL: http://www.akbank.com.tr/e/investor_relations/to_our_shareholders.asp (accessed 11 November 2002).

¹⁶ "Garanti, Dünya Markası Olacak", *Dünya*, 19 October 2001.

¹⁷ See the statement by Ferit Şahenk, in Ruhi Sanyer, "Kriz Boyun Eğmeye Başladı", *Radikal*, 12 November 2001.

¹⁸ "İştirakleri Sattık Gerçek Banka Olduk", *Hürriyet*, 11 March 1999.

¹⁹ Finansal Forum, 30 January 2002.

By contrast, Akbank funded many winners. In the 1990s all non-financial participation assets were sold and the profits ploughed into the capital. Today Akbank is the only pure bank play among the top five banks. "Akbank grew because Erol Sabancı always ploughed the profits back into the family-owned bank," says Belli [an executive banker]. "He could have distributed it to the shareholders. He didn't."

On the other hand, despite selling some subsidiaries in the 1990s,²⁰ İşbank needed to sell off more equity holdings during banking reform in order to adjust to new limits.²¹ This sale process, part of the overall reorganisation within the conglomerate, started in 2002. The reorganisation included sales and mergers of some subsidiaries as well as public offerings of others in the stock exchange. In this process, the Group sold especially the subsidiaries which operated in non-strategic sectors and had been generally acquired in exchange for non-performing credits. While overhauling its sectoral diversification, İşbank Group invested in energy distribution and telecommunication. These investments aimed at benefiting from the synergy between banking and these future promising sectors in Turkey (as discussed in Chapter 8).

İşbank acknowledges that the transition towards the Anglo-Saxon Model provides specialisation, transparency for shareholders and cash inflows to be invested in profitable banking activities. However, differing from Akbank and Garanti Bank, İşbank still sees equity investments in diversified sectors as profitable. Despite the reduced number of subsidiaries, the Group still continues to operate in various sectors.²²

²⁰ See Soydan (1999, 133) and Kocabaşoğlu et al. (2001, 605).

²¹ Even though it was distinguished by its high number of subsidiaries among the large banks as İşbank General Director Ersin Özince stressed, the bank conformed to the limits on connected lending and non-financial equity participations (see Yeşiloğlu 2000a, 63-64; "Sorun İstemiyoruz", Yeni Binyıl, 22 May 2000).

The number of the bank's equity participations reduced to 80 at the end of 1999 and 57 in March 31, 2004 from 134 in 1980
(URL: <http://www.İşbank.com.tr/ir-corporate-participations.html> (accessed 8 June 2004); URL: <http://www.İşbank.com.tr/english/news004.html> (accessed 8 June 2004).

The Group accelerated the sales of equity holdings after winning tenders in telecommunication and oil distribution (see "GSM'i Alan İşbankası Hızla İştirak Satıyor", Hürriyet, 22 April 2000; "İşbank Accelerate Share Sales", Turkish Daily News, 22 April 2000, URL: http://www.turkishdailynews/old_editions/04_22_00/econ.htm#e1).

²² İşbank General Director Ersin Özince (*Finans Dünyası* 2002, 23) stated that their mission in contributing to national capital formation will continue. Özince especially stressed the importance of the continuity of national ownership in the glass industry for both the Group and Turkey. Also, according to Özince (Yeşiloğlu 2003a), non-financial equity participation will be more profitable given the lower profit expectations in Turkish banking than the other sectors in

11.4.2 The Tendency for Partnerships with Global Capital

As the integration with global financial markets exposed the finance sector to rising competition, within this division of banks, there has been a tendency for partnerships to be developed with advanced foreign banking capital. Their superior power in the domestic financial system allowed these top-tiers to follow such an expansion strategy (unlike the second and third divisions). These banks follow this strategy to solidify their existence in the domestic market as well as to facilitate their expansion into neighbouring countries.²³

For instance, Sakıp Sabancı, the Head of Board of Directors of Sabancı Holding, (Poyraz 2000c, 33-40) indicated that Akbank preferred a partnership with one of the world leaders instead of acquiring the SDIF-banks or merging with another Turkish bank. This was expected to elevate the bank much more rapidly because, according to Sakıp Sabancı (Akı 2003a, 113- 116), even Akbank, which was known as 'one of the two strongest institutions together with the army', was small compared to global players.

The sales of non-financial equity participation prepared Akbank for a foreign partnership as Erol Sabancı of Akbank stated: 'the time for bank partnerships came up. I prepared Akbank for this. I believe that the most attractive choice for foreign banks seeking to invest in Turkey is Akbank'.²⁴

which İşbank's subsidiaries operate (see URL: <http://www.İşbank.com.tr/ir/ir-corporate-participations.html> (accessed 8 June 2004)).

²³ As an exception within this division, the İşbank Group does not have a tendency to establish foreign partnerships. Instead, as can be seen from Table 11.3, the bank preferred to merge its two investment banks, Sınai Yatırım Bank and Türkiye Sınai Kalkınma Bank to create a stronger bank, besides selling its minority stakes in Dışbank. Despite being open to foreign partnerships or attractive acquisitions, İşbank General Director Ersin Özince states that expansion via capturing a higher market share during the consolidation process is more preferable for them (see Ayfer Arslan, "Özince: Hedefimiz, En Hakim Sermaye Grubu ve Banka Olmak", Dünya, 26 August 2002).

²⁴ "Sabancı'dan Yabancı'ya Davet: En Cazibi Akbank", Hürriyet, 9 November 2001.

However, Akbank has not made a deal yet and the rumour about the flirtation with Deutsche Bank did not turn to a partnership (see Öztürk 2001a, 78). According to Sakıp Sabancı, they could not find a foreign partner because of the unstable political conditions and economic crises in Turkey and, to avoid cheap price proposals, they had to wait for a better conjuncture ("Akbank Gelinlik Çağda", Akşam, 4 December 2002; "Akbank'i Ucuza Vermem", Finansal Forum, 10 September 2003).

Garanti Bank also followed the strategy of integration with foreign banking capital so it could compete globally. The aforementioned restructuring of the finance group was to be done because of rising competition by foreign banks in Turkey, Ferit Şahenk of Doğuş Group indicated.²⁵ In the process, the Group merged its three banks (Garanti Bank, Osmanlı Bank and Körfezbank) as a first step in getting a foreign partner (see Table 11.3).²⁶ Indeed, Doğuş Group accelerated this merger process as the talks with Banca Intesa of Italy took longer than planned.²⁷ Although negotiations with Italy's Banca Intesa were restarted in 2004 (after previously-failed talks),²⁸ these did not end up with a deal either. Garanti Bank is currently seeking a foreign partner as part of the bank's goal to become a regional bank covering Balkans, Turkic Republics, and Middle East (see Levent 2004a, 228, 232).

Table 11.3 Intra-group bank mergers within the first division

| Conglomerate | Merged Banks | | New Bank | Year |
|--------------|--------------------|-----------------------|------------------------|------|
| İşbank | Sınai Yatırım Bank | T.Sınai Kalkınma Bank | T. Sınai Kalkınma Bank | 2002 |
| Doğuş | Körfezbank | Osmanlı Bank | Osmanlı Bank | 2001 |
| Doğuş | Osmanlı Bank | Garanti Bank | Garanti Bank | 2001 |

Source: Developed from BRSA (2003c, 53).

The restructuring within the finance arm of the Doğuş Group verified the leading roles of these conglomerates in influencing the state-managed change in finance. The following quotation from Ferit Şahenk of Doğuş Group shows this well:

²⁵ Ruhi Sanyer, "Kriz Boyun Eğmeye Başladı", Radikal, 12 November 2001.

²⁶ In addition to the positive outcomes of the merger of three Group banks on overall group activities, Garanti Bank succeeded in increasing its market share and achieved sustainable efficiency, profitability and growth according to Ferit Şahenk of Doğuş Group (see "Garanti 2002'de Karlılığa Yeniden Kavuştu", ntvmsnbc newportal, URL: <http://www.ntvmsnbc.com/news/210416.asp?0m=S208>, 11 April 2003; "Garanti, Dünya Markası Olacak", Dünya, 19 October 2001; Şelale Kadak, "Ferit Şahenk: İbre İyi Günleri Gösteriyor", Sabah, 18 June 2003).

²⁷ Ruhi Sanyer, "Kriz Boyun Eğmeye Başladı", Radikal, 12 November 2001.

²⁸ It was argued that the reason for the failed talks was not the September 11 attack in the US, but the lack of authorization by the Italian central bank, the Bank of Italy, for the partnership with Garanti Bank. Intesa first needed to improve its ratios by selling off its problematic bank in Brazil to be able to realize the planned partnership with Garanti Bank (Yeşiloğlu 2003b, 160).

In 1998, we saw that Turkey could not live with inflation anymore; neither companies nor countries can be managed with an inflation-based thinking; in this trend, some temporary profits derived due to inflation are to disappear....We decided that scale economies and productivity have become sine qua non for surviving in banking...[after the initiated restructuring in Doğuş Group's financial sector companies since 1998] as *the last stage of our strategic plan, there was the merger phase to be realised. We could have done this only after some legislative amendments.* The previous stage of this restructuring, which was the creation of a joint management of human resources and technology for our banks, was the most important factor for the bank mergers. The last four years' works by the group will make it easier... [to merge the group banks]. We are also such a group which has made large investments in other financial companies apart from banking. We made these investments to be able to well respond to customer needs before these needs emerge after the end of the inflationary era.²⁹

Other banks also, took steps to develop partnerships with global capital. To compensate its backwardness in finance, Koç Group merged its seven finance sector companies, including Koçbank and its overseas banks, under the umbrella of 'Koç Financial Services Company (Koç Finansal Hizmetler A.S.)'. Then, in 2002, Koç Group established the first foreign partnership with Unicredito Italiano. With this restructuring, Koçbank became the sixth largest bank in three years and planned to be one of the top three largest banks in five years. To be able to eliminate the big step between Koçbank and other four largest banks,³⁰ in January 2005, the Koç-Unicredito joint venture purchased the YKB, the fifth-largest bank in the sector. The YKB, as part of the protocol made between Çukurova Group and the BRSA, had to be sold by Çukurova Group by January 31 2005.³¹

Table 11.4 Foreign partnership within the first division

| Conglomerate | Foreign Bank | Joint Venture | Year |
|---------------------|---------------------|--------------------------------|-------------|
| Koç | Unicredito | Koç Financial Services Company | 2002 |

²⁹ Press meeting by Ferit Şahenk, 18 October 2001, in URL: <http://www.Dogusholding.com.tr/sayfa.cfm?Menu=71&NO=355&Sayfa=Haberler> (accessed 28 November 2002) (emphasis added).

³⁰ See the statement by Halil Ergur of Koçbank in Tasasız (2003, 92); *Capital* (2002a, 49); Yeşiloğlu & Tekinay (2002, 47).

³¹ Because of the seizure of Pamukbank, the owner Çukurova Group needed to sell its shares in the YKB and withdraw from banking as required by bank laws. For more details see Özeke (2005); "Yapı Kredi Bankası Koç'un Oldu", ntvmsnc newsportal, 31 January 2005, URL: <http://www.ntvmsnc.com/news/307306.asp>.

In brief, the leading conglomerates tend to have foreign partners in order to survive in global financial markets as banking is an economies of scale industry. The rationalisation of their finance arms since the 1990s has prepared these conglomerates to this end.

11.5 Bank Restructuring within the Second and Third Divisions

Among the small-to-medium scale banks within the second and third divisions, the TEB, Alternatifbank, Tekstilbank, Finansbank, GSD Bank and MNG Bank have remained a niche player position. On the other hand, Oyakbank, Dışbank, Denizbank, Anadolubank and Tekfenbank have followed an expansion strategy into the league of multi-specialised domestic banking.

The banks of the second and third divisions displayed three characteristics in their restructurings. The first characteristic (which distinguishes them from the top-tiers) was that there was no need for the sale of industrial subsidiaries given the pure banking orientation of these banks. They strengthened this banking focus during the reform via the synergy pursuit with other sectoral activities.

The second characteristic was that these small-to-medium scale banks followed a different way of restructuring in the M&A process. Whilst the first division pursued integration with global money capital, *the second and third divisions strengthened their positions within FC via state-subsidised M&A process*. For these banks, opportunities offered by the acquisition of the SDIF-banks and organic growth were still meaningful. Furthermore, acquisitions helped them not only to expand in banking, but also to enlarge their overall financial services groups.³²

³² However, Anadolubank and Tekstilbank did not use acquisitions to expand. Anadolubank focused on corporate banking (especially on international trade linked to the owner Basaran Group's extensive foreign trade activities). It also started to extend into retail and commercial banking via organic growth as another strategy to become a medium-scale bank (see Levent 2002a; Levent 2004b).

Tekstilbank, on the other hand, focused on corporate banking, (especially export finance) in synergy with GSD Group's wide export activities. This bank emphasised that it would operate only in banking and would not have any other financial or non-financial subsidiaries (see Levent 2002c).

The third characteristic of these divisions was the unsuccessful partnership attempts with global capital at the early stages of bank reform. Despite this group of banks wanting foreign partners, it was less feasible for them compared to the first-tiers. Therefore, they utilised the state-subsidised M&A process as a strategy to prepare for future partnerships.

This section will take a closer look at the second and third characteristics of this group of banks.

11.5.1 Acquisitions of the SDIF-banks

As discussed in Chapter 10, the state managed the resolution process of the SDIF-banks in a way that favoured the dynamic accumulators. The dynamic accumulators could purchase selected assets of the SDIF-banks as they preferred. For instance, banking reform offered a cheaper and easier growth opportunity for Denizbank which had sought to expand in domestic and external financial markets. Denizbank General Director Hakan Ateş expressed his expectation from the M&A process as follows:

There will be a space emptied by the eight [SDIF-] banks. Therefore, this space will be filled up by domestic and foreign groups which know how to do business well; are able to manage; are aware of and able to use technology; and have money. Honestly, we see ourselves confident among them. (*Activeline* 2000a, 5)

As can be seen from Table 11.5, Denizbank acquired Tarihbank as well as particular branches, deposits and credit cards of other SDIF-banks.³³

Table 11.5 Bank acquisitions within the second division

| Conglomerate | Banks Subjected to Acquisition | | New Bank | Year |
|--------------|--------------------------------|---------------------------------|-------------|------|
| Zorlu | Denizbank | Milli Aydin Bank (Tarihbank) | Denizbank | 2002 |
| OYAK | Oyak Bank | Sumerbank | Oyak Bank | 2002 |
| Tekfen | Tekfen Yatırım Bank | Bank Ekspres | Tekfen Bank | 2001 |

Sources: Developed from BRSA (2003c).

³³ See *Activeline* (2002c).

During the sale of Tarıřbank to Zorlu Group, the bank's real estate and non-performing credits were left to the SDIF, while other commercial credits, securities and agricultural credits were transferred to the buyer. Since Zorlu Group did not pay the SDIF for the purchase, this was evaluated as a free transfer. This sale led to a debate between Zorlu Group and the ex-owner of Tarıřbank, Tarıř (the union of agricultural cooperatives). Tarıř noted the loss to the state which had injected capital into Tarıřbank before the sale and had taken over the bank's non-performing credits.³⁴ In reply, Zorlu Group said that the injected capital into Denizbank (before the transfer of Tarıřbank) had aimed to eliminate capital deficiency in Tarıřbank. The conglomerate also stressed that with the transfer, the state had freed itself from losses that might have emerged if there were a liquidation of Tarıřbank.³⁵ Whatever the merits of these arguments, the result was that the state offered a prize catch to Zorlu Group which thereby attained distinctively high financial ratios in Denizbank due to this acquisition (see Demirci 2003a, 29).

Similarly, Oyakbank of OYAK Group benefited from the acquisitions of Sümerbank and selected assets of other SDIF-Banks. By recognising that survival in the new era would require either being a large or being a niche player, OYAK Group chose to expand Oyakbank.³⁶ The state made these acquisitions more attractive by allowing the Group to choose which bank liabilities it wanted to take over.³⁷

OYAK Group utilised acquisitions to accelerate its growth (*Finans Dünyası* 2001, 21). Having an existing branch network was the main reason for the acquisition of Sümerbank, which itself had merged with five seized banks (Sümerbank, Yařarbank, Bank Kapital, Egebank, and Yurtbank). OYAK Group stated that it saved ten years of effort by acquiring Sümerbank: 'we had to acquire at the rate of 10 to 15 new branches

³⁴ See Necla Yılmaz, "Tarıřbank, Denizbank ile Birlesiyor", *Dünya*, 26 October 2002.

³⁵ See "Tarıřbank Denizbank'a Devredildi", *Milliyet*, 24 October 2002; "Denizbank Tarıřbank'ı Bünyesine Kattı", *Radikal*, 24 October 2002.

³⁶ See the statement by Cořkun Ulusoy, the General Director of OYAK Group "Türkiye OYAK'a Dar Geliyor", *Akřam*, 23 November 2001.

³⁷ Yavuz Barlas of Cumhuriyet Daily indicated that during the sale of Sumerbank, as OYAK Group did not want to take over FX deposits because of currency risk, those deposits were transferred to other SDIF-banks, (Kentbank and Etibank) (see Yavuz Barlas, "Bonolar Müřteri Kaçırıyor", *Cumhuriyet*, 12 October 2001).

per year, you would have needed ten years to create such a network which Sümerbank provided for us.’³⁸

Other banks within the second and third divisions also benefited from similar subsidies. The investment bank Tekfenbank, achieved its long-term goal of converting to a commercial bank through the acquisition of Bank Express as well as benefiting from ownership of selected branches of other SDIF-banks. For Dışbank, which aimed to be a global player, chosen assets of the SDIF-banks provided the scale expansion it needed so it could be distinguished with its high CAR and profitability.^{39 40}

Furthermore, these conglomerates not only expanded in banking, but they also accelerated *their expansion in finance as a whole due to the state-subsidised M&A process*. For example, OYAK and Zorlu Groups acquired financial subsidiaries of the SDIF-banks. In the case of Zorlu Group, acquisitions of leasing, factoring, investment brokerage companies, etc. served the strategic action plan of its financial services group to achieve the right scale domestically and internationally.⁴¹

The consolidation process also contributed to the expansion of international banking by these conglomerates. For example, Denizbank’s purchases of overseas bank subsidiaries of the SDIF-banks served its expansion into Europe and Russia, its two target markets.⁴²

³⁸ See the statement by Öner Caner of OYAK Group in *Euromoney* (2001c); also Yiğit (2002, 44).

³⁹ See “Dışbank Citayi Yükseltecek”, Finansal Forum, 16 August 2002; Dışbank also planned to acquire Toprakbank and public bank Vakıfbank (see “Dışbank: Satın Alıp Buyuyebiliriz”, *Hürriyet*, 23 January 2002).

⁴⁰ Branches of Toprakbank were shared among Dışbank, Sekerbank, Tekstilbank, Finansbank, Anadolubank and the TEB (see “Toprakbank’ın Şubelerine Nur Yağdı”, Finansal Forum, 23 October 2002).

⁴¹ See the statement by Hakan Ateş of Denizbank in Demirci (2003a, 28).

⁴² The purchase of Denizbank AG in Holland and the acquisition of Esbank AG Viena in Austria from the SDIF allowed Denizbank to set up its European arm. Denizbank also bought İktisat Bank in Russia from the SDIF by following Zorlu Group’s expansion into the Russian market with the establishment of a TV factory (Demirci 2003a, 26).

11.5.2 Partnership Attempts with Global Capital

In the early stages of bank reform, some of the small-to-medium scale banks sought partnerships with foreign banking capital. Some wanted to use this mechanism for growth and to attain the status of a 'top bank'; while others aimed to strengthen their niche player positions. Yet, all those talks failed given that the then prevalent crisis devalued bank assets and made such partnerships especially difficult (as in the cases of Finansbank, Alternatifbank and the TEB).⁴³

Table 11.6 Foreign partnership within the second division

| Conglomerate | Foreign Bank | Joint Venture | Year |
|--------------|--------------|---------------------|------|
| Çolakoğlu | BNP Paribas | TEB Mali Yatırımlar | 2005 |

Table 11.7 Foreign acquisition within the third division

| Conglomerate | Foreign Bank | Acquired National Bank | Year |
|--------------|--------------|------------------------|------|
| Doğan | Fortis | Dışbank | 2005 |

However, since this group of banks needed domestic or foreign mergers to survive in global markets in the long run, they continued to search for partnerships with the assistance of state-subsidised acquisitions of the SDIF-banks.⁴⁴ As can be seen in Tables 11.6 and 11.7, two recent foreign purchases in this group of banks show that foreign M&As are underway for companies in the second and third divisions.

In the case of the TEB, it originally had a partnership attempt with Citibank which considered the TEB because of its transparent relations with the owner Çolakoğlu Group.

⁴⁵ This however was unsuccessful. Subsequently the TEB acquired selected assets of the SDIF-banks to strengthen its niche player position. Then, in February 2005, BNP Paribas

⁴³ See the statement by Hüsnü Özyeğin, the Head of Finansbank Board of Directors, "Özyeğin: İlk Şok Atlatıldı", Finansal Forum, 2 April 2003. See also footnote 53.

⁴⁴ In spite of the failed attempts, they are still open to partnerships with domestic and foreign banks (see "Alternatifbank Ortaklığa Açık", Finansal Forum, 1 April 2003; also the statement by Sinan Şahinbaş, General Director of Finansbank in "Finansbank: Birleşmelere Açığız", ntvmsnbc news portal, 23 March 2004, URL: <http://www.ntvmsnbc.com/news/262732.asp?0m=-24E>).

⁴⁵ Kadife Sahin, "Altı Ay İçinde Evlenecekler", Milliyet, 25 December 2000.

acquired 50% of the financial holding company 'TEB Mali Yatırımlar' which, besides other financial subsidiaries, owned 84.25% of the publicly listed bank TEB (see Özeke 2005).

Doğan Group had a different experience with foreign partnerships. Originally Doğan Group had wanted to expand in banking, but the Group was well aware of its difficulty. Tayfun Beyazıt, the Vice- Chairman and CEO of Dışbank had stated that competition was getting fiercer. Therefore, not only organic growth but also growth by acquisition might become more of an issue:

We wanted to become one of the leading retail banks of Turkey. At present, there are four large private and two large state banks in Turkey. Five to six banks are closely following those large banks. There is not much room for growth in this sector because almost all strategic positions are taken. We had to really work hard to reach our objective.⁴⁶

Fortis of Netherland-Belgium purchased Dışbank from Doğan Group and became the largest foreign bank in Turkey.⁴⁷ Doğan Group is a good example of the proposition made in Chapter 8: 'the third division of the dynamic accumulators forms the most vulnerable part of FC and can be subjected to future takeovers'.

There are some other still unresolved partnership attempts among this division of banks. For instance, Fiba Group aimed to be among the first three largest banks by developing a foreign partnership (Öztürk 2001a, 79). However, the Group could not achieve this goal as the talks with French BNP Paribas did not reach an outcome.⁴⁸ Meanwhile, the Fiba Group restructured its banking arm by merging Finansbank with its smaller scale 'Fibabank' (see Table 11.8). This restructuring also covered other financial companies as well as non-financial subsidiaries of the group (the retailing franchises

⁴⁶ "Highlight of the Month", URL: <http://doganholding.com.tr/news/highlight3.asp> (accessed 8 June 2004).

⁴⁷ See "Fortis, Dışbank'ı Satın Alıyor", ntvmsnbc news portal, 12 April 2005, URL: <http://www.ntvmsnbc.com/news/318489.asp?0m=-24D>.

⁴⁸ The Group was also highly interested in the acquisition of Pamukbank which did not reach an outcome either (see "Finansbank'ta Hedef % 30 Büyüme", ntvmsnbc news portal, 21 January 2004, URL: <http://www.ntvmsnbc.com/news/253726.asp?0m=-16U>).

Marx & Spencer and Gima) and had the goal of developing a synergy between retailing and finance.⁴⁹

Table 11.8 Merger within the third division

| Conglomerate | Banks Subjected to Merger | | New Bank | Year |
|--------------|---------------------------|----------|------------|------|
| Fiba | Finansbank | Fibabank | Finansbank | 2003 |

Sources: Developed from BRSA (2002 and 2003).

The experience of Alternatifbank was different yet again. Alternatifbank had sought a foreign partner to strengthen its niche player position in corporate banking. As Alternatifbank General Director Alev Göçmez stated, the restructuring of the bank was independent of the talks with Credit Agricole and, with or without a partner, it planned to become one of the top three wholesale banks.⁵⁰ Alternatifbank withdrew from retail banking activities (which require scale-economies) by ending its individual credit and credit card businesses and by transferring its credit card customers to Finansbank (*Para* 2002, 46). As a result of this specialisation, Alternatifbank reduced its costs by 60%, contributing to the rise in bank's profitability.⁵¹

11.6 Foreign Banks as Part of the Consolidation of the Dynamic Accumulators

Has this operation [the seizure of Pamukbank] been made to capture the banks of a Turk who has succeeded in the world league and to give these banks to foreign capital? Or has it been made to eliminate rotten Karamehmets [the owner of Pamukbank] from the system and to welcome solid Karamehmets? This is the main question...that needs to be asked.⁵²

⁴⁹ See "Finansbank, Fiba'yı İçine Alıyor", Finansal Forum, 20 November 2002; URL: <http://www.fibaholding.com.tr/e-p-gima.html> (accessed 15 November 2002). Yet, in May 2005, Fiba Group sold its retailing subsidiaries Gima and Endi to the joint venture between Sabancı Group and Carrefour.

⁵⁰ See Nilgün Karataş "Abank, Fransızlarla Nışanı Bozdu", Hürriyet, 8 September 2002; "Abank, Kurumsalda İddialı", Finansal Forum, 15 August 2002.

⁵¹ Kenan Şanlı, "Abank Kurumsalda Tasarruf Yaptı", Finansal Forum, 24 March 2003.

⁵² Necati Doğru, "Karamehmet Kaçtı mı? Battı mı? Batıldı mı?", Cumhuriyet, 22 June 2002.

Here, the concern is for the role that foreign banks played in the reform process. This is key because the main objective of banking reform is the integration of Turkish finance and banking with global accumulation. The role that the foreign banks played in the reform supports this thesis' proposition that the driving agenda of banking reform is an accumulation agenda, but not a nationalist agenda.

The Turkish state and the IMF hoped the restructuring of Turkey's weak banking sector would attract foreign investors. During the last decade, while foreign banks entered other countries which were passing through crises, they tended to either leave the Turkish market or operate with a limited capacity.⁵³ The low participation of foreign banks in Turkish banking can be seen from Table 11.9. It shows that the share of foreign banks' in the total balance sheet of Turkish banking remained below 5% in the 1981-2001 period.

Table 11.9 The size of balance sheets for the bank groups (1980-2001) %

| Period | Private Banks | State Banks | Foreign Banks | Development & Investment Banks | SDIF-Banks |
|-----------|---------------|-------------|---------------|--------------------------------|------------|
| 1981-1985 | 44.4 | 45.3 | 3.5 | 6.8 | - |
| 1986-1990 | 43.9 | 44.1 | 3.4 | 8.6 | - |
| 1991-1997 | 50.5 | 38.9 | 3.5 | 7.1 | - |
| 1998-2001 | 52.3 | 33.6 | 4.2 | 4.6 | 5.3 |

Source: Köne (2003, 242).

However, with the restructuring, foreign banks changed their perspective. They praised the steps taken to introduce higher transparency and supervision in the sector and they started to take up the market share left by the seized and privatised banks (see Table

⁵³ Originally there were several reasons why they avoided Turkey. Foreign banks complained about macroeconomic instability and short sightedness in the Turkish economy. They stressed the high market share of state banks and excessive price demands by Turkish bank owners. Other discouraging factors were high bank transaction costs and the non-implementation of inflation accounting (which eroded banks' capital as inflationary profits were taxed) (see Belma Toprak, "Türkiye'deki Yabancı Bankalar Hem Umutlu Hem de İhtiyatlı", *Dünya*, 25 October 1995; also see Tufan Karaağaç "Türk Bankaları Kelepire Gitmek İstemiyor", *Finansal Forum*, 9 April 2001).

11.1) ⁵⁴ In the entry of foreign banks, *the SDIF involved the state 'repackaging'/'reconditioning' Fund-banks to attract globally mobile capital.* Some foreign banks entered via partnerships with Turkish banks. As indicated above, Unicredito and BNP Paribas made deals with Koçbank and the TEB respectively. Some others chose individual initiatives to enter Turkish banking. Banco Comercial Portuguese acquired Sitebank (via Novabank, its subsidiary bank in Greece), and Fortis purchased Dışbank. On the other hand, of the existing players, some pursued expansion while others continued to be niche players.⁵⁵ Among these, HSBC and Citibank have expanded to be among the top-tier banks in the sector. HSBC acquired Demirbank with whom it had partnership talks before its seizure.⁵⁶ Also, after searching for a partnership or an acquisition, Citibank based its expansion on organic growth (see Öztürk 2000b, 74)

Table 11.10 Foreign banks in the consolidation process

| Partnership | | | |
|----------------|---------------------------------------|------------|------|
| National Bank | Foreign Bank | Year | |
| Koçbank | Unicredito | 2002 | |
| TEB | BNP Paribas | 2005 | |
| Acquisition | | | |
| National Bank | Foreign Bank | New Bank | Year |
| Sitebank | Banco Comercial Portuguese (Novabank) | BankEuropa | 2002 |
| Dışbank | Fortis | Dışbank | 2005 |
| Demirbank | HSBC Bank | Demirbank | 2001 |
| Organic Growth | | | |
| Citibank | | | |

⁵⁴ For example, Unicredito pointed out the IMF-supported restructure of banking was the most encouraging factor for their choosing to invest in Turkey (Öztürk 2002e, 62). Also, Italy's San Paulo IMI praised the three-stage-audit of the sector by the BRSA because the audit revealed the real situation of the banks for foreign banks (see Çırık 2002, 37-38).

⁵⁵ Such as JP Morgan Chase, CSFB, WLB, BNP-Ak, ABN Amro, ING Bank, Arabic-Turkish Bank, Credit Lyonnais, Bank Mellat and Habib Bank.

⁵⁶ In addition, HSBC took over Benkar Tüketici Finansmanı ve Kart Hizmetleri (Benkar Consumer Finance and Card Services) Company from the Boyner Group in 2002 as a part of its expansion into retail banking.

The BRSA estimated that the banking sector might reach an asset size of US\$ 500 bn of which 20-25% might belong to foreign banks.⁵⁷ The rising entry of foreign banks in Turkish banking triggered a concern for the foreign invasion of national banking and the adverse impacts of this invasion on the Turkish economy. For instance, during the assembly debates on the draft banking law, Mehmet Çiçek, Deputy of Yozgat City, (TGNA 2001c, 27) argued: 'national capital is being destroyed,...the nation-state is being dismantled and our country is being left to the management of global corporations'.⁵⁸ The primitive accumulators⁵⁹ and nationalist scholars also attributed bank seizures to the interest of foreign capital in the Turkish banking market. It was contended that the IMF, which acted under the instructions of foreign large corporations, led some countries (such as Argentina and Indonesia) to economic crises which facilitated acquisitions of national banks by foreign banks. Moreover, foreign capital tried to penetrate into strategic energy and telecommunication sectors to be able to control those countries. It was argued that the same scenario was put into effect in the Turkish case.

However, in the Turkish case, rival conglomerates also supported the bank seizures in order to capture higher market shares. For example, with the seizure of Pamukbank, foreign capital, large Turkish conglomerates and Turkish politicians collaborated to stop the rapid rise of the owner Çukurova Group which operated in those three strategic sectors. Accordingly, Turkel Minibaş of Istanbul University⁶⁰ argued that some large capitals already established partnerships with global capital and other parts of 'national capital' had been put into a process of being acquired by foreign capital. The acquisition by foreign capital would continue until national capital in all sectors, from

⁵⁷ "Keşke reel sektöre para aktarabilseydik", *Sabah*, 3 May 2002.

⁵⁸ See also parliamentary speeches by Deputies of the Virtue Party: Aslan Polat (TGNA 2001c, 20); Nevzat Yalcintas (TGNA 2001c, 39); Veysel Candan (TGNA 2001c, 43); Mehmet Ali Şahin (TGNA 2001c, 69); also, Oğuz Tezmen of True Path Party (TGNA 2001c, 18).

⁵⁹ For instance, *Akşam Daily* of Çukurova Group dealt with the issue in this line (see the serial by Tuncay Mollavesiöglü: "BDDK'da Akbaba Kriterleri", 24 September 2002; "Namludaki Yeni Hedef: Pamukbank", 25 September 2002; "IMF Istiyor Sirketler Satiliyor", 26 September 2002; "IMF-BDDK Gercegi", 27 September 2002).

⁶⁰ Turkel Minibas, "Kapitalizmin Altin Golu", *Cumhuriyet*, 24 June 2002.

industry to mining, from telecommunication to media, might be replaced by foreign capital.⁶¹

The dynamic accumulators needed foreign banking capital to achieve global competitiveness and, as indicated above, many of them had talks with foreign banks to this end. They expected to increase their capital adequacies, benefit from new business opportunities as well as reduce costs through such partnerships. Crucially, of the small-to-medium scale banks, the ones which could not find a foreign partner might be destined to be either niche players or eliminated under rising competition (Çırık 2001b, 85). Thus, they tried to avoid such an end through foreign partnerships. The issue is that different parts of the dynamic accumulators are differentiated by their different circuits of capital, with different forms of relationship with foreign banks.

In contrast to the aforementioned concern for foreign acquisition of Turkish banks, the top-tier banks of the first division supported the entry of foreign banks as they sought to base their expansion on partnerships with global capital. Garanti Bank General Director Ergun Özen stated that the main objective was to build a healthy banking sector: 'if this could happen with foreign banks, let it be with them' (Bekar 2002, 63).⁶² Ferit Şahenk of Doğu Group contended that needed capital should come from abroad because of capital deficiency in Turkey. The entry of foreign capital into Turkish banking was a natural outcome of Turkey being a globalising economy.⁶³ The top-tier banks did not have fear from foreign acquisitions.

Foreign bank entry was treated cautiously by the small-to medium scale banks of the second and third divisions. These divisions acknowledged the need for capital growth in banking. But they also needed state subsidies vis-à-vis foreign competition. For instance, Denizbank General Director Hakan Ateş claimed that Turkey should reform the banking system by allowing foreign investors' participation, but the state should also

⁶¹ From the same standpoint, Necati Doğru of Cumhuriyet Daily drew attention to Demirbank and Garanti Bank which offered a catch prize for international banks as banks' stakes were substantially devalued during the financial crises (see Necati Doğru, "İbis Sevinçler, Hodoğ Analizler", Cumhuriyet, 23 July 2001; Necati Doğru, "Türkiye Diz Cokmus Banka Satiyor", Cumhuriyet, 21 July 2001).

⁶² See also the speech by Ersin Özince of İşbank and Hayri Çulhacı of Akbank, "ODTU Bankacılık Konferansında Sıkı Denetimin Önemine İşaret Edildi", Cumhuriyet, 4 December 2001.

⁶³ "Bankacılıkta Yabancı Payı %40'a Çıkabilir", 21 April 2005, ntvmsnbc news portal, URL: <http://www.ntvmsnbc.com/news/320198.asp>.

support national banking. Ateş stated that 'isolation from foreign capital means being identical with a Third World country, a marginal country'. However, Ateş stressed, the important issue was *how great a share foreign banks would get from the Turkish banking system*.⁶⁴

Even though banks within the second and third divisions were nurtured by the state-subsidised consolidation process and observed that there had been few foreign bank entry,⁶⁵ they still saw themselves in the 'danger' zone. For example, Tekfenbank General Director Mehmet Erten (Demirci 2003b, 153) stated that foreign banks, which mostly focused on investment banking, could come to Turkey to be established players in the future. In time, Erten added, competition might put more pressure on small-to-medium scale banks like Tekfenbank than large banks. Therefore, according to the President of Tekfen Holding Erhan Öner, Tekfenbank would need to get a foreign partner in the future as the only way to expand its scale even if the bank is not attractive with its small scale for a partnership (see Tekinay 2004b, 80).

Also, the *TUSIAD* (2000), the primary pressure group of large conglomerates, emphasised the possibility of foreign banks' dominance in the banking system following the IMF stabilisation program. They draw an analogy with the cases of Brazil and Argentina. The Association indicated the necessity of leading the restructuring of the financial system in a way that banks' capital adequacy could be strengthened and banks gain competitiveness in the medium-term:

⁶⁴ According to Ateş, national banking should be protected because national banks will support SMEs more. Also, prices for bank assets were undervalued during the financial crises. Ateş stressed: 'banks are the armies of their country in time of peace and they come to the fore in financing their army in time of wars' (see Finansal Forum, 25 June 2002; "Denizbank'tan 70.1 Trilyon Zarar", *Hürriyet*, 24 June 2002; *Activeline* 2002c).

⁶⁵ Despite the advantages of the Turkish market, the level of foreign participation has remained for three reasons. Firstly, foreign banks have tended to wait until the current economic uncertainty ends. In spite of some progress, relatively high inflation rates associated with macroeconomic volatility and continuous adverse affects of crises on corporate sector have discouraged them. Secondly, foreign banks are concerned about high price sought for banks. Devalued bank assets during the 2000 and 2001 financial crises made Turkish banks more attractive for partnership. However, as Turkish bank owners did not want to sell their stakes cheaply, most talks failed. Thirdly, talks were also blocked when Turkish banks wanted to include their subsidiaries in the sale deals of banks. As a result, despite a few initial significant entries, foreign banks seemed to prefer a 'cautious nibbling' rather than a huge wave of interest.

To prevent a loss of market share by national banks through bankruptcies, eliminations and contractions and filling-up this gap by foreign banks and therefore, to avoid an erosion of national industry, bank mergers should be encouraged; unfair taxes and other liabilities must be reduced (*TUSIAD* 2000, 4).

The state, on the other hand, retained a nationalist agenda. It wanted foreign banks to enter, but not to eradicate Turkish banks. Its agenda was mergers and partnerships more than outright acquisition. Therefore, the state subsidised the banks' transition period to make them viable and competent in global markets. It also tried to force bank owners to inject more capital to their banks during the bank recapitalisation stage of the reform in 2001 onwards. The following statement by the State Minister Kemal Derviş reflects this approach very well:

We are not against foreign capital. Indeed, we try to encourage it. However, instead of a foreign acquisition of the whole banking system, we prefer its remaining with Turkish capital. We do this contribution [the capital injection operation] partially because of this reason. Foreigners can be considered as a last solution. Such examples were witnessed all around the world. In some countries, banks were acquired by foreign capital with very cheap prices.⁶⁶

The critical point is that to reconstruct FC as viable in global banking, the state both facilitated the entry of foreign banks and at the same time, subsidised the dynamic accumulators, in various ways to ensure their continuance. That is why the Head of the BRSA, Engin Akçakoca indicated adverse effects of 2000 and 2001 financial crises on banks' capitals and stressed the difficulty in increasing banks' own funds because of capital shortages. However, despite the need for global capital, he expected that the shares of foreign banks might rise up to 20-25% of the sector. Hence, Akçakoca disagreed that the sector might be dominated by foreign banks.^{67 68} The following

⁶⁶ "Derviş'in rüzgârı bile yetti", *Radikal*, 6 July 2002.

⁶⁷ "Akçakoca: Bankacılıkta Yabancı Tekeli Olmaz", *Hürriyet*, 13 November 2001.

⁶⁸ Indeed, as foreign banks' participation has remained well below the expectations, the dynamic accumulators started to state that other resources had to be channelled in order to meet the capital need in the sector. For instance, İşbank General Director Ersin Özince (*Finans Dünyası* 2002, 20-21) claimed that Turkey might not be able to attract foreign capital in a large scale since Turkish banking was risky with its ongoing meditation process. According to Özince, the way of developing Turkish banking is neither domestic mergers nor foreign capital. The only way is the elimination of the large scale unrecorded economy and needed resources lie down there.

explanation by Akçakoca shows that the BRSA saw global capital as a source for strengthening the dynamic accumulators:

Being strong is more important than everything else. If mergers are necessary for strength, then we say “merge”. If finding new partners, foreign partners is necessary then get them. We say that working productively, making profit is important. Only through this way can a banking sector that fits to a powerful economy be achieved. These are our expectations from the sector.⁶⁹

The second and third divisions of the dynamic accumulators also saw advantages with the arrival of foreign banks because of the increase in capital they could bring to Turkey. The CEO of Dışbank said:

When we consider Turkey, it's clear that we lack capital resources. In the banking sector, the strength and sufficiency of capital resources have vital importance. We can overcome this problem by attracting local and foreign investors to this sector. There is a great need for foreign investors. When we look at the market share of foreign banks, we see that it is below 1%. Therefore it is meaningless to ask to ourselves whether foreign banks have seized the sector. Besides, I believe we can attract the increasing interest of local investors as long as banking is profitable.

In summary, the strength of capital structure is a “must”. To be able to compete in the international arena, this sector needs to be supported by capital. When this is met, the banking sector will accelerate and support manufacturing and service industries. This is the only way to get out of this vicious circle.^{70 71}

In brief, the Turkish state managed the integration of Turkish FC with global capital by supporting the existence of ‘national banking’. In fractional terms this means that the state has overseen the interests of the dynamic accumulators while facilitating their global advancement. At this point, a nationalist dimension comes in. But, the utilisation of global capital to strengthen the dynamic accumulators is a process which itself blurs the distinction between the national and the foreign. Foreign banks become part of the rationalisation of Turkish banking in line with global imperatives by forming

⁶⁹ Dünya, 24 July 2002.

⁷⁰ Tayfun Beyazıt, the CEO of Dışbank, indicated (“Highlight of the Month”, URL: <http://www.doganholding.com.tr/news/highlight3.asp> (accessed 8 June 2004).

⁷¹ The dynamic accumulators pointed out that with rising shares of foreign banks, competition would become more serious and ‘both the sector and the country would win’ (See the statement by Yavuz Canevi, Head of the Board of Directors of the TEB, “Canevi: Birlesmeler Kapimiza Geldi”, ntvmsnbc news portal, 29 March 2004, URL: <http://www.ntvmsnbc.com/news/263528.asp?0m=S2CU>).

the channels for the dynamic accumulators in respecifying their forms of global integration.

11.7 Conclusion

This chapter has proposed that, in contrast to the argument of deregulation of finance and a shift to a market economy, the state (and the IMF) systematically constructed a viable, globally integrated banking sector. They nominated which parts of capital were capable of competing in global financial markets and used a range of policy measures to help the dynamic accumulators to build their different forms of global integration. It was not 'a free market solution'.

The participation of the dynamic accumulators in the consolidation process displayed distinctive characteristics among its divisions. The large banks of the first division solidified their dominance as they captured higher market shares due to their high credibility. The ones having more than one banks merged their banks. Foreign partnerships were feasible as well as attractive strategies to elevate their banks globally.

On the other hand, within the second and third divisions, while some of the small-to-medium scale banks adopted an expansion strategy with the goal of entering the first league, others either tended to maintain their positions or shrink in order to be niche players. For the ones choosing expansion, M&As offered quick growth and higher market shares. The acquisition of seized banks and/or their selected assets formed the basic channel for these banks. Today they are subject to further M&As, particularly with foreign banks.

None of these processes, in any of the divisions, could have occurred without systematic state subsidies designed to achieve policy outcomes. This chapter has shown how the state subsidised acquisition of the SDIF-banks, mergers among banks with common owners, organic growth as well as partnerships with foreign banks in order to create economies of scale and/or increase capital adequacy. These subsidies appear to be ongoing as the state seeks to balance the forces of global competitiveness with the nationalist desire to see the 'Turkish' label continue to be tied to leading banks operating within country.

Restructuring in Turkish capitalism is a process of the fragmentation of a discrete national economy (in banking and in general) and the integration into global economy. In this process what is foreign and what is local gets blur. Foreign banks are not external, but are part of channels down in which the dynamic accumulators are reintegrating into global accumulation. They have been merging in a seamless way with the dynamic accumulators.

CHAPTER 12

CONCLUSION

12.1 Summary

12.2 Implications

12.1 Summary

This thesis has utilised a class fractionalist approach in order to explain a historical process. This has permitted a different interpretation of state intervention in the Turkish banking industry which is not addressed by the mainstream schools of political economy.

Bank restructuring in Turkey has been widely interpreted in terms of the emergence of a free market agenda. The neo-liberals have cast it as the promotion of market. The nationalists see it in terms of an IMF-imposed agenda of neo-liberalism. Either way, it is posed as a market process. It has been that, but not in the sense understood by either the nationalists or the neo-liberals. The objective of bank restructuring was not simply to assert market criteria, but to achieve particular outcomes: the global integration of Turkish banking. Models of perfect competition had nothing to do with it. On the contrary, it was about state (and IMF) intervention in the reform process to manage the contradictory interests within Turkish capital. This management was not an ad-hoc series of policies that stumbled towards some political compromise, but a concerted, systematic set of interventions to rationalise capital.

The logic of state policies has been traced back to the contradictory interests within Turkish capital that arose from within the capital accumulation process. The analysis showed that the change process was rooted in the specific needs of certain fractions of capital in Turkey rather than being originated in inefficient state policies or

imposed by foreign capital and its international institutions. Those fractions needed the state to further their articulation with global capital. Therefore, the state managed the shift in the form of accumulation while at the same time ensuring stable decline for capitals judged incapable of making the transition towards global integration. It was seen that Marxist theories of accumulation have the ability to explain this rather complex process.

In building this analysis, this thesis has developed both the theoretical principals of the relationship between state and capital in the process of global integration, and detailed empirical developments in both state policy and bank restructuring.

The theoretical debates on the relationship between the nation state and globalisation are reviewed in Chapter 2. In particular, the focus of analysis was both theories of how the state is transformed by globalisation, and the question of whether nations could be said to occupy certain positions in a structured global economy. In particular, the concern was to show theoretically that the nationalist conception of Turkey as a peripheral social formation fails to recognise that particular capitals in Turkey, especially the leading banking conglomerates, cannot be so depicted, and the Turkish state has been central in advancing their global accumulation.

The thesis' empirical analysis is preceded in Chapter 3 by an overview of standard approaches to the state intervention in the Turkish banking reform. The reform was generally explained in terms of the state's restoring macroeconomic balances and increasing prudential supervision. Keynesian scholars, who called on the state to regulate chaotic market forces, linked the fragility in banking to previous period's 'wrong' state policies. For many, these policies were assumed to be externally imposed and in conflict with national interest. On the other hand, orthodox economists explained the reform as removing state-based distortions in banking. The alternative position advanced in this chapter showed the state steering the reform of banking. The thesis argued that contradictions within Turkish capital (in general) and within FC (in particular) gave the material basis for the bank restructuring.

Chapter 4 presents a historical analysis of the integration of banking and industrial capital in Turkey. As the financial sector has for most of the 20th century been dominated by diversified industrial conglomerates, the analysis of banking reform could not treat

banking institutions in isolation. If restructuring is to be seen in terms of accumulation by finance capital, it is the relation between bank and non-bank components of these conglomerates that proves critical. The focus on fractions of capital, as the key to understanding the tensions of bank restructuring, is based precisely on this recognition that banking in Turkey was part of disparate and incompatible processes of capital accumulation.

It is demonstrated in Chapter 5 that, given the ownership of banks by conglomerates, the state intervention in Turkish banking revealed a more comprehensive reorganisation within Turkish capital and its forms of accumulation. The reform by the IMF and the state were essentially about identifying those banks with potential for global accumulation, and eliminating those without this potential. The reform supported the hegemonic fraction within FC to unburden it from the costs of the old regime and to facilitate its further internationalisation. The state intervention also met the needs of productive/commercial capital which was in a disadvantageous position in the old regime and demanded from the state to restore the conditions for capital accumulation.

Therefore, rather than being seen as imposed by foreign capital or by the IMF, the reform process should be seen as responding to the needs of certain fractions of Turkish capital. The dominant fractions saw that they needed to integrate with global accumulation on the basis of productive capital formation and to forego state finance protectionism which had redistributed surplus value towards themselves, but was no longer sustainable.

Hence, the reorientation in accumulation towards global competitiveness is used in Chapter 6 to explain why the state and the IMF used the broader criteria than bank treasuries to distinguish which conglomerates would keep and which would lose their banks. This, then, provided the broader context for the analysis of divisions within FC over banking reform.

Chapter 6 develops an analytical framework to identify the divisions within FC. It is argued that it is not banks' scale, age or origin of ownership, but positions in relation to overall accumulation strategies of their conglomerates that defined the divisions within banking. Initially, the thesis has developed a division between 'winner' accumulation processes (called dynamic accumulators) and 'loser' processes (called primitive

accumulators). But in the following two chapters, this duality is subdivided into more diverse and specific patterns of accumulation. Using this framework, Chapters 7 and 8 demonstrated the characteristics of the dynamic and primitive accumulators.

The primitive accumulators, who were excluded from finance, are discussed in Chapter 7. These conglomerates were defined as mainly reliant on state-based financial rents with a long-run unviable accumulation basis. As they did not have the capacity to accumulate competitively in the new era, they were excluded from FC by the reform process.

In Chapter 8 the characteristics of the dynamic accumulators are identified. They are distinguished by their capacity to accumulate in globally integrated markets competitively and without on-going state subsidies. Most notably, these dynamic accumulators can be said to have led the restructuring process, with the state as enforcer of their initiatives, and eliminating the burden of the banking sector as a whole that would have come with the survival of the primitive accumulators. The state (and the IMF)-removed the obstacles for their individual restructurings. For the dynamic accumulators, the pursuit for further internationalisation derived from both a necessity and astute accumulation.

It also depended on state legislation to secure its hegemony. Chapter 9 identifies the state legislative changes which rearranged relations of equity share and connected lending between banks and the owner conglomerates. The new codes served the adjustment of the conditions of domestic accumulation to global standards of capital.

Conversely, the state also had to oversee the organised demise of the primitive accumulators. Chapter 10 identifies the state policy of bank seizures and the resolution of the SDIF-banks. The analysis shows that the state managed the bank rationalisation process to consolidate the dynamic accumulators while allowing a mollified elimination of the primitive accumulators from finance. The state broke down the primitive accumulators in order to make the dynamic accumulators competitive in the global league.

Chapter 11 shows the culmination of the history of banking reform. It reveals as not a process of bringing 'free market' principles to Turkish banking, but as a process of the relation between the state and the hegemonic part of capital. The state has used a range of policy measures to subsidise the dynamic accumulators to build global

integration and acquire global competitiveness. In this context, the role of foreign banks is not, as the nationalists have argued, a case of foreign domination, but of building a foundation for dynamic accumulators, in concert with these foreign banks, to participate in the globally most advanced sites of accumulation.

12.2 Implications

This thesis should not be read as a comprehensive review of all facets of Turkish banking: a range of issues to do with details of prudential supervision and changing bank services, for example, are beyond the scope of its framework. Nonetheless, there is a range of ramifications which can be seen to follow from its analysis. Broadly, these are identified in terms of nation, state and class issues.

Nationalism

This thesis started, in its theoretical framework, with a critique of economic nationalism. As the analysis of banking reform has been explored, it is apparent that the nationalist view obstructs a systematic study of the change process by attributing the transition to a foreign force (the IMF, the NIDL, foreign capital, etc.). This view fails to engage the relationships and conflicts between different parts of capital within Turkey, or the way in which some parts of capital in Turkey were actively seeking to internationalise their own accumulation, and to the changing economic role of the Turkish state in the context of these divisions.

No doubt there is a danger of analytical circularity – that the theoretical opposition to nationalism is verified in historical analysis because of the sorts of questions asked of the reform process (and, indeed that nationalist theory will generate nationalist historical analysis). But it can be claimed that this thesis has done more than reproduce an analytical circularity. By challenging the notion that Turkey as an economic entity occupies a particular and singular position in the global economy, the thesis has opened up the global context of different patterns of accumulation by different parts of

Turkish capital. All the details of the reform process presented in this thesis have confirmed this, and so justify the conceptual starting point.

In this context, the role of the IMF is significant. While many see the role of the IMF as locking Turkey into a fixed position in the structure of the global economy, this thesis has cast the IMF in a much more subtle, detailed and effective role. The IMF knew that foreign banks understand ‘real’ accumulation and their entry would guarantee the reforms that it pursued. In other words, the IMF preferred foreign, established banks to lead the way and their nationality was entirely secondary to their structural role as effective accumulators. Hence, the objective was to form national banking capital that was globally competitive and foreign banks were welcome to contribute to this end.

There may well be a nationalist dimension here, but the nationalist interpretation contending that the IMF wanted foreign banks to replace with national banks is not credible. The IMF might want foreign banks — not because of their foreignness per se, but because of how they accumulate, and the uncertainty of *the capacity of the older Turkish banks to perform in the global market without state support*. If there were guarantees that Turkish banks could instantly be reformed to operate in the same mode as these foreign banks, then the foreign banks would not be necessary.¹ The argument that banking reform aimed to facilitate new markets for foreign banks by replacing them with national banks disregarded that the reform facilitated global expansion of some parts of Turkish capital.² The agenda of capital is the driving force of the change.

The State

From one specific study, one cannot make sweeping generalisations about theoretical debates — except, no doubt, that this study seems to contradict any notion that globalisation is about the disempowerment of the state, and to confirm approaches to the state that emphasise its role in the mediation of fractions of capital. In the analysis of the nation state, the decisive question is which fractions of capital and which forms of

¹ The potential for foreign bank entries provided a tool for the state and the IMF “to educate” the Turkish banks in their restructurings in line with the requirements of global competition. For instance, see the statement by the Vice-Executive of the CBT, Şükrü Binay, in “Aba Altından Sopa”, *Aksam*, 15 June 2001.

² See the statement by the State Minister Kemal Derviş in TGNA (2001c, 23).

internationalisation that particular state interventions promote (Bryan 1987, 274). The agenda of national governments is at present dominated by the requirements of an increasingly transnational business sector. The contemporary state does not simply reconcile conflicting interests at home in order to define and promote a national interest, but rather promotes a complex hierarchy of sectional interests, including those of foreign-owned enterprises (Radice 2001, 13). Those who accumulate (or seek to accumulate) transnationally demand state regulations which provide a base for the intertwined relationships between capitals at the world scale; at the same time, these capitals compete to affect state policies in order to increase their competitiveness (Ercan 2003b). Cerny's stress on the transformation of the state from the national Industrial Welfare State to the Competition State addresses this issue (Cerny 1997). In this process, the establishment of new, common forms of regulations by nation states minimises the risks for capital and provides the institutionalisation of capital at the global scale (Ercan 2003d).³

In the current era, it has been observed in many contexts that conflicts between fractions of capital are 'resolved' (at least in a temporary way) on behalf of the agenda of global accumulation. Indeed, this could be understood as 'neo-liberalism in operation'. Yet everyone, even those fractions, needs to be transformed in line with the requirements of global competitiveness. The ongoing restructuring in Turkish capitalism secures the consistency of conditions for accumulation with international conditions of profitability. This observation on Turkey was also made in other country contexts such as in Australia by Bryan and Rafferty (1999, 40) who argued that 'globalisation forces individual companies to shape up to international standards on technology, costs, design, service and profitability, and the capacity to secure state protection from meeting these standards is diminishing'. As capital is being globalised, it is an expected outcome to find the same imperatives in different time horizons, cropping out different parts of the world.

Marxist analysis of the capitalist state needs to approach to the change process as an open-ended one. As Panitch (1994, 67), drawing on Poulantzas, reminds us, the internationalisation of capital does not automatically lead to an establishment of a

³ Radice (1999, 8) calls this process as the rising dominance of 'Anglo-Saxon' capitalism, and the gradual erosion or (as in the Soviet case) abrupt disappearance of all alternative economic systems.

supranational state. Also, rather than capital's attempting to mobilise a supranational form of political authority while reducing power of nation states, it has been observed that the multi-layered governance of world capitalism — supranational, national, and local — collaboratively manage the complex reproduction of social relations of capital in an extended geographical space.

The important point to emphasize is that domestic accumulation is not outside the global process of accumulation but integral to it, the mediative function of the state will be seen to include domestic as well as foreign capital. On this ground, the thesis showed that the involvement of the IMF in particular restructurings does not overrule the nation state, but reinforces the ongoing importance of the nationality of state. The nation state is part of the organisation of global capital. As the tendency for capital is to expand globally, the organising capacity of nation state remains a major area of ongoing tension.

Class

The thesis has analysed intra-capital class dynamics in the study of Turkey. As banking reform facilitated the channels for further integration of Turkish capitalism with global capital, it is expected that contradictions between the most internationalised part of capital and more domestically-oriented, state-dependent parts of capital will aggravate in the new period.

The recent crisis in accumulation has led the leading capitals that have been seeking further internationalisation to solidify their position within Turkish capital as the hegemonic fraction. Accordingly for the advance of accumulation, state policy in Turkey has been increasingly oriented towards the interests of those capitals, forming the economically dominant fraction.

Specifically within the context of banking, the restructuring process is still going on. Despite the significance of the steps taken under the auspices of the state, Turkish FC is in need of getting stronger. This, along with ramifications for further foreign bank involvement in the restructurings of the dynamic accumulators, indicates that the structure of banking and so intra-capital class structure will keep changing.

In this analysis of capital, there are ramifications for labour, as well. Labour has become the passive bearer of the restructuring of Turkish capital, and this is clearly the case in the restructuring of bank capital. The various financial reforms have all involved extensive state expenditure. What was termed finance protectionism – the subsidies to banks that came from state bonds – were paid for out of government revenue, and that, indirectly, means taxation. With the decline of finance protectionism and the shift towards globally-integrated accumulation, this was not the creation of *laissez faire*. The subsidies have continued, in the form of support for the centralisation of capital and strategies to liquidate the primitive accumulators or recondition them and reform them as profitable offerings to the dynamic accumulators. Here, too the costs of these sorts of subsidies are to be borne by labour.

More generally, the sorts of changes to accumulation that have come with the restructuring is seeing a decline of many sorts of protectionism of employment and industries. As capital needed to forego state-based financial rents and accumulate under competitive conditions, the capacity of 'Turkish' capital to compete in global markets on the basis of a productive capital formation will depend on its ability to extract more surplus value from labour (besides mobilising new, more subtle forms of state subsidies).

The agenda now is that capital, with a new global mobility, is now demanding globally competitive productivity from Turkish labour, as a condition for further investment. This suggests further deteriorating life conditions for workers and thus, rising tension within the society. This will in turn increase the importance of the state mediation between fractions of capital as well as its role in securing a compliant working class.

But these intensified demands on labour are being presented to workers not as a globally-driven class agenda but as an opportunity to build the international competitiveness of 'Turkish economy'. There is now a growing literature on how national identity and the pursuit of national competitiveness is used to achieve compliance in a class objective (e.g. Bryan 2001). It seems well verified in the case of Turkey.

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