
University of Economics, Prague
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**THE IMPACT OF PRIVATIZATION ON
PERFORMANCE OF COMPANIES AND PUBLIC
OPINION: EVIDENCE FROM TURKEY**

MASTER'S THESIS

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Declaration:

I hereby declare that I am the sole author of the thesis entitled “The Impact of Privatization on Performance of Companies and Public Opinion: Evidence from Turkey”. I duly marked out all quotations. The used literature and sources are stated in the attached list of references.

Ebru Çuhadar

In Prague on 28.04.2017

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To my beloved homeland...

To İzmir...

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Appendix A: Public Opinion Survey on Privatizations

List of Abbreviations

BOT: Build Operate Transfer

COGS: Cost of goods sold

ERDEMİR: Ereğli Demir ve Çelik Fabrikaları T.A.Ş.

FX: Foreign Exchange

GDP: Gross Domestic Product

GMR: Gross Margin Rate

OECD: Organization for Economic Cooperation and Development

PETKİM: PETKİM Petrokimya Holding A.Ş.

POAŞ: Petrol Ofisi A.Ş.

PPP: Public Private Partnership

TRY: Turkish Lira

SOE: State-owned Enterprise

USSR: Union of Soviet Socialist Republics

Introduction

Starting from the day it was introduced to economy literature in 1930 by Economist magazine, privatizations have always been an inevitable tool of governments with various aims. The concept has turned into a phenomenon starting from the early 1980s under the Margaret Thatcher's government and spread the whole world from west to east. Since then, more than half of the world countries have applied this "magic" which brings the higher value of everything it touches.

Turkey was one of those countries which have noticed the power of privatizations, after years-long nationalizations, and started the applications with a little delay. The concept played a lead role in the economic transformation of the country. A close, mixed-capitalist economy turned into a liberal one with the contributions of privatized state-owned enterprises.

The need of privatizing state-owned enterprises was being emphasized by the responsible authorities and politicians. The financial burden of state-owned enterprises was pointing out and seen as the primary reason for backwardness of the country. A "modernization" was heavily needed and privatizations were one of the main sources of it; not only economic but also social.

The concept became a debated topic in Turkey with two sides: people who support privatizations and people who do not. Better performance results were the argumentation of supporters whereas opponents were opening structural reforms discussions against, since "privatization" was an easy way rather than a reform.

Eventually, Turkish authorities defined the country's privatization philosophy as to improve social wealth and to improve companies' performances as well as their profitability.

In this thesis, it is aimed to analyze the effects of privatizations in Turkey both on social welfare and performances of privatized companies. "*Do privatizations always improve social wealth?*" and "*Do privatizations always improve company performance and profitability?*" will be the research questions this study will answer.

As a starting point, the theory of privatization and Turkey's experience with it will be carefully examined to provide a better understanding of the concept. For the empirical part, a two-segment analysis will be made through a public survey and performance results of three privatized companies with strategic importance.

Methodology

To be able to make a better assessment of privatization effects on social welfare and company performance, a two-segment analysis will be made. In the first part, public opinion on privatization will be gathered since their perceptions and thoughts on privatization are the primary source of understanding public wealth from their point of view. In the second part, post privatization effects on company performances will be analyzed through sales, profitability and inventory analyses. Profitability will be taken as the primary focus since sustainability of a business heavily depends on a significant amount of profit generation. Moreover, the core reason of privatizations in Turkey was due to poor profit results of the state-owned enterprises, meaning that profitability plays a crucial role in privatization decisions.

Data Collection

Public opinion on privatizations in Turkey will be gathered through an online survey which consists of twelve questions, measuring respondents' perception of privatization applications in Turkey. Furthermore, their ideas on specific topics related to country profile will be collected thanks to the survey.

Company performance results will be assessed by the financial tables and annual reports published by the companies on their official webpages as well as governmental sources. Before and after privatization will be the main separator while analyzing performance results. For the latest news about the companies, online newspapers will be used as sources.

Goals

Privatizations are always seen as a source of better performance results, better profitability and better social wealth in Turkey by the governmental authorities. It is argued that, confining the role of government through privatizations would increase the overall social welfare since the government will focus on improvement of the social welfare aspects along with the increased company performances, especially profitability.

In this study, I would like to show on the example of Turkey case that generally accepted privatization benefits may not be always reached under the influence of real politics and economy.

Limitations

Since this study focuses on the specific case of Turkey with its own features, it may not be compatible with the other countries and their experience with privatization. Another limitation of the study comes from the financial data as they were not being published by the government or the companies in the early 1990s.

1. Theory of Privatization

1. 1. The Notion of Privatization

The notion of “privatization” mostly defined as the process of transferring the ownership of state-owned enterprises to private sector agents. However, in the literature there are several definitions made for the term.

Kikeri, Nellis and Shirley (1994) defined privatization as “the transfer of a majority ownership of state-owned enterprises to the private sector by the sale of ongoing concerns or assets following liquidation”.¹ This narrow definition explained privatization as it is only about sale of state-owned properties to private firms. Some others argue as Vickers and Wright (1988) and make broader definition by saying “any policy which mean the strengthening of the market at the expense of the state”.²

The most comprehensive definition was made by Blommestein, Geiger and Hare (1993) as “any transfer of ownership of a state enterprise to other agents which results in their effective private control of the business”.³ From this point of view we can accept privatization as an umbrella term which covers not only transfer of ownership but also transfer of management or financing activities.

In this study, the all-inclusive meaning of privatization will be taken into consideration. Total sale of a state-owned enterprise, leasing, transfer of managerial and financing activities will all be accepted under the roof of term “privatization”.

The goal of this chapter of the study is to have a comprehensive point of view to the concept: Privatization. History and the revolution of the term will be explained by actual examples from the world. Theoretical objectives and reasons of why governments privatize state-owned economic institutions as well as critiques on privatizations will be analyzed. At the end of the chapter, a complete privatization scheme will be demonstrated under four main branches of privatization.

¹ Kikeri, S., Nellis, J. and Shirley, M. (1994). Privatization: Lessons from Market Economies. The World Bank Research Observer Vol. 9, No. 2

² Vickers, J., Wright, V. (1988). The Politics of Industrial Privatization in Western Europe: An Overview. West European Politics, Vol.11, No. 4

³ Blommestein H.J., R. Geiger and P. Hare (1993). Privatizing Large Enterprises: Overview of Issues and Case Studies, Methods of Privatizing Large Enterprises. ISBN 9264037098. - p. 11-37

1. 2. History of Privatization

After the most profound economic recession in the 20th century, The Great Depression, almost all the nations were affected. The recession has started in 1929 and continued till the late 1930. The world economy showed a dramatic decline and countries' economies were heavily damaged. Western capitalist countries have started taking over the private companies from different industries, including Germany. However, when the Nazi power came into force, state-owned enterprises and public services started to being privatized. G. Bel (2009) in his paper argues the reason as the need of going against the mainstream trends in the other capitalist countries, since none of them was reprivatizing the companies at that time.

The concept "privatization" was introduced for the first time by Economist magazine in 1930 to describe this mass sale practice done in Nazi Germany.⁴ After 1930, several privatizations were done by Western economies i.e privatization of steel industry in Great Britain in 1950s and Volkswages's public offering in 1961 by West Germany which can be accepted as the first privatizations in modern sense.

Privatization phenomenon has started its great rise starting from early 1980s under the Margaret Thatcher's government in the Great Britain. This was a milestone in privatization history and has a historical significance. As a result of massive privatization done in the Great Britain until the late 90s, the share of public enterprises in national income has significantly declined in British economy. Since then, privatization has been widely in use in more than 100 countries (Megginson & Netter, 2001)⁵ including western European countries and the United States as well as Japan, Canada, China, India, Chile, Mexico, Turkey and South Africa.

France has an important place in terms of privatizations in Europe after Great Britain. Between the years 1986 and 1988, Republican Party in France undertook a large-scale privatization program and privatized 22 public company within only 2 years for \$ 12 Billion. In the years 1997 and 1998 two public offerings of France Telecom were the most important operations of the period, each worth around \$ 6 Billion.

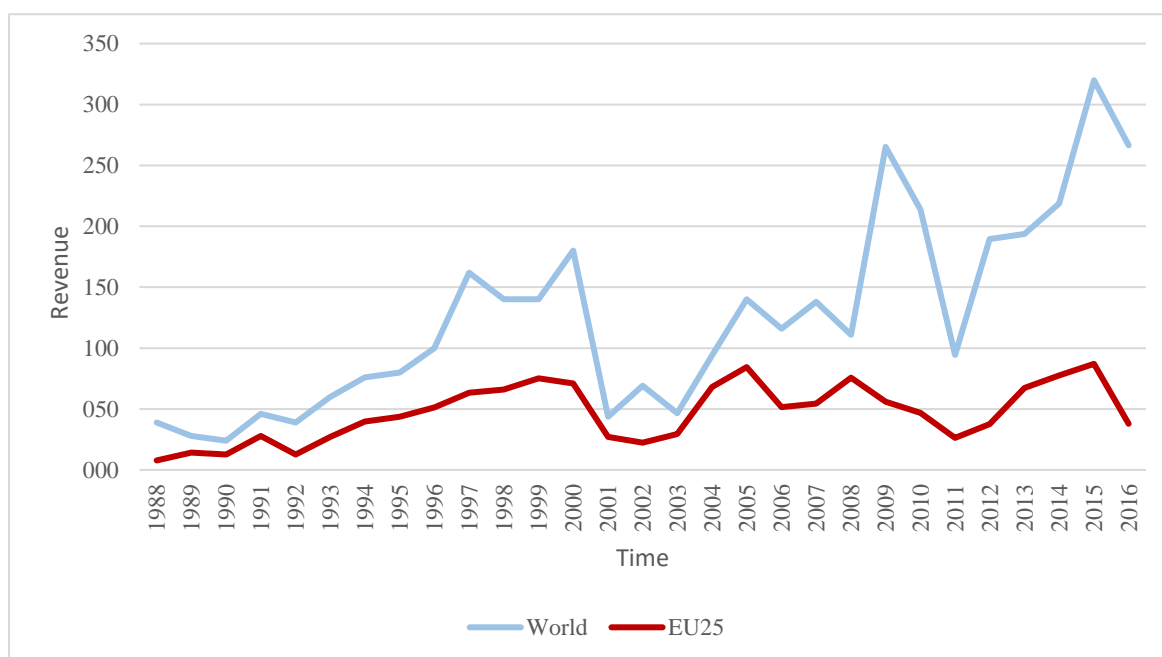
Starting from early 1990s, privatization was used as a tool to help post-soviet countries in generation of a quick and smooth change to liberal economies, after long years behind iron

⁴ Bel G. (2006). Retrospectives: The Coining of 'Privatization' and Germany's National Socialist Party. Journal of Economic Perspectives. Vol.20, No.3

⁵ Megginson, W. L., & Netter, J. M. (2001). From state to market: A Survey of Empirical Studies on Privatization. Journal of Economic Literature. Vol. 39

curtain. By distributing state-owned enterprises to public with coupons, the new regime was gathering people's support with almost no conflict and getting a stronger position.

Chart 1: Privatization Revenues World & EU, \$ Billions, 1988-2016



Source: Privatization Barometer Report, 2016

In today's world, privatization became a powerful tool often used by the governments to generate income, create better efficiency and public welfare. Between the period 2013 and 2016 governments worldwide raised almost \$ 1 Trillion through privatizations. More than half of this total amount was generated in the period starting from January 2015 showing that privatization became a significant tool used by the governments. Privatization revenues generated in the years 2015 and 2016 were the highest records reached so far. 95% of the privatizations were made through public offerings in 2015 and 93% in 2016 implying that the main player governments prefer is public offering. Asset sale form followed and mostly generated the highest value of income for the governments.

When we look at the countries which had the most privatization deals and income generation, China is by far the leader in the world. The country had 297 privatization deals in 2015 and 276 in 2016 generating \$ 173, 2 Billion and \$ 148 Billion, respectively. Total value of Chinese privatization accounts for 54% of worldwide privatizations in 2015 and 55% of 2016. In 2015, The United Kingdom came second after China with 13 privatizations deals worth \$ 34, 8 Billion while Australia held the second place with 5 deals making \$ 25,7 Billion in 2016.

Table 1: Income Generated Through Privatizations in the World, 2015-2016

2015, Countries	Deals	Value (\$, M)	2016, Countries	Deals	Value (\$, M)
China (incl. HK)	297	173,231	China (incl. HK)	276	148,047
United Kingdom	13	34,779	Australia	5	25,705
Italy	11	12,383	Russia	13	15,774
Japan	3	11,947	France	9	9,596
India	34	11,358	India	35	7,393
Sweden	6	9,114	Netherlands	4	7,099
Australia	5	8,590	Denmark	2	5,360
United States	6	8,230	Malaysia	11	5,330
Netherlands	3	6,208	Italy	3	4,878
Ireland	6	5,712	Canada	3	4,271
2015 Total, Top Countries	384	\$281,552	2016 Total, Top Countries	361	\$233,453
2015 Total, World (38)	468	\$319,895	2016 Total, World (38)	434	\$266,389

Source: Privatization Barometer Report, 2016

Sale of British Northern Rock Bank loans to Washington based multinational private equity, asset management and financial services corporation Carlyle Group was the biggest privatization of 2015, reached total value of \$ 19,55 Billion. Second place was held by Japan with the public offering of Japan Post Group which was amounted almost \$ 12 Billion. In 2016, large scale privatizations continued and the global total amount was the second greatest in the history with \$ 266,4 Billion, following the amount in 2015. The top valued privatizations were done by the countries outside of the European Union. The sale of Australian electricity distribution company Ausgrid was the most valuable of the year with \$ 12,36 Billion. Russian privatization of an oil company Rosneft came second which raised \$ 11 Billion for the Russian government.

1. 3. Aims of Privatization

The fundamental theoretical aim of privatization is to overcome the inability of maximizing public welfare of state-owned enterprises, in other words, make those enterprises serve society's needs better thanks to competitive nature of private sector and other free market forces. As privatization, will speed up the competition in the market, the quality of goods and services will

increase as well as the prices will get lower to attract more and more people while harming the competitors. It is also a vital tool for preventing monopolies and unfair competition.

New managers of the privatized companies will pursue a profit – seeking behavior, which actually is the primary objective of the companies, and follow a cost-efficient strategy to fulfill customer satisfaction. It is also thought that privatization creates new job opportunities thanks to new services designed to increase public welfare and variety of choices.

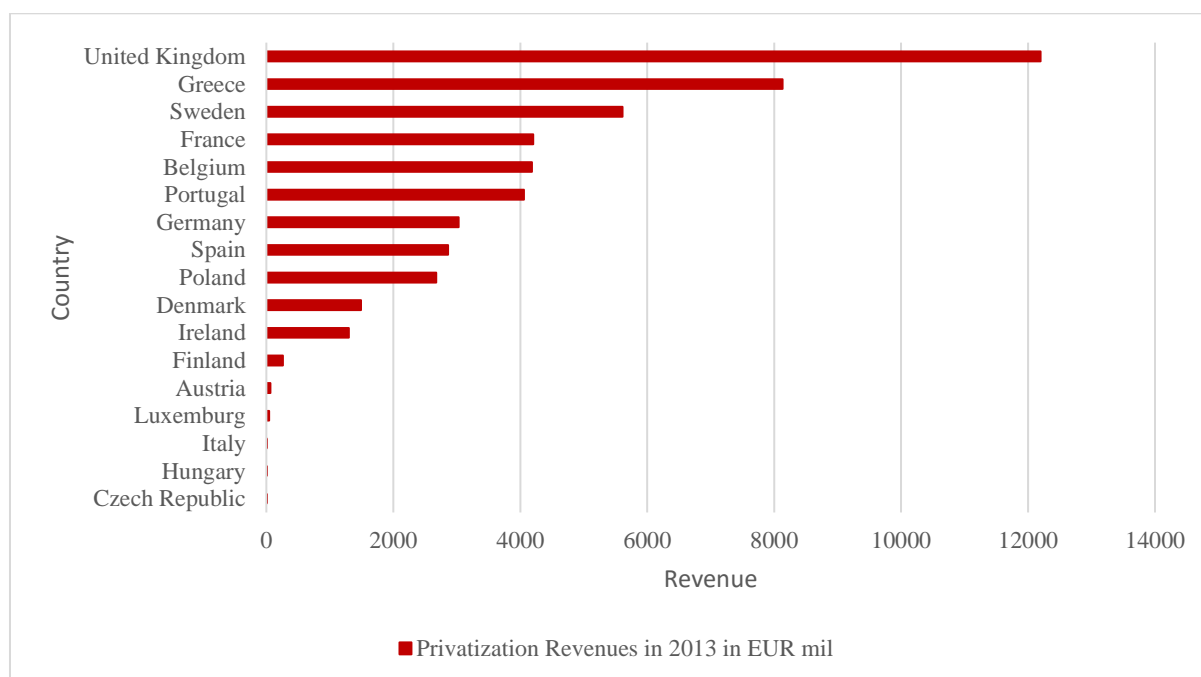
Another argument explains aim of privatization is to better off inefficient use of resources in state-owned enterprises. Due to lack of competition, public enterprises do not force themselves to perform better and generate higher production levels. By transferring the ownership through privatization, it is aimed to reach an efficient productivity level which will most likely end up with lower prices, and again, customer satisfaction. Increased level of productivity also stimulates economic growth in an economy.

Privatization is a useful tool for the governments who are seeking immediate generation of income for the budget. Thanks to the money obtained through privatization practices, a country can finance and develop primary fields like health and education services. The income can be also used to cover external debts. However, when privatizing state-owned industries and companies, greater attention should be paid on realistic estimations of potential future income and profit that the industry is able to make to avoid a sale with no use. Governments should take into consideration of public welfare, as the primary reason of their existence is to do so.

Sometimes, it is also considered during economic crisis period as a first aid to gather immediate finances, like in Greece. According to statistics prepared by Privatization Barometer, in 2013, Greece held the second place in terms of income generation after United Kingdom with € 8 Billion. When we compare these two economies, we will be able to understand how big scale privatizations were made in Greece. The roots of this significant income generation are based on the economic crisis which occurred in the country. Privatizations has an important place in Greek government's bail-out plan. In 2015, the IMF reported the policy changes in the country as “a weak reform effort that will weigh on growth and privatization”⁶ which points out the significance of privatization in Greek economic rescue schedule.

⁶ International Monetary Fund (2015). Greece Debt Sustainability Analysis Greece. Country Report No. 15/165

Chart 2: Privatization Revenues in Europe, 2013



Source: Privatization Barometer Webpage

For developing countries, capital market has a vital role due to its inevitable importance on economic growth. Through privatizations, there will be more supply of stocks which is beneficial for the overall economic state. Capital market also functions as a monitoring platform as the company performance creates enormous importance for the share prices. It would not be wrong to say that, companies with outstanding stocks will be paying great attention on efficiency which will create more advantages for both the economy and public.

Privatization attracts domestic investors as well as international investors from abroad. Foreign investors provide new managerial skills, know-how, research and development techniques, new technology and capital inflow to the country which they are going to invest through acquisition of a state-owned property. Besides the economic inputs foreign investors can bring, it is also important for an economy as it may increase the labor standards and human resources in which where the foreign investor is from more developed country than the host. The foreign investor should be picked strategically as it may create security and defense problems depending on the industry or company privatized. Some additional problems can be the differences in language, organizational and managerial culture between public enterprise and foreign investor.

Sometimes, privatization was a tool used for the political strategies as occurred in post-soviet countries. State-owned enterprises were given to the people through vouchers which were very inexpensive and sometimes for free. In their paper, Privatizing Russia, Boycko, Shleifer and

Vishny (1993) stated “we argue that the key prerequisite for restructuring is *depoliticization* of firms, meaning a change in their conduct from meeting the wishes of politicians to maximizing profits”.⁷ When the government included public in privatization process and basically made people the owner of those enterprises, public embraced the idea very quickly. By this way, the new system was heavily supported by the public in other words, reinforcing its legitimacy. Furthermore, it has created almost no conflict among people as they were becoming the owners.

As being a tool aiming depolitization, privatization can be used for *politicization* of firms especially in highly corrupted governments. Private firms can provide bribe to politicians with the hope of gaining the ownership of a property or to be the selected provider for contracting form of privatization, even though they are not eligible enough. They can offer top management positions for the politicians and provide funds for political parties the same reasons. In their working paper, G. Bel, F. González-Gómez and A. J. Picazo-Tadeo (2015) mentioned about the proved investigations of the *Gürtel Case*, the *Púnica Operation* and *Bárcenas Case*⁸ where the right wing Popular Party (PP) was gathering massive bribes for contracts and financial contributions. Castell & Trillas (2013) pointed out the case which they named as “*revolving doors*” in Spain, where the politicians receive top management offers and positions from the companies.

1. 4. Critiques on Privatization

Theoretically, privatization boosts productivity and increases economic efficiency while generating greater variety of choices and public welfare. However, privatization “is almost never painless” (S. Kikeri, J. Nellis 2002).⁹

Since there will be many changes after the transfer, namely in management and organizational cultures of formerly state-owned companies, unexpected failures may take place. Nature of the industry or company also plays a crucial role since not all the industries or services are suitable to privatize.

Private ownership does not necessarily mean a better productivity and efficiency or increased public welfare. Public welfare is not only about economy or income level, the notion covers

⁷ Boycko, Shleifer and Vishny (1993). Privatizing Russia. Brookings Papers on Economic Activity Vol. 2

⁸ Gürtel Case, the Púnica Operation and Bárcenas Case are the corruption scandals related to Popular Party in Spain. The political party was heavily corrupted as they were taking finances and making contracts worth hundreds of millions of euros.

⁹ Kikeri, S., Nellis, J. (2002). Privatization in Competitive Sectors: The Record to Date. The World Bank Policy, Research Working Paper. No. WPS 2860.

health, education possibilities provided and happiness of the people. Profit-seeking approach of private companies does not comply with the needs of every sector in an economy. Health and education systems can be the examples for this argument. When it comes to poor people's health or students with learning disabilities, private sector may not be the correct address since the primary object of these enterprises is to make profit. To generate profit from poor people or disabled students, private sector would again need government intervention as the existence reason of a government is provide public welfare, rather than make profit.

In private sector, managers are primarily supposed to satisfy shareholder's needs. Government cannot guarantee or know to what extent the managers will seek public interest instead of the shareholders. Especially in environmental issues, shareholders' interests and public interests would create a contradiction, as happened in BP's oil spill in the Gulf of Mexico.

Another argument would be questioning the efficiency of private sector. One of the tools to generate better efficiency and higher profits in private sector is to increase working hours of labor or elimination of labor force when needed. In this case, public welfare would be questionable while providing better efficiency. Not only cheaper products and greater variety of choices but also employment is very vital for public welfare.

In theory, privatization promotes competition and increases productivity level. However, these factors are not primarily depending on privatization itself or who is holding the ownership of a company or industry. New technologies, their application, know-how level, managerial skills, supply chains and many other factors effect productivity more than an ownership change. So many companies in the world are focusing on these factors to increase their production level rather than transfer of ownership.

One of the most crucial problems in privatization is a market failure: Corruption. Authorities have greater power than public itself, even though they came into power thanks to support of the public in democracies, there is still no guarantee. Since corruption may occur not only developing or less developed countries but also in developed countries, i.e. Spain as mentioned before, it would be insufficient to take into consideration regime of a country alone.

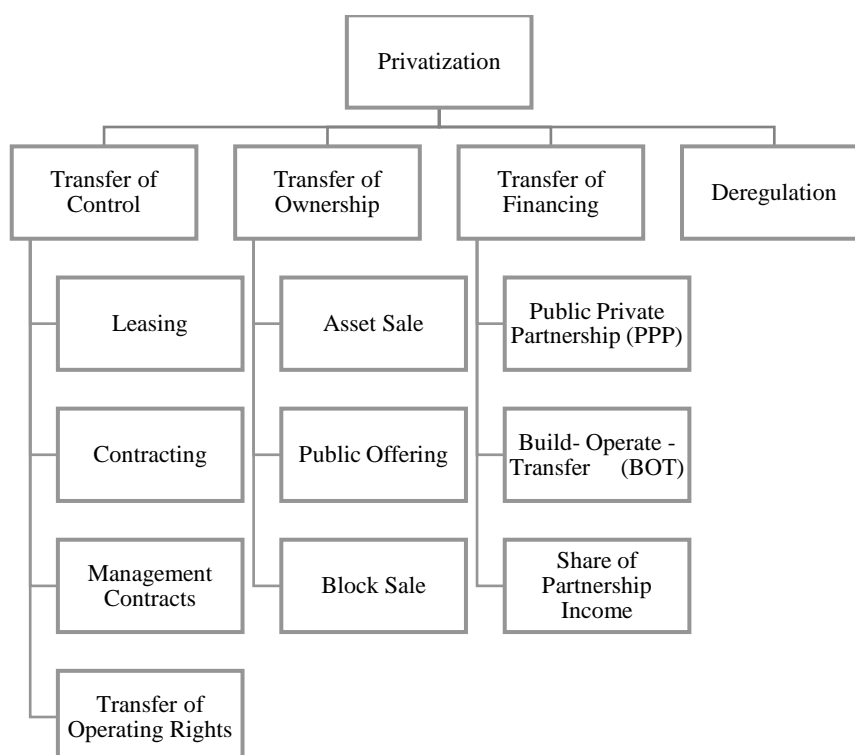
1. 5. Modes of Privatization

As mentioned before, privatization is an umbrella term. The term may refer only change in the management team of a state-owned enterprise, in other words, transferring the decision-making power to another party. Selling a part or full of the shares of a state-owned enterprise to a private

sector is also a way of privatization. “It is not simply an action that leads to a new situation, but also an action that leads to a change in behavior” (Perrot, J 2006).¹⁰

To illustrate a better structure of privatization we can gather mainly used techniques under the roof of four different categories based on the information of ownership, management and goals of the property: Transfer of Control, Transfer of Ownership, Transfer of Financing and Deregulation.

Chart 3: Modes of Privatization



1.5.1. Transfer of Control

In this type of privatization decision, government keeps the property or the industry as the owner. However, management and administration functions are fulfilled by private sector. Transfer of control form can be applied for both service and production sectors.

1.5.1.1. Leasing

Leasing can be used as a privatization tool by a government when the government seeks for a continuous income from a state-owned property which does not generate enough liquidity in the hands of government. Besides protecting the government from taking drastic actions like

¹⁰ Perrot, J. (2006). Is Contracting a Form of Privatization? Bulletin of the World Health Organization. Vol.84 No.11

selling a property with potential, leasing also creates better future opportunities since during the leasing time it may attract more investors.

At the end of the leasing agreement, government may continue with the same private sector agent with a new leasing agreement, may change the partner or may sell the property to the lessee.

In the form of leasing, agreement should be made in a way that the state-owned property will be attractive for a potential private sector actor as well as should be able to protect country's and citizens' own interests.

The value of the annual leasing contract cannot be lower than the market value of the property divided by the rental amount in years.

1.5.1.2. Contracting

Contracting technique is one of the most practiced way of privatization. In this form, government signs a contract with a private partner for producing a good or providing a service instead of the government at a level of 100% or lower.

The decision of what will be produced or served is taken by the government based on the public interests and needs, however the real owner of the goods and services is the private sector agent.

Municipalities are practicing this form of privatization often when they need a 3rd party support for building infrastructure especially in the U.S., Japan and Great Britain.¹¹

As government's role and presence continues in this form of privatization, some of the authors does not name this form as "privatization".

1.5.1.3. Management Contracts

In this type of privatization model, government retains the ownership of a property but transfers the managerial functions to a private sector actor. Engagement of the management contracts are lower compared to other forms of privatization; generally, from 2 to 5 years.¹²

Management contracts are a tool used by the governments when the government plans for a total or partial selling of a property and tries to ensure a healthy transition process in terms of getting used to open competition conditions of the entity. By this way, when the transfer is

¹¹ Turk, Y.Z. (2014). *Turkiyede Ozelleştirme Uygulamaları Analizi*. Republic of Turkey Ministry of Development Planning Expertize Thesis. ISBN 978-605-4667-81-9

¹² World Bank Group (2016). *Management, Operation and Maintenance Contracts*.

totally finished, complexity risks are getting lower and the entity can have a smooth path to continue.

Another function of management contracts is the creation of “belonging sense” for the state-owned enterprise’s employees. Since the management team is privatized and their expectations are higher due to the nature of private sector’s profit seeking behavior, aggregate quality and efficiency are expected to be higher.

1.5.1.4. Transfer of Operating Rights

In the mode of transfer of operating rights, government holds all the shares of a property and transfers the operating rights to a private firm or a juridical person. Production functions of the entity is transferred for a limited time period for an agreed fee which is paid by the private sector agent.

Transfer of operating rights mode can be combined by “Share Sale” model in some countries, as practiced in Turkey for the privatization of electricity distribution company, TEDAS, where the private sector is the unique licensee of distribution of electricity while distribution network assets are fully owned by the government.

1.5.2. Transfer of Ownership

Transfer of ownership form of privatization occurs when a government sells the shares of a state-owned enterprise at an agreed price level to a private firm or public. The government has the right of selling the property at a lower price than the real value or even for free. In this case, a valid explanation is needed from government side. Generally, when the property will be sold to the public or the property’s own employees, the cheaper or free sale take place. After the sale, government loses the ownership rights. Mainly because of this fact, efficiency and necessity of transfer of ownership practices creates disagreement in public and among economists. In 1989, E.S. Savas in his academic paper, A Taxonomy of Privatization Strategies, called this form as “disinvestment”.¹³

1.5.2.1. Asset Sale

Asset sale is the basic and dominant privatization technique used in transfer of ownership category. It is simply the sale of state-owned enterprises to private firms. Securities and real estates can be relayed.

¹³ Savas E.S. (1989). A Taxonomy of Privatization Strategies. Policy Study Journal; Vol.18 p.343-55

In asset sale mode of privatization, the government should be careful when selecting a private firm to sell. Selling state-owned assets to a strategic investor helps in concentrating ownership and restructuring of the enterprise after sale (Hailemariam, S. 2001).¹⁴In contrast, selling the property without enough research about potential buyer may have drastic results.

1.5.2.2. Public Offering

Another mode of privatization in transfer of ownership category is public offering. This form aims the contribution of public itself since it is thought that the more the public is involved the more they feel responsible. As a result, the property, industry or firm will be more valuable since the production and management decisions involve public as well. Public offering also creates support for the government which took the ownership transfer decision most of the time.

The shares are generally underpriced to create great and equal involvement of public. They can be sold directly through primary market or secondary market through securities exchange market.

Besides underpriced shares, there is also a form called as “voucher privatization” where the shares of state-owned enterprises were given to the public. Especially during the 1990s, after the collapse of communism in Central and Eastern European countries, namely Poland, Czechoslovakia, Bulgaria and Russia, this action was taken based on a political tactic rather than an economic decision. Since the offering was very inexpensive and mostly for free the public welcomed the idea of “privatization” and “capitalism” easily after long years under communist regime. Another feature of voucher privatization is its nature of being quick and massive. By this way, post-communist countries were able to transfer the ownership of state-owned assets within a relatively short period of time. Studies show that voucher privatization generated an increase in economic growth rate in Poland, Russia and Czechoslovakia.

1.5.2.3. Block Sale

Block sale is the form widely used while transferring the ownership as it has lower complexity than public offering. Part of the shares which belong to state are being sold to private firms. Sometimes the size of the shares sold allows the private firm to have the management control, i.e. more than 50% of the shares, and sometimes the sale can be done with smaller sizes to several selected private companies, mostly due to investment purposes.

¹⁴ Hailemariam, S. (2001). Corporate Value Creation, Governance and Privatization: Restructuring and Managing Enterprises in Transition. Groningen.

1.5.3. Transfer of Financing

In transfer of financing practices, government can partially share the financing of a project with private sector companies or allow them fully cover the finances. Based on the agreement made in the beginning of a project, private firms can benefit the income made for a specified period of time.

Even though it looks like private companies have a risk of covering the debts and expenses, governments play an active role as guarantor of the project when needed.

1.5.3.1. Public Private Partnership

Public private partnership is the practice when private sector and government agency works together in a project as it is believed the productivity and quality gets better thanks to this partnership. When private sector's higher operational efficiency and government's incentives come together, the project better offs in terms of financial aspects. Especially for the infrastructure projects, time duration gets shorter.

1.5.3.2. Build – Operate – Transfer

Build-operate-transfer form of privatization is often used technique for long-term projects when high technological and infrastructural investment must be made in the beginning. The private sector builds the project, operates it for an agreed period of time based on the contract signed with the government and finally transfers the ownership to the government.

During the ownership time, private sector can cover the expenses made in the beginning of the project through profits generated. In this type of privatization, generally government is the only or the biggest customer of the private sector which creates a security for the company to cover the expenses within a reasonable time period.

1.5.3.3. Share of Partnership Income

In this type of privatization mode, government sells shares to the private sector or legal persons which allows them to generate income for a specified period. This technique mostly used for the projects building infrastructure like bridges, highways, airports and ports.

1.5.4. Deregulation

Deregulation is the removing entrance barriers for the industries i.e. telecommunication, mining, radio and television, which are only under the government control. After removing the barriers, private sector agents can enter the market and continue production and providing services. In this type of privatization, government can monitor the mechanism through independent supervisory authorities. Since, the industries mentioned above are strategic ones,

government should be very careful during and after the privatization process and provide enough control within the market. Especially in an industry like mining, in which life of the labor force can be in danger when the necessary precautions are not taken, the theoretical reason of privatization, higher public welfare, would be demolished as the labor force public itself.

2. The Concept of Privatization in Turkey

Privatization has been a crucial concept for more than a quarter century in Turkey which has close ties with not only economic policies but also social, political and legal aspects. The concept has important direct and indirect effects on people unconcerned with from which segment of the public they are coming from. Therefore, practice of privatization should be one of the main concerns of public and especially politicians.

In Turkey, theoretical aims of privatization show similarities with generally accepted reasons of using this tool in many other countries: Increasing competitiveness and efficiency in the market, lowering the involvement of government to allow government to focus on administration and bureaucratic areas as well as increasing public enterprises' quality. The Turkish Privatization Administration, the responsible authority for privatization practices in the country, defines the main philosophy of privatization as to decrease the role of state in the economy to have a better focus on health, education, social security, national defense and large scale of investments in which private sector would not be able to undertake. The authority also aims an increased level of productivity and openness, attract foreign direct investments and reduce unemployment level in the country.

The need for privatizations in Turkey shows many similarities between other world economies who later abandoned operating state-owned enterprises and privatized them. However, it is still important to understand the country specific reasons of change from an “*etaist*” economy, which is taught as one of the six principles of Ataturk in history classes.

The need of privatizations in Turkey from the politicians and policy-makers' point of view can be explained in several points:

- i. Integration to global competition in the world through an open economy,
- ii. Transfer of financial responsibility of state-owned enterprises to get rid of operating losses of them,
- iii. Increasing efficiency and effectiveness of state-owned enterprises,
- iv. Reducing price levels in the market thanks to the competition in the market,

-
- v. Reducing inflation,
 - vi. Preventing the creation of monopolies,
 - vii. Attracting foreign investments and entrance of foreign exchange,
 - viii. Generation of new financial resources for the country.

Turkish Privatization Administration highlights that the final aim is not “privatization itself” for the country, in other words, not the income generated from the sale but the benefits of privatization regarding efficient and effective use of national resources as well as increased international competition power.

Even though privatizations hold an important place in Turkish economy, nationalizations, especially the ones practiced in the early ages of the new republic, are also very significant and important to understand to make a better interpretation of “what has changed” as well as the commenting on public opinion.

In this part of the study, historical background and important dynamics of Turkish economy which heavily affected the political trends in the Ottoman Empire and the successor country, the Republic of Turkey will be explained. Evolution of privatization policy will be demonstrated through important dates. Reasons of nationalizations and *etaist* policies followed in the first years of republic will be pointed out to have an in depth understanding of public opinion in privatizations which will take place in the following part of the study. At the end of the chapter, institutional framework of privatization concept will be described.

2.1. Historical Background and Important Dynamics in Turkish Economy

Turkish economy does not start with the foundation of Republic of Turkey. The new republic was one of the successor countries after the collapse of 600 years long Ottoman Empire. To have a better understanding of today’s dynamics in the economic decisions as well as current political trends which shapes economic decisions in the country, I believe it is vital to look at the past, at least to the time when the hard times began.

When we study the history of Ottoman Empire, we notice that, the rulers of the empire stopped following the news outside of its borders. The very first printing press was used in the empire 291 years after being discovered by Gutenberg. When the western economies were enjoying the fruits of industrial revolution and already looking for new markets, apparently, it was not a priority on the empire’s agenda. The empire was so late when it was noticed that mass production and technology will lead and show who is going to be more powerful in the end.

Even though there were modernization efforts, it was so late to catch the western economies. Wars and fractures together with economic dependency due to high amount of loans taken, the empire has collapsed.

After the foundation of Turkey, the country entered a transformation era both in social and economic aspects which still continues today, even though not on the same trend always. Economic situation and politics in the country have dramatically changed when we compare to the starting point, 1923. The great importance was given to economic freedom during the first years of republic accompanied with continuous development plans. Many new factories and industries were founded with national capital. State-owned enterprises were the spin of the economy. The fields which had strategic importance were nationalized. In 1980, Turkey has started a brand-new chapter in its economic policy. The country shifted from a mixed-capital economy to free market economy to be able to fight in international arena. Today, Turkish economy is the 18th biggest economy in terms of GDP.

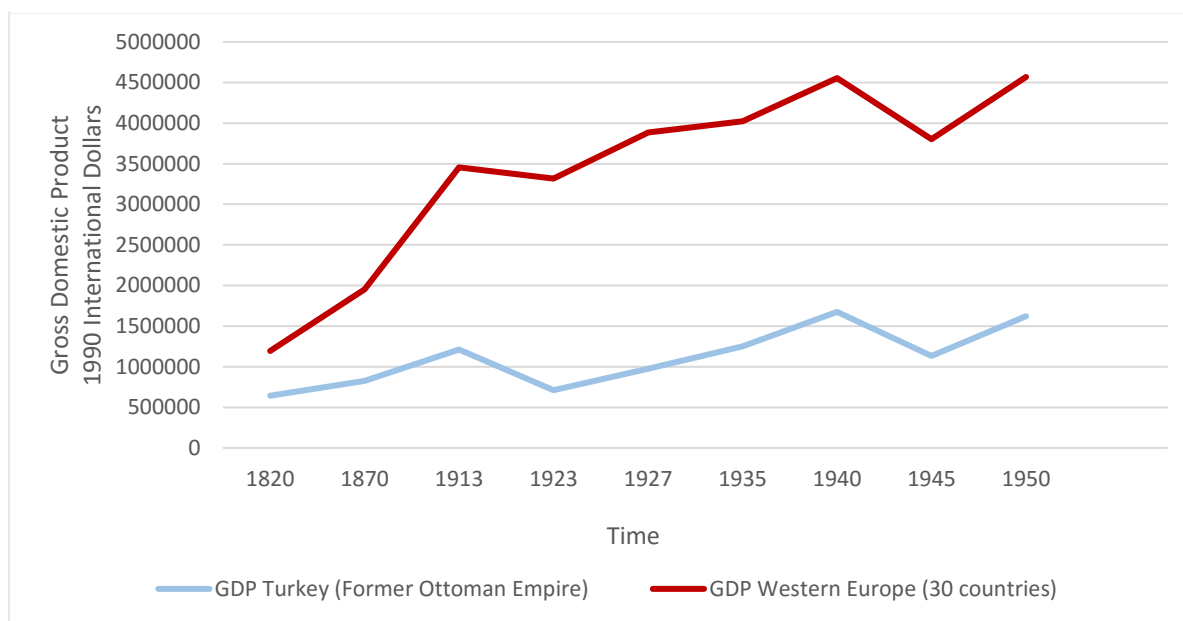
Privatizations had a lead role in this new phase. Since then, the importance of privatizations in Turkish economic policy preserves its place. Especially last 15 years, we have witnessed a massive period of privatization in Turkey.

2.1.1. The Ottoman Empire: Decline and Collapse Years

During the Ottoman Empire, private sector and initiatives were very limited in the country due to nonexistence of a capital market, low development level and lack of institutions which are supposed to seek the benefit of regular people. There was no trade or tax law which was functioning equally for Muslims and non-Muslims. Trade was strictly regulated. Not only imports but also exports of the producer was being taxed. High level of bureaucracy and the pressure from the ruler class who does not want to have any socio-economic formation that can be an opponent to them in the future resulted in lack of private sector.

In a huge empire with different ethnicities and religions as Ottoman Empire, this situation created a big obstacle for establishment of a private sector, as well as a sufficient infrastructure for business. Transportation and even electricity was luxury for Anatolian cities. As a result, almost all of the sectors, even very basic ones, were found and supported by the state itself. For instance, in 1810, Beykoz Leather and Shoe Factory was founded to produce shoes to meet the need of public and the Ottoman army.

Chart 4: Gross Domestic Product Turkey vs. Western Europe, 1820-1950



Source: Maddison Project Database

In 1838, the Ottoman Empire and the United Kingdom signed a formal trade agreement, Treaty of Balta Limani, which abolishes all monopolies in the Ottoman Empire, allows British merchants and their collaborators to have full access to all Ottoman markets and taxes them equally to local merchants.¹⁵ Small and traditional Ottoman producers were unable to compete with highly industrialized companies in western world. Local artisans were having a survival war against developed producers who were able to produce larger scale and way cheaper. The situation of artisans was already very dramatic in the early 1800s and got worse with the entrance of foreign products in the country. One of the most powerful empires of the history have found itself in a position where it was selling raw materials abroad and buying finished products back due to lack of industry.

¹⁵ Geyikdağı, V. N. (2011). Foreign Investment in the Ottoman Empire: International Trade and Relations 1854-1914. Tauris Academic Studies. p. 23.

When we check the GDP levels between the Ottoman Empire and Western Europe, it is noticeable that the fraction starts from the time when Western economies completed their transition into industrialization during 1820s and 1830s. Later, the gap gets bigger and bigger as industrialized economies were able to produce tremendously compare to traditional Ottoman production.

1839 was a significant year in the Ottoman Empire history. The country has started a continuous reformation and reorganization period, often called as “*Tanzimat*”, in other words, Ottoman Reform, aiming at modernization of the empire including law, arts and economy - mainly catching up European countries that have been already experienced Industrial Revolution. Unfortunately, Ottoman Empire stayed away from all those developments in “western” production techniques which came into force thanks to improved industry. Sultan Abdulmecid, ruler of the time, has seen *Tanzimat* period a way out and stated that he wanted “*to bring the benefits of a good administration to the provinces of the Ottoman Empire through new institutions.*”¹⁶

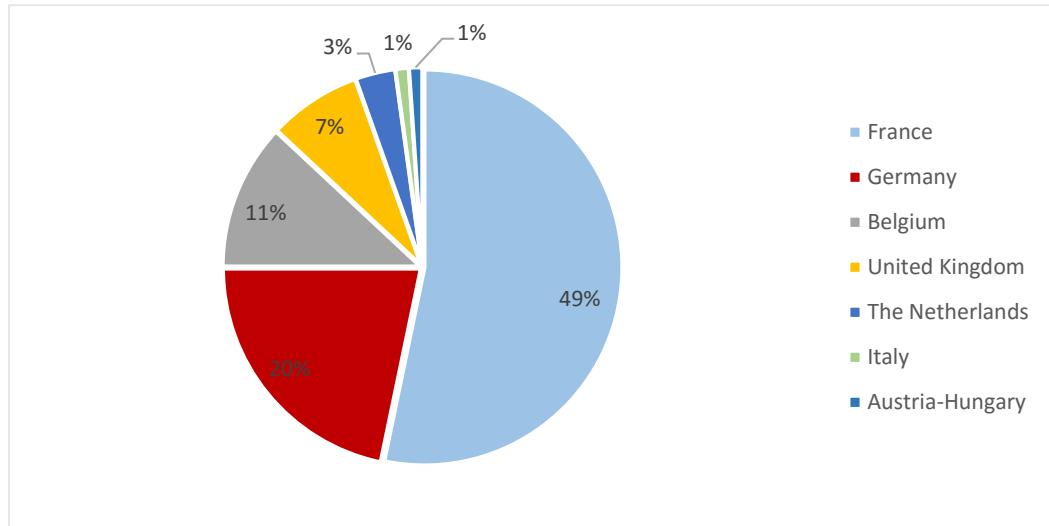
Feshane Weaving Factory was one of the first factories founded by an imperial order in modernization period, in 1839, to produce uniforms for the Ottoman army, blankets and various textiles. This factory formed the fundamentals of modern Turkish textile sector. Again, by the same imperial order, a broadcloth factory was founded in Izmit. The Sultan was pointing out the money spent for imported textile products as well as creation new jobs for people while signing his orders. In 1840, first post offices of the empire were launched. Between 1842 and 1844, first private textile factory Hereke was founded by Ohannes ve Bogos Dadyan brothers but later transferred to Ottoman Empire in 1945. The quality of the products produced in this factory was accepted worldwide, especially carpets, and even registered to protect the brand.

Foundation of different factories and industries were not the only news of that period. In 1850, The Code of Commerce which was actually inspired from French trade law entered into force. The notions of interest, bill of exchange and joint-stock company used for the first time in Ottoman trade literature. Foundation of secular penal and trade code which was treating equally

¹⁶ NTV Tarih History Magazine (2011) “Sultan Abdülmecid: İlklerin Padişahı” p. 46–50.

Muslim and non-Muslim population at the court and the establishments of first trade courts in 1851 were other improvements of the term.

Chart 5: Debt Structure of the Ottoman Empire by Lender Countries, 1914



Source: Ozdemir, B. (2010)

Even though there was an effort of the Ottoman Empire to build up strong industries in the country, it was quite hard to close the gap with trade partners which have already experienced a mass industrial revolution years ago. In 1854, the empire has started taking debts from abroad however, was unable to turn into those loans into efficient investments. Only 20,22% of the debts were used to meet real needs of the economy.¹⁷ Receiving loans became an inevitable policy in the Ottoman economy. The empire was covering present loans with new loans with higher interest rates. The economy was in a debt trap with almost no rescue hope. In 1875, the Ottoman Empire announced that they were not able to repay the loans. Financial reputation of the empire has collapsed. Due to the dramatic financial dependency, foreign policy was heavily wounded too. In 1914, debt structure of the Ottoman Empire by countries was as follows:

- 49% from France,
- 20% from Germany,
- 11% from Belgium,
- 7% from United Kingdom,
- 3% from the Netherlands,
- 1% from Italy and 1% from Austria-Hungary.

It is widely accepted that “Tanzimat” period has ended in 1876 when Abdul Hamid II, 34th Sultan of the Ottoman Empire, ascended to the throne. Abdul Hamid II was the Sultan of first

¹⁷ Ozdemir, B. (2010), *Osmanlı Devleti Dış Borçları*. Ministry of Finance. ISBN: 978-9944-60-539-7

and second constitutional eras in the Ottoman Empire. In his ruling period the empire faced with political turmoil at a maximum level. The idea of nationalism was rising in the Balkans as well as in Anatolia. After the defeat of Ottoman Empire in Russo-Turkish War (1877–1878), the country did not get any better and a time with continuous wars, conflicts and defeats has started. Any recovery in the country or in the economy would be a surprise. In the end, the Ottoman Empire turned into a semi-colonial country which was not able to produce enough agricultural products for itself even though it was a country of agriculture, surviving thanks to foreign debts taken and monitored by Ottoman Public Debt Administration, a European-controlled institution founded in 1881 in charge of collecting debts that Ottoman Empire has taken from European companies since 1854.

World War I broke out in 1914 and at the end of the war the Ottoman Empire was on the same side as the losers. Armistice of Mudros has been signed between the empire and Allies on 30th of October 1918. After the armistice, Istanbul was occupied by British, French and Italian troops in November 1918. Shortly after, partitioning of the Ottoman Empire has started which was already planned by several agreements between allies' forces. The empire was being invaded by the countries which Ottoman Empire financially owed. Moreover, strategic fields like railways, harbors, electricity, telecommunication and mines were mostly owned by those countries. This dramatic situation was putting the empire in a position where the victory was a miracle. After the defeat of World War I, only the ashes of the empire were left.

However, a national movement has started and Anatolian people resisted the occupation. With the leadership of Mustafa Kemal Atatürk, the father of Turks, Turkish War of Independence has started on 19th of May, 1919 and ended in 1923 with the signature of Treaty of Lausanne. The treaty was composed of removing all the capitulations, covering debt of the empire, customs arrangements and the problem of privileges given to foreigners.¹⁸ The Ottoman Empire has left its place to a secular, modern republic: Republic of Turkey.

2.1.2. Republic of Turkey

With the foundation of Republic of Turkey, a new era has started for Turkish people. At the end of the war, the country was like a debris in terms of social, political and economic aspects. Only debts were remained from the Ottoman Empire. There was no industry which was able to operate and no labor force which was able to work. Lack of technical knowledge, entrepreneurs

¹⁸ Yesilay, R.B. (2005). Devletçiliğin Türkiye Ekonomisindeki İzduşumleri. Atatürk Üniversitesi İktisadi ve İdari Bilimler Dergisi. Vol.19 No.1.

and time was critical. “Complete independence” in terms of politics, economy, culture, military and law was determined as the mission of the new republic since capitulations and foreign debts were seen as oppression and reason of collapse.

On 17th of February, 1923, shortly after the Turkish Independence War, the first economic conference of the new born republic was held in Izmir: Izmir Economic Congress. The congress has a significant importance as it was seen as economic branch of the national resistance. Economic development was prioritized; available resources of the economy and the targets were defined. In Izmir Economic Congress, the fundamentals of mixed-economy and the idea of “*etaism*” were introduced.

The most important decisions taken during Izmir Economic Congress which shaped the economic policy of the country for long time were:

- i. New industries should be established in which the necessary raw materials are already being produced in the country,
- ii. Small manufacturing based on hand work should be rapidly abandoned and shifted to fabricated mass production and industrialization,
- iii. State should actively take part and responsibility in establishing enterprises which are not being handled by private sector,
- iv. The monopolies founded by foreigners must be avoided,
- v. A comprehensive and versatile industrial system should be established to be able to take place in international arena,
- vi. Incentives should be provided to encourage industrial production,
- vii. National banks should be established,
- viii. Labor unions should be founded.¹⁹

The government was aware the need of transferring public capital into investments. The most remarkable development of the period was foundation of new economic institutions from various industries thanks to state investments. Besides establishing Public Economic Enterprises, which were mostly being set up in areas where there was a need and demand however no effort from private entrepreneurs, initiatives for private entrepreneurs were also being provided. To support private sector and entrepreneurs by credits, national banks were being established. In 1924, Türkiye İis Bank, the first national bank of the republic was founded

¹⁹ Kaynak, M. (2009). Atatürk Döneminde Büyüme ve Beşeri Sermayenin Geliştirilmesine Yönelik Girişimler ve Günümüz İçin Kısa Bir Değerlendirme. 21.02.2009 İzmir İktisat Kongresi

by directives of Mustafa Kemal Atatürk. Again, with the same aim, in 1927, The Industrial Encouragement Law (Tevsik-i Sanayi Kanunu) has been accepted to provide assistance and protection to increase the number of entrepreneurs. The law was comprised of exemption of taxes, providing cheap lands which can be used for buildup factories, ease of transportation and storage options. Not only domestic investors, but also foreign investors were entitled to benefit from The Industrial Encouragement Law.²⁰

Even though there was an effort to push private sector and industry to grow, interior conditions as well as the global financial situation, especially after Great Depression, led Turkish government to take state assisted development measures. Less than 25% of the total population was living in urban cities.²¹ 80% of the total workforce was engaged in agriculture sector and only 8% was employed in industrial sector. From this perspective, it would not be objective to say that the new government was eager to do everything by state hand or close the market for foreign investments. When we consider the current conjuncture of the period, both in international and national level, foundation of SOEs was inevitable due to lack of entrepreneur number.

Table 2: Population, GDP and GDP per capita in Turkey, 1923 – 1950

Years	Population	GDP Current (\$)	GDP per capita Current (\$)
1923	12.822.222	577.000.000	45
1927	13.646.154	887.000.000	65
1935	16.244.898	796.000.000	49
1940	17.826.923	1.854.000.000	104
1945	18.808.036	4.213.000.000	224
1950	20.897.590	3.469.000.000	166

Source: Turkish Statistical Institute

Between the years 1923 and 1950, many new institutions and factories were established, which today we call them as the fundamentals of Turkish industrialization process, with the help of

²⁰ Sukan, B. (2014). İmparatorluktan Cumhuriyete Türkiye’de Yabancı Sermaye Anlayışı. Ankara Üniversitesi Türk İnkılâp Tarihi Enstitüsü Atatürk Yolu Dergisi, No.4 p. 195-222

²¹ Pamuk, S. (2008), Economic change in twentieth-century Turkey: is the glass more than half full? In R. Kasaba (Ed.) Cambridge University Press, p. 266 - 300

national capital. When we check the table above, it can be easily seen how poor the country was in 1923. GDP per capita was only 45 \$ in current terms. In 4 years, current GDP increased more than 300.000.000 \$, growing more than 30%. The reason of this rapid growth was improvement of infrastructure as well as great investments in industry: Sugar refineries, textile and weaving factories, cement factories, tobacco factories, various mines, power plants, iron and steel factories were being established in the period. It is important to say to show the improvement of industry; even an aircraft factory was founded in 1936, which produced first domestic aircraft planes Nu D-36 and Nu-D 38 in the same year.²² The factory was successful enough to sell those planes abroad.

Table 3: Average Growth Rates of Agriculture and Industry Sectors, %, 1923-1939

Years	Agriculture	Industry	Others	GDP (%)
1923-1929	15,4	8,0	11,0	9,1
1930-1939	6,0	11,7	6,0	10,1

Source: Kaynak M. (2009)

When we consider the post-war situation in the country as well as the dramatic atmosphere of 1929, it would not be wrong to say that economic management of the country was quite successful. Besides economic institutions, a competent and educated work force was being raised. Human capital had great importance. Many students were sent abroad, to complete their education there and come back to transfer knowledge. The know-how and technical knowledge gained from industrialized countries had an accelerator effect in economic growth.

In 1980, Turkish economy has changed its path from mixed-capital economy to open market economy after the acceptance of 24th January Decisions. Almost all the factories, industries and mines which were established by state were either closed or privatized one by one.

2.1.2.1. 24th January Decisions

At the end of World War II, in 1944, allied countries have negotiated on a monetary management system which aimed to encourage international trade as well as arrange international finance: Bretton Woods System. The system was covering:

²² Kaynak, M. (2009). Atatürk Döneminde Büyüme ve Beşeri Sermayenin Geliştirilmesine Yönelik Girişimler ve Günümüz İçin Kısa Bir Değerlendirme. 21.02.2009 İzmir İktisat Kongresi

-
- the dollar-gold standard through International Monetary Fund which was pegging nominal value of each currency to gold or dollar,
 - the establishment of a monetary system through IMF,
 - foundation of International Bank for Reconstruction and Development.²³

The decision was made in a quite tense environment and was heavily affected with the experience of 1929's depression, thinking preventing another financial crisis would also prevent another world war. Countries considered this system as a cooperation and restructure opportunity, especially for international trade. Dollar was the leading role in this system since countries preferred having dollar stocks instead of gold due to liquidity reasons. However, beginning from early 1960s, the world witnessed a strengthened monetary interdependence of Western European countries by having convertible currencies. The volume of international financial transactions significantly increased and dollar was not the only leader anymore. Finally, in 1971 the Bretton Woods system has collapsed right after the economic measures taken by the American president Richard Nixon, also known as "Nixon shock", regarding cancellation of direct international convertibility of dollar to gold.

Collapse of the Bretton Woods system was followed by the first oil shock in 1973, downfall of American stock market which affected all the world between 1973-74 and caused economic contraction. In 1979, second oil shock came. All these economic fractions negatively affected big portion of the countries, including Turkish economy. There was a massive supply shortage in household products and ration cards were being used for products i.e. sugar, oil, margarine, meat and gas. Development plans were not sufficient to reach the targeted growth rates and GDP level. Making structural reforms were vital and highly needed.

On 24th of January, 1980 a reform package was announced to generate stability in the economy, known as "24th of January Decisions" in the literature prepared by finance minister of the time Turgut Ozal who later became prime minister in 1983. Besides economic stability, it was also aimed to decrease the negative effects of externalities and internalities on the economy. The reforms were mainly about removing price controls, decreasing subsidies especially in agricultural production, reducing tariffs, promoting exports and dramatically decreasing the share of state-owned enterprises while encouraging private sector.

24th of January Decisions reform package was composed of:

²³ Singh, S. (2014). Monetary Collapse: Why Did Bretton Woods Fail? Columbia Economics Review.

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- i. Generating an open economy through liberalized trade,
 - ii. Encouraging the entrance of foreign direct investments and easing profit transfer procedure,
 - iii. Implying flexible exchange rate policy instead of fixed,
 - iv. Promoting an export oriented trade policy,
 - v. Creating a trade incentive system based on tax holidays, providing loans with low interest rates and custom facilitation,
 - vi. Devaluation of Turkish Lira,
 - vii. Reducing subsidies especially in agriculture field,
 - viii. Application of real interest rate,
 - ix. Supporting overseas contractors and contracting,
 - x. Focusing on infrastructural investments,
 - xi. Reducing impact and share of the state in economic life especially in manufacturing industry,
 - xii. Liberalizing price levels of products in state-owned enterprises per market level and cost structure, lowering incentives on SOEs and narrowing the scope of product and service portfolio of state-owned enterprises,
 - xiii. Streamlining and privatizing state-owned enterprises.²⁴

With this reform package, Turkish economy was changing its years long paradigm: shifting from heavily intervened system by the state to a free market economy where the price levels are determined by the market forces: demand and supply.

In the short run, government of the period targeted a stabilized economy via minimizing inflation effect, increasing production levels to terminate supply shortages and ration card system. Efficient allocation of economic resources and effective usage of public finances were the other aims of the reform package. In the medium run, objectives of the 24th of January decisions were enforcing an economic system which does not depend on external support and which can operate in a sustainable way regardless of externalities.

It was expected that; targeted growth rates would be achieved via increased exports and competitiveness in the world arena thanks to the economic decisions taken on 24th of January. Furthermore, the difficulties experienced with Balance of Payments, the never-ending problem

²⁴ Turk, Y.Z. (2014). *Turkiyede Ozelleştirme Uygulamaları Analizi*. Republic of Turkey Ministry of Development Planning Expertize Thesis. ISBN 978-605-4667-81-9

of Turkish economy, would be stabilized with the entrance of foreign exchange entry as well as foreign investments.

Abandoning import substitution model which was in force since the early republic years and fostering an export based economic development along with provided incentives created the fundamentals for privatizations which became an important tool in this new economic path. After the year 1986, Turkey has experienced a massive privatization period. According to statistics of Turkish Privatization Administration, between the years 1986 and 2003, approximately \$ 8 Billion privatization was carried out.

2.1.2.2. Development Plans

With the foundation of State Planning Organization in 1963, Turkish governments have started preparing five years long development plans with the aim of increased social welfare in the country. The elimination of the social and economic problems that occurred in the aftermath of the military coup in 1960 was main target. It was thought that; planning was vital to be able to provide a balanced and stable development. In total, there are 10 development plans prepared so far: the ones between 1963 and 1980 have mixed-capital economy features whereas the ones after 1980 have liberal, extrovert features aftermath of the 24th January Decisions.

Even though each development plan has its own scope and target, there are several common aims which we see in all of them since the core of the plans is “increased social welfare”²⁵:

- i. Sustainable and stable economic growth,
- ii. Increased GDP per capita,
- iii. Full-employment and improved quality of human capital,
- iv. Better utilization of economic resources,
- v. Reduction of poverty and inequalities in income distribution,
- vi. Elimination of regional development level differences,
- vii. Creation of a self-sufficient economy with diversified fields,
- viii. Accelerated industrialization,
- ix. Investments in technology, science, research and development,
- x. Reduced inflation and better managed Balance of Payments,
- xi. Improvement of administrative institutions,
- xii. Increased foreign investment in the country.

²⁵ Development Plans of Turkey. Ministry of Development Official Webpage

The notion of privatization took place in the 5th Development Plan (1985 – 1989) for the first time in the form of “public offering”. Later, privatization became “necessary” and covered grand place in every development plan as a “fundamental state policy” (Turk Y., 2014).²⁶ During 1970s, due to the global economic atmosphere and internal shocks, the operating losses of public economic enterprises were increasing day by day and their losses were financed by the public budget in Turkey. Thus, inflation problem was getting more and more serious which eventually prepared the economic crisis during late 70s in the country. In 1980, the public sector accounted for 50% of the fixed capital formation and 40% of total value added in the manufacturing industry.²⁷ The biggest reasons of privatizations especially after the year 1988, were made to reduce the great share of state in these fields and prevent a potential crisis that may occur because of the same reasons.

Increasing importance of privatization in the economic management of the country is even more emphasized in the 6th Development Plan (1990 – 1994). State-owned enterprises were taken under a modernization need in terms of managerial and administrative aspects. Privatization was thought as vital to increase efficiency and effectiveness of public economic enterprises. They also had good position to attract foreign investors. Energy sector, especially electricity and petrochemistry, was prioritized on the privatization agenda.²⁸

In the 7th Development Plan (1996 – 2000), 20 development projects in every field i.e. education, health, industry, agriculture, tax, infrastructure were introduced. Privatization was one of the project headlines among others. The target was defined as to have a strong position in the global economic arena by having a cost-efficient and well-structured production level in an open market through rapid privatizations. Turkey was in the process of preparing itself for the customs union with EU as well as accomplishing candidate country criteria. Thus, privatizations were thought as a quick way of improving economic position of the country since the financial responsibility of state-owned enterprises was going to be transferred to private sector. The targets of the privatization project in 7th Development Plan were as follows:

- i. Technological improvement of the enterprises,
- ii. Reducing the role of state as well as public debt,

²⁶ Turk, Y.Z. (2014). *Turkiyede Ozellestirme Uygulamalari Analizi*. Republic of Turkey Ministry of Development Planning Expertize Thesis. ISBN 978-605-4667-81-9

²⁷ Onis Z. (1991). The Evolution of Privatization in Turkey: The Institutional Context of Public Enterprise Reform. *International Journal of Middle East Studies* No. 23 p. 163-176

²⁸ Turk, Y.Z. (2014)

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- iii. Transferring financial responsibility of state-owned companies,
 - iv. Fostering the entrance of foreign investments which can improve the level of efficiency through know-how and new technologies,
 - v. Creation of new financial resources through the sale of state-owned enterprises which later can be used in social and economic investments of the country,
 - vi. Generating a competition environment among businesses to increase efficiency as well as preventing monopolies.

Besides efficiency and new resources through privatizations, the favor of public and labor force was also highlighted in the plan. Selection of the “new owner” criteria was determined as “competent group who will be able to take the responsibility and authority of the enterprise” in a full sense of transparency. In the plan, state-owned manufacturing companies and enterprises with monopolistic features i.e. telecommunication were prioritized for privatizing. It is also stated in the report that privatization strategy will be based on broad public support, reconciliation and transparency of the privatization process.²⁹

Privatization in 8th Development Plan (2001 – 2005) distinct itself from others as health services and health insurance were for the first time on the agenda. In the 9th Development Plan (2007 - 2013) a complete withdrawal from air and sea transportation, production of locomotives and wagons; sugar, tobacco and tea production; petrochemical industry; procurement of materials; electricity distribution and wholesale trade as well as reducing state activities in electricity generation, natural gas market, coal and other mining operations takes place.³⁰

In the last and 10th Development Plan which was released in 2013, it is planned to continue privatizations especially in energy sector to be able to face the increasing demand of the country. Other significant targets of the plan are:

- i. Guaranteeing of human rights and individual freedoms by a fair and fast legal system,
- ii. Fixing current account deficit problem,
- iii. Reaching 5,5% growth rate each year,
- iv. Increasing R&D spending to 1,8% of GDP,
- v. Increasing the number of tourists from abroad to 42 million until the year 2018.

²⁹ 8th Development Plan (2000) Ministry of Development Official Webpage

³⁰ Turk, Y.Z. (2014)

2.1.3. Understanding Nationalizations and Etaist Policies in Turkey

Before privatization becomes a phenomenon, there was another concept which became a cornerstone in the world economic history: Nationalizations. They have been practiced by the countries for various purposes from different political and economic systems. Many of the times, they were taken into consideration when there was a need of government initiative to take responsibility or an ideological change. It is vital to understand the reasons of nationalizations to be able to understand reasons of privatizations as their mechanism works vice versa.

Nationalization can be described as the transformation of private properties and assets into state-owned properties and assets through public ownership. From this point of view, it can be said that nationalization is the contra argument for “laissez faire” economic system.

The common reasons of nationalizations in the literature can be counted as the existence of natural monopolies in an economy, macroeconomic volatility, externalities, continuous poor growth rates, absence of entrepreneurs, lack of a capital market as well as neutral institutions which would courage private sector. Sometimes, an economic depression time or a political conflict may lead to higher levels of nationalizations rather than privatizations. When we look at the history, we find out that nationalizations were mostly practiced by the countries after the big shocks such as the Great Depression or World War II.

In some economies, governments may prefer nationalizations of private enterprises for an equal income distribution and balanced profits of the all parties involved. Especially, when nationalizing a monopoly, government takes into consideration the interest of consumers and workforce. The fundamentals of nationalizations in developed economies are mainly based on distribution of monopoly rents (Akalın, G. 1994).³¹

Another reason of nationalizations is more about ideological choice rather than economic decisions. According to Karl Marx, private ownership in production caused exploitation and private owners used this weapon to take advantage of labor class. Nationalizations were made to have a planned economy, no unemployment and inflation based on this ideology while eliminating cross-class exploitation in theory. However, it would not be correct to bond the

³¹ Akalın, G. (1994). Türkiye’de Özelleştirmenin Gereği ve Nedenleri. İstanbul Üniversitesi Maliye Araştırma Merkezi Konferansları Dergisi. No. 36 p. 123- 136

terms nationalization and socialism to each other since “socialization” is more about a systematic and continuous rebuilding of the overall economy under the socialist roof.

When we study the dynamics of the Turkish economy, nationalizations are one of the policies which pulls our attention and holds a quite significant place in understanding of not only the economy but also the changes in the political trend over the years. Especially, starting from the year 1933 till 1945, 21 privileged foreign company with strategic importance like railways, harbors, electricity, water channels, telecommunication and mines were nationalized. The share of France in private investments was the highest with 53,55% followed by the other Western economies in the country.³²

Table 4: Private Investment Distribution by Sectors in the Ottoman Empire, 1914

Sectors	Amount (Ottoman Lira)	Percentage (%)
Railways	53.310.000	63,0
Banking and Insurance	8.200.000	9,8
Industry	6.500.000	7,7
Electricity, Water & Tram	5.700.000	6,7
Harbors	4.710.000	5,5
Mines	3.580.000	4,2
Trade	2.660.000	3,1
Total	84.660.000	100

Source: Ozdemir, B. (2010)

Besides nationalizations, establishment of state-owned enterprises also had importance in Turkish economy especially during the early years of republic, starting from 1930s, under the economic ideology of Mustafa Kemal Ataturk: “*etaism*”. *Etaism* is described as government intervention in the economy to achieve rapid industrialization. Indeed, SOEs worked like a growth engine for Turkey which was totally devastated after long years of wars. They have initiated industrialization and empowered especially regional development since foundation places were picked carefully.

³² Ozdemir, B. (2010), Osmanlı Devleti Dış Borçları. Ministry of Finance Ankara. ISBN: 978–9944–60–539-7

There are several arguments and critics on reasons of nationalizations in Turkey and why it took relatively long time to turn into a more liberal economy through private initiatives. The people were exhausted of long years of wars. They have witnessed the collapse of a 600 years of empire as well as a freedom war which took almost 4 years. There was not a sufficient infrastructure or an institution which they can proceed private ownership with. The market was not ready or suitable to start a business neither financially nor mentally. Some arguments suggest that one of the reasons of nationalizations and foundations of SOEs was the ambition of keeping the absolute ruling power in one hand both in politics and economic decisions. Some other argues that the close relationships and co-operation between USSR and the Republic of Turkey, especially during the Turkish War of Independence years, caused the *etaist* policies in the country.

When we look at the conditions of the period, not only Turkey but also other countries which were involved in World War I were heavily affected in terms of economy. Furthermore, in less than 10 years after the first world war, the Great Depression has emerged and damaged almost all the countries socially and economically. Not only in Turkey, but also in the other countries, governments have started taking over the companies to be able to provide a persistence in the economy. The global economic contradiction had a great impact on the foreign owned companies in the country. They basically had to shut down and leave because of the poor financial performance.

Table 5: Foreign Ownership in Railways Sector in the Ottoman Empire, 1914

Countries	Percentage (%)
France	39,9
Germany	38,3
United Kingdom	12,7
Belgium, Switzerland, Austria-Hungary	1,8
National Capital	7,3
Total	100

Source: Sukan, B. (2014)

It is also important try to understand the potential psychological reasons behind all those nationalizations. The Ottoman Empire was receiving loans from Western European countries since 1854 and could not pay them back. The empire was fighting against the debtor countries

during the World War I. Moreover, the strategic fields like railways, especially for a wartime, were owned mostly by foreigners due to capitulations which were given since 1850s.³³ According to Ismet Inonu, 2nd president of the Turkish Republic and a crucial commander during the Independence War, “nationalizations are national defense tools” (Akalın, G. 1994)³⁴. Based on these information, we can say that nationalizations were mainly used as a protection shield for the sovereignty purposes during the first years of the republic. When we look at the history, we can also find out similar nationalization examples which were done with protection instincts. French government nationalized French car producer Renault after the World War II, due to close cooperation between Nazi occupiers and Renault’s owners.³⁵

The reason why foreigners preferred to invest in railways was, their profit was under the guarantee of the Ottoman Empire with a system named as “Mileage Guarantee System”. Based on this system, in case the foreign investor makes lower profit than agreed, the gap between the amounts was provided by the empire. Moreover, with the investment agreement on railways, foreign investors were being entitled to search and, if found, operate mines within 20 km area of starting points from each side.³⁶

Being so late for the industrial revolution held back the Ottoman Empire dramatically while western economies were already enjoying the fruits of the developed production systems and looking for new markets to sell their products as well as raw materials. Foreign debts, capitulations and private ownership of foreigners in strategic fields especially in railways prepared the economic downfall of the empire. Moreover, Ottoman administrative officers were having their own personal economic, political and military benefits from the private projects³⁷.

Taking into consideration of current trends of that period in the world as well as the Turkey specific issues, it is easier to understand the reasons behind why nationalizations were on the economic agenda. The great attention was paid on the nationalizations of strategic areas which actually became “strategic” after the independence war according to their priorities. It would not be correct to say that Turkish economy was eliminating all private investments especially the ones from abroad. There were many other operating companies with foreign capital.

³³ Pamuk, S. (2014), Türkiye’nin 200 Yıllık İktisadi Tarihi. İis Bankası Kultur Yayınları. ISBN 978-6053320203

³⁴ Akalın, G. (1994), Türkiye’de Özelleştirmenin Gereği ve Nedenleri. İstanbul Üniversitesi Maliye Araştırma Merkezi Konferansları Dergisi. No. 36 p. 123- 136

³⁵ Chrisafis, A. (2011). Renault Descendants Demand Payout for State Confiscation. The Guardian, London

³⁶ Sukan B. (2014). İmparatorluktan Cumhuriyete Türkiye’de Yabancı Sermaye Anlayışı. Ankara Üniversitesi Türk İnkılâp Tarihi Enstitüsü Atatürk Yolu Dergisi, No.4 p. 195-222

³⁷ Sukan B. (2014)

Furthermore, during the years between 1934 and 1938, where the nationalizations were at the maximum level, 32 new private companies with foreign investments were established.³⁸

2.2. Institutional Framework of Privatization in Turkey

2.2.1. Legal Structure

Initial preparations to set up legal fundamentals of privatization have been started in 1983 and the first legal arrangement have been made in 1984 with the acceptance of “Law on the Promotion of Savings and the Acceleration of Public Investments” by introducing the terms revenue partnership, public offering and transfer of operating rights.

With the acceptance of law n. 3291 on 28th of May 1986, the scope and implementation principles of privatization have been determined. SOEs were gathered under the coverage of this law for privatization.

The most important progress in legal aspect was made in 1994 with the acceptance of law n. 4046: “Arrangements for The Implementation of Privatization and Amending Certain Laws and Decrees”. The Privatization High Council, The Turkish Privatization Administration and Privatization Fund were established based on this law to facilitate decision making process. With the law n. 4046:

- i. The scope of state-owned properties to be privatized has been broadened,
- ii. Better structured mechanism and system has been defined which will provide acceleration to privatization process has been provided.

It was decided that the income generated from privatizations shall not be spent in general budget expenditures and investments. The cash surplus of the privatization fund, will be transferred to national treasury accounts for covering external debt stock. For strategic fields below, Turkish state kept its right to have preferred stocks for five years in the companies when more than 49% was decided to privatize:

- i. Türk Hava Yolları A.O. (Turkish Airlines)
- ii. T.C. Ziraat Bankası (Agriculture Bank of Republic of Turkey)
- iii. Türkiye Halk Bankası A.Ş. (Halk Bank)
- iv. TMO Alkoloid Müessesesi (Soil Products Office and Alkaloid)

³⁸ Sukan, B. (2014)

-
- v. Türkiye Petrolleri A.O. (Turkish Petroleum)³⁹

Besides defining privatization mechanism and establishing responsible institutions; the law also covers labor rights during and after privatizations. An additional compensation payment besides vested interests was predicted by the law. Also, retirement was encouraged by providing 30% bonus payment in case employees notice their will within 2 months after being entitled for retirement.⁴⁰ The law n. 4046 enforces replacement of those employees whom lost their employment contracts due to privatization to vacant positions in other state-owned enterprises or public institutions.

Due to the conflicts occurred between Turkish Council of State regarding privatization practices as well as cancellations of privatization decisions, law n. 4046 has been revised and made compatible with constitution in several steps in the following years.

2.2.2. Privatization Authorities and Responsible Bodies

Under the law n. 4046, privatization activities and processes are fulfilled by:

- i. The Privatization High Council
- ii. The Turkish Privatization Administration

Privatization High Council works as the decision-making body of the privatization process while The Turkish Privatization Administration serves as the executive body.

2.2.2.1. The Privatization High Council

The Privatization High Council is composed of 4 ministers appointed by the Prime Minister under the presidency of the Prime Minister.⁴¹ Full participation of the members is required to have a meeting and the decisions made by the council must be taken in consensus. The duties of the council are as follows:

- i. Determining the scope of privatizations to be made and defining time schedule,
- ii. Taking decisions on stopping or reducing the activities of the organizations in scope as well as liquidation,
- iii. Determining the general principles, procedures, methods of privatizations,
- iv. Deciding on the fund budgets,
- v. Approving the final decisions taken in tender commissions,

³⁹ Dogan, M.N. (2016). Türkiye'de özelleştirmenin 30 Yılı. The Turkish Privatization Administration, Ankara

⁴⁰ Turk, Y.Z. (2014)

⁴¹ Dogan, M.N. (2012). Rakamlarla Özelleştirme. The Turkish Privatization Administration, Ankara

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- vi. Determining strategic subjects and fields as well as the scope of preferential stocks,
 - vii. Deciding on the sources and usage of the privatization funds,
 - viii. And issuing securities.

2.2.2.2. The Turkish Privatization Administration

The executive body of privatizations, The Turkish Privatization Administration, is a legal public entity with an exclusive budget. The organization directly reports to Prime Minister. There are approximately 300 staff members in the administration together with a president, 5 vice-presidents, 12 department heads and 10 project managers.⁴² The Turkish Privatization Administration is responsible for:

- i. Implementation of decisions taken by The Privatization High Council,
- ii. Fulfillment of the necessary actions determined by the council as well as the duties,
- iii. Execution of privatization processes,
- iv. Capital value assessment of companies in privatization scope,
- v. Management of the privatization fund,
- vi. Performing the necessary adjustments for merging and splitting of the companies, facilitate transactions and determine the rights and obligations,
- vii. Generation of financial resources to the companies under the privatization scope when necessary,
- viii. Conducting the required research, projects, publicity and advertising for privatizations as well as providing legal, administrative and technical support,
- ix. Providing financial audit and financial evaluations of the engagements.

2.2.3. Privatization Procedure

Privatization process in Turkey has a dynamic feature which changes based on the industry or company selected along with the current economic situation of the country and future expectations as well as the international trends.

Privatization procedure in Turkey can be summarized under 4 main steps:

- i. Defining the scope of privatization and selection of the company; in this phase of the privatization process, organizations which are eligible and ready to privatize in terms of financial performance and legal aspects are determined by the council to directly

⁴² Dogan, M.N. (2016). Türkiye'de özelleştirmenin 30 Yılı. The Turkish Privatization Administration, Ankara

privatize. The ones which are under the privatization scope and not ready for the sale are being prepared and supported.

- ii. Selection of the advisor; based on the characteristics of the industry and the company, an advisor is being appointed to carry on advisory services in technical, legal, financial and real estate evaluation fields. The method of privatization is being determined in this phase.
- iii. Establishment of value assessment commission; the commission consists of 5 members from the Turkish Privatization Administration and starts working after the approval of Prime Minister to assess the financial value of company by calculating at least two of the following determinants: cash flow, book value, price-earnings ratio, market value, liquidation value and expertize value.
- iv. Establishment of tender commission; in this step of the procedure a tender commission is being established to fulfill the responsibilities of promotion brochure preparation and to define the required conditions for those who would like to take part in tender process. The commission monitors the bidding process. At the end of bidding phase, the process is concluded with the final negotiations with the investors. The final decision is presented to The Privatization High Council for approval.

After completion of these main steps, the sale of the SOE is being finalized through a sale contract signature between the administration and purchasing party.

2.2.4. Privatization Methods Applied in Turkey

The companies which are under the scope of privatization and eligible for privatizing are being privatized through different sales methods in Turkey based on the business nature. According to data of the Turkish Privatization Administration, as of 2015, block sale of the assets is the most widespread practice done which accounts % 52,4 of the total. Block sale is followed by facility and business sale with % 22,2.

Table 6: Privatizations Based on the Methods Applied in Turkey

Method	Amount (\$)	Percentage
Block Sale	35.086.548.055	52.4
Facility Sale	14.877.318.361	22.2
Public Offering	9.572.899.869	14.3
Sale on Stock Market	1.288.018.903	1.9
Asset Sale	4.836.737.067	7.3
Other	1.255.606.231	1.9
Total	66.917.128.486	100

Source: Dogan, M.N. (2016)

3. Public Opinion on Privatizations in Turkey

Privatizations in Turkey was always a debated topic since the time it was introduced as a part of “modernization” need. Privatizing SOEs created two sides in the country: people who support privatizations and who do not. Argumentation of those who support was the improvement of other world economies which were also placing privatization as a part of their economic policy. It was believed that once the ownership of state-owned company changed, the company will perform better and provide more jobs as well as better quality of products and services. On the other hand, those who were opposed to the privatizations were emphasizing the need of structural reforms for a better economic system instead of privatizing SOEs for fast money. Privatizations, however, were not seen as structural reforms even though the notion itself carries the meaning of change in the economic policy of a country as a part of liberalizing the economy.

Politicians were highlighting the need of privatizing SOEs since they were creating financial burdens to the economy as their financial depressions were being covered by the national treasury. Through privatizations, SOEs were going to perform better and create more jobs. Moreover, there were going to be more available funds to cover external debts thanks to the income generated from the sales together with the disappeared financial burden of sold SOEs. Privatizations were vital to create an open and competitive market economy.

Aside from the economic developments, public interest was being promoted since the governments will be able to focus on their main duties as justice, security, education and health as well as the infrastructure investments that cannot be undertaken by private sector. As mentioned before, The Turkish Privatization Administration defines “public interest” as a complementary part of their privatization philosophy. It is important to notice that, even the authority responsible for privatizations, is aware the distinction between the increased productivity or efficiency of a company and increased public welfare.

Public interest was the ultimate focus not only for privatizations, also for the previous economic policies, namely nationalizations, in the country. In every development plan, no matter which method was taken, increased public welfare was the ultimate target. So, what is this public interest?

Public interest simply can be defined as the well-being of the general public. The concept was introduced into literature after the French revolution as *l'intérêt general* replacing the notion

“common good”.⁴³ For a deeper understanding, it is significant to take into consideration the components of the concept. Besides the economic well-being of the country; freedom of expression, an open justice system, legitimate administration of government, public health, education and national security builds up the notion all together. In case of absence or insufficiency of any component, the sufficiency of public wealth would be questionable.

When we consider the philosophy of privatizations in Turkey, the areas which the state aims to focus more on corresponds with the public wealth components explained above. On the official webpage of the Turkish Privatization Administration, the authority defines its privatization objective as *“confining the role of state in the economy by minimizing the state involvement and divert the roles to primarily health, basic education, social security, national defense, justice and promoting employment”*.

If privatizations are being made for the public wealth, I believe public opinion on privatizations in Turkey is an inevitable part of it. It is very crucial to gather impressions of the people in the country, who are primarily addressed through the policies for better public welfare. For this reason, in this part of the study, I will be analyzing a survey regarding public opinion on privatizations in Turkey to be able to have an in-depth understanding of the perceived effects, especially on public wealth.

Survey results provides a broader picture of the relationship between privatizations and public welfare on people’s mind. Depending on the results, I will be also adding up-to-date data regarding the questions which were asked to the respondents to be able to measure the compatibility with reality and the answers which people give.

3.1. Survey Analysis

The survey reached a total of 357 people in Turkey through online distribution, mainly Facebook and e-mail. Google Surveys, a business product of Google, was used to gather data with 12 questions.

The survey can be divided into four main sections as:

- i. Demographic characteristics of the respondents
- ii. Turkey specific opinions on problems and strategic areas
- iii. Privatization process and post privatization effects in Turkey

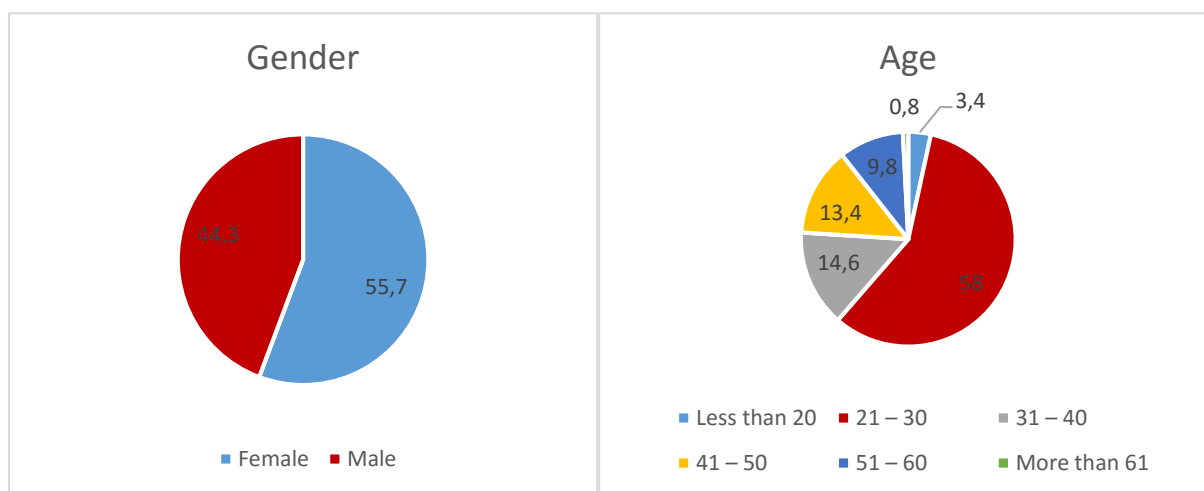
⁴³ Gul, I. (2014). Danıştay Kararlarında “Kamu Yararı”. Ankara Barosu Dergisi Vol.2

iv. Turkey specific privatization concerns

3.1.1. Demographic Characteristics of the Respondents

In this first section of the survey, personal questions as gender, age and education level of the participants were asked to collect demographic information about respondent structure to be able to make a better analysis of the possible outcomes.

Survey Question 1 & 2: Gender and Age Distribution of Respondents

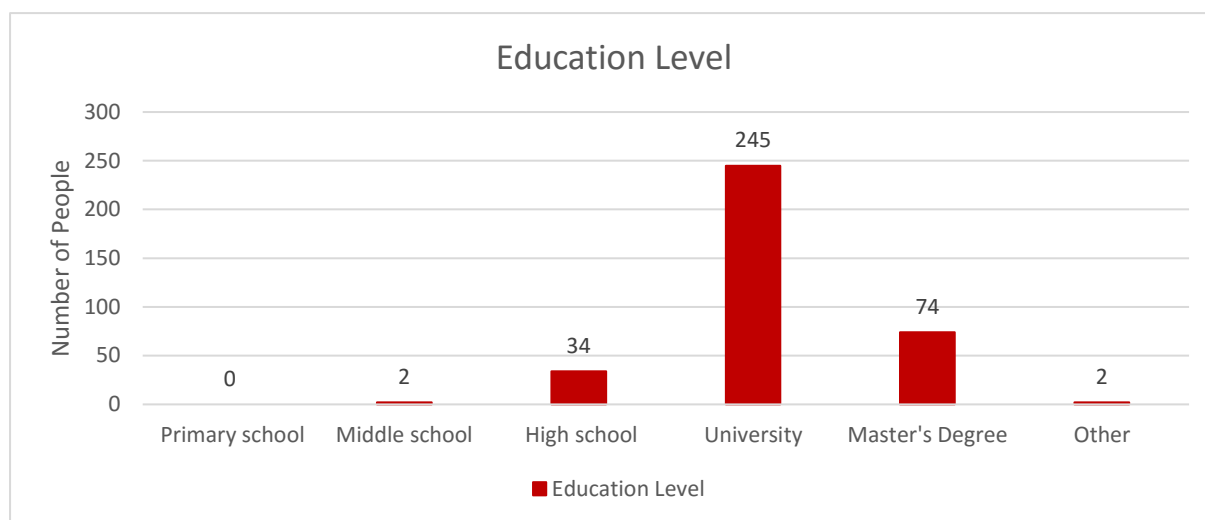


A total of 357 people have responded the survey; 199 of them were female forming 55,7% and 158 of them were male which is 44,3%.

207 of respondents were in the age range of 21 – 30, the generation mostly being affected the late privatizations in terms of the time interval. The second biggest group takes place between the ages 31 and 40, 14,6%. 41-50 age range is the third biggest group with 13,4%, the generation who were affected by the first privatizations in Turkey starting from 1986. 51-60 and younger than 20 years old people come fourth and fifth, respectively. The lowest number of participants are the ones who are older than 61 years old, 0,8% of the total.

Great portion of the respondents have at least university diploma: 66,8% of the total were graduated from university, 20,7% have master's degree and 0,6% have PhD. High level of education level will provide the survey a realistic and objective input as these people have consistently liberal views. 34 of the participants have high school degree, 2 of them have middle school education and there are no participants with a lower education level.

Survey Question 3: Education Level of Respondents



3.1.2. Turkey Specific Opinions on Problems and Strategic Areas

In this section of the survey, Turkey specific questions were asked to the participants starting from the problems that they think as the core. Second and third questions are related to strategic areas in Turkey in terms of the ownership and the fields which they find as strategic.

Survey Question 4: Biggest Problem of Turkey According to Respondents

Biggest problem of Turkey	Number
Democracy & Justice	133
Education	119
Terror & Security	31
Politicians	26
Unemployment	11
Economy	9
Corruption	9
I do not think that Turkey has a problem	1
Other	18

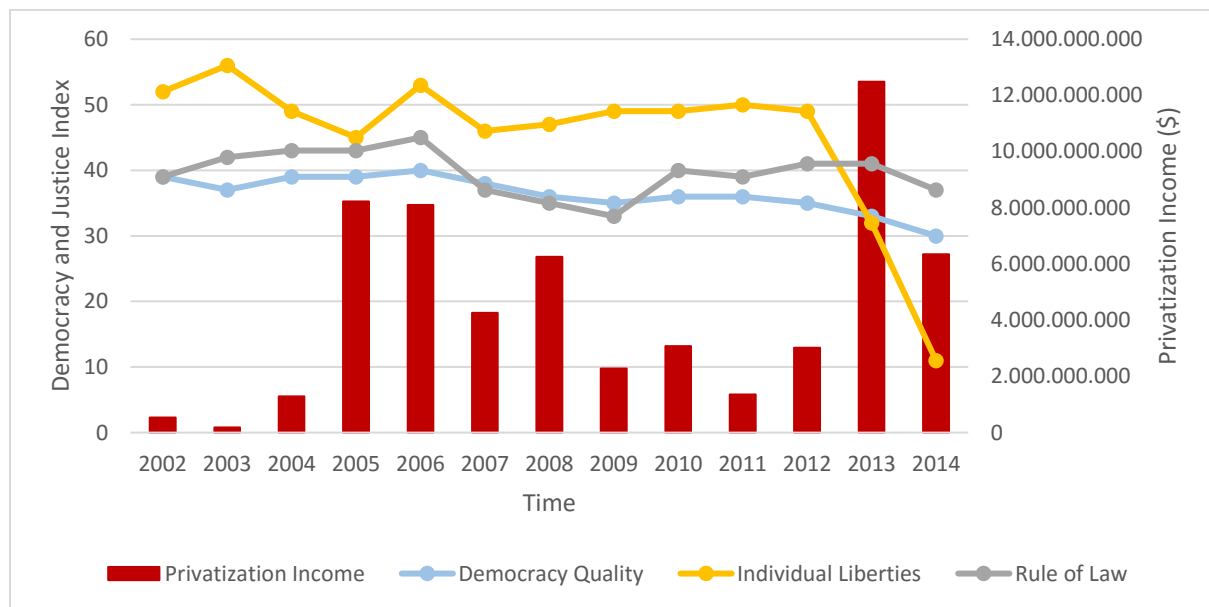
A question asking their opinion on the biggest problem of Turkey was addressed to the participants to be able to find out the possible causes which may have negative effect on public wealth. Options of the question were selected from the intersection area between the general

definition of public wealth and privatization motivation of the Turkish Privatization Administration which they have explained as a part of privatization philosophy.

Most of the participants have answered this question by selecting the option “Democracy and Justice”, amounting 133, 37,3% of the total answers and 116 of them with at least university education.

Democracy and justice are two of the core components of public wealth. The Turkish Privatization Administration also highlights the importance by defining a privatization philosophy which gives more room to the government for improvement since state’s role will be confined in privatized areas. At this point, it would be necessary to check the international statistics on democracy and justice indexes, especially for the years where privatizations in Turkey have accelerated to be able to see the effects.

Chart 6: Democracy and Justice Indexes vs. Privatization Income in Turkey

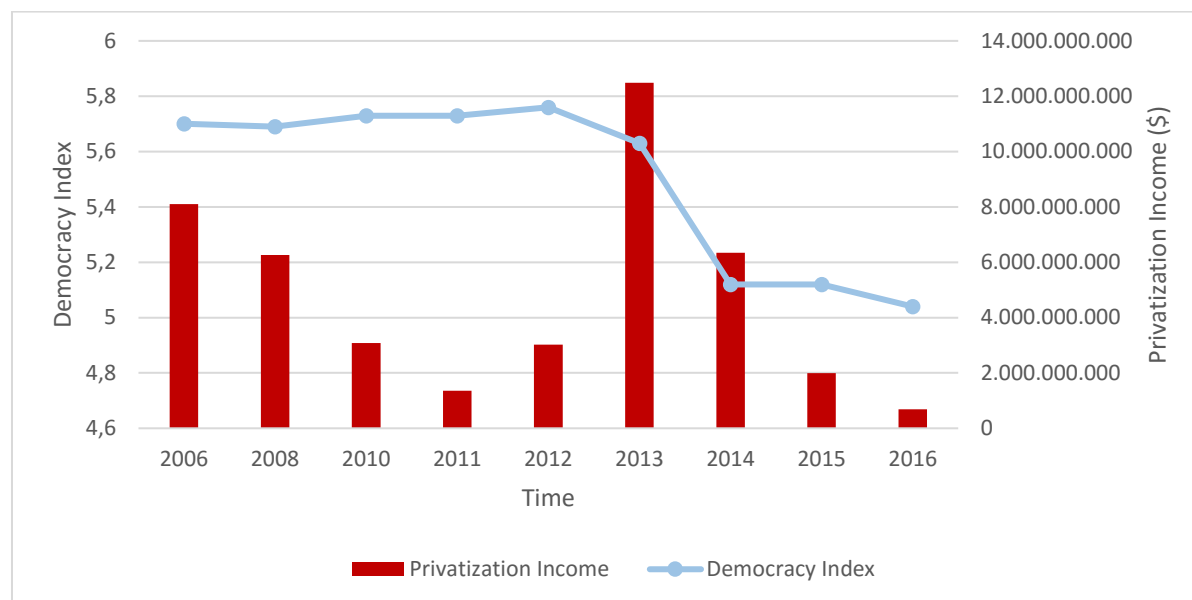


Source: Democracy Barometer & The Turkish Privatization Administration Official Webpage

When we compare, the data taken from the Democracy Barometer, an online index of democracy which is used by Berlin Social Science Center and Swiss National Science Foundation, it is seen that democracy quality, individual liberties and rule of law indexes of Turkey are not reaching at higher levels, and even showing a decrease during the years where the most privatization income was generated. According to the Economist Intelligence Unit’s Democracy index, an index which covers 167 countries based on 60 different indicators, the democracy ranking of Turkey is getting lower even though the high level of privatization

incomes generated and the state was getting free from the financial burden of SOEs over the years.

Chart 7: Democracy Index vs. Privatization Income in Turkey



Source: EIU Democracy Index & The Turkish Privatization Administration Official Webpage

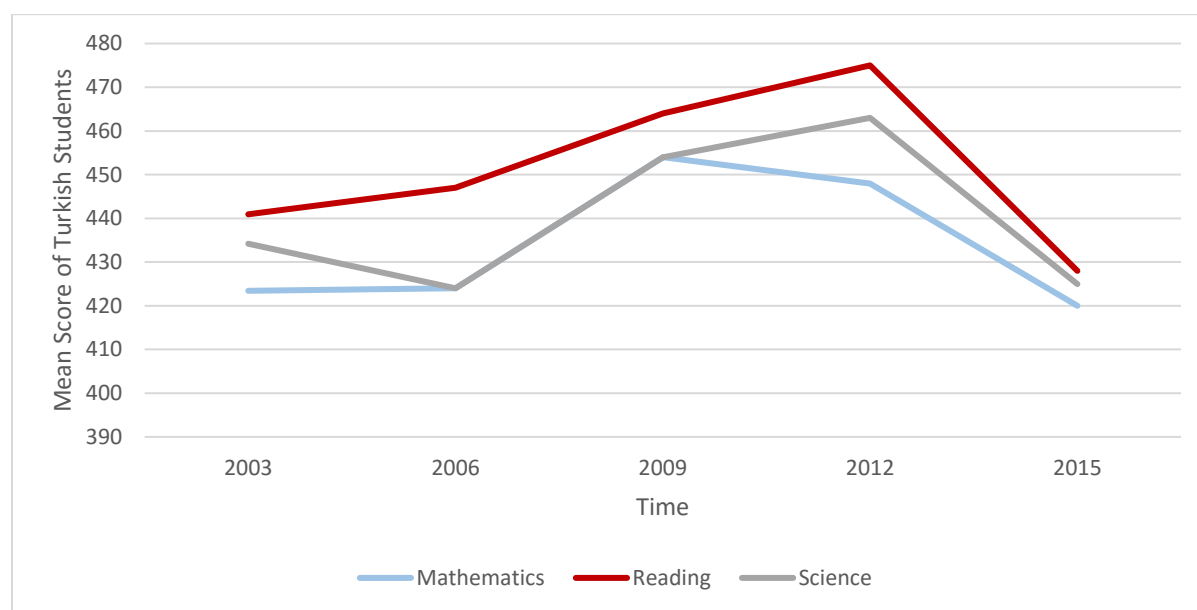
Education is the second mostly chosen option in the survey that participants see as the biggest problem of Turkey. As democracy and justice, education is also an important element of public wealth which takes part in the privatization philosophy in Turkey. A well-educated nation is essential for not only the social wealth of a country but also the economy. Through the knowledge and skills provided by a good education system, people of that country can find jobs and earn sufficient salary which provides a higher level of well-being for the society. Moreover, better educated nation plays a key role in contributing technological developments and innovations which provides sustainability for that economy.

According to OECD Education Index, average education length is 16,9 years and 36% of adults aged 25-64 have completed upper secondary education, both lower than OECD average with 17,5 years and 76% respectively. As of 2010, a project for fully computerized classes has been launched in Turkey, providing tablet computers, interactive whiteboards and high speed internet for students. In recent years, there is an increase in the education spending as % of GDP by the Turkish state. However, even though education spending provides improvement at some level, it is not a sufficient indicator solely to measure the quality of the education in the country.

According to PISA test results, the OECD's Program for International Student Assessment which evaluates education systems worldwide by testing 15-year-olds in reading, science and

mathematics subjects, even though the scores made by the Turkish students were increasing slightly over the years, in 2015, a dramatic decline has been experienced in overall scores falling to 428, 425 and 420 respectively for reading, science and mathematics tests well-below the OECD averages with 493, 493 and 490. Among 72 participant countries, Turkey took place on the 50th place.

Chart 8: OECD PISA Test Results for Turkey



Source: OECD

Terrorism and security concerns came as third mostly selected in the survey. Unfortunately, today, terrorism is a global problem, affecting the whole world population. According to the Terrorism index prepared by The Institute for Economics and Peace, Turkey is a country in “highest impact of terrorism” category. The index is a comprehensive measure of the direct and indirect impact of terrorism in 163 countries in terms of lives lost, injuries, property damage and the physiological after effects of terrorism.⁴⁴

Table 7: Turkey’s Ranking on Terrorism Index, 2012 - 2015

Year	Ranking	Year	Ranking	Year	Ranking
2010	21	2012	13	2014	27
2011	20	2013	17	2015	14

Source: Terrorism Index, The Institute for Economics and Peace

⁴⁴ Humanity, V. of. Terrorism Index – Vision of Humanity.

Over the years, the place of Turkey has showed slight changes in the global ranking list, however always took place in the top 30. Especially in the last two years, there is a dramatic increase in the victim numbers. Only in the period between June 2015 and December 2016, 32 terrorist incidents took place in the country. Moreover, in July 2016, a military coup attempt occurred with many fatalities which pushed the country to announce state of emergency for almost a year period. Even though one of the benefits of privatization is to empower national defense and prevent such incidents, this does not seem relevant for Turkey.

For the purpose of getting more inputs which will be used during the company performance analysis part, participants were asked the sectors which they find strategic for Turkey. They were allowed to select more than one sector as well as enter their ideas in case they might not be able to find among the choices.

Survey Question 5: Strategic Sectors in Turkey

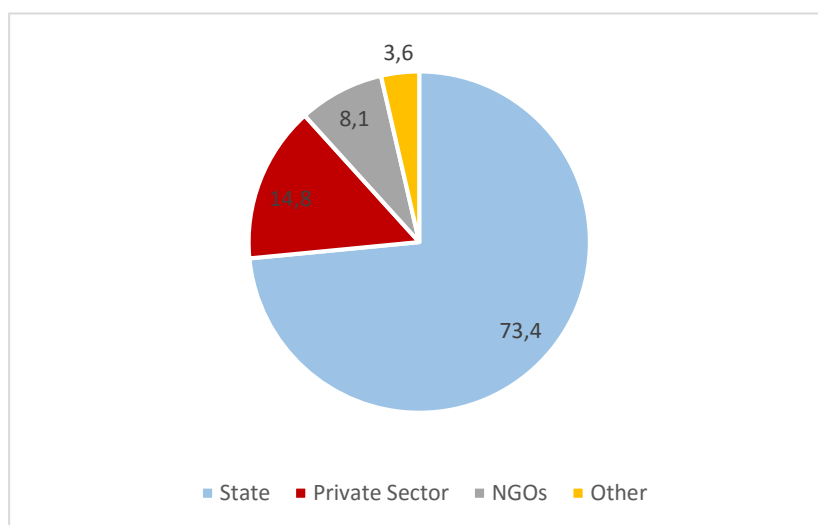
Strategic sectors in Turkey	Number
Energy	186
Petroleum	163
Mine	128
Agriculture	74
Food	66
Transportation	48
Banking & Finance	38
Other	17

In total of 720 selections; energy, petroleum and mine sectors were chosen the most by the participants. Moreover, these sectors were the ones combined the most with each other as well as with other sectors: 66 respondents have combined at least two of them. For “other” option, education, R&D, science and technology sectors were entered by the participants the most with 41%. According to OECD data, gross domestic spending on R&D is 1% of Turkey’s GDP while OECD average is 2,4%.

Energy, petroleum and mine sectors are seen as “strategic” not only for the public but also for the Turkish state. Especially for the domestic need of producers, the importance of these sectors is well-known thanks to the experience gained during “industrialization” period in the country.

Next question of the survey is one of the most important questions since participants’ idea of “ownership in strategic sectors” was addressed since the answer distribution draws a bigger picture of “perception of privatizations” in the country.

Survey Question 6: Public Opinion on Ownership in Strategic Sectors



73,4% of the participants answered the question, “*Which of the following institutions should be responsible to establish and operate a strategic sector?*”, as state. 231 respondents out of 262, who have answered as state, have at least university degree. 13 people answered this question as “other” by entering their opinion. 100% of those 13 people thinks an ownership model which combines state and private sector together would be the best option for Turkey.

3.1.3. Privatization Process and Post Privatization Effects in Turkey

In this section of the survey, participants’ opinions about privatization practices in Turkey were gathered. This part focuses on privatization itself and post privatization effects from the respondent point of view. Third section of the survey also measures the relationship between privatization and public wealth based on respondents’ perception. The response design consists of five choices, measuring their proximity to each question as: Totally agree, partially agree, neither agree nor disagree, disagree and totally disagree.

Survey Question 7: Necessity of Privatization Applications

Privatization applications are necessary in Turkey	Answer	Percentage
Totally agree	21	5,9%
Partially agree	73	20,4%
Neither agree nor disagree	60	16,8%
Partially disagree	122	34,2%
Totally disagree	81	22,7%
Total	357	100%

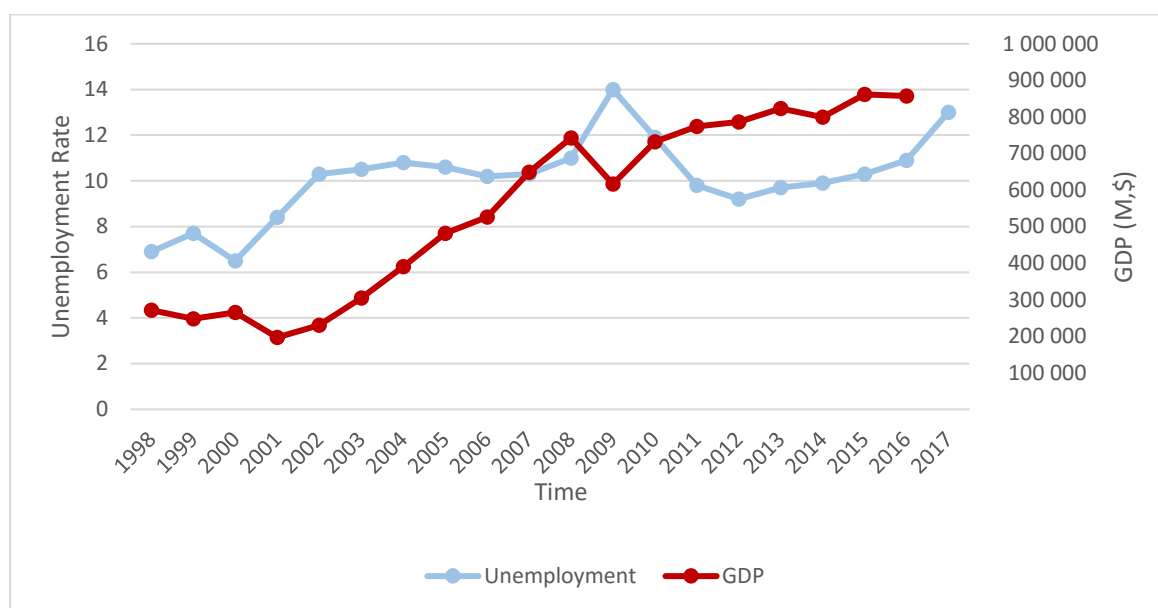
Majority of the participants either partially or totally disagree the question “*I find it necessary to apply privatizations in Turkey*” with 56,90%. Only 5,9% of respondents totally agree with the necessity of privatizations in the country. Since majority of the people who have participated the survey believes in state ownership rather than private sector, it is not a surprise that they do not agree with the necessity, even though privatizations provide plenty of benefits in theory.

Survey Question 8: Privatization Effects on Unemployment

Privatizations have decreased unemployment in Turkey	Answer	Percentage
Totally agree	17	4,8%
Partially agree	56	15,7%
Neither agree nor disagree	70	19,6%
Partially disagree	124	34,7%
Totally disagree	90	25,2%
Total	357	100%

When we analyze the answers of participants for the question if they agree the unemployment reducing effect of privatizations practiced in Turkey, 59,9% of participants either partially or totally disagree. Only 20,5% of respondents think that privatizations in Turkey have created new jobs and lowered unemployment rate. What is remarkable is; 31 of people answered the question regarding the necessity of privatizations as “agree” out of 94, 33%, do not think that privatizations have a mitigating effect on unemployment.

Chart 9: GDP vs. Unemployment, 1998 - 2017



Source: Turkish Statistical Institute

After the financial crisis in 2001 which occurred in the country, the unemployment rates never got back to its level before-crisis level. Especially after 2002, the country experienced a remarkable and seven years of continuous increase in GDP. When we compare this evolution with the unemployment rates during those years, it is obvious that the country was not able to create new jobs even though the GDP was almost doubled. In the long term, average unemployment rate in Turkey is slightly moving between 9,5% and 10,5% bands. As of April 2017, the unemployment level in Turkey reached to 13%, the highest rate experienced since the global financial crisis in 2008, whereas the OECD average is 6,2%.

Besides the actual data on unemployment, the experience of people should also be taken into consideration while analyzing this question. One of the components of preparing a SOE for privatization was reducing the employment numbers in those enterprises which were taken under the privatization scope in order to make it more attractive for sale. The budget separated by the Turkish Privatization Administration for those who lost or will lose their jobs during and after privatizations, proves that the political powers in the country tried to take the social burden of privatizations on their shoulders to minimize the problems faced by the new owner of the enterprise. Many employees of SOEs were displaced from one to another along with the privatizations especially in the early privatization applications. According to data published in 1999 by Türk-İş labor union's research center, a total of 15.219 people was removed from the

privatized establishments after privatization.⁴⁵ The number of dismissed workers constituted a size of 81,7% of the employees before privatization⁴⁶. This situation did not change over the years and employment in privatized enterprises continued shrinking. Between the period 1986 and 2008, employment volume in Turkey has declined by 13.8% due to the negative effect of privatizations. Employment and unionization rates in privatized enterprises decreased 68,2% and 72%, respectively.⁴⁷

In 2009, after the privatization of TEKEL, Turkish tobacco and alcoholic beverages company, the new owner British American Tobacco has terminated the employment contracts of 8.247 workers out of 10.818, 76%,⁴⁸ creating a huge labor movement and one of the most significant protests in the country's history. After long discussions between the government and labor unions, the government offered to change workers' status as 4/C, a temporary working contract type which allows the workers to work 11 months in a year. Neither work or paid leave is allowed and all acquired personal rights are taken away in this employment status. Since then, 4/C status is one of the first things come to people's mind in Turkey since many SOE employees were transferred to this status after privatizations.

Survey Question 9: Privatization Effects on Public Wealth

Privatization applications have increased public wealth	Answer	Percentage
Totally agree	13	3,6%
Partially agree	42	11,8%
Neither agree nor disagree	68	19%
Partially disagree	138	38,7%
Totally disagree	96	26,9%
Total	357	100%

65,60% of the respondents do not agree with the public wealth improving effect of privatizations made in Turkey whereas 3,6% totally and 11,8% partially agree. Since great majority of the respondents have at least university education, it would not be wrong to say that they are aware of the components of public wealth and they considered the areas rather than

⁴⁵ Tumer. E. O. (2004). Türkiye'de Özelleştirmenin Ücret ve İstihdam Üzerindeki Etkisi. Ankara Üniversitesi Sosyal Bilimler Enstitüsü. Master's Thesis.

⁴⁶ Türk-İş Research Center (1999)

⁴⁷ Bulut K. (2008) Özelleştirme Politikalarının İstihdam Boyutu ve Enerji Sektörü. Energy Industry and Mine Public Workers' Union

⁴⁸ "4 Başkan Hükümete Tekel'de Cözüm İçin 3 Ay Süre Verdi" (2010). Hurriyet.

only in economic improvement of the country. As explained before, there is a dramatic decline in democracy, personal freedom, safety and security which all are important parts of public welfare.

3.1.4. Turkey Specific Privatization Concerns

First question of this last section of the survey was measuring the public's trust in privatization applications and how they are being assessed in Turkey. Respondents were asked if they agree that the privatization processes are transparent or not.

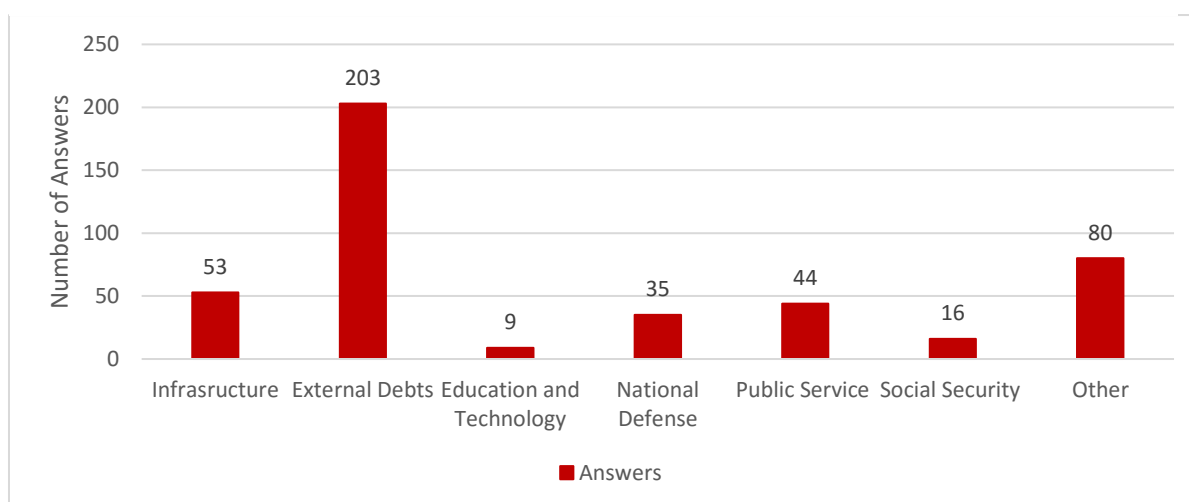
Survey Question 10: Transparency of Privatizations

Privatization applications are made transparently	Answer	Percentage
Totally agree	6	1,7%
Partially agree	14	3,9%
Neither agree nor disagree	41	11,5%
Partially disagree	91	25,5%
Totally disagree	205	57,4%
Total	357	100%

Even though every data regarding privatizations and privatization sales income are being published on governmental webpages as well as special reports of the Turkish Privatization Administration and even tenders were broadcasted on television time to time, majority of the respondents do not agree that privatization applications are transparent in Turkey with a rate of 83%. Out of 296 partially and totally disagree respondents, 191 of them also does not agree that privatization applications are necessary in Turkey.

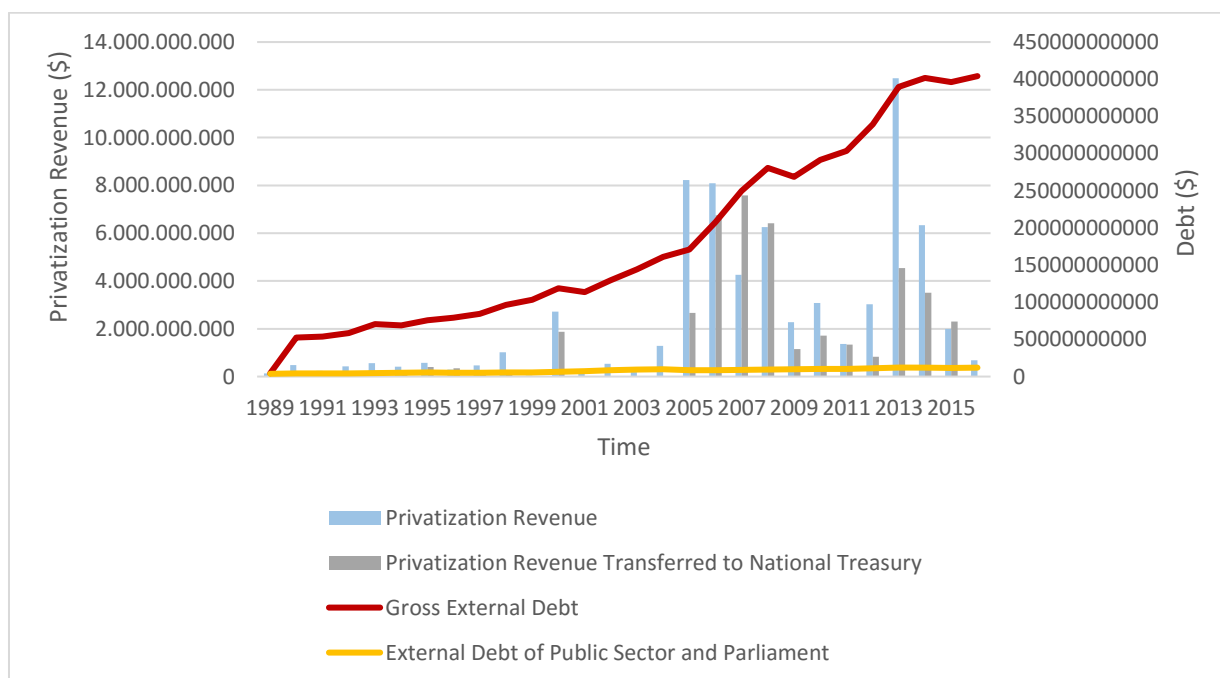
“How do you think that privatization revenues are being spent in Turkey?” was the 14th question of the survey. In this question, respondents were allowed to make multiple markings as well as enter their own idea into other section.

Survey Question 11: Privatization Income Spending



Majority of the responses regarding the areas that privatization revenues are being spent were external debt. As mentioned before, 56% of the total income generated by privatizations were transferred to the national treasury. The rest was mainly used for the pension payments of those who got dismissed after privatization, tender and advisory costs, preparation and restructuring costs of the SOEs who were taken under privatization scope. In other words, investing in the SOEs which were going to be privatized to be able to sell them for higher prices.

Chart 10: External Debt vs. Privatization Revenue in Turkey, 1989 - 2016

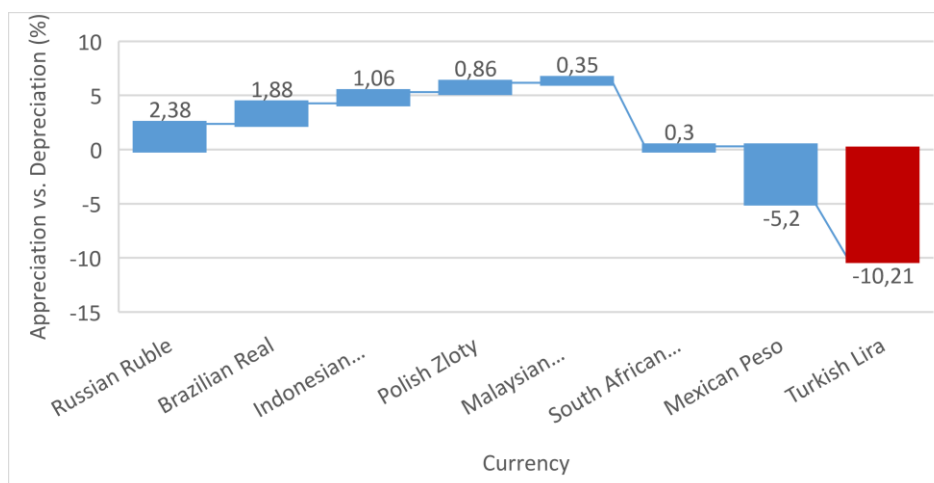


Source: Turkish Statistical Institute

To analyze the performance of Turkey in terms of how the privatization income was valued, considering external debt change over years would be necessary as the primary usage of privatization income is minimizing the existing debt stock. Even though huge privatization revenues were generated through block sales, external debt of the country shows a continues increase over the years. It is obvious that privatization incomes are not solely enough to cover external debt of the country. But for Turkey case, privatization income had no positive effect on lowering the debt burden, even for the public sector.

Another significant topic related to external debt stock of Turkey is the depreciation of Turkish Lira against US Dollar. In 2016, Turkish currency has lost 17% of its value against dollar and since the beginning of 2017, it is the worst performing currency among the other developing country currencies. This situation deepens the external debt trouble of the country since majority of the external debt stock are based on US Dollar value. Several measures were taken by the Turkish Central Bank to stand strong against US Dollar. However, political turmoil and prolonged state of emergency in the country together with extreme pressure imposed on the central bank by the government itself to not to increase interest rates in order to encourage growth, the depreciation of Turkish Lira maintains.

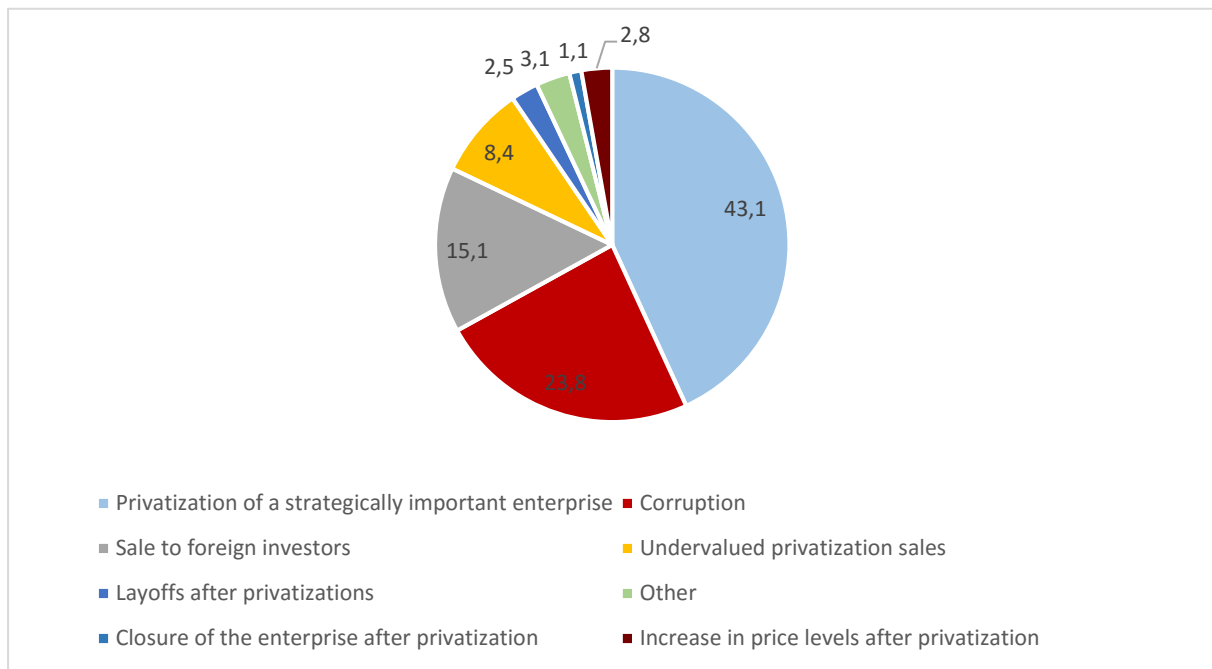
Chart 11: Developing Country's Currency Against the US Dollar, 2017



Source: BBC

There are 80 respondents, who also entered their own ideas regarding where the privatization income is being spent. 100% of the respondents who have marked “other” option entered their interpretations related to corruption and rent-seeking of politicians.

Survey Question 12: Biggest Risk of Privatizations



The biggest fear of the respondents is privatization of a strategically important enterprise with 43,1% answer rate. The reason can be basically the historical reasons: nationalizations of the first years of republic and *etaist* policies which were explained previously may affect people's opinion on privatizations negatively, especially in the areas which they find "strategic". As strategic industries are the growth engines of Turkey in terms of production, a pitfall may cause an aggregate collapse of the other industries.

Corruption concerns come second in the survey with 23,8%, as 83% of the respondents does not agree the transparency of privatizations in Turkey. Along with the 2013's corruption scandal and the arrestment of businessmen after the coup attempt in 2016 have strengthen the perception of corruption. However, corruption is not a brand-new aspect and was almost a part of Turkey's governance system. According to Transparency International, a non-governmental organization in Brussels operating in more than 100 countries in the world and working together with governments, Turkey ranks on the 75th place out of 176 countries on the corruption perceptions index as of 2016. In 2015, the country was on 66th place and in 2014 64th; each year getting more and more corrupted.

Third mostly given answer with 15,1% is sale to foreign investors with 55 responses. 41 people who have picked this option has at least university degree. In today's global world seeing foreign investment as a risk is very specific to Turkey since almost every country in the world

is trying to attract foreign investors as well as Turkey. The effect of historical background and early capitulations given to the foreigners during the Ottoman Empire obviously has still effect on people and their perception of foreign investors.

3.2. Survey Results

Public wealth and country prosperity is the core aim and responsibility of every government in the world. Various economic policies and tools are being used to generate a better life for citizens where they will feel happy and secure with sufficient salary.

As for the other governments in the world, public wealth is the main responsibility of Turkish government which authorities in the country is trying to provide with diverse reforms and policies. Privatization was one of those tools that the governments of Turkey decided to apply for almost 30 years by now to provide economic growth and improved public wealth.

It is correct that the country has generated a remarkable and rapid economic growth beginning from the early 2000s, almost doubling the GDP. However, as we know, GDP itself is not a sufficient indicator to comment about the public wealth. The concept includes very important components as education, democracy, good governance, rule of law, security and so forth.

Even though one of the motivations of privatization in Turkey is to save governments' time and resources for them to focus on the public wealth components mentioned, when analyzing the case for Turkey this does not seem successful from the public's point of view. Moreover, the actual data complies with the survey results.

To summarize the survey results, I would like to focus on two main points:

i. Negative perception of privatizations in the country

Although majority of the respondents were quite young and highly educated, there is a resistance towards privatizations in the country. People neither agree that privatizations are necessary for Turkish economy nor with the potential benefits of privatization i.e. unemployment-reducing effect. Especially for the industries they see as "strategic" 73,4% of participants demand state-ownership instead of private sector. The core of this negative perception can be divided into two mainstream reasons: historical reasons and corruption questions.

As explained in the beginning of the study, unplanned mass privatization of strategic industries and infrastructure along with the capitulations and never-ending loans taken, prepared the

economic downfall of the Ottoman Empire which later led to an entire collapse. Turkey went through an economic transformation period through nationalizations after the collapse of the Ottoman Empire and *etatist* policies played a lead role in economic decisions taken. The industries built by state hand created the fundamentals of Turkish industry and provided very quick development. Today, privatization of those industries is being questioned by the public since people have adverse connotation regarding privatizations.

Second core reason is simply transparency problems. Majority of the respondents does not consider privatizations in Turkey as transparent and thus, there is a great concern regarding corruption and rant seeking during the tender processes. Furthermore, even though all the information regarding privatizations is being published regularly, remarkable number of respondents believe that privatization income is being used for politicians' personal interests.

ii. Privatizations and public wealth

People do not consider privatizations as beneficial for a better public wealth. When they were asked about the biggest problems they see in the country; great majority of them pointed out the most important components of public wealth: Democracy, justice, education and security even though the privatization philosophy of Turkey is mainly based on improving these components.

Chart 12: Prosperity Results of Turkey, 2007 & 2016



Source: The Legatum Prosperity Index

According to the Legatum prosperity index, there is almost no improvement neither in public wealth nor in country prosperity in Turkey. Instead of enhancing and reaching at better levels, the country ranked on 78th place in 2016, whereas it was on 74th 10 years ago.

Unfortunately, Turkey was not successful to take advantage of benefits of privatizations and a more liberal economy in terms of improving the social aspects which provides a better life to people of the country. In an environment where public does feel the lack of democracy, rule of law and security it would be wrong to say that economic improvements serve public interest.

4. Performance Analysis of Privatized Companies in Turkey

Since it has been entered Turkish economic literature, privatizations played a crucial role in transforming Turkey's relatively closed, introvert economy to an open market economy. Besides that, privatizations have provided around \$ 70 Billion income in the last 30 years.⁴⁹

According to the performance report published by The Turkish Privatization Administration in 2015, since 1986 when the first privatization made in the country, 272 public properties, 10301 real estates and immovable properties owned by the state, 10 highways, 2 bridges on the Bosphorus, 7 ports, 42 mine operating licenses and licenses of lottery games have been taken under the scope of privatization. 267 of public properties have been privatized through public offerings and asset sale; in 256 of them no public ownership has left.

When we analyze the incomes generated by privatizations, there is an accelerated increase after the year 2004. Until that date, the biggest privatization income was generated in 2000, right after the 1999 economic crisis, with the block sale of 51% of POAS shares.⁵⁰ From this sale, a total of \$ 1.260 Million was generated. In 2002, rest of the shares were sold on stock exchange market ISE, today's Borsa Istanbul.

Between the years 1986 and 2004 total value of sales reaches \$8.240 Million while the years between 2004 and 2017 as of April is \$ 65.309 Million, showing that privatizations became an inseparable tool of the current government's economic policy since they came into power in November 2002.

Privatization revenues from sales are not the only source of finances which are being collected into privatization fund. The fund is also collecting dividends from the shares that the state still owns in some enterprises, interest income, loans taken from commercial banks and other institutions. As of 2015, the total income of privatization fund reaches to \$ 75.531 Million, where \$ 7.961 Million was generated from other incomes rather than sales made.

The biggest portion of the "other incomes" of privatization fund is being generated through dividend incomes, however, since 2007, there is a continuous decrease in dividend incomes as the government is fully abandoning the ownership it holds. While in 2007 the income made

⁴⁹ Dogan, M.N. (2016). Türkiye'de özelleştirmenin 30 Yılı. The Turkish Privatization Administration, Ankara

⁵⁰ Bal, O. (2013) Özelleştirmenin Teorik Temelleri ve Türkiye'deki Sonuçları. International Conference on Eurasian Economies. p. 355

thanks to collected dividends was \$ 468 Million, however, in 2015 it was only \$ 38 Million, shrinking 91%.

Chart 13: Income Generated Through Privatizations in Turkey, 1986 - 2017



Source: Turkish Privatization Administration

When we analyze how the revenue of privatization fund is being assessed, the biggest portion of the amount is being transferred to the national treasury of the country for covering country debts as determined by the law n. 4046. As of 2015, total amount which was transferred to the treasury is \$ 42.227 Million, 56% of the total income.

\$ 25.260 Million, 33 % of the total privatization fund was used as follows:

- i. capital transfers to the enterprises which are under privatization scope,
- ii. loans to the to the enterprises which are under privatization scope,
- iii. repayment of loans taken from commercial banks and other institutions,
- iv. costs of advertising and tender process,
- v. employment and pension costs for those who lost their jobs after privatizations,
- vi. transfers to the administrative budget.

The biggest reason of privatizations in Turkey was the financial dependency of SOEs which were seen as one of the reasons of economic crises in the country since their operating losses were being covered from national treasury, increasing inflation which even has reached to 110% in 1980. The first enterprises which were taken on “to be privatized” list were the ones founded during the first republic years and worked as a growth engine for the economy providing great success and economic growth considering period’s conditions. Even though privatizations were

made to liberate the state from the financial responsibility of the SOEs, as a result of insufficient investments to those enterprises until they become a part of privatization scope, a total of \$ 8.480 Million was transferred for restoration purposes between the years 1986 and 2015. The biggest capital transfer made to TEKEL, Turkish tobacco and alcoholic beverages producer which was nationalized in 1925, amounting to \$ 2.168 Million.

Finalizing privatization tenders were not easy for the Turkish Privatization Organization most of the time. The decisions were being cancelled by Turkish Council of State for various reasons: mainly sale of companies which are already profitable and not creating any financial burden to the state budget. Other reasons were varying as approval of a sale to a bidder who was not on top of the list in terms of bid price or not holding preferred stocks in industries with strategic importance, namely petroleum and energy.

4.1. Performance of Companies

As mentioned before, The Turkish Privatization Organization explains one of the philosophies of privatization on its official webpage as “*enhancing market economy through ensuring openness and competitiveness, upgrading company performance*”. In this part of the study, performance and profitability comparisons of three companies, before and after their privatizations, take place to analyze the effects of privatization. The time where “block sale” was made is assumed as the separator between before and after privatization.

The companies were chosen based on the top three mostly chosen industries in the survey regarding “strategic industries” as follows:

- i. PETKİM for petroleum industry,
- ii. POAŞ for energy industry,
- iii. ERDEMİR for mine industry.

The method of performance analysis consists of three main parts: Sales performance, gross profit analysis and inventory turnover analysis.

i. Sales Performance Analysis

Sales performance analysis measures the progress in sales volume, both domestic and overseas, over the years. Therefore, it is an important indicator to comment on the positive or negative effects on privatization since the comparison of before and after privatization is made. Complementary parameters like discounts on sales, market

specifics and currency change effects were also included in sales performance analysis in this paper.

ii. Gross Profit Analysis

Gross profit analysis is one of the fundamental analyses considered when determining performance of a company since the results are taken based on the fluctuations in sales prices, sales volume and cost elements.

$$\text{Gross Profit} = \text{Net Sales} - \text{COGS}$$

Where COGS is Cost of Goods Sold

Even though gross profit is a primary measure, it can be misleading since it is a currency value. For a more accurate result, gross margin rate should be taken into consideration. Gross margin rate is a profitability metric, in percentage, which compares the gross profit of a company to its net sales, in other words, how profitable the company is while selling its inventory. Higher gross margin rates connote a better success as the company can sell its products at higher price levels. It is very useful tool for comparing a company's production efficiency over time. The ratio is calculated as:

$$\text{Gross Margin Rate} = \frac{\text{Net Sales} - \text{COGS}}{\text{Net Sales}}$$

iii. Inventory Turnover Analysis

Inventory turnover ratio illustrates how many times a company's inventory being sold and replaced over the time. The ratio can be calculated as sales divided by average inventory, however, for a greater accuracy below formula will be used where cost of goods sold are divided by average inventory since sales include a markup cost which inflates inventory turnover. The higher the inventory turnover ratio, the better the performance is.

$$\text{Inventory Turnover Ratio} = \frac{\text{COGS}}{\text{Average Inventory}}$$

Besides inventory turnover ratio, inventory turnover period, a measure which shows the time period needed for a company to turn its inventory into sales, is also taken into consideration. A shorter inventory turnover period is aimed for better performance results.

$$\text{Inventory Turnover Period} = \frac{365}{\text{Inventory Turnover Ratio}}$$

Apart from the companies' performance and profitability comparisons, current position of the companies will be explained at the end of this chapter since not only performance results but

also market position and company disclosures carry great importance when assessing “success”.

4.1.1. PETKİM Petrokimya Holding A.Ş.

PETKİM, Petkim Petrokimya Holding A.Ş. in Turkish, is a leading company in petrochemical industry in Turkey. The company was founded on April 3rd, 1965 in Yarimca, İzmit based on the decisions taken in the first development plan regarding fostering industrialization in the country. Five years later in 1970, the company established additional plants after petrochemical complex in Yarimca. In 1985, a technologically more advanced complex of the company was founded in Aliaga, İzmir, followed by the third development plan.

4.1.1.1. Privatization Period of PETKİM Petrokimya Holding A.Ş.

As the importance of petrochemical industry and products and products increased in the world, the importance of PETKİM has increased too. The company became a leading producer in the area; producing ethylene, polyethylene, polyvinyl chloride, polypropylene and other chemical components which can be used producing plastics, textiles, various consumer and industrial products. With the product portfolio, which covers over fifty different products, PETKİM is a key raw material producer for Turkish industry. The company is dominating yarn, textile, automotive, pharmaceutical, plastic, packaging, electronic, paint, detergent, cosmetics, and even agriculture industry. When we think about the industries PETKİM is dominating, it would not be wrong to say that owner of PETKİM would be able to control whole Turkish industry. Furthermore, import dependency on petrochemical materials of Turkey makes PETKİM crucial, especially for domestic producers.

The initial decision of privatization of PETKİM was taken based on a similar reason. Export volume of PETKİM has gradually decreased due to the rapid increase in domestic demand for petrochemical products starting from 1985, because of the industrialization efforts in the country. As a result, the company was taken under the scope of privatization program on 28th of May, 1986⁵¹ based on the decision of the Council of Ministers. Apparently, it was thought that when the company is privatized, the production capacity would increase and eventually export levels, thanks to the change in ownership.

Even though the primary motivation of privatization practices in Turkey is the “financial burden of SOEs”, it was not the case for PETKİM. The company was established with a 250 Million TL capital in 1965. In six years, capital has increased to 1,5 Billion TL. Between the years 1976

⁵¹ The Turkish Privatization Administration Official Webpage, PETKİM Petrokimya Holding A.Ş.

and 1983 capital of the company increased to 8 Billion TL, then 40 Billion TL and finally, 100 Billion TL. After being taken under the privatization scope, PETKİM's capital was still showing increase: in 1990 was raised to 2 Trillion TL and 3 Trillion TL in 1991, only in a year. In 1993, production capacities of both complexes in Aliaga, Izmir and Yarimca, Izmit was being increased after expansion and rehabilitation studies. It is important to point out that, PETKİM was still owned by the state while these improvements were being made.

In 2001, the complex in Yarimca, Izmit has been transferred to TUPRAS, back then a state-owned oil refinery company, for \$ 60 Million⁵². It was decided that Yarimca complex has been completed its economic life by The Turkish Privatization.

On 20th of January, 2003 tender process of PETKİM has started for privatization. A chemistry, petroleum and gas company, Standard Chemical Petroleum Natural Gas Industry and Trade Inc. has won the tender however, the tender has been cancelled since the winning company was unable to fulfill the obligations within the time period specified by the Turkish Privatization Administration. Later in August 2003, another tender process has been started, foreseeing 88,86% block sale of PETKİM. After all, there was not enough offers gathered and the tender has been cancelled again in January 2004.

The first privatization of the company was succeeded as a public offering mode with 4,18% in 1990. Fifteen years later in 2005, 34,5 % of company shares were also sold on ISE. The turning point was the year 2007 for the company's ownership, a tender process for the sale of 51% of PETKİM has been started for a block sale. The final negotiations were made open to the public. Socar & Turcas Consortium, Azerbaijani oil company Socar and Turkey's Turcas⁵³, the second highest bidder with \$ 2,04 Billion won the tender and got necessary approval from the Turkish Privatization Administration.

The most significant case about privatization of PETKİM was the annulment decision taken by the Turkish Council of State based on "no public interest" in the sale of PETKİM. The council was justifying its decision by highlighting the increased production capacity and profitability of this a large petrochemical complex adding the great domestic demand for such materials. According to the council, it was not necessary to sell a company which has already declared \$ 55 Million net profit and has \$ 1,2 Billion worth total shareholder's equity. However, the annulment decision has been cancelled later by the 13th chamber of the council and official sale

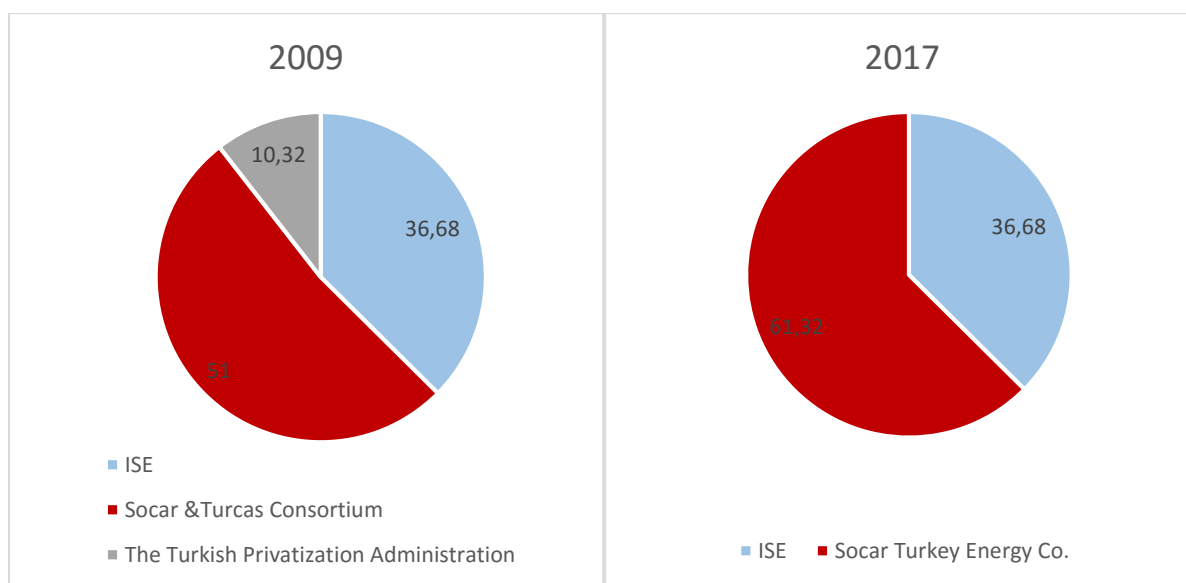
⁵² The Turkish Privatization Administration Official Webpage, PETKİM Petrokimya Holding A.Ş.

⁵³ Watts, M. (2007). Socar-Turcas-Injaz Cleared for 51% Petkim Stake. ICIS Official Webpage

has been made on 30th of May, 2008. Finance minister of the period was declaring that the sale of PETKİM would be start of development of petrochemical industry in Turkey.⁵⁴

In 2011, Turcas Group gave up from consortium and all 51% of PETKİM have been handed over to Socar Turkey Energy Co.⁵⁵ The same year, Turkish Privatization Administration announced the sale of the rest 10,32 % owned by the state and started the tender process. Socar Turkey Energy Co. won the tender once more paying \$ 168,5 Million.

Chart 14: Ownership Structure of PETKİM, 2009 & 2017



Source: The Turkish Privatization Administration Official Webpage & PETKİM Annual Reports

4.1.1.2. Performance Analysis of PETKİM Petrokimya Holding A.Ş.

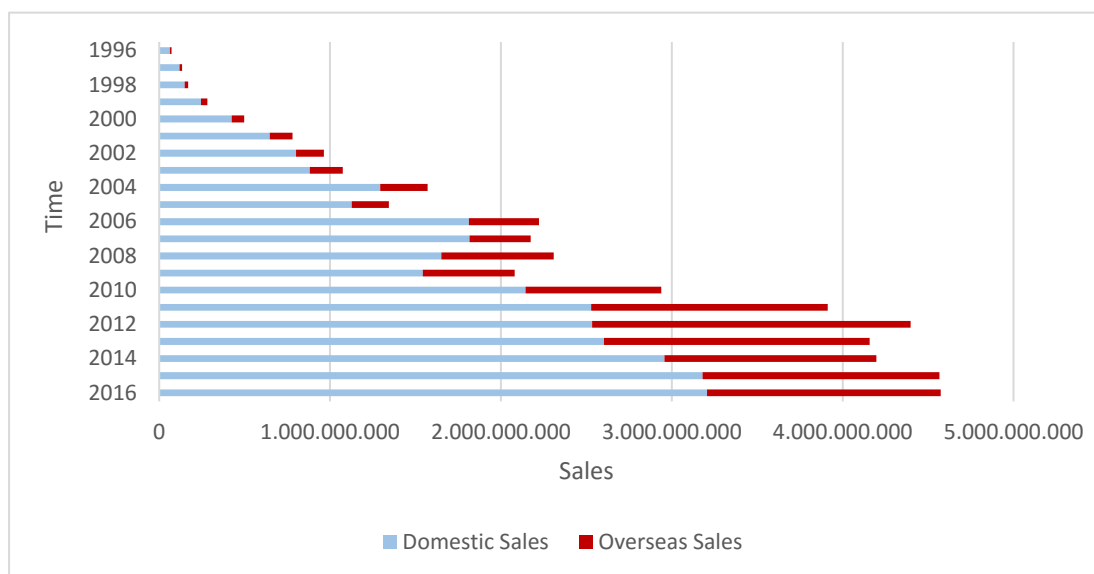
4.1.1.2.1. Sales Analysis

Fundamental foundation reason of PETKİM was to meet the domestic producer's demand. Until its privatization, the company was making almost all its sales to the domestic market. Between the years 1996 until 2008, only 16,90% of the total sales were made to overseas. Since 2008, there is a significant increase in the sales volume in terms of exports. In 8 years after privatization, this rate has almost doubled and reached to 32,56%.

⁵⁴ "Consortium Gets Majority Shares of Turkey's Petkim" (2008). Hurriyet.

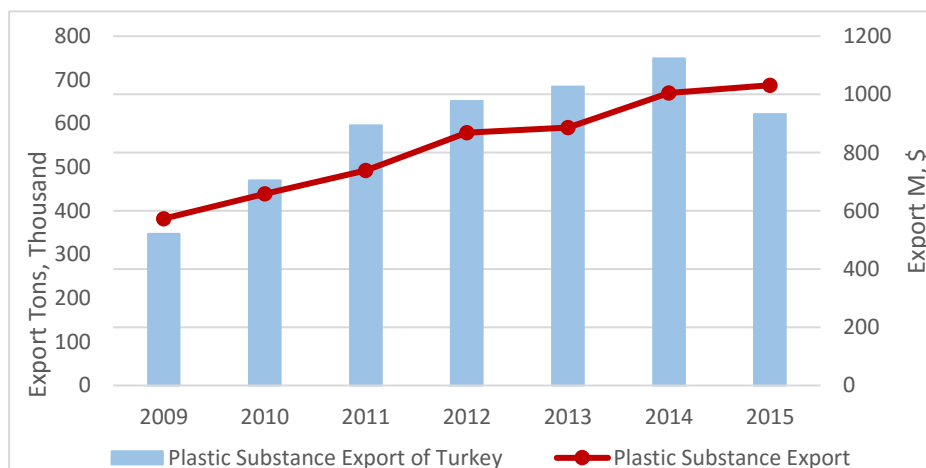
⁵⁵ Petkim Official Webpage

Chart 15: Domestic vs. Overseas Sales (TRY), PETKİM, 1996 -2016



The company was successful to increase not only overseas sales, but also domestic sales after its privatization. Only significant contraction has occurred in 2009, right after the global financial crisis in 2008. In 2010, the company recovered the negative effects of financial crisis and continued increasing its domestic sales.

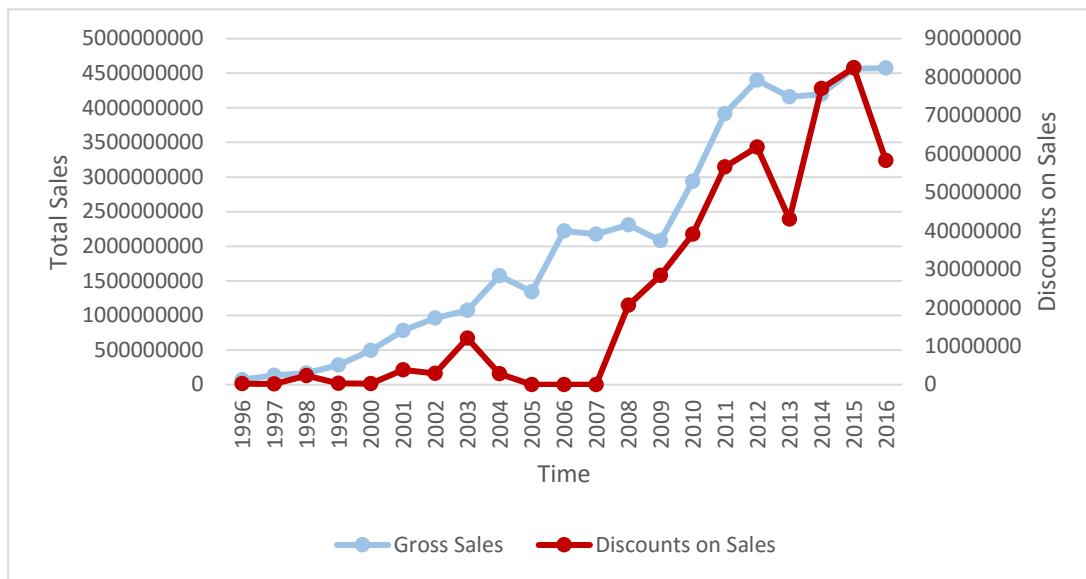
Chart 16: Plastic Substance Export of Turkey, 2009 - 2015



Source: Turkish Statistical Institute

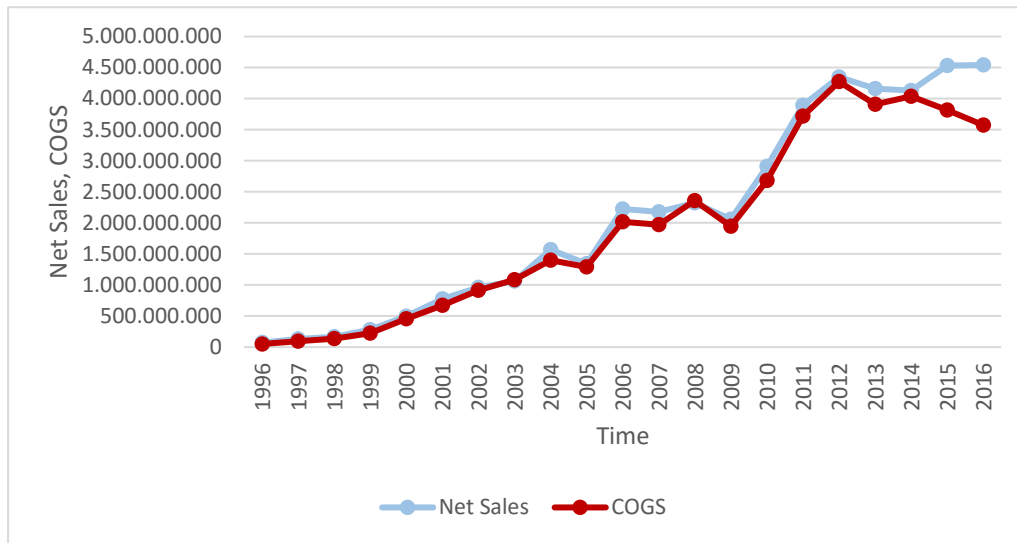
When we analyze the overall country position in terms of plastic substances export sales, an increasing trend has been succeeded in terms of tons. Between the years 2011 and 2014 the annual combined growth rate of plastic raw material exports has increased by 7.93%. However, even though the exported quantity has slightly increased to 687 tons in 2015, due to the currency depreciation in Turkish Lira the overall export sales amount has declined.

Chart 17: Total Sales vs. Discounts on Sales (TRY), PETKİM, 1996 - 2016



Especially after its privatization, there is a continuous increase in the discounts given to the customers. Between the years 2005 and 2008, before privatization, the company was able to increase total sales without any discounts which is pointing out its strong market position. After being privatized, discounts on sales were given in an increase trend, which is contributing to generate higher total sales amount. In 2013, when there is a 30% decline in the discounts, we can see the negative effect it has created on the total sales amount. Starting from 2013, the company has applied an increased discount policy which created a positive impact for the years they have been applied. The increase in the sales figures was achieved by increasing the amount of discounts made. Another sharp decline occurred in 2016, however thanks to the pushing effect of US dollar currency, the negative affect on total sales amount is lower than what it was in 2013.

Chart 18: Net Sales vs. COGS (TRY), PETKİM, 1996 - 2016



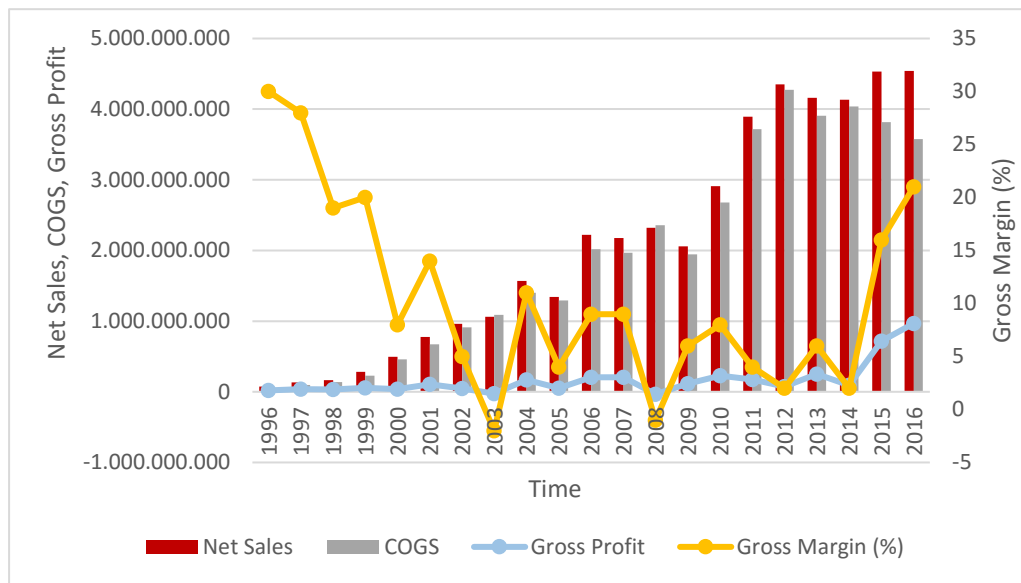
In general, sales after discounts, in other words, net sales and cost of goods sold amounts are changing in the same trend both before and after PETKİM's privatization. The greatest fracture can be seen in the year 2014 with the dropped cost of goods sold amount. The reason of this decline is the fall of crude oil prices which is significantly lowering the raw material costs the company bears. Moreover, reduction in natural gas prices also provide a positive contribution in reducing production costs.

Both before and after privatization, PETKİM was showing a consistent development in sales amounts. Especially after its privatization, increase in net sales showed an incremental acceleration. However, the company was unable to lower its costs until the downturn in oil prices.

4.1.1.2.2. Gross Profit Analysis

Gross profit of PETKİM has not showed a stable increase neither before nor after its privatization. When we ignore the financial crises, both occurred in Turkey and global scale, maximum gross profits that the company has reached are at the similar levels until the year 2015, even though the sales volumes have significantly expanded after the privatization.

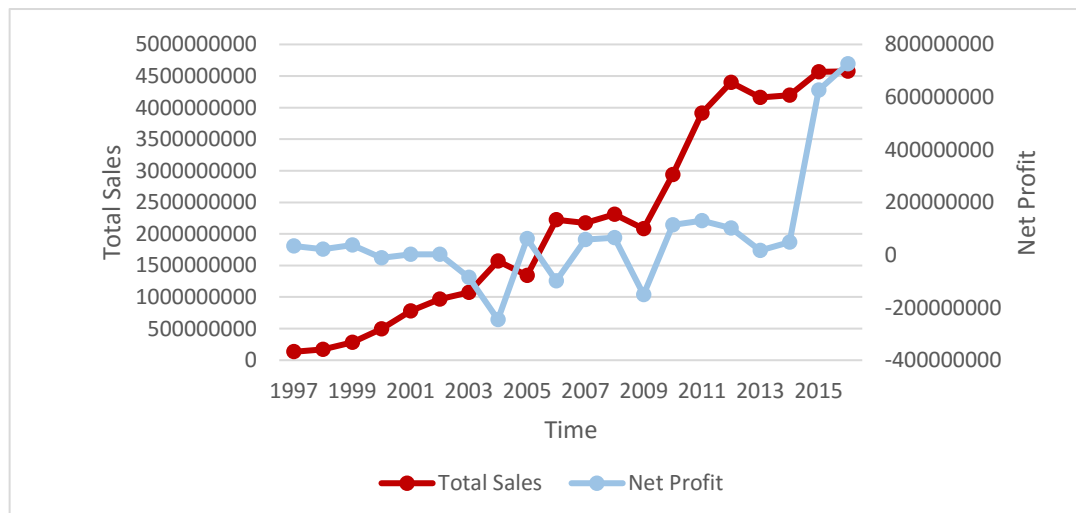
Chart 19: Gross Margin Rate (TRY), PETKİM, 1996 – 2016



When we look at the gross margin rates before and after privatization, it is seen that average gross margin rate before privatization of the company is higher than the after-privatization average. Even though the sales have increased tremendously, lack of reduced costs did not allow the company to reach higher gross margin rates experienced in the past. Only after 2014, a sharp increase is seen thanks to lower cost of goods sold.

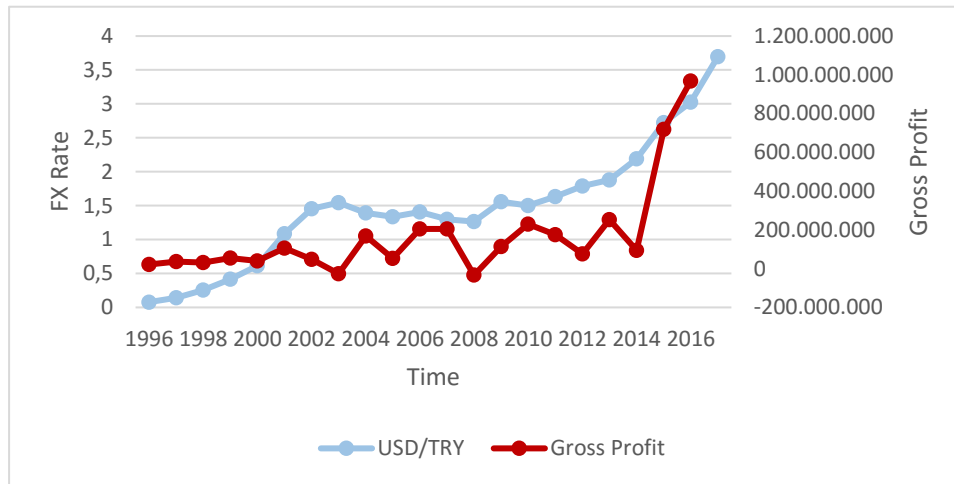
Same situation is valid for the gross profit levels over the years. The company has reached the similar and quite close gross profit amounts before and after its privatization. Thanks to the reduction in production costs after 2014, the company could achieve a higher level of gross profits in 2015 and 2016.

Chart 20: Total Sales vs. Net Profit (TRY), PETKİM, 1997 – 2016



When we analyze the total sales and net profit results which are declared by the company, it is noticeable that with way lower total sales results, the company could achieve the same level of net profits in the past. Ownership change had almost no effect in net profits of the company until 2015. The greatest reason of this behavior arises from the increased production costs of the company over the years, especially on the raw material purchases.

Chart 21: USD/TRY FX Rate Change vs. Gross Profit (TRY), PETKİM, 1996 – 2017

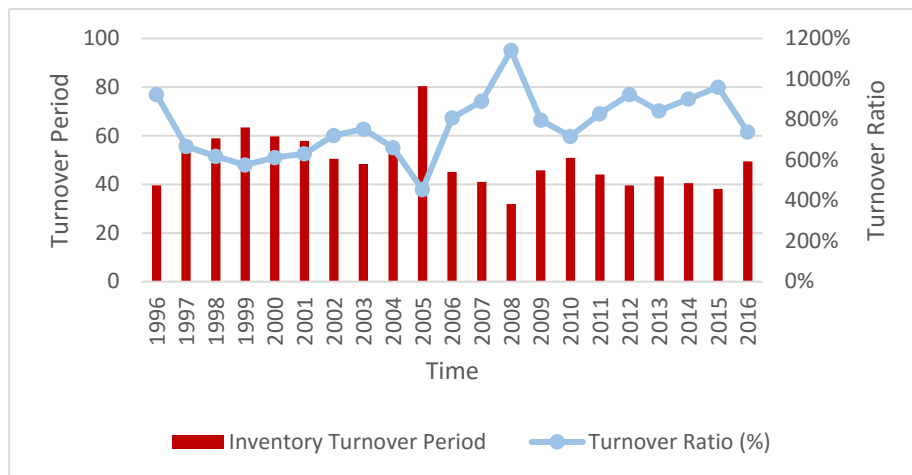


PETKİM is a company which is making all its sales in-US dollar currency as well as raw material purchases. Thus, the volatilities in dollar directly affecting the financial results of the company since the financial declarations must be made in Turkish lira in Turkey. When we look at the USD/TRY rate change and gross profit chart without considering financial crisis terms, 2001 and 2008, the effect of FX rate can be easily seen by the time US dollar has started its sharp appreciation over Turkish lira since 2014. Even though depreciation of Turkish Lira has a negative effect on purchasing raw materials for the company, it also had a positive return since the sales are made in US dollar. Along with the contraction in oil prices, PETKİM was able to compensate the negative effects and achieve higher gross profit in 2015 and 2016.

4.1.1.2.3. Inventory Turnover Analysis

In terms of inventory analysis, it is noticeable that the company showed a better performance both in the turnover ratio and turnover period compared to the past. Before 2008, while the average turnover period was 55 days, after privatization the company showed a performance improvement by decreasing it to 43 days, with higher turnover ratios, showing that the company has increased its sales volume.

Chart 22: Inventory Turnover Period & Turnover Ratio, PETKİM, 1996 – 2016



When we compare net sales and inventory turnover ratio of PETKİM, the company has a lower turnover ratio even though the net sales amounts are the same with 2015 data. The reason of this inconsistency comes from the depreciation in TRY, especially after the first half of 2016. Thanks to the severe depreciation, the company was able to reach the same level of net sales with lower products sold.

Chart 23: Inventory Turnover Ratio vs. Net Sales (TRY), PETKİM, 1996 – 2016



4.1.1.3. Post-Privatization Period of PETKİM Petrokimya Holding A.Ş.

After being privatized, PETKİM has continued its leadership in the petroleum substances production sector. However, not every news from PETKİM was positive. In 2013, the company was sentenced to a tax penalty amounting \$ 11 Million regarding the export declarations of

2008, 2009, 2010, 2011 and 2012.⁵⁶ A year later, based on the objections of the company, the tax authority has removed the penalty. Even though the penalty was cancelled, PETKİM had experienced a reputation loss during the objection process.

Another reputation damage was taken after the military coup attempt, believed to have been organized by a terrorist organization called as FETO, occurred in June 2016 in Turkey. Including the former general manager of the company, who resigned right after the coup attempt, 13 senior executives were arrested as “members of a terrorist organization”.⁵⁷ In this process, three operations were carried out by the police at PETKİM facilities.

4.1.2. Petrol Ofisi A.Ş.

POAŞ, Petrol Ofisi A.Ş. was established on 18th of February, 1941. It was founded by the state as a SOE for importation, stocking, distribution and refinery of petroleum products. Later, the company had increased the area it is operating in and became a leader in fuel products distribution, mineral oil and lubricants production, air and marine fuel supply services.

After more than a half century being established, the company is one of the largest companies in Turkey. Today POAŞ is operating 1,709 filling stations, 1 lubricants plant, 10 fuel and 4 LPG terminals, 20 aviation units and approximately 1.1 million m³ storage capacity⁵⁸. The company has the biggest market share with 23% and the largest retail sales network. As of 2016, POAŞ is the third biggest company in Turkey according to Fortune 500.⁵⁹

4.1.2.1. Privatization Period of Petrol Ofisi A.Ş.

The privatization story of POAŞ has started in 1990 when the Prime Ministry Public Procurement Administration listed the company under privatization scope. Initially in 1991, 6.7 % of the company shares were sold through public offering. In 1998, a privatization tender has been announced for 51% block sale of the company. The tender has been started on 29th of June 1998 and broadcast on TV to the public to increase the “transparency” as there were so many opponents of this privatization.

The highest amount was given by the Akmaya-Orteks Joint Venture Group as \$ 1,160 Million. However, instead of Akmaya - Orteks Joint Venture Group, the Turkish Privatization Organization, the Privatization High Council approved the POAŞ contract with the third-ranked

⁵⁶ “Petkim'e 19.2 milyon TL ceza” (2013). Aljazeera.

⁵⁷ “Former general manager of Turkey's Petkim arrested” (2016). Azernews.

⁵⁸ OMV Petrol Ofisi Official Webpage “History”

⁵⁹ Fortune 500 Turkey (2016)

İşbank - Bayındır Holding - Park Holding - PÜAŞ Joint Venture Group. Petroleum worker's union found the sale "unacceptable" and legal process has been started in order to stop the sale. Ankara 6th Administrative Court has cancelled the execution in consensus. Sale to the third ranked bidder instead of the first one was found contrary to the privatization principles as well as constitution by the court.

Two years after the cancellation decision of the first tender, the Turkish Privatization Administration have announced a new tender and in 2000, the 51% block sale of POAŞ has been approved by the Turkish Privatization Administration to a joint venture company, İş - Doğan Petroleum Investments Inc.⁶⁰ for \$ 1,26 Billion. It was a consortium founded by İş Bank and Doğan Group of Companies Holding Inc. The net profit of the company from the previous period of the sale was recorded around \$ 166 Million, being one of the most profitable SOEs with 5,796 stations.⁶¹

In March 2002, the Turkish Privatization Organization sold 16,5% of the state-owned shares via public offering increasing free float to 23,2%. Later that year, based on the resolution of the Privatization High Council, an additional 25,8%⁶² of the shares in the Privatization Administration's portfolio were sold to İş - Doğan Petroleum Investments Inc. on the ISE wholesale market without a tender process. It was agreed that the payment was going to be made with several installments. İş - Doğan Petroleum Investments Inc. showed the shares of POAŞ which they were buying as a "collateral" to the Privatization Administration. When the sale was completed on 8th of August 2002, İş - Doğan Petroleum Investments Inc.'s share has increased to 76,8%. The company paid back the one-third of the total amount and postponed the rest to 2007. Moreover, they have not informed the ISE about the postponement⁶³. This has created a great public reaction when it was found out. POAŞ shares lost 76 % value in eight-month period from January to August 2002.

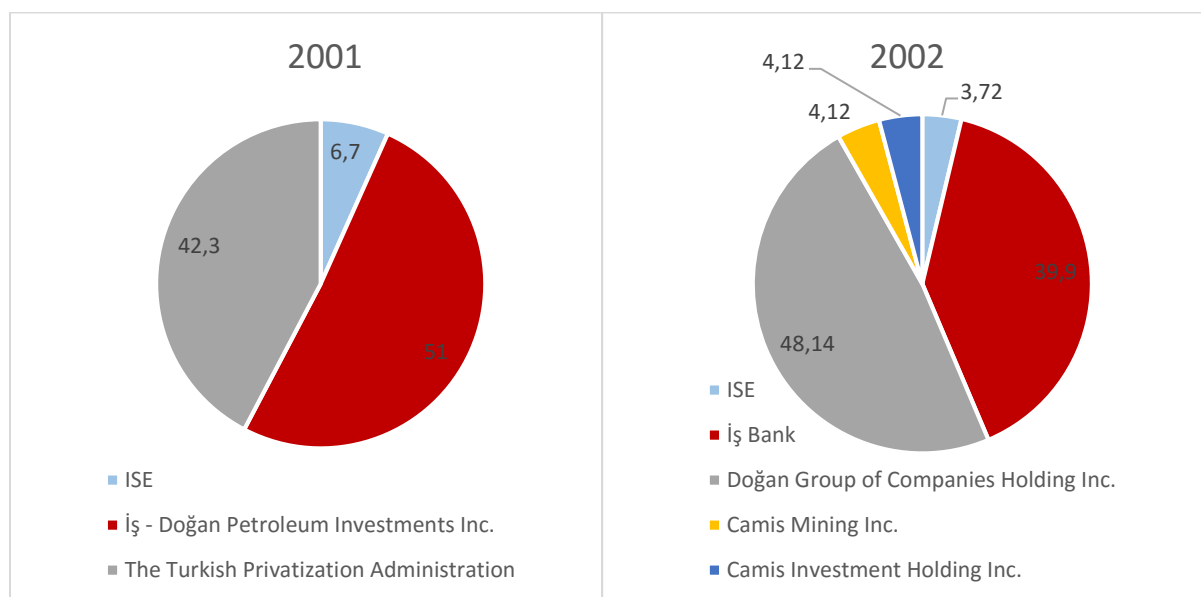
⁶⁰ The Turkish Privatization Administration Official Webpage, POAŞ - PETROL OFİSİ A.Ş.

⁶¹ "Bir Özelleştirme Hikayesi: POAŞ" (2002). Hurriyet.

⁶² POAS Annual Report (2002)

⁶³ Mollaveisoğlu, T. (2003). POAŞ Gerceği. Petrol İş Sendikası.

Chart 24: Ownership Structure of POAŞ, 2001 & 2002



Source: The Turkish Privatization Administration Official Webpage & POAŞ Annual Reports

In October, 2002 an information meeting was held in London regarding the merger of POAŞ and İş - Doğan Petroleum Investments Inc. for the investors and public regarding the possible outcomes and legalities after. At the end of the meeting, it was decided that POAŞ shares be collected from the market upon notice to shareholders.⁶⁴ After the transactions, total share of İş - Doğan Petroleum Investments Inc. has reached to 96,3%. At the Extraordinary General Assembly of POAŞ held on 27th of December 2002, the decision of merger was finalized and İş - Doğan Petroleum Investments Inc. has been transferred to POAŞ with all its assets and liabilities.

In 2005, İş Bank sold the shares it holds to Doğan Group of Companies Holding Inc. A year later in 2006, an international Austrian oil and gas company OMV, headquartered in Vienna bought 34 % of POAŞ shares by paying \$ 1,054 Billion. At the end of 2010, OMV purchased the remaining shares of Doğan Group of Companies Holding Inc. paying \$ 1 Billion. After the transaction, the shares of OMV reached to 95,75%.

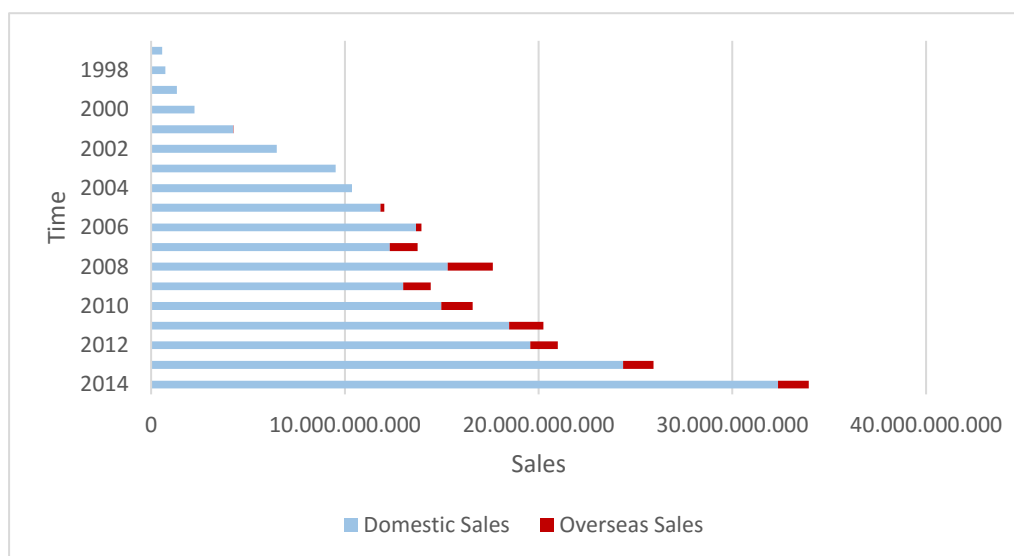
⁶⁴ POAŞ Annual Report (2002)

4.1.2.2. Performance Analysis of Petrol Ofisi A.Ş.

4.1.2.2.1. Sales Analysis

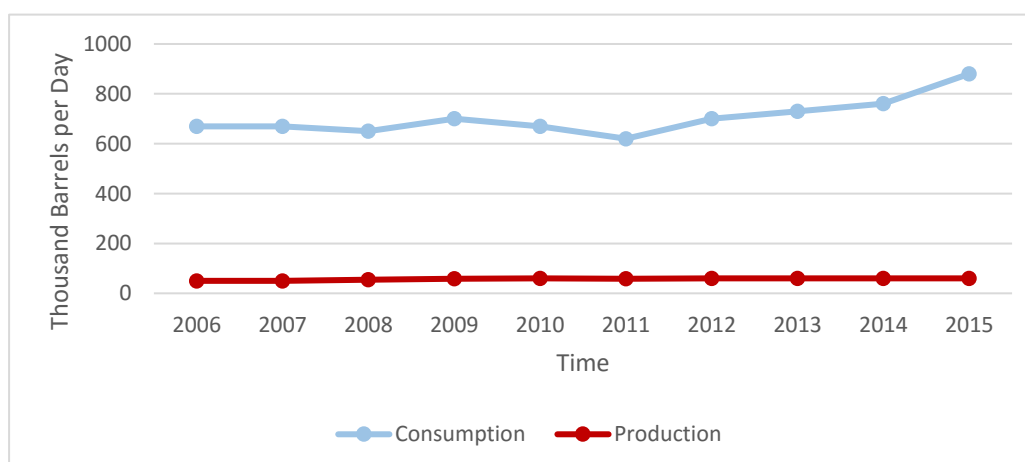
Majority of the sales the company make is to domestic market, only 6% of the total sales made to overseas between the years 1997 and 2014. Especially before its privatization in 2002, the company was only serving to the home country. This situation was expected since the establishment reason to meet the domestic demand. Even though the amount is quite small compare to domestic sales, the company has also started exports.

Chart 25: Domestic vs. Overseas Sales (TRY), POAŞ, 1997 -2014



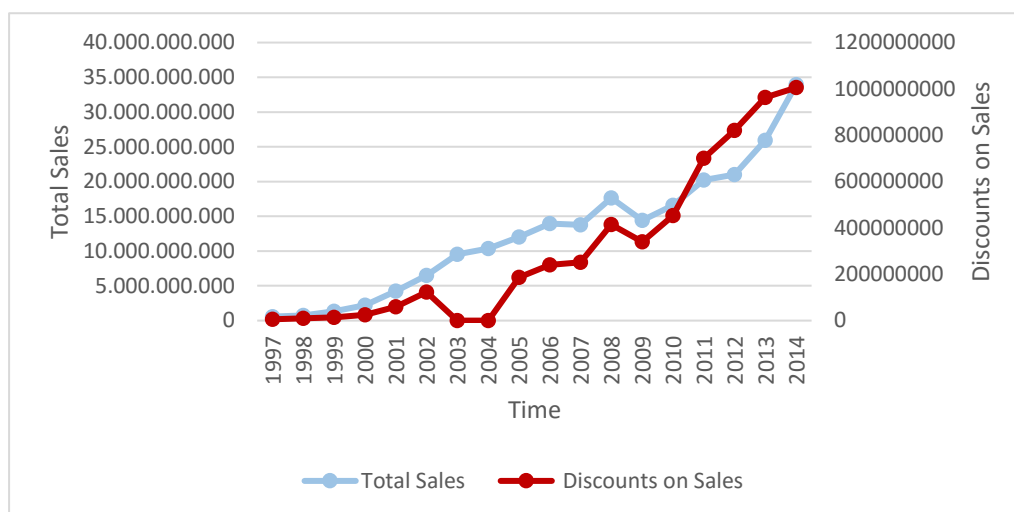
POAŞ showed a great success regarding continuous sales volume increase over the years. Only decline experienced was in 2009, after the global financial crisis. For a country like Turkey, which heavily depend on energy import, increased production of POAŞ is quite valuable.

Chart 26: Petroleum and Other Liquids Consumption and Production of Turkey, 2006 - 2015



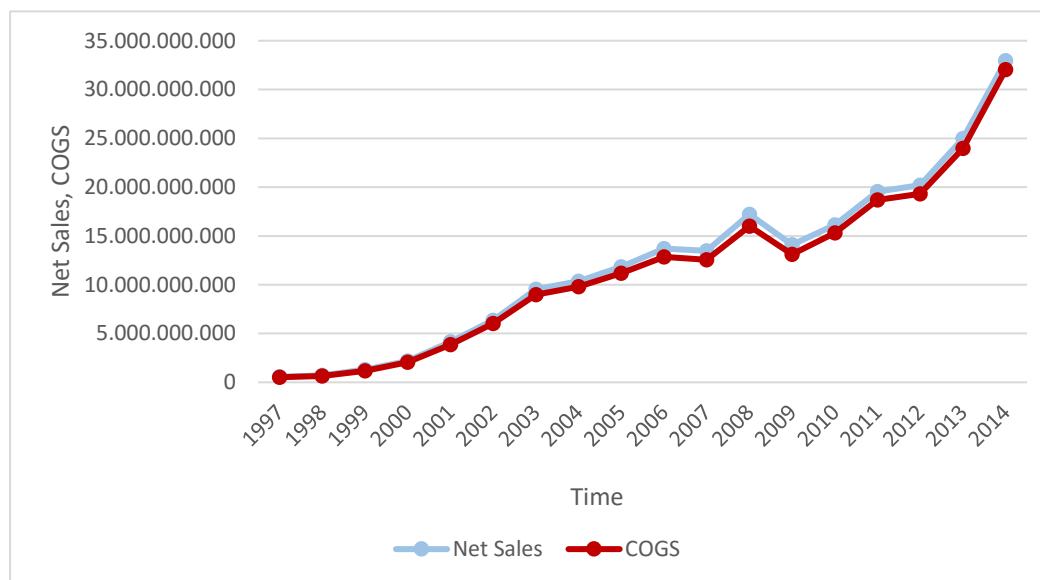
Source: U.S. Energy Information Administration, Turkey Country Analysis

Chart 27: Total Sales vs. Discounts on Sales (TRY), POAŞ, 1997 -2014



When it comes to discounts on sales given, an increasing trend over the years can be seen. Especially after the year 2004, there is an accelerated movement except the global financial crisis period. Starting from the year 2011, while sales are showing a declining growth, discounts are boosting. Expanded discounts provided higher sales rates to the company.

Chart 28: Net Sales vs. COGS (TRY), POAŞ, 1997 – 2014



Both before and after privatization, POAŞ was showing a consistent development in sales amounts. Especially after its privatization, increase in net sales showed an incremental acceleration. Net sales made and cost of goods sold amounts are changing in the same trend both before and after POAŞ's privatization. The company was not able to reduce its costs; therefore, margin is quite close to each other over the years. Increasing trend of net sales can

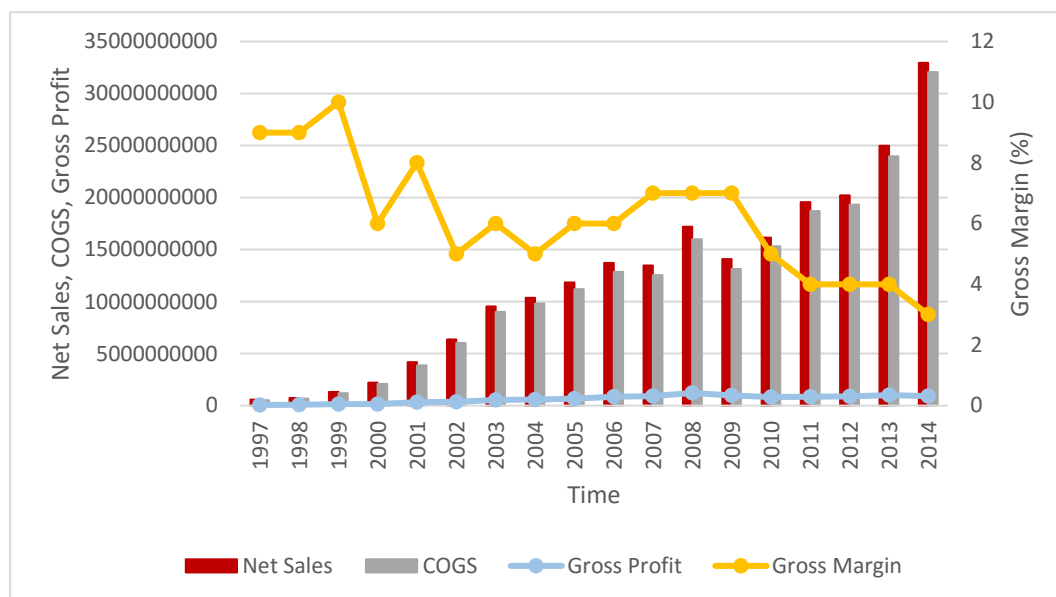
be seen after the year 2009 with an accelerated net sales amount. Even though the company was able to have difference between its net sales and cost of goods sold until 2012, since 2012 the gap between those two parameters was closed, showing low gross profit.

4.1.2.2.2. Gross Profit Analysis

When we look at the gross margin rates before and after privatization, it is seen that a continuous decline occurred in gross margin rate over the years. Even though the company was able to increase its sales volume tremendously, costs of the sales were increasing as well. The average gross margin rate before the privatization is 7,8% whereas after privatization this rate falls to 5,3%.

Same situation is valid for the gross profit levels over the years. The company has reached the similar gross profit amounts before and after its privatization. However, since 2008, the gross profit line shows a downward movement meaning lower levels of profit.

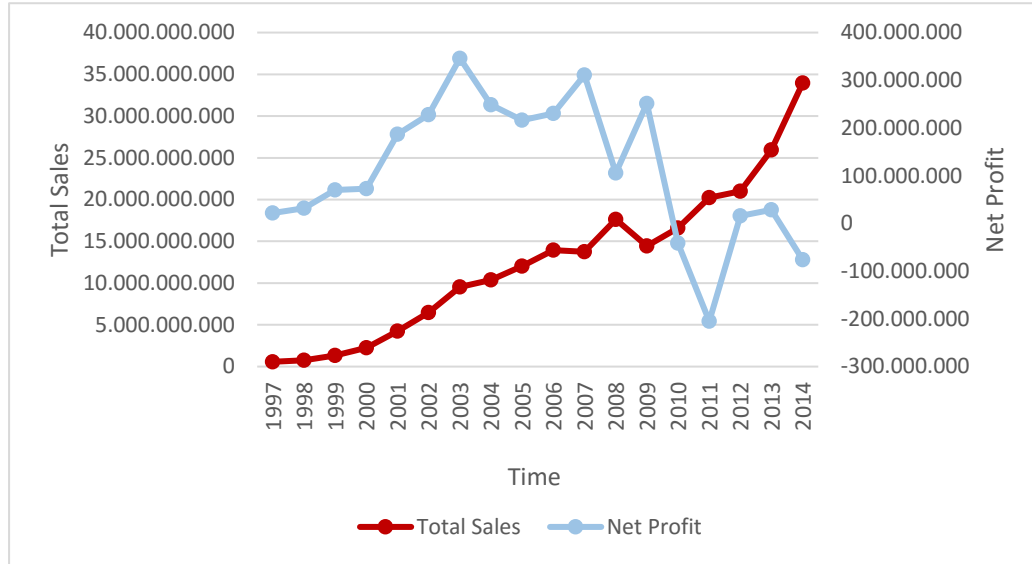
Chart 29: Gross Margin Rate (TRY), POAŞ, 1997 – 2014



When we analyze the total sales and net profit results declared by POAŞ before its privatization in 2002, there is a correlation between total sales and net profits of the company. However, after its privatization net profit has showed a volatile behavior even though continuous increase in total sales. The greatest reason of this behavior arises from the increased production costs of the company over the years, especially on the raw material purchases since they are made in US dollar currency. The dramatic decline in net profit in 2011 occurred due to the sharp increase

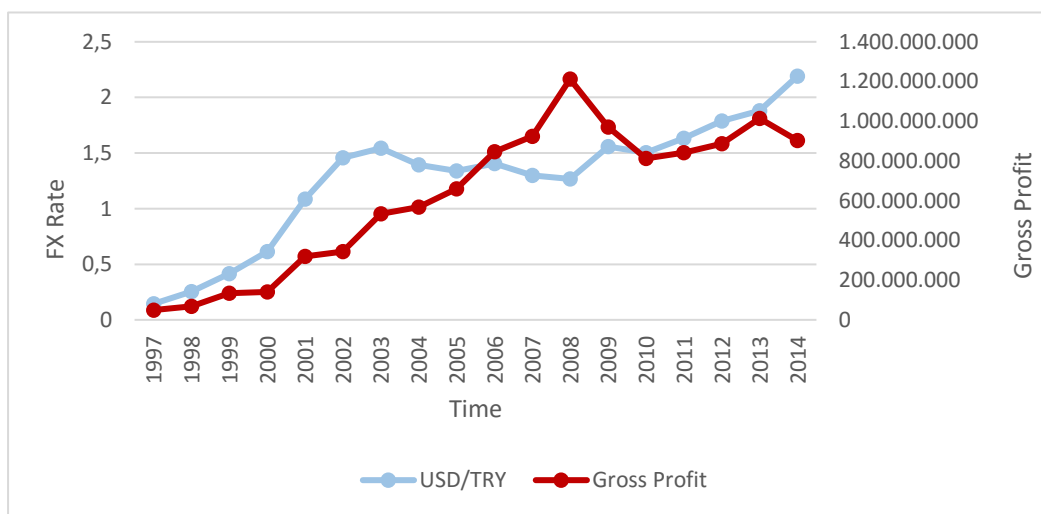
in petroleum prices from \$ 92 to beyond \$ 116⁶⁵ per barrel along with the political turmoil in Middle East which have created shocks in oil market.

Chart 30: Total Sales vs. Net Profit (TRY), POAŞ, 1997 – 2014



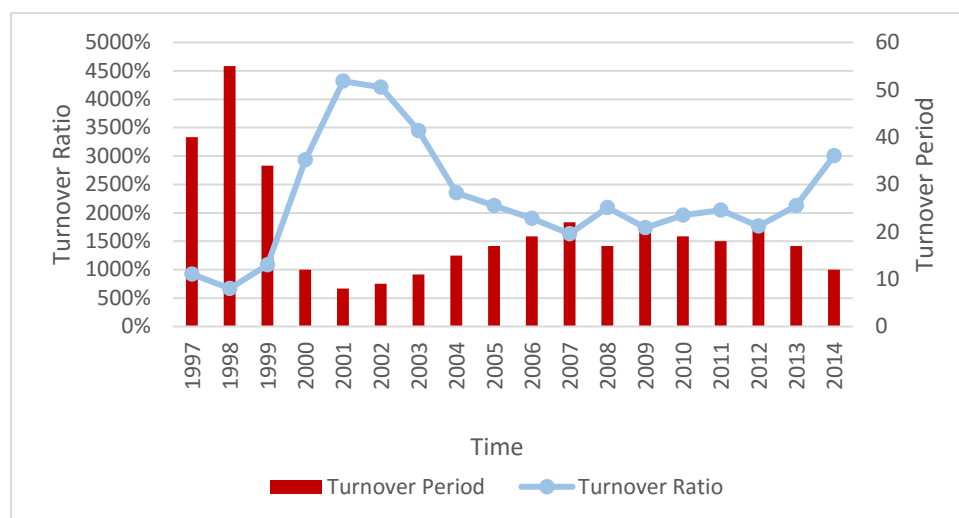
The effect of FX rate can be seen better when analyzing the years where sharp movements occurred in the currency. In 2008, where Turkish lira has appreciated against US dollar, gross profit of the company picks. In the same way, where US dollar has started its appreciation against Turkish lira since 2014, gross profit of the company goes down due to increased raw material costs.

Chart 31: USD/TRY FX Rate Change vs. Gross Profit (TRY), POAŞ, 1997 – 2014



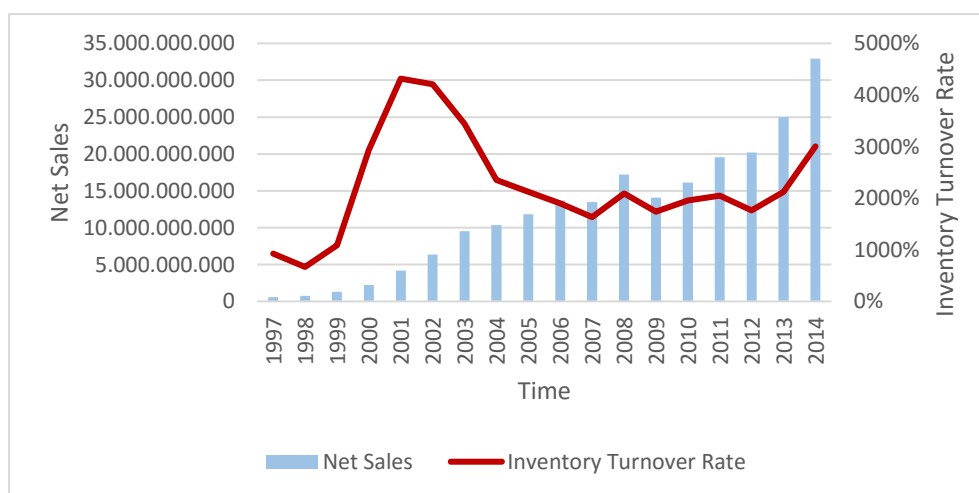
⁶⁵ "Petrol Ofisi'nden 101.8 Milyon TL Zarar" (2011). CNN Turk.

Chart 32: Inventory Turnover Period & Turnover Ratio, POAŞ, 1997 – 2014



Inventory analysis of the company shows similar levels after 2003 compared to before privatization terms. Average turnover period before privatization was 26 days whereas after privatization it fell to 17 days. When we look at the chart, the years 1997, 1998 and 1999 get our attention due to quite high turnover periods compared to following years which may have been caused due to overstocking or problems in the production line. In 2000, low turnover ratio trouble has been solved and company succeed selling its inventory at a faster rate.

Chart 33: Inventory Turnover Ratio vs. Net Sales (TRY), POAŞ, 1997 – 2014



When we compare net sales and inventory turnover ratio of POAŞ, the decrease in the inventory turnover rate is noticeable that after the privatization in 2002, even though the sales are higher compared to the past. In 2014, where the company reaches its highest-sales level inventory

turnover ratio is also increasing. The reason of this inconsistency comes from the decline in oil prices which causing lower cost of goods sold.

4.1.2.3. Post-Privatization Period of Petrol Ofisi A.Ş.

Privatization of POAŞ has a very important place in the Turkish privatization history in terms of the method used. İş - Doğan Petroleum Investments Inc. collected the whole amount from the domestic banks as a loan in order to make all the payment at once to the Turkish Privatization Administration. What was controversial and questioned was that the company was showing POAŞ's stocks and dividend payments as a guarantee in case of a failure to pay back.⁶⁶ This was perceived as an attempt that the new owners would not pay any money and POAŞ would pay for itself. As a result, the credits taken from the banks had a negative effect on the company. The state suffered a tax loss and the investors' dividends were not paid due to the damages. Moreover, the state undertook a great risk since the stock values highly depend on the market conditions as well as volatilities.

Another controversial case regarding privatization of POAŞ was the cancellation of preferred stocks in 2002 with a surprising decision of the Turkish Privatization Administration, even though the institution was not authorized. Based on the legal grounds, Turkish state had right to keep preferred shares for five years long in the fields which defined as “strategically important”, where the sale is greater than 49%. However, no measures were taken by any governmental institution. This case later took a part in the Parliamentary Corruption Research Report which was prepared in 2003, since an unfair competition arouse between the companies which initially entered the tender process.

In January 2016, the CEO of OMV Rainer Seele has announced a total sale of POAŞ due to the declines in profitability and not sustainable situation in the country. On March, 2017 OMV agreed to sell POAŞ to Swiss-based commodities company Vitol for \$ 1,45 Billion.⁶⁷

4.1.3. Ereğli Demir ve Çelik Fabrikaları T.A.Ş.

Ereğli Demir ve Çelik Fabrikaları T.A.Ş., shortly ERDEMİR, the first flat steel production plant of Turkey, was founded as a SOE by Turkish state in 1960. The foundation was a necessity for the country due to the accelerated industrialization and urbanization process as well as it was a part of the development plans. There was an increased domestic demand for the flat steel products in various sectors. Establishing a facility which would meet the need of domestic

⁶⁶ Mollaveisoğlu, T. (2003). POAŞ Gerceği. Petrol İş Sendikası.

⁶⁷ “OMV Agrees to Sell Turkish Unit Petrol Ofisi to Vitol for \$1.45 Billion” (2017). Daily Mail.

producers was inevitable in order to achieve self-sufficiency by removing the external dependency in meeting the iron and steel demands, basic raw materials of the country's industry.

Five years after the foundation decision, the company has started production finally in 1965 in Ereğli, Zonguldak with a half million-ton crude steel capacity. In ten years, the production capacity reached to the level of 1,5 million tons. In 1983, this level was carried to 1,7 million tons. Today, ERDEMİR is the largest iron and steel producer in Turkey with 9,1 million tons of liquid steel, 8,6 million tons of hot rolled flat steel and 2,5 million tons of long steel product capacity per year. The company has two ports its own for facilitation of exports. As of 2015, the company is the 15th biggest company in Turkey⁶⁸ and 43rd biggest steel producer in the world⁶⁹. Moreover, the company is generating huge employment for people of the region; every family in Ereğli has connection with ERDEMİR.

4.1.3.1. Privatization Period of Ereğli Demir ve Çelik Fabrikaları T.A.Ş.

ERDEMİR has a very important place in Turkish privatization history by being the first company which was privatized through public offering in 1986. Until 2005, when the company taken under the privatization scope for block sale, ERDEMİR has scored so many successes. Investments and technological developments made, carried the company at a remarkable level of production. In 2001, the company has exported 1,1 million-ton steel products to the world, breaking an export record. In 2004, ERDEMİR was awarded by the European Quality Award for “Competency in Excellence” and “Success Award” in National Quality Award among large scale companies category.⁷⁰

Although ERDEMİR was one of the most profitable and successful companies in Turkey at that time, the tender process for 46,12% block sale has started on 24th of May, 2005. After all the bids collected from various potential future owners, the sale decision has been made for the benefit of OYAK with \$ 2,770 Billion, a complementary occupational pension fund company with 28 subsidiaries operating in the financial, industrial and service sectors. Besides the shares held by the Turkish Privatization Administration, the company was also purchasing the shares of Development Bank of Turkey amounting 3,17% of total \$ 190 Million.

On 27th of February, 2006 sales contract has been signed between the Turkish Privatization Administration and OYAK Group. However, soon after the final signatures, Council of State's

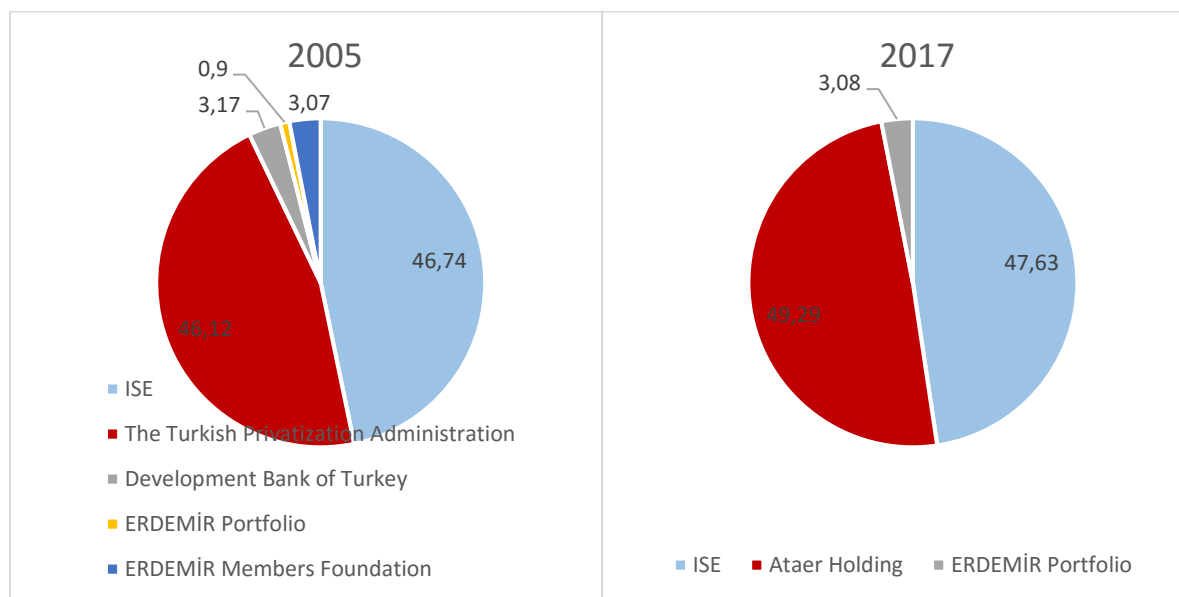
⁶⁸ Fortune 500 Turkey (2016)

⁶⁹ Top Steel-producing Companies (2015) World Steel Official Webpage

⁷⁰ ERDEMİR Official webpage

13th Chamber has cancelled the sale in June 2006 because of the lawsuit filed by the Chamber of Mechanical Engineers in Turkey. The chamber was pointing out the strategic importance and foundation reason of ERDEMİR, which was meeting the needs of domestic producers, and objecting the profit oriented argumentation of the Privatization Administration since ERDEMİR's net profit of the previous fiscal year was almost one-third of the total sale price. Chamber was criticizing the administration for selling a valuable SOE for only 3 years of profit.

Chart 34: Ownership Structure of ERDEMİR, 2001 & 2017



Source: The Turkish Privatization Administration Official Webpage & ERDEMİR Annual Reports

Following the cancellation decision of Council of State, sale decision of ERDEMİR was reviewed at the Turkish Competition Authority on 15th of September, 2006. The authority found no inconvenience in permitting the transfer process of the company. After finalizing the privatization OYAK Group has transferred its shares to Ataer Holding, a subsidiary company of OYAK.

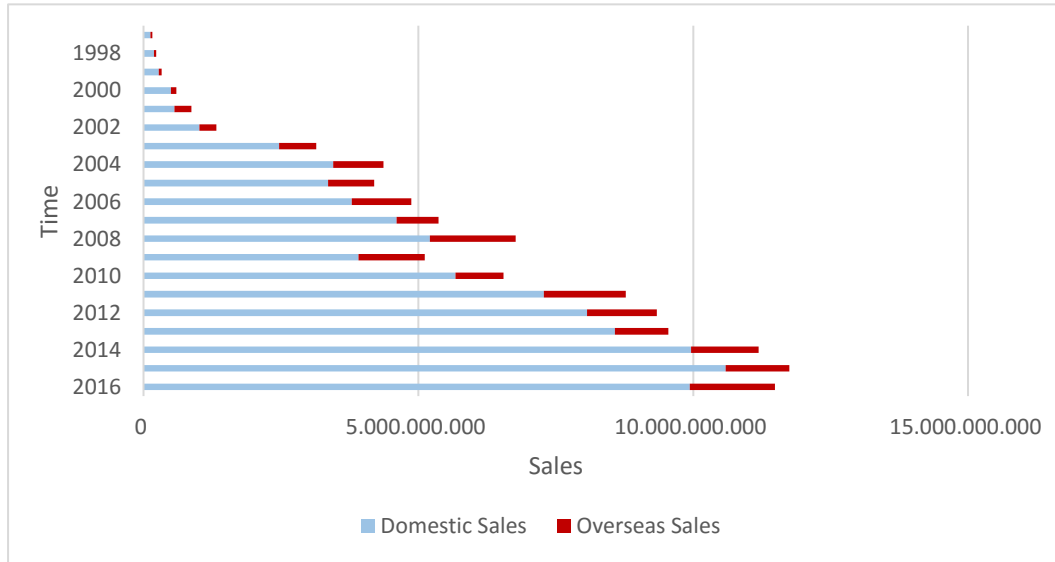
4.1.3.2. Performance Analysis of Ereğli Demir ve Çelik Fabrikaları T.A.Ş.

4.1.3.2.1. Sales Analysis

Majority of the sales the company make is to domestic market, however significant portion of the sales are also being made abroad. Before its privatization, the company was increasing both domestic and overseas sale volumes and this has continued after privatization as well. The only contraction in sales occurred in the year 2009, due to the negative atmosphere in global economy.

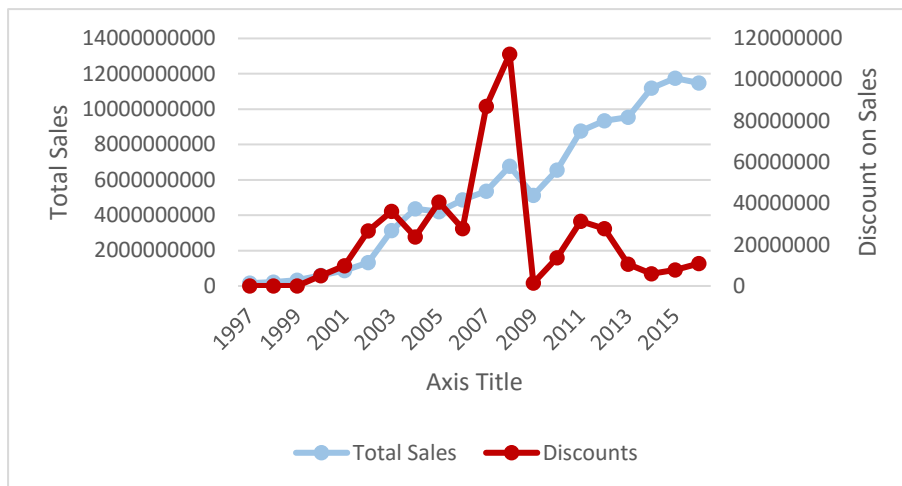
In total, 15% of the sales were made to foreign countries between the years 1997 and 2016. Before privatization 21,75% of the total sales were made overseas while after privatization this rate falls to 14%.

Chart 35: Domestic vs. Overseas Sales (TRY), ERDEMİR, 1997 -2016



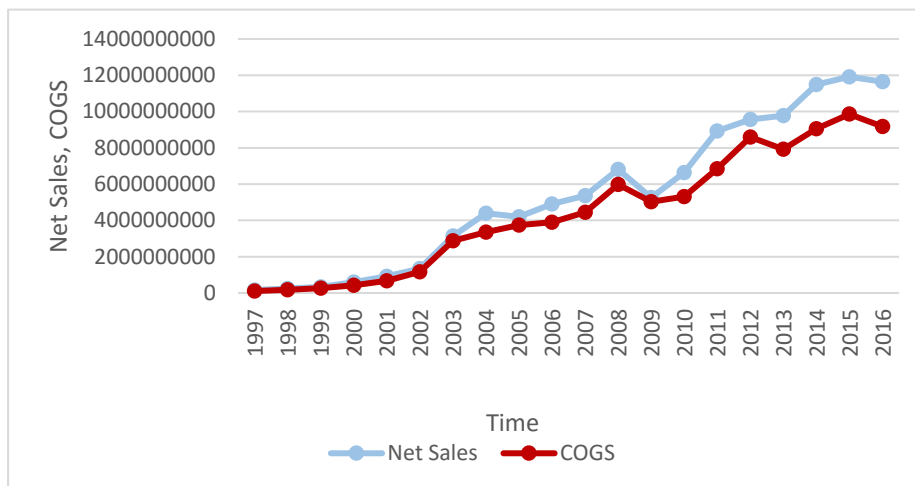
Over the years, the discount rates on sales that the company was giving to its consumers had significantly reduced, especially after the year 2008, showing that ERDEMİR has strengthen its position in the market. We can see the adverse relationship between discounts given and total sales after 2011. Before its privatization, the company was increasing its discount amounts aiming at better sales volumes.

Chart 36: Total Sales vs. Discounts on Sales (TRY), ERDEMİR, 1997 -2016



Both before and after privatization, ERDEMİR was showing a consistent development in sales amounts. Especially after the year 2002, net sales volume showed a significant jump and this trend continued after its privatization. The company was successful to have a gap between its net sales and sales costs which have provided better margins and eventually, profits. Especially after 2009, a very quick recovery from the global financial crisis had experienced by the company thanks to the ability of lowering cost of goods sold.

Chart 37: Net Sales vs. COGS (TRY), ERDEMİR, 1997 -2016

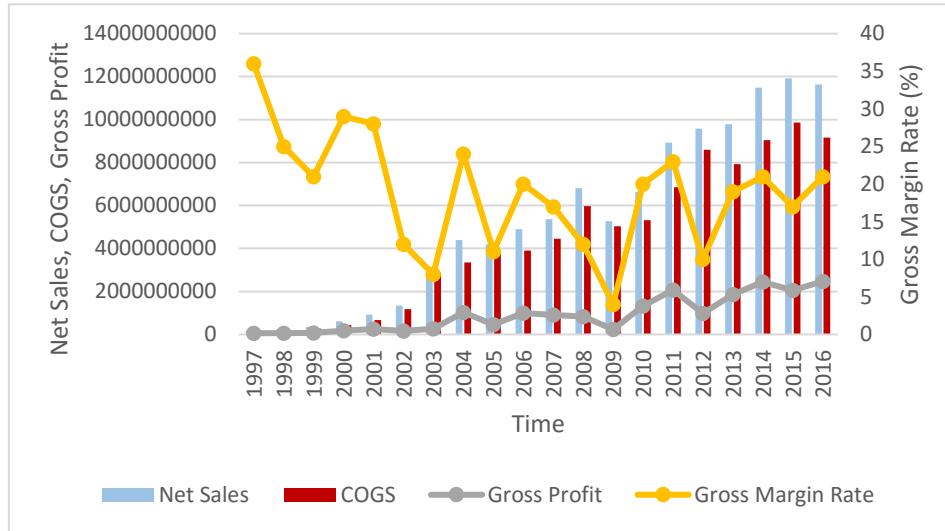


4.1.3.2.2. Gross Profit Analysis

When we look at the gross margin rates of the company, it would not be wrong to say that the company has quite high ratios both before and after its privatization. Even though the average gross margin rates experienced after its privatization reduced to 16,4% from 21,4%, compared to others, ERDEMİR has provided sufficient profitability. The company has reached the similar

gross profit amounts before and after its privatization. There are only two downfalls in gross profit rate chart of the company after being privatized. One of them occurred in 2009, due to the negative atmosphere of the global economy. The other significant decline has experienced in 2012, because of the ongoing economic recession and regional turmoil in 2012 which have negatively affected world steel consumption and production. Steel production rose only 1,2% in 2012 whereas this rate was 6,8% in 2011.⁷¹

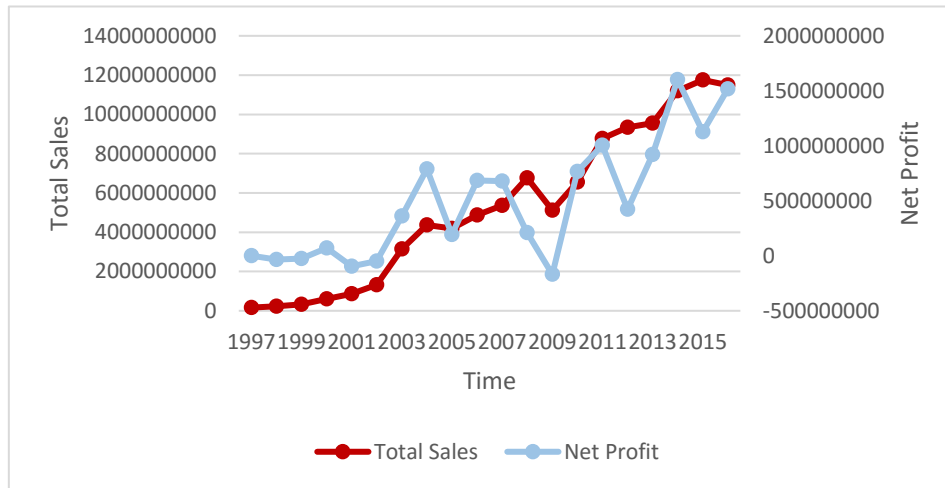
Chart 38: Gross Margin Rate (TRY), ERDEMİR, 1997 -2016



Until its privatization in 2006, the company has showed an increase trend in its total sales as well as net profit. The only time periods ERDEMİR was in loss coincides with the time of Turkish financial crisis in 2001 and global financial crisis which created a great collapse in whole world economy. Reason of the decline in gross profit level in 2012 is the slowdown in the steel market due to geopolitics risks and the supply shocks as explained before. Nevertheless, ERDEMİR was able to recover its financial situation right after the mentioned negativities thanks to increased sales and better market atmosphere.

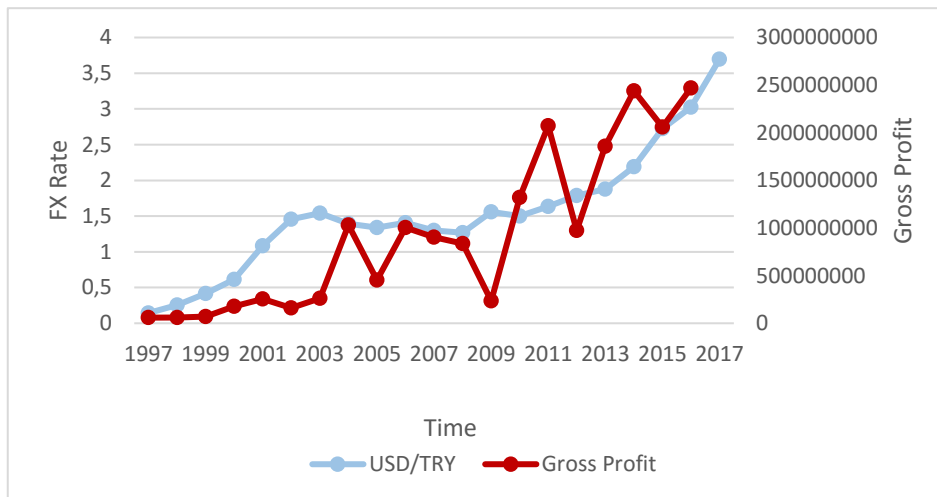
⁷¹ ERDEMİR Group Annual Report (2012)

Chart 39: Net Profit vs. Total Sales (TRY), ERDEMİR, 1997 -2016



Since the time it was privatized, ERDEMİR determines its sales prices based on US dollar currency. Therefore, the volatilities in FX rates are quite effective for the company's financial results. The continuous appreciation of US dollar over Turkish Lira, especially after 2012, surely had a positive impact on profit levels of the company in Turkish Lira terms together with the increased sales amounts and efficient cost management.

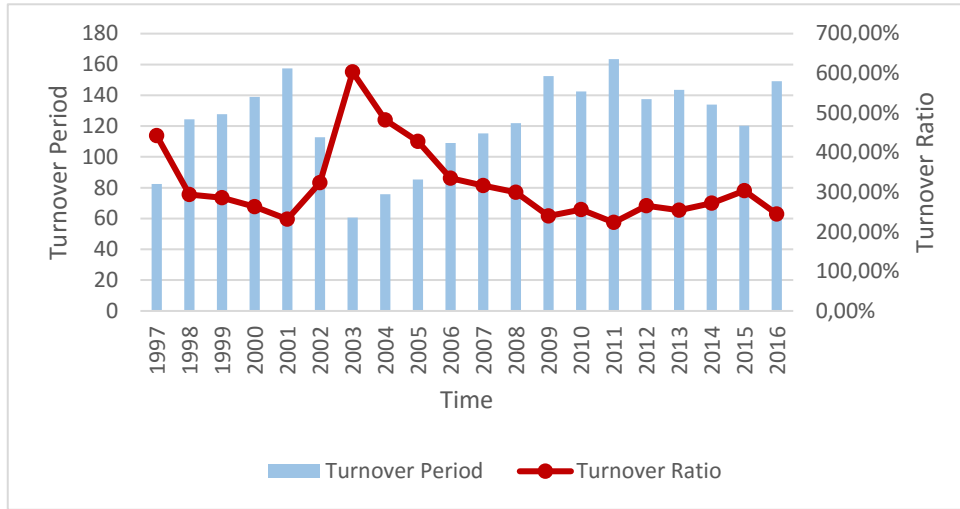
Chart 40: USD/TRY FX Rate Change vs. Gross Profit (TRY), ERDEMİR, 1997 -2016



When we make the inventory turnover analysis of ERDEMİR, it is noticeable that in general, the company has relatively longer turnover periods compared to other companies due to the nature of the product it produces. Both before and after privatization, the company performed relatively close turnover ratios, except the period between 2001 and 2005. During this period, due to the negative effects of the crisis in the country, the company may have started order

method of production since the inventory turnover ratio was quite high for the regular company behavior.

Chart 41: Inventory Turnover Period & Turnover Ratio, ERDEMİR, 1997 -2016



4.1.3.3. Post-Privatization Period of Ereğli Demir ve Çelik Fabrikaları T.A.Ş.

Even though it was primarily established by the state to meet the existing domestic demand of local producers, ERDEMİR has significantly strengthen its market position both in the homeland and abroad, by being one of the most important steel producers in the world. Especially after its privatization, the development of ERDEMİR has expanded.

However, ERDEMİR is one of those companies which has very badly affected after the coup attempt in Turkey like PETKİM, in terms of company reputation. Several operations were carried out by the police both to ERDEMİR and OYAK because of FETO suspicion. Due to the investigation, former general manager and board member of the company was arrested.⁷² Moreover, one of the board members of OYAK, who is thought as one of the main actors of coup attempt is also under arrest.⁷³

4.2. Performance Results

According to financial data published by the companies, all three of them showed a significant development in terms of sales volumes and exports over the years along with the increased production capacities after their privatizations. It is true that, all of them have contributed to the rapid GDP growth achieved in the country. However, in terms of profitability which is one of the main reasons why they were privatized originally, PETKİM and POAŞ were not able to

⁷² "FETÖ Soruşturmasında Erdemir Eski Genel Müdürü Özgen Adliyede" (2016). Haberler.

⁷³ "FETÖ OYAK'a da Dadanmış" (2016). Borsa Gündem.

show the same performance they did in production and sales volumes. Moreover, the owner of POAŞ, Austrian OMV has even decided to leave Turkish market because of unsustainable company situation and quite low profits generated. The core reason comes from the inability of reducing production costs and high vulnerability to externalities, i.e. exchange rate. Political problems in Turkey also should not be forgotten as a player since the economic environment is highly affected by politics.

It is also important to consider deteriorating reputation news and shocks about the companies when analyzing “performance” to what extend their privatization was beneficial for public since another philosophy of privatizations in Turkey is to generate a better social welfare. In a country where most of the population have connotation between privatization and corruption, people would not see any benefit in privatizations and they would question the need of such applications especially after similar shocks.

Conclusion

Turkey has entered a transformation period after the acceptance of 24th January decisions which were turning a mixed-capitalist economy into an open economy along with the continuous development plans. Privatizations were one of the tools chosen by the governments of the country with the aim of generating better company performance thanks to market competition and better social wealth level thanks to reduced role of government in market mechanism.

In this master's thesis, it was aimed to show on the example of Turkey case that generally accepted privatization benefits may not be always reached under the influence of real politics and economy. *“Do privatizations always improve social wealth?”* and *“Do privatizations always improve company performance and profitability?”* were the questions the study searched answers for.

Based on the analysis made by the public opinion survey and current welfare indexes of Turkey regarding social welfare results, an overall social welfare improvement has not been experienced by the people of the country through the privatizations. It is true that Turkey has reached very significant GDP growth rates over the past decade. However, increase in GDP is only one component of the notion “social welfare”. Moreover, in a country like Turkey where income inequality is one of the main problems of the society, increase in GDP and GDP per capita results would be misleading for an overall evaluation.

Democracy, individual liberties, rule of law and security are the crucial complements of social welfare and prosperity, which for the Turkey specific case, all are in a decreasing trend rather than improvement.

Another result from the social welfare analysis is the immediate connotation between privatization and corruption on people's mind. In a country, where the economic policies of elected authorities and institutions are directly being associated with personal interests and rent seeking, improving social welfare through privatizations would be controversial.

When it comes to performance of privatized companies which were analyzed in this study, significantly increased sales volumes and export rates have been succeeded after privatization. However, even though the sales amounts are quite high, the inability of reducing production related costs, mainly due to currency volatilities, and political risks within the geography are creating great obstacles for further development. Profit seeking behavior is the nature of

companies. It would not be realistic to expect from a company with very low profit levels to increase the employment capacity or make new investments.

The biggest pitfall of Turkish privatizations comes from the idea of “quickly getting rid of” the financial burden of state-owned enterprises. Privatizations are very important applications for the future of a country which should not be made in such a rush. The new owner selection should be based on a great research, especially for the strategic fields which have enormous effects in overall country economy. Otherwise, with making such important mistakes, public interest and social welfare will always be questioned even though the companies are remarkably performing. For successful privatization applications, which will bring higher social welfare, a well-researched new owner selection is crucial.

Based on the analysis made to answer the research questions of this master’s thesis, it was concluded that privatizations do not always improve social welfare and company profitability proving generally accepted privatization benefits may not be always reached under the influence of real politics and economy.

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Appendix A: Public Opinion Survey on Privatizations

1. Your gender?
 - ☐ Male
 - ☐ Female
2. Your age?
 - ☐ Less than 20
 - ☐ 21 – 30
 - ☐ 31 – 40
 - ☐ 41 – 50
 - ☐ 51 – 60
 - ☐ More than 61
3. What is the highest level of education you have completed?
 - ☐ Primary school
 - ☐ Middle school
 - ☐ High school
 - ☐ University
 - ☐ Master's degree
 - ☐ Other – please specify
4. In your opinion, what is the biggest problem of Turkey?
 - ☐ Democracy & Justice
 - ☐ Education
 - ☐ Economy
 - ☐ Unemployment
 - ☐ Politicians
 - ☐ Terror & Security
 - ☐ Corruption
 - ☐ I do not think that Turkey has a problem
 - ☐ Other – please specify
5. In your opinion, which of the following sectors have strategic importance for Turkey?
 - ☐ Banking
 - ☐ Food
 - ☐ Energy
 - ☐ Mine
 - ☐ Petroleum
 - ☐ Agriculture
 - ☐ Transportation
 - ☐ Other – please specify
6. In your opinion, which of the following institutions should be responsible to establish and operate a strategic sector?
 - ☐ State
 - ☐ Private sector
 - ☐ NGOs
 - ☐ Other – please specify

-
7. I find it necessary to apply privatizations in Turkey:
- ☐ Totally agree
 - ☐ Partially agree
 - ☐ Neither agree nor disagree
 - ☐ Disagree
 - ☐ Totally disagree
8. Privatization practices reduce unemployment in Turkey:
- ☐ Totally agree
 - ☐ Partially agree
 - ☐ Neither agree nor disagree
 - ☐ Disagree
 - ☐ Totally disagree
9. Privatization practices in Turkey have increased the social welfare:
- ☐ Totally agree
 - ☐ Partially agree
 - ☐ Neither agree nor disagree
 - ☐ Disagree
 - ☐ Totally disagree
10. I think that the privatization practices in Turkey are made transparent:
- ☐ Totally agree
 - ☐ Partially agree
 - ☐ Neither agree nor disagree
 - ☐ Disagree
 - ☐ Totally disagree
11. How do you think that privatization revenues are being spent in Turkey?
- ☐ For infrastructure investments
 - ☐ For covering external debt stocks
 - ☐ For education and technology investments
 - ☐ For national defense expenditures
 - ☐ For public service spending
 - ☐ For social security expenses
 - ☐ Other – please specify

12. In your opinion, which of the followings is the biggest risk for privatization applications in Turkey?

- ☐ Undervalued privatization sales
- ☐ Privatization of a strategically important enterprise
- ☐ Corruption
- ☐ Layoffs after privatizations
- ☐ Increase in price levels after privatization
- ☐ Closure of the enterprise after privatization
- ☐ Sale of the enterprise to the foreign investors
- ☐ Other – please specify