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ASSESSING THE PRIVATIZATION EXPERIENCE IN TURKEY

Implementation, Politics and Performance Results

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I. Introduction: Main Objectives of this Research

Turkey launched its comprehensive structural adjustment reform program in January, 1980 under the guidance and proviso of the IMF and the IBRD. The major elements of the programme included the standard policy package often hailed as the “Washington consensus”: commodity trade liberalization, financial deregulation, and fiscal and monetary restraint. It also entailed a detailed programme of structural transformations addressing privatization of public assets; new labor laws mainly seeking to create a “flexible” labor market where labor’s right to organize in labor unions and to engage in collective bargaining are effectively curtailed. As for the rural economy, it further entailed elimination of producer price subsidies in agriculture, and replacing them with a targeted direct income transfer programme. All these shifts, needless to mention, created major repercussions in the commodity and labor markets, leading to significant sources of new income transfer mechanisms away from labor towards capital, in particular the “renters”. The state has played an active role in this process.

Privatization of public assets is regarded as one of the key mechanisms of such surplus transfer. Privatization programme was started in Turkey in 1986. Originally the privatization ideology was based on “economic efficiency” arguments based on the myth that private sector decisions are based on optimization calculus, whereas the public sector is inherently corrupt and its policies lead to waste. It was announced that initially some of the major public enterprises would be restructured to improve their financial performance, and then they would be on the sale list at “attractive” prices. Over the course of time, however, the main objective of privatization had shifted towards mainly revenue generation and financing of the public debt. Thus, a clear shift of focus has occurred away from *efficiency* arguments of the so-called *technologically backward state enterprises*, towards revenue generation from sale of the most technologically advanced and profitable enterprises.

Consequently, with the advent of the IMF’s *Staff Monitoring Programme* in 1998, there had been a renewed and ambitious attempt to privatize large-scale enterprises, such as the *Petrol*

Ofisi (petroleum products and distribution agencies-POAS), Turkish Telecom Inc, GSM Licensing, *Seka* (the paper, cellulose and pulp plants), and the Turkish Airlines.

It will be the main objective of this research to analytically investigate and assess the privatization experience of Turkey over the post-1980 liberalization era from the points of view of workers' rights, unionization, economic efficiency, resource allocation, and distributional impacts. The plan of the research Report is as follows: in the next section I will give a broad overview of the recent macroeconomic history of the Turkish economy. The neoliberal logic of the privatization programme rests mainly on debt management, and it is important to cast the Turkish macro history in terms of deterioration of fiscal balances. This fragility, in turn, is regarded as an outcome of the explicit strategy of transferring income to capital-owners together with a rather lax attitude towards taxation of capital incomes. Thus, the fiscal deficit is argued to be the epitome of a peripheral capitalist development where the public sector is often regarded as the bastion of privilege, and privatization of public assets is often seen as the major source of income to finance the ongoing income transfers to private capital, both national and international.

The third section of the Report focuses directly on the methods and economics of privatization experience in Turkey over the last two decades, while section four is directed to the study of the state economic enterprise (SEE) system in Turkey. Here, a careful evaluation is given of the SEEs in terms of technical efficiency, employment and profitability.

In section five, the Report will focus on two sectors where the public sector has traditionally been very active both in terms of employment and production: paper, cellulose and pulp industry and the petroleum and chemicals industry. This section will seek to address to questions such as “what are the likely outcomes of the privatized enterprises of POAS (petroleum distribution centers) and the *Seka*, *Caycuma* (paper factory)? What happened to the employment levels? Level and techniques of production? Unionization and labor rights? Conditions of work? Efficiency, before and after privatization?

Finally in section six the Report offers major conclusions of this study.

II. Post-Liberalization Turkey

Turkey's post-1980 history of macroeconomic and political developments is observed to suffer persistent difficulties and wide fluctuations in national income, with conflicting policy adjustments. This observation parallels closely the overall thematic continuity of the ambitious programme of economic liberalization and market-led adjustments put into full force during the early 1980s. At the turn of the 3rd millennium, the most visible aspects of the current Turkish political economy context are the persistence of price inflation under conditions of a crisis-prone economic structure; persistent and rapidly expanding fiscal deficits; marginalization of the labor force along with the dramatic deterioration of the economic conditions of the poor; and the severe erosion of moral values with increased public corruption.

In Table 1, I tabulate the broad economic indicators and the key macro prices of the Turkish economy. The post-1980 Turkish adjustment path can be partitioned into two broad phases: "1981-1988" and "1989-to-2003". The main characteristic of the first phase is structural adjustment with export promotion, albeit under a regulated foreign exchange system and controls on capital inflows. Over this period, integration to the global markets was achieved mainly through commodity trade liberalization. More importantly, both the exchange rate and direct export subsidies acted as main instruments for the promotion of exports and pursuit of macroeconomic stability. The period was also characterized by a severe suppression of wage incomes via hostile measures against organized labor. This "classic" mode of surplus creation¹ reached its economic and political limits by 1988. Coupled with a new wave of populist pressures under approaching elections, organized labor succeeded in attaining significant increases in wages. Real wages in manufacturing, for instance, increased by 90% in cumulative terms between 1989-1991. Furthermore, beginning 1989, there had been a major shift in the public expenditure accounts towards more socially desirable ventures. An overall increase in both the share and level of public salaries, and investments on social infrastructure enabled the working masses to attain improved living standards.

<See Table 1>

¹ Following Lippit (1985), the term "surplus creation" is used to refer to that portion of the gross domestic product which is higher and above than what is necessary to meet the socially-determined subsistence requirement. See Yeldan (1995) and Somel (2003) for an application of the concept to the Turkish economy.

The post- 1988 structural shift could evidently be financed by taxing the bourgeoisie and by moving towards a more “fair” tax system. Yet, the strategic preference of the state was the maintenance of its present stance towards evasion of taxable capital incomes and of its lax attitude towards the so-called unrecorded private transactions. In this sense, one can easily argue that the strategic choice of the state to abstain from expanding its tax base over capital incomes has long created a structural fragility in the fiscal accounts. Through this mechanism, the appropriated surplus could have been kept within the confines of private capital, and as such, had constituted one of the major sources of capital accumulation under conditions of peripheral capitalism.

The main macroeconomic policy response to the increased wage costs and the culminating fiscal deficits was complete deregulation of financial markets. With the advent of elimination of controls on foreign capital transactions and the declaration of convertibility of the Turkish Lira in 1989, Turkey opened up its domestic asset markets to global financial competition. In this setting, the Central Bank lost its control over the exchange rate and the interest rate as independent policy instruments, as these practically turned into exogenous parameters set by the chaotic conditions of financial arbitrage in the global markets. Thus, many scholars regard 1989 as a crucial year, segmenting the post-1980 economic development patterns of Turkey (see, e.g., Boratav, Yeldan and Kose, 2000; Yenturk, 1997, and Ekinci, 1998).

Given this broad division, Turkish economy is observed to go through four distinct cycles of growth-crisis-and adjustment. (See characterization in Table 1). The *first* covers broadly the period 1980-1988, with its main attribute being the increased export-orientation of the economy. Following the foreign exchange crisis of 1977-80, growth was re-invigorated following the introduction of a structural adjustment programme in January 1980 under the auspices of the World Bank and the IMF. The period was marked with commodity trade liberalization and export promotion along with a price reform aimed at reducing the state’s role in economic affairs. After the brief slow down in 1988, the 1989 policy maneuver of capital account liberalization served as one of the major policy initiatives to a new round of growth. This policy maneuver paved the way for injection of liquidity into the domestic economy in terms of short-term foreign capital (flows of “hot money”). Such inflows enabled, on the one hand, financing of the accelerated public sector expenditures, and also provided

relief of the increased pressures of aggregate demand on the domestic markets by way of cheapening costs of imports. Consequently, the bonanza of cheap imported intermediates fuelled the *second* wave of the “growth-crisis” cycle between 1990-1994.

Rising current account deficits (as a ratio to the GNP, from 1.7% in 1990 to 3.6% in 1993), and a drastic deterioration of fiscal balances (with public sector borrowing requirement, PSBR, increasing its ratio to the GNP from 7.4% to 12.1% over the cycle) signaled the unsustainability of the post-1990 growth path. This prolonged instability reached its climax during the fourth quarter of 1993, when currency appreciation and the consequent current account deficits rose to unprecedented levels. With the sudden drainage of short-term funds in the beginning of January 1994, production capacity contracted, followed by continued fall in industrial output throughout that year. Together with this contraction, the post-1994 crisis management gave rise to significant shifts in income distribution, and to an intensification of the ongoing processes of transfer of the economic surplus from the industrial/real sectors and wage-labor, in particular, towards the financial sectors. Likewise, dollar-denominated wage costs decreased substantially and enabled export earnings to rise. In fact, the disequilibrium could have only been accommodated by the massive (downward) flexibility displayed by real remunerations of wage-labor. (See Figure 1 below). Manufacturing real wages declined by 30.1% in the private sector, and by 18.1% in the public sector in the aftermath of the 1994 crisis. Concurrently, the average mark-up rate in private manufacturing reached its highest value (47%) of the whole post-1980 liberalization era.

Growth was re-invigorated after 1995. This *third* cycle again characterized by massive inflows of short term foreign capital (hot money) flows lured by attractive real rates of interest and appreciation of the Turkish Lira. The cycle proved likewise unsustainable as the global deceleration following the contagion of the Asian and the Russian financial crises hit the Turkish economy starting August of 1998.

To combat the increased instability and to fight against the ongoing inflation, the Central Bank and the Under Secretariat of Treasury started to implement a disinflation programme in December 1999 under the guidance and direct supervision of the IMF. During the course of the programme the real gross domestic product (GDP), which has fallen by 5% in 1999,

expanded at a rate of 7.6% in 2000; (the *fourth* growth cycle) but drifted into negative quarterly rates of growth following the first quarter of 2001. Of the expenditures over the gross domestic product, the deepest slump was witnessed in fixed investments, with contractions of -41.5% and -50.2% in the second half of 2001. Fixed investment expenditures are observed to continue their contractionary trend during the first two quarters of 2002 with real rates of growth of -26% and -1%.

The most direct indicators of the crisis over the financial markets were the rapid rate of depreciation of the TL, and the sudden interest rate hikes on the government's debt instruments (GDIs). After the second quarter of 2001, the TL/US\$ parity increased by quarterly rates of 96.5%, 116.5%, and 114.5%, and stabilized only after November of 2001. On the other hand, it is observed that the rise in the *real* rate of interest of the GDIs reached to 117.5% in the first quarter of 2001.

Given re-opening of the credit lines and resurgence of short-term foreign capital, Turkey has re-entered a new phase of growth driven by cheap imports and an over-valued Turkish Lira starting 2002. In 2003 the TL was overvalued by more than 30% against the US\$ in purchasing power parity terms. [Is there a convenient cite for this? Just curious]² Cost savings enabled by cheap foreign exchange fuelled import demand, and by the end of 2004 the Turkish current account deficit has already widened to above 5% of the GNP. It is not clear how long this new (*fifth*) cycle of growth would last given the rising external fragility and the volatile perceptions of the financial investors.

II-1. Fiscal Policy and Debt Management

Currently Turkey is in the midst of an IMF-led austerity programme that relies primarily on fiscal restraint. The fiscal authority has a clear mandate to generate a primary budget surplus (not counting the interest expenditures) of 6.5 percent for the public sector as a whole³ as a ratio to the gross national product (GNP). Spanning over a planning horizon 2001 to 2007,

² Central Bank of Turkey, www.tcmb.gov.tr

³ The primary surplus target is set at 5 percent for the central consolidated budget.

the primary surplus target is regarded necessary by the fiscal authorities to reduce the massive debt burden and the fragilities it imposes on the financial and the real commodity markets. Needless to assert, the current fiscal policy administration has important implications on both the macroeconomic environment and the microeconomic mechanisms of resource allocation, employment, and tax incidence.

As indicated above, the post-1990 macroeconomic balances recorded an unprecedented rise in the fiscal gap. The period witnessed a series of reluctant and failed attempts of tax reform. It can be directly noted that during the 1988-1992 period the major breakdown was accounted in the factor revenues item. These are the net factor income generated by the state economic enterprise system. Factor revenues of the state declined by NewTL 6 billion in these 4 years measured in real 1987 prices. This amount is approximately 3% of the GNP of the period. Thus, in four years, the Turkish public sector has lost revenue sources reaching nearly to 3% of the gross national product. This loss is significant not only in terms of its size, but also in terms of the shortness of the duration.

Following this period, transfer expenditures increased by almost 2-folds in real terms. The major item in this account is the interest payments. The rise in the domestic debt contributed to a rapid build up of interest rates which increased from 2.8% of the GNP in 1992, to 4.6% in 1993, and then to 6% in 1994. As fiscal deficits continued to be securitized, the stock of government debt instruments (GDIs) grew rapidly to reach 20.2% of the GNP in 1997. By comparison, the stock of GDIs only reached to 11% by mid-1992, disclosing that the size of the domestic debt stock increased by 2-folds as a share of the GNP in just five years.

All these developments led to a sharp decrease in the disposable income of the public sector especially after the 2001 crisis [This is the first time I've seen "disposable income" applied to public expenditures. It's clear what you mean, but, is there another term that is more widely used? In the US, I think we'd say "discretionary spending" or something like this. Which may not be widely used either. The Turkish statistics use this term explicitly. Thus, I have simply taken over the term, though it is a bit unconventional, I agree. May use simply "public sector income" if you wish.]. The PSBR as a ratio of GNP stood around 10% on the average over 1990-1993. The peak of this ratio was witnessed in 1993, just before the financial crisis of 1994 (12.0%). Even though there were some improvements in the borrowing requirements of

the state under the 1994/1995 crisis management, the PSBR rose again to an alarming rate of 9.4% in 1998, and to 15.5% in 1999. From Table 1 it can be read that over the period 2000-2003, the public disposable income declined by 30 percent *in real terms*. Such a decline had clearly devastating effects and generated strong pressures on the public sector borrowing requirement (PSBR).

The process of financial deepening was thus directly shaped by the financing needs of the public sector. In early 1990s the government granted a series of incentives to the banking sector for holding its debt instruments (GDIs). First of all the GDIs could be used as collateral and be held against the liquidity requirements. This process led to two important consequences: *first* and foremost, it substituted the fiscal policy against the monetary policy and hindered the central bank's capacity to conduct monetary policy; and *second*, it enabled the Treasury to assume a monopoly power to regulate the distribution of domestic credit and crowded out the private sector.

One direct consequence of the regime switching to finance the PSBR was the unprecedented rise in the stock of securitized debt (the stock of issues of GDIs). Stock of GDIs was only about 6% to the GNP in 1989, just when the liberalization of the capital account was completed. It grew rapidly, and reached almost 20% by 1997. Currently the securitized debt stock is 74.5% to the GNP.

Under these conditions the fragility of the domestic asset markets gave way to high rates of real interest. Interest payments as a ratio of GNP increased very rapidly. From 1990 to 1996, the share of interest expenditures on domestic debt in aggregate GNP increased by 300%. In 1996 this ratio stood at 9 percent. In the second half of the decade, interest costs as a ratio to the GNP rose to as much as 21% in the crisis of 2001, and bounced back to 14.8% in 2003. One can contrast this magnitude, for instance, with the aggregate value added of the agricultural sector, whose share from the GNP is just only 15%. Thus, interest payments reach almost to aggregate agricultural value added, a sector which accounts for about half of the size of the active labor force!

II-2. Labor Markets and the Position of Wage-labor

Such a transfer of the financial surplus through very high real interest rates offered to the financial system would, no doubt, have repercussions on the primary categories of income distribution. It is clear that creation of such a financial surplus would directly necessitate a squeeze of the wage fund and a transfer of the surplus away from wage-labor towards capital incomes, in general. It is possible to find evidence of the extent of this surplus transfer from the path of the private manufacturing real wages. I portray the dynamics of the private manufacturing real wages in Figure 1, denominated both in Turkish Lira, and also in the US\$ terms. The figure further contrasts real wages against labor productivity.

<See Figure 1>

After a brief surge over 1990-1993, real wages had plummeted during the 1994 financial crisis, and in a sense have borne the brunt of adjustment of the crisis. During 1995-2000, private manufacturing real wages have kept their momentum in general, although they could not recover their pre-1994 crisis levels. However, after the 2000/2001 wave of crises, real wages in private manufacturing faced a second cycle of contraction. This contraction was especially pronounced in US\$ terms. In the meantime productivity gains in private manufacturing accelerated especially after the first quarter 2002. It is known that this productivity surge is due mostly to labor shedding, rather than increased labor efficiency originating from advances in technology. As of the last quarter of 2003, index of labor productivity scored 1.77-folds higher than real wages in TL, and 2.29-folds higher than the unit wage costs in US dollars.

The real wages contracted severely after the 2001 February crisis and this downward trend was maintained throughout 2002 and 2003. Calculated from 2000 to mid 2003, the decline in the private manufacturing real wages reached to 19.6%. The decline of wages in the public manufacturing sector has been 15.4% during the same period. Viewed from a longer time horizon, if the index of real wages were assumed 100 in 1997, it is observed that they fell to 82.2 index points in the private manufacturing sector.

<See Figure 2>

A close inspection of Figures 1 and 2 together is especially informative. This exercise shows very clearly, how in the Turkish economy speculative financial gains were financed through the squeezing of real wages. Each rapid rise in the financial arbitrage is closely associated with a downward movement of real wages and involves a direct transfer of labor incomes towards capital, both domestic and foreign.

In summary, given the fiscal deterioration and a strategic preference of non-taxation of capital incomes and of the bourgeoisie in general, the state had two options for meeting its expenditures: foreign capital inflows and privatization receipts. Thus, in the Turkish context, the current privatization attempts should be regarded as an episode of revenue generation and surplus transfer to the capital-owners via the government's budgetary deficit financing programme. It is to this issue I now turn my attention.

III. Privatization: Scope and Methods

Privatization of public assets emerged as an official state ideology beginning 1985, in the aftermath of a conservative trade liberalization programme. The main ideological pillar of the initial attempts were announced as a matter of improving efficiency in production and reducing "excessive" employment and waste in the state enterprise system.

The overall approach was based on the neo-liberal dogma that state involvement in the economic decision making is inherently corrupt and almost always leads to wasteful "rent-seeking". Thus, it was alleged, a transfer of ownership from public to the private sector would lead to elimination of political decision-making that is based on wasteful, inefficient and irrational behavior. What is missing in these arguments is the plain fact that rent-seeking is actually a natural and inherent component of peripheral capitalism, where the private capital is often nurtured by state support itself. In many instances, state's direct involvement into the economic life either as a direct producer (of strategic material inputs at below market values) or as a regulator of the labor relations enabled the private capital to sustain its profitability and capital accumulation. Thus, the state enterprise system served actually as the main mechanism for private capital to ensure its viability, especially in the early stages of peripheral capitalist development.

The explicit objectives for the privatization programme were identified by a report of Morgan Guaranty Bank in 1986. (This report was commissioned by the government directly.) Accordingly, the privatization master plan would seek: (1) to transfer the decision making process from the public to private sector to ensure a more effective play of market forces; (2) to promote competition, improve efficiency and increase the productivity of public enterprises; (3) to enable a wider distribution of share-ownership; (4) to reduce the financial burden of the state economic enterprises (SEEs) on the general budget; and (5) to raise revenue for the Treasury. Over the course of time, however, the initially stated “efficiency” arguments would silently cease as stated objectives and the main objective of privatization would shift directly to revenue generation.

The first privatization attempt in Turkey was the sale of *Teletas* in 1988. This occurred through an “offer sale” where applicants were invited at a “set price”. *Teletas* was a highly profitable enterprise in the telecommunications industry. During the privatization process, 22 percent of the state shares were sold in the Istanbul Stock Exchange Market.

Following this, five cement factories were sold to the *French Soicete Ciment Français* for \$100 million in 1989. Later, the airport (ground) services were sold to the *Scandinavian SAS* service partner in 1989. Table 2 below gives a thorough list of the initial privatization cases of this period.

<See Table 2>

From 1991 to 1997 the leading sectors in the privatization line were cement industry, iron and steel, airport and ground services, aircraft tires, public banks, and electricity and energy. In most cases, those state shares which were less than 50 percent were either transferred fully to the private firms or sold via the Istanbul Stock Exchange.

The Turkish attempts to privatize its public assets generally took three modes of sales techniques: “block sales”, “public offers for floatation”, and “direct sales of assets and premises of the SEEs and their subsidiaries” (Karatas, 2001). [Erinc: it would help to define what differentiates these methods of privatization] The first method is the outright direct sale of the majority of the public shares to a single buyer. This method is regarded as the least desirable one from the point of view of economic competition and efficiency, since, it is often the case that bloc sale of the majority shares often leads to creation of private monopolies.

“Public offers” and direct sales are mostly conducted through the Istanbul Stock Exchange, with approvals of the Privatization Board and the Competition Board.. As a sales method, “privatization via public offering” had been limited, while “block sales” accounted for more than a third of the privatization receipts. Reliance on block sales as a big-bang solution led to widespread allegations of fraud and corruption as well as undervaluation of the privatized assets. Figure 3 depicts the sale methods and gross revenues over 1985-2001.

<See Figure 3>

It can be seen from the figure that the most widely used form of privatization method over 1985-2002 had been *bloc-sales*. Bloc-sales had constituted 61% of the offers of public assets, to be followed by 18% in international offerings and 11% of offerings via the Istanbul stock exchange market.

In Table 3, I portray the list of major privatizations and the sale proceeds from “bloc-sales”. Of the general total \$1.5 billion, the manufacturing enterprises claim the bulk of the proceeds. Within manufacturing, cement industry represented the largest share with \$990 million. Basic metals and metal products brought \$144 million, food processing \$115 million; rubber and plastics \$43 million.

<See Table 3>

The net account of privatization proceeds (net of expenses) is documented in Table 4. The Table gives the total balance of privatization income and expenses over 1985-2002. Official figures disclose that over a period of seventeen years, total gross revenues from privatizations reached \$9.1 billion. About one-thirds of this figure was generated through bloc-sales, and 15% was achieved via public offerings. Only 5% came from sales in Istanbul Stock Exchange, despite the official claims that privatization receipts would generate widening of public ownership through the stock market and would lead to deepening of the financial transactions.

Expenditures related with privatization activities reached to \$3.7 billion, bringing the net income to \$5.3 billion. About half of the officially stated expenditures rose from decreased liabilities (\$1.9 billion) and about 40% was due to the increase in receivables (\$1.1 billion). Auditing and consulting expenses claimed about 8 percent of the total expenditures.

<See Table 4>

Of the total *net* income of \$5.3 billion, only \$3.4 billion could have been transferred to the Treasury. This gives a ratio of 37% of net transfer, given total gross receipts of \$9.1 billion. Net privatization revenues were meager across years, at best. The only major increase was recorded in 2000 (\$2.1 billion) under the close supervision of the IMF Programme (see section II above). The immediate two years following 2000 brought only \$260 million in total. The newest stand-by agreement covering May 2005 - May 2008 has more ambitious targets on privatization. In Article 33 of the *Letter of Intent* submitted to the IMF on 26 April 2005, for instance, it is stated that by the end of 2005, the major public assets on *Petkim* (petrochemicals), *Tüpras* (Petroleum refineries), *Edemir* (iron and steel) and *Turkish Telecom* (telecommunications) will be sold. The Letter of Intent also states that the lower bound of the privatization receipts by the end of December 2005 will be no less than \$1.5 billion and this target is to be regarded as a “*performance indicator*” of the “successful implementation of the IMF program.

What is really troublesome is the fact that of the total 188 enterprises that were privatized in the last twenty years, 65 of them are shut off, 8 of them had been liquidated and 16 of them are penalized for a total of \$800 thousands in charges that they have not abided the conditions of the sale. (*Cumhuriyet*, 2 June 2005).

Thereby, on top of this failing performance of the privatized firms, the *cumulative* net gain of the Turkish Treasury reaching only to \$3.4 billion (or about 1.5% of the value of the 2000 GNP), discloses the fact that privatization is a costly activity and the state should not expect much of a net gain from sales of its assets⁷. The remaining crucial question is then whether privatization could have brought the gains in efficiency and market profitability. To answer this question properly, I now turn to a direct assessment of the state economic enterprise system in Turkey. [Erinc: it would help to have some of these \$ figures translated into shares of GDP, or, shares of total government revenue, to gain a sense of magnitude]

IV: Economics of State Economic Enterprises

State ownership and production of key strategic manufactures have a long history in Turkey. Since the early days of the Republic, the desire for rapid industrialization has been an official

target. Given the limited private capital ownership and historical bottlenecks of peripheral capitalism, this was thought to be achieved under the leadership and guidance of the state.

The state economic enterprise (SEE) system currently employs about a quarter of the labor force in the manufacturing sector and produces about one-third of the value added. While it maintained a monopoly position in many strategic sectors –iron and steel, petrochemicals, and cellulose and pulp in particular, the political interferences in pricing and marketing had resulted in poor performance of the overall sector in many years.

In particular, the prices of the strategic industrial inputs were mostly used as an *anti-inflationary* cushion by holding back the necessary price adjustments especially during the 1980s and 90s. This policy led to severely dampening of the profits of the SEE system especially during the strong wage increases as witnessed in early 1990s. (See Figure 4)

<See Figure 4>

In Figure 4, the net profit position of the SEEs is portrayed. The data are in fixed 1987 prices. It can be seen that after the collapse of profitability in early 1990s, the SEEs managed to increase their financial position starting 1996. Despite the brief deceleration of profitability during the 2001 crisis, the state enterprise system had been able to deliver modest positive profits in 2002 and 2003. In Table 5, I give detailed information on the SEE accounts where similar trends are captured.

<See Table 5>

What is really important to note in analyzing this performance is the overall deceleration of capital investments for the SEE system. I portray this trend in Figure 5. It is very clear that fixed investments to the SEE system is on a downward trend, and fixed capital investments were cut by half by 1995. The peak of the 1998-2000 period was simply able to maintain the 1989 level. The post-2001 adjustments under the IMF programme had called for reductions in public investments and capital investments to the SEEs in 2003 had been reduced to less than a third of what they were in 1989 in real prices.

<See Figure 5>

The ideological dogma that state should stop investing in its productive assets is one of the main features of the Turkish neo-liberal privatization episode. In the following section I will be

giving more detailed data on the contractionary investments and labor shedding at the enterprise level during the privatization era.

What is equally important to note at this juncture is that, despite the ongoing divestments and labor shedding, the SEE system could have managed to maintain both its productivity (efficiency) and also its profitability (save for outright intentional mismanagement practices). Figure 6 discloses one of the key results of the SEEs in that respect: the SEE system as a whole maintained a steady inflow of factor income to the Treasury. Especially after the 1994 crisis the public enterprises transferred a significant source of income to the public balances.

<See Figure 6>

As a result, the borrowing requirement of the SEE system which had peaked in early 1990s (due to ideological preferences forcing the SEEs to borrow at high real rates of interest and to keep their final prices low to disinflate) had turned negative (the SEEs turned into *creditors*) by 2002 (Figure 7).

<See Figure 7>

Thus, contrary to the official propoganda that the SEEs are loss-making, technologically inapt and over-staffed *chaebols*, the current position of the SEE system is that they are *profit generating, financially viable* enterprises. This verdict prevails despite the *ideologically motivated divestment programme*.

The technological efficiency of the public enterprise system is indeed a matter of debate in the Turkish public economics literature. Clearly, technological efficiency is a hard concept, and a firm's technical performance depends on not only technological capability and managerial performance, but also on outside factors such as domestic and international demand conditions, market sentiment, and fluctuations in prices, as well as on a host of political factors outside the control of the firm.

Yet, given all these caveats, one of the most authoritative conclusions on the SEE technical performance states that "*technical efficiency in the Turkish manufacturing sector is in a declining trend, (...) public and private enterprises averaged around the same efficiency level over 1974-1991. The impact of government ownership on the average efficiency level is not found statistically significant*" (Taskin and Zaim, 2001). At a narrower level, Sevgili and

Taymaz (1996) asserted that “*ownership change in the privatized cement plants didnot largely improve efficiency (...) geographical location, local market share, and local cement demand seem to determine efficiency rather than ownership*”.

In a striking contrast against these findings, the current main motive of the Turkish privatization episode has, in fact, turned towards “revenue generation” for debt re-payments. This is also among the new conditionalities of the IMF. Thus, the question of turning the “natural monopolies” into “competitive industries” following their privatization via possible regulations by the Competition Board, is an issue set aside.

Against this background, it is a clearly observable fact that employment in the overall state enterprise system was lowered both before and during privatization. Özmucur (1997), for instance, remarks that the “decision to privatize” seems to be more significant than the actual privatization act itself, in so far as employment at the firm is considered. The threat of privatization on workers and their Union is real. The ideology of privatization has openly turned into a state-led weapon for the capital’s assault on labor unions.

V. Privatization of Key Industrial Enterprises

In this section, I turn into a more detailed analysis of the Turkish privatization programme covering major public industrial enterprises, namely the petro-chemicals, iron and steel, and the pulp, cellulose, paper and paper products manufacturing sectors. As outlined below, each of the sectors have a long tradition as leaders of Turkish industrialization, and each privatization episode has been portrayed with *un*-legal acts, corruption, and with “irrational” marketing strategies.

V-1. Petro-chemicals Sector: PETKIM and TUPRAS

The leading enterprise in Turkish petro-chemicals industry is by far the PETKIM plants. PETKIM is a vertically integrated industrial complex. Its products can be grouped under five headings:

- Commercial plastics (PVC, PP and PS)
- Eliaphs and eliaph raw materials (acids, monoethylens, and glichol)
- Rubber materials (stryen butadiens and carbon blacks)

- Others (ammonium sulfates, hydrogen gasolines, benzen parameters)
- Commercial final products (light and heavy duty plastic bags, film of various grades, vacuumed products).

As can be seen, PETKIM is an industrial giant producing a wide range of petro-chemicals, starting from basic raw materials and intermediates, reaching to final consumer products). PETKIM's first plants were established in 1965 with the leadership of Turkish Petroleum Inc (TPAO) and with the contributions of the Turkish Retirement Fund (Emekli Sandigi). Construction for additional plants in Izmir/Aliaga began in 1969. PETKIM became an affiliate of the Turkish Chemicals Industry Association in 1980, and grew rapidly over the 1980s to become one of the major integrated petro-chemical complexes of the Middle East and Europe.

V-1-1. Privatization Programme over PETKIM

PETKIM had been placed under the privatization programme on 30 October 1987 with the Council of Ministers decree no 87/12184. On the 25th of April 1988 the main charter of the enterprise was re-drafted. Throughout the 1990's, PETKIM has joined with PETLAS Inc (public-owned tire producer for air forces) and went through a series of segmentations. On 12 January 1995, the privatization programme was cancelled and a new legal status was drafted with the decree (no 95/4) of the High Privatization Authority. The Privatization Administration (PA) Council (OIB) has given a mandate to privatize the PETKIM's Yarimca factory to the Petkim Executive Board. In 2001, 8 plants of this factory were transferred to TUPRAS (the public-owned petroleum refinery conglomerate) along with all its land, capital equipment and social dwellings for a total of \$60 million.

On 13 January 1993, 88.9% of the public shares were offered as a bloc-sale. Five bidders competed in the bidding and the winner was declared to be the *Standard Chemicals Inc* group (the *Uzan group*⁴). Yet, on June 2003, after two years of inability of the Uzans to transfer the monies to the PA Council, the sale was cancelled by the PA Council. The

⁴ The Uzan group was large multi-sector conglomerate with a diverse product market ranging from tele-communications to news media. Following Uzan's political opposition to the current AKP government with the aid of its commercial TV channel and media groups, the Uzan's activities were declared "illegal" in 2004 and the family members and executive officers were arrested.

PETKIM was put on a new auction on 26 August 2003, and observing no prospective bidders, the auction was cancelled in early 2004.

Currently, 30 percent of the PETKIM's shares are prepared for public auction and biddings are being recorded for 13-15 April, 2005.

V-1-2. The Economic Performance of PETKIM

As can be read from the brief history of the privatization episode above, attempts to privatize the PERKIM plants had been a very confusing process since its very start. The legal structure could not have been laid out properly; there were continued pressures to downsize the market value of the enterprise as its "true" market value is clearly beyond any private venture's capacity.

As a matter of fact, the PETKIM enterprise is a giant industrial complex with an installed capacity of 1,564,000 tons/year in 2003. Its petro-chemicals production has been 2.6 million tons in 2003. The enterprise has been on a new investment programme and carried a total of \$676 million over 1990-2004 (see Figure 8).

<See Figure 8 >

What is not surprising is the observation that the investment programme in the PETKIM plants decelerated after they were put on the privatization programme in 1994/95. The feature of the post-privatization announcements leading to faltering investments is a clear outcome of the intentions to privatize the plant at a lower price, by arguing that "the plant needs investments". This argument has become almost an unwritten official strategy for attracting private investments by lowering the value of the costs of sale by arguing that the enterprise is "out-dated" and technologically backward. This strategy, of course, has all the undesirable consequences for the operation and viability of the enterprise itself.

In 2004 the PETKIM plants have domestic sales reaching to 1,046 thousand tons and exports of 264 thousand tons of petro-chemical products. Proceeds from these sales reached to \$1.2 billion in the same year. The sales revenue was \$0.8 billion in 2003. The domestic petro-chemicals market is expected to reach 5,900 thousand tons in Turkey. Petkim, by itself, can meet only 30 percent of this market. Clearly, the Turkish market needs expansion of the domestic production capacities in the immediate future. Failing to do so will lead to an over-

dependence of the Turkish industries to imported petro-chemicals intermediates and to the uncertainties of the world markets.

In spite of these realities, PETKIM is continuously placed under pressure to downsize. In the last five years alone total workers and administrative personnel has been cut by half. (See Table 6.) The downsizing of the employment level continues at an alarming rate currently, and the Undersecretariat of Prime Ministry, for instance, warns that “if the well-educated and trained personnel continues to leave Petkim at this rate, the future viability of the plant will be in serious risk”.

<See Table 6>

Total assets of PETKIM were estimated to be \$1.2 billion in 2004. Its revolving funds are \$430 million and its paid capital equity is \$134 million. It currently has cash holdings of \$109 million. Table 7 below gives a more detailed account of the current financial status of the enterprise.

<See Table 7>

In summary, PETKIM is a very crucial enterprise not only in Turkey, but also in Europe and Middle East as well. Turkey by itself, is a huge domestic market in the petro-chemicals industry (one of the five largest in the world, given its vicinity to Middle East). Thus, the expected profitability of the sector in the aftermath of the Iraqi invasion lures many foreign investors to the region, who show a special interest to PETKIM plants. Yet, the sheer size of the enterprise seems to have deterred many possible private ventures, and pressures continue for capitalizing the enterprise’s assets at underrated values.

V-2. Privatization Strategy over TUPRAS

TUPRAS (the Petroleum Refineries) is the largest single enterprise of the Turkish economy. It was constructed and designed initially along a vertically integrated structure of searching-production-refinerization-chain marketing of petro-chemicals. This structure, however, had been broken by an ideological mandate of privatization towards segmentation of the public enterprise system into smaller units so as to enhance its “purchaseability”.

In Turkey the activities towards searching, production and marketing of petroleum products are carried by the (partially) public-owned Turkish Petroleum Inc. (TPAO) and BOTAS. After a series of *un*-legal and corrupt privatization episodes, a new attempt was initiated in early

2005 to privatize the 51% public shares of the Tupras refinery, and the remaining shares of PETKIM through the *bloc-sale* method. The retail marketing chain, POAS, was privatized completely in 2000 (under significant pressures of the implemented IMF programme then). Thus, the vertical integration, which is a crucial issue in the efficient operation of the petroleum and chemicals industries, is broken into various units in expectation of easy-privatization. The costs of this “divide-and-sell” strategy already reveals itself in mismanagement, wasteful duplications across plants, and sub-optimal production levels with serious bottlenecks witnessed at various levels of the production process.

V-2-1. Economic Size of Tupras

Until recently, there were five petroleum refineries in Turkey with a total production capacity of 32 million tons/year for crude oil. With ATAS, the only private plant, going to only marketing activities in 2004, petroleum refinerization became a completely public-owned industry in the current era. In addition, Tupras has a 2.6 million m³ stock capacity of crude petroleum (50.2% of the total storage capacity in Turkey). These numbers put Tupras among the five largest petroleum refineries in Europe.

Furthermore, Tupras has an ongoing investment programme of \$2 billion to modernize its plants and to be able to meet the new environmental regulations of the EU. \$1.3 billion of this programme is already completed and with the planned installation of a new refinery with 10 million tons/year, it is expected that the enterprise will create employment of 1,000 new workers.

Per contra, employment at Tupras is on a falling trend. Since 2001 total employment declined by 8.7%, despite the fact that the last two years were a period of boom for the Turkish economy. Table 8 below gives the employment levels at Tupras.

<See Table 8>

What is striking is actually the fall in regular employees. It is observed that the fall in employment is not an issue of reductions in outside contracts, but an overall process ongoing at the enterprise. This scaling down goes hand in hand with under-payments of the wage-labor given the world standards. The Petroleum Workers' Union (Petrol-Is) reports based on the 2000 data that Tupras' workers' salaries were about half of their European counterparts. Table 9 documents this data. It is only the Iranian workers that Tupras seems to compare

favorably. This result obtains despite the presence of a well-educated technical staff and qualified personnel at the enterprise and despite the significant gains in labor productivity observed in the Turkish industrial markets.

<See Table 9>

Tupras has generated \$491 million of *net* profits in 2004. This gives a 40.4% rise over 2003. \$557 million of this was due to non-industrial operations (mostly *financial* investments at the Istanbul Stock Exchange Market) [what are "won-operations" this was a typo, sorry]. It has paid \$200 million of corporate tax revenues to the Treasury and generated 3.3% of the aggregate value added of the entire Turkish economy with a net contribution to the domestic economy a total of \$8.2 billion.

<See Table 10>

Table 10 summarizes the balance sheet of Tupras in 2004. The sheer size of Tupras and its geographical location make the enterprise an important target for the international monopolies. It is estimated that Turkey's demand for petroleum products will reach to 30 million tons in 2007, and to 44 million tons in 2020. Given the size of the necessary investments to cope with this demand, private enterprises seem reluctant to enter the refinering activities, and instead limit their activities to the marketing and retail sales.

Thus, if the privatization programme is realized as officially planned, it is highly probable that Turkey's domestic production will fall beyond the rising demand; the country's import dependence will rise, and this will put other sectors at risk. Given the unexpected fluctuations in the foreign exchange markets and the threats of financial speculations as narrated in the introductory pages of this Report, the fact that Turkey is going to leave its strategic intermediate goods production to the caprices of the world markets is a very serious risk for all its industrial sectors. In fact, Table 11 documents these trends on the market structure of Turkey. Over the last three years alone Tupras' share has been reduced by 25% in the domestic market.

<See Table 11>

V-2-2. Privatization Attempts over TUPRAS

Tupras' privatization history is no less than a collection of scandals in law. The enterprise was placed under the privatization programme on 10 July 1996, and its capital ownership was transferred to the Privatization Administration Council.

In 1991, 2.5% of its capital shares was sold to public under grade "A" shares. In April 2000 the second installment of public sale was completed jointly in the Istanbul and London stock exchange markets. This had brought the issued grade "A" shares to 34.24%. Finally in October 2003, the remaining 65.76% of the public shares was auctioned to be privatized. This auction was concluded in January 2004 and a consortium of Russian *Efremov-Kautschuk* and Turkish *Zorlu* group was declared the new owner for a total of \$1.3 billion. The Efremov group is polymer producer installed in 1992 in the Russian Federation. 51% of the firm's shares was purchased by the Russian petroleum conglomerate *Tatneft* in 2000. The remaining 49% of Efremov is currently owned by *Renix Finance Corporation*. The Renix Finance is a relatively less known financial conglomerate operating with a P.O.B address in the Virgin Islands (a place [?] better known with its generous tax heavens!).

Given the *un*-legal auction procedures and the dubious financial structure of the new owner, The Petroleum Workers' Union (Petrol-Is) opened 8 cancellation suits to-date against the privatization programme over Tupras alone. All of these cases had been successful thus far.

In 2005, the PA has again attempted to sell 14.76% of public shares in the Istanbul Stock Exchange to foreign investors. In March 2005 the *Capital Market Board* regulation agency (of Turkey) has found this sale *un*-legal. Following this verdict, in 3 May 2005, 51% of the public shares of the enterprise was placed into a new auction. Petrol-Is² law suits followed, and in 23 May 2005 the Supreme Court has found the petition of the Privatization Authority unwarranted, thereby canceling the current privatization attempt via the auction for block-sales.

Privatization of Tupras currently has become a battle of law between the Privatization Administration Council and Petrol-Is, with the government yielding to all the demands of the IMF who is pressing for the sale of the enterprise immediately.

V-3. Privatization Attempts over SEKA

The SEKA pulp, cellulose, paper and paper products enterprise is a public-owned industrial complex that suffered deeply from the neoliberal privatization programme. SEKA was

founded in the early days of the Turkish Republic in Izmit in 1936. This first paper plant had a 10 thousand tons annual capacity; and was joined with the second plant in 1944. The second plant had a 11.5 thousand tons annual capacity and had increased SEKA's product diversity to include both direct consumer products such as fine paper, cigarette paper, and also heavy-duty paper products. Another important production line of the growing SEKA industrial complex was cellulose production, a critical intermediate in the paper and paper products industry.

Thus, the SEKA public enterprise system had also an integrated production chain as in the petro-chemicals line as we have seen above. Being the sole supplier of *cellulose*, SEKA served for a critical vanguard against fluctuations in prices and shortages in imports of this critical input. As such the enterprise enabled the expansion of a profitable private sector which, in turn, concentrated in consumer products of fine-paper materials.

The SEKA enterprise system grew rapidly during the 1950s and 60s, and by 1970 it had reached to a size of ten plants, producing a wide range of paper products as well as their key inputs. In 1980, just before the implementation of the neoliberal reforms SEKA was at its zenith, with 617 thousand tons of annual capacity, employing more than 10,000 workers and technical personnel.

By mid-1980s, with the ideological shift towards private capital and market orthodoxy, SEKA was declared to have completed its vanguard mission in the paper industry. This ideological decision had no technical assessments on the needs and/or future trends of the Turkish paper industry, and was simply a matter of orthodox dogma that "the state should go out of the industry". All investment programmes in public paper manufacturing were cancelled starting 1981 and the rest of 1980s had been a period of chaos, mismanagement and poor planning and supervision. Finally in 1991 the enterprise was taken under the privatization programme. Despite this, SEKA continued to suffer from serious divestments and an onerous phase of plant closures began. In 1993 the cellulose plant's capacity was reduced; the factories "Number 4" and "Number 7" were shut down in 1995; the 9th factory was closed in 2002; and finally the 1st and the 5th factories had terminated their production in 2004. The machinery and capital equipment of these factories were "sold" to private enterprises at scrap prices. Currently, the SEKA enterprise had only the 2nd, 3rd and the 10th factories, producing at a very limited capacity of 73,000 tons per annum.

The SEKA's episode since 1980 is a case in neoliberal wasteful use of resources based on the dogma that the "*state shalt not produce!*" The programme was based on the ideology that if an enterprise cannot be sold to the private sector, then it should be granted no investments even to replenish its worn out capital equipment. The plant should be scaled down until its machinery and capital equipment loses its value to the point where it is regarded "affordable". This scenario was also observed in the telecommunications industry as was exemplified in Section II above. The neoliberal assault on public assets had no economic logic and was directed as a pure dogmatic belief against the public enterprise system.

The climax of this saga was reached in January of 2005, when the AKP government decided simply to shut down the existing plants. It was argued that the SEKA had exhausted its productive potential, and that it was not even worth to be privatized! What is disturbing in this decision was the fact that many technical assessments on the existing factories argued otherwise. A special report prepared by the Izmit plant management and released by the Workers' Union (*Seluloz-Is*) stated, for instance, that with a new productive investment programme totaling \$5.8 million in the existing plants in Izmit, the production capacity can be increased to 90 thousand tons/year, and the factory can continue production at a profitable level.⁵

In fact the existing technical data at the plant level lend support to the Management's commissioned report. Even under conditions of severe divestment and contractions, the Izmit plant continued to produce close to its capacity levels during the 2000s. Figure 9 documents the monthly production levels of the Izmit plant.

<See Figure 9>

The Figure discloses that, in spite of the fluctuations in market conditions, the plant's production has been in line with its operative capacity until late 2002. This outcome was achieved despite a severe process of labor shedding. Labor employment, which was already at a very low level by 2001, had been cut by almost half in 2 years that followed. (See Figure 10).

<See Figure 10>

Thus, the economic viability of the SEKA plant in Izmit clearly proved profitable. As a matter of fact, the latest data over the post-2001 period reveal that value added per labor (labor

⁵ Seluloz-Is, *SEKA Should Not Be Shut-Down* (in Turkish), 2005.

productivity) was quite favorable, and remained over the wage costs in indexed values. The factory seems to have recovered from the February 2001 crisis very quickly and was able to produce positive net value added covering its wage costs (Figure 11).

<See Figure 11>

Figure 11 also depicts a very clear process against labor incomes. Given the January 2001 level, wages in US\$ are observed to be reduced by almost 40% as of August 2002. Thus, the real brunt of adjustment to divestments and plant closures had directly been faced by labor: both wage earnings and employment had been reduced severely. It is no surprise that the workers' union had openly resisted to the ongoing assault of privatization and closure attempts.

Another fraudulent privatization episode was experienced at the *Balikesir* plant of SEKA. In March 2003, SEKA Balikesir was sold to the Albayrak group for \$1.1 million. The plant's market value was set at \$51.2 million initially. At that date, the plant was employing a total of 372 workers and 80 administrative personnel. It is one of the two paper factories in Turkey that produce print paper.

The sale of the Balikesir plant was put off in return to a case opened by the Paper and Pulp Workers' Union (Seluloz-IS). In October 15, 2003 the 2nd Administrative Court of Bursa has announced for the cancellation of the sale of the SEKA's Balikesir plant as there had been a severe case of violation of public interest. In return the Albayrak group has petitioned at the Higher Court and continued operation of the plant, ignoring the Bursa Court decision. The legal battle continues as of today where the Union and the Albayrak group are facing each other in a series of court battles. Currently, the production has stopped at the plant altogether...

The post-2000 at the Izmit plant level were by no means unique. A broader view over the whole public pulp, paper and paper products sector offer quite interesting observations:

In Figure 12, I provide official data supplied by the *State Institute of Statistics, Manufacturing Industry Surveys*. Data indicate that real labor productivity had been on an increasing trend since 1980. Measured in terms of real value added per labor in 1980 producer prices, productivity has been constantly higher than wage costs (with 1992 being the sole exception).

<See Figure 12>

Starting at almost par in 1980, average labor product has outpaced wages per labor by nearly 4-folds in late 1980s and early 1990s. The threat of unemployment and the severe retrenchment of investments under the neoliberal assault has definitely taken its toll on labor incomes in the public manufacturing industry.

What is interesting is that despite the severe contraction at the enterprises' capital investment expenditures, labor productivities continued at a comparable level when contrasted against the private paper enterprises. The above quoted SIS data are further illustrative of this point.

<See Figure 13>

In Figure 13, the average real value added per labor (labor productivity) data are given in index values (1980=100) over 1980-1999 (the last available data year). Public enterprises' productivity increases outpace private firms over the two decades with only three exclusions: 1992, 1997, and 1999. This result is the outcome of labor shedding at the public plants, but it also reveals that the vertically integrated initial structure of SEKA (covering from cellulose to final consumption of end-products) enabled the public enterprise system to cope with the cycles of the Turkish economy more rationally.

This outcome, of course, could have been realized despite very severe contractions in investments, a point made earlier. In Figure 14, the SIS data clearly narrate this observation.

<See Figure 14>

Fixed investments at the public paper and paper products manufacturing industry had been reduced to almost nil when measured in fixed prices (1980=100). The divestment accelerated especially after 1991 when the enterprise was put on the privatization list.

In summary, this privatization story also shares the common themes of the Turkish history that attempts to privatize had actually meant a direct assault on public management and against labor employment and wages.

Given this dogmatic ideological assault on labor, the workers of the SEKA Izmit plant resisted to the government's decision to close the plant. They have taken over the plant with their families in January 2005. Their resistance gained a large support both in Izmit and also at the national level. With strong government pressure, however, the Ankara 9th Court had decided in favor of the closure procedures. In late February, the plant was transferred to the city municipality which had plans for transforming the factory into a resort park! The workers abandoned the plant in exchange for promises that they will be employed in the municipality

(not necessarily at their professional positions). The irrationality and waste of the privatization dogma in the public paper manufacturing industry is beyond calculable levels either economically or socially.

V-4. Privatization of the Iron and Steel Plant: ERDEMIR

ERDEMIR is a jointly owned iron and steel industrial complex which is on the privatization list since 30 April 1987. Erdemir is one of the leading steel enterprises in the world with an advanced technology enabling strong efficiency gains and high profit margins. Its currently installed steel production capacity is 3.5 million tons/year. Given the average total domestic demand of 7-8 million tons, Erdemir can meet almost half of the Turkey's steel needs single-handedly. Erdemir is currently implementing a new investment programme totaling \$2 billion and is planning to expand its installed productive capacity to 7 million tons/year.

Since the date of privatization decree, only 2.93% of public shares was sold at public offers. The results of this sale were many thousands of small investors from the household sector who had paid a total of \$53 million to these shares. The government, not being satisfied with the past 18 years of privatization attempts, is currently preparing the sale of its remaining 49.93% shares to a single purchaser via *bloc-sale*. Many of the largest steel corporations of the world among them the *US Steel*, *Arcelor* (French, Spanish and Luxemburg conglomerate), *Corus* (British and Holland company) *Mittal* (Indian) are expected to bid in the auction for bloc sale. At the outset no prospective domestic buyer is recognized yet.

The pre-auctioning process is by no means different than the previous episodes in privatization: politicized preferential considerations, mismanaged and often fraudulent managerial calculations of the "market-value" of the plants and equipment, and a dogmatic ideology that the privatization should be achieved under all costs, immediately!

In fact, one of the key political motivations of the Prime Minister Mr. Erdogan in preferring the sale of Erdemir to the *Arcelor group* is an attempt to gain French support in the upcoming membership negotiations with the EU. Mr. Erdogan has met with the French President, Mr. Chirac in late 2004, and already signed an initial agreement on the conditions of the sale of Erdemir to Arcelor. During these meetings, Mr. Erdogan has also showed an interest to the French Airbuses and tried to take the French public to the Turkish side by offering attractive deals on Erdemir as well.

V-4-1. Economics of ERDEMIR's Privatization

Erdemir is a giant iron and steel complex with 9 plants employing more than 15,000 workers and technical staff. The complex was initially founded in 1961 as a joint venture with 35% of public ownership and private firms including Turkish Is Bank (30%), Ankara Chamber of Commerce (12.9%) and American Koppis (22.5%). Along the years Erdemir's owners changed and the public's share has increased to as much as 53%. The current auction plan is to offer 46.12% of the Privatization Administration shares and the 3.81% of the Investment Bank shares (totaling 49.93%) as *bloc sale to one single buyer*.

It has to be noted that the Erdemir complex is not limited only to an iron and steel industry. With the privatization package included is the following:

- ISDEMIR: one of the largest integrated iron-steel companies in Turkey. It is currently employing more than 6,000 workers and with the completion of its capital investments in 2007, it will reach to a production capacity of 3 million tons per year.
- ERDEMIR-Mining Co. It holds half of the issued permits in mining and quarrying in Turkey, employing 400 workers.
- CELBOR: Recently joined to Erdemir, the company has a monopoly position in Turkey in the production of non-sewed steel pipes used by the arm-forces.
- ERENCO: The services chain of Erdemir that offers investment, engineering and consulting services.
- Two harbors, one in Black Sea and one in the Mediterranean. Both of them are among the largest in their respective regions.
- ERDEMIR-Romania: The Romanian company was bought by Erdemir recently. It produces flat steel products and currently employs 376 workers.

Thus, the Erdemir complex is clearly a priceless venture whose current and future contributions to the public enterprise system are unique and the transfer of such assets have no clear economic justification at all.

Erdemir's "market" values of the public shares are currently estimated at around \$1-1.5 billion. This sum should be contrasted with the net profits of \$500 million in the last year alone. Thus the planned bloc-sale is expected to make a contribution of only two years'

profits to the Treasury. In fact, when calculated in the context of the TUPRAS and PETKIM complexes introduced above, the Turkish privatization programme is offering its enterprises at a value equal to their net profit transfers already being supplied to the Treasury. With the realization of the programmed privatization, however, such profit earnings would be lost and what's more, Turkey will be more dependent on imports of these strategic inputs.

VI. Conclusions

In this Report, the economic, political, and social aspects of the Turkish privatization episode are narrated with a detailed focus on the key industrial sectors. This episode has begun in mid-1980s, and has always been a concomitant feature of the neo-liberal orthodoxy that had been carried under the *Washington consensus* institutions' directives since 1980.

Originally the privatization ideology was based on "economic efficiency" arguments based on the myth that private sector decisions are always *rational and efficient*, whereas the public sector is *inherently corrupt* and its policies *lead to waste*. Over the course of time, however, the main objective of privatization had shifted towards mainly revenue generation and financing of the public debt. Thus, a clear shift of focus has occurred away from *efficiency* arguments of the so-called *technologically backward state enterprises*, towards revenue generation from sale of the most technologically advanced and profitable enterprises.

In fact a critical feature of the Turkish privatization programme was that it was marked with an official decision to reduce investments towards the state-owned enterprises which were placed under the privatization list. Fixed investments to the state economic enterprise system has been on a continuous downward trend, where fixed capital investments were cut by half between 1985 and 1995. The post-2001 adjustments under the IMF programme had called for deeper reductions in public investments.

The main logic of reduced investments in the state-owned enterprises was to draw support to the fallacious argument that the public sector is "inherently inefficient", and that its enterprises are always "loss-makers". By cutting the required investment lines of the state enterprises, it was easier to "prove" that they were indeed "inefficient and backward". Furthermore, it was projected that by declaring them as "technologically backward", it would be easier to sell the strategically situated-high technology industrial complexes at cheaper prices. Thereby

“Turkey would be able to attract foreign capital!” – the official motto of the neo-liberal orthodoxy.

Thus, in the Turkish context, the current privatization attempts ought to be regarded as an episode of revenue generation and surplus transfer to the capital-owners via the privatization programme under close supervision of international finance capital and the IMF.

Under these trends, if the privatization programme is realized as officially planned, it is clear that Turkey’s domestic production will fall beyond the rising demand; the country’s import dependence will be intensified, putting all sectors at risk. Given the unexpected fluctuations in the foreign exchange markets and the threats of financial speculations, the fact that Turkey is going to leave its strategic intermediate goods production to the caprices of the world markets is a very serious risk for all its industrial sectors.

In conclusion, in Turkey, as elsewhere, privatization meant corruption, rent seeking, and unlawful episodes aimed at transferring public property to the domestic and international capital at fire-sale prices...

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