GLOBALIZATION AND THE CONTRADICTIONS OF STATE RESTRUCTURING IN TURKEY

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A DISSERTATION SUBMITTED TO
THE FACULTY OF GRADUATE STUDIES
IN PARTIAL FULFILLMENT OF THE REQUIREMENTS
FOR THE DEGREE OF
DOCTOR OF PHILOSOPHY

GRADUATE PROGRAM IN POLITICAL SCIENCE
YORK UNIVERSITY,
TORONTO, ONTARIO

JUNE 2008

Your file Votre référence
ISBN: 978-0-494-46010-8
Our file Notre référence
ISBN: 978-0-494-46010-8

ABSTRACT

This thesis has argued that the contradictions of state restructuring in response to the internationalization of capital can be understood with reference to the contradiction between the internationality of capital accumulation and the nationality of states. This contradiction is reflected within national states as increasing divisions over economic policies, as states have to internalize and mediate the conflicting demands of unevenly internationalized capitals operating within their territories. The process of mediation involves two major mechanisms, which were initially identified by Palloix (1975) and Poulantzas (1979). The first mechanism is the change in the internal hierarchy of states in the phase of internationalization of productive and money capital, which Palloix identified as the key to reforming the state apparatuses. The second mechanism is what Poulantzas identified as the formation of 'authoritarian statism', defined as the transfer of power from the political scene to the state apparatus, and its centralization within the executive branch. This thesis has built upon these two arguments made by Palloix and Poulantzas in understanding state restructuring in response to the internationalization of capital in Turkey.

Turkey has gone through three main phases in terms of the relationship between the internationalization of capital and state restructuring. The first phase is the period of 1960-1980, which has witnessed the earliest forms of authoritarian statism in response to the requirements of the import-substitution industrialization, the first phase of internationalization of Turkish capitalism. The second phase is the period from 1980 to the late 1990s, which is marked by the rise of neoliberal authoritarian statism that

accompanied the second phase of internationalization based on commercial and financial liberalization. Finally, the third phase that started in the late 1990s has witnessed the consolidation of neoliberal authoritarian statism in response to the new orientation of Turkish capitalism towards global integration on the basis of productive capital. As the specific case study, this thesis has focused on the transformation of the public procurement law that came to the agenda in this last phase of consolidation of neoliberal authoritarian statism.

This work is dedicated to the memory of my mother, Şükran Korkut,

and my father, Hüseyin Korkut.

ACKNOWLEDGEMENTS

I would like to start by expressing my profound gratitude to Greg Albo, my thesis supervisor, for his constant support, guidance and encouragement throughout my graduate studies at York University. I owe him a large debt for many things, including his generosity with his time and energy. This thesis could not have been completed without his patient and dedicated support and friendship. I would also like specially to thank Leo Panitch, whose suggestions and extensive comments on the original draft were invaluable. Thanks are also due to Sam Gindin, who agreed to review the dissertation on a relatively short notice. I will always consider myself very lucky to have known them. I also thank the other members of my examining committee, Mustafa Koc, Raju Das and Laam Hae for their insightful comments regarding the dissertation. I further wish to thank the professors and graduate students in the Political Science Department at York University for many stimulating discussions over the years. I especially am grateful to George Comninel for his support since my first year at York University. I would also like to thank our graduate program secretary, Marlene Quesenberry and administrative assistant, Angie Swartz for their help.

Many friends in Turkey have helped the writing of this thesis in different ways. I would like particularly to thank Fuat Ercan. The two papers we wrote together improved the framing and analysis of my thesis profoundly. I especially owe the development of my arguments in Chapter 3 to him. Also, he is the one who directed me to the study of public procurement law as the specific case study. I thank him not only for his friendship, encouragement and close guidance in the preparation of this thesis, but also for directing many young Turkish scholars to historical materialist studies at a time when it was desperately needed.

Without the intellectual and emotional support of good friends, this thesis would not be possible. I would like to signal out for acknowledgement Selime Güzelsarı and Hülya Kendir for always being there for me, sharing the pains and joys of life and bearing with my long phone talks over the years. I wish to convey my heartfelt appreciation to Elvan Gülöksüz for her caring friendship, and my special thanks to Fuat Özdinç, Yasemin Özgün, Cenk Saraçoğlu, Kameray Özdemir, Erdem Çalışır, Sevgi Adak, Gül Çalışkan, Bilgin Ayata, Pınar Bedirhanoğlu, Christoph Hermann, Barış Karaağaç, Cemal Açıkgöz, Sonay Bayramoğlu and İbrahim Gündoğdu for their friendship and support in various stages of the writing of this thesis.

Finally, I would like to thank my mother, Şükran Korkut, whom I sadly lost in 2002, my father, Hüseyin Korkut, and my sister, Füsun Ersoy for their love and support. I would, lastly but most importantly, like to thank my partner, Timur Fadıl Oğuz, for his immense support over the years.

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AID	Agency of International Development
AKP	Adalet ve Kalkınma Partisi (Justice and Development Party)
ANAP	Anavatan Partisi (Motherland Party)
AP	Adalet Partisi (Justice Party)
ATO	Ankara Ticaret Odası (Ankara Chamber of Trade)
BRSA	Banking Regulation and Supervisory Agency
CCIIE	Coordination Council for the Improvement of the Investment Environment
CHP	Cumhuriyet Halk Partisi (Republican People's Party)
CPAR	Country Procurement Assessment Report
CUSİAD	Cumhuriyetçi Sanayici ve İşadamları Derneği (The Association of Republican Industrialists and Businessmen)
DİSK	Devrimci İşçi Sendikaları Konfederasyonu (Confederation of Revolutionary Trade Unions)
DFL	Decree in the Force of Law
DSP	Demokratik Sol Parti (Democratic Left Party)
DYP	Doğru Yol Partisi (True Path Party)
EMO	Elektrik Mühendisleri Odası (Chamber of Electrical Engineers)
ERT-TEBC	European Round Table of Industrialists-Turkish Enlargement Business Council
EU	European Union
FDI	Foreign Direct Investment
FIAS	Foreign Investment Advisory Service
FTC	Foreign Trade Companies
GATT	General Agreement on Tariffs and Trade
GNP	Gross National Product
GPO	Government Procurement Agreement
HCBEA	Higher Coordination Board of Economic Affairs
HDPPA	Housing Development and Public Participation Administration
IAC	Investment Advisory Council
IFC	International Finance Corporation
IMF	International Monetary Fund
IRA	Independent Regulatory Agency
ISI	Import Substitution Industrialization
İNTES	Türkiye İnşaat ve Tesisat Müteahhitleri İşveren Sendikası (Construction and Installation Contractors Employers' Association of Turkey)
KİGEM	Kamu İşletmeciliğini Geliştirme Merkezi (Foundation of Development of Public Management)
MGK	Milli Güvenlik Kurulu (National Security Council)
MHP	Milliyetçi Hareket Partisi (Nationalist Action Party)
MÜSİAD	Müstakil Sanayici ve İşadamları Derneği (The Association of Independent Industrialists and Businessmen)
OECD	Organization for Economic Cooperation and Development
OEEC	Organisation for European Economic Co-operation
OYAK	Ordu Yardımlaşma Kurumu (Armed Forces Trust and Pension Fund)
PSBR	Public Sector Borrowing Requirement
PPA	Public Procurement Authority

PFPSAL	Programmatic Financial and Public Sector Adjustment Loan
RP	Refah Partisi (Welfare Party)
SEE	State Economic Enterprises (Kamu İktisadi Teşekküklleri)
SHP	Sosyal Demokrat Halkçı Parti (Social Democratic People's Party)
SIGMA	Support for Improvement in Governance and Management
SP	Saadet Partisi (Fecility Party)
SPO	State Planning Organization
TEPAV	Türkiye Ekonomi Politikaları Araştırma Vakfı (Economic Policy Research Foundation of Turkey)
TESEV	Türkiye Ekonomik ve Sosyal Etüdler Vakfı (Turkish Economic and Social Studies Foundation)
TIM	Türkiye İhracatçılar Meclisi (Turkish Exporters Assembly)
TİMSE	Türkiye İnşaat Müteahhitleri İşveren Sendikası (The Construction Contractors Employers' Association of Turkey)
TİP	Türkiye İşçi Partisi (Turkish Labour Party)
TİSK	Türkiye İşveren Sendikaları Konfederasyonu (Turkish Confederation of Employer Associations)
TMB	Türkiye Müteahhitler Birliği (The Turkish Contractors Association)
TNC	Transnational Corporation
TOBB	Türkiye Odalar ve Borsalar Birliği (Union of Chambers and Commodity Exchanges of Turkey)
TÜRK-İŞ	Türkiye İşçi Sendikaları Konfederasyonu (Confederation of Turkish Trade Unions)
TÜRKONFE D	Türk Girişim ve İş Dünyası Konfederasyonu (Turkish Enterprise and Business Confederation)
TÜSİAD	Türkiye Sanayicileri ve İşadamları Derneği (Association of Turkish Industrialists and Businessmen)
TRIMs	Trade-Related Investment Measures
TSKGV	Türk Silahlı Kuvvetlerini Güçlendirme Vakfı (Foundation for Strengthening the Turkish Armed Forces)
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Program
USİAD	Ulusalcı Sanayiciler ve İşadamları Derneği (The Association of Nationalist Industrialists and Businessmen)
WB	World Bank
WTO	World Trade Organization
YASED	Yabancı Sermaye Derneği (Foreign Capital Association)
YAŞ	Yüksek Askeri Şura (Supreme Military Council)

CHAPTER 1

Introduction

Capitalist development in Turkey has been a contradictory process from its beginning in the late 19th century. There are three main factors that have contributed to shaping Turkish capitalism: the contradictions of capitalism in general, and of late capitalist development in particular, and the historical specificities of the Turkish social formation. From the 1960s onwards, with the rapid development of industrial capitalism in Turkey, all these factors have compounded and intensified the inter-class, intra-class and intra-state conflicts, leading to a series of crises and regime changes. Following the economic crisis in 1977-79 and the military coup of 1980 that followed, a new phase of outward-oriented capitalist development guided by neoliberal policies began. However, contrary to neoliberal expectations that economic liberalization would bring political stability, the intensity of social conflicts in Turkey in the post-1980 period, and especially after the late 1990s, have reached unprecedented levels. The conflicts can be observed not only between labour and capital, but also within capital and the state. By the late 1990s, the conflicts within the state have become so unsustainable that when Kemal Derviş, the ex-Vice President of World Bank and the Turkish Minister of State in charge of the Economy, finally decided to get directly involved in politics in 2002, he would explain his main motive as "the urgent need he felt for building a consensus among different organs of the state". It is the contradictory nature of neoliberal state restructuring in Turkey which will be the object of inquiry in this dissertation.

1. Theoretical Problematic of the Study

The process of neoliberal globalization has brought significant changes within national state apparatuses, specifically in the units of economy administration. The main problematic of this study is how to understand the contradictory nature of these changes. This involves three inter-related theoretical questions. The first question is straightforward: why is state restructuring in response to globalization a contradictory process? This study will argue that the keyword in answering this question is the internationalization of capital. This process has been mystified under the rubric of 'globalization' as it obscures these contradictions.[1] In that sense, 'globalization' is an ideological term that needs to be demystified. In contrast, the term 'internationalization of capital' implies, first of all, that the 'national' level still matters both in the sense that national spaces are still relevant for capital accumulation, and that international capital accumulation cannot proceed without nation-states; and second, that it is primarily capital, foremost as a social relation but also as specific form of value and property claims, that is internationally mobile in the so-called globalization process.[2] In Albo's words "globalization is an internationalism only of the capitalist class" (Albo, 1996: 17).

In this framework, it can be argued that the main reason why the current restructuring of states is a contradictory process is that the internationalization of capital, which intensifies the conflicts among different sections of capital and their demands on the state, leads to intra-state conflicts over economic policies.

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[1] As Bryan (1995) and Albo (2002: 10) point out, the term 'contradiction' here is very important as it indicates that the issues involved are not just technical 'problems' to be resolved by judicious policy, but are inherently irresolvable.

[2] As Koc (1994) puts it, "despite an increasing tendency toward globalization of financial and commodity markets, this process has largely excluded labor" (271).

The second question concerns the state: does the internationalization of capital also necessitate the internationalization of political-administrative processes? Broadly speaking, it is possible to say that there are two main theoretical camps on this question. On the one side, there is a wide range of approaches that have become popular, especially in the context of the expansion of capitalism on a world scale following the collapse of the Soviet Bloc. These approaches tend to theorize globalization as the increasing deterritorialization of social relations, as in Hardt and Negri's (2001) concept of empire, or the writings of neo-Gramscians and their emphasis on transnational state-civil society complexes (van der Pijl, 1998). These approaches, which are often grouped under the heading of 'hyper-globalization' thesis, argue that not only economic, but also political-administrative processes, have become internationalized. They thus tend to treat both the space of capital accumulation and the space of state action as global. Accordingly, they focus exclusively on the global scale and cannot explain the contradictions of state restructuring within specific social formations.

A major challenge to this thesis has come from neo-institutionalist, regulationist and national-developmentalist approaches, which argue that both economic and political processes are still primarily national. These approaches, which can be grouped under the heading of the 'sceptical thesis', theorize globalization as the increased competition between national blocs of capitals supported by their own states.[3] Although these approaches form an alternative to the completely deterritorialized approaches, their understanding of territoriality is also problematic, as it assumes a correspondence between the space of capital accumulation and the space of state action, reducing the contradictions of internationalization to a rivalry among national blocs of capitals and

[3] I borrow the terms "hyper-globalization thesis' and 'sceptical thesis' from Kiely (2005).

states. In brief, what is problematic about both camps is the compatibility between the space of capital accumulation and the space of state action, whether at the global or national level. This makes it impossible to explain the contradictions of international accumulation process as reflected within specific social formations.

There is a third alternative, however, which has its roots in the literature of the 1970s on the internationalization of capital and the state. There are three main authors who must be mentioned in this context: Murray, Poulantzas, and Palloix. The main problematic of this literature was the question of how multinational corporations affected the state form. In 1971, Murray argued that the rapid post-war expansion of multinational corporations led to a 'territorial non-coincidence' between internationalizing capitals and their domestic states (Murray, 1971). According to Murray, the main question at this point was what political form would take care of the public functions of the internationalizing capitals. In 1974, Poulantzas argued that these functions have to be internalized by nation-states themselves, because the reproduction of the international capital accumulation process is not a technical issue that can simply be transferred to supranational organizations. Rather, it necessitates the reproduction of power relations as a whole, with all their ideological and cultural complexities, through the nation-state (Poulantzas, 1974). In 1975, Palloix argued that in the historical development of the internationalization of capital, certain parts of the state submit to the international situation and reflect the necessity for international standards in the structure of national production and trade for internationalizing capitals. Thus, "the state becomes hierarchical as a result of the predominance of the monetary sanction, reflecting internationalization."

However, "the internationalization of certain parts of the state, does not lead to their replacement by a supranational organism" (Palloix, 1975).

The implication of these three approaches is that, even when economic processes are internationalized, their administration remains primarily a national affair. In the globalization context, this idea has been revived in the works of authors such as Bryan (1995), Tsoukalas (1999), Albo (2002), Panitch (1994), Panitch and Gindin (2002, 2004), who emphasize the contradiction between the internationality of capital accumulation and the nationality of states, and how this contradiction is reflected within each nation-state as conflicts within the economic bureaucracies. The economic bureaucracies of the state now have to mediate the conflicts among different sections of capital divided according to their uneven degrees of integration with the world market.

A third theoretical question is how conflicts amongst different sections of capital are managed in the internationalization process. This study will argue that these mechanisms can be understood with reference to the concept of *'authoritarian statism'*, a term coined by Poulantzas (1978) and reiterated in the neoliberal globalization context by Jessop (2006), Kannankulam (2003), Thomas (2000) and Essex (2007) among others. The most evident features of authoritarian statism are the decline of the political scene, the strengthening of the executive, and the political role assumed by the state administration (Poulantzas, 1978: 217). Poulantzas did not specifically refer to the internationalization of capital when he used the concept of authoritarian statism. Rather he used it to define the new state form that emerged to contain the specific contradictions of capitalism in the late 1970s. As such, the concept of authoritarian statism has its own historical specificities. However, the core tendencies associated with authoritarian statism have become even more relevant today, "as these tendencies are grounded, among other reasons, in the changing international division of labour and the internationalization of capitalist relations of production under the dominance of the USA, which from today's perspective can be regarded as the beginning of globalization" (Kannankulam, 2003). But what differs in the current form of authoritarian statism from what Poulantzas described in the 1970s is its *neoliberal* character. In this thesis, therefore, I will use the term *neoliberal authoritarian statism* to refer to the current form of state restructuring. This allows the usage of Poulantzas's concept of authoritarian statism without dehistoricizing it from the 1970s crisis of liberal democracy in Western Europe in which it emerged. And, in the Turkish case, it will also make it possible to differentiate the neoliberal authoritarian statism of the 1980s from the earlier versions of authoritarian statism in the pre-1980 period. As Essex (2007) points out, "the precise material development of authoritarian statism is variegated and contingent on the pre-existing institutional and sociospatial configuration in each state" (79). This is particularly important for understanding the Turkish case, where the origins of authoritarian statism can be traced back to the 1960s, but it is only after 1980 that authoritarian statism has assumed a neoliberal character.[4]

In using the term authoritarian statism in the Turkish context, it is also important to remember that authoritarian statism is a 'form of state', not a 'form of regime' in Poulantzian terms. According to Poulantzas (1968), 'forms of regime' are related to the

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[4] In this thesis, I use the concept of authoritarian statism in a specific sense, referring to the administration of the economy at a certain stage of the internationalization of Turkish capitalism. Therefore this usage of the term does not have any connection to the debate on the historical roots of the authoritarian character of Turkish state in the late Ottoman period, known as the 'strong state tradition' debate. See Dinler (2003) for a critical overview of this debate.

procedural and institutional aspects of a political system, such as parliamentary or presidential regimes. 'Forms of state', in contrast, are defined in relation to certain stages of capitalism, based on the analysis of the constitution of the power bloc and the relations between classes. This distinction is quite important for understanding the Turkish case. As Güveloğlu (2003: 123) points out, in contrast to advanced capitalist countries where the changes in the form of state often take place without a change in the form of regime, in peripheral countries, they are generally accompanied by changes in the form of regime. This has been the case in Turkey, where the form of state corresponding to the stage of capitalism from the 1960s to the present has been authoritarian statism. The same period has also witnessed five military interventions, starting with the 1960 coup.

From this essential analytical premise, this thesis will study the restructuring of the state in response to the internationalization of capital in Turkey in three consecutive phases.[5] The periodization that will be followed is summarized in Table 1.1 below.

Before going further, a brief overview of the main characteristics of the internationalization of capital and state restructuring in Turkey will be provided, so that it can serve as a guide for the rest of the thesis. While doing so, due weight will be given to both structural dynamics of capital accumulation and the interventions of political actors and social classes. In other words, both political economy and political sociology will be drawn upon in an attempt to understand the historical transformation of Turkish capitalism.

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[5] This thesis focuses on the transformation of state apparatuses in response to the internationalization of capital. Therefore it does not go into the theoretical debates on crisis and imperialism. Similarly, it treats factors such as religion and ethnicity as *ceteris paribus* parameters. For the same reasons, the thesis uses a class fractions analysis of the state: the thesis looks less at the state's interventions to the labour-capital relationships and concentrates on intra-capital relationships. However, this does not rule out the fact that the main policy for states that can please all parts of capital in the internationalization process is the assault on labour (Bryan, 1995).

Table 1.1: Three Phases of Internationalization of Capital and State Restructuring in Turkey, 1960-2007

	Internationalization of capital	**Restructuring of State**
1960-1980	Formation of domestic productive capital through international relationships with foreign capital	Authoritarian statism
1980-Late 1990s	Internationalization through commercial and financial liberalization	Rise of neoliberal authoritarian statism
Late 1990s-present	Internationalization based on productive capital accumulation	Consolidation of neoliberal authoritarian statism

2. The Internationalization of Turkish Capitalism

This thesis will argue that the internationalization of Turkish capitalism went through three main phases. The first phase started in the late 1950s, when certain sections of domestic commercial capitalists turned to industrial production in cooperation (through joint ventures and licensing agreements) with foreign capital. The model was based on the production of durable consumption goods with imported inputs serving a relatively high-income internal market. In the 1960s and 1970s, a group of domestic productive capital groups that grew through this model achieved a certain capital adequacy and formed holding companies, each having their own banks. These companies formed the hegemonic fraction of the bourgeoisie, which came to be known as the 'first-generation bourgeoisie' or 'Istanbul bourgeoisie'. Owing this existence to the Kemalist state, this fraction of capital was a strong supporter of the project of integration with the Western capitalist countries. With the spatial spread of capitalism into the Anatolian provinces in the 1970s, a new fraction of the bourgeoisie, composed of the small and medium capital groups of Anatolian towns, and known as 'second-generation bourgeoisie' or 'Anatolian bourgeoisie,' emerged. Due to the deep-seated ties of the dominant fraction of the bourgeoisie with the secular state and Western capital, this fraction historically leaned towards Islamic parties and supported integration with the Middle East.

By the end of the 1970s, big holding companies, which absorbed most of the potential of inward-oriented accumulation, sought new openings through integration with the world market. To be able to do this, they needed new financial sources in the form of foreign exchange, and this required a change in the economic policies towards an increased export orientation. Internationally, this demand coincided with the search of globally expanding capitals for new areas for expansion. The transition to export-oriented accumulation in 1980, which formed the second phase of internationalization of Turkish capitalism, came into being as a result of these internal and external dynamics.

With the transition to export-oriented accumulation, the power relationship between the two fractions of the Turkish bourgeoisie changed dramatically. As Turkish exports gravitated toward labour-intensive manufactures, small labour-intensive manufactures in Anatolian towns, which were linked to large retailers in advanced capitalist countries, experienced rapid growth and came to be known as the 'Anatolian Tigers'. As these firms grew, they turned to two types of Islamic financial sources for further growth: the remittances sent by religious Turkish citizens working abroad, and petro-dollars that came through interest-free banking. Through these sources, some Anatolian-centred capitalists formed their own holding companies.

During the 1980s, the export boom as well as wage suppression policies brought new opportunities for both these Anatolian firms and big holding companies. It was not too difficult for the ANAP (Anavatan Partisi – the Motherland Party)[6] to represent the political unity of both sections of capital under the hegemony of the big bourgeoisie. From 1983 to 1991, the ANAP formed single party governments that successfully represented bourgeois unity. By the end of 1980s, however, the export drive lost its momentum due to the over-dependence on labour-intensive goods and a substantial increase in wages following a new wave of labour protests. At this time, external financial liberalization was seen as a unique opportunity to overcome the difficulties inside Turkey. Through the transition into the convertibility of the Turkish Lira in 1989, a new phase of accumulation based on the inflow of international money capital began.

Throughout the 1990s, financial liberalization worked as a mechanism for the state-mediated resource transfer to holding banks. Financial investments by banks with funds obtained on international markets as credit denominated in dollars were later converted into Turkish lira, and then loaned to the government at high interest rates, was the distinguishing character of the 1990s. This mechanism not only served as a new accumulation pattern for big holding companies, it also met the state's need for easy finance of its fiscal deficit resulting from the rise in real wages in the late 1980s.

Many Turkish scholars interpreted this pattern of accumulation as a rentier type of economy marked by the predominance of speculative financial interests over the real sector.[7] According to this view, the formation of productive capacity in the country was neglected because banks ignored their primary functions and instead pursued speculative gains. However, these banks all belonged to holding companies, which combined

[6] The ANAP was a center-right party founded in 1983 by Turgut Özal. In terms of its economic policies, it was deeply neoliberal. However, it represented itself as a de-ideologized and technocratic party, and thereby gained the support of the military as well as broad sections of society.
[7] The most prominent among these scholars is Yeldan (2001; 2006).

productive, commercial and money forms of capital in a single corporate structure. Thus, money capital that circulated through short-term capital flows was channelled to these big capital groups through their banks, and increased their profits tremendously. In that sense, the conflict was not between the real sector and financial sector, but between big holding companies that had their own banks and small Anatolian companies that did not. The conflict between these two sections of capital mounted throughout the 1990s, and made it impossible for a single political party to represent the bourgeois unity in the political scene. Accordingly, the period from 1991 to 2002 in Turkey was marked by successive coalition governments.

In the 1994 local elections, the Islamic RP (Refah Partisi – Welfare Party) candidates for mayor won in 28 out of 76 provincial capitals, including Istanbul and Ankara. This was a turning point as it changed the composition of local companies awarded with contracts to provide local services. Especially in sectors like construction, retail trade and urban consumption, Islamic companies grew rapidly through the support of local governments. These developments initiated concerns on the part of Istanbul-based big bourgeoisie. The worries mounted after the RP won the general elections in December 1995 and formed a coalition government with the DYP (Doğru Yol Partisi – True Path Party).[8] In February 28, 1997, the military-led National Security Council declared that Islamic fundamentalism in Turkey should be fought by all means. The government was forced to resign, and the RP was closed down. The February 28th intervention mainly curbed the power of big Islamic holding companies funded from abroad. At the same time, it forced rapidly growing medium sized domestic Islamic

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[8] The DYP was a centre-right party established by Süleyman Demirel in 1983. It was in power from 1993 to 1996. It succeeded the historical Democratic Party and the Justice Party – two parties with similar ideologies which were terminated as a result of military interventions.

companies to tone down their discourses on Islam. Among them were companies that grew through the incentives provided by the organized industrial districts and that were open to international markets, as well as companies that grew via the support of Islamic local governments after 1994. As these sections of capital grew and internationalized, they became differentiated from the small Islamic businesses still operating in the national market. This differentiation found its political expression in the split within the Islamic movement in the late 1990s. While the former group would form the support basis of the reformist AKP (Adalet ve Kalkınma Partisi – Justice and Development Party), the latter group would back the traditionalist SP (Saadet Partisi – Felicity Party).

As the new divisions within capital induced by internationalization became increasingly crystallized in the 1990s, it became impossible for a single political party to represent the unity of the bourgeoisie in the political scene. The most significant sign of the crisis of the political representation of capital during the 1990s was the rapid increase in the number of business organizations. A multitude of new business associations emerged to represent the new divisions within capital induced by internationalization and complicated by factors such as size, function, region, and sector as well as religious and political orientations.

By the end of the 1990s, the potentials of accumulation through the inflow of international money capital reached its limits, as the short-term character of this capital accumulation eventually resulted in a decline in investments and led to a series of economic crises. Consequently, the third phase of internationalization of Turkish capitalism based on increased productive capacity of industry emerged. One of the important steps in this direction was the banking reform that aimed to end the resource transfer to holding banks through state borrowing, and restructured the banking system according to international standards. Another crucial step was the 'Reform Program for the Improvement of the Investment Climate' launched in 2001 to increase the productivity and international competitiveness of firms operating in Turkey. It was in this period that foreign productive capital started to become an important internal actor in the Turkish economy, besides the big internationalized domestic capital groups, internationalizing medium sized capital groups, and the small firms still operating in the national market.

These developments led to the formation of a new consensus within the bourgeoisie on the basis of international competitiveness, which included a new assault on labour through the new Labour Law of 2003 that introduced flexibility in the workplace in order to encourage foreign and domestic investments. This consensus was quickly captured by the AKP, which managed to respond to the demands of all sections of capital. Although its initial electoral basis was the internationalizing medium sized capital groups, the AKP compromised these interests with the interests of big domestic and foreign capital soon after it came to power. Thus, in terms of the political organization of capital, the AKP served a similar role as the ANAP. However, there was one big difference between the ANAP of the 1980s and the AKP of the 2000s: the radical transformation of the state apparatus, which had significant implications in terms of the role of political parties as well.

3. Restructuring of the Turkish State: An Overview

The restructuring of the Turkish state through the concentration of power within the executive branch started in 1961, with the establishment of the State Planning Organization as the specialized economic apparatus to manage the contradictions of the import substitution program. In that sense, the 1960s and 1970s witnessed the earliest forms of authoritarian statism in Turkey. The global integration of Turkish capitalism in the post-1980 period was accompanied by a more radical transformation of the state, which took place in two main phases. The earlier phase, known as 'first-generation reforms' in the mainstream literature, lasted from 1980 until the late 1990s. It was characterized by three important changes that led to the rise of neoliberal authoritarian statism. First, the political sphere was narrowed through a series of legal restrictions on political parties, which consolidated a monolithic, de-ideologized political structure. This effectively transferred the management of contradictory class issues from the political scene to the state apparatus. Second, the executive branch of the Turkish state was strengthened *vis-à-vis* the legislative branch through the issuance of governmental decrees in the force of law (DFLs)[9] and the creation of a fragmented budgetary system. Third, the internal hierarchy of the executive branch was re-ordered to augment the role of agencies dealing with international accumulation. It should be noted here that the Turkish case was quite different from the advanced capitalist countries in one important aspect. In the advanced capitalist countries, the restructuring of the internal hierarchy of the executive branch in response to internationalization involved the predominance of state agencies directly dealing with capital accumulation over those dealing specifically with labour and welfare. In Turkey, however, the welfare state was never

[9] The Turkish acronym is KHKs (Kanun Hükmünde Kararnameler).

institutionalized in the way it was in the advanced capitalist countries. So, ministries of labour, health and social security in Turkey were already dominated by the capitalist interests before the globalization even started. Thus, in contrast to many of the advanced capitalist countries, the main contradiction induced by internationalization was not one related to the retrenchment of the welfare state, but one related to the restructuring of the so-called national developmental institutions that characterized the previous period. In this context, the restructuring of the internal hierarchy of the Turkish state involved the subordination of those state agencies that had served as the key actors in the inward-oriented model of the previous period (for example, the State Planning Organization, the Ministry of Finance, and the Ministry of Industry and Trade) to the neoliberal specialized economic apparatus created for the management of internationalization of capital in the new period (the Treasury, the Central Bank and the Independent Regulatory Agencies).

Specifically, the Treasury (previously attached to the Ministry of Finance) was combined with the Directorate of Foreign Trade (previously attached to the Ministry of Commerce) to form the 'Undersecretariat of Treasury and Foreign Trade', to be directly attached to the Prime Ministry. The administration of foreign capital also moved from the State Planning Organization to the Treasury. In this way, key decisions regarding the internationalization of capital were monopolized in the hands of a single state agency directly accountable to the Prime Ministry and isolated from the influences of the bureaucracies in the State Planning Organization, Ministry of Finance, and Ministry of Industry and Commerce. As a result of these attempts, a neoliberal specialized economic apparatus administering the internationalization of capital was successfully created.

However, the pace of neoliberal reforms, especially privatization, still remained quite slow in the 1980s and 1990s. The main reason for this was the intensity of intra-state conflicts, which stemmed from the duality between the specialized and regular state apparatuses, on the one hand, and the duality between the government as the political decision-making body and the specialized economic apparatus as the technical-bureaucratic unit applying those decisions, on the other. These dualities were functional in the initial implementation of neoliberal polices. But they had become dysfunctional by the end of the 1990s. The duality between the specialized and regular state apparatuses was feasible in the beginning as it made it possible for the neoliberal reforms to be initiated by the specialized economic apparatus without the intervention of the regular bureaucracy. However, many of these neoliberal reforms were left incomplete because the regular state apparatus continued to function in line with the principles of the inward-oriented accumulation period. The duality between the government and specialized economic apparatus, on the other hand, was functional when the government in power was committed to neoliberalism, as in the case of the ANAP in the 1980s. However, when coalition governments emerged with weak commitment to neoliberalism, the apparent autonomy of the specialized economic apparatus largely disappeared. This pattern was clearly observed in the 1990s. By then the Turkish political scene was characterized by successive coalition governments. In the context of a fragmented state, the ability of the specialized economic apparatus to implement neoliberal reforms decreased because, the decision-making powers were vested solely with the government itself.

The second-generation reforms, which came to the agenda in the late 1990s, aimed to solve these problems through a comprehensive transformation of the institutional and legal structure of the Turkish state. The first step of this transformation was the constitutional amendments of 1999 that incorporated privatization and international arbitration into the Turkish Constitution, thereby fixing them as general state policies and preventing further conflicts between the specialized and regular state apparatuses as well as between executive and judiciary branches over these issues. The second step involved the creation of independent regulatory agencies (IRAs) as parts of the specialized economic apparatus. Through their autonomy from the government and their comprehensive legislative, judicial and executive powers, the IRAs were able to implement market-oriented internationalization policies whatever the political choices of governments might be. They were thus functional in overcoming the conflicts stemming from the duality between the government and the specialized economic apparatus. Through these second-generation reforms, neoliberal authoritarian statism was firmly consolidated in Turkey.

4. Public Procurement Regulation: The Specific Case Study

Addressing the current restructuring of state in Turkey, with all its complexities, poses the methodological difficulty of what empirical aspects to include within the confines of a theoretically limited study. This thesis will attempt to overcome this difficulty by focusing on the transformation of public procurement regulation as the specific case to demonstrate its arguments. Public procurement is the governmental purchase of goods, services and works from the private sector. It has gained new significance in recent years due to the opening up of national public procurement markets to international competition. The restructuring of the public procurement regulations in Turkey is a part of this process. It came to the agenda after the two important changes discussed above, namely the constitutional amendments that allowed privatization and international arbitration and the creation of the IRAs in the late 1990s. These changes consolidated market-oriented internationalization as the general state policy dominating the executive branch of the state. The new public procurement law that aimed to open up the national procurement market to global competition was a part of this predetermined state policy. When the AKP government came to power in November 2002, however, it tried to change the law in line with the demands of the domestic capital groups that had formed its electoral support basis, specifically the small and medium sized companies which grew rapidly through the contracts in local services and construction works awarded by Islamic local governments after 1994. This initiated a series of conflicts and compromises within the state. The final form of the law was shaped in response to these conflicts and compromises.

There are five reasons why public procurement regulation is chosen as the specific case study. First, it is a typical instance of the opening up of a hitherto protected national market to global competition. It is therefore possible to observe the conflicts within capital that are specific to internationalization. Second, the majority of public procurement contracts in Turkey are made in the construction sector, where there is a significant degree of internationalization of domestic capital. In that sense, it is possible to observe both the internalization of foreign capital and the internationalization of domestic capital quite clearly in this sector. Third, the transformation of public procurement regulation involves the establishment of an independent regulatory agency called the Public Procurement Agency. So it is a case where the intra-state conflicts can be observed clearly, between the Public Procurement Agency (newly established to regulate the internationalization of the procurement market) and the Ministries of Public Works and Finance (the institutions previously responsible for the regulation of procurements in a closed national market). Fourth, the transformation of public procurement regulation is part of the second-generation reforms, which involve a radical transformation of the legal sphere to facilitate the internationalization of capital. In this context, the formation of the new public procurement law is a good case for demonstrating how the legal changes are shaped through the contradictory demands of different capital sections and their political representatives from the state; as well as the changing role of the legislative branch in the process of neoliberal state restructuring. Finally, public procurement is also an interesting case in terms of showing the limits of the capacity of a political party in power – in this case, the AKP – to shape the process of legal changes in a context already determined by the structural requirements of neoliberal restructuring and internationalization. As a political party, the AKP is deeply involved in the procurement sector due to the basis of its electoral support. This makes the case even more interesting to study.

5. Outline of the Dissertation

The next chapter will be devoted to a theoretical discussion of the relationship between the internationalization of capital and state restructuring. After a brief critical overview of neoclassical and neo-institutionalist approaches that dominate the mainstream debates, the chapter will focus on the Marxist theories on the internationalization of capital and the state, from Marx's own writings to the recent literature on globalization and the state. This chapter is intended to go beyond a literature review and make a theoretical contribution to the understanding of state restructuring in response to the internationalization of capital.

The third chapter will provide an overview of the internationalization of Turkish capitalism. After a brief discussion of the historical development of Turkish capitalism, it will focus on the political economy of the internationalization process in three consecutive phases: the formation of domestic productive capital through international relationships with foreign capital (late 1950s–1980); the internationalization of Turkish capital through commercial and financial liberalization (1980–the late 1990s); and the internationalization of capital based on productive capital accumulation (late 1990s onwards).

The fourth chapter will discuss the restructuring of the Turkish state apparatus in response to the three consecutive phases of internationalization of Turkish capitalism identified in the third chapter: the emergence of authoritarian statism (1960-1980); the rise of neoliberal authoritarian statism (1980–late 1990s); and the consolidation of neoliberal authoritarian statism (late 1990s onwards).

The fifth chapter will focus on the changing public procurement regulation in Turkey in the post-2001 period as a specific case of how the current process of internationalization of capital is reflected in state restructuring. The final chapter will be devoted to a discussion of the theoretical implications of the arguments made in the previous chapters, as well as the political implications of neoliberal authoritarian statism for the labour movement and leftist strategies in Turkey.

This thesis aims to understand a particular phase in the historical development of a national social formation. This involves the development of theoretical concepts necessary to understand the social formation and operationalize them in a particular context. This means reliance on secondary sources for the reconstruction of the recent Turkish history and social forces at play. These secondary sources are supplemented by primary international organization, government and business documents as well as newspaper accounts.

CHAPTER 2

The Internationalization of Capital and the State

This chapter will address the question of the relationship between the internationalization of capital and state restructuring. The internationalization of capital can be defined as a historical and geographical process mediated by states. A proper theoretical framework for understanding the relationship between the internationalization of capital and state restructuring should have two important characteristics. First, it should incorporate three dimensions: time, space and the role of state. Second, as Bryan (1995: 51) points out, the spatial dimension should involve a differentiation between the space of capital accumulation and the space within which the conditions of accumulation are secured. The distinction between these two kinds of spaces, which I will briefly call the 'space of capital' and the 'space of the state', is crucial for the purposes of this study as the whole debate around globalization and state has been marked by the confusion of the two spaces, either treating both spaces as national or both as international. To the contrary, this chapter will argue that the 'space of capital' is basically international while the 'space of the state' is mainly national. Accordingly, the main contradiction of internationalization arises from the contradiction between the internationality of accumulation and the nationality of state. In what follows, I will critically examine the literature in this regard. After a brief discussion of neoclassical and institutionalist approaches, I will focus on the Marxist literature.

1. Neoclassical and Institutionalist Approaches to the Internationalization of Capital and the State

Theoretical discussions of the internationalization of capital and state are not new. The literature on this issue flourished in the 1970s in response to the new phase of internationalization of capital through the spread of transnational corporations (TNCs) in the post-war era. New research on the subject has followed two main traditions since then, – neoclassical economics and neo-institutionalist theory. Both approaches, in their own ways, treat the state and the internationalization of capital as identities operating in separate social spheres and forms, with independent agencies and causal relations. While the neoclassical approach regards the internationalization of capital as a process which can best proceed with minimal state interference, the neo-institutionalist approach emphasizes the role of states as institutional actors regulating this process.

According to neoclassical theory, TNCs act as efficient allocators of resources internationally so as to maximize capital efficiency and in this process world welfare. There are three versions of neoclassical views: capital flow models which regard foreign direct investment (FDI) as simply a capital flow which increases the stock of capital in the host country (Meier, 1972); product cycle theories which emphasize technology transfer and the importance of TNCs in providing access to overseas markets for Third World exports (Vernon, 1971); and internalization theories which regard TNCs as a way of bypassing imperfections in external markets (Caves, 1982, Dunning, 1981).[10] The political implication of all three approaches is that the state should not intervene with respect to international investment except to provide a more favourable environment for

[10] For a good overview of this literature see Jenkins (1987).

foreign investors. The neoclassical framework has served as the theoretical justification for the neoliberal policies proposed by the IMF and World Bank in the last two decades.[11]

The neo-institutionalist critiques of neoclassical theories on this issue have followed two main lines. The first is based on Hymer's view of the impact of TNCs in the 1970s. In response to neoclassical writers like Vernon, Hymer (1979) emphasized the oligopolistic nature of TNCs, with the implication that there is a need for state control of TNCs, especially in the areas of transfer pricing and restrictive business practices. Thus, for Hymer, host states should actively intervene in bargaining with TNCs in order to ensure that a greater share of economic monopoly rents accrue to the host country. The state, moreover, should give preferential treatment to national capital (Jenkins, 1987). This approach has guided the theoretical framework for United Nations Conference on Trade and Development (UNCTAD) policies, which stress the adverse consequences of foreign capital for developing countries and advocate an active role for host states in negotiating investment terms with TNCs.[12]

A second theoretical strain within neo-institutionalism has emerged as a reaction to the structuralist Marxist theories of state in the 1970s, and the concept of relative autonomy of the state from capital. In *Bringing the State Back In* (1985), writers like Evans and Skocpol criticized previous state theory for being society-centred and neglecting the autonomy and organizational possibilities of the state for developmental purposes. As Cammack (1989) points out, what was involved here was the assimilation

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[11] Among Turkish scholars, the most prominent representative of this approach is Erdilek (1992: 2003). Following pro-TNC arguments, Erdilek emphasizes the positive benefits foreign capital brings to developing countries, and he argues that the scope of Turkish economic liberalization is severely limited by direct government intervention that prevents the market mechanism from allocating resources efficiently, including foreign capital.

[12] See Kozul-Wright (1995), and Kozul-Wright and Rowthorn (1998) for the UNCTAD position in the globalization context.

of Marxist state theory into a non-Marxist framework in two steps: the replacement of 'class' with 'society' and then the counterposition of 'society' to the 'state', thus dissolving the class dynamics that underlined both. Building on such analysis, neo-institutionalist writers like Wade (1996), Weiss (1997), Hirst and Thompson (1996) emphasized the autonomy of states in the economy, arguing that the world economy is more international than global, and that there is scope for state actions to boost the productivity of firms operating within their territory.[13]

Throughout the 1980s and 1990s, the neo-institutionalist approach was regarded by many on the left as an alternative to neoliberalism. It provided the theoretical basis for social democratic alternatives in the advanced capitalist countries, and also informed the national-developmentalist alternatives in the Third World, with its emphasis on the role of the state in strengthening the bargaining power of developing countries in a global economy.[14]

When neoliberal theory and practice faced a serious crisis in the late 1990s, neoliberal theoreticians often turned towards neo-institutionalists' analytical tools and concepts to identify more clearly the institutional contexts for their own framework.

[13] Among Turkish scholars, the most prominent representative of this approach is Öniş (1998), who calls for a 'strong developmental state' with a high degree of centralization of the state apparatus as well as a significant degree of unity in the outlook of the state elites and constructive relationships with key societal groups. He argues that only this kind of a 'strong state' can pursue an active industrial policy designed to shift the balance of FDI flows in favour of specific sectors of manufacturing.

[14] In Turkey, a quite radical example of this national-developmentalism with Marxist overtones has marked the approach of group socialist economists who have come together to form the 'Independent Economists Group' in 2000. The theoretical approach of this group is heavily influenced by the Monthly Review School's concept of monopoly capital and the underlying assumption of economic surplus that replaces Marx's concept of surplus value. Economic surplus is calculated on the basis of Keynesian national accounts and the analysis is then focused on how this economic surplus is redistributed among different classes and groups through market and state mechanisms. The most typical example of this mode of explanation can be found in Yeldan (1995) and Somel (2003). Since 2000, the group has been quite active in producing a series of documents against neoliberal policies, including the alternative labour program of 2001 announced by the Labour Platform, a broad coalition of all major union confederations in Turkey, to which I will return in Chapter 6. The documents of Independent Economists Group can be reached at www.bagimsizsosyalbilimciler.org. See Ercan (2002) for a detailed critique of their approach.

These positions formed a revised neoliberal orthodoxy. As a result, the neo-institutionalist perspective lost much of its status as an alternative to neoliberalism and became an adjunct to neoliberalism and its emphasis on the efficiency of markets and the state role in supporting institutions for contracts and exchange.

It should be noted that the convergence between the neoclassical and neo-institutionalist theories was a dual process. As the 1990s progressed, both neoclassical and neo-institutionalist theories faced theoretical limitations and increasingly turned to some of the other's propositions. This was not surprising given the theoretical affinity between the two on the primacy of market efficiency and the separation of state and market into distinct social spheres. On the one hand, much of neoliberal theory (as with Stiglitz, North) increasingly integrated institutions as a foundation for market regulation. On the other hand, neo-institutionalists increasingly embraced the notion of the efficiency and dynamism (as with Evans, Zysman and others) of embedded markets with appropriate social dimensions. The convergence between neoclassical and neo-institutionalist approaches led to a revised neoliberal synthesis that found its most clear political expression in the advanced capitalist countries in 'Third Way' social democracy, and in the Third World in the new development orthodoxy of the World Bank. Panitch (2000) has rightfully called this process, in both theory and policy, 'the social democratization of global capitalism.'[15]

In this period of neoliberal globalization, the attempt to formulate an alternative agenda against neoliberalism from a neo-institutionalist perspective has lost ground and this partly because neoliberalism itself is going through a process of revision through

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[15] "More than it likes to admit", Panitch (2000: 7) argues, "this critique of neoliberalism has much in common with the cynical idealism of the Third Way and the World Bank's current project of building a "post-Washington Consensus" – globalization with a social-democratic face".

incorporating many of the intellectual sources of neo-institutionalism and adopting some of the market-supporting policies. The elements of an alternative approach challenging neoliberal theoretical positions rests, therefore, with the Marxist literature. That's where I would like to turn now.

2. Marxist Approach to the Internationalization of Capital and the State

In this section, I will examine the Marxist literature on the internationalization of capital and the state in four parts: (i) Marx's own writings; (ii) classical imperialism theories of the 19th and early 20th centuries; (iii) 1970s literature on the internationalization of capital and state; and (iv) the current literature on globalization and the state. I will have two criteria for discussion: (i) to what extent each approach incorporates temporal and spatial dimensions as well as the role of states, (ii) to what extent and in what ways the spatial dimension involves a differentiation between the 'space of capital' and the 'space of the state'.

2.1 Marx's Writings

Marx's views on the internationalization of capital are most clearly articulated in *The Communist Manifesto,* the *Grundrisse* and *Capital.* In the *Manifesto*, Marx discusses the internationalization of capital in the early phases of capitalism marked by the spatial expansion of capitalist social relations into non-capitalist social formations. The most often quoted paragraph from the *Manifesto* in this context is as follows:

> The need of a constantly expanding market for its products chases the bourgeoisie over the whole surface of the globe. It must nestle everywhere, establish connections everywhere. The bourgeoisie has through its exploitation of the world market given cosmopolitan character to production and consumption in every country...In place of the old local and

> national seclusion and self-sufficiency, we have intercourse in every direction, universal interdependence of nations... (Marx and Engels, 1998: 39).

In the *Manifesto*, Marx and Engels (1998) define the nature of capitalist state as follows:

> ...the bourgeoisie has at last, since the establishment of modern industry and of the world market, conquered for itself, in the modern representative state, exclusive political sway. The executive of the modern state is but a committee for managing the common affairs of the whole bourgeoisie (37).

In the *Manifesto*, the formation of a world market and the modern state are treated as related processes. In other words, the account here of the internationalization of capital has, at least implicitly, a political dimension involving the role of the state. The account has a clear spatial dimension as well. However, as Harvey (2001: 278) has argued, the concept of space in the *Manifesto* is problematic, mainly because it is too universalistic, neglecting the importance of territorial differentiation and the uneven development of capitalism.[16]

In the *Grundrisse*, on the other hand, Marx discusses the internationalization of capital as part of the circulation process of capital. He argues that "a precondition of production based on capital is the production of a constantly widening sphere of circulation" (407) Thus, "the tendency to create the world market is directly given in the concept of capital itself" (408). He then goes on to the formulation that "circulation proceeds in space and time" (533). The spatial moment here involves the bringing of the product to the market. The temporal moment, on the other hand, involves the time that

[16] Bryan makes a similar comment on *Manifesto*: "While Marx and Engels' description of capitalism's expansion in *Manifesto* is perspicacious, 'there is a danger of Marxism sliding into a 'borderless globe' vision of a closed value system" (Bryan, 2002).

passes before a commodity makes its transition into money. Circulation time is a barrier to the self-realization of capital:

> ...while capital must on one side strive to tear down every spatial barrier to intercourse, i.e. to exchange, and conquer the whole earth for its market, it strives on the other side to annihilate this space with time, i.e. to reduce to a minimum the time spent in motion from one place to another. The more developed the capital, therefore, the more extensive the market over which it circulates, which forms the spatial orbit of its circulation, the more does it strive simultaneously for an even greater extension of the market and for greater annihilation of space by time (539).

This is the most sophisticated treatment by Marx of the temporal and spatial dimensions of the expansion of capital in the same piece of writing. In that sense, the *Grundrisse* has a special place among his works, especially in terms of the prominence there of the spatial dimension to capital accumulation.

The same could not be argued for the discussion of the issue in the second volume of *Capital.* As Harvey (2001: 308) and Bryan (1995: 70) have pointed out, the main concern of Marx here is to unravel the inner dialectic of capitalism considered as a closed system so it doesn't involve any spatial dimension. In Volume 2, Marx analyses the three circuits of money, commodity and productive capital. The analysis here involves the movement of capital in the form of money and commodity. It does not explicitly involve a movement across national spaces but it can also be understood as such. In the context of the Marxist debate in the 1970s, for instance, it has actually been treated in this way in the works of Palloix (1973) and others.

What is clearly lacking in both the *Grundrisse* and the second volume of *Capital*, however, is the role of the state. The same is true for the third volume of *Capital*, where the chapter on the historical facts about merchant's capital is crucial as an account of the formation of the world market but has no reference to the role of state in this process.

It could be argued, then, that although Marx provided significant insights for the analysis of the historical and spatial dynamics of the internationalization of capital in different parts of his work, and touched the role of the state in some other parts, he never brought all these together in the same theoretical framework. It is known that Marx planned to write two separate volumes of *Capital* on the state and world market that were never completed. Therefore, on the question of how Marx would view the distinction between the space of capital and the space of the state, it is difficult to make a definitive judgement, as this would be speculation since he never discussed it directly.

2.2 The Classical Theories of Imperialism

The discussion on the internationalization of capital and the state took a new route in the context of the imperialism debates at the end of the 19th century. The inter-imperialist rivalries of the late 19th century, as Harvey (2001: 308) points out, "forced Marxists to confront directly the dynamic relations between inner and outer transformations" of capitalist accumulation. Thus, different from Marx's own writings, the classical imperialism debate had a distinct spatial flavour from the beginning, as well as a more direct preoccupation with the question of state and the territorial dimensions of capitalism. However, the conception of space and of the state in these theories was not without problems either. In what follows, I will discuss the writings of Luxemburg, Bukharin and Lenin in this regard.

In *The Accumulation of Capital* (1913), Luxemburg followed Marx in discussing the internationalization of capital in terms of the necessity for capitalism to expand into non-capitalist formations for markets. What distinguished her argument from Marx's was that for her, capitalism could not exist without a non-capitalist sector of purchases, i.e. without expanding into non-capitalist economic systems. As such, Luxemburg's analysis can be considered as the most extreme example of under-consumptionist theories that regarded the internationalization of capital as a consequence of over-production in capitalist countries and the search for markets outside. The main problem with this approach, as previously argued for Marx, is its exclusive focus on the movement of capital into non-capitalist formations, leaving the dynamics of the international movement of capital among capitalist formations unexplored (Panitch and Gindin, 2002: 27). Like many other classical theories of imperialism, it is a one-sided development out of Marx, ignoring the other means by which capitalism can create fresh space for accumulation (Harvey, 1975: 328).

In terms of the question of state, Luxemburg, like Marx, emphasized the repressive role of the state in the early expansion of capitalism through colonization and primitive accumulation. She also discussed some of the economic functions of the state in the colonization period, like international loans, protective tariffs and armaments expenditure. However, she never spelled out the links between competing capitals and states in this process (Brewer, 1990: 69). In terms of the historical dimension, on the other hand, her analysis was quite problematic in the sense that it did not specify different historical phases of the internationalization of capital but only generalized from the earliest phases of capitalism that occupied her historical research.

Bukharin's analysis in 1915 in his *Imperialism and World Economy* was historically more specific in this regard. Following Hilferding, Bukharin explained the rapid growth of world economy by the unusual uneven development of the productive forces of world capitalism accompanied by the export of capital (Bukharin, 25). He argued that through the "transfusion of capital from one 'national' sphere into the other, there grows the intertwining of 'national capitals'; there proceeds the 'internationalization' of capital" (Bukharin, 26). "The internationalization process whose most primitive form is the exchange of commodities and whose highest organizational stage is the international trust", Bukharin argued, "has also called into being a very considerable internationalization of banking capital in so far as the latter is transformed into industrial capital (by financing industrial enterprises), and in so far as it thus forms a special category: finance capital" (27).

According to Bukharin, "the process of internationalization of economic life can and does sharpen, to a high degree, the conflict of interests among the various 'national' groups of the bourgeoisie. Community of interests is not always created in this field...the course of economic development creates, parallel to the process (of unity), a reverse tendency towards the nationalization of capitalist interests" (29). He gave three reasons why capital finds substantial obstacles on its road to overstep the 'national' boundaries. First, he argued, "it is much easier to overcome competition on a 'national' scale than on a world scale"; second, "the existing differences of economic structure and consequently of production-costs make agreements disadvantageous for the advanced 'national' groups"; and, third, "the ties of unity with the state and its boundaries are in themselves an ever growing monopoly which guarantees additional profits" (31).

The result, Bukharin contended, is the transformation of the entire national economy into "one gigantic combined enterprise under the tutelage of the financial kings and the capitalist state, an enterprise which monopolizes the national market" (30-31).

The problem with this argument, as Harvey (1975) and Brewer (1990: 114) have pointed out, is Bukharin's treatment of each tendency of capitalist development as a fact, ignoring the counter-tendencies to these processes. For instance, Bukharin's analysis ignores the tendency of big corporations to compete all over the world, rather than uniting to face foreign competition (Brewer, 1990: 114). Thus it leads to the severely misleading conclusion that competition is suppressed within national boundaries.

On the other hand, Bukharin's emphasis on the tendency for the nationalization of capital led him to problematize the concept of the state in relation to capital more comprehensively than any other of the classical theorists of imperialism. He devoted two chapters to the nature of the state in this context. However, his conception of the capitalist class as an entity totally united by finance capital on a national basis led him to theorize the state as a direct instrument of capital with no inner contradictions. "When competition has finally reached its highest stage, when it has become competition between state capitalist trusts", Bukharin argued, "then the use of state power, and the possibilities connected with it, begin to play a very large part...With the growth of the importance of state power, its inner structure also changes. The state becomes more than ever before an 'executive committee of the ruling classes'" (1972: 123). So paradoxically, although Bukharin most explicitly theorized the state amongst the classical theorists of imperialism, his theory, as Brewer (1990: 115) put it, represented "the abolition of the state as a body distinct from civil society."

The idea of competing national capitalisms or national capitals supported by their own national states was taken up by Lenin in his analysis of imperialism. In *Imperialism, the Highest Stage of Capitalism* (1917), Lenin basically followed Bukharin as well as

Hilferding and Hobson to emphasize the tendency for monopolization, the formation of finance capital and the export of capital as the major factors leading to the formation of national blocs of centralized capital and intense national rivalries among them. His main purpose here was to counter Kautsky's theory of 'ultra-imperialism' by pointing out the inevitability of conflicts expected to arise from a territorial redivision of the world in response to the inter-imperialist rivalry, and thus to revolution as the only way forward.

Although the main strength of Lenin's approach is its historical dimension, his analysis was precisely problematic on those terms. This was because Lenin's polemic against Kautsky was marked by the 'overpoliticisation of theory', in Panitch and Gindin's (2002: 24) words. This led to a major theoretical shortcoming in Lenin's analysis. Like Bukharin, Lenin also took for granted the division of the world on the basis of national blocs of capital. In other words, Lenin gives no answer to the question of why a 'country' should be a relevant unit of analysis in this context (Brewer, 1990: 123). As Bryan (1995: 51) points out, the whole line of argument by Bukharin and Lenin on competing national blocs of capital was marked by the failure to differentiate between the 'space of capital' and the 'space of the state'. They treated both of these spaces as national so they saw the only contradiction of the internationalization of capital as a rivalry among national blocs of capitals and states, with no inherent contradiction in the international accumulation process itself.

2.3. TNCs, the Internationalization of Capital and the State

When the debate on the internationalization of capital re-emerged in the early 1970s, the main concern was how the post-war proliferation of transnational corporations

(TNCs), as well as the rise of Europe and Japan as new centres of accumulation, affected the balance between the 'internationalization' and 'nationalization' of capital as reflected in the state form. In the context of post-war developments, Mandel (1967, 1970) and Rowthorn (1971) represented the Lenin-Bukharin line of argument, although restating the primacy of inter-war rivalry. In 'International Capitalism and Supranationality' (1967), Mandel argued that the international amalgamation of capitals inside Europe has reached a considerable degree so as to challenge the hegemony of the US and also affect the state form in Europe. "The growth of capital interpenetration inside the Common Market, the appearance of large amalgamated banking and industrial units which are not mainly the property of any national capitalist class", Mandel (1967: 147) argued, "represent the material infra-structure for the emergence of supranational state-power organs in the Common Market." According to Mandel (1967: 149), the interpenetration of national capitals within Europe would necessarily be accompanied by the transfer of state power to the supra-national level mainly because only a supra-national state could respond to a general recession through European-wide policy instruments like a single currency or taxation system.

Mandel's argument of a direct correspondence between the interpenetration of national capitals and the emergence of a supra-national state was based on a quite instrumentalist conception of the state. For Mandel (1970: 51), the state aimed "to guarantee directly the profits of the dominant sectors of the big bourgeoisie." In the European case, this implied that only a supra-national state could guarantee the profits of the "big European concerns" by "generating the necessary purchasing power, keeping up employment while continuing to limit redundancies to a 'reasonable' volume and to sell the major part of their output" (Mandel, 1970: 97). In other words, since Mandel saw the state as an instrument of big capital, his conception of a European state as the instrument of the "big European concerns" was a mere reflection of his instrumentalist theory of state at the regional level.

Mandel (1970) argued that the process of European integration would mean an enhanced inter-imperialist rivalry between the US and Europe. As such, he reformulated Lenin's theory of imperialist rivalry in the post-war context. His approach differed from that of Lenin and Bukharin only in the sense that he defined the competing state-capital blocs in the world economy in regional rather than national terms. The problem essentially remained the same: a failure to differentiate between the 'space of capital' and the 'space of the state' by defining both spaces as regional. In other words, by formulating a direct correspondence between the space of capital accumulation and the space of state action, he reduced the contradictions of internationalization to a rivalry among regional blocs of capitals/states. This effectively disregarded the contradictions of the international accumulation process itself.

In his article, 'Imperialism in the Seventies – Unity or Rivalry' (1971), Rowthorn followed Mandel. He stated that his conclusions are "broadly similar to those of Ernest Mandel, who stresses the growing challenge of European and Japanese capital to American hegemony" (Rowthorn, 1971: 65). The only difference, he argued, lied in his emphasis on foreign direct investment by the European and Japanese in contrast to Mandel's emphasis on exports.

Rowthorn's article had the additional merit of presenting the 1970s debate on the imperialist unity *versus* rivalry quite systematically. In particular, the article was preoccupied with the question of the relationship between internationalizing capitals and the state. He discussed this in terms of the relationship between the "strength of capital" and the "autonomy of a state *vis-à-vis* other states". Rowthorn argued that there is no one-to-one correspondence between the strength of capital and the autonomy of state in a specific country. For instance, the weakness of the British state should be explained "not by the simple decline of British capitalism as such, but by the very strength of the cosmopolitan activities of British capital, which has helped to undermine further its strictly domestic economy" (Rowthorn, 1971: 66). "The international expansion of British big capital coupled with the contraction of the British state and the domestic economic base of British capitalism", he argued, "have led to a situation where many British companies now conduct a larger part of their business in areas where the British state exercise no control and little influence, and where it can offer them little or no protection" (Rowthorn, 1971: 67). If, as in the case of internationalizing British capital, "the state power available to capital is not commensurate with its needs", there are two main courses of action: "The state can ally itself or even merge with other states, thereby placing greater state power at the disposal of its capital...Alternatively, failing an alliance or merger of states, capital can change its nationality" (70). Rowthorn then argued that "alliances or mergers of states are likely to be of more immediate significance in view of the growing unity of the Common Market and Britain's application for membership" (71). Thus, he reached the same conclusion as Mandel: a European capital supported by a European state in competitive rivalry with the US capital supported by its own state. He even went further than Mandel to add that this new bloc of European capital with its European state would act as a "nationalist" force (72).

There are two main problems with Rowthorn's approach. First, on the question of what institutions and agents would take care of the needs of the internationalizing capitals if not their own national states, Rowthorn posed two possibilities: a supra-national state aligned with the capitals operating in its region or a total shift in the nationality of these capitals. Rowthorn overlooks a third alternative, that is, the possibility that 'host' nation-states could assume responsibility for the foreign capitals operating within their own territories. This third alternative, which can be called the 'internalization' alternative, was totally neglected in the analyses of both Mandel and Rowthorn. Second, Rowthorn's concept of "a strong capital with a weak state", which he used to explain the British case, as well as his definition of state autonomy as an opposition to other states rather than in relation to capital, put his theory only a small step away from institutionalist/ neo-Weberian approaches. His notion of competing 'national' blocs of capitals supported by their own states (the term 'national' here redefined by himself so as to include regional phenomena) was also part of this affinity with institutionalism. It was not surprising, in this context, that Rowthorn eventually shifted to a neo-institutionalist position in his later writing.[17] In brief, it could be argued that both Mandel and Rowthorn posed the right question of who would oversee the expanded reproduction of internationalizing capitals in the new post-war economy, but their answer of 'supra-national states' was deeply problematic.

2.3.1 New Departure Points: Murray, Poulantzas and Palloix

When Murray posed the question of who would take care of the needs of the internationalizing capitals in his article 'The Internationalization of Capital and the Nation

[17] See, for example, Kozul-Wright and Rowthorn (1998).

State' (1971), he gave a quite different answer. Murray contended that the rapid post-war expansion of TNCs had led to a 'territorial non-coincidence' between internationalizing capitals and their domestic states, which was reflected as a contradiction in the state form (85). He argued that this was a point neglected in the Lenin/Kautsky debate because the economic role of the state in capitalism was absent in the classical theories of imperialism.

"In the process of capitalist production and reproduction", Murray argued, "the state has certain economic functions which it will always perform...In tracing the territorial expansion of individual capitals, one of the central points at issue will be what institutions perform these structural economic functions for the expanded capitals" (87). He identified six primary functions of the capitalist state: guaranteeing of private property rights, economic liberalization, economic orchestration, input provision, intervention for social consensus, and the management of the external relations of a capitalist system (88-93). In the new era of internationalization of the capital after 1945, he argued, these functions may be performed by different agents. The domestic state, foreign state structures, the accumulating capital itself, or the existing state bodies in co-operation with each other, might perform them.

Murray argued that the agents to perform the state functions for internationalizing capitals will differ according to factors such as the degree of productive centralization, stage of overseas company development, forms of international flow, degree of dependence on state partiality and the strength of foreign competition (Murray, 1971: 100-102). Murray's main argument was thus that "there was no necessary link between a capital and its state in the area of extension, that capital was rather a political opportunist, and that existing states often suffered a decrease in their powers as a result of internationalization" (109).

Murray's analysis was criticized by Warren (1971), Fine and Harris (1979) and Radice (1984) for implying a weakening of the national state as a result of the internationalization of capital. Murray indeed argued that the internationalization of capital often leads to a decrease in the power of nation-states; however, this was not an automatic outcome of his analysis. The whole point about his argument on the 'political opportunism' of capital was that the decline of the nation-states was *only one* of the historical possibilities and not the only logical outcome. In other words, for Murray, the relationship between the internationalization of capital and state was contingent, taking different forms depending on various factors. This contingency was both strength and a weakness of his analysis. It was a strength because, in contrast to Mandel and Rowthorn who saw the supra-national state as the main actor to perform public functions for internationalizing capitals, Murray showed that it was only one of the possible actors. And through his emphasis on the territorial non-coincidence between internationalizing capitals and the state, and hence the various forms this non-coincidence could take, Murray paved the way for a discussion of the differentiation between the space of capital and the space of the state. In this very important sense, Murray's contribution led to a new departure in the theories of the internationalization of capital.

Yet, Murray left the question of the relationship between state and international capital too contingent – and even ambiguous – by arguing that necessary extra-market functions for international capital could be performed by all sorts of institutions in all sorts of ways. It was in this sense that contingency was at the same time a central flaw in his theoretical position. Paradoxically, this was a result of his concern with emphasizing the economic functions of the state that he had contended was neglected in the Lenin-Kautsky debate. In doing this, however, he 'bent the stick too far' in the other direction. Murray separated the economic functions of the state from its political function of reproducing the social relations of capitalism, thereby reducing these eventually political roles to technical tasks that could be undertaken by any non-market institution, even those other than the states. He neglected the fact that these economic functions are intermingled with the political function of the state in reproducing the class domination as a whole. This sets a limit to the contingency of the relationship between international capital and the state form, where Murray sees more.

It was precisely this problem that Poulantzas decisively tackled in his article 'The Internationalization of Capitalist Relations and the State' in 1974. Here Poulantzas argued that "the current internationalization of capital neither suppresses nor bypasses the national states" (73). According to Poulantzas, "the reproduction of capital as a social relation is not simply located in the 'moments' of the cycle: productive capital – commodity capital – money capital, but rather in the reproduction of social classes and of the class struggle" (97). In that sense, "the economic functions of the state are in fact expressions of its overall political role in exploitation and class domination; they are by their nature articulated with its repressive and ideological roles in the field of class struggle of a social formation" (81) Thus, in terms of Murray's question as to which institutions and agents would assume responsibility for the public functions necessary for the reproduction of international capital, Poulantzas gave a decisive answer: these functions had to be internalized by the nation-states themselves:

> It is impossible to separate the various interventions of the state and their aspects, in such a way as to envisage the possibility of an effective transfer of its 'economic functions' to supranational or super-state apparatuses, while the national state would retain only a repressive or ideological role; at the very most, there is sometimes a delegation in the exercise of these functions. In fact, by looking in this direction, one loses sight of the real tendencies at work: the internalized transformations of the national state itself, aimed at taking charge of the internalization of public functions on capital's behalf (81).

In this way, he resolved the ambiguity in Murray's analysis and went one step further by clearly showing that even when the space of capital is international, the space of the state has to remain national (as opposed to Murray's argument that it *could* remain national under certain circumstances).

From another angle, Palloix also departed from Murray's analyses. Palloix's main concern was criticizing the approaches that exclusively focused on TNCs. Against these approaches, he argued that the TNCs are only one part of broader processes of the internationalization of capital. "Only an examination of the internationalization of the circuit of social capital", Palloix (1975a: 85) argued, "can give us the means to define the internationalization of capital as a social relation, and to understand the place of the multinational firm within the total circuit." Palloix thus took up the study of the internationalization of capital based on Marx's analysis of the circuits of capital in Volume 2 of *Capital.* Using Marx's analysis that the circuit of capital goes through three stages – money, commodity, and production –, Palloix argued that the circuit of commodity-capital has operated internationally from the very beginnings of capitalism, whereas the internationalization of the money-capital circuit and that of productive capital are more recent phenomenon. As such, Palloix rehistoricized the debate by bringing back in Marx's circuit of capital and elaborating on the history of the internationalization of each circuit.

Palloix (1975b), moreover, emphasized the "omnipresence" of the nation-state during the internationalization process:

> In all the political and economic literature, it seems that since the discovery (!) of the multinational firm, the nation-state has been regarded as devoid of any power outside of its national boundaries. This has led to the thesis that supranational institutions must be created because the nation-state is ineffective on the international level... How strangely forgetful of the history of continual intervention by the capitalist state! (12).

Against theories which hold that the nation-state will lose its effectiveness to provide for the self-expansion of capital on a world scale, Palloix argued that "the role of the state has been continuous, but it has varied during the different phases of internationalization, depending upon what the internationalization of capital has implied for the management or sanction of the law of value by the state" (1975b: 12). In the phase of internationalization of commodity capital, Palloix (1975b: 12) argued that international value results from the confrontation of different national values which gives rise to an average value on the world market. The role of the state in this phase is to ensure that national value obtains the maximum surplus in its confrontation with international value:

> A system of standards, based upon commodity relations, is imposed externally on the internal productive apparatus; the state uses both free exchange and protectionism in order to adapt this system of international norms to the interests of the internal bourgeoisie. The free exchange of protectionist state apparatus implicitly aims at the alignment (or arrangement) of the national productive apparatus to correspond to the commodity-relations on the international market. These standards lead to the elimination of unprofitable lines of production and to a specific international division of labour (12-13).

In the phases of the internationalization of money capital and of productive capital, in contrast, "commodity relations on the international market are replaced by relations between capitals" and "international value bursts forth in its entire social scope in the internationalization of capital" (Palloix, 1975b: 13). In this phase, the main role of the nation-state is aligning internal conditions of production and exchange to international conditions through the use of a monetary standard:

> The monetary standard, with its contradictions, is the best reflection of international value. It is not at all surprising to notice the displacement of power in the state away from places like the Ministry of Industry towards a decision centre where the internationalization of the state is obvious: the Ministry of Finance. This ministry holds the key to internal political economic policy – given that all internal political economic problems are part of an external political problem – by means of the monetary standard, a cash norm (13).

Palloix argued that "in the historical development of the internationalization of capital, the nation-state will, with increasing seriousness, internally consider its external reality, insofar as certain parts of the state – some more than others – will submit to the international situation" (13). So while the internationalization of certain parts of the state is barely visible in the earlier phase of internationalization of commodity capital, the nature of the state apparatus is profoundly changed in the latter phase of internationalization of money-capital and of productive-capital. In the earlier phase, according to Palloix, "the state attempts to establish a commercial network, by carving out a colonial domain for commercial capital, and by reflecting the international law of value on the national law of value" (13). In the latter phase, however, "certain parts of the state must reflect the increasingly urgent necessity for international standards – as expressions of the international law of value – in the structure of national production and trade for capital whose self-expansion occurs in the international arena" (14). Thus, "the state becomes hierarchical as a result of the predominance of the monetary sanction, reflecting internationalization." However, "the internationalization of the nation-state, of certain parts of the state, does not at all lead to their replacement by a supranational organism" (14).

Palloix was thus quite clearly on the side of theories that differentiated between the space of capital and the space of the state, and that problematized the 'internalization' of public functions of the international capital by nation-states. He made three important contributions to this line of thinking. First, by differentiating between the histories of internationalization of each circuit of capital, he added a historical dimension to the debate. Other writers drew upon Palloix's analysis to periodize the historical development of capitalism in the Third World in terms of the different phases of the internationalization of capital. Most prominent among them were Bina and Yaghmaian (1988; 1998) for whom the early internationalization of capital was marked by the spatial expansion of capitalism to pre-capitalist societies through the internationalization of the circuit of commodity capital. For Bina and Yaghmaian (1988), colonial trade justified on the basis of comparative advantage and primitive accumulation on the basis of extraction of absolute surplus value was the main feature of this period. By the end of the 19th century, the circuit of money capital had extensively been internationalized, and the circuit of productive capital was beginning this process. The early internationalization of the circuit of money capital had occurred mainly through loans to colonial states. Early internationalization of productive capital, in contrast, occurred through the expansion of MNC activities into the primary sectors of pre-capitalist economies in the late 19th and early 20th centuries. It involved the spatial movement of a part of a single production process to a 'foreign' site. Bina and Yaghmaian argued that the internationalization of productive capital was completed in the post-war era through the penetration of TNCs in manufacturing activities, and both production and the realization taking place in the 'foreign' site. This phase coincided with the strategy of import-substitution industrialization (ISI) in the Third World. This is an important point as ISI has generally been perceived as the 'national' phase of development in the Third World, and the phase of export-orientation is associated with internationalization. Bina and Yaghmaian's model showed, to the contrary, that ISI was a significant phase of the internationalization of capital, a prelude to export-led industrialization, the more general and higher level of the internationalization of production.

The second contribution of Palloix was the explanation of the specificity of the latest phase of internationalization through his emphasis on the pre-eminent role of the money form as the expression of international value. This theme of "monetary sanction" was taken up by Bryan (1995) in his analysis of the distinctiveness of the recent internationalization of capital as the subjection of all national calculations to international standards. Lastly, through his discussion of the continuous but varying role of the state in each phase of internationalization of the circuit of capital, Palloix was able to identify the nature of the restructuring of the state in the recent phase of internationalization: the reordering of the internal hierarchy of the state apparatus and increasing contradictions within the state reflecting the requirements of monetary sanction. This was a theme shared by Poulantzas (1974) and revived in the globalization context by Panitch (1994) and others.

2.4 Contemporary Debates on Globalization and the State

When the debate on the internationalization of capital re-emerged in the context of globalization and the restructuring of states in the late 1980s, the ambiguity in Murray's analysis regarding the relationship between the space of capital and the space of the state recurred as a division between those who argue for the coincidence between the two spaces, as opposed to those who see the non-coincidence. On the one side, there are those theorists who characterize both spaces as national, as in the case of regulationists such as Aglietta (1982), and neo-institutionalists like Hirst and Thompson (1996). On the other side, there is a wide range of approaches that treat both spaces as international, as in the works of Hardt and Negri (2001) and neo-Gramscian writers as with Robinson (1996).

There is a third line of thinking, however, which has its origins in the works of Murray (1971), Palloix (1973) and Poulantzas (1974), and has been reiterated in the globalization context by Bryan (1995), Tsoukalas (1999), Albo (2003), Panitch (1994, 2000), Pantich and Gindin (2002). For this line of thinking, the 'space of capital' is distinct, although not separate, from the 'space of state'. The space of capital accumulation is, in its inner logic, international while the space of state action, in its institutional matrix and political essence, is mainly national. It follows that a central contradiction of the internationalization of capital arises from the incompatibility between the internationality of accumulation and the nationality of the state. In what follows, I will review contemporary Marxist literature on globalization and state in this regard. I will first discuss neo-Gramscian approaches (Cox, Gill, Robinson and Van der Pijl), the Open Marxism school (Holloway, Clarke, Burnham *et al*), and Hardt and Negri. I will argue that all these approaches, in their own ways have a 'deterritorialized' approach to the issue. I will then go on to discuss the alternative 'territorialized' approach based on the works of Bryan, Tsoukalas, Albo, Panitch and Gindin.

2.4.1 The Deterritorialization of Capital and the State

The main context of the globalization and state debate in the 1990s was the expansion of capitalist relations of production to all parts of the world following the collapse of the Soviet Bloc. This gave rise to conceptual approaches that tended to theorize internationalization as an increasing deterritorialization of social relations in a 'borderless globe'. The internalization problematic of the post-Murray debate was increasingly replaced by analyses that focused exclusively on the global level. In what follows, I will discuss these developments within Marxist theory.

Neo-Gramscian Approaches

Cox's *Production, Power, and World Order* (1987) stands as the pioneer of neo-Gramscian analyses on globalization and the state, and was actually written *before* theories of 'globalization' became prominent. It cannot be seen, therefore, as the direct starting point for the current thesis of deterritorialization of the state and capital, but it provided many of the conceptual tools for latter neo-Gramscian analyses that increasingly adopted a deterritorialized conception of capital. Thus Cox's original and most prominent text is a necessary starting point.

Cox's main concern, in *Production, Power, and World Order,* is a critique of neo-realist approaches dominant in the international relations discipline. Against the state-centred and ahistorical character of these approaches, Cox emphasizes the role of historical blocs, the configurations of social forces upon which state power rests, in the making of world orders that alternate between hegemonic and non-hegemonic structures. Cox identifies three successive world orders: the liberal international economy from 1789 to 1873, the era of rival imperialisms from 1873 to 1945, and the neoliberal world order of post World War II. Each phase, Cox argues, is characterized by new forms of the state, new historical blocs and new configurations of production relations. The third phase, which he calls "Pax Americana", is marked by the "internationalization of production" and the "internationalization of the state" (109).

The internationalization of production, for Cox, consists of "transnational production organizations whose component elements are located in different territorial jurisdictions" (244). Cox defines three capital fractions in this process: the transnational managerial class, national capital and local capital. The transnational managerial class includes those who control TNCs, with a whole range of experts and specialists involved in the maintenance of the world economy. The national capital is composed of those who control big nation-based enterprises, and local capital refers to locally based petty capitalists. This classification has the merit of offering a framework for explaining the contradictions within capital in the process of internationalization.[18] Cox's definition of capital fractions, however, is not without its problems. The "transnational managerial class", for instance, is defined on Weberian rather than Marxist terms, that is, on the basis of organizational power relations rather than production relations and refers to an 'elite' rather than a class.[19] Also, the criterion of size (big *versus* small) used to differentiate between national and local capital, for instance, lacks any clarity to distinguish the two.

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[18] Gill (1993) differentiates between transnational and national fractions of capital and discusses some of the contradictions between the two. Furthermore, he argues, the Gramscian form of hegemony favouring capital over labour needs to be refined so as to distinguish between transnational and national fractions of capital (101).

[19] This is a common problem with the conception of the transnational capialist class in all neo-Gramscian approaches. For instance, Van der Pijl (1998) mentions three stages in the transnational class formation in relation to the internationalization of the three circuits of capital. The internationalization of the circuit of commodity capital saw the emergence of transnational networks of merchant communities. The subsequent internationalization of money capital led to an internationally interlocked haute finance of central bankers

Cox's concept of the "internationalization of state" involves a process whereby national state structures are adjusted to the exigencies of the world economy in response to external pressures and realignments of internal power relations (253). Cox has here an 'internalization' problematic in the sense that he focuses on the mechanisms by which the internationalization process is managed by national state structures, for example, through the restructuring of the hierarchy of agencies within governments and the prioritization of those agencies that act as links between the world economy and the national economy (228). In this context, Cox also discusses how the contradictions within capital are reflected within state structures. The contradiction between capitals operating in the world market, and thus becoming absorbed into the transnational managerial class, and those remaining apart from this movement, and then becoming increasingly dependent upon state protectionist measures is one example (361). In the US case, for instance, where the cleavage between these two tendencies appears more openly in the economic crisis following 1973, Cox argues:

> The international sector has privileged access to the executive branch and particularly to those agencies managing foreign economic policy, the State Department and Treasury. Protectionist interests are more effective through lobbies in the Congress and, along with local entrepreneurs, in the state legislatures. The result has been ambiguity in US policy: continuing commitment affirmed by the executive to international commitments and *ad hoc* protectionist measures enacted by Congress (362)

For Cox, this struggle between the international and national fractions in Europe has taken the form of alternative policy clusters *within national politics,* rather than as a struggle at the supra-national level (364). According to Cox, the policy unification of the

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and investment bankers. And after World War II, "a transnational managerial class emerged with the comprehensive internationalization of production by multinational corporation" (98). In all its phases, however, his concept of transnational class is defined in Weberian rather than Marxist terms, referring to elite networks like Freemasonry, the Rhodes-Milner group, and so forth. The same is true for Gill (1993), who also discusses the formation of a transnational capitalist class or class fraction, with its own particular form of 'strategic' class consciousness, but defines this class in terms of an 'elite' controlling transnational networks and organizations.

European Economic Community countries has come about "only to a limited degree through a transfer of powers to supranational agencies; to a greater extent it has been the result of interpenetration of national policy-making process" (258). Another example of the way Cox emphasizes national specificities is his argument that the balance between international and fractions of capital has differed historically from country to country (363). These examples show that Cox takes the national level quite seriously as the space of state action for the reproduction of the conditions of accumulation. In other words, if we go back to the distinction between the 'space of capital' and the 'space of the state', Cox's approach is closer to a conceptualization of a non-correspondence between the two. However, Cox also suggests that "the relative weight of internal and external factors, and the nature of these factors, is not constant but is conditioned by the prevailing structure of world order" (109). Hence, Cox gives primacy to the 'world order' as the explanatory factor in understanding changes in national state structures, and he does not go further in explaining the dynamics of national policy formation on the basis of internal class dynamics. As Panitch (1994) argues, Cox's 'outside-in' orientation to the internationalization of state is limited at this point. This limitation can only be overcome if the role of states is conceived not only as *internalization* of capital but also its *mediation* with national social forces. In Panitch's words, "the role of states remains one not only of internalizing but also of mediating adherence to the untrammelled logic of international capitalist competition within its own domain" (71). This is exactly at this point Poulantzian analyses differ from neo-Gramscian ones by focusing directly on how states *mediate* the contradictions within capitalist classes operating within their territorial domains.

Although Cox's work provides valuable insights into the ways the contradictions of internationalization are internalized by states, his outside-in orientation forms the limits to a territorialized approach. Neo-Gramscian approaches that have followed from Cox's work (mainly Gill, van der Pijl and Robinson) have distanced their foci of analysis further away from the internal dynamics of specific social formations. Instead they have focused almost exclusively on the supra-national level. This may be partly due to a shift in the major concern of neo-Gramscian analyses from a critique of neo-realist approaches to a more comprehensive critique of both mainstream and economistic Marxist approaches. In this context, the concept of civil society has come forward as a major conceptual focus besides the state and capital.[20] This preoccupation with civil society, however, has meant a further digression away from analysis of the states in relation to capital, and a further deterritorialization of the debate.

In what has come to be known as the Amsterdam International Political Economy project, Kees van der Pijl states his main concern is "to connect economics and politics in a way which cannot be achieved by either a monolithic concept of capital with a big 'C' (prevalent in much modern Marxism... and American Elitism...); or the politicism of mainstream IR" (3). In other words, he seeks to show "how economics and politics become fused in transnational and historical processes of class formation" (3). In order to

[20] The argument for bringing civil society 'back in' has been most forcefully made by Van der Pijl (1998). Following Habermas, Van der Pijl argues that 'society' remains logically separate both from the state and from capital, "a fact perhaps obscured by the term 'capitalism', which suggests a comprehensive, closed totality" (27). The reintroduction of 'society' as a third concept besides state and capital, he argues, throws a different light on the limits of the capitalist order by emphasizing the contradictions between capital and society besides the internal contradictions of capital (28). Gill (1993) makes a similar point and looks for counter-hegemonic civil society forces at the global level. It should be added at this point that, from another tradition, Hardt and Negri also incorporate the concept of 'society' into their analysis besides capital and state in the same way. They argue that New Deal is the first form of disciplinary society where "the entire society, with all its productive and reproductive articulations, is subsumed under the command of capital and the state" (243). Thus they share the same concern with neo-Gramscians about freeing society from both capital and state through the formation of a *global civil society* (7).

do so, van der Pijl uses three main concepts: "comprehensive concepts of control", "capital fractions" defined at the transnational level, and Cox's notion of "state-civil society complexes". Comprehensive concepts of control are the frameworks of thought and practice, which present the specific interests of a combination of capital fractions as the general interest. The concepts of control that have guided transnational class formation over a period of three centuries, Van der Pijl argues, are liberal internationalism; state monopoly tendency; corporate liberalism, and neoliberalism (6). "Neoliberalism is the expression of the hegemony of a transnational ruling class unified behind a concept of control reflecting a particular configuration of capitalist forces" (5). The concept of capital fractions, on the other hand, "makes it possible to reconstruct the historical growth of capital in terms of pluralism (or better, 'polyarchy', since the range of options remains within narrow limits) of class strategies which articulate, ultimately, empirical constellations of particular fractions" (3), underlining political pluralism as a necessary condition of developed capitalism (62).[21]

Lastly, Van der Pijl uses Cox's 'state/civil society complexes' to identify different state forms in relation to transnational class formation. Drawing upon Cox's (1986) argument that "there exists a plurality of forms of state, expressing different configurations of state/civil society complexes, which remain largely unexplored in international relations theory", Van der Pijl defines two ideal-typical state/society complexes: Lockean and Hobbesian. The Lockean state/civil society complex has its origins in the post-1688 revolution England, where the self-regulation of a property-owning civil society and the separation of public and private spheres was guaranteed by

[21] The parallels between van der Pijl's analysis of capital fractions, concepts of control and polyarchy with Poulantzas' concept of power bloc should be noted here. We will see below that Robinson, too, makes a similar argument about capital fractions and the ensuing polyarchy, but with quite different implications.

the state. The Hobbesian state/civil society complex, on the other hand, is characterized by the suspension of the differentiation between state and society in favour of a "state class", with the prototype being France in seventeenth and eighteenth centuries (78).

The process of the internationalization of capital, van der Pijl argues, has been accompanied by the internationalization of the Lockean state-civil society complex, through a constant expansion of the "Lockean heartland" absorbing the "Hobbesian contender states". The internationalization of capital, he argues, "does not evolve as an economic process in a fixed landscape of sovereign states." But it is "an aspect of a process of expansion of the state/society complex in which capital crystallised under what proved to be the most favourable conditions" (83). In that sense, it can be argued that Van der Pijl sees both the space of capital and the space of the state as transnational – in the form of a transnational state-civil society complex. He argues that a "denationalised, total capital on a world scale" is governed by "international quasi-state structures" based on Lockean foundations absorbing the challenges of the Hobbesian perspective (77-8). It should be noted, however, that for Van der Pijl, the formation of transnational state structures is an evolving tendency rather than a completed process.

Gill and Law's (1993) position on this point is very close to Van der Pijl. Gill and Law (1993) also use Van der Pijl's 'hegemonic state-civil society complexes' in their analysis of the transition from the post-war international historic bloc of 'welfare-nationalist' forces to a transnational historic bloc of neoliberal forces since the 1970s and 1980s. In this process, they argue, the Hobbesian state-civil society complexes are being replaced by the Lockean state-civil society complexes in which there is a vigorous and self-regulating civil society and thus a greater potential for legitimacy and hegemony in

Gramscian terms. They call this process the internationalization of the Lockean form of self-regulating civil society (40). However, they leave the question of the correspondence between the space of capital and the space of the state unanswered. On the one hand, they argue, the division of the world into many states reinforces the structural power of transnational capital in contrast to national capital because states may be forced to adopt neo-mercantilist policies in order to attract foreign direct investment (106). Thus the structural power of internationally mobile capital would be enhanced by having a large number of relatively small states. On the other hand, capital needs public goods to be performed at the global level, which would be best provided by a single international political authority. The tension between these two tendencies, Gill and Law argue, leaves the problem of political order at the global level unsolved (106). "Although we can talk of 'an embryonic international political society and a still underdeveloped, but more discernible, internationalised civil society" (114), Gill and Law argue, "we are far from a situation in which a global political society is truly in prospect" (118). So like Van der Pijl, Gill and Law also see the formation of transnational state structures as an evolving tendency rather than a completed process. Despite this caution, however, their conceptualization of a 'transnational state-civil society complex' marks a further step in conceptualizing the deterritorialization of capital and the state.

Among neo-Gramscian writers, Robinson goes the furthest in completely deterritorializing his concepts through his contention that there exists a total correspondence between the space of capital and the space of the state. In *Promoting Polyarchy: Globalization, US Intervention, and Hegemony* (1996), Robinson argues that Gramsci's concept of the 'extended state' shows the way forward for a deterritorialized concept of the state: "the extended state which incorporates civil and political society and upon which hegemony is constructed needs in no way to be correlated, theoretically, with territory, or with the nation-state" (370). According to Robinson, "the emergence of a global economy brings with it the material basis for the emergence of a single global society, including the transnationalization of civil society and of political processes" (4). This process, for Robinson, means that nation-states are increasingly inappropriate units of analysis for understanding not only economic but also social and political processes (4).[22] Thus Robinson comes to completely deterritorialized concepts of both capital and the state. Globalization, he argues, is characterized by "the increasing separation of classes from territoriality and class power from state power" as well as "a dispersal of global decision-making away from specific core states" (20). All these factors, together with the "decline in the relative power of the US nation-state and other core states in recent decades", Robinson argues account for "the decreased effectiveness of traditional military power and the absolute coercive capacity of the core in the world system" (25).

According to Robinson, the keyword for understanding the global political system that corresponds to the new global economy is 'polyarchy', referring to the hegemony of a transnational elite representing transnational capital. But Robinson also argues that the most important feature of this new global political structure is 'democracy promotion', an idea that has become hegemonic transnationally. This is where Robinson's concept of polyarchy becomes most confusing because whatever its limits, his concept of democracy here involves not only the ruling class but also the subordinate groups. In Robinson's

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[22] It is interesting to note in this context that, different from other neo-Gramscian writers (especially Cox and Gill) who distance themselves from the world systems approach, Robinson bases his theory on a a revised world systems theory, which he thinks "forms a powerful macrostructural framework for analyzing world events" through its basic theoretical proposition that "the development of international society is constituted by the spread of a social system at the international level" (19).

words, his notion of hegemony incorporates both dominant and subordinate groups in the center and periphery, and in that sense it differs from Cox and Gill's concept of hegemony which focuses on *intra*-elite consensus only (30). As such, Robinson's concept of 'polyarchy' as a globally hegemonic project of 'democracy promotion' becomes a contradiction in terms. It refers not only to the plurality of ruling class fractions, but also a real process of consensus formation among subordinate groups across the world. At this point, it marks a break with a wide range of Marxist theories on the issue (for example, Poulantzas's concept of 'power bloc' or Van der Pijl's 'concepts of control' which basically refer to the same reality, – a plurality of different ruling class fractions in capitalism) and comes closer to a liberal understanding of power relations. This is not only theoretically problematic. Robinson's argument on the decline of the nation-state contradicts his proposition that what he calls 'democracy promotion' is an active foreign policy of the US nation-state in 'installing and stabilizing polyarchic political systems in the South' (41).[23]

In conclusion, it could be argued that neo-Gramscian approaches have increasingly shifted to a deterritorialized approach to the internationalization of capital and the state in the course of their development since Cox's initial work in 1987. The elements for a deterritorialization of the concepts of the state and capital were present in Cox's initial work, especially in his outside-in orientation to the state as well as his definition of the transnational class as a transnational elite with only the final control over the dynamics of capitalist development within each specific social formation. However, the inside/outside duality as well as a concern to understand how internationalization is internalized by

[23] We will see below that there is a similar contradiction in Hardt and Negri's argument of a completely deterritorialized empire and the US nation state at the top of the hierarchy of this empire.

nation states was also present in this work. In the later development of neo-Gramscian analyses, the focus shifted to the transnational level. In this process, Van der Pijl's and Gill's concepts of 'transnational state-civil society complex' have marked a further deterritorialization of the concepts of the state and capital. The culmination of a totally deterritorialized conceptualization is made by Robinson, who has gone the furthest in treating both the space of capital and the space of the state as completely overlapping and transnational, ending up with a theoretical framework that totally ignores the role of nation states in the internationalization process. Thus Robinson is unable to explain the contradictions of state restructuring.

Hardt and Negri's Empire

Although coming from a very different tradition of Marxism, Hardt and Negri converge with Robinson on a fully deterritorialized concept of capital and state based on a complete overlap in the transnationality of the space of capital and the space of the state. In *Empire* (2001), Hardt and Negri argue that "sovereignty has taken a new form, composed of a series of national and supranational organisms united under a single logic rule", which they call Empire (xii). According to Hardt and Negri, what we are witnessing is a qualitative passage "from imperialism to Empire and from the nation-state to the political regulation of the global market" (237). "Economic geography and political geography", they argue, "are destabilized in such a way that the boundaries among the various zones are themselves fluid and mobile. As a result, the entire world market tends to be the only coherent domain for the effective application of capitalist management and command" (254).

Hardt and Negri explain the difference between imperialism and Empire with reference to Marx's distinction between the formal and real subsumption of labour under capital. Imperialism involves capital's internalization of its 'outside' through spatial expansion and thus the formal subsumption of labour under capital, whereas Empire involves the full realization of the world market and thus the processes of real subsumption of labour under capital. Discipline, Hardt and Negri argue, is the central mechanism of this transformation:

> When a new social reality is formed, integrating both the development of capital and the proletarianization of the population into a single process, the political form of command must itself be modified and articulated in a manner and on a scale adequate to this process, a global quasi-state of the disciplinary regime (255).

The first part of Hardt and Negri's argument regarding the relationship between the full realization of a world market and the real subsumption of labour is quite plausible. The problems start with their approach in the second part: Why would the disciplinary mechanism governing the world market necessarily take the form of a world state? And even if a world state would be a logical development, is it really historically and theoretically so?

Hardt and Negri have a quite contradictory answer to the last question. The Empire, they argue, is governed by a "pyramid of global constitution" composed of three tiers. The highest tier of "unified global command" is composed of US at the top, G7 states at the second level, and international associations at the third level. The second tier is structured by the networks of transnational corporations and nation-states that are subordinated to them. And the third tier consists of groups that represent popular interests in the global power arrangement (310). It is interesting to note that, on the one hand, Hardt and Negri conceive Empire as a completely deterritorialized structure, yet, on the other hand, they put the US nation-state at the top of its unified global command, to be followed by G7 nation-states at the second tier. As in the case with Robinson, it is necessary to ask: if the global command of the world market is unified in the hands of a single nation-state with other nation-states subordinate to it, then what is meant here by the decline of the nation-state?[24]

The answer to this last question is given again by Hardt and Negri in the description of the 'pyramid of global constitution'. Nation-states reside on the second tier of the pyramid, "on a level that is often subordinated to the power of the transnational corporations", where they act as "filters of the flow of global circulation and regulators of global command" (310). This description is based on the typical assumption that states have their own powers (compared to the power of TNCs), and thus their role is reduced to a filter, or a transmission belt between the global and the local, conceived in isolation from class powers in their territory.

Hardt and Negri have the most extremely deterritorialized approach to capital as well. Following Deleuze and Guattari, they argue that capital operates on the plane of *immanence*, "through a generalized decoding of fluxes, a massive deterritorialization, and then through conjunctions of these deterritorialized and decoded fluxes" (326). The functioning of capital, they argue, is "deterritorializing and immanent in three primary aspects that Marx himself analysed" (326): separation of populations from territories in the processes of primitive accumulation, reduction of all forms of value to money, and the immanence of laws by which capital functions to the very functioning of capital (326). Due to this deterritorializing tendency of capital, Hardt and Negri argue that

[24] A similar point about Hardt and Negri is forcefully made by Panitch and Gindin (2002: 25).

> ...even the boundaries of the nation-state tend to fade into the background as capital realizes itself in the world market. Capital tends toward a smooth space defined by uncoded flows, flexibility, continual modulation, and tendential equalization (327).

Modern sovereignty, on the other hand, operates on the plane of *transcendence*, through the "striation of the social field". As such, "transcendence of modern sovereignty conflicts with the immanence of capital" (327). "Historically", Hardt and Negri argue, "capital has relied on sovereignty and the support of its structures of right and force, but those same structures continually contradict in principle and obstruct in practice the operation of capital, finally obstructing its development" (327).

Thus for Hardt and Negri there is a contradiction between the "smoothness" of the space of capital and "striation" of the space of sovereignty (328-332). This contradiction, they argue, has been mediated by civil society for one historical period but not any more. The withering away of civil society stems from the decline of the labour unions, and is concomitant with the "passage from disciplinary society to the society of control" (328). This process involves the "smoothing of the striation of modern social space" (332) and sovereignty itself becomes immanent like capital. The space of sovereignty becomes smooth and thus completely compatible with the space of capital and the contradiction between the two is thus resolved.

The process of smoothing of the space of sovereignty also corresponds to the passage from imperialism to Empire. Imperialism, Hardt and Negri argue, once contributed to capital's survival and expansion through providing new territories for exploitation. But imperialism also created rigid boundaries among various global spaces, precluding the full realization of the world market:

> Imperialism is a machine of global striation, channelling, coding, and territorializing the flows of capital, blocking certain flows and facilitating others. The world market, in contrast,

> requires a smooth space of uncoded and deterritorialized flows...The full realization of the world market is necessarily the end of imperialism (332-3).

In this process, the divisions among nation-states as well as between center and periphery lose their meaning. The lines of division "will no longer be found along stable national or international boundaries, but in fluid infra- and supranational borders" (335).

There are two problems with Hardt and Negri's conception of the 'space of capital' and the 'space of sovereignty'. The first problem is their argument that in the globalization process the space of sovereignty is also 'smoothened' or transnationalized to match the smoothness of the space of capital. Hardt and Negri wish to match their deterritorialized concept of capital with a deterritorialized concept of state. However, even their own emphasis on the privileged position of the US nation-state in the new space of sovereignty is enough to show that this is not the case. Second, the completely deterritorialized concept of capital implied by Hardt and Negri's concept of immanence is problematic, as it primarily refers to money capital, and even money capital is not totally deterritorialized in Hardt and Negri's sense.[25] In any case, whatever the degree of dominance of money form in the current context, it is still *only one* of the forms of capital, not the whole. This is a point equally missed by the Open Marxism approach, even if they have been critical of the theorization of Hardt and Negri. That is where the discussion will turn now.

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[25] An example can be given from Harvey (1999: 421) for this: If a powerful bank hold the mortgage debt on much of the infrastructural investment within a territory, then it undermines the quality of its own debt if it syphons off all surplus money capital and sends it to wherever the rate of profit is highest. In order to realize the value of the debt it already holds, the bank may be forced to make additional investments within a territory at a lower rate of profit that could be commanded elsewhere.

The Open Marxism School

The main concern of the Open Marxism School, which is identified with the Conference for Socialist Economists and the journal *Capital and Class,* has been to criticize structural Marxism's strict duality between base and superstructure. In that context, they emphasize 'social totality' and conceive the state and capital as aspects or forms ('modes of existence')[26] of this social totality. Thus they view the state as "a differentiated form of the social relations of production" and national states as political "moments" in the global flow of capital (Burnham, 1997: 153).

The approach of the Open Marxism school to the internationalization of capital and the state can best be seen in Holloway's 'Global Capital and the National State' (1994). According to Holloway, the relation between state and capital "can be understood only in a global context" (23). His main question is, what is common in different national states that allow us to speak of the 'state' as a general concept? Against the economic determinist and functionalist approaches that answer this question through a base-superstructure model, Holloway argues that "the state is not a structure but a rigidified form of social relations" (29), it is a "moment of the totality of the social relations of capitalist society" (27). Holloway goes on to state: "The political as a moment of the relation between capital and labour", he argues, "is a moment of a global relation. However, it is expressed not in the existence of a global state but in the existence of a multiplicity of apparently autonomous, territorially distinct national states" (31). In other words, according to Holloway, the capitalist state necessarily takes the form of the nation-state because exploitation and coercion are separated in capitalism. As the relation

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[26] According to the Open Marxism School, 'form' can be understood either as 'species' or 'mode of existence'. The forms of something are in the first case the specific characters it can assume. In the second case, in contrast, something exists only in and through the forms it takes (xvii).

of exploitation was liberated from spatial bonds in the process of transition to capitalism, "the coercion which provided the necessary support for capitalist exploitation acquired a new territorial definition" in the form of nation-states (31).

Another reason why the capitalist state necessarily takes the national form, Holloway argues is that the nation-state serves the "decomposition of global social relations" as a crucial element in the fragmentation of opposition to capitalist domination, in the decomposition of labour as a class (31). Thus for Holloway, capital has always been international and the state has always been national in capitalism, so "there is a basic territorial non-coincidence between the state and the society to which it relates" and this is equally valid for both centre and the periphery (32).[27] In terms of the distinction between the space of capital and the space of the state, then, Holloway clearly argues that the 'space of the state' is *necessarily* national in capitalism even if the 'space of capital' is global. In that sense, the Open Marxism School makes a strong case at the epistemological level for the non-correspondence between the two spaces by arguing that this is a systemic requirement of capitalist relations of production.[28]

The problem starts when Holloway makes the contrast between the globality of capital and nationality of state a distinction between the mobility of capital and the immobility of state (33). "The contrast between the spatial liberation of the process of exploitation (mediated through the flow of capital as money), on the one hand, and the spatial definition of coercion (expressed in the existence of national states), on the other",

[27] Holloway adds, at this point, that this does not mean that "the relation between global capital and all national states is the same": The territorial definition means that each state has a different relation to the global relations of capitalism (33).

[28] It should be noted that, in line with this strong case on the nationality of state form in capitalism, some scholars from the Open Marxism tradition have made a number of interesting analyses of the state-class relationships in specific social formations. In that sense, their approach is quite different from neo-Gramscian approaches that focus exclusively at the supranational level. See for example Bonefeld *et al.* (1995).

he argues, "is expressed as a contrast between the mobility of capital and the immobility of the state" (33). In this framework, Holloway criticizes approaches which treat capital "as though it could be understood in terms of its personal, institutional or local attachment, instead of seeing these attachments as transitory moments in the incessant flow of capital" (34). Thus, Holloway sees all "immobile" forms of capital (like productive capital) as "transitory" and therefore irrelevant for the analysis of the relation between global capital and the nation-state.[29] He only takes into consideration the money form of capital because "the absolute contingency of space', he argues, 'is epitomized in the existence of capital as money" (31).

In this context, Holloway argues that the relation between global capital and the national state can be imagined through the metaphor of nation-states as "reservoirs seeking competitively to attract and retain the maximum amount of water from a powerful and largely uncontrollable river" of global capital (38). In this understanding, global capital cannot be tied down to any particular part of the world. This deterritorialized concept of capital, coupled with a concept of nation-state whose role is reduced to a 'reservoir', which cannot control but only respond to the unstoppable movement of capital, forms the limits of the Open Marxism school.

The problem with this approach, as with Hardt and Negri, is the treatment of the space of capital only in terms of the flows of money capital. The theorization of money capital as 'the global capital' leads to a totally deterritorialized concept of capital ('immanent' in the case of Hardt and Negri, and 'a-spatial' in the case of Holloway).[30]

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[29] Holloway states: "The reproduction of capital depends on its (transitory) immobilisation in the form of productive capital, involving its embodiment in machinery, labour power, land, buildings, commodities", he argues, but "in its most general and abstract form, money, capital is global, liquid and fast-flowing" (33).
[30] "The global nature of capitalist social relations", Holloway argues, "is inherent in the nature of the

The exclusive focus on money capital leads to the misleading view that all capital is mobile and the main contradiction is between the mobility of capital and immobility of state. When the entire process of the circulation of capital is taken into consideration, however, it becomes clear that the tension is not between mobility of capital and immobility of state, but "between fixity and motion in the circulation of capital, between concentration and dispersal, between local commitment and global concerns", which "put immense strains upon the organizational capacities of capitalism" (Harvey, 1999: 422). In other words, it is wrong to see capital as totally mobile and free from spatial bounds because "a portion of the total social capital has to be rendered immobile in order to give the remaining capital greater flexibility of movement" (Harvey, 1999: 419). The exclusive focus on the mobility of money capital as if other fractions of capital no longer exist, moreover, leads to an inability to explain the contradictions within capital in the process of internationalization.[31] Thus, what we need is not only a territorialized concept of state but also a territorialized concept of capital.[32]

capitalist relation of exploitation as a relation, mediated through money, between free worker and free capitalist, a relation freed from spatial constraint. The a-spatial, global nature of capitalist social relations has been a central feature of capitalist development since its bloody birth in conquest and piracy" (31). The term *'a-spatial'* here is worth noting.

[31] Holloway himself is aware that this is not the case. Money dominates because production has ceased to be so attractive for capital, but ultimately production is the sole source of capital's self-expansion (43).

[32] Bryan (2003) makes this point forcefully when he argues that it is wrong to see the world as divided *only* by political space: "The problem with those conceptions is that they start from the notion that the world is, in the first instance, a unified, seamless totality (there is a single unit of value; a uniform process of accumulation), and 'then' segmented (fractured/divided) by the intrusion of territory. They conflate the process of abstraction (an integrated world) with a historical process (the conflicts and contradictions by which capital expanded across the globe. The notion of the world fractured or divided by political space is, therefore, both predicated on an ideal type (uniform, apolitical, non-territorial space: the borderless globe), and limited in its depiction of the possible significant sources of 'difference'."

2.4.2 The Re-territorialization of Capital and the State

The conceptual tools of a territorialized approach to state and capital in the context of globalization can be found in the works of Bryan, Tsoukalas, Albo, Panitch and Gindin, who all emphasize in their own ways the non-coincidence between the space of capital and the space of the state, and how this non-coincidence is reflected as a contradiction within each national state. In what follows, I will draw upon their arguments to discuss (i) why territoriality is still important in the globalization debate and (ii) how to understand the contradictions within capital and within the state in a specific social formation in this process.

Why Territoriality Still Matters

The internationalization of capital does not lead, as Robinson, Hardt and Negri *et al* have argued, to the deterritorialization of social relations. In Tsoukalas' (1999) words, "territoriality has not evaporated" with globalization, and this is true for both capital and the state. The territoriality of capital basically means that production and accordingly exploitation always takes place in a specific territory. As Albo (2003) has pointed out, "the appropriation and production of value and commodities through the exploitation of labour takes place in spatially specific places of production; but the circulation of commodities and the distribution of value in exchange flows is potentially not bounded to any particular place" (6). In other words, the exploitation of labour always takes place in spatially specific places of production "that are constituted by the specific territorially-embedded conflictual social property relations of capitalism" (Albo, 1997: 8). The contemporary internationalisation of markets, in this context, is "a contradictory 'space of flows' between these 'spaces of production'" (8).[33]

In the same vein, Tsoukalas (1999) argues that economic activities do not take place in a "trans-territorial class vacuum" (58).[34] Exploitation always takes place "within the territories of specific societies organized as sovereign states" (58). Accumulation, Tsoukalas argues, can take different organizational forms but its operationalization, by definition, remains domestic:

> If the constitution of domestic power blocs and their internal antinomies and political antagonisms can only be properly understood in conjunction with their trans-territorial entrepreneurial capacities, they must nonetheless also always operate within definite borders, however loose their dependence on internal markets may be. Even if capital may be controlled in the ether, it must be accumulated on earth (58).

Thus, the territoriality of capital resides with the fact that exploitation always takes place within particular places located within national spaces. The territoriality of state rests on this observation: it means that the conditions of exploitation are still reproduced at the national level, where social classes are reproduced and political domination is located. In this context, against conceptions that look for the reproduction of the accumulation process at the supra-national level, Tsoukalas (1999) follows Poulantzas in arguing that "the overall responsibility for reproducing internal class relations and equilibria resides with national states" (61) because "social coherence, systems of exploitation and class conflicts remain purely internal affairs" (62). "On the material level", he argues, "deregulation, labour fragmentation, productivity and profit maximization can only be ensured within a juridically-given territorial context. In this

[33] Harvey (1990) has made a similar point through his argument that capital constantly seeks a 'spatial fix' to the problems of overaccumulation that result from the process of intra-capitalist competition, which is reflected as a contradiction between fixity and mobility in the circulation of capital.

[34] Das (2001) makes a similar argument: "Social relations such as relations between owners and labourers and relations between the state and society are necessarily spatial. One form of this spatiality is that they are necessarily tied to spatially restricted areas. They don't hang in the air" (360).

sense, far from dispensing with national states' functions and services, the extended reproduction of the accumulation of international capital is totally dependent on their constant intervention" (67).

Tsoukalas thus revives Poulantzas' basic argument that the economic functions of the state are not just some technical tasks that can be separated from its political functions and transferred to the supra-national level. "The political and ideological cohesion of social formations, still materialised only by and through states", he argues, "provides the basis for reproducing the (interchangeable) coherent socioeconomic and legal environments necessary for any productive organisation" (67). In the same vein, Albo (2003) argues that "the social practices of capitalism have historically been compartmentalized within the territorial domain of nation-states which have provided a common currency, legal structure, class formation and social institutions, and which interact as part of a world market" (7). In that sense, the role of the nation state in reproducing the overall conditions of class domination has not declined with globalization. In Panitch's (1994: 67) words, "global class interpenetrations and contradictions need to be understood in the context of the nation state's continuing central role in organizing, sanctioning and legitimizing class domination within capitalism." This brings us back to the question of how to understand these contradictions.

Contradictions within Capital

The contradictions within capital in the recent internationalization process can be explained by two main factors. First, the contradiction between the internationality of capital accumulation and nationality of state is expressed within the capitalist class of each social formation as the incompatibility of different demands on the state. In Tsoukalas' words, "the contradictions and antagonisms of international capital are now directly present within national socioeconomic formations" (59), thus "it is now even more true that the contradictions between fractions of capital within national states are 'internationalised'" (60). The second factor is related to the nature of the recent internationalization process. As Bryan (1995: 84) argues, globally integrated capital markets have brought the whole spectrum of monetary policy into the division between capitals with conflicts over the exchange rate and the interest rate. In other words, the conflicts associated with state regulation of the money system are more complex than those associated with tariff and trade policy.

How are we, then, to formulate the divisions within capital in the recent process of internationalization? What we are looking for here is a conceptualization that refers specifically to the contradictions in the recent process of internationalization, involving the spatial dimension as well as the role of state. Bryan's (1995) framework is quite helpful at this point. Bryan (1995: 95) argues that neither the divisions between industrial, commercial and bank capitals nor the division of foreign and national capital are directly relevant in this sense. The particularity of the contradictions of internationalisation, he argues, cannot be identified with these divisions. The spatial dimension of accumulation is absent, and the role of the state in securing the conditions of accumulation involves no dimension that is particular to the contradiction between the nationality of the state and the internationality of accumulation.[35]

[35] Bryan's critique of the foreign-national distinction as having no economic significance is especially important at this point. The economically important characteristic of 'foreign' capitals, Bryan argues, is not the location of ownership, for this is a politico-legal definition, but that they engage in international relocation of capital – money, production and commodities. Yet this is not exclusive to 'foreign-owned'

Instead of these two divisions, Bryan suggests a division based on the four forms of international integration in terms of different spatial combinations of production, realisation and reproduction: the national circuit, the global circuit, the investment-constrained circuit, and the market-constrained circuit. National capital is the capital that produces, sells and reinvests in the same national space. It is small scale (not large enough to reproduce internationally) and likely to be concentrated in import-competing or naturally protected industries. Global capital produces within a nation-state, but it can sell on global markets and reinvest beyond the borders. Its realization and reproduction is located according to international conditions of profitability. Investment-constrained capital can sell on global markets but cannot consider international production. It is integrated into international accumulation at the level of exchange, but not production. It consists of smaller-scale capital that produces exportable commodities, but is not large enough to undertake production internationally. The lifting of capital controls in the 1980s reduced the importance of this form of accumulation; these capitals also shifted into the global circuit as they either outgrew protected investment opportunities or such opportunities dried up. Finally, market-constrained capital can invest internationally, but can only sell within national markets (See Table 2.1 below).

companies: 'nationally-owned' TNCs do this too. This is a very important point in challenging nationalist analyses that make a distinction between foreign-owned and locally-owned TNCs as if they have different economic interests and demands from the state.

Table 2.1: Circuits of Capital and International Accumulation

	Production (C..P..C')	Realisation (C-M')	Reproduction (M-C')
National	National	National	National
Investment-constrained	National	International	National
Market-constrained	National	National	International
Global	National	International	International

Source: Bryan (1995).
Note: C..P..C: production of commodities;
C'-M': realisation of commodities through the act of exchange; and
M'-C': reproduction of capital (allocation of revenue to new production).

Each of the different phases in the circuit of capital involves the impact of state policy, and thus the basis for division between individual capitals over state policy (Bryan, 1995: 88). Each of the four fractions of capital described above benefit from different kinds of state policies. For instance, tariff and exchange rate policies are the central concern for market-constrained capital, "these policies form a critical divide between different sorts of TNCs in their expectations of nation state policies" (91). Controls on imports of commodities and money capital, as well as the impact of monetary policy on the exchange rate, determine the size and fortunes of each. The internationalization of capital has reduced capital in the investment-constrained circuit, but capital in the national and market-constrained circuits still exert significant influence in the policy formation of nation states. The exchange rate remains a major irresolvable conflict between capitals engaged in different forms of accumulation (92-93).

The main strength of Bryan's division is that it is defined with reference to the state, so it can contribute to explaining the contradictions of state policy. Each form of accumulation is reliant on state intervention for its relative prominence within the national spaces of accumulation, "because interventions which advance one form of accumulation inevitably retard another" (98). Another strength of Bryan's approach is its historical and spatial dimensions. In Bryan's division, historical processes of concentration and centralization involve a tendency for capitals to move towards the international circulation of commodities and/or the international relocation of production. These also involve the transformation from one spatial form of accumulation to another.[36] "Concentration and centralization", Bryan argues, "means that the policies advocated by individual capitals (or groups of capitals) cannot be simply 'read off' from their current form of international integration" (99). This explains why nationalist policies formulated on the basis of a static concept of national bourgeoisie are unviable: Individual capitals in the national circuit advocate state protection for their demands only until they move to the international circuit, which is their ultimate motive.

In sum, Bryan's analysis of the four types of capital producing within the same country, but having differing sites of realization and reproduction, is very helpful for understanding the contradictions within capital in each social formation. Since Bryan focuses on the types of accumulation involving a process of production within the nation concerned, and production here is equated only with the existence of a labour process (e.g. banks are also deemed to undertake production if their individual circuit involves a labour process in the concerned country), it is possible in this framework to explain the contradictions within an internal capitalist class divided according to its differential forms of integration with the processes of international accumulation. The next question concerns how these contradictions are reflected within the state apparatuses.

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[36] Bryan points out that "...for instance, a small company in the national circuit moving into exporting, and thus the investment-constrained circuit. Thus capitals in the national circuit may advocate state policies to subsidise or otherwise assist exports" (98).

Contradictions within the State and the Rise of Authoritarian Statism

Before discussing the contradictions of state restructuring specific to internationalization, it should be noted that the formation and implementation of state policies in capitalism has always been a contradictory process. These contradictions stem from a basic feature of the capitalist state: that it is based on a plurality of dominant class fractions, as opposed to the pre-capitalist states that were based on the exclusive domination of one class or fraction (Poulantzas, 1968: 230). This is reflected in the structure of the capitalist state as a 'power bloc' composed of several dominant class fractions, one of which is hegemonic over the others[37]; and in the 'political scene' as a plurality of political parties that represent different class interests (Poulantzas, 1968). The relationship between the power bloc and the political scene is quite important in terms of the specific character of a certain state in a certain period. For instance, when new contradictions emerge within capital, the dominant fraction may be unable to organize its hegemony in the political scene in which case these contradictions tend to be managed by the state bureaucracy rather than by political parties (Poulantzas, 1968: 315).

In *State, Power, Socialism* (1978), Poulantzas argues that this mechanism has assumed a permanent character in the late 1970s, whereby a new state form has emerged to contain the specific contradictions of capitalism. Poulantzas calls this new state form *'authoritarian statism'*. The most evident features of authoritarian statism are the decline

[37] The fragmented structure of the capitalist state helps this process. As Harvey (2001: 280) points out, "the net effect of the fragmentation of institutions is probably to make it easier to achieve 'the formation and suppression of unstable equilibria' between fractions of capital and between the dominant and the dominated." In this context, "the formal separation of powers between executive, legislature and judiciary', Harvey argues, 'ensures that the state can act as an effective arbiter between the various fractional interests within the capitalist class" (2001: 276).

of the political scene, the strengthening of the executive, and the political role assumed by the state administration (Poulantzas, 1978: 217).

Poulantzas' concept of authoritarian statism is quite relevant for understanding the characteristics of state restructuring in response to internationalization of capital today, because the contradictions induced by internationalization tend to be managed directly by the state rather than political parties. In this context, a number of scholars have used Poulantzas' concept of authoritarian statism to define the new state form that has emerged in response to the internationalization of capital.[38] According to Essex (2007), although Poulantzas used the term monopoly capitalism in his analysis of authoritarian statism, the process he referred to can be understood as the internationalization of capital, as it "points to the power of multinational corporations that remained competitive with one another even as their power and interests coalesced and began to define a new phase of capitalist development" (79-80). It is quite legitimate therefore, to use the concept of authoritarian statism to define to the major mechanisms of state restructuring in response to the internationalization of capital. Among these mechanisms is the management of the contradictions within capital by the state apparatus rather than political parties. This reduces the role of political parties to popularizing the administrative-executive policies to the masses. Poulantzas describes this process as follows:

> Today, they (political parties) differ over little more than the aspect of administrative-executive policy that should be popularized: their propaganda takes up one and the same policy of the administration and executive, differentiated according to the class which they address. This is not to say that differences have become purely and simply fictitious. Differences do indeed cover real contradictions among fractions of the power bloc – contradictions which concern their specific interests and the policy variant to be adopted in relation to the popular masses. But these parties are not the sites where such contradictions are really handled. They are rather the sounding-boards for contradictions at work in the dominant centre, namely the administration and the executive (Poulantzas, 1978: 230).

[38] Among them are Jessop (2006), Kannankulam (2003), Thomas (2000) and Essex (2007).

Poulantzas argues that this process also transforms the parties of power (or 'natural parties of government' in contrast to those parties destined for a permanent oppositional role) into a single (or duopolistic) 'dominant mass party'. Their task is more to mobilize mass support for state policies in a plebiscitary fashion than it is to directly articulate and represent popular interests and demands to the state.

In the neoliberal globalization context, his point has been emphasized by Tsoukalas (1999), Albo (2002), Leys (2006) and Jessop (2006) among others. Albo (2002) argues that "the state increasingly concentrates the exercise of political power relative to democratic actors...The foremost symbol of the concentration of political power has been the decline of legislative bodies and democratic accountability and the strengthening of the unilateral exercise of power by the executive branches" (51). In the same vein, Tsoukalas (1999) points out that "political conflict is concentrated on secondary debates and cannot directly reflect well-established and internalized class issues... one may legitimately speak of a growing 'theatricality' of internal political conflict, still organized in parties" (69). Leys (2006) calls this whole process as the rise of the 'cynical state'. Jessop (2006) emphasizes that "the continued decline of parliament and the rule of law, the growing autonomy of the executive, the increased importance of presidential or prime ministerial powers, the consolidation of authoritarian, plebiscitary parties that largely represent the state to the popular masses" are major trends that make authoritarian statism even more relevant today.

It can be argued, then, that there are three mechanisms of state restructuring associated with the rise of neoliberal authoritarian statism in reponse to the recent phase of internationalization. A first mechanism to highlight is the transfer of power from the political scene to the state apparatus. A second mechanism, which follows from the first, is the predominance of the executive *vis-à-vis* legislative and judiciary branches within the state apparatus. Third, the internal hierarchy of the executive branch is re-ordered to augment the role of agencies dealing with capital accumulation in general and economic internationalization in particular (Palloix, 1975b; Poulantzas, 1978; Panitch, 1994; Albo, 2002). What Poulantzas calls the 'specialized economic apparatus', which is directly linked into the accumulation-reproduction process of capital, becomes central to this process. The predominance of the specialized economic apparatus within the executive, Poulantzas points out, is accompanied by "the establishment of distinct circuits within various state apparatuses" (Poulantzas, 1978: 171). These commissions or boards predominate the established bureaucracies of ministries in their corresponding fields of action.

The predominance of a specialized economic apparatus within the state leads to growing contradictions between "the professed aims of the political personnel responsible for the regulation of deregulation, on the one hand, and the established state bureaucracy entrusted with the symbolical, juridical and ideological cohesion of national social formations on the other" (Tsoukalas, 1999: 72). "On the level of representations", Tsoukalas suggests, "this contradiction may be summed up in the ostensible incompatibility between public 'neutrality' and particularistic 'preferentiality'" (72). In other words, parts of the state directly engage with particular individual capitalists, who must be directly involved in crisis management.[39] Tsoukalas describes this process as the "differentiated relative autonomy reflected in the internal contradictions that mark the

[39] This is the sense that 'crony capitalism' is not a deviation that can be fixed, as neoliberal and neo-institutional approaches argue, but a tendency inherent in the recent internationalization of capital.

various 'branches' of the state apparatus" (73). In the same vein, Bryan (1995: 5) argues that, in response to the intensified contradictions within capital, "national policy formation has increasingly pursued *ad hoc* agendas, often informed by the most banal of formal economic propositions – that competition is good, debt is bad, inflation is worse, etc."

But at the same time, the growing contradictions within capital are often masked behind a new ideology of 'techno-authoritarianism' (Tsoukalas, 1999: 74). In Albo's (2002) words, the bureaucratic insulation of state's economic functions from democratic structures occurs "under the neoliberal guise of protecting the market from political interference, when in fact the political role of the market is being strengthened to offset any democratic initiatives being fought through the state" (51-52).

3. Conclusion

In this chapter, I reviewed the Marxist literature on the internationalization of capital and the state in terms of how major approaches have treated the space of capital accumulation and the space of the state action in the internationalization process from Marx to the recent debates on globalization. The conclusions can be summarized as follows.

Marx's views on the internationalization of capital were mostly shaped in the context of the expansion of capitalism into non-capitalist formations rather than the international movement of capital among already capitalist social formations. That's why Marx discussed the role of the state in the internationalization of capital mostly in geopolitical and repressive terms. Although he provided significant insights for the analysis of the historical and spatial dynamics of the internationalization of capital in different parts of his work, and touched the role of the state in other parts, he never brought all these together in a single theoretical framework. This was also true for his treatment of the question of the relationship between the space of capital and the space of the state. The undifferentiated concept of space in the *Manifesto*, for instance, was quite different from the more differentiated and territorialized concept of space in the *Grundrisse.* It is difficult therefore to make a definitive judgement on Marx's position on this issue on the basis of his scattered writings.

The discussion took a new route in the context of the inter-imperialist rivalries of the major capitalist powers in the late 19th century, which "forced Marxists to confront directly the dynamic relations between inner and outer transformations" (Harvey, 2001: 308). As different from Marx's own writings, the classical imperialism debate had a distinct spatial flavour from the beginning, as well as a more direct preoccupation with the question of the state and the territorial dimension of social relation and power. The main problem with the classical theories of imperialism, is their one-sided emphasis on certain aspects of Marx's analyses of the expansion of capitalism, treating certain tendencies as facts and ignoring other counter-tendencies (Harvey: 1975; Brewer: 1990). Bukharin and Lenin's treatment of internationalization exclusively as a rivalry among national blocs of capitals/states, for example, was marked by the failure to differentiate between the 'space of capital' and the 'space of the state'. As Bryan (1995) points out, by treating both of these spaces as national, they saw the only contradiction of internationalization as a rivalry among national blocs of capitals/states, with no inherent contradiction in the international accumulation process itself.

When the debate on the internationalization of capital re-emerged in the early 1970s, the main question was how the post-war proliferation of TNCs as well as the rise of Europe and Japan as new centres of accumulation affected the balance between the 'internationalization' and 'nationalization' of capital as reflected in the state form. In the context of post-war developments, Mandel and Rowthorn reproduced the Lenin-Bukharin line of argument by conceiving internationalization as a rivalry among regional blocs of capitals/states. Their approach differed from that of Lenin and Bukharin only in the sense that they defined the competing state-capital blocs in the world economy in regional rather than national terms. The problem essentially remained the same: a failure to differentiate between the space of capital and the space of the state by defining both spaces as regional and thus overlapping. In other words, by formulating a direct correspondence between the space of capital accumulation and the space of state action, they also reduced the contradictions of internationalization to a rivalry among regional blocs of capitals/states, again disregarding the contradictions of the international accumulation process itself.

The big departure from this thesis, in the course of the 1970s debate, were the interventions of Murray, Poulantzas and Palloix. Murray was the first to argue for a 'territorial non-coincidence' between internationalizing capitals and their domestic states, and thus a differentiation of the space of capital and the space of the state. However, Murray left the question of the relationship between international capital and state form contingent and even ambiguous by suggesting that public functions for international capital could be performed by all sorts of institutions in all sorts of ways (the domestic state, foreign state structures, the extended capital itself, or the existing state bodies in co-operation with each other).

It was Poulantzas who resolved this ambiguity in Murray's analysis by pointing out that the economic functions of the state could not be separated from its political function of reproducing the class domination as a whole, and this could only be undertaken by the national states. Thus, on the question of who would assume responsibility for the public functions necessary for the reproduction of international capital, Poulantzas gave a decisive answer: these functions had to be internalized by the nation-states themselves. In this way, he clearly showed that even when the space of capital is internationalized, the space of the state has to remain national.

Another important intervention was Palloix's. Palloix was clearly sided with those theories that differentiated between the space of capital and the space of the state and problematized the 'internalization' of the public functions of international capital by nation states. He made two important contributions to this line of thinking. First, by differentiating between the actual histories of internationalization of each circuit of capital, Palloix was able to explain the specificity of the recent phase of internationalization through his emphasis on the pre-eminent role of money form as the expression of international value in the current phase of capitalist development. Second, through his discussion of the continuous but varying role of the state in each phase of internationalization of the circuit of capital, Palloix was able to identify the nature of the restructuring of the state in the current phase of internationalization: the reordering of the internal hierarchy of the state apparatus and the increasing contradictions within the state reflecting the requirements of monetary discipline under the post-gold standard currency regime.

When the debate re-emerged in the 1990s, the new context was the expansion of capitalist relations of production into all parts of the globe following the collapse of the existing socialist regimes and national-developmental projects. This gave rise to approaches that tended to theorize the internationalization of capital as an increasing deterritorialization of social relations in a 'borderless globe', as with neo-Gramscian approaches, especially Robinson, and Hardt and Negri's *Empire*. In sharp contrast, the Lenin-Bukharin line of argument on the competing national blocs of capitals supported by their own states was revived in the globalization context by regulationist, neo-institutionalist and various national-developmentalist approaches that treated both the spaces of capital and the state as national. Although this line of argument formed an alternative to completely deterritorialized approaches, the concept of territoriality reproduced the flaws of the Lenin-Bukharin-Mandel-Rowthorn reasoning, in positing a direct correspondence between the space of capital accumulation and the space of the state action. The contradictions of the international accumulation process itself were thereby disregarded..

A distinct contribution to this debate were the works of Tsoukalas, Bryan, Albo, Panitch and Gindin, who all provided the conceptual tools for the re-territorialization of the concept of capital and the state by extending the Murray-Poulantzas-Palloix line of argument on the non-coincidence between the space of capital and the space of the state. This non-coincidence between the two is then reflected as a contradiction within each national state. The position of each approach is summarized in Table 2.2.

Table 2.2: Space of Capital and the Space of the State in Marxist theory (1)

	Space of capital	Space of the state	Relation between the two spaces
Lenin, Bukharin Regulation school, neo-institutionalist approaches	National	National	Congruent (Contradiction displaced into inter-imperial rivalry)
Mandel, Rowthorn	Regional	Regional	Tendentially congruent (Contradiction displaced into new forms of inter-imperial rivalry between regional blocs)
Robinson, Hardt and Negri	International	International	Tendentially compatible at the international level (Contradiction displaced into global civil society *vs.* global state in tendential formation)
Murray, Palloix, Poulantzas Tsoukalas, Bryan, Albo, Panitch and Gindin	International	National	Contingent contradiction between territorial states and global capital flows

It should be noted here that the Open Marxism School has a peculiar position on this issue. On the one hand, they make a strong epistemological case for the non-correspondence of the space of capital and the space of the state by arguing that the separation of coercion from exploitation and the ensuing territorialization of coercion within nation-states is a systemic requirement of capitalism. In that sense, they have a territorialized concept of the state. On the other hand, by treating the space of capital exclusively in terms of the mobility of money capital, they end up with a deterritorialized concept of capital. In other words, they treat the state as territorialized, but capital as deterritorialized. This means that they see space as divided only politically. In this sense, their approach differs from that of Albo, Panitch, Bryan *et al.* who see space as divided both politically and economically. Their positions are summarized in Table 2.3.

Table 2.3: Space of Capital and the Space of the State in Marxist theory (2)

	Space of capital	Space of the state
Robinson, Hardt and Negri	deterritorialized	deterritorialized
Open Marxism	deterritorialized	territorialized
Tsoukalas, Bryan, Albo, Panitch and Gindin	territorialized	territorialized

The discussions above show that it is not only important to differentiate between the space of capital accumulation and the space of the state action, but also to have a territorialized conception of capital itself. The tensions between the space of capital and the space of the state, on the one hand, and between 'the fixity and motion in the circulation of capital', on the other, are reflected as contradictions within the capitalist class and the state of each social formation. The contradictions within capital in this process can be analyzed most adequately by looking at the spaces of production, realisation and reproduction of individual capitals operating within each social formation (Bryan, 1995). The contradictions within the state, on the other hand, can be best understood by analysing the mechanisms by which the nation-state *internalizes* and *mediates* the contradictions of the international accumulation process (Panitch, 1994). These mechanisms involve the predominance of the state apparatus over political parties, and a re-ordering of the internal hierarchy of the state marked by the predominance of the executive over legislative and judiciary organs, and of a 'specialized state economic apparatus' over established bureaucracies. This gives rise to a new state form which Poulantzas initially – and presciently – identified as 'authoritarian statism'.

CHAPTER 3

The Internationalization of Turkish Capitalism

In this chapter, I will discuss the internationalization of Turkish capitalism from a political economy perspective. I will focus on the changing dynamics of capital accumulation, and the interventions of political actors and social classes in different phases of capitalist development in Turkey.

The year 1980 marks an important turning point in the internationalization of Turkish capitalism. At this time, a radical shift in the pattern of capital accumulation in Turkey began in terms of its degree of integration with the world economy. The adoption of the neoliberal economic program on January 24, 1980, symbolized by trade liberalization and abolishing of all sorts of subsidies except export subsidies; and the military coup of September 12, 1980 were the major departures in this process.

In order to understand this transition, it is first necessary to identify the problems with the two main approaches – liberal and institutionalist – that have dominated the literature on this issue. Liberal approaches argue that the economic policies applied since the 1930s were based on a 'strong state' tradition, which prevented the development of free market forces and the international competitiveness of Turkish firms. A new economic program was needed, therefore, to curb the power of the state and allow the development of international competitiveness based on free markets. According to institutionalist analyses, in contrast, the major goal of the economic policies applied since the 1930s was national development, and the policies applied in this direction were quite successful in achieving their goals. By the end of 1970s, however, the national development agenda was disrupted by the pressures of international forces, particularly IMF and the World Bank, leading to the neoliberal policies that created an externally dependent economy.

Both approaches, in their own ways, disregard the role of the dynamics of accumulation and class forces in the transformation of economic policies. From a Marxist perspective, it can be said that the protectionist economic policies of the pre-1980 period were shaped by the historical fact that it was easier for newly emerging domestic capital groups to grow in a protected home market than through competition with more advanced capitals in the world market (Savran, 2005). When the domestic capital accumulation reached a certain level, however, integration with the world market became a necessity. The change in the economic policies in 1980 was not only the result of the imposition of international institutions but also a response to the demands of domestic capital groups themselves (Ercan, 2003).

In order to understand this transition, I will first look at the historical development of Turkish capitalism. But before going into the specificities of Turkish capitalism, it would be helpful to put this in perspective in relation to the general pattern of capitalist development in peripheral countries.

1. The Internationalization of Capital in the Periphery

Following Palloix (1975), Bina and Yaghmaian (1988), and Ercan (2006), it can be said that capital accumulation in peripheral countries goes through three basic stages, which also correspond to the internationalization of different circuits of capital in the advanced capitalist countries. As Palloix (1975) puts it, the circuit of commodity-capital has operated internationally from the very beginnings of capitalism whereas the internationalization of money-capital and the productive capital are later phenomena. In this framework, the first stage of capital accumulation in peripheral countries is what Ercan (2006) calls simple export-based accumulation, which is triggered by the spatial expansion of capitalism into pre-capitalist societies through the internationalization of the circuit of commodity capital. At this stage, pre-capitalist relations are transformed and primitive forms of commercial and money capital are formed. Capitalist production is very limited and the basic capitalist relationship is seen in terms of the circulation sphere and through agricultural commodities, where production is increasingly aligned o export markets. Historically, this stage is completed in most peripheral countries by the end of the 19th century.

The second stage of capitalist development in peripheral countries is the transition from commercial to productive capital, which is triggered by the contraction of the world market following the crisis and recession in the early 20th century. In this stage, production in the capitalist sense begins in the periphery through state investments. This stage also corresponds to the early internationalization of productive capital of the advanced capitalist countries through the spatial movement of a part of a single production process to the periphery. The transition from commercial to productive capital in the periphery is completed in the post-war era through the penetration of TNCs in manufacturing activities, and both production and realization taking place in the periphery. This phase also coincides with the strategy known as import-substitution industrialization (Bina and Yaghmaian, 1988).

The third stage of capitalist development is the participation of peripheral productive capital into the global circuit of capital accumulation. This stage follows the crisis of inward-oriented accumulation, which results from the limits of the internal market and the external dependency for inputs. At this point, the need of peripheral productive capitals for more capital in the form of foreign exchange has historically coincided with the search of globally expanding capitals in the advanced capitalist countries for new areas of valorisation in the 1970s (Ercan, 2006). This is the phase known as export-oriented accumulation in the peripheral countries.

The development of Turkish capitalism generally conforms to the pattern described above. However, it has its own historical specificities, too. In what follows, I will try to highlight these specificities at each stage of Turkish capitalism. While doing this, I will look at the changing accumulation dynamics as well as the relationships between the power bloc and the political scene at each stage.

2. The Early Years of Turkish Capitalist Development

Capitalist development in Turkey started with the formation of a domestic commercial bourgeoisie. By the end of the 19th century, the late Ottoman economy was already inserted into the commercial circuit of West European capital, and commodity relations were also being established in agriculture. In the late Ottoman period, the commercial bourgeosie in the Western Anatolia was predominantly composed of Greeks, and the richest agricultural land in the Eastern provinces was owned by Armenians. After the massive deportations of Greeks and Armenians during the First World War, their abandoned businesses and lands were appropriated by Turkish local notables. The new commercial bourgeoisie and landed property-owners that came to the fore in this process also formed the power bloc that founded the Kemalist republic in 1923, as well as the support basis of the single party in power, the CHP (Cumhuriyet Halk Partisi – Republican People's Party).

Following the Great Depression that resulted in the contraction of the world market and the collapse of the agricultural prices, the Turkish commercial bourgeoisie went into a crisis. The depression also limited Turkey's imports of basic consumer goods. An internal process of industrialisation became a necessity, therefore, to domestically recreate markets for the traditional export products, but also to substitute domestic production for the previous imports of basic consumer goods (Gülalp, 1985). However, there was no potential Turkish industrial bourgeoisie that could take advantage of this opportunity. Foreign capital was not willing to step in either, for two historical reasons. First, the Turkish nation-state was formed on the basis of the repression of the non-Muslim groups that dominated the late Ottoman ruling class; foreign capital was reluctant to reinvest in Turkey despite reassurances of Turkish political leaders. Second, Turkey was never fully colonized, so it did not have any historical ties with a particular imperialist country (Taylan, 1984). In the absence of domestic and foreign industrial capital, the state stepped in as 'entrepreneur' and made massive investments in industrial production through a huge array of state companies (Koc, 1989). Hence a second stage of capitalist development in Turkey started in the 1930s by the transition from commercial to productive capital through massive state investments.

The immediate post-war period was characterized by the reconstruction of Europe under American hegemony. In 1946, the Turkish economy underwent a major operation which involved a devaluation and a set of foreign trade liberalisation measures. This was aimed at qualifying Turkey to become a member of the IMF, which indeed came into effect in 1947. As well, in 1947 a report was prepared to qualify for participation in the Marshall aid program. This report signified the reversal of the priorities of economic policy. Priority was to be given to agricultural development and export-promotion (as European agriculture had suffered more than industry during the war); state resources were to be diverted to infrastructure in the fields of transportation and communication in order to expand markets, and financial resources were to be raised through foreign credits. Turkey was admitted into the Marshall program and became a member of the Organisation for European Economic Co-operation (OEEC) in 1948. Finally, the attitude towards foreign capital was also modified by the shift of economic policy priorities from industry to agriculture, from a protected internal market to foreign trade liberalization, and a turn to the private capital (Gülalp, 1985).

At the domestic level, there was also a change in the power bloc and the political scene in this period. The early industrialization of the 1930s had induced the first important conflict within capital. A conflict of interests emerged between the industrialists who demanded protection for their goods, and the commercial bourgeoisie, particularly importers, who favored a more liberal customs regime. This conflict was reflected in the Chambers of Commerce and Industry, the semiofficial business organizations based on compulsory membership and geographical representation. Industrialists exerted an intense effort directed at the separation of the Chambers of Industry from the Chambers of Commerce. In 1950, a law was eventually passed establishing a separate Chamber of Industry; in addition the TOBB (Türkiye Odalar ve

Borsalar Birliği – Union of Chambers and Stock Exchanges), an overall organization of the Chambers was established by the same law. The conflict between the industrial and commercial bourgeoisie was also reflected in the political scene. The commercial bourgeoisie came into increasing conflict with CHP, the single party in power. Rural propertied classes were also alienated by the CHP government's policies which greatly damaged the agricultural sector. Consequently, the DP (Demokrat Parti- Democratic Party) was formed in 1946 on the basis of an alliance of these alienated sections, namely, the commercial and rural propertied classes. When the Democratic Party came to power in 1950, it clinged to the formula of priority to agriculture over industry in line with the interests of these sections.

3. The First Phase of Internationalization, Late 1950s-1980

With the recovery in European agriculture in the 1950s, agricultural prices started to decline and Turkey found itself in a foreign exchange shortage. This was also a period of the internationalization of productive capital of the advanced capitalist countries. By the mid-1950s such capital had begun direct industrial investments in the Third World. The foreign exchange crisis of the mid-1950s restricted the import of consumer goods. At the same time this meant the appearance of an internal market for products that would substitute for imports. Hence commercial capital moved into this market in collaboration with foreign capital, for which this was a means of capturing the internal market. Certain sections of commercial capital underwent a transformation into industrial capital in cooperation (through joint ventures and license agreements) with foreign capital. Legally, Turkey facilitated this transition through the enactment of the Law on

Encouragement of Foreign Capital in 1954. In comparative terms, this was a very liberal law as it enabled profit remittances without any restriction and did not require a ratio of local content in the production of foreign firms. Still, the annual average of FDI inflow to Turkey was only 7.7 million dollars, while it was 1.8 billion dollars in Brazil (Dumludağ, 2002). Although the amount of the inflow of FDI into Turkey was insignificant statistically, the contribution of FDI to the transformation of commercial capitalists into industrialists was essential. Many well-known industrial groups such as Borusan, Tekfen, Enka, E.C.A, Profilo, STFA and Alarko cooperated with foreign firms in the 1950s (Dumludağ, 2002). Hence, the first phase of internationalization of Turkish capitalism started in this period.

By the mid-1950s, a systematic process of import-substitution industrialization (ISI) had begun, following a typical pattern where technology, capital goods and inputs were imported and the final product was domestically produced. It was substantially different from the earlier phase of industrialization of the 1930s, which was based on domestic inputs and oriented to the production of basic consumer goods for a mass market, without the participation of foreign capital. This was a model based on imported inputs and oriented to the production of durable consumer goods serving a relatively high-income market, in collaboration with foreign capital (Gülalp, 1985).

By 1958, the burden of a high rate of inflation combined with an over-valued exchange rate led Turkey to the first stand-by agreement with the IMF.[40] The 1958 package included not only the standard measures of devaluation and stabilisation, but also two important items that had lasting significance. One was the establishment of an import

[40] The stand-by agreements with the IMF were then regularly repeated every year between 1961-70, and between 1978-1980.

regime that did not involve liberalisation, but rather provided one of the basic mechanisms of the ISI policy in the following decades. Through a system of import licensing, this regime enabled the physical restriction by quotas or the complete prohibition of the imports of domestically produced (or yet to be produced) goods, while freeing the importation of their capital goods and inputs. The other was the establishment of an organ for planning, which in these years was also being proposed by the OEEC in order for Turkey to rationalize its ISI efforts. The latter measure, however, waited for the 1960 coup to be materialised (Gülalp, 1985).

The DP government's policy of sticking to the priority of agriculture over industry under these circumstances became increasingly problematic for the newly emerging industrial bourgeoisie. The urban intellectuals and the student movement were also critical of DP government, because of its alleged violation of secularism. As the opposition to the DP government increased, the government increasingly resorted to repressive measures. On May 27, 1960, a military coup was staged against the DP government, which was openly supported by the industrial bourgeoisie and urban intellectuals.[41] The coup of 1960 opened the way for further industrial development. The state investments were stepped up, especially in the area of intermediate products to serve the flourishing private industry.

Industrial capitalism in Turkey developed rapidly through the ISI model in the 1960s and 1970s. As productive capital groups achieved a certain capital adequacy, they started to gain control over commercial and money-capital through ownership of banks. This led to the formation of conglomerates known as 'holding companies'. The earliest holding companies in Turkey were formed in the 1940s by those capital groups that grew

[41] The military junta returned the power to civilians in October 1961.

in the earlier phase of industrial capital formation. In this period, domestic capital was mainly financed through state-owned development and investment banks (Ergüneş, 2005). In the 1960s and 1970s, however, the increasing need of domestic capital groups to have control over money-capital led to the development of banks within each holding group of companies. Holding companies flourished after the abolition of restrictions over the institutionalization of conglomerates as 'holdings' in 1963. Almost all big domestic capital groups organized in the form of holding companies succeeded in establishing their own banks before 1980 (See Table 3.1 below).

The tendency of big capital groups to become holding companies was based on their necessity to grow rapidly by combining industrial and commercial capital with banking. Through their own banks, holding companies were able to meet their financial needs by controlling vast resources with little capital of their own, guarantee the provision of funds to the branches of the holding company in times of financial crisis, and

Table 3.1: Turkish Holding Companies and Their Banks, 1981-82

Group	Banks
Koç	Garanti Bank
Sabancı	Akbank
Çukurova	Yapı Kredi Bank, Pamubank, Uluslararası Endüstri ve Ticaret Bank
İşbank	İşbank, Dışbank
Has	İstanbul Bank
Çavuşoğlu-Kazanoğlu	Hisarbank-Odibank
Özakat	Egebank
Doğuş	İmar Bank
Yaşar	Tütüncüler Bank
Zeytinoğlu	Esbank
Çolakoğlu	Türk Ekonomi Bank
Ergür	İktisat Bank
Cıngıllıoğlu	Demirbank
Sürmen	Bağbank

Source: Karakas (2003).

survive the competition with other holding companies (Akgüç, 1992). An important characteristic of the holding companies was their limited geographical distribution. Fully 88% of the holding companies were established in the three big cities (Çokgezen, 2000).

Throughout the 1960s and 1970s, big holding companies entered into various relationships with American, European and Japanese multinational companies. These relationships mainly took the form of joint ventures. For example, Koç Holding (the biggest holding in Turkey) made joint ventures with Ford and Fiat in the automotive sector; with Siemens in the production of electrical devices; and American Express in the banking sector. Another form of integration with multinational companies was license agreements. For instance, Sabancı Holding had license agreements with Goodyear, Uniroyal, Shell, Mitsubishi and other multinational companies. From 1963 to 1985, the number of license agreements reached 1046 (Sönmez, 1992: 68). The rate of penetration of multinational companies in Turkey was relatively low in comparison to other Third World countries in the same period. Still, it was enough to show that the import-substitution model in Turkey was not a 'national' phase of development, but involved a significant degree of the internationalization of capital, although in a different form than the later phase of the export-oriented strategy of the 1980s on.

The rapid industrialization in the 1960s led to new conflicts within capital, namely between the big industrial capital groups organized in the form of holding companies in the big cities, and the small and medium capital groups of Anatolian towns. The main issues of conflict were the distribution of bank credits and import quotas. These conflicts were reflected in the political scene as well. With the formation of the AP (Adalet Partisi – Justice Party) as the successor of the DP, which was closed after the 1960 coup and especially after the rise to its leadership of Suleyman Demirel in 1964, the industrial bourgeosie acquired dominance within the AP. After Demirel became the leader of the AP, Necmettin Erbakan, who spoke to the interests of small and medium capital groups as a member of the executive committee of the TOBB was elected the chair of TOBB in 1968. When Demirel declared the TOBB elections void, Erbakan founded a new political party named MNP (Milli Nizam Partisi – National Order Party) in 1970. Due to the orientation of big capital towards integration with American and European capital, the MNP advocated the integration of Turkey with the Middle East, and developed an Islamic ideology (Taylan, 1984). This formed the beginning of the Islamic political movement in Turkey.[42]

By the end of the 1960s, there was a growth in the strength and militancy of the labour movement. In 1967, three unions split from TÜRK-İŞ (Türkiye İşçi Sendikaları Konfederasyonu – Confederation of Turkish Trade Unions), the first union confederation of Turkey established in 1952, and formed, along with two independent unions, DİSK (Devrimci İşçi Sendikaları Konfederasyonu – The Confederation of Revolutionary Trade Unions of Turkey). In contrast to TÜRK-İŞ's "policy above parties", DİSK adopted what it called "class and mass based unionism" (Akkaya, 2003). With the founding of DİSK, there was a radicalization of the Turkish labour movement. In 1970, the AP government prepared a draft law that aimed at making TÜRK-İŞ the only active confederation within a corporatist system with monopolistic representation. The workers showed a strong reaction. On 15 and 16 June 1970, 150,000 workers marched against this plan, and eventually the draft law was abrogated by the Constitutional Court (Akkaya, 2003).

[42] The National Order Party that was banned in 1971 was succeeded by the National Salvation Party (Milli Selâmet Partisi) in 1972, the RP (Refah Partisi – Welfare Party) in 1983, FP (Fazilet Partisi – Virtue Party) in 1997, and SP (Saadet Partisi – Felicity Party) in 2001.

The rise in the militancy of the working class elicited two opposite reactions. One was the transformation of the CHP into a left-wing populist party. The other was the rise of the fascist MHP (Milliyetçi Hareket Partisi – Nationalist Action Party), which engaged in violence against trade unionist and left-wing militants. On March 12, 1971, the Chief of the General Staff presented a letter of memorandum to the President demanding a strong and credible government. Upon the warning of the civilian officers that unless the current government were dissolved, the army could take over the rule of the country, Demirel resigned the same day. Nihat Erim, a university professor and a member of CHP, replaced him as an allegedly 'above parties' prime minister and to form a 'national unity' government.[43]

Following the 1971 military intervention, AP turned towards a strategy of uniting all propertied classes and the repression of the left-wing movements. The AP thereby became the main center-right party. The CHP, on the other hand, turned into a center-left party with a modern image, which, basing itself on its hegemony over the working class and urban petty-bourgeosie, promised the industrial bourgeosie to deal with the backward relics of rural and commercial propertied classes. The two parties thus represented different tasks needed by the industrial bourgeosie at the time so the bourgeoisie was split over the priorities of the moment and the party to be supported (Taylan, 1984). Accordingly, the second half of the seventies witnesssed alternating governments of AP and CHP, as seen in Table 3.2.

[43] Thus, 1971 military intervention was not a full-fledged coup like the 1960 and 1980 coups, but an intervention through a memorandum to the civilian government

Table 3.2: Turkish Governments, 1975-1980

Demirel Government	31 March 1975 – 21 June 1977
Ecevit Government	21 June 1977 – 21 July 1977
Demirel Government	21 July 1977 – 5 January 1978
Ecevit Government	5 January 1978 – 12 November 1979
Demirel Government	12 November 1979 – 12 September 1980

In the meantime, the conflicts between the industrial bourgeoisie and small capital groups persisted in TOBB. In the general assembly of TOBB, each local chamber was entitled to at least one seat, but no more than ten. This principle resulted in the emergence of a large number of Chambers of Commerce so the majority of TOBB members were from small and medium-sized enterprises (SMEs). As the holding companies gained in economic strength, their underrepresentation in TOBB became increasingly important. In addition, the cancellation of the Chambers' authority to distribute import quotas made the Chambers less attractive to the holding companies. In this environment, the owners of leading holding companies established the TÜSİAD (Türkiye Sanayicileri ve İşadamları Derneği – Turkish Industrialist and Businessmen Association) in 1971. After the establishment of TÜSİAD, although the big business groups did not quit the Chambers, they looked toward TÜSİAD for representation of their interests. The Chambers and TOBB became the representatives of the firms in small Anatolian cities and of SMEs in general (Çokgezen, 2000).

4. The Transition to Outward-Oriented Accumulation

The crisis of accumulation that set in around 1977 in Turkey was both a crisis of the inward mode of accumulation and an integral part of the world crisis. There were several reasons behind the crisis of inward oriented accumulation. The low productivity of labour that resulted from the small scale of production implied that Turkish capital had a weak competitive power on international markets. The limits of the competitiveness based on the low productivity of labour eventually expressed itself in the contradiction between the low growth of exports and the rapid growth of imports due to the assembly nature of production activities, which required a high importation rate of raw materials and intermediate goods (Taylan, 1984; Ercan, 2003). Also, the rise in real wages due to working class struggles made it impossible for Turkish capital to alleviate the disadvantages arising from low productivity or to turn to international markets.

In the late 1970s, the general contours of a new international division of labour were taking shape globally, with important effects on Turkey. A new pattern of integration of semi-industrialized countries to the world economy was on the agenda. The former mode of accumulation based on the partition of the world market for industrial commodities into well-protected national markets was being surpassed on a world scale. Within the new division of labour, semi-industrialized countries came more and more to specialize in low value added and labour-intense industries. In these conditions, the crisis of Turkish capitalism in the late 1970s was the expression of the inability of Turkish capital to become a part of world capital (Taylan, 1984). The internal crisis was also, therefore, immediately a crisis of the relations of Turkish capitalism to world capitalism. A durable solution to this multi-dimensional crisis pointed to a reorientation in capital accumulation and to a new mode of insertion into the international division of labour.

The internal and external dimensions of the crisis were hence indissociable. This created the illusion in the Turkish left, that the neoliberal program adopted in January

1980 was simply the result of the dictates of the IMF and the World Bank. Certainly, Turkey's high level of indebtedness did make governments vulnerable to IMF and World Bank pressures. But the principal social force behind the radical turn in economic policy in the beginning of the 1980 was not the IMF or the World Bank, but Turkish capitalist class who has become closely united around this program (Taylan, 1984; Karakaş and Ercan, 2006). The IMF was only instrumental in transmitting to Turkey the requirements of the new international division of labour. Where it concretely determined the development of events was in its insistence on capitalist discipline over an ailing economy. It thereby tremendously strengthened Turkish capital in its quest for ideological hegemony (Taylan, 1984).

This last point needs elaboration as the whole scholarship on the recent transformation of Turkish capitalism is still dominated by the idea that the change in economic policies in the late 1970s was brought about from the 'outside-in' through the pressures of international financial organizations and transnational corporations. It is, therefore, important to show how the principal forces behind the reorientation of economic policies were big domestic capital groups in Turkey. Nothing shows this better than the campaign of TÜSİAD to change the government's economic policy in the late 1970s.

4.1 TÜSİAD's Push for Economic Reforms

In the late 1970s, TÜSİAD started a campaign to change the government's economic policy through a series of talks, reports and public statements. In all these statements, TÜSİAD insisted that encouraging industrial exports to earn foreign exchange would narrow the trade deficit, and hasten joining the European Community. This could only be accomplished, TÜSİAD argued, through a restructuring of the private industrial financing and not by diverting it to inefficient state economic enterprises (Gülfidan, 1993: 87). In 1978, TÜSİAD presented a report to the Prime Minister Ecevit and the Minister of Finance after a top level TÜSİAD delegation visited the United States. The mission had talks in Washington with senior officials of the IMF, the World Bank, the Federal Reserve Board and the Carter Administration in New York, and with the top executives of six commercial banks having business relations with Turkey. The report claimed that Turkey had lost her credibility in the West and it must do something drastic to restore credit-worthiness. TÜSİAD also accused the government of paying lip service to the IMF. It should be underlined that TÜSİAD used the international authorities to bolster and legitimize its pre-existing position. As Önder (1998) points out, the proposals of the IMF and the World Bank served to provide credence for the claim of Turkish big capital that 'there is no alternative.'

According to the IMF, the TÜSİAD report suggested, the first order of business for Turkey would be to increase its industrial exports. To achieve this, Turkey would have to curb domestic demand and make exports more attractive for industrialists. Secondly, the government had to reorganize the state economic enterprises so that they ceased to be a burden on the national economy. Thirdly, wage increases should be curbed and taxes increased. Fourthly, exchange rates should be adjusted in line with international fluctuations so that exports could pick-up. Lastly, Turkey would have to correct her balance of payments deficit. According to World Bank officials, the TÜSİAD report emphasized, Turkey should employ more simple technology and orient herself to labour-intensive production. In their opinion, the Turkish economy could be saved through continuous and periodic monetary adjustments, which would decrease the purchasing power of the popular classes and increase export possibilities (Gülfidan, 1993).

The report prepared by TÜSİAD, especially its section on the IMF, was not received with favor by the Ecevit government. Ecevit was for a strategy of growth through increased domestic production, rather than a strategy of austerity. This created unrest among TÜSİAD members. They believed that Ecevit should form a working relation with business on a more permanent basis and should appoint a new team of experts to replace what they dubbed as the 'junta of bureaucracy' – the group of graduates of the Political Science Faculty of Ankara University who monopolized key positions in the ministries administering the economy. The State Minister in charge of planning and the Minister of Commerce were seen as strongly under their influence and they feared that these bureaucrats also influenced the Prime Minister.

As TÜSİAD failed to establish close ties with the Ecevit government, it turned to the mass media in order to obtain public support for its arguments. In 1978, TÜSİAD started a campaign of advertisements against the Ecevit government in Turkey's three major newspapers and a weekly news magazine. The ads invited public discussion on the nature of the crisis. In these ads, the Association made the following statements:

> Where is Turkey going? Who are responsible for the crisis?...foreign credits, which we badly need, are closely related to our economic system. We can neither find our right place in the Western world, nor sufficient amount of credits and the necessary foreign capital for investments, by an understanding, which is gradually deviating from the market economy. We should now realize that the basic productive power...of our democratic society is the private sector...The real reason of the prevailing crisis is the extreme interventionist and confidence-shaking mentality which strangles our economy by a prohibitive net of procedures, discouraging private initiative...The true path of working harder, producing more and hence, reaching prosperity is to encourage the individual in a competitive system. Production cannot be increased through forceful and protective measures. (Cited from Gülfidan, 1993)

Arguments over these ads started in 1978 and intensified in 1979. In October 1979, Demirel's center-right minority government replaced the Ecevit government following the partial elections of 1979. In January 1980, a new economic program, which placed greater emphasis on integration with the world economy through free market principles, was adopted. TÜSİAD supported the new program with great enthusiasm. Why did TÜSİAD support the new economic program so fiercely? In order to answer this question, we need to go back to the problems faced by big domestic capital groups in the period of inward oriented accumulation.

4.2 The Big Domestic Capital Groups' Reform Demands

By the end of the 1970s, the holding companies had gained a certain degree of control over the domestic circuit of capital, and had consumed the potentials of inward-oriented accumulation; they sought new investment potentials through integration with global capital. With the saturation of domestic markets, especially for consumer durables, the problem for these capital groups was to shift their production from durable consumption goods to intermediate and capital goods. To be able to do this, they needed new financial sources in the form of foreign exchange to purchase newer technologies. The need for foreign exchange stemmed from the insufficiency of surplus value created through assembly-based production. Because these industries survived through heavy protection, they were not internationally competitive so they could not obtain foreign exchange through international markets. But the move to capital-intensive goods by domestic productive capitals with the purpose of overcoming this insufficiency also aggravated the need for foreign currency for the import of necessary inputs, and increased the dependency of productive capital on international capital. This is why the crisis of inward oriented capital accumulation manifested itself as a crisis of foreign exchange (Ercan, 2003).

The crisis of foreign exchange was reinforced by the relatively low rate of penetration by foreign productive capital for the historical reasons discussed earlier. The strength of the Turkish labour movement in the 1960s was another deterrent factor for foreign capital. Also, from the 1960s on, Turkey was more closely integrated with Europe, and in particular West Germany, than with the US. The European market being a fast growing one, European capital did not have the same tendency (until the 1970s) to move abroad as massively as did US capital. Integration hence took the form of an opposite flow of labour power from Turkey to Europe (Taylan, 1984). Lacking foreign resources in the form of direct investments, Turkish capitalism depended to an enormous extent on the floating of foreign debt. This heavy rate of indebtedness was the spark that kindled the crisis in the second half of the 1970s. Turkey was unable to service its foreign debt and, that debt had become increasingly short-term in nature as its risk levels went up. The rapidly deteriorating macroeconomic balances during 1978-1980 were followed by the announcement of the neoliberal economic program on January 24, 1980 by the government of Demirel. Due to its geostrategic importance for Western powers, Turkey received significant international support from key international institutions such as IMF and the World Bank.

The centre-right AP that was in power at the time applied the program as best as it could, but there were crucial measures which it could not push through. Most important among them was the necessity to keep wages under strict control. The rise in the militancy of the working class in the late 1970s precluded this. DİSK strongly opposed the January 24 decisions. The number of strikes and workers involved in strikes reached a record high in 1980 (Önder, 1998). As the gains of the working-class in the 1960s and 1970s were attained in the context of organisational freedoms outlined in the 1961 Constitution, the control of wages could only be possible through the dismantling of that structure. On September 12, 1980, General Kenan Evren, Chief of the General Staff, announced a military coup. The military regime of the 1980s was successful in establishing strict control over wages by prohibiting all trade-union activity. Severe depression of wage incomes and declining agricultural support measures continued during the years following the military regime.

5. The Second Phase of Internationalization, 1980-late 1990s

The outward-oriented accumulation in Turkey from 1980 to the late 1990s can be roughly periodized into two phases: (i) from 1980 to 1989: accumulation through export promotion and wage suppression; (ii) from 1989 to late 1990s: accumulation based on inflow of international money-capital. The main characteristic of the 1980-89 period was integration to the global markets through commodity trade liberalization. Export promotion through strong subsidies and wage suppression, together with a managed floating of the exchange rate and regulated capital movements, were the main pillars of the economic policies. The severe suppression of wage incomes was made possible through the authoritarian regime that reigned from 1980 to 1987. This phase reached its limits in the late 1980s, when the export drive lost its momentum and a new wave of labour protests led to a substantial increase in wage incomes. At this point, the Turkish capitalist classes were led to resort to external financial liberalization as a unique opportunity to overcome the difficulties faced inside the country. Through the transition to the convertibility of the Turkish Lira in 1989, international money capital was lured in order to meet the need of domestic capital groups for more money capital. In what follows, I will discuss the contours of each period in more detail.

5.1 Accumulation Through Export Promotion and Wage Suppression, 1980-1989

As argued before, the transition to the export-led strategy was primarily rooted in the dynamics of the domestic accumulation process, especially the needs of big capital groups that brought together the different functions of capital within the form of holding companies. The aim of the export orientation strategy was to earn foreign exchange through international trade in order to meet the need of these big capital groups for money capital (Ercan, 2003). The key variable of this model was for Turkey to participate in the international division of labour by specializing in the production of labour-intensive goods in order to increase its exports. This choice was in fact a reflection of the inadequacy of the accumulation of capital in the country. Participation in the process of value creation on the world scale through the lower ranks of the world production hierarchy by specializing in labour-intensive goods was the decisive determinant of Turkish capitalism (Ercan, 2003).

Accordingly, the economic program accepted in January 1980 aimed at a profound restructuring of industrial capital in order to render its structure consistent with a new mode of accumulation oriented towards a deeper insertion of the economy within the new international division of labour. As a result, there was a phenomenal growth in Turkish exports in the early 1980s. Exports as a share of GNP rose from 5.3% in 1972-76 to 10.8% for 1983-87 (Boratav and Yeldan, 2002). There were two major policies that made this possible. First, export promotion was supported at the institutional level through foreign trade companies (FTCs). The legislation concerning the formation of these companies was directly influenced by the East Asian experiences, notably the cases of South Korea and Japan. It stated that companies which surpassed a pre-specified export target would become eligible for tax rebates. The intention of this legislation was to create a highly concentrated export sector based on a limited number of large-scale companies, which would be in a position to compete successfully in international markets (Öniş, 1991: 31). The state consciously encouraged the formation of a group of companies directly dependent on a special set of incentives it provided. These companies were thought to function as "the long arm of the domestic industrial capital in reaching the foreign markets at a centralized scale" (Yeldan, 1995: 51). FTCs, by law, were not allowed to engage in production and investment activities. However, they evolved as "the marketing outlets of domestic corporations, and organic links existed between FTCs and the major domestic industrial, trading or construction conglomerates" (Öniş, 1992: 77-8).

The second major policy supporting the export-oriented mode of accumulation was wage suppression. With the imposition of the 1982 Constitution and the new Labour Code of 1983, the position of wage-labour *vis-à-vis* capital eroded dramatically throughout the decade. As soon as it assumed power, the military government shut down the major union confederations, leaving only Turk-Is (which had a record of co-option and loyalty to the state). Labour unions were barred from engaging in political activity;

the right to strike was severely restricted, and was limited only to the collective bargaining disputes. Even then, a strike could be prohibited or postponed by the state, and the dispute could be settled from outside by a new body called the Supreme Board of Arbitration. Through this body, the state exercised strict control and supervision over labour relations. Consequently, the decline in the real wage rate reached almost 25% between 1980-88, while real profits (as reported by the largest 500 companies) almost doubled (Cizre and Yeldan, 2006). The suppression of wages was instrumental both in lowering production costs, which was functional for international price competition, and also in dampening the domestic consumer demand, thereby repressing the domestic market and encouraging Turkish capital to invest in foreign markets.

By the end of 1988, both export promotion and wage suppression policies had, in turn, reached their limits. There were several reasons for this. The first reason was the difficulty of sustaining repressive wage policies within the political climate prevailing at the end of 1988. Following the transition to full electoral competition after the referendum of September 1987 and the general elections of November 1987, the leading politicians of the earlier era, banned from participating in politics in 1980, regained their right to compete for office. The limitations on the rights of labour unions were also relaxed. These conditions led to a new wave of labour militancy that made wage suppression polices unsustainable. From March to May of 1989, over half a million public sector employees were engaged in numerous non-violent actions across the country, known as the "Spring Actions". Finally, the government agreed with TÜRK-İŞ to make significant wage concessions. The wage rises amounted to 140% for 1989 and 60% for 1990 (Önder, 1999).

The second reason was the non-conformity between the stated foreign trade objectives towards manufacturing exports and the realized patterns of accumulation away from manufacturing. During 1983-87, gross fixed investments of the private sector increased by 14.1%, but the rate of growth of private manufacturing investments was at a rate of only 7.7%, and could not reach its pre-1980 levels in real terms until the end of 1989. Much of the expansion in private investments originated from the pull from housing investments. Thus, in a period where outward orientation was supposedly directed to increase manufacturing exports, distribution of investments revealed a declining trend for the sector. The impressive export boom of the 1980s was, thereby, essentially based on the productive capacities established during the preceding decade. Hence, capacity constraints and limited technological upgrading contributed to the overall deceleration of export growth of manufactures to only 4.4 % during 1989-2000 (Boratav and Yeldan, 2006). The failure to achieve an investment boom also led to an inability to diversify manufactured exports, and an over-dependence on certain types of labour-intensive manufactured activities (Öniş, 2000: 100).

Another factor was the removal of tax refunds and other monetary incentives given to exporting companies. There were three reasons for this. First, there was the 'Subsidy Code' agreed to between Turkey and the General Agreement on Tariffs and Trade (GATT), following the reactions to a tax refund scheme. Under this code, reduction in incentives began at the end of 1985 and continued intermittently. Secondly, the government wished to lower public deficits. A third reason was the negative reaction to 'fictitious exports' (illegal transactions aimed at taking advantage of incentives – especially tax refunds – for exports).

As a result of all these factors, the export drive lost its momentum. While the rate of growth of exports was, on the average, 14% between 1983-1988 annually, this fell to 5.1% between 1989-1993. At this point, external financial liberalization was seen as a unique opportunity to overcome the difficulties faced by domestic capital groups and the state. Through the transition to the convertibility of the Turkish Lira in 1989, international money capital was lured in order to meet the need for money capital.

5.2 Accumulation Based on Inflow of International Money-Capital, 1989-late 1990s

Liberalization of the capital account through Decree No. 32 in August 1989 marked the second turning point in the post-1980 accumulation regime in Turkey. The most important reason for this shift was the necessity to finance the culminating fiscal deficit that resulted from the rise in real wages in the late 1980s. At this point, the fiscal deficit could be financed through taxing the bourgeoisie and moving towards a more fair tax system. However, the class character of the state precluded this possibility. Instead, the state took the burden of the rise in wage costs upon itself. The major mechanism used by the state for this purpose was financial liberalization.[44] Through the complete deregulation of foreign capital transactions, the state used the inflows of money capital to finance its deficits (Boratav, *et al.*, 2002).

Financial liberalization also worked as a mechanism of resource transfer to big capital groups, as the holding banks became the central agent in the domestically mediated external borrowing of the state (Yeldan, 2001; Karakaş, 2003). From the mid-

[44] Another mechanism was the reduction of prices of the intermediate goods and inputs produced by the state economic enterprises. This move, which was reflected in the public discourse as the "inefficiency of state economic enterprises", served as an indirect mechanism of resource transfer to capital, thereby making wage increases acceptable for the bourgeoisie (Yeldan, 2001; Boratav, *et al.* 2002).

1980s onwards, and particularly following the liberalization of the capital account in 1989, the banking sector became the greatest benefactor of the state borrowing policies. With the state borrowing at high interest rates, profitability to the banks purchasing government securities was ensured. The banking sector invested lots of resources to government debt instruments, which dominated the financial market. As almost all private commercial banks were part of holding companies with industrial-commercial bases, banks directed the money capital derived from state debts to the expansion of their holding companies. Between the years 1990-1996, the profits of big holding companies displayed an important increase (Ercan, 2003).

From the perspective of big domestic capital groups, financial liberalization was an important opportunity for establishing control over money capital. As noted earlier, the main problem for capital groups that reached a certain degree of accumulation in the 1980s was the need for more money capital in order to participate in the global circuit of capital. In the early 1980s, this need was met through exports. When the export orientation lost its momentum in the late 1980s, however, financial liberalization became the main mechanism for meeting the need for money capital. Internationally, this policy choice was also favourable for the globally expanding capitals in the advanced countries that were seeking new areas for valorization.[45]

The liberalization of international capital movements in 1989 increased the scope of action for capital groups having their own banking capital. These capital groups found an immense opportunity in attracting short-term international money-capital through

[45] The globally expanding capital followed two paths: some flowed in the form of direct investment to countries having a certain level of capital formation, such as South Korea, Taiwan and Malaysia, while some preferred to flow as money capital to countries having a willingness to increase their productive capital formation and to attend to the global circuit of productive capital, such as Turkey, Mexico, Argentina and Brazil (Ercan, 2006).

benefiting from the relationship between the exchange rate and the interest rate. Financial investments by banks with funds obtained on international markets as credit denominated in dollars, later converted into Turkish lira (TL), and then loaned to the government with high interest rates was the distinguishing character of the period in question. The term 'open positions', which signified borrowing foreign currencies at very high interest rates to capitalize on the opportunities provided by holding TL denominated government securities, became fashionable in this period. In fact, this tendency was not unique to commercial banks but appeared to be a characteristic of the corporate sector as a whole. The annual surveys undertaken by the Istanbul Chamber of Industry, concerning the performance of large industrial establishments in Turkey, revealed that during 1990s an increasingly high proportion of profits were due to "non-industrial" investments, namely, financial activities involving holding of government securities (Alper and Öniş, 2003). The inflow of international money-capital not only met the state's need for easy finance of its fiscal deficit, but it also served as a new accumulation pattern for big domestic capital groups.

The pattern of accumulation based on state-mediated inflow of international money capital was interpreted by many Turkish scholars on the left as a rentier type of economy marked by the predominance of speculative financial interests over the real sector. Following Strange (1986), for instance, Yeldan (2006) called this pattern "casino capitalism", characterized by the elevation of finance over industry and the drifting of the financial sector to the speculation of short-term capital flows. According to this view, Turkey in the 1990s became a playground for speculative international money flows such that the formation of productive capacity in the country was neglected. Banks left their primary functions and instead pursued speculative gains in this period (Yeldan, 2001).

This argument overlooked the fact that these banks belonged to capital groups organized in the form of holding companies, which combined productive, commercial and money forms of capital in a single structure. Thus, different forms of surplus value (profit, interest, commercial profit) remained within the same organization. The income from interest also accrued to the same capital groups. In other words, money capital that circulated through short-term capital flows was channelled to big capital groups, which accumulated both money and productive capital (Karakaş and Ercan, 2006). These capital groups boosted their profits and established an immense control over the overall economy due to the integration between money, commodity and productive capital. In that sense, the 'productive sphere' was not a homogeneous unity, but included both big holding companies that benefited from financial liberalization, and small and medium companies that did not. Thus, the intra-capitalist conflict over economic policy and the political scene was not between real sector and financial sector, but between capital groups that owned banks and those that did not. While big holding companies used their rising control over the use of money capital for further expansion, small and medium sized companies that had more limited access to bank credits faced the rising costs of funds.

Throughout the 1990s, the public sector's share in financial markets remained high, while the share of private sector securities in total financial assets fell. The new issues of securities by the state increased from 6.9% of GNP in 1988 to 38.7% in 1999, whereas new issues by the private sector hovered around 1% of GNP. Thus, the upward trend of the proportion of securities to GNP originated from the direct new issues of public sector debt instruments, particularly, Treasury Bills. Banks were the major customers of these bills, purchasing more than 90% of the newly securitized deficit (Boratav and Yeldan, 2006). The banking sector continued to dominate the financial markets despite the establishment of the institutional base for capital market development and the rapid surge in the trading activities of the stock exchange since 1986.[46] All private banks, regardless of size, tried to take advantage of the new opportunities brought by capital account liberalization. The banks were operational in marketing Treasury Bills to private households via the repo operations (sale of securities with a commitment to repurchase these on a specific date). Securitized deficit financing through Treasury Bills and other debt instruments led to an overall increase of the real interest rates including the deposit rates. As the state continued to borrow from domestic banks at high interest rates, a rising portion of tax revenues was allocated to interest payments, leading to the collapse of the public sector's disposable income (which declined by 39% during the 1990s in real terms).

By 2000, interest costs on domestic debt reached 80% of overall tax income of the public sector. The ratio of Public Sector Borrowing Requirement (PSBR) to GNP rose from 4.5% during 1981-88 to 9.4% over 1990-99. Net new domestic borrowings, as a ratio of the stock of the existing debt, rose to almost 50% over the 1990's, indicating that each year the state had to resort to net new borrowing reaching to half of the stock of debt

[46] The attempts to liberalize the financial system began in 1981 with the freeing of deposit interest rates of their ceilings. A supervisory and regulatory agency over the capital market, the *Capital Market Board*, was established in the same year. The foreign exchange regime was liberalized in 1984; the sale of government securities through periodic auctions began in 1985; an interbank money market was established in 1986; open market operations started in 1987; foreign exchange markets were founded in 1988; and gold markets were founded in 1989.

already accumulated. Rising current account deficits (as a ratio to the GNP, from 1.7 percent in 1990 to 3.6 percent in 1993) and a drastic deterioration of fiscal balances (with the dramatic rise of PSBR to 12% of GNP in 1993) 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 and led to the sudden reversal of capital inflows in late 1993 culminating in the 1994 crisis (Yeldan, 2006).

The post-1994 crisis management gave rise to a new austerity program. Just after the local elections at the end of March 1994, the government announced the new program on 5 April 1994. The prices of goods and services produced by state economic enterprises were immediately raised by 50 to 110 per cent. The new program also envisaged accelerated closure and privatization of state economic enterprises, a decrease in public sector real wages and other unspecified public expenditure cuts. From January to June 1994, the real wages fell by an astonishing 30%. At the peak of the crisis, many small firms asked their workers to choose between nominal reductions in wages or redundancy. The workers opted for the jobs. Under pressure from the shop floor, even militant trade unions agreed to serious real wage cuts, provided some form of job guarantees could be secured. Still, all firms downsized their labour force, skilled and unskilled alike, to reduce their costs in the face of the crisis. Thus, in terms of labour relations, the post-1994 policies were marked by a return to the pre-1989 period based on wage suppression.

By the end of 1990s, the potentials of accumulation through state-mediated internalization of international money capital reached its limits. The overvalued domestic currency and high interest rates blocked or delayed investments, or channeled investments to non-tradable sectors and harmed exports. As Ercan (2003) argues, the orientation of capital towards money capital gave a short-term orientation to capital accumulation and resulted in a decline in the production of new surplus value. Although during the period in question the profitability of capital increased, there were significant falls in investments, growth and consequently employment. However much the option of adopting the short-term interest-oriented accumulation dynamics of money capital in place of the long-term profit-oriented dynamics of productive capital could be an alternative for individual capitals, the eventual limits of the money-capital option implied crisis for capital accumulation as a whole (Ercan, 2003).

The economic crises in Turkey of 1994, 1998, 2000 and 2001 should be understood in this context. It would be misleading to see these crises simply as 'financial crises'. When we look at the 1994 crisis more closely, for instance, the fluctuation in growth rates reveals that the roots of the crisis lied in the sphere of production. As Savran (1994) shows, a powerful indication of this could be found in the course of investments. Between 1988 and 1993, the investment growth rate always stayed below the economic growth rate. Thus, the economic growth rate of 1988-1993 stemmed not from the increase in the production capacity – that is, capital accumulation, – but from the higher degree of utilization of the existing capacity and the increase in total consumption.[47] As a matter of fact, throughout the 1990s fixed investments linked to the manufacturing

[47] While Turkish capitalism entered a new phase of crisis as a product of its cyclical development, the crisis was postponed through different ways, until it burst out in the beginning of 1994 after a phase of overheating in 1992-93. Two factors led to the postponement of the crisis: military expenditures that created a counter-tendency against the potential lack of demand caused by the crisis tendencies felt after 1988 and the government's adoption of a policy of economic expansionism in the face of the 1989 labour activism (Savran, 1994).

industries virtually stagnated and did not exceed their real 1990 levels as of 2001. Consequently, the share of manufacturing investments as a share of total had receded continuously (Cizre and Yeldan, 2005). As the productive capacity could not endure the debt burden, all the flows could be reversed at any time. Whatever the triggering factor in each case, this was the structural cause of all the crises in 1994, 1998, 2000 and 2001.

It is important to emphasize, however, that the 1994 crisis was not deep enough in terms of its impact to generate deep-seated structural changes in the Turkish economy. Following the smooth recovery process from the crisis, many of the key characteristics of the early 1990s such as huge fiscal deficits and heavy dependence on short-term capital inflows remained intact. The state continued to finance its fiscal deficits via domestic borrowing. Big capital groups increasingly loaned money capital to the state at high rates of interest. Yet, there was a clear realization at the same time that the economy was on an unsustainable course and a crisis would break out sooner or later if the situation continued to remain unchecked. As the debt burden on the state became unsustainable, the state's inability to make repayments posed a systemic risk for international financial markets and risked the continuity of capital accumulation. Consequently, a stand-by agreement was concluded with the IMF in December 1999 which was a novel phenomenon in the sense that Turkey, for the first time in its post-war history, was willing to accept IMF disciplines in the absence of an explicit crisis (Öniş, 2007). Under the close supervision of the IMF, a new orientation of capital accumulation towards global integration through increased productive capacity emerged.

It should be noted that this new orientation was not an 'outside-in' imposition by the IMF, as it was equally an outcome of the systematic efforts of TÜSİAD, the association representing these big capital groups, to liberalize the Turkish economy. As in the case with the transition from inward to outward oriented policies in the late 1970s, the efforts of TÜSİAD to change the direction of the economy through a number of reports and press releases from the late 1990s onwards were remarkable in this sense. The interventions of TÜSİAD gained a much more professional and continuous character through the research forums that it established in partnership with universities, such as the *Competitiveness Forum* formed jointly with Sabancı University, the *Economic Research Forum* formed jointly with Koç University, and the *Foreign Policy Forum* formed jointly with Bosphorus University.[48]

6. The Third Phase of Internationalization, Late 1990s Onwards

The IMF program of 1999 was much more than a traditional program of fiscal stabilization. It entailed important long-term structural and institutional reforms. Clearly, it reflected the influence of the new thinking associated with the emerging 'Post-Washington Consensus' and the learning process that the IMF has been experiencing since the Asian Crisis in September 1997. The reform program centred on the capacity of large domestic companies to expand internationally and to engage in partnerships with global capital. This meant that capital groups which previously relied basically on the extraction of absolute surplus value or the redistribution of surplus value by the state, would have to reorient themselves towards relative surplus value production through higher technology and increasing labour productivity (Karakaş, 2007).

One of the important steps in this direction was the banking reform. In order to achieve a productive capital-based accumulation, the banking sector had to be

[48] The reports can be reached at www.TÜSİAD.org .

transformed accordingly. To orient industrial production towards mechanization and high-tech sectors, funds had to be shifted from state debts into fixed capital investments. For this purpose, a new banking law was passed in June 1999, establishing an independent regulatory agency called the Banking Regulation and Supervision Agency (BRSA).[49] The regulation of the banking sector was transferred from the Council of Ministers, Treasury and Central Bank to BRSA.

The aim of the BRSA was to end the rent transfer to banks through state borrowing, and restructure the banking system according to international standards. Those banks which could go back to traditional banking activities instead of financing state debt were allowed to exist, whereas the banks which could not adapt to the change were eliminated. This transformation necessitated a fundamental shift in banking-industry relations; that is, in the ownership structure of holding banks. Holding companies had to revise their sectoral range for higher competitiveness, implying specialization on main and strategic areas and withdrawal from uncompetitive businesses. In this context, some holding companies gradually started to restructure themselves in line with the state regulations bringing international banking standards and aiming to convert banks to independent profit-making units within holding structures. These conglomerates were aware of the unsustainability of using banks as their easiest source of profit. However, some other holding companies, mostly the rising capital groups of the 1980s and 1990s, continued to use their banks in order to finance their expansion policies and this stance ended up with the confiscations of their banks by the state during the restructuring of the banking sector. The banking reform, therefore, became a means by

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[49] Law No. 4389, *Resmi Gazete (Official Gazette)*, Date/No: 23. 06.1999/23734.

which the relations between banking and industry could be reconfigured for an internationalized economy (Karakaş, 2003).

Some of the other reforms in this period were the revision of the Capital Markets Law, which created a larger domain for the participation of domestic and international investors and strengthened the independent Capital Market Board's regulatory and supervisory powers;[50] the establishment of the Agricultural Restructuring and Support Council, which took initial measures to move to a system of direct income support and initiated new projects to increase and diversify production in agriculture and livestock sectors;[51] and the passage of a new law to permit the use of the build-operate-transfer system in energy sector investments.[52]

Hence an important change in economic policy had already begun prior to the massive economic crisis of February 2001. However, this change was only consolidated after the 2001 crisis.[53] The IMF program of 1999 was limited in terms of its power to impose reforms given that the economy was not in an explicit crisis Added to this, the amount of support was quite limited, in the region of only $4 billion. The announcement of Turkey's candidacy for European Union membership at the Helsinki Summit of the European Council in December 1999 was also an important landmark. Nevertheless, the real impact of the EU decision on the economy came at a later stage, notably after the 2001 crisis. The delay in the impact of the EU decision was, in part, due to the fact that the focus of the EU in the early stages was much more on the political front, and there

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[50] Law No. 4487, *Resmi Gazete*, Date/No: 18. 12.1999/23910.

[51] Decision No. 99/13759, *Resmi Gazete*, Date/No: 21.12.1999/23913.

[52] Law No. 4493, *Resmi Gazete*, Date/No: 22.12.1999/ 23914.

[53] As Leys (2001: 31) has argued, the 'new institutionalist' school saw shocks as creating opportunities for "political entrepreneurs" to "fundamentally reorganise domestic politics"– i.e. to permit economic deregulation. Major shocks, of course, also created openings for external capital – chiefly in the shape of the IMF – to insist on deregulation as a condition of financial rescue, as happened most dramatically in East Asia.

was a certain tendency to delegate the implementation of the economic components of the Copenhagen criteria to the IMF as part of an implicit division of labour between the two key institutions. Whilst the November 2000 crisis clearly highlighted the weaknesses in the Turkish economy, nevertheless the crisis was largely interpreted as a 'liquidity crisis', which could have been averted if the IMF had allowed the Central Bank to inject more liquidity into the system. In this sense, the February crisis of 2001 was far more dramatic in terms of its impact. The very depth of the crisis signalled the inherent structural deficiencies of the economy, which could not be simply eliminated by pumping additional liquidity into the system. In contrast with previous crises where the share of burden had fallen on wage earners, this time much broader sections of the society were negatively affected by the crisis. Unemployment increased by a massive figure of one million and the collapse of output was accompanied by widespread bankruptcies, particularly in the realm of small firms (Öniş, 2007).

The IMF response to the February crisis was massive in the funds to be allocated and the breath of administrative reforms being demanded. On May 15, 2001, Turkey secured a loan of \$15.7bn and became the fund's largest borrower ever (Oguz, 2001). Kemal Derviş, former Vice President of the World Bank in charge of Poverty Alleviation Programs, was appointed as the Minister of Economy to lead the government's new economic recovery program. Derviş played an important role in terms of helping to internalize the reform package implemented under the auspices of the IMF. He defined a two-stage transformation in the Turkish economy: "the creation of a competitive industry by stopping the struggle for rent", and "the adjustment of Turkey to the global economy" (Karakaş, 2007). Accordingly, the new economic program, called the *'Transition to a*

Strong Economy', included measures for improving budget discipline and transparency, changing public employment and wage policies, as well as fifteen draft laws supporting restructuring in four strategic sectors (banking-finance, energy, telecommunication and agriculture). The social security reform, the elimination of state subsidies in the agricultural sector, the deregulation of the energy and telecommunication sectors, the taxation and public finance reform, privatization of airlines, petroleum, steel, tobacco and spirits, sugar, natural gas and electricity distribution industries were various facets of the restructuring process.

Some of the laws accepted in this period were; the Electricity Market Law, which introduced private sector competition and regulatory arrangements in the electricity market, and called for the establishment of an independent Energy Market Regulatory Agency to monitor gas and electricity sectors;[54] the Sugar Law that introduced regulations on the production standards, pricing, and marketing conditions in the sugar market, privatization of 27 state-owned sugar factories, and the establishment of an independent Sugar Agency to supervise the sugar market;[55] the Natural Gas Market Law, which liberalized the natural gas market in Turkey through the elimination of BOTAŞ's monopoly in the import, transportation, and distribution of natural gas and encouragement of private sector participation at all stages;[56] and the Telecommunication Law, which aimed to clear the way for domestic and international investors and accelerate the privatization of Turk Telekom through the elimination of the company's monopoly in fixed line services and measures to increase the efficiency of the sector's

[54] Law No. 4628, *Resmi Gazete*, Date/No: 03.03.2001/24335.
[55] Law No. 4634, *Resmi Gazete*, Date/ No: 19.04.2001/24378.
[56] Law No. 4646, *Resmi Gazete*, Date/ No: 02. 05.2001/24390.

management.[57]

6.1 The Reform Program for the Improvement of the Investment Climate

In terms of the new orientation towards global integration on the basis of productive capital accumulation, the most important reform initiated in this period was the *'Reform Program for the Improvement of the Investment Climate'*, a comprehensive program which aimed to increase the productivity and competitiveness of firms operating in Turkey. The discourse of 'improving the investment climate' came to the agenda as a result of domestic and international factors. Domestically, an investment-oriented strategy was demanded by all major business associations, since the potentials of accumulation through the inflow of money capital had reached its limits in the late 1990s. Internationally, this demand coincided with the new competitiveness agenda promoted by organizations ranging from the IMF, the World Bank, and the regional development banks to the EU, the OECD, UNCTAD and the UNDP (United Nations Developmet Programme), which, in Cammack's (2006) words, were "all busy urging governments everywhere to reform the 'business climate' in order to promote investment and domestic entrepreneurship and stimulate competition" (1).[58] As Cammack (2006) goes on:

> The principal objective of this sustained effort was the systematic transformation of social relations and institutions in the developing world, in order to generalize and facilitate proletarianisation and capitalist accumulation on a global scale, and build specifically capitalist hegemony through the promotion of legitimating schemes of community participation and country ownership. The principal elements of the project were developed under the joint patronage of James Wolfensohn and Joseph Stiglitz – the latter the exponent not of a benign reformism at odds with the cold logic of the IMF, but of a 'deep interventionism' intended to bring about more fundamental and irreversible change. It reached its apogee, however, only with the Machiavellian Sir Nicholas Stern, successor to

[57] Law No. 4673, *Resmi Gazete*, Date/ No: 23.05.2001/ 24410.

[58] According to Cammack (2006), the logic of global competitiveness also makes approaches that counterpose the states and supranational institutions misleading and obsolete. The competitiveness agenda necessitates the transformation of national states, not the emergence of a 'transnational state'.

> Stiglitz at the Bank as Chief Economist, and the architect of the current phase of the project, with its emphasis upon building better climates for investment. The title of the 2005 World Bank World Development Report, *A Better Investment Climate for Everyone*, precisely captured the global perspective of the project (6).

In this conjuncture, the Turkish reform program for improving investment environment was initiated by YASED (Yabancı Sermaye Derneği – International Investors Association). YASED has been active for more than twenty years but it was only in 2000, when the new global competitiveness agenda made it structurally necessary, that YASED's demands for creating a better environment for foreign direct investment were used by the government to legitimize the pro-investment reforms. In May 2000, YASED invited James Wolfensohn, the Chairman of the World Bank to Turkey. Wolfensohn charged Foreign Investment Advisory Service (FIAS), a joint facility of the International Finance Corporation (IFC) and the World Bank, to prepare a diagnostic report on Turkish investment environment. Following the presentation of the report, the government enacted a 'Decree on Improving the Investment Environment in Turkey' on December 11, 2001 as part of a national strategy to increase the productivity and competitiveness of firms operating in Turkey. The decree established a coordinating body, Coordination Council for the Improvement of the Investment Environment (CCIIE), with the mandate to identify and remove regulatory and administrative barriers to private investment. The CCIIE convened each month, and technical committees were formed in eleven areas: Company registration; employment of foreigners; sector licenses; taxation and state aid; customs and technical standards; land access and site development; intellectual property protection; foreign direct investment legislation; investment promotion; small and medium enterprises; and corporate governance. A series of laws, including the foreign direct investment law[59] were enacted in accordance with the workings of these committees. The new foreign direct investment law ended the previous system of *ex ante* – control and regulation of FDI by abolishing former approval, screening, and minimum capital requirements.[60] As a result, all transactions for establishing a company with foreign capital became the same as with local companies. Since all companies established in Turkey within the framework of the Turkish Commercial Code are accepted as Turkish companies, all duties and responsibilities would be equal regardless of the nature of their capital formation or ownership holdings.

In 2004, the Investment Advisory Council (IAC) was established to advise the Turkish government on measures to stimulate investment. The IAC brought together top government leaders (the Prime Minister, the Minister of State for Economy, and the Minister of Finance) with the senior executives of the World Bank, IMF and the European Investment Bank, as well as executives of multinational corporations[61] to consult on reform priorities. In the same year, the TOBB set up a Board on Foreign Direct Investment that brought together some 28 senior executives from multinational corporations with a presence in Turkey[62] and from internationally operating Turkish enterprises. This Board cooperated closely with the reform process through the Treasury.

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[59] Law No. 4875, *Resmi Gazete*, Date/No: 17.06.2003/ 24141.

[60] In the previous system, which was based on the 1954 Law on Encouragement of Foreign Capital, foreign companies were required to have permits from the General Directorate of Foreign Investment.

[61] Among them are Alshaya, American Int. Group, Arcelor, Benetton Group SpA, BNP Paribas, Cisco Systems, Citi, Corus Group, Daimler Chrysler AG, Eldorado Gold Corporation, Fiat SpA, Finmeccanica SpA, Ford, GE Money, Groupe Danone, Hyundai, Indesit Company SpA, ISCAR Ltd., ITOCHU Corp., Lafarge, MANGO, Metro Group, Mitsui Co. Ltd., Nestle, Newmont, Nortel Networks Corp., Nunhems B. V., Pirelli SpA, Rio Tinto, Siemens, Telecom Italia SpA, Toyota Motor Corp, Unicredit Group, Unilever B. V. For more information, see www.investinturkey.gov.tr .

[62] These multinationals are: 3M, Chevron, General Motors, Mckinsey, Renault, Abb Holding, Citibank, Gilette, Mercedes – Benz, Reuters, Abn Amro, CNN, Glaxosmithkline, Merck Sharp Dohme, Roche, Ac Nielsen Zet, Coca Cola, Goodyear, Merloni, Servier, Accenture, Colgate Palmolive, Henkel, Metro Ag, SHV Gas, AEG, Credit Lyonnais, Hewlett Packard, Microsoft, Siemens, Alcatel, Credit Agricole, HSBC, Mobil Oil, Societe Generale, Allianz, Crown Cork, Hyundai Coproration, Nestle, Sodexho, American

This program, it should be stressed, was not only supported by representatives of foreign capital groups (such as YASED) but also by associations representing domestic capital (such as TÜSİAD and TOBB). There were two major reasons for this. First, the inflow of foreign investments was seen by internationalizing domestic capital groups as an opportunity to cooperate with multinational corporations and overcome their capital inadequacies in the global market. As Ercan (2003d) notes, this point was most clearly articulated by the Finance Minister Kemal Unakıtan as follows: "Foreign investors are knocking our door every day, and they are bringing new blood to our domestic investors."[63] Second, many of the reforms, such as the new Labour Law that introduced further flexibility of the labour market, benefited all sections of capital (Ercan, 2003d). This was a point accepted in official documents as well. For instance, according to the European Union Twinning Project report,[64] of the eleven priority reform areas only one specifically addressed foreign investors exclusively (FDI legislation) and two related at least in part specifically to foreign investments (investment promotion and employment of foreigners). Most policy areas applied to all businesses in Turkey, whether foreign or domestically financed, alike (taxation, state aid, sector licenses, intellectual property protection, etc.). Through the inclusion of small and medium enterprises among these policy areas, the support of small and medium sized domestic capital groups was also

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Express, Danone, IBM, Nike, Sony Eurasia, Autoliv Cankor, Deutsche Bank, Intergen, Nissho Iwai, Tesco Kipa, Aventis Pharma, Dhl, ITOCHU Corp. , Nortel Networks, Tetra Pak, Axa, Dupont, Johnson & Johnson, Novartis, Thames Water, Banca Di Roma, Ericsson, JP Morgan Chase, Oracle, The Bank Of Tokyo-Mitsubishi, Barclays Bank, Fiat, Jti, Pars Mccann, The Shell Company, BASF, FMC, Lafarge, Pepsi Cola, Tnt, Bat, Ford, Levis, Perfetti, Total, Bayer, Fortis, Lilly, Pfizer, Toyota, Bosch, Foster Wheeler, Lockheed–Martin, Philip Morris, Unilever, BP, Four Seasons, Man, Philips, Volkswagen, Bridgestone, Frito Lay, Marsa Kraft Jacobs, Pirelli, Xerox, Bristol Myers Squibb, General Electric, Mcdonalds, Procter & Gamble, Yazaki, and Carrefour ("The New Turkish Investment Environment", *YASED Report*, 2006).

[63] *Radikal*, Daily Newspaper, 2 November 2003.

[64] "Towards Improving the Investment Climate in Turkey", *European Union Twinning Project for Turkey*, 2006.

secured.

As a result of all these attempts, there was a tremendous increase in industrial production, productivity, imports and exports. According to a report prepared in 2005 by the joint research forum of TÜSİAD and Koç University,[65] production increased from an index of 100 in 1997 to 129.7 in 2005. But more importantly, the composition of production changed dramatically, also indexed from 1997 to 2005, from 100 to 159.5 for investment goods, and from 100 to 131 for intermediate goods. From 1997 to 2005, per capita productivity increased from 100 to 160. Total exports increased from \$23.2 billions to \$73.4 billions from 1996 to 2005, with an average annual increase of 13.6%. From 1996 to 2005, the increase in the export of agricultural and mining products was quite limited, whereas the increase in the export of manufacturing products was remarkable. The increase in exports in this period was based on the rapid growth of exports in the sectors producing investment goods. From 1996 to 2005, while the average annual increase in exports was 4.9% for agricultural products and 14.4% for manufacture, it was 24.0% for investment goods. As the capital-intensive input needs of production were met from outside, imports also increased. While the average annual increase in imports was 2.8% from 1997 to 2002, it was 31.2% from 2003-2005 (Yükseler and Türkan, 2006). All these developments accelerated the process of global integration on the basis of productive capital. In the 2000s, productive capital not only established its dominance within Turkish capital but also became integrated into the global circuit of capital via multiple relationships (Ercan, 2006). In what follows, I will

[65] Yükseler, Z. and Türkan, E. (2006) Transformation of the Turkish Production and External Trade Structure: Global Orientations and their Reflections, TÜSİAD-Koc University Economic Research Forum.

give some examples of these relationships, in terms of both the inflow of foreign direct investments and the international investments of the Turkish companies.

6.2 Inflow of Foreign Direct Investments

Following the Reform Program for the Investment Climate, and especially after the enactment of the new FDI law in 2003, there was a considerable rise in the FDI inflows in Turkey. According to the OECD International Direct Investment Database, between 2002 and 2005, FDI inflows rose from \$1.1 bns to \$9.7 bns. Table 3.3 presents their mode of entry.

Table 3.3 Number of Foreign-owned Companies with respect to the Mode of Entry, 1954-206

Year	New	Participation	Branch	Total
1954-2000 (Cumulative)	3810	615	163	4588
2001	327	120	30	477
2002	359	114	22	495
2003	871	200	34	1105
2004	1565	467	63	2095
2005	2284	503	58	2845
2006	2637	651	62	3350
Aggregate Total	11853	2670	432	14955

Source: Undersecretariat of Treasury (2006).

There is no systematic study of the FDI inflows at the firm level, but in terms of the sectoral distribution, the key sector is the automotive industry (See Table 3.4 below). The industry has been integrated with multinational corporations since the 1960s. It was not until the 1990s, however, that production began to increase rapidly to meet growing domestic and exports demand. Currently, there are 17 companies in the sector operating mainly under foreign licenses or as subsidiaries of major international producers. Nine of these firms are joint ventures, five operate under licensing agreements, and two are completely foreign-owned direct investments. Major international manufacturers operating in Turkey include DaimlerChrysler, Fiat (in a partnership with the Koç Group), Ford (also in partnership with Koç), Honda, Hyundai, Isuzu, MAN, Peugeot, Renault (in partnership with OYAK) and Toyota. DaimlerChrysler, Fiat, Ford, Renault and Toyota have identified Turkey as an important manufacturing base in part because of low labour costs, but also because of the right mix it provides of a growing market, proximity to Europe and expertise in non-European export markets. They have made Turkey the production base for a number of global models.[66]

Besides global automotive companies, Turkey has become a major production centre for food companies like Danone and Unilever, telecommunications companies like Alcatel, Nortel, Siemens and Telecom Italia, building materials companies like Lafarge and Italcimenti.

Recently, merger and acquisitions as well as privatization initiatives have formed an important part of the FDI inflows. Acquisition of Telsim shares by the Netherlands based Vodafone; Denizbank's acquisition by Belgium based Dexiabank and Finansbank's acquisition by National Bank of Greece are all examples of the recent mergers and acquisitions. Sale of Turk Telekom to Saudi Arabia based Oger Telecom, and the sale of Basak Sigorta and Basak Emeklilik to France based Groupama are examples of the privatization based foreign capital inflows (Undersecretariat of Treasury, 2006).

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[66] DaimlerChrysler (locally Mercedes Benz Türk) exports intercity coaches to 64 countries from its modern plant just west of Istanbul. DaimlerChrysler plans to move all its European production of intercity coaches to Turkey. DaimlerChrysler is also developing production of medium-heavy and heavy trucks in Turkey. The company is exporting of the Atego and Axor models from its plant in Aksaray, south of Ankara. Tofaş, Fiat's joint venture with the Koç Group, has been exporting the Fiat Doblo. Oyak-Renault produces the Megane and Clio Symbol only in Turkey. Turkey is one of three countries in Europe where Fiat is intensifying its activities, the others being Poland and Russia. Toyota's total annual production in Turkey is 140,000 cars, and 130,000 of these are exported (ERT-TEBC, 2004).

Table 3.4 Companies with Foreign Capital in the Top 500 Industrial Companies of Turkey, 2003

Sector	Total	Companies with Foreign Capital	Firms in which Foreign Partner Share Exceeds 50%
Automotive (including Autoparts industry)	32	26	16
Food and Beverage Products	68	19	11
Chemicals and Chemical Products	53	17	13
Metal Industry	43	15	6
Textile Products	95	13	7
Non Metallic other Mineral Products (Glass, Cement, construction supplies.)	37	10	6
Other	172	45	35
Grand Total	500	145	94

Source: Chamber of Industry of Istanbul (CII), Top Of The 500 Large Industrial Companies of Turkey, 2003.

6.3 International Investments of Domestic Capital Groups

In terms of the international investments of the Turkish capital, the key sector is the construction sector. The Turkish construction industry developed in the 1950s, when Turkey began to build its domestic infrastructure. Many of the initial contracts were carried out with international companies as the prime contractors. The experience gained on these projects led a number of Turkish engineers to set up their own companies. In the mid-1970s, as a result of the slowdown in domestic housing demands, these companies started to look for outward investment opportunities. Initially, they tried to become low-cost bidders to win projects abroad, especially in Middle East and North Africa. In 1974, one of these companies won the first contract for reconstructing harbours in Libya. The success of their company, STFA, showed the way to other Turkish contractors. Saudi Arabia and Iraq soon joined the list of key markets for Turkish construction capital (Kaynak and Dalgıç, 1991; ERT-TEBC, 2004).

The internationalization process of Turkish construction companies went through four distinct stages. At the initial foreign market entry stage, sub-contracting was the most viable alternative. Only through sub-contracting could these companies employ Turkish labour and integrate it with foreign-made raw materials and equipment. At the second stage, they opened contracting companies overseas (mainly in the Middle East and North Africa) with their own manufacturing plants at home for the procurement of needed construction inputs. At the third stage, the firms, through joint ventures with American and European companies, coordinated marketing, finance, production and personnel across several countries. Finally, some of them such as Enka, Kiska, and Kutlutaş became global conglomerates by diversifying their activities and markets (Kaynak and Dalgıç, 1991).

In the 1980s, the investments of Turkish construction companies shifted to the former Soviet Union as a result of Moscow's agreement to use part of Turkey's payments for natural gas to buy Turkish contracting services. In the 1990s, the former Soviet Union became the primary region not only for Turkish construction investments, but also for other international investments by Turkish companies. Overall, Turkish companies have invested $6.3 billion in the region since 1991, including $1.3 billion in Kazakhstan, $1 billion in Russia, and $1.25 billion in Turkmenistan, making Turkey one of the top ten foreign investors in the region along with the United States, Germany, Korea, Canada, and China. In oil and gas, Turkey's TPAO is investing steadily in Azeri assets, while in the service sector, mobile phone company Turkcell's 41.5% – owned joint venture with Finland's Telia Sonera, Fintur Holdings, also owns majority shares in cellular networks in Azerbaijan, Georgia, Kazakhstan and Moldova. Efes Beverage Group operates bottling plants in Azerbaijan, Kazakhstan, Kyrgyzstan and Turkmenistan; and breweries in Kazakhstan, Moldova and Serbia (ERT-TEBC, 2004).

Increasingly, Turkish capital is investing in Europe, too. Turkish companies have been quick to seize opportunities in Rumania and Bulgaria. Yet, there are increasing examples of Turkish firms that have direct investment in Western Europe as well (ERT-TEBC, 2004). Examples include the Eczacıbaşı Group's investments in Ireland; Profilo Holding's investment in Ekranas in Lithuania, one of the biggest picture tube manufacturers of Europe; Koç Holding's takeover of Grundig's consumer electronics division; Tekfen Group's purchase of HMB, a construction giant of the former German Democratic Republic; and Sabancı Holding's merger with Netherlands based DuPont into DuPontSA (DuPont Sabanci Polyester Europe) B.V., the largest polyester company in Europe. Not all Turkish outward FDI, however, is carried out by large Turkish firms. Many small firms, especially in the textile and apparel sector, have been investing in Central and Eastern Europe, especially in the Czech Republic, Bulgaria and Romania (Erdilek, 2003).

7. New Divisions within Turkish Capital and Their Political Representation

In this section, I will discuss the evolution of new fractions of Turkish capital in response to internationalization and their political representation in the post-1980 period. Turkey's participation in the international division of labour on the basis of the export of labour-intensive goods had important implications in terms of the historical conflict within the Turkish capitalist class between Istanbul-based big holding companies and small Anatolian firms. As Turkish exports gravitated toward labour-intensive manufactures, a number of smaller Anatolian cities with non-unionized workforces, where households could be incorporated in subcontracting deals, began to emerge as regional industrial centres (Keyder, 2004). These small labour-intensive manufactures, which were linked to large, brand name retailers based in advanced capitalist countries, experienced rapid growth in the 1980s and came to be known as 'Anatolian Tigers' (Gülalp, 2001). This development was part of the larger process of structuring production into a global core-periphery model. Through the employment of low-wage, unskilled and unorganized labour, these enterprises provided cheap inputs to the large exporting companies and TNCs in the manufacturing sector. The state assumed an active role in facilitating this process through the construction of 'organized industrial zones' for small enterprises, with tax, insurance premium, energy incentives and free land allocations. Throughout the 1980s, many small Anatolian firms enlarged their capacity or entered into business either by exporting or by entering into subcontracting agreements with exporters (Çokgezen, 2000). The change was dramatic. While 90% of the 500 largest industrial enterprises in Turkey were located in the five most developed provinces in 1980, this ratio dropped to 20% by 1996, showing a locational shift of large enterprises in favour of Anatolian provinces (Eke, 1999).

As these firms grew, they were forced to find new sources of finance in order to survive and grow further. However, as the major banks were all owned by the big holding companies, they could not find the credit they needed in the banking sector. Therefore, they turned towards Islamic sects and religious community structures. There were two types of external financial sources they used in this process. The first external financial source of Anatolian capital was the interest-free banking (or, as they are sometimes called, Special Finance Corporations) that was allowed by Turkish law since

1983.[67] Special Finance Corporations were founded first as foreign-owned investments (for example, Al Baraka, Faisal Finans, Kuveyt Turk). Then, after a certain period of trust building and stability, domestic capital started to show interest in the field. Interest-free special finance corporations served in two ways in the process of Anatolian capital accumulation. First, they attracted the savings of religious persons who did not use traditional banks, hence bringing new funds to the system. Secondly, they provided funds to the religious business circles not using banks for capital loans, hence contributing to their development (Demir, *et al.* 2004)

The second external financial source of Anatolian capital was the remittances sent by religious Turkish citizens working in European countries, which came through companies with multiple shareholders formed by various Islamic groups that were organizing rapidly among Turkish workers abroad who placed significant weight on protecting their religious identity while in Europe. Workers' foreign exchange holdings were invested in real estate in the early years, and then switched to other investment areas, which diversified their business portfolio and allowed them to begin to make international investments. Giant companies that grew rapidly in Anatolia such as Kombassan, Buyuk Anadolu Holding, Yimpas, Endustri, Sayha, Ittifak and Jet-Pa, were founded primarily with the savings sent by workers abroad (Demir, *et al.* 2004).

The Anatolian capital groups that grew by means of worker remittances from abroad, and the petro-dollars that came through interest-free banking, were often called 'green capital' until the 1990s for their Islamic links. When a certain section of 'green capital' grew in terms of the scale of operation, networks and financial resources to such

[67] This form of banking mainly involved profit-loss sharing accounts, which offered returns on savings without officially paying interests (Atasoy, 2007: 129).

an extent that they went beyond their own basis of growth (petro-dollars and religious sects), however, they became to be referred to as 'Islamic capital' (Doğan, 2006).

During the 1980s, the conflicts between big holding companies and Anatolian firms were under control as the initial phases of the export boom as well as wage suppression policies brought new opportunities for both sections of capital. So it was not too difficult for the ANAP to represent the unity of the bourgeoisie in the political scene. At the ideological level, this unity was reflected in ANAP's discourse that combined liberalism and conservatism. From 1983 to 1991, ANAP formed single party governments that successfully represented the unity of big Istanbul-based capital and small Anatolian capital under the hegemony of the former. As the Anatolian capital groups rapidly grew and differentiated, however, it was no longer possible to maintain this unity (Doğan, 2006). As a result, the 1990s were marked by a political representation crisis for the bourgeoisie.

The early 1990s witnessed the gradual demise of ANAP, while its center-right rival, DYP emerged as a contender for the center-right identity. The difference between ANAP and the DYP, under the leadership of Tansu Çiller, who became the new chairperson in 1993 upon Süleyman Demirel's election to the presidency, was related to the party's historical identity and electoral base. While most of the DYP's voters were from rural areas, most of the voters of ANAP were from urban areas. The DYP continued the neoliberal, technocratic, pragmatic and personalized politics that used to be the assets of the ANAP in the 1980s. However, due to its rural support basis, the DYP appropriated the nationalist-conservative identity at the expense of the ANAP. Çiller's persistent emphasis on symbols such as the 'call to prayer' and the 'Turkish flag' was significant in this respect (Coşar and Özman, 2004). In that sense, the DYP's ideological position was not particularly appealing for the Istanbul-based big bourgeoisie.

In contrast, the Anatolian capital was mainly represented by the Islamic RP in this period. In the 1994 local elections, the RP candidates for mayor won in 28 out of 76 provincial capitals, including Istanbul and Ankara. This was a turning point as the transfer of power changed the composition of local companies awarded with contracts to provide local services. Especially in sectors like construction, retail trade and urban consumption, Islamic companies grew rapidly through the support of local governments. These developments initiated concerns on the part of Istanbul-based big business groups. The worries mounted after the RP won the general elections in December 1995 and formed a coalition government with the DYP. The growth of Islamic holding companies, to the extent that they could even win major privatization bids (for example the sale of Petlas, a big public enterprise producing military aircraft tyre, to the Islamic Kombassan Holding by the Privatization Administration) disturbed the Istanbul-based bourgeoisie and the military. In a Turkish National Security Council briefing on the threat of fundamental Islamism, it was alleged that the RP-DYP government gave priority to the Islamic companies in major privatization bids, particularly in strategic sectors like energy, where Islamic companies united their forces to win the bids. Major big business associations like TÜSİAD, TOBB, TİSK and TESK, with the support of major worker confederations such as TÜRK-İŞ and DİSK, sided with the military against the government. In February 28, 1997, the military-led National Security Council formulated 'the February 28 decisions' which declared that Islamic fundamentalism in Turkey, has become dangerous and should be fought by all available means. After this event, the government was forced to resign, and the RP was closed down in 1998 for violating the secularism principles of the Constitution (Atacan, 2005).

The 28 February military intervention mainly curbed the power of the big Islamic holding companies funded from abroad. At the same time, it forced other sections of Islamic capital – that is, domestic companies that grew by means of organized industrial districts and Islamic local governments – to tone down their discourses on radical Islam. This second group of domestic Islamic companies could, in turn, be sub-divided into two parts: (i) small companies that came from traditional petit-bourgeoisie (artisans and merchants) backgrounds and grew in sectors like textile, furniture and food through the incentives provided by the organized industrial districts, and opened to international markets through subcontracting relationships with big domestic or foreign capital groups; and (ii) companies which grew through the opportunities provided by Islamic local governments after 1994 in sectors like construction, retail trade and urban consumption. As these two sections of capital increasingly became differentiated from the traditional petit-bourgeoisie, they also changed their ideological orientations and international perspectives. In terms of regional integration, they started to prefer the EU to the Middle East states (Doğan, 2006). It was this section of domestically based Islamic capital that would form the support basis of the AKP in the late 1990s.

These changes were reflected in the Turkish political scene as well. The increasing contradictions within capital in response to internationalization in the 1990s made it impossible for a political party to represent bourgeois unity in the political scene. With the demise of ANAP in 1991, a period of political representational crisis for the bourgeoisie began. From 1991 to 2002, successive coalition governments were formed

(See Table 3.6). However none of the political parties in this period were able to represent the unity of capital under the hegemony of the dominant fraction.

Table 3.5 Governments in Turkey, 1983-2007

Period	Type of government	Governing party(ies)	Prime Minister
December 1983-December 1987	Single party/ majority	ANAP	Özal
December 1987-September 1989	Single party/ majority	ANAP	Özal
September 1989-June 1991	Single party/ majority	ANAP	Akbulut
June 1991-December 1991	Single party/ majority	ANAP	Yılmaz
December 1991-June 1993	Coalition/majority	DYP, SHP	Demirel
June 1993-October 1995	Coalition/majority	DYP, SHP	Çiller
October 1995	Single party/ minority	DYP	Çiller*
October 1995-March 1996	Coalition/majority	DYP, CHP	Çiller
March 1996- June 1996	Coalition/majority	ANAP, DYP	Yılmaz
June 1996- June 1997	Coalition/majority	RP,DYP	Erbakan
June 1997- January 1999	Coalition/minority	ANAP, DSP, DTP	Yılmaz
January 1999- May 1999	Single party/ minority	DSP	Ecevit
May 1999- November 2002	Coalition/majority	DSP, ANAP, MHP	Ecevit
November 2002-July 2007	Single party/ majority	AKP	Gül, Erdoğan**
July 2007-	Single party/ majority	AKP	Erdoğan

Source: Data compiled from Sayarı (2007).
* Failed to win vote of confidence in the parliament.
** Gül served temporarily as PM until Erdoğan won a seat in the parliament in a special byelection in early 2003

The most significant sign of the crisis of political representation of capital during the 1990s was the rapid increase in the number of business organizations. As Çokgezen (2000) notes, among the 35 business associations listed in the National Institutions Guide in 1997, 29 were formed after 1990. Until the 1990s, there were four main business associations in Turkey: TOBB (active since 1950 as the overall organization of the Chambers of Industry and Commerce); TİSK (Turkish Confederation of Employer Associations, active since 1961 on wage bargaining issues *vis-à-vis* labour unions); TÜSİAD (active since 1971 to defend the interests of the big holding companies); and YASED (the International Investors Association, founded in 1980 by 14 multinational corporations operating in Turkey to represent the interests of foreign capital). In the post-

1980 period, these organizations assumed new roles and positions. For instance, TOBB increasingly focused on the internationalization needs of small and medium sized companies that dominated its membership. On the other hand, YASED became the key actor on issues regarding the facilitation of the entry of foreign capital in the late 1990s, when the economic policy priorities shifted towards global integration on the basis of productive capital accumulation.

The new divisions within capital induced by internationalization became increasingly crystallized in the 1990s. These divisions were complicated by factors such as size, function, region, and sector as well as religious and political orientations. Throughout the 1990s, a multitude of new business associations emerged to represent these complex divisions. For instance, MÜSİAD (Müstakil Sanayici ve İşadamları Derneği – The Association of Independent Industrialists and Businessmen), which was established in 1990, represented small and medium sized businesses with an Islamic orientation. MÜSİAD's initial aim was to help its members open to the international markets. In time, as a result of the class differentiation within Islamic capital, MÜSİAD was increasingly dominated by export-oriented big and medium-sized Islamic capital groups. Some of these capital groups demanded that small businesses should be removed from MÜSİAD membership, and some others tended to express themselves through TOBB rather than MÜSİAD (Doğan, 2006). Another Islamic business association named ASKON (Association of Anatolian Businessmen), which was founded in 1998, represented the smaller Islamic businesses in Anatolian towns, which operated in the national market. Quite differently, two left-nationalist business associations representing small and medium sized businesses operating in the national market were formed in

1999: USİAD (Ulusalcı Sanayiciler ve İşadamları Derneği – The Association of Nationalist Industrialists and Businessmen) formed by leftist Kemalist businessmen opposed to Turkey's membership in the EU, and CUSİAD (Cumhuriyetçi Sanayici ve İşadamları Derneği – The Association of Republican Industrialists and Businessmen) formed by Alawi businessmen with similar political orientations (Insel, 2003). Both of these latter associations, however, were short-lived.

Some other business associations that emerged in the 1990s reflected the new geographical divisions within capital in the process of internationalization. City-based and regional-based industrialist and business organizations were among them. In 1996, these organizations known as SIADs (Sanayici ve İşadamları Dernekleri – Industrialists' and Businessmen's Associations) came together to form the Turkish Industrialists' and Businessmen's Associations Platform and in 2000 the sectoral business organizations came together to form the Sectoral Associations Platform. In the 2000s, these regional and sectoral associations formed their own federations, and in 2004, they founded a national confederation called TÜRKONFED (Türk Girişim ve İş Dünyası Konfederasyonu – Turkish Enterprise and Business Confederation). It should be added that, from the beginning of formation of these additional business associations, this process was shaped under the hegemony of TÜSİAD and its discourse on the need for cooperation among domestic capital groups to increase Turkey's competitiveness in European markets.

Another interesting development in the 1990s in terms of the political organization of capital fractions was the rise of business-oriented think tanks. As the new divisions in capital induced by internationalization were crystallized, each fraction needed to formulate their own strategies to cope with the complexities of internationalization. At this point, 'organic intellectuals of the bourgeoisie' came to the fore as the intermediaries between capital fractions and the state, by translating the interests of capital fractions into policy options demanded from the state (Tezcek, 2007). Throughout the 1990s, a number of think tanks that brought together academics, politicians and bureaucrats were formed for this purpose. This development gained a new momentum from the late 1990s onwards, as the new orientation of Turkish capitalism towards global integration on the basis of productive capital intensified the competition among capital groups. Besides think-tanks established earlier in the 1990s with the indirect support of various capital groups, such as the TESEV (Türkiye Ekonomik ve Sosyal Etüdler Vakfı – Turkish Economic and Social Studies Foundation), the 2000s witnessed the establishment of research centres, and even universities with the direct support of specific capital fractions and business associations. Among them were the TOBB University of Economics and Technology, and TEPAV (Türkiye Ekonomi Politikaları Araştırma Vakfı – Economic Policy Research Foundation of Turkey), both established by TOBB in 2004 to form strategies for the internationalizing small and medium sized capital groups; and the Economic Research Forum formed jointly by TÜSİAD and Koç University in the same year to formulate policies for the big internationalized fraction of Turkish capital (Tezcek, 2007).

In the meantime, things started to change in the political scene. When the Virtue Party (successor of the Islamic Welfare Party) was banned in 2001, the party MPs founded two different parties; the traditionalist SP and the reformist AKP. This split reflected the class differentiation within Anatolian capital in the 1990s. While the traditional petit-bougeoisie supported SP, the rapidly growing and internationalizing sections of Anatolian capital backed AKP. In the 2002 general elections, AKP gained 34.2% of the votes, whereas SP could only get 2.4%. In contrast, CHP, which was the main party supported by the big bourgeoisie particularly after Kemal Derviş's decision to join it, got 19.3% of the votes and became the second party in the Parliament. In the post-1980 period, the center-left was divided into three main parties: SHP, DSP and CHP. Following the 1980 military coup, CHP was banned so two center-left parties were founded in 1985: the Social Democratic People's Party (SHP), which merged into the CHP in 1992, and then reestablished in 2002 by a small group who resignated from the CHP; and the Democratic Left Party (DSP), which was founded by Rahşan Ecevit, wife of Bülent Ecevit. In the 1990s, the DSP gained popular support while the CHP was increasingly marginalized. In the 1999 elections, center-left votes switched to the DSP and the CHP failed to win seats in Parliament. Following the 2000-2001 economic crisis that emerged during the Ecevit government, however, many were former DSP supporters who blamed the crisis on Ecevit and switched to the CHP. In the 2002 parliamentary elections, the CHP won 178 seats in Parliament, and once again became the main center-left party. All the previous parties of the center-right and the center-left failed to pass the 10% electoral threshold. This major overhaul of the parliamentary pattern gave rise to a de facto two-party system.

Soon after AKP came to power, it managed to represent the unity of the bourgeoisie under the hegemony of the dominant fraction, for the first time since ANAP's decline in the early 1980s. The main reason for this was AKP's ability to respond to the demands of small and medium sized capital groups as well as the big bourgeoisie. CHP and Kemal Derviş could not do this because they were too technocratic and too worried about the IMF and the demands of big bourgeoisie, yet not worried enough about the small and medium-sized enterprises. CHP elites had never tried to build up a grassroots structure that could come close to matching that of the AKP, and also could not rival the record that local governments run by the AKP's predecessor parties had compiled in the 1990s. The contrast between Derviş the former World Bank official and Erdoğan the ex-mayor of Istanbul summed up the asymmetry (Öniş and Keyman, 2003). The AKP's version of neoliberalism, which aimed to compromise the interests of big global capital with small and medium sized capitals on the basis of international competitiveness, was symbolized in Erdoğan's emphasis on "making Turkey an international trademark" (Coşar and Özman, 2004). As we will see in the next chapter, the new conjuncture of international competitiveness supported by both global capital and supranational institutions, as well as domestic capital groups, helped the AKP to accomplish this project to a great extent. In terms of the political organization of capital, the AKP served a similar role as the ANAP. However, there was one big difference between the ANAP of the 1980s and the AKP of the 2000s: the radical transformation of the state apparatus in the 1980s and 1990s, which had significant implications in terms of the role of political parties as well. The next chapter will focus on this transformation.

8. Conclusion

This chapter has argued that each stage of the internationalization of Turkish capitalism corresponds to the internationalization of different circuits of capital in the advanced capitalist countries. At all critical turning points of Turkish capitalist development and its internationalization, the transition from one stage to another has been shaped by the interaction of domestic and external dynamics, rather than simply 'outside-in' impositions by the international financial institutions. This chapter has criticized, therefore, three prevailing arguments in the literature on the internationalization of Turkish capitalism.

The first misplaced argument is the characterization of the period before 1980 as the 'national' phase of economic development, and 1980 as the starting point of internationalization. To the contrary, this chapter has argued that the internationalization of Turkish capitalism did not start in the 1980s. It started in the late 1950s and 1960s, when import substitution industrialization in collaboration with foreign capital began, as an aspect of the capitalist development being generated. In that sense, the import-substitution industrialization was not a 'national' phase of economic development, but the first phase of internationalization of Turkish capitalism, a prelude to the export-led industrialization, the more general and intense level of the internationalization of production.[68]

A second misguided argument is that Turkey was economically independent until the 1980s, but became externally dependent after the 'forced' establishment of close links with international institutions such as the IMF and World Bank in the 1980s. This chapter has shown that Turkey's relationships with the international institutions started much

[68] Eralp (1990: 224) makes this point quite forcefully as follows: "The growing significance of internationalisation of capital, i.e. direct investment, in the post-war system, and the increased linkages between international and local capital in different parts of the world, suggest that industrialisation does not take place outside world capital markets." Similarly, Maxfield and Nolt (1990) discuss the ISI as an earlier phase in the internationalization of productive capital, and emphasize the role of the U.S. in sponsoring this process.

earlier, in the immediate post-war context of the reconstruction of Europe under American hegemony. Turkey became a member of the IMF in 1947 and a member of the OEEC in 1948. The first stand-by agreement with the IMF was signed in 1958, and was regularly repeated every year between 1961-70, and between 1978-1980. In that sense, from 1960 to 1980, Turkey's relationship with the IMF was not any less close than its relationship with the IMF in the post-1980s period. 'Outside-in' approaches that emphasize the external imposition of neoliberal globalization, cannot explain why, despite the existence of the close relationships between Turkey and the IMF since 1958, the pattern of capital accumulation changed from the inward to the outward oriented model only in 1980 and not before (Akcay, 2006). The answer to this question lies in the internal dynamics of the Turkish accumulation process. It is quite telling, in this regard, that during the negotiations about the membership of Turkey to the EEC in 1968, the Turkish domestic bourgeoisie was strongly opposed to the opening up of the economy (Özden, 2004), whereas only ten years later in 1978, it pushed for the integration with the world economy on the basis of the export-oriented model.

Finally, the third flawed argument is that the post-1980 reforms imposed by international institutions have aimed to open the Turkish market to foreign capital at the expense of domestic capital. This chapter has demonstrated that the attempts to attract foreign capital started in 1954, with the enactment of the Law on the Encouragement of Foreign Capital. This law was the most liberal of its kind anywhere for that period, because cooperation with foreign capital was seen as essential for the transformation of Turkish commercial capitalists into industrialists. Accordingly, many domestic capital groups grew into industrial conglomerates through their partnerships with multinational companies in this period. In contrast, despite the extensive rhetoric on the opening up of the Turkish economy to foreign capital since the 1980s, the foreign direct investment law that eliminated the further obstacles against FDI was enacted only in 2003. Again, 'outside-in' approaches cannot explain why, despite the pressures of international institutions since the early 1980s, the FDI law was only enacted as late as 2003, and not before; and why the new FDI law, like the first, was strongly supported by domestic capitalists. An answer can only be given by looking at the internal dynamics of accumulation process in the late 1990s, which necessitated the global integration of Turkish capitalism on the basis of the internationalization of productive capital.

CHAPTER 4

The Restructuring of the Turkish State

This chapter will focus on the transformations of the Turkish state in response to the consecutive phases of the internationalization of Turkish capitalism. As the second chapter has argued, the key point in understanding these transformations is the contradiction between the internationality of capital accumulation and the nationality of states. This contradiction is reflected within national states as increasing divisions over economic policies, as states now have to internalize and mediate the conflicting demands of unevenly internationalized capitals operating within their territories (Panitch, 1994; Bryan, 1995; Albo, 2002). This mediation process involves two major mechanisms, which were initially identified by Palloix (1975) and Poulantzas (1979). The first mechanism is the change in the internal hierarchy of states in the phase of the internationalization of productive and money capital, which Palloix identified as the key to reforming the state apparatuses. The second mechanism is what Poulantzas called the formation of 'authoritarian statism', which he defined as the transfer of power from the political scene to the state apparatus, and its centralization within the executive branch.

Viewed from this perspective, it can be argued that Turkey has gone through three main phases of state restructuring in response to the different phases of internationalization of Turkish capitalism. The first phase was the period of 1960-1980, which witnessed the earliest forms of authoritarian statism in response to the requirements of the import-substitution industrialization policies of the first phase of internationalization of Turkish capitalism. The second phase was the period from 1980 to the late 1990s, and it was marked by the rise of neoliberal authoritarian statism that accompanied the second phase of internationalization based on exports and inflows of money capital. Finally, the third phase that started in the late 1990s witnessed the consolidation of neoliberal authoritarian statism in response to the new orientation of Turkish capitalism towards global integration on the basis of productive capital. In what follows, I will discuss each of these phases in detail. Before going further, I will have a brief look at the early years of capitalist state formation in Turkey.

1. The Early Years of Turkish Capitalist State Formation

In Turkey, the period from the early 1920s until the end of World War II was characterized by the attempts to establish a capitalist *type* of state. These attempts involved the reorganization of the institutions inherited from the Ottoman period, on the one hand, and the establishment of new ones, on the other. Among the reorganized institutions were judicial organs such as the Supreme Court, Council of State, and the Council of Accounts. Among the newly established institutions were ministries responsible for the delivery of basic public services such as justice, education, health, national defense, interior and foreign affairs. From 1923 to 1930, the institutions responsible for national security and order, such as the Turkish General Staff, Supreme Military Council, Directorate General of Secuirty and National Intelligence Organization, were formed. In the same period, institutions necessary for financing the industrial investments of the newly emerging domestic bourgeoisie were established. Among them were state banks such as Turkish Industry and Mining Bank, Isbank and Emlak Bank. Another important institution established in this period was the Turkish State Railways Administration, which was integral to the formation of a national market. In the 1930s, major institutions of economic administration such as Central Bank, as well as many state economic enterprises producing intermediate goods for the private sector were formed (Sezen, 2003).

Following World War Two, a new phase of 'administrative reforms' to implement the ISI development plans, under US hegemony over the world market, began. From the late 1940s through the 1950s, US technical aid missions were sent to most developing countries. These missions emphasized the need for government coordination of trade, credit, and monetary and fiscal policies to provide an environment to attract private investment – domestic and foreign – to selected labour-intensive industries that would manufacture for the domestic market, as well as the formation of modern national frameworks of taxes, administrative procedures and incentives for this purpose (Maxfield and Nolt, 1990). Turkey was also affected by these developments and attempted to reform its public bureaucracy beginning in the late 1940s and early 1950s. Five of the six reports produced during this period were prepared by foreign experts and commissions (See Table 4.1 below). Between 1950-55, public administration institutes were established in many developing countries, with the support of United Nations (UN) and the Agency of International Development (AID). In Ankara, The Public Administration Institute for Turkey and the Middle East was established in 1959 in this context. In the late 1950s, the establishment of a central organization of planning as the coordinating body of the ISI program came to the agenda as a condition of the stabilization programs with the IMF and the OEEC. However, it was only after the 1960 military coup that the State Planning Organization was established.

Table 4.1: The Administrative Reform Commissions in Turkey in the 1946-1960 Period

Commission	Function	Date They Submitted Their Report
Neumark	Recommending measures for efficient functioning of the government agencies	1949
Conk and Savun	Recommending measures for rationalization of the bureaucratic organization	December 1950
Barker Mission	Recommending measures for the establishment of an administrative system appropriate to fulfill Turkey's development objectives	May 1951
Martin and Cush	Recommending measures for the improvement of administrative procedures in the Ministry of Finance	August 1951
Leimgruber	Recommending measures to reform Turkish public administration	December 1952
U.N. Working Group	Recommending plans for the establishment and operation of a Public Administration Institute	September 1952
Chaileux Dantel	Recommending measures to improve the public personnel	1958

Source: Berkman and Heper (2002).

2. The First Phase of State Restructuring: Authoritarian Statism, 1960-1980

The State Planning Organization (SPO)[69] was founded immediately after the military coup of 1960, as the coordinating body of the import substitution program. As argued in the last chapter, import substitution industrialization in collaboration with foreign capital that started in the late 1950s and 1960s was the first phase of the internationalization of Turkish capitalism. In terms of state restructuring, Palloix's arguments on the historical relationship between the internationalization of productive capital and the change in the

[69] The Turkish acronym is DPT (Devlet Planlama Teşkilatı).

internal hierarchy of the state was observed in this period with the establishment of the SPO in 1961 as the specialized economic apparatus to manage the contradictions of the import substitution program. The SPO was founded as an undersecretariat of the Prime Ministry. It was given a privileged and autonomous status within the state by the coup leaders. To guarantee this status, it was not attached to any one of the ministries, and it was provided with flexibility in the recruitment of its personnel (Sezen, 1999; Özden, 2004).

During the preparation of the first plan[70] in 1962, however, this privileged position was shaken due to political conflicts the SPO had with the government. The first conflict was related to the reorganization of the state economic enterprises (SEEs). The early planners had the idea of reorganizing the public sector to make it more competitive *vis-à-vis* the private sector by allowing the prices of some SEE products to be determined by market conditions. However, the representatives of industrial capital strongly opposed the reform proposal, and the government rejected it (Sezen, 1999).

The second conflict was over the issue of financing of the investments. The planners suggested an income tax reform to increase public savings and investments. However, the representatives of TOBB, the major business organization of the period, reacted against the proposal. Soon after the elections in October 1961, the National Assembly delayed the application of the Income Taxation Law. A Tax Reform Commission was created, which was composed of experts from the Ministry of Finance,

[70] Turkish planning was based on the three stages approach developed by Jan Tinbergen, the well-known Dutch economist. First, overall growth targets for the economy were set. Then, the amount of total investments and savings, and their sectoral composition to realize the target growth rate was determined. The final stage involved the evaluation of the investment projects in terms of their social profitability. This was a variation of post-war Keynesian state planning. For a critical analysis of the Turkish planning experience in comparison to Brazil, India and Korea, see Chibber (2005).

representatives of the private sector and one representative from the agricultural sector. The SPO was deliberately excluded (Özden, 2004). The Commission emphasized some tax relief measures and investment allowances for increasing the incentives for saving and investment. Upset with this approach, the SPO invited the British economist Nicholas Kaldor to put forward an alternative. According to Kaldor, the approach of the Tax Reform Commission and the Ministry of Finance was unreliable for less developed countries. He argued that the tax burden in Turkey fell heavily on groups that depended on salaries and wages for their living and that the tax revenue from capital and profits were very low. Thus, he stated, income tax on higher incomes should be raised substantially to speed up economic development. However, the government and the Ministry of Finance strongly disagreed with this proposal (Özden, 2004; Akçay, 2007).

The government, moreover, forced the SPO to declare to the public that the target growth rate of the GNP for the first year of the plan would be 7.6%. This target growth rate was unrealistic given that none of the fiscal reforms were realized due to the conflicts between the SPO and the Ministry of Finance.[71] The targets of the annual programs prepared by the SPO and approved by the Council of Ministers, were not observed in the preparation of the budgets by the Ministry of Finance. This resulted in a de facto division of work, according to which the Ministry of Finance retained the control over current expenditures and the SPO controlled the investment expenditures. Consequently, while the current expenditures exceeded the annual program targets, the investment expenditures fell behind these targets. Following these confrontations, the top officials of the SPO resigned in October 1962 (Özden, 2004; Akçay, 2007).

[71] These conflicts stemmed from the differences in the economic philosophies of the two institutions. Ministry of Finance bureaucracy was trained in the classical fiscal theory, whereas the new SPO experts were trained by the UN and the AID officials to use the growth-oriented norm system (Özden, 2004).

With the change in the government in 1965, the relationship between the SPO and the government took a new turn. The AP government led by Süleyman Demirel paralyzed the operations of the SPO through establishing a dual bureaucratic structure within the organization. The SPO was over-staffed by a new generation of engineers who had no backgrounds in economics. These new experts had higher wages than the other planners. Furthermore, the routine meetings between the SPO and the government were delayed continuously. The reports of the organization were often not even received by the government. The formulation of the economic policies was done apart from the SPO. In the meantime, the government had close contacts with the representatives of TOBB (Özden, 2004). In 1966, a second group of top officials resigned from the SPO, after it became clear that their reports were being concealed from the public (Sezen, 1999).

In 1967, Turgut Özal, who had been working in the Economic Planning Department of SPO, was appointed as the new undersecretary of the SPO. The president of TOBB immediately expressed his contentment with the new appointment, and contended that the relations between the private sector and the SPO would now become closer. Thus, in contrast with the preparation period of the first plan, the TOBB participated in the meetings for the second plan to be done for 1968-1972. In these meetings, TOBB representatives expressed the need for extending incentives system as a means to achieve rapid industrialization, and a redefinition of the relative roles of the public and private sectors in the development process. In line with these demands, the Second Plan maintained that the period from 1968 onwards would witness the transfer of an increased amount of funds from the public to the private sector, and the SPO would decide the allocation of these new funds. To this end, the SPO would establish closer links with the private sector and encourage the latter to make new investments through flexibility in taxation (Özden, 2004). Following these developments, the SPO regained its dominant status within the executive branch. This is an interesting point, as it shows that the autonomy of the SPO from the government and capital was itself determined by the party in political power and its class basis in this period (Sezen, 1999).

The most important turning point in terms of the consolidation of the SPO as the specialized economic apparatus administering the import substitution process was the enactment in 1967 of Law No. 933 Concerning the Implementation Fundamentals of the Second Five Year Development Plan. This law brought the SPO into the incentive implementation process, and changed the methods of the allocation of investment incentives completely (Sezen, 1999).

In the previous system, investment incentives were based on tax rebates for new investments. In order to realize imports according to the plan's targets and to encourage exports, tax rebates on exports were introduced. An Export Tax Rebate Commission was established to determine the products that would benefit from the rebates. The Commission was composed of representatives from the SPO, the Ministry of Finance, the Ministry of Industry, the Ministry of Commerce, the Ministry of Customs, and TOBB. The purpose was to provide subsidies to the export of industrial products. The TOBB complained that the complicated procedures between the Ministry of Finance and the SPO were slowing down the implementation process and delaying the payment of tax rebates and investment allowances. Also, the existing amounts of rebates were not sufficient to assist in accelerating private capital accumulation. The industrialists called for an increase in the ceiling ratios of allowances for investments, while the exporters demanded the promotion of tax rebates (Özden, 2004).

The new Implementation Law of 1967 was an attempt to meet these demands. The ceiling ratio on the investment allowance was raised to 80%. The Council of Ministers was authorized to take all measures to speed the formalities pertaining to licenses and permits for investment. In order to promote exports, loans could be extended to exporters from the funds provided in the budget, and from foreign sources through the intermediation of the association of exporters. The export goods that would benefit from the funds would be determined by the Council of Ministers. According to sectoral activity, exemptions from customs duties and import taxes on investment goods would be provided through the decrees of the Council of Ministers (Özden, 2004). Thus, very wide powers were given to the Council of Ministers in areas that previously would have required Parliamentary legislation.

With the same law, an Investment and Export Encouragement Bureau was established for the implementation of the measures. The functions of the Export Tax Rebate Commission were also transferred to this new bureau, which was incorporated into the SPO. In 1968, the Bureau was transferred to a separate department in the SPO, named the Incentive and Implementation Department. The functions of the Committee on the Encouragement of Foreign Capital were also transferred to this department. With the formation of this department, the units inside the SPO and the number of contract-based staff increased rapidly over time as a result of the enlarged functions in the daily implementation of incentives (Sezen, 1999; Özden, 2004).

As the fund transfer mechanisms became centralized in the Incentive and Implementation Department, the SPO came to be at the centre of the struggle among individual capitalists seeking credits, 'exemption certificates' from customs duties, or project-based 'incentive certificates' for foreign exchange allocations. The competition to obtain these certificates deepened the conflict between the Istanbul-based big industrialists and the Anatolian-based small capital groups, because the size of the investment was accepted as the primary criterion of the encouragement measures. Thus, Istanbul-based big industrialists continued to be the major beneficiaries of extending the incentive system (Özden, 2004).

The Implementation Law met strong opposition from both inside and outside Parliament. The opposition parties argued that it was against the Constitution for two reasons. First, the authorization of the government with extraordinary powers was against the Constitutional provision, as the legislative power of the National Assembly could not be transferred to any other body. Further, according to the TİP (Türkiye İşçi Partisi – Turkish Labour Party), the law was against the principle of social justice in the Constitution. In 1969, TİP applied to the Constitutional Court to nullify the Implementation Law. The Constitutional Court decided that the articles of the law on tax rebates, customs duties and encouragement funds were contrary to the Constitution. However, the foundation of the Investment and Export Encouragement Bureau was not against the Constitution because it was a governmental arrangement. The representatives of TOBB immediately stated that the annulment of these articles would jeopardize their investment projects. In turn, the SPO declared that the practice of tax rebates would continue since there was no reference to it in the Court's decision (Özden, 2004).

Accordingly, the investment and export incentives were continued even more ambitiously after 1969.

The case of SPO shows that there are important continuities between the 1960s and the 1980s in terms of the basic mechanisms of authoritarian statism.[72] Initially, the creation of the SPO as an autonomous instititution to manage the contradictions of the import substitution industrialization induced a series of conflicts within the state, which in turn were reflections of the conflicts within capital over the allocation of investment incentives. From the mid-1960s onwards, however, these conflicts were contained through the Implementation Law of 1967. With this law, the major mechanisms of authoritarian statism were introduced. Among these mechanisms were the transfer of power from the legislative to the executive branch though the powers given to the Council of Ministers in areas that previously would have required parliamentary legislation; the concentration and centralization of power within the Incentive and Implementation Department of the SPO about all decisions concerning the incentive implementation and foreign capital policies; and the change in the internal hierarchy of the state with the consolidation of the predominance of the SPO as the specialized economic apparatus with specific powers, autonomy and personnel regime of its own. Also, the fact that it was the political party in power that determined the limits to the autonomy of the specialized economic apparatus was a legacy to be transferred to the 1980s and 1990s.

[72] For a similar approach that emphasizes the continuities between the 1960s and the 1980s in this same sense, see Eralp (1990). According to Eralp, in both periods, "many economic decisions were made in private, involving a few bureaucrats and the various organized sections of the bourgeoisie." Thus, "...economic policy-making was carried out in a day-to-day process from which even the parliament, ostensibly the representative of the people, was also excluded" (221).

However, the authoritarian statism of the 1960s had one crucial difference from the neoliberal authoritarian statism of the 1980s. The mechanisms by which the specialized economic apparatus mediated the conflicts within capital were not market–based. The following statement made by a SPO manager captures this point quite clearly:

> Turgut Özal was *not pro-market* economy but was *pro-private sector*. Those two were not the same. Turgut Bey sided with the realization of projects in his mind not by the State Economic Enterprises, but by private entrepreneurs, Koç, Sabancı, etc.... However, no anxiety existed in his mind so as to try to settle the market mechanism (Özden , 2004: 103).

As we will see below, it was precisely this mechanism that would change dramatically with the rise of *neoliberal* authoritarian statism in the 1980s.

3. The Second Phase of State Restructuring: The Rise of Neoliberal Authoritarian Statism, 1980s to late 1990s

It is possible to argue that the neoliberal transformation of the state apparatus in Turkey took place in two main phases. In the earlier phase that lasted from 1980 until the late 1990s, which is also called the phase of the 'first generation structural reforms' or the 'Washington consensus' in mainstream analyses the main aim was to eliminate the obstacles against the process of market-oriented integration into world capitalism. Accordingly, the major principle guiding state restructuring in this period was the rapid implementation of neoliberal reforms without meeting resistance from political actors, parties, unions or capital groups. This was made possible through the rise of neoliberal authoritarian statism, which involved the concentration of power in the state apparatus and the dominance of the executive *vis-à-vis* the legislative branch.

By the end of the 1990s, however, the internationalization of Turkish capitalism entered a new phase, which necessitated the institutionalization of neoliberal reforms within the legal structure in line with the principles of market-oriented internationalization. This was the phase known as the 'post-Washington consensus' or 'second generation reforms' in the mainstream literature. As Naim (1999) puts it, while the strategy in the first phase was directed towards dismantling of the institutions of protectionism, the strategy in the second phase was aimed at creating the 'economic institutions of capitalism'. (See Appendix I for Naim's summary of the differences between the two phases.) It was in this second phase that neoliberal authoritarian statism was consolidated.

In what follows, I will start by analyzing the first phase of state restructuring from 1980 to late 1990s, which was characterized by the rise of neoliberal authoritarian statism that involved three important changes: (i) transfer of power from the political scene to the state apparatus; (ii) centralization of the decision-making power in the executive branch of the state, and dominance of the executive over legislative and judiciary branches; and (iii) changes in the internal hierarchy of the executive branch through the creation of a specialized economic apparatus that worked in direct relationship with the Prime Ministry and dominated other state apparatuses.[73]

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[73] The executive branch in Turkey has a dual structure. It is composed of the President of the Republic and the Council of Ministers. The President is elected for a seven-year term by a two-thirds majority of the full membership of the Parliament. The President has legislative, executive and judicial functions. The Council of Ministers consists of the Prime Minister, designated by the President from members of the Parliament, and various ministers nominated by the Prime Minister and appointed by the President. The Prime Minister is the de facto head of the executive branch.

3.1 Decline of the Political Scene and the Rise of State Administration

The military coup in 1980 was an important turning point in terms of the transfer of power from the political scene to the state apparatus in Turkey. With the coup, all political parties were shut down and their leaders were banned from active politics for ten years. The political sphere was even further narrowed through a series of legal and constitutional restrictions on political parties, which were legitimized by the argument that these restrictions aimed to eliminate the possibility of the revival of 'extreme ideologies', which had divided and polarized the country in the 1970s. The main legal regulations in this regard were the 1982 Constitution, the 1983 Election Law and the 1983 Political Parties Law.

In the 1982 Constitution, there were three important restrictions. First, political parties could neither form political links nor cooperate with associations, trade unions, foundations, cooperatives and professional institutions that had public status in order to pursue their own objectives (Article 69). Second, political parties could not organize and function abroad, nor could they form women's branches, youth branches and similar institutions (Article 68). Third, membership in political parties was strictly limited. Students, civil servants in public institutions and organizations, members of the armed forces, judges, prosecutors and members of higher judicial organs, could not become members of political parties (Article 68).

The second legal regulation that narrowed the political scene was the 1983 Election Law. According to this Law, any party that failed to receive 10 percent of the total vote could not send representatives to the Parliament. It was expected that this threshold would lead to stable governments based on clear majorities in the Parliament, and would exclude 'extremist' parties from the political arena (Başkan, 2005).

Third, the Political Parties Law adopted in 1983 contained not only party prohibitions, but also extremely detailed regulations on party organization, registration, membership, nominations, discipline, and party finances; and imposed very similar organizational structures on all political parties. Thus, at all levels, in all parties the presidents and executive committees would be elected by their respective congresses composed of delegates chosen by registered members. The central organs would be the general congress, the party president leader, the central executive committee, and the central disciplinary committee. The law did not permit party organizations at the municipality level. Thus, the political parties law imposed a standard organizational model for all political parties (Özbudun, 2006).

These restrictions reflected the consolidation of a monolithic political structure, reinforced by an overarching emphasis on social stability. From September 1980 to November 1983, the Turkish military was in power. In the first general elections that were held in November 1983, political parties were required to be licensed by the National Security Council for eligibility to participate in the election. Two military-created parties, one centre-left and one centre-right, were expected to compete for the vote. However, the ANAP managed to get approval for participation in the election by presenting itself as de-ideologized party. Capitalizing on the public discontent with the 'guided democracy', the ANAP won a landslide victory, and continued to form single-party governments from 1983 until 1991 (Cornell, 1999).[74]

[74] Turgut Özal held the position of Prime Minister from 1983 to 1989, then President from 1989 until his death in 1993.

Following the September referendum in 1987, the political leaders of the pre-1980 period were permitted to return to political activity. With the constitutional amendments in 1995 and 2001, the regulations on political parties were extensively amended. Restrictions on the collaboration of political parties with unions and associations were abolished. Political parties were allowed to organize and function abroad, and form women's and youth branches. The age at which one could become a party member was lowered to 18, and university teaching staff and university students were permitted to become members of political parties. Another change involving the prohibition of political parties was made, according to which the Constitutional Court could decide to prohibit a party only by a three-fifths majority of its members instead of by a simple majority. With these amendments, the constitutional guarantees for political parties were significantly strengthened (Özbudun, 2007). These relative openings in the political scene, however, remained limited, because the regulation in the election law that prevented parties with votes below the 10% threshold from sending representatives to the Parliament was still valid in the 1995, 1999, 2002 and 2007 elections. Parliament was filled with centrist parties that were already under the hegemony of neoliberalism. Furthermore, the relaxation of the restrictions on political parties came in a period when the process of concentration and centralization of power within the executive branch of the state had already been accomplished and neoliberalism had already become the general state policy. In this context, Parliament was turned into, in its substantive role, a technical implementation body charged with approving the numerous draft laws prepared by the party in power in line with the neoliberal policies inscribed in the executive branch.[75] It is ironic, therefore, that the decline of the parliament as a part of the political scene was accompanied by a tremendous increase in its activity in this period.

3.2 The Concentration of Power in the Executive Branch

In the 1980s, the executive branch of the Turkish state was strengthened *vis-à-vis* the legislative branch through three major mechanisms. The first mechanism was the issuance of governmental 'decrees in the force of law' (DFLs), which served to bypass the Parliament in legislation related to neoliberal reforms. DFLs first became part of the Constitution after the 1971 coup. The 1982 Constitution, drafted by the military in the wake of the 1980 coup, also included an article that authorized the Council of Ministers to issue DFLs. ANAP governments used this right as a widespread application in order to make neoliberal reforms easily when they deemed necessary. DFLs were also extensively used to make reforms in public administration, and to create alternative bureaucratic structures to implement neoliberal economic policies. The number of DFLs increased from 17 during 1972-1978 to 305 during 1982-1990. Of the 305 DFLs in the 1980s, 261 were public administration reforms, including comprehensive changes in the public personnel system, procedures and methods of the administrative structure, and state economic enterprises, and the institutional structure of the conventional bureaucracy (Sönmez, 2004). The DYP-SHP coalition government also passed many DFLs on privatization from 1991 to 1995 (Önder, 1998).

The second mechanism used to strengthen the executive *vis-à-vis* the legislative branch was the creation of a 'fragmented budgetary system'. The traditional budgetary

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[75] For a recent study that discusses the mechanisms and discourses by which the political scene was further narrowed down before the 2007 general elections, see Ercan (2007).

system constituted a serious control mechanism against executive power as it was still being approved by the Parliament. In order to avoid the supervisory control of the traditional budgetary system, the Turkish government implemented a fragmented budgetary system and created extra-budgetary funds out of budgets (Güler, 1996; Sönmez, 2004). The financial resources of neoliberal administrative structures and policies were provided by these extra-budgetary funds.

The third mechanism was the unification of several ministries in the 1980s. The unification of ministries was regulated by a decree called 'The Reorganization and the Working Principles of the Ministries', which brought a standard structure to all ministries.[76] The justification used for this decree was the need for simplicity in organization, clarity in the definition of authorities and responsibilities, unity in policies, and efficiency in the performance of public services (Sönmez, 2004). What happened in practice, however, was the centralization of decisions on crucial economic matters in a number of state ministries. While the number of service ministries decreased in this process, the number of state ministries increased sharply in the 1980s and 1990s (Karaer, 1987). In this way, the decision-making power over crucial economic issues was centralized within newly created structures within the executive, and thus isolated from the influence of both the conventional bureaucratic structure and the Parliament. In this process, the unification of ministries not only strengthened the executive but also shifted the internal hierarchy of the executive and the state apparatuses through the transfer of power from service ministries to state ministries.

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[76] Decree No. 8/4334, *Resmi Gazete,* Date/No: 27.2.1982/17619.

3.3 Changes to the Internal Hierarchy of the Executive Branch

During the 1980s and 1990s, the internal hierarchy of the executive branch was re-ordered to augment the role of agencies dealing with international capital accumulation. A neoliberal specialized economic apparatus that worked in direct relation to international capital accumulation was created. In the early 1980s, the main components of this apparatus were the 'Coordination Board' and the 'Money and Credit Board', which were then tied to the 'Higher Coordination Board of Economic Affairs'. From the mid-1980s onwards, the Undersecretariat of Treasury and Foreign Trade was formed by the transfer of several units from the Ministry of Finance and Ministry of Trade. All of these specialized structures were attached to the Prime Ministry. In this way, the bureaucracies of the Ministry of Finance and SPO were excluded from critical economic policy decisions, and an alternative bureaucracy working in relation the Prime Ministry was created.

In the early 1980s, two main policy areas came forward in the management of economic internationalization in Turkey: the export-import regime and monetary policies. In 1980, two organizations were authorized to make the decisions in these two areas – the 'Coordination Board' and the 'Money and Credit Board'. In the 1960s, these two Boards served as coordinator agencies monitoring the compliance of applied economic policies with the macroeconomic plans. After the announcement of the neoliberal economic program on the 24th January 1980, however, their duties were re-arranged from coordination and consultation to decision-making on economic issues.[77] The Coordination Board was authorized to regulate all the economic affairs related to trade quotas, import and export regimes and to take the necessary decisions. Likewise, the

[77] Decree No.8/166, *Resmi Gazete*, Date/No: 25.01.1980/16880.

Money and Credit Board was authorized to take major decisions on money and credit policies and state supportive policies. In the 1960s, the president of each of these two boards was the Undersecretary of the SPO. In January 1980, the Undersecretary of Prime Ministry (who at the time was Turgut Özal) became the president of these boards. The Prime Ministry thus gathered major powers in its hands for the implementation of neoliberal economic policies from one center (Sezen, 2003; Sönmez, 2004). In 1981, the Higher Coordination Board of Economic Affairs was established. This Board was composed of ministers and its president was the Prime Minister. It was authorized to take decisions about domestic and foreign economic issues related to more than one ministry. In 1983, it was also authorized to take coordinative decisions related to state economic enterprises. In the same year, the Coordination Board was turned into a 'Coordination Committee' as an auxiliary organ of the Higher Coordination Board of Economic Affairs. The authority of the Money and Credit Board to impose decisions on ministries was also transferred to the Higher Coordination Board of Economic Affairs in 1983 (Sezen, 2003; Sönmez, 2004). Hence, in the early 1980s, the Higher Coordination Board of Economic Affairs functioned as the specialized economic apparatus managing neoliberal policies.

From the mid-1980s onwards, the Undersecretariat of Treasury and Foreign Trade became important in the formulation of borrowing policies as a part of the global integration of Turkish capitalism (Güzelsarı, 2006). The reorganization attempts of the Treasury were not new. Following the first stand-by agreement with the IMF in 1958, the 'International Economic Cooperation Organization', which was then attached to the Ministry of Foreign Affairs, was taken from this Ministry and united with the Directorate of Treasury within the Ministry of Finance, to form the 'Directorate of Treasury and

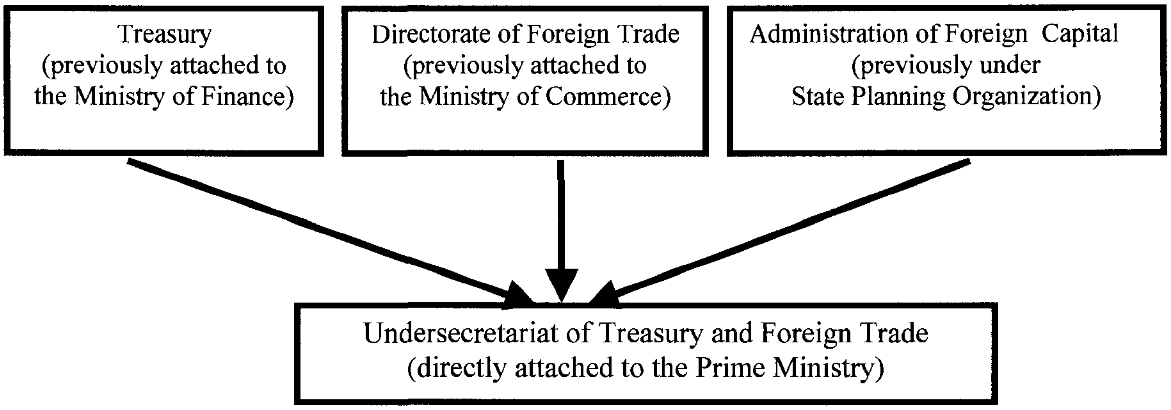
General Secretariat of International Economic Cooperation'. In this way, the Ministry of Finance was authorized to make the major decisions on foreign economic relations. However, this structure radically changed in 1983, when the Directorate of Treasury and General Secretariat of International Economic Cooperation was taken from the Ministry of Finance to be combined with the Directorate of Foreign Trade (previously attached to the Ministry of Commerce) to form the Prime Ministry Undersecretariat of Treasury and Foreign Trade.[78] The new Undersecretariat undertook the functions of administration of public finance, borrowing policies, foreign economic relations, import-export policies, and banking and foreign exchanges (Güzelsarı, 2006).[79]

In 1991, the Undersecretariat also undertook the administration of foreign capital by taking over the Directorates of Incentives and Implementation, Foreign Capital and Free Zones from the State Planning Organization.[80] In this way, key economic and financial decisions regarding the internationalization of capital were monopolized in the hands of a single state agency directly accountable to the Prime Ministry and isolated from the influences of the bureaucracies in the State Planning Organization, Ministry of Finance, and Ministry of Industry and Trade. Strikingly, the role of the Ministry of Finance was reduced to the collection of revenues; the Undersecretariat of Treasury and Foreign Trade became the central organization determining monetary and finance policies and foreign trade affairs. It served as the top executor of neoliberal policies in line with the agreements with the IMF and the World Bank. In this process, it turned into

[78] Decree No.188, Date: 14.12.1983.
[79] Later by a legislation dated on June 8, 1984 with a decree no 232, these units were turned into General Directorates.
[80] Decree No.436, *Resmi Gazete*, Date/No: 14.8.1991/20960.

an organization above other ministries, reducing the ministries and the Council of Ministers into ordinary policy executors (Güler, 1996).

Table 4.2: The Creation of a Neoliberal Specialized Economic Apparatus, 1983-1991



As a result of all these efforts, by the early 1990s, a neoliberal specialized economic apparatus managing the internationalization of capital was successfully created. However, the pace of neoliberal reforms, especially privatization, still remained quite slow in comparative terms. The main reason for this was the intensity of intra-state conflicts in Turkey, which persisted despite the attempts to strengthen the executive branch.[81] Turgut Özal tried to establish a strong presidential regime with an unusual concentration of executive power, to overcome the constraints imposed by the conventional bureaucracy in Turkey. However, in spite of the strengthening of power of the Presidency by the Constitution of 1982, Özal could not institutionalize a Latin American style presidential regime (Ercan and Öniş, 2001). Instead, Özal tried to implement the reform process in a top-down fashion through a direct confrontation with

[81] This was in contrast to the Mexican and Argentinean cases where privatization proceeded quite smoothly due to a presidential system that minimized intra-state conflicts.

the conventional bureaucracy. This led to intense intra-state conflicts throughout the 1980s and 1990s.

The intra-state conflicts took three forms. First, there were conflicts among state agencies within the executive branch, particularly between the neoliberal specialized economic apparatus (e.g. the Undersecretariat of Treasury and Foreign Trade and the council-type organizations) and the state agencies that lost their powers over economic administration (e.g. the State Planning Organization, Ministry of Finance, and Ministry of Industry and Trade) as described above. Second, there were conflicts within state agencies themselves, between the 'conventional bureaucracies' and 'alternative bureaucracies' that emerged in the internationalization process, typically in sectors like agriculture, energy and transportation where a new type of technocracy was recruited specifically for the structural adjustment projects. This technocracy, often referred as 'Özal's princes' in popular discourse, not only enjoyed crucial administrative powers but also differed from the conventional bureaucracy in terms of its working conditions. While the conventional bureaucracy was composed of civil servants with very low salaries, the new technocracy was recruited from the private sector on a contract basis with very high salaries (Güler, 1996). The third form of intra-state conflicts was between the executive and judicial branches. As the 'decrees in the force of law' were used by the Council of Ministers to bypass Parliament in legislation regarding neoliberal reforms, the main mechanism used by the opponents of these decrees became the appeal to higher courts for their cancellation on the grounds that they marked a breach of the Constitution. This mechanism became especially important in legislation regarding privatization and internationalization in the telecommunications and energy sectors, where most of the related decrees were cancelled by the two superior courts, the Council of State and the Constitutional Court, on the grounds that they marked a breach of the national interest. The decrees were only passed after a long struggle between the Council of Ministers and the two superior courts (joined by the major sectoral organizations of labour and capital on each side).[82] It was this third form of intra-state conflicts that turned out to be the most intense one in the first phase of reforms from 1980s to the late 1990s. The conflicts between the executive and judicial branches could only be minimized after the Constitutional amendments in 1999 that incorporated, as will now be shown, privatization and international arbitration into the Constitution.

3.4 Privatization and Conflict Between the Executive and Judiciary

Privatization was one of the most controversial elements of the neoliberal program adopted in Turkey in the early 1980s. It was crucial for the architects of the privatization program to find mechanisms to override the political and bureaucratic opposition. The main mechanism used for this purpose was the governmental Decree in the Force of Law No. 233, adopted in 1984, with the aim of consolidating administrative control over the SEEs.[83] This Decree contained provisions to expedite privatization and granted to the Council of Ministers to decide on privatization of SEEs without prior approval by Parliament. The next step was the creation of a powerful institution, which would be directly tied to the office of the Prime Minister while being independent from other key

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[82] By 2004, unions had filed 125 lawsuits opposing the privatization process. The KİGEM (Kamu İşletmeciliğini Geliştirme Merkezi – Foundation of Development of Public Management) followed most of these lawsuits. KİGEM's founder-president was former Turkish Foreign Minister and law professor, Mümtaz Soysal, who resigned from the DYP-SHP coalition government following the adoption of the privatization law in 1994.

[83] DFL No. 233, *Resmi Gazete*, Date/No: 18.6.1984/No: 18435.

bureaucratic organizations responsible for economic administration. The design of this new institution proceeded in the following manner. First, in 1984, Law No. 2983 established the legal foundation for the establishment of the Housing Development and Public Participation Administration (HDPPA).[84] The formal objective was to create a new institution vested with the authority to finance mass housing and major infrastructure projects as well as to implement privatization. However, an implicit objective was to create a new managerial bureaucracy as a means of bypassing possible constraints on the implementation of the program by the principal layers of the conventional bureaucracy. The HDPPA was directly responsible to the office of the Prime Minister. Governing the largest extra-budgetary fund, it was not subjected to normal budgetary discipline and Parliamentary control.

After the law was enacted, the US-based Morgan Bank was hired with the financial support of the World Bank to develop an extensive master plan for the privatization of 32 public companies. The Morgan Bank commented that the initial privatization transactions were very important because an error could lead to collapse of the entire program. Morgan Bank recommended that the government give priority to enterprises such as USAŞ (an airline catering service) and Çitosan (a large cement firm) on the grounds that they could be privatized within two years. Morgan Bank classified the remaining public companies as partially privatizable, ones that would be privatized after rehabilitation, companies that should be retained, and ones that should be closed down. Morgan Bank also recommended the government establish a secondary market to be used as a base for privatization transactions. Accordingly, Istanbul Stock Exchange was started in early 1986, and Law No. 3291 was enacted in May 1986, which enabled the government to

[84] Law No. 2983, *Resmi Gazete*, Date/No: 17.3.1984/ 18344.

accelerate the privatization program.[85] With this Law, the department in charge of implementing the privatization program was reorganized as a division of HDPPA. The Law No. 3291 also specified that once the privatization of a SEE was on the agenda, the ownership and all the legal authority over the company would be transferred to the HDPPA itself.[86]

The first public offering was made in 1988 in domestic and foreign markets simultaneously. The state's minority shares in the Teletaş communications company were sold in small individual lots through branches of selected commercial banks and subsequently traded on the Istanbul Stock Exchange. All the shares available were quickly sold. However, the sale took place in a declining stock market. In addition, shortly after the sales, the state-owned PTT (Post, Telephone and Telegraph Agency), the major customer of Teletaş products, announced a major cutback in its investment program. Within a few months, Teletaş shares lost half of their value. As a result, a new decision was made on sales methods in state privatization, opening up the possibility of block sales indiscriminately to nationals and foreigners.

However, the privatization of large SEEs through block sales to foreigners, after negotiations that were not particularly transparent, generated growing opposition. Privatization started to be equated with 'foreignization' in some quarters. In the first half of 1989, 90 percent of the state's equity in the large cement firm Çitosan was sold to Société Ciment Français, and 70 percent of USAŞ, an airline catering service, was sold to Scandinavian airlines. The opposition parties in the Parliament, DYP and SHP, filed suit

[85] Law No.3291, *Resmi Gazete*, Date/No: 3.6.1986/ 19126.

[86] In 1990, the government decided to revamp the HDPPA. It was split into two different administrial units: the Public Partnership Administration and the Mass Housing Fund. The Public Partnership Administration was also entrusted with the implementation of the privatization program. The intention was to make it more autonomous, while insulating it from political pressures.

against HDPPA for the Çitosan and USAŞ sales. In 1990, the administrative court of Ankara ruled both of the sales null and void. The government then appealed to the Council of State.[87] In 1991, the Council of State rejected the appeal of the government, thereby cancelling the sales of the Çitosan and USAŞ. However, in the election of 20 October 1991, a coalition government of DYP and SHP came to power. Although DYP and SHP had appealed to the administrative court to prevent the previous government from selling off Çitosan and USAŞ, after they came to power, they reversed their position and pledged to sell state economic enterprises to any private sector enterprise (foreign or domestic). In order to do this, the new government took an unpublicized administrative decision called the 'Council of Ministers Decision of Principle' on 27 April, 1992, and decided to override the Council of State's decision to cancel the sales of Çitosan and USAŞ. The rationale used was that "the Council of State's decision could create further legal problems between Turkey and foreign companies, and could hurt Turkey's reputation in the international arena, so the issue should be reconsidered from the perspective of Turkey's international relations rather than domestic law."[88] Accordingly, the sales of Çitosan and USAŞ went ahead as planned.

Following this incident, the government recognised that it needed a comprehensive legal base to accelerate privatization. Instead of passing a comprehensive law for privatization, however, the government decided to skirt around the political hurdles by designing new regulations. A single law was passed through Parliament in 1994 to

[87] The Council of State is the highest administrative court in the country. It reviews all rulings rendered by administrative courts. It expresses its opinions on draft legislation upon the request of the Prime Minister or the Council of Ministers. It also examines draft regulations and concession contracts.

[88] It should be added that this was not the first nor last of government decisions to override the Court of State's decisions to cancel privatization. Between 1996 and 2001, 19 of the Council of State decisions to cancel privatization were overridden by governments *(Milliyet,* 10.8.2005). This is an important example of the dominance of the executive branch over the judicial branch in this period.

empower the Council of Ministers to pass governmental decrees in force of law. Soon various decrees were passed in order to accelerate privatization. But, the law empowering the government to pass decrees in the force of law were also challenged in the Constitutional Court.[89] Both the law empowering the government and the decrees passed accordingly were cancelled by the Constitutional Court in 1994. The Court claimed that privatization requires laws passed through Parliament, and that power cannot be granted to Council of Ministers on this issue. Upon this decision, the government prepared a new privatization law, which conformed to the basic spirit of the Constitution. The new law No. 4046 was enacted on 27 November 1994. With this law, a new institution called the Privatization Administration, reporting directly to the Prime Minister, was established.

The new privatization law weakened the power of opposition to reverse privatization decisions through the Constitutional Court. However, the opposition still had the chance to reverse specific sectoral privatization laws. This was the case in the telecommunications privatization process, where the general privatization law proved to be inadequate. Strong opposition to telecommunications privatization manifested itself, on this occasion, as an opposition to the Telecommunication Laws of 1994 and 1995 themselves. In particular, it was alleged that these laws did not conform to the basic principles of the Constitution. This criticism, in turn, was effective in the annulment of these laws. Following the appeal of DSP deputy Mümtaz Soysal and other opponents, the Constitutional Court blocked the telecommunications privatization several times. Lack of institutionalized bidding procedures, especially in valuation techniques and the formation of valuation committees, were singled out as the critical missing elements underlying the

[89] The Constitutional Court was established by the 1961 Constitution to examine the constitutionality of laws, DFLs and the rules of procedure of Parliament.

decision to abandon the telecommunication laws. A new Telecommunication Law was passed in 1996 with no reversals to date. The Constitutional Court's rulings on valuation techniques led to the annulment of the related clauses of the Privatization Law of 1994. Mümtaz Soysal filed another lawsuit with the same court in 1994 against the privatization of electricity generation facilities. This time the court concluded that public services can only be rendered by the State, and since generation of electricity is a public service, the private sector would not be entitled to render such service, and therefore privatization of the said generation facilities is against the Constitution.[90]

Another mechanism used by the opponents of privatization was the appeal to the Council of State for the annulment of public service concession contracts in specific sectors. In these cases, the Council of State held that when a public service is transferred to a private company by an administrative contract, this meant that the public service was now being run under a concession contract. According to the Article 155(2) of the Constitution, the Council of State had a duty to scrutinize the terms of such concession contracts. If the contract under consideration was not put under such scrutiny, the Council of State could annul it. For instance, following an appeal made by the Chamber of Electrical Engineers (EMO) in 1999, the Council of State ordered a stay of execution on the signing of public service concession contracts between the Aktaş Electric Company and the Ministry of Energy and Natural Resources for the distribution of electricity on the Anatolian side of Istanbul, on the grounds that the public interest has not been considered in undertaking of the acts related to the signing of these contracts.

All these developments showed that the conflicts between the executive and judicial branches over privatization could only be resolved through a more fundamental

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[90] Constitutional Court Decision No.1994/42-2, *Resmi Gazete*, Date/No: 24.1.1995/22181.

change in the legal framework, that is, via an amendment in the Constitution itself. This was achieved through Constitutional amendments in 1999, which marked the beginning of the second phase of state restructuring in Turkey.

4. The Third Phase of State Restructuring: The Consolidation of Neoliberal Authoritarian Statism, Late 1990s to Present

From the late 1990s onwards, state restructuring in Turkey took a more radical turn due to a combination of domestic and international factors. Internally, the limitations of the *ad hoc* character of the previous restructuring attempts were reached. The ongoing intra-state conflicts described above signaled the limitations of the institutional model developed in the early 1980s. Although this model was functional in the initial implementation of neoliberal economic polices in the 1980s, its duality and politicized character reached its limits by the end of the 1990s (Sönmez, 2004). The functioning of the specialized economic apparatus depended upon the personal choices and political decisions of state ministers determined by the Prime Minister. Neoliberal economic reforms were initiated, but a transformation of the regular state apparatus in line with neoliberal principles was not realized. Instead, the regular state apparatus was excluded from effective policy areas, and it continued to function on the basis of its old methods. As a result, many of the neoliberal reform attempts such as privatization were left incomplete, not to mention the fact that the individualization of political power within the specialized economic apparatus linked to the Prime Ministry led to a tremendous increase in corruption cases as compared to the pre-1980 period (Boratav, 1994; Gülalp, 2001). Due to all these factors, a more comprehensive and systematic transformation of the institutional and legal structure of the state came to the agenda in the late 1990s.

Externally, this coincided with the international need for new regulations that would guarantee the removal of spatial constraints upon the circuits of money, productive and commodity capital. The creation of the WTO in 1995 was a manifestation of this process (Yaghmaian, 1998). With the Uruguay Accord, the focus of the General Agreement on Tariffs and Trade (GATT) was substantially broadened by the elimination of trade-related investment measures (TRIMs) and non-tariff barriers, and the incorporation of the General Agreement on Trade in Services (GATS) into the new World Trade Organization (WTO), established in 1994. The inclusion of services was due to the increasing internationalization of banking, insurance, and finance in general, and the significant role of international financial transactions for the overall circuit of industrial capital. The Uruguay Accord was the manifestation of a new regulatory policy that corresponded to the requirements of the broadened internationalization of all circuits of capital. Accordingly, from the mid-1990s onwards, new institutional and legal arrangements were enforced by the WTO, the World Bank and the IMF through international trade and investment agreements and second-generation reforms at the world scale. In Gill's (2000) terms, this was a political project to 'lock in' the power gains of capital on a world scale through 'new constitutionalism'.

As a result of the domestic and international factors described above, and the pursuit of regional integration with the EU by Turkey, the Turkish state apparatus was radically reconfigured in the late 1990s. This process included significant constitutional, legal and institutional changes, which will now be turned to.

4.1 Constitutional Measures Minimizing the Conflicts between the Executive and Judiciary

The Constitutional amendments came to the agenda as a part of a program of `concerted parallel development' with the European Union and in an effort to attract foreign capital. Through the amendments made by the Law No. 4446 of 13 August 1999, the concept of privatization was incorporated into the Constitution as a by-product of accepting the rules of international arbitration. The title of Article 47 was changed from `Nationalization' to `Nationalization and Privatization'. Two new paragraphs on privatization were added to the existing two paragraphs on nationalization. The new paragraphs read:

> Principles and rules concerning the privatisation of enterprises and assets owned by the State, State Economic Enterprises and other public corporate bodies shall be prescribed by law. Those investments and services carried out by the State, State Economic Enterprises and other public corporate bodies which could be performed by or delegated to real or corporate bodies through private law contracts shall be determined by law.[91]

This was the first Article ever to appear in a Turkish Constitution on the subject of privatization and it was a reaction to various decisions of the Council of State and more significantly by the Constitutional Court, which were discussed before. Another amendment was related to international arbitration. The following provisions were added to the Article 125:

> Recourse to judicial review shall be available against all actions and acts of administration. National or international arbitration may be suggested to settle the disputes which arise from conditions and contracts under which concessions are granted concerning public services. Only those disputes involving foreign elements can be solved by international arbitration.[92]

Article 155 was amended as follows:

> The Council of State shall try administrative cases, give its opinion within two months of time on draft legislation, the conditions and the contracts under which concessions are

[91] The Constitution of the Republic of Turkey (Document at www.anayasa.gov.tr).
[92] The Constitution of the Republic of Turkey (Document at www.anayasa.gov.tr).

> granted concerning public services which are submitted by the Prime Minister and the Council of Ministers, examine draft regulations, settle administrative disputes and discharge other duties as prescribed by law.[93]

These amendments eliminated the Council of State's supervisory function of protecting the public interest and public services. Prior to 14 August 1999, Article 155 cited "the scrutinizing of concession contracts" among the functions of the Council of State. This was changed to "the giving of opinions" related to those public service concession contracts that could go to international arbitration. Thus, after this amendment the Council of State would not be able to take any action contrary to multilateral investment contracts (Örücü, 2000). All three Constitutional amendments served to 'lock-in' privatization and internationalization as the power gains of capital in the previous phase of reforms, thereby eliminating the conflicts between the executive and judicial branches on these issues to a great extent.

4.2 The Executive Branch and the Rise of Independent Regulatory Agencies

The second step of the reconfiguration of the state apparatus involved an institutional change within the executive branch through the creation of independent regulatory agencies (IRAs) as part of the specialized economic apparatus. Independent regulatory agencies came into being in the late 19th century to regulate some free market sectors in the United States. By the 1970s and especially in the 1980s, their numbers and significance increased in many advanced capitalist countries. By the end of the 1990s, these agencies had also proliferated in the developing countries in the context of the second-generation neoliberal reforms. The IRAs established in Turkey in this context were the Capital Market Board, the Competition Agency, the Banking Regulation and Supervision Agency,

[93] The Constitution of the Republic of Turkey (Document at www.anayasa.gov.tr).

the Telecommunications Agency, the Energy Market Regulation Agency, the Public Procurement Agency, the Sugar Agency, and the Tobacco, Tobacco Products and Alcoholic Beverages Market Regulation Agency.

The first IRA in Turkey was the Capital Market Board, which was established in 1981, but gained the real status of being an IRA in 1992. Until 1992, the Capital Market Board was politically related to the Ministry of Finance. Through the changes in its establishment law in 1992 and 1999, it became independent from the Ministry of Finance and emerged as the sole authority in capital market issues. The second IRA was the Competition Agency which was established in 1994, but started to function in 1997. The establishment of the Competition Agency was one of the requirements of the Customs Union Treaty signed with the EU. Its structure was organized as an agency while the board remained as its key decision-making organ. With these characteristics, it constituted an institutional model for the IRAs that followed.

All the other IRAs were established following the successive economic crises in the 1990s and early 2000s, as conditions for the loan credits provided by the IMF. For instance, in the intention letter submitted to the IMF on 9 December 1999 and later letters, Turkey agreed with the IMF to establish IRAs in public procurement, banking, energy, tobacco and alcoholic beverages sectors. Turkey's accelerated drive for EU membership in the 1990s also necessitated the establishment of IRAs for guaranteeing liberalization and competition in national markets. For instance, in Turkey's 'National Program for the Adoption of the Acquis',[94] which was adopted by the Council of Ministers on 19 March 2001, Turkey made important reform commitments to the EU on

[94] This is the program that sets out in detail how each EU candidate country intends to prepare for their integration into the EU. It contains a timetable for achieving the priorities and objectives and indicates the resources to be allocated.

regulatory agencies. Thus, with the exception of Capital Market Board and the Competition Agency, the establishment of all the IRAs was part of this process.[95] The Banking Regulation and Supervision Agency was established in 1999, the Telecommunications Agency in 2000, the Energy Market Regulatory Agency in 2001, the Sugar Agency in 2001, the Tobacco, Tobacco Products and Alcoholic Beverages Market Regulation Agency in 2002, and the Public Procurement Agency in 2002.

All these IRAs had a certain degree of autonomy from the regular state apparatus, but the degree of their autonomy changed from one IRA to another. Some IRAs regulating crucial market domains such as financial markets were organized more independent than some others. For instance, the Capital Market Board was organized as more independent and granted more authorities than the Sugar Agency (Sönmez, 2004). Whatever the degree of autonomy of IRAs, this autonomy meant insulation from the other layers of the state and popular forces, not from capital. Nothing showed this more clearly than the composition of their executive boards. All IRAs had representatives of business associations or private companies on their executive boards in a quasi-corporatist manner. The organizational and administrative features of the IRAs are summarized in Appendix 2.

The main argument used to legitimize the IRAs was their technical expertise and insulation from political pressure. IRAs were accepted as an alternative to central bureaucratic structures because of their 'flexible, transparent, and outcome-focused' public administration practice, which was seen as a solution to the rigidity and incapacity

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[95] This does not mean that the IRAs were simply imposed by the international agencies. TÜSİAD was a strong supporter of the establishment of IRAs, and had beeen for some time. See for instance TUSİAD (2003) "Independent Regulatory Agencies Are the Keystones for Fairness and Efficiency in the Market Economy", Press Release (available at www.TÜSİAD.us).

of conventional bureaucracy. It was argued that the liberalization of markets and the complexity of policy-making in the globalized world order had increased the technical requirements of regulation. IRAs were supposed to provide regulation with high technical capability thanks to their institutional form and specialized personnel (Sönmez, 2004).

The proliferation of IRAs was indeed a response to the increasing complexity of regulation. However, what was in question here was not a purely 'technical' complexity as the neoliberals argued, but the complexity of managing the new contradictions within Turkish capital. With the intensification of the internationalization process, regulation of the conditions of accumulation became increasingly framed by the competing interests of unevenly internationalized capitals in Turkey. The uneven integration of individual capitalists into international economy was the irrevocable context of their conflicting demands on state policy and the increasing complexity of state regulation. The emergence of IRAs was a response to the unevenness of accumulation and particular regulatory complexity. Through their insulation from the regular state apparatus, which reflected 'the existing structure of legal rights', Turkish regulatory agencies were able to facilitate the formation of a new compromise between different fractions of capital.

The emergence of IRAs also helped to overcome the limits of the institutional model developed in the early 1980s, which rested on a division of labour between the government as the political decision-making body and the specialized economic apparatus as the technical-bureaucratic unit applying those decisions. In such a setting, neoliberal reforms could proceed only if the government was politically committed to implement them. This dual structure facilitated a speedy decision-making process, limiting interference from other layers, both political and bureaucratic, within the state.

However, when coalition governments emerged with weak commitment to neoliberal reforms, the apparent 'autonomy' of the specialized economic apparatus with respect to other layers of the state largely disappeared. This pattern was clearly observed as the Turkish political scene in the 1990s was characterized by a highly fragmented party system and successive coalition governments. In the context of a fragmented state, the ability of the specialized economic apparatus to implement neoliberal reforms would decrease because, by definition, the decision-making powers were vested solely with the government itself (Ercan and Öniş, 2001). The creation of IRAs solved this problem to a great extent. Through their insulation from the government, the IRAs could implement neoliberal policies whatever the political choices of governments might be.[96] In other words, with the creation of IRAs, the specialized economic apparatus gained further autonomy from the government[97] and dominated the executive branch. However, this was not an easy process, as it led to intense intra-state conflicts, especially in the initial phases of the formation of IRAs.

Following the economic crisis in February 2001, Kemal Derviş, former Vice President of the World Bank, was appointed as Minister of Economy. When Derviş announced that the government had sent a new letter of intent to the IMF, he was confident the Parliament would vote within days on the final measures SEEn as crucial

[96] Right after being appointed as the Economy Minister, Kemal Derviş expressed this orientation with his promise to "scrape political influence off the economy" (Güzelsarı, 2006: 72).

[97] Another instance of the increasing autonomy of the specialized economic apparatus from the government in this period was the independence granted to the Central Bank through legal amendments in May 2001. With these amendments, the Central Bank was assigned as the single authority on monetary policy, and its main objective was defined as ensuring price stability. It was expected to support the government's economic policies only if they did not conflict with price stability. In this way, the Central Bank, one of the pillars of the specialized economic apparatus, was isolated from the influence of the government and endowed with enormous powers for achieving the single aim of inflation targeting. This did not mean, however, that it was isolated from all kinds of pressures. While it was granted autonomy from other parts of the state, it was completely subordinated to the pressures of global capital, so much so that in 2006, its administrative centre was planned to be moved to Istanbul, so that it could work more closely with the global conglomerates *(Turkish Daily News*, August 4, 2006).

for securing IMF financial backing. Accordingly, he pledged that 15 laws would be passed in 15 days. The Parliament, indeed, enacted most of these laws and on time. However, the process was ridden with intense conflicts within the coalition government, which was composed of the center-left (DSP), the center-right (ANAP) and right nationalist (MHP) parties and led by Prime Minister Bülent Ecevit. The most controversial laws, at least politically, were the tobacco and the telecommunication laws.

The draft tobacco law included measures to end state subsidies for farmers and enable the privatization of TEKEL (Tütün, Tütün Mamulleri, Tuz ve Alkol Isletmeleri), the state monopoly agency in the sector. It also involved the establishment of a seven-person regulatory board to oversee tobacco and alcohol production, and gave special rights to companies producing more than 2 billion cigarettes annually in Turkey to import, price and sell tobacco products. TEKEL employees and tobacco growers protested the draft law. Yüksel Yalova, the State Minister in charge of privatization and a deputy of ANAP from Aydın region (a key tobacco-producing area), demanded that the regulatory board should include a representative from the Turkish Chambers of Agriculture. However, Derviş did not agree with this demand. Yalova said a compromise was needed between his ministry and other governmental departments on the draft tobacco law. He added that such a compromise could be submitted to the cabinet when it met the week after, and claimed that legislative delay would not hurt the IMF program. "We can't prepare a hasty scribble of a law on an issue that concerns 600,000 people, just by sitting down and saying, 'We promised it in May,'" he said.[98] In a written statement released later, Yalova added that he wasn't against the new law, but he was merely looking out for the interests of millions of tobacco growers. However, the 'markets' could

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[98] *World Press Review,* August 2001 (Vol. 48, No. 8).

not wait for one week. Immediately after Yalova's comments, bond yields declined. In an attempt to contain the damage, Prime Minister Ecevit told reporters that Yalova's statement did not reflect the government's views, and eventually, Yalova was forced to resign.[99]

Another controversial law was the telecommunication law. The biggest reaction to the law came from the Transport and Communications Minister, Enis Öksüz, a member of MHP and a known opponent of privatization. When Derviş wanted to include a special article in the draft law that would transfer the authority to distribute licenses to private companies to the newly established Telecommunications Agency, Öksüz insisted that his ministry should retain this authority due to the strategic importance of the sector. While Öksüz was dragging his feet, the military also became a party to the dispute by presenting its 'strategic' concerns to the government, particularly about majority shareholding by foreigners and the sale of satellites. For two weeks, the cat-and-mouse game between Derviş and Öksüz continued, with the latter finally relenting after President Bush sent a letter to Prime Minister Ecevit congratulating him and his government for the courage they displayed in taking difficult but necessary steps.[100] This unprecedented intervention proved to be decisive, and a quick consensus was reached. The concerns of Öksüz and the military were taken into account and the share of the company offered as a block sale to foreign investors was limited to 45%. Furthermore, the state retained a 1% 'golden share', which would give it a power of veto over strategic decisions.

However, two months later, another crisis broke out. This time the problem had to do with the composition of the Turk Telekom Board. At first Öksüz insisted on having

[99] *Hürriyet*, 31.05.2001.
[100] *Eye on Turkey*, No: 8, www.TÜSİAD-us.org.

political appointees in place and refused to go along with Derviş' choices who were mostly professionals with private sector experience. As usual the matter was resolved after a meeting between the leaders of the coalition parties that followed a telephone conversation between Prime Minister Ecevit and the IMF's executive director, Horst Koehler.[101] Of the seven board members, four were appointed by Öksüz, two by Derviş and one by Ecevit. The IMF obliged. The executive board decided to postpone its meeting concerning Turkey that was expected to release the second part of the loan agreed upon, some $1.5 billion. The World Bank, which was also expected to release $1.7 billion in loans, followed suit the next day. After a tense week, Öksüz had to take a step back. The Telekom held an extraordinary meeting, raised the number of people who served on its board to nine and consequently appointed two more persons who presumably meet the IMF's standards. One of these became the new chairman of the board. Thus a compromise was reached but Öksüz had become the symbol of the nationalist scepticism toward the IMF. Eventually, Öksüz was also forced to resign from the cabinet. Subsequently, the IMF and the World Bank released this postponed loans to Turkey.

Shortly after the initial conflicts over the establishment of IRAs were over, the IRAs became vital initiators of large-scale privatizations in Turkey. This was a basic difference of the IRAs in Turkey from their counterparts in the advanced capitalist countries. While those countries established IRAs to regulate the already privatized sectors, Turkey instituted them especially to accelerate privatization (Sönmez, 2004). In order to achieve this goal, the IRAs were endowed with comprehensive powers such as issuing rules and regulations about their policy areas, implementing policies, controlling

[101] *Eye on Turkey*, No: 9, www.TÜSİAD-us.org.

the application of regulations, and imposing sanctions on non-obedience to rules and regulations.

Moreover, IRAs were authorized to solve the conflicts between different capital groups. Their power of making rules and regulations sometimes became as influential as laws and the power of solving conflicts sometimes became as concrete as judicial decisions. Thus the IRAs in Turkey gathered three basic separated powers of state in one body, that is, legislative, judicial and executive powers. Through this encompassing structure, they were able to repress the intra-state conflicts that had paralyzed the privatization process in the 1980s. However, the same structure also raised increasing concerns within the regular state apparatus. In a public speech, Prime Minister Ecevit voiced these concerns as follows:

> I have to confess that we went too far on the subject of autonomy. In the name of the requirements of market economy and democracy, and IMF's demands, many public institutions are now outside government influence and supervision and are free to do what they want. Both in the field of banking and in some other sensitive areas the state is completely bypassed. We can tolerate this perhaps but the public can't. I believe we have to review this autonomy issue and make it more balanced and healthy. For that purpose I gave mandate to my concerned colleagues to prepare a legislative change.[102]

Immediately after Ecevit's remarks, however, the IMF's First Deputy Managing Director Anne Krueger phoned the Economy Minister Derviş and conveyed her worries about the proposed move to curb the powers of IRAs. Upon this warning, Ecevit tried to elaborate upon his remarks at an emergency meeting with journalists. He said the government had no intention of terminating the IRAs. However, he added that the government should have a say on the economy, otherwise having a government would not be of any use.[103]

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[102] *Turkish Daily News*, 28.3.2002.
[103] *Hürriyet*, 29.3.2002.

Ecevit's concerns reflected the limits of the autonomy of the IRAs from the regular state apparatus. IRAs could have a great autonomy with lots of endowed privileges, but this did not mean that they were totally separated from the executive branch.[104] There was therefore, a constant renegotiation of the IRA's powers and relationships to other parts of the state apparatus. In the Turkish case, this process of renegotiation continued after Ecevit's remarks and the IMF's response. An important turning point in this regard was the Prime Ministry circular (dated 19 July 2002, numbered 2002/19), which cited the Competition Agency among the agencies, which are obliged to take permission from the Prime Ministry for foreign duties. The Competition Agency objected to this decision and asserted that it is an affiliated agency having administrative and financial autonomy, so to be obliged to take permission from the Prime Ministry for foreign duties would be against its autonomous status. Then, the Prime Ministry asked for advice from the Council of State. The Council of State concluded:

> The circular includes the Competition Agency which is affiliated with the Ministry of Industry and Trade as well as the other agencies such as the Capital Market Board and the Banking Regulatory and Supervision Agency which are related to the state ministries. The autonomy given to the Competition Agency and the other similar agencies cannot be understood as 'irresponsibility', 'being out of system' or 'privacy'. The assumption of the existence of unlimited and uncontrolled public agencies that are taking decisions related to public may imply the creation of 'states within the state', which will be the associations against the Constitution (Sönmez, 2004).

This decision made it clear that the IRAs are administrative organizations within the executive branch, and in line with the "principle of indivisibility of administration" in

[104] As Mahon (1979) argued with respect to Canadian regulatory agencies, IRAs derived their special character from their origins in a controversial issue whose resolution demanded a modification of the rights of capital. However, this autonomy did not imply that the policies of IRAs would not be a part of the general compromises bwetween different social forces inscribed in the state. A variety of means existed to ensure that an agency's actions would correspond to the general interest which permeated the entire state. The functioning of screening devices within the regular administrative apparatus, procedural rules or the appointment of commissioners with long experience in the regular bureaucracy, were among these means. In the Turkish case, the submission to the Parliament of a draft law regulating all the IRAs in July 2004 reflected the need to define such mechanisms.

the Constitution, the executive branch constitutes a whole with all its foundations and functions. The debate over the autonomy of the IRAs from the government showed the limits of the strategy of creating a neoliberal specialized economic apparatus within the state. The specialized economic apparatus helped to implement the neoliberal reforms without the interference of the regular state apparatus; however, the specialized apparatus carried the risk of becoming a 'state within state', leaving the regular state apparatus unchanged. This limitation could only be overcome through an overall reorganization of all parts of the state in line with neoliberal principles. There were several attempts exactly in this direction, and this will now be examined.

4.3 The Decline of the Duality Between the Specialized and Regular State Apparatuses

As discussed in the previous section, the duality between the specialized and regular state apparatuses was quite functional in the earlier phase of neoliberal reforms in the 1980s and early 1990s. However, it became increasingly dysfunctional in the late 1990s second phase of reforms, which necessitated a deeper cooperation among different units of the state for a wide range of more specific reforms as well as more sweeping privatizations. A neoliberal specialized economic apparatus functioning within a state dominated by the values of national developmentalism could not serve this purpose. A new ideological framework that would unite the old and new bureaucracies from the regular and specialized economic apparatuses towards a common objective was needed. This was precisely the context in which the ideology of 'international competitiveness' came onto the Turkish agenda in the late 1990s. It coincided with the increasing orientation of Turkish capitalism towards global integration on the basis of productive capital accumulation. The ideology of 'international competitiveness' could serve as a unifying framework. In order to provide a continuity with the state's historical values and principles, however, the concept of 'national devleopmentalism', which was the ideological backbone of the previous period of inward oriented accumulation, was brought back in and redefined in line with the international competitiveness agenda. This revised version of national developmentalist language, with its internationalist and market oriented overtones, appealed to broad sections of capital as well as the state bureaucracy (Ercan and Oguz, 2007). From the late 1990s on, a new developmentalism based on international competitiveness through the protection and advancement of high-productivity national industries in international markets became the new ideological consensus that united the regular and specialized economic apparatuses around a single goal.

Table 4.3: Economic Administration in Turkey in the 1990s

Regular State Apparatus	**Specialized Economic Apparatus**
Ministry of Finance	Undersecretariat of Treasury and Foreign Trade
Ministry of Industry and Commerce	Central Bank
State Planning Organization	Independent Regulatory Agencies

The 'Reform Program for the Improvement of the Investment Climate' that was launched in 2001 was the central example of this process. On the basis of a broad consensus on the necessity of global competitiveness, the Turkish state bureaucracies from both the regular and the specialized economic apparatuses, as well as representatives of different sections of capital, were brought together in the CCIIE, the key coordinating body of the Reform Program. Chaired by the State Minister for

Economy, the CCIIE included the Undersecretaries of the Ministries of Finance and Industry/Commerce as well as of the Treasury, SPO and Foreign Trade. From the private sector, it included the chairmen of four major business associations, the Turkish Union of Chambers and Commodity Exchanges (TOBB), the Turkish Industrialists' and Businessmen's Association (TÜSİAD), the International Investors Association of Turkey (YASED), and the Turkish Exporters Assembly (TIM). Lastly, the technical committee for small and medium enterprises brought together Undersecretaries of the Ministries of Finance and Industry/Commerce as well as of the Treasury, SPO and Foreign Trade, with state agencies including Small and Medium Industry Development Organization (KOSGEB) and Export Promotion Centre of Turkey (IGEME), and business associations representing SMEs, such as the Confederation of Turkish Tradesmen and Craftsmen (TESK), and Turkish Foundation for Small and Medium Business (TOSYÖV).[105]

The composition of these boards not only shows how different fractions of capital were directly represented in the policy-making bodies, but also how the duality between the specialized and regular apparatuses became increasingly blurred in a dual process. On the one hand, parts of the specialized economic apparatus such as the Treasury were 'regularized' through a closer relationship with parts of the regular state apparatus such as the Ministries of Industry and Finance. On the other hand, parts of the regular state apparatus such as the SPO, Ministries of Industry and Finance increasingly internalized the neoliberal objectives and working methods of the specialized economic apparatus, thereby regaining the status they had lost in the 1980s and 1990s. The rise of the SPO from its secondary status in the 1980s and 1990s, back to its primary status as one of the main pillars of economic management, was noteworthy in this regard.

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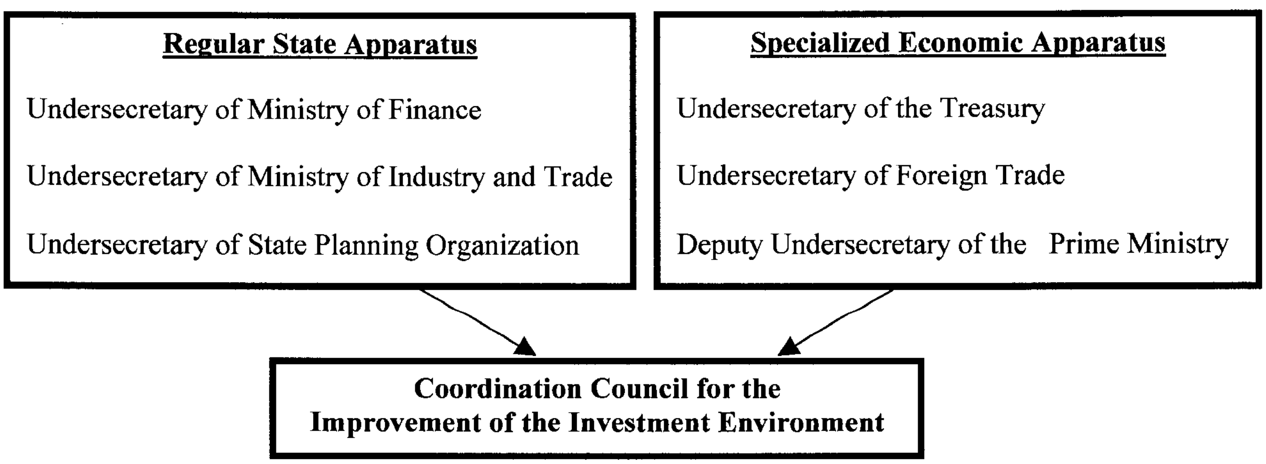
[105] See Appendix 4 for an organizational chart of the CCIIE and its technical committees.

The SPO gained a more active role within the state apparatus from the late 1990s onwards in the context of the new international competitiveness agenda, through which the concepts of industrialization, planning and development were brought back in, although with sharply revised discourses and agendas. This was reflected in the SPO's long-term development plans as a new kind of developmentalism with an internationalist, productivist and market-oriented agenda. For instance, the Eighth Five Year Development Plan for 2001-2005 stated that "it is of great importance that private sector give emphasis to investments towards attaining productive power to create high value added, enhancing competitiveness of the economy, increasing employment, productivity and exports and development and/or transfer of appropriate technologies" (SPO, 2001, 31). Enhancing the global competitiveness of the Turkish economy was highlighted in the Ninth Development Plan for 2007-2013 as well. In this Plan, competitiveness was one of five 'development axis', besides growth of employment, strengthening human development and social solidarity, regional development, and quality enhancement of public services. The Development Plan went on to list ten key objectives towards strengthening Turkey's international competitiveness, including 'improving the business environment.' The competitiveness concept of the Ninth Development Plan was even much broader and comprehensive than the Reform Program for the Improvement of the Investment Climate. The reform areas mentioned in the context of 'improving the business environment' extended to unfair competition, the judicial system, infrastructure development and improvement of public services (SPO, 2006).

In accordance with this perspective, an 'Industrial Policy for Turkey' document was prepared in 2003 under the coordination of the SPO, with the contribution of the

Ministry of Industry and Trade, the Undersecretariat of the Treasury, the Undersecretariat for Foreign Trade, the Secretariat General for EU Affairs, the Turkish Patent Institute, KOSGEB, TOBB, and TESK. In this document, the main objective of industrial policy in Turkey was defined as "to increase competitiveness and productivity of the industry", and "to improve the business environment favourable to industrial competitiveness" (SPO, 2003, 2). The document identified specific roles for a number of institutions in the formation and implementation of industrial policies. SPO was responsible for the long-term development plans and annual programs, in which industrial policy was one of the key subjects. The Ministry of Industry and Trade was expected to encourage rapid and stable development of industry through the targets envisaged by development plans, to establish and control small scaled industrial estates and organized industrial zones, to give permission for the establishment of technology development regions, and to carry out market surveillance by monitoring the domestic market. Other public bodies involved in the process and their corresponding functions were defined as follows: The Undersecretariat of Treasury for the determination of investment incentives system and promotion of foreign investments; the Undersecretariat of Foreign Trade for coordinating foreign trade activities, export incentives and the operation of free trade zones; Privatization Administration for implementing necessary procedures for privatization; Small and Medium Industry Development Organization for assistance for R&D activities, quality improvement, sectoral development, consultancy services for marketing and employment creation; The Scientific and Technical Research Council of Turkey for formulation of science and technology policies and coordinating R&D activities; Competition Agency for examinations concerning infringements of competition, permissions to mergers and acquisitions; Eximbank for supporting foreign trade; Turkish Standards Institution for preparing Turkish standards, product and system certification at national level; Turkish Patent Institute for performing registration procedures for protection of such industrial property rights; Turkish Accreditation Agency for accrediting the local and international bodies rendering certification services, and thereby ensuring international recognition of certificates. Business associations such as TOBB, TÜSİAD, TESK and sectoral producers associations were expected to cooperate with these public institutions formulating industrial policy and related measures in their corresponding areas. Thus, the new orientation towards a market-oriented industrial policy united broad sections of the conventional and alternative bureaucracies as well as capital around a single program. The neoliberal specialized economic apparatus was thereby regularized, on the one hand, and the regular state apparatus was neoliberalized, on the other.[106] What was still needed, however, was a systematic reorganization of the state apparatus as a whole, including central and local levels of administration, along neoliberal principles.

Table 4.4: Reform Program for the Improvement of the Investment Climate, 2001



[106] See Appendix 5 for a list of the institutions and their responsibilities in the New Industrial Policy program.

4.4 Reorganizing the State as a Whole: The Public Administration Reform

A comprehensive public administration reform came to the agenda of the Turkish state in 2003 as a result of both domestic and external factors. Externally, the IMF, World Bank and EU demanded public administration reform. The following statement from the Letter of Intent submitted to the IMF on July 25, 2003, illustrates the Turkish state's response to these demands:

> Finally, we are preparing legislation on public administration reform, to create a more favorable legal and institutional environment for the efficient, transparent, and participatory provision of public services. As a first stage, a framework law will set out principles of governance and clarify the division of labour between central agencies and local governments. Informed by a forthcoming functional review of government, adjustments will be made in ministry laws and a new regulatory board law will be prepared to set standards and increase accountability (while preserving the financial and administrative autonomy of regulatory boards).[107]

The limits of the model of 'a state within state', moreover, had also been reached inside Turkey. A comprehensive reform, which involved both the organization and the administrative values and principles of the state, was, therefore, becoming a more pressing issue if neoliberalism was to be thoroughly consolidated. This concern was reflected in the AKP government's program of 2002 as the need "to restructure and reshape the State, and its institutions, in terms functions, authority and accountability within the confines of universal values, modern standards and effective implementation." The government program also included the following statements:

> We will conduct a study on 'Overall Organizational Review of the State' and we will redefine as a whole the number and size of the ministries, as well as the work of all related and associated institutions of other public organizations. We will abolish the unnecessary institutions in the administration, merge similar structures, decrease administrative levels within the institutions and simplify formalities.[108]

Accordingly, a report on public administration reform was prepared by the working

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[107] Document at www.imf.org/external/np/loi/2003/tur/02/index.htm .

[108] Document at www.basbakanlik.gov.tr .

group led by Ömer Dinçer, the Under-Secretary to the Prime Ministry.[109] Following the recommendations in this report, titled *'Change in management to manage the change'*, a draft law was submitted to the Parliament in December of 2003. The rationale of the draft law declared that the new administration ethic would be "respectful to market rules and would utilize market forces as much as possible."[110] On 15 July 2004, after a seven-month period of pre-discussion, the Public Administration Law was approved by the Parliament.[111] The law included provisions that aimed at the restructuring of the central administration, as well as the relationship between the central and local administrations in line with market rules. There were three important changes in this regard.

First, the Law granted the central and local administrations the opportunity to assign private bodies to any kind of public services if they found it to be more efficient. This change clearly aimed at further privatization of public services. Second, in many areas, the authorities, powers, personnel and resources of the ministries were handed over to special provincial administrations. For example, health, agricultural, social assistance-related, cultural, tourism, environmental, stockbreeding, construction and transportation services would be provided at the provincial level. Only the Ministries of Justice, Internal Affairs, National Defense, Finance, National Education, and Labour would be retained in the central administration. This change aimed to decentralize public services and then transfer them to the private sector (Özoğlu, 2005). Third, the Law stated that the central administration has the responsibility of building cooperation of public bodies with the

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[109] Dinçer's assignment provoked many arguments because of his reputation as a radical Islamist. It was argued that he was pushing for a more decentralized state structure through these reforms in order to prepare a fertile ground for an Islamic agenda. However, these arguments only created more confusion and diverted the attention away from the deeply neoliberal character of the reforms.
[110] Document at www.basbakanlik.gov.tr.
[111] Law No. 5227, *Resmi Gazete,* Date: 15.7.2004.

private sector, professional associations and civil society organizations. This provision was aimed at the direct involvement of capital groups and business organizations in the administrative process.

However, the Law was vetoed by President Ahmet Necdet Sezer on 3 August 2004 and ever since has not been acted on. The extensive veto power of the President over legislation was a product of the 1982 Constitution. The President's veto powers became a source of intense conflict between the President and the AKP government, especially during the Presidency of Ahmet Necdet Sezer from 2000-2007, as Sezer was a firm defender of Kemalist principles of secularism and statism. Sezer effectively used his experience as the previous Chair of the Constitutional Court to veto a large number of controversial laws, including the Public Administration Law, on the grounds that they were against the principle of statism in the Constitution. During the years of the AKP government (2002-2007), President Sezer vetoed and sent back 1 out of every 10 laws approved by the Parliament, referred 1 out of every 25 laws to the Constitutional Court for cancellation, and vetoed 45 of the 128 important laws involving structural changes (Gülen, 2006).

President Sezer returned the Public Administration Law to the Parliament with an explanatory statement raising severe constitutional objections.[112] In this statement, Sezer argued that the law results in giving the general competence to local administrations, whereas the central state administration is left with a competence of exception. It involves a shift from a system based on the 'integral unity' of public administration, he argued, to a system based on a separation between the state's central and local functions, and this does not comply with the unitary state structure established by the Constitution.

[112] The statement is available at www.memurlar.net.

He also objected to the way the Law opens the way to the 'localisation' or 'privatisation' of most public services. The President emphasised in his statement his support to the reform of public administration, but pointed out that this reform has to comply with basic principles of the Constitution, the unity of the nation, and the unitary structure of the state. He added that the reform should not undermine the balance between central and local government as well as the requirements of public services provided to the population.

Following the President's veto of the Public Administration Law, the government gave up the project of a comprehensive reform, and went back to its step-by-step strategy through successive pieces of legislation, starting with decentralization. Four new laws concerning local administrations were found less problematic, and were approved by the President.[113] Many of the principles and objectives of the Public Administration Law were effectively incorporated into these municipality laws. However, the attempts to restructure the whole state apparatus along neoliberal principles still remained far from complete. This stalemate could only be overcome through a more radical change in the Constitution, which would curb the extensive veto powers of the President over legislation.

[113] The Greater City Municipality Law No. 5216 was passed in the Parliament on 10 July 2004, approved by the President and entered into force on 23 July 2004. Next, and relatively more problematic was the Municipality Law No. 5215, which was passed in the Parliament on 7 July 2004, vetoed by the President, revised in the Parliament, cancelled by the Constitutional Court, and finally entered into force after a further revision on 24 December 2004. The Law for Special Administration of the Provinces was accepted by the Parliament on 24 June 2004, vetoed by the President, revised by the Parliament, and entered into force on 4 March 2005. The Law No. 5449 on Regional Development Agencies was passed in the Parliament on January 25, 2006.

4.5 A New Constitution: Further Centralization of Power in the Executive Branch

After the re-election of the AKP in 2007, the first step of the new government was to prepare a new Constitution. A 138-article draft was prepared by a team of liberal academicians, taking into account the propositions of major business associations like TÜSİAD and TOBB. The discourse used by the government to legitimize the proposed changes was the need for a 'civilian constitution' to replace the anti-democratic military coup Constitution of 1982. The anti-democratic character of the 1982 Constitution had been on the public agenda. However, it was only when the inner necessity for a deeper neoliberal reorganization of the state intersected with the global integration of Turkish capitalism, particularly its integration with the European Union, that the need for constitutional democratization was acted upon. The democratization argument became a rationale to legitimize the neoliberal changes to the Constitution, however much these changes in fact contradicted the articles on democratization. Indeed, the constitutional change foremost involved a further strengthening of the executive formalizing the 'authoritarian statist' regime of Turkey.

In the new draft Constitution, there were two important changes. First, the powers of the government *vis-à-vis* the oversight responsibilities of the President were strengthened, thereby increasing the centralization of decision-making power within the executive. Second, the government's authority to issue decrees in the force of law were extended, implying a further domination of the executive over the legislative.

The powers of the government *vis-à-vis* the President were enhanced by curbing the powers of the President and strengthening the powers of the Council of Ministers. The rationale of this change was explained as follows:

> The duties and powers of the President as defined in the Article 104 of the 1982 Constitution are so extensive that they are incompatible with a Parliamentary system. In a country with a President having so many powers, the executive inevitably becomes double-headed and the two heads engage in power conflicts. In order for the normalization of the Parliamentary system, therefore, it is necessary to curb the powers of the President and distribute them to the relevant institutions.[114]

In this framework, the article defining the role of the President as "ensuring the implementation of the Constitution, and the regular and harmonious functioning of the organs of state" was removed.[115] The State Supervisory Council, an institution attached to the Presidency with the function of conducting inspections of public bodies, was abolished. The President's power to appoint the members of the supreme courts was eliminated, and her/his powers to appoint other members of the higher bureaucracy were limited. These powers were transferred to the Council of Ministers. The veto power of the President over laws was limited, and her/his veto power over constitutional changes was totally eliminated. The period given to the President for the examination of new laws and decrees in the force of law was shortened. In contrast, the government's authority to issue decrees in the force of law were strengthened. The rationale for this change was explained with reference to the "complexity of current state matters requiring specialization" and "the urgency of issuing the EU adaptation laws, which required an intensive legislative activity."

Since Parliament had a much slower work pace than the Council of Ministers, it was argued, it should empower the Council of Ministers to issue DFLs on any matter regulated by laws. In order to ensure that this process would go smoothly, a number of changes were made to avoid the cancellation of these DFLs by the Constitutional Court.

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[114] Proposal for the Constitution of Turkish Republic, document at www.msnbcntv.com.tr/news/419856.asp.
[115] Proposal for the Constitution of Turkish Republic, document at www.msnbcntv.com.tr/news/419856.asp.

As mentioned, in the period of 1982 Constitution, many DFLs on privatization, such as those on the privatization of Vakıfbank or the restructuring of state economic enterprises as joint stock companies, were cancelled by the Constitutional Court on the grounds that they contradicted the principle of the non-delegability of the legislative power of the Parliament. Both the law empowering the government and the decrees passed accordingly were cancelled by the Constitutional Court on the grounds that "the law empowering the government to pass decrees in the force of law on issues related to the organization, duties and authorities of state institutions and enterprises, the financial and social rights of public officials and public finance administration is against the Constitution in terms of goals, content and time periods."[116]

To avoid these kinds of cancellations from happening again, two changes were made in the draft Constitution. First, the constitutional basis of DFLs was clarified and strengthened through a sentence added to the relevant article, which stated that the DFLs form an exception to the principle of the non-delegability of legislative power. With the addition of this sentence, Article 6 of the Constitution read as follows: "Legislative power is vested in the Turkish Grand National Assembly on behalf of the Turkish Nation. This power cannot be delegated. Provisions related to DFLs are reserved."[117] Second, the article about the law empowering the Council of Ministers to issue DFLs was also amended so that it could not be cancelled by the Constitutional Court on the grounds of its purpose, scope or principles. In order to do this, the wording "purpose, scope or principles" was removed from the original article that read, "the empowering law shall define the purpose, scope, principles, and operative period of the decree having the force

[116] Constitutional Court Decision, Date/No: 17.10.2000.
[117] Proposal for the Constitution of Turkish Republic, document at www.msnbcntv.com.tr/news/419856.asp.

of law." In the amended article, the empowering law was only expected to define the "subject" instead of "purpose, scope or principles" of the DFLs.[118]

With these changes, extensive powers were given to the Council of Ministers to issue DFLs. The Presidency was turned into a symbolic position and decison-making power was firmly centralized in the Council of Ministers, thereby eliminating future conflicts within the executive organ.[119] The extensive powers given to the Council of Ministers also meant further dominance of the executive over the legislative. All these changes represented the consolidation of 'authoritarian statism', defined by Poulantzas as the decline of Parliament, the strengthening of the executive, and an increasingly political role being assumed by the state administration. These changes democratically meant the "greater exclusion of masses from the centres of political decision-making; widening of the distance between citizens and the state apparatus, just when the state is invading the life of society as a whole; an unprecedented degree of state centralism; increased attempts to regiment the masses through 'participation' schemes; in essence, therefore, a sharpening of the authoritarian character of political mechanisms" (Poulantzas, 1978).[120]

It is indeed ironic, in this context, that the general philosophy guiding the preparation of the new Constitution was presented as the elimination of "authoritarianism and statism" of the 1982 Constitution. The new draft Constitution indeed aimed to eliminate all the traces of 'statism', but in a very different sense than the statism associated with 'authoritarianism'. It aimed to remove statism as an economic policy

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[118] Proposal for the Constitution of Turkish Republic, document at www.msnbcntv.com.tr/news/419856.asp.

[119] Another step of the second AKP government in this direction was the unification of economic management under a single ministry of economy.

[120] For a comprehensive study that discusses authoritarian statism in the Turkish case, see Güveloğlu (2003).

principle from the Constitution, because it had remained a hurdle in the way of privatizations in the previous period. Statism, one of the six principles of Kemalism – the others being nationalism, secularism, republicanism, populism and revolutionism – was not specifically mentioned in the 1982 Constitution, where Atatürk's principles were referred to in general but not listed. However, the Constitutional Court had issued many rulings that banned privatizations in reference to the principle of statism based on the reference to "Atatürk's principles" in the preamble of the Constitution, which stated "no protection shall be accorded to an activity contrary to the principles of Atatürk." In order to avoid any further cancellation of privatizations with reference to "the principles of Atatürk" which included statism, the team of academics who prepared the draft new Constitution removed the wording "principles of Atatürk" and only made reference to "Atatürk's ideals of a contemporary civilization" in the preamble.[121] Ergun Özbudun, an academician who led the team, legitimized this change as follows: "There will be a reference to Atatürk and his ideals of modernization, but the ideology of the six arrows won't be in the constitution. If a constitution sides with one ideology this might cause serious problems."[122] Zafer Üskül, another academician and a newly elected MP of the AKP also indicated no problems with Atatürk being mentioned as a respected leader of the nation, but "Atatürk's principles" refer to an ideology, which has no place in a democratic constitution. The founding document of a liberal state, Üskül argued, should be "colourless."[123] Üskül's statement was quite telling in terms of how liberalism as the founding ideology of the new constitution was presented as neutral and "colourless"

[121] Proposal for the Constitution of Turkish Republic, document at www.msnbcntv.com.tr/news/419856.asp.
[122] *Radikal*, 6.8.2007.
[123] *Turkish Daily News*, 2.8.2007.

whereas "statism", together with the other principles of Kemalism, was dismissed as ideological and "coloured". There were other authors, however, who defended 'de-Kemalification of the state' as a necessity of the market-oriented internationalization:

> It is time to acknowledge the fact that it is impossible to have or maintain a Kemalist regime in an 'open society,' with a 'market economy' and through the 'globalization process.' If we somehow uphold these three attributes of 'contemporary civilization,' we need a post-Kemalist constitution...the modern state cannot impose a particular ideology on its citizens. In our age it is not the ideological state but the 'performative' state that is in use.[124]

Another author made the connection between de-Kemalification of the state and the process of neoliberal integration with the EU even clearer:

> As the state lost its progressive character, Kemalist 'revolutionism' (by way of being a constitutional norm) became reactionaryism. The Constitutional Court has made many rulings annulling privatization deals reached by the government. The Law on Local Administrations (we do not dare to call it "local governments") has been vetoed by the president although Turkey has to abide by the norms of EU local governments.[125]

It should be noted, however, that such comments about the neoliberal character of the constitutional changes were quite rare, and soon disappeared all together, as the discussions over the new Constitution were dominated by worries about the erosion of secularism as an abiding Constitutional principle, which effectively overshadowed the discussions on neoliberal aspects of the Constitution.

4.6 The Transformation of the Military Apparatus

The analysis of the neoliberal restructuring of the Turkish state would not be complete without a discussion of the transformation of the military apparatus. It can be argued that the transformation of the military apparatus in the post-1980 period went through two phases. From 1980 to the late 1990s, its dominance within the executive branch was strengthened; from the late 1990s onwards, however, especially with the

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[124] İhsan Dağı, "A constitution without Kemalism", *Zaman*, Daily Newspaper, 13.8.2007.
[125] Doğu Ergil, "The way ahead: a civilian constitution", *Zaman*, 12.08.2007.

pressures of European integration, its powers over the executive branch were 'formally' curbed. This was a very contradictory process, as we will see below.

In Turkey, the military has assumed an active role within politics via the MGK (Milli Güvenlik Kurulu – National Security Council). The MGK was established as a constitutional organ of the state after the 1960 military coup. Introduced by the 1961 Constitution as an embodiment of the bureaucracy's primacy over the popularly elected Parliament, it was designed to serve as a platform for the military to voice its opinion on matters of national security. The council's members consisted of ministers, the chief of the general staff and various armed forces representatives. With the 1973 amendments, the primary function of the MGK was extended to making recommendations to the government.

After the 1980 coup, the MGK's authority and duties were further expanded. With Article 118 of 1982 Constitution and Law No. 2945 on the MGK and its General Secretariat, which was accepted in 1983, the MGK was restructured to augment the military's influence. The number and weight of military members were increased at the expense of civilian members, and it was stipulated that the recommendations of MGK would be given priority consideration by the Council of Ministers. Also, a strong MGK General Secretariat was established under the supervision of the General Staff, with the authority to follow and control the practices of the government. This made the MGK General Secretariat into a unit that functioned as the memory and action centre of the government, where intelligence coming from all governmental institutions was gathered together in a single location. As Özcan (2007: 43) argues, the Secretary General effectively became the "the secret Prime Minister".

With these regulations, the military gained the opportunity to have an influence on many political issues that were regarded as 'national security' problems during the regular monthly MGK meetings. The Law No. 2945 on the MGK defined national security as the "protection and maintenance of the state's constitutional order, national presence, integrity, its political, social, cultural and economic interests on an international level and contractual law against any kind of internal and foreign threat."[126] In this context, the MGK's agenda included any matter that was perceived as relevant to national security. The MGK also played a key role in the preparation of the National Security Policy Document, regarded by some observers as the 'Secret Constitution', as there was no Parliamentary control over it (Özcan, 2007). The role of the military in politics was further expanded in April 1997, when the Turkish chief of the general staff announced a change in the national military defense concept, stating that priority would be given to combating internal threats from Islamic activism and Kurdish separatism, rather than safeguarding the state against external threats (Güney and Karatekelioğlu, 2005). After this change, the military began to engage in politics at the micro level as well as through the MGK. As such, the military made and removed governments, issued warnings to civilians, and intervened in the day-to-day operations of elected governments (Cizre, 2003).

Thus, the restructuring of the Turkish state in the post-1980 period not only involved the strengthening of the executive branch but also the expansion of the influence of the military apparatus within the executive branch. Beginning with Turkey acquiring the status of a candidate country in December 1999, and particularly with the 7th EU Harmonisation Package, however, this situation started to change. An important turning

[126] Law No. 2945, *Resmi Gazete*, Date/No: 9.11.1983/ 18218.

point was a speech made by Mesut Yılmaz[127] at the Congress of ANAP in August 2001. Yılmaz maintained that Turkey's integration into the EU was being delayed by the 'national security syndrome' that thwarted changes in Turkey's Constitution and other reforms demanded by the EU. According to Yılmaz, the problem was not only that Turkey's conceptualisation of 'national security' was far too broad compared to its EU counterparts, it was also that in Turkey 'national security' was defined behind closed doors. He argued that the public and their representatives should have a say on these definitions (Bilgin, 2005).

Yılmaz's speech aroused a lot of controversy. The Turkish General Staff gave a strong reaction, arguing that national security is far too important and delicate an issue to be discussed outside MGK meetings. Small business associations like the ATO (Ankara Ticaret Odası – Ankara Chamber of Trade) as well as the major labour confederation TÜRK-İŞ issued statements in support of the General Staff's stance. However, TÜSİAD immediately issued a press release praising Yılmaz's move, which it considered as in "harmony with democratic practices" (Bilgin, 2005).

Despite the resistance of the military, three significant changes were made in the legal regulations concerning the MGK. First, with the amendment to Article 118 of the Constitution on 3 October 2001, the number of civilian members of the MGK was increased so as to surpass the number of military members. The amendments also stressed the fact that the MGK's decisions possess the character of a 'recommendation' only. Second, with the amendment of the Law No. 2945 on the MGK and its General

[127] Mesut Yılmaz was the leader of ANAP from 1991 to 2002. He is known for making ANAP more Europe-oriented, causing the more conservative, religious wing to switch to the Welfare Party. At the time of this speech, he was serving as the Deputy Prime Minister in the DSP-MHP-ANAP coalition government led by Ecevit from 1999 to 2002.

Secretariat on 7 August 2003, it was stipulated that the General Secretary be appointed by the Prime Minister, and the authority of the General Secretary to 'follow and control the practices,' was transferred to the Deputy Prime Minister. As part of the same amendment, the MGK meetings are to be held every two months instead of every month, and personnel with a civil background could now be appointed as the general secretary. Third, the regulation defining the duties of the MGK's General Secretariat, which permitted it to function as an autonomous executive power was abolished, and its organic ties with the general staff were severed through a new regulation dated 29 December 2003. Additionally, the MGK's Department of Psychological Operations, which showed evidence of active psychological war planning in the period of 28 February, was abolished and its functions were transferred to the Office of the Prime Minister (Özcan, 2007).[128]

With the increase in the civilian members at the MGK and its ongoing structural changes, the MGK lost, to a certain extent, its use as a platform in which the wishes of the military were legalised. However, there are claims that the function was transferred to the (YAŞ – Yüksek Askeri Şura – Supreme Military Council).[129] It was also observed that some of the functions of the MGK General Secreteriat were transferred to other institutions. For instance, the Department of Psychological Operations was put under the

[128] Also, the practice of appointing military members to the Council of Higher Education, the Turkish Radio and Television Council, and State Security Courts was discontinued. In 2004 and, perhaps, for the first time in the history of the Turkish Republic, the share allotted for security expenditures, which had always been the largest budgetary item, was surpassed by the share allotted for the budget of the Ministry of Education. The same was true for the 2005 budget.

[129] The YAŞ was established during the period of the interim regime that was launched by the military memorandum (muhtıra) of 12 March 1971. The members of the council are the Prime Minister, the Chief of the General Staff, the Minister of National Defence, force commanders, the commander of the armed forces, the commander of the gendarmerie, the commander of the navy and the generals and admirals of the armed forces. The YAŞ meets bi-annually under the chairmanship of the prime minister. In addition to its legal duties, it decides on promotion, retirement and disciplinary measures regarding armed forces personnel.

general staff (Özcan, 2007). The legal amendments did not change the power imbalance between the civilian and military wings of the MGK as this was a function of the broader system of the military's influence, rather than a numerical question. As observed in the EU's Progress Report of 9 November 2005, the military continued to influence politics. High-ranking commanders regularly expressed their views on domestic as well as foreign policy matters (Cizre, 2003).

The issue was complicated by the nature of the relationship between the AKP government and the military. The tensions between AKP government and the military over secularism turned into a political crisis in April 2007, when the nomination of Abdullah Gül as President came of the agenda. Gül was a leading member of the AKP, Deputy Prime Minister and Minister of Foreign Economics, once seen as an active Islamist. The secular elite and the military strongly opposed Gül's nomination. From mid-April onwards, massive street demonstrations called 'Republic Meetings' were held by opponents of the AKP and Gül. The meetings were organized by a nationalist Kemalist association formed by retired army generals, and the demonstrations soon turned into nationalist shows of power. On April 27th, Turkey was shaken by a late-night military warning diffused through the web site of the Turkish General Staff, containing a threat of takeover if presidential elections were not aborted.[130] Following the

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[130] This was the fifth military intervention of Turkish republican history. The military interventions that took place on 27 May 1960 and 12 September 1980 were overt coups d'etat, that is, the Turkish Armed Forces directly took power, under the command of the General Staff (September 1980) or through a junta of younger officers (27 May 1960). The other military interventions that took place on 12 March 1971 and 28 February 1997 did not totally abolish the existing institutional structure or dissolve Parliament but achieved its objectives through intervening against the authority of Parliament or toppling the civilian government by exerting pressure over them. The common method used by the Turkish military during these last two interventions was to send a memorandum to the civilian government by stating in hardly disguised language that if the government refused the demands of the military, the military would stage a full-fledged coup d'etat. Hence, in this regard, the military intervention of 27 April 2007 resembles these two interventions (Savran, 2007).

victory of AKP in the early Parliamentary elections in July, Gül was elected as President. However, the tensions continued and turned into another political crisis with the AKP government's attempts to make constitutional amendments allowing the previously banned headscarf in universities. This was followed by the filing of a closure case against the AKP by the Supreme Court Chief Prosecutor for its alleged violation of constitutional guarantees of secularism, and the AKP government's intensified investigation into the Ergenekon organization,[131] eventually leading to the arrest of former army generals alleged to be involved in a plot to overthrow the government.

All these tensions point to the contradictory nature of the transformation of the military apparatus in response to internationalization. In order to understand these contradictions fully, it is necessary to examine the changing political economy of the military apparatus in terms of its position in the capital accumulation process as well.

The Turkish military apparatus has been directly involved in the capital accumulation process since 1961. In order to understand how this role evolved, it is first necessary to analyse the relationship between the military and the capital accumulation process in peripheral countries beyond just Turkey. According to Akça (2004), the development of military-industrial complex in peripheral countries differs from its counterparts in advanced capitalist countries in one important aspect. In advanced capitalist countries, the military-industrial complex develops on the basis of war industry. In peripheral countries, however, due to late capitalist development, the formation of a defence industry is not possible in the initial stages. Therefore, the military apparatus

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[131] Ergenekon is an illegal ultranationalist organization with links to military, media and business circles. It seeks to topple the government by staging a coup through spreading chaos beforehand. Many of the political murders in recent years and alleged plans for the assassination of high-profile figures in Turkish politics are associated with it.

turns itself into a "collective capitalist" and engages in other areas of production, trade and finance (Akça, 2004: 226). Only after it reaches a certain level of accumulation, it starts engaging in the defence industry.

The Turkish case is a typical example of this pattern. From 1961 to the mid-1980s, the military invested in a wide range of sectors through OYAK (Ordu Yardımlaşma Kurumu – Armed Forces Trust and Pension Fund), and in the mid-1980s it began to build up a huge defence industry through TSKGV (Türk Silahlı Kuvvetlerini Güçlendirme Vakfı – the Foundation for Strengthening the Turkish Armed Forces) at a time when the West was considering the "conversion" of military-industrial complexes to serve civilian purposes (Günlük-Şenesen, 2003). Both OYAK and TSKGV enjoyed generous sets of subsidies such as tax exemptions from the state, so they grew rapidly and reached extremely high levels of profitability.

OYAK was established by the Turkish Parliament after the military coup in 1961, to provide economic benefits for the military officers. In contrast to its initial mission of being merely a pension fund for the military, OYAK rapidly developed into a conglomerate consisting of big companies with a wide range of activities. Currently, OYAK has shares in 40 companies including: a supermarket chain; a 49% stake in OYAK-Renault, the biggest car manufacturer in the country; 20% of Turkey's total cement producing capacity; and 20% of Turkey's total paper sack production. Many of its companies are affiliated with (or co-owned by) large domestic and international firms such as Sabancı and Koç in the domestic sphere; and DuPont, Goodyear, Mobil, Renault and Shell in the international sphere. It is the third biggest conglomerate after Koç and Sabancı in Turkey.

TSKGV was established in 1987 following Turkey's initiation of a modernization program of 1985 to update its arms base through the establishment of a domestic arms industry (Günlük-Şenesen, 2003). TSKGV has major shares in 30 defense-related companies with product ranges from aircraft artillery to missiles and telecommunication systems (Demir, 2005). Like OYAK, many of its companies have partnerships with large domestic firms such as STFA, Kutlutaş, Profilo, and global conglomerates such as Lockheed Martin, General Electric, Daimler-Chrysler, Northern Telecom (Akca, 2004). It should also be noted that the military actively encourages partnership of internationally competitive domestic and foreign firms with export prospects. Although competition is encouraged both domestically and at the international level, domestic firms are advised to "refrain from destructive competition and to cooperate in terms of technology for the sake of the integrity and interests of the nation and the state" (Günlük-Şenesen, 2003: 107).

In brief, the 'internationalization of military capital' as a part of the process of the internationalization of Turkish capitalism is the major factor in understanding the contradictions of the recent restructuring of the military apparatus. This is because, with the internationalization of capital, the contradiction between the identity of the military as a collective capitalist and its image as an autonomous institution above classes and politics is deepening. The military's ability to present itself above classes and politics becomes increasingly difficult as its interests are increasingly aligned with big internationalized capital (Akça, 2004). For instance the military supports European integration in line with the interests of big internationalized capital, but also wants to have control over the shaping of the process in line with its image as the 'guardian of the national interests'. This leads the military, just like the state apparatus itself, to take a bargaining position *vis-à-vis* the EU, through a discourse identified by Bryan as "internationalist nationalism".[132]

As Bedirhanlıoğlu (forthcoming) points out, this shows that the contradictions of the restructuring of the military apparatus cannot be conceived apart from the contradictions of the neoliberal state restructuring in response to internationalization as a whole. It can be argued that the military apparatus, as with other state apparatusses discussed in this chapter, is going through a contradictory transition process towards becoming a regularized component of the neoliberal state apparatus despite its institutional reflexes and resistances. In that sense, the regularization of the military apparatus is also part of the process of consolidation of neoliberal authoritarian statism.

5. Conclusion

This chapter has argued that the restructuring of Turkish state in response to the internationalization of capital started in the late 1950s and 1960s, when import substitution industrialization in collaboration with foreign capital began. The earliest forms of authoritarian statism in Turkey were observed in this period, with the establishment of the SPO in 1961 with enormous autonomy and powers to manage the contradictions of the import substitution program. There are three specific implications of this perspective in terms of the critique of the dominant arguments on the restructuring of the Turkish state.

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[132] An example of this bargaining position can be seen in the military's attitude towards the issue of ESDP (European Security and Defence Policy). In December 2002, EU leaders announced that the core institutions of the European Army would become operational. This decision meant that the EU would have the authority to launch humanitarian interventions in low-intensity crisis situations without seeking NATO's assets. In the London talks between the United States, Turkey, and Britain, Turkey raised several points that it deemed critical to its own interests. They included a request to participate in the ESDP military secretariat on a permanent basis with a military representative. This request was not accepted by EU officials (Güney and Karatekellioğlu, 2005).

The first misplaced argument is that the Turkish state in the pre-1980 period was a homogeneous and harmonious national developmentalist institution united around the goal of industrialization as the common good, and this harmony was broken after 1980 with the creation of a neoliberal bureaucracy within the state.[133] A closer look at the state apparatus, especially the SPO in the 1960-80 periods shows that this is not the case. The state apparatus in this period was not a harmonious national developmentalist institution without inner conflicts. In contrast, the establishment of the SPO in 1960 as the specialized economic apparatus to administer the import-substitution model was a very contradictory process. There were intense conflicts between the SPO and the government, between SPO and the Ministry of Finance, and in later years, between the 'Incentive and Implementation Department' within the SPO and other layers of the state such as the Constitutional Court. 'Outside-in' approaches to the internationalization of capital cannot explain these conflicts because they assume the existence of a homogeneous 'national bourgeoisie' (and an equally 'integral state') with no inner conflicts of its own, and having conflicts only with the comprador or foreign capital groups. To the contrary, the intra-state conflicts in the 1960-80 period precisely show the existence of such inner conflicts, especially between the Istanbul based big bourgeoisie and Anatolian based small firms.

A second misguided argument is that the 'dual bureaucracy' which broke the harmony of the state was a creation of the post-1980 public personnel regime. According to this argument, the creation of an alternative bureaucracy of 'internationalized' technocrats to carry out the new economic policies was a novelty of the neoliberal public personnel regime of the post-1980 period. Looking closer at the 1960-1980 period,

[133] The most prominent representative of this argument is Güler (1996).

however, it can be seen that a dual bureaucracy existed in this period, too. The SPO itself was staffed with economists trained by the UN and the AID on how to administer the import-substitution industrialization. In that sense, the SPO personnel of the 1960s and 1970s was not less 'internationalized' than the alternative bureaucracy of the Treasury, Central Bank and IRAs of the post-1980s. The only difference was in the nature of economic policies that they pursued.

The third flawed argument is that the strengthening of the executive branch and the change in the internal hierarchy of the state started in 1980. A closer look at the 1960-1980 period shows that this is not the case either. The strengthening of the executive branch started in the 1960s as the management of the contradictions of the import substitution industrialization necessitated a centralized bureaucracy with autonomy and powers of its own. The internal hierarchy of the state also started to change in this period to augment the role of the SPO as the specialized economic apparatus responsible for the reproduction of the inward-oriented accumulation process.

The emphasis here on the continuity between the 1960s and 1980s in terms of the mechanism of state restructuring (strengthening of the executive branch and a change in the internal hierarchy of the state) is important for challenging the prevailing analyses in the Turkish left that portrait the pre-1980 period as the 'golden age'. This should not mean, however, that the difference between the two phases is unimportant. To the contrary, the rise of neoliberal authoritarian statism in response to the deepening contradictions of the internationalization of capitalism in the post-1980 period has fundamental breaks with the earlier forms of authoritarian statism of the pre-1980 period.

In the post-1980 period, state restructuring took a more radical turn, as the contradictions of outward-oriented accumulation model were more complex than the contradictions of the inward-oriented accumulation. The 1980s and 1990s witnessed 'the rise of neoliberal authoritarian statism', which involved the decline of the political scene, the strengthening of the executive (as well as the influence of the military within the executive) for containing the contradictions of the market-oriented internationalization process. The internal hierarchy of the state was re-ordered to augment the role of the Treasury, Central Bank and the IRAs, which formed the neoliberal specialized economic apparatus that crystallized the interests of the major internationalized Turkish and foreign capital. This phase was marked by a strict duality between the regular and specialized economic apparatuses, a duality which was initially functional to the initiation of neoliberal reforms, but became dysfunctional by the end of the 1990s. From the late 1990s onwards, state restructuring in Turkey took a turn. In this period, the new orientation of capital accumulation towards global integration on the basis of increased productive capacity of capital necessitated a more comprehensive and systematic transformation of the institutional and legal structure of the state in line with the requirements of the market-oriented internationalization. In this phase, the hegemony of neoliberalism was established over the regular state apparatus as well. It was in this phase of the 'consolidation of neoliberal authoritarian statism' that the changes in the public procurement regulation came to the agenda. The next chapter will examine these changes.

CHAPTER 5

Transformation of the Legislative Branch in Neoliberal Authoritarian Statism: The Case of Turkish Public Procurement Law

As discussed in the previous chapter, the neoliberal restructuring of the state in Turkey went through two main phases. The main characteristics of the first phase, from 1980 to the late 1990s, was the rise of neoliberal authoritarian statism as evidenced in the decline of the political scene and the concentration of power in the executive branch. The second phase, from the late 1990s onwards, involved the consolidation of neoliberal authoritarian statism through the transformation of the legal sphere in line with the requirements of the internationalization of capital. Thus, in the second phase of reforms, there was a sudden increase in the legislative activity of the Parliament.[1] This increasing activity of the Parliament in a period when the predominance of the executive branch was firmly established might seem like a contradiction at first sight. However, when we look at the way the laws were passed in this period, as well as their contents, it can be clearly seen that most of the legislative initiatives were requirements of the neoliberal internationalization process already inscribed in the executive branch, such as the EU harmonization laws or IMF conditionalities.[2] In that sense, the legislative branch was active but subordinated to the executive branch. Poulantzas' (1978) analysis of the status

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[1] While from 1996 to 1999, the number of laws passed in the Parliament was 249, from 1999 to 2002, this number increased to 386, and, from 2002 to 2007, it increased to 572 (*Yeni Mesaj*, Daily Newspaper, 29.05.2005).

[2] In 1996, through an amendment in the rules of procedure of the Turkish Parliament, the government was enabled to ask that a bill be taken up as a 'fundamental law' if approved by three-fifths of the house. A bill with that designation would be subject to special procedures decided on by the legislature. It was using this procedure that many of the neoliberal economic reform bills in this period were enacted (Turan, 2003; İba, 2007).

of legislative branch under authoritarian statism is quite helpful for understanding this point:

...the relative distinction between legislative and executive power is becoming less sharp: through a process correlative with changes in the nature of such regulation, the power to fix norms and enact rules is shifting towards the executive and the state administration. That legitimacy embodied by parliament which had as its frame of reference a universal rationality is gradually passing over into a legitimacy characterized by the instrumental rationality of efficiency and embodied by the executive-administration. Indeed, the general and universal laws still enacted by parliament – which are, at bottom, merely framework-laws – are applied only after the executive has passed them through a process of concretization and particularization. This is the stage of decrees, judicial interpretation and civil service adjustment, without which the norms enacted by parliament do not enter into the practice of the law. It is by now quite widely known that this allows parliamentary decisions to be not only obstructed but actually distorted. What is more, the initiative in proposing laws has almost entirely shifted from parliament to the executive, new bills directly elaborated by the civil service. Such laws are no longer inscribed in the formal logic of the juridical system – a logic based on norm-universality and on the rationality of the general will represented by the enactor – but are entered in the quite different account-book of concrete, day-to-day economic policy embodied by the administrative apparatus (218-9).

The transformation of the Turkish public procurement law in 2001 is a typical example of this process, in the sense that the law was shaped by the predetermined commitments of the executive apparatus, despite the intense struggles of political actors within and outside the Parliament to have an influence in shaping its content. It is therefore an interesting case in terms of demonstrating the active but subordinate status of the legislative branch in the phase of neoliberal authoritarian statism.

State purchases directly articulate the transformations internal to the state with the transformations in the forms of capitalist accumulation, and in this period of the internationalization of capital. Public procurement policies, therefore, illustrate the global changes in apparatuses of the state in relation to capital, but also the changes in the specific mechanisms by which the legislative branch functions. Public procurement can be defined as the governmental purchase of goods, services and works from the private sector. Despite the downsizing of the public sphere due to privatization and deregulation, public expenditures still forms an important part of capitalist economies, and public procurement remains an important part of public expenditures. For example in most European Union countries, procurement purchases are estimated at 10-15% of GNP, or some 25-30% of public expenditures (SIGMA, 1998). In Turkey, public procurement varied between 20-25% of the GDP for 1999-2003 (Kural and Alsac, 2006). Public procurement has gained new significance in recent years due to the opening up of national public procurement markets to international competition, as a part of the process of the deepening of neoliberalism which has become, in Albo's (2005) terms, 'the social form of rule' specific to the current phase of internationalization of capital. The changes in the public procurement regulation in Turkey can be understood in this context.[136]

There are five more specific reasons why public procurement regulation is chosen as the specific case study. First, it is a typical instance of the opening up of a hitherto protected national market to global competition. It is possible therefore to observe the contradictions within capital that are specific to internationalization. Second, the majority of public procurement contracts in Turkey are made in the construction sector, where there is a significant degree of internationalization of domestic capital (Gülöksüz, forthcoming). In that sense, it is possible to observe quite clearly both the internalization of foreign capital and the internationalization of domestic capital in this sector. Third, the transformation of public procurement regulation is part of the second phase of state restructuring in Turkey, which is characterized by the formation of independent regulatory agencies (IRAs) as part of the specialized economic apparatus. It is a case where the intra-state conflicts in this process can be observed, especially between the Public Procurement Agency, the IRA established to regulate the internationalization of

[136] See Ercan and Oguz (2006) for a discussion of these changes in the context of scale and rescaling literature.

the procurement market, and the Ministries of Public Works and Finance, the institutions previously responsible for the regulation of procurements in a closed national market. Fourth, the transformation of public procurement regulation involves a radical transformation of the legal sphere to facilitate the internationalization of capital. In this context, the formation of the new public procurement law is a good case for demonstrating how the legal changes are shaped through the contradictory demands of different capital groups and their political representatives (e.g. sectoral business associations and political parties) from the state. Finally, it is an interesting case in terms of studying the limits of the capacity of a political party in power – in this case, of the AKP – to shape the process of legal changes in a conjuncture already determined by the requirements of neoliberal internationalization as the general compromise inscribed in the executive branches of the state. The role of the AKP, a political party deeply involved in the procurement sector due to its previous basis of political support in the small business sector of the Anatolian region and the local state, suggests the importance of the shifts in the relations between the capitalist class and the political parties, even as the political scene is being circumscribed.

1. The Public Procurement Law and Global Competition, 2001-02

Legal changes to public procurement policies in Turkey came on the agenda after the economic crisis of 2001, as a conditionality of IMF loans. The main discourse used to legitimize the new public procurement law was the need to eliminate corruption, rent seeking and cronyism in this sector (Dinler, 2004). The existing public procurement system in Turkey was indeed based on crony relationships among contractors, bureaucrats and politicians. Connections with bureaucrats were evidenced by the interference of bureaucrats in the procurement process, and even use of 'facilitation payments' for such favours. Procurement practices lacked transparency so much so that before the bidding was started the result was already fixed. Payments in the form of donations to political parties, especially the ones in power, in the amount of up to 15% of the contract value, ensured that a contractor would win. Since potential contractors had to bid in the form of discounts against the disclosed contract value, a bidder giving a large discount could win the contract but could not necessarily deliver (Doğaner, 1999). However, the irregularities of the old system were not brought to the agenda until the late 1990s. It was only in the context of the second phase of neoliberalism that corruption in the procurement sector came on the agenda. Corruption was then used as an excuse to legitimize the opening up of the domestic procurement market to global capital. As a result, a new public procurement law that used an anti-corruption discourse as the justification for arrangements facilitating foreign capital entry to the procurement sector was accepted in 2002.

Prior to this Law, public procurements in Turkey were regulated by the State Tender Law No. 2886 that was enacted on 8 September 1983.[137] The State Tender Law regulated both sales and purchases of the entities in its scope. Public entities conducted procurements according to their own regulations, resulting in many procurement regulations among them. The State Tender Law had a limited scope, only covering state departments included in the general and annexed budgets, special provincial

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[137] The first law regulating the public procurements in Turkey was the 'Law on the Buying and Selling Activities Made on Behalf of the Government' (Law No. 661), enacted in 1925. In 1934, 'Law of Auctions, Reverse Auctions and Tendering' (Law No. 2490) was issued. This was the longest lasting implemented law for the public procurement sector in Turkey.

administrations and municipalities. It was based on a conception of a national procurement market open to domestic capitals. The domestic market included foreign firms represented in Turkey in different forms of associations, dealerships, joint ventures, and so forth. However, there was very little participation by international bidders in bidding for works contracts. Recourse to foreign firms was made only when the sources of the required supplies were not available in Turkey, and even in this case, invitation to tender was limited to a particular country or sometimes to a group of countries. A new regulation that would expand the scope of the law and allow global capitals to participate in the procurements in equal terms with domestic capitals became an important part of the neoliberal agenda in the late 1990s (Şahin and Bıyıkçı, 2003).

Public procurement purchases were particularly important for globally expanding capitals that looked for new areas of expansion. This could be clearly traced in the World Bank, IMF, WTO and EU documents. The World Bank advocated restructuring of national public procurement systems as a part of its public sector reform agenda based on its anti-corruption discourse; and the IMF was interested in public procurement reform as a way to secure the conditions of debt repayments. The WTO advocated the opening up of national procurement markets to global competition in line with its overall free trade agenda; and the EU was particularly interested in the participation of European corporations in the biddings for big construction projects in Turkey through its adoption of the EU procurement regulations. Liberalized public procurement practices were also an attractive alternative for the valorization of capitals in Turkey after they had … on an aggressive process of restructuring. In this context, the Turkish state was in a position to choose among the potential actors of the procurement process, including involvement in the process of decision-making about the opening up of the procurement market. This initiated a series of conflicts among different Turkish capital fractions, particularly as the Turkish economic crisis in 2001 intensified conflicts for markets.

In terms of their positions with regard to the new public procurement law, there were four sections of capital. The first section consisted of major international (mostly European-based) constructions companies interested in penetrating the Turkish procurement market. For these companies, the content of the new public procurement law was crucial, as privatization in Turkey had been a very slow process and the state was still the biggest purchaser of goods and services in many sectors (Bayramoğlu, 2004). They were interested in a new law that would open up the procurement market to global competition.

The second section consisted of the big internationalized domestic capital groups represented by TÜSİAD. At the sectoral level, they were represented by İNTES (Türkiye İnşaat ve Tesisat Müteahhitleri İşveren Sendikası – The Construction and Installation Contractors Employers' Association of Turkey), and TMB (Türkiye Müteahhitler Birliği – The Turkish Contractors Association). These capital groups supported the changes in the procurement law. For instance, in a report published in November 2001, TÜSİAD pointed out the significance of "the formation of a more transparent public procurement system that would foster international competition and prevent discrimination in line with international developments" (TÜSİAD, 2001). But the same groups were also interested in benefiting from the state regulations that protected domestic tenderers. Although they tended to ally with international companies on the question of the opening up of the procurement market, they supported other domestic capital groups on the question of state protection against 'foreign' capitals.

A third section was comprised of newly growing and internationalizing medium sized domestic capital groups. At the sectoral level, they were represented by TİMSE (Türkiye İnşaat Müteahhitleri İşveren Sendikası – The Construction Contractors Employers' Association of Turkey). These groups regarded public procurements as a way to expand their accumulation basis and further integrate with the world market. They were interested in preserving the old system based on the privileged position it offered to domestic capitals. Similarly, smaller capitals operating only in the national market also wanted to preserve the old arrangements as a part of their survival strategies, and they constituted a fourth group, with some of them having local or city-based associations of their own.

Table 5.1: Demands of Capital Groups from The Public Procurement Law, 2001

Foreign capital groups	support the new law
Big internationalized domestic capital groups	support the new law
Newly growing and internationalizing medium sized domestic capital groups	against the new law
Small capitals still operating in the national market	against the new law

During the period of 1999-2002, a coalition of center-left, center-right and far right parties, namely DSP (Democratic Left Party), ANAP (Motherland Party) and MHP (Nationalist Action Party) were in power. The coalition was supported by international capitals and the major Turkish internationalized capitals, both of whom sought an inclusive law that would cover all sectors and open up the procurement markets to international competition. The parties in opposition, namely, DYP (True Path Party), SP (Felicity Party) and AKP (Justice and Development Party), in contrast, spoke to the interests of small- and medium–sized domestic capitals that opposed the new law and demanded to remain outside its scope.

The government's choices, however, became constrained by the economic crisis in 2000. Following the economic and payments crisis, the government turned to the IMF for short-term loans and one of the fifteen new laws that were put as conditionalities by the IMF was a new public procurement law.[138] In the IMF documents, the main justification for the new law was stated as "more efficient public spending", a typical element of neoliberal fiscal policies that aim to restrain public expenditure rather than raising tax revenues from the propertied classes. The first commitment was made on the Turkish Government Letter of Intent of May 3, 2001 to the IMF, where one of the structural benchmarks was the submission to the Parliament of a public procurement law in line with the standards of the United Nations Commission on International Trade Law (UNCITRAL)[139] before October 15, 2001. The Turkish Government Letter of Intent of July 31, 2001 contained the following statement: "While spending will be restrained next fiscal year, we hope to see an increase in the efficiency of spending through the implementation of a new public procurement law."[140]

Another intervention about the renewal of the public procurement system came from the EU. Public procurement in the EU was regulated by the EU Procurement

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[138] See Oguz (2001) for details of the IMF response after the crisis.
[139] UNCITRAL was established in 1966 to prepare model laws to help eliminate the disparities in national laws governing international trade. The basic aim of the 'Model Law on Procurement of Goods, Construction and Services' prepared by UNCITRAL in 1994 was maximizing efficiency in procurements by achieving transparency and competition through the fair and equitable treatment of all suppliers. The new procurement law in Turkey was based on this model law.
[140] Document at www.imf.org.

Directives, which set legal obligations for national procurement systems. Their purpose was to "open up the public procurement market, improve the functioning of the internal market and enable the EU to reap the full benefits from an enlarged Internal Market."[141] Countries seeking EU membership were, therefore, expected to "establish and maintain procurement systems that met standards of transparency, and of open, and fair competition" (SIGMA, 1998). In this framework, a new public procurement system in line with the EU Procurement Directives was placed as one of the conditions of Turkey's acceptance to the EU membership. The Turkish state responded to this demand favourably. In the 40th Session of the Turkey-EC Association Council, 26 June 2001, İsmail Cem, the Minister of Foreign Affairs of Turkey, made the following statement: "We understand the importance the EU attaches to harmonization by Turkey in public procurement. This is a priority not only in Turkey's National Programme for the Adoption of Acquis but also a part of Turkey's new economic programme. The fine-tuning of the draft state procurement law is continuing with the valuable inputs of the EU and the World Bank. When the work is completed, we trust that the law will reflect the most essential EU and WTO Process."[142] The Accession Partnership of EU with Turkey adopted in 2001 listed public procurement both as short and medium-term priority. The main instrument used by the EU in this context was the Support for Improvement in Governance and Management (SIGMA) program, which was created in 1992 as a joint initiative of the EU and the OECD to assist EU candidate countries for reforming their public administration systems in line with existing EU legislation. In July and September

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[141] Document at www.ogc.gov.uk.

[142] The statement is at www.disisleri.gov.tr/mfa.

2001, SIGMA provided two EC-funded experts to the Turkish authorities, to assist with the drafting of the new procurement legislation.

There were two more international actors involved: the World Bank and the WTO. The WTO tried to dominate the general framework of the new law through the Government Procurement Agreement (GPA). The aim of the GPA was the elimination of any discriminatory practices against foreign capitals in the process of opening up of national procurement markets to international competition. The GPA entered into force on 1 January 1981, but its commitments were renegotiated in the 1986-1994 Uruguay Round, ending up with a ten-fold expansion of its coverage, extending international competition to include national and local government entities, services (including construction services), procurement at the local level, and procurement by public utilities. Turkey participated as an observer to the new agreement that took effect on 1 January 1996.[143]

Lastly, the World Bank used the Programmatic Financial and Public Sector Adjustment Loan (PFPSAL) programs for enforcing its own conditions for lending money for the proposed changes. According to the Bank's 2001 Country Procurement Assessment Report (CPAR) on Turkey,[144] the major issues were transparency of the bidding process, restrictive conditions on the participation of foreign bidders, lack of a complaint resolution procedure and the absence of a central procurement body. Slow payments to contractors and suppliers, use of inadequate price adjustment mechanisms or

[143] See www.wto.org for further details.

[144] The Country Procurement Assessment Report (CPAR) is the Bank's main instrument for "diagnosing the health of the existing procurement system in a country" (www.worldbank.org). After the 'diagnosis', the Bank develops an action plan for the borrower country to improve its system for procuring goods, works, and consulting services. The first CPAR for Turkey was conducted in 1997, and the second one in 2001.

a lack of them for long-term contracts, etc. These were all seen as factors discouraging foreign bidders' participation, thus impeding competition and efficiency in the system. The Turkish procurement system was found by the Bank to be "non-transparent, open to abuse and contributing to the low completion rate of investment projects" (World Bank, 2001). In this framework, the enactment of legislation on public procurement was made one of the main conditions in PFPSAL programs from 2001 to 2004.

Table 5.2: International Institutions and Public Procurement Law, 2001

International Monetary Fund	main condition of stand-by agreements
European Union	enlargement condition
World Trade Organization	main condition of Government Procurement Agreement
World Bank	main condition of Programmatic Financial and Public Sector Adjustment Loan programs

2. The First Public Procurement Law and International Capital, 2002

The new public procurement law was passed on January 4, 2002 in response to these external pressures.[145] The law aimed to open up the procurement market to international competition. The main discourse used to legitimize this change was an emphasis on "transparency, competition, equal treatment, reliability, confidentiality, public supervision, and the efficient use of resources."[146] There were seven important

[145] Before going further, a brief description of the Turkish legislation process might be helpful. In Turkey, a draft law can be proposed either by the members of the parliament or the Council of Ministers. The head of the parliament passes the draft law to the relevant parliamentary commission. Following the commission's approval of the draft law, it is presented to the general assembly and, if passed by the general assembly, the law is submitted to the President for approval. If the President approves the law, it is published in the Resmi Gazete and becomes effective from the date indicated in the publication.
[146] Law No. 4734, Article 5, *Resmi Gazete,* Date/No: 22.01.2002/24648.

changes in the law that aimed to open up the procurement market. In what follows, I will discuss these changes.

2.1 Centralization of the Administration of Public Procurements

The first change concerned the administration of public procurements. In the previous arrangement, the administration of public procurements was divided among a number of state institutions, notably the Ministry of Public Works, Ministry of Finance and the Court of Accounts. The new law provided that all public procurements would be regulated by an independent agency called the Public Procurement Agency (PPA).[147] The PPA would be governed by a board whose members would be proposed by the relevant state institutions as well as business organisations. The PPA had ten members, two from the Finance Ministry, three from the Public Works and Housing Ministry, one each from the State Ministry in charge of the Treasury, Council of State, High Court of Audits, Union of Chambers (TOBB) and Turkish Employers Union (TISK). Through the centralization of the decision-making process, the PPA supposedly served as a means for 'depoliticisizing' the procurement process by preventing the involvement of small and medium capital interests through their influence on national political actors. It acted as a part of the neoliberal specialized economic apparatus, corresponded with the needs of global capital.

[147] The process for the establishment of the PPA was initiated upon the demand by the Secreteriat General for EU Affairs (*Hürriyet,* Daily Newspaper, 17.9.2001). For the duties and responsibilities of PPA, see Law No. 4734, Article 53, *Resmi Gazete,* Date/No: 22.01.2002/24648.

Table 5.3: Public Procurement Administration in Turkey, 2002

Regular State Apparatus	Specialized Economic Apparatus
Ministry of Public Works	Public Procurement Agency
Ministry of Finance	State Ministry for Economy
Court of Accounts	General Secretariat for the European Union

2.2 Extension of the Scope of the Law to Cover All Public Institutions

The second change concerned the scope of the law, which was an important arena of struggle between global and domestic capitals. While global capitals and their political representatives tried to extend the scope of the law so that they could benefit from the new regulations based on 'equal treatment',[148] domestic capitals tried to keep its scope as narrow as possible, so that they could operate outside the new regulations, and benefit from the old system of decision-making by national political actors. While the previous procurement law covered departments included in the general budget, annexed budget, special provincial administrations and municipalities only, the scope of the new law was extended to cover all public institutions, including state economic enterprises and social security establishments. This was a law with the restructuring of the Turkish state apparatus as a whole internalizing within administrative processes the internationalization of capital.

[148] For instance, the World Bank demanded the new law be "applicable to all agencies, at central and local levels of government, who use public funds, whether budgetary or extra-budgetary" (World Bank, 2001b).

2.3 Threshold Values as an Arena of Struggle Between Domestic and Foreign Capitals

The third and most contentious area involved the issue of threshold values of contracts; the values above which international firms could equally participate in the procurement proceedings within a national space. As domestic firms could participate in public procurements below the threshold value, domestic capitals tried to increase the thresholds while global capitals tried to reduce them. In the Turkish case, the participation of foreign capitals into the procurement proceedings was made easier through a reduction in the threshold values. However, the relevant article was changed four times before it took its final form. What made the issue of threshold values particularly contentious were the conflicts among international institutions over the issue. The EU's regional threshold values were lower than those required by the WTO. Thus, the acceptance of EU's threshold values would mean that European capitals would be privileged against other foreign capitals.

In the first draft law that was submitted to Parliament, the EU's threshold values were proposed with the rationale of adoption to the EU. During the negotiations, Kemal Derviş, the Minister of State for the Economy, defended the EU's threshold values whereas Abdülkadir Akcan, the Minister of Public Works and a member of Nationalist Action Party, defended the WTO standards.[149] Akcan made the following explanation:

> In order to avoid doing injustice to our domestic investors by passing a law in line with EU standards before becoming a member to the EU, we put a temporary provision in the law about articles that would be implemented after our full membership to the EU.[150]

The head of the Public Procurement Agency, Şener Akkaynak, made similar comments: "The provisions regarding the threshold value and protection of local

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[149] *Cumhuriyet,* Daily Newspaper, 27.1.2002.
[150] *Cumhuriyet,* 26.10.2001.

investors are not in line with the EU legislation. But the EU must first call Turkey for negotiations so that we will adopt their standards." Akkaynak added that otherwise Turkey was responsible only towards the WTO standards.[151] Following these explanations, the Parliamentary Commission of Public Works decided that the EU's threshold values could only be adopted after Turkey's full membership in the EU, and instead the WTO's standards were accepted.

When the Bill came to the agenda of the General Council of Parliament, however, the demands of domestic capitals for higher threshold values dominated the discussions. These demands were articulated by members of Parliament from the three opposition parties – DYP, AKP and SP. For instance, Mustafa Örs, an MP from DYP defended the interests of domestic contractors and engineers:

> We support the Turkish Construction Engineers Union's statement that the threshold value in the present bill is too low, and it should be raised to 11 billions in order for our small and medium sized contractors to survive...We also understand the Association of Turkish Engineers and Architects's complaint that the current bill opens up the consultancy services in public procurements to foreign firms while our own engineers and architects already have many hardships. Today half of the 1 million people in the sector, including 360,000 engineers and architects, as well as 60,000 contractors with permits, are unemployed. This law will make a giant contribution to the army of the unemployed.[152]

Another intervention came from Aslan Polat, an MP from SP:

> Even Japan, a country with the most advanced technology in the world and a GDP 10-15 times as much as ours, has its threshold value at 20 million dollars because it tries to protect its own firms, contractors and engineers. While the threshold value of a country like Japan is so high, it is odd that we set our threshold value at 11 trillion TLs. Even 11 trillions is insufficient for us, as it only means more unemployment for Turkish contractor firms, workers and engineers. Today there are about 76,000 contractors in Turkey. When the current bill enters into force, more than 20,000 of these contractors, 25,000 of them being engineers, will face unemployment.[153]

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[151] *Turkish Daily News*, 26.10.2001.
[152] *Tutanak (Parliamentary Proceedings)*, 7.12.2001.
[153] *Tutanak*, 4.1.2002.

In the same vein, Osman Pepe, an MP from AKP said: "I would like to underline the fact that these threshold values are too low for the Turkish economy, Turkish contractors and Turkish engineers."[154] Even the representative of TÜSİAD, the association of big business, stated that the threshold values should be increased.[155] These political pressures, emerging from the political scene and domestic capitals, led to the AKP's proposal for the amendment of the bill, to raise threshold values even above the WTO standards. At this point, the World Bank and IMF intervened in the process and demanded the reduction of threshold values back to the WTO levels.[156] However, the bill was already submitted to the President for approval so further amendments were impossible. A new commitment for a change in the law was, however, made to the World Bank and IMF as a condition of the 18. stand-by agreement with the IMF. In the January 18, 2002 Letter of Intent to the IMF, the justification of this change was put forward as follows:

> To further improve the transparency and competitiveness of public procurement, we expect parliament to amend the Public Procurement Law by end-May 2002, to (i) bring the real value of the thresholds toward those in line with international best practice and (ii) extend the minimum time period for procurement applicable for cases below the thresholds (prior actions for the second review).[157]

Accordingly, the threshold values were reduced to the WTO levels through the legal amendments that were accepted on July 12, 2002. (See Table 5.4 below).[158]

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[154] *Tutanak*, 4.1.2002.
[155] *Hürriyet,* 26.12.2001.
[156] For instance, Ajay Chhibber, World Bank Turkey Director, urged Turkey to review the procurement law, "cautioning of a threshold value for foreign involvement which he said was higher than its peers in other countries" (*Turkish Daily News*, 26.1.2002; Hürriyet, 26.1.2002).
[157] Document at www.imf.org
[158] Law No: 4761, *Resmi Gazete,* Date/No: 22.06.2002/24793.

Table 5.4: Threshold Values in Turkish Public Procurement Law, 2001-02

	For goods and services by the contracting entities operating under the general or the annexed budget	For goods and services by other contracting entities	For works contracts by any of contacting entities
First bill submitted to the Parliament in October 2001 (EU standards met)	180 billion TL	280 billion TL	7 trillion 400 billion TL
Bill accepted in the Parliamentary Commission of Public Works in December 2001 (WTO standards met)	300 billion TL	500 billion TL	11 trillion TL
Bill accepted by the Parliamentary General Council on January 1, 2002) (above WTO standards)	750 billion TL	1 trilyon TL	17.5 trillion TL
Legal amendment accepted on June, 12, 2002 (Back to WTO standards)	300 billion TL	500 billion TL	11 trillion TL

The displacement of Parliament and the political scene by the exercise of executive power, in conjunction with international agencies protecting the interests of global capital, did not go unnoticed. Ahmet Sünnetçioğlu, an MP from SP, showed his reaction to the amendments as follows:

> Do international procurement regulations change so rapidly that we have to change our laws in five months? When we ask this question, you reply 'no, in order to pass the procurement law on time we had to compromise with the opposition parties back then, that's why we had to accept the higher threshold values'. And now you come and say, "we deceived the opposition because we had to pass the law that day. In fact, we promised the IMF, European contractor associations and the representatives of foreign capital in our country that we would keep the threshold value at 11 trillion TL. Right now, the procurement law is once again on the agenda because of the 1,1 billion dollars to be released in the second review meeting of IMF on May 15, 2002. So we have no choice but going back to the previous threshold values.[159]

Similarly, İlyas Yılmazyıldız, an MP from DYP, remarked that "it is quite disturbing to see how threshold values determined by Turkish parliamentarians are

[159] *Tutanak*, 12.6.2002.

reduced with the imposition of outsiders for the sake of getting some more debt."[160]

2.4 Complication of the Rules of Qualification for Participation

The fourth change in Turkish procurement law concerned the rules of qualification for participation. The previous arrangement was based on a general qualification system. Contractors who applied for a general qualification and submitted information about their work experience were issued 'contractor certificates' (carnet) by the Ministry of Public Works. The carnet system applied only to civil, mechanical and electrical works and was based on the value and type of work. There were six categories of contractors denominated A through H, with A being the highest rating. The higher the category of a contractor's certificate, the higher was the value of contract that it was certified to perform.

This general qualification process was tainted by the misuse of carnet issued by the Ministry of Public Works to construction professionals, among others. The construction professionals (engineers, architects and technicians) could obtain a carnet without considering their real experience but based on the numbers of years passed since graduation from school. These professionals could also obtain a carnet based on their employment history (public or private), and the value of project they were involved in. Higher public officials could easily get unlimited A category carnet, which was the main requirement for qualification for large-value construction projects.

The misuse of the carnet was blatant as a holder of a carnet could 'sell' it to a construction firm. On the application for pre-qualification, the construction firm would show the holder of the carnet as its technical director (without that person being

[160] *Tutanak*, 12.6.2002.

employed by the contractor or participating in the performance of the contract) and receive a qualification certificate partially on this basis. Contractors qualified in this manner used their certificates for public works contracts for which they held the certificate of qualification. They would often then perform poorly on the works contracts for which they were selected on the basis of the qualifications that they did not in fact possess.

With the new law, however, documents indicating a series of performance criteria were required. Among these requirements were documents relating to the production and/or manufacturing capacity, research-development activities, facilities, machinery, devices and other equipments, organisational structure, quality assurance practices, educational and professional qualities of the executives and the technical staff, certificates granted by internationally recognized quality control institutions.[161] These requirements meant the elimination of small and medium sized capitals in the very beginning of the process.

Besides these requirements, documents demonstrating the experience of the tenderer in the subject of the procurement were also sought. The tenderer was expected to have completed in the amount equalling to at least 70% of the contract value within the last five years in case of procurement of goods and services, and within the last fifteen years in case of procurement of works.[162] All these changes clearly favoured big Turkish capitals, while at the same time making it easier for more equipped foreign capitals to have the right to participate in the procurement proceedings. Aslan Polat, an MP from SP, would describe the effects of the changes as follows:

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[161] Law No. 4734, Article 10, *Resmi Gazete,* Date/No: 22.01.2002/24648.
[162] Law No. 4734, Article 10, *Resmi Gazete,* Date/No: 22.01.2002/24648.

> You tell the contractors to bring the works they have completed in the last fifteen years. You forget, however, that the contractors could not complete their works because you didn't provide adequate funds. That's why, especially in case of big projects, Turkish contractors will be disadvantaged *vis-à-vis* their foreign counterparts in this regard.[163]

2.5 From State-Determined 'Estimated Values' to Market-Based 'Estimated Costs'

Another change concerned the practice of announcing estimated contract values based on unit prices. In the previous system, the state used to announce unit prices for works and the participants to the bidding process cut their price offers accordingly. Bidders were asked to express their bid prices as discounts against pre-disclosed estimated contract values based on unit prices multiplied by the quantities for each unit. At the end of this process, the contract was awarded to the bidder with the most 'suitable price' rather than 'the lowest price'. The effect of this practice was a biased selection towards inappropriate projects. Since the administration announced tenders without making the necessary feasibility studies, the investment costs could not be assessed realistically. The work often required, therefore, a higher cost than anticipated and took longer to complete. The discounting process used in awarding bids combined with the opportunity to seek increases in the project value up to 30% subsequent to project awards created strong incentives for cost escalation. Contractors deliberately understated cost estimates in the beginning and issued a large number of arbitrary contract variation orders during performance.

In order to prevent such situations, the new law ruled out the announcement of estimated values based on unit prices determined by the state. The term 'estimated cost' replaced the term 'estimated value' that was formerly used. The contracting entities were asked to determine the estimated cost in accordance with market conditions via

[163] *Tutanak*, 4.1.2002.

conducting a detailed price and quantity research. Before the determination, the contracting entity was supposed to establish the type of offer and receive the price quotations accordingly.

The new law also prevented administrations from exceeding the initially estimated price of a particular work. Sever, the head of the Turkish Contractors Union, criticized the change: "The outgoing legislation allows this limit to be exceeded by 30 percent, which has been causing abuse, but the current form is too strict. It should have allowed at least a 10 percent margin."[164] Ahmet Sancar, from the ruling DSP, defended the changes as follows:

> The aim of procurement is to buy goods, services or works with the highest technology and lowest prices. To achieve this aim, we had to adopt a system in which contractors would make their offers on the basis of their own merits.[165]

Aslan Polat, from SP, in contrast, criticized the changes as follows:

> When the announcement of unit prices is ruled out, approximately 60,000 of the 76,000 contractors will be automatically eliminated at the first step, because the price offers will require detailed evaluation of the whole project, which is something that requires specialization. Those firms that do not have specialized staff to do this, that is, firms with no engineering background will be eliminated.[166]

As seen from these comments, these changes, which would mean the determination of prices through market mechanisms rather than the state, were also in favour of big capitals making it easier for them to participate in the procurement proceedings.

2.6 Changes in Procurement Procedures

In the previous system, five main procurement procedures were applied: closed and sealed envelopes; public bidding; selective restricted tendering; negotiated procurement;

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[164] *Turkish Daily News*, 8. 1. 2002.
[165] *Tutanak*, 4.1.2002.
[166] *Tutanak*, 4.1.2002.

and direct competition procedure. Closed and sealed envelope tendering was normally followed. This was a tendering method open to all suppliers who submitted their proposals in written form. Public bidding was another open tendering method used for bigger projects, where proposals were made verbally. Other procedures were used according to the value and type of procurement. Restricted tendering was followed when the nature of the subject was too complex and required expertise and/or high technology. In this procedure, only the tenderers who were invited after a pre-qualification process could submit tenders. Negotiated procedure was used when other procedures failed, urgent works were needed, or in a few other specific instances where the estimated values of the works were below a certain limit. In this procedure, the mode of receiving offers was not limited with a given form. Bidding was concluded by reaching an agreement on price. Direct competition procedure was applied for professional supervision of study, planning and project works and works related to fine arts through negotiating technical terms and price of the procurement with the tenderers invited by the contracting entity. Lastly, a procuring entity could request budgetary resources to execute some works itself rather than have them carried out through contractors if had the capacity and the capability to do so. This procedure was used for construction projects below a certain value, and it was carried out through 'force account commissions' to be composed of the officials of the concerned administration. These commissions could hire casual labour and buy the necessary equipment directly from public economic enterprises or municipal corporations. They could also divide the works into pieces and give them to subcontractors without using any prime contractors.

During the preparation process for the new procurement law, the World Bank demanded the elimination of the negotiated procedure altogether, or at the very least shortening of the list of situations where it could be used (World Bank, 2001). The EU, in contrast, was strictly against the use of selective restricted tendering method, arguing that it was open to abuse and it conflicted with EU procurement directives. The first draft law, which was prepared by the Ministry of Finance and the Ministry of Public Works and publicly announced on February 21, 2001, included three procurement methods: open procedure, restricted procedure, and negotiated procedure. However, due to the strong reaction of the EU against the inclusion of restricted procedure, the submission of the draft law to the Council of Ministers was delayed.[167] The EU's insistence on this issue caused a serious disagreement between the Ministry of Public Works and the Secretariat General for EU Affairs. In the end, Public Works Minister Koray Aydın convinced EU officials by stating that the law included a provision requiring the pre-qualification notices of procurements to be conducted by restricted procedure to be published not less than fourteen days in advance of the deadline for the application to pre-qualification.[168] Lastly, the so-called 'force account procedure' was totally eliminated upon the warnings of the 'international institutions' that it was most frequently misused by procuring entities in favour of certain domestic capital groups.

2.7 Extension of Procurement Announcements and Time Limits

Another change in favour of international capitals was related to the notices of procurements. In the previous system, procurement notices were required to be published

[167] *Hürriyet,* 20.4.2001.
[168] *Hürriyet,* 3.9.2001.

not less than ten days prior to the deadline for the submission of tenders. During the process of preparations for the new procurement law, the time interval between appearance of the first advertisement and the date of bidding was found to be too short for the participation of foreign companies.[169] In order to provide a reasonable preparation period for foreign companies to submit realistic bids, announcement periods were redefined in accordance with the relevant EU directives. For instance, notices of procurements to be conducted by open procedure were required to be published not less than forty days prior to the deadline for the submission of tenders. Where international announcement of notices were required, the minimum time limits would be increased by twelve days. Furthermore, with a view to ensuring more participation of international capitals, tender announcements via the internet were made available.

In conclusion, the first public procurement law was prepared in 2001 under the pressure of internal economic crisis and the 'external' international institutions and global capital. In line with the demands of the latter, it was made easier for global capital to participate in Turkish public procurements. However, shortly after the new law was passed, the AKP came to power in the November 2002 elections, and under the pressure of domestic capital groups that brought it to power, the AKP attempted to change the law. In what follows, I will examine these attempts.

3. Domestic Capital Groups and the Attempts to Change the Procurement Law, 2002-03

The new public procurement law caused a great deal of resentment among wide sections of Turkish society. Considering that public procurements in Turkey formed 15%

[169] See for instance World Bank (2001).

of the GDP and 90% of these were being made with domestic capital groups, the amount and scope of resentment can easily be understood. Even the big domestic capital groups that were the main supporters of structural reforms were angry with the new law on the basis that ... However, the staunchest opposition came from the small and medium sized capital groups that were rapidly growing with the help of local government procurement policies. In his first public speech, the AKP Prime Minister Erdoğan spoke to the reactions of these groups: "The current version of the public procurement law serves the interests of 50-60 firms only. I will not leave 15 thousand kilometers of construction work to 60 contractors."[170] These words reflected the support basis of the AKP: newly growing domestic capital groups engaged in aggressive strategies of accumulation and looking for state support in their vigorous project of further growth and integration with the world market. Prime Minister Erdoğan, who came from local government experience himself, was known for giving a large part of local procurements to contractors from his own party during his time as the mayor of Istanbul.[171] This legacy meant AKP would pursue changes to meet the needs of these contractors, which had grown with the help of previous local procurements, during its first years in national government.

3.1 Attempts to Delay the Implementation of the Law

Attempts to delay the implementation of the new procurement law were not original to the AKP. In an earlier dispute that took place in October 2001 between Abdülkadir Akcan, the former Minister of Public Works, and Kemal Derviş, the former Minister of State for the Economy, Akcan had tried to delay the implementation of the

[170] *Sabah*, Daily Newspaper, 28.12.2002.
[171] *Cumhuriyet,* 7.5.2003.

new law in line with the demands of domestic capitals whereas Derviş defended the demands of international capital by arguing that the new law should enter into force as soon as possible. Derviş criticized the government for not sending the new law to the Parliament on October 15 as promised to the IMF, and Akcan responded by saying that the new law would not be passed with the instructions of IMF.[172]

When the AKP government came to power, its first step was an attempt to delay the implementation of the law until 2003. The option of delaying implementation was particularly attractive to the Ministry of Public Works bureaucracy as higher public officials who retired from this Ministry had unlimited A category carnets, which was the main requirement for qualification for large-value construction projects. Some of these officials used to rent or sell their carnets informally to constructors for very high prices. The implementation of the new law would mean the end of their privileges. With these concerns, the Ministry of Public Works prepared a draft law for the suspension of the implementation of the new law. At this point, AKP itself was divided over the issue. Zeki Ergezen, the Minister of Public Works, Tayyip Erdoğan, the leader of AKP, and others who were closer to domestic capital groups were in favor of delaying the implementation of the law, whereas Abdullah Gül, the Prime Minister at the time, Ali Babacan, the State Minister for Economy and others, who were closer to international institutions, were in favor of the implementation of the law as scheduled. Despite the attempts of Ali Babacan, the State Minister for Economy, to include the Public Procurement Agency (PPA) in the preparation process for the draft law, the PPA was not invited to the meetings. Public Works Minister Zeki Ergezen not only by-passed the PPA, but also avoided participating in the Council of Ministers and instead contacted the Prime Minister directly for the

[172] *Yeni Mesaj,* Daily Newspaper, 27.10.2001; *Hürriyet,* 14.11.2001.

authorization about the draft law. Without the knowledge of the PPA, the draft law contained only one article that stipulated the suspension of implementation of the new law for one year, was sent to the Prime Ministry just 20 days before the due date.[173]

The main justification made for the draft law was the argument that a number of secondary regulations would have to be published before the law could enter into force. Citing shortcomings in implementation and arguing that the bureaucracy was not ready for the new law yet, the Public Works Minister Zeki Ergezen said he was not against the new law, but some changes were needed. During the same meeting, however, an official from the Ministry of Public Works voiced his concern about the elimination of the carnet system, increasing the tension between the Ministry of Public Works and the PPA.[174] The Public Procurement Agency head Şener Akkaynak noted that all the preparations were moving on as scheduled, and that all the secondary regulations about the law were completed and already published in the Resmi Gazete so the procurement law should take effect on January 1 as expected.[175] Akkaynak further noted that all the public institutions covered by the new procurement law (seventy in total) had already sent their officials to the PPA training sessions about the new regulations, with the exception of one institution – the Ministry of Public Works.[176]

At this point, the EU, IMF and World Bank intervened in the process and strongly opposed the attempts to delay the implementation of the law. The Turkey director for the World Bank, Ajay Chhibber, sent two separate warning letters to Ali Babacan, the

[173] *Hürriyet,* 20.12.2002.
[174] *Hürriyet,* 18.12.2002.
[175] *Turkish Daily News*, 20.12.2002.
[176] *Hürriyet,* 18.12.2002.

Minister of State for Economy, and Kemal Unakıtan, the Minister of Finance.[177] The $1.3 billion credit to be released by the World Bank, he cautioned, through the *Programmatic Financial and Public Sector Adjustment Loan-2 (PFPSAL-2),* was at stake. The Delegation of the European Commission to Turkey also sent separate letters of warning to the Prime Minister, State Minister in charge of the EU Affairs, the Finance Minister and the Minister of State for the Economy about the importance of the law's entry into force as scheduled.[178] The $ 1.5 billion credit from IMF to be released in January 2003 was also made conditional upon the implementation of the new procurement law on time.[179] The new procurement law came into force on January 1, 2003 as scheduled.

3.2 Attempts to Make Amendments to the Law

Failing to delay the implementation of the Law, the government was left with only one choice: the amendment of key provisions. Within two years, the government attempted to change 40 of the 60 articles in the original law. The main discourse it used to legitimize the amendments was a kind of 'internationalist nationalism' in Bryan's terms.[180] The discourse of the government was internationalist in the sense that it sought further integration with the EU and global capitalism. But when it came to secure a 'good deal' for the domestic capital groups, it resorted to nationalism with a particular emphasis on national competitiveness and developmentalism.

[177] *Vatan,* Daily Newspaper, 22.12.2002.
[178] The way the warning letters were sent to the Turkish government was also interesting. Assuming that the letters would be more effective if they came from Luxemburg, the EC delegation first considered sending them to Brussels. However, this would cause the process to take longer, so the delegation sent the letters directly to the Turkish government (Hürriyet, 21.12.2002).
[179] *Hürriyet,* 20.12.2002.
[180] See Bryan (1995, 188) for this term.

The amendments were prepared by a commission formed by İdris Naim Şahin, the deputy leader of AKP. Şahin was Erdoğan's main ally when he was Mayor of Istanbul, and he had previously been tried for conducting procurement fraud.[181] Representatives from all relevant institutions, the Ministry of Public Works, the Ministry of Finance, the Court of Accounts, the State Planning Organization, the Treasury and the General Directorate of Highways – were all invited to the meetings of the commission. The Public Procurement Agency, however, was deliberately excluded. World Bank and IMF officials immediately showed their opposition. During her visit to Turkey, the IMF's First Managing Director, Anne Krueger, warned the government about the exclusion of the Public Procurement Agency from the meetings. After his talks with the World Bank officials, Ali Babacan, the Minister of State for Economy, intervened in the process and representatives of the Public Procurement Agency were then invited to the meetings.[182] From this point onwards, the demands of global capital were also articulated in the discussions of the commission on amendments. The final form of the draft law was also shaped by the presence of the World Bank procurement specialist, Shaun O. Moss, who came from the US.[183]

After the intervention of the World Bank, the AKP government stepped back from some of its proposals. For instance, the proposal to bring back the 'force commission procedure' for works up to 70 % of the threshold value was vetoed. The aim of this proposal, which was initiated by Tayyip Erdoğan, was to divide the double lane road construction works into segments and assign them to domestic sub-contractors by

[181] *Hürriyet,* 8.1.2003.
[182] *Radikal,* Daily Newspaper, 12.1.2003; *Milliyet,* Daily Newspaper, 17.5.2003; *Hürriyet,* 30.5.2003.
[183] *Hürriyet,* 18.6.2003.

showing their value at just below the 70 % threshold value.[184] The justification used for this change was the argument made by Zeki Ergezen, the Public Works Minister, that other procurement procedures took too long.[185] This proposal was vetoed in the commission (where the World Bank representative was present).[186] The proposal to bring back the carnet system under the name of 'certificates' was also vetoed.[187] Some of the proposals in favour of domestic capital groups, however, were accepted. A provision that gave contractors the opportunity to seek work increases of up to 20% of the project value subsequent to project awards was among them.[188]

There were two more major attempts by the AKP government to change the law in favor of domestic capital groups: curbing the powers of the Public Procurement Agency (PPA) and narrowing the scope of the law through the use of exceptions.

3.2.1 Attempts to Curb the Powers of the Public Procurement Agency

Since the very early days of its formation, the AKP government tried to curb the powers of the PPA and increase the power of institutions that were active in the previous system, such as the Council of Ministers, the Ministry of Finance and Ministry of Public Works. The objective was to shift decision-making power from independent regulatory agencies that were directly responsive to global capital, back to national political actors on which domestic capital groups could still have an influence. In other words, the AKP was trying to 'repoliticise' the system in favour of domestic capitals and lessen the grip of executive power and bureaucratic insulation of the procurement process.

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[184] *Hürriyet,* 12.01.2003.
[185] *Hürriyet,* 21.01.2003.
[186] *Hürriyet,* 18.06.2003.
[187] *Hürriyet,* 18.06.2003.
[188] Law No. 4964, Article 46, *Resmi Gazete,* Date/No: 15.8.2003/25200.

In a first attempt, the government submitted a new bill to the Parliament in December 2002. A provision of this bill proposed that all procurement decisions and regulations made by the PPA would take effect only after the approval of the Council of Ministers.[189] Another bill prepared in January 2003 included a similar provision, according to which the PPA's authority to make decisions on procurements regulated by the Ministry of Public Works was recalled.[190] The next bill prepared in July 2003 went further and stipulated that the PPA would be directly related to the Ministry of Finance.[191] However, due to the strong opposition from the international institutions, the AKP government had to withdraw its proposals on this issue. In order to avoid reactions of this kind, the government cut back the budget of PPA through a loophole in the law.[192]

3.2.2 Attempts to Narrow Down the Scope of the Law

The second attempt of the government was to narrow down the scope of the law through many exceptions of procurements from its provisions. In the new bill that the AKP government prepared in December 2002, state economic enterprises, local governments and construction works were made exceptions to the law. The aim was to maintain the privileged position of domestic capitals in these sectors.[193] Immediately after this attempt, however, the Turkish Prime Ministry's Secretary General for the European Union, Volkan Vural, gave a briefing to AKP's members of parliament. In this briefing, Vural noted that "any substantial change in the Public Procurement Law would harm

[189] *Cumhuriyet,* Daily Newspaper, 29.12.2002.
[190] *Cumhuriyet,* 27.1.2003.
[191] *Cumhuriyet,* 24.7.2003.
[192] A draft law that aims to curb the powers of all independent regulatory agencies, however, is still on the way (*Cumhuriyet,* 8.8.2003).
[193] *Cumhuriyet,* 27.12.2002.

Turkey's process of harmonization with the EU."[194] After this warning, the government had to postpone its proposal. However, it continued its attempts to narrow down the scope of the law. For instance, in the next draft law that it prepared in January 2003; there was a provision that made construction works below 40% of the threshold value exceptions to the law. With this provision, AKP government was aiming to exclude lucrative highway contracts from the scope of the law so that it could give them to domestic firms that had close links with the party.[195] At this point, the IMF's First Managing Director Anne Kruger issued a warning to the government against fiddling with the reform and the progress of the draft through parliamentary commissions was halted by the government.[196]

With this warning of possible jeopardizing the IMF loans, the AKP government clearly saw that it could not make any substantial changes to the procurement law. It therefore initiated a new strategy of making changes in related laws. For instance, it proposed an amendment in the municipal law that would exclude local government purchases from the scope of the Public Procurement Law. After the AKP had won 80% of the municipalities in the local elections on 28 March 2004, the government had a new momentum for these attempts. In the new municipal law which entered into force on July 13, 2005, housing works were excluded from the scope of the Public Procurement Law.[197] This exclusion effectively served as the major mechanism for giving the procurement of numerous housing projects to domestic contractors close to the AKP (Gürek, 2008).

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[194] *Cumhuriyet,* 28.12.2002.
[195] *Cumhuriyet,* 27.1.2003.
[196] *Turkish Daily News,* 13.3.2003.
[197] Law No. 5393, *Resmi Gazete,* Date/No: 13.7.2005./25874.

Another interesting attempt by the AKP government was a move to exclude procurements in the energy sector from the scope of the Public Procurement Law through a provision added to the 2003 Financial Year Budget Law. During the parliamentary talks on the budget law, a group of MPs from the AKP proposed that BOTAŞ (Boru Hatları ile Petrol Taşıma A.Ş. – Petroleum Pipeline Corporation), TEİAŞ (Türkiye Elektrik İletim A.Ş. – Turkish Electricity Transmission Company), TEDAŞ (Türkiye Elektrik Dağıtım A.Ş. – Turkish Electricity Distribution Company) and EÜAŞ (Elektrik Üretim A.Ş. – Electricity Production Company) should be excluded from the scope of the Public Procurement Law with the rationale of "continuity in the delivery of public services" and the proposal was accepted in the Parliament.[198] However, the proposal was in conflict with the Article 66 of the Public Procurement Law, which read that "amendments to provisions of this law could only be arranged through annexing provisions or making changes within the same law." According to PPA officials, this meant that the AKP's proposal would have to be cancelled by the Constitutional Court. The following day, therefore, Salih Kapusuz, an MP from AKP, announced the decision by the government to recall their proposal in order to avoid misunderstandings and unnecessary rifts among institutions."[199]

Following the Bingöl earthquake in May 2003, the government made a renewed attempt to alter the procurement law for the seeming purpose of quickening the rebuilding of the city. This time, the AKP government tried to exclude collective housing projects from the scope of the procurement law with the rationale that the current legislation required procedures that took more than 70 days to fulfill before a single contract could

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[198] *Tutanak*, 27.3. 2003.
[199] *Cumhuriyet,* 30.3.2003.

be awarded, which would prolong the misery of people living in tents through the winter.[200] But the Public Procurement Agency said the legislation already allowed awarding of contracts quickly in the case of natural disasters like earthquakes. Therefore, there was no need to change the law. The PPA Chair Şener Akkaynak contended that the legislation enabled the authorities to make procurements through open bidding, selective bidding, negotiations and direct purchases in the case of emergencies, so the amendments proposed by the government were of no relevance to the earthquake. Akkaynak argued: "We were expecting the importance of the new Public Procurement Law to be stressed because of the earthquake; whereas the earthquake is being presented an excuse to amend the law. It's not understandable".[201] At the end of a series of fierce negotiations, however, both Akkaynak and international institutions were persuaded about the exclusion of collective housing projects from the law.[202] In the legal amendments that were accepted by the Parliament on July 30, 2003, collective housing projects were made exempt from the requirement of sufficient budget for initiating procurement proceedings.[203] This practically meant that these housing projects were left out of the scope of the law.

Other exceptions to the procurement law were made in the legal amendments accepted by Parliament on July 30, 2003. Some of these exceptions were in line with the interests of global capitals and supported by international institutions. Among these exceptions were corporations carrying out certain activities in the public utilities sectors (energy, water, transportation and telecommunication),[204] public banks that were in the

[200] *Cumhuriyet,* 6.5.2003.
[201] *Turkish Daily News,* 8 May 2003.
[202] *Cumhuriyet,* 29.5.2003.
[203] Law No. 4964, Article 39, *Resmi Gazete,* Date/No: 15..8.2003/25200.
[204] However, this issue was also highly controversial. According to PPA Chair Şener Akkaynak, the exclusion of the utilities sectors from the law was in line with European Union norms. However, the structure of the sectors in question were not alike in the EU. "We have warned the team that was preparing

process of being restructured and privatized, certain procurements by the Privatization Administration, consultancy services in privatization implementations, some medical supplies in the health sector, and commercial transactions in the air transport sector. These exceptions were supported by the IMF, EU and World Bank because they were expected to speed up the privatization and internationalization process in these sectors. For instance, consultancy services in privatization implementations were made exceptions specifically for speeding up the privatization of Turkish Telekom. On this issue, the agreement reached between Privatization Administration and Public Procurement Agency was also supported by the World Bank.[205]

A second group of exceptions from the procurement law was formulated by the AKP, and was made in favour of domestic capitals. The most important among them were purchases of state economic enterprises below specified values.[206] With this exception, state economic enterprises were practically left out of the scope of the law. Purchases of professional organizations and foundation institutions of higher education as well as national research and development institutions were among the other exceptions that favoured domestic capitals.[207] There were also indirect exceptions or loopholes that favoured domestic capitals. For instance, 'negotiated procedure', where the state negotiated the procurement with invited tenderers, was introduced in purchases with

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the amendments and the concerned ministry. These sectors are regulated differently in the EU. But if you look at the EU as a whole, these institutions are already controlled by the private sector or have been privatized," Akkaynak said. He added that only in France and the UK were some of these sectors still controlled by the public sector. The idea behind making a separate regulation for these sectors, whose 90 percent controlled by the private sector, is that they deliver a public service. But when you look at Turkey 95 percent of these sectors are under the umbrella of the public sector. It's structurally okey to exclude these sectors from the public procurement law but how appropriate is it in Turkey's circumstances? He added that the revenues of the PPA would also be hurt by the move. PPA was not involved directly in the amendment process but was now preparing alternatives for a new legislation that would regulate the energy, utilities, telecommunication and transport sectors separately (*Turkish Daily News*, 23.8.2003).

[205] *Cumhuriyet*, 15.9.2003.

[206] Law No. 4964, Article 2, *Resmi Gazete,* Date/No: 15..8.2003/25200.

[207] Law No. 4964, Article 2, *Resmi Gazete,* Date/No: 15..8.2003/25200.

estimated costs below 50 billion TLs.[208] This meant that big procurement purchases could be divided into small parts and undertaken outside the scope of the law. Another exception was related to the method of 'direct procurement', that is, direct purchase of necessities from invited tenderers without advertising and without receiving any securities. The amendment to the Article 22 of the Law allowed direct procurement for purchases not exceeding 15 billion TLs for needs of contracting entities within the boundaries of metropolitan municipalities and procurements not exceeding 5 billion TLs for needs of other contracting entities. These were all exceptions that favored small and medium sized domestic capitals.

3.3 Reaction of Foreign Capital Groups in Turkey

It was not only domestic capital groups that reacted against the new procurement law. Foreign capital groups already established in Turkey also resented it. The main reason for their resentment was the definition of 'domestic tenderers' as real persons having Turkish citizenship. This definition was exclusive, as it implied that many foreign firms long established in Turkey were now defined as foreign tenderers and excluded from using some of the advantages stipulated for domestic tenderers in the new law.

In the previous system, there were no laws or regulations that gave preference to domestic over foreign suppliers, because the law already assumed a domestic market. Price advantages for domestic tenderers came to the agenda for the first time during the negotiations for the opening up of the procurement market in 2001. According to Article 63 of the new law that was accepted in 2002, only domestic tenderers could participate in tenders where estimated costs were below the threshold values. In cases where the

[208] Law No. 4964, Article 14, *Resmi Gazete,* Date/No: 15..8.2003/25200.

estimated costs were above the threshold values, in procurement of services and works, a price advantage would apply to all domestic tenderers, up to 15%. And in procurement of goods, a price advantage up to 15 % would apply to domestic tenderers who offered products accepted as domestic products by the Authority by taking the opinions of the Ministry of Industry and Trade and of other relevant organizations and institutions. However, domestic tenderers who participated in the tender proceedings by forming joint ventures with foreign tenderers would not enjoy this right.[209]

As the distinction between 'domestic' and 'foreign' tenderer was crucial to the application of this article, representatives of foreign capital groups in Turkey, including YASED reacted strongly against the definition of domestic tenderer narrowly in terms of Turkish citizenship.[210] In response to these pressures, in the legal amendments accepted in August 2003, the definition of domestic tenderer was changed so as to include foreign companies established in Turkey. Domestic tenderers were now defined as "real persons who are the citizens of Republic of Turkey and legal entities established in accordance with the Laws of Republic of Turkey."[211]

Another amendment in favor of foreign capital groups was the elimination of the obligation to register and notarize contracts by a public notary.[212] During the parliamentary discussions on this issue, the representatives of the TNB (Türkiye Noterler Birliği – Turkish Association of Notaries) strongly protested against the proposal so the AKP government attempted to bring the notary obligation back. However, with the intervention of an official from the Procurement Office of the Ministry of National

[209] Law No. 4734, Article 63, *Resmi Gazete,* Date/No: 22.01.2002/24648.
[210] *Hürriyet,* 18.01.2003.
[211] Law No. 4964, Article 3, *Resmi Gazete,* Date/No: 15..8.2003/25200.
[212] Law No. 4964, Article 28, *Resmi Gazete,* Date/No: 15..8.2003/25200.

Defense, this attempt was halted. The bureaucrat argued that they could not buy anything from foreign companies because of the notary obligation, as the public notaries would not approve contracts unless they saw the company owners in person. Upon this intervention, the AKP government stepped back. Ali Babacan, State Minister for Economy, said that the notary obligation was a deterrent factor for foreign companies interested in entering the Turkish market. As a result, the amendment eliminating notary obligation was accepted.[213]

Hence the final form of the amended law accepted in August 2003 reflected a compromise between domestic and foreign capital groups. It had 46 articles, 35 of which concerned the Public Procurement Law, and 11 concerned the Law on Public Procurement Contracts. See Table 5.2 below for a summary of the formation and transformation of the procurement law.

4. Conclusion

When the Turkish public procurement law was first accepted in January 2002, it was dominated by the interests of global capital and international institutions, and it aimed to open up the national procurement market to global competition. When the AKP government came to power in November 2002, however, it tried to change the law in line with the demands of the domestic capital groups, especially the internationalizing small and medium sized capital groups which formed its basis of support. This initiated a series of conflicts and compromises within the state. In this dynamic process, the procurement law was reshaped through the contradictory relationship of different capital groups and their political representatives.

[213] *Hürriyet,* 25.07.2003.

Table 5.5: Formation and Transformation of the Turkish Public Procurement Law (2001–2003)

	First Law (2001-2002)	**AKP's Amendments (2003)**
Main Actors	IMF (main condition of stand-by agreements) WB (main condition of PFPSAL) WTO (main condition of GPA) EU (enlargement condition) Global capital Turkish big internationalized capital	AKP government Local governments Newly growing and internationalizing domestic capitals Small and medium sized capitals Domestic engineering and contractor associations
Main Discourse	Transparency, competition, equal treatment, reliability, confidentiality, public supervision, efficient use of resources	National sovereignty, national developmentalism, competitive nationalism Market-oriented but sometimes against WB and IMF
Basic Mechanisms of Change	Public Procurement Agency established Scope extended to cover all public institutions Threshold values for PP reduced Permit system replaced by performance system	Budget of Public Procurement Agency cut back Scope narrowed through many exceptions Exceptions made to the sufficient resources requirement Loopholes favoring small and medium capitals

The intra-state conflicts were most clearly seen between the institutions that were dominated by the interests of domestic capital groups, for example, the Ministry of Finance and Ministry of Public Works, on the one hand, and the new institutions that internalized the demands of global capital, like the Public Procurement Agency, State Ministry for Economy, and the General Secretariat for the European Union, on the other. As the AKP government's attempts to repoliticise the procurement process in favour of domestic capitals was constantly opposed by these institutions, its discourse increasingly shifted towards the demands of global capital.

In this sense, the public procurement case was an instance of the AKP's own transformation after it came to power. As Öniş (2006) points out, during its first two years of government, the AKP had an interesting mix of commitment and pragmatism:

> To give an example, the government was clearly committed to the objective of fiscal austerity. Yet, in its early stages it was much more lukewarm in its attitude towards independent regulatory bodies such as the BRSA. This lukewarm attitude perhaps reflected the pressure that came from a key component of its electoral coalition, namely small business in the direction of a more relaxed attitude towards banking sector regulation in order to obtain more bank credit to finance its operations. Hence, there was a certain clash between the government and the IMF in the early stages on this issue, with the government putting forward the case for greater political control and accountability of such institutions whilst the IMF put the primary emphasis on autonomy. Yet, when the government realized that this conflict would jeopardize the economic program and undermines the confidence of the key actors involved the issue was gradually pushed aside and the conflict over autonomous regulatory bodies faded away.

It can be argued that the AKP's attitude towards the public procurement law was part of these dynamics. When the AKP came to power, it was committed to the neoliberal structural reforms, which had already become the general state policy as a result of the profound restructuring of the state apparatus since the 1980s. Therefore its capacity to change the procurement law in favour of the small and medium sized domestic capital groups that formed its electoral support basis was limited by the structural requirements of neoliberal internationalization inscribed in the executive branch of the state. Still, in the first few years of its power, the AKP tried to represent the interests of the class fractions that formed its basis of support through attempts to change the law in line with their demands. As these attempts clashed with the global capital's interests that had already become 'state interests', however, the AKP began to represent these 'state interests' to the class fractions previously supporting it, rather than representing their class interests to the state. In other words, its class representaional function was replaced by its function of legitimizing state policies. In Poulantzas' (1978, 232) terms, it became the "*dominant mass party* as the *state party par excellence*", which transmitted the state ideology to the popular masses and contribute as an appendage to the plebiscitary legitimation of the state administration and the executive" (236).

The crucial point here is the fact that the scope for action for a political party coming to power in the last decade was much more limited than a party coming to power in the 1980s. The neoliberal transformation of the state apparatus, and the accompanying decline of the political scene, had already taken many steps away. When AKP came to power, the gains of global capital in the previous phase of reforms were already locked in to the institutions and modalities of the state apparatus. In Jessop's (2006: 14) terms, "an increasingly dense network of crosscutting ties between big business and the central administrative apparatuses of the state (especially the economic apparatuses)" were already formed. In this context, the only option for the AKP concerning the public procurement law, was a regulation that would fix the scale of the procurement market at the global level, but also contain measures to help small and medium sized domestic capitals survive at this new scale.

The public procurement case shows that, although there was an intense negotiation between different political actors in the process of the formation of the law, the powers of political actors to shape the law were structurally limited by the requirements of neoliberal internationalization inscribed in the executive branch of the state. In that sense, even the AKP, a 'movement' party – despite in a reactionary form, could not reverse the decline of political scene and the subordinate position of the legislative branch in the phase of consolidated neoliberal authoritarian statism.

CHAPTER 6

Neoliberal Authoritarian Statism and Political Alternatives in Turkey

The last three chapters have demonstrated that the current political context in Turkey is characterized by the formal institutions of liberal democracy but the substantive structures of neoliberal authoritarian statism. This social form of the Turkish state did not occur overnight, without conflicts and contradictions, or as a result of an external imposition of by international institutions (although these institutions, of course, certainly played their role). This thesis has argued that Turkey has traversed a particular path to neoliberalism. But whatever the uniqueness of the Turkish political setting, these developments have been characteristic of similar political transitions that have occurred across numerous capitalist countries as an integral aspect of the internationalization of capital over the last decades.

These transitions can be explained, this thesis has argued, by the contradiction between the internationality of capital accumulation and the nationality of states. This contradiction is reflected within national states as increasing divisions over economic policies, as states now have to internalize and mediate the conflicting demands of unevenly internationalized capitals operating within their territories. This thesis has argued that this mediation process involves two major mechanisms, which were initially identified by Palloix (1975) and Poulantzas (1979). The first mechanism is the change in the internal hierarchy of states in this phase of the internationalization of productive and money capital, which Palloix identified as the key to reforming the state apparatuses. Poulantzas identified the second mechanism in state restructuring coincident with the internationalization of capitalism as the formation of 'authoritarian statism', which he defined as the transfer of power from the political scene to the state apparatus, and its centralization within the executive branch. This thesis has built upon these two arguments made by Palloix and Poulantzas in understanding state restructuring in response to the internationalization of capital in Turkey.

Turkey has gone through three main phases in terms of the relationship between the internationalization of capital and state restructuring. Each phase corresponds to different phases of internationalization of capital in the advanced capitalist countries. Due to the late development of Turkish capitalism, the formation and internationalization of capital has historically coincided in Turkey. At all critical turning points of Turkish capitalist development and its internationalization, therefore, the transition from one stage to another has been shaped by the interaction of domestic and external dynamics, rather than by direct and instrumental impositions of capital liberalization by the international institutions.

The first phase in terms of the relationship between the internationalization of capital and state restructuring in Turkey is the period from 1960-1980. In this phase, through the import-substitution model of industrialization, certain sections of domestic commercial capital turned into productive capitalists in cooperation with foreign capital. In this sense, the import-substitution industrialization was not strictly a 'national' phase of economic development, but the first phase in the internationalization of Turkish capital, a prelude to the export-led industrialization, the more general and intense level of the internationalization of production. In terms of state restructuring, Palloix's arguments on the historical relationship between the internationalization of productive capital and the change in the internal hierarchy of the state was observed in this period with the establishment of the State Planning Organization in 1961 as the specialized economic apparatus managing the contradictions of the import substitution program. This period also witnessed the earliest forms of authoritarian statism in Turkey. In line with Poulantzas' arguments on the strengthening of the executive branch in response to internationalization of capital, the bureaucracy was centralized within the State Planning Organization, which was granted enormous autonomy and powers to mediate the conflicts within capital over incentive implementation and foreign capital policies.

The second phase in the internationalization of capital and state restructuring in Turkey was the period from 1980 to the late 1990s. In terms of internationalization of capital, this phase was based on commercial and financial liberalization. It involved an outward-oriented accumulation model based on exports in its earlier stage from 1980 to 1989, and the inflow of money-capital in its later stage from 1989 to the late 1990s. As the contradictions of the outward-oriented accumulation model were more complex than the contradictions of the inward-oriented accumulation, state restructuring in this period took a radical turn. This thesis has called this phase 'the rise of neoliberal authoritarian statism', which involved the decline of the political scene, the strengthening of the executive (as well as the influence of the military within the executive) for containing the contradictions of the market-oriented internationalization process. The internal hierarchy of the state was also re-ordered to augment the role of the Treasury, Central Bank and the IRAs, these taking the form identified as the 'neoliberal specialized economic apparatus', that crystallized the interests of the major internationalized Turkish and foreign capital. This phase was marked by a strict duality between the regular and specialized economic apparatuses, a duality which was in fact initially functional to the initiation of neoliberal reforms, but became dysfunctional by the end of the 1990s.

The third phase in the relationship between the internationalization of capital and state restructuring in Turkey was the period from the late 1990s onwards. In terms of the internationalization of capital, this period was marked by a new orientation of capital accumulation towards global integration on the basis of increased productive capacity of capital in the Turkish economic space. This necessitated a more comprehensive and systematic transformation of the institutional and legal structure of the state in line with the requirements of the ascendant market-oriented internationalization. In that sense, this phase can be identified as the 'consolidation of neoliberal authoritarian statism'. There were a number of specific features of this new phase: constitutional amendments in 1999 that 'locked-in' privatization and internationalization as general principles of the state; the establishment in the early 2000s of independent regulatory agencies that disconnected the neoliberal reform agenda from the political choices of the government of the day; the adoption of a comprehensive public administration reform to reorganize all parts of the state in line with neoliberal principles in 2004; the preparations for a new Constitution in 2007 to remove the legal hurdles in this process; the attempts since 1999 to reduce the political role of the military apparatus in line with the requirements of integration with global capitalism in general, and the EU in particular; and, finally, the launch of the 'Reform Program for the Improvement of the Investment Climate' in 2001 as an attempt to end the duality between the specialized and regular state apparatuses on the basis of a new consensus around 'international competitiveness'.

The change in the public procurement law came to the agenda in this last phase of consolidation of neoliberal authoritarian statism. This was a phase when the laws themselves had gained a new meaning. In Poulantzas' (1978: 219) words, they were "no longer inscribed in a logic based on norm-universality and on the rationality of the general will represented by the enactor – but (were) entered in the quite different account-book of concrete, day-to-day economic policy embodied by the administrative apparatus." The legislative branch was turned into a technical implementation body charged with approving the neoliberal draft laws prepared by the government. The formation of the Turkish public procurement law in 2001 was a typical example of this new role assigned to the legislative branch. Initially, the AKP tried to shape the law in line with the domestic capital groups that formed its support basis, anchored in the smaller-sized Anatolian capital and local states. As these attempts clashed with the interests of big internationalized capital groups that had already become 'state interests', however, the AKP began to represent these 'state interests' to the class fractions previously supporting it, rather than representing their class interests to the state. In other words, its class representational function was replaced by its function of legitimizing state policies. In that sense, even the AKP, as a 'movement party' could not reverse the decline of political scene.

Yet, the consolidation of neoliberal authoritarian statism in Turkey should in no way be understood as a phase of enhanced political stability. To the contrary, the contradictions from the internationalization of capital have only become displaced into new terrains. For instance, the reduction of the political scene to a concern largely with secondary debates does not mean that contradictions of capitalism have evaporated. It only means that the contradictions raised by the process of accumulation are now being handled elsewhere in the executive summits of the state, relatively insulated from political debates and contestation. Similarly, the formal reduction in the political powers of the military apparatus does not mean that there has been an actual decrease in the power of the repressive state apparatus as a whole. To the contrary, the powers of the military apparatus have been transferred to other security units within the repressive state apparatus. Likewise, the increasing 'transparency' in the new public procurement law does not mean that the corruptions between politicians, senior state officials and capitalists have been eliminated. To the contrary, corruption has been displaced by the numerous exceptions in the law that, in turn, take much procurement out of the scope of formal accountability and return it to the 'shady world' of bourgeois politics.

What the consolidation of neoliberal authoritarian statism has really managed to achieve, however, is the establishment of neoliberal hegemony within and over the state apparatus. This has led to a tendency of decreasing intra-state contradictions over neoliberal reforms. But again, these contradictions are displaced elsewhere, indeed, in a sense where they actually belong: in the arena of the contradictions between labour and capital rather than in jurisdictional battles internal to the different scales of political governance. As neoliberalism is firmly consolidated within the state, the labour movement is losing whatever allies it had in the struggle against neoliberalism within the bureaucracy, judiciary and the military. Indeed, this institutional isolation and political polarization might be turned into an enormous political opportunity for the labour movement, especially with the newly established platforms against privatization and social security reform.[214] The most important obstacle in the way, however, is the prevailing ideological positions in the Turkish left and labour movement today. These positions, therefore, need to be addressed before turning to the political conclusions of this study.

1. Leftist Strategies in Turkey Today

The strategies of the left in Turkey today mainly follow two lines: left-nationalism and progressive liberalism. Left-nationalist strategies emphasize national competitiveness and protectionism, coupled with a conception of the state as the ally of labour against neoliberal globalization and imperialism. They are clearly against the institutions of neoliberal globalization such as the World Bank and IMF, as well as against the US as the major imperial power. In most cases, they are also against the EU as a neoliberal and imperialist project. They form the dominant strategy within the Turkish labour movement and the socialist left today. Most of the major socialist parties use left-nationalist discourse in varying tones and degrees, within a range that diverges from more class-oriented positions to more nationalist ones. For instance, the İP (İşçi Partisi – Worker's Party) has gone furthest in the direction of nationalism by forming coalitions with the nationalist right against US and EU imperialism. It is quite interesting to note in this regard that the TKP (Türkiye Komünist Partisi – Turkish Communist Party), once a strict defender of class-based socialist strategies *vis-à-vis* national democratic positions, has also shifted its discourse to a broadly defined 'patriotism' against the US and the EU.

The second dominant strategy is progressive liberalism. Progressive liberal strategies are against neoliberalism in the narrow economic sense of allowing too much

[214] See Elveren (2008) for a critical analysis of the recent social security reform in Turkey.

scope to markets, but not against globalization in a broader sense of international integration. They make a distinction between what they see as the economic institutions of neoliberalism such as the World Bank and the IMF, on the one hand, and institutions like the EU, on the other, which they regard as potentially an alternative project to neoliberalism, and in most cases as a progressive model of democratic globalization. These strategies generally view Turkey's membership in the EU as a positive step towards its inclusion in the 'social Europe.' They see civil society organizations as the major actors of this transformation. While progressive liberal strategies are not as strong as left nationalism, they are still influential. They also range from more class-oriented to more liberal positions. While some social democratic parties, pro-EU NGOs and think tanks stand at the most liberal end of the spectrum, for instance, the ÖDP (Özgürlük ve Dayanışma Partisi – Party for Freedom and Solidarity), a socialist party with considerable popular support, stands at the most class-oriented end. Within the socialist left, the ÖDP represents a unique position that embraces the EU as a democratization project but tries to oppose its neoliberal policies through international alliances with the broader European left.

The position of the left towards the AKP government is also worth mentioning. Left-nationalists have generally supported the secular elites and the military in their critique of the AKP for having a secret agenda of trying to establish an Islamic state. Their emphasis on the Islamic identity of AKP diverts the attention away from the class character of its policies. For instance, during the debates on AKP's attempt to draft the Public Administration Reform laws, left-nationalist circles were obsessed with the fact that the draft was prepared by the AKP's Ömer Dinçer, who had a reputation as a radical

Islamist. It was argued that he was pushing for a more decentralized state structure in order to prepare fertile ground for an Islamic agenda. However, these arguments only created more confusion and concealed the deeply neoliberal character of the reforms, which aimed to decentralize public services only to transfer them to the private sector. In contrast, progressive liberals have been willing to ally with the AKP as a democratic force against the military and secular elites. However, this alliance has recently been breaking down as the AKP is consolidating its power and starting to show its authoritarian and conservative face, especially after its incursion into northern Iraq, and its exceptional use of police brutality in the May 1st 2008 demonstrations, particularly at Taksim Square in Istanbul.

As with the Turkish left in general, the Turkish labour movement is also dominated by left-nationalist strategies. The dominance of left-nationalism in the Turkish labour movement can be explained by the fact that labour organizations, caught unprepared in the face of neoliberal globalization, most often still rely on the pragmatic solutions that worked in the previous period of inner-oriented capital accumulation.[215] They adopt survival strategies based on traditional explanations geared to the preservation of existing forms of solidarity rather than developing new departures in theory and practice (Ercan and Oguz, 2007). This failure can be explained by the time lag between the organizational reflexes of capital and labour. While new survival mechanisms spontaneously developed by individual capitalists gain integrity within a relatively short time, labour responds to these mechanisms only after a longer time span (Arrighi, 1996). This time lag between the spontaneous development of systematic structures by

[215] Boratav (2005), a prominent socialist economist explicitly supports this strategy as a way "to move forward by defending the past."

individual capitalists and the organized response of labour creates a tense relationship. In trying to resist the strategies of individual capitalists as an organized force, labour is torn between transforming its own organizations in line with the changes in capitalist strategies, and sustaining a solidarity-centered language to keep the workers together (Hyman, 1999). As Albo (2007, 361) points out, "left politics under neoliberalism has oscillated between, on the one hand, short-term political calculation to avoid further social erosion, and, on the other, a politics of predicting imminent economic crisis if not total socio-economic chaos that in fact reflects the diversity of Left forces and organizational weaknesses." While the spontaneous experiences of individual capitalists in the 1980s have become structural–systemic elements of the current period, the working class still tries to resist these developments using strategies relevant to the social relations of previous eras. Gindin (2004: 9) makes this point forcefully:

> The context is that while capitalism has dramatically changed over the past quarter century, unions have not. While capital grasped the polarization of options that followed the "golden age" and aggressively pursued its neoliberal option, unions looked for a return to a no-longer possible middle ground and remain unprepared — sporadic struggles aside — to lead any fundamental challenge to the trajectory of the status quo.

In the Turkish case, left-nationalism has dominated the discourse of the Labour Platform, the biggest organization formed against neoliberalism in the late 1990s. The Labour Platform was formed in 1999 in response to the draft laws on social security reform, privatization and international arbitration. It was a broad coalition of all the major labour confederations (DİSK, TÜRK-İŞ, HAK-İŞ, KESK) as well as professional associations in Turkey. In the early months of 1999, the Labour Platform declared a common declaration against neoliberal policies, based on a left-nationalist discourse that sought to "protect the national interests against the IMF and the World Bank" (Koc, 2001, 3). Despite the protests of the Labour Platform, however, the constitutional changes which incorporated privatization and international arbitration was enacted on August 13, 1999. The second wave of protests organized by the Labour Platform took place after the twin economic crises of November 2000 and February 2001. This time, the major issues were the struggle against corruption and the rentier economy. On March 13, 2001, the Labour Platform accepted an action plan called 'No to Corruption and Poverty'. As a first step of the plan, a Labour Policies Symposium was organized in Ankara and an alternative program called "Labour's Program" was adopted.[216]

Labour's Program is a comprehensive policy package calling for control of short-term international capital movements, consolidation of public debt, an end to privatization, tax reform, planning of industrialization, and import controls. It has the merit of showing that the neoliberal program is not the only alternative. However, it does not address the connection between Turkish and global capitalism enough to foster an anticapitalist politics. Instead of analysing the overall process of accumulation that has led to the 2000-2001 crisis, the Program focuses on corruption, the rentier economy, and short-term capital flows.[217] The emphasis on the rentier economy is particularly misplaced because, as this thesis has argued, it is productive capital organized in the form of holding companies that appropriates banking profits as well.

Labour's Program sees globalization as an external intervention in a national development process that would otherwise be going smoothly. Externalization goes hand-in-hand with the well-known formulation of the basic class contradiction as one between 'international capital and its comprador allies' and 'the masses' (which includes the national bourgeoisie, small producers, peasants and workers). The political implication is

[216] The program was prepared by a group of leftist academics belonging to the "Independent Economists Group" mentioned in Chapter 2.
[217] For a detailed critical analysis of the Labour's Program, see Ercan and Oguz (2004, 2007).

that the interests of various classes can be combined to form a cross-class 'national alliance' against international capital. This is theoretically misguided because there is no longer a 'national bourgeoisie', in the sense of a Turkish capital that demands an internationally closed economy that would make such an alliance possible and capitalist economic strategy feasible.[218] As this thesis has shown, most holding companies in Turkey have formed various alliances with international capital at all the different levels of productive, money and commercial capital over the last two decades.

The hegemony of left-nationalism in the Turkish labour movement was also observed in the union responses against the mass privatizations in the the 2000s. The privatization process of public banks such as Ziraat and Halk Bank, and state enterprises such as the oil refinery Tüpraş, Erdemir steelworks, and Türk Telekom revealed a series of conflicts among different sections of capital, within the state, and between capital and labour. In the public discourse, all these conflicts were reduced to the opposition between 'national' and 'foreign' capitals. While newly growing domestic capital groups represented by TOBB tried to benefit from the 'national' label by pointing to the dangers of leaving 'strategic' sectors to foreigners; big internationalized capital groups represented by TÜSİAD emphasized the importance of equal treatment with foreign capital. Similarly, while a group of 'nationalist' bureaucrats within the state, led by Deputy Prime Minister Şener, advocated restrictions on foreign capital in strategic

[218] Panitch's (2004) comments are crucial in this context: "There is indeed a grim reality to the slogan of TINA, if only in the sense of the most sobering thing of all, *i.e.*, that there may actually be no alternative to neoliberalism short of socialism. Especially under conditions where domestic bourgeoisies are themselves so integrated with and heavily invested in neoliberal global accumulation processes, proposals for alternatives that depend on domestic cross-class alliances don't appear as much more viable in the short run than do more full-bodied socialist alternatives. To the extent this is true, the short-term *vs.* long-term calculations that lead us to concentrate on the details of practical policy alternatives unfortunately may play a role in diverting attention from what really need to be concentrated on, that is, what serious socialist strategies would actually have to entail in the 21st century."

sectors, the new circle of 'internationalist' bureaucrats in the economic administration, led by Prime Minister Erdoğan, opposed any restrictions. Ironically, the national-foreign capital opposition dominated the discourse of the labour movement, too. The major slogan used against the privatization of Türk Telekom, for instance, was 'Telekom is our homeland. It cannot be sold!' However, the reduction of the problems of privatization to an opposition between national and foreign capital not only served to empower the position of certain sections of capital against others (for instance TOBB against TÜSİAD) but more importantly, suspended substantial questions about privatization itself.

The dominance of left-nationalism within the Turkish labour movement has carried many political costs. The focus on external institutions has diverted the attention away from new control mechanisms and discipline over labour within Turkey. While there were massive protests against the IMF and World Bank, for instance, there were almost no union responses against the new anti-labour law adopted by the Parliament in May 2003, which aimed to legitimize contingent and flexible work through legal recognition of part-time, temporary and contract labour, as well as increased working time and the right of employers to discharge workers collectively 'in times of crisis' (Ercan, 2003e). In the last seven months, 18 workers have died at the shipyards in Tuzla on the outskirts of Istanbul, where the shipbuilding industry is rapidly growing and internationalizing through a heavy exploitation of subcontracted and unregistered workers who have no health and safety protections. Even the death of many workers remains unregistered, since the bosses pay 'blood money' to the desperate worker families to silence them. The deepening of capitalism has led broader sections of society to lose their rights to health, education, housing, social security and even life.

While all spheres of Turkish social life are increasingly being shaped by the logic of capitalism, the political scene is narrowed down to rapidly changing debates over issues such as the headscarf, the deepening contradictions of capitalism are handled elsewhere in the executive summits of the state, through a circuit among the top bureaucrats, representatives of various capital fractions and their organic intellectuals. In this context, it is more important than ever for the left to reclaim the political scene as the primary site where the contradictions of capitalism are articulated, resisted and directly opposed through projects of popular democratization, against capital's agenda of insulating the state from the popular classes, and turning it into a political space that is seamless in its linkages and support of the accumulation and internationalization of the circuits of capital.

2. Conclusion

This thesis has been theoretically and politically motivated by the attempt to formulate an alternative to the left-nationalist and progressive liberal positions that dominate the analyses of globalization and the state today in Turkey and internationally. The key question, in this context, has been whether economic globalization also necessitates political globalization. Many progressive liberals, including social democrats and some Marxists, argue that not only economic, but also political processes have become globalized. They do not engage with the contradictions of state restructuring within specific social formations. In contrast, left-nationalists – with a similar ideological diversification – treat both economic and political processes as primarily national. They do not engage with the contradictions of the international accumulation process itself.

This thesis has argued that there is a third alternative: even when economic processes are internationalized, their administration remains primarily a national affair. This alternative can explain the contradictions of state restructuring within specific social formations without falling into the pitfalls of either abstract internationalism or nationalism. It has also the political potential, therefore, to move beyond both liberalism and nationalism and their particular units of analysis in their conceptions of the internationalization of capital and the state.

This is particularly important for political alternatives in Turkey, where the left is torn between progressive liberalism and left-nationalism, and is suffering from both organizational weakness and ideological disorientation. The belief of many Turkish progressive liberals, for instance, that European integration will bring a cosmopolitan democracy to Turkey stems from the assumption of a territorial coincidence between European capital and its supranational state. Similarly, the belief of left-nationalists in Turkey in the national-developmentalist alternatives stems from their assumption of a territorial coincidence between national states and their capitals. When viewed from the vantage that there is, in fact, a necessary territorial non-correspondence between the reproductive logic of capital to internationalize and the institutional and territorial specificity of the state, however, it can be seen that national developmentalism now only serves the agenda of globally expanding Turkish capitalists in their struggle for an increased share of the world market, a process that Albo (1997) has called "progressive competitiveness". In that sense, such progressive developmentalism projects have become incorporated into the neoliberal agenda itself. National-developmentalist alternatives to globalization not only serve to legitimize the increasing intensity and velocity of the entire system of capital accumulation, but, most importantly, they systematically target labour as the bearer of the burden of national economic success.[219]

The conceptual emphasis on the very material foundations of the territorial non-correspondence between capital and the state is a necessary underpinning to the making of a socialist alternative today. It implies that the territorial state is still available as a target of oppositional struggles, even if capital is internationalized.[220] The increasing concentration of power in the national state apparatuses through neoliberal authoritarian statism means that the left has now a very clear target and political terrain. However, this political opening can only be used if leftist strategies shift their political energies from cross-class 'national alliances' against externally defined global forces to class-based struggles confronting the new regimes of control over labour that are established by domestic and foreign capitalists in very territorially concrete ways.

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[219] "Indeed, benefits accrue to labour only for *relative* productivity growth (compared with the productivity of workers in other companies and other industries), for it is only productivity converted into profitability that supports wages growth. Hence the prospect is that penalties in the form of wage cuts and/or work intensification are the likely dominant outcome of global competition for most of the world's workers. National policies of competitiveness for collective gain thereby secure the complicity of labour in a policy program in which the gains are private, and the collectivism is a rhetorical construction based on statistical aggregation" (Bryan, 2001, 71).

[220] Wood (2008: 5) makes this point quite forcefully: "When, for instance, Hardt and Negri tell us that there's now 'no place of power', they also mean... that there isn't any possibility of counter-power either. My own view is that there are indeed 'places' of power, local and national concentrations of power, and that therefore counter-power is possible too, in the form of various social and political movements and especially class struggles."

APPENDIX 1

Two Stages of Economic Liberalization, 1994

	Stage I	Stage II
Priorities	1. Reduce inflation 2. Restore growth	1.Improve social conditions 2. Increase international competitiveness 3. Maintain macroeconomic stability
Reform Strategy	1. Change macroeconomic rules 2. Reduce size and scope of the state 3. Dismantle institutions of protectionism and statism	1. Create and rehabilitate institutions 2. Boost competitiveness of the private sector 3.Reform production, financing, and delivery of health care, education, and other public services 4. Create "economic institutions of capitalism" 5. Build new "international economic insertion"
Typical Instruments	1. Drastic budget cuts and tax reform 2. Price liberalization 3. Trade and foreign investment liberalization 4. Private sector deregulation 5. Creation of social "emergency funds" bypassing social ministries 6."Easier" privatizations	1. Reform of labor legislation and practices 2. Civil service reform 3. Restructuring of government, especially social ministries 4. Overhaul of administration of justice 5. Upgrade of regulatory capacities 6. Improvement of tax collection capabilities 7. Sectoral conversion and restructuring 8. "Complex" privatizations 9. Building of export promotion capacities 10. Restructuring relations between states and federal government
Principal Actors	1.Presidency 2.Central Banks 3.World Bank and IMF 4.Private financial groups and foreign portfolio investment	1. Presidency and cabinet 2. Congress 3. Public bureaucracy 4. Judiciary 5. Unions 6. Political parties 7. Media 8. State and local governments 9. Private sector
Public Impact of Reforms	1.Immediate 2.High visibility	1. Medium and long term 2. Low public visibility
Administrative Complexity of Reforms	Moderate to low	Very high
Nature of Political Costs	"Temporary corrections" widely distributed among population	Permanent elimination of special advantages for specific groups
Main Governmental Challenge	Macroeconomic management by insulated technocratic elites	Institutional development highly dependent on midlevel public sector management

Source: Naim, M. (1994) *Latin America's Road to the Market: From Macroeconomic Shocks to Institutional Therapy* (San Francisco; ICEG)

APPENDIX 2

Regulatory Agencies in Turkey, 2006

Agency Name	Law/ Date of Creation	Composition and Appointment of the Board	Administrative Nature	Junction with the Government	Audit Institutions
Capital Market Board	Law 2499/1981 (Amended in 1992 and 1999)	7 members 6 year term (renewable) Nominations by: "Related" Minister (2) Ministry of Finance (1) Minister of Industry and Trade (1) BRSA (1) TOBB (1) Union of Turkish Capital Market Intermediary Institutions (1)	a public legal entity and enjoys administrative and financial autonomy, qualified as independent by law	Related to a Minister of State designated by the Prime Minister	Prime Minister's Office Inspection Board
Competition Agency	Law 4054/1994 (put into effect in 1997)	11 members 6 year term (renewable) Nominations by: Competition Authority (4) Minister of Industry and Trade (2) Minister in charge of State Planning Institute (1) Court of Appeals (1) Council of State (1) Interuniversity Council (1) TOBB (1)	a public legal entity and enjoys administrative and financial autonomy, qualified as independent by law	Related to theMinistry of the Trade and Industry	Court of Accounts
Banking Regulation and Supervision Agency	Law 4389/1999 (became effective in 2000)	7 members 6 year term (renewable) Nominations by: Minister in charge of BRSA	a public legal entity and enjoys administrative and financial autonomy	Related to the Prime Minister or a Minister of State designated by him	
Telecommun-ations Agency	Law 4502/2000	5 members 5 year term (renewable) Nominations by: Minister of Transportation (3) Minister of Industry and Trade, and TOBB (1) Telecommunication Sector (1)	a public legal entity and enjoys administrative and financial autonomy	Related to the Ministry of Transportation	
Energy Market Regulation Agency	Laws 4628 and 4646/2001	7 members 6 year term (renewable) Appointed directly by the Council of Minister	a public legal entity and enjoys administrative and financial autonomy	Related to the Ministry of Energy and Natural Resources	Prime Minister's Office Inspection Board
Sugar Agency	Law 4634/2001	7 members 5 year term (renewable) Nominations by: Minister of Industry and Trade (1) Minister of Agriculture (1) Minister in charge of Undersecretariat of Foreign Trade (1) Turkish Sugar Factories Inc. (1) Union of Turkish Sugar Beet Producer Cooperatives (1) Private Sugar Companies (2)	a public legal entity	Related to the Ministry of Trade and Industry	Prime Minister's Office Inspection Board

Tobacco, Tobacco Products and Alcoholic Beverages Regulation Agency	Law 4733/2002	7 members 5 year term (renewable) <u>Nominations by:</u> Minister of Finance (1) Minister of Health (1) Minister of Agriculture (1) Undersecretariat of Treasury (1) Undersecretariat of Foreign Trade (1) Union of Turkish Chambers of Agriculture (1) Minister in charge of TEKEL Inc. (1)	a public legal entity and enjoys administrative and financial autonomy	Related to a Minister of State designated by the Prime Minister	Prime Minister's Office Inspection Board
Public Procurement Agency	Law 4734/2002	10 members 5 year term (nonrenewable) Nominations by: Minister of Finance (2) Minister of Infrastructure and Housing (3) Undersecretariat of Treasury (1) Council of State (1) Court of Accounts (1) Union of Turkish Chambers and Exchanges (1) Confederation of Turkish Employer Unions (1)	a public legal entity and enjoys administrative and financial autonomy, qualified as independent by law	Related to the Ministry of Finance	Court of Accounts

Sources: Derived from Sezen (2002); Sosay and Zenginobuz (2006).

APPENDIX 3

Laws Enacted as Part of the Program for Improvement of Investment Climate, 2006

Law	Technical Committee	Date/No	Explanatory Note
The Law on Work Permits of Foreigners	Employment	6.3.2003/ 4817	This Law enabled the grant of work permits to foreigners single-handedly by the Ministry of Labor and Social Security. This aimed to overcome the bureaucratic obstacles and lack of control, and thus to avoid unregistered employment. In addition, on 29.8.2003, the Regulation on Employment of Foreign Employees in Direct Foreign Investments came into force and this Regulation developed a concept of foreign 'key personnel', to allow a quicker and more flexible work permit process for short term key personnel.
Law Amending Tax Law	Tax and Incentives	9.4.2003/ 4842	This Law collected existing tax exceptions and exemptions under the main Tax Law, and enabled automatic application for 40% of investment discount.
Foreign Direct Investmen Law	Foreign Direct Investments Legislation	5.6.2003/ 4875	This Law annulled the minimum capital requirement and preliminary authorization for foreign direct investments in Turkey and defined certain concepts such as foreign direct investment and investor at international standards. Also, the Law ensured continuation of certain principles such as national action, freedom to transfer profits and dividends, transfer of capital share abroad in case of dissolution or sale of the company and employment of foreign technical employees. This Law confirms the arrangements in the Constitution and other laws relevant to real estate acquisitions by foreign investors, international arbitration and protection against nationalization.
Law on Amendment on Turkish Commercial Code	Company Registration	17.6.2003/ 4884	This law enabled association of a company in one day, by granting authority to Trade Registries. The company association processes was reduced to 3 transactions from 19 transactions.
Law Amending Land Acquisition Laws	Land Acquisition and Site Development	3.7.2003/ 4916	This law granted foreign persons and foreign companies established abroad to acquire real estate in Turkey on the principle of reciprocity. The reciprocity shall mean that the rights granted by the other country to its own citizens and companies should be granted to the Turkish citizens and companies, with the same conditions. The Law provided for acceleration and facilitation of sale of immovable property of Treasury and allocation of such property to investors at low prices. The Regulations, which allowed allocation of land to the investors and allocation of the parcels in Organized Industry Zones in the priority investment areas free of charge, came into force in July 2004.
Law on Fighting Smuggling	Customs and Standards	10.7.2003/ 4926	The purpose of this Law is to identify the acts which constitute smuggling offence and punishments against such acts. The procedures and principles for preventing, monitoring, investigating and adjudicating smuggling as well as the provisions to be applied to smuggled goods are also outlined.
Law amending the Law on Encouragemen of Tourism	Sectoral Licenses	24.7.2003/ 4957	This law simplified the legislation and bureaucratic procedures related to the granting of licenses in the tourism sector.
Turkish Patent Institute Law	Intellectual and Industrial Property Rights	6.11.2003/ 5000	The purpose of the Law is improving the institutional capacity of Turkish Patent Institute and revising its duties and institutions.

Law amending Tax Procedural Law, Income Tax Law and Corporate Tax Law	Tax and Incentives	17.12.2003/ 5024	This law aims to start inflation accounting for eliminating the adverse affects of inflation on financial statements.
Law amending Law on Intellectual Products	Intellectual and Industrial Property Rights	3.3.2004/ 5101	This law aims to strengthen intellectual property rights, to prevent piracy considering international commitments and sector requests, to address the problems between the producer sectors and users in terms of using products subject to intellectual property.
Law on the Protection of Intellectual and Industrial Property Rights	Intellectual and Industrial Property Rights	7.4.2004/ 5117	This law on The Hague Convention on International Registration of Industrial Design, aims to boost the trend towards betters designs in terms of all methods used in mass production.
Law on Protection of Topographies of the Integrated Circuits	Intellectual and Industrial Property Rights	22.4.2004/ 5147	This Law aims to protect the Integrated Circuit Topography at international standards.
Trademark Law Agreement	Intellectual and Industrial Property Rights	7.4.2004/ 5118	This Law aims to harmonize trademark procedures with world procedures and simplify administrative procedures.
Law amending Mining Law and Certain Laws	Sectoral Licenses	26.5.2004/ 5177	This Law brought legislative unity to the mining sector, secured mining licenses, removed preliminary operating license period and also removed certain restrictions of other legislations on mining operations. Also, the Ministry of Energy and Natural Resources was made the single authority for many permissions and certifications. Finally, in order to prevent different practices with respect to municipal water basins, the Law provided the Water Basin Regulations issued by the municipalities to be united under a common and single regulation, which will be issued by the Ministry of Energy and Natural Resources.
Law on the Production, Consumption and Inspection. of Food	Sectoral Licenses	27.5.2004/ 5179	With this Law, the permissions granted by the Ministry of Health to food enterprises were transferred to the Ministry of Agriculture and Rural Affairs. Some food industry products were taken out of the scope of the control document and bureaucratic actions were reduced.
Changes about Definition of SMEs in the Law of Min. of Ind. And Trade	SMEs	12.4.2005/ 5331	This law granted power to the Council of Ministers with respect to definition of SMEs. A single SMEs definition was made in harmony with EU legislation.
Law on the Establishment of the nvestment Support and Promotion Agency of Turkey	Promotion of Investment	21.6.2006/ 5523	This law aims to strengthen capacity of the Undersecretariat of Treasury, General Directorate of Foreign Investments in terms of the establishment of a Turkey Investment Promoting Agency, to implement a one-year action plan and to make a review at the end of such period.
Law on Regional Development Agencies	Sectoral licenses	25.1.2006/ 5459	This law provided the development of a "Single Stop Office" system in relation to sector permissions at investment and commissioning stages. These arrangements enabled the provincial units of the Regional Development Agencies, to become the single authority, where the applications will be made, followed-up and coordinated.

Source: "Towards Improving the Investment Climate in Turkey", European Union Twinning Project for Turkey, 2006.

APPENDIX 4

Organizational Chart of the CCIIE
(Coordination Council for the Improvement of the Investment Environment), 2006

Chairman: State Minister in Charge of Economy **Members:** • Undersecretary of Ministry of Finance • Undersecretary of Ministry of Industry and Trade • Undersecretary of the Treasury • Undersecretary of Foreign Trade • Undersecretary of SPO • Chairman of the TOBB • Chairman of the TÜS˙IAD • Chairman of the YASED • Chairman of the TIM • Chairmen of the Technical Committees	**Steering Committee:** • Undersecretary of the Treasury • Deputy Undersecretary of the • Prime Ministry • Deputy Undersecretary of the SPO • Deputy Undersecretary of the Ministry of Finance • Deputy Undersecretary of the Ministry of Industry and Commerce • Deputy Undersecretary of Foreign Trade • Secretary General of TOBB • Secretary General of TÜS˙IAD • Secretary General of T˙IM • Secretary General of YASED

Technical Committee I: Company Establishment Chairmanship of the Ministry of Industry and Trade Chairman: Deputy Undersecretary
Technical Committee II: Employment Chairmanship of the Ministry of Labour and Social Security Chairman: Deputy Undersecretary
Technical Committee III: Sectoral Licenses Chairmanship of the State Planning Organisation Chairman: Deputy Undersecretary
Technical Committee IV: Investment Location Chairmanship of the Ministry of Public Works and Settlement Chairman: Deputy Undersecretary
Technical Committee V: Taxes and Incentives Chairmanship of the Ministry of Finance Chairmanship of the Undersecretary of Treasury Chairman: Deputy Undersecretary Chairman: Deputy Undersecretary
Technical Committee VI: Foreign Trade and Customs Chairmanship of the Undersec. of Foreign Trade Chairmanship of the Undersec. of Customs Chairman: Deputy Undersecretary Chairman: Deputy Undersecretary
Technical Committee VII: Intellectual Property Rights Chairmanship of the Ministry of Culture & Tourism Chairmanship of the Turkish Patent Institute Chairman: Deputy Undersecretary Chairman: President
Technical Committee VIII: Investment Promotion Chairmanship of the Undersecretary of Treasury Chairman: Deputy Undersecretary
Technical Committee IX: Investment Legislation Chairmanship of the Undersecretary of Treasury Chairman: Deputy Undersecretary
Technical Committee X: Small and Medium Sized Enterprises Chairmanship of the Ministry of Industry and Trade Chairman: Deputy Undersecretary

Source: "Towards Improving the Investment Climate in Turkey", European Union Twinning Project for Turkey, 2006.

APPENDIX 5

Legal and Administrative Measures for the New Industrial Policy, 2003

Legal Measures	Duration	Responsible Institutions	Purpose
Law on State Aid Monitoring and Control will be enacted and an authority for monitoring and control will be established.	2003	State Planning Organisation	Monitoring, control and evaluation mechanisms shall be made effective in order to ensure new and existing individual aid programmes comply with EU state aid rules.
Public support measures will be rearranged.	2003	Undersecretariat of Treasury	Amendments shall be made in financial legislation and incentive system to enable adaptation of tax incentives for all investments automatically, to reduce bureaucracy and to promote investment.
Free land plots will be allocated to investors.	2003	The Ministry of Industry and Trade	Unallocated land plots in organized industrial zones in priority development regions will be given to the investors at no cost.
Regional classification for state aids will be revised.	2003	Undersecretariat of Treasury	Regional classification for state aids will be revised according to the new NUTS classification and regional supports will be evaluated as such.
Activities of SMEs will be supported.	2003	Undersecretariat of Treasury, Small and Medium Industry Development Organization (KOSGEB)	Low-cost credits will be provided to SMEs as investment and operating capital. Necessary arrangements shall be made in order to solve guarantee and mortgage problems of SMEs. The risk capital system will be improved. Legal arrangements shall be made to strengthen the Credit Guarantee Fund, to extend its usage and to increase the contribution of its partners.
Input costs of the firms will be reduced.	2003	Undersecretariat of Foreign Trade	In order to increase competitiveness, cost of main inputs such as energy, communication and employment will be reduced.

Export credit system will be improved.	2003	Undersecretariat of Foreign Trade	The financial structure of Eximbank will be improved, bureaucratic transactions will be simplified and measures will be taken for problems related to guarantees given by commercial banks.
National brand creation shall be encouraged.	2003	Undersecretariat of Foreign Trade	In order to increase value added, the firms that export under their own brands will be promoted.
Scope of the current legislation in R&D will be extended.	2003-2005	Undersecretariat of Foreign Trade Undersecretariat of Treasury TÜBİTAK	R&D activities will be further promoted.
In the food industry, Communiqués based on the Turkish Food Codex shall be completed and put into force.	2003-2005	The Ministry of Agriculture and Rural Affairs The Ministry of Health	The international standards accepted by FAO Codex Alimentarius Committee has been taken as a basis in the preparation of national legislation in order to adopt the European food quality standards. The harmonisation process is continuing.
Arrangements for the establishment of the Turkish Drug Institution will be made.	2003-2005	The Ministry of Health	Arrangements shall be made for the establishment of the Turkish Drug Institution responsible for authorisation, testing and monitoring activities related to different kinds of products.
Principles of the university-industry cooperation will be rearranged.	2003-2005	The Ministry of Industry and Trade The Council of Higher Education	The principles of the university-industry cooperation shall be rearranged so as to include research companies.
Arrangements on the establishment of a Legal Metrology Institute shall be completed.	2003-2005	The Ministry of Industry and Trade	Efficient utilization of the system of legal metrology will be provided.
"Reform Programme for the Improvement of the Investment Environment in Turkey" will be implemented.	Ongoing	Undersecretariat of Treasury	The Government of Turkey has initiated a comprehensive reform programme to streamline the investment environment and to attract more private direct domestic and foreign investment. Thus, administrative obstacles encountered in realization of investments will be prevented and unnecessary and repeated bureaucratic transactions will be removed.

2003 privatisation programme shall be implemented.	2003	Privatisation Administration	The Government has announced a privatisation programme for 2003 that includes privatisation activities amounting to 4 billion US Dollars.
A privatisation strategy and calendar will be determined for State Economic Enterprises (SEEs) that are not included in the current scope of privatisation.	2003	State Planning Organization	SEEs that are not included in the current scope of privatisation will be classified into three groups according to their activities and the role in the market: - SEEs operating under market rules will be privatised within a short period. - SEEs that are monopolies or dominate the market will be privatised after necessary measures are taken. - Privatisation of SEEs that carry out agricultural support activities will be considered together with agricultural policies.
A commission for the evaluation of state aids will be established.	2003	State Planning Organization	A Special Ad Hoc Committee for the preparation of an inventory of all state aids, for the evaluation of their effectiveness and to make suggestions has been established and is continuing its activities.

Source: Industrial Policy for Turkey: Towards EU Membership, State Planning Organization, Ankara, 2003.

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