

Alo Kapitalizm:  
Turkish Telecommunications Policy in the Context of  
an Outward-Oriented Development Strategy

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## Approvals

“Alo Kapitalizm: Turkish Telecommunications Policy in the Context of an Outward-Oriented Development Strategy,” a dissertation prepared by Sırrı Emrah Üçer in partial fulfillment of the requirements for the degree of Doctor of Philosophy from the Atatürk Institute for Modern Turkish History at Boğaziçi University, has been approved on 9 November 2018 by:

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## Abstract

“Alo Kapitalizm: Turkish Telecommunications Policy in the Context of an Outward-Oriented Development Strategy”

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This dissertation provides a political-economic analysis of Turkish telecommunications policy in the period of outward-oriented development after 1980. The dissertation combines the findings of the telecommunications policy research agenda with a structural analysis of global capitalism to better grasp policy formation in middle-income peripheral countries in the context of international financial crises and fluctuations and to shed light on real-world mechanisms of capital transfer. The dissertation analyzes Turkish telecommunications policy after 1980 in two periods. The first, between 1980 and 1994, was characterized by a public telecommunications leap. In this period, policymakers prioritized the use value of telecommunications. The second is the period after 1994 and was characterized by privatization for revenue maximization. It was a period in which policymakers prioritized the exchange value of telecommunications.

As case studies, the dissertation analyzes the introduction of private capital to the mobile telephone segment in the 1990s, the advent of foreign capital through the introduction of another private operator in 2000, and the privatization of Türk Telekom in 2005. With respect to these case studies, the dissertation focuses on the political mediation of capital movements from the core to the periphery, the lobbying of core governments, and the role of the political forum as an essential mechanism of dispute settlement.

118.000 words

## Özet

“Alo Kapitalizm: Dışa Dönük Kalkınma Stratejisi Bağlamında Türkiye Telekomünikasyon Politikaları”

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Bu tez, 1980 sonrası dönemde, dışa dönük kalkınma stratejisi bağlamında, Türkiye’de telekomünikasyon sektörü üzerine ekonomi-politik bir analiz sunar. Tez, orta-gelirli çevre ülkelerde uluslararası finansal krizler ve dalgalanmalar bağlamında politika oluşumunu daha iyi kavramak ve sermaye hareketlerinin aktüel biçimlenişini aydınlatmak maksadıyla, telekomünikasyon politikaları akademik literatürünün bulgularıyla küresel kapitalizme ilişkin yapısal bir analizi kaynaştırır. Tez, 1980 sonrası Türkiye telekomünikasyon politikalarını iki dönem halinde ele almayı önerir. Birinci dönem 1980-1994 arasında kamu telekomünikasyon atılımının gerçekleştirildiği, karar vericilerin sektörün kullanım değerine öncelik verdiği bir dönemdir. İkinci dönem, 1994 sonrasında, azami gelir amacına odaklanmış özelleştirme politikalarının hayata geçirildiği, karar vericilerin sektörün değişim değerini ön plana çıkardıkları bir dönemdir.

Tez, örnek olay incelemesi olarak, 1994 senesinde özel sermayenin mobil telefon alanına sokulmasını, yabancı sermayenin 2000 senesinde yeni bir mobil operatör ve 2005 senesinde Türk Telekom özelleştirmesi üzerinden sektöre girmesini inceler. Tezin odak noktası, merkez ekonomilerden çevre ekonomilere yönelen sermaye hareketlerinin politik olarak dolayımlanması, merkez hükümetlerin lobiciliği ve anlaşmazlık çözümünde yürütme organının öne çıkması üzerindedir.

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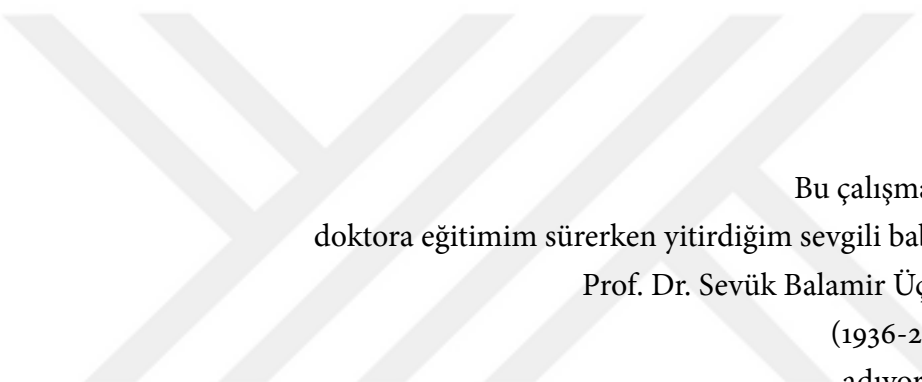
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Bu alıřmamı,  
doktora eęitimim srerken yitirdięim sevgili babam  
Prof. Dr. Sevk Balamir er'e  
(1936-2012)  
adıyorum.

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## Glossary of Non-English Terms

Menzil Official horse-messenger system of the Ottoman Empire

## Abbreviations and Acronyms

AKP	Adalet ve Kalkınma Partisi (Justice and Development Party)
ANAP	Anavatan Partisi (Motherland Party)
AR-LA	Araştırma Laboratuvarları (Research labs of the PTT)
AT&T	American Telephone and Telegraph
BİST	Borsa İstanbul (Istanbul stock exchange)
BLT	Build-lease-transfer
BOT	Build-operate-transfer
BT	British Telecom
BTK	Bilgi ve İletişim Teknolojileri Kurumu (The Information and Communication Technologies Authority)
BTM	Bell Telephone Manufacturing
CHP	Cumhuriyet Halk Partisi (Republican People's Party)
CTLD	Convertible Turkish Lira Deposits
DBP	Deutsche Bundespost (German federal post office)
DP	Demokrat Parti (Democrat Party)
DPT	Devlet Planlama Teşkilatı (State Planning Organization)
DSİ	Devlet Su İşleri (State Hydraulic Works)
DSL	Digital subscriber line
DSP	Demokratik Sol Parti (Democratic Left Party)
DSTI	Directorate for Science, Technology and Innovation
DYP	Doğru Yol Partisi (True Path Party)
ECLA	Economic Commission of Latin America
EİEİ	Elektrik İşleri Etüd İdaresi (Agency for the study of electrical works)
EMO	İ Odası (Chamber of Electrical Engineers)
EPG	Etkin piyasa gücü (dominant market power)
EPRI	Economic Policy Research Institute
FDI	Foreign direct investment
GDP	Gross domestic product
GP	kı (Young Party)
GSM	Global System for Mobile Telecommunications

ICSID	International Center for Settlement of Investment Disputes
ICT	Information and communication technologies
IEEE	Institute of Electrical and Electronics Engineers
IMF	International Monetary Fund
IPO	Initial public offering
IRCICA	Research Center for Islamic History, Art and Culture
ISI	Import substitution industrialization
IT&T	International Telephone and Telegraph
ITT	International Telephone and Telegraph
İDO	İstanbul Deniz Otobüsleri (Istanbul Fast Ferries)
İMKB	İstanbul Menkul Kıymetler Borsası (Istanbul stock exchange)
İş-Tim	İş Bankası & Telecom Italia Mobile Consortium
İTÜ	İstanbul Teknik Üniversitesi (Istanbul Technical University)
KDV	Katma Değer Vergisi (Value added tax)
KYP	Kamu yatırım programı (Public investment program)
KYR	Kamu yatırım raporu (Public investment report)
MDP	Milliyetçi Demokrasi Partisi (Nationalist Democracy Party)
MENA	Middle-East and North Africa
MESS	Metal Eşya Sanayicileri Sendikası (Turkish Employers Association of Metal Industries)
MHP	Milliyetçi Hareket Partisi (Nationalist Movement Party)
MITI	Ministry of International Trade and Industry
MSP	Milli Selamet Partisi (National Salvation Party)
NATO	North Atlantic Treaty Organization
NBER	National Bureau of Economic Research
NTT	Nippon Telegraph and Telephone
NYSE	New York Stock Exchange
ODTÜ	Ortadoğu Teknik Üniversitesi (Middle East Technical University)
OECD	Organisation for Economic Cooperation and Development
OTAŞ	Oger Telekomünikasyon Anonim Şirketi

ÖİB	Özelleştirme İdaresi Başkanlığı (Privatization Administration)
PO	Public offering
PPI	Private participation in infrastructure
PPP	Public-private-partnerhip
PTT	Post, telegraph, and telephone
RK	Rekabet Kurumu (Competition Agency)
RP	Refah Partisi (Welfare Party)
SAL	Structural adjustment loan
SHP	Sosyal Demokrat Halkçı Parti (Social Democrat Populist Party)
SNHU	Southern New Hampshire University
SOE	State owned enterprise
SPK	Sermaye Piyasası Kurulu (Capital Market Board of Turkey)
SPO	State Planning Organization
SWF	Sovereign Wealth Fund
TBMM	Türkiye Büyük Millet Meclisi (Grand National Assembly of Turkey)
TEDAŞ	Türkiye Elektrik Dağıtım Anonim Şirketi (Electric Distribution Joint-Stock Company of Turkey)
TEİAŞ	Türkiye Elektrik İletim Anonim Şirketi (Electric Transition Joint-Stock Company of Turkey)
TEK	Türkiye Elektrik Kurumu (Electric Agency of Turkey)
TEPAV	Türkiye Ekonomi Politikaları Araştırma Vakfı (Economic Policy Research Foundation of Turkey)
TIM	Telecom Italia Mobile
TISP	Telecommunications and Information Society Policy Forum
TK	Telekomünikasyon Kurumu (Telecommunications Agency)
TMMOB	Türk Mühendis ve Mimar Odaları Birliği (Union of Chambers of Turkish Engineers and Architects)
TMSF	Tasarruf Mevduat Sigorta Fonu (Saving Deposit Insurance Fund)

TOKKOİ	Toplu Konut ve Kamu Ortaklığı İdaresi (Public Housing and Public Partnership Administration)
TRT	Türkiye Radyo-Televizyon Kurumu (Turkish Radio and Television Corporation)
TRT-GAP	Türkiye Radyo-Televizyon Kurumu-Güneydoğu Anadolu Projesi (Turkish Radio and Television Corporation-South-eastern Anatolia Project)
TSK	Türk Silahlı Kuvvetleri (Turkish Armed Forces)
TT	Türk Telekom
TTAŞ	Türk Telekom Anonim Şirketi
TTNET	Türk Telekom Net
TÜSİAD	Türk Sanayici ve İş Adamları Derneği (Turkish Industry & Business Association)
UMTS	Universal Mobile Telecommunications System
UNIDO	United Nations Industrial Development Organization
WB	World Bank
WB PPI	World Bank Private Participation in Infrastructure Database
WPIE	Working Party on the Information Economy
WTO	World Trade Organization
YPK	Yüksek Planlama Kurulu (High Planning Council)

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The people I mention above have no academic or political responsibility for my expressions in this dissertation. Errors are mine.

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NOTE: The in-house editor of the Atatürk Institute has made recommendations with regard to the format, grammar, spelling, usage, and syntax of this dissertation in compliance with professional, ethical standards for the editing of student, academic work.



## Introduction

### § 1.1 Introduction: A Political Economy Analysis of Telecommunications

In the 1990s, the concept “New Economy” was popular, especially among economists, finance professionals, and media circles. The so-called New Economy was a notion that signified overly optimistic expectations about the impact of new telephone and computer technologies. Finance and telecommunications were two interrelated and interconnected networks throughout the 1980s and 1990s. In this period, these two networks empowered each other. On one hand, telecommunications systems transformed and revised themselves according to the demands of finance. On the other, financial networks provided sources of extensive investments in telecommunications networks.

In 2000 the finance boom for telecommunications ended as telecommunications stocks were sharply devalued in international capital markets, a development I call the telecommunications bust. Following the telecommunications bust, it was clear that the overly optimistic prospects of the New Economy would not be fulfilled. However, the telecommunications sector continued to be significant in that it was the the first infrastructure segment that absorbed respectable amounts of private investment stock. As other infrastructure networks followed the footsteps of telecommunications in terms

of attracting private investment, the economic management of private investment in infrastructure sectors became a topic of academic research. Telecommunications policy debates have been the birth place of the regulatory state research agenda. The research agenda took first steps around telecommunications privatization and evolved to include monetary policy, energy, water, and transportation. These areas are still in need of a good understanding of the telecommunications privatization.

Following the telecommunications bust in 2000, telecommunications, computer, electronics, internet and media companies consolidated horizontally and vertically consolidated, through mergers and acquisitions. In the 2010s, the telecommunications, internet, and media giants were at top of lists of leading multinational companies.<sup>1</sup> The political and economic issues about these new giants, - policy oscillations between competition and consolidation for example - are familiar to the students of telecommunications policy research agenda. Without taking into account the three-decades of telecommunications history, it is not possible to grasp the main questions about telecommunications and media conglomerates.

For Turkey and similar peripheral middle-income countries, the restructuring of the telecommunications sector was a first step for privatization. The privatization auctions of telecommunications in these countries were in the spotlight of the local public and the international community as an indicator of the outward-oriented transformation of their economy. The telecommunications privatizations that were accomplished generated record amounts in terms of foreign investment and revenue. For Turkey, the establishment of a nationwide telephone network became a necessity with the transition to an

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1 According to Price Waterhouse Cooper's top 100 list, Apple climbed from thirty-second in 2009 to first in 2017 in terms of market capitalization. In the same period, Alphabet (the group that controls Google), moved from twentieth to second. By March 2017, Microsoft held the third rank, Amazon fourth, and Facebook fifth. Among telecommunications and media giants, AT&T held fifteenth, China Mobile twentieth, Verizon thirtieth, Walt Disney thirty-fourth, and Comcast thirty-fifth. For details, see Price Waterhouse Cooper, "Global Top 100 Companies by Market Capitalisation: 31 March 2017 Update," Report of Price Waterhouse Coopers Initial Public Offering Center, March 31, 2017, 35-36. These internet, telecommunications and media companies have interconnected ownership structures as they hold stakes in each other.

outward-oriented development strategy in 1980. The exhaustive waiting lists for telephone subscriptions and awful condition of the network is folklore among a generation of Turkish people. The demand for telephone and other telecommunications services increased as the volume of transborder and domestic economic transactions expanded. Turkey took the first step to build a nationwide telephone network through public investments in the 1980s. In the 1990s and 2000s, telecommunications privatizations generated significant revenue for the government and attracted sizeable private investment, especially with respect to the expansion of mobile telephone networks. However, the process was not smooth. The privatization of telecommunications was hotly debated among political leaders and the courts, rightists and leftists, supporters of globalization and protectionists.

Structural changes to global accumulation patterns deeply affected and shaped telecommunications policy in core high-income countries as well as in peripheral middle-income countries like Turkey. However, insufficient attention was paid to the relationship between capitalist accumulation patterns and telecommunications systems.

In this dissertation, I propose a political economy analysis of the telecommunications sector in the case of Turkey to complement policy-oriented studies of the last two decades. Scholars of telecommunications policy have written much on the institutionalization or lack of institutionalization of private competition and on the problematic relationships between technocrats and politicians. The scholars of regulatory state research agenda engaged with the transformation of the hierarchy of the organs of the state and its effect on policy making. These scholars reduced the main question of the efficiency of the systems following the privatization of public utilities to the liberalization of the private entry in a competitive manner.<sup>2</sup>

Beyond the miraculous powers attributed to technological change and endless discussions of the proper setting of liberalizing movements and enabling competition, the relationship between telecommunications systems and capital accumulation was overlooked. I argue that this omission prevented an

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2 There is a vast literature on telecommunications policy. I provide a critical review below. See sections 2.2 and 2.3.

understanding of the conflicting nature of telecommunications, that is rooted in the commodification of the sector. I propose a political economy framework to reposition telecommunications policy in the context of global capitalism. From this perspective, the usefulness of the telecommunications system for capitalist transactions and the commodification of the system contradict with each other and sets the stage for a conflicting nature of telecommunications policy.

A critical political economy approach to the telecommunications sector necessitates the reconceptualization of policy research as part of global accumulation regimes. The present global accumulation regime works in a finance-dominated flexible mode.<sup>3</sup> The economic and political organization of society changed in accordance with the transition from manufacturing-dominated, Fordist mode to the finance-dominated one in the last four and half decades. The telecommunications sector and policy also changed shape in relation to this transition. Despite the fact that the transition has a multi-faceted effect on telecommunications, I argue that the structural factor that forced the transformation of the telecommunications sector was the increasing significance of the international finance, especially cross-sectoral and cross-border capital replacements within international financial markets.<sup>4</sup>

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- 3 I employ the concepts “global accumulation regime” and “finance-dominated flexible accumulation” with reference to David Harvey and Bob Jessop. David Harvey, *Condition of Postmodernity: An Enquiry into the Origins of Cultural Change* (Cambridge: Blackwell, 1990), 173-188; Bob Jessop, “Revisiting the Regulation Approach: Critical Reflections on the Contradictions, Dilemmas, Fixes and Crisis Dynamics of Growth Regimes,” *Capital and Class* 37, no. 1 (2013): 5-24. Instead of “Post-Fordism,” “finance-dominated flexible regime” is the proper label for the phase that followed Fordism, as Post-Fordism signifies a narrower transformation, namely the dispersal of manufacturing plants, which is only one aspect of the overall transformation. As the overall transformation was a transition from a manufacturing focused economy to a finance-dominated structure, the concepts like Post-Fordism, which persist to highlight organization of manufacturing process, are misleading for understanding the basic role of finance.
- 4 These replacements include short-term capital movements as well as long-term foreign direct investments (FDI). David Harvey treats these capital replacements as strategic tools to remedy the crisis tendencies of capitalist accumulation, namely spatial and temporal fixes of capital.

In the context of finance-dominated capitalism, the spatial replacement of capital was observed in two interrelated realms, namely cross-sectoral and cross-border capital movements. The cross-sectoral movement of capital is from manufacturing to service in core high-income countries and was coupled with a cross-border movement of manufacturing capital from core high-income countries to geographies where labor was cheap. The pro-privatization restructuring of the telecommunications sector in core high-income countries was part of the cross-sectoral movement of capital. In other words, capitalists in core high-income countries redirected their funds to former public utilities starting with the privatization of telecommunications. Immediately after their privatization, the emergent private telecommunications companies sought to expand overseas expansion and targeted the telecommunications sectors of peripheral middle-income countries. The telecommunications sectors in peripheral middle-income countries including Turkey are at the intersection of the cross-sector replacements that target services sectors and cross-border replacements.

This dissertation analyzes the restructuring of the Turkish telecommunications sector in the outward-oriented growth era<sup>5</sup> and investigates different

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David Harvey, “The Spatial Fix – Hegel, Van Thuren and Marx,” *International Journal of Urban and Regional Research* 13, no. 3 (1981): 1-12. I explain the concept in more detail in section 2.4.

- 5 The widely employed notions to signify subsequent development strategies are ISI (import substitution industrialization, *ithal ikameci sanayileşme* in Turkish) and export-oriented industrialization (*ihracata yönelik sanayileşme* in Turkish). These two models are alternative modes of industrialization and share the aim to develop manufacturing as the true course of economic development. However, independent of the official label of the Turkish model after 1980, the Turkish integration into the world economy did not focus on industrial investments. The share of the manufacturing sector in GDP and employment declined over the last three decades and the services sector became dominant through tourism, construction, finance and infrastructure. The import of manufactured goods expanded in every dimension and rate of the increase in exports fell well behind the volume of imports. Therefore, I argue that “outward-oriented growth/development strategy” is a more appropriate label than “export-oriented industrialization” for the Turkish strategy after 1980. For an overall evaluation of Turkish development strategies, see Ziya Öniş and Fikret Şenses, “Global Dynamics, Domestic

forms and mechanisms of capital replacements that targeted the Turkish telecommunications sector. Actually, the expansion of global capital to the telecommunications sectors of peripheral middle-income countries did not necessitate the direct involvement of private telecommunications companies from the core high-income countries. Rather, the involvement of financial capital through the financing of telecommunications privatizations is another channel of cross-sectoral and cross-border replacement of capital. The foreign and private financing of Turkish private mobile telephone operators is an example: Operators with majority Turkish ownership financed their expansion through the instruments of international capital markets like consolidated credits, vendor credits, and public offerings, especially in the second half of the 1990s. (For details see section 5.3). The direct involvement of foreign companies like Telecom Italia, Vodafone and Saudi Oger in the 2000s exemplifies the other form of capital replacement. (For details, see chapter 6.)

To posit the study of telecommunications policy in the context of a political-economic analysis of capitalism is not a smooth process. Tensions between theory and facts, structure and agency, and theoretical analysis and policy-focused analysis matter. How can policy-focused studies and a structural analysis of capitalism be merged to form a political economy of telecommunications?

As a method of research, policy analysis dominates academic studies of the telecommunications sector in Turkey as well as in other peripheral middle-income countries. Such analysis focuses on national policies on telecommunications, especially the institutionalization of privatization and competition in the last three decades. However, this approach almost always omits the global dynamics of capitalism comprising the structural framework of private capital movements that make private entries into the sector possible. The increasing significance of capital replacements and financial mobility in the latest phase of global capitalism is directly related to the telecommunications sector as the financial transactions move through the telecommunications

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Coalitions and a Reactive State: Major Policy Shifts in Post-War Turkish Economic Development” (ERC Working Papers in Economics 07/06, Economic Research Center, Middle East Technical University, Ankara, 2007), 14-20.



networks while these very networks are being the target of private acquisitions. Therefore, limited analysis of national policies cannot reveal the real structural framework of the policies.

In the context of finance-dominated capitalism, the increasing need to render capital more mobile produced qualitative and quantitative changes in the demand for telecommunications services and triggered a transformation of the strictly fixed organizations of the previous mode of accumulation, namely Fordism. Finance-dominated flexible capitalism has created two directions for the telecommunications sector. First, the telecommunications services had to become cheap, flexible, and versatile. This conflicted with the classical structure that prioritized universal access to standardized services. Second, after restructuring and privatization, the telecommunications sector had to operate and develop consistently in order to create a suitable environment for expanding financial transactions. Following privatization, the development of telecommunications networks became dependent on private financing and private investment, which initially meant more financing opportunities. However, on the negative side, private modes of investment and financing are prone to the fluctuations and crises of international financial markets. The demand from the financial sector for a flexible but consistent provision of telecommunications services and the stable growth of private economic activity in the telecommunications sector are the two structural pillars of the political economy of telecommunications. However, these two forces do not perfectly align with each other and set up the conflicting nature of telecommunications policy through which I explain shifting policy priorities.

On one hand, I argue that policy-focused studies should be complemented by structural analyses of capital movements to analyze the actual factors that determine the environment of policy formation. Without taking the conditions of capital movements into account, a researcher cannot adequately understand and grasp policy formation and the interactions among actors like governments, regulatory bodies, and companies.

On the other hand, I also argue that specific studies on sectors and sectoral policies are necessary to observe the dynamics of capitalism in the real world. In this respect, telecommunications policy studies have merit, as inter-sectoral capitalist expansion from manufacturing to services began with the expansion

to the telecommunications sector. Through acquisitions, mergers, credits, public offerings, and other financing agreements, private capital fortified in the sector. This has been a cross-border as well as a cross-sector movement, as individual telecommunications sectors of countries were targeted by private capital.

The structural analysis of capital movements should be complemented by actual histories of policymaking, private financing and privatization in order to verify the operation of theoretical mechanisms at work in the world. The main direction of policymaking in different sectoral realms has been to facilitate cross-sector and cross-border private capital movements. However, individual national policymaking mechanisms have their own histories and cannot be reduced to the legal superstructures of capital movements. The same influx of capital creates different outcomes in different settings with respect to domestic policymaking and local business culture. Beyond a structural analysis of the global accumulation regime, these legal, institutional, and political factors determine the environment of a political-economic analysis.

In the finance-dominated regime of global accumulation, telecommunications services gained additional significance as the finance sector started to demand quantitatively larger and qualitatively more versatile services. For proper operation of capitalist transactions, the use of telecommunications is crucial. For individual countries, the use of the sector for economic activities matters, and the development of the sector through steady investment is significant. On the other hand, the sector is itself a target of cross-sector and cross-border private capital movements. For individual countries, the take over of the sector by private corporations through privatization is another aspect of the sector. The goal of proper developing telecommunications networks and the goal of facilitating private entry do not fit with each other in a smooth way and sets the conflicting nature of telecommunications policy. In this dissertation, the contradiction between the use and exchange values of the commodity form is re-modelled for the telecommunications sector in order to reinterpret telecommunications policy in terms of political economy. (For details, see section 2.4.)

Turkey is an interesting example to analyze as its telecommunications sector has been the primary sector to be privatized and to attract significant

amounts of cross-border capital replacements, in other words foreign direct investment (FDI). The movement of capital into the Turkish telecommunications sector has been an intersection point of cross-sector and cross-border movement of the capital, a tale of the expansion of banks and telecommunications companies of core economies to peripheral middle-income countries. From the point of view of the Turkish policymakers, the inflowing FDI has been perceived as an increase in investment and privatization revenues. Governments care about FDI as the inflow of external financing and transfer of technology knowhow are perceived as indispensable contributions to economic development. Privatization revenues also matter, as governments sought ways to finance public budget deficits, an inclination I analyze critically in chapter 4.

This dissertation provides a history of the Turkish telecommunications in the outward-oriented period after 1980. It also revisits of a crucial and neglected part of modern Turkish history by collecting and re-integrating outdated and fragmented sources of information on Turkish telecommunications.

I summarize the contribution of this dissertation to the academic literature by three points. First is to show that the timing of the restructuring of telecommunications did matter with regards to the fluctuations and crises of international financial markets. Restructuring of telecommunications in Turkey sets an exemplar of a bad timing, as it occurred concurrently with the telecommunications bust and February 2001 Crisis, in other words double crises. Without taking these double crises into account, it is not achievable to analyze behavior of foreign investor companies, as well as Turkish and foreign politicians. The shifts in the international financial trends gave birth to the alterations in the expansion strategies of foreign companies. These alterations determined the destiny of Turkish telecommunications in cases I investigate. Second contribution is to prove that the transformation of the state in order to create an institutional base to facilitate private entries to the sector was failed. In this respect, the case of Turkish telecommunications restructuring is an instance of failing of post-privatization regulation in the peripheral countries. The former developmentalist policy maker bodies like PTT and State Planning Organization (*Devlet Planlama Teşkilatı*, SPO) performed better in

terms of directing investment to the development of networks and cooperating with the political leaders like Turgut Özal. The background of these political leaders as the engineers experienced in network investments further facilitated this cooperation. In the 1990s and 2000s this institutional base of PTT and SPO was disintegrated and a new set of regulatory agencies, namely Competition Agency (*Rekabet Kurumu*, RK), Privatization Agency (*Özelleştirme İdaresi Başkanlığı*, ÖİB), and Telecommunications Agency (*Telekomünikasyon Kurumu*, TK) were established. However, the novel and young regulatory agencies failed to make a progress that would have balanced the political leaders' pragmatic approach to the privatization policies. These political leaders adopted a privatization policy that prioritized the revenue generation even in expense of network development. Third contribution of dissertation is to analyze political mediation of spatial replacement of capital. As the former institutional base stepped back and novel regulatory base failed to substitute, private investments were primarily mediated by political leaders. In this process, the negotiations between Turkish and foreign political leaders had a significant role to shape outcomes. The lobbying and pressing of political leaders of core governments over peripheral government of Turkey intensified in times of financial crises, in order to make the minimum loss withdrawal of core companies from Turkey possible. Transfer, establishment, and re-transfer of foreign capital cannot be analyzed without taking mediation of political mechanisms into account. In these cases, the political forum was the final mechanism of dispute resolution that by-passed initiatives of regulatory agencies, courts, and international arbitration.

Before elaborating my arguments, it is necessary to sketch the international aspects of the transformation of the telecommunications sector in the next section (1.2) of this introductory chapter. What lies ahead in the introduction after this second section is as follows: The third section (1.3) explains the conflicting structure of telecommunications policy and formulates three alternate goals of telecommunications policy for peripheral middle-income countries. The fourth section (1.4) positions telecommunications policy in the context of the Turkish privatization experience and emphasizes the leading role of telecommunications in terms of attracting private capital to Turkish

infrastructure. The fifth section (1.5) briefly summarizes the chapters of the dissertation. The sixth section (1.6) is a note on the method of the dissertation.

## § 1.2 From the National to the Global Reach of Telecommunications: Historical Background and General Model

Before providing a general history of transformation of commercial telephone services, it is necessary to explain the evolution of postal and telegraph systems - the direct ancestors of the telephone networks - to pave the way for a better understanding of the historical patterns of the policies that determined the initial conditions of telecommunications policy. In this historical background, my emphasis is on commercial post and telegraph services open to the public use rather than exclusive networks for state use or private networks for company use.

The presence of messenger networks and postal organizations can be traced to the emergence of centralized political authorities in need of proper conveyance of military and administrative messages. Despite the fact that state messenger networks were essentially for the conveyance of governmental messages, ordinary citizens found ways to utilize these networks for their private purposes, too. In addition to state networks, a variety of opportunities existed in these early periods to send letters and parcels. Merchants, travelers, shipping lines and some other companies offered various transportation services.<sup>6</sup> Despite the opportunities, these networks were not equally dispersed in different geographies and did not guarantee a consistent, rapid flow of messages. The first proper postal organizations that resemble modern postal services emerged in European countries in the sixteenth and seventeenth centuries. The main process behind the formation and development of modern

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6 For the British case, see Joseph Clarence Hemmeon, *The History of the British Post Office* (Cambridge: Harvard University Press, 1912), 1-6. For a discussion of the Thurn and Taxis family that privately controlled the postal service of the Habsburg Empire, see Eli Noam, *Telecommunications in Europe* (New York: Oxford University Press, 1992), 10-14. For the early experience in France and Britain, see Russel W. Burns, *Communications: An International History of the Formative Years* (London: Institution of Engineering and Technology, 2004), 21-25.

postal organizations was state formation in terms of centralization and modernization. As central states more potently penetrated their countries, they tended to eliminate alternative networks and make monopolies of their official postal systems.<sup>7</sup> The establishment of modern postal services was also crucial for the development of capitalist transactions in a new national geography beyond persisting networks of international and interregional trade. The national postal unity was promoted and protected by modernizing mercantilist states. In the following centuries, manufacturing and trade as well as labor and capital transfer expanded, and the growing demand from businesses and ordinary citizens created a significant source of revenue for the governments – a fact that further motivated the monopolization of postal services under national postal networks.

The process of forming national postal networks was not straightforward for peripheral governments that somehow managed to remain independent but suffered severe shortages of funds and men. In addition, trade and capital dependency on core governments compel the penetration of core postal organizations into peripheral geographies, further delaying the establishment of their own modern national post systems. In addition to expanding trade and capital transfer between the core and periphery, the conveyance of the remittances of immigrant workers created a significant demand on postal services.<sup>8</sup> As a consequence, a chaotic structure characterized the presence of multiple foreign-origin postal networks persisted in peripheral countries that remained

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- 7 Two crucial features of modern postal systems that are different from older messenger systems were the construction of roads capable of serving cars and the acceptance of private letters and parcels at a consistent frequency for fixed prices. For details see Andrew C. Brix, “Postal System,” *Encyclopedia Britannica Online Edition*, April 20, 2017, [www.britannica.com/topic/postal-system](http://www.britannica.com/topic/postal-system).
- 8 In the second half of the nineteenth century and the early twentieth century, there was lively private activity on the part of domestic and foreign companies to convey remittances of Chinese workers abroad. See Lane Jeremy Harris, “Overseas Chinese Remittance Firms, the Limits of State Sovereignty, and Transnational Capitalism in East and Southeast Asia, 1850s-1930s,” *The Journal of Asian Studies* 74, no. 1 (2015): 129-151.

politically independent, like China and Ottoman Empire.<sup>9</sup> For peripheral countries that were direct colonies, the postal organizations launched were extensions of the systems of their colonial powers.<sup>10</sup>

The emergence of mechanical telegraph systems in France and Britain in the 1790s was the peak of mechanical communication systems and was triggered by the needs of the modern army, navy and state bureaucracy. These mechanical telegraph systems were direct relatives of age-old beacon and messenger systems and used basic technologies like telescopes. The modern sense of the word telegraph is misleading as they were nothing more than a network of towers built on hilltops within sight of each other and assigned a few public servants who sent the messages by positioning semaphores or shutters.<sup>11</sup> The main factor that made these mechanical communication mechanisms functional was the social organization of people, stretched beyond its traditional

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- 9 For details on the British, French, German, Japanese, Russian and United States post offices in China, see Lane Jeremy Harris, “The Post Office and State Formation in Modern China, 1896-1949,” (PhD dissertation, University of Illinois at Urbana-Champaign, 2012), 115-129. In addition, there were British and French post offices in Brazil; British, Egyptian and French offices in Ethiopia; British and Russian offices in Iran; British, French and United States offices in Japan; Japanese offices in Korea; and British offices in Thailand; all of which exemplify the foreign post offices in politically independent peripheral countries. For brief information on the foreign post offices in these countries, see the country profiles of the philatelist website [www.stampworldhistory.com/](http://www.stampworldhistory.com/), accessed April 2, 2018. The Ottoman Empire was another peripheral geography in which core-origin foreign post offices were commercially active. For a discussion of foreign post offices in the Ottoman Empire, see section 1.2.3 below.
- 10 For the case of the United Kingdom and its colonies, see Donald M. Reid, “The Symbolism of Postage Stamps: A Source for the Historian,” *Journal of Contemporary History* 19, no. 2 (1984): 227-228. Similar to the manner of British colonies, postal services in the Dutch colony Indonesia were launched by the colonial administration as an extension of its motherland’s postal system in the seventeenth century. This early introduction of a modern postal service by a colonial administration also resulted in a relatively early monopolization of that postal services in 1862. Jonathan L. Parapak, “Indonesia,” in *Telecommunications in the Pacific Basin: An Evolutionary Approach*, ed. Eli Noam, Seisuke Komatsuzaki, Douglas A. Conn (New York: Oxford University Press, 1994), 106.
- 11 For details, see Ken Beauchamp, *History of Telegraphy* (London: Institution of Engineering and Technology, 2008), 4-19. Also see Burns, *Communications: An International History*, 29-54.

scales. The modern state emerged and used its financial and organizational capacities to form larger networks of telegraph towers and officials. This social evolution of the communications systems was further improved by the adaptation of the new technology of electricity – in other words the advent of electrical telegraphy in the 1830s.<sup>12</sup> The use of electrical current to transmit written messages to the other end of a cable instead of optic observation of semaphores or shutters significantly increased the speed, range and capacity of telegraph systems. In contrast to the direct state initiative in the mechanical-optical telegraph, the electrical telegraph was introduced through patent mechanisms in the United Kingdom and United States, in which private companies as well as creative, versatile inventors of the period were involved.<sup>13</sup> The electrical telegraph networks expanded along routes paved by the railway companies as the electrical telegraph signaling of trains was anyway necessary for the railway networks.<sup>14</sup> In addition to bureaucratic messages of the government and the telegraph signaling of the trains, telegraph networks also served ordinary citizens and business people. As telegraph companies invested in the networks of many core and peripheral countries in the nineteenth century, commercial telecommunications services in the modern sense were launched. The governments of continental Europe introduced publicly owned telegraph services in the 1840s, but also accepted messages of business and ordinary people unlike in the period of mechanical telegraphy.<sup>15</sup> The United Kingdom gov-

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- 12 For details on the advent of the electrical telegraph, see Burns, *Communications: An International History of the Formative Years*, 57-92.
- 13 For the competition in the United States between 1850s and 1880s, see Beauchamp, *History of Telegraphy*, 57-68.
- 14 The presence of a ready network of railways in the United States and European countries accelerated the expansion of the telegraph network. For details, see Burns, *Communications: An International History*, 57-68.
- 15 For details on the advent and expansion of the electrical telegraph in continental Europe, see *Ibid.*, 86-90, 108-109. In a similar manner, the Japanese government introduced a publicly owned telegraph network in 1869 during the Meiji Restoration. Youichi Ito and Atsushi Iwata, "Japan: Creating the Domestic and International Network," in *Telecommunications in the Pacific Basin: An Evolutionary Approach*, ed. Eli Noam, Seisuke Komatsuzaki, and Douglas A.



ernment followed the European model and nationalized its telegraph networks in 1870.<sup>16</sup> However, private operation of the telegraph persisted in the form of the monopoly of Western Union in the United States.<sup>17</sup> Peripheral governments also quickly adopted the technology, which was a relatively cheap infrastructural network. A mixed structure of government ownership of national networks but dependence on foreign telegraph organizations for long-range and under-sea connections emerged in peripheral geographies. In the Chinese case, the electrical telegraph was introduced in the 1870s through the investments of the British Cable & Wireless and Danish Northern Telegraph companies. The government telegraph network was installed in the 1880s but coexisted with those of foreign companies, similar to the copresence of domestic and foreign post offices.<sup>18</sup>

The advent of telephone technology was a further step in adapting electrical currents for communication which made the reproduction of human speech on the other end of the cable possible instead of just the written messages conveyed by the telegraph. The invention of telephone technology through the commercial patenting occurred in 1876 in the United States. This was followed by private entrepreneurship in the following decades.<sup>19</sup> Tele-

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Conn (New York: Oxford University Press, 1994), 440. The state-owned telegraph companies of Europe and Japan were active investors in peripheral geographies, following the footsteps of their post offices.

- 16 For integration and nationalization in the United Kingdom, see Beauchamp, *History of Telegraphy*, 73-81.
- 17 Western Union's successful partnerships with railway companies and the United States Postal Service paved the way for the telegraph monopoly of Western Union in the 1890s. For details, see *Ibid.*, 59-60, 65.
- 18 For details, see Jerome J. Day, Jr., "Hong Kong," in *Telecommunications in the Pacific Basin: An Evolutionary Approach*, ed. Eli Noam, Seisuke Komatsuzaki, and Douglas A. Conn (New York: Oxford University Press, 1994), 244 and Tseng Fang-Tung and Mao Chi-Kuo, "Taiwan," in *Telecommunications in the Pacific Basin: An Evolutionary Approach*, ed. Eli Noam, Seisuke Komatsuzaki, and Douglas A. Conn (New York: Oxford University Press, 1994), 315-317.
- 19 For details on scientific experiments leading to the telephone and the personal history of inventor Alexander Graham Bell, see Burns, *Communications: An International History*, 171-180. Also see Vaclav Smil, *Creating the Twentieth Century: Technical Innovations of 1867-1914 and Their Lasting Impact* (New York: Oxford University Press, 2005), 227-236.

phone networks were swiftly deployed in the United States but delayed in Europe and on other continents. This was in part a consequence of competition from well-established telegraph networks, especially in the realm of long distance communication. Governments that monopolized and had integrated postal and telegraph services were also skeptical of this expensive technology pioneered by the private companies and tended to protect the revenue flow from the post and telegraph. As a consequence, telephone networks were launched by private urban operators in port cities and other commercial nodes as a form of private municipal service supplied to rich citizens and business subscribers. The majority of governments tended to nationalize urban telephone companies to merge them with their public post and telegraph communication systems. However, similar to the nationalization of the postal systems, the process of nationalizing the telephone networks was not simultaneous among the governments. The core governments did different timings, styles, and extents of nationalizations that would shape their future fate in the age of privatization. Peripheral governments' adoption of nationalization policies, which was delayed by a few decades, was also characterized by varied timings and styles. As an exception, like the telegraph, the telephone persisted as a private monopoly in the United States in the form of the Bell System cartel, a combination of telephone operator, equipment manufacturer, and technology developer, until its disintegration in 1984.

There are many divergences in the individual national histories of telecommunications. Still, it is possible to construct a narrative explaining the broad lines of its historical transformation. The individual histories of national telecommunications systems only make sense in a comparative perspective, as the transformation of the sector was triggered by global changes. Nevertheless, telecommunications policy took place at the national scale, as did many other realms of policy.

In this section, I derive a general model from numerous histories of telecommunications systems in order to compare and contrast the Turkish expe-

rience with other experiences. This model best fits Western European countries and has strong explanatory power for the Turkish case too.<sup>20</sup> After I summarize the model, I introduce significant divergences and differences from this model, starting with the archetypical (but not general) case of the United States. Following the United States, I briefly introduce cases from Europe, Latin America, and South Africa. In doing so, I provide a general sketch of the transformation of the telecommunications sector. In this respect, the United States case is the archetypical transformation that triggered change in other places.<sup>21</sup> The European cases also matter for Turkey as Turkey was a part of the European integration area since the 1950s, and the organization and transformation of telecommunications in Turkey have many common features with the Europe. I also introduce some information on Latin American and South African cases to form a comparison group of peripheral middle-income countries.

### 1.2.1 *General Model*

The commercial launch of telephone services occurred in the 1880s. In this period, namely the Gold Standard Era, an internationally integrated colonialist economic structure was in place.<sup>22</sup> In concord with this economic structure, telephone service was initially launched by private actors. These urban-scale companies were based in the metropolises of the period as business demand

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- 20 The literature does not offer such a narrative. Still, the accounts of Noam and Thatcher provide a narrative of the transformation of telecommunications in Europe. Noam, *Telecommunications in Europe*; Mark Thatcher, *Internationalization and Economic Institutions: Comparing European Experiences* (New York: Oxford University Press, 2007). I offer a much wider literature review in chapter 2.
- 21 For the United States case, see accounts of Brock and Horwitz. Gerald W. Brock, *The Second Information Revolution* (Cambridge, MA: Harvard University Press, 2003); Robert B. Horwitz, “Deregulation as a Political Process” (paper presented at the Exitos y Fracasos de la Nueva Regulación en Telecomunicaciones Conference, Centro de Investigacion y Docencia Economicas [CIDE], Mexico City, March 23, 1998).
- 22 Eichengreen provides an historical account of the gold standard era. Barry Eichengreen, *Globalizing Capital: A History of the International Monetary System* (Princeton, NJ: Princeton University Press, 2008): 6-42.

for telephone services was concentrated in these places and telegraph networks were already supplying long distance communication services.<sup>23</sup> The sector was internationalized as it was usual for capitalist groups and entrepreneurs of the period to seek overseas ventures in infrastructure.<sup>24</sup>

In the period between the 1910s and the Great Depression (1930s), because of a decline in international private business with parallels in various sectors, the inclination to nationalize the telecommunications companies intensified.<sup>25</sup> This inclination was prompted by nationalist sentiments and military strategy as well as the statist economic approaches of the period.<sup>26</sup> Nationalized telecommunications companies ceased to be urban based and were integrated

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- 23 For explanation of the local character of early private telephone operators, see Ronald S. Love, “For the General Good: The Debate over Private vs. Public Ownership of Telephones and the Canadian West, 1900–1912,” *American Review of Canadian Studies* 35, no. 1 (2005): 67–68. Also see Graeme J. Milne, “British Business and the Telephone, 1878–1911,” *Business History* 49, no. 2 (2007): 165. For an account on early investments in Germany and France, see Noam, *Telecommunications in Europe*, 10–14 and 69–71 for Germany and 134–136 for France.
- 24 Angel Calvo, “The Spanish telephone sector (1876–1924): A case of Technological Backwardness,” *History and Technology* 18, no. 2 (2002): 79–80 and 98–99.
- 25 The nationalization of telephone networks took place in 1889 in France, and in Britain in 1911. In Germany, the telephone was launched as a state-owned network in 1889. These Western European countries form the group of early nationalizers along with Switzerland in 1884, Austria in 1895, and Belgium in 1896. See Noam, *Telecommunications in Europe*, 136 for France, 19–22 for Britain and 69–71 for Germany, 186–187 for Switzerland, 195–196 for Austria, 178–179 for Belgium. Also see Arthur N. Holcombe, *Public Ownership of Telephones on the Continent of Europe* (Boston: Houghton Mifflin, 1911). The telephone was introduced in Japan in 1890 and in Korea in 1902 as state-owned networks – other examples of early consolidation under a public monopoly –. See Ito and Iwata, “Japan: Creating the Domestic and International Network,” 445 and Kwang-Yung Choo and Myung-Koo Kang, “South Korea: Structure and Change,” in *Telecommunications in the Pacific Basin: An Evolutionary Approach*, ed. Eli Noam, Seisuke Komatsuzaki, and Douglas A. Conn (New York: Oxford University Press, 1994), 287.
- 26 For a summary of the nationalizations of the period, see *The New Palgrave: A Dictionary of Economics*, ed. John Eatwell, Murray Milgate and Peter Newman (New York: Palgrave Macmillan, 1987), s.v. “Nationalization,” by Michael V. Posner. For an explanation of the factors that paved the way for nationalization, see Hildegard Waschke, “The Development and Impact of Nationalisation in Britain,” *Intereconomics* 12, no. 5–6 (May, 1977): 153–157.

into the national post, telegraph, and telephone networks to form a widespread organization pattern of postal, telegraph, and telephone service (PTT). PTT was a common abbreviation in continental European countries, that signified the organizational pattern of telecommunications operations. In this organizational pattern, the PTT provided postal and telephone services together under public ownership.<sup>27</sup>

To revive the potential of national economies and meet the democratic and redistributive demands of society, the principle of universal access drove the public investments in telecommunications networks in the Bretton Woods era (1945-1970s).<sup>28</sup> In this period, national PTT was the champion employer and investor – in other words, a good instrument for the industrial development and full employment policies of industrialist governments of the period. Governments utilized the demand for equipment created by telecommunications investments to support the national champions of the electronics manufacturing. In this period, telecommunications systems were embedded in the socio-political organization of countries and their industrialist development goals; the demand from the finance business remained secondary. Actually, the employment, access in remote areas, postal services and support for national electronics manufacturing were being financed by the profits from business subscribers, especially in the later phases of network development.<sup>29</sup> The PTT system was adapted to the needs of a Fordist accumulation regime; in other words, the postal-industrial complex of the period was a counterpart to Fordism in terms of a national telecommunications regime.

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- 27 This abbreviation has become a domestic word in Turkish, *Posta Telgraf Telefon*, PTT. The PTT is still operating in Turkey without the telephone services. But the name has been changed (*Posta ve Telgraf Teşkilatı Anonim Şirketi*), even though it carries the same initials.
- 28 For an account of this period, which considers it the golden age of Fordist capitalism, see Eric Hobsbawm, *Age of Extremes: The Short Twentieth Century 1914-1991* (London: Abacus, 1994): 257-287.
- 29 Noam employs the concept “postal-industrial complex” to signify these national blocks of postal organizations, monopoly telephone operators, and electronics manufacturers. See Noam, *Telecommunications in Europe*, 4, 24-25. See section 2.2.1 for details.

At the end of the Bretton Woods period, the Fordist accumulation pattern replaced by a finance-dominated flexible accumulation mode.<sup>30</sup> In this new setting, business subscribers – especially legally and economically-empowered banks – and other financial corporations started to demand cheaper and more varied services. The first response of governments was to allow private entry to some segments, which were perceived of as “enhanced” services, like long distance telephony, leasing of private lines and mobile telephony. In the second half of the 1970s, international finance-dominated accumulation and its institutional framework started to create pressure to privatize public infrastructure in addition to other public assets as a part of a search for new areas of private investment to which to channel over-accumulated funds. As a consequence, a restructuring process started in the telecommunications sector in the 1980s. As a part of this restructuring, telephony was detached from PTTs and privatized.<sup>31</sup> Privatized incumbents and private entrants were not limited by Fordist style employment and universal access commitments and prioritized meeting the demands of business subscribers.<sup>32</sup> In addition, they had more access to the international financial markets and boldly borrowed to finance their acquisitions and network expansions. After divestiture and monetization of telecommunications assets, the government abandoned the role of direct provider of telecommunications services and adopted a regulatory role of

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- 30 For the transition from Fordism to the flexible accumulation era see Harvey, *Condition of Postmodernity*, 141-172.
- 31 The privatization of the fixed telephone operator took place in Britain in 1984, in Germany 1996, and in France and Italy in 1997. These dates correspond to win the largest numbers of shares were privatized at once. Actually, the privatization and restructuring process took between five and ten years, in a series of detachments, block sales and public offerings. For details, see Thatcher, *Internationalization and Economic Institutions*, 165-173 for Britain, 185-187 for Germany, 179-181 for France, and 193-195 for Italy. Also see *Privatization Barometer Database* for details of privatizations in European countries. Privatization started in Japan and South Korea in 1987. For a longer discussion of the restructuring of telecommunications in core countries, see section 2.2.1. State-ownership has persisted in People’s Republic of China up until the present. For details on the dates when privatization occurred in peripheral middle-income countries, see the next section 1.2.2.
- 32 Incumbent typifies operators with a dominant market share and a widespread infrastructure. Entrants are recently introduced operators with smaller market shares and infrastructures.

implementing pro-competition measures. As a consequence, telecommunications ceased to be an element of social-overhead capital or public utilities and began to be perceived of as a private infrastructure.

The global dispersal of manufacturing necessitated an improvement in infrastructure conditions, especially transportation and telecommunications networks, in order to minimize the costs of movement of goods and information and to facilitate international coordination. In a similar manner, the increase in the volume of international capital movements provided an increase in demand for telecommunications services.<sup>33</sup>

In the 1990s, an feverish investment in telecommunications took place in international capital markets as internet and data services became significant and fed the “new economy.” This was an example of the sectoral replacement of the over-accumulated capital into services, as manufacturing had declined in the core high-income countries. The expansion of financial transactions went hand in hand with the expansion of private investment in telecommunications in the 1990s. The boom of telecommunications stocks ended and a bust took place in 2000-2001. (For details, see subsection 4.5.2.) Following the bust, the private investment declined and the consolidation of ownership accelerated through mergers and acquisitions in the 2000s and 2010s. The consolidation of the telecommunications, internet, and media companies gave birth to top-flying multinational companies of present.

### 1.2.2 *Particular Articulations of the General Model*

United States telecommunications history diverges from the model above, as the structure before reform was private telephone monopoly, rather than a publicly-owned post, telegraph, and telephone operator. In the New Deal era, the federal administration recognized the monopolistic rights of the American Telephone and Telegraph Company (AT&T), the company formed by the patent of Bell in 1877 as explain in the historical background in section 1.2. The monopoly was recognized by the United States government in exchange for the company’s commitment to universal access as well as a secure, unionized

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33 Barney Warf, “Telecommunications and the Globalization of Financial Services,” *The Professional Geographer* 41, no. 3 (1989): 259-261.

labor regime – norms which were in accord with the Fordist accumulation pattern. This regulated monopoly, namely AT&T, was regionally disintegrated by a court decision in 1980 that came into force in 1984, which formed seven regional and one long distance telephone operator.<sup>34</sup> The divestiture of AT&T was the kickstarted the change in the world of telecommunications, as reform in the United States triggered change in various regions. For core high-income countries that host advanced finance sectors, like the United Kingdom, Japan, and the Netherlands, demand from financial business subscribers was the main factor that motivated governments to restructure the telecommunications sector. For other high-income core countries like France, Germany, Italy, Spain and Scandinavian countries with respectable business demand for telecommunications services, the liberalization of the sector in the United States, United Kingdom, Japan, and the Netherlands created pressure for them to reform, as well, as the classical organization was unable to respond to challenges from international competitors.

For Western European countries, telecommunications reform was motivated by two interconnected factors. Demand for telecommunications services from international business, especially financial companies, increased. This increase motivated them to seek opportunities for better, cheaper services in more suitable countries. Western European governments acted to meet the demand from these business groups by reforming their telecommunications sectors. This was also an issue of competition – of attracting financial capital. In this region, the United Kingdom acted first to privatize and divest the majority public share in British Telecom (BT) in 1984. In the United Kingdom, demand from the domestic (but internationalized) finance sector was the dominant factor.<sup>35</sup> However, in other Western European countries like Germany and France, the international competition factor was more dominant.

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34 In addition, its vertical agreements with equipment manufacturers were disbanded. For details of the restructuring in the United States, see Brock, *Second Information Revolution*, 205-206.

35 For details of telecommunications privatization in the United Kingdom, see Thatcher, *Internationalization and Economic Institutions*, 165-173. Japan achieved its privatization in 1987 and 1988. See Yoshio Takano, *Nippon Telegraph and Telephone Privatization Study: Experience of*



They were in a hurry to restructure their telecommunications sectors and to secure a place in the international competition among emerging telecommunications multinationals.<sup>36</sup> For Italy, Spain and the Scandinavian countries, the main factor that gave birth to a particular divergence from the generalized narrative was there late, partial nationalization of their telecommunications operators – in other words, the persistence of private enterprise in their telecommunications sectors.<sup>37</sup> Because of the relatively late nationalization of telecommunications in these countries, they had the opportunity to quickly prepare their telecommunications operators quickly for privatization and international expansion. Consequently, operators originating in Spain and Scandinavia had better performance in terms of international expansion and acquisition of profitable ventures in peripheral regions.<sup>38</sup> The widespread method of telecommunications privatization in European countries was a public offering (PO) of stake in the operator instead of a block sale to a single company. Through public offerings, incumbents gained a managerial autonomy shaped by a private corporate management style sensitive to shareholder

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*Japan and Lessons for Developing Countries* (Washington D.C.: The World Bank, 1992), 36. Netherlands privatized its public telephone operator in 1989. See Robert C. G. Haffner and Koen G. Berden, “Reforming Public Enterprises -- Case Studies: The Netherlands,” OECD, Public Management Service, Paris, 1998, paragraphs 36-38.

- 36 Privatization of the largest portion of their fixed telephone operators occurred in Germany in 1996 and in France 1997. See Thatcher, *Internationalization and Economic Institutions*, 179-181 for France and 185-187 for Germany.
- 37 Nationalization in a partial fashion that protected some nuances of private ownership and corporate management took place in Sweden in 1923, in Finland in 1935, in Spain in 1945, and in Italy in 1964. For Sweden and Finland, see Noam, *Telecommunications in Europe*, 203-204 and 212-213. For Spain, see Judith Clifton, Francisco Comin, and Daniel Diaz-Fuentes, “From National Monopoly to Multinational Corporation: How Regulation Shaped the Road towards Telecommunications Internationalisation,” *Business History* 53, no. 5 (2011): 769-770. For Italy, see Thatcher, *Internationalization and Economic Institutions*, 151.
- 38 The prospects for international expansion were similar for Telecom Italia. The company expanded through peripheral countries including Turkey in the second half of the 1990s. However, the company’s strategy shifted towards a withdrawal from the periphery in response to the telecommunications bust in 2000. For details on the expansion and withdrawal of Telecom Italia, see section 6.2.3.

concerns. This pattern concurred with the target to take part in international competition.

For peripheral middle-income countries, telecommunications privatization was the spearhead for a general program of privatization. In order to guarantee and force the flow of process, international organizations like the World Bank (WB), International Monetary Fund (IMF) and World Trade Organization (WTO) placed privatization and telecommunications reform on their agendas. Once promoted as an international policy standard, pressure on peripheral governments to privatize elevated. Privatization in these peripheral countries generally followed a period of crisis when governments were hungry for funds and motivated to prove their home commitment to the reform programs of international organizations.

For peripheral middle-income countries, the main political and academic reasoning behind privatization was to boost investment in infrastructure. Telecommunications infrastructure was perceived of as a crucial element in outward-oriented growth strategies. To host foreign companies, these countries had to improve their telecommunications networks. In addition, to get the maximum available gain from the capital account liberalization, countries needed to improve telecommunications channels for financial transactions. However, such improvements to infrastructure required vast investments that exceed the capacity of public financing in an age of anti-inflationary budget discipline. Under these conditions, attracting a strategic foreign investor or partner through the block sale of a publicly-owned operator became the dominant method of privatization in peripheral middle-income countries. In exchange for a respectable amount of privatization payment, the foreign strategic investor was granted controlling stake and the temporary advantage of being a monopoly. The payment dimension of the block sale was related to public budget disciplining concerns. By leveraging as high a payment as possible, governments sought to remedy public debt. This was also a concern of European governments to an extent, created by the factors like German unification and the Maastricht criteria. However, revenue generation through privatization was a more dominant policy priority in peripheral middle-income countries. The inclination to maximize privatization revenue is a negative factor in terms of the development of infrastructure, as the companies have to

divide their financial means between their payment commitments to the government and their physical investment in infrastructure.<sup>39</sup>

The coupling of privatization with regional disintegration of operations was more widespread in the Latin America, relative to other peripheral middle-income countries.<sup>40</sup> Chile, Argentine and Brazil executed telecommunications privatization through regionally dis-integrating telecommunications operations, a process facilitated by the geographical isolation of the regions and their federal administrative structure.<sup>41</sup> The United States model also included the regionally disintegrated launch of competition in telecommunications, which was more adaptable to the geographical and political structure of Latin American countries. Another factor that facilitated dis-integrated mode of privatization in Latin America was the relatively late nationalization of their telephone networks; the delay in nationalization had preserved the regional characteristics of telephone operations to an extent.<sup>42</sup>

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- 39 For a detailed discussion on the reasoning in favor of privatization in peripheral middle-income countries, see 2.2.2. For the method I employ to measure the prioritization of revenue generation, see 4.2.2.
- 40 Sybill Rhodes provides an account that engages with multiple Latin American countries, see Sybill Rhodes, *Social Movements and Free-Market Capitalism in Latin America: Telecommunications Privatization and the Rise of Consumer Protests* (Albany: State University of New York Press, 2006).
- 41 The major privatization of the telecommunications incumbent took place in Chile in 1988, in Argentina in 1990, and in Brazil in 1998. See Rhodes, *Telecommunications Privatization and the Rise of Consumer Protests*, 45-135. These countries followed the route of the United States by disintegrating the incumbent before privatization. Mexico is the exception among Latin American countries, as Telmex was privatized as a whole. The goal of the Mexican government was to give an advantage to Telmex with respect to international expansion. For a comparison of the privatization of Telmex privatization with the experience of other Latin American countries, see Bülent Aybar, Serhat Güney, and Hasan Süel, "Privatization and Regulation in Turkish Telecommunications: A Preliminary Assessment" (SNHU International Business Program Working Paper Series No. 2001-02, Southern New Hampshire University, Hooksett, August 2001), 25-26.
- 42 The partial nationalization of telephone networks was completed in Argentina in 1969. With the exception of one company, local operators were nationalized and consolidated over two decades. Telephone nationalization occurred in Chile in 1971, in Mexico in 1972, and in Brazil in 1973. These were gradual take-overs of private local operators throughout the 1960s and

The privatization of the telecommunications through regional disintegration was not suitable in peripheral middle-income countries like South Africa and Turkey in which territorial unity and integrity contrasted the federal structures of Latin American countries.<sup>43</sup> These peripheral middle-income countries, which nationalized in the 1930s or earlier, had a much greater resistance to divesting and disintegrating telecommunications. Therefore, in South Africa, Turkey, and many other early nationalizers, there was neither a regional disintegration of the fixed telephone network nor the introduction of regional mobile telephone operators.<sup>44</sup> Regional disintegration was perceived by telecommunications policy research agenda as a good starting point for institutionalizing competition along with privatization, as regional operators

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1970s instead of single acts of nationalization. For Argentina see Alice Hill and Manuel Angel Abdala, "Regulation, Institutions and Commitment: Privatization and Regulation in the Argentine Telecommunications Sector," (World Bank, Policy Research Working Paper no. 1216, November 1993), 8-10. For Chile and Brazil, see Rhodes, *Telecommunications Privatization and the Rise of Consumer Protests*, 51 and 108. For Mexico, see Roger G. Noll, "Priorities for Telecommunications Reform in Mexico," in *No Growth without Equity? Inequality, Interests and Competition in Mexico*, ed. Santiago Levy and Michael Walton (Washington, World Bank & Palgrave MacMillan, 2009), 366.

43 For a detailed account on South Africa, see Robert B. Horwitz, *Communication and Democratic Reform in South Africa* (New York: Cambridge University Press, 2001).

44 The formerly peripheral governments of Japan and Korea launched commercial telephone systems as state-owned networks in 1890 and 1902, respectively. In other words, the telephone network was nationalized from the beginning. Another peripheral government that remained politically independent in the nineteenth century despite economic dependence on core economies, Ethiopia, also launched its telephone network as a state-owned entity in 1894. Some other early-nationalizer peripheral governments were Indonesia which nationalized its telephone network in 1906, South Africa in 1910, Egypt in 1918, and Turkey in 1938. These early nationalizers did not prefer regionally-disintegrated mode of fixed telephone network privatization and instead privatized telecommunications entity as a nation-wide operator. For Japan, see Ito and Iwata, "Japan: Creating the Domestic and International Network," 445. For Korea, see Choo and Kang, "South Korea: Structure and Change," 287. For Indonesia, see Parapak, "Indonesia," 107. For South Africa, see Horwitz, *Communication and Democratic Reform in South Africa*, 28. For Egypt, see Gehan Rachty, "Egypt," in *Telecommunications in Africa*, ed. Eli M. Noam (New York: Oxford University Press, 1999), 40. For Turkey, see section 1.2.3.

were to be competitors. On the other hand, an integrated monopoly attracted higher privatization payment. The route adopted by these peripheral middle-income countries was the product of policy priorities together with historical circumstances.

The financial crisis wave that started in East Asia in the second half of the 1990s and contaminated to Russia, Turkey and Argentina was a turning point for timing of telecommunications privatization. The second turning point was the telecommunications bust in 2000.<sup>45</sup> Unfortunately countries were not prepared for these deadlines determined by unexpected financial crises. Countries that achieved telecommunications privatization prior to their individual financial crises and the telecommunications bust in 2000 had better outcomes. However, countries like Turkey, which privatized during or after the crisis, had much poor outcomes in terms of attracting private investment. In this regard, Chile (1988), the Philippines (1988),<sup>46</sup> Thailand (1990), Argentina (1990), Malaysia (1990), Mexico (1991), Peru (1994), and Indonesia (1994) are among the countries which timing was good. These early adopters enjoyed the international private financing boom in telecommunications in the 1990s. Some countries like Kazakhstan (1997), Brazil (1998), and Romania (1998) achieved fixed telephone privatization just before the crisis wave. The timing of fixed telephone privatization in Morocco (2000), Bulgaria (2004), Egypt (2005), Turkey (2005), Colombia (2006), and Ukraine (2011) was bad and they attracted smaller amounts of private investment following privatization.

Another striking comparison with respect to timing is the lag between the introduction of mobile telephony and privatization of the fixed telephone operator. In general, countries introduced private capital primarily into the mobile telephone segment, as the social resistance to the liberalization of this segment was much lower. In some countries, the time lag between the

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45 For a study that handles the telecommunications bust in 2000 and the East Asian, Russian, Turkish, and Argentinian crisis wave between 1997 and 2002, see Padma Desai, *Financial Crisis, Contagion, and Containment: From Asia to Argentina* (Princeton: Princeton University Press, 2003).

46 The Philippines was the only country other than the United States to have a regulated private monopoly instead of a publicly-owned incumbent before the reform. This was an outcome of the United States colonization background.

introduction of private mobile operators and the privatization of the fixed incumbent was short. These durations were zero in Peru, India, and Argentina, one year in Morocco, Indonesia, Mexico, and Thailand, two years in Brazil and Malaysia, three in Russia and Kazakhstan, and four in South Africa and Pakistan. These countries enjoyed simultaneous development of private operations in the mobile and fixed segments, a factor that positively affected investment. However, in countries like Bulgaria (a lag of ten years), Turkey (eleven years), Colombia (twelve years), and Ukraine (fifteen years), privatization of the fixed incumbent lagged dramatically behind the mobile telephony, which created uneven competition between mobile and fixed networks.<sup>47</sup>

### 1.2.3 *Turkish Telecommunications Policy History – Realms and Periods*

Before sketching the periods of Turkish telecommunications policy with emphasis on policies that shaped commercial telephone services, I provide a historical background of commercial postal and telegraph services in Turkey. The history of the post and telegraph in the Ottoman Empire is similar to that of other peripheral countries that remained politically independent despite the deliberate dependence in terms of trade and capital transfer, like China, Ethiopia, and Thailand. The economic dependence of these peripheral countries was also evident in the realm of postal services in the form of the presence of the foreign post offices of multiple core economies, as I explain in section 1.2.

To start with, the Ottoman Empire adopted the ancient messenger systems of Roman, Persian, and Arabic civilizations in the form of the *menzil* system. This system was essentially designed to convey official messages and urgencies and was managed directly by local agents of the state. However, the actual-existing version of this ideal included private, tax-farmed operations (*iltizam*) and de facto acceptance of private posts and parcels.<sup>48</sup> In addition to this

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47 For a table that indicates the timing and investment information of various peripheral middle-income countries, see Appendix A: Private Investment Data for Selected Peripheral Middle-Income Countries.

48 For a detailed study on *menzil*, see Yusuf Halaçoğlu, *Osmanlılarda Ulaşım ve Haberleşme (Menziller)* (Ankara: PTT Genel Müdürlüğü, 2002).

stretching of the *menzil* system by societal demand for commercial postal services, the activities of foreign post offices in port cities and other economic centers of the Ottoman Empire since had answered the need for postal services since the sixteenth century. The foreign post services were granted legal status in the eighteenth century and intensified in the second half of the nineteenth century.<sup>49</sup> This expansion of foreign post offices was partly the consequence of the late establishment of the modern Ottoman Post, which took place in the 1840s.<sup>50</sup> However, after the founding of the Ottoman Post, competition with foreign post offices was the main factor that prevented the improvement of the Ottoman Post. The presence of foreign post offices caused a serious state failure for the Ottoman Empire, robbing it of postal revenues and supporting separatist movements within the empire. Actually, the activity of foreign post offices in the empire was part of a general problem of trade dependence based

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- 49 In this manner, Venetian, Austrian, French, British, Russian, and even Egyptian, Greek, Polish and Romanian post offices were active in the Ottoman Empire in different periods and for various durations. For a detailed account of foreign post offices in the Ottoman Empire, see Asaf Tanrıku, *Türkiye’de Posta ve Telgraf ve Telefon Tarihi ve Teşkilat ve Mevzuatı* (Ankara: Efem Matbaacılık, 1984), 319-338. The most pervasive foreign postal system was the Austrian post: as in the second half of the nineteenth century they had around seventy post offices. See *ibid.*, 323-325. In addition to foreign post offices, several foreign maritime and railway companies and individual entrepreneurs provided de facto postal services, as the state was not capable of stopping them, see Tanju Demir, *Türkiye’de Posta Telgraf ve Telefon Teşkilatının Tarihsel Gelişimi (1840-1920)* (Ankara: PTT Genel Müdürlüğü, 2005), 68-73. Also see Taner Aslan, *Osmanlı’da Levant Postaları* (Ankara: Berikan Yayınevi, 2012).
- 50 The first modern postal route was established between Istanbul and Izmit in 1834 by rebuilding the existing *menzil* road to make the travel of postal horse-drawn carriages possible. However, the road degenerated as an organization for its maintenance was not in place. The Ottoman Post was officially founded in 1840 with a regular route from Istanbul to Edirne. Later, the network expanded to other cities and employed a combination of vehicles like horse-drawn carriages, steamships, trains, and animals. For details, see Tanrıku, *Türkiye’de Posta ve Telgraf ve Telefon*, 29-73. Horses and camels persisted to be in use for the mounted postmen who went to centers without proper road or sea access. The poor condition of land routes brought about a dependence on foreign companies for steamships and railways, a factor that contributed to the hegemony of foreign post offices.

on agreements called capitulations that were later fortified by free trade and peace treaties with core governments.<sup>51</sup>

A mechanical telegraph like the French semaphore telegraph and British shutter telegraph systems was in use in Istanbul in the 1830s during the war against Russia to meet military needs. The electrical telegraph was introduced in 1854, again to meet military urgency during the Crimean War.<sup>52</sup> The commercial launch of the system occurred in 1855, when a line between Istanbul and Edirne, was installed and operated as a monopoly of the government.<sup>53</sup> In the following decades the public telegraph network was extended to various cities of the empire. Despite the fact that the foreign companies had a hold on the international links of the telegraph network, the situation was far from the dependent situation of the postal organization. This was in part a consequence of the relatively low cost of the infrastructure of a telegraph network compared to a postal road, railway, and future telephone networks. As a consequence, telegraph investments were financed by the government and became backbone of the long distance communication in Turkey in the second half of the nineteenth and first decades of the twentieth centuries. In addition, the Post Ministry merged with the Telegraph Directorate in 1870 two form the Post and

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- 51 Despite the efforts of the Ottoman Empire to wipe out the foreign post offices, it was not possible to achieve before the abolition of the Capitulations in 1914, in the beginning of the First World War. After the war, foreign post offices came back. The final withdrawal of the foreign post offices in Turkey was not before the Peace Treaty of Lausanne in 1923. Article 113 of the Lausanne Peace Treaty in 1923 stipulated the abolition of the foreign post offices in Turkey. This was a year after the withdrawal of the foreign post offices in China, except some of the Japanese offices in Manchuria, as a consequence of the resolution formed in Washington Congress in 1922, see Harris, "The Post Office and State Formation in Modern China," 126-127.
- 52 Actually, there were successful experiments of the electrical telegraph in Istanbul in 1847 and 1856; however, the government was not fully convinced to the necessity of this technology until becoming involved in a serious war. For details, see Roderic Davison, *Essays in Ottoman and Turkish History, 1774-1923: The Impact of the West* (Austin: University of Texas Press, 1990), 133-165, the essay titled "The Advent of the Electric Telegraph in the Ottoman Empire."
- 53 For some detail on the expansion of the commercial network under state ownership, see Tanrıku, *Türkiye'de Posta ve Telgraf ve Telefon, 547-554, 559.*



Telegraph Ministry, which would be the nucleus of the future Turkish post and telecommunications monopoly, the PTT.<sup>54</sup>

The first telephone network was installed in Istanbul exclusively for official purposes in 1881.<sup>55</sup> However, launch of commercial telephony in the Ottoman Empire lagged far behind the patent of Alexander Graham Bell in 1876 and the formation of the first telephone company in the United States in 1877. Actually, in 1878, just two years after Bell filed his patent, some entrepreneurs applied for a concession for a network in Istanbul, but it was refused.<sup>56</sup> The determining factor behind the lag was the authoritarian approach of Abdülhamit II, as he issued a decree that prohibited the use of the telephone in the Ottoman Empire in 1886. Following the decree, the existing official network was removed and for two decades – until the Young Turk Revolution of

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54 Despite the fact that the official name of the Post Ministry was *Posta Nezareti*, it was actually an administrative unit under the Ministry of the Interior (*Dahiliye Nezareti*) and the Ministry of Public Works (*Nafia Nezareti*) in 1840. The Telegraph Administration (*Telgraf İdaresi*) was founded in 1855 under the Grand Vizierate. The Telegraph Administration and Post Ministry were merged in 1870 to form the Post and Telegraph Ministry in 1870, which was placed under the Ministries of Interior and Public Works. In 1909, the name of the Post and Telegraph Ministry was revised to Post and Telegraph General Directorate (*Posta ve Telgraf Müdüriyet-i Umumiyesi*), and it was placed under Ministry of Finance (*Maliye Nezareti*). The official name was revised to Post, Telegraph and Telephone Directorate in 1911. During the Independence War, in 1920, the Post and Telephone Directorate (*Posta ve Telgraf ve Telefon Umum Müdürlüğü*) was placed under the Ministry of the Interior (*Dahiliye Vekaleti*). It was later transferred to the Ministry of Public Works (*Nafia Vekaleti*) in 1933 and then the Ministry of Transportation (*Ulaştırma Bakanlığı*) in 1939. For details of the administrative structure, see Demir, *Türkiye’de Posta Telgraf ve Telefon Teşkilatının Tarihsel Gelişimi*, Tanrıkut, *Türkiye’de Posta ve Telgraf ve Telefon Tarihi ve Teşkilat ve Mevzuatı*, and Alpaslan Güzeliş, *Telgraftan İnternete Telekomünikasyon* (İzmir: EMO, 2010).

55 Demir, *Türkiye’de Posta Telgraf ve Telefon Teşkilatının Tarihsel Gelişimi*, 155-156.

56 Tanrıkut, *Türkiye’de Posta ve Telgraf ve Telefon Tarihi ve Teşkilat ve Mevzuatı*, 682-683.

1908 – both official and private networks were heavily restricted. Consequently, it was not possible to build a commercial telephone network in this period.<sup>57</sup>

Following the Young-Turk Revolution in 1908 and the deposition of Abdülhamit II in 1909, official networks were reinstalled by the various ministries and directorates.<sup>58</sup> The introduction of commercial telephone services to the private sector was also on the table. However, the Post and Telegraph Ministry resisted as it controlled the market on electronic communication through the telegraph monopoly. A nationalist boycott of foreign companies and the persistent presence of foreign post offices were other factors that prevented the adoption of a privatization policy by the Ministries of the Interior and Public Works.<sup>59</sup> However, when the Telegraph and Post Ministry was administratively reformed and became a directorate under the Ministry of Finance in 1909, official resistance to the introduction of a private telephone company was broken.<sup>60</sup> The finance minister of the time, Mehmed Cavid Bey, was famous for his support for economic liberalism and free enterprise.<sup>61</sup> English engineer Herbert Laws Webb, who was a prominent figure in the establishment of telephone networks in Europe, convinced Cavid Bey introduce a private operator in Istanbul through a consortium of American, British, and French companies.<sup>62</sup> The tender took place in 1909, the contract for the con-

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57 Yavuz Selim Karakışla, *Osmanlı Kadın Telefon Memureleri (1913-1923)* (İstanbul: Akıl Fikir Yayınları, 2014), 21. Abdülhamid II also prohibited the conveyance of letters with closed envelopes in Istanbul, see Demir, *Türkiye’de Posta Telgraf ve Telefon Teşkilatının Tarihsel Gelişimi*, 30-32.

58 Tanrıkut, *Türkiye’de Posta ve Telgraf ve Telefon Tarihi ve Teşkilat ve Mevzuatı*, 684-685.

59 Ibid.

60 Ibid.

61 For an account on economic liberalism of the Cavid Bey, see Nazmi Eroğlu, “Mehmed Cavid Bey’in İktisadi Görüşleri,” *Yakın Dönem Türkiye Araştırmaları: İstanbul Üniversitesi Atatürk İlkeleri ve İnkılap Tarihi Enstitüsü Dergisi* (2002): 163-183.

62 For some details on the negotiations between Webb and Mehmed Cavid Bey, see Erkan Tural, “Osmanlı Posta Bürokrasisi 1908-1914,” *Ankara Üniversitesi Dil ve Tarih-Coğrafya Fakültesi Tarih Bölümü Tarih Araştırmaları Dergisi* 28, no. 46 (2009): 207-208. Webb wrote a book on

cession was signed in 1911, and the Constantinople Telephone Company (Der-saadet Telefon Kumpanyası) started serving subscribers in Istanbul in 1913.<sup>63</sup> In addition to the network in Istanbul, there were de facto operations by foreign post offices in Izmir and some other places.<sup>64</sup> During World War I, following the abolition of foreign post offices in 1914, the telephone operator in Istanbul was nationalized in 1915.<sup>65</sup> However, the private company reclaimed its operations in Istanbul in 1918. The telephone concession in Istanbul was recognized by Istanbul governments in the last years of the Ottoman Empire.<sup>66</sup> The nascent Republic of Turkey recognized the concession,<sup>67</sup> too, but also started a state-owned network in Ankara in 1926 and in other places ensuing years.<sup>68</sup> The de facto operations in Izmir were consolidated in 1927 in a partnership between the Izmir Municipality and the Swedish company Ericsson, which was issued the concession to be a private Izmir telephone operator.<sup>69</sup> The private operator in Istanbul was nationalized in 1935 and the one in Izmir was nationalized in 1938.<sup>70</sup>

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the evolution of telephone networks in Europe. See Herbert Laws Webb, *The Development of Telephone in Europe* (London: Electrical Press Ltd., 1910).

- 63 Tanrıku, *Türkiye'de Posta ve Telgraf ve Telefon Tarihi ve Teşkilat ve Mevzuatı*, 685. Also see "Phones for Constantinople: American-British-French Group Selected to Install a System," *New York Times*, November 27, 1909. "Constantinople Telephone Concession," *The Manchester Guardian*, March 29, 1911.
- 64 Güzeliş, *Telgraftan İnternete Telekomünikasyon*, 191.
- 65 Tanrıku, *Türkiye'de Posta ve Telgraf ve Telefon Tarihi ve Teşkilat ve Mevzuatı*, 686. Tanrıku documented properly that the nationalization occurred in March 1915. Tanju Demir argues that it occurred in May 1914, see Demir, *Türkiye'de Posta Telgraf ve Telefon Teşkilatının Tarihsel Gelişimi*, 158.
- 66 Demir, *Türkiye'de Posta Telgraf ve Telefon Teşkilatının Tarihsel Gelişimi*, 158-159.
- 67 Ibid.
- 68 Güzeliş, *Telgraftan İnternete Telekomünikasyon*, 191-194. The equipment was provided by Ericsson. See "Phones for Angora: Swedish Company to Install System in Turkish Capital," *New York Times*, February 15, 1925.
- 69 Güzeliş, *Telgraftan İnternete Telekomünikasyon*, 191-194. Also see "Telephone Service for Smyrna," *New York Times*, February 6, 1927.
- 70 For the nationalization of the company in Istanbul, see Demir, *Türkiye'de Posta Telgraf ve Telefon Teşkilatının Tarihsel Gelişimi*, 159. For the nationalization of the company in Izmir, see Güzeliş, *Telgraftan İnternete Telekomünikasyon*, 194.

To determine the periods Turkish telecommunications policy, I place it in a matrix of ownership, financing, equipment provision, degree of the universal access and the priority of the policies. I analyze transformations in these realms in four periods following the introduction of commercial fixed telephone services in Istanbul and Izmir through concession agreements with foreign companies in the 1910s. (See table 1.1.)

Table 1.1 Turkish telecommunications by periods

Period	Ownership	Financing	Equipment	Universal Access	Policy
1910s-1930s	Private	Private financing	Imported	Metropolis-based sporadic fixed telephone networks	Concession agreements with foreign companies
1930s-1980s	State	Public	Imported	Very poor	Not an investment priority
1980s-1994	State	Predominately public + publicly-guaranteed private financing	Domestically produced + imported	Mediocre for fixed telephony	Priority for public investment
1994-2010s	Private + declining state	Private financing	Imported	Good for mobile phone + mediocre for broadband + sporadic for cable network	Income generation through privatization

Despite the fact that urban-based telephone companies were nationalized in the 1930s to develop a nationwide fixed telephone network, the penetration of service remained below 3% until the 1980s.<sup>71</sup> In the 1980s, the state-owned network vastly improved and its technology was updated. In addition, domestic electronics manufacturing provided the equipment for the first time in national history. Consequently, penetration exceeded 30% in the early 1990s, valuably contributing to the infrastructure development of an outward-oriented

71 For the penetration of fixed telephony (users per 100 habitants) cited in this paragraph, see World Bank Development Indicators Database (object name Fixed Telephone Subscriptions per 100 People, accessed February 10, 2018), <https://data.worldbank.org/indicator/IT.MLT.MAIN.P2?locations=TR/>.

economy and universal access. In the final period – after 1994 – privatization for the end of raising revenue was the major policy, the state ownership dramatically declined. In addition, following the privatization of the government's stake in domestic equipment manufacturers in the late 1980s, equipment provision regressed to import dependence. On the positive side, the last period witnessed the introduction of new services, among which the most significant was the mobile telephone service, which reached a penetration of over 90% in the 2000s.<sup>72</sup> Another significant service introduced during the privatization period was broadband internet broadband internet. The penetration of the fixed broadband network remained at around 10% due to inadequate private investment.<sup>73</sup> The advent of 3G in 2009 boosted the use of broadband internet over smart phone devices in the 2010s, which is relatively late for the popularization of internet services.

I conclude that Turkey demonstrates disadvantageously diverges from the group of peripheral middle-income countries in terms of the timing of its telecommunications restructuring. Turkey timed the privatization of the fixed telephone operator poorly. In this manner, it is similar to MENA countries like Morocco and Egypt and transition economies like Bulgaria, and the Ukraine, but it diverges from many Latin American as well as East Asian countries. In a similar way, the lag between the introduction of mobile telephony and the privatization of the fixed incumbent was relatively long in Turkey. These timing failures significantly decreased investment by private sector.

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72 World Bank Development Indicators Database (object name Mobile Cellular Subscriptions per 100 People, accessed February 10, 2018), <https://data.worldbank.org/indicator/IT.CEL.SETS.P2?locations=TR/>.

73 World Bank Development Indicators Database (object name Fixed Broadband Subscriptions per 100 People, accessed February 10, 2018), <https://data.worldbank.org/indicator/IT.NET.BBND.P2?locations=TR/>.

### § 1.3 Conflicting Goals of Telecommunications Policy and Turkish Case

In this section, I formulate the role of telecommunications systems in the global accumulation regime in terms of their use and exchange values. Indeed, the contradiction between the use and exchange values of telecommunications frames the dissertation. Use and exchange values are concepts employed by Karl Marx, in his historical analysis of the commodity form.<sup>74</sup> Later, contemporary Marxist authors have employed use and exchange value to formulate the contradictory nature of the policy realms in global accumulation regimes.<sup>75</sup> Telecommunications policy, too, can be formulated as a contradictory field of policy if one can determine use and exchange values of telecommunications systems. In order to achieve that, I first evaluate the usefulness and commodification of the system in a global scale (1.3.1). Then I reformulate the contradictory nature of telecommunications systems for peripheral middle-income countries (1.3.2). Finally, I reformulate telecommunications policy priorities in Turkish history (1.3.3).

#### 1.3.1 *The Contradictive Field of Telecommunications Policy in the Conjuncture of the Finance-Dominated Flexible Phase of Capitalism*

A finance-dominated flexible accumulation regime depends on increased mobility of commodities, money, and people.<sup>76</sup> These movements intensify both

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74 For an explanation of the use and exchange values of a commodity, see Karl Marx, *Capital: A Critique of Political Economy*, trans. Ben Fowkes (New York: Penguin, 1976), 125-131.

75 David Harvey, *Seventeen Contradictions and the End of Capitalism* (New York: Oxford University Press, 2014); Jessop, "Revisiting Regulation School."

76 I employ the concept finance-dominated flexible accumulation to emphasize the dominant role of finance sector in the recent conjuncture of global capitalism. For a conceptual discussion on the transition to the accumulation pattern after Fordism, see Harvey, *Condition of Postmodernity*, 173-188. The theme is also elaborated under concept of financialization, a concept that explains the dominant position of finance sector over other sectors like manufacturing. For a detailed account, see Gérard Dumenil and Dominique Lévy, *Capital Resurgent*:

domestically and internationally. To facilitate this mobility, legal barriers should be lifted (deregulation) and redesigned (reregulation), and the physical infrastructure that bears the load of the movements should be improved. Capitalist circulation requires rapid movement of goods, services and abstract capital – in other words, the liberalization of international trade and financial flows. The structural features of various sectors and policymaking realms were fundamentally changed by capitalist expansion. Indeed, capitalist expansion is not specific to the last conjuncture of flexible accumulation; however, the aspect of ultra-liberalized financial flows and banking transactions differentiates this phase of global capitalism from the previous one.<sup>77</sup> Telecommunications as an infrastructure sector, became additional significant due to the role it plays in the movement of financial flows as well as of crucial information that can provide huge financial advantages. That degree of significance grew throughout the period as additional factors like intellectual property, the commercialization of media, and the digitization of public opinion emerged.

The increasing significance of infrastructure in general and telecommunications more specifically is closely related to the current and financial integration of various regions of the world. Therefore, global capital accumulation necessitates the improvement of telecommunications infrastructure at the national, regional, and global scales. (For details, see section 2.2.) On the other hand, infrastructure in general and telecommunications specifically are escape sectors for capitalist groups in the context of the accumulation crisis. With help from advanced financial mechanisms and instruments and legal easing, capital which cannot grow in the old fixing points like manufacturing facilities in the core high-income and high-wage countries, flees to these escape sectors. (For details, see section 2.4.) To make the redirection of capital to these escape sectors possible, it is necessary to dispossess the governments that own these sectors which were conventionally labelled as public utilities or

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*Roots of the Neoliberal Revolution* (Cambridge MA: Harvard University Press, 2004), especially 110-119. Also see Gerald Epstein, *Financialization and the World Economy* (Northampton MA: Edward Elgar, 2005).

77 Harvey argues that spatio-temporal fixes through financial mechanisms are crucial in remedying the crisis tendency in the flexible era. For the argument, see 2.4.1.

social overhead capital. Through various doses and sequences of liberalization, divestiture and commodification, public ownership was dispossessed. Financing and equipment provision schemes particular to the private sector took over in these sectors, as well. These transformations brought about new problems and dynamics of crisis. The conflict between the conditions of the provision of infrastructure services and the rationality of private firm is one source of the instability.<sup>78</sup> Another source of instability is the fluctuating, speculative nature of international financial markets. In 2000-2001, these two sources of instability created a financial crisis centered on telecommunications that negatively affected the complete body of financial markets. (For details, see subsection 4.5.2.) This crisis, popularly known as the bust of the dotcom bubble, devalued stocks in telecommunications companies and depleted funds for new investments in the sector. Financial fluctuation and the devaluation of stocks threatened the gains of the private investments in the terms of infrastructure development. At this point a contradiction between the goal the infrastructure development and the commodification of telecommunications – a contradiction that characterizes telecommunications policy in the present conjuncture. I argue that this contradiction is a form of the basic contradiction between the use value and the exchange value of a commodity in Marx’s terms. (For details, see section 2.4.)

To sum up, infrastructure sectors are affected by capitalist expansion in two ways. On one hand, rapid movement of people and commodities (including money) requires well-conditioned infrastructures that connected internationally and penetrative nationally. On the other hand, in the eyes of capitalist companies, infrastructure sectors are profitable assets to take over through privatizations and license acquisitions as well as mergers and acquisitions. In addition, these assets of infrastructure are under pressure of securitization, as

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78 The problematic presence of private activity and competition in the infrastructure sectors is formulated in economic reasoning by the theory of natural monopoly. To explain briefly, sectors with titanic fixed costs and miniscule marginal costs are better suited to be monopolies. For a more detailed microeconomic explanation of the natural monopoly theory, see Aybar, Günel, Süel, “Privatization and Regulation in Turkish Telecommunications,” 32. Later economists challenged the widespread perception that infrastructure sectors are natural monopolies.



their stocks float in international markets. This quotation of stocks is a factor that dangerously fluctuate indicators. These two ways in which an infrastructure sector engages with capitalist expansion – or to use another word globalization set the scene for a globally determined and contradictory field of policy making. This contradictory field of policy making is key to the ability of the state or government to make decisions, as the management and handling of contradictions can change due to political and economic visions and the power balances of the actors.

### 1.3.2 *Possible Targets of Telecommunications Policy for Peripheral Middle-Income Countries in Conjunction of Outward-Oriented Growth Strategy*

The contradictive field of telecommunications policy took a special form in the context of peripheral middle-income countries. These countries revised their development strategies to adapt to the transition to the finance-dominated flexible structure of core high-income countries. These countries were reshaping their manufacturing policies from import substitution to competitive export orientated manufacturing. In addition, they attempted to enrich the sources of financing their economic development by borrowing foreign savings – in other words, by attracting foreign capital. This new strategy of development was an outward-oriented growth model. The needs of the outward-oriented development strategy transformed the setting of telecommunications policy in peripheral middle-income countries.<sup>79</sup>

From the perspective of the governments of peripheral middle-income countries, the increase in global financial attention towards infrastructure in the 1980s and 1990s was a new opportunity to finance infrastructure improvements, which became crucial as a growth strategy in the context of increasing demand for mobility. It became an opportunity for governments to privatize infrastructure instead of planning the development of these sectors directly and suffering burdens of expensive investments. Actually, the international

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79 For an analysis of the relationship of telecommunications to the strategic shift toward outward-oriented development, see Ben A. Petrazzini, “Telecommunications Policy in India: The Political Underpinnings of Reform,” *Telecommunications Policy* 20, no. 1 (1996): 40.

community recommended and indeed forced governments to give these areas private investors by the mid-1990s. Governments were in searching for the optimal policy to attract the highest investment to their infrastructure sectors in that semi-voluntary semi-obligatory policy agenda. A policy dilemma emerged for peripheral middle-income countries which needed to both develop infrastructure and finance the public budget deficit. For which goal did the governments use the massive inflow of funds from international financial markets?

From the viewpoint of mainstream economics, FDI is a good indicator of development. In periods of privatization, peripheral countries attracted a significant amount of FDI which was perceived as a positive factor in their economic development. However, at peripheral middle-income countries' telecommunications privatizations, governments actually channeled a large portion of these funds to the public budget, limiting the portion that was re-invested in physical infrastructure. This inclination to maximize revenue harmed economic development in terms of infrastructure improvement.

In addition to boosting investments and rising revenues, in the second half of the 1990s creating a competition-friendly regulatory environment was a target of peripheral middle-income countries. As conventional telecommunications policy and regulatory state scholars have studied in depth, sectoral regulatory agencies and legal reforms promoting competition were diffused among countries and became a standard of governance. In this respect, sectoral regulatory agencies enabled competition by implementing measures against incumbents with significant market power and facilitating the activity of private entrants.<sup>80</sup> However, in the context of peripheral middle-income countries including Turkey, the weak tradition of regulatory bureaucracy, inadequate state capacity, and the dominant roles of political leaders overshadowed the efficiency of regulatory agencies and their pro-competition implementations. Therefore, the study of telecommunications policy in peripheral

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80 Navroz K. Dubash and Bronwen Morgan, *The Rise of the Regulatory State of the South: Infrastructure and Development in Emerging Economies* (Oxford University Press: Oxford, 2013). For an earlier account, see William H. Melody, *Telecom Reform: Principles, Policies and Regulatory Practices* (Lyngby: Den Private Ingeniørfond, 1997).

middle-income countries should neither single out sectoral regulatory agencies as policymakers nor reduce the policy targets to competition.

In the previous paragraphs, I posited three different contradictory goals for telecommunications policy:

- 1 Goal to enable competition for lower prices, more entrants, better standards – in the long-term for more investment –
- 2 Goal to generate maximum revenue through privatization – the privatization payments are used for financing budget deficit –
- 3 Goal to develop infrastructure for integration into the world economy – to revive the potentials of the national economy –

A well-designed telecommunications policy balances between the revenue maximization and picking up the best investors. Picking up the best investors in a privatization process bridges between infrastructure development and privatization goals. Another necessity for the engineering of private entry into infrastructure is to take measures against the possible financial crises of the operators. Heavy investments to deploy infrastructure and payment commitments to governments create major debt burdens for operators. In this respect, enabling competition and encouraging new investments may trigger overinvestment and a crisis. More competition means lower prices and smaller market shares, which while good for consumers is bad for finances of operators. On one hand, regulatory measures to provide infrastructure sharing at reasonable prices may limit overinvestment, but in their absence, multiple operators making large investments may trigger a crisis. On the other hand, the enforcement of infrastructure sharing agreements by regulators may diminish operators' motivation to invest and cause a general decline in investment. It is difficult to manage the relationship between commercial activity in infrastructure and competition.

Picking up the best candidates in privatizations, guaranteeing infrastructure sharing agreements, and determining the optimal number of competing operators are together the challenges of telecommunications policy. Actually, these are not ideal tasks for democratically-elected governments, trying to solve budget deficit problems. Therefore, mainstream policy analysis studies

suggest that a strong bureaucracy with capacity to shape policy may make a better policy.

I argue that the contradictory goals of telecommunications policy are a form of the basic contradiction of commodity between its use value and its exchange value. From the perspective of policymakers in peripheral middle-income countries, under the structural determination of finance-dominated global accumulation and outward-oriented national growth strategies, the use value of telecommunications infrastructure is its usefulness for facilitating economic transactions. The exchange value of telecommunications infrastructure is the possible revenue obtained from its privatization. The moment of privatization is the closest point to which the whole infrastructure network is represented as a single commodity. The moment of private entry, and the disputes and crises born because of private entry, as well as the government's way of handling privatization and disputes provide us the empirical basis for analyzing the character of a policy in terms of its prioritizing use value or exchange value.

The contribution of my study to the existing literature is to reevaluate telecommunications policy by analyzing contradictions among the goals, which are possible to pursue in the framework of the possibilities and limits of outward-oriented growth and development strategies. Analyzing the prioritized goal gives us the opportunity to determine sub-periods for telecommunications policy under the period of outward-oriented growth. This method of analysis and determining periods is also applicable to other infrastructure policies in addition to telecommunications policy.

### 1.3.3 *Two Periods According to Policy Priorities in Turkey: From Infrastructure Development to Revenue Generation*

When I evaluate the four-decade long outward-oriented development conjuncture of Turkey, I conclude that despite attention paid to pro-competition regulation by policy-oriented scholars, the goal of enabling competition did not make the decision makers busy for a long time. I argue that the goals prioritized for telecommunications policy were the following:

- 1 1980-1994 – Infrastructure development in telecommunications was prioritized to assist an outward-oriented growth strategy, through state-coordinated and planned public investments.
- 2 1994-present – Revenue generation through payment made for private sector authorizations was prioritized.

Chapter 3 focuses on the first period and concludes that steady public-led investments were a policy that prioritized the use value of telecommunications infrastructure – that is, infrastructure development in the telecommunications.

Chapters 4, 5, and 6, which focus on the process of privatizing mobile and fixed telephone services concludes that the policy after 1994 prioritized the exchange value of telecommunications infrastructure that is, the maximization of revenue from privatizations.

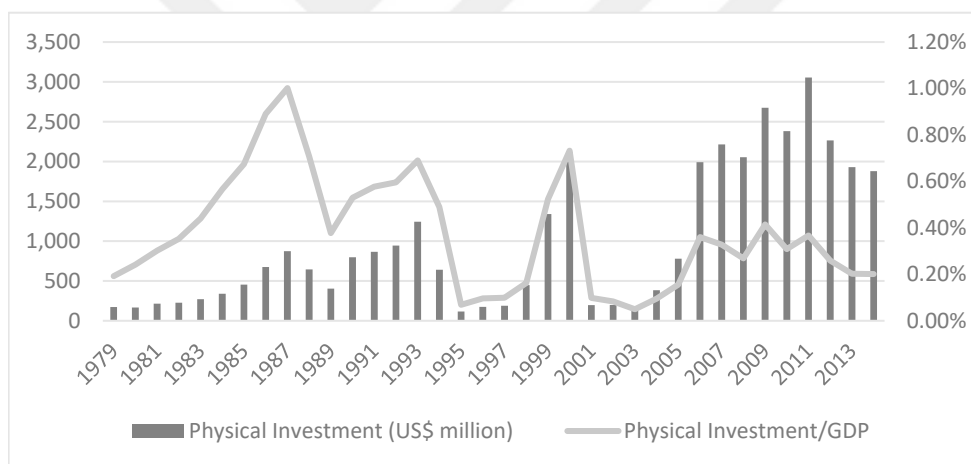


Figure 1.1 Physical investment in Turkish telecommunications infrastructure (\$millions). Sources: Compiled by the author. 1979-94 is derived from the State Planning Organization’s (SPO) annual investment reports. 1995-2014 is derived from World Bank Private Participation in Infrastructure Database (WB PPI) (accessed March 3, 2017).

Figure 1.1 indicates the physical investment levels between 1979 and 2014 allowing a comparison of public investment in the public investment period from 1979 to 1994 and private investment in the privatization period from 1994 to 2015. The annual average of public investments between 1979 and 1994 was

US\$550 million, and private investments between 1995 and 2014 amounted to US\$1.3 billion. In absolute terms, the private sector channeled a larger volume of investment. However, it is more rational to evaluate the magnitude of investments as a fraction of the Gross Domestic Product (GDP) to ascertain the relative weight of the investments for the national economy. The annual average of public investments as a fraction of GDP between 1979 and 1994 was 0.5% while the private investments between 1995 and 2014 accounted for only 0.25%. The data demonstrate that the relative magnitude of the financial resources channeled into the development of telecommunications utilities dramatically declined in the second period. In addition, the private investment trends indicate an instable flow of funds with sudden jumps and falls triggered by international and national financial fluctuations. On the other hand, flow of public investments was consistent, an outcome of public planning and coordination until the policy shift in 1994.

#### § 1.4 A Broad Perspective of the Turkish Privatization Boom in the 2000s: Private Investments in Infrastructure and the Leading Role of Telecommunications

Infrastructure investments are the basic political tool of Turkish politically right governments since the 1950s. Recep Tayyip Erdoğan<sup>81</sup> continued the tradition in the 2000s and thereafter by putting infrastructure projects, especially

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81 Erdoğan started his political career as a youth leader in the National Salvation Party (*Milli Selamet Partisi*, MSP) in the 1970s. The MSP was to the right of the mainstream center-right tradition as its political agenda had direct references to Islam. The party was closed following the September 12 coup in 1980 and then reestablished as the Welfare Party (*Refah Partisi*, RP) in 1983. In 1994, Erdoğan was elected mayor of Istanbul. In 1995, the RP won the general elections in Turkey and faced a secular intervention by the Turkish Armed Forces (*Türk Silahlı Kuvvetleri*, TSK) in 1997. After the secular intervention, the Constitutional Court closed the RP. In 1998, Erdoğan was sentenced four months in prison in 1999. In 2001, Erdoğan founded the Justice and Development Party (*Adalet ve Kalkınma Partisi*, AKP). AKP included the younger wing of the Islamist RP as well as some center-right politicians and liberals. The AKP won the 2002 general elections. Erdoğan has controlled the helm of the AKP governments since 2002. In the 2010s, Erdoğan eliminated non-Islamist members of the AKP and started

transportation investments at the core of his propaganda. A significant portion of the infrastructure investments during the Erdoğan period were achieved through the introduction of private capital. This introduction of private capital into infrastructure sectors was the main body of the privatization boom in the 2000s and 2010s. In this section, I explain the leading role of the telecommunications sector in the privatization boom. I also offer a broader definition of privatization that includes various forms of privatizations to expose the real scale of privatization in infrastructure sectors.

Two facts are clear from Turkish economic data of the 2000s and thereafter. First, privatization revenue generated significantly increased in the last two decades. Second, private investments in infrastructure sectors, namely telecommunications, energy, and transportation significantly increased in the same period.

The great majority of privatization revenue was generated from divestitures in infrastructure sectors. However, private entries into the infrastructure sectors do not consist only of divestitures officially labelled as privatization. Payments to the government by private entrants for license issuances, public-private-partnership (PPP) agreements, and some divestitures outsider of the official definition of privatization<sup>82</sup> generated a major revenue for the government that is not officially recorded as privatization revenue. That is to say that official records of privatization revenues do not represent the actual sum of payments for private sector authorizations. I offer a broader definition of privatization that includes these various payments to better analyze the privatization boom in Turkey. To complete the picture, I take into account private physical investments by private sector to better analyze the contribution of private entrants to infrastructure development.

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to campaign for a stronger executive under his control. For an account of the AKP, see Erinċ Yeldan and Burcu Ünüvar, “An Assessment of the Turkish Economy in the AKP Era,” *Research and Policy on Turkey* 1, no. 1 (2016): 11-28. Also see Ziya Öniş, “Monopolising the Centre: The AKP and the Uncertain Path of Turkish Democracy,” *The International Spectator* 50, no. 2 (2015): 22-41.

82 An example of these kinds of divestitures are the Saving Deposit Insurance Fund (*Tasarruf Mevduat Sigorta Fonu*, TMSF) which sells assets like nationalized banks. The sale of Telsim (one of first two Turkish mobile telephone operators, which had been nationalized in 2004 as a sanction of the family that controlled it) in 2005 is another example.

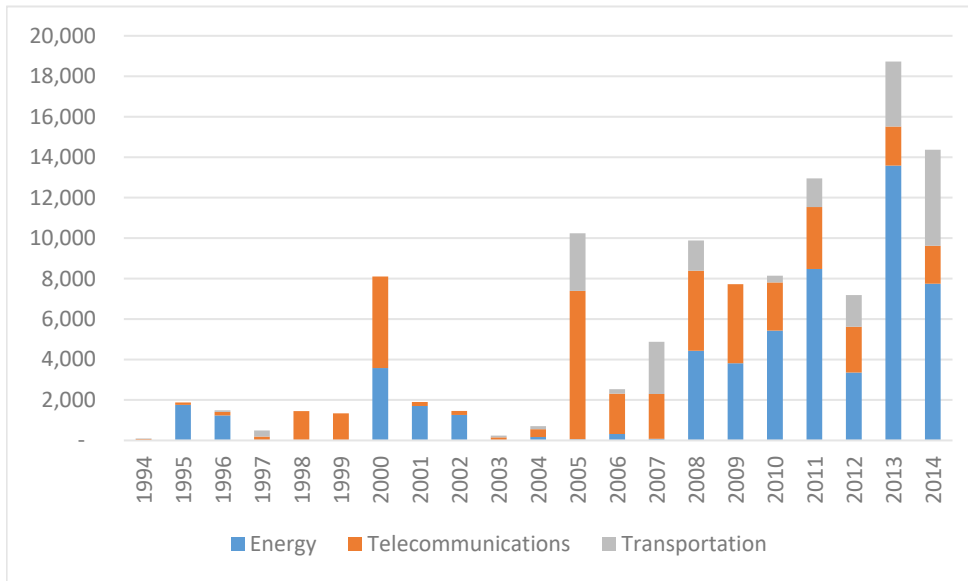


Figure 1.2 Private investments in Turkish infrastructure sectors between 1994 and 2014 (\$millions). Source: WB PPI.

Figure 1.2 demonstrates that telecommunications investments was the leading category of private investments in infrastructure in the late 1990s and mid-2000s.<sup>83</sup> Starting in the late 2000s, the energy sector took the lead. In the mid-2010s, transportation investments took the place of energy investments, which slowed. In 2015, a drastic increase occurred in private transportation investments because of the huge investment in the third Istanbul airport (officially labelled IGA Istanbul New Airport), which alone attracted US\$6 billion in physical investments as well as US\$29 billion in commitments to the government. I argue that studying the restructuring of the telecommunications sector along with its legal and financial aspects is crucial to foresight possible crises of the larger investments of the 2010s. The double crises in 2000-2001 – the crack-down of telecommunications equities in international

83 For two reasons I cut the series in 2014. First, the database does not provide telecommunications data for 2015 and 2016. Second, Istanbul's third airport project which is recorded in 2015 dwarves the rest of the series with a total of US\$35 billion making it more difficult to evaluate amounts from previous years.



financial markets and the Turkish February 2001 crisis – gave birth to the financial crises of the Turkish private mobile telephone operators. Around this double crises in the sector, disputes emerged. These disputes were handled in settlements that prioritize the initiative of the Turkish political leaders, Erdoğan in many cases. (For details, see chapters 5 and 6.) The novelty and contribution of this dissertation is to include the financing mechanisms and political dispute settlement processes in the study of telecommunications policy. These facts and events became even more significant by the mid-2010s, as Turkish economic fortunes reversed and the Turkish lira (TL) sharply depreciated. The depreciation that followed 2001 February crisis was the main cause for financial trouble of the private telecommunications operators, in addition to the global diminishing of funds available for investment, as private operators borrowed from international capital markets dollar nominated funds, which became more difficult to pay back under the given depreciation of TL. A similar level of depreciation has taken place since 2013 and has accelerated in 2016. That depreciation alone, with other indicators of Turkish economic downturn,<sup>84</sup> threatens the financing cycle of titanic investments in energy and transportation as well as ongoing telecommunications projects.

In response to the decreasing motivation for international capital markets to finance Turkish infrastructure projects, the Justice and Development Party (*Adalet ve Kalkınma Partisi*, AKP) government implemented certain public support schemes for private investment. In this regard, treasury guarantees for transportation investments, introducing public banks and domestic banks into financing, and forming a Sovereign Wealth Fund (SWF, *Türkiye Varlık Fonu Yönetimi Anonim Şirketi*) have been recent policy responses of the government.<sup>85</sup> These measures are fundamentally different from the mechanisms

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84 A decline in growth, increase in inflation, unemployment, major trade deficit, and rising foreign debt stock are indicators of an economic downturn in Turkey in the recent period. The relatively-good condition of the public budget and the consolidation of political and economic power in the hands of Erdoğan prevented a political and social crisis like in the aftermath of the February 2001 crisis, at least up until the authoring of this dissertation.

85 A Sovereign Wealth Fund is a financial investment fund under the control of a certain government. Governments invest in various projects around the world through these institutions, organized as private fund pools. Countries with major economic surpluses like Qatar and

those have been intended to handle the problems, namely regulatory rules and agencies. I argue that the political initiative developed to solve the double crises of the telecommunications sector in the 2000s is an early example of the divergence from formal regulatory measures. Therefore, the study stretches the limits of academic interest beyond the regulatory reform process.

It is useful to further elaborate the definition of privatization to better explain the topic and arguments of my dissertation. The privatization process is part of a broader process I label the restructuring of a sector. The restructuring process is broader than the privatization process as it includes the preliminary steps taken to prepare the conditions for divestiture and private entry. Restructuring is actually a process of legislation which necessitates a great amount of political power and endurance, as employees, trade unions, and nationalists strongly oppose the process itself. In this regard, the restructuring of the Turkish telecommunications sector should be studied starting with the first steps taken in the 1990s. The detachment of telephone operation from the Turkish PTT in 1994 and the introduction of private mobile operators in that same year were the first steps of restructuring. The conventional study of its restructuring focused on the privatization of Türk Telekom and paid little attention to the introduction of private entrants through mobile operators. This dissertation introduces the entry of private capital into the sector through the revenue sharing agreements of two mobile operators and their ensuing dominance over mobile telephone networks as a core element of the research. Naturally, my dissertation includes the privatization of the fixed telephone incumbent Türk Telekom (*Türk Telekom Anonim Şirketi*) too; however, I argue that the course of Türk Telekom's privatization can only be explained by an account that covers the history of private entry and market formation in the mobile telephone segment.

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Norway have generally tended to create such organizations. The Turkish SWF is an exception in this regard. The government is trying to create funds by transferring profitable state assets to SWF.



Figure 1.3 A chronology of telecommunications privatizations in Turkey

According to the World Bank Private Participation in Infrastructure Database (WB PPI), between 1995 and 2014 the government generated a total revenue of US\$13 billion through the privatization of Türk Telekom and the issuance

of GSM<sup>86</sup> and data licenses. Here I should take a step beyond the official register of the WB PPI watch group and enrich the list. If the revenue generated from the TMSF divestiture of Telsim<sup>87</sup> to Vodafone for US\$4.55 billion in 2005 is included, the total privatization revenue from telecommunications would be more than US\$17 billion. In addition, the agreement formed with Russian Alfa Telecom to finance Çukurova Holding's debt of US\$3.5 billion to the public should be labelled the privatization of the debt of Karamehmet to the government.<sup>88</sup> Karamehmet's main source of cash was Turkcell. If one adds the debt servicing received through that agreement and 4G license payments in 2015, the total revenue exceeds US\$25 billion. That means that an annual average US\$1.4 billion of revenue was raised by the government between 1998 and 2015. This amount would be much higher if revenue generated through treasury shares, taxes and other means of extraction – which are not recorded officially as privatization income – are taken into account. Concisely, the Turkish state disburdened an annual expense of a half billion dollars<sup>89</sup> and created an average annual revenue stream of a billion dollars and more. Therefore, the policy of the second period is more successful in terms of generating revenue

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86 GSM is the abbreviation for Global Systemfor Mobile Telecommunications. The number 900 signifies that the wireless telephone uses 900-megahertz band of the radio frequency spectrum for transmission.

87 Telsim was the one of the first two Turkish private mobile telephone operators introduced in 1994 through revenue-sharing agreements. Rumeli Holding (the Uzan family) controlled Telsim until the seizure of the belongings of the Uzan family by the TMSF in 2004. For details, see section 5.5.

88 Çukurova Holding was one of the most significant business conglomerates in Turkey until the banking reforms that followed the 2001 crisis. Mehmet Emin Karamehmet is the leader of the family-owned holding company. Çukurova Holding controlled Pamukbank and Yapı Kredi Bankası in the 1990s in addition to many other branches as well as the first private mobile telephone operator Turkcell. Actually, Karamehmet owed his fortune in part to the unexpected growth of the Turkish mobile telephone market. After the double crises in 2000-2001, he fell into financial trouble and lost control of the banks and Turkcell. Russian Alfa Telecom was a consolidated Russian operator seeking to expand was backed by the political support of the Putin administration. The Alfa group provided a loan to Karamehmet to finance his obligations to the government rooted from the banks. For details, see section 5.4.

89 The average annual public investment between 1980 and 1994 was US\$500 million. For details, see section 3.6.

for the public budget. However, the extremely high amounts of the payments extracted from private investors created a large financial burden which is as high as 33% of the total private investment and exceeds 40% in my unofficial calculation. This burden diminishes funds which may otherwise be channeled to physical infrastructure improvement. Therefore, I argue that the government prioritized revenue generation at the expense of the development of the infrastructure. To provide further evidence for the argument I applied this calculation to the other infrastructure sectors: The ratio of payment commitments to the government to total investment is 34% for energy, 60% for transportation, and 44% for infrastructure overall. The priority paid to revenue generation I theoretically epitomize as the prioritization of the exchange value of the sector instead of its use value. This preference has been good for the public treasury but bad for the improvement of telecommunications networks, unlike the previous period's telecommunications policy.

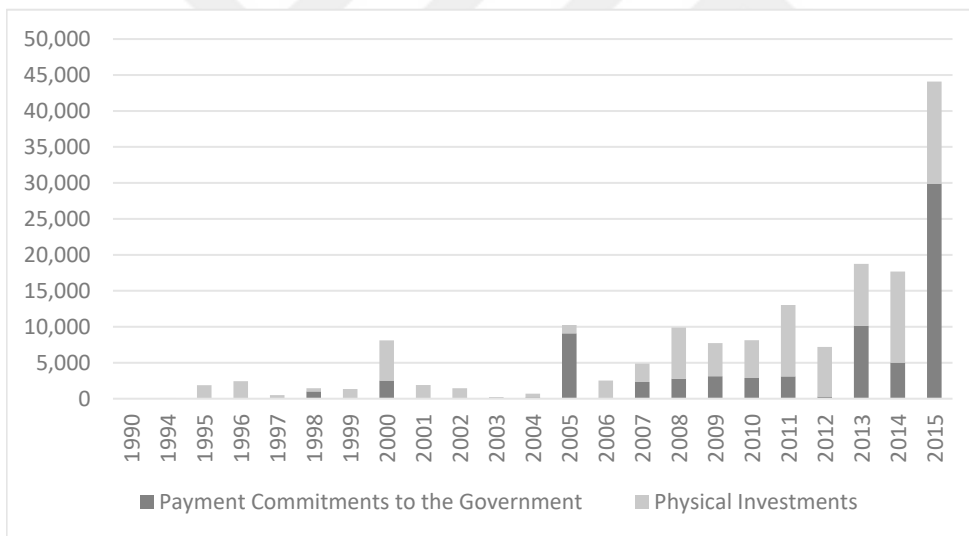


Figure 1.4 Portions of private physical investment and privatization payments in Turkish infrastructure sectors (US\$millions). Source: Compiled by the author based on WB PPI. (accessed March 3, 2017).

## § 1.5 Chapter Summaries

After this introductory chapter, the dissertation consists of five substantive chapters and a conclusion. Chapter 2 engages studies focused on the policy direction of nations by deriving arguments for the privatization of the telecommunications. The chapter concludes that the earlier link established between investments and privatization was lost in the literature, and the study was reduced to a study of pro-competition regulation. In the initial periods, the emphasis of scholars was on privatization's supposed positive effect on investment. However, the emphasis later shifted to pro-competition regulation. With examples from individual studies of the national telecommunications policies of Turkey and some other countries, I track the evolution of arguments for privatization. Chapter 2 also elaborates the theoretical perspective with which I propose to analyze telecommunications in the context of capitalist accumulation. I construct a theoretical approach based on the work of David Harvey and Bob Jessop. In doing so, I reproduce the realm of telecommunications policy as a contradictory field of political decisions. Parallel with the transitions from Fordist accumulation to flexible accumulation and from developmentalist strategies to outward-oriented growth models, I sketch a transition from the prior priorities of telecommunications policy to the new ones. In this respect, I propose that the revenue maximization goal concerns its exchange value and infrastructure development concerns its use value.

In chapter 3, I study the Turkish public telecommunications investment leap of the 1980s. I interpret the prioritization of telecommunications investments among possible public investments as the prioritization of the use value of a national telecommunications network. Public investments in the 1980s, which peaked between 1984 and 1987 and relatively maintained its tempo until 1994, brought the national telecommunications system from one with sporadic levels of penetration to a nationwide, technologically upgraded network. The public-led expansion and upgrade of the telecommunications network was a sub-policy of a liberal outward-oriented growth strategy, as integration into the world economy in the realms of trade and finance necessitated better telecommunications services. Chapter 3 also introduces the equipment provision and financing elements of the telecommunications leap. The increase in

investments and penetration was remarkable and comparable to similar expansion projects in other countries. I measure the increase in subscribers and penetration to compare the Turkish telecommunications leap with those of other countries. In doing so, chapter 3 also provides a background for the privatization of the telecommunications sector.

Chapter 4 analyzes the liberal restructuring of various segments of the Turkish telecommunications sector after 1994. I argue that the main policy character that shaped Turkish privatization policy in general and the telecommunications restructuring specifically was to maximize revenues raised from privatizations. I offer data to prove that the revenue generation perspective was much stronger in Turkey than in other peripheral middle-income countries, as the proportion of payment commitments made to the government by private investors to total private investments is relatively higher. Chapter 4 also introduces the financing aspect of private investments in telecommunications by explaining the fluctuations in international financial markets and evaluating financial instruments utilized by private telecommunications investors to finance their acquisitions and network expansion projects.

Chapter 5 studies the main themes introduced in chapter 4 citing the cases of Telsim and Turkcell. These two private mobile telephone operators borrowed from international capital markets through various financial instruments before the telecommunications bust in 2000-2001. In 2001, the Turkish February 2001 crisis also occurred and brought about an additional negative impact to the operators. Consequently, both private operators had financial troubles that triggered disputes among the partners of the operators, equipment providers, financiers, and the government. The situation worsened with banking reforms in Turkey that stripped the traditional holding structures of their banks.<sup>90</sup> Chapter 5 also emphasizes the traditional Turkish holding structure as a theme, as these multiactivity groups controlled the first two private operators. The holdings and their traditional way of engagement with the government combined with the revenue generation perspective of the govern-

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90 Holding is an English word appropriated into the Turkish language which signifies multiactivity family-owned conglomerates.

ment and external factors of financial fluctuations. Chapter 5 studies the government initiative that by passed national and international courts and regulatory mechanisms to solve these disputes.

Chapter 6 studies the cases of the Aria-Aycell<sup>91</sup> merger and the privatization of Türk Telekom. These two cases were the consequence of the strange adoption of the strategic foreign partner policy. According to the strategic partner approach, peripheral middle-income countries design the process of privatization as an invitation for an experienced multinational investor. In the case of Aria, the strategic partner engaged was Telecom Italia. Telecom Italia acquired the Aria license for a record amount, a historical peak of privatization and foreign direct investment for Turkey up to its time, 2000. However, the expansion strategies of the “strategic investor” dramatically revised as to withdraw from periphery markets like Turkey, in response to the telecommunications bust. The ensuing period witnessed a merger between Aria and Aycell designed by Erdoğan and Italian Prime Minister Silvio Berlusconi. This merger determined the outcome of the Türk Telekom’s privatization, as Telecom Italia successfully manipulated the outcome of the auction by using her stake in Avea. The privatization of Türk Telekom was to make Telecom Italia the controlling group in Avea, and the winning group would capture only control of fixed telephone operator. Consequently, the consortium of Saudi Oger and Telecom Italia won the auction. In the following period, Telecom Italia gradually withdrew from Turkey by divesting her assets to Saudi Oger. The strategic partner policy resulted in a foreign owner, Saudi Oger, the first ever telecommunications investment of which was Türk Telekom. Chapter 6 links the policy in the mobile telephone segment with fixed telephone privatization, which is a novel contribution to the literature on the privatization of Türk Telekom.

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91 Aria was the name of the mobile telephone operator founded by the consortium of Telecom Italia and İş Bankası. Aycell was the name of the mobile telephone operator founded as an affiliate of Türk Telekom.



## § 1.6 A Note on Method

Besides an engaging with the academic literature on telecommunications policy, this dissertation provides a modern history of Turkish telecommunications from a critical political economy perspective. Despite the presence of short articles on several issues on Turkish telecommunications, a comprehensive account of the topic does not exist. In addition to a theoretical engagement with contemporary Marxist frameworks and telecommunications policy, I provide a history of the Turkish telecommunications after 1980.

The chronological order of the events matters even for contemporary studies as common misunderstandings and unquestioned conclusions are repeated in the academic literature on Turkish telecommunications. Therefore, I constructed detailed chronologies of the events studied in the chapters. By doing so, I explain the real factors behind significant events that happened. Despite the fact that I employ a critical political economy approach, I do not omit the facts and reduce the study to a theoretical examination. To carve a precise chain of cause and effect, I conducted a comprehensive search of international (mostly EU or United States based) English language newspapers, magazines and other periodicals that supply information for the financial business audience. In addition, I analyzed press releases, quarterly conventions, and annual investor reports of companies. Mainstream Turkish language newspapers (especially *Hürriyet* and *Milliyet*), parliamentary documents, laws, court decisions, secondary legislation, official reports, and of Turkish language memoirs of engineers and bureaucrats were also taken into account.

The intellectual connection between the parts of this dissertation is the form international capital movements took in the context of Turkish telecommunications. Therefore, I paid special attention to long term investment trends beginning from with public investments in the 1980s and continuing with private investments in the 1990s and beyond. In order to calculate the investment amounts in dollar terms and as a fraction of GDP, I conducted soft statistical works on databases of the Turkish State Planning Organization (*Devlet Planlama Teşkilatı*, DPT) and WB. As necessary, other sources of data were utilized, too. All tables and charts in this dissertation are specific to this

work and original; however, the dissertation does not claim to be a quantitative study. The tables and figures are auxiliary tools to explain the economic context of the chain of events.



## Towards a Critical Approach to Telecommunications

### § 2.1 Introduction

This chapter proposes a critical political economy approach to telecommunications policy that reformulates the topic as a contradictory field of statecraft. Such an analysis is built upon two main scholarly resources, telecommunications policy research agenda and critical political economy analyses of global capitalism.

Telecommunications policy research agenda forms a vast literature that engages with privatization and competition in the telecommunications sector. This research agenda predominately provides policy recommendations based on short-term analyses of policies at a national scale from a liberal perspective. Early studies promoted privatization as the most suitable policy solution for the varying needs of individual countries. The main academic argument that legitimated privatization concerned meeting the demand of business subscribers in the United States, the United Kingdom, the Netherlands, and Japan; increasing the competitiveness of the national operators in France, Germany, Spain, Italy, and Scandinavian countries; and overcoming investment shortages in Brazil, South Africa, Turkey, and other peripheral middle-income countries. During discussions on the method of privatization that would best fit individual countries, telecommunications policy research agenda had to engage with themes of political economy like the increasing role of finance in

global capitalism, strategies of multinational companies, and the role of the infrastructure sectors in outward-oriented development strategies of peripheral middle-income countries. However, later studies abandon these earlier themes which partially considered the political economy and dwell instead on the institutionalization of pro-competition regulation. Without reference to the broader perspective of the political economy, the literature either grasps the structural mechanisms that shape telecommunications policy nor the specific role of telecommunications in capital accumulation. I argue that a dialogue with critical political economy analyses of global capitalism has the potential to complement the explanatory power of the telecommunications policy literature. In this respect, the word policy should signify more than the best practice for private competition, and start to signify government decisions in key areas that determine the fate of the telecommunications sector in the context of the structural limitations of accumulation patterns. This is why I engage with theoretical and conceptual frameworks offered by contemporary Marxist authors.

The critical political economy literature provides a rich tradition of research on development of capitalism as a mode of production and as a social and economic structure that encompasses the world and the integration of individual peripheral countries into the world economy.<sup>1</sup> From this wide selection of critical authors and theoretical apparatuses, I select analytical frameworks offered by the Marxist authors David Harvey and Bob Jessop as a starting point for a specific analysis of telecommunications policy as a contradictory policy making area.<sup>2</sup> The structural analyses of global capitalism by these two Marxist authors theoretically explain the transitions among the periods of accumulation regimes and posit that policy realms in the context of these transitions are the contradictory areas of statecraft. My method is to

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- 1 For an up-to-date comprehensive guide to the preeminent authors, crucial concepts, and research prospects of the critical political economy literature, see Alan Cafruni, Leila Simona Talani, and Gonzalo Pozo Martin, *The Palgrave Handbook of Critical International Political Economy* (London: Palgrave Macmillan, 2016).
  - 2 For two main sources, see Harvey, *Condition of Postmodernity*, Jessop, “Revisiting Regulation Approach.” More detailed references are provided in sections 2.4.1 and 2.4.2.

adapt the basic contradiction of the commodity form, namely the contradiction between use and exchange values to the specific policy realms. Telecommunications policy is not one of the policy realms formulated by these authors despite the fact that both pay attention to the role played by the telecommunications. The advent of finance as the dominant sector in capitalism is the main theme of structural analyses of global capitalism. In this respect, the role of new telecommunications technologies is also on the radar of these studies. However, the specific role played by telecommunications in the formation of the finance-dominated setting – in other words, the link between the rise of finance and the transformation of telecommunications has not received sufficient attention from scholars. The introduction of a critical framework to the field of telecommunications complements the structural analysis of capitalism, as well as telecommunications policy research agenda, by explaining the contradictory relationship between the financing of telecommunications and the telecommuting of finance.

During the reformulation of telecommunications policy as a contradictory field of statecraft, the use and exchange values of the sector should be determined in the context of specific accumulation (growth, development) modes (strategies). In the context of the finance-dominated phase of capitalism, the use value of the telecommunications sector refers to its usefulness for business subscribers. Business subscribers in general and banks and other financial companies more specifically need a great quantity and variety of telecommunications services. In the same context, the exchange value of the telecommunications sector is its attractiveness as a new field of private economic activity – in other words, companies' motivation to capture and exploit the potential profits of telecommunications operations. This motivation includes the financial appetite of the banks in addition to companies directly engaged with the telecommunications operation. Banks and other financiers channel over-accumulated funds to the financing agreements of acquisitions, mergers, and other transactions about take over of the ownership of telecommunications assets, and to the credits issued for financing of the new physical investments in the telecommunications networks.

The proper, stable operation of the usefulness of a telecommunications system conflicts with the presentation of telecommunications assets and investments to attract private activity and financing when destructive fluctuations of international financial markets directly affect telecommunications. Starting in the 1980s, the privatization of the telecommunications accelerated the financial attention towards the telecommunications sector. However, the dot.com crisis in 2000 and 2001 (the telecommunications bust) brought an end to the private investment frenzy that took place in the 1990s, violently devalued telecommunications assets, and undermined the financial credibility of new physical investments in telecommunications infrastructure. (For the details on the telecommunications bust, see chapter 4.) Privatization turned the entire telecommunications system and new web technologies into instruments of financial speculation, and subsequently inflated and devalued the face value of telecommunications equities.

The reformulation of telecommunications policy as a contradictory field of statecraft at the national scale requires the additional attention of scholars for the case of peripheral middle-income countries. The structural Marxist analyses of Harvey and Jessop place the mechanisms of accumulation in core high-income countries at their heart. Actually, the mechanism of accumulation in core high-income countries has global consequences and should be treated as global accumulation patterns since the individual accumulation patterns of all countries within the capitalist system must be in accordance with the model in the core. Still, there is a need to formulate the policy fields of peripheral middle-income countries while taking additional factors of their economic development into account.<sup>3</sup> Therefore, in this chapter, I analyze telecommunications policy of peripheral countries – including Turkey – in the context of a

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3 My categorization of peripheral middle-income countries is an interpretation of the core-periphery model of the Dependency and World Systems Schools. For a discussion of the usefulness of the core-periphery model in the age of the peripheralization of the manufacturing and financialization of the core, see Giovanni Arrighi, “The Developmentalist Illusion: A Reconceptualization of the Semiperiphery,” in *Semiperipheral States in the World-Economy*, ed. W. G. Martin (Westport, CT: Greenwood Press, 1990), 11-42. More detailed references on this issue are provided in section 2.4.3.

development strategy that is in accordance with the finance-dominated phase of capitalism, namely an outward-oriented growth strategy.

In the context of global finance-dominated capitalism, peripheral countries that adopt outward-oriented economic policies should attract a bounty share of the financial funds available in the international markets. The improvement of physical infrastructures has become necessary to attract financial flows. In this respect, the development of telecommunications infrastructure is especially significant as finance and related sectors have growing need for varied telecommunications services. This explanation provides the basis for the formulation of the use value of telecommunications in the context of an outward-oriented growth strategy. As a part of the same growth model, peripheral governments tend to privatize SOEs including publicly owned telecommunications operators. Privatization provides the basis for the formulation of the exchange value of telecommunications in the context of an outward-oriented growth strategy. If the basic motivation of privatization is to maximize revenues in line with the disciplining public budget by squeezing government spending and boosting its revenue, the use value of telecommunications is overshadowed by the exchange value of the sector. I argue that this contradictory reformulation of telecommunications policy explains the character of Turkish telecommunications policy after 1980, the year Turkey adopted an outward-oriented growth strategy. The analysis the Turkish policy concludes that the prioritization of use value took place in the period of 1980-1994, and the prioritization of exchange value took place in the period after 1994.

The organization of the chapter is as follows. After this introductory section, the second (2.2) reviews the scholarly reasoning in favor of telecommunications privatization by analyzing studies on both core high-income and peripheral middle-income countries. The third section (2.3) explains the main themes of academic studies of Turkish telecommunications policy. The fourth section (2.4) derives an analytical framework for the critical study of telecommunications from the theoretical studies of Harvey and Jessop. The fifth section (2.5) concludes and links this chapter to chapter 3.

## § 2.2 Scholarly Reasoning in Favor of Telecommunications Privatization: From Core to Periphery

This section provides a literature review based on arguments about the organization and transformation of telecommunications networks. In the first subsection (2.2.1) I explain the academic reasoning in favor of privatization in core high-income countries, and in the second subsection (2.2.2) for peripheral middle-income countries. Throughout the subsections, my focus is on the themes of political economy and these themes' established links with privatization policies. In doing so, I simultaneously create a basis of a critical framework for telecommunications and summarize the main inclinations of the academic literature.

### 2.2.1 *Scholarly Reasoning in Core: Privatization for Favoring Finance Business and Overseas Expansion*

This dissertation neither focuses on the early formation of PTT systems nor the transition from early private companies to state-owned national incumbents at the beginning of the twentieth century.<sup>4</sup> Still, two aspects of PTT systems which are important for the rest of the dissertation appear as arguments in the literature to explain the social rationale of the system. These are the postal-industrial complex and universal access. These two concepts are also key to understand the primary social resistance to privatization and restructuring and to detect the transformative elements embedded in the PTT system.

The coupling of the PTT with the national championing of electronics manufacturing and the massive volume of employment were key components of the postal-industrial complex. The Bell System in the United States, which was a block of the telephone incumbent AT&T, the electronics manufacturer

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4 Please remind the general model of PTT and national divergences I introduced in section 1.2. In this regard, when I refer to a PTT system, I am not talking about the Turkish PTT but to a public monopoly system that existed in a majority of countries before the pro-privatization restructuring of telecommunications.



Western Electronics, and Bell Laboratories, was an example of a postal-industrial complex.<sup>5</sup> The German PTT, namely the Deutsche Bundespost and Siemens, formed a similar complex. Alcatel in France and Plessey in the United Kingdom were also manufacturers developed in a national postal-industrial complex.<sup>6</sup> The PTT systems were major employers in a secure, well-paid labor regime. For example, AT&T employed around 1 million people before regional disintegration in 1984,<sup>7</sup> and the Deutsche Bundespost employed half a million in the early 1990s.<sup>8</sup> This postal-industrial complex was a functioning component of the Fordist mode of capital accumulation in which manufacturing was concentrated in core high-income countries and growth was secured by expanding the domestic market.

Postal-industrial complexes dispersed as a result of the transition from Fordism to finance-dominated flexible accumulation in the 1970s. In core high-income countries, manufacturing companies went overseas and moved their productive branches to cheap-labor zones like China. Core high-income countries abandoned the Keynesian policy of full-employment in favor of a competitive setting.

In peripheral middle-income countries, ISI and protectionism was favorable for such a postal-industrial complex. However, except a few nations like

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- 5 Robert W. Crandall and Charles L. Jackson, "Antitrust in High-Tech Industries," *Review of Industrial Organization* 38, no. 4 (June 2011): 330. Noam formulated the concept "postal-industrial complex." Noam, *Telecommunications in Europe*, 4 and 24-25.
- 6 Thatcher, *Internationalization and Economic Institutions*, 123. For an account of the postal-industrial complex in the context of South Africa, see David Kaplan, "Out of South Africa: South Africa's Telecommunications Equipment Industry," in *Telecommunications in Africa*, ed. Eli M. Noam (New York: Oxford University Press, 1999), 193. Also see Horwitz, *Communication and Democratic Reform in South Africa*, 81-85.
- 7 Brock, *The Second Information Revolution*, 206.
- 8 Noam, *Telecommunications in Europe*, 22-23.

the South Korea<sup>9</sup> and South Africa,<sup>10</sup> electronics did not become a competitive export sector. Therefore, the pro-privatization social coalition faced employees of PTTs alone as other elements of the social resistance coalition left the scene.

The Turkish case diverges in a strange way as support for electronics manufacturing through PTT purchases started after the abandonment of ISI strategy in the context of the outward-oriented development, but it lasted only a short period in the 1980s. (For details, see chapter 3.) The academic interest in Turkish electronics manufacturing and its role in telecommunications policy is not rich. Significant exceptions are studies by Haluk Geray that focus on policy making process<sup>11</sup> and by Ansal and Soyak that engage with the effects of privatization on these manufacturing companies and their transition to foreign control.<sup>12</sup>

The second pillar of PTT systems was universal access. The goal of providing citizens with universal access to telecommunications services was supported by the cost-independent pricing system of the monopolies.<sup>13</sup> Remote areas to be covered by the network in order to secure universal access posed a lower demand but higher cost relative to metropolitan areas.<sup>14</sup> PTT monopolies had the opportunity to elevate prices independent of the costs and to adopt

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- 9 James F. Larson and Jaemin Park, "From Developmental to Network State: Government Restructuring and ICT-led Innovation in Korea," *Telecommunications Policy* 38, no. 4 (2014): 350, 354.
- 10 David Kaplan, "State Policy and Technological Change-The Development of the South African Telecommunications Industry," *Journal of Southern African Studies* 15, no. 4 (1989):567-577.
- 11 Haluk Geray, "Network policy formation between idealist and strategic models: A political economy perspective from Turkey," *Telecommunications Policy* 23, no. 6 (1999): 501-502.
- 12 Hacer K. Ansal and Alkan Soyak, "Impact of Privatization on R&D Activities: The Case of Turkish Telecommunications Industry," in *Civilization, Modern Technology and Sustainable Development: Conference Proceedings*, ed. T. Khalil, H. El-Gammal, L.A. Lefebvre, Y. Hosni, and H. El-Laithy (Cairo: Institute of National Planning, 1999), 38-49.
- 13 Horwitz, *Communication and Democratic Reform in South Africa*, 75-76.
- 14 Under the condition of competition among multiple private companies, operators tend to lay networks in metropolises with higher demand for services. This is why private operators of

a national average price for services. This national average price was well above the costs in high-demand metropolitan areas. The profit gained in these areas was channeled to investments in remote areas in order to secure the universal access – a mechanism called cross-subsidization which was a kind of redistribution.<sup>15</sup> In a similar manner, the long distance calls were higher as business subscribers were desperate to make such interregional calls (low elasticity in economic jargon). This mechanism favored ordinary citizen subscribers.<sup>16</sup> The inclusion of remote regions and ordinary citizens in the network demonstrates the long-term economic rationality of creating a national market, at the expense of increased costs of operations for businesses in core regions.

Noam argues that the success of the network in terms of universal access paradoxically prepared the end of the system. As the network expanded to remote areas, the redistributory burden on business subscribers grew and motivated them to change the system.<sup>17</sup> What triggered the transformation from this former organization of telecommunications? Interestingly, early studies on telecommunications restructuring establish a direct link between the strengthening of the financial sector's demand for cheaper and more varied services and the liberal transformation of the sector.<sup>18</sup> Later studies shifted the emphasis to technological progress and ceased to emphasize the role of business subscribers. For example, Castells emphasizes the central role of the computer and internet technologies in telecommunications reform.<sup>19</sup> Thatcher and

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the early twentieth century were concentrated in metropolises. This is known as cherry picking or cream skimming.

15 Noam, *Telecommunications in Europe*, 23.

16 Brock, *Second Information Revolution*, 189. The service of long distance calling over a fixed network became obsolete in the United States when mobile telephone operators started to offer a single rate for every distance in 1998. Crandall and Jackson, "Antitrust in High-Tech," 332.

17 Noam, *Telecommunications in Europe*, 30-41.

18 For examples of these earlier studies, see especially Warf, "Telecommunications and the Globalization of Financial Services," in 1989 and Noam, *Telecommunications in Europe* 1992. Also see Melody, *Telecom Reform: Principles, Policies and Regulatory Practices* in 1997.

19 Manuel Castells, *Communication Power* (New York: Oxford University Press, 2009), 24-25, 103-105. In the case of South Korea, Larson and Park openly refer to Castells by employing the concept "network state." Larson and Park, "From Developmental to Network State."

Brock, emphasize technological change from the perspective of neo-institutionalism, too.<sup>20</sup> I prefer the explanations of earlier studies from the 1980s and 1990s which were authored at a moment closer in time to the transition from Fordism to a finance-dominated flexible phase. These studies emphasized the role of the general transformation of economic structures on the dissolution of post-industrial complexes.

Harvey emphasizes the role of finance in transitioning from Fordism to flexible accumulation. An expansion of finance-related segments of the services sector in terms of their weight in the economy and employment – together with the liberalizing of financial transactions – transformed the economic structure of core high-income countries in the 1970s.<sup>21</sup> The liberalized and growing finance sector required telecommunications services in greater quantity. As Warf puts it, in the context of the 1970s and 1980s “the telephone [was] the workhorse of financial firms: For example, the number of calls emanating daily from Wall Street increased from 900,000 in 1967 to 3 million in 1987.”<sup>22</sup> In addition to demand for telephone services, firms needed private lines between facilities. In the United States, AT&T was unable to satisfy the demand, private entries were allowed in the early 1970s.<sup>23</sup> The pricing scheme that prioritized universal access was a big problem from the perspective of

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- 20 Thatcher, *Internationalization and Economic Institutions*, 123 and 127; Brock, *Second Information Revolution*, 16-20.
- 21 Harvey, *Condition of Postmodernity*, 156-157 and 160-166. In this book, Harvey does not engage with factors that triggered telecommunications reform directly. When he mentions telecommunications, he highlights its role in connecting separate places and eliminating of the spatial obstacles to global business. See *Ibid.*, 161, 232, 240, 293.
- 22 Warf, “Telecommunications and the Globalization of Financial Services,” 259-261. Noam emphasizes that, too, a “phenomenal growth in user demand for telecommunications... based on the shift toward a service based economy” occurred in this period. Noam, *Telecommunications in Europe*, 43. Moss and Townsend explain the same dynamic in the case of New York. Mitchell L. Moss and Anthony M. Townsend, “Moving Information in the Twenty-First Century City,” in *Moving People, Goods, and Information in the 21st Century: The Cutting Edge Infrastructures of Networked Cities*, ed. Richard Hanley (New York: Routledge, 2004), 73.
- 23 Horwitz, “Deregulation as a Political Progress,” 3. Sassen, too emphasizes the role of the private telecommunications lines of companies. Saskia Sassen, “Towards a Sociology of Information Technology,” *Current Sociology* 50, no. 3 (May 2002): 366-367.

financial businesses. As the business of finance converted its economic power into political pressure for the reformation of the system, the transformation was triggered. The decision for the divestiture of AT&T in 1980 (which came into force in 1984) kickstarted the transition throughout the world as the United States had the most powerful financial sector. Majone states that the relative strength of finance in the United Kingdom and the Netherlands made these countries follow the United States example earlier than other European countries.<sup>24</sup> In a similar manner, Japan was the early mover in Asia as it had a respectable finance sector and node in Tokyo.

Following the initial reform movement in the United States, the United Kingdom, and Japan, telecommunications restructuring started in other core high-income countries in Europe because the weight of the financial business in these countries was also significant. However, reform was triggered in these countries through the mechanism of international competition. Once an international grid of finance formed among New York, London, and Tokyo, other countries, too, started to promote their metropolises as new global nodes.<sup>25</sup> However, the traditional PTT system was unable to meet the demands, in terms of varied and cheap services for finance business. To prevent capital flight and attract business, governments of core high-income European countries like France and Germany started to design reforms.<sup>26</sup>

Another factor that motivated countries was to gain an advantage in overseas telecommunications expansion. Following reform, newly-formed competitive operators started to seek expansion opportunities abroad. In the 1990s, the French, German, and Italian governments were motivated to design telecommunications reform in ways that would create an international private

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24 Giandomenico Majone, "Cross-National Sources of Regulatory Policymaking in Europe and the United States," *Journal of Public Policy* 11, no. 1 (January-March 1991): 92.

25 For an explanation of the significance of these cities in the formation of global financial links, see Saskia Sassen, *The Global City: New York, London, Tokyo* (Princeton, NJ: Princeton University Press, 1991).

26 Horwitz, "Deregulation as a Political Process," 11.

operator. The argument of “privatization for overseas expansion” also appealed to nationalist sentiments, breaking the resistance of employees.<sup>27</sup> The motive to expand overseas was also the case for the privatization of Telefonica in Spain.<sup>28</sup>

Turkey was one of the overseas expansion targets of European operators in the 2000s. In addition, Turkey was affected by the liberalization of European telecommunications, as the Europe was main partner in terms of movements of people, commodities, and money. For example, German operators were siphoning international calls between Turkey and Germany in the 1990s as the international rates of Turkish domestic incumbent was higher.<sup>29</sup>

### 2.2.2 *Scholarly Reasoning in Periphery: Privatization for Investment Recovery or Revenue?*

Following the debt crisis of the 1970s, peripheral middle-income countries had to leave the ISI and adopt outward-oriented growth strategies which better conformed to the finance-dominated flexible accumulation regimes in core high-income countries. In this new growth strategy, attracting short and long-term capital movements was crucial. The relative significance of the services sector for peripheral middle-income countries increased. These factors triggered an increase in demand for telecommunications services. Telecommunications network expansion was limited as the telecommunications sector had not been in a key position in the ISI era. In addition, government funds were drained so as to cover the debt crisis. As Kingstone put it in the context of Brazil, “declining investments and increasing need for capitalization were a

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27 Thatcher, *Internationalization and Economic Institutions*, 127-195.

28 Clifton, Comin, and Diaz-Fuentes, “From National Monopoly to Multinational Corporation,” 772-773.

29 Kamil Yilmaz, “Turkish Telecommunications Sector at a Crossroads” (paper presented to Mediterranean Development Forum Workshop on “Private Participation in Telecommunications Infrastructure,” Marrakesh, Morocco, May 1997), 9-10.

poor combination.”<sup>30</sup> Beyond expansion of the network, technological updates, especially deploying digital switches, necessitated extra investment funds.<sup>31</sup>

At this point, privatization emerged as an opportunity to recover the investment shortage. Governments’ attempts to attract investment came together with the attention of international capital markets on telecommunications. The amount of funds circulating in international markets was well beyond the domestic financing resources of peripheral middle-income countries. Potential investment in telecommunications were good starting points for attracting large amounts of foreign investment together with the positive externalities created by infrastructure development.

From the viewpoint of actors in international capital markets, the privatization market was a good opportunity to channel funds. The privatization agenda promoted by international organizations like the WB and IMF and were in line with the needs of international financial capitalists. As the telecommunications sectors of peripheral middle-income countries emerged as an intersection of cross-border and cross-sector capital replacements, the privatization agenda became half-obligatory for governments under the influence of international organizations. The reasoning privatization was considered a remedy for the investment shortage should be evaluated in this context of international hierarchy. Still, the reasoning about investment recovery was more than a simple masking of pure capitalist interest, which was predominately formulated by international finance capitalists. Peripheral search for economic development and growth can only move in a room limited by the structural determination of global accumulation patterns. Therefore, in periods of intensifying movement of commodities and money, peripheral governments tend to adopt outward-oriented growth policies like promoting foreign investment.

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30 Peter R. Kingstone, “Privatizing Telebrás: Brazilian Political Institutions and Policy Performance,” *Comparative Politics* 36, no. 1 (2003): 25. For the same argument for the case of Chile, see Oliver Stehman, “Network Liberalization and Developing Countries: The Case of Chile,” *Telecommunications Policy* 19, no. 9 (1995): 671.

31 Robert B. Horwitz, “South African Telecommunications: History and Prospects,” in *Telecommunications in Africa*, ed. Eli M. Noam (New York: Oxford University Press, 1999), 211.

The dominant form of privatization in peripheral middle-income countries was block sale to a strategic foreign partner. The strategic foreign partner was defined as an experienced investor based in a core high-income country. As explained in the previous section, European governments were structuring telecommunications privatization to promote their national incumbent as a good competitor in overseas expansions. Simultaneously, peripheral middle-income governments were seeking to attract the best possible foreign investor. The promised contributions of an incoming strategic partner were to transfer private business culture as well as technology and knowhow, in addition to making major investments.<sup>32</sup>

In actuality, the governments' quest for privatization revenue was as motivating a factor as the official arguments for privatization and investment recovery. Levi-Faur compares the privatization trajectories of EU and Latin American countries and concludes that Latin American countries "gave priority to short-term revenue considerations (maximising the revenues from privatisation) over the long-term prospects of their telecom markets (which largely depend on maximizing investment opportunities and competition)."<sup>33</sup> Mattos and Coutinho emphasize that "assuming that winning bidders face liquidity constraints, the greater the amount of money disbursed in privatization..., the smaller the amount of resources available to invest afterwards."<sup>34</sup> This inclination to maximize revenues from privatization was also a determinant in the case of Turkish telecommunications privatization. In addition, I argue that Turkey represents one of the most violent examples of this inclination. (For a detailed explanation, see chapter 4.)

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32 Cesar Mattos and Paolo Coutinho, "The Brazillian Model of Telecommunications Reform," *Telecommunications Policy* 29, no. 5-6 (2005): 452.

33 David Levi-Faur, "New Regimes, New Capacities: The Politics Of Telecommunications Nationalisation and Liberalisation," in *States in the Global Economy: Bringing Domestic Institutions Back in*, ed. Linda Weiss (New York: Cambridge University Press, 2003), 171. Horwitz and Currie posit the same motivation of revenue generation in the context of South Africa. Robert B. Horwitz and Willie Currie, "Another Instance where Privatization Trumped Liberalization: The Politics of Telecommunications Reform in South Africa - A Ten-Year Retrospective," *Telecommunnications Policy* 31, no. 8-9 (2007): 456.

34 Mattos and Coutinho, "The Brazillian Model of Telecommunications Reform," 453.



## § 2.3 Main Themes of Academic Studies of Turkish Telecommunications

After attention on the link between investments and privatization in the 1990s, the focus of studies on Turkish telecommunications policy has been on legal issues – especially the institutionalization of pro-competition regulations. Despite the fact that scholars promoted the privatization policy as a tool to overcome investment shortages, I argue that the literature neglected an intellectual follow-up to the argument about privatization and investments. I also argue that revenue generation should be introduced to the academic studies as an actually existing goal of the privatization policy. The following subsections review the academic literature on Turkish telecommunications policy as well as provide my arguments in dialogue with these scholars.

### 2.3.1 *Privatization for Investment: An Early Motivation for Infrastructure Development*

The main pro-privatization intellectual argument in peripheral middle-income countries was to increase investments by attracting capital from international financial markets under the conditions of public budget disciplining in the post-debt crisis era.<sup>35</sup> Academic studies on Turkish telecommunications policy, too, focused on the investment issue and pointed to privatization policy as the only alternative to overcome the investment shortage of SOEs.

In one early study dated to 1976, Bayraktar and Abut emphasizes investment shortage and state that investments must at least double to catch up to core high-income countries. In addition, they point to the problem of a shortage of qualified labor and recommend a policy to educate more professionals and a more flexible wage scheme to retain qualified personnel in the PTT. However, they do not recommend privatization as it was before privatization became a worldwide policy standard.<sup>36</sup> In his report presented to the Second

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35 A debt crisis hit a series of peripheral middle-income countries in the late 1970s and early 1980s. The peak of the crisis was a moratorium declared by Mexico in 1982.

36 Günsel Bayraktar and Hüseyin Abut, “Present State and Future of Telecommunications in Turkey,” *IEEE Transactions on Communications* 24, no. 7 (1976): 684-686.

Economic Congress of Izmir in 1981, İlhan Kesici stated that a long-term investment program was necessary to expand and upgrade the Turkish telephone network.<sup>37</sup> Kesici stated that the necessary investment volume was far larger than the government's spending capacity. He recommended public offerings by the PTT's telephone branch to raise capital as the first step and a "radical change" in structure introducing the private sector as a second.<sup>38</sup> In the 1980s, with the support of the military, Turgut Özal<sup>39</sup> launched a public investment leap in telecommunications infrastructure that impressively expanded and upgraded the network. As Geray stated, "In an 'export oriented economy' telecommunications was seen an instrument for growth and a vital factor in attracting foreign investment."<sup>40</sup> Except for some PPP projects like the introduction of the car phone, the privatization of the telecommunications network was on the agenda of neither the government nor scholars. Nevertheless, center-right liberal politicians, bureaucrats, technocrats and academics were sure that the final solution to the investment shortage was privatization.

In the 1990s, the privatization of telecommunications became a political and economic priority of the government as well as of international institutions like the IMF and WB. According to Haluk Geray, the policy line of the WB shifted from financial support of the improvement of public services to

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- 37 Kesici was a bureaucrat of the SPO who specialized in telecommunications. He then became a significant figure of the engineer-bureaucrat-politician tradition of center-right politics in Turkey.
- 38 İlhan Kesici, "Telekomünikasyon ve Geleceği 'Tesbitler ve Teklifler,'" in 2. *Türkiye İktisat Kongresi*, ed. DPT (Ankara: DPT Yayınları, 1981), 4: 377.
- 39 Özal, one of the iconic leaders of the Turkish center-right, enjoyed his peak political fortune in the 1980s. He was an engineer-originated politician who was also experienced in planning. He served the WB in the 1970s too. Özal was the leader of Motherland Party (*Anavatan Partisi*, ANAP), a coalition of liberals, Islamists, nationalists, and followers of the Turkish center-right tradition, a political structure formed under the extraordinary conditions created by the 1980 military coup. For a biography of Özal with more detail, see section 3.3.
- 40 Haluk Geray, "Extent and Scope of 'Digital Divide' in Turkey: Policy Perspectives" (paper prepared for the OECD/DSTI, WPIE/TISP Workshop the Digital Divide: Enhancing Access to ICT's, OECD, Paris, November 7, 2000), 12-13. For a detailed analysis of the Telecommunications Leap, see chapter 3.

privatization.<sup>41</sup> As the dominant policy form was changed to be pro-privatization and as privatizations in peripheral middle-income countries increased in response to the growing appetite of international capital markets for telecommunications, academic interest in privatization revived. In this regard, Kamil Yılmaz proposes a privatization policy that prioritizes creating funds for investment. According to Yılmaz, the most suitable method of investment-promoting privatization was to launch IPOs in domestic and international stock exchanges. He recommended that privatization agreements should include roll-out investment clauses.<sup>42</sup>

Ardiyok emphasized that investment levels three years after privatization rose relative to the three years before and brought forward privatization as a policy choice to increase investment in the crucial telecommunications sector.<sup>43</sup> However, contrary to Yılmaz, Ardiyok supports that the best method was block sale to a strategic foreign partner, especially a European multinational operator, instead of IPOs. According to Ardiyok, a foreign strategic partner would meet the need for extensive expansion of the telecommunications network.<sup>44</sup>

Yılmaz's objection to the foreign strategic partner was based on the fact that the Turkish telecommunications network was advanced in comparison with the other peripheral middle-income countries. In later phases of network expansion, it is expected that return on investment declines since regions of high-demand are already covered and only low-demand zones remain to be

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41 Geray, "Network Policy Formation," 497. Haluk Geray maintains a critical stance against pro-privatization telecommunications policy.

42 Yılmaz, "Turkish Telecommunications Sector at Crossroads," 13, 27-29.

43 Şahin Ardiyok, "Türk Telekomünikasyon A.Ş.'nin Özelleştirilmesi: Sektörde Doğum Sancıları," *Rekabet Dergisi* no. 5 (2001): 39. For a similar analysis, see Kamil Yılmaz, "Türk Telekomünikasyon Sektöründe Reform: Özelleştirme, Düzenleme ve Serbestleşme" (Research Report, Koç University, Istanbul, November 1999), 14-20. In the Turkish case, the outcome has been different as investment performance in terms of a percentage of GDP declined during the privatization period. For details, see subsection 1.3.3, figure 1.1, and section 4.6, figure 4.22.

44 Ardiyok, "Türk Telekomünikasyon A.Ş.'nin Özelleştirilmesi: Sektörde Doğum Sancıları," 33-41.

covered. The expansion towards low-demand zones is not as rewarding as the early phases of network development which was already achieved in Turkey in the 1980s. Therefore, Yılmaz argued that the investment motivation of a possible foreign partner to invest was not automatic, and roll-out investment clauses should be part of the privatization agreement.<sup>45</sup>

Block sale to a foreign partner was the dominant, preferred privatization strategy of Turkish authorities. The Value Assessment Committee (Değer Tespit Komisyonu) for Turkish telecommunications privatization, formed by Law 4161 in 1996, was the institution that adopted the strategic partner policy. The Privatization Agency (*Özelleştirme İdaresi Başkanlığı*, ÖİB) headed the committee along with representatives of the ministries, the bureaucracy, and Türk Telekom. The committee drafted a report in 1998 which was accepted by the government and adopted the block sale method to a strategic partner. According to the committee, “the block sale to a strategic investor or consortia requires participation of an international telecommunications operator that will bring expertise and knowhow and accelerate the commercialization of Turk Telekom.”<sup>46</sup> However, block sale auctions in 2000 failed to attract the interest of expansionist telecommunications multinationals. (For details, see chapter 6.) Aybar, Günel, and Süel analyzed the strategic partner argument in research paper authored just after the failed auctions. According to Aybar and colleagues, the strategic partner argument is only applicable if controlling power is given to the company. In exchange for a satisfactory privatization payment, capital investment, and knowledge transfer, potential strategic foreign partners demanded an agreement that guaranteed control over operator. The authors recommended lifting limitations on private and foreign ownership.<sup>47</sup> The Turkish state ignored the possibility of an alternative privatization strategy through a public offering that would have supported the financial status of the telephone operator and prepared it to be a competitive operator able

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45 Yılmaz, “Turkish Telecommunications Sector at Crossroads,” 29.

46 Aybar, Güney, and Süel, “Privatization and Regulation in Turkish Telecommunications,” 9.

47 Ibid., 23-24. The legal framework was amended along these lines in the 2000s. For details, see subsection 4.3.1.

to expand. In other words, “a Türk Telekom which is transformed from a national monopoly into a competitor in the domestic and international arena.”<sup>48</sup> Instead, the public offering method was employed as an auxiliary of the dominant block sale method.

Actually, as Yılmaz stated, starting in the mid1990s “the government’s view of Türk Telekom is more or less like a cash cow.”<sup>49</sup> I argue that Turkish governments after 1994 adopted a policy that prioritized revenue generation for the public budget, as I explain in detail in chapter 4. The preference for the “block sale to strategic partner” method was in line with this prioritization of revenue raising. Yılmaz and other scholars were aware of this inclination of the governments; however, they did not elaborate this theme. In the mid2010s, it is now both possible and necessary to make an academic, intellectual follow-up to the “privatization for investment” argument in general and the “strategic partner for investment” argument more specifically by evaluating the privatization process in terms of reviving investment in telecommunications infrastructure. This dissertation concludes that the strategic partner method did not serve to increase investment but did serve to raise government revenue.

### 2.3.2 *Regulation for Competition: Shifting the Focus from Investment to Competition*

Three interrelated factors that had become dominant by the mid-2000s determined the main character of academic studies. The formation of regulatory agencies in 2000-2001 and their legal fortification, especially after the February 2001 crisis, charmed academics into studying these novel bureaucratic organs and their supposed independence from the government. Second, the new status of Turkey as a candidate to join the EU, encouraged scholars to work on the similarities and disparities of Turkish regulatory institutions to their EU counterparts. EU standards of telecommunications regulation and the pro-

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48 Yılmaz, “Turkish Telecommunications Sector at Crossroads,” 29.

49 Ibid., 2.

competition essence embedded in them emerged as an external anchor.<sup>50</sup> Finally, the achievement of the long-awaited privatization of Türk Telekom and the advent of Vodafone in 2005 created a post-privatization academic agenda that promoted entry-facilitating regulation. The theme of pro-competition regulation and detailed analysis of its sub-policies replaced the “privatization for investment” argument and shifted the focus of academia away from infrastructure development.

In these regulatory studies, academics argued that the new entrants into the various segments of the telecommunications sector with the help of a regulatory framework was the best way to boost investment. As a prominent proponent of this agenda, İzak Atiyas states that level of investment depends on “the existence of a regulatory framework that encourages new entry on one hand and prevents anti-competitive behavior by incumbents on the other.”<sup>51</sup> In this respect, Atiyas bypasses the critics of the ladder of investment argument that characterized EU competition policy. Instead, he focuses on “Turkey’s progress towards the goal of developing an EU-like regulatory framework.”<sup>52</sup>

In another work, Atiyas and his coauthor Doğan studies cases of private entries to the mobile telephony sector and the privatization of Türk Telekom. Their terminology was organized around concepts of incumbent and entrant. In this respect Türk Telekom was an incumbent in the fixed telephone network and the services provided by this network, namely fixed voice calling and broadband internet.<sup>53</sup> On the other hand, Türk Telekom was an entrant in the mobile telephone network through her affiliate Aycell (later Avea). The other

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- 50 In addition to other authors reviewed in this section, Burnham puts special emphasis on the role of EU, IMF, and OECD. James B. Burnham, “Telecommunications Policy in Turkey: Dismantling Barriers to Growth,” *Telecommunications Policy* 31, no. 3-4 (2007): 198-199.
- 51 İzak Atiyas, “Competition and Regulation in the Turkish Telecommunications Industry” (Research Report, TEPAV/EPRI, Ankara, November 2005), i-ii.
- 52 Ibid., 4-5.
- 53 İzak Atiyas and Pınar Doğan, “Glass Half Empty? Politics and Institutions in the Liberalization of the Fixed Line Telecommunications Industry in Turkey,” in *Understanding the Process of Economic Change in Turkey: An Institutional Approach*, ed. Tamer Çetin and Feridun Yılmaz (New York: Nova Science Publishers, 2010), 261-262.

entrant was Aria, the joint partnership of Telecom Italia and İş Bankası.<sup>54</sup> The incumbents in mobile telephone networks were Turkcell and Telsim (later Vodafone Turkey).<sup>55</sup> Atiyas and Doğan concludes that in the fixed and mobile segments, the government adopted different stances about enforcing competition related to the changing role of Türk Telekom. In the fixed segment, where Türk Telekom was the incumbent, authorities did not put much effort into competition. However, the entrant role that the Türk Telekom affiliate Avea playing in the mobile segment made Ministry of Transportation press for a pro-entrant policy.<sup>56</sup>

According to Atiyas and Doğan, despite its pro-entrant stance in the mobile segment, the nascent Turkish regulatory framework failed to support the growth of entrants by enforcing the measures of interconnection and roaming for the first half of the 2000s.<sup>57</sup> Atiyas and Doğan stated that the factors that limited the regulatory capacity of TK were a lack of transparency and predictability,<sup>58</sup> and de facto dependence on the government.<sup>59</sup> The lack of effective coordination between the Competition Agency (*Rekabet Kurumu*, RK) and TK further contributed to a regulatory confusion that deterred new private

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- 54 İş Bankası is one of the oldest banks in Republican Turkey and was founded by Celal Bayar in 1924 upon a directive and the capital contribution of Mustafa Kemal Atatürk to promote the Turkish banking. İş Bankası has been one of the wealthiest and most penetrative Turkish banks throughout the Republican history. In addition to its banking operations, it holds assets in various sectors, like a non-family holding company. In 2015, the minority stake of İş Bankası in Aria became a minority stake in Avea when Aria and Aycell merged to form Avea. İş Bankası's stake in Avea was taken over by Türk Telekom.
- 55 İzak Atiyas and Pınar Doğan, "When Good Intentions Are Not Enough: Sequential Entry and Competition in the Turkish Mobile Industry," *Telecommunications Policy* 31, no. 8-9 (2007): 502-503.
- 56 Atiyas and Doğan, "Turkish Mobile Industry," 504. See also İzak Atiyas, "Regulation and Competition in the Turkish Telecommunications Industry," in *Political Economy of Turkey* ed. Tamer Çetin and Fuat Oğuz (New York: Springer, 2011), 181-182.
- 57 Interconnection measures target the elimination of penalizing pricing of inter-operator calls, like calls from Turkcell to Vodafone. Roaming measures create the opportunity for entrants to share the infrastructure and facilities of incumbents for reasonable prices.
- 58 Atiyas and Doğan, "Liberalization of Fixed Line in Turkey," 278.
- 59 *Ibid.*, 279.

entrants and their expansion.<sup>60</sup> The insufficiency of the regulatory framework was partially the consequence of the fact that the GSM900 license agreements of Turkcell and Telsim made in 1997 preceded the foundation of TK in 2000. According to Arđıyok and Ođuz, operators had the opportunity of “forum shopping”<sup>61</sup> and challenged the roaming measures in national and international courts.<sup>62</sup>

Another concept widely employed by pro-competition Turkish academic studies is sequencing. The introduction of private mobile operators before the foundation of the relevant regulatory body was a “bad practice” of sequencing, as the rules for entry were in conflict with the rules of regulation. On the other hand, with respect to the fixed segment, Atiyas and Dođan stated that “authorities finally got the order of reform right: Establishment of regulatory framework in 2001 and privatization in 2005.”<sup>63</sup> However, the authors also emphasized that there was a gap between de jure status of the regulatory authority and its de facto implementation – a fact that ruined the proper sequencing.<sup>64</sup>

EU style telecommunications regulation, in the form of a 2002 package, was taken as an external anchor by academics as well as by legislators. In 2008, the Electronics Communications Law 5809 was enacted in Turkey. The law changed the name of the regulatory agency as Information and Communications Technologies Agency (*Bilgi ve İletişim Teknolojileri Kurumu*, BTK) and empowered it with additional power to regulate service competition. As Atiyas

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- 60 Atiyas, “Competition and Regulation in Turkish Telecommunications,” ii. Also see Şahin Arđıyok and Fuat Ođuz, “Competition Law and Regulation in the Turkish Telecommunications Industry: Friends or Foes?,” *Telecommunications Policy* 34, no. 4 (2010): 233-243.
- 61 Forum shopping is to choose the most advantageous mechanism of dispute settlement under conditions of regulatory confusion and discoordination.
- 62 Arđıyok and Ođuz, “Competition Law and Regulation in Turkish Telecommunications,” 240. For a similar analysis also see Atiyas and Dođan, “Turkish Mobile Industry,” 503.
- 63 İzak Atiyas and Pınar Dođan, “The Political Economy of Liberalization of Fixed Line Telecommunications in Turkey” (Research Paper, RPP-2009-01, Mossavar-Rahmani Center for Business and Government, Harvard University, Cambridge, January 2009), 16.
- 64 For a restatement of the same argument, see Necmiddin Bađdadioglu and Murat Çetinkaya, “Sequencing in Telecommunications Reform: A Review of the Turkish Case,” *Telecommunications Policy* 34, no. 11 (2010): 733.



emphasized, the key concept employed by Law 5809 is “significant market power,”<sup>65</sup> which signifies the incumbent operator.<sup>66</sup> The significant market power was obliged to conform to measures of interconnection and roaming, as well as to BTK’s commands for universal access. In addition, the law included pro-competition measures like number portability. Türk Telekom in fixed telephony, TTNET (internet service provider of Türk Telekom) in DSL broadband internet, and Turkcell in mobile telephone service were declared the significant market powers based on their market domination. In the period that followed the legislation of Law 5809, market shares of the significant market powers declined, and their competitors gained position. This inclination to de-monopolize has been slower in the segments fixed telephone and DSL segments but faster in the mobile telephone segment.<sup>67</sup>

In the last two decades, service competition based on sharing of an incumbent’s network was started to be criticized by some scholars in the contexts of the EU and United States when entrants failed to climb up to the next rug of

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65 “*etkin piyasa gücü*” in the original Turkish text of the law.

66 Atiyas, “Regulation and Competition in the Turkish Telecommunications Industry,” 179.

67 Aside limited effects on the market shares of operators after enactment of the Electronic Communications Law 5809 in 2008, the role of BTK in influencing telecommunications policy remained merely marginal. In this regard, the regulatory reform failed in Turkey. Actually, following the decline of developmentalist institutions like PTT and SPO, the regulatory agencies like TK (BTK after 2008), RK, and ÖİB were incapable to substitute role of policy-making and directing political leaders. Instead, political leaders designed the privatization policies with an emphasis on revenue generation aspect. Despite their de jure independence from the executive the regulatory agencies were target of suspicions with regard to their de facto dependence to the ruling political party. Another factor that eroded capacity of sectoral regulatory agency was the fact that private investment in networks began prior to founding of agency. This sequencing triggered legal contradictions between authorization agreements of private operators and legal status of regulator. Finally, multi-sector structure of Turkish holdings that own banks, telephone operators, and other various affiliates together necessitated a consolidated and central action of government instead of sectoral regulations, sanctions, and dispute settlement. This failure of regulatory reform is a typical example of unsuccessful post-privatization regulation in peripheral countries. In the 2010s, remaining independence of regulatory agencies eroded when it faced growing power of executive under leadership of Erdoğan.

the ladder of investment, namely infrastructure deployment.<sup>68</sup> A similar critical stance has found a place in recent studies on Turkish telecommunications. For instance, moving away from concepts like technological convergence and fixed-mobile substitution, Çetin argues that technological improvements make the traditional borders between the services of fixed telephony, mobile telephony, and internet obsolete.<sup>69</sup> On one hand, data services (fixed and mobile broadband internet) started to offer messaging and voice call services as well as audio-visual content. On the other hand, as the penetration of mobile telephones increased, a wide segment of subscribers tended to substitute mobile telephone with the fixed telephony, which is reflected as a decline in fixed penetration.<sup>70</sup> That is to say, competition emerged between alternative networks – in other words between operators of legally separated markets. In more concrete terms, Türk Telekom has been competing not only alternative fixed operators, but also with Turkcell and Vodafone. Çetin proposes a regulatory framework that handles the fixed and mobile segments as a single market. As a next step in this line of criticism, Köksal and Ardiyok openly question the compatibility of European style ladder of investment policies to the Turkish case. The authors argue that “poorly implemented service-based regulatory

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- 68 For a critique of pro-competition regulations in the United States context, see Crandall, *Competition and Chaos*. For the EU case, see Pier Luigi Parcu and Virginia Silvestri, “Electronic Communications Regulation in Europe: An Overview of Past and Future Problems,” *Utilities Policy* 31 (2014): 246-255.
- 69 Tamer Çetin, “The Regulatory Reform in the Turkish Telecommunications Industry” (paper presented at the 10th Annual Conference of the Asian Law and Economics Association, National Taiwan University, Taipei, June 20-21, 2014), 3. Tamer Çetin, “Structural and Regulatory Reform in Turkey: Lessons Form Public Utilities,” *Utilities Policy* 31 (2014): 97-99.
- 70 For a quantitative demand elasticity analysis of fixed-mobile substitution, see Mehmet Karaçuka and A. Nazif Çatık, “Diffusion of Telecommunication Services in Turkey,” *Ege Akademik Bakış / Ege Academic Review* 12, no. 4 (2012): 497-510. In my view, the fixed-mobile substitution is not the only factor that triggered the decline in fixed telephone penetration. The decline of investments in the fixed network after 1994 is another factor. For details, see subsection 4.3.2, figure 4.9.

policies in Turkey have delayed facility-based competition... [, and] an alternative regulatory policy may perform better.”<sup>71</sup>

Köksal and Ardiyok compare two services in Turkish telecommunications, namely DSL and fiber-optic broadband. They concluded that the regulatory holiday imposed by the BTK to promote the deployment of fiber-optic cable paved the way for facility-based competition and had relatively good outcomes in terms of network expansion.<sup>72</sup> Therefore, Köksal and Ardiyok proposed a competition policy based on infrastructure building rather than on resale (leasing of the lines of the incumbent to the entrant for a regulated price) and unbundling (sharing of the incumbent’s facilities and infrastructure for a regulated price). From this perspective, the simple liberalization of sectors works better than regulatory approaches that necessitate comprehensive monitoring, especially since national regulatory mechanisms failed to fulfill the latter. By proposing a “build your own infrastructure” policy, they shift their focus back to the investment issue.

### 2.3.3 *Privatization for Revenue: The Actually-Existing Goal of Turkish Telecommunications Policy*

The academic literature on Turkish telecommunications policy is aware that government aims to maximize revenues from privatization.<sup>73</sup> However, scholars have made these evaluations secondary themes of their work on pro-competition regulation as a proof of the de-facto dependence on government over the de-jure independence of regulator. The revenue generation perspective of the governments is not a core theme of the studies. Rather, revenue generation

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71 Emin Köksal and Şahin Ardiyok, “Reviewing Regulatory Policy for Broadband in Turkey: The Failure of Service-Based Competition and the Prospect of Facility-Based Competition,” *Competition and Regulation in Network Industries* 16, no. 4 (2015): 355.

72 Ibid., 369.

73 For short evaluations on revenue maximization inclination of the government, see Yılmaz, “Turkish Telecommunications Sector at a Crossroads,” 2; Burnham, “Telecommunications Policy in Turkey,” 198; Atiyas, “Competition and Regulation in Turkish Telecommunications,” 36-37; Atiyas and Doğan, “Political Economy of Liberalization of Fixed Line Telecommunications,” 4-5; Atiyas and Doğan, “Turkish Mobile Industry,” 506; Köksal and Ardiyok, “Regulatory Policy for Broadband in Turkey,” 361, 366.

specifically and government interventions in general are perceived as distortions of the idealistic forms and procedures of European-style pro-competition regulation. The focus remained on regulatory agencies and competition.

I argue that revenue generation must be introduced to the study of telecommunications policy in particular and of the Turkish privatization experience in general as an actually existing goal. The revenue generation perspective is embedded in the government's engagement with privatization, especially in the age of dis-inflationary public budget disciplining. As I mention above, the literature analyzed revenue-oriented privatization as a general characteristic of peripheral middle-income countries. However, as a consequence of my research on privatization payment amounts, I conclude that the revenue generation aspect of the Turkish privatization experience is much stronger than in other peripheral middle-income countries. In chapter 4, I provide the ratios of privatization payments to total private investment for various peripheral middle-income regions and countries and indicate that the Turkish ratio is much larger than the others.

Scholars state that the revenue generation target is in conflict with the target of competition.<sup>74</sup> However, I argue that in the context of peripheral middle-income countries, the conflict that matters is between the goals of revenue generation and boosting investments rather than that between revenue generation and competition. As Mattos and Coutinho emphasize with respect to the Latin American case, "assuming that winning bidders face liquidity constraints, the greater the amount of money disbursed in privatization to buy a larger company, the smaller the amount of resources available to invest afterwards."<sup>75</sup> The companies in need of funds from international capital markets have limited capacity to borrow. As the amount committed to a privatization payment increases – given the constant capacity of financing for the company – funds to be directed at physical improvement of the infrastructure decrease. In this dissertation, I introduce the conflict between the goals of infrastructure development and revenue generation to the study of telecommunications policy and conclude that the Turkish government prioritized revenue generation.

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74 For an example, see Atiyas, "Competition and Regulation in Turkish Telecommunications," 36-37.

75 Mattos and Coutinho, "Brazilian Model of Telecommunications Reform," 450.

Turkish government's prioritization of revenue generation from privatization payments resulted in the strikingly bad physical investment performance of private telecommunications companies in Turkey. (For details, see Appendix A and also chapter 4.)

#### 2.3.4 *Bringing Investment Back In: The Intellectual Follow-up to the Infrastructure Development Goal*

As I explain above, the academic literature engaged with the link between privatization and investment in its earlier phases. This engagement was focused on convincing the audience about the necessity of privatization to remedy public investment shortages. Privatization policy emerged as the only alternative to increase much needed investments, as public expenditures were limited to this purpose. Engagement of the literature with the investment issue declined in the subsequent phases and the pro-competition regulation became the focus of the study. Recently, the academic studies on pro-competition regulations created a critical stance as scholars began to question the merit of these regulations. These studies to which I refer above again started to engage with the matter of investments.

In this dissertation, I introduce investment and infrastructure development issues to the study of telecommunications policy. This is to "bring investment back in" in a sense, so as to reinsert the theme into the literature. In addition to referring to earlier studies, I form a chart of telecommunications investment in the outward-oriented development phase of Turkey. I argue that the Turkish outward-oriented growth strategy period is divided to two sub-periods in terms of the shifting priorities of telecommunications policy. In the first period, between 1980 and 1994, the priority was infrastructure development by boosting public investments in telecommunications networks. In the second period, after 1994, the priority shifted to revenue generation. Despite the fact that the privatization policy was adopted to boost investments in the period after 1994, investment as a fraction of GDP was larger in the earlier period of public investments. I provide a detailed explanation of the period between 1980 and 1994 in chapter 3, whose main theme is the public telecom-

munications leap. chapters 4, 5, and 6 engage with the second period of privatization and the liberal restructuring of the telecommunications sector after 1994.

## § 2.4 Theoretical Framework for a Critical Political Economy of Telecommunications Policy

The previous sections of the present chapter introduced the main themes of the telecommunications policy literature. Scholars studied these themes as the policy problems of an irreversible process of privatization. The investment issue was handled as a problem to be solved by privatization, and the competition issue was handled as a tool to make privatization work. Following an early engagement with the development of infrastructure, the literature reduced itself to a search for the best practices of privatization and competition.

The development of infrastructure was a necessity for peripheral middle-income countries in order to achieve goals of outward-oriented development strategy. However, the telecommunications policy literature promoted privatization policies as the only policy choice to increase infrastructure investment and omitted the intellectual follow-up to the argument. Peripheral middle-income governments managed the privatization process as a source of revenue for their public budgets. However, the telecommunications policy literature handled revenue generation as a side effect of bad practices of privatization. As a consequence, actually-existing goals of telecommunications policy, namely infrastructure development and revenue generation, and the contradiction between these two goals did not attract sufficient academic attention. I argue that a reformulation of telecommunications policy as a contradictory field of statecraft provides a useful theoretical tool to analyze the transformation of telecommunications at the global and national scales.

The possibilities and limits of policymaking are shaped by the structural determination of capitalist accumulation patterns. Marxist author David Harvey provides an account of the transition from Fordist accumulation to finance-dominated flexible accumulation and explains the spatial and temporal fixes employed to delay crisis dynamics of accumulation. Another Marxist author, Bob Jessop, reformulates policy fields like monetary policy and workfare

regime as contradictory statecraft areas in the context of the transition from Fordism to finance-dominated flexible phase of capitalism. These two writers do not directly engage with telecommunications policy but they provide the necessary theoretical tools to analyze role of telecommunications in the accumulation and the contradictions between the possible goals of the telecommunications policy. In this section, I propose a theoretical framework that posits the transformation of telecommunications in the context of accumulation patterns and reformulates telecommunications policy as a contradictive area of statecraft.

#### 2.4.1 *Harvey: Spatio-Temporal Fixes and the Role of Telecommunications*

Despite the fact that David Harvey does not directly engage with telecommunications, he provides insight to study infrastructure as he engages with the making of the global space of capitalism. The global space of capitalism is a medium in which capital can be converted into financial funds – in other words abstract capital – and be channeled towards alternative securities, stocks, deposits, as well as fixed investments in certain places. This movement of financial funds necessitate the removal of legal barriers to capital movements and legislation of a facilitatory legal framework. In addition to legal infrastructure, the increasing mobility of capital requires a physical infrastructure to bear the financial transactions. In addition to conventional infrastructure systems like transport networks, urban backbone elements, and energy networks, advanced and varied telecommunications services are crucial for this system of physical infrastructure.

Harvey emphasizes finance as the factor that makes the real difference between the successive periods of Fordism and finance-dominated flexible capitalism. It provides the necessary tools to accomplish large scale spatial and temporal replacements and/or fixes of capital. To improve this argument and

adapt it to telecommunications policy, it is necessary to elaborate the concepts of temporal and spatial replacement/fix in Harvey's sense.<sup>76</sup>

The crucial feature of the work of Harvey is a detailed engagement with the issue of finance that complements the analysis of Marx. The historical context of this effort is the transition from a global accumulation regime based on the growth machine of Fordist manufacturing to the finance-dominated global regime. Harvey starts with the crisis theory of Marx and takes it further to the time and space dimensions of capitalist engagement with the crisis. At this point, Harvey emphasizes finance as the facilitator of fixes and replacements of capital in the dimensions of time and space. The fixes, which engage with time and space, may be categorized under three headings which are internally related to each other but separable for analytic purposes. These are: Spatial fixes, temporal fixes, and spatio-temporal fixes.

Spatial fixes may be achieved through expansion of trade, replacement of capital and labor, and creation of new economic spaces. The specific role of infrastructure in the realization of these mechanisms is as follows:

- 1 Expansion of trade is the basic mechanism of the spatial fix. Opening new markets and expanding the volume of exchange between places work as a proper fix. The increasing and faster flow of information as well as declining transportation and coordination costs through infrastructure development provide opportunities for further expansion of trade. For instance, deployment of popular internet networks and development of new distribution organizations set the conditions for expanding e-trade. In turn e-trade plays a great role in the expansion of overall trade.
- 2 Replacement of capital and labor is another mechanism of a spatial fix. If it is not possible to employ capital and labor profitably in a given place, the capitalist can transfer excess capital elsewhere. In a similar manner, the movement of excess labor can also work as a spatial fix. FDI and migration are two forms

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76 For Harvey's texts that explain the mechanism, see Harvey, "The Spatial Fix - Hegel, Van Thuren and Marx," David Harvey, *The Limits to the Capital* (New York: Verso, 1999); David Harvey, *Condition of Postmodernity: An Inquiry into the Origins of Cultural Change* (Oxford: Blackwell, 1989), 173-188, David Harvey, "Globalization and the Spatial Fix," *Geographische Revue*, 3, no. 2 (2001): 23-30.



of such replacements. Before the replacement of capital, it is necessary to accomplish the transformation of excess capital into fictitious capital, which is suitable for reinvestment through financial mechanisms. This financial mechanism of reinvestment requires a telecommunications network and connect- edness.

- 3 Creation of new spaces through infrastructure investments is a crucial method of a spatial fix. Without a proper access to markets, even the most valuable resources cannot be converted into money. Infrastructure connects new re- sources and new markets with each other and realizes the economic potential of the spaces. The expansion of economic activity depends on the mobility of commodities, people, and money. To provide this mobility, it is necessary to lay down infrastructure networks, especially transportation and telecommu- nications.

Temporal fixes may be achieved by accelerating circulation and reducing turn- over time, temporal replacement of capital through financial arrangements, and temporal replacement of capital through infrastructure investments. The specific role of infrastructure in these mechanisms is as follows:

- 1 Accelerating circulation and reducing turnover time is the basic form of the temporal fix. This form is closely related to the level of development of physical infrastructure. Digital banking techniques have a crucial role in the accelera- tion of the circulation of money. The hypermobility of money in the age of finance-dominated flexible accumulation depends on a state-of-art telecom- munications infrastructure. Similarly, the hypermobility of commodities and people depends on the presence of extensive networks of transportation infra- structure.
- 2 Temporal replacement of capital through finance is another method. The cap- italist who cannot employ capital profitably at a given time would attempt to use the mechanisms of finance to get interest payment in the future. The pres- ence of banking mechanisms and interest-bearing capital is the source of re- investible, replaceable fictitious capital. In the age of a flexible global accumu- lation regime, faciliatory legislation, the opening of national capital accounts, the advancement of new techniques, and the application of new technologies

together created many financial instruments that offer returns for financial arrangements.

- 3 Temporal replacement of capital through infrastructure investments is one possible temporal fix. If capital cannot be employed profitably at a given time, it can be channeled into fixed infrastructure investments with the hope of creating new profit opportunities in the future. These are huge investments that require advanced financial mechanisms and, in some cases, public financing and planning. In an age of finance-dominated flexible accumulation, the drastic expansion of fictitious capital that is suitable for reinvestment supplies new opportunities for the financing of infrastructure development including the expensive elements of new forms of telecommunications networks. SOEs and private operators boldly borrow funds from international financial pools to finance their costly infrastructure investments.

A spatio-temporal fix is a combination of temporal and spatial replacements of capital facilitated by the financial mechanisms and infrastructure networks of the finance-dominated flexible phase of capitalism. This conception provides us the necessary tools to understand the contradictory relationships among the needs of the capitalist accumulation, financial development, and infrastructure development. These spatio-temporal fixing mechanisms are not risk free and there is the possibility of economic failure. The economic failure of fixes brings about the devaluation of physical investment stocks including those of infrastructure. In this context, networks facilitate financial development, are being financed by financial expansion, and also a target of the securitization which is vulnerable to the fluctuations of the financial capitalism.

#### 2.4.2 *Jessop: The Transformation of Capitalism and Contradictive Policy Fields*

In this section I engage with *The Future of the Capitalist State*, as well as other works of Jessop, in order to define the state as a policymaker and as an arena

of contestation in which policies are formed to handle and manage contradictory realms of policy making given the structural limitations of the finance-dominated flexible phase of capitalism.<sup>77</sup>

Jessop argues that the contradiction between exchange value and use value is the basic contradiction of capitalism. This basic contradiction of capitalism may be observed in various forms. However, the contradictions of specific commodities or policy realms are not reducible to a single type of contradiction and require historicalization. Yet it is possible to draft a table that indicates the exchange value and use value aspects of specific commodities or/and specific realms of policy. (See table 2.1.)

Table 2.1 Contradictions and realms of policy

Policy Field	Use Value	Exchange Value
Capital	Concrete stock of assets already invested and in the course of being valorized	Abstract value in motion available for reinvestment
Worker and wage	Concrete, non-substitutable individual, element of national aggregated demand	Abstract unit of substitutable labor power; element of cost
Taxation	Means to finance collective spending	Unproductive deduction from private revenues
Money	National currency	Internationally exchangeable currency
Land	Natural commons	Rent-generating property
Knowledge	Intellectual commons	Basis of intellectual property
State	Maintainer of social cohesion	Enabler of valorization and reproduction

Despite the fact that such a table makes it easier to handle the issues, it is significant that the exchange and use values of a commodity are not discrete but aspects that exist simultaneously in the same thing. Under the structural determination of the *longue durée* of global capitalism, every good and service that engages in material activity includes these aspects. The exchange value

<sup>77</sup> Bob Jessop, *Future of the Capitalist State* (Oxford: Blackwell, 2002), Jessop, “Revisiting the Regulation Approach,” Bob Jessop and Ngai Ling Sum, *Beyond the Regulation Approach: Putting Capitalist Economies in its Place* (Cheltenham: Edward Elgar, 2006).

aspect is a historical phenomenon, as it only appears under the conditions of the sociality of a commodity economy, a feature that distinguishes it from use value. Still, it gains a structural power of determination as innumerable relations and transactions among people reproduce it; moreover, the perception emerges that it is natural – a consequence of the fetishism of commodities. A policymaking process under the structural determination of global capitalist time and space cannot completely eliminate the use or exchange value aspect of a commodity. However, it is still possible to speak of different levels of commodification – in other words, the level of dominance of the exchange value. A set of policies that engages with the realm that surrounds the commodity – or in other words, into which the commodity is embedded – may be capable of decreasing the level of commodification or vice versa. A complex set of policies are carved by the state, which emphasizes different aspects in different realms to make the capitalist economy stable, at least for a while. Complete commitment to the exchange value aspect of commodities would destroy society. Therefore, the social life of capitalism is a combination of areas being protected from exchange with areas of exchange and competition.

In Jessop's view, it is not possible to end the crisis tendencies of capital accumulation. Rather, the policy sets may temporarily stop crises and stabilize capitalism. However, every attempt to solve a crisis triggers a new crisis tendency. For example, let the starting conditions be low wages and poor working regime with a lack of security. This decreases the purchasing capacity of workers, depresses national demand, and triggers a social movement of workers which destabilizes society and threatens capitalist activity. Assume that the policymaker takes action to improve wages and working conditions. The consequence is a rise in costs to capitalists that paves the way for a loss of national competitiveness – a fact that threatens stability. Actually, these dynamics work in much more complex contexts, engaging with a composite of commodities rather than a single commodity. Statecraft is to manage this complex set of contradictions in order to maintain a stable economy with a stable society.

Statecraft is the element of a mode of regulation. In Jessop's conceptual toolkit, these areas of contradiction are “structural forms” with contradicting “aspects.” A “mode of regulation” is a set of values, institutions, and tech-

niques that prioritizes specific aspects of specific structural forms and conducts necessary actions through specific “institutional and spatio-temporal fixes”. Jessop’s verbatim definition of “mode of regulation” is as follows: “an ensemble of norms, institutions, organizational forms, social networks, and patterns of conduct that can temporarily stabilize an accumulation regime through its regulation-cum-governance of specific structural forms despite the conflicting and antagonistic nature of capitalist social relation.”<sup>78</sup>

This conceptual framework is employed by Jessop to study sequential regimes of global accumulation, namely Fordism and finance-dominated flexible phase of capitalism. The notion Fordism is used in a wider sense than its industrial/manufacturing sense. In this context, Fordism is not only industrial organization but also a social arrangement – including work relations, social welfare, and the international monetary system – based on the growth machine of the Fordist industrial complexes of capitalist cores. Jessop posits social wage and money as its principle structural forms, prioritized to stabilize growth. The institutional fix of a welfare state and the spatial organization of nation states handle wages as a source of national demand at the expense of neglecting its exchange value aspect of being a cost of production. In a similar way, Keynesian national policies and the Bretton Woods global order emphasize the use value of money as a national policy tool of stabilization and growth. Under Bretton Woods, capital controls limit money’s exchange value as international financial money. Welfare policies and planning prioritize the social cohesion role of the “Keynesian-Welfare-National State,” and capital is encouraged to be fixed to absorb large number of employees and provide for the growth of domestic production for provision of domestic demand fueled by welfare policies.<sup>79</sup>

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78 Jessop, “Revisiting the Regulation Approach,” 6.

79 The paragraph above is a brief explanation of Atlantic Fordism as a regime of global accumulation before the crisis. Jessop employs the concepts “*en régulation*” and “in crisis” to distinguish between stable and instable periods of Atlantic Fordism. In Jessop’s account, “Atlantic Fordism en Régulation” is followed by a transition period of “Atlantic Fordism in Crisis” and then two possible coexisting Post-Fordisms, namely “Finance-Dominated Accumulation” and “Knowledge-Based Economy.” Jessop also seeks the possibility of a “Green New Deal” or “No Growth Economy.” For details, see Jessop, *Future of Capitalist State*, 95-139. To prevent

Now let me take a step further from Jessop and explain the transformation of the telecommunications sector in the United States as Jessop did for wage labor. During the New Deal, a regulated monopoly system was established. The private telecommunications monopoly AT&T was not nationalized but strictly regulated to fit well with Fordist growth. In this respect, regulation protected AT&T from price competition by recognizing its monopoly status. In exchange for monopolistic rights, AT&T conceded to pursue the goal of universal access, to employ unionized labor, and to pay a respectable wage. A respectable wage and unionized labor was in accordance with the demand dimension of Fordism, as manufacturing growth was dependent on domestic demand. The price standard provides a single rate for everywhere in the United States. This price policy, detached costs from prices. In remote places with low demand for telecommunications services, the cost of service was much higher. On the other hand, metropolitan areas with dense populations had a lower cost to provide services and greater demand for telecommunications services, including demand from corporate subscribers. In a similar manner, long distance calls were priced higher relative to local calls. The single rate policy favored universal access at the expense of the interests of corporate subscribers. The prices above costs in dense areas returned as large monopolistic profits. These profits were channeled into nationwide infrastructure investments and building a telecommunications network that guaranteed universal access.

Starting in the 1970s, the United States economy changed, as the manufacturing sector moved out to find cheaper labor, Fordist industrial complexes dispersed, and the services sector in general and the private finance corporations in particular gained strength. Corporate subscribers demanded more varied and cheaper services for telecommunications. This was the introduction of competition into the sector. The competition was institutionalized

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theoretical confusion, I omit the possible variations of Post-Fordist regimes as well as the regulated and crisis phases. Instead use the concept of finance-dominated flexible phase.

through the regional, vertical, and horizontal dis-integration of AT&T between 1980 and 1984.<sup>80</sup>

In this narrative, there are two excessive periods and two different handlings of telecommunications services. In the first period, policymakers prioritized the use value of the sector – in concrete terms, infrastructure development and universal access with links to the workfare regime of Fordism. In the second period, policymakers were prompted by the finance business to disperse the monopoly, and the exchange value of the sector was prioritized.

In Western European countries, the storyline is similar, with one difference. In the age of Fordism and Bretton Woods, European states nationalized telecommunications companies and created national, State-Owned Enterprises (SOEs) with monopolistic rights. The monopolies were effectively used by the states to pursue the goals of universal access and to improve of the national telecommunications equipment manufacturing. These SOEs privatized during the 1980s and 1990s following the collapse of Fordism.<sup>81</sup> Table 2.2 summarizes the policy in core high-income world in terms of use and exchange values.

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80 For details on the transformation of telecommunications in the United States, see Brock, *Second Information Revolution*; Crandall, *Competition and Chaos*, Horwitz, “Deregulation as Political Process.”

81 For details, see Thatcher, *Internationalization and Economic Institutions*, 123-201.

Table 2.2 Telecommunications policy priorities of core high-income countries

Period	Use Value	Exchange Value
Fordism	Universal access Reducing interaction costs Demand for domestic electronics sector Political, strategic, and military functions Employment volume Integration of the national economy	Potentially lower costs and higher profits in metropolitan areas Electronics manufacturing as an export sector Financial burden for the public
Finance-dominated flexible phase of capitalism	Universal access and international connectivity Emphasis on metropolitan infrastructure Reducing interaction costs for finance	Privatization revenues Equipment provision through imports Nascent markets of telecommunications services

#### 2.4.3 *Telecommunications and Development Strategies in Peripheral Middle-Income Countries and Turkey*

The analyses of Harvey and Jessop are useful to remap telecommunications policy as a contradictive field of policy, as I state and explain above in subsections 2.4.1 and 2.4.2. However, there is a need for additional theoretical consideration for peripheral countries, as these authors mainly engaged with economic and social organization in core high-income countries. This priority paid to the core has intellectual merit, as the social transformations that gave birth to finance-dominated capitalism started in core high-income countries – especially in the United States, Japan, and Western Europe – and then became a global factor that encompassed every country in the world economy. (See subsection 1.2.) As Marx put it in the preface to *Das Kapital*, the present vision of core countries provides a fragment of future of peripheral countries,



a necessary addition to the intellectual treasury of scholars of the periphery.<sup>82</sup> As a consequence, it is not possible to grasp the process of social and economic change in general and the transformation of telecommunications policy in particular without taking economic developments that occurred at the core of the world economy into account.

Still, an additional theoretical study is necessary to develop a framework for individual countries in the rest of the world – a framework for national telecommunications policy in peripheral middle-income countries. In this framework, the structural limit of the policy is a great extent set by the conditions of the integration of a peripheral economy into the world economy. Integration into the world economy is a process of the peripheralization of the national economy through patterns of dependency – mainly trade and capital dependency. In this respect, the financial dependency of peripheral economies matters as it worked as a mechanism to convert debt dependency of peripheral governments into the capital dependency of peripheral infrastructure and manufacturing by forcing governments to implement outward-oriented growth models.

The core-periphery model was popularized by development economists who engaged with the development problems of Latin America during the aftermath of the Second World War. The early emphasis of the model was on the unequal exchange relationship between the core and periphery. In this view, the export of primary goods by peripheral countries and their manufactured imports from core countries formed an international division of labor that prevented capitalist development in the periphery. The recommended policy was to industrialize peripheral economies to achieve economic development.<sup>83</sup>

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82 The original sentence that explains *de te fabula narratur* is as follows: “the country that is more developed industrially only shows, to the less developed, the image of its own future.” Marx, *Capital*, vol. I, 90-91.

83 For an account on ECLA and its prominent authors Prebisch, Furtado, and Tavares, see Ana Saggiaro Garcia, Maria Luisa Mendonça, and Miguel Borba de Sá, “International Political Economy in Latin America: Redefining the Periphery,” in *Palgrave Handbook of Critical International Political Economy*, ed. Alan Cafruny, Leila Simona Talani, Gonzalo Pozo Martin (London: Palgrave MacMillan, 2016), 432-439. Also see Jorge Larrain, *Theories of Development: Capitalism, Colonialism and Dependency* (Cambridge MA, Polity: 1989), 81-110.

The core and periphery model was overtaken by a more radical scholarly tradition starting in the 1960s, namely that of the Dependency School, a mixture of radical Marxist and heterodox scholars. The Dependency School enlarged and radicalized the content of the analysis by shifting the focus to the issues of over-exploitation of labor and surplus extraction in the periphery as well as the transfer of surplus to the core. In addition, the Dependency School started to engage with the financial integration of the periphery beyond trade integration, a factor that intensified in the 1970s when Fordism ended and the transition to the finance-dominated flexible phase of capitalism started.<sup>84</sup>

The introduction of the finance dimension of the dependency of peripheral economies – in other words, financial patterns of peripheralization – is crucial for the core periphery analysis, which makes it useful for the analysis of the finance-dominated phase of the capitalism (as studied by Harvey and Jessop) in general and privatization of infrastructure in particular.

The core-periphery model was taken up by Immanuel Wallerstein in the 1970s and transformed into a comprehensive research agenda, namely World Systems Theory.<sup>85</sup> World Systems Theory melted together the space-time perception of the Annales scholars (especially Fernand Braudel) and the dependency analyses of the theories explained above. Wallerstein and subsequent scholars advanced the research agenda by elaborating on class struggles, the role of the state, different patterns of dependency, and the articulation of modes of production in the context of global space and long-term time perception that stretched the time span of the research back to the medieval ages.<sup>86</sup> One of the most significant contributions of Wallerstein to the model was the introduction of the category of semiperiphery, a third category of

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84 Garcia, Mendonça, Sá, “Redefining the Periphery,” 439-443.

85 For details on World Systems Theory, see Immanuel Wallerstein, *The Capitalist World-Economy* (New York: Cambridge University Press, 1979). Also see Immanuel Wallerstein, *The Essential Wallerstein* (New York: New Press, 2000), 129-148.

86 For an explanation of Braudel’s influence on Wallerstein, see Immanuel Wallerstein, *Unthinking Social Science: The Limits of Nineteenth-century Paradigms* (Cambridge: Polity Press, 1991), 187-201.

countries between core and periphery countries, which emerged at the beginning of the formation of the British world hegemony in the nineteenth century. The distinguishing features of semiperiphery countries are explained by Wallerstein as the persistent presence of a capable state and a strong army, exemplified by Russia and Japan.<sup>87</sup> The function of the semiperiphery in the world systems is explained by Wallerstein in political-ideological and economic dimensions. The political-ideological function was to be a model and hope to peripheral nations to move up the economic hierarchy, a kind of ideological buffer between the hostile polarization of core and periphery. When explaining the economic function of the semiperiphery, Wallerstein emphasizes the role of the semiperiphery to attract over-accumulated capital – in his terms relieving capital from congestion in the core<sup>88</sup> – in addition to being an expansion market for the core's manufactured exports. This economic function of the semiperiphery to absorb over-accumulated capital in the core is especially significant as the economic and political mechanisms of capital replacement gets a structural role in the integration into the world economy.

Giovanni Arrighi, the second pivotal name in World Systems Theory, further elaborates on the category semiperiphery and patterns of dependency in the context of the twentieth century. Arrighi criticizes a widespread interpretation of Dependency Theories that emphasized unequal exchange between the core and the periphery. From this perspective, unequal exchange between the raw material exporters of the periphery and the manufactured good exporters of the core reproduces underdevelopment as a consequence of the declining terms of trade. In this view, semi-industrialized countries form the category of the semiperiphery. Arrighi objects to this approach by reviving the argument that the dependency of the periphery on the core has different patterns other than trade dependence – patterns based on labor movements and capital transfers. Especially following the deindustrialization of the core in the 1970s, manufacturing plants were transferred to peripheral countries and created a new form of international division of labor between core and periphery

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87 Wallerstein, *Essential Wallerstein*, 94-95.

88 Wallerstein, *Capitalist World-Economy*, 70.

which altered the old model of “industrialized core versus agricultural periphery” but continued to be unequal and hierarchical. Arrighi emphasizes the significant increase in public debt in the semiperiphery in the late 1970s and early 1980s in the process of peripheralization. This was a kind of dependency based on capital transfers.<sup>89</sup>

The analysis framework of World Systems Theory provided an alternative approach to history writing that transcends a narrow political history of daily events and important individuals at the national scale and promoted social and political economy history writing that posits historical events in the context of world-space and long-term time. Turkish historiography was also influenced by this approach, as prominent authors like Çağlar Keyder and Şevket Pamuk studied the Ottoman/Turkish integration into the world-economy using the core-periphery model in the 1970s and 1980s. Pamuk argues that the Ottoman Empire integrated into the world economy in the nineteenth century as a semiperipheral economy. As Pamuk put it, the persistence of the political independence of the Ottoman state was the main distinguishing feature that made it semiperipheral. Another example with that status along with the Ottoman Empire was China, as competition and balances among European powers prevented the colonization of these countries. Pamuk emphasizes the role of the trade integration of the Ottoman Empire in the process of peripheralization. He also engages with capital transfers from the core in the form of official debt and direct investments in transportation infrastructure to expand trade.<sup>90</sup> Keyder, too, explains the role of the public debt and infrastructure investments in municipal services, ports, and railways in the peripheralization of Ottoman Empire.<sup>91</sup> Keyder also engaged with the role of interest-bearing

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89 Giovanni Arrighi, “The Developmentalist Illusion: A Reconceptualization of the Semiperiphery,” in *Semiperipheral States in the World-Economy*, ed. William G. Martin (Westport, CT: Greenwood Press, 1990), 11-25.

90 For Pamuk’s evaluation of the Ottoman Empire’s status within the periphery, see Şevket Pamuk, “The Ottoman Empire in Comparative Perspective,” *Review* 11, no. 2 (1988): 128-134.

91 Çağlar Keyder, *State and Class in Turkey: A Study in Capitalist Development* (New York: Verso, 1987), 37-47.

capital, especially foreign credits to foreign traders, in the early liberal years of Republican Turkey in the 1920s.<sup>92</sup>

The studies of Keyder and Pamuk on the integration of the Ottoman Empire into the world economy explained the trade and capital dependencies that force peripheralization. For my field of study, their emphasis on FDI to transportation infrastructure is especially significant. The Turkish integration into the world economy in the 1980s is similar to the integration of the Ottoman Empire in this sense. In addition to the deficit-creating increase in foreign trade volume, the increase in foreign public debt stock in the second half of the 1970s, 1980s, and 1990s created a base for the restructuring of the economy in line with the directions of international organizations. A second wave of foreign debt in the 2000s and 2010s, which was predominately private debt, lifted the level of foreign debt beyond 50% of GDP.<sup>93</sup> A significant portion of this foreign private debt stock was accumulated through privatization of telecommunications, energy, and transportation infrastructures in the 2000s and 2010s. (For details, see 1.4.) These facts prove that peripheral status of Turkey has persisted in the last four decades, and the concept of periphery should be employed to analyze Turkey in a comparative sense.

The use of core-periphery model in the analysis of modern Turkey significantly declined in the 1990s and 2000s. Still some examples exist, such as the *Bağımsız Sosyal Bilimciler* (Independent Social Scientists) who interpret Turkish financial reforms, anti-inflationary programs, and central bank independency as part of a global transformation that guarantees the subordination of peripheral economies to international finance capital.<sup>94</sup> Some other contemporary deployments of the model exist, like the analysis by Lapavitsas of the

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92 Çağlar Keyder, "Credit and Peripheral Structuration: Turkey in the 1920s," *Review* 3, no. 4 (1980): 579-597. Also see Çağlar Keyder, *The Definition of a Peripheral Economy: Turkey 1923-1929* (New York: Cambridge University Press, 1981), 97-126.

93 *WB Development Indicators*.

94 *Bağımsız Sosyal Bilimciler, 2007 İlyazında Dünya ve Türkiye Ekonomisine Bakış* (Ankara: TMMOB, 2008), 7-18. However, the use of the core-periphery model by scholars of the BSB is occasional rather than a theoretical insistence. The most significant members of the group are Ankara-based scholars Korkut Boratav, Erinç Yeldan, and Galip Yalman and their students. The group represents a loose union rather than a theoretically-consistent school. The work of

unequal trade and finance relationships within the Eurozone in which Germany is the core and crisis-prone Greece, Spain, Portugal, and Ireland are the periphery.<sup>95</sup> The Global Food Regime analysis is another approach which is similar to the core-periphery model and explains the transformation of agricultural structures in the context of three consecutive historical regimes of the international agricultural division of labor.<sup>96</sup> Fatton's analysis of Haiti and Sub-Saharan Africa is another example of a recent use of the model. He proposes the concept of outer-periphery to categorize countries suffering political disorder, heavy foreign intervention, dispossession, and uncontrolled labor exploitation.<sup>97</sup>

As Fatton puts it, despite the fact that dependency indicators are higher than in the heyday of the theory, political economy scholars avoid the core-periphery model and other considerations of the ECLA-Dependencia-World System tradition. The situation is similar for Turkey, as trade and capital dependency in the country hit historic record highs in last four decades, justifying the employment of the concept periphery. Critical scholars may prefer the concepts Global North/Global South instead of core-periphery.<sup>98</sup> Another significant group of Turkish political economists prefer the binary early-capitalism/late-capitalism.<sup>99</sup> In my view, the binaries north/south and early/late are

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the group can be monitored through scholar and activist presentations to the annual National Social Sciences Conferences in Middle East Technical University in Ankara.

95 Kostas Lapavitsas et. al., *Crisis in the Eurozone* (New York: Verso, 2012).

96 Philip McMichael, "A Food Regime Genealogy," *Journal of Peasant Studies* 36, no. 1 (2009): 139-169. Also see Zülküf Aydın, *Çağdaş Tarım Sorunu* (İstanbul: İmge, 2018), 122-130.

97 Robert Fatton Jr., "Development and the Outer Periphery: The Logic of Exclusion," in *Palgrave Handbook of Critical International Political Economy*, ed. Alan Cafruny, Leila Simona Talani, Gonzalo Pozo Martin (London: Palgrave MacMillan, 2016), 119-137. Also see Larrain, *Theories of Development*, 81-110.

98 For an example, see Ziya Umut Türem, "Engineering Neoliberalism in the Global South: The Politics of Importing Competition to Turkey," (PhD Dissertation, New York University, 2010).

99 A critical school in Turkey developed around the Development Economics Graduate Program of Marmara University in Istanbul and included Mehmet Türkay, Fuat Ercan, and their prominent students like Ümit Akçay, Ali Rıza Güngen, Uygur Dursun Yıldırım, Melda Yaman, and Özgür Öztürk. They prefer the concept *geç kapitalistleşmiş*, which can be translated to English

not as powerful as the core-periphery model in terms of reviving and provoking critical discussions of Turkish integration into the world economy. This is why I concede the risk of sounding outmoded and use core-periphery concepts to highlight the interaction between integration into the international economy and infrastructure privatizations.

The successive periods of Fordism and finance-dominated flexible accumulation can be translated for peripheral middle-income countries as developmental and post-developmental strategies. These strategies have different priorities in relationship to global inclinations in the realms of industrialization, trade policy, and workfare regimes. From the viewpoint of my dissertation, the focus is not on a generalized discussion of these developmental and post-developmental strategies; rather, I place telecommunications policy in the context of peripheral middle-income growth strategies. This is the first step in re-schematizing Turkish telecommunications policy in the context of Turkish development/growth strategies.

The use value of telecommunications in the developmentalist strategy can be explained under a few headings. Universal access to the public utilities was necessary to develop a national economic revival and to improve the potential of citizens. Telecommunications services were also crucial for national defense. Nationwide public utility networks provide a solid base of employment which contented employees and their families and contributed to modest local economies. In addition, the improvement of telecommunications services was crucial in the process of state making. However, given the limits of a foreign exchange scarcity and absence of a domestic electronics industry, the import of expensive equipment accounted for a significant amount of the deficit in the trade balance. The low level of demand from business subscribers and low

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as late capitalism or latecomer, in their determined advancement of a political economy research program based on analyses of class struggles in Turkey. This conception of late capitalism greatly influenced Turkish leftist scholars and activists in the 2000s and 2010s and generated lively discussions on a series of topics on Turkish capitalism from central banking to agriculture. These can be monitored in the Turkish academic journal *Praksis* and in the annual scientific conventions of Küçükkuşu and Karaburun. For an introduction to the approach, see Fuat Ercan, *Toplumlar ve Ekonomiler* (İstanbul: Bağlam, 2001). Also see Fuat Ercan, *Modernizm, Kapitalizm ve Azgelişmişlik* (İstanbul: Bağlam, 2012).

rates of capital accumulation forced state ownership of and initiative in telecommunications investments, which worsened deficits in the public budget. These potential deficits in the trade balance and public budget balance were the exchange value facet of telecommunications policy. Given these necessities and limitations, different countries adopted different strategies. The majority of peripheral middle-income countries did not prioritize telecommunications as the exchange value in terms of the public budget deficit made them back out. Instead, they focused their limited resources to the agricultural and industrial development. However, some middle-income countries of prior periods, especially East Asian countries, used telecommunications investments as a lever to create domestic electronics manufacturing, like Japan in the 1950s and 1960s and South Korea in the 1970s.<sup>100</sup>

In the post-developmental stage, the integration level of peripheral middle-income countries to the world economy increased. Therefore, additional demand for infrastructure development emerged and a tension emerged between the use and exchange values of the telecommunications utility. These are summarized in table 2.3.

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100 For Japanese case, see Marie Anchordoguy, "Nippon Telegraph and Telephone Company (NTT) and the Building of a Telecommunications Industry in Japan," *The Business History Review* 75, No. 3 (2001): 520-29. For South Korean case, see Larson and Park, "From Developmental to Network State," 344-59.



Table 2.3 Use value and exchange value of the telecommunications in peripheral middle-income world

Context	Use value	Exchange value
Developmentalist strategy (ISI)	<ul style="list-style-type: none"> <li>&gt;Universal access</li> <li>&gt;National defense</li> <li>&gt;Employment</li> <li>&gt;Reducing interaction costs of governing and manufacturing</li> </ul>	<ul style="list-style-type: none"> <li>&gt;Equipment import as a contributor to trade deficit</li> <li>&gt;Burden for public budget</li> </ul>
Post-developmental strategy (outward-oriented growth models)	<ul style="list-style-type: none"> <li>&gt;International connectivity + domestic penetration</li> <li>&gt;Demand for domestic electronics manufacturing</li> <li>&gt;Reducing interaction costs of finance, governance, education</li> <li>&gt;Urban renewal via improved urban infrastructure</li> <li>&gt;Democratization via universal access</li> </ul>	<ul style="list-style-type: none"> <li>&gt;Potential markets of telecommunications services for private sector</li> <li>&gt;Privatization revenue</li> <li>&gt;Taxes &amp; tariffs</li> <li>&gt;Trade surplus or deficit</li> </ul>

As a final in the transition from the theoretical to the empirical parts of this dissertation, let me reexamine Turkish telecommunications policy in the periods of ISI and outward-oriented growth strategy. The period of the outward-oriented growth strategy is divided into two sub-periods due to a significant policy shift in Turkish telecommunications policy from public investment for infrastructure development to privatization for revenue generation.

During the ISI period, the aspect of telecommunications policy that was prioritized was the exchange value. The exchange value of the sector in the context of the period was its potential cost to the public budget and the trade balance.<sup>101</sup> The policy effort was focused on the process of industrialization

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101 This means that from the perspective of the government, when it is not possible to divest infrastructure assets to private companies, as was the case in the ISI and Fordism periods, infrastructure investments represent the main form of the exchange value of the sector. This is to say, prioritizing the use value of the sector necessitates the omission of the exchange value. This is to suffer investment expenditures that create imbalances for the public budget.

which was prioritized through vast investments by the state and a rechanneling of export revenues sourced from primary goods to industry in order to import capital and intermediary goods. In this respect, the electronics industry was also in the public investment queue, but was a low priority. (For details, see chapter 3.) As there was no domestic manufacturer of the equipment, investments were nearly completely dependent on imports which were expensive in the Turkish economy of the period.

In the context of the outward-oriented growth strategy, the opportunities and possibilities provided more flexibility for policymakers in the realm of telecommunications policy. In the first period between the 1980s and mid-1990s, the use value of the sector was prioritized. In concrete terms, public investments in the fixed telephone network were promoted, supported by a provision from domestic manufacturers Netaş and Teletaş.<sup>102</sup> In the second period, which begins with the introduction of two private mobile operators and the detachment of the Türk Telekom from the Turkish PTT in 1994, policymakers prioritized the exchange value of the sector. In concrete terms, the exchange value of the sector was the revenue generating potential of the telecommunications privatizations. This period of privatization gave output of a worse performance from the previous period in terms of steadily directing funds to the physical development of the networks. (For details, see subsection 1.3.3, figure 1.1 and section 4.6, figure 4.22.)

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If a peripheral government prioritizes budgetary concerns over infrastructure investments, this means it is prioritizing the exchange value by minimizing costs. However, in the outward-oriented growth and finance-dominated accumulation period, the opportunity to sell telecommunications infrastructure assets to private companies emerged. Therefore, in this new period, the exchange value of the sector from the perspective of peripheral governments became the possible privatization revenue. Selling telecommunications assets to create a revenue flow into the public budget is the logical outcome of the cutting of infrastructure investments to remedy the public budget deficit. For details, see tables 2.3 and 2.4.

102 Teletaş and Netaş were electronics manufacturers based in Turkey that were formed as PPP projects with foreign vendors in the 1980s. For details, see section 3.5.

Table 2.4 Turkish telecommunications policy as a part of the Turkish development strategy

Context	Use Value	Exchange Value
ISI 1960-1980	Attention was paid to employment and national defense. Universal access goal was neglected.	Restriction of imports of equipment prevented additional burden on trade deficit + Limited investment in telephone operation prevented an extra burden on public deficit.
Outward-oriented development strategy & investment in fixed telephony 1980-1994	Priority in public investment in order to boost domestic access and international connectivity Providing better infrastructure for flourishing finance, foreign trade, and urban growth Equipment provision connections with Teletaş & Netaş were an opportunity to subsidize a domestic electronics sector until they were disbanded in 1988. Widespread employment absorbed by the PTT's telephone operations as well as various tenders for sub-projects were political tools of patronage.	Lucrative investment in the PTT and salaries of employees were burdens that worsened the budget deficit. Restrictions were in place until the 1990s for equipment trade. Since being liberated, a potential deficit emerged. Possible privatization revenues and FDI attraction were not noticeable until becoming global trends in the 1990s.
Outward-oriented strategy & privatization of fixed and mobile services since 1994	Investment in fixed network has been neglected since 1994, even after privatization. Universal access to mobile phones has been achieved in accordance with global trends. However, 3G and 4G technologies were deployed relatively late. A lack of investment in fixed networks and delayed technological updating of wireless networks have resulted in a poor score on access to broadband services.	Fund raising of government through revenue sharing agreements, license fees, taxes, divestitures, treasury shares. Increase in FDI attracted. Increase in trade deficit due to infrastructure & end user equipment imports

## § 2.5 Concluding Remarks and Bridge to the Next Chapter

In a way, the academic literature on Turkish telecommunications policy is similar to the international literature on individual telecommunications policies of nations. The telecommunications policy research agenda is heavily engaged with competition as a goal and the institutional apparatuses of pro-competition policies. A practical style of authoring, short policy analyses, and policy recommendations dominated the field. In this respect, the academic literature on Turkish telecommunications policy is a subset of the international literature; it, too, engages with policy analysis and recommendations in short journal articles, working papers, and reports rather than books and comprehensive studies. Especially the effect of EU documents like regulatory laws, reports, and progress reports have had a great influence on studies that engage Turkish telecommunications.

In another way, the literature on Turkish telecommunications policy differs from the international literature, as the quantity of the studies is small in comparison to the numbers of studies engaging each national experience. To monitor the entire international literature is a “mission impossible” because of the countless number of studies; however, one can cover the entire literature on the Turkish experience, as the number of studies is small. The lack of academic attention on Turkish telecommunications is understandable, as the Turkish telecommunications privatization was relatively late and did not play a leading role in sectoral or regional terms. The Turkish telecommunications market is a relatively small one among a market of hundred options to invest, in the eyes of international investors. The liberalization of the sector in Turkey was just before the telecommunications bust in 2000-2001. This is to say that the focus of international investors as well as academics shifted away from the sector.

The period on which the main body of the literature on Turkish telecommunications policy focuses is the period after 2000, a turning point for the Turkish economy in terms of the legal facilitation of privatizations. Earlier studies paid attention to the issue of infrastructure development and legitimized privatization policies by arguing that the most efficient way to boost

investments was privatization policies. However, following the accomplishment of the goal of privatization, the focus of studies shifted to solely competition. The literature omitted an intellectual follow-up of the “privatization to strategic investor for investment” argument. In parallel, public investments in the 1980s are rarely mentioned in academic studies. Before the adoption of the privatization policy, the government directly engaged with investments in the telecommunications network in order to prepare a physical infrastructure to integrate the national economy into the world economy.

To remain in a dialogue with telecommunications policy literature and to enrich its potential to explain determination of policy directions, I reformulate telecommunications policy as a contradictive field of statecraft. The analyses of Marxist authors Harvey and Jessop provide a starting point for this reformulation. Moving beyond formalist explanations of regulatory reforms, the reformulation I make analyzes the telecommunications policies of peripheral middle-income countries in their historical contexts. Beyond complementing telecommunications policy literature, the reformulation of telecommunications policy as a contradictive field of statecraft enlarges the scope of the critical political economy to the lively area of privatization of infrastructure sectors. The reformulation elaborates the actual tracks of the spatial and temporal replacements of the capital, as the telecommunications sector in peripheral middle-income countries is an area where cross-sectoral and cross-national capital movements intersect. This is also a good starting point to adapt the framework of analysis to the development strategies of peripheral middle-income countries and stretch its scope beyond core high-income countries.

The transition in global accumulation modes from Fordism to finance-dominated, flexible accumulation elevated the significance of telecommunications among other infrastructure sectors. This was a consequence of the primary role of the financial sector and capital mobility in the flexible mode of accumulation. From the viewpoint of peripheral middle-income country governments, the expansion and technological upgrade of national telecommunications was crucial to facilitate financial transactions within and across national borders. The priority paid to telecommunications investments through the public investments of the Özal administration was related to this primary

role played by finance in the integration into the world economy. In the next chapter, I focus on the public telecommunications investment leap in the 1980s in particular and the investment period between 1980 and 1994 in general. This provides a basis for comparing that period's outcomes in terms of investment performance with the privatization period between 1994 and the 2010s. This comparison complements the literature with an intellectual follow up to the arguments about privatization and investment.



## Telecommunications Leap in the Post-ISI Period: Turkish Public Investment in Telecommunications Networks, 1980-1994

### § 3.1 Introduction

The numbers demonstrate that the Turkish fixed telephone network significantly expanded in the 1980s. The telephone network reached only about one million people in 1980 that is to say, only two in every hundred habitants. The number of subscribers exceeded 2 million in 1985, 4 million in 1988, and 8 million in 1991. The penetration of the fixed telephone network rose from 3% in 1979 to 9% in 1988 to 21% in 1994.<sup>1</sup> This was one of the most impressive fixed telephone network expansion projects in the world; indeed, in the period between 1985 and 1995, Turkey was the leader among peripheral countries as well as other countries in the world in terms of growth of the subscriber base – a growth of 484%, as I explain in detail below in section 3.7.<sup>2</sup>

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- 1 For penetration data, see the World Bank (WB) Development Indicators Database. Also see subsections 3.7.4, 3.7.5, and table 3.5.
  - 2 For a comparison of the countries in the 1985-1995 period, see table 3.3 and subsection 3.7.4. Expansion of the Turkish fixed telephone network in this period was comparable to that of the Japanese network in the period 1965-1975 (25 million new subscribers, 338% growth), South Korea in the period 1975-1985 (5.5 million new subscribers, 516% growth), and China in

In addition to explosive network expansion, there was a crucial technological upgrade. The main upgrade was the installation of digital switches (*digital santral*) in place of the obsolete electromechanical and manual devices. To facilitate the provision of the electronic inputs of the expansion, the government imported foreign licenses to produce digital switches and allocated these licenses to domestic electronics manufacturers.

This expansion and upgrade project was labelled as telecommunications leap (*telekomünikasyon atılımı*) by the government headed by Turgut Özal. The leap was fueled by vast public investments – predominately domestically financed – and was planned by the state-owned PTT in coordination with the State Planning Organization (SPO).<sup>3</sup> In the leap period between 1984-1988, a US\$3.8 billion investment was made by the government and telecommunications investments took the lead over highway investments.<sup>4</sup>

The outcome of the telecommunications leap in terms of network expansion is internationally significant when compared to countries of different income groups. Figure 3.1 demonstrates that the penetration of fixed telephone service in Turkey was below the world average until the second half of the 1980s. In this period it exceeded the world average as a consequence of the telecommunications leap. Following the leap, penetration was well above other countries in the same income group as Turkey, namely upper-middle-income countries, and closed the gap with high-income countries by the 2000s.

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the period 1995-2005 (310 million new subscribers, 761% growth). For details, see table 3.5, and subsection 3.7.5.

- 3 State Planning Organization (*Devlet Planlama Teşkilatı*, DPT in Turkish. SPO is the widespread abbreviation that I prefer) was formed in the 1960s as a constitutional institution of the planned Turkish economy – an agency under the prime ministry. Despite its statist, leftist inclinations at the beginning, the organization came under control of center-right engineers like Süleyman Demirel and Turgut Özal. (Additional informations on Demirel and Özal is provided later in this chapter.) The SPO was shut down and merged into the Ministry of Development in 2011. See Güngör Uras, “DPT ‘Kendi Gitti, Adı Kaldı Yadigâr,’” *Milliyet*, June 10, 2011.
- 4 Detailed public investment data is provided below in subsection 3.6.2.



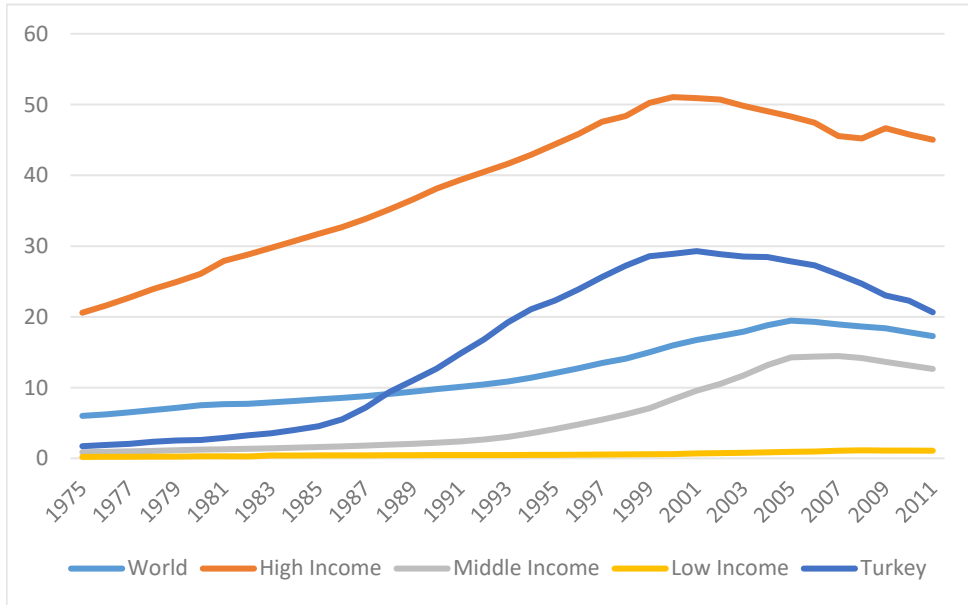


Figure 3.1 Comparison of fixed telephone penetration (%) in the world, income groups and Turkey, 1975-2016. Source: Compiled by the author based on WB development indicators.

Why did the Turkish telecommunications leap take place in the 1980s? What were the external and domestic factors that triggered this investment project? Does the leap matter in comparative terms? Or is it a folkloric exaggeration in Turkish center-right discourse on the achievements of Özal? Why did liberal politicians and bureaucrats prefer a government-led investment project under an outward-oriented development/growth strategy? In other words, why did they borrow the apparatuses of the previous ISI period to build a modern telecommunications network? This chapter engages with these questions and analyzes the magnitude of the investments and their outcomes, in order to compare this period with the privatization period from 1994 to the 2010s. The focus on the telecommunications leap is necessary to achieve my goal to reinsert investment and infrastructure development on the telecommunications policy research agenda.

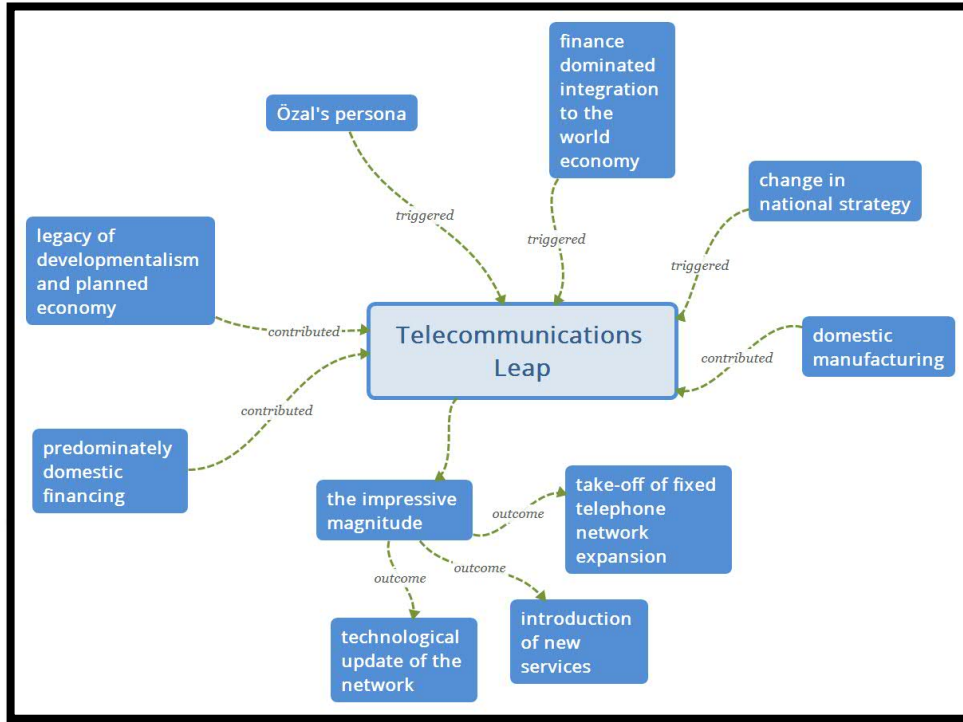


Figure 3.2 Telecommunications Leap

Some scholars paid attention to the telecommunications leap in early studies.<sup>5</sup> However, later studies focused on the issue of competition and omitted the investment issue despite the fact that the academic legitimization of privatization was based on boosting investments through private entry. Today, in the mid2010s, the Turkish experience of telecommunications privatization provides enough indicators to compare the investment performance of the public investment period between 1980 and 1994 with the privatization period after 1994. This chapter also provides a basis for this comparison, in addition to satisfying my academic curiosity around the telecommunications leap – an understudied theme of modern Turkish history.

The organization of the chapter is as follows; Following this section (3.1), the second section (3.2) explores the relationship between the shift in the Turkish development strategy and the Telecommunications Leap. The third section (3.3) discusses the role of Turgut Özal in the telecommunications leap,

5 See the literature review in subsection 2.3.1.

especially in the context of his links to a generation of İTÜ alumni engineers. The fourth section (3.4) elaborates the relationship between infrastructure investments and integration into the world economy. The fifth section (3.5) investigates the contribution of domestic electronics manufacturers to the Telecommunications Leap. The sixth section (3.6) analyzes the magnitude, financing mechanism, and content of the telecommunications leap by considering the data of the SPO. Finally, the seventh section (3.7) compares fixed telephone network expansion during the telecommunications leap to similar expansions in other countries in order to further emphasize its relative significance.

### § 3.2 Transition of Turkish Developmental Strategies: Limitations Set for Policy

Turkish telecommunications policy has been shaped as a component of the adopted developmental strategy of Turkish governments of the period. In this section, I argue that the main characteristics of telecommunications policy transformed due to the requirements of a new development strategy. The basic attributes of the transition in the Turkish development strategy determined the priority and boundaries of telecommunications policy. Why did telecommunications policy become a priority in the mid-1980s? Why did it not evolve into a locomotive to combine industrial and infrastructural growth and advance new technologies like in the examples of Japan and South Korea? I argue that the answers lie in the properties of the transition in Turkish development strategy.

The transformation of the global accumulation regime from Fordism to a finance-dominated flexible form forced a change in the development strategies of peripheral middle-income countries, too. That does not mean that import substitution was a perfectly consistent and properly-functioning development strategy. Actually, the ISI model failed to fully fulfill its promises and created similar debt problems around the world. Nevertheless, the main factor that led countries into the debt crises was the privatization of development

financing.<sup>6</sup> Not before the collapse of the Bretton Woods system, corporate banks had a role in financing the governments of peripheral middle-income countries. In the golden age of Bretton Woods, the WB, IMF, and NATO<sup>7</sup> were the main providers of funds through concessionary loans with long terms and low interest rates, which were being directed toward developmental projects. A series of interrelated phenomena boosted private activity in the international capital market:

- ◆ A persistent trade deficit in the United States provided an abundance of dollars in the world in the form of euro-dollar deposits in corporate banks.
- ◆ An extreme rise in oil prices created huge petrodollar funds and fueled the engine of petrodollar recycling through corporate banks.
- ◆ Legal changes and technical and organizational advancements contributed to the boom in corporate banking activities.<sup>8</sup>

In the 1970s, peripheral middle-income countries that were oil importers needed new loans because of the oil shock. Many new opportunities for financing emerged because of boosted corporate bank activities; however, the loans of corporate banks were predictably profit-oriented and lacked concessionary measures. In addition, in comparison with loans from international institutions, private financing is not being channeled to long-term developmental projects as the main motive was to cover trade deficits. Concisely, the

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- 6 For details on the privatization of liquidity creation, see Benjamin J. Cohen, *Global Monetary Governance* (New York: Routledge, 2008) – especially chapter 3, 36-55. The article was originally published in 1982. Benjamin J. Cohen, “Balance-of-Payments Financing: Evolution of a Regime,” *International Organization* 36, no. 2 (1982): 457-478.
- 7 NATO funds had a role in the infrastructure development of countries like Turkey. In Istanbul streets named “NATO” were built with financing from the institution. In the telecommunications sector, transmission investments during the 1950s and 1960s were partially financed by NATO.
- 8 Robert E. Wood, *From Marshall Plan to Debt Crisis* (Berkeley: University of California Press, 1986), 78-81.

privatization of the financing of peripheral middle-income country governments paved the way for a Debt Crisis.<sup>9</sup>

Turkey was also prone to crisis, as it had failed to develop a competitive manufacturing sector and push up the level of exports. In comparison with successful examples of developmental states like Japan and South Korea, Turkish policymaking had a low level of institutional coordination and was under much pressure from individual rent-seeking private actors. Given the absence of sufficient export revenues, remittances were one of the most significant sources of foreign exchange inflow.<sup>10</sup> The oil shocks hit Turkey in many ways. First, rising oil prices gave birth to a drastic increase in the trade deficit as Turkish energy policy was crippled by oil dependence. In addition, the first oil shock triggered austerity programs in European countries and slowed the flow of Turkish immigrant workers to Europe. That brought about the deterioration in the remittances that contributed to the Turkish current account balance starting in 1974. In addition, austerity measures deployed in the major trade partners of Turkey caused a shrink in exports. Simultaneously, imports rose and the TL was overvalued. The overvalued TL further decreased remittances.<sup>11</sup> Worsening conditions forced Turkey to borrow boldly from emergent international private capital markets. Turkey substituted remittances and other losses with unsustainable financial instruments like Convertible TL Deposits (CTLDs). CTLDs were characterized by a public guarantee against the

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- 9 Mexico's default in 1982 was the apex of the Debt Crisis. The rising level of foreign debt in peripheral countries in the second half of the 1970s was the main factor behind the Debt Crisis. Defaults and bankruptcies of peripheral middle-income countries in the late 1970s and early 1980s were similar. For an account of the Debt Crisis, see Jose Antonio Ocampo, "The Latin American Debt Crisis in Historical Perspective," in *Life after Debt: The Origins and Resolutions of Debt Crisis*, ed. Joseph Stiglitz and Daniel Heyman (London: Palgrave MacMillan, 2014), 87-115.
- 10 Şevket Pamuk, "Political Economy of Industrialization in Turkey," *MERIP Reports* no. 93 (1981): 26-30, 32. Also see Şevket Pamuk, "İthal İkamesi, Döviz Darboğazları ve Türkiye, 1947-1979," in *Krizin Gelişimi ve Türkiye'nin Alternatif Sorunu*, ed. Korkut Boratav, Çağlar Keyder, and Şevket Pamuk (İstanbul: Kaynak Yayınları, 1984), 37-68.
- 11 Tosun Arıcanlı and Dani Rodrik, "An Overview of Turkey's Experience with Economic Liberalization and Structural Adjustment," *World Development* 18, no. 10 (1990), 1344.

risk of devaluation and were profitable opportunities for foreign corporate banks.<sup>12</sup> A vicious circle of indebtedness continued until 1977 when it became clear that Turkey was unable to manage the debt servicing and international corporate banks decided to cut financing.<sup>13</sup>

In the cold war period, Turkey was strategically prioritized by the Western Bloc as a military outpost along the borders of the Union of Soviet Socialist Republics (USSR). The large share the United States foreign aid given to Turkey is a good indicator of that prioritization. Between 1948 and 1952, Turkey received US\$225.1 million in economic aid and US\$235.9 million in military aid, a total of US\$461 million. In the same period South Korea received US\$497.3 million and the Philippines US\$666.4 million.<sup>14</sup> The aid and loans from core high-income countries as well as international institutions resumed in the 1960s and 1970s. For instance, the transmission investments of the PTT between 1956 and 1965 were financed by NATO funds.<sup>15</sup> In addition, United Nations Industrial Development Organization (UNIDO) funds were directed towards industrial investments of SOEs, including some operations of the PTT.<sup>16</sup> When the oil shocks hit Turkey and political chaos accompanied the economic crisis in the late 1970s,<sup>17</sup> the international community was concerned. Phenomena like the Iranian revolution, the invasion of Afghanistan by the USSR, and the increase in the economic significance of the Middle East

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- 12 For a detailed account of CTLDs see, Faik Y. Başbuğ and Mustafa Koç, *Karapara* (Ankara: Tekin, 1981), 101-115.
- 13 Despite the fact that the Turkish bankruptcy occurred five years before the apex of the Debt Crisis, it should be considered part of it, as the underlying conditions of a debt accumulating ISI and post-crisis liberal restructuring are shared properties of these peripheral middle-income countries.
- 14 For detailed information on foreign aid of the United States in the period between 1948 and 1952, see Wood, "From Marshal Plan to Debt Crisis," 61-62.
- 15 Yurdakul Ceyhun, *Fikret Yücel'in Anıları ya da Elektronik Sanayiimizin Bir Kesitinin Anıları* (Ankara: EMO Yayınları, 2006), 30, 46. Also see Fikret Yücel, "PTT ARLA ve Teletaş'ın Öyküsü," in *Mühendislik Mimarlık Öyküleri-I*, ed. TMMOB (Ankara: TMMOB, 2004), pp. 203-216. Also see Geray, "Network Policy Formation," 501.
- 16 Ceyhun, *Fikret Yücel'in Anıları*, 82-86.
- 17 The ideological divides between anti-communist and leftist groups in Turkey took the form of armed conflicts in the second half of the 1970s.

due to emerging problems of oil procurement emphasized the geostrategic importance of Turkey.<sup>18</sup> During the G-7 Summit in Guadeloupe in January 1979, the OECD designed a rescue package for Turkey. The main role was to be played by West Germany in addition to the United States and Saudi Arabia.<sup>19</sup> The package included the restructuring of US\$9.8 billion in debt between 1978 and 1987 with the direct involvement of a consortium of OECD members. In addition to US\$3 billion of OECD financing between 1979 and 1982, there were “unusual levels of assistance from the WB and IMF, including five consecutive structural adjustment loans and a three-year standby agreement in 1980 that brought Turkey’s total IMF commitments to 870 percent of quota, the largest multiple awarded to any country up until that time [1987].”<sup>20</sup> Turkey enjoyed a net resource transfer – in other words, inflows of foreign capital that amounted to as much as 4.5% of its GDP in 1980 – during the most severe years when other victims of the oil shocks suffered net transfer outflows.<sup>21</sup>

The condition of the inflow of net transfers from the international community was commitment to liberal reforms.<sup>22</sup> That does not mean that the economic policy shift was solely motivated by the international community. There were segments of the Turkish economy whose interests were in accord with incorporation into the world economy. In addition, as I express above, the ISI

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- 18 For a summary of the role of the international community, see Ziya Öniş and Steven B. Webb, “Turkey: Democratization and Adjustment from Above,” in *Voting for Reform: Democracy, Political Liberalization, and Economic Adjustment*, ed. Stephan Haggard and Steven B. Webb (New York: Oxford University Press, 1994), 153-154.
- 19 Paul B. Henze, *Turkey and Atatürk’s Legacy: Turkey’s Political Evaluation, Turkish-US Relations and Prospects for the 21st Century* (Haarlem: SOTA, 1998), 93. Also see the response of Callagher to question of Hooson in “Guadeloupe Summit Meeting,” (OECD Commons Sitting, January 16, 1979).
- 20 Stephen Haggard and Robert Kaufman, “The Politics of Stabilization and Structural Adjustment” in *Developing Country Debt and the World Economy*, ed. Jeffrey D. Sachs (Chicago: University of Chicago Press, 1989) 215-216.
- 21 Dani Rodrik, “Premature liberalization, incomplete stabilization: The Özal decade in Turkey,” (NBER Working Paper Series, March 1990), 8 and 34.
- 22 A significant part of these reforms was the rechanneling of public investment from manufacturing and agriculture to infrastructure. This concentration of public funds in infrastructure investments was clearly recommended by structural adjustment programs.

strategy had reached its limit and was frustrating in terms of economic growth. Nevertheless, the fatal impact of oil shock and resulting the privatized financing made the crisis of the Turkish ISI era clear, and the rescue package facilitated a shift in the development strategy from ISI to outward-oriented development policies. Therefore, the limits of autonomy of policymaking were established by the interests of business circles in Western European and North American countries that determined the priorities of the international community.

On one hand, the high level of public investment in the 1980s, which was evaluated as extraordinary for a country hit with public debt, was not possible without the net positive transfers from the international community. The priority paid to infrastructure investment and the channeling of lucrative public funds to infrastructure development was also a consequence of Turkey's commitment to structural adjustment (For details, see section 3.4.) On the other hand, the privatization of stakes in public-private partnerships that manufactured electronic equipment for infrastructure investment early on was a consequence of the character of the new development strategy that did not provide for protection of infant industries. Another factor was the reaction of international electronics companies that want to maintain their traditional market share in Turkey. As these companies were crucial parts of the industrial structure of their native countries in terms of exports and employment, political leaders in these countries did not hesitate to become directly involved in these issues.<sup>23</sup> The capacity of the Turkish state to resist was small, partly because financing was dependent on the support of these countries and partly because center-right politicians in Turkey dedicated to prioritizing private economic activity. Therefore, the equipment-providing leg of telecommunications development, which was integral to success stories elsewhere, was disbanded early on. (For details, see section 3.5.)

The limits on developing an independent telecommunications policy were determined by an external factor. I argue that some policy directions taken in

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23 As I explain in section 2.2, electronics manufacturers were elements of the postal-industrial complex of core high-income countries during the Fordist accumulation era. The disintegration of national PTT structures and their vertical links to the electronics sector forced electronics companies to seek new opportunities in export markets.



early telecommunications and electronics manufacturing must be explained by persistent foreign influence.

### § 3.3 Özal and His Background in Planning and Engineering: A Generation of İTÜ Alumni Engineers

Studies on the reorientation of developmental strategies were initiated by the democratically-elected prime minister, Süleyman Demirel, in 1979.<sup>24</sup> It was under his prime ministry that the January 24 Program was declared in 1980, but the actual intellectual leader of the reorientation and the author of the declaration was Özal. Özal's career up to the 1980s was key to policy formulation in the 1980s. Özal was an electrical engineer who graduated in 1950 from Istanbul Technical University (*İstanbul Teknik Üniversitesi, İTÜ*) from which Turkish political leaders like Demirel, Erbakan, and Binali Yıldırım<sup>25</sup> also graduated. Özal went to the United States for graduate study and then started work at the Agency for the Study of Electrical Energy (*Elektrik İşleri Etüd*

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24 Another iconic leader of the center-right tradition, Demirel, had an influential political career throughout the 1960s, 1970s, and 1990s and early 2000s. The September 12 coup caused the political absence of Demirel in the 1980s, as Demirel was banned from politics and his party was closed by the junta. Actually, the opportunity for Özal's political climb occurred after the elimination of Demirel. Demirel was the iconic leader of the center-right Justice Party (*Adalet Partisi, AP*). He gained experience as an engineer, especially in dam building projects, during his service with the State Water Works (*Devlet Su İşleri, DSİ*). During his later career of political leadership, he held a stance that prioritized infrastructure investments, especially dams. He held the prime ministry for several years between 1960 and 1980 and was the archrival of the Kemalist, social democratic Republican People's Party (*Cumhuriyet Halk Partisi, CHP*). The September 12 military coup in 1980 disrupted his prime ministry, closed the AP, and brought about a ban for Demirel along with other political party leaders from politics. In the 1990s, Demirel had the chance to be prime minister again. Then he was elected by parliament as the head of the state following the death of Özal.

25 Yıldırım graduated from İTÜ's Maritime Faculty. He served as the chief of Istanbul Fast Ferries (*İstanbul Deniz Otobüsleri, İDO*) during the mayoralty of Erdoğan. When AKP came to power, Erdoğan appointed Yıldırım as minister of transportation. Then he was appointed as prime minister following an intraparty takeover in 2016, backed by Erdoğan.

*İdaresi*, EİEİ). He worked on hydroelectric dam construction and electrification projects during the Democrat Party (*Demokrat Parti*, DP) era.<sup>26</sup> In the late 1950s he was promoted to Deputy Director of the Electrical Studies and Research Administration and retained this position until 1967. He had a stint working simultaneously for the SPO and Middle East Technical University (*Ortadoğu Teknik Üniversitesi*, ODTÜ) during his military service. Simultaneously Demirel also worked in the SPO as part of his military service. Özal's close links to Demirel, the leader of the AP and the prime minister in the late 1960s, elevated him to the position of Undersecretary of the Prime Minister in charge of the SPO (*Başbakanlık Planlama Müsteşarı*). The military intervention of March 12, 1971 caused Özal to be detached from the bureaucracy during the 1970s as he was suspected of Islamist political activism and blamed for corruption. He worked for the WB between 1972 and 1973 and for several Turkish conglomerates between 1973 and 1979, including Sabancı Holding.<sup>27</sup> He was also the chief negotiator for the Turkish Employers Association of Metal Industries (*Metal Eşya Sanayicileri Sendikası*, MESS) between 1976 and 1979, taking part in formidable collective bargaining processes of the period.

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- 26 A group of ex-CHP deputies led by Bayar founded DP after The Second World War. DP came to power in 1950. Bayar elected as the head of the state. Adnan Menderes, another ex-CHP deputy elected as the prime minister. Menderes family was a landowner family from the Aegean region. DP deployed an outward-oriented open economy policy that emphasize the agricultural sector. To revive the agricultural potential, Menderes prioritized water and transportation infrastructure. His authoritarian government ended, when TSK took over the government in 1960 with the May 27 coup. He then became the legendary leader of the Turkish center-right political tradition, after the execution of a death sentence.
- 27 Along with the Koç family, the Sabancı family controls one of the two largest Turkish conglomerates, in another word holdings. The holding structure is a multiactivity group pattern, shaped by a specific form of state engagement with the business groups. In the 1970s, the manufacturing sectors were the core elements of big conglomerates, as the Turkish ISI promoted their development through subsidies, import priorities, and cheap inputs. Therefore, wage negotiations between workers and industrial companies was crucial for these conglomerates. Conglomerates openly opposed leftists and social democrats and supported center-right Justice Party of Demirel. Sakıp Sabancı, the eldest member of the family, was the spokesman and popular face of business circles. For further discussion of Turkish conglomerate structure in the context of privatization of telecommunications, see section 5.2.

In addition, he had connections with the *Nakşibendi* brotherhood, one of the most significant Islamic communities in Turkey. He was the nominee from Izmir of the Islamist MSP headed by Erbakan in the general elections of 1977 but lost. During his career in state services and private companies, he and his family members started various private enterprises, a fact that provided the basis for accusations of corruption. To sum up, his most significant features before the 1980s can be summarized as follows:

- ◆ An experienced bureaucrat and engineer specializing in large scale infrastructure investments, especially the dam projects and electrification leaps of the Menderes era from 1950 to 1960 and the energy investments of the Demirel era from 1967 to 1970
- ◆ Strong contacts with Turkish rightists ranging from nationalist and Islamist political streams to the traditional center-right, but no direct involvement in politics
- ◆ Strong contacts with the private sector as well as with the international community.<sup>28</sup>

Following the coup on September 12, 1980, the military decided to retain Özal and promote him to Deputy Prime Minister in charge of Economic Affairs (*Ekonomiden Sorumlu Başbakan Yardımcısı*) under Prime Minister Bülend Ulusu.<sup>29</sup> The decision of the military to retain Özal in the headquarters of economic management indicated its commitment to the norms of structural adjustment set by the international community. He had useful connections to business world as well as to the rightwing voter base, but was not directly involved in politics to an extent. These were positives in the eyes of the military. On the other hand, from the perspective of Özal, a restricted political atmosphere free of competition from the old hands of Turkish politics was ideal for implementing his radical change program.

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28 For biographical information about Özal, see Emin Çölaşan, *Turgut Nereden Koşuyor?* (Ankara: Tekin, 1989); Henze, *Legacy of Atatürk*, 107-37; Ziya Öniş, "Turgut Özal and His Economic Legacy: Turkish Neoliberalism in Critical Perspective," *Middle Eastern Studies* 40, no. 4 (2004): 113-34.

29 Ulusu was a retired military official, politically insignificant, and loyal to the military junta.

A chain of decisions by the military was crucial in the emergence of Özal as a political leader. As a first step, Kenan Evren<sup>30</sup> and other pashas (generals) authorized him with expensive powers and singled out the ANAP which was founded and led by Özal, as the only civilian party permitted in the parliamentary elections of 1983. Finally, they announced their support for the Nationalist Democracy Party (*Milliyetçi Demokrasi Partisi*, MDP) which was led by a retired pasha. This resulted in a strange, paradoxical public perception that Özal was the best option to restore democracy in 1983 elections. However, until the late 1980s, Özal continued to enjoy a political life free of strong opposition parties and labor activism. These conditions reversed after the referendum of 1987 that overturned the ban of Demirel, Ecevit, Erbakan, Türkeş, and other old hands. In addition, restrictions on labor activism were relaxed in the late 1980s. Democratic competition was not ideal for the structural adjustment reforms, and as a consequence, the composure of Özal for reforms was ended.

Throughout the 1980s, except for sixteen months in 1982-1983 when Özal and his team had to leave in response to the Bankers' Crisis, he was at the helm of economic management. Up his economic policy can be briefly summarized as financial opening and current account liberalization. Rodrik provides<sup>31</sup> one possible summary of the Özal period by following radical changes in basic relative prices:

- ◆ *Exchange rates* – The 1980s were a period of real devaluation as the rate of inflation was generally smaller than the rate of depreciation, or in other words, extremely high rates of depreciation. Real devaluation of TL contributed to competitiveness and boosted exports.
- ◆ *Interest rates* – High interest rates gave birth to enormous expansion of deposits and the growth of financial sector. That was better for the capital inflow attractiveness.
- ◆ *Public-Sector prices* – Prices of the products of SOEs elevated. That was better for public balance.

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30 Evren led the coup of September 12 as the chief staff. Later he made himself elected as the head of the state.

31 Rodrik, "Özal Decade," 5.

- ◆ *Real wages* – Real wages deteriorated with the help of restricted democracy. That was better for competitiveness.
- ◆ *Agricultural prices* – Agricultural prices deteriorated with the help of political monopoly rewarded to Özal. That was better for public balance.

These were the accomplishments of the liberal restructuring of the Turkish economy, namely the January 24 Program. However, the stated goals of privatization and reducing inflation were not fulfilled. Instead of the prescribed privatization of the provision of infrastructural services, Özal issued decree laws to make it possible to deploy Build-Operate-Transfer agreements (BOTs, *Yap-İşlet-Devret* in Turkish) and other similar public-private partnership models to introduce private firms into the sector. These were especially significant for energy and transportation infrastructure investments of the 1980s.<sup>32</sup> The policy direction in the 1980s may be summarized as above. Nonetheless there were oscillations if the periods under consideration are further refined. Öniş and Webb provide a detailed summary of the economic policies of 1980s, dividing it into some sub-periods.<sup>33</sup> Throughout the 1980s, the most suitable period for Özal was the period between 1983 and 1988, when he was free of military rule but still enjoyed the military's prohibitions of other political leaders and social movements. In this period, he also had the chance to relax austerity measures of the structural adjustment to revive economy. The main instrument utilized by Özal to revive the economy was public investments with

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32 The BOT model was also deployed to jumpstart private activity in mobile phone operations in 1994 as discussed in detail in chapter 4. These models are still at work in the 2010s, especially for huge transportation investments. For details about BOT models, see Senem İşmen and Ayşegül Özmen, "PPP Route from Concessions to BLTs in Turkey," *Hergüner Bilgen Özeke Newsletter* (Winter 2016): 4-9. Also see Kalkınma Bakanlığı, *Kamu Özel İşbirliğine İlişkin Mevzuat* (Ankara: Kalkınma Bakanlığı, 2012). The BOT and other models of public-private agreements should be introduced into the research agenda of privatization in Turkey, as they have channeled massive private fund to infrastructure investment projects.

33 Öniş and Webb, "Democratization and Adjustment from Above," 154-175. For another sub-periodic summary, see Korkut Boratav, Oktar Türel, Erinç Yeldan, "Dilemmas of Structural Adjustment and Environmental Policies Under Instability: Post-1980 Turkey," *World Development* 24, no. 2 (1996): 374.

immediate paybacks. One of the most urgent demands of society and business circles was the improvement of public telephone services.

Özal's personal past as an engineer and planner contributed much to the telephone leap of the 1980s. As he was a graduate of İTÜ and a pivotal node in the network of İTÜ's engineering graduates. He had direct relationships with figures like Mehmet Emin Başer,<sup>34</sup> Fikret Yücel,<sup>35</sup> Kesici and several others who had a word in the decision making and application of telecommunications policy. In addition, his technical qualifications made it possible for him to personally oversee the progress of the investments. Finally, his admiration for the Japanese model<sup>36</sup> and his observations while in the United States convinced him of the merit of prioritizing telecommunications. Özal's expectations about the prospects of telecommunications were financially fulfilled in the 1990s.<sup>37</sup> However, decision makers in the post-Özal era did not prioritize telecommunications and adopted the conventional center-right stance of prioritizing transportation and energy among the infrastructure sectors.

Özal's technical understanding, political determination and support for telecommunications development combined with the investment projections of SPO planners<sup>38</sup> and PTT engineers<sup>39</sup> and suitable external factors to create a telecommunications leap that technologically upgraded and geographically and incisively expanded the public fixed telephone network.

The common educational background among Özal and other politicians, planning bureaucrats and engineers employed in infrastructural state agencies

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34 Başer was an experienced engineer and bureaucrat in the PTT. Özal promoted him to head of the PTT before the telecommunications leap. He was in good accordance with Özal and remained his close friend even after the leap.

35 Yücel was another experienced engineer and bureaucrat who specialized on the production and repair of telecommunications transmission and exchange components. He was the leading figure in the transformation of the research labs of the PTT into Teletaş, a public-private partnership formed to provide digital exchanges and some other components domestically.

36 For the significance of telecommunications policy for the Japanese development model, see section 3.7.1.

37 For a detailed explanation of the financial rise of telecommunications, see section 4.5.2.

38 For some details of the plans, see section 3.6.2.

39 For some details, see section 3.5.

like the DSİ, the EİEİ, and the PTT facilitated his engagement in public infrastructure investments in general and the Telecommunications Leap in particular.<sup>40</sup> Özal's links to the bureaucracy and private sector as an embeddedness on one hand, and his insulation from political competition as an autonomy, on the other, associate the embedded autonomy of the developmental bureaucracy of the East Asian governments in the sense employed by Peter Evans.<sup>41</sup> However, embedded autonomy was not a general characteristic of Turkish bureaucracy of the time. Özal's initiative in the bureaucracy was more similar to the creation of the efficiency pockets within the administrative body than the implementation of a total transformation of the bureaucracy.<sup>42</sup> The creation of extra-budgetary agencies directly linked to the Prime Ministry, which Öniş and Webb call apprentices of the sorcerer, was similar to the pocket of efficiency style partial administrative reform.<sup>43</sup>

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- 40 For the role of the common educational background of bureaucratic and business elites (*gakubatsu*) in the success of the Japanese developmental state, see Chalmers Johnson, *MITI and the Japanese Miracle: The Growth of the Industrial Policy, 1925-1975* (Stanford, CA: Stanford University Press, 1982), 57-59. The dominance of İTÜ alumni in state organs engaging with infrastructure investments created a similar, useful network – the most significant node of which was Özal. However, the actual success of the East Asian developmental state was to mobilize private companies to meet development targets through networks of people with common educational and professional backgrounds, an element not present in the Turkish version of developmentalism.
- 41 For a detailed explanation of the ideal East Asian mix of insulation from societal forces, internal linkages within the bureaucracy and linkages among bureaucratic and business elites, see Peter Evans, *Embedded Autonomy: States and Industrial Transformation* (Princeton, NJ: Princeton University Press, 1995).
- 42 For an evaluation of the efficiency pocket strategy in the Brazilian case, see Peter B. Evans, "Predatory, Developmental, and Other Apparatuses: A Comparative Political Economy Perspective on the Third World State," *Sociological Forum* 4, no. 4 (1989): 577-578.
- 43 Öniş and Webb, "Democratization and Adjustment from Above," 151-153. This study is a good guide for tracking the similarities and differences of the Turkish administration in the 1980s to the developmental state model of East Asia. Despite the fact that some aspects of the Özal period are better grasped with the help of research on the developmental state, some crucial features of East Asian developmental states were not present in Turkey, like the long duration of bureaucratic guidance and focus on internationally-competitive manufacturing sectors. For a discussion on unsuitability of the transferability of the developmental state model, see

### § 3.4 Turkish Integration into the World Economy and Infrastructure Development

One of the fundamental transformations of the Turkish development strategy following the 1980s was the shift in the priorities for public investments. In the ISI period, industrial manufacturing investments were prioritized in addition to infrastructure investments in energy, transportation, and communication. In the period of outward-oriented development strategy, the share of industrial investments in the total of public investments dramatically declined. On the other hand, transportation and communication investments had a share larger than 25% of the total public investments throughout the 1980s, 1990s, and 2000s.

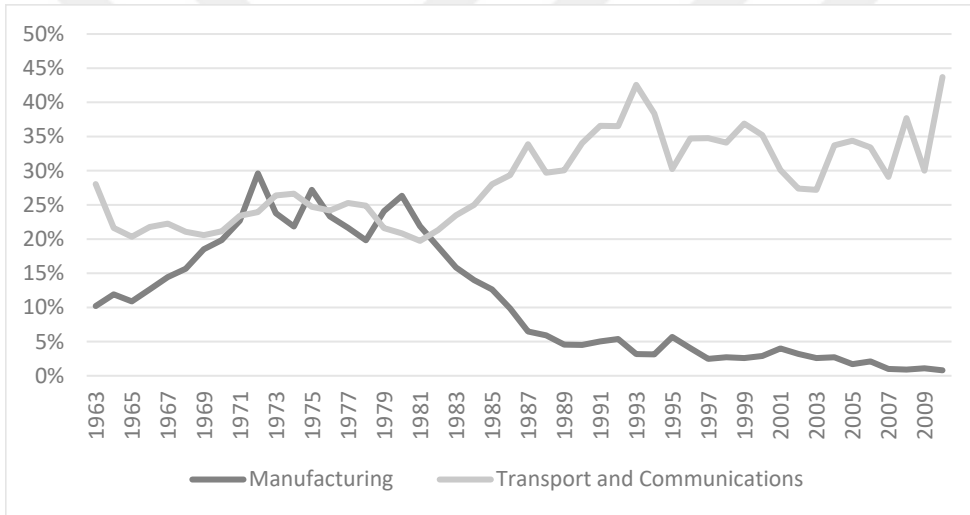


Figure 3.3 Public investment priorities from 1963 to 2010 as a fraction of total public investment. Source: Compiled by the author based on SPO data.

Total public investments in production activities – namely the agriculture, manufacturing, and mining sectors – declined. On the other hand, public investments in infrastructure sectors – namely energy, transportation and communication, as well as services like sewer, municipal works, metropolitan mass

Ziya Öniş, "Review: The Logic of the Developmental State," *Comparative Politics* 24, no. 1 (1991): 120-123.



transit, and fresh water, which are categorized as “others” – boosted. In addition, the details of the investment plans and reports of the SPO<sup>44</sup> indicate that investment projects classified in the agriculture category were predominately irrigation projects, which are actually another type of infrastructure investment. These investments in energy, transportation, telecommunications, and water are all classified by the WB in the category of infrastructure investments. The fact that the classification of the SPO diverges from the classification of the WB, results in an undermeasurement of the magnitude and share of infrastructure investments.

In the ISI period, public manufacturing investments were the driving force of the Turkish industrialization.<sup>45</sup> In the post-ISI period, the government decided to move away from industrial activities. There were two basic rationalizations for this decision. First, it was a move to provide the complementary investments for investments of private industrialists. It was expected that the infrastructure investments would facilitate the private activities and stimulate the private investments. In this rationalization, it was argued that industrial investments of the public sector were in competition with private industrialists.<sup>46</sup> The second rationalization is that the scarce funds for public investment should be directed towards more efficient activities with a shorter payback period. The policy of protecting and growing infant industries was costly and

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44 For details on these documents, see 3.6.2.

45 In this manner, various industrial branches attracted public investment. The steel industry, petrochemical industry, and other manufacturing systems that support ISI by providing cheap inputs were prioritized.

46 Rodrik, “Özal Decade,” 5 and 23. Rodrik states that the substitution of public industrial investments with private industrial investments did not occur in the 1980s. The downward trend of private investment in industry followed the downward path of public investments throughout the 1980s. The boom in exported industrial products in the 1980s was based on the realization of idle productive capacities. For details on industrialization in post-1980 Turkey, see Erol Taymaz and Ebru Voyvoda, “Marching to the Beat of a Late Drummer: Turkey’s Experience of Neoliberal Industrialization since 1980,” *New Perspectives on Turkey* 47 (2012): 83-113.

had a long-term payback. However, improving the public services of transportation and communication would have positive consequences that would become visible to the majority of society in the short term.<sup>47</sup>

I argue that the redirection of public investment funds to infrastructure sectors was a consequence of the transformation of the development strategy in response to the transformation of the world economy.<sup>48</sup> The strategy can be summarized briefly as the realization of the economic capacity of Turkey by opening the current account and the capital account. The liberalization of foreign trade may contribute to development in two related ways. First, freed commodity currents may realize and improve domestic productive capacities by connecting them to enormous world markets. Second, the expansion of international trade would revive and enrich the Anatolian corridor. Even in the context of heavy current account deficits, overall expansion in the volume of international trade would create a welfare effect through the varied goods supplied, deterioration of price levels, and profits gained from trade activities. However, such growth in trade volume could not be achieved without financing in terms of foreign exchanges which have international money status. Financial liberalization provides the necessary financing of production and consumption. Especially in a decade when the international community was motivated to finance financial liberalization, liberalization would stimulate easy financing for all kinds of economic activity.

To make current and capital movements possible, the legal framework needed to be amended, and such amendments and legislation made the movements legally possible. Accomplishment of these legal transformations required a strong political will, and Özal and his team was that strong will behind the transformation.<sup>49</sup> However the Constitution of 1982 was as significant as the determination of Özal's change team as it empowered the executive organ at the expense of the parliament (legislative organ) and donated majority parties with the legislative capacity. Özal intervened in the hierarchy of state

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47 For details of argumentation, see "I. Özal Hükümeti Programı," Türkiye Büyük Millet Meclisi, December 19, 1983.

48 For details on Harvey's conception of spatio-temporal fixes, see subsection 2.4.1.

49 John Waterbury, *Exposed to Innumerable Delusions: Public Enterprise and State Power in Egypt, India, Mexico and Turkey* (New York: Cambridge University Press, 1993), 27.

agencies and minimized the role of the SPO and the Ministry of Finance shifting power to the Central Bank and the newly-formed Undersecretary of Treasury and Trade. At this early stage, these empowered agencies were not independent regulatory agencies and were under the command of the Prime Minister. Özal's decree laws and extra-budgetary funds were additional tools utilized for the change.<sup>50</sup> This did not mean that Özal was powerful enough to make anything he desired happen. Especially in the second half of the 1980s, his policies were bounded by societal pressure and liberalizing elections. Nevertheless, crucial liberalizations of current and financial accounts were accomplished with the help of transforming the institutional nature of the state.

The legal and institutional transformation was one of the crucial elements of the outward-oriented development strategy. No less significant than the legal and institutional infrastructure was the physical infrastructure. In certain periods of Turkish economic history, there were lucrative investments in physical infrastructure. In the Ottoman Empire of the nineteenth and twentieth centuries, concessant foreign companies built thousands of miles of railways.<sup>51</sup> The telegraph became the main instrument of communication as major government resources were channeled into network building.<sup>52</sup> Another period of lucrative infrastructure investment was the 1950s when extensive highways were built as well as dams and irrigation projects.<sup>53</sup> The Özal era was marked by his passionate investments in dams, highways, and telecommunications.

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50 Öniş and Webb, "Democratization and Adjustment from Above," 147-153.

51 Pamuk emphasizes the role of European capitalists in the expansion of railway network in the Ottoman geography. Pamuk links these investments to the integration of agricultural production to the ports and international markets. Şevket Pamuk, *Türkiye'nin 200 Yıllık İktisadi Tarihi* (İstanbul: İş Bankası Yayınları, 2014), 85-86, especially 104-106. Also see Keyder, *State and Class in Turkey*, 44-45. For a detailed account of railway investments, see Murat Özyüksel, *Hicaz Demiryolu* (İstanbul: Tarih Vakfı Yurt Yayınları, 2000), 9-40.

52 For details on the Ottoman telegraph network, see Mustafa Kaçar, "Osmanlı Telgraf İşletmesi," in *Çağımı Yakalayan Osmanlı: Osmanlı Devletinde Modern Haberleşme ve Ulaştırma Teknikleri*, ed. Ekmeleddin İhsanoğlu and Mustafa Kaçar (İstanbul: IRCICA, 1995), 45-120.

53 Pamuk, *Türkiye'nin 200 Yıllık İktisadi Tarihi*, 230-231. Also see Feridun Cemil Özcan, "Ellili Yıllarda Türkiye Ekonomisi," in *Türkiye'nin 1950'li Yılları*, ed. Mete Kaan Kaynar (İstanbul: İletişim, 2015), 52.

The Erdoğan era is also a period of extensive investment in energy, transportation, and municipal infrastructure.

What was the factor that motivated extensive investments in physical infrastructure? The policy determination to boost investments in infrastructure was a consequence of the development strategy adopted in response to trends in the world economy. The conjuncture of increasing current and capital movements encouraged the adoption of development strategies that aimed at taking a share of the growing world economy. In the nineteenth century, there was a trend increasing of international trade and international finance as well as persistent imperial competition. Peripheral integration of the Ottoman Empire into the world economy was based on the expansion of trade. Transportation infrastructure investments that further expanded trade by connecting resources to port cities were attractive for foreign investors and were encouraged by Ottoman Empire.<sup>54</sup> In the 1950s, there was a revival after the world war, and Turkey was an active participant in the reconstruction of the economy at the European scale. Finally, in the mid-1970s, the relatively domestic-oriented nature of Bretton Woods and Fordist accumulation started to transform into a globalized nature of finance-dominated accumulation in terms of both finance and trade. Turkey adopted relatively protectionist, statist development strategies in obligated closedness periods of war or interwar chaos which forced policymakers to find ways to develop in relative isolation. Another period was that of ISI which resumed at the end of the 1950s and continued up until 1980, when the regulated capitalism of Bretton Woods limited financial activity and the volume of international trade remained relatively small as a consequence of the persistent protectionism of war periods. Even in the more statist, protectionist eras, pro-free trade<sup>55</sup> public officials like Bayar,<sup>56</sup>

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54 Keyder, *State and Classes in Turkey*, 42-47. For a longer discussion on Ottoman peripheralization in the nineteenth century, see subsection 2.4.3.

55 The term “pro-free trade” may sound awkward. One may argue “liberal” is a better choice. However, as the Turkish center-right political tradition was not as liberal in political terms as in economic terms, so the libertarian sense of the word in Western culture does not pertain to Turkish leaders who tended to be authoritarian when the opportunity arose.

56 Pamuk, *Türkiye'nin 200 Yıllık İktisadi Tarihi*, 182.

Demirel,<sup>57</sup> and Özal remained in charge in key positions. These public officials then became prominent political leaders. Thereby, the ensuing periods of freer world trade encouraged the adoption of outward-oriented development strategies and extensive infrastructure investments.

Infrastructure investments are crucial in reducing transaction costs. They connect productive capacities with larger markets and allow products to penetrate new markets.<sup>58</sup> The penetration of products of effective productive forces may finish the possibilities of resuming production with less efficient ways, and therefore eliminates some producers. On the other hand, new infrastructure investments would decrease transaction costs, increase efficiency, and give efficient but isolated riches the opportunity to realize themselves. In addition, they provide more variety and cheaper prices. It was expected that the trade-off between eliminated producers and realized producer capacity and better provision would bring about popular support. Then we may conclude that popular segments whose interests (at least in the short term) are in accord with an economic opening were stronger in the political arena and expressed themselves through the center-right political tradition in Turkey. Therefore, in the periods of incorporation into the world economy, infrastructure investments – especially transportation and communication investments – had the upper hand. However, in different periods, different segments of transportation and communication investments were prioritized over others. Highways were prioritized in the 1950s, and fixed telephony in the 1980s. What factor determines the prioritization of a certain type of infrastructure investment?

I argue that the driving force of the integration into the world economy determines the channel of incorporation into the world economy, and this

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57 Tanel Demirel, *Adalet Partisi: İdeoloji ve Politika* (İstanbul: İletişim, 2004), 273-333, especially 280-281 for emphasis on infrastructure investments.

58 As I express in chapter 2, the finance-dominated flexible structure created a global space. Through this space structured over the telecommunications backbone, digitized money can move rapidly. This facilitates the process Harvey calls spatial and temporal replacements and fixes. However, Harvey does not deeply engage with the process in peripheral middle-income countries and does not explain the factors that motivated peripheral middle-income governments to attract capital. In this paragraph I provide a possible explanation.

channel determines the priority of infrastructure investments. For instance, in the early 1950s Turkey was a part of the reconstruction of the European economy, and its role was to export agricultural products to European markets. Incorporation into the European economy through the export of agricultural goods motivated infrastructure investments to make agricultural land accessible and to increase fertility. Therefore, investments in highways and irrigation were prioritized. These investments were also significant in the 1980s, but there was something new: For the first time in Turkish economic history, in the four-year period between 1985 and 1988, communication investments exceeded 10% of total public investment, accounted for 1% of the GDP, and were larger than investments in highways – the usual champion of the category of “transport and communications.”<sup>59</sup>

Turkish incorporation into the world economy through current movements as well as capital movements necessitated communication investments in addition to usual infrastructure investments. In my argument, this shift concerned the component of finance, as communication was the medium of varied financial activities.

In a semi-academic conference on the legacy of Özal, a prominent member of his team and head of the PTT at that time, Başer, stated that the civil war in Lebanon provided the opportunity for Istanbul to supersede Beirut as the eastern headquarters of international companies in the late 1970s. Many companies moved their managerial operations for the Middle East region to Istanbul. However, the malfunction of public telephone services and terrible waiting lists prevented them settling in, and Greek cities with better infrastructure facilities took advantage.<sup>60</sup> This was only one example of opportunities that arose from globalizing finance and commerce, and the political elite and planners realized that infrastructure development was an essential part of an open economy. This perception was fortified by recommendations from the international community. The WB’s structural adjustment loan agreements

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59 For details about the data, see 3.6.2.

60 Yıldırım Akbulut, Galip Demirel, M. Emin Başer, Ahmet Özal: “Panel: Turgut Özal,” in *Turgut Özal Üniversitesi Konferans Metinleri*, ed. Muhammed Kösecik (Ankara: Turgut Özal Üniversitesi Yayınları, 2011), 185-218.

(SALs) with Turkey in that period indicate that the recommendation was to redirect public investments from heavy industrial manufacturing branches to infrastructural sectors.<sup>61</sup> The basic problem of the Turkish economy was diagnosed as an “infrastructure bottleneck” in WB reports.<sup>62</sup> The best way to remedy this bottleneck was to redirect public funds to the investments in public utilities. There are two interesting points in these reports: The first is that the reports of the early 1980s, which provided a guide for Turkey’s structural adjustment, did not recommend the privatization of public utilities. The recommendation was to improve them by channeling public investments. The second significant element is that the reports recommended remedying the infrastructural bottleneck in general but did not emphasize the telecommunications and public telephone network. In the following period, the focus of the international community was on energy and transportation investments. This element clearly contrasts with the reports on South Korea, as the improvement of the telecommunications was particularly recommended to South Korean planners.<sup>63</sup> This suggest that the role of the local elite was more significant in prioritization of the development of the fixed telephone network among public utilities in the 1980s. This may also explain the short life of the telecommunications leap, especially relative to the leap in South Korean.

Instead of complicated and expensive industrial branches built by the state, WB reports recommended the support of private activity in sectors like textiles, construction, and tourism. The intellectual spirit behind the recommendations was the competitive advantages approach. Béla Balassa, a scholar of international trade theory, famous with the Balassa Index, often appeared as the author of WB reprints on Turkey.<sup>64</sup> According to the competitive advantages approach, investments in public SOEs active in manufacturing were

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61 World Bank, “Turkey Structural Adjustment Loan Project,” February 29, 1980, 16-17; World Bank, “Turkey – Structural Adjustment Loan: Loan 1818 – Loan Agreement – Conformed,” March 25, 1980, 16-17.

62 World Bank, “Turkey – Policies and Prospects for Growth,” March 31, 1980, 10-11, 105, 177, 184.

63 See WB reports on South Korea.

64 Béla Balassa, “Growth Policies and the Exchange Rate in Turkey,” in *The Role of Exchange Rate Policy in Achieving the Outward Orientation of the Turkish Economy* (Istanbul: Meban Securities Brokerage and Finance Corporation, 1981), 15-59. This article was reprinted by the WB.

less than productive. These manufacturing sectors survived in the protected nature of the economy under policy of ISI: However, they were not competitive in an open, international economy. The electronics sector, one of the most complicated and capital-intensive manufacturing sectors, was driven by the public investments of the PTT and Netaş, a public-private partnership between the PTT and Northern Telecom of Canada. When the developmental strategy shifted from ISI to the open strategy, the electronics sector became one such internationally uncompetitive infant manufacturing sectors. However, these electronics manufacturers – Teletaş and Netaş – still had a role in providing inputs for the telecommunications leap in the 1980s, as I discuss in detail in section 3.5, and the reorientation of the Turkish industrialization strategy from a publicly-owned, protected, technologically ambitious pattern to the privately-owned, semi-technological but competitive pattern set the limits of a possible industrialization policy coordinated with telecommunications policy, in a fashion like Japanese, French and South Korean coordinated policies I discuss in detail in section 3.7.

### § 3.5 Equipment Provision for Telecommunications Development in the 1980s

The Telecommunications Leap, an extensive project of network expansion and modernization, required industrial inputs, especially digital switches and advanced transmission components. These inputs were relatively high technology industrial products at the beginning of the 1980s, and there was no manufacturing base in Turkey. Instead of importing these expensive inputs, policymakers decided to import licenses for digital switches and improve the modest laboratories and repair services of the Turkish PTT in order to manufacture these inputs, as this section analyzes in detail.

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WB Reprint Series, Number 181, July 31, 1979. Also see Béla Balassa, “Outward Orientation and Exchange Rate Policy in Developing Countries: The Turkish Experience,” in *Change and Challenge in the World Economy*, ed. Béla Balassa (London: Palgrave MacMillan, 1983), 208-235. This article was also reprinted by the WB. WB Reprint Series, Number 266, June 30, 1983.



Following the advent of the electrical telegraph in the Ottoman Empire in 1855, the Ottoman Telegraph Administration, the early nucleus of the modern Turkish PTT, opened a factory in Istanbul in 1867. The telegraph factory was able to produce various inputs for telegraph network investments as the telegraph was becoming the medium of long distance communication in the Empire. However, it was not adapted for telephone manufacturing and most of its manufacturing abilities were lost after the First World War. The factory was later officially called as PTT factory and continued to exist in the Republican period as a modest facility, but far from fully satisfying the needs of network investments.<sup>65</sup>

Telecommunications network investments were import dependent in the early Republican period as well as the ISI period. Similar to other peripheral economies, throughout the late Ottoman and modern Turkish history, three leading companies originating in the core competed for the Turkish telephone communications equipment market, namely Siemens of Germany, Ericsson of Sweden, and IT&T (International Telephone and Telegraph), the overseas affiliate of the United States Bell System. Siemens of Germany was a major exporter of inputs for telegraph investments in the nineteenth century and telephone investments in the twentieth century, in addition to many other operations like transportation, electrification, and manufacturing, which had improved as a function of growing economic and political relationships between Germany and Turkey.<sup>66</sup> Ericsson was one of the most significant suppliers of telephone exchanges for Turkey throughout the republican period, the 1940s, the 1950s, and the ISI period.<sup>67</sup> IT&T expanded its operations in Europe

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65 For details on the Ottoman telegraph factory, see Tanrıku, *Türkiye'de Posta ve Telgraf ve Telefon Tarihi ve Teşkilat ve Mevzuatı*, 663-666. For details on the establishment of the telegraph network in the Ottoman Empire, see subsection 1.2.3.

66 For a brief summary of the history of the Turkish branch of Siemens, see "Hakkımızda - Tarihçe - Türkiye'de," [http://www.siemens.com.tr/web/1216-14626-1-1/siemens\\_turkiye\\_-\\_tr/siemens\\_turkiye/tarihce/turkiyede/](http://www.siemens.com.tr/web/1216-14626-1-1/siemens_turkiye_-_tr/siemens_turkiye/tarihce/turkiyede/) accessed August 2, 2016.

67 Noam, *Telecommunications in Europe*, 267. The public telephone network in Ankara was built by Ericsson and launched in 1926. See "Phones for Angora," *The New York Times*, February 15, 1925. The private telephone company in Izmir, which was founded in 1927, was a partnership between Ericsson and municipality of Izmir, see "Notes on Trade and Industry Abroad -

and peripheral markets including Turkey following the First World War.<sup>68</sup> The import of equipment necessary for telecommunications infrastructure through these three foreign companies and some others with smaller roles was the basic channel of procurement until the 1980s.

Procuring these inputs during the ISI period was problematic, as there was a persistent problem of foreign exchange scarcity. The foreign exchange allocations were made by the SPO and Ministry of Finance on an annual basis, which made it difficult to procure additional inputs during the year. In addition, according to Fikret Yücel, a prominent engineer of the Turkish PTT who had experience in the repair and procurement of telecommunications equipment, telecommunications investments were not a priority for statesmen and were the first fiscal burden to charge off in times of foreign exchange scarcity.<sup>69</sup> This makes sense given that portion of imported inputs into telecommunications infrastructure improvement was much higher than for other types of infrastructure investment in the 1970s. Yücel emphasizes the significant contribution of NATO funds in infrastructure investments in the context of foreign

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Telephone Service for Smyrna,” *The New York Times*, February 6, 1927. Also see subsection 1.2.3. Following a rupture in the 1980s, Ericsson had a role in the procurement in mobile phone era, as I discuss in detail in chapter 5. Siemens from Germany and ITT from the United States were also competing in the Turkish telephone equipment market and both had a role in procurement.

- 68 The Constantinople Telephone Company, which was founded as a private consortium of United States, French, and English companies in 1911, was acquired by IT&T in 1930, before being nationalized in 1935. For a news report that summarizes the expansion of IT&T, see “Telephone Chains for Six Continents – Purchase of Turkish Company,” *The New York Times*, March 23, 1930. Also see subsection 1.2.3.
- 69 Ceyhun, *Fikret Yücel’in Anıları*, 15. This memoir by Fikret Yücel, who was an elite engineer-bureaucrat in the PTT and another significant member of the İTÜ alumni network, is the best available source of information on the formation of the AR-LA (*Araştırma Laboratuvarları*) – as the research and development unit of the Turkish PTT – in the 1970s and its transformation into a domestic electronics manufacturer, namely Teletaş in the 1980s. Yücel was the founding director of Teletaş and one of the designers of the Leap. The memories of Yücel also provide a detailed explanation of the role of domestic manufacturers Teletaş and Netaş in the procurement of the inputs for Telecommunications Leap. This section is based on the memoirs of Yücel and enriched with news reports and the annual investment plans and reports of the SPO.

exchange scarcity. NATO contributions can be observed in the annual investment programs even in later periods, as I explain in section 3.2.

Given the absence of a domestic electronics industry, the PTT procured industrial inputs of telecommunications investments through orders to electronics manufacturers in Western Europe and Northern America. When there was a bidding process, engineers from the PTT went on business trips to execute negotiations and make decisions. The outcomes of the bidding processes were formed by the technical concerns of PTT engineers as well as the diplomatic concerns of the government. The aggressive competition among electronics companies to capture the orders included lobbying and placing pressure on the government and engineers. In some cases, top political leaders of the exporting nations directly engaged in.<sup>70</sup> These early examples of bidding processes with foreign companies had a common pattern. PTT formed a delegation of technical experts, took business trips, observed production processes and products, made negotiations with the experts of foreign companies and made their technical evaluations, at which point foreign companies and politicians started lobbying and domestic politicians became directly engaged and provided the component of diplomatic-political concerns – concerns which in some cases included corruption and rent-seeking and in some others the gossips about corruption to the media. All these technical, diplomatic, and rent-seeking inputs came together to make a final decision. It is a pattern observed throughout the modern economic history of Turkey that even repeats itself in the privatizations of the 2000s.

These experiences of dealing with foreign companies were one of the crucial components of telecommunications investments in the 1980s. Another crucial component was the technical experience of engineers and technicians

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70 The Marxist authors to whom I referred above, namely Harvey and Jessop, have not engaged with this political lobbying between core and periphery politicians. In my view, such lobbying is an integral part of real-world capital movements and realizations. I acknowledge the potential risks of introducing individual human subjects into a study that divides world economic history by accumulation patterns. Still, such insights are provided throughout the dissertation as they show the possibilities of alternative policies. The structural determination of a pattern of accumulation does not consume the possibilities of human subjects, who are a product of their historical background, culture, and economic conditions.

of PTT during the investment projects in the ISI period. The engineers of the PTT were generally graduates of the boutique electronics department of İTÜ. The employment policy of state institutions and SOEs responsible for infrastructure investments was to provide scholarships to engineering students at İTÜ in exchange for a compulsory period of work. In this sense, the early career of Yücel in the PTT was similar to Demirel's in DSİ and Özal's in the Agency for the Study of Electrical Energy (*Elektrik İşleri Etüd İdaresi, EİEİ*). This employment policy started in late 1940s and created a critical mass of technocrat-bureaucrats who became experienced. The extensive infrastructure investments of the 1950s driven by prime minister Adnan Menderes and the North Atlantic international community. The subsequent careers of this generation of engineers who were graduates of İTÜ in the 1950s were characterized by their engagement with the open and outward-oriented economic spirit of the 1950s, educational and business connections with the United States, and a deep understanding of ordinary Turkish people based on their own rural family roots and long years of field work.<sup>71</sup> This generation led the center-right political tradition of the period, the prominent political figures of which were Demirel and Özal. The fact that the engineer originated political leaders were in charge for three-and-a-half decades determined public investment priorities of the outward-oriented developmental strategy.<sup>72</sup>

Returning to the PTT, this generation of electronics engineers gained productive capacities throughout the ISI period. This was a consequence of the limits of imported inputs because of foreign exchange scarcity. Given the condition that there was no chance to place broken equipment, engineers were

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71 For an emphasis on the engineering profession see Demirel, *Adalet Partisi*, 283-285.

72 On the other hand, Tayyip Erdoğan was not an engineer. Still, he had plenty of experience with infrastructure investments during his mayoralty of Istanbul in the 1990s, a period when the significance of metropolitan infrastructure increased with respect to other infrastructural sectors. Binali Yıldırım graduated from İTÜ in 1978 and worked for public maritime offices until being picked to head İDO between 1994 and 2000, appointed as the minister of transportation under the AKP government throughout 2000s and 2010s, and promoted to prime minister in 2016. Erdoğan's and Yıldırım's inclinations to prioritize transportation and metropolitan infrastructures is clearly linked to their personal backgrounds.

forced to repair or modify the devices. The experience of repairing and modifying trained engineers to be modest producers of basic components. These productive activities were crucial in even the simplest kinds of inputs as they saved foreign exchange. Productive abilities evolved from simple inputs to more complex devices.<sup>73</sup> In the mid-1960s, this experience accumulation came together with dedication to the import substitutionist developmental strategy to industrialize Turkey. Engineers and bureaucrats started to evaluate the feasibility of establishing an electronics industry in Turkey. Finally, with the advent of the planned ISI strategy in the 1960s, the electronics industry was included in the five-year development plan of the nascent SPO.

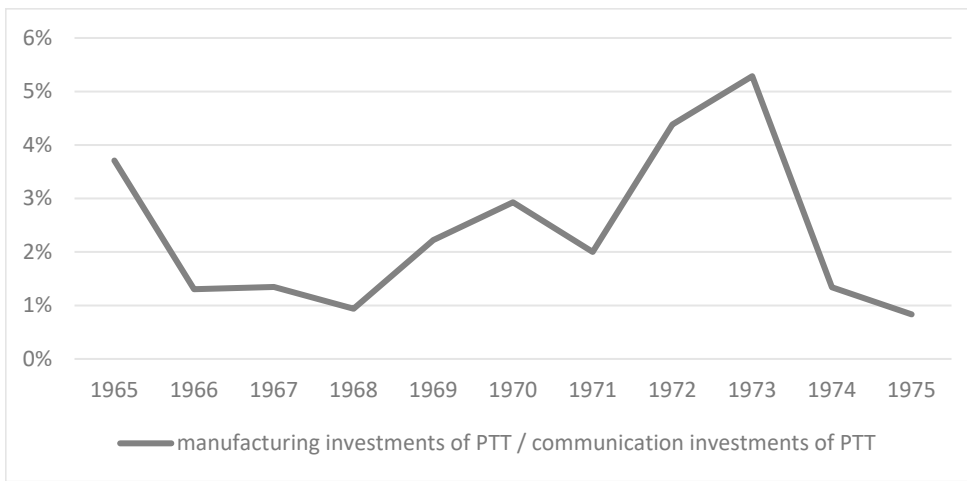


Figure 3.4 Manufacturing investments of the PTT as a fraction of communication investments of the PTT, 1965-1975. Source: Compiled by the author based on annual investment programs of the SPO.

Production was concentrated in the AR-LA (an abbreviation for PTT Research Labs, *PTT Araştırma Laboratuvarları*), a small unit of engineers and technicians led by Yücel and founded in 1965.<sup>74</sup> The production activities were limited in the beginning (see figure 3.4); however, in later periods AR-LA improved its productive capacity by starting new labs and units, taking orders from the PTT, and acquiring licenses for more complex devices from foreign electronics companies. AR-LA also enjoyed the aid of UNIDO to enlarge and

73 Ceyhun, *Fikret Yücel'in Anıları*, 31-37.

74 *Ibid.*, 57-58.

improve its capacity. Before the advent of the outward-oriented development strategy, AR-LA managed to acquire licenses for some transmission devices and mass produced them.<sup>75</sup>

In this respect, Netaş (Northern Electric Telekomünikasyon A.Ş.) was as significant as AR-LA. Netaş was founded in February 1967 as a partnership between the Turkish PTT and Canadian electronics manufacturer Northern Electric. This was another step in attempt to grow a domestic electronics industry.<sup>76</sup> 49% of Netaş was owned by the PTT, while Northern Electric held 31%.<sup>77</sup> Therefore, PTT representatives were on its board. Netaş focused on the investment projects of the Turkish PTT and military, and its productive capacity improved in the ISI period. In this period, its basic contribution was the production of electromechanical telephone exchanges in addition to some other telecommunications equipment.<sup>78</sup>

AR-LA was different from Netaş as it was a fully publicly-owned entity, a sub-unit of the Turkish PTT. Therefore, AR-LA was restricted in the area of financing and its personnel regime relative to private companies. State offices had difficulty adjusting their flexible financing needs to the annual budgets, especially in the case of costs in terms of foreign exchange, in the ISI period. Another main problem was changing patterns of work. The transition from a more protected to a more competitive setting caused losses for unskilled workers in terms of wages and security. On the other hand, the transition brought many new opportunities for skilled workers in terms of interfirm, inter-sector, and international mobility. Skilled personnel employed in public utilities were

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75 Ibid., 60-69.

76 Robert J. Raggett, "Technology Transfer: A Tale of Telecom Success in Turkey," *Telephony*, 210.17, April 28, 1986, 30.

77 Other shareholders were *Türk Deniz Kuvvetlerini Güçlendirme Vakfı* 15%, *PTT Biriktirme ve Yardım Sandığı* 2.5%, and others 2.5%. "NETAŞ'ta Büyük Grev," *Milliyet*, November 19, 1986. In 1993, Northern Electric purchased the PTT's 20% stake in Netaş and took over control of the company.

78 Crossbar telephone exchanges were technologically more advanced than manual exchanges. Crossbar technology was improved in 1950 and started to be deployed in Turkey in 1967 with the foundation of Netaş. Deniz Can Saner, *Zenginler, Yoksullar ve Robotlar: Dünya Sistemi, Bağımlılık ve Türkiye* (İstanbul: Bireşim Yayınları, 1993), 104-107.

in an advantageous position compared to the previous period of ISI. This diminished the ability of the traditional public employment model to retain skilled engineers and technicians. Yücel emphasizes the significance of financing and human resources in the decision to transform AR-LA into Teletaş, a public-private partnership modeled after Netaş.<sup>79</sup> However, it was difficult to find partners in private sector and Yücel had to utilize his personal network to find private partners for the project.<sup>80</sup> (For the preliminary ownership structure of the partnership, see figure 3.5.) In the end, Teletaş was founded in October 1983 as a partnership and moved into large facilities in Ümraniye dedicated to manufacturing and research.<sup>81</sup>

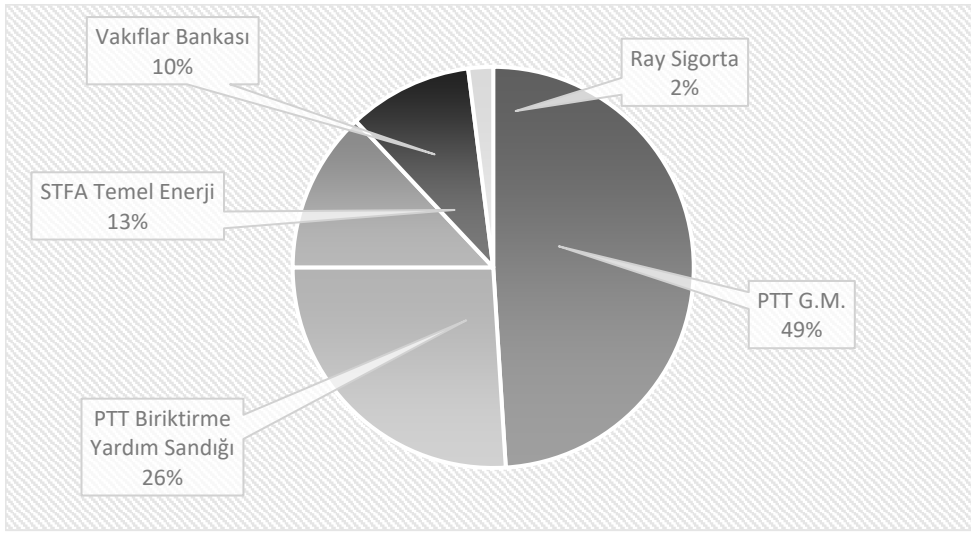


Figure 3.5 Capital composition of Teletaş in 1983. Source: Compiled by the author based on Ceyhun, *Fikret Yücel'in Anıları*, 121.

79 For a discussion on the employment model of Teletaş, see Ceyhun, *Fikret Yücel'in Anıları*, 123-124.

80 Ceyhun, *Fikret Yücel'in Anıları*, 121.

81 Netaş also moved to Ümraniye. The new facilities of Netaş and Teletaş were opened together in an official ceremony in December 1983. “Teletaş ve Netaş Adlı Fabrikalar Hizmete Sokuldu,” *Milliyet*, November 12, 1983. Ümraniye is a district on the Asian side of Istanbul. Until the 1980s, Ümraniye viewed as a small rural settlement rather than an urban district. After the construction of the second bridge over the Bosphorus, the district grew significantly. In the 1980s, the district started to host electronics manufacturing companies like Teletaş and Netaş.

Briefly, three crucial components of the industrial base of the telecommunications investment leap of the 1980s were formed in the ISI period:

- 1 A generation of engineers who were graduates of İTÜ in the 1950s – the fruit of the education and employment policies of early Turkish state who had field experience with infrastructure projects – including capable engineers as well as political leaders with technical understanding. In this respect, Yücel, Başer and Özal were pivotal figures in a wide network and complemented each other.
- 2 The experience of PTT engineers in dealing with foreign electronics companies, which would be useful in the license agreements for digital exchanges in the 1980s.
- 3 The formation of AR-LA and Netaş in the 1960s as the outcome of planned industrialization efforts in the context of ISI, a conscious attempt to grow a domestic electronics industry.

The crucial, hi-tech industrial inputs for the telecommunications leap of the 1980s were digital exchanges.<sup>82</sup> As I express above, Netaş was manufacturing cross-bar switches since 1967. In 1983, to switch the production from cross-bar to the digital exchanges, an agreement between the Turkish PTT and Northern Telecom was formed. The agreement included the initial import of the switches and some other inputs from Northern Telecom and a following process of technology transfer that was to make Netaş and PTT knowhow to produce and deploy them. Over the course of technology transfer, Netaş acquired some licenses and started to customize designs, including the locally developed rural digital exchange *Elif*.<sup>83</sup>

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82 The manual exchange (founded in the 1880s) was followed by crossbar (1950s) and electromechanical (1968) exchange technologies. These all became obsolete with the advent of the digital exchanges in 1977, which are superior in terms of capacity, speed, and voice quality. Saner, *Zenginler, Yoksullar ve Robotlar*, 104-107.

83 Raggett, “Technology Transfer,” 30. “Northern Telecom Gets Job with Turkish Agency,” *Wall Street Journal* (Eastern Edition, New York), July 1, 1987; Levent Şimşek, “Journey to Excellence,” *Management Review* 85, no. 11 (1996), 62. *Elif* is the Arabic counterpart to the letter alpha. As Turkey used the Arabic alphabet until 1927, the letter became iconic. In recent periods, *Elif* has become a popular name for baby girls.



In a similar fashion, Teletaş signed a license agreement with ITT/BTM<sup>84</sup> in July 1984. The core element of the license agreement was the right for Teletaş to produce digital exchanges designed by ITT/BTM in Turkey. The agreement between Teletaş and ITT/BTM also included capping PTT's import of devices included in the license from the licensor following an initial period, as well as the export of licensee. Agreement also included technical assistance and education program to be run by the Belgian government, provision of inputs of production of devices, easy loan options, and finally acquiring of between 20% and 35% shares of Teletaş by the licensor.<sup>85</sup>

The rivals of ITT/BTM were Siemens and Ericsson, two European electronics giants that had prolific commercial experience in Turkey. According to Yücel, the selection process implemented in the early 1980s was deeply influenced by the military's desire to leave behind the bad memories of the United States embargo over Turkey for Cyprus.<sup>86</sup> Yücel argues that IT&T's affiliate ITT/BTM also had the upper hand in the technical respect. The diplomatic concern for reviving trade also persisted among the Motherland Party (ANAP) cabinet, as Özal, the Transportation Minister Veysel Atasoy, Servet Bilgi,<sup>87</sup> and Başer were deeply involved in the process and favored ITT/BTM.<sup>88</sup> The mainstream newspapers of the period, which were hesitant about Özal's way of "finishing affairs," discussed gossip of corruption around the bidding process. Yücel states that the actual share of ITT/BTM in Teletaş should have been %19 as deemed in the license agreement; however, it was raised to %39 (a 26% stake for the PTT Yardımlaşma Sandığı, %9 for the PTT, and 5% for

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84 ITT/BTM was the Belgian affiliate of ITT Bell, the United States based telecommunications giant. ITT/BTM was acquired by the French company Alcatel later in 1987. Noam, *Telecommunications in Europe*, 181.

85 Beth Karlin, "Turkey to Buy ITT Phone Gear for \$300 Million," *Wall Street Journal* (Eastern Edition, New York), April 13, 1984; "Turkey Says It Will Award \$300 Million Phone Order to ITT --- Special to The Wall Street Journal," *Wall Street Journal* (Eastern Edition, New York), June 4, 1984.

86 Ceyhun, *Fikret Yücel'in Anıları*, 126.

87 A retired general and head of the PTT, he is known as Servet Paşa.

88 For details on the selection process, see Ceyhun, *Fikret Yücel'in Anıları*, 126-129.

Vakıflar Bankası) in a last-minute fait accompli of ITT/BTM and following the discretion of Özal and Bilgi.<sup>89</sup>

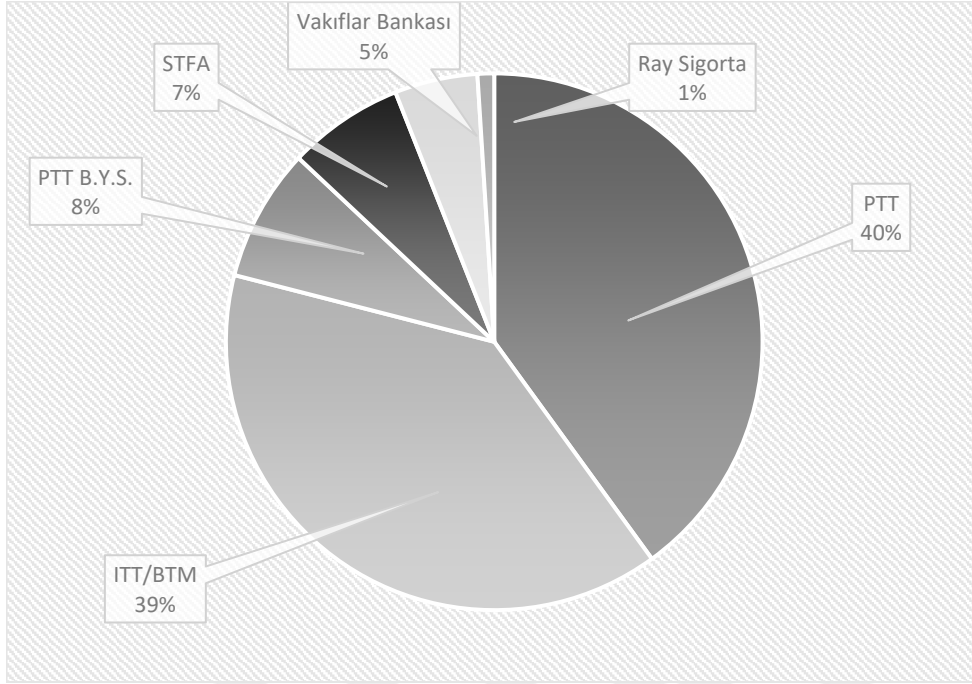


Figure 3.6 Capital composition of Teletaş after the license agreement with ITT/BTM. Source: Compiled by the author based on Ceyhun, *Fikret Yücel'in Anıları*, 132.

Teletaş and Netaş supplied the crucial components of digital exchanges as well as some transmission devices between 1985 and 1988, expanding their productive capacity. This conscious channeling of PTT demand to the domestic producers paved the way for local equipment designs – in other words, technology creation in addition to technology transfer. For example, local needs in rural areas of Turkey, where the population density contrasted the concentrated pattern of Western Europe and North America, encouraged Netaş to develop *Elif* and Teletaş to design *Levent* – digital exchanges with relatively

89 Ceyhun, *Fikret Yücel'in Anıları*, 132-135. According to a news report, the share was initially decided to be around 20-35%. “Telefon Santralleri İhalesini Amerikan ITT Şirketi Kazandı,” *Milliyet*, April 17, 1984. The agreement was signed on July 18, 1984. “ITT ile Telefon Santral Anlaşması Bugün İmzalanıyor,” *Milliyet*, July 18, 1984.

small capacities. In a similar way, both companies developed many components for transmission and end-user needs.<sup>90</sup>

Simko<sup>91</sup> was introduced as a third supplier of digital exchanges in 1987.<sup>92</sup> According to Yücel, Özal was forced to concede permission in response to the political lobbying of Helmut Kohl. Opposition from Teletaş and Netaş was precluded by an agreement with the PTT which limited market share of Siemens to 20% while 80% would be shared equally between Teletaş and Netaş.<sup>93</sup> The story makes sense considering that the OECD rescue package for Turkey was led by Germany.<sup>94</sup> As I express above, the great favour of the international community to Turkey was crucial for the early success of the structural adjustments of the 1980s, and international credibility was key to fueling a debt-dependent economy. Özal hesitated to upset Kohl over a simple trade issue as he was the leader of West Germany which could pull back diplomatically granted credibility.

Teletaş was also engaged in exports, in part to break the monopsony of the PTT which enjoyed an advantage by delaying payments and violating license agreements. However, the level of exports remained miniscule. Actually, it was too early to achieve an export success for the domestic electronics sector in Turkey. Turkish telecommunications policy was coordinated with manufacturing policy in the 1980s would have been a familiar case of the protection of an infant industry in the context of ISI. However, Turkey had adopted an outward-oriented development strategy monitored by the international community which limited the scope of its policy making. This factor came together with Özal's determination to encourage privatization and FDI. In addition, in the Ricardian trade view of Özal, there was no place for the protection of infant industries. Özal nevertheless helped Yücel and Teletaş to improve to a degree, possibly so they could supply crucial components of his investment leap.

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90 Ceyhun, *Fikret Yücel'in Anıları*, 178.

91 Simko is the name of the Turkish affiliate of the German equipment manufacturer Siemens.

92 Noam, *Telecommunications in Europe*, 268. Noam states that Iskra, a Yugoslavian manufacturer, provided some small, rural exchanges.

93 Ceyhun, *Fikret Yücel'in Anıları*, 187-90.

94 Henze, *Turkey and Atatürk's Legacy*, 93. For details, see section 3.2.

The telecommunications investment leap of Özal ended in 1988, and in 1989 telecommunications investments went back to their usual place among infrastructure investments. In general, infrastructure investments slowed due to the worsening condition of the public budget deficit.<sup>95</sup> In 1988 Özal decided to privatize Teletaş may be as a consequence of factors like ending of the urgent need of digital exchanges and other inputs and as a symbol of commitment to privatization, which had initially been announced as the crucial element of the structural adjustment but was not fulfilled. Another factor was improvement in opportunities to import inputs as a consequence of financial and current account liberalizations of the period that made the necessity of producing electronic inputs domestically obsolete.

In 1984, an extra-budgetary fund of the prime ministry was founded, namely the Mass Housing and Public Partnership Fund (*Toplu Konut ve Kamu Ortaklığı İdaresi*, TOKKOİ), was operating like a privatization agency in addition to its responsibilities of housing policies.<sup>96</sup> The first step in the privatization of Teletaş was that the PTT's share was handed over to TOKKOİ. The second step was a public offering of a 22% share in February 1988. Consequently, the majority was eventually captured by the foreign partner Alcatel. They gained 65% of the shares of Teletaş in 1993 following the privatization of the remaining public share for a payment of US\$21 million. Alcatel decided to disband the production and research activities of Teletaş and relegated the company to the role of local distributor.<sup>97</sup> The public stake in Netaş was also reduced from 49% to 21.25% following the block sale of 20% of the stake of Netaş to Northern Telecom for US\$26 million. This gave controlling power to

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95 John Owen-Davies, "Strong measures needed to help Turkish economy," *The Globe and Mail* (Canada), September 24, 1987.

96 PPP models like BOT agreements were employed in the 1980s, as means of by-passing legal procedures in areas in which the issuance of licenses and privatization in its modern sense were not legally possible. This is why a state agency called public-private partnership (*kamu ortaklığı*) was engaged with the privatization. By the way, the privatization of manufacturing facilities was legal, which paved the way for the true privatization of the public stake in Teletaş and Netaş.

97 For a detailed description of the Teletaş privatization period, see Ceyhun, *Fikret Yücel'in Anıları*, 187-94.

the Canadian partner, and the public offering of 7.75% of the stake in Netaş for US\$8.7 million was made in March 1993.<sup>98</sup>

Another significant turning point was the privatization of the provision of end-user devices (like telephone sets) in 1988.<sup>99</sup> Until 1988, telephone sets and other devices were sold by the PTT to its subscribers as a package with the line subscription at a high, constant price. These devices were predominately supplied by Teletaş and Netaş and were imported to some extent. This constant stream of demand for end-user devices from the PTT encouraged Teletaş to develop its own Turkish-designed telephone set, namely the *Hitit*.<sup>100</sup> However, the decision to privatize the end-user machines market stopped production of the *Hitit*. Liberalization of the end-user devices had a negative impact on domestic manufacturers as they had been the only legal supplier. Yücel argues that the decision was premature and it would have been possible to maintain PTT monopoly on end-user devices.<sup>101</sup> On the other hand, Başer publicly complained about domestically-produced telephone sets and argued that they did not meet their expectations of quality.<sup>102</sup>

It is generally stated that the 1988 public offering of the public shares in Teletaş was the first and only significant privatization in Özal's Turkey.<sup>103</sup> However, this public offering was not privatization in the technical sense, because Teletaş was already a legally private company albeit with public shares.<sup>104</sup>

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98 "Business Brief -- Northern Telecom Ltd.: Turkey Clears Expansion of Stake in Joint Venture," *Wall Street Journal* (Eastern Edition, New York), March 9, 1993; David Rudnick, "Fears over job losses inhibit state sales," *Euromoney Turkey Supplement*, April 1993, 17.

99 Noam, *Telecommunications in Europe*, 268.

100 *Hitit* is the Turkish word for Hittite. Hittite civilization was an ancient Anatolian civilization. The administration of Atatürk emphasized the Hittite roots of Anatolian society, in an effort to rupture the secular society from the Ottoman past.

101 Ceyhun, *Fikret Yücel'in Anıları*, 179-181.

102 Erkan Çelebi, "6 Milyar Liralık Nezaket!" *Milliyet*, April 14, 1989. Çelebi was surprised at the magnitude of the payment to the domestic manufacturer, amounted around TL6 billion. Çelebi argues that this was an exaggerated grace towards domestic manufacturers. This amount was equal to US\$2,85 million according to average exchange rate between US\$ and TL in 1989.

103 Arıcanlı and Rodrik, "An Overview of Turkey's Experience with Economic Liberalization," 1345; Nigel Ash, "Turkey: Privatisation Debut," *Euromoney Turkey Supplement*, May 1988, 30.

104 Waterbury, *Public Enterprise and State Power in Egypt, India, Mexico and Turkey*, 152.

It was actually the elimination of PTT control by making a public offering of a portion that was enough to make the foreign partner the biggest remaining stakeholder. It may be argued that the electronics companies of Europe and North America were not content to concede a share in market to an emerging player. The updating of telephone networks of core high-income countries was completed in the late 1970s. Transition economies and other emergent markets that remained were too valuable to share. The direct engagement of Kohl and the pressure of Alcatel representatives on Özal can be explained by these facts. Arguably, Turkey required financial patronage of core high-income countries and was powerless to resist these pressures. The government and Özal were also aware that the public offering was not a privatization in the fullest sense, but they were motivated to represent it as such to the international public to show their commitment to privatization. If the official definition of the public offering of 1988 is accepted as genuine privatization, the logical consequence would be that the partnership with ITT/BTM in 1984 was an earlier privatization of Teletaş.

## § 3.6 The Public Telecommunications Investment Leap: Its Magnitude and Contents

### 3.6.1 *Poor Condition of the Network before the Leap*

This subsection explains the poor condition of the public telecommunications network before the telecommunications leap. The problems of the network can be summarized as follows: The presence of long waiting lists, poor coverage, bad quality and slow service, and old and heterogeneous technologies in use.

#### 3.6.1.1 Waiting Lists, Lack of Coverage, Poor Service

Before the investment leap, complaints about public telephone service were folklore. One comes across many anecdotes on the persistent problems of the

Turkish telephone network in memoirs and novels,<sup>105</sup> as well as when listening to elderly Turkish people.<sup>106</sup> The most urgent problem was huge waiting list – which was even more populous than the actual subscriber base. 1.63 million people were in the queue in 1980 when the number of subscribers was just 1.15 million.<sup>107</sup> The average waiting time was around seven years.<sup>108</sup> In some extreme cases, the wait exceeded ten to even fifteen years.<sup>109</sup> The frustrating application process created an opportunity for intermediaries and commissionaires and created a black market for telephone subscriptions. The situation was similar for telex subscriptions. This had a two-sided effect in urban society:

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- 105 For example: “... yazılanenin köşesinde bir iletişim aracından çok, ağır, hantal ve uğursuz bir savaş aracı gibi duran iri kara telefon. Telefonun arada bir kendi kendine çalan zili, uyarmaktan çok korkuturdu; zift rengindeki ahizesi küçük bir halter gibi ağırdı, numarası çevrilince Karaköy-Kadıköy vapur iskelesinin eski turnikeleri gibi melodiyle gıcırđanarak söylenir, kimi zaman çevirenin istediđi deđil, kendi istediđi yeri bađlardı.” Orhan Pamuk, *Kara Kitap*, İstanbul: Yapı Kredi, 2015 [1990]], 33-34. English translation: “...a huge ungainly black phone that looked more like an artifact from a hopeless war than an aid to communication. From time to time, this telephone would ring of its own accord: the bell was shrill, ear-splitting; the pitch-black receiver was as heavy as a dumbbell; when you dialed a number, it creaked to the same melody as the old turnstiles for the Karaköy–Kadıköy ferry; sometimes, instead of connecting you to the number you wanted, it connected you to whatever other number it happened to prefer.” Orhan Pamuk, *The Black Book*, trans. Maureen Freely (London: Faber and Faber, 2011), 47-48.
- 106 Online archive of TRT provides a video called “Telefon Şart.” This video summarizes the popular complaints of older generations with a sense of humor. <https://www.trtarsiv.com/izle/128454/telefon-sart/> accessed on December 1, 2017. Also see TRT documentary series “İletişimin Dünü Bugünü,” 2002. Bekir Erel, “İletişimin Dünü Bugünü,” documentary video, thirteen episodes, aired in 2002 (Ankara: TRT, 2002). <https://www.trtarsiv.com/izle/120411/iletisimin-dunu-bugunu-1-bolum/> accessed on December 1, 2017.
- 107 İlhan Kesici, “Telekomünikasyon ve Geleceđi.”
- 108 Noam, *Telecommunications in Europe*, 267.
- 109 An example was a complaint by Tuđrul Sarsılmaz from the Bakırköy district of İstanbul: “1987 yılında ‘reklamla telefon dađıtacađız’ diyorlar. Önce benim 11 yıldan beri beklediđim telefonumu versinler de ondan sonra konuşsunlar.” “Rahatlama Göremedik,” *Milliyet*, September 10, 1986. English translation by the author: “They say they are going to advertise to sell subscriptions in 1987. First they should deliver me the telephone service for which I have waited for 11 years, then they can talk.”

There was social unrest among ordinary people about poor service and there was commercial unrest among business people about the lack of access.

One can argue that Turkish urban society was fortunate to have the opportunity to wait in the telephone subscription queue, given that more than 70% of villages had no fixed telephone network coverage at all.<sup>110</sup> The fortunate minority with telephone access had to suffer the poor service in the form of wrong connections and parasite voices in local calls. For long distance calls, it was necessary to go to a post office and wait for hours. One would choose among the archaic call types – namely ordinary (*normal*), urgent (*acil*), and lightning (*yıldırım*) – pay extra for the fastest service, *yıldırım*, and still wait for hours.<sup>111</sup>

### 3.6.1.2 Transmission and Exchanges

Telecommunications investments may be grouped into two categories as the telephone exchange investments and transmission investments. Telephone exchanges are mechanisms that collect the lines of subscribers and connect them to each other. They are concrete machines located in central exchange buildings (wire centers in the United States English, *santral* in Turkish is used for both the machine and the building), like the Tahtakale building of the the PTT. Transmission is the connection between telephone machines and exchanges as well as connection between exchanges. This transmission may be realized through overhead lines (*havai hat*), cable lines, and radio links.

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110 John Williamson, “Turkey Heads into the Next Decade with a 21st Century Telec,” *Telephony*, December 26, 1988, 20.

111 The classification of long distance calls as such was generally perceived as an absurdity specific to Turkey, and it had been ironized that so-called “lightning” calls took hours to connect. However, this classification was the remnant of a former international standard rather than an awkward use specific to Turkey. French-language historical statistical reports of the International Telecommunications Union include data on the classification of long distance calls (*traffic interurbain*) under the headings *ordinaires*, *urgentes*, and *éclairés*, which are the French counterparts to the Turkish words *normal*, *acil*, and *yıldırım*. The category survived even after the Second World War when the language of the reports was converted to English. For the reports, see the website of the ITU: <http://www.itu.int/en/history/Pages/HistoricalStatistics.aspx> (accessed 08.08.2016).



As the main problem was the inadequate capacity of existing telephone exchanges, installing digital exchanges in the public telephone network was a remedy. Digital exchanges are electronic devices that are smaller in volume and perform better than electromechanical mechanisms in terms of speed and capacity.<sup>112</sup> In addition the quality of the service increases and parasit noises and other problems are eliminated. Another fact that contributed to the urgency of deploying digital exchanges was the necessity of connecting the national network with European networks that were already digitized. There was a lucrative amount of investment in digital exchanges, especially in 1983 and between 1985 and 1988.<sup>113</sup>

### 3.6.1.3 Technical Background of the Telecommunications Bottleneck

What were the technical causes of the lack of access and waiting lists? The two main problems were the low capacity of telephone exchanges and the bad conditions of the urban transmission network. Outdated manual exchanges and electromechanical exchanges with limited capacity were still in use. The heterogeneous outdated exchanges were in use in the Turkish telephone infrastructure before the investment leap. Yücel described the telephony network as an operating museum of telecommunications history.<sup>114</sup> Even in 1980, 250 thousand of the total exchange capacity of 1.3 million were archaic manual exchanges. The total network capacity was 2.1 million. However, the number of

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112 A useful video that shows the rewiring of a digital exchange: <http://www.youtube.com/watch?v=x9MKI-3an54> accessed 04.01.2015. Compare it to an electromechanical exchange: [https://www.youtube.com/watch?v=YpUy1Ra\\_WNo](https://www.youtube.com/watch?v=YpUy1Ra_WNo) accessed 04.01.2015.

113 According to the annual investment reports of the SPO, digital exchange investments as a fraction of total public investments was 1.14% in 1979, 1.19% in 1981, 1.81% in 1982, 4.19% in 1983, 3.02% in 1984, 3.74% in 1986, 4.81% in 1987, and 7.11% in 1988. Digital exchange investments as a fraction of GDP was 0.07% in 1979, 0.11% in 1981, 0.16% in 1982, 0.36% in 1983, 0.28% in 1984, 0.38% in 1986, 0.46% in 1987, and 0.49% in 1988. Data are not available for 1980 and 1985. The figures do not include telephone exchange investments for internal telephone networks of state agencies and SOEs, which were also growing. The quantities are limited to telephone exchange investments in the public telephone services of the PTT.

114 Ceyhun, *Fikret Yücel'in Anıları*, 30 and 42.

subscribers was well below the capacity, namely 1.15 million. Kesici explains that the inability to realize the potential of the network was a consequence of the inadequate urban transmission network. Transmission investments were not being coordinated with urban growth. Another factor that worsened the situation was the PTT's inability to retain qualified personnel. Therefore, to realize the potential of the network, it was necessary to increase the exchange capacity and urban telephone transmission network.<sup>115</sup>

### 3.6.2 *Magnitude of Investments*

#### 3.6.2.1 Planned Magnitude

In the meeting of the Second Economy Congress of Izmir in 1981, Kesici presented a detailed projection of telecommunications investments.<sup>116</sup> It was calculated that demand for telephone subscriptions would rise to 11 million by 1995. To fulfill that demand and eradicate the waiting list, it was necessary to invest a great amount. To increase the capacity of the fixed telephone network to 11 million by 1995, an investment of around US\$11.3 billion was needed.<sup>117</sup> Similarly, to increase the telex capacity from 6.3 thousand to 63 thousand, around US\$0.3 billion was needed. An annual average of US\$0.8 billion was to be reached to complete the expansion project. Kesici informed that a marginal cost of US\$1,000 was expected per additional subscription to the fixed line network as the greater proportions in this cost were of the short-range transmission and the telephone exchanges. (See figure 3.7.) As I explain above, one of the main causes of the long wait lists were the inadequacy of the urban transmission networks. This distribution of costs among equipment of investment indicates that the need for an urban network was getting more significant and expensive. The other main issue, namely low capacity and outdated

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115 Kesici, "Telekomünikasyon ve Geleceği."

116 Ibid.

117 The calculated magnitude was TL1.260 billion in 1981 prices. I converted that amount into dollars by using the annual average of the foreign exchange rates in the data of the WB, which come out to US\$1 = TL110 in 1981. This is still open to question, as the official exchange rate used in the calculations of the SPO fluctuated in 1981 from TL89 for plans to TL110 for realization.

telephone exchanges was to be remedied by the second largest cost branch. The proportions of the long-range transmission, land and buildings, and end user machines were respectively 20%, 13%, and 3%.

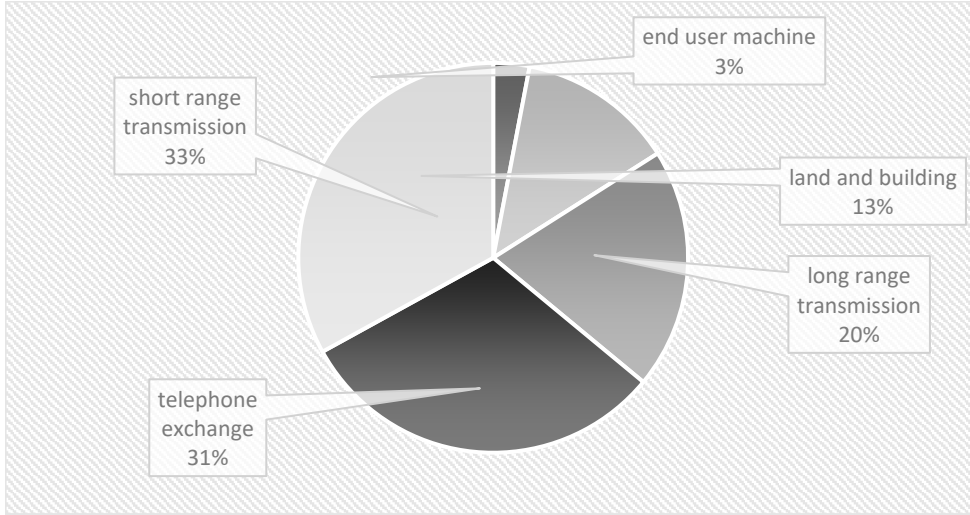


Figure 3.7 Shares in marginal cost of a new fixed telephone line. Source: Compiled by the author based on Kesici, “Telekomünikasyon ve Geleceği.”

### 3.6.2.2 Source of Data: Investment Reports of the SPO

One of the main data sources concerning telecommunications investments are the annual investment programs (*yatırım programı*) and investment reports (*yatırım raporu*) of the SPO.<sup>118</sup> The investment programs are richer in detail than the investment reports. The investment programs include the name and number of the individual investment projects, sometimes the location of the project, the estimated term of completion, the allocated budgets for the project, and the foreign exchange portion of the allocated budget. However, the allocations are unreliable given the high rates of inflation and the mismatch between the projections and their realization. The investment programs are uniform and include similar if not identical categories of investment, allowing one to track a specific category of investment as well as individual projects. On

118 For investment programs from 1963 to the present: <http://www2.kalkinma.gov.tr/kamuyat/yatirim-progarsiv.html> For investment reports from 1979 to 2012: <http://www2.kalkinma.gov.tr/kamuyat/gerceklesme.html>. Accessed 11.08.2016.

the other hand, the investment reports are more reliable in terms of magnitude. They indicate extra allocations, actual expenditures, and rates of realization of allocations of public investments. However, the magnitudes of investments are not classified by individual investment projects. Instead of individual projects, the investment reports classify investments under categories that are unclear and heterogeneous. The investment reports also indicate the actual annual investments of individual SOEs and state institutions.

When measuring public investments in the telecommunications sector, there are difficulties as a consequence of the attributes of the reports explained above. The telecommunications sector was not one of the uniform categories of programs and reports which have a consistent slot annually. Some investment reports (1979, 1981, 1982, 1983, 1984, and 1986) include the category of telecommunications (*telekomünikasyon*). However, the boundaries of that category are not clear. It may not include some investments that should clearly be registered under the category of telecommunications. Even if the problem about boundaries is omitted, it is not possible to derive a trend from the category of telecommunications because of its absence in the documents in many years.

Another way of measuring public investment may be to trace the communications (*haberleşme*) category in the annual investment reports. It is a subcategory of transport (*ulaştırma*) category.<sup>119</sup> However, it does not consist solely of telecommunications. The main subcategories of communications in the 1980s were the PTT (which until 1995 included postal and telephony operations together), TRT (the official radio and television station, which became a separate category in the reports starting in 1987), and a small unit of the Ministry of Transportation. It is possible to independently trace the communications investments of the PTT, and it makes sense to conduct an analysis of the trend. Two aspects of the trend should be considered, namely the magnitude in terms of dollars which gives a general idea about the amounts

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119 In the ministerial structure of the Turkish state, entities engaged with communications services are organized under the Ministry of Transportation. This template has been reproduced in development reports that organize communications as a subcategory of transportation. This indeed indicates the low priority placed on telecommunications, as investments in transportation overshadowed them.

and as a fraction of GDP which indicates the relative weight in the domestic economy. The analysis covers the trend from 1979 to 1994, as this period includes two strategic turning points the shift from ISI to an outward-oriented development strategy in 1980 and the decision to separate and privatize the telephone operations of the PTT in 1994.

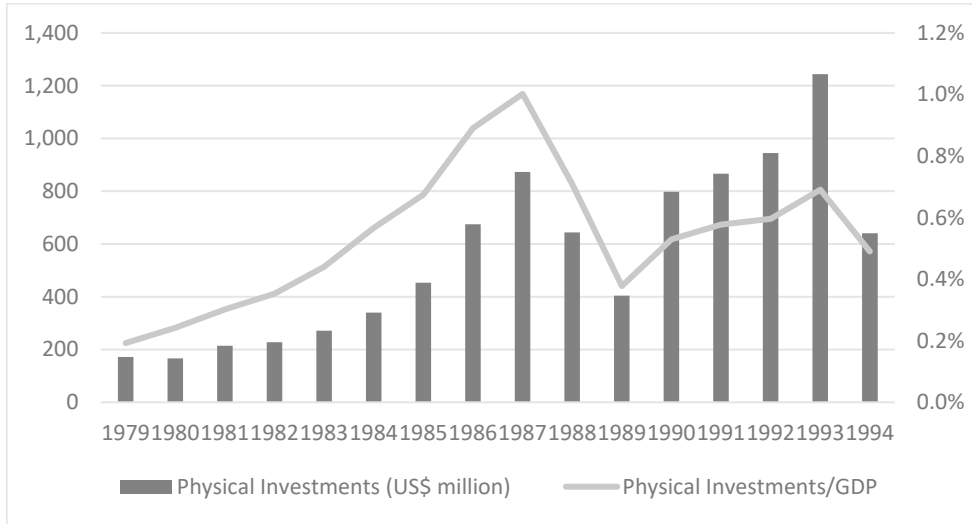


Figure 3.8 Communication investments of the PTT, 1979-1994. Source: Compiled by the author based on annual investment reports of SPO.<sup>120</sup>

The total amount invested in telecommunications was US\$9 billion between 1979 and 1994. The leap period between 1984-1988, US\$3.8 billion of investments were realized. The annual amounts invested in the early 1990s were as lucrative as during the leap period, and investments in 1993 exceeded US\$1 billion. However, in terms of a percentage of GDP, figure 3.8 demonstrates that

120 The exact locations of the data I use to derive the trend are dispersed in the annual investment reports (*Kamu Yatırım Raporu*, KYR) of the SPO. DPT, *Kamu Yatırımları Raporu 1979* (Ankara: DPT, 1980), 31; *KYR 1980*, 29; 1981, 42; 1982, 40; 1983, 40; 1984, 36; 1985, 43; 1986, 40; 1987, 44; 1988, 46; 1989, 28; 1990, 70; 1991, 65; 1992, 65; 1993, 65; 1994, 53. For 1985, no data on the communications investments of the PTT is provided in the report. For this year, I clipped the total amount of PTT investments in 1985. The rate of reduction was calculated according to the average percentage of difference between total investment and the communications investment, which was a miniscule 0.9%.

the investment leap period was more impressive.<sup>121</sup> These percentages of GDP are also larger than the private investments in the 1990s and 2000s, which I explain in chapter 4.

Another significant point to be noted is that the only period in which communications investments exceeded highway (*karayolları*) investments is the four-year period between 1985 and 1988. Except in this period, highway investments were the champion subcategory of public transportation investments.<sup>122</sup> This prioritization of public highway investments is linked to the prioritization of the construction sector among private service sectors and its role in Turkish economic growth and rent sharing. An alternative scheme of development that coordinates communications infrastructure investments and service provision with domestic electronics manufacturing was not on the agenda of the government except in the short period between the early 1980s and the privatization of the public shares of Netaş and Teletaş.

To complete the picture, a detailed list of telecommunications investment projects derived from the investment programs of SPO is useful. As mentioned above, annual investment programs include lists of individual investment projects. Under the category of transport, there are annual lists of communication investment projects of the PTT. Such lists are useful to understand the range of investment activities, their locations, and the foreign exchange portion of their financing. However, as mentioned above, the magnitudes provided in the investment programs are allocations and do not shed light on actual expenditures.

### 3.6.3 *Financing the Telecommunications Leap*

The early manner in which the telecommunications infrastructure development was run was a hybrid financing model. This model included redirection

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121 It is possible to use alternative data sets to derive the trend in telecommunications investments. In this respect, I compare the trend derived from investment reports with the data sets of the International Telecommunications Union and the *Haberleşme Özel İhtisas Komisyonu Raporu 2001*. Despite small differences in the magnitudes proposed, the peak years from 1985-1988 are clearly the pivotal period of telecommunications investments.

122 For a comparison of the magnitudes of communication and highway investments, see Tablo 12 in *KYR 1985*, 22; Tablo 12 in *KYR 1986*, 19; Tablo 7 in *KYR 1987*, 8; Tablo 7 in *KYR 1988*, 8.

of the profits of the telecommunications incumbent into investments, the allocation of some other public budgetary funds, and the drawing of credit from domestic and international banks. The actual debtor was the government which owned the PTT. That created an additional guarantee for the suppliers of funds. However, Turkey was still not reputable in terms of credibility, and the memory of the financial collapse in 1977 was still alive. Therefore, planners were aware of that the foreign credit component of the financing of telecommunications investments was subject to limits. Equipment provisions from domestic manufacturers Netaş and Teletaş was a remedy in this respect, as equipment purchases from these firms was paid in TLs. Construction and simple transmission components were also easy to lease to domestic companies and was paid in TLs. According to the news report of Williamson in the journal *Telephony*, which provides one of the best narratives of the Turkish telecommunications leap, “between 40% and 50% of the PTT’s finance [was] derived from its own revenues, between 30% and 50% from domestic loans, and between 10% and 20% from foreign credits.”<sup>123</sup> According to Henze, the telecommunications leap “had little international publicity and failed to attract international financing; nevertheless it proved possible to carry it out with domestic resources.”<sup>124</sup>

The annual investment plans and reports of the SPO also include details on the foreign money component of public investments. Therefore, in this subsection I utilize these documents as sources ascertain the foreign credit financing of public telecommunications investments in the 1980s. When one investigates these sources, it is clear that foreign financing was necessary for imported digital exchanges and some advanced transmission equipment like coaxial cables and radio links. In the early 1990s, investment in a Turkish satellite project also necessitated foreign financing.

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123 Williamson, “Turkey Heads into the Next Decade with a 21st Century Telec,” 24.

124 Henze, *Ataturk’s Legacy*, 117.

The imported equipment was a relatively small component of the investment when compared to the imports of era of privatization. Figure 3.9 indicates the proportion of foreign money in the communications investments of the PTT between 1979 and 1994.<sup>125</sup>

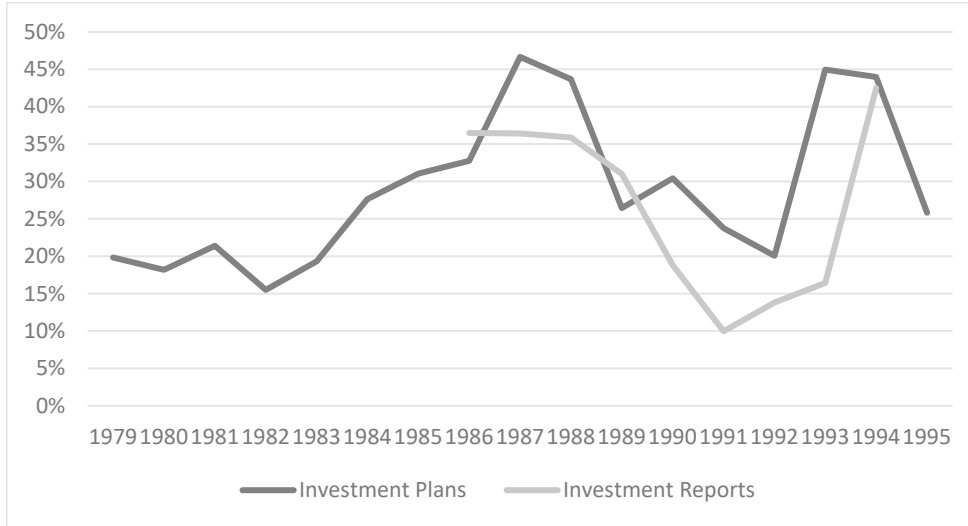


Figure 3.9 Foreign exchange proportion of communication investments of the PTT, 1979-1995. Source: Compiled by the author based on annual investment reports and plans of SPO.

The highest proportion was in the period between 1985 and 1988 – during what I call the telecommunications leap – as a consequence of the technological updating of the network described above. The discrepancies between investment plans and the investment realization reports is a consequence of the rate of inflation and the inelastic foreign exchange allocation mechanism of the

125 For the proportion of foreign exchange and foreign credits in the communications investment expenditures of the Turkish PTT in the period 1979-1994, see the annual public investment plans of the SPO (*Kamu Yatırım Programı*, KYP). DPT, *Kamu Yatırım Programı 1979* (Ankara: DPT, 1980), 286; 1980, 276; 1981, 249; 1982, 237; 1983, 243; 1984, 435; 1985, 371; 1986, 200; 1987, 232; 1988, 150; 1989, 150; 1990, 153; 1991, 101; 1992, 94; 1993, 125; 1994, 120, 1995, 117. Also see the annual public investment reports of the SPO (*Kamu Yatırım Raporu*, KYR). DPT, *Kamu Yatırım Raporu 1986* (Ankara: DPT, 1987), 25; KYR 1987, 25; 1988, 25; 1989, 28; 1990, 70; 1991, 65; 1992, 65; 1993, 65; 1994, 53. The annual investment reports of the SPO before 1986 unfortunately do not include data on foreign credits. Therefore, I use the annual investment plans of the SPO as complementary source that includes details every year.



government. This foreign exchange component included the sources of the government as well as the foreign credits. Figure 3.10 singles out foreign credit:

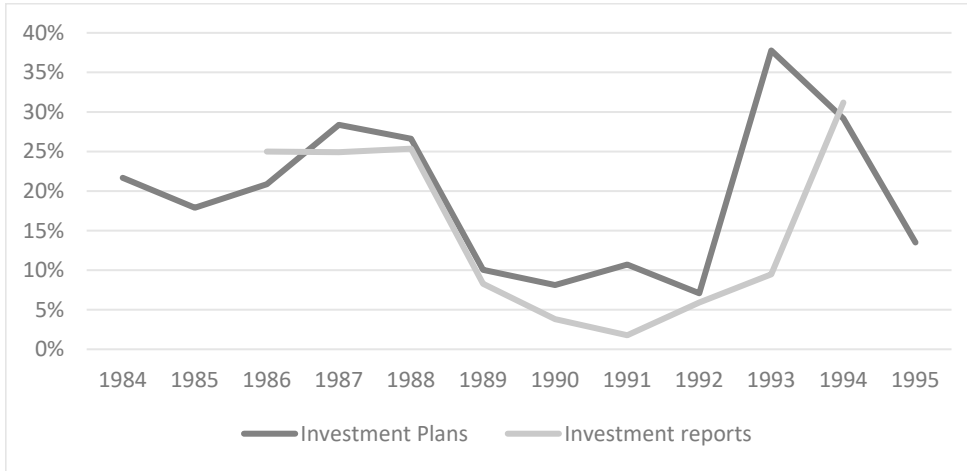


Figure 3.10 Share of foreign credits in the financing of public telecommunications investments, 1984-1995. Source: Compiled by the author based on annual investment reports and plans of SPO.

It is also possible to calculate the magnitude of the actual foreign credit issued for the telecommunications leap by using data supplied in the investment reports.<sup>126</sup> The years that do not take place in figure 3.11 are due to the missing data in certain years:

126 Yılmaz provides a similar trend with the trend of the investment reports in his work, by referencing International Telecommunications Union: 1985 22%, average of 1986-1988 25%, 1989 8%, average of 1990-1991 2%, 1992 5%, 1993 9%, 1994 34%. Yılmaz, “Türk Telekomünikasyon Sektöründe Reform,” 39. The series I use does not provide datum for 1985 and it is 32% for 1994. Other data are consistent with my trend.

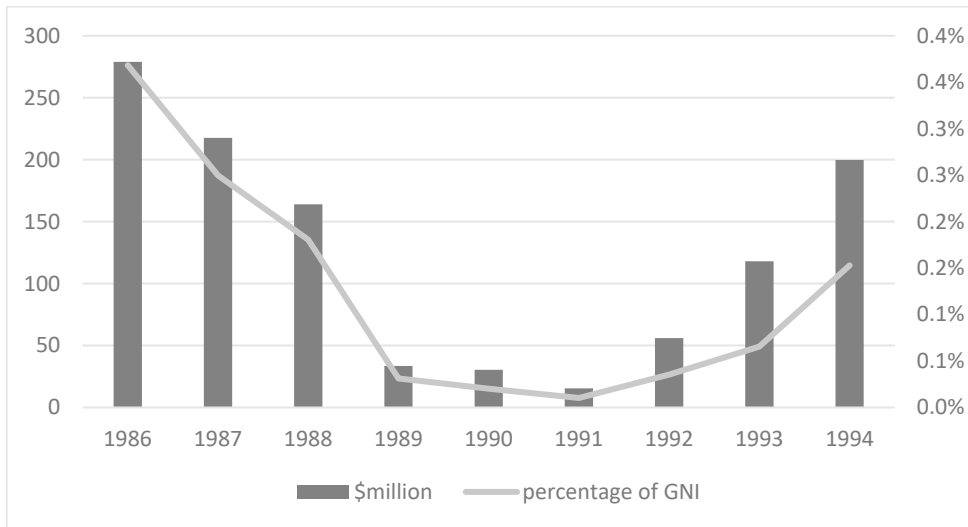


Figure 3.11 Foreign credits issued for public telecommunications investments, 1986-1994. Source: Compiled by the author based on annual investment reports of SPO.

Foreign credits issued for the communication investments of the PTT peaked during the leap years in terms of million dollars. The peak is more noticeable when calculated as a fraction of the GDP. The high amount of foreign credit at the peak started to shrink by 1988 and 1989, in part because the foreign debt of the Turkish government reemerged as an economic issue (as I explain in section 3.2) in part because the goals of the investments were accomplished to an extent, and in part due to commitment to liberalization. The limitations on the public investment directed planners towards a privatization agenda, and they proposed a privatization strategy to secure lucrative foreign private financing to be used by future private operators. Bureaucrats like Kesici and Başer legitimized the privatization of the telecommunications incumbent in terms of financing.<sup>127</sup> This line of reasoning by Turkish bureaucrats of the time was in accord with the initial reasoning for privatization in peripheral middle-income countries, as I explain in detail in subsection 2.2.2.

127 Kesici, "Telekomünikasyon ve Geleceği." Başer explained Williamson that: "What we expect to achieve from privatization is in the area of financing. We believe that the problem of financing will be much easier." Williamson, "Turkey Heads into the Next Decade with a 21st Century Telec," 25.

These trends provide the basis for my analysis comparing the financing schemes of telecommunications investments of the 1980s and those of the period that includes the late 1990s and 2000s. The analysis similarly concludes with a comparison of the total investment amounts. The absolute magnitude of the credits issued seems small relative to amounts during the privatization period; however, they are significant as a fraction of the GDP and were focused on the physical development of the infrastructure. These series also indicate that the telecommunications leap was predominately financed using domestic resources, which clearly contrasts with the privatization era.

#### 3.6.4 *Introduction of New Telecommunications Services*

The transformation of the telecommunications sector in response to increasing demand from business had two dimensions. The first was the increase in quantity of demand and the expansion of the network. The second was the increase in the demand for various services. This second dimension was answered with the introduction of new services. The Turkish telecommunications leap, too, went beyond the expansion of the fixed telephone network and included the introduction of new services.

During the public-led investment period, in addition to exchange and transmission investments in the fixed telephone network, there were investments to expand the telex network, working on a similar logic as with the fixed telephone network. The telex network was especially significant to revive the commercial activity as the demand for subscriptions was predominately from private firms. The investments remedied the waiting lists for telex, too.

Similarly, automobile telephones were introduced in 1986 in an agreement with Nokia Mobira of Finland.<sup>128</sup> This was another version of the wireless-radio telephone service, the modern-day generic version of which is the cellular telephone system, which was called the Pan-European System in the 1980s. That is why the mobile telephony subscription series of Turkey in databases starts in 1986 long before the introduction of GSM900 in 1994. Before the introduction of GSM900 operators the PTT had a total of 84 thousand mobile

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128 Williamsom, "Turkey Heads into the Next Decade with a 21st Century Telec," 25, 28.

subscribers, a miniscule penetration rate of 0.14%, in 1993.<sup>129</sup> The pager, a short message system that utilized the radio telephone network, was also introduced.

Another crucial landmark was the introduction of cable television in 1989.<sup>130</sup> However, the penetration of cable television never expanded beyond high-income districts in Turkish metropolises. Another significant public investment in this respect was the Turkish satellite project. The satellite project, which was initiated in 1989, created great excitement and expectations. However, its first launch crashed in January 1994. The was accomplished with a successful launch in August 1994. In 1996, 2001, 2008, and 2014, four additional satellites were launched by Türksat, which detached from Türk Telekom in May 2001.<sup>131</sup>

In addition to telecommunications investments, broader segments of communications received significant public investments. Television investments expanded the coverage of color television broadcasting of the official government station, TRT, and more specialized stations were introduced like TRT-2, TRT-3, and TRT-GAP. Public investments were made public over TRT, in dedicated programs like “*İcraatın İçinden*” and directly in speeches by Özal. In this respect, the video broadcast of Özal and his wife Semra Özal’s inaugural drive over the Fatih Sultan Mehmet Bridge<sup>132</sup> in 1988 was iconic.<sup>133</sup> In addition to investments in official stations, the first private television station – Magic Box Inter-Star was founded by the Uzan family – was followed by an

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129 WB Development Indicators.

130 Yılmaz, “Türk Telekomünikasyon Sektöründe Reform,” 10.

131 Aybar, Güney, Süel, “Privatization and Regulation in Turkish Telecommunications: A Preliminary Assessment,” 20.

132 The second to be built across the Bosphorus.

133 For a copy of the video, see <https://www.youtube.com/watch?v=E8kA-XroDPo> , access 31.08.2016. Özal says: “Hadi bir kaset koy da şöyle bir neşelenelim Semra hanım.” English translation: “Let’s play a cassette to entertain us, Ms. Semra.” This conversation of Özal with his wife Semra Özal while driving over the new bridge was recorded, broadcast on television and became part of Turkish popular culture in the 1980s. This broadcast was an iconic symbol of the policy priority paid to infrastructure investments.

enterprise of Özal's son Ahmet Özal, Kanal 6. These channels were broadcast using foreign satellites, provoking much discussion of their legal status.<sup>134</sup>

It is well-known that private economic activity in the communications sector revived and flourished in the 1980s. However little attention is paid to the role of public investments in these areas. The revival of the private sector in these realms was in part indebted to the increase in public investments.

### 3.6.5 *Immediate Pay-back of Leap: Growth in the Magnitude and Scope of the Network*

The shift of the Turkish developmental strategy from import substitution industrialization to outward-oriented growth was reflected in public investments, the priority of which switched from expensive manufacturing projects that reward in long term to infrastructure projects that reward in short term. In this regard, public telephone investments in the 1980s were a landmark success. The national fixed telephone network grew exponentially in size and scope in a short interval of 5 to 10 years.

The payback in terms of the magnitude of the subscriber base was quick and impressive. The initial number of subscribers in 1980 barely exceeded 1.1 million. It hardly climbed to 2.2 million by 1985 which was the start of the telecommunications leap. In 1986, it jumped to 2.7 million, in 1987 it reached 3.7 million, and in 1988 it exceeded 4.9 million. Following this take-off from 1985 to 1988, a tempo of some 1 million new subscribers every year continued until the early 2000s. Figure 3.12 indicates the magnitude and annual growth of the subscriber base:

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134 In addition to confusion over the legal status, accusations of corruption emerged. Başer was accused of directing PTT advertising to Kanal 6.

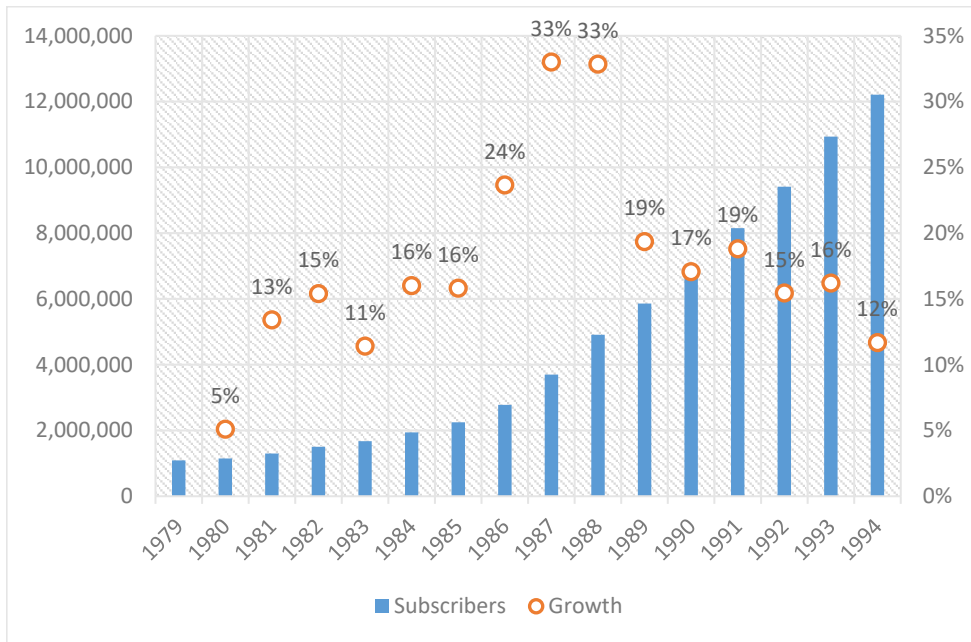


Figure 3.12 Expansion of fixed telephone subscriber base, 1979-1994.  
Source: Compiled by the author based on WB Development Indicators.

Figure 3.13 demonstrates that the period I call the telecommunications leap, between 1985 and 1988, brought about the highest rates of growth which exceeded 30% in 1987 and 1988. The ensuing years faced a slowdown in growth due to cuts in investments, a fact I explain in subsection 2.6.2. The leap also boosted the expansion in terms of penetration, from 3% in 1979 to 9% in 1988 to 21% in 1994.

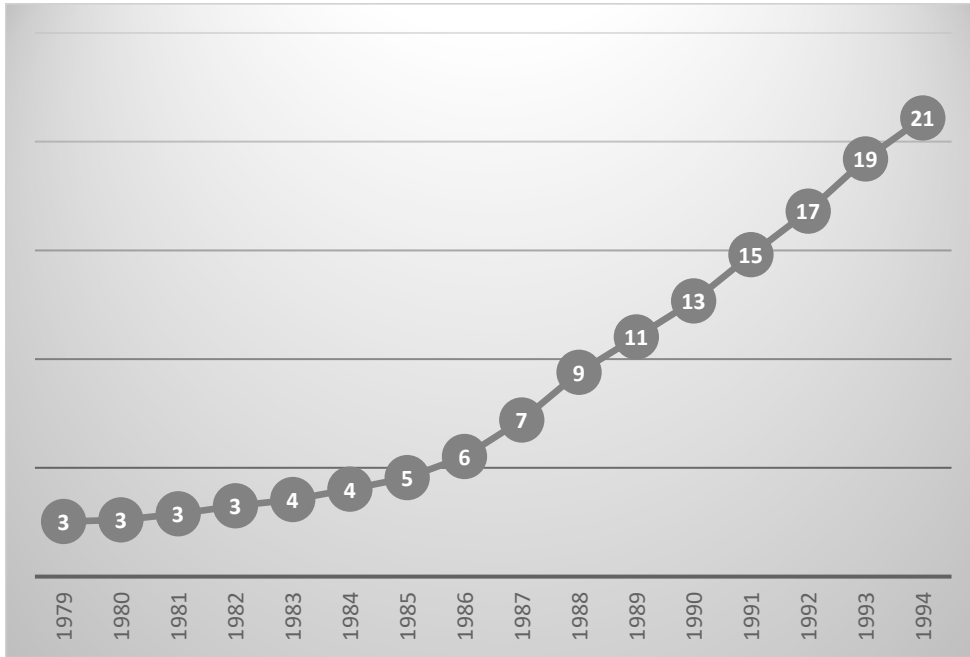


Figure 3.13 Fixed telephone penetration in Turkey (%), 1979-1994. Source: Compiled by the author based on WB Development Indicators. (The numbers are rounded).

The expansion of the network was also a geographical expansion, especially to rural areas of Turkey. Despite the fact that the urban population had exceeded the rural population in Turkey in the first half of the 1980s,<sup>135</sup> a vast population was still based in small towns and villages. One of the goals of the leap was to provide access to the telephone network remote rural settlements. As a consequence of the investments, the percentage of villages without access declined from 70% in the early 1980s to 28% in 1988.<sup>136</sup> Significant progress was also made vis-à-vis the partial elimination of waiting lists, and the wait time dropped to just a few days in metropolises like Istanbul and Ankara and to a few months in more remote areas. The queue declined from 2.1 million people in the early 1980s to 1.3 million by 1988. However, as a consequence of the slowdown of investments, it climbed to 1.9 million in 1990.<sup>137</sup>

135 *WB Development Indicators*.

136 Noam, "Telecommunications in Europe," 268.

137 *Ibid.*

### § 3.7 International Comparison of the Turkish Telecommunications Leap

The peak of the expansion of the Turkish fixed telephone network was the decade between 1985 and 1995 when the penetration rate rose from %4.55 to %22.3, a change of +17.75 points. Following the peak period, penetration started to deteriorate by the second half of the 1990s, as a consequence of the sharp decline in public investments and the substitution effect of GSM telephones.

Some may argue that this expansion was not specific to Turkey and was either the sole outcome of technological advancement or a general inclination of peripheral middle-income countries to invest in telecommunications. From this point of view, the expansion of telecommunications investments and consequent rise in the rates of penetration are not product of the factors explained above, but rather a global trend. However, comparative analysis of WB penetration data (figure 3.14) proves that the expansion in Turkey was rare and worth academic interest.

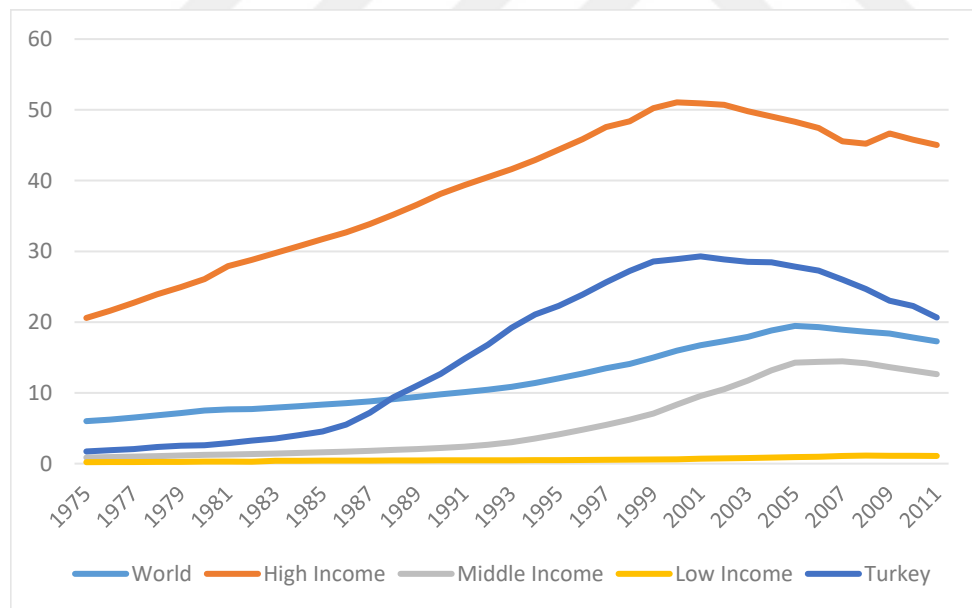


Figure 3.14 Fixed telephone penetration (%): World, income groups and Turkey, 1975-2010. Source: Compiled by the author based on WB Development Indicators.



Figure 3.14 demonstrates that until the mid-1980s, the Turkish trend was slightly higher relative to middle-income countries. By the second half of the 1980s the Turkish PTT achieved a take-off, which detached the Turkish trend from that of the middle-income group in an attempt to catch up with high-income countries.

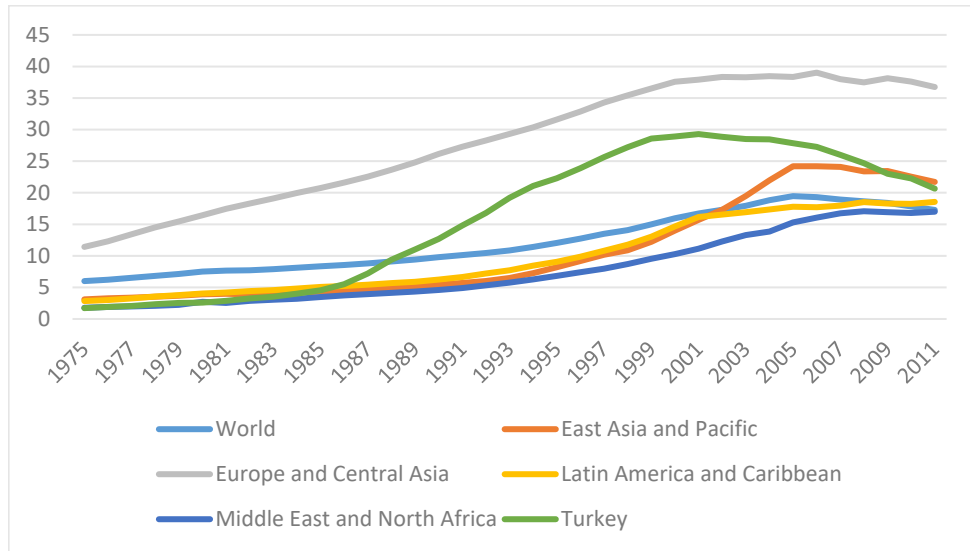


Figure 3.15 Fixed telephone penetration (%): World, regions, and Turkey, 1975-2010. Source: Compiled by the author based on WB Development Indicators.

Figure 3.15 demonstrates that the trend in Turkey was far below that of “Europe and Central Asia,” a geographical category that include Turkey, until the mid-1980s. Then in the late 1980s and early 1990s, increase was higher than all other regions. The Turkish take-off of the expansion of the fixed telephone network is clearly observable among regional categories of the WB. However, this acceleration was insufficient to catch up, as other countries in the region also extended their network capacities.

To accurately evaluate the Turkish leap in the 1980s and 1990s, I offer a categorization of various national efforts of expansion of network as *take-offs* and *extensions*. I define “the take-off of the expansion of network” as a simultaneous impressive growth in the rate of penetration and the subscriber base – that is, when a national network rose from low levels of penetration to nationwide levels. Here I adapt a concept of economic development studies. The

concept “take-off” was employed by Rostow to explain the development patterns of so-called underdeveloped countries. The takeoff is a stage of development, between “traditional economies” and “industrial economies,” marked by swift transformations and huge growth. These swift moves are necessary to transform the identity of the country – a shock treatment that shakes and demolish the persistent structures of an “underdeveloped” country.<sup>138</sup> A similar concept is the “big push” of Rosenstein-Rodan, which explains that in the situation of a population boom (which was the case for “underdeveloped” countries), huge expansions in heavy industrial production is necessary to push the level of the growth of the economy beyond the growth of the population.<sup>139</sup> In a similar way, it was necessary to vastly expand subscriber bases to push the level of penetration for peripheral middle-income countries in the third stage of demographic transition when birth rates were much higher than death rates. Thereby the penetration rate data should be complemented by data on the number of subscribers to catch and exceed the growth of population.<sup>140</sup>

The Turkish case is an example of a take-off, as the penetration percentile that started in the single digits and jumped some 17 percentile points was coupled with 484% growth in the subscriber base in a decade between 1985 and 1995. An analysis of WB data, reveals other take-offs that are comparable to the Turkish case, namely Japan in 1965-1975, South Korea in 1975-1985, and China in 1995-2005.

### 3.7.1 1965 to 1975

The most impressive take-off in the period between 1965 and 1975 was that of Japan.<sup>141</sup> The base of Japanese telephone subscribers rose more than fourfold,

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138 Walt Whitman Rostow, *The Stages of Economic Growth: A Non-Communist Manifesto* (Cambridge: Cambridge University Press, 1960).

139 Paul Narcyz Rosenstein-Rodan, “Problems of Industrialization of Eastern and South-Eastern Europe,” *The Economic Journal* 53 no. 210/211 (1943): 202-211.

140 *WB Development Indicators*.

141 In choosing preeminent examples of network expansion, I omit miniscule countries as small investments are sufficient to penetrate their territories and reach their populations. I derive the expansion data by calculating the difference between the percentiles of the beginning and ending years of the periods. Countries with missing data are also omitted.

from 7.4 to 32.3 million, under the purview of the state-owned telecommunications incumbent, Nippon Telegraph and Telephone (NTT). Greece achieved an increase of 1.2 million and Israel 425 thousand, which are high proportions of their respective populations. Germany also impressively expanded its network and added around 8 million new subscribers in the hands of the state-owned monopoly, the Deutsche Bundespost (DBP). There were significant expansions in Finland, Switzerland, Sweden, Netherlands, Denmark, United Kingdom, and Austria. The Turkish subscriber base expanded by around 437 thousand, which was miniscule relative to the total population. The growth rate of 180% is uninformative as the percentiles are too small.

Table 3.1 Network expansions between 1965 and 1975

Nation	Penetration in 65 (%)	Penetration in 75 (%)	Change (percentile)	Number of new subscribers (thousands)	Growth of base of subscribers (%)	Characteristics
Japan	7.60	29.22	21.62	24,978	338	Take-off
Finland	13.30	28.72	15.42	746	123	Extension
Greece	4.85	18.65	13.79	1,272	307	Take-off
Switzerland	25.15	38.86	13.71	1,004	68	Extension
Sweden	37.85	51.38	13.53	1,282	44	Extension
Netherlands	12.31	24.52	12.21	1,831	122	Extension
Denmark	21.66	33.73	12.07	675	66	Extension
UK	12.02	23.53	11.50	6,696	102	Extension
Israel	6.82	17.89	11.07	425	247	Take-off
Austria	9.01	19.86	10.85	850	130	Extension
Germany	6.38	16.31	9.93	7,989	165	Take-off
Turkey	0.76	1.72	0.95	437	180	Slight increase

SOURCE *WB Development Indicators.*

In the period between 1965 and 1975, countries inclined to expand their networks were few in number, but still, the trend included countries in economic relationships with Turkey or geographically close by, namely Germany, Greece

and Israel. Turkey was not part of this trend, but Turkish public was surely aware of what was happening. The Japanese economic miracle was enjoying its golden age with a capable, committed developmental state that also prioritized telephone investments.<sup>142</sup>

The Japanese model was admired by Turkish political elite of the 1980s, especially by Özal. The table demonstrates that one component of the miracle was the take-off of the telephone network, which would be modeled by countries like South Korea, Turkey, and China in the ensuing decades. The success of the Japanese model was built on effective financing tools, procurement, research, and technology transfer. The financing of expensive infrastructure investments in the telephone network was achieved through the use of bonds issued directly by NTT – a financial operation that was made possible by its legal capacity to do so. From 1952 up until the privatization process in the 1980s, NTT employed a system of subscriber bonds in addition to conventional bonds. Subscribers were obliged to buy bonds with ten-year terms when they connected to the telephone network. In addition, subscription fees and telephone bills were relatively expensive in Japan in the postwar period until the 1980s. The Japanese state also supported NTT's investment projects financially in more conventional ways as the development of the telecommunications sector was perceived as a tool to stimulate overall national industrial development. NTT procured its infrastructure equipment from a number of "family firms" at high prices. The NTT monopsony transferred the bounty part of its profits to family firms in order to aid their development and encourage their expansion into other branches of industry. In addition to these networks of suppliers there were the "big four" – NEC, Fujitsu, Oki, and Hitachi – and many other, smaller other private firms in a network of complementary procurement division of labor rather than in competition. They were also subjected to complicated networks of ownership that included public shares, which was a strategy of Japanese state. NTT also supported that network of private suppliers with research projects. NTT was also connected to the United States telecommunications companies AT&T and Bell from which it regularly transferred technologies. While the Japanese state and companies

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142 For a study of the period, see Johnson, *MITI and the Japanese Miracle*.

enjoyed the benefits of a close relationships with the United States, they also succeeded in forming a protectionist framework that prevented foreign penetration until the 1980s.<sup>143</sup>

### 3.7.2 1975 to 1985

A general trend of extending the telephone networks emerged in high-income countries in the period between 1975 and 1985. This was triggered by the eve of the transition to finance-dominated accumulation coupled with the advent of digital telephone exchanges in the mid-1970s. The cases of France and South Korea were the take-offs of the period.



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143 Anchordoguy, “Building of a Telecommunications Industry in Japan,” 520-529.

Table 3.2 Network expansions between 1975 and 1985

Nation	Penetration in 75 (%)	Penetration in 85 (%)	Change (percentage)	Number of new subscribers (thousands)	Growth of base of subscribers (%)	Characteristics
France	13.47	41.66	28.19	15,931	224	Take-off
Norway	22.81	42.33	19.52	843	92	Extension
Germany	16.31	32.69	16.37	12,557	98	Extension
Austria	19.86	36.10	16.25	1,224	81	Extension
Denmark	33.73	49.73	16.01	836	49	Extension
Finland	28.72	44.67	15.95	836	62	Extension
Netherlands	24.52	40.29	15.76	2,487	75	Extension
UK	23.53	37.47	13.94	7,945	60	Extension
Australia	25.48	39.13	13.65	2,647	75	Extension
Italy	17.53	30.64	13.11	7,736	80	Extension
South Korea	3.05	16.09	13.04	5,459	516	Take-off
Greece	18.65	31.37	12.73	1,429	85	Extension
Canada	35.77	48.29	12.52	4,202	51	Extension
Belgium	18.90	30.82	11.92	1,182	64	Extension
Switzerland	38.86	50.76	11.90	807	33	Extension
Sweden	51.38	62.78	11.41	1,033	25	Extension
US	36.75	48.10	11.36	35,470	44	Extension
Spain	13.15	24.28	11.13	4,642	99	Extension
Israel	17.89	28.90	11.01	583	98	Extension
Turkey	1.72	4.55	2.83	1,567	230	Some increase

SOURCE *WB Development Indicators*

French telecommunications policy in the late 1970s was in some respects similar to the Turkish one in the 1980s. A telephone crisis emerged in France in the late 1960s and the early 1970s as a consequence of growing demand, the technological backwardness of the network, and inadequate public funding. These paved the way for long waiting lists which indicated the unsatisfied excess demand. The liberal government of Giscard d'Estaing, who was elected in

1974, employed a policy that combined public and private initiatives by boosting public investment projects in telecommunications infrastructure. These investments were injected by new financial instruments enjoying development of international finance market as well as more traditional forms of public funds. In addition, public-private technological innovation projects including advances in digital switching were in place. As another crucial component of the take-off, domestic telecommunications equipment manufacturers Alcatel and Thomson were prioritized in input provision.<sup>144</sup> The presence of a strong legacy of Fordist post-war industrial policies provided the opportunity to purchase equipment from domestic companies and paved the way for a huge increase in the base of subscribers from 7 million to 23 million – a growth rate of 224%. In turn, the expansion of domestic public demand for telecommunications equipment contributed to the further technological and organizational development of national electronics companies which would seek to expand internationally in the following period. The operation of Alcatel in Turkey was an example of this expansion.<sup>145</sup> During the investment leap in France between 1975 and 1985, the incumbent operator was the state-owned telecommunications unit of the French PTT Ministry, namely Direction Générale des Télécommunications.

In the same decade between 1975 and 1985, South Korea expanded her network more than six-fold with 5.4 million new subscribers. This was a product of the South Korean developmental state's determination to update its telecommunications infrastructure and grow an electronics sector. By the early 1980s, under the military government of Chun Doo-Hwan, the focus of South Korean development projects shifted from heavy industry to electronics, especially semiconductors, computers, and electronic telephone exchange systems. The profitable segments of the telecommunications sector were transferred to the *Chaebol* conglomerates that were producing semi-conductors, namely Samsung and Goldstar, in order to boost expensive private invest-

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144 Thatcher, *Internationalization and Economic Institutions*, 139-41.

145 As I explain in detail in section 3.5, the public offering and block sale of PTT stakes in Teletaş resulted in the takeover of control by Alcatel.

ments in electronics. State support for the electronics Chaebols included prioritizing these companies when profitable local incumbents were privatized, purchasing domestic equipment, financing public-private technological innovation campaigns, and encouraging electronics exports.<sup>146</sup>

This improvement in South Korea was in accordance with the recommendations of the WB and with the inclinations of a new generation of technocrats educated in the United States. The emphasis on the redirection of public investments to infrastructure was similar to the Turkish case. However, placing special emphasis on telecommunications infrastructure among the infrastructural sectors and special emphasis on electronics among industrial branches set it apart from the Turkish case. Textiles were highlighted as the potential advantageous sector in WB Turkey reports authored by Balassa.<sup>147</sup> As a consequence, in contrast with Turkey, the South Korea has persistently developed its electronics sector and increased the penetration of its telecommunications services in the last three decades.

The United States extended its network with 35 million new subscribers in the same period, in response to increasing demand from business subscribers.<sup>148</sup> Various countries around the world which expanded their networks by millions of subscribers. Except for Israel and South Korea, these were high-income countries, as the new digital exchanges were expensive and low- and middle-income countries lacked access to foreign exchange sources in the context of the Oil Shock and the Debt Crisis.

Actually, Turkish performance was not bad in the decade between 1975 and 1985. Penetration rose from 1.72% to 4.55% with an expansion of 1.5 million new subscribers. However, a country with a large population and diverse geography like Turkey needed a “big push” to penetrate its whole territory. Despite the admirable expansion of the network, there was a mountain yet to climb to catch up to the level of penetration of high-income countries. There were several limits on the export capacity of Turkey that prevented it from acquiring the novel digital exchanges including foreign exchange scarcity and legal limitations. The nascent national electronics industry was not capable of

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146 Larson and Park, “From Developmental to Network State,” 344-59.

147 Balassa, “Growth Policies and the Exchange Rate in Turkey.”

148 For more detail on United States telecommunications, see section 1.2.



producing crucial components. That forced Turkish planners and engineers to seek the possibility of domestically producing digital exchanges and other sophisticated components, which would be crucial to the take-off in the 1980s.

### 3.7.3 1985 to 1995

Table 3.3 demonstrates that the most impressive take-off of the period between 1985 and 1995 was the Turkish one. It was the product of public investments and the securing of domestic industrial inputs. The penetration rate rose from 4.55% to 22.3%, and the base of subscribers expanded from 2.2 to 13 million – increase of 10.8 million which is a rate of growth of 484%. In this period, there were many expansions more voluminous than the expansion of the Turkish network. For instance, the United States added 43 million new subscribers, Japan and Germany 16 million each, and South Korea 12 million. Other significant expansions included 9 million subscribers in France, 8 million in the United Kingdom, 7 million in Italy, and 5 million in Canada. However, these countries already had nationwide fixed telephone networks and these expansions were extensions of existing networks. The Turkish take off differs as it was the first time that the use of digital exchanges became widespread along with other sophisticated infrastructure components like radio links and long distance systems. A functioning nationwide telephone network thus emerged. The Hungarian, Malaysian, and Uruguayan cases comprised as some other take-offs of the period.

Table 3.3 Network expansions between 1985 and 1995

Nation	Penetration in 85 (%)	Penetration in 95 (%)	Change (percentage)	No. of new subscribers (thousands)	Growth of base of subscribers (%)	Characteristics
South Korea	16.09	41.65	25.56	12,082	185	Extension
Portugal	14.06	35.98	21.92	2,242	160	Extension
Germany	32.69	51.26	18.58	16,608	65	Extension
Turkey	4.55	22.30	17.75	10,879	484	Take off
Greece	31.37	48.38	17.00	2,045	66	Extension
Ireland	19.89	36.28	16.39	607	86	Extension
Slovenia	15.21	31.27	16.06	328	115	Extension
Belgium	30.82	46.45	15.63	1,649	54	Extension
Israel	28.90	43.93	15.04	1,162	99	Extension
Croatia	12.97	27.57	14.59	707	122	Extension
France	41.66	56.01	14.35	9,369	41	Extension
Spain	24.28	38.29	14.01	5,754	62	Extension
Bulgaria	16.74	30.67	13.93	1,062	71	Extension
Hungary	7.01	20.88	13.87	1,418	192	Take off
Norway	42.33	56.07	13.74	686	39	Extension
UK	37.47	50.71	13.25	8,236	39	Extension
Switzerland	50.76	63.83	13.07	1,202	37	Extension
Italy	30.64	43.61	12.97	7,448	43	Extension
Netherlands	40.29	52.68	12.39	2,301	40	Extension
Japan	37.75	50.04	12.29	16,992	38	Extension
US	48.10	59.95	11.85	43,673	38	Extension
Austria	36.10	47.85	11.74	1,067	39	Extension
Canada	48.29	59.95	11.66	5,086	41	Extension
Denmark	49.73	61.02	11.29	650	26	Extension
Estonia	17.70	28.57	10.88	141	52	Extension
Czech Rep.	12.93	23.69	10.75	1,111	83	Extension
Lithuania	15.28	25.93	10.65	396	73	Extension
Finland	44.67	55.01	10.35	620	28	Extension
Slovak Rep.	10.49	20.83	10.34	579	107	Extension
Malaysia	6.08	16.08	10.00	2,373	248	Take off
Australia	39.13	49.12	9.99	2,713	44	Extension
Uruguay	9.57	19.30	9.73	333	116	Take off

SOURCE *WB Development Indicators.*

#### 3.7.4 1995 to 2005

In the period between 1995 and 2005, the penetration of the fixed telephone network expanded significantly in middle-income countries. For the first time, the champion of the list was a middle-income country, namely China. Actually, China achieved the most impressive take off of the forty years between 1965 and 2005, expanding its network from around 40 million subscribers to 350 million subscribers – a growth of 761%. Between 1995 and 2005, Chinese fixed line penetration rose from 3.35% to 26.8%, which was also the highest increase in the terms of percentiles. Iran, Bosnia and Herzegovina, Brazil, El Salvador, Egypt, and Syria were other examples of take-offs of telephone network expansions.

Table 3.4 Network expansions between 1995 and 2005

Nation	Penetration in 95 (%)	Penetration in 2005 (%)	Change (percentage)	Number of new subscribers (thousands)	Growth of base of subscribers (%)	Characteristics
China	3.35	26.80	23.45	309,739	761	Take off
Iran	8.52	29.17	20.65	15,248	300	Take off
Slovenia	31.27	50.92	19.65	404	66	Extension
Bosnia & H.	7.14	25.62	18.49	731	307	Take off
Poland	14.92	31.01	16.09	6,107	107	Extension
Germany	51.26	66.38	15.12	12,791	30	Extension
Croatia	27.57	42.38	14.81	595	46	Extension
Belarus	19.16	33.43	14.27	1,315	67	Extension
Brazil	8.19	21.43	13.23	26,589	200	Take off
Ireland	36.28	49.35	13.07	742	57	Extension
Hungary	20.88	33.86	12.98	1,258	58	Extension
El Salvador	4.97	16.06	11.09	686	241	Take off
Russia	16.83	27.88	11.05	15,081	60	Extension
Uruguay	19.30	30.28	10.98	384	62	Extension
Egypt	4.38	14.01	9.63	7,679	283	Take off
South Korea	41.65	50.81	9.17	5,304	29	Extension
Syria	6.76	15.71	8.94	1,944	203	Take off
Turkey	22.30	27.85	5.55	5,851	45	Extension

SOURCE *WB Development Indicators.*

In the period between 1995 and 2005, Turkey had around 5.8 million new subscribers. Actually, the expansion of fixed telephone subscriber base slowed in 2004 and then started to shrink. The decline of the penetration rate started even earlier in 2001 population growth was higher than the expansion of the network between 2001 and 2004. For some high-income countries, the decline of the penetration rate even started earlier. Between 1995 and 2005, the penetration rate in the extreme cases Finland and Norway declined from 55% to 40% and from 56% to 45% respectively. The Netherlands, Sweden, Japan, the United States, Italy, and France were also among countries which experienced a decline in the penetration rate of the fixed telephone network. This was a

consequence of the emergence and widespread use of mobile telephones. However, it is significant that these countries were high-income countries with high penetration rates, and such declines did not mean that fixed lines had become obsolete. It is observable in figure 3.14 that the decline of the last two decades notwithstanding, the penetration rate of high-income countries remains around 40%. This is in part a consequence of emergent widespread broadband internet service that is supplied through the fixed line network in addition to persistent communication habits. Figure 3.14 also demonstrates that the decline of the Turkish trend is steeper. This is effect of mobile phone penetration coupled with relatively low penetration of fixed broadband internet service. Such a decline in fixed line penetration became a problem for the expansion of fixed broadband internet service. The advent of 3G technology in 2009, which makes it possible to supply internet service through mobile telephone networks, popularized the widespread use of internet service in Turkey. But internet service penetration level is still low in Turkey. These facts are analyzed in detail in chapter 6.

It is also significant that the deterioration of penetration in the early 2000s was bad news for the government which was seeking to privatize the fixed telephone operator Türk Telekom. Efforts to privatize Türk Telekom failed in the 1990s despite a rising trend for telecommunications assets. On the eve of the 2000s, there were two negatives in the privatization efforts. The first was a global trend of declining telecommunication assets that halted private investment and privatizations. The second was the decline of penetration. That is why the DSP-MHP-ANAP coalition decided to form a GSM operator as the affiliate of Türk Telekom (Aycell, then Avea). They hoped that the inclusion of a GSM operator would make Türk Telekom more attractive. However, bid proceedings in 2000 failed. These issues are analyzed in chapters 4 and 6.

For the periods after 2005, the penetration rate of fixed telephony began to lose its relative significance. In some regions of the world, a take-off in the expansion of the fixed telephone network never happened. For example, the great majority of African countries experienced widespread adoption of mobile telephony in the absence of a fixed telephone network with the advent of GSM. Mobile telephony and internet service penetrations are new indicators of the progress in communications. This is similar to the process in the second

half of the nineteenth century when the telegraph started to replace postal services and in the twentieth century when fixed telephony started to replace the telegraph as the indicator of the development of communications and connectedness.

### 3.7.5 *Most Impressive Take-offs of Their Respective Periods*

To sum up, Japan in 1965-1975, South Korea in 1975-1985, Turkey in 1985-1995, and China in 1995-2005 are the most impressive examples of nascent nationwide fixed telephone networks. A common characteristic is that these periods were periods of flourishing economic activity and internationalization for these countries. In these periods, countries possessed well-coordinated decision-making processes, making it possible to show the necessary composure to achieve a breakthrough in infrastructure development. Another similarity is that the take offs were public led and planned by the public sector. The Japanese, Turkish, and Chinese take-offs were achieved by the SOEs. The South Korean case included state-of-the-art examples of public-private partnerships under the coordination of the public authority.

Table 3.5 The most impressive take-offs between 1965 and 2005

Nation	Period	Change (percentile)	Number of new subscribers	Growth of base of subscribers (%)
Japan	1965-1975	21.62	24,978,000	338
South Korea	1975-1985	13.04	5,459,320	516
Turkey	1985-1995	17.75	10,879,116	484
China	1995-2005	23.45	309,739,300	761

The Turkish case differs as coordinated decision making in the golden age of Özal dispersed in the following decades, and telecommunications policy lacked determination and consistency. Another factor that ended the rise of the penetration of telecommunications services was the disbanding of the infant electronics sector. The examples from East Asia prove that a well-functioning domestic electronics industry, strong, determined planners, and public leadership are crucial components of persistence in the rise of penetration following a take-off. It is also significant that other high-income countries with

widespread fixed telephone networks also hosted the world's leading electronics companies Eriksson in Sweden, Alcatel in France, and ITT in the United States.

### § 3.8 Concluding Remarks and Bridge to Next Chapter

The expansion of the Turkish telecommunications network between 1980 and 1994 was one of the most impressive investment projects of telephone infrastructure history. The expansion was accompanied by technological upgrades and the introduction of various telecommunications services, as well as a revival in Turkish communications and media.

The main factors that triggered the adoption of the telecommunications leap were interrelated transitions in global and national accumulation strategies. The transition from Fordist, manufacturing-based accumulation patterns to flexible, finance-dominated ones in core high-income countries increased the demand for telecommunications services. In addition, telecommunications itself became a new, attractive sector in the eyes of capitalist groups. The international expansion of financial transactions required better international connections and national telephone networks.

The transformation of global accumulation patterns characterized by the internationalization of private finance triggered the transformation of the development strategies in peripheral middle-income countries. In this manner, Turkey experienced a transition from ISI to an outward-oriented growth strategy. Following this strategy, the country attracted financial surpluses accumulated in the core of the world economy. The improvements to infrastructure were significant for reviving the national economy and integrating into the world economy. Among the infrastructure sectors, telecommunications gained additional importance as the workhorse of international private finance.

The experience and insight of Özal and his close team with respect to technical and engineering issues was an advantage in the planning and execution of the investment leap. Özal pragmatically utilized the heritage of the planned economy to start a publicly planned and financed investment leap in telecom-

munications. Despite the fact that the telecommunications subset of his economic policies were influenced by certain statist ideas, the overall spirit of the strategy was pro-private and pro-free trade. The preference for a privatization policy to improve the inadequate telecommunications network was risky, as the costs of building a nation-wide network was a deterring factor for private interests. Instead, to achieve the greater goal of integrating into the world economy, policymakers prioritized infrastructure development and emphasized the use value of the network.

To facilitate the equipment provision for the telecommunications leap, policymakers promoted domestic electronics manufacturers. In doing so, it was possible to limit the need for foreign exchange, a scarce resource in the Turkish economy. Domestic electronics manufacturers were able to provide the high-technology inputs of digital exchange devices. However, this experience had a lifespan of less than a decade before the production units were lost. This was due to certain limitations set by the structural determination of global and national accumulation patterns that ruled-out the possibilities of protectionism and infant industry growing. The spatial replacement to electronics markets of peripheral countries was the factor behind introduction of foreign inputs and acquisition of Turkish manufacturers by foreign companies. This was facilitated by lobbying by political leaders of core countries which in some cases took the shape of financial threats to the Turkish government, which was in turn deeply dependent on foreign financing for its public deficits. The core-periphery lobbying encouraged by the capital dependency of the Turkish government succeeded to get solutions in the political forum in favor of electronics manufacturers of the core countries which were seeking opportunities for capital replacement to peripheral countries. In a similar manner, the international organizations set conditions for the privatization of telephone networks in the 1990s in order to release their official financial support to the government which suffered from severe budget deficits, in other words capital dependency.

The telecommunications leap did matter internationally in terms of the outcome of network expansion. Comparisons among individual countries, income groups, and regional groups indicate that the expansion of the fixed tel-



ephone network between 1985 and 1995 was among the most impressive infrastructure investment projects of all times. The declining level of investment and disbanding of electronics manufacturing gradually decelerated and ended the growth of the network in the ensuing period of privatization.

Looking at Turkey in the 2010s, the passionate investments in a fixed telephone network seem unnecessary, as the mobile telephone network took over in the 2000s. However, level of the improvement of the fixed telephone network does matter for contemporary telecommunications development in terms of the penetration of fixed broadband internet service. The Turkish fixed broadband internet penetration was stagnated at 10% in the 2010s as a consequence of the decline of the neglected fixed telephone network. Turkish internet usage habits improved too much dependent on the mobile telephone network. Beyond technical limits on the size of content that can be transmitted through radio frequencies, the usage patterns are limited by the small size and relatively bad quality of the content. This pattern is a limiting factor on audiovisual content producers and the Turkish market for those services, too. The cable television network is sporadic, as well. Turkey is still in need of a widespread network of fiber-optic and cable in order to develop her communications infrastructure beyond mobile telephony. The ability and motivation of private telephone operators to lay down a nationwide network of fixed telecommunications of fiber-optic cables is limited. The experience of public investment in the 1980s provides clues for a new national leap of fixed telecommunications. Such an attempt would face the limitations created by the liberal approach of the government to trade and capital movements, of course.

In the next three chapters I focus on the privatization period of Turkish telecommunications policy, namely between 1994 and the 2010s. These chapters demonstrate that the prioritization of the the use value of the telecommunications sector – in other words, infrastructure development – shifted to the revenue-generating aspect of privatization. Starting in 1994, public investments in telecommunications infrastructure was cut, and the profits of the fixed telephone operator were channeled into the financing of the public budget deficit. Policymakers' attempts to privatize the fixed telephone operator failed until 2005. However, in this period, the mobile telephone market flourished through the introduction of private operators. The expansion of the

mobile telephone network, which is explained in chapter 5, radically differs from the telecommunications leap of the 1980s, in terms of planning, financing, and organization. The private expansion was realized through explosive but inconsistent investment booms. The financing of private expansion was dependent on international private financing instruments. Therefore, domestic investments became sensitive to fluctuations in international financial markets. When the big picture that considers the two periods together is investigated, it is clear that the performance of the privatization period was better in terms of absolute amounts of investment, but the public investment period performed better in terms of fraction of GDP.

Chapter 4 paints a general picture and evaluates the privatization period. Chapter 5 focuses on the cases of Turkcell and Telsim and chapter 6 focuses on those of Avea and Türk Telekom.

## Revenue-Oriented Restructuring of the Turkish Telecommunications Sector

### § 4.1 Introduction

The year 1994 was a turning point for Turkish telecommunications policy. Between 1980 and 1994, public investments in the telecommunications network expanded and upgraded the system, as I explain in detail in chapter 3. In 1994, telecommunications policy was radically altered by the government under the tutelage of the international community. The dominant factor that triggered the transformation was the need to discipline the public budget. Expensive investments in telecommunications were cut and leased to the private sector. The new period was a period of restructuring the sector following an approach that prioritized revenue generation for the government through privatizations. However, infrastructure development was still a need to the Turkish outward-oriented growth strategy. Policymakers hoped that the introduction of private capital would increase investments, in addition to creating revenue for the government.

In the 1990s, there was an investment fever with respect to telecommunications in international financial markets – a fever that motivated the government to act. Policymakers believed that good timing for privatization would both bring in revenue for government and encourage investment for sectoral development. Did they manage to achieve that?

I argue that Turkish governments after 1994 prioritized goal of generating revenues through privatization and subjugated the goal of infrastructure development to the first one. The general approach to privatization was to organize auctions for block sales that were designed to attract the best offers, rather than best investors. In the realm of fixed telephone operator privatization, the government designed a block sale to attract a foreign strategic investor.<sup>1</sup> However, privatization was delayed until 2005. In the mobile telephone segment, the government managed to introduce two private operators in 1994 and two more in 2000. Throughout the privatization period, substantial revenue from divestitures was generated; however, the private investments that followed these auctions were not as impressive as the privatization revenues. In other words, private investors in Turkey wasted a significant portion of their financial assets to finance payments to the government. In subsection 4.2.2, I provide comparative calculations that demonstrate the dominant inclination of Turkish governments to generate revenue.

The chapter analyzes the restructuring of the telecommunications sector under three main headings: Legal restructuring, disbanding of employment, and financing of restructuring. (See figure 4.1.)

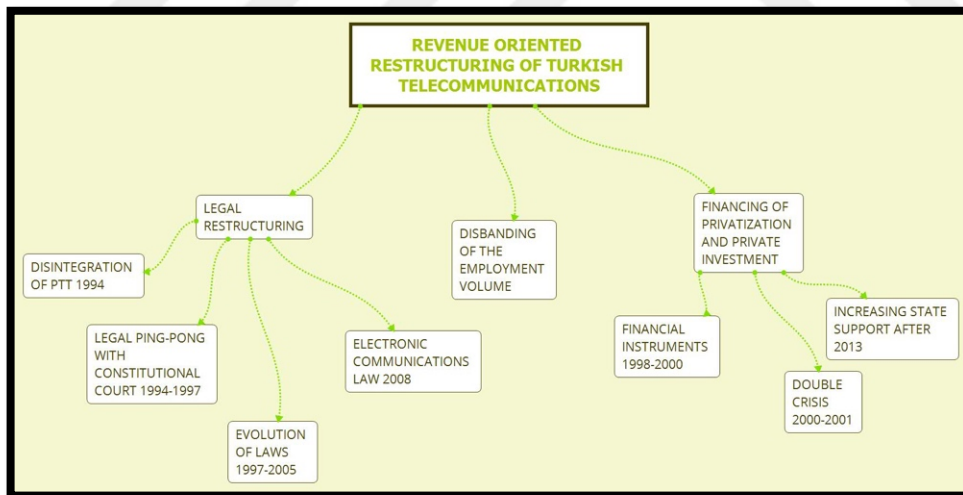


Figure 4.1 Revenue-oriented restructuring of Turkish telecommunications

1 For details on the strategic foreign partner/investor argument see subsection 2.2.2.

Actually, the restructuring process was a legislative process. Amendments to existing laws and the codification of new ones paved the way for privatization. The first significant step was the separation of Türk Telekom from the PTT. Simultaneously, the first private mobile telephone operators were introduced in 1994. However, the privatization of Türk Telekom faced strong opposition from the Constitutional Court as well as from the anti-privatization camps of employees, leftists, left-leaning Kemalists, and some nationalists. Following a legal ping-pong between the governments and the court, the amendments were approved in 1997. The following period between 1997 and 2005 was a process of reformulating laws in response to pragmatic needs rooted in trials and errors of privatization attempts. Following two unsuccessful privatization attempts in 2000, Turkey faced an economic crisis that overlapped with an international collapse of telecommunications stocks. The way was paved for the privatization of Türk Telekom in 2005 through amendments that lifted limitations on the sale of the controlling stake, on foreign ownership, and on the transfer of privatization revenues to the treasury. In 2008, via the Electronic Communications Law, a Turkish pro-competition regulation in line with EU standards was adopted.

Another crucial part of the restructuring was the disbanding of large number of employees of Türk Telekom. This was in accord with the transition from a development strategy for which full employment was a goal to a competitive growth strategy that sought to discipline labor. The disbanding of the employment volume of the Türk Telekom was also a barrier to overcome resistance from public servants and workers to flexible forms of employment that are crucial for the private sector to gain a competitive advantage. In a similar manner, governments that tend to discipline the public budget seek opportunities to disband unionized and full-time civil servants and adopt flexible working. The motive behind this effort of the government is the same as that behind the revenue generating approach to privatization. This employment dimension of restructuring is omitted from academic studies on telecommunications policy. Privatization studies tend to measure the scale of privatizations by the revenues generated, but the human dimension of privatization is largely omitted and reduced to an issue of efficiency.

The fifth section of this chapter introduces the financing of private investments in telecommunications. The structural advantages and weaknesses of the financing mechanisms deeply affect the outcome of telecommunications policies, especially in terms of infrastructure development. The financing mechanisms of the privatization period radically differed from the previous period between 1980 and 1994. In the financing of the public telecommunications leap, a small portion of the total was provided by foreign credit.<sup>2</sup> However, in the privatization period after 1994, investments were financed by international capital markets through various financial instruments. On one hand, international capital markets offered great amounts of funding and a variety of instruments for borrowers. These financing opportunities were much higher than the modest resources of the government. On the other hand, the financing of investments through international private borrowing renders the sector sensitive to the fluctuations in the international markets. Between 1998 and 2000, private mobile telephone operators were issued proper licenses and borrowed boldly from international financial market, through various instruments like consolidated credit, public offerings, and vendor credit. This was in line with the global investment fever regarding telecommunications and related businesses. However, in 2000, the increase in value of the stocks decelerated and reversed. In 2001, it was clear that the golden age of telecommunications stocks was over. The bust of telecommunications stocks created significant difficulties for telecommunications companies. The financial situation of Turkish operators worsened following the February 2001 crisis in Turkey. These double crises became crises for Turkish private operators. A similar financing problem arose after 2013 as the TL depreciated and an economic down-turn along with the political isolation became clear and international markets hesitated to finance new infrastructure projects. The government responded by adopting state guarantees for infrastructure investments and offering credit from state banks. The financial difficulties faced by infrastructure investors in general and telecommunications investors in particular were worsened because of the revenue generation priority of the government.

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2 For details, see section 3.6.3.

## § 4.2 Shift from Public-Led Investment to Revenue Generation as a Policy Priority

The main character of Turkish telecommunications policy in the 1980s was public-led infrastructure building, as I explain in chapter 3. The strategy to build a penetrative fixed telephone network was in accordance with the new Turkish development/growth strategy, namely outward-oriented development/growth. In the context of the 1980s, Turkish telecommunications policy prioritized the use value of the telecommunications network as a part of economic reorientation, as I explain in detail in chapter 3.

The vast public investment in infrastructure development was too costly and not in harmony with budget disciplining goals. In addition, the fact that infrastructure building was being made under the auspices of a state-owned enterprise, namely the PTT, was perceived as contradictory to the promotion of private activity. Nevertheless, decisionmakers, especially Özal, followed the public-led telecommunications leap as a basic tool to transform the national economy. In 1994, the strategy shifted from public led improvement of infrastructure to a revenue-oriented restructuring and privatization of the network. Prime Minister Tansu Çiller paved the way for a political formulation of the shift from public investment to a privatization strategy.<sup>3</sup>

The redirection of the policy from investment to privatization was triggered by domestic and international factors. The domestic factor was the contradiction between the budget disciplining priority of monetary policy and the deficit created by heavy investment in infrastructure. The first steps of the Turkish liberalization of the financial account started in the 1980s, and the process intensified in the 1990s following the convertibility decision in 1989. The protected nature of the previous period was suitable for a monetary policy

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3 Çiller was a professor of economics at Boğaziçi University before beginning her political career, did not share the background of the engineer-led center-right political tradition of the previous generation, and emphasized her economist profile. She is the first and last woman to serve as prime minister. She led the True Path Party (*Doğru Yol Partisi*, DYP), a party founded by Demirel as the successor of the AP. Her coalition with the RP was countered with the TSK intervention in 1997 ending her political career.

that prioritized the use value of money, as the national money, which is a useful instrument for income policies and expansionary fiscal policies including vast public investments. However, financial liberalization required a tight monetary policy that prioritized the financial functions of money.<sup>4</sup> Following the April 1994 crisis, the budget deficit problem intensified. Throughout the 1990s, government policies and the national financial framework were in charge of managing public debt.<sup>5</sup> In line with that strategy, public funds were withdrawn from investments in the telecommunications incumbent Türk Telekom.<sup>6</sup> A liberal economist, Çiller handled the telecommunications issue from the perspective of unloading unnecessary burdens.<sup>7</sup> The telecommunications incumbent was urgently moved onto the agenda for privatization, and its profits were directed to the financing of the budget deficit.

In the international context, restructuring was related to the crisis management strategies of capitalism formulized by David Harvey. Throughout the late 1970s and 1980s, accumulated funds were being redirected from the manufacturing sectors of core high-income countries to their services sectors (including telecommunications) and to the manufacturing sectors of peripheral low-income countries where labor is cheap and abundant, a mechanism called

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- 4 This transition parallels the model of Jessop. See Jessop, "Revisiting Regulation Approach," 5-24. For details, see subsection 2.4.2.
- 5 Erinç Yeldan, *Küreselleşme Sürecinde Türkiye Ekonomisi* (İstanbul: İletişim, 2004), 105-157; Ümit Cizre-Sakallıoğlu and Erinç Yeldan, "Politics, Society and Financial Liberalization: Turkey in the 1990s," *Development and Change* 31 (2000), 481-508.
- 6 The term incumbent signifies the operator that controls the most penetrative network. The publicly owned telephone operator with monopoly rights are generally called as incumbents, even after privatization and liberalization as they continue to control largest market share. The telecommunications policy literature employs the twin concepts of incumbent/entrant to signify market controllers and new comers separately. For details see section 2.2.1 and 2.3.2.
- 7 Later Çiller's reputation degraded dramatically from that of a liberal economist to that of an aggressive militarist, see Yüksel Taşkın and Suavi Aydın, *1960'tan Günümüze Türkiye Tarihi* (İstanbul: İletişim, 2014), 389-399. Also see Erik Jan Zürcher, *Turkey: A Modern History* (New York: İ.B. Tauris, 2004), 321-323.



a spatial fix/replacement of capital by Harvey.<sup>8</sup> By the mid-1990s, the telecommunications markets of core high-income countries matured to an extent, and growth opportunities started to be depleted. The telecommunications companies of these countries tended to expand operations to low- and middle-income countries with larger opportunities for growth. Turkey was also a target of this expansion. In line with this tendency, the basic actors of the international community – like the WTO, IMF, WB, and the EU – started to impose policies to liberalize and open national telecommunications markets.<sup>9</sup> In addition, given conditions post April 1994 in Turkey, the government became financially dependent on the IMF, an organization that tended to enrich its lending support with the reform conditionality. Çiller was motivated to prove her commitment to the international community by accelerating the process of privatization.<sup>10</sup> In this way, a new period of Turkish telecommunications policy started. This chapter analyzes the restructuring of the telecommunications sector through a revenue-oriented approach between 1994 and the 2010s.

#### 4.2.1 *The New Role of Government and Possible Alternative Goals of Restructuring Policy*

A telecommunications policy with the introduction of private actors at its core radically changes the role of the state. The state's role in building and admin-

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8 Harvey, *Condition of Postmodernity*, 173-188. For details on Harvey's approach, see subsection 2.4.1.

9 In this respect, "The WTO Agreement on Basic Telecommunications Services," of 1997 was especially significant. This agreement enlarged the scope of the free trade rules of the WTO to telecommunications services. Liberalization included commitment to the free entrance of foreign private operators. The measures concerning privatization and liberalization of the telecommunications sector were also in the IMF-Turkey Stand-By Arrangement of 1998. A similar approach was deployed in the Turkey reports of the WB. Accordingly, the privatization and liberalization of Turkish telecommunications was closely monitored by the EU and a subsection on that issue was present in its progress reports. See EU, *Turkey Progress Report 1998* (Bruxelles: EU, 1999), 40.

10 Her efforts to privatize Türk Telekom was not successful though. For details see subsection 4.3.2. Nevertheless, she managed to initiate private entry into the mobile phone market. For details see section 4.3.3.

istrating the network was ended and a new role started aimed at directing private economic activity to the sector. In this new context, the new character of Turkish telecommunications policy was to restructure the sector to facilitate the introduction of private actors who made the best offers and to regulate private activity in line with the revenue rising perspective. Telecommunications policy in this new context could alternatively have been designed to facilitate optimum output in terms of infrastructure development. Telecommunications policy in the outward-oriented era, in its ideal form, increases the penetration of the network, allows varied services provided in good quality and at reasonable prices to flourish, and continues to upgrade the technology of the network. It can be possible to pursue multiple policy goals – to generate revenue through privatizations and license auctions, simultaneously pick the best private companies in providing enhanced services, technology transfer, and infrastructure investment, and finally, to maintain competition-friendly environment. It is also possible to imagine the policy realm in a combative nature, as telecommunications policymakers are confused by the contradictory policy goals of revenue generation (in terms of obtaining the best possible offers in privatization and license auctions), infrastructure development (in terms of choosing the best company for investment in network expansion and technology), and competition (limiting the monopolistic inclinations of private enterprises).

Levi-Faur compares the processes of telecommunications privatization between a group of core high-income countries in Western Europe and a group of peripheral middle-income countries in Latin America. He argues that the privatization of the latter was directed at revenue generation rather than other policy goals like promoting competition. Levi-Faur criticizes Latin American countries for prioritizing the goal of revenue generation by using block sales as the main instrument of the privatization. The block sale of the majority share of an SOE was favorable for private companies seeking full control and profit maximization. The outcome of Latin American block sales was the negligence of competition and the formation of private monopolies. On the other side of the Atlantic, in European countries, the basic tool of privatization was public offerings rather than block sales. This method emphasized

the anonymity and credibility of the incumbents and incorporated the investor base in the privatization – a factor that supposedly promoted investments and competition. Peripheral middle-income countries with weak domestic capital markets were not as capable as core high-income countries in attracting financing for public offerings. Rather, they concentrated on charming the highest offer makers by putting a controlling share on show.<sup>11</sup> Levi-Faur’s comparative observation is a starting point for my analysis of Turkish telecommunications policy after 1994. Figure 4.2 indicates the general privatization track of Turkey.

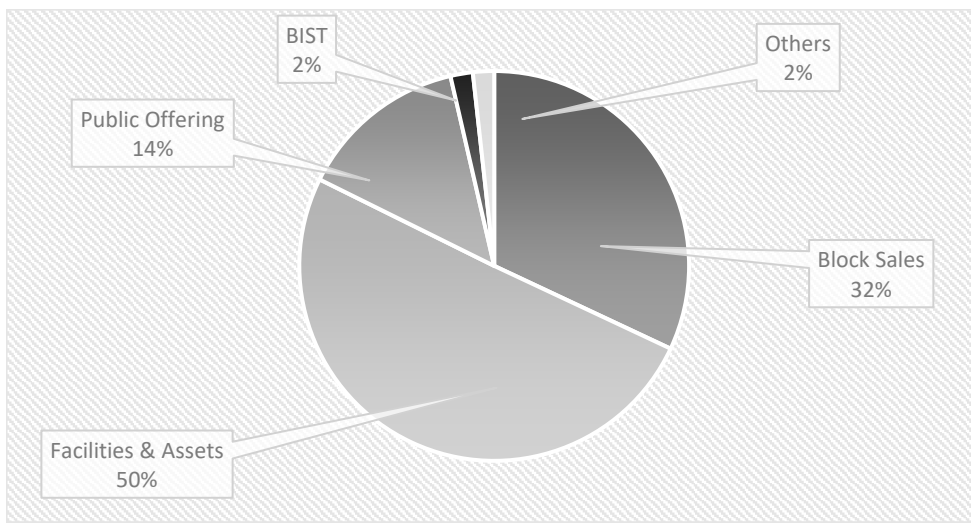


Figure 4.2 Turkish privatizations by methods, 1986-2016. Source: Compiled by the author based on privatization data of Turkish Central Bank (Türkiye Cumhuriyeti Merkez Bankası Elektronik Veri Dağıtım Sistemi). <http://evds.tcmb.gov.tr/index.html>, accessed February 19, 2017.

Figure 4.2 summarizes the share of the methods of achieved privatizations in Turkey between 1986 and 2016. The figure shows that revenue generated through block sales are dominant relative to revenue generated through public

11 Levi-Faur, “Politics of Telecommunications Nationalisation and Liberalization,” 161-179. Levi-Faur does not employ the concepts of core-periphery. This is a reading from my conceptual lens. For further comparison between core high-income countries and peripheral middle-income countries in terms of patterns of telecommunications privatization, see sections 1.2 and 2.2.

offerings. Sales through the Istanbul Stock Exchange (*İstanbul Menkul Kıymetler Borsası* until 2013, then *Borsa İstanbul/BIST*) accounted for only 2%. The category of “Facilities and Assets” (*Tesis ve Varlık Satışı*) consists of privatization revenues generated through block sales of facilities and landed estates detached from nationwide SOEs like Tekel (former public monopoly of cigarette and alcoholic beverages) and TEDAŞ (energy distribution). This label should not cause confusion: Indeed, the “assets and facilities” category should be included with the block sales. These block sales were the predominant form representing 82% of the total Turkish privatization proceedings. Following from the argument of Levi-Faur, the predominance of the block sale method among Turkish privatizations is evidence of the government’s motivation to maximize revenue from privatization.

The official goals of privatization have been expressed under two main headings since the 1980s. The first may be summarized as the overall economic effect including the expectations about an increase in efficiency, contributions to the development of the domestic financial market, and elimination of over-employment in SOEs.<sup>12</sup> The second heading may be summarized as the budget disciplining aspect of privatization including the removal of government support for the SOE system and receipt of privatization revenue which is crucial for financing the public budget deficit and for servicing long term debt. For a peripheral middle-income country, the period following an economic crisis is generally characterized by the challenge of debt servicing. Therefore, the revenue rising privatization projects are motivated by that challenge.<sup>13</sup> The Turkish experience of booming privatization in the period following the February 2001 crisis is an example. Actually, the earlier unfulfilled privatizations were also triggered by the April 1994 Crisis and were rooted in public debt.

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12 For a critical explanation of pro-privatization arguments, see Ha Joon Chang, *The Bad Samaritans: The Myth of Free Trade and Secret History of Capitalism* (New York: Bloomsbury, 2010), 103-119. The official discourse formulated by the Turkish bureaucracy has not differed from these pro-privatization arguments. For an example, see ÖİB, *Türkiye’de Özelleştirme* (Ankara: ÖİB, 2017).

13 Ziya Öniş, “Power, Interests and Coalitions: The Political Economy of Mass Privatisation in Turkey,” *Third World Quarterly* 32, no. 4 (2011): 709.

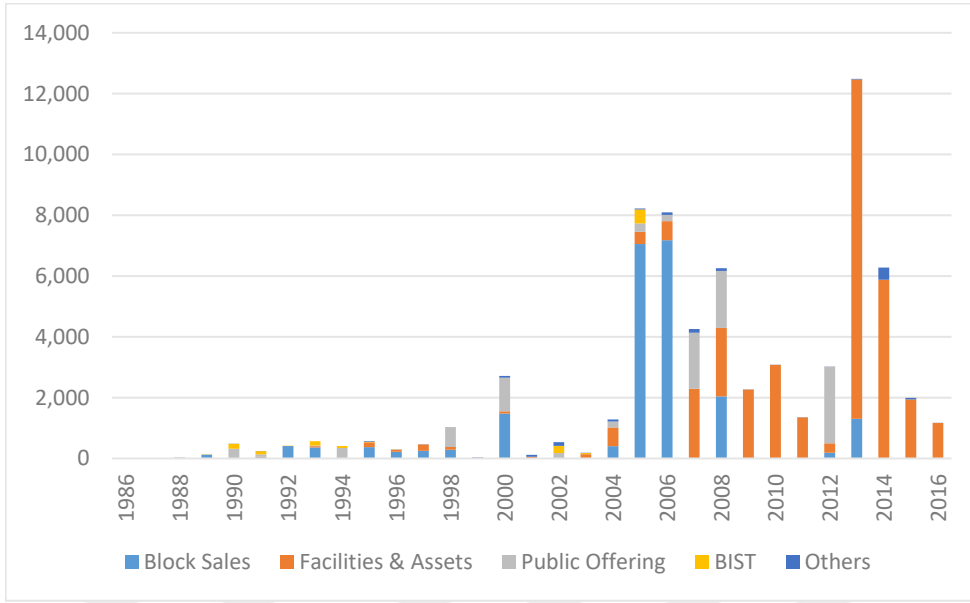


Figure 4.3 Annual privatizations in Turkey, 1986-2016. Source: Turkish Central Bank.

Figure 4.3 demonstrates that privatization revenues dramatically increased in the period after the first shock of the February 2001 crisis past. The total privatization revenue generated between 1986 and 2001 was US\$7.5 billion. The sum of revenue between 2002 and 2016 was US\$60.5 billion. This shows an amazing jump.<sup>14</sup> In both of the years 2005 and 2006 privatization revenue of US\$8 billion was recorded. The 2008 global crisis affected the process, and a decline occurred between 2009 and 2012. In 2013, the privatization of regional

14 In the budget data of the treasury ([muhasibat.gov.tr](http://muhasibat.gov.tr)), privatization revenue is registered under the category of Capital Income (*Sermaye Gelirleri*). The revenue generated through the privatization of Türk Telekom (*Telekom Hisse Satış Geliri*) was a separate subcategory of Capital Income in the Central Administration Budget Income (*Merkezi Yönetim Bütçe Gelirleri*) in data set of the treasury. The data set of the treasury provides the realization of privatization income, as payments to the government are received in annual installments. On the other hand, annual income data provided by ÖİB are not divided into installments and are registered in the auction year. The privatization income is realized in the public budget in 4-5 year terms rather than in a drastic injection of funds. In other words, privatization revenues are more stable than they seem in the ÖİB data.

energy distributors contributed to a total of US\$12 billion, which was the record high. The years following 2013, as a consequence of the decreasing value of TL and increasing political and economic instability, formal privatizations declined. In recent years, alternative modes of private participation with the financial support of the government took over. It is significant to note that privatization revenue trends only include operations that are officially labelled as privatization. Privatization in its broader sense includes license payments, Saving Deposit Insurance Fund divestitures,<sup>15</sup> PPPs, and other forms of private sector authorizations by the government. Still, the trend provided by ÖİB has merit for representing the main inclination of prioritizing revenue generation through block sales. The privatization of a 55% share of Türk Telekom for US\$6.55 billion in 2005 was the highest revenue from an official block sale privatization.<sup>16</sup> In 2008, the privatization of an additional 15% of Türk Telekom for US\$1.8 billion in a public offering took place. Other revenues generated in the telecommunications sector included license payments for GSM900 in 1998, GSM1800 in 2000, 3G in 2009, and 4G in 2015, which do not take place in the official privatization trends.<sup>17</sup>

The literature on Turkish telecommunications policy in the 2000s generally evaluates the success of the policy in terms of accomplishing competition and liberalization. Such studies posit an automatic link between well-being and the quality of the network and competition. As a consequence, it is accepted that the better competition is tantamount to the better condition of the services.<sup>18</sup> The generally agreed-upon conclusion is that the goal of competition was inadequately pursued by Turkish policymakers, and the outcome has

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15 Like the sale of Telsim to Vodafone in 2005.

16 The US\$29 billion payment commitment by the consortium of the Third Airport of Istanbul in 2015 was a new record-high operation. However, this was not registered as a privatization as it is a PPP project. For some details on third airport, see Jenny Chao and Deblina Saha, "Sources of Financing for Public-Private Partnership Investments in 2015," (Note of World Bank Private Participation in Infrastructure Group, World Bank, 2016).

17 I remedy this omission by introducing an alternative series of private investments in the following parts of this section.

18 For details, see subsection 2.3.2.

been limited competition and mediocre service quality. The situation with respect to competition partially changed following the enactment of the Electronic Communications Law in 2008 which put forward additional measures and sanctions against market controllers.<sup>19</sup>

If the expansion of the network is introduced as a possible policy goal in addition to competition and revenue generation, the level of investments should be taken into account as well as income generation and competition. However, to ascertain the actual amount of investment dedicated to the development of the network, one must strip out payment commitments to the government. In other words, privatization revenues should be deducted from the total investments, as the payments received through privatization (in its broader sense that includes license payments, PPPs etc.) have nothing to do with physical network improvement and technological updates. Their only effect is an extra financial burden on operators that limits their capacity to improve the network.

#### 4.2.2 *How to Measure the Tendency to Maximize Government Revenue?*

In this subsection, I include the ratio of “the amount to be paid by the companies to the government for authorization” to “the total private investments” – the sum of “the amount to be paid to the government” and “the amount channeled to the physical improvement of the infrastructure.” The financial burden on private companies introduced into infrastructural sectors in general and telecommunications operators in particular, was sourced from these two spending branches. As the amount of payments to the government increase, fewer financing opportunities were channeled into the development of infrastructure. WB PPI provides the separate series of payment commitments to the government and total investments (the sum of payment commitments to the government and investment in physical infrastructure). Figure 4.4 is derived from these series and summarizes the total private investment, total payment commitments to the government, and total physical investment in the telecommunications sector in peripheral middle-income countries by region.

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19 Atiyas, “Regulation and Competition in the Turkish Telecommunications Industry,” 177-191.

I argue that the ratios calculated provide a measure of the prioritization of revenue maximization by the respective governments.

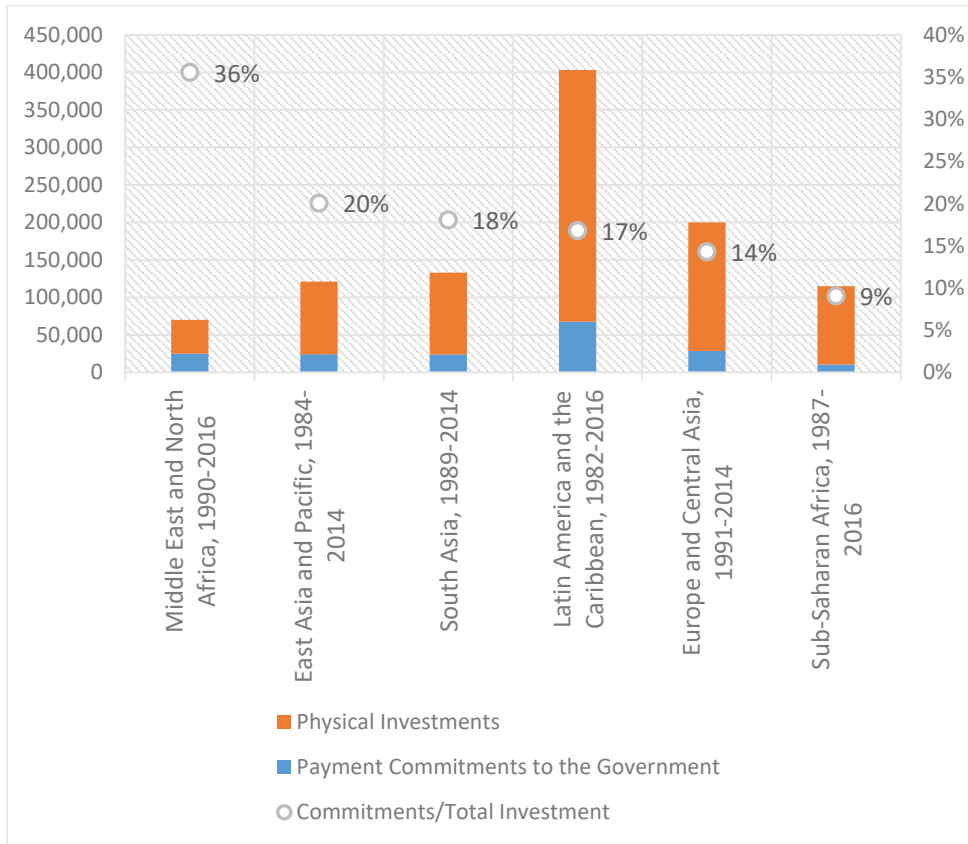


Figure 4.4 Share of payments to government in total private telecommunications investments by region, 1980s-2010s. Source: WB PPI.

The calculation suggests different inclinations for revenue generation in different regions. As I note above, Levi-Faur analyzes the tendency of Latin American governments to increase revenue from telecommunications privatizations as much as possible. However, figure 4.4 indicates that the MENA region has the highest portion of government payments among the regions. Companies invested around US\$45 billion in physical infrastructure and committed to pay around as much as US\$25 billion to the governments, tantamount to 36% of the total investment. Latin America and Caribbean countries attracted private telecommunications investments of US\$400 billion between 1982 and 2016, while governments collected around US\$67 – 17% of the total



investment in the sector. Sub-Saharan governments had the smallest ratio of just 9% – US\$10 billion of US\$115 billion total investment – as their residents had the lowest incomes and they had the smallest telecommunications services markets. Where is Turkey in this picture? Private operators in Turkey committed to pay US\$13 billion to the government and invested an additional US\$26 billion in infrastructure development between 1994 and 2014. The total amount of private investment in the Turkish telecommunications sector is approximately US\$40 billion, 33% of which was paid to the government. This ratio of 33% is remarkably high when compared with other peripheral middle-income regions like the 9% of Sub-Saharan Africa, the 14% of Europe and Central Asia (the group that includes Turkey in the WB's categorization), the 17% of Latin America and the Caribbean, and the 20% of East Asia and the Pacific. The Turkish trend is only comparable to MENA countries whose ratio is 36%. It is also possible to compare Turkey with countries that are the best investment attractors of their respective regions, as I do in figure 4.5.

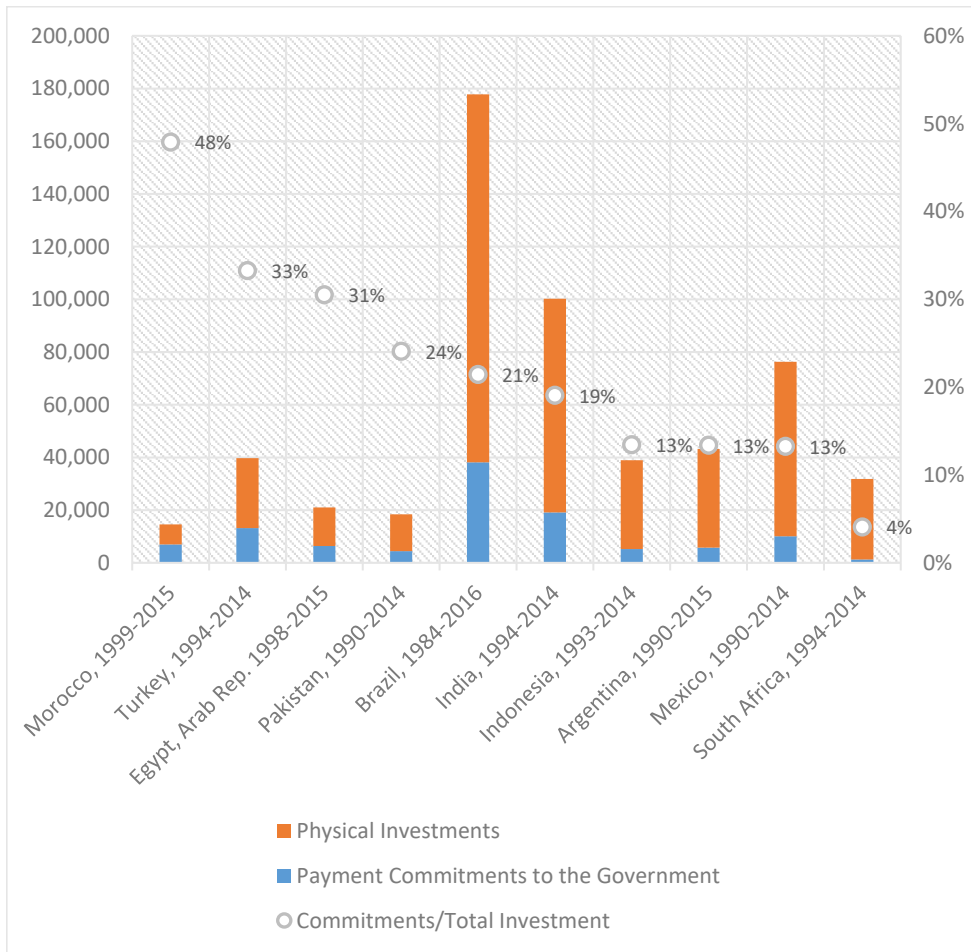


Figure 4.5 Share of payments to government in total private telecommunications investments by country, 1980s-2010s. Source: Compiled by the author based on data of WB PPI.

In this comparison, only Morocco has a higher ratio than Turkey at 48%. In this respect, the comparison with Brazil is significant as Brazil was the best performer in the middle-income group in terms of attracting private telecommunications investment. The Brazilian government collected a significant sum of US\$38 billion from telecommunications privatizations in the period between 1984 and 2016, which was the largest portion of its total privatization

revenue.<sup>20</sup> Still, private operators channeled US\$140 billion to the physical improvement of the network. The revenue generated by the Brazilian government was 21% of the total investment, well below the 33% ratio in Turkey. The relative success of Brazil in terms of improving its infrastructure was a consequence of better timing and planning of the liberalization and privatization of the sector, as well as a specific historical background characterized by the persistence of private local operators up until the fragmented nationalizations in the 1960s.<sup>21</sup> However, I argue that the difference between Turkey and other countries has been the consequence of the tendency of policymakers to increase government revenues.

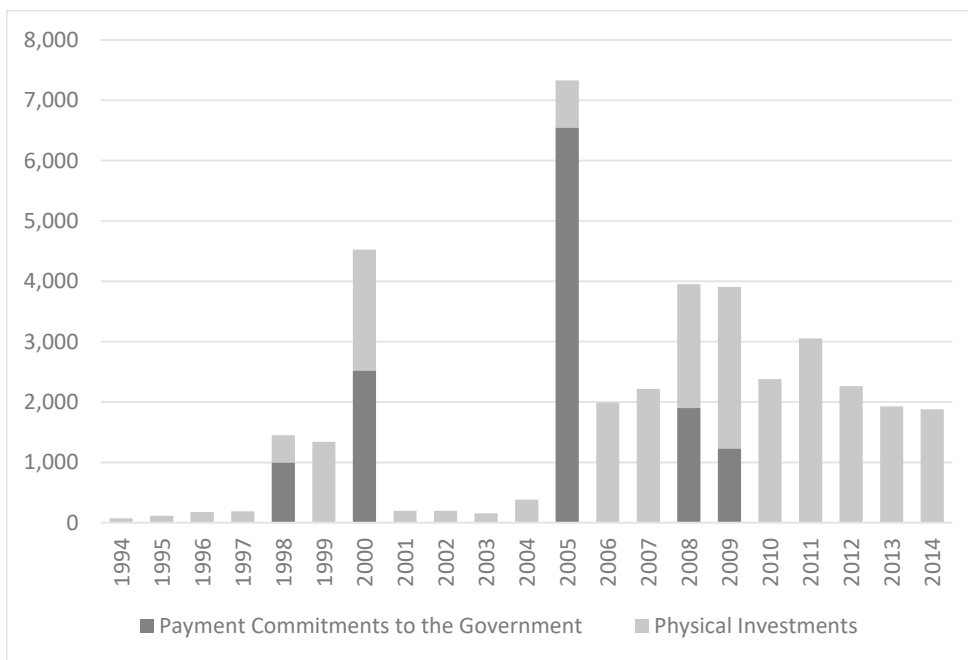


Figure 4.6 Trend of private telecommunications investments in Turkey, 1994-2014. Source: Compiled by the author based on data of WB PPI.

20 Jørgen Dige Pedersen, *Globalization, Development, and the State: The Performance of India and Brazil since 1960* (New York: Palgrave-MacMillan, 2008), 48.

21 For an evaluation of the historical background of Brazilian telecommunications, see Kingstone, "Privatizing Telebrás," 24-34.

Figure 4.6 provides the trend of private telecommunications investments in Turkey. 1998 (GSM900 licenses, US\$1 billion), 2000 (GSM1800 licenses, US\$2.525 billion), 2005 (Türk Telekom block sale, US\$6.55 billion), 2008 (Türk Telekom public offering, US\$1.8 billion), 2009 (3G licenses, US\$1.2 billion), 2015 (4G licenses, US\$4.5 billion) were peak years for privatization revenues generated.<sup>22</sup> In the second half of the 2000s, energy investments took the lead, and recently, transportation investments have dominated the Turkish infrastructure scene. However, the basic inclination of the government to prioritize revenues has not changed, as observable in figure 4.7.

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22 Actually, the Turkey's ratio of the payment commitments to the government were higher, as the TMSF privatization of Telsim for US\$4.55 billion to Vodafone in 2005 was not registered as privatization revenue. Karamehmet's US\$3 billion debt agreement with the Alfa Telecom (then Altimo) of Russia, which was also signed in 2005, was politically structured by Erdoğan and Putin. I argue that this agreement was the privatization of Karamehmet's debt to the government. The data range also does not include funds raised in 2016 through 4G auction. When these additional payments to the government by private operators are included, the ratio climbs to around 40-45%. The revenue-generating approach of the Turkish government towards the telecommunications sector has not been limited to the high revenues generated through privatization and license tenders and the 15% treasury shares in the license agreements. Taxes imposed on the consumption of telecommunications services have been another significant stream of revenue generation for the Turkish government. An official report of the Ministry of Development calculated the ratio of the amount paid to the government on the total amount of a mobile bill as high as 56% in 2006 – among the highest in the world. DPT, *Dokuzuncu Kalkınma Planı Telekomünikasyon Özel İhtisas Komisyonu Raporu* (Ankara: DPT, 2007), 80-88. The report recommended decreasing the imposed taxes, but no adequate measures were taken to this end in the following decade. In 2016, in addition to the value-added tax of 18%, consumers paid around TL38 for wireless usage licenses and a communication tax (*Özel İletişim Vergisi*) of TL46 to subscribe to mobile phone services, 25% for voice calls, and 5% for broadband service. See Vodafone Türkiye, "Vergiler," <http://www.vodafone.com.tr/Tarifeler/tarifeler.vergiler.php>, accessed May 20, 2016.

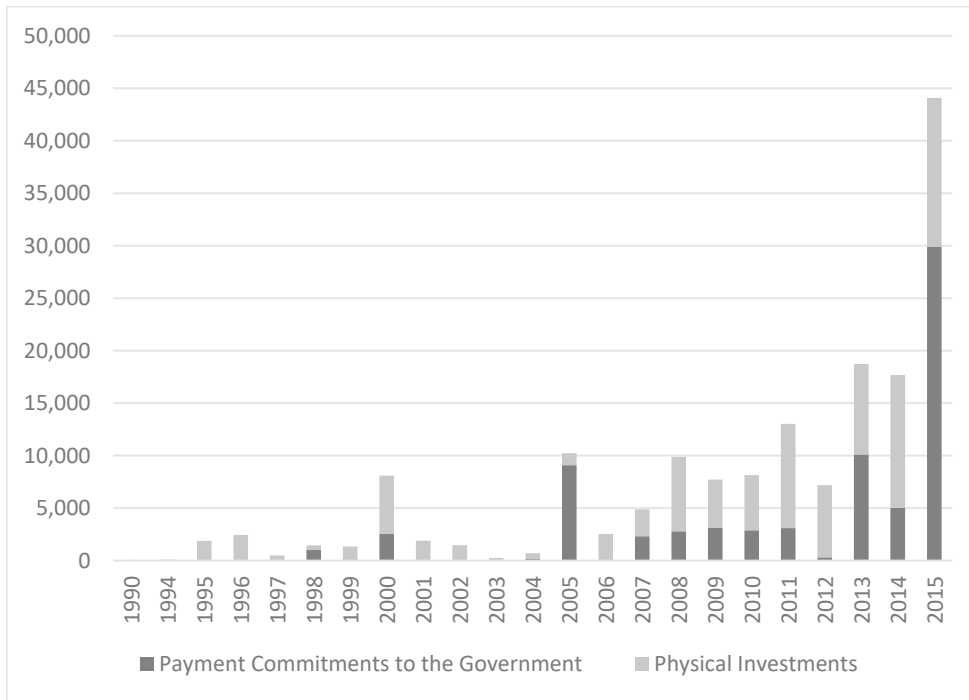


Figure 4.7 Private investments in Turkish telecommunications, energy, and transportation sectors. Source: Compiled by the author based on data of WB PPI.

According to the WB, Turkey attracted a total of US\$164 billion in private investment in its infrastructural sectors – namely telecommunications, energy, and transportation – between 1990 and 2015. However, US\$72 billion of this amount consisted of payment commitments to the government,<sup>23</sup> as much as 44% of the total private investment. This ratio is highest among all low- and middle-income regions, which is 17% for Latin America and the Caribbean, 28% for Europe and Central Asia, and 22% for MENA. This is evidence that the Turkish government prioritized revenues at the expense of better levels of physical investment. The telecommunications sector was the first infrastructure sector able to attract large amounts of private capital, and its crises can teach Turkey about possible future problems centered around infrastructure. The main problem faced by Turkish private telecommunications operators

23 The Third Istanbul Airport project of 2015 dwarves all other projects with a payment commitment of US\$29 billion.

was the double crises, namely the global bust of telecommunications equities in 2000 and the February 2001 crisis. These double crises diminished the capacity of private operators to manage their debts. Domestic factors like the economic downturn after the 2008 global crisis, Turkish political instability after 2013, and the drastic depreciation of TL could trigger a similar process for private groups active in other infrastructure sectors. The anteriority of private telecommunications investments contributes to the significance of studying problems faced by private telecommunications operators in the early 2000s. It is also crucial to emphasize that the revenue generating policy of the government and a tendency for discretionary/political dispute resolution intensified the financing crisis among private operators.<sup>24</sup>

To sum up, the high amount of the payment commitments to the government made it much more difficult for private firms to manage their debts, in a sector that was already problematic with respect to private activity and financing. The Turkish telecommunications market is not efficient for generating sales revenue when compared to those of core high-income countries. Given this condition, the amount paid to the government makes it harder to secure additional financing for infrastructure investments. In addition, the government's priority to raise funds shaped the outcome of the auctions and agreements negatively, as the best investors were not always able to make the best offer. An alternative telecommunications policy could have prioritized picking the best investor instead of the best offer to guarantee better outcomes in terms of the penetration of the network and technology upgrades.<sup>25</sup>

### § 4.3 Restructuring the Telecommunications Sector after 1994

Narrow, official definition of privatization is insufficient to encompass the reality of the introduction of private sector to infrastructure sectors. It is neces-

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24 These issues are handled in detail in chapter 5.

25 The literature labels such selective privatization as a beauty contest, in contrast with auctions. Maurice Dykstra and Nico van der Windt, "Beauty Contest Design," in *Auctioning Public Assets: Analysis and Alternatives*, ed. Marten Janssen, Marten (New York: Cambridge University Press, 2004), 64-79.

sary to consider license issuances, PPPs, and other forms of private sector authorizations in the category of privatization. It is also necessary to relocate privatization in a broader sense in the larger process of the restructuring of a sector. Restructuring is a process of transforming the sector to make it best fit the needs of the national growth strategy and private entries. It generally starts with the detachment of specific operations from larger public incumbents. Then, it is generally decided into which departments competition and privatization will be introduced and which will be free from privatization and competition.

Figure 4.8 schematizes the early history of the restructuring of the Turkish telecommunications sector. The restructured body was the Turkish PTT that included postal and telephone services together. In 1994, telephone operation was detached from the PTT and Türk Telekom was formed. The aim was to take the first step towards privatization, which would not be achieved until 2005. The other face of the detachment was to protect postal services from privatization and competition.<sup>26</sup> Another step taken in 1994 was the introduction of the mobile phone operators Turkcell and Telsim in PPP agreements that included revenue sharing with the PTT.<sup>27</sup> These agreements were converted to proper licenses for GSM900 in 1998. In 2000, two new mobile operators were introduced when licenses for GSM1800 were awarded. One of the newly introduced operators, Aycell, was a branch of the SOE Türk Telekom. In 2004, as a consequence of the debt crises of private mobile operators, Telsim was nationalized and Aycell and Aria merged. In 2005, Türk Telekom was privatized after the detachment of cable television operator, Kablo TV. In the same year, Telsim was sold to Vodafone by TMSF.

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26 The postal services and the PTT remained an SOE until 2017. In 2017, the Turkish SWF took control of the PTT. This takeover can be evaluated as the first step towards privatization. It could also be solely the rechanneling of the profits of the postal service to the SWF. The remaining public share in Türk Telekom was also transferred to SWF. See Mehul Srivastava, "Erdogan Transfers Turkey's Prime Assets into SWE," *Financial Times*, February 7, 2017.

27 Türk Telekom took over the revenue sharing agreements in the late 1994 after the detachment.

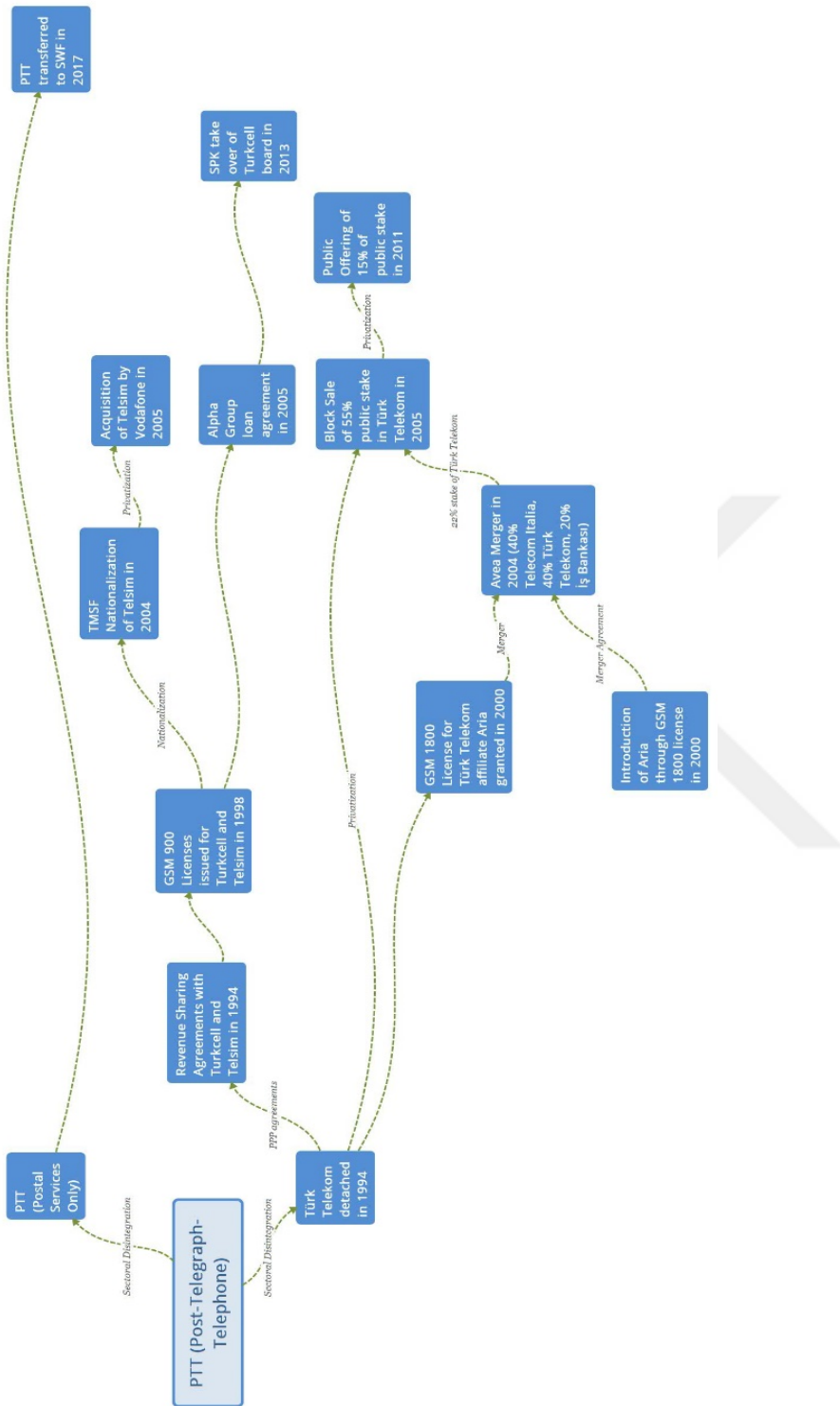


Figure 4.8 Restructuring of the PTT, 1994-2005



In this section, I analyze the early stages of the restructuring process of the Turkish telecommunications sector. To do so, I first analyze the process of the formation of a legal framework for privatization of the sector (4.3.1). Second, I elaborate on the transformation of the public fixed telephone network into a company named Türk Telekom (4.3.2). Third, I engage with the introduction of mobile telephony through the private operators Turkcell and Telsim (4.3.3). These subsections are linked to the revenue generationism I explain above, as the spirit of the restructuring was to maximize government revenue. In addition, this section covers the gap between the 1980s and 2000s, two foci of the preceding and following chapters.

#### 4.3.1 *The Legal Infrastructure of Restructuring*

The restructuring process of the Turkish telecommunications sector required a legal infrastructure. The pro-privatization and revenue generation oriented legal restructuring of the telecommunications sector also spearheaded the overall process of privatization in Turkey.<sup>28</sup> The legal framework of privatization took shape during a politico-legal war over Türk Telekom's privatization. In this case, I employ the broader sense of the term privatization, which signifies the introduction of private actors and private financing into the sector. Like other peripheral middle-income countries with low rates of savings, the introduction of private capital into the telecommunications sector was synonymous with the introduction of foreign private actors and foreign financing. In other words, for the Turkish case, a pro-privatization stance focused on telecommunications was simultaneously a stance in favor of attracting foreign direct investments (FDI). Therefore, studying the restructuring of telecommunications is more significant than a simple sector analysis as it explains the process of FDI liberalization.

Technically speaking, FDI is defined as long term capital inflow. In this respect, a long term is any term longer than a year. Greenfield investments,<sup>29</sup>

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28 Despite the fact that the motivation was to strip from the loss-making SOEs, the priority was paradoxically given to profitable, financially-attractive SOEs as spearheads of the campaign, especially the telephone operations of the PTT, to encourage the financing of the campaign.

29 Greenfield investment is the founding of an enterprise from scratch through an investment project. For example, Turkcell and Telsim were greenfield investments.

acquisitions, privatizations, and physical investments generate payment obligations, and these payment obligations generate the need for loans with long terms. Looking from the reverse angle, internationally credible investment projects and privatizations must be rational and realistic. An FDI inflow is realized through a loan agreement between a foreign lender and a domestic company.<sup>30</sup> In my Harvey-inspired theoretical framework, the FDI inflow into Turkish telecommunications sector is a segment of the overall process of the spatial replacement of capital from core high-income countries to peripheral middle-income countries, as well as from manufacturing sectors to services sectors, through the intermediation of the international financial system. Therefore, the legal restructuring of the Turkish telecommunications sector was a twofold process of legalizing and facilitating both private entry into the sector and the foreign entrance into the sector. International and inter-sectoral money and commodity movements required a legal infrastructure consisting of proper laws and regulations as well as a physical infrastructure of transportation, energy, and communications. The legal steps to liberalize short-term foreign capital inflows was taken earlier than the steps taken for FDI, and the Turkish government enjoyed short-term foreign financing sources in covering its budget deficit throughout the 1990s. However, the liberalization of FDI faced strong opposition from the various political camps as it implied the take-over of ownership by foreigners, as was the case for the national fixed telephone network.

In the initial phase, private activity in the Turkish telecommunications sector was not legal. It was only possible through concessions and PPP agreements like BOTs which limited the freedom of the companies and favored the government. These reduced these companies into the position of affiliates of the legal public incumbents. Still, Turkish governments committed to privatization employed PPP models in order to allow private activity to flourish. An example of this model is the revenue-sharing agreements between the Ministry of Transportation and the two mobile operators Turkcell and Telsim. However, this agreement had two big handicaps for the private operators (who

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30 A domestic company may be under control of a foreign private group. Still it is a domestic company as well as a resident of the country.

were legally affiliates of the SOE Türk Telekom). The larger portion of the revenue was to be channeled to Türk Telekom, and the government was authorized to suspend their economic activities. As a consequence, operators were unable to attract financing until the issuance of proper licenses in 1998. These licenses were issued by the Ministry of Transportation, on the legal basis of Law 4673, enacted in August 1996 and approved by the Constitutional Court in January 1997.<sup>31</sup> It is significant to note that the political opposition and the Constitutional Court did little to block the introduction of privatization in the mobile telephone market as GSM was falsely perceived as a luxury service with little potential. The focus of public opinion was on the fixed telephone network.

A long period of legal ping-pong between the government and the Constitutional Court delayed the tender for Türk Telekom until 1999. In September 1993, the Turkish government attempted to quickly privatize Türk Telekom under Decree Law 509.<sup>32</sup> The immediate responses of the Constitutional Court came in September and October 1993, and the decree law was blocked. The process was triggered by a petition of Mümtaz Soysal<sup>33</sup> and a large number of MPs. Strangely, Soysal was a member of a coalition partner Social-Democrat Populist Party (*Sosyal Demokrat Halkçı Parti*, SHP) and even held a seat in the cabinet as Secretary of the State. This heterogeneity regarding privatization within the cabinet was a factor that encouraged the blockage by the Constitutional Court. By doing so, the court directed government away from discretionary decision making and forced it to legislate proper rules for privatization. The government therefore had to convene the TBMM for legislation rather than provide ad-hoc solutions. Law 4000 was enacted in June 1994 to detach and privatize Türk Telekom, and the court responded in December 1994. The

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31 Constitutional Court, E.1996/57, K.1997/3, 23.01.1997.

32 The Turkish government was following the footsteps of “El Turco,” Carlos Menem, the president of Argentina from 1989 to 1999, who undertook a rapid process of telecommunications privatization that bypassed legislative bodies with the help of “need and emergency decrees.” For an analysis of the role of Menem’s 1989 Economic Urgency Act and privatization decree laws based on this act, see Rhodes, *Telecommunications Privatization and the Rise of Consumer Protests*, 69-75.

33 Mümtaz Soysal, who is a professor of constitutional law, later became the leading figure of the leftist, statist wing of the Turkish social democrats.

Court did not block the detachment but demanded further elaboration of the privatization rules. The TBMM enacted a general law of privatization, namely Law 4046, in November 1994 to provide the legal basis for the process of privatization overall as well as Türk Telekom's privatization. This was followed by a sector specific law, namely Law 4107, in May 1995. The court responded with a relatively soft decision in February 1996 that did not block the essential parts of the laws but demanded revisions about the value determination. Law 4161 in August 1996 elaborated on this area. The petition by Soysal that same month was unable to convince the court to further block the law, (according to a court decision in January 1997) in part as a consequence of the political pressure created by a relatively homogeneous government and in part because of the better legal design of the final law. In the following period, the Constitutional Court did not take as active a role as in the period between 1993 and 1997. Despite the removal of the barrier of the Court, two tenders in 2000 did not attract offers partly because of the global bust of telecommunications stocks and because the tender was for a minority stake without control power. On one hand, the opposition of Soysal and other politicians and the interventions of the Constitutional Court forced government and the TBMM to better design the legal framework of the privatization. On the other, this long process of legal ping-pong delayed privatization and resulted in bad timing as the auctions coincided with global and national crises.<sup>34</sup>

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34 For Brazil, the relatively long process of the legal preparation and auction design of the Cardoso administration is considered the main factor behind the relative success of the country in South America, in terms of attracting private investment to the sector. Other South American countries like Chile, Peru, Mexico, and Argentina experienced hasty, heavy-handed privatizations in the 1980s and early 1990s which have been labelled bad examples of the practice of the Washington Consensus. Rhodes, *Telecommunications Privatization and the Rise of Consumer Protests*, 105-135. Also see Mattos and Coutinho, "Brazilian Model of Telecommunications Reform." What would have happened if legal preparations had not ended in 1996 but in 1998 or 1999? Then it would have overlapped with the unexpected global collapse of telecommunications and attracted very small amounts of private investment. Brazil enjoyed the high-flying finances for four years with a good design of privatization, Turkey only two years with a mediocre design, and Morocco not even a full year because of the respective timing of telecommunications privatization. I argue that factor of lucky timing was as significant as the institutional design in terms of attracting capital.

Despite the fact that the public was most engaged with the failed privatization of Türk Telekom, mobile telephony license payments of US\$1 billion by Telsim and Turkcell in 1998 and US\$2.525 billion by İş-Tim (a consortium of Telecom Italia and İş Bankası) were the most significant operations at the time in terms of privatization revenues.<sup>35</sup> In addition, the foreign credit secured by the operators following the issuance of the licenses in 1998 were the largest FDIs at the time. The authority to issue licenses was then transferred from the Ministry of Transportation to the TK in May 2001 by Law 4673.

The attraction of FDI in the form of credit agreements with Turkish operators controlled by Turkish conglomerates with small shares held by foreign partners was insufficient to harness the potential of the sector in terms of attracting foreign capital. The necessary step was to legalize foreign ownership of majority stakes in the telecommunications operators in Turkey. This was a sensitive issue throughout the 1990s as leftist and nationalist fractions of the opposition, including SHP deputies like Soysal as well as MHP and RP members, resisted foreign ownership in such a strategic sector. Therefore, the legal steps that legalized and facilitated foreign ownership was delayed. The amendment to the constitution in August 1999 by Law 4446 legalizing international arbitration in the license agreements was a significant step toward facilitating the foreign investment. As a consequence, Telecom Italia was to be able to utilize the pressure of international arbitration in its dispute with the Turkish government in the 2000s.<sup>36</sup> Law 4502, namely the Telecommunications Law enacted in January 2000, set a deadline of December 31, 2003, for the end of the monopoly rights of Türk Telekom and established a regulatory agency – two steps to facilitate private entry. However, Law 4502 maintained the maximum limit of 45% foreign ownership of Türk Telekom. Law 5189, which was

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35 Despite the fact that the official definition of privatization does not include the issuance of licenses, in domestic and international public opinion these license auctions are labeled as privatizations. Public opinion was also impressed that these telecommunications auctions raised record-high privatization revenues at the time.

36 The crisis was solved by Erdoğan and Berlusconi in a political agreement that bypassed international arbitration. Still international arbitration was significant in the resolution of the dispute in favor of Telecom Italia. For details, see section 6.2.

enacted in January 2004, legalized the divestiture of the controlling majority stake of Türk Telekom and lifted the foreign ownership limit.<sup>37</sup> This legal step paved the way for the block sale of a controlling 55% stake in Türk Telekom to a foreign consortium, namely the Saudi Oger-Telecom Italia consortium, in 2005.

The redirection of foreign and domestic private funds to the telecommunications sector also brought about an opportunity to generate revenue for the government. Actually, the international public was aware that the most prominent motivator for privatization was public debt.<sup>38</sup> For example, Çiller herself emphasized the high potential revenue to be generated from the Türk Telekom sale. One point regarding the first privatization attempts to which the Constitutional Court objected was the absence of proper laws to stipulate the channeling of privatization revenue.<sup>39</sup> In response, Law 4107, which was enacted in May 1995, stipulated that 20% of Türk Telekom's privatization revenue would be channeled to the improvement of postal services, another 20% would be channeled to the telecommunications, and 20% of the revenue generated through license issuances would be channeled to the improvement of the telecommunications. The law stated that the rest of the revenue generated would be channeled to the treasury to be used for debt servicing. Law 5335, which was enacted in April 2005, legalized the full transfer of the revenue generated from privatizations to the treasury.

#### 4.3.2 *Restructuring the Fixed Telephone Segment: The Persistence of Türk Telekom as a Monopoly*

The restructuring of the fixed telephone segment Turkish telecommunications sector started with the detachment of the telephone operator from postal services, namely Türk Telekom from the PTT, in 1994. Once separated from the PTT, Türk Telekom was to be privatized in a short time. One of the structural

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37 Law 5189 also authorized TMSF to divest assets under its control, making the sale of Telsim possible.

38 "Turkey Tries to Overcome PTT Problems," *Project & Trade Finance* 131, March 1994, 22.

39 Constitutional Court, Decisions No E.1994/70 and K.1994/65-2, 22.12.1994, *Resmi Gazete*, January 28, 1995. <http://www.kararlaryeni.anayasa.gov.tr/Karar/Content/9coa105b-e30a-401f-b71e-750553e6ef82?excludeGerekce=False&wordsOnly=False>, accessed September 7, 2016.

adjustment measures following the 1994 crisis was to cut public investment expenditures directed at telecommunications infrastructure to better balance the public budget. However, privatization was delayed for more than a decade, up to 2005. During these years, investments by Türk Telekom dramatically declined as observed in figure 4.9.

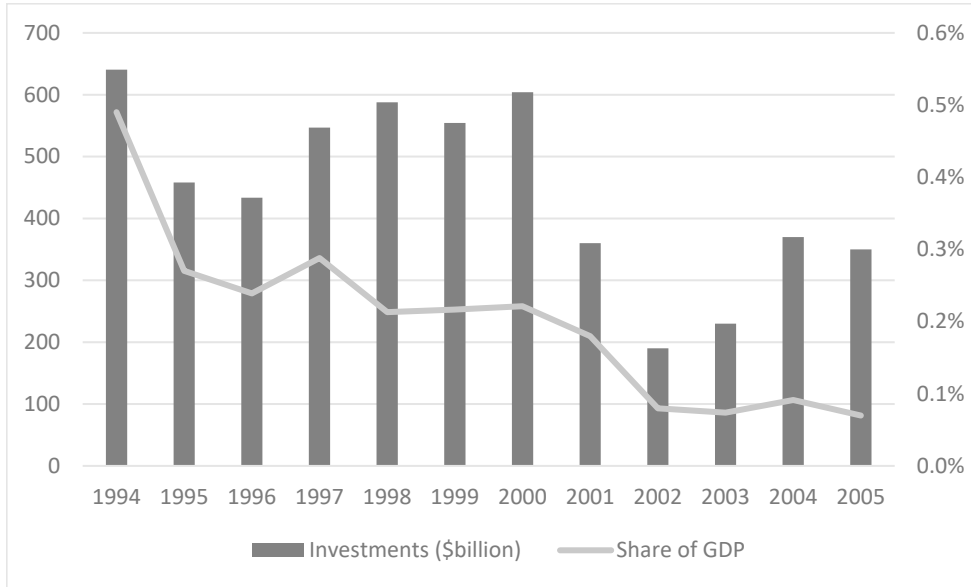


Figure 4.9 Fixed telephone investments of Türk Telekom, 1994-2005.

Source: Compiled by the author based on annual investment reports of SPO.

The declining trend worsened after 2000 (see section 6.3), the year that two unsuccessful tenders for the privatization of Türk Telekom took place.<sup>40</sup> On the other hand, sales revenues for Türk Telekom increased during this period. Profits redirected to the public budget, a policy in line with the budget disciplining of the 2000s. The level of investment in the period between 1995 and

40 January 2000 was the official date of removal of Türk Telekom from the scope of SOEs (*Kamu İktisadi Kuruluşu*) in accordance with Law 4502. Despite the change in its official categorization, actual operations were similar to that of SOEs until its privatization in 2005.

2005 was significantly smaller than the high levels of public telecommunications investment in the previous period between 1984 and 1994.<sup>41</sup> This poor level of investment in the fixed telephone network halted the growth of the subscriber base which was still well below the average among core high-income countries – the enormous expansion between 1980 and 2000, notwithstanding.<sup>42</sup> There was still room for growing the subscriber base had the investment level of earlier periods was maintained. One may argue that the fixed telephone network ostensibly lost its significance and became technologically obsolete in the decade after 1995 with the advent of the mobile telephony; however, such an argument ignores the crucial contribution of the coverage and quality of the fixed telephone network to broadband internet penetration. Low levels of fixed telephone network penetration and the lack of upgrades from copper to fiber-optic transmission lines negatively affected the widespread use and quality of Turkish fixed broadband services. As figure 4.10 demonstrates, fixed broadband penetration rose from 1.2% in 2005 to 10% in 2011 following the privatization of Türk Telekom, but did not exceed this level.

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41 The average annual public investment in telecommunications between 1984 and 1994 was US\$717 million, amounting to 0.65% of GDP. The value for the period between 1995 and 2005 was US\$430 million amounting to 0.19% of GDP. See the annual investment reports of SPO.

42 The penetration of fixed telephone lines in Turkey was around 2.5% in 1980, 12% in 1990, and 30% in 2000. The same for the high-income countries in those respective years was 28%, 38%, and 51%. Source: WB Development Indicators. See figures 3.1, 3.12, 3.13, and 3.14.



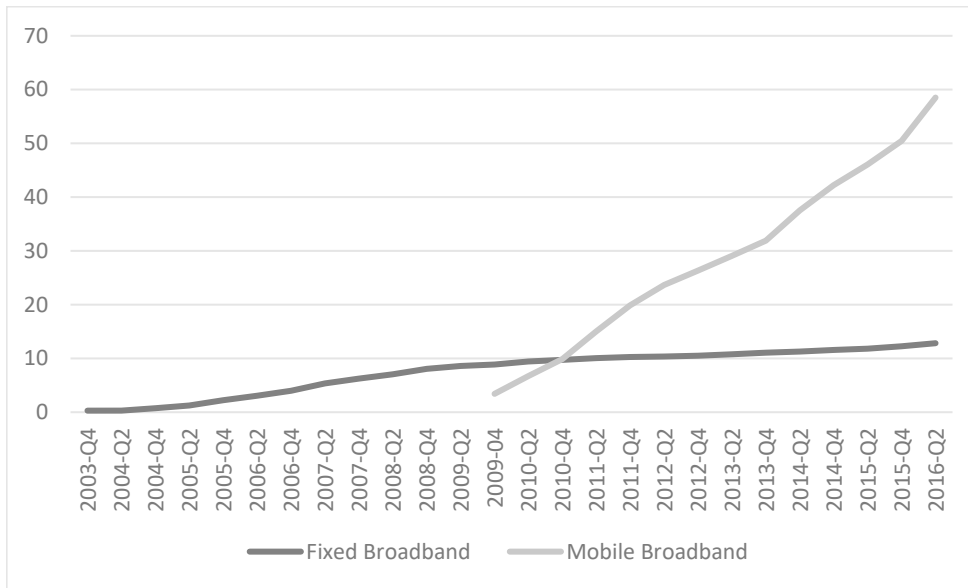


Figure 4.10 Turkish fixed and mobile broadband internet penetration (%), 2013-2016. Source: Compiled by the author based on quarterly market reports of BTK.

As can be observed in figure 4.10, the expansion and popularization of broadband internet service started relatively late in Turkey over the mobile telephone network and in a manner specific to limited use over smart phones. This hindered the quality of internet services, the penetration level of which was the contemporaneous indicator of telecommunications development. It may be argued that with the advent of the high-speed wireless internet technologies 3G in 2009 and 4G in 2015, fiber-optic fixed broadband could be substituted with wireless networks. Following the advent of 3G in 2009, mobile broadband internet penetration rose from zero to 30% by 2013 and exceeded 58% by the second quarter of 2016. However, data limits and spectrum allocation issues constrained the long-term development of data transfer over wireless networks.

The fixed telephone network separated from the PTT but its national integrity was protected. One option was to disintegrate the fixed telephone in-

cumbent into regional operators as was done in telecommunications restructurings in the United States and Brazil,<sup>43</sup> or electricity distribution restructuring in Turkey.<sup>44</sup> However, Türk Telekom was detached as a whole, becoming a nationwide incumbent like those in Western European countries and South Africa.<sup>45</sup> In addition, Türk Telekom was donated with affiliate operators in mobile telephony (Aycell, then Avea), broadband internet (Ttnet), and cable television (Kablo TV). Except the detachment of cable television operator, Kablo TV, there was no sectoral disintegration of Türk Telekom before its privatization in 2005. This sectorally- and geographically-integrated structure created

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- 43 The regulated telecommunications monopoly of the United States, namely AT&T, was disintegrated into seven bell operating companies in 1984. Brock, *Second Information Revolution*, 205-206. In Brazil, the fixed and mobile divisions of the nationwide publicly-owned Telebras system were disintegrated in 1996, and the mobile operators were privatized. In 1998, the fixed operations of Telebras were disintegrated into three regional blocks and privatized. Rhodes, *Telecommunications Privatizations and Rise of Consumer Protests*, 112-116. Also see Mattos and Coutinho, “Brazilian Model of Telecommunications Reform.” Chilean telecommunications privatization was another example of regional disintegration. Stehman, “Network Liberalization and Developing Countries: Case of Chile.”
- 44 The restructuring of the energy sector in Turkey can be summarized as the sectoral disintegration of TEK into TEAŞ (electricity generation [then EÜAŞ] and transmission [then TEİAŞ]) and TEDAŞ (electricity distribution) in 1993, the disintegration of national electricity distribution operations into the 21 regional companies, and the privatization of these companies in the 2010s. İzak Atıyas, Tamer Çetin, Gürcan Gülen, *Reforming Turkish Energy Markets: Political Economy, Regulation and Competition in the Search for Energy Policy* (New York: Springer, 2012), 1-14. The record high revenue generated from official privatizations was US\$12 billion in 2013 which was fueled by the divestiture of regional energy distribution companies. See figure 4.3.
- 45 For telecommunications restructuring in the United Kingdom, France, and Germany, see Thatcher, *Internationalization and Economic Institutions*, 175-201. For the case of South Africa, see Horwitz, *Communication and Democratic Reform in South Africa*. Telmex of Mexico is a rare example of the geographically-integrated privatization of telecommunications in Latin America. Carlos Casaus, “Privatization of Telecommunications: The Case of Mexico” in *Implementing Reforms in the Telecommunications Sector: Lessons from Experience*, ed. Bjorn Wellenius and Peter A. Stern (Washington, D.C.: World Bank, 1994), 177-194.

an advantage for the bidder and labeled as a poor auction design.<sup>46</sup> However, given that the government's priority in the restructuring process was to maximize privatization revenue, so the decision to go to auction with a sectoral and national integration of the incumbent is rational. The detachment of valuable assets like Ttnet and Avea would have decreased the value of possible offers for the deteriorating fixed telephone network.

The Türk Telekom monopoly was to be abolished on December 31, 2003, according to Law 4502 that was enacted in January 2000. However, the market dominance of Türk Telekom in the fixed telephony and the fixed broadband sectors continued even after the legalization of private entry in 2004. The protection of the regional and sectoral integrity of Türk Telekom in the privatization process was the main factor behind its ongoing monopolistic power. Another factor was the lack of infrastructure sharing regulations, and Türk Telekom maintained the privilege of controlling its nationwide network.<sup>47</sup>

The Electronic Communications Law 5809 was enacted in November 2008 changed the name of the regulatory agency from TK to BTK and bestowed the BTK with additional authority over the market, especially in terms of its ability to impose sanctions on operators with monopolistic power – labelled as “significant market power” (*Etkin Piyasa Gücü*, EPG).<sup>48</sup> As a consequence of the antimonopoly measures executed in 2008, the market share of alternative operators other than Türk Telekom slightly increased (figure 4.11).

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46 From the viewpoint of the telecommunications policy research agenda, the horizontal integration of a fixed telephone operator, a mobile telephone operator, and an internet service provider results in unjust competitive advantages.

47 For a study from a pro-competition point of view, see Atiyas and Doğan, “Political Economy of Liberalization of Fixed Line Telecommunications in Turkey.”

48 For an evaluation of the law according to EU competition standards, see Atiyas, “Regulation and Competition in Turkish Telecommunications Industry.”

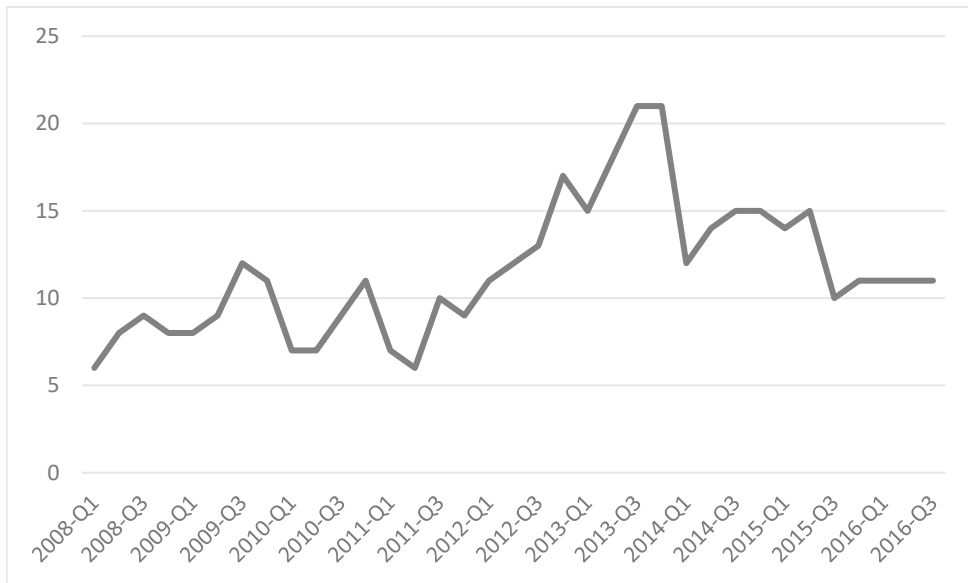


Figure 4.11 Market share of alternative fixed telephone operators by revenue (%), 2008-2016. Source: Compiled by the author based on quarterly market reports of BTK.

Figure 4.11 demonstrates that the market share of alternative operators (in other words operators other than Türk Telekom) in terms of sales revenue from fixed telephone services increased from 6% in 2008 to 21% by 2013, but then declined to 11% by 2016. I conclude that despite the slight increase in their market share following the pro-competition measures of the 2008 Electronic Communications Law, Türk Telekom protected its monopoly over the fixed telephone market. Türk Telekom also retained the majority market share in the fixed broadband internet segment (figure 4.12).

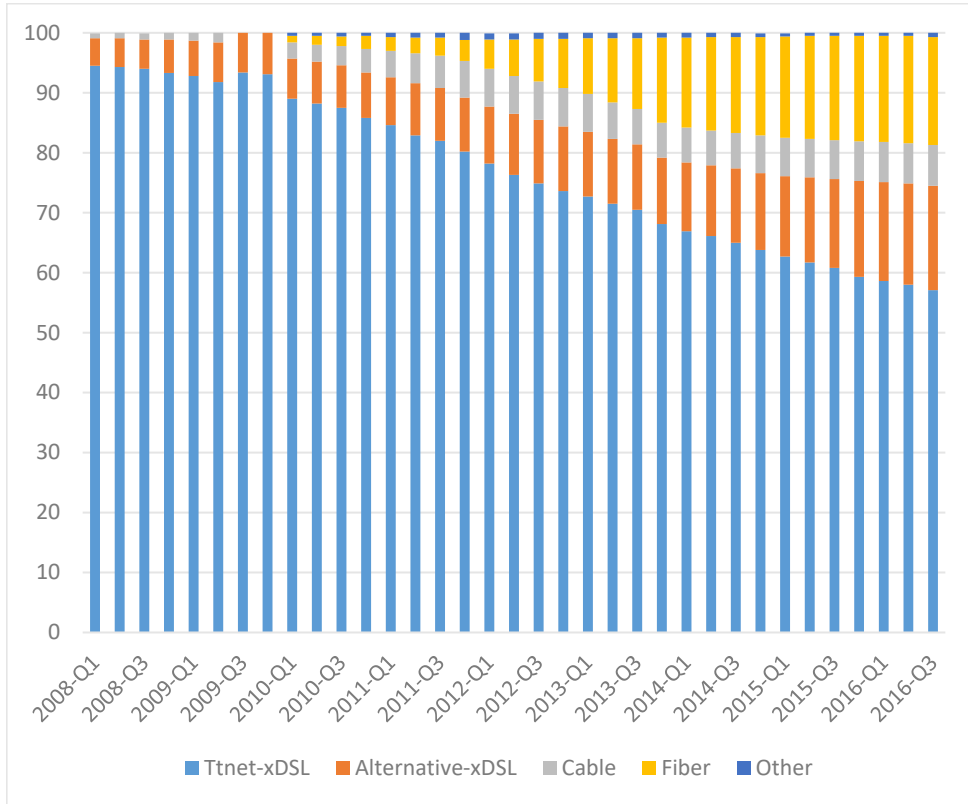


Figure 4.12 Share of fixed broadband subscribers (%), 2008-2016. Source: Compiled by the author based on quarterly market reports of BTK.

The share of the Ttnet declined from 94% in 2008 to 80% in 2011 to 58% in 2016. In the same time span, the shares of the alternative DSL operators jumped from 4.6% in 2008 to 17.4% in 2016. In this period, the share of the fiber-optic connections rose from zero to 18%. I conclude that the fixed broadband market is still dominated by Türk Telekom through the affiliate Ttnet, which was renamed to Türk Telekom in 2016. Copper-based DSL technology dominate high-speed technological alternatives like fiber-optics and cable. The investment in fiber-optic line transmission by private internet operators has been limited to high-income districts with high demand, a template which is to be expected from the network building style of the private sector.<sup>49</sup>

49 For a discussion on the best regulatory approach to broadband internet services, see Köksal and Ardiyok, “Reviewing Regulatory Policy for Broadband in Turkey.” This relatively recent

Investments in the network by the mobile telephone operator Aycell, an affiliate of Türk Telekom formed as an appetizer before the privatization auctions of 2000, were also in place in this period. A contract worth US\$103 million was signed with Ericsson<sup>50</sup> and Siemens<sup>51</sup> and another worth US\$145 million with the Nortel-Netaş and Palmet consortium had a three-year term.<sup>52</sup> These investments were well below the investments of the competitor mobile telephone operators.<sup>53</sup> As a consequence, the subscriber base of Aycell was the smallest among the four mobile operators between 2000 and 2004. Aycell and Aria (the mobile telephone operator controlled by Telecom Italia) merged in 2004 to form Avea. A 40% stake in Avea was under the control of Türk Telekom and another 40% was under Telecom Italia.<sup>54</sup> This merger caused great confusion before the privatization auction for Türk Telekom in 2005 because privatization would make Telecom Italia the largest stakeholder in Avea. As a consequence, other than Telecom Italia no winner of the Türk Telekom auction would gain control of Avea. This provided an advantage for the consortium of Saudi Oger and Telecom Italia. As a consequence, the Saudi Oger-Telecom Italia consortium won the auction when other significant European

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study (2015) supports limited competition in the broadband segment in order to boost investment in high-technology networks like fiber-optics. This tolerance of the concentration of market power for the sake of infrastructure development is a novel approach in telecommunications policy research agenda. For further discussion, see subsection 2.3.4. For a discussion on broadband media conglomerates in the United States and Turkey, see Sırrı Emrah Üçer, “Net Neutrality Policy in the United States and Insights for Turkish Policy,” paper presented at the Third Annual Conference on Social Sciences (AICSS), Yıldız Technical University, Istanbul, October 26-27, 2017.

50 The Swedish equipment manufacturer.

51 “Aycell İhalesi Ericsson ile Siemens’in,” *turk-internet.com*, February 2, 2001. <http://www.turk-internet.com/portal/yazigoster.php?yaziid=1163/> accessed September 4, 2016.

52 “Aycell GSM 1800 Şebekesini Netaş ile Genişletiyor,” *turk-internet.com*, August 29, 2002. <http://www.turk-internet.com/portal/yazigoster.php?yaziid=5330/> accessed September 4, 2016.

53 For an analysis of the investments of Turkcell and Telsim, see chapter 5. For Aria, see section 6.2.

54 Remaining 20% for the small partner of Aria, namely İş Bankası.

operators like Telefonica withdrew. Later, Telecom Italia's stake in Türk Telekom and Avea were taken over by Saudi Oger. The auction that was intended to attract a strategic foreign partner which was experienced in investments failed. The Saudi Oger group, whose first and only telecommunications investment was Türk Telekom, emerged with control.<sup>55</sup>

State ownership of a mobile operator may seem awkward in the present situation of the mobile telephone market of Turkey, as mobile telephone service had been initiated by private operators and the hegemony of private ownership in the market was never challenged. However, many European mobile operators like affiliate operators of Telecom Italia and Sonera (Finland) were formed and expanded their networks (including investments overseas) before their parent incumbents were privatized. The lack of success in the case of Ay-cell in Turkey was a consequence of the poor level of investment.

#### 4.3.3 *Introduction of Mobile Telephone Service through Private Operators*

The most significant part of the restructuring of the telecommunications sector was the establishment of a mobile telephone market through introduction of private operators in 1994. The authorization of Turkcell and Telsim as private mobile telephone operators – consortiums that included experienced European investors – can be labelled a beauty contest in terms of auction design. The exponential growth of penetration in the following decade is a consequence of the good decision to choose good investors.

As early as 1987 Murat Vargı<sup>56</sup> started to investigate the possibility of introducing cellular telephone services in Turkey. This coincided with the lobbying activities of the Turkish branch of Ericsson. Ericsson had a long history of supplying telecommunications equipment in Turkey which suffered during the public investments of 1984-1994 when orders from the PTT were directed

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55 For details of this merger and its effect on Türk Telekom's privatization, see chapter 6.

56 Murat Vargı started his career at Koç Holding in the 1970s. He specialized in foreign trade. He was one of the pioneers of cellular telephone technology in Turkey and contacted politicians and prominent holdings to introduce the service. He later became one of the Turkish partners of Turkcell.

to Teletaş, Netaş, and Siemens. The Swedish equipment producer was seeking to regain its share in the Turkish telecommunications equipment market by introducing the GSM system. Özal was also keen to introduce the service as he had observed its initial introduction in core high-income countries and was aware of the leading role of Scandinavians in introducing mobile telephone technology.<sup>57</sup>

Well-known and rich figures in the Turkish business world were suspicious about the prospect of the cellular telephone in Turkey.<sup>58</sup> Karamehmet was not among the richest Turks when he was convinced to invest, and his flourishing wealth, like that of the Uzan family,<sup>59</sup> his counterparts at Telsim, was indebted to the success of the mobile telephony. It was not possible to introduce mobile phone service until revenue sharing agreements were signed in 1993 and the services were commercially launched in 1994.<sup>60</sup> The revenue-sharing agreements, a kind of PPP agreement under the category of the BOT model, was a formula to bypass the legal structures of the time that did not

57 For the roles of Vargı, Ericsson, and Özal in the introduction of mobile telephony in Turkey, see “Turkcell Taps into Turkey’s Mobile Passion,” *Euromoney* 346, February 1998, 139-42.

58 For example, the mobile telephone was being perceived as a technological mambo-jambo by the head directors of Sabancı Holding, even during the GSM1800 license auctions of 2000. Elder members of Sabancı family were very hostile against use of the mobile telephone among holding employees and were very hesitant about the holding’s bid in the auction. Ali Sabancı, a young member of the family noted that there was a mood of celebration following the lack of success of Sabancı Holding in grabbing the GSM1800 license. Speeches of Ali Sabancı and Hüsnü Özyeğin in *Başarısızlık Zirvesi*, September 2012, Özyeğin University, İstanbul. The video of the conference is online. Especially see frames between 1:55 and 3:15: “Kararlar ve Başarısızlık Üzerine Eğlenceli bir Hatıra,” October 28, 2014. [https://www.youtube.com/watch?v=o\\_h1W1ZlVIM](https://www.youtube.com/watch?v=o_h1W1ZlVIM) accessed February 28, 2017.

59 Uzan family was controlling the Rumeli Holding, one of the significant Turkish conglomerates. In the 1990s, they were controlling banks, media enterprises, energy companies and other various types of business. Uzan family also controlled Telsim, one of the first two private mobile telephone operators. Cem Uzan’s political adventure with the Young Party (*Genç Parti*, GP) and his opposition against Erdoğan paved the way for collapse of their empire, as the belongings of the Rumeli Holding taken over by TMSF in 2004, as a collateral to their debts to public caused from sunken assets of İmar Bankası. See section 5.5.

60 For details, see Reinhard Scheller, “GSM Developments in Turkey and the Middle East,” *Telecommunications* (International Edition), 28.9, September 1994, 95.



allow the issuance of proper licenses to private operators. In line with the fifteen-year revenue sharing agreement, 67.1% of the revenue generated by mobile telephone operations would be transferred to the PTT. These agreements were taken over by Türk Telekom after its detachment in 1994.

The inclusion of Ericsson as a partner in Turkcell as well as Alcatel and Siemens in Telsim was uncommon as equipment providers generally did not tend to hold shares in operators. But the inclusion of equipment providers was a strategic tool for Turkish authorities facilitate equipment provision to the operators. In legal terms, Turkcell and Telsim were private partners of the public incumbent PTT which provided mobile telephone services between 1994 and 1997 rather than completely private operators with Western-style licenses. Following the issuance of licenses in 1998, equipment providers sold their stakes to other partners in line with the general inclination of equipment providers not to be shareholders in telephone operators.

Another foreign shareholder in Turkcell was Finland Telecom. Finland Telecom had considerable experience operating cellular telephone services. In addition, its inclusion facilitated the attraction of funds from international capital markets. Scandinavian operators and manufacturers were among the most motivated to expand geographically and the most experienced in constructing networks as their home markets had developed relatively early and there domestic growth opportunities were going to be depleted within a decade.<sup>61</sup> This explains Turkcell's extraordinary belief in the potential of the Turkish mobile market and its inclination to invest heavily. The small, domestic shareholders Murat Vargı and Osman Kavala were also known for their innovative approach to the business, a factor that intensified the blue-chip characteristics of the company.<sup>62</sup> Karamehmet also had a talent for handling political

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61 Even in 1994 the penetration of mobile telephones in Finland was 13.28%. In 1998, it reached 55.22%. The average of high-income countries in 1994 was only 4.23%, and it reached 21% in 1998. See WB Development Indicators. This cycle of technological innovation, growth of the domestic market, maturing of the domestic market, the depleting of domestic growth opportunities, and the seeking to expand into foreign markets is an example of a real-world practice of spatial fix/replacement of capital in the conceptual framework of Harvey. See 2.4.1.

62 "Blue-chip" is a term to signify hot prospect technology companies with good financial profiles.

relationships in addition to being the largest Turkish shareholder, which was useful for the early success of Turkcell.

In the period between 1994 and 1997, the main equipment supplier of Turkcell was Ericsson. Infrastructure investments averaging US\$100 million annually<sup>63</sup> were funded mainly by Turkcell's shareholders and by foreign credit. Debt accumulation in the period was relatively small as a consequence of two factors. On one hand, the companies had not committed to large license fee payments at the start of their commercial sales as they operated under a revenue sharing agreement. On the other, Türk Telekom's 67.1% share of the revenues was high and limited the ability of the companies to borrow large debts. Prices were also controlled by Türk Telekom, a factor that prevented expansion. In addition, the revenue sharing agreement legally gave the government much room to maneuver and to behave high-handedly towards the companies. The unexpected suspension of the agreements by the Ministry of Transportation or directly by the prime minister was always a possibility, a factor that reduced the motivation of the companies to invest.<sup>64</sup>

After five months of infrastructure construction, Turkcell's commercial activities started in February 1994,<sup>65</sup> three months before Telsim started in May 1994.<sup>66</sup> This head start by Turkcell gave it an advantage in capturing a greater market share. The second incident that negatively impacted the market share of Telsim was an approximately seven-month suspension of its revenue sharing agreement between November 1995 and July 1996 by the government under Prime Minister Çiller.<sup>67</sup> Turkcell also experienced a suspension under

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63 A total of US\$428 million in four years between 1994 and 1997. WB PPI Database.

64 The average annual investment of Turkcell in infrastructure jumped to US\$760 million in the three-year period between 1998 and 2000, up from US\$100 million from 1994 to 1997. That was motivated by the issuance of the license in 1998, an agreement that decreased the treasury share to 15% from 67.1% and closed the room for governments to intervene arbitrarily. See section 5.3.

65 "Artık Telefonu Cebinizde Bilin," *Milliyet*, February 24, 1994, 7.

66 "Telsim'in Yeni Sahibi Vodafone," *Hürriyet*, December 15, 2005.

67 John Barham, "Ericsson wins \$100m deal," *Financial Times* (London), July 11, 1996.

the subsequent government of Necmettin Erbakan,<sup>68</sup> but it lasted only about two months between August and October of 1996.<sup>69</sup>

An additional factor that accelerated the growth of Turkcell's market-share was its larger investment in infrastructure. Even before the license agreements of 1998, Turkcell invested around US\$430 million in infrastructure over the three years between 1994 and 1997. The investment by Telsim in the same period was only around US\$130 million.<sup>70</sup> On one hand, the greater expansion of Turkcell's network relative to Telsim's was a consequence of the greater performance of its infrastructure investment. On the other, investment performance is a function of financing success, and international borrowers are more motivated to finance companies with larger market slices. I conclude that the early market domination of Turkcell was a consequence of two inter-related factors, namely that it was commercially active eight months more and invested three-and-a-half times more in the four-year period between 1994 and 1997. The creation of competition in the mobile market as a primary goal of telecommunications policy failed, and Turkcell had the dominant position as early as the mid-1990s as is demonstrated in figure 4.13.

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68 Erbakan, another engineer who had graduated from İTÜ, was the founder and leader of the Islamist MSP. In the 1990s, he succeeded in carrying his new party, the RP, into power. His political career was damaged following TSK intervention in 1997. Later he came into conflict with younger members of his party. Erdoğan led the opposition to exit Erbakan's party and found the AKP.

69 Metin Münir, "Turkcell's Line Goes Dead," *Euromoney*, 331, November 1996, 62.

70 WB PPI Database.

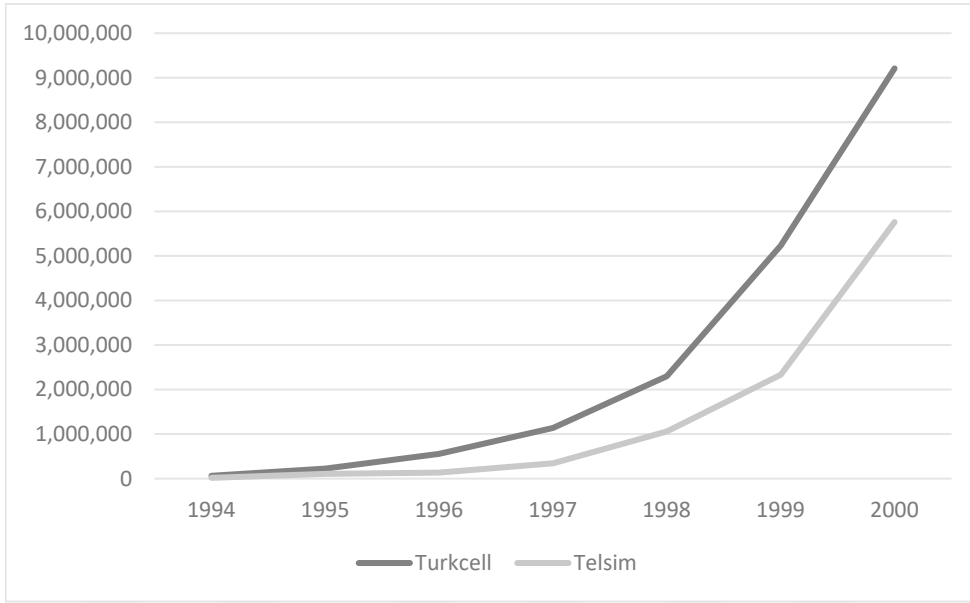


Figure 4.13 Subscriber bases of Turkcell and Telsim, 1994-2000. Source: Compiled by the author based on data provided by DPT, *Sekizinci Beş Yıllık Kalkınma Planı Haberleşme Özel İhtisas Komisyonu Raporu* (Ankara: DPT, 2001), 59.

The original revenue sharing agreements stipulated that a new operator would be introduced after every additional 400 thousand subscribers.<sup>71</sup> Despite the fact that the entrance of multiple operators was intended, the agreements defined no regional boundaries for initial and future entrants like in the examples of mobile telephone auctions in the United States and Brazil and case of energy distribution in Turkey.<sup>72</sup> This condition of introducing a new private entrant after every additional 400 thousand subscribers was not implemented by the government. This greatly favored Turkcell and Telsim. Had the original

71 TBMM, “9/42 Esas Numaralı Meclis Soruşturma Raporu,” June 20, 2000.

72 For initial regionalized private mobile telephone auctions in the United States, see Brock, *Second Information Revolution*, 219-243. For the Brazilian mirror strategy to introduce new regional private mobile telephone competitors in addition to the disintegrated and privatized Telebras, see Mattos and Coutinho, “Brazilian Model of Telecommunications Reform.” For the regional disintegration of the Turkish electricity distributor TEDAŞ into regional operators, see Atiyas, Çetin, Gülen, *Reforming Turkish Energy Markets*, 1-14.

condition been implemented, eight entrants would have been introduced by 1998 when the total subscriber base exceeded 3.3 million.<sup>73</sup> Probably, like prominent figures in the Turkish business world, the government and bureaucrats did not expect such spectacular growth from zero to 3.3 million in four years and were not institutionally prepared for an intense period of auctions. As a consequence, a duopolistic structure formed in which Turkcell had the lion's share.

In the 2000s, Turkcell faced a serious crisis of ownership and control which I analyze in section 5.4. However, there were no crises of ownership or control of Turkcell during this early period of the 1990s. In February 1994 the majority shareholder was Finland Telecom with a 34% stake, Çukurova Holding with 23%, Ericsson with 15%, M.V. Telekomünikasyon (Murat Vargı) with 14%, and Bilka (Osman Kavala) with 14%. By February 1998, Çukurova Holding was on to a 38% share of Turkcell as it had some of stakes of Vargı and Kavala. Finland Telecom (later Sonera) held the second largest share with 34%. Ericsson was third, until it equally divested its 15% stake between two partners in response to the issuance of formal licenses in 1998. Two small Turkish shareholders remained: Murat Vargı (MV Telekom) with a 7% share and Osman Kavala (Bilka) with a 6% share.<sup>74</sup> In the 2000s, Karamehmet's control over Turkcell was damaged by financing and debt issues, and a crisis of control started. In the end, control of the leading operator was taken over by an "independent" council of directors appointed by the SPK in March 2013.<sup>75</sup> Telsim was under the control of Rumeli Holding until it nationalized by TMSF in February 2004 followed a debt dispute between vendors Motorola, Nokia, and Rumeli Holding. Telsim was reprivatized by TMSF in 2005 through a tender that was won by Vodafone.<sup>76</sup>

The government intended to introduce three new entrants to the mobile telephone segment in 2000. One was Aycell, a publicly-owned affiliate of Türk

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73 *WB Development Indicators Database.*

74 "Turkcell Taps into Turkey's Mobile Passion," *Euromoney*, 346, February 1998, 139-42. The shareholder structure in February 1994 was as follows. Finland Telecom 34%, Çukurova Holding 23%, Ericsson 15%, M.V. Telekomünikasyon 14%, and Kavala 14%.

75 The council included former ministers of AKP governments like Hilmi Güler and Atilla Koç.

76 These issues are discussed in detail in chapters 5 and 6.

Telekom, which was founded as an appetizer for privatization. The intended entrance of two new private operators was not achieved as the auction strategy of İş-Tim (a consortium of Telecom Italia and İş Bankası) deterred new offers. It offered an unexpectedly high amount of US\$2.525 billion. In 2004, İş-Tim's Aria and Türk Telekom's Aycell merged to form Avea. (For details, see section 6.2.) Despite the presence of alternative private mobile telephone operators, Turkcell protected its dominant market position. The advent of Saudi Oger and Vodafone in 2005 was a turning point, however, as these new foreign investors insisted on a revision of the rules of competition. The intended introduction of 3G technology was blocked by these foreign investors which boycotted the auction in 2007.<sup>77</sup> In 2008, the Electronic Communications Law was enacted and established measures to curtail the controlling market power of Turkcell. As a consequence, the market shares of Avea and Vodafone Turkey have increased in the last decade.

#### § 4.4 Restructuring as a Disciplining of the Working Class: The Process of Privatization and Squeezing of Number of Employees

The privatization of telecommunications was the spearhead for an overall campaign for privatization in many countries. Transformation of national accumulation strategies in line with finance-dominated capitalism necessitated a flexible labor market in addition to privatization. The privatization of telecommunications played a significant role in breaking the resistance of working classes of individual countries to a flexible work regime. Telecommunications sector hosted the most populous block of well-organized, secure workers

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<sup>77</sup> Turkcell was the only operator that made a bid at the 3G mobile data license auction in September 2007, as Avea and Vodafone refused to participate. In the same month, TK cancelled the auction by reason of lack of competition conditions. "Cep Telefonunda 3G İhalesi İptal," *Hürriyet*, September 19, 2007.

in core high-income countries as well as in peripheral middle-income countries like Turkey and India.<sup>78</sup> The restructuring of the Turkish telecommunications sector was a crucial step in breaking the resistance of the unionized Turkish working class –in other words, in making the labor market more flexible by defeating a nationwide and well-organized section of the class. Mainstream studies of the privatization and liberalization of the Turkish telecommunications sector are silent on this aspect of the process. This section analyzes the restructuring of labor in the specific case of telecommunications as part of the overall restructuring and privatization of the telecommunications sector.

The most observable effect of the restructuring process on the employees of Türk Telekom was the shrinking of the number of employees. This started as early as 1994 when it was decided to detach Türk Telekom from the PTT. Throughout the 1980s, the number of employees and the Turkish telecommunications sector expanded as a consequence of the deployment of heavy public investment programs. From 1983 to 1993, the number of the employees increased from 70 to 93 thousand. 1993 was the peak with 93,897 employees. In 1994, the government decided to privatize fixed telephone operations and

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78 In democratic settings, it is difficult to achieve a restructuring that is opposed by a huge working class which includes employees and retirees of an individual PTT and their families. Therefore, as Burnham put it, the depoliticization of decision mechanisms regarding restructuring and the elevation of privatization policy above political debates and elections has been useful in pacifying working-class opposition. In this respect, Burnham offers the understanding that liberal regulation (“de-politicization” in his terminology) is a mechanism to discipline the labor, as well as the money (through technocratic Central Banks independent of elected governments). Peter Burnham, “The Politics of Economic Management in the 1990s,” in *Global Restructuring, State, Capital and Labour: Contesting Neo-Gramscian Perspectives*, ed. Andreas Bieler, P. Burnham, A. Morton (New York: Palgrave MacMillan, 2006), 91-110. However, telecommunications privatization in Turkey does not perfectly fit Burnham’s analysis, as government initiative was the determining factor in privatization policies. AKP governments retained the technocratic mechanisms of monetary policy and privatization policy until the 2010s and blended political cunning and technocratic swiftness in order to achieve privatization. In addition, they absorbed the reactions of the employees of privatized SOEs or routed them into non-class ideological polarizations. Still, Burnham’s concept of disciplining labor is useful to analyze the significant contribution of privatizations in the formation of a flexible accumulation regime with a flexible work regime, a formula which is also in effect in Turkey.

started to implement measures to decrease the number of employees. These included a series of methods from encouraging early retirement to displacement to other public offices. In 2000, when the first concrete attempts at privatization were made, the number of employees was around 72 thousand. (See figure 4.14.)

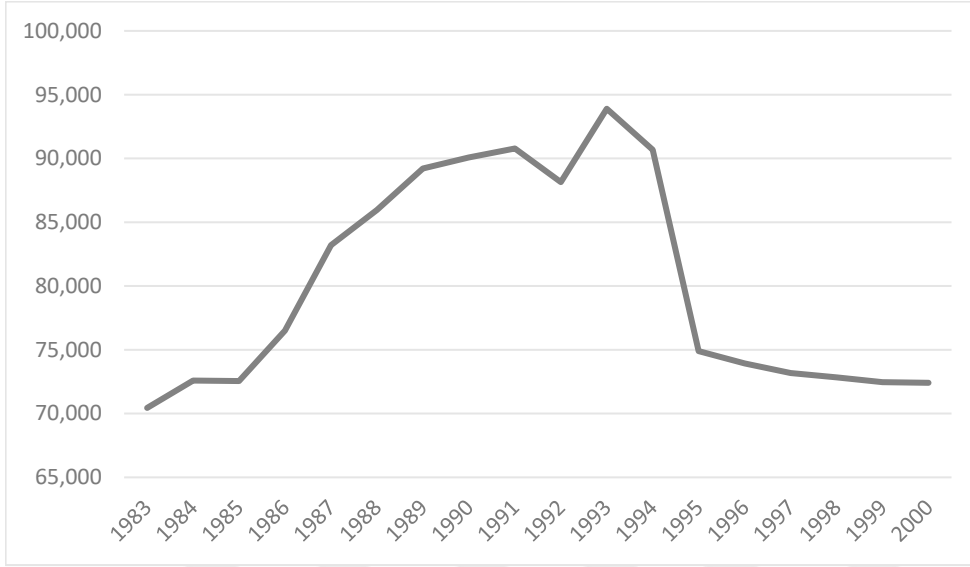


Figure 4.14 Number of employees in the Turkish telecommunications sector, 1983-2000. Source: Compiled by the author based on Haşim Akça, “Telekomünikasyon Sektörü Türkiye AB Ülkeleri Karşılaştırmalı Analizi,” *Çukurova Üniversitesi Sosyal Bilimler Enstitüsü Dergisi* 16, no. 1 (2007): 19.

The process of reducing the number of employees of Türk Telekom continued after unsuccessful attempts at privatization in 2000, and the number decreased from 69.5 thousand in 2001 to 61.5 thousand in 2003<sup>79</sup> and to 53.3 thousand in 2005. Following privatization, the decline continued, and the total employment among Türk Telekom affiliates shrank to 34.1 thousand by 2015.<sup>80</sup> The decline in employment in the fixed telephone operation was faster, as it shrank to 21.3 thousand by 2014. The data demonstrates that as the significance

79 Telekomünikasyon Kurumu, *2003 Faaliyet Raporu* (Ankara: Telekomünikasyon Kurumu, 2004).

80 Türk Telekomünikasyon A.Ş., *2015 Faaliyet Raporu* (Ankara: TTAŞ, 2016).



and subscriber base of fixed telephone services decreased, the share of the other affiliates of Türk Telekom rose. Among these affiliates, the call center affiliate Assist is the most crowded with around 9,000 employees in 2015. Avea was run by 2,100 employees in 2014.<sup>81</sup>

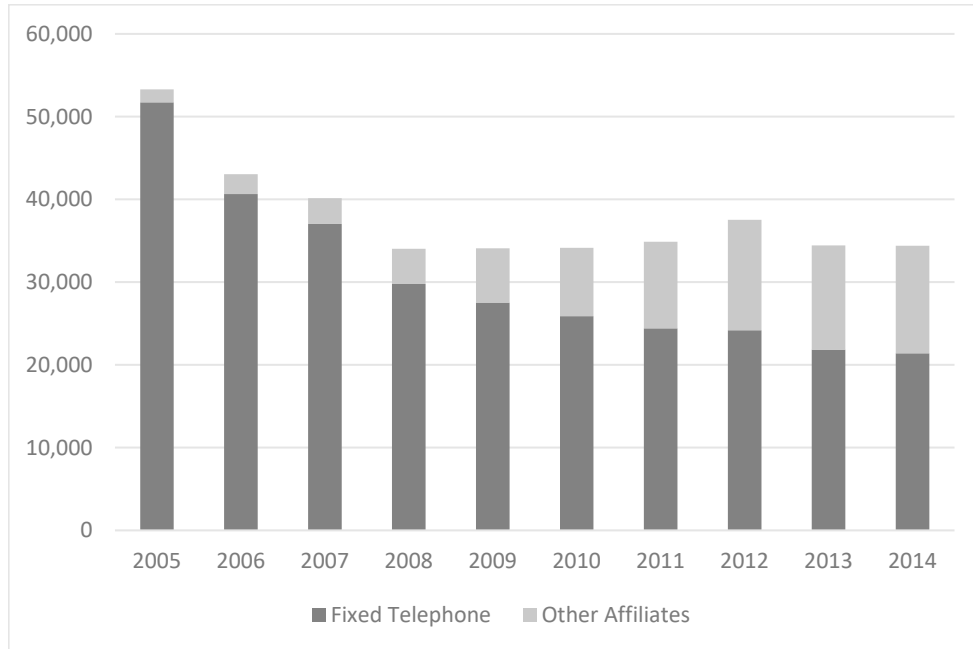


Figure 4.15 Number of Employees of Türk Telekom, 2005-2014. Source: Compiled by the author based on annual reports of Türk Telekom Anonim Şirketi.

Some employees of Türk Telekom were transferred to other public offices, and another group of these people retired. The government took measures to ensure that the process was smooth to balance the negative responses of employees and the personnel needs of the privatized Türk Telekom. In this respect, legislation that followed its privatization was significant, namely Law 5457 that was enacted in February 2006. This law sought retain public employees at the company even after its privatization by making it legal for the government to

81 In 2015, the Türk Telekom decided to change the name of Avea and summed up all its telephone and internet services under the brand of Türk Telekom. After this, Türk Telekom stopped to make public the number of employees of its individual affiliates. This is why 2014 is the final date for some trends.

rent personnel to Türk Telekom. The law stated that the company would be able to retain public employees for five years and to issue a list of unnecessary personnel to be transferred to other public offices every six months. This was the response of the company and the government to the propensity of employees who were worried about the changes in the work regime to leave the company for other public offices. Law 5457 prevented a mass exodus of indispensable technical personnel and gave the company the opportunity to make a soft transition. This was also a soft transition for employees; however, one portion of the employees was not allowed to leave the company, which caused great dissent.

Transferred employees were also not happy about the process. Their transfer caused dequalification for many of them. Complaints from former employees of Türk Telekom about the process were expressed on the website of the Telecom Association (*Telekomcular Derneği*). Two reports published by the association in 2010 and 2011 are especially significant resources in this respect.<sup>82</sup>

Despite the fact that the privatization agreement did not mention the cultural institutions and sports clubs for the benefit of employees, they were also taken over by Saudi Oger. These included the museum (*Türk Telekom Müzesi*), the archive, and soccer, basketball, and volleyball teams (*Türk Telekomspor*). The health assistance fund (*Türk Telekom Sağlık Yardım Sandığı*) was also taken over by Saudi Oger.<sup>83</sup>

The employees forced to stay at Türk Telekom after the privatization organized a strike which lasted from October 16 to November 29, 2007. The strike was led by the prevailing trade union, Haber-İş, which demanded equal conditions for personnel transferred to other public offices (*kapsam dışı personel*)

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82 Telekomcular Derneği, "Türk Telekom Özelleştirmesinin Çalışanlar Üzerindeki Etkisi: 2006 Yılından Önce Türk Telekomda Çalışan Personelin Sorunları," Ankara, 2010. Telekomcular Derneği, *Türk Telekom'un Özelleştirilmesi: Bir "Talan"ın Hikayesi* (Ankara: Telekomcular Derneği, 2010).

83 Telekomcular Derneği, *Türk Telekom'un Özelleştirilmesi: Bir "Talan"ın Hikayesi*, 23-26.

and personnel obliged to remain (*kapsam içi personel*). The strike was a success and Türk Telekom accepted the conditions.<sup>84</sup> Türk Telekom still had around 13 thousand personnel with the right to make collective bargaining agreements in 2016.<sup>85</sup> Other telecommunications operators neither have a high number of unionized employees nor employees with the right to bargain collectively. The presence of a trade union with the right to bargain collectively is clearly a legacy of the public ownership period, a right which has gradually eroded.

Telecommunications privatizations also accelerated the professionalization of engineering as well-paid opportunities in the private sector increased. Starting with the commercialization and internationalization of Teletaş and Netaş, graduates of engineering departments – especially computer and electronics engineers – had the opportunity to move to well-paid jobs, especially in Istanbul. As analog components of telecommunications systems lost importance, digital and software components became more crucial and the demand for a highly educated, multilingual workforce increased. The engineers at Türk Telekom and the technical universities of Turkey supplied this demand.

Around this small group of the well-paid engineers and managers of private telephone operators and similar tech companies, a much broader group of cheap labor employed by subcontractors without job security grew, too. Liberal defenders of privatization and flexible working argue that the smaller volume of employment in private operators perform better than the excessive number of employees of the SOE. This misses the point that the SOE model adopted the Fordist mentality of concentrating all operations within the body of the enterprise. On the contrary, private operators delegate many operations to subcontractors and these subcontractors are not counted among its employees. As the exact quantity of the employees of these subcontractors is unknown, it is not possible to compare the actual employment volumes of the SOE period and the period of private operation. Further research is needed to reveal the real volume of labor employed in the telecommunications sector.

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84 “Türk Telekom'da Tarihi Grev 45 Gün Sürdü,” *Elektrik Mühendisliği*, 432, 2007, 125-126.

85 Türk Telekomünikasyon A.Ş., *Faaliyet Raporu 2015*.

## § 4.5 The Financing of Restructuring

The introduction of the private sector to Turkish telecommunications was financed with various financial instruments. In the second half of the 1990s and in the 2000s, private telecommunications operators borrowed from international capital markets using these various instruments. This was part of a global process of replacing accumulated funds from the mature markets of core high-income countries to markets with a larger potential for growth. In my theoretical perspective inspired by Harvey, this process was a spatial fix to remedy crisis inclinations.<sup>86</sup> Specific forms of rechanneling using specific instruments can successfully catch a growth potential or can be devalued when financial prospects are unfulfilled.

In this section, I analyze the specific issue of the financing of infrastructure sectors and the instruments that are widely employed. This analysis provides the background for the financial crisis of private Turkish telephone operators in the early 2000s – in other words the failure of the spatial fix in the case of Turkish telecommunications. When these factors are considered together with the priority of the government to maximize revenue generated by privatizations, fragile financial instruments were deadly for private operators.

### 4.5.1 *Infrastructure and Fragile Financing Instruments*

The basic challenge of financing private investment in infrastructure sectors concerns the fixed and volatile costs of production for infrastructural services.<sup>87</sup> Energy, transportation and telecommunication networks are naturally huge and require vast investment. Following a huge fixed cost created by the vast investment, the volatile costs that follow once operations start are relatively small. Firms must adopt price policies that includes average fixed costs per unit as well as volatile costs. As market conditions become more competitive, firms tend to damp prices to the level of average volatile costs. Competition without the regulation infrastructure sharing creates high overall fixed

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86 Harvey, “Spatial Fix,” 1-12. For details on Harvey’s approach, see subsection 2.4.1.

87 A fixed cost is the cost an enterprise suffers when the level of production is zero. A volatile cost is the cost of the enterprise which is zero when the production level is zero and increases incrementally as production increases.

costs for the sector. However, as market shares controlled by firms get smaller, their ability to charge sufficiently high prices to service their debt diminishes. The possible outcome is the collapse of firms with smaller market shares should they be unable to service their debt. A tension emerges among between the multiple policy goals as competition can prevent expansion of the network.<sup>88</sup>

The basic advantages of a state monopoly incumbent producing services in infrastructure are twofold. The first concerns the ownership structure, as the huge debt burden is guaranteed by the state. So long as the state is not bankrupt, the state monopoly will be able to service its debts later or sooner. The second advantage concerns the character of the market, as domination over the market gives an operator more freedom to determine prices. Without competing firms, the monopoly is better able to undertake long-term income/cost planning as well as long-term investment projects. The Turkish experience in the 1980s, which I explain in chapter 3, was a good example of the advantages of SOEs in terms of planning and accomplishing long-term network expansion projects.

The explanation of the debt risk to private firms may be based on these simple conditions about market control and pricing. Even in periods when only less-varied financial instruments are available, private activities in infrastructural sectors can collapse due to multiple network constructions by individual competitors and ensuing price competition. An example of such a collapse is the railway transportation sector of the United States of America in the nineteenth century.<sup>89</sup>

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88 Here I make do with a simplified explanation of a natural monopoly and competitive market problem. For a more complex microeconomic engagement with the telecommunications sector, see Noam, *Telecommunications in Europe*, 30-42.

89 For a detailed account of United States railroads in the nineteenth century, see Gabriel Kolko, *Railroads and Regulation 1877-1916* (Princeton NJ: Princeton University Press, 1965). Kolko explained the way railroad companies agreed to be subject to federal regulations. In this trajectory, the over-expansion of fixed costs, fierce competition, and the diminution of prices paved the way for a crisis of the railroads which took the form of a federal social crisis in the 1870s. Initially, companies organized voluntary pools and enforced oppression of the workers. Because these efforts failed, they came to support federal regulations to stabilize the sector.

The risk with respect to debt servicing is higher in the age of finance-dominated flexible accumulation,<sup>90</sup> namely in the period after the 1970s, as the legal framework for financial activities loosened and the variety of financial instruments increased. Recent history, governments tested the ability of international capital markets to assess the risks of their clients and to provide healthy instruments accordingly. When the structural financing weaknesses of the telecommunications sector coincided with the loosened financial markets and riskier financial instruments of international capital markets, the outcome took the form of a financial meltdown like the bust of the telecommunications stocks in 2000, which is popularly called the dot.com bubble. (For details, see subsection 4.5.2.)

The most common financial instruments used by Turkish telecommunications operators were the syndicated loans, vendor credits, and public offerings. These instruments are not specific to Turkish operators, though. The general patterns of financing are shared with the other private operators. Syndicated loans are huge bundles of credit shared among a series of international banks. These loans are generally launched following a license auction or before the execution of plans to expand. These are relatively safe instruments as the patronizing of the loans is being executed by experienced banks, and the risk is dispersed among them. Still, they can create huge debt repayment burdens which are hard to manage. The possible outcome of a debt servicing crisis based on syndicated loans generally takes the form of a shift in the firm's strategy from expansionism, and ambitious investment projects to cautious debt servicing. Firms tend to increase the maturity of their loan burdens by launching new syndicated loans with longer terms, which increases the total burden and limits expansion plans.<sup>91</sup>

Vendor loans are more fragile than syndicated loans. Vendors are huge electronics manufacturers that provide equipment to telecommunications operators. There is a fierce competition among these vendors and competition

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90 Jessop, "Revisiting Regulation Approach," 5-24. For details, see subsection 2.4.2.

91 The revision of Telecom Italia's strategy from expansionism to withdrawal from peripheral economies and its cautious debt servicing was a good example of such behavior. This withdrawal of Telecom Italia was the reversal of an unsuccessful spatial replacement of capital in a Harvey inspired vocabulary. For details, see 6.2.3.

has become fiercer since the maturation of the mobile markets of Europe and the United States on the eve of the 2000s. One strategy to secure a big client has been to offer advantageous loans to finance their orders to the vendor, and sometimes offer additional amounts to finance operator's other needs. In these cases, electronics equipment manufacturers act as shadow banking bodies; however, their ability to design loans and assess risks is not as good as commercial banks with experience in project finance. In addition, the vendor credit process is not as transparent as syndicated loans. Indeed, many credit agreements between banks and operators are sponsored or backed by vendors, even if the connections to vendors is not clearly announced. Still, the introduction of experienced banks is a factor that makes credit more rational. The debt servicing of vendor credits is generally backed by a collateral stake in the receiver operator. As a consequence, the possible outcome of a debt servicing crisis is a change in the shareholder structure of the operator. If the conglomerate that controls the operator does not honor the agreement, national courts and international arbitration procedures come into play to settle the dispute. This is the reason operators that employ vendor credits are more prone to international disputes about ownership. These collateral-based loan agreements can be launched by the groups other than vendors that are hoping to capture capture the stake in the operator.<sup>92</sup>

Another financing instrument is the public offering of the stakes of an operator. In this case, a portion of the stakes of the operator is sold in a stock exchange creating an additional capital for operators and profitable business for banks.<sup>93</sup> These stakes are prone to fluctuation, and the fluctuations of these

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92 The Turkish telecommunications sector faced many crises based on collapsed collateral-loan agreements between foreign companies and domestic operators. These are explained in detail in following chapter 5 which investigates the financing crises of Telsim and Turkcell. The vendor financing relationship between the electronics manufacturer Motorola, Nokia, and the Turkish private operator Telsim is a stunning case that demonstrates the fragility of this financial instrument.

93 Panitch analyzed how privatizations in particular and IPOs in general contribute to the profits of banks. Organizing and underwriting mergers, acquisitions, and IPOs has been a profitable business for banks. Panitch explains that American banks and financial companies under-

free-floating stakes directly affects the credibility of the operator. Moreover, if there is a drastic decline in the value, the operator may face legal action in the home country of the stock exchange. In these cases, the corporate management and data reporting systems of the operators are investigated. The operators also use a series of securitization operations like exporting company bonds to raise funds. In a way, these operations in international capital markets create financing opportunities; however, they make operators more vulnerable to international financial shocks.<sup>94</sup>

Foreign creditors were the main source of the financing of Turkish mobile operators through loans and securitization. In the second half of the 2000s, Turkish banks started to play minor roles in financing projects. Up to the mid-2010s, the majority of the financing came from foreign creditors, which is a general characteristic of the Turkish economy which is crippled by the low rates of savings. The dependence on foreign financing was the main factor that shaped the international character of disputes based on crises of debt servicing.<sup>95</sup>

#### 4.5.2 *Double Crises: The Financial Bust of Global Telecommunications and the Turkish Crisis of February 2001*

The timing of the liberalization of Turkish telecommunications with the granting of licenses to private operators in 1998 and 2000 and the attempted privat-

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wrote IPOs in Europe. These IPOs include privatizations through public offerings. One example was the privatization of Deutsche Telecom which was underwritten by Goldman Sachs. Leo Panitch and Sam Gindin, *The Making of Global Capitalism: The Political Economy of American Empire* (London: Verso, 2012), 200-201.

94 Turkcell's IPO on the New York Stock Exchange in 2000 is a good example of this problematic situation. The unfortunate timing of the IPO just before the double crises of the 2000-2001 telecommunications bust and the February 2001 crisis in Turkey caused a drastic depreciation of Turkcell's stocks. That triggered a judicial process in the United States against Turkcell. For details, see section 5.3.

95 In the period since 2013, Turkish credibility declined and the contribution of domestic public and private banks in the financing of infrastructure investments increased. This does not alter the overall dependence of the Turkish economy on foreign financing but provides a governmental guarantee. See section 1.4.



ization of Türk Telekom in 2000 was unlucky as it took place just before double crises. The first crisis was the bust of telecommunications equities in 2000, and the second was the domestic financial crisis in Turkey, namely the February 2001 crisis.

The worldwide bust of telecommunications stocks at the beginning of the 2000s was the most significant external factor that triggered the financial crisis for Turkish private telephone operators. The bust was the consequence of massive channeling of funds into the telecommunications sector through various instruments like public offerings, syndicated loans, and vendor credits. The prospects for telecommunications technologies around mobile telephony and broadband internet and their links to the computer sciences encouraged the overrating of the credibility of operators and technology startups. This was a subset of the trend to redirecting funds from manufacturing to services sectors, exploiting the novel financial environment's ability to centralize and re-disperse massive amounts of digitized capital. In the 1990s, the rising star of that trend was investment in the "new economy," a notion that signified a combination of telecommunications and computers which would soon be labeled the dot-com bubble. The bust followed once the financial rise of the sector peaked in 2000-2001.<sup>96</sup>

In my theoretical perspective, this movement and withdrawal of capital is a spatial replacement in Harveyan terms. A spatial/sectoral replacement is a way to delay the crisis tendencies of capital accumulation by transferring funds from relatively lethargic sectors to relatively lively sectors. However, replacement does not guarantee a positive payback. When it was understood that the telecommunications sector was unable to fulfill prospects, capital movements reversed.<sup>97</sup> In this chapter, my focus is not on the reasons the replacements were unsuccessful, but on their size and effect on Turkish mobile operators.

There are some indicators of the trend of capital movement in the sector. WB PPI supplies data on investments in low- and middle-income countries

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96 For an analysis of the crisis, see Brock, *The Second Information Revolution*, 139-215. Also see Crandall, *Competition and Chaos*, 17-30

97 See section 2.4.1.

including Turkey.<sup>98</sup> Two series of this data signify the rise and fall of the investment, namely total investments and number of new projects (figure 4.16).

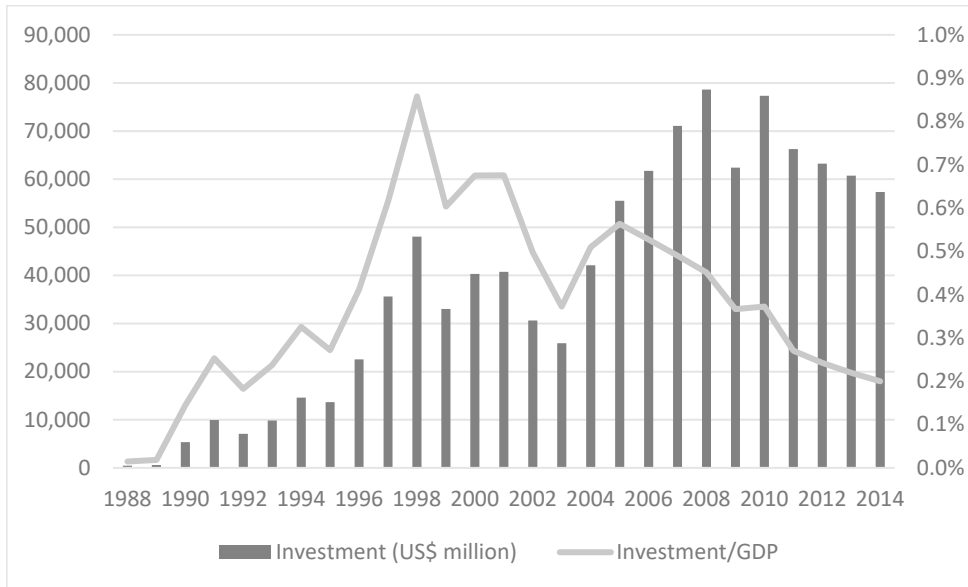


Figure 4.16 Private investments in telecommunications in low- and middle-income countries, 1988-2014. Source: Compiled by the author based on WB PPI Data.

Figure 4.16 shows that the total of private investments in the telecommunications sectors in the low- and middle-income world in the 1980s was only US\$1.36 billion. The climax occurred between 1998 and 2001 when a total investment volume of US\$162.17 billion was generated. The telecommunications investments as a fraction of GDP was around 0.9% in 1998. Following the peak, investments declined dramatically until 2004. After 2004, investments began to revive but never reached the level of the late 1990s as a fraction of GDP.

Figure 4.17 indicates that the revival in the mid2000s was not because of new projects but because of further investment in ongoing projects. 103 new investment projects were undertaken in 1993, a peak that was fueled by 83 divestitures. Another peak was in 1996 with 80 new projects. The record for

98 This category of the WB, namely low- and middle-income, largely overlaps with the category I employ: peripheral middle-income.

greenfield investments in telecommunications was also broken that year as 68 of the 80 new projects were greenfield investments.

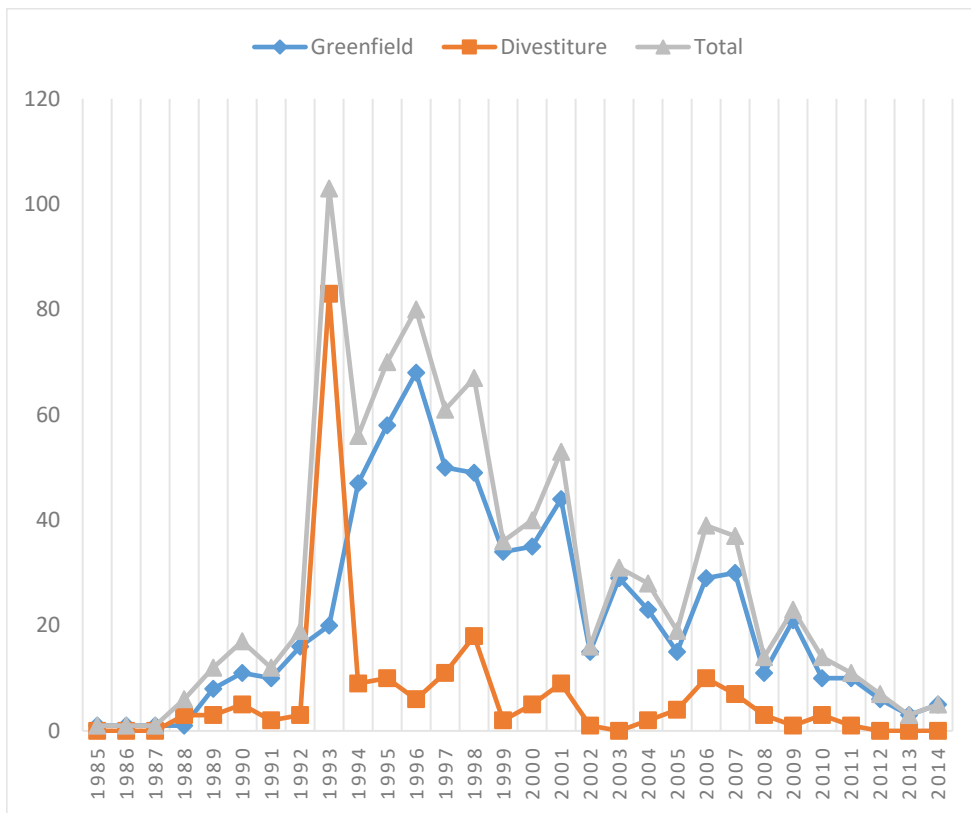


Figure 4.17 New investment projects in low- and middle-income countries, 1985-2014. Source: Compiled by the author based on WB PPI Database.

These figures concerned peripheral low- and middle-income countries. To complete the picture with additional information about core high-income countries, I look at the privatization proceeds from telecommunications in European countries.<sup>99</sup> The peak years for the privatization revenues were 1997

99 I use data from the Privatization Barometer to measure the private liveliness in core high-income countries. The Privatization Barometer provides data on the telecommunications privatization revenues of a group of core countries labelled “Old-Europe.” The countries categorized under this label are Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Netherlands, Portugal, Spain, Sweden, and the United Kingdom. The total

with US\$26.84 billion and 2000 with US\$29.83 billion. The following period between 2001 and 2003 was a crisis as the total revenue for the three years together fell below US\$5 billion. Starting in 2004 until 2008, the telecommunications sector again started to generate privatization revenue. When the global recession of 2007 and the ensuing Eurozone crisis hit, proceeds drastically declined (figure 4.18).

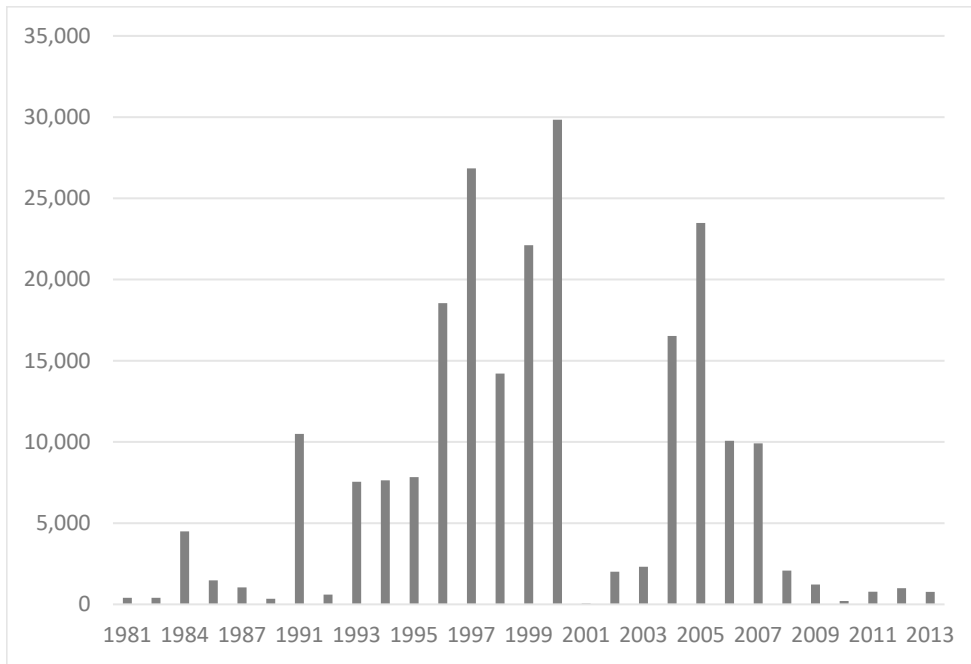


Figure 4.18 Privatization revenues in Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, the Netherlands, Portugal, Spain, Sweden and the United Kingdom, 1981-2013. Source: Compiled by the author based on Privatization Barometer Database.

Finally, the telecommunications indexes of stock exchanges provide a good indicator of the financial collapse of the sector in the capital markets of core

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privatization proceeds are a good indicator of financial activity in the sector, as public offerings and block sales engage with international capital markets. When a company acquires a stake of a SOE through a block sale, it borrows money from international markets to fulfill its payment commitment to the government. The major portion of European privatizations were achieved through public offerings, which also raised money from international financial markets. In other words, the accomplishment of privatization projects is dependent on the willingness of fund holders to finance telecommunications.

high-income countries. The NASDAQ telecommunications index (figure 4.19) supplies a sketch of the telecommunications bust. A relatively stable period in the early 1990s, when the index rarely exceeded 200 points, was followed by a robust tempo of appreciation in the second half of the 1990s. This appreciation rocketed in late 1998. The first week of March 2000 was the peak of the value of telecommunications stocks, and the index exceeded 1200 points. A dramatic decline followed, and the value has remained low relative to the late 1990s for the last two decades. This sketch of value fluctuation matters, as it indicates the willingness of the funding suppliers to finance telecommunications companies. As a consequence, this trend overlaps chronologically with others given in this section.



Figure 4.19 NASDAQ telecommunications index, 1990-2015. Source: Compiled by the author based on data of NASDAQ.

The global financial crisis of the telecommunications sector in 2000-2001 overlaps with a domestic crisis of the Turkish economy in December 2000 and February 2001.<sup>100</sup> The 2001 crisis severely affected the ability of operators to

100 For an analysis of the February 2001 crisis, see Ziya Öniş, “Domestic Politics versus Global Dynamics: Towards a Political Economy of the 2000 and 2001 Financial Crises in Turkey,” in *The Turkish Economy in Crisis*, ed. Ziya Öniş and Barry Rubin (London: Frank Cass, 2003), 1-

manage their US dollar-denominated debts by decreasing the overall credibility of the Turkish economy and bringing about a significant depreciation of TL. The depreciation of TL against the US dollar meant that the income being created by operators in terms of US Dollars drastically shrunk. (See figure 4.20.)



Figure 4.20 US\$/TL exchange rate, 1994-2018. Source: Compiled by the author based on data of CB.

The average exchange rate was TL0.62 in 2000. It almost doubled to TL1.23 in 2001. The peak up until 2011 was 1.51 in 2002. The total private investment financed by foreign exchange-denominated credit is vulnerable to the exchange rate, as the period 2001-2004 was a period of decline and the following years

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30. Actually, the relationship between the 2000-2001 telecommunications bust and the February 2001 crisis was more than a coincidental overlap. They were fragments of a large wave of crises which started with the Asian Crisis in the mid-1990s, jumped to Russia, Turkey, and Latin America in the late 1990s and 2000s, and triggered the financial depreciation of telecommunications stocks. For an explanation of this relationship, see Desai, *Financial Crisis, Contagion and Containment*, 35.

were a period of revival. (See figure 4.21.) In 2013, another violent wave of depreciation started for TL that prepared a basis for a new crisis for companies with stock of foreign debt. (For a more detailed discussion, see section 4.6.)

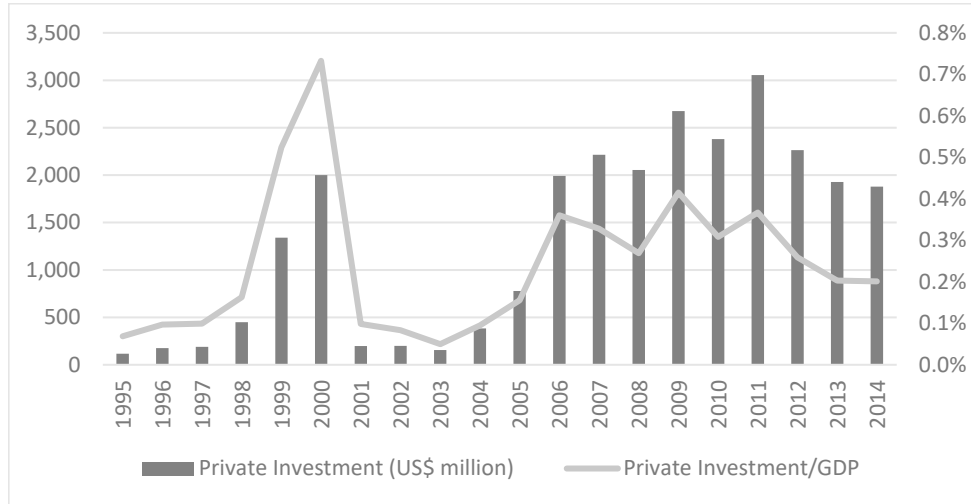


Figure 4.21 Private telecommunications investments in Turkey, 1995-2014. Source: Compiled by the author based on WB PPI Data.

#### § 4.6 Concluding Remarks and Bridge to the Next Chapter

The striking finding of this chapter is that the ratio of privatization payments to total private investments in Turkey is remarkably higher than in other peripheral middle-income countries. The revenue generating goal of privatization is not unique to Turkey; however, the magnitude of privatization revenue as a portion of total investment is relatively high. The high amount of privatization payments means less financial effort is put into physical investments that contribute to the expansion and upgrade of the network. The goal of telecommunications policy of developing infrastructure has been pushed aside by the goal to generate revenue. To evaluate the performance of the privatization period after 1994, one must strip these privatization payments out from total private investments to determine the physical investments that contributed to the infrastructure development. Otherwise, the magnitudes of FDI

and privatization make no sense in terms of the goal of infrastructure development. The second significant finding of the chapter is the comparison of the investment performance of the privatization period to the public investment period between 1980 and 1994.

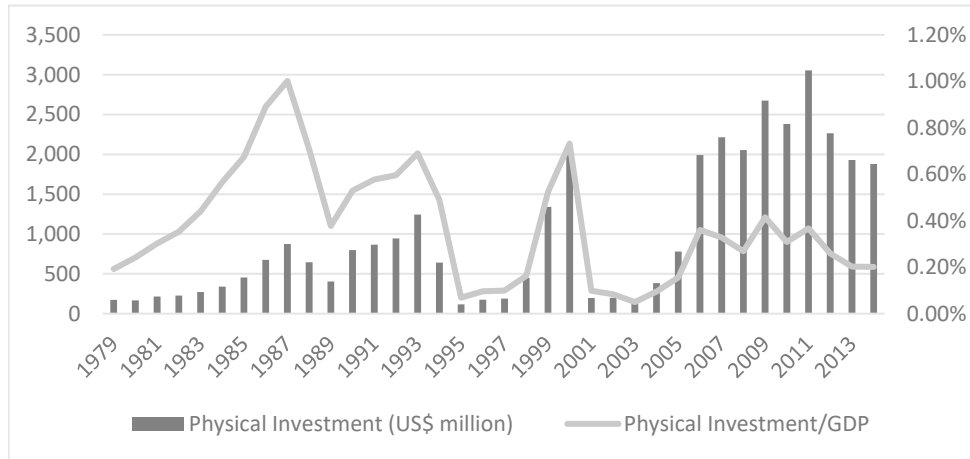


Figure 4.22 Comparison of the privatization period (1994-2014) to public investment period (1979-1994) in terms of investment. Public investments after 1994 are omitted. Source: Compiled by the author based on data of SPO (1979-1994) and WB PPI (1995-2014).

Three conclusions can be drawn from the comparison in figure 4.22. First, the investment amounts in absolute terms are higher in the privatization period than in the public investment period. Second, the investment performance of the period between 1979 and 1994 as a fraction of GDP is better than in the privatization period. Third, investment amounts are less consistent and fluctuate more in the privatization period relative to the investments in the public-led period. To sum up, the public-led investment period outperformed the privatization period in terms of consistency and the magnitude of investment as a fraction of GDP. The high capacity of private financing and private investment has not been managed well enough to channel additional resources into infrastructure development.

Following its depreciation between 2000 and 2002, the decade between 2002 and 2011 was a period of consistent value of TL. In 2012 a new wave of depreciation has started. The US dollar fluctuated above the level of TL3.5 in



the first quarter of 2017, was and around TL4 in the first quarter of 2018. In August 2018, the economic downturn was transformed into a foreign exchange crisis when the US\$/TL exchange rate jumped from TL5,94 on August 14 to historic high 6,89 on August 15. The value of the US dollar fluctuated above TL5 in the rest of 2018. (See figure 4.20.) Telecommunications sector was the leading infrastructure sector for Turkey in terms of introducing significant amount of private investment. Just like the reflex of private investors to decrease spending following the double crises of 2000-2001, the private investors have begun to limit the financing of private Turkish investments in various sectors. The government took measures to balance the uneasiness of international capital markets to finance investments after 2013. These included the introduction of state and domestic banks for the funding of the infrastructure projects, treasury guarantees for financing (since 2014), fixing the US dollar and euro exchange rate for some payments, and finally the formation of the Turkish SWF in 2016 and the consolidation of public cashcows under the SWF in 2017. These signify a new period of government engagement with the financing of private infrastructure investments. These measures as a whole encourage private financiers to contribute more boldly to projects.

I argue that the Turkish government's formalized, legalized guarantees of private investments in infrastructure sectors was also on the table in the early 2000s, but in a fragmented, defacto form. The following two chapters provide case studies of Turkish private telecommunications operators that failed financially, namely Turkcell and Telsim. These financial collapses resulted in disputes among the partners and the government. The government engaged and bypassed national and international regulatory and legal processes in line with its strategy of generating revenue, a motivation that worsened the financial collapse in the first place. The discretionary engagement of the government created the basis for new crises, fights over control and other problems. I believe the findings of the analysis of these cases teaches lessons about how to engage or not engage with financial crises in infrastructure sectors.

## The Crisis of Turkish Private Mobile Telephone Operators and the Political Mechanism of Dispute Settlement: The Cases of Turkcell and Telsim

### § 5.1 Introduction

This chapter historicizes the debt servicing crisis of Turkish private mobile telephone operators which took place at the beginning of the 2000s from the perspective of critical political economy. The crisis of private mobile telephone operators Turkcell and Telsim, was triggered by a private investment boom that endured between 1998 and 2000 and was ended by the double crises. As explained in detail in subsection 4.5.2, the double crises were the worldwide bust of telecommunications stocks in March 2000 and the Turkish February 2001 crisis. The debt burden created by the boom in investment created a financial debt servicing crisis for mobile telephone operators in the context of the double crises. The debt servicing crisis gave birth to a series of disputes between the domestic and foreign partners of the operators, as well as between foreign investors and the government. These events cover the period between the issuance of the GSM900 licenses in 1998 and privatizations in 2005. They chronologically link the focus of chapter 4 which was the early restructuring between 1994 and 1997, and that of chapter 6, which engages with the background and follow up to privatization moments in 2005.

Three theoretical pillars link this chapter to the rest of the dissertation. The first is the role of the introduction of private mobile telephone operators as the true spearhead of telecommunications privatization. The second pillar is the handling of the establishment of the mobile telephone market as a real-life process of spatial replacement and reversal of capital through financial instruments (see section 4.5.1) from core high-income countries to peripheral middle-income Turkish economy. Finally, the third pillar is the persistence of the political forum as a dispute resolution mechanism fueled by core-periphery lobbying, historical government-conglomerate relationship patterns, and the revenue-oriented policy approach to privatization.

The privatization of the telecommunications sector was a spearhead for a general privatization campaign in Turkey like in many other countries in the world. The introduction of private operators into the mobile telephone sector is the true spearhead of telecommunications privatization. The popular resistance to the privatization of fixed telephone operators was rooted in the significant number of employees and to vertical links with electronics manufacturing. However, public opinion perceived mobile telephony as an enhanced service for business people rather than as a popular network. The public thought that the introduction of the private mobile telephone networks had nothing to do with the job losses. As a consequence, there was no social resistance to the introduction of private mobile telephone operators. Therefore, the introduction of private mobile telephone operators in peripheral middle-income countries took place an average of half a decade before the privatization of fixed telephone SOEs. The eleven years lag between mobile and fixed privatization in Turkey is one of the longest.<sup>1</sup> Mobile telephone technology exceeded the initial expectations of the public and its services were popularized beyond business circles. Despite the fact that policies concerning the mobile telephone market were the most significant part of Turkish telecommunications restructuring in the period after 1994, telecommunications policy

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1 See Appendix A: Private Investment Data for Selected Peripheral Middle-Income Countries. Also see section 1.2.2.

research pays little attention to the development of the mobile telephone network and focuses on fixed telephony instead.<sup>2</sup> The analysis of the establishment of the Turkish mobile telephone market contributes to the academic literature by demonstrating the true mechanisms of telecommunications privatization.

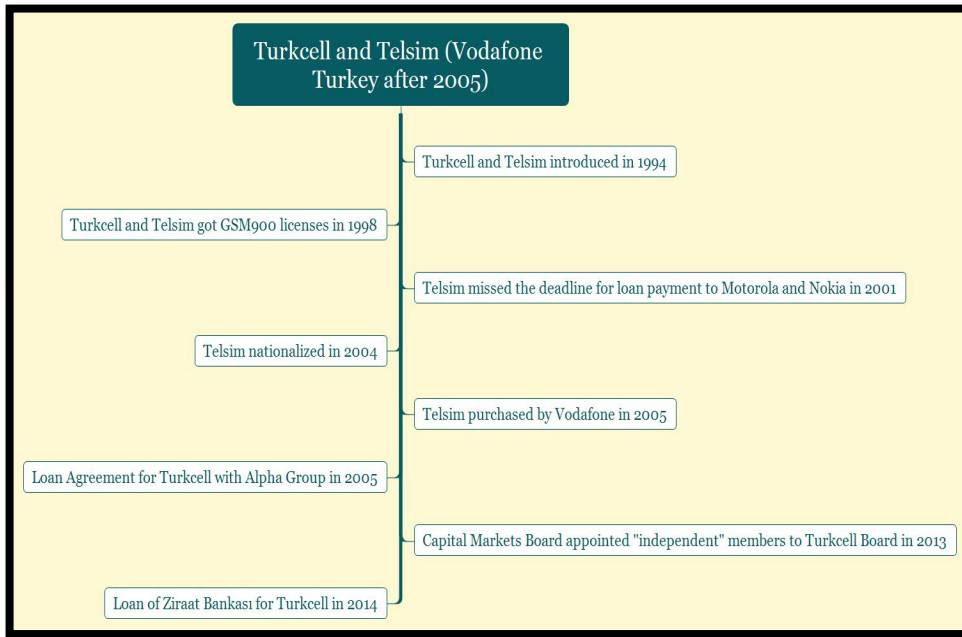


Figure 5.1 A chronology for Turkcell and Telsim

The investment boom that took place between 1998 and 2000 was the basic factor that fueled the expansion of Turkish private mobile telephone networks. These investments were financed by various financial instruments like consolidated credit, vendor credit, and IPOs.<sup>3</sup> Attraction of capital to Turkey was no exception – peripheral middle-income countries attracted significant amounts of capital from core high-income countries in the second half of the

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- 2 For a significant exception, see Atiyas and Doğan, “Sequential Entry and Competition in Turkish Mobile Industry.” This study analyzes the mobile telephone market from the perspective of pro-competition institutionalism. This approach does not pay attention to the structural determination of financing mechanisms and reduces crises to the lack of regulatory capacity.
- 3 For details on these instruments, see subsection 4.5.1.

1990s. This was a spatial replacement of capital from core high-income countries to peripheral middle-income countries if we blend the conceptual frameworks of Harvey and World Systems Theory. Spatial replacement can take place through direct investment of a core-originated private operator in the telecommunications sector of a peripheral country, as happened in the cases of Telefonica's acquisitions in Latin America, or Telecom Italia and Saudi Oger's investments in Turkey. (See chapter 6.) The spatial replacement of capital can also take place through a credit mechanism like the financing of Turkcell and Telsim's investments. However, the success of the spatial replacement of capital is not given or guaranteed, as there is a risk that replaced capital will devalue. An unsuccessful spatial replacement of capital triggers the process of the reversal of the replacement – in other words the withdrawal of the capital. As the conditions of the Double Crises gave birth to an unsuccessful spatial replacement in the case of the financing of the private Turkish mobile telephone network, its reversal started and dragged Turkcell and Telsim into a debt servicing crisis. Telecommunications policy research omits the financing process and the effects of the telecommunications bust in March 2000.<sup>4</sup> Without taking the structural determination of the conditions of capital movements into account, it is not possible to grasp the real causalities among the events. This chapter places the debt crisis of Turkish private operators in the historical context of these capital replacements and reversals. This analysis also provides insights into the real-life practices of capital replacements and enriches the theoretical framework by checking it against a case study.

The third theoretical connection to the rest of the dissertation is the persistence of the political forum as the main arena for dispute resolution – in other words, sticky presence of the political initiative of the government and political leaders in dispute resolution. Even given the presence of facilitatory

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4 For an exceptional approach that takes the telecommunications bust into account as a deterrent for potential investment in international telecommunications companies in Turkey in the 2000s, see Aybar, Güney, and Süel, "Privatization and Regulation," 27-29. Despite the lack of attention to the telecommunications bust's effects on Turkish telecommunications in academia, news reports in English language journals and newspapers that target a international financial audience deeply engaged with the financial crises of Turkish telecommunications operators. One of the basic sources of chapters 5 and 6 is these reports.

legal frameworks, the spatial replacement of capital is a politically-mediated process. Capitalist expansion enforces legal and institutional reforms that increase accessibility to peripheral countries through economic transactions. In a perfect world without physical or legal friction, capital moves according to economic rationality. However, in real life, significant capital replacements to peripheral economies are always politically mediated in order to eliminate possible friction. From the viewpoint of peripheral governments, mediating capital inflow is necessary to remedy the savings and capital shortage. Peripheral governments abandoned ISI strategies and adopted outward-oriented growth models that target high rates of economic growth. These growth targets cannot be financed by domestic savings and require lucrative investments fueled by foreign savings – in other words, foreign capital.<sup>5</sup> Therefore, peripheral governments are motivated to mediate foreign investments as a pull-factor.<sup>6</sup> As a push-factor, core governments are motivated to lobby on behalf of companies from their respective countries so as to increase the wealth of their country. This mechanism of core-periphery lobbying provides a basis for an unequal, unfair relationship, as the capital dependency of peripheral economies narrows the freedom of decision-making. The political mediation of spatial replacement includes the maintenance of private activity, guaranteeing its

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- 5 The dependency relationship between core and periphery countries has been fortified by the capital dependency in the age of finance-dominated capitalism. The transfer of capital to the spending needs of peripheral governments in the form of government debts is a crucial aspect of capital dependency. This capital dependency in financing government spending paved the way for a shift to an outward-oriented growth strategy as core governments and international organizations forced the opening of national economies by making official debts contingent on liberal reforms. The second dimension of the capital dependency of peripheral countries is their dependency on long-term capital replacements to finance investments in peripheral country in an outward-oriented growth context. Turkish reforms that liberalized trade and capital movements in the 1980s and 2000s are examples of the cycle of government debt, bankruptcy, and conditioned rescuing packages by the international organizations. For a discussion of capital dependency, see Arrighi, “Developmentalist Illusion.” Also see subsection 2.4.3.
- 6 In the Turkish case, the political mediation of privatizations also targeted revenue maximization through privatization revenues, as I explain in detail in chapter 4. The political resolutions were designed to maintain the revenue-oriented nature of the privatization policy.

profitability and also mediating its withdrawal in cases where an unsuccessful capital replacement is followed by a reversal. Core-periphery lobbying comes into play more in cases of unsuccessful capital replacement and reversal, in order to minimize losses due to the withdrawal.<sup>7</sup> In addition to the political mediation of capital replacements and core-periphery lobbying, the historical patterns of relationship between business conglomerates (holdings in Turkey) and governments contribute to the persistence of the political forum as the dispute settlement arena. As discussed in detail in the following section 5.2, the multi-sector holding structure in Turkey evolved in direct relationship to the government. Sectoral regulatory agencies handle disputes as sectoral problems, but Turkish conglomerates span many sectors. In the cases of Turkcell and Telsim, the holding groups in control engaged with both banking regulations and telecommunications regulations. But their final fate was determined by the government – in other words, in the political forum. The disputes were settled in the political forum in a hasty fashion as prime ministers and ministers of transportation bypassed legal and technical procedures. These resolutions were shaped by political cunning and handiness were under-designed. Quick resolutions came at the expense of long-term evaluations and planning by technical and legal experts and therefore prepared the basis for new crises and disputes. In this chapter (as well as in chapter 6), the role of Recep Tayyip Erdoğan as the Prime Minister in dispute settlement is studied as an example

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7 The lobbying of George W. Bush on behalf of Motorola and Vladimir Putin on behalf of Alfa Telecom are examples of core-periphery lobbying with which this chapter engages. The lobbying of Silvio Berlusconi on behalf of Telecom Italia is another example which is analyzed in chapter 6.

of such politically-made resolutions. In addition to Erdoğan, the roles played by earlier leaders like Bülent Ecevit<sup>8</sup> and Mesut Yılmaz<sup>9</sup> are also engaged.

The organization of chapter 5 is as follows: Following this introduction (5.1), the second section (5.2) establishes a historical background in order to form the basis of research into the engagement of holdings with mobile telephone operators. In the third section (5.3), I analyze the investment boom of private operators between the issuance of proper licenses in 1998 and the Double Crises of 2000-2001. The fourth section (5.4) analyzes the Turkcell control crisis. The fifth section (5.5) focuses on the Telsim case from its early evolution under the control of the Uzan family and the road to its purchase by Vodafone in 2005. The sixth section (5.6) provides concluding remarks and a bridge to chapter 6.

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- 8 Ecevit succeeded Atatürk and İnönü as the leader of CHP in 1972 and became a popular, charismatic leader who defended a political stance he called left-of-center. He had been a journalist before starting his political career in the 1950s and served as the Workfare and Social Security Minister in the 1960s. In 1974, he carried the CHP to power as a social democratic Kemalist party winning a record high percentage of the votes. Like Demirel and Erbakan, his political career was ruptured when the September 12 junta closed the CHP and banned him from politics. In the late 1980s, Ecevit struck back with his new Democratic Left Party (*Demokratik Sol Parti*, DSP). Following the TSK intervention in 1997, he came to power again. In 1999, his party won the general elections and formed a coalition government with the MHP and ANAP. However, following the February 2001 Crisis, his party failed to exceed the 10% threshold. This ended his political career.
- 9 Mesut Yılmaz, another leader of the center-right tradition, lacked the charismatic features of his tradition. He was a well-educated liberal economist who had worked for private companies before his political career. He served as Foreign Minister as a pivotal figure in the liberal wing of the party. Somehow, he managed to capture the helm of Özal's ANAP a time after Özal was elected as the head of the state. Under the leadership of Yılmaz, the political coalition that comprised the ANAP began to disperse. Except for holding the prime ministry for a short period, Yılmaz was the minor partner in coalition governments if not in the opposition in the 1990s. The ANAP failed to exceed 10% threshold in the 2002 general elections. This was the end of political adventure of the ANAP and Yılmaz. The AKP captured the main societal body that had voted for the ANAP, DYP, and RP, as well as the Islamist wing of ANAP. The nationalist wing in the ANAP went back to the Nationalist Movement Party (*Milliyetçi Hareket Partisi*, MHP).



## § 5.2 Conglomerate Structure of Turkish Business and the Impact of Banking Sector Reforms: The Persistence of the Political Forum

The financial crisis of Turkcell and Telsim was a consequence of a series of factors. The basic factor that triggered the crisis was the fluctuation in international capital markets which brought about the telecommunications bust in March 2000. A significant domestic factor was the February 2001 Crisis. Another domestic factor was the effect of post-crisis banking reforms on the conglomerates that controlled the telecommunications operators, namely Çukurova Holding which controlled Turkcell and Rumeli Holding which controlled Telsim. This section provides a historical background of the holding structure to explain it as a factor that affected the formation and resolution of the crises of operators.

Turkish business corporations have traditionally been parts of multiactivity companies known in Turkish as “holdings,” – a word appropriated from English. As stated by Ayşe Buğra, the holding structure was a consequence of the significance of business relationships with the state as business families rose up around various public projects allocated by the government. As these projects took place in various sectors, the families established holdings that hold a series of companies in various sectors. Another factor that motivated the holding formation was the possibility of transferring the funds among affiliate companies to minimize the tax burden.<sup>10</sup>

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10 Ayşe Buğra, *Business and State in Modern Turkey: A Comparative Study* (New York: State University of New York Press, 1994), 171-224. Chapter 4 of Buğra’s book, namely “Turkish Holding Company as a Social Institution,” focuses on the holding structure of Turkish business. Multiactivity capital formation is a common pattern of corporate management in countries with inadequate capitalization and has long been the motor of growth. However, this structure does not perfectly fit with the shareholder model of corporate management in finance-dominated capitalism. For a discussion of conglomerates in South Korea, and Japan as well as other companies and their clashes with the shareholder model, see Desai, *Financial Crisis, Contagion, and Containment*, 102-104.

Turkish holding structures became more complicated in the 1990s with addition of commercial banking to the activities of these conglomerates. During the 1990s, private commercial banks worked as mediators between public debts and foreign capital markets. In that period, the number of private banks increased given the weak regulatory measures. The banks enjoyed high rates of interest paid by the government.<sup>11</sup>

In the case of mobile operators, conglomerates that controlled the first two Turkish mobile operators, namely Rumeli Holding for Telsim and Çukurova Holding for Turkcell, utilized the mobile operators as cash cows of their multiactivity groups.<sup>12</sup> The growth of the wealth of these families was indebted to the mobile operators they controlled. Foreign lenders and partners accused these groups of exploiting the financial sources of operators by often channeling their business contracts and acquisitions.

The Uzan family controlled İmar Bankası and Karamahmet controlled Pamukbank and Yapı Kredi Bankası. These were examples of holding banks. These banks, in addition to many others were ill-managed and became bankrupt in the reform period after 2001. TMSF actively intervened and nationalized banks that failed to maintain new standards.<sup>13</sup> The nationalization and rescue of these banks brought about huge debt burdens on the parent holdings. Çukurova Holding's Pamukbank and Rumeli Holding's İmar Bankası

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- 11 Cizre-Sakallıoğlu and Yeldan, "Politics, Society and Financial Liberalization: Turkey in the 1990s," 481-508. The multiactivity holding groups exploited banks within their group, a practice called *hortumlama*, which can be translated into English as siphoning. The main channel of exploitation was credit issued to the group's companies without assessing the bank's capital adequacy or the recipient company's financial risks.
- 12 A cash cow is a company that is handled by the capitalist groups that own it as a fresh source of funds. Shareholder groups have the right to receive dividend payments from companies. An owner who handles a company as a cash cow would not support strategies that direct sales revenues into adventurous investment. This kind of ownership strategy is especially bad for telecommunications operators which have to invest heavily to expand and update their networks.
- 13 Ziya Öniş and Caner Bakır, "The Regulatory State and Turkish Banking Sector Reforms in the Age of Post-Washington Consensus," *Development and Change* 41, no. 1 (2010): 77-106.

was among these failed banks. This affected the private mobile operators under the control of these conglomerates. The nationalization of Telsim by TMSF was a sanction justified by the inability of Uzan family to honor their debt to the public, a debt rooted from the open position of İmar Bankası. Similarly, Çukurova Holding's steps to monetize their shares in Turkcell created a problematic ownership structure for Turkcell was the result of efforts to manage the debts of the group stemming from Pamukbank and Yapı Kredi Bankası.

Control of the first private operators by domestic holding groups was the result of legal limitations on foreign ownership in the 1990s.<sup>14</sup> As a consequence, the first two private mobile telephone operators took the form of organs of domestic multiactivity parent groups.<sup>15</sup> In contrast with anonymously-governed single-activity groups, holding groups controlled by families are often suspected of transferring operator's profits to other affiliates of the group or to the family fortune. Moreover, families may appropriate the international borrowing opportunities attracted by the telephone operator, instead of directing them to the improvement of the operator.<sup>16</sup>

Another significant difference between multiactivity and single-activity business patterns is the way in which they engage with the government or state. Turkish governments tended to appoint families politically close to them for various public investment projects. In addition, they provided certain advantages to these holdings in different periods in accordance with the economic policies of the period. In this manner, in the ISI period, politically-close

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14 The legal barriers to foreign ownership were removed in the 2000s. See subsection 4.3.1.

15 This feature was radically different from leading European telephone operators. For instance, Vodafone's only business activity was mobile telephone operating. Vodafone and other similar capitalist groups tended to expand their geographical range instead of expanding to varied sectors within the same country. Another example is Telefonica of Spain. The motivation of core high-income countries' telecommunications operators to expand overseas is explained in subsection 2.2.1. These single activity groups are more motivated to direct profits into new investments in the sector in which they are engaged. This feature is especially crucial for a sector like telecommunications which requires heavy investments for network expansion and technological catch-up.

16 There were such accusations in United States courts against the Uzans concerning misuse of the vendor credit of Motorola and Nokia. See section 5.5.

holdings were granted foreign exchange allocations and import privileges. In the 1990s, holdings were authorized to operate banks.<sup>17</sup> As a consequence, families collected knowhow about engagement with the state through the different business branches of their holding. A pattern of relationship between the families that controlled holdings and governments developed that was not limited to one sector. As a consequence, the regulatory governance pattern based on sector-specific agencies as significant authorities does not fit the politico-business culture. Sectoral-based regulatory governance was shaped in core high-income countries where single-activity anonymous corporations dominate the business culture rather than multiactivity family holdings. The implementation of regulatory reforms in Turkey started in the 1990s through the foundation of agencies like the ÖİB and RK and accelerated in the 2000s with the foundation of sector regulatory bodies like the TK. However, in the case of telecommunications, the regulatory agency failed to become the main forum of dispute resolution. Instead, the government played the main role in settling disputes. This role of the government was the result of persistence of political forum.

As I express above, the multiactivity group model was formed around government-related business. The government and state promoted this model of corporate governance for decades to feed domestic capital accumulation. In a similar manner, the legal easing of the banking system in the 1990s paved the way for the entrance of the holdings was a way of redistributing the economic surplus to these groups. The government and state was aware of the fact that the holdings were getting richer through banking and tolerated corruption to an extent.

The legal reforms of the 2000s included two significant measures to regulate banking and concede foreign ownership of banking and infrastructure in order to eliminate the legal barriers before spatial replacement of capital from core high-income countries to Turkey. This was negative for some domestic groups. The stronger multiactivity groups survived the reform process, but weaker ones suffered. The Uzan family was among the most disadvantaged

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17 In the 2000s and 2010s, construction projects became key for holdings. For this final period, see Ayşe Buğra and Osman Savaşkan, *Türkiye’de Yeni Kapitalizm: Siyaset, Din ve İş Dünyası* (İstanbul: İletişim, 2014), 130-139, 142-155.

and lost their banking and infrastructure operations completely. The mobile telephone operator of Uzan family was acquired by Vodafone after being nationalized. Karamehmet managed to maintain control of Turkcell until 2013 but lost supremacy in the mobile telephone market as a consequence of the implementation of pro-competition measures in the Electronic Communication Law of 2008. This legal change was in advantage of Vodafone and Saudi Oger.<sup>18</sup> These events can be interpreted as the retreat of domestic capitalists in advantage of foreign capitalists. This fact is snubbed by intellectual evaluations that do not care about the nationality of the capitalists. However, examples of core-periphery lobbying in this chapter and their favorable outcomes for core companies from core countries, indicate that the nationality of the capital matters. The Turkish government's recent sensitivity to maintaining Turkish control over Turkcell makes the issue more interesting, and clearly contrasts with the previous period in which the government prioritized revenue generation even at the expense of domestic ownership.

### § 5.3 From License Agreement to Double Crises: The Boom in Financing and Network Expansion, 1998-2000

Mobile telephone operators were introduced in 1994 through revenue-sharing agreements. This was due to the lack of a legal framework for proper licenses for true private operations, a fact that limited the financing and investment capacity of the operators.<sup>19</sup> On April 27, 1998, the GSM900 license agreements between the ministry of transportation and Turkcell and Telsim were finalized. Each operator committed to pay US\$500 million for their licenses.<sup>20</sup> Following the issuance of the licenses, a double need for financing emerged for Turkcell – first to finance the license fee and second to invest in infrastructure. The period following the license issuance until the Double Crises was a period

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18 See subsections 4.3.1 and 4.3.3.

19 For a detailed analysis of this early period between 1994 and 1998, see subsection 4.3.3.

20 John Barham, "Turkey Awards Cellphone Licences for \$1bn," *Financial Times* (London Edition), April 28, 1998.

of lucrative investment for Turkcell. These investments were financed by a spatial replacement of capital from financial markets of the core through the instruments of consolidated credits, bonds, and IPOs.

Figure 5.2 demonstrates the positive effect of the license on investments as the handicaps created by revenue sharing agreements were removed. Turkcell was able to generate a significant amount of financing by utilizing a series of financial instruments in this period. The first bundle of instruments was a combination of a syndicated loan of around US\$575 million<sup>21</sup> which was launched to finance the license fee and the export of US\$300 million worth of high-yield bonds to be marketed in the United States to finance the network expansion.<sup>22</sup> The network expansion project valued at around US\$300 million in 1998 was awarded to Ericsson.<sup>23</sup> Credit rating agencies emphasized the market leadership of Turkcell as a contributor to its financial success but also warned about possible risks about foreign currency-denominated debt management given the unstable conditions and high inflation.<sup>24</sup> Especially the syndicated loan of US\$575 million launched by BT Alex Brown, Deutsche Bank, and JP Morgan in addition a several number of co-arranger banks was perceived as a huge success. It was the largest loan issued to a Turkish company up to 1998.<sup>25</sup>

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21 “Co-Arrangers Descend on Turkcell for Value in Turkish GSM Sector,” *Euroweek*, 555, June 5, 1998, 50.

22 Jeremy Grant, “Turkcell Launches \$300m Junk Bond,” *Financial Times* (London Edition), July 20, 1998.

23 “Ericsson Awarded \$300 Million GSM Expansion Agreement in Turkey,” *Business Wire* (New York), May 4, 1998.

24 “Turkcell Iletisim Rtd 'B' by S&P; Outlook Stable,” *Business Wire* (New York), June 17, 1998.

25 “Co-Arrangers Descend on Turkcell for Value in Turkish GSM Sector,” *Euroweek*, 555, June 5, 1998, 50.

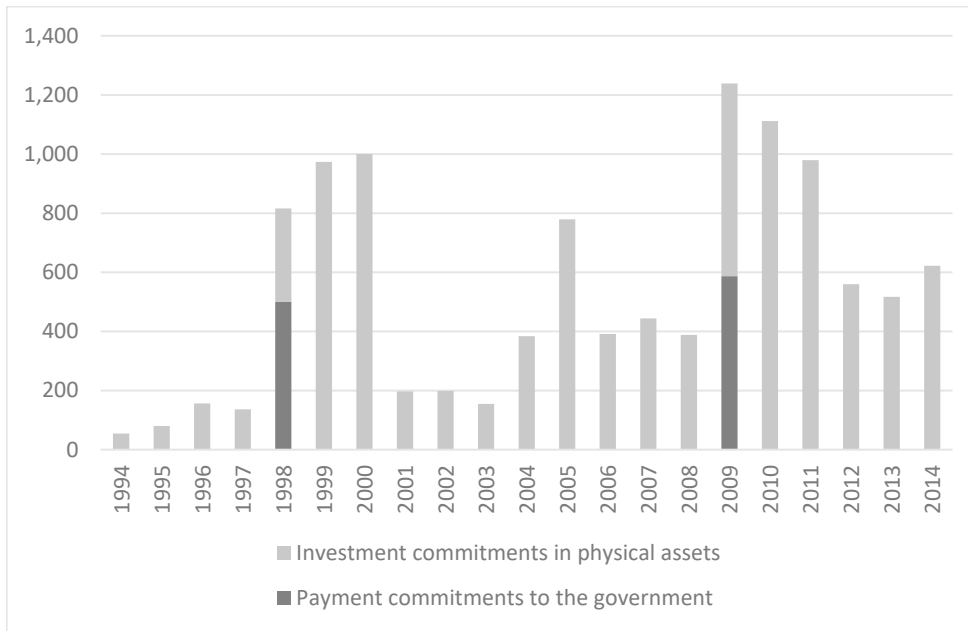


Figure 5.2 Turkcell's investments, 1994-2014. Source: Compiled by the author based on WB PPI Data.

Turkcell channeled a much larger proportion of funds to infrastructure investment in 1999, amounting to around US\$1 billion. The supplier of the equipment was Ericsson.<sup>26</sup> A junk bond of US\$400 million (originally Turkcell proposed US\$200 million but in response to excess demand the final offer was US\$400 million)<sup>27</sup> was another financial instrument utilized by Turkcell in 1999. But the most impressive instrument employed was its Initial Public Offering (IPO) on the Istanbul Stock-Exchange (*İstanbul Menkul Kıymetler Borsası*, İMKB)<sup>28</sup> and the New York Stock Exchange (NYSE) in June and July 2000. The IPO floated 11% of its shares and raised around US\$1.7 billion. However, the timing of the IPO overlapped with the first signs of a meltdown of

26 "Ericsson Wins \$520 Million GSM Expansion Contract in Turkey," *Business Wire* (New York), February 4, 1999. "Turkcell Hires Ericsson for Network Expansion," *Wireless Today*, 3.157, August 16, 1999.

27 "Investors Scoop Up Turkcell's Offering," *Wall Street Journal* (European Edition, Brussels), December 20, 1999.

28 The name of İMKB converted to *Borsa İstanbul* (BİST) in 2013.

telecommunications stocks. The IPO price of Turkcell shares on the NYSE was US\$17.60 on July 11 but by November 2 the price dropped to US\$11.69<sup>29</sup> and then to US\$6.56 by December 7.<sup>30</sup> As a consequence, the IPO was perceived to have been overvalued<sup>31</sup> and Turkcell was sued by American investors.<sup>32</sup>

The flexibility, variety, and magnitude of the financial instruments deployed by Turkcell between 1997 and 2000 matter as they are an example of the success of a monopolistic private company in a promising market to finance huge investments given the favorable international financial climate. However, the possible debt crisis that follows a peak in private investments should be considered to be the fragile aspect of private financing mechanisms.

In the three years between 1998 and 2000, Turkcell invested around US\$2.8 billion – US\$500 million for the license and US\$2.3 billion for network expansion. In a similar way, Telsim invested around US\$1 billion in two years (1998-99), US\$500 million for its license and US\$500 million for network expansion.<sup>33</sup> As a consequence, a dramatic increase occurred in the subscriber base of mobile telephony in Turkey. This expansion is similar in scale and character to the telecommunications leap between 1984 and 1987,<sup>34</sup> and I epitomize the period between 1997 and 2000 as a market-making period for Turkish mobile phone services.

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- 29 Aaron Smith, “Reliant Resources Files for \$1.3 Billion,” *The IPO Reporter*, November 6, 2000, 1-2.
- 30 Aaron Smith, “Struggling European Telcos Wait on Better Days,” *The IPO Reporter*, December 11, 2000.
- 31 Leyla Boulton and Lesia Rudakewych, “Istanbul Giant’s Difficult Birth,” *Financial Times* (London), August 3, 2000. Lesia Rudakewych, “Foreign IPOs Struggle to Make Impact,” *Financial Times* (London), August 7, 2000. “CosmOte Hit by Sentiment But IPO is Still 2000 Record,” *Euroweek*, 673, October 6, 2000, 20.
- 32 “The Law Office of Leo W. Desmond Announces Class Action Lawsuit Against Turkcell Iletisim Hizmetler, A.S.,” *Business Wire* (New York), December 6, 2000. “Turkcell Iletisim Hizmetler Sued for Securities Fraud According to Schiffrin & Barroway, LLP,” *PR Newswire* (New York), December 6, 2000. “Turkcell Iletism Hizmetler, S.A. Misled Investors, Says Class Action Lawsuit Filed by Berger & Montague, P.C.,” *PR Newswire* (New York), December 8, 2000.
- 33 WB PPI. The 2000 investment data of Telsim is missing. It is rational to assume that Telsim invested in its physical network even in 2000, but it failed to be registered in the databank.
- 34 For details, see chapter 3.



The number of mobile telephone subscribers grew ten times in the three years between 1997 and 2000, from 1.61 million in 1997 to 16.13 million in 2000 (figure 5.3). The decline in the growth rate of the subscriber base in 2001 and following years was a consequence of a decline in physical investment as a reaction to the double crises.

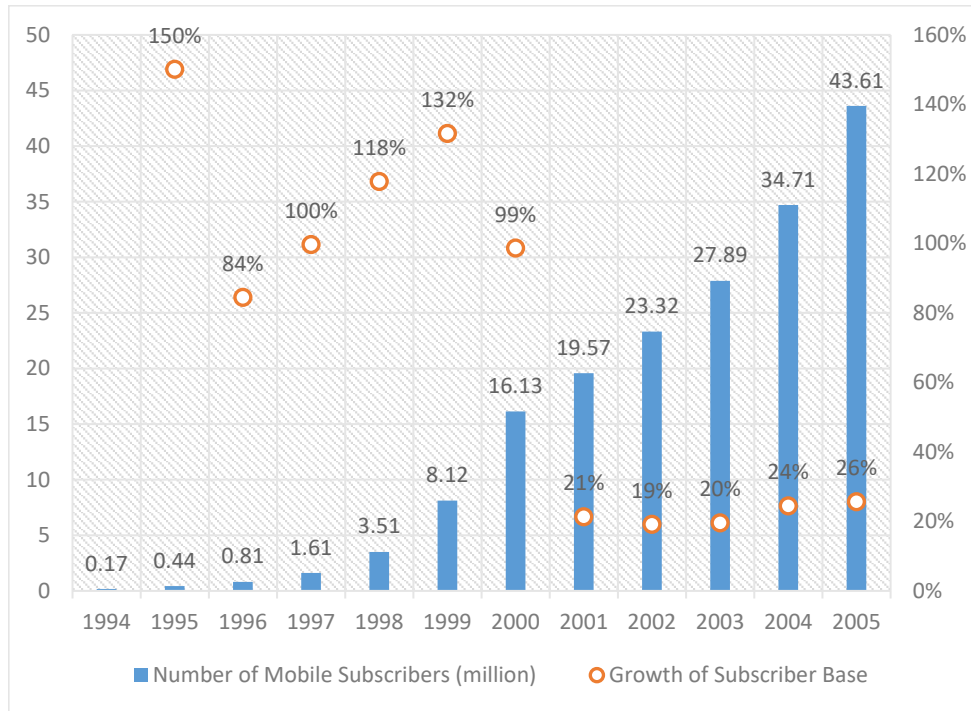


Figure 5.3 Expansion of Turkish mobile telephone network, 1997-2000.  
 Source: Compiled by the author based on WB Development Indicators.

The penetration of mobile telephony in Turkey rose from 2.66% in 1997 to 25.53% in 2000. Figure 5.4 demonstrates that the slope of the trend is steeper between 1998 and 2000 than in both the previous period and then following periods, a consequence of the acceleration of growth of the GSM network in that period fueled by US\$2.8 billion in infrastructure investment. The decline after 2008 was a consequence of factors like decreasing investments, pro-competitive regulations in the Electronic Communications Law of 2008 (like number portability among operators), relative maturation of the market, and a general economic downturn of the Turkish economy. In the 2000s, growth of the Turkish mobile network was well above that of middle-income countries and

was on the heels of high-income countries. However, in the 2010s the trend among middle-income countries exceeded penetration in Turkey as the physical investment performance of the operators was far below that of the period between 1997 and 2000.

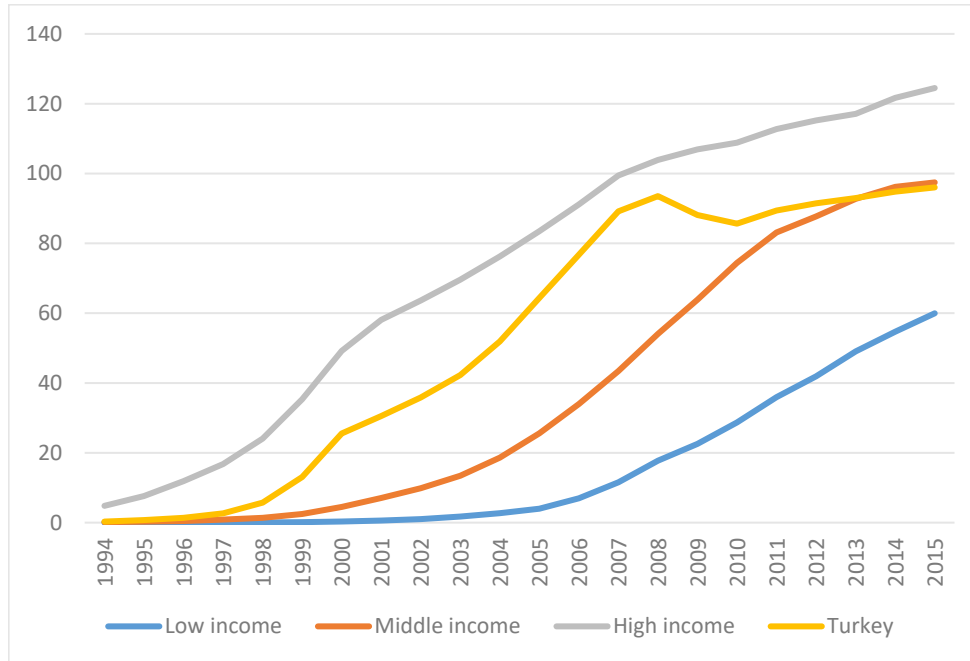


Figure 5.4 Mobile telephone penetration by income group, 1994-2015.

Source: Compiled by the author based on WB Development Indicators.

This enormous expansion of the popular use of mobile telephones brought about complaints about condition of the services. Especially during the earthquakes of 1999 the ability of the mobile network was tested and failed.<sup>35</sup> Infrastructure investments were rushing to cope with the growth of the popular use of GSM. The Turkish mobile market was far from maturation with a penetration of just 25%, whereas the average penetration of high-income countries was 43% in 2000. And moreover, possible technological upgrades to the network were among the prospects. As early as 2000, following the issuance of

35 Lousie K. Comfort and Yeşim Sungu, "Organizational Learning from Seismic Risk: The 1999 Marmara and Düzce, Turkey Earthquakes," (Working Paper 2001-5, Graduate School of Public and International Affairs, University of Pittsburgh, 2001), 7-11.

GSM1800 licenses to Aria and Aycell, newspapers started to report a potential 3G auction.<sup>36</sup> However, these prospects for growth and technological update were severely damaged by the impact of the double crises.<sup>37</sup>

The period between 1998 and 2000 was also a period of the consolidation of the ownership of Turkcell. The first step of consolidation was taken when Ericsson divested its stake to Çukurova Holding and Finland Telecom.<sup>38</sup> The second step was the withdrawal of Kavala, the stake of which was overtaken by Çukurova Holding.<sup>39</sup> As a consequence, Çukurova Holding's position as majority shareholder was fortified. During this period, the problems of control and ownership had not yet taken place. In October 1999, Sonera and Turkcell transferred some of their stake to Turkcell Holding, a new intermediary corporate stratum that controlled the majority stake (51%) of the operator, namely Turkcell İletişim Hizmetleri A.Ş.<sup>40</sup> This stratification of ownership was a first step in the future complication of the ownership structure as it made it possible for Çukurova Holding to maintain control over the operator as long as it maintained control over the second tier.

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36 "Telecom Prosperity Is Distant Dream, But Turkey Keeps Trying," *Wireless Insider*, 18.38, September 25, 2000.

37 Another stream of complaints was sourced from the popular dissent about the radiation effect of the infrastructure facilities. These triggered some local resistance against deployment of base stations. In part in response to this dissent, mobile operators have offered lucrative rent payments to the owners of the buildings. To sum up, the popular dissent against mobile infrastructure projects remained relatively weak and not comparable to the dissents about hydro-electric and thermic energy projects. My dissertation does not focus on that political ecology aspect of the issue.

38 This divestiture was the result of the principle of the equipment manufacturer Ericsson to not become involved as a partner with private telecommunications operators. The equipment manufacturers target all private operators. Being an owner of an operator would harm their market prospects. Upon the issuance of formal licenses in 1998, Ericsson decided to withdraw.

39 "Cep telefonunda 'Global' Operasyon," *Hürriyet*, July 24, 1999.

40 "Sonera, Cukurova Transfer Part of Their Turkcell Stakes into New Holding Co," *AFX News*, October 21, 1999.

Table 5.1 Ownership and Control of Turkcell in 2000

Strata	Corporate name	Owner of the controlling stake
Tier 1	Turkcell İletişim Hizmetleri A.Ş.	Turkcell Holding
Tier 2	Turkcell Holding	Çukurova Holding

#### § 5.4 Turkcell Ownership-Control Crisis

The main cause of the ownership and control crisis at Turkcell was Çukurova Holding's effort to liquefy its stake in the ownership strata of Turkcell without losing control over the operator. It took advantage of the presence of the second tier create a third to generate additional income. As a consequence, a Chinese Boxes type ownership emerged.<sup>41</sup> In the previous period in the early 2010s, the complicated ownership structure prevented the the board of directors from convening and paved the way for a SPK-controlled board. I argue that the political handling of the crisis of Turkcell (or of Karamehmet) supported the formation of this strange kind of corporate management in order to guarantee Karamehmet's debt service to the government and to maintain Turkish control over the operator.

During the 1990s, commercial banks gained a crucial position in the structures of Turkish conglomerates. However, the basic mechanism of transferring financial resources to conglomerates started to be perceived as the main trouble of the Turkish banking structure in the late 1990s. Under the reform program that followed the February 2001 crisis, a series of commercial banks were nationalized or reorganized.<sup>42</sup> The flotilla of Karamehmet faced the storm with two banks, namely Pamukbank and Yapı Kredi Bankası. In accordance with

41 "Chinese Boxes" is a metaphor used in financial circles to describe complicated, multitiered ownership structures. Every box is in a slightly bigger box. As a consequence, when one unlocks the biggest box, one discovers a smaller box, and then another smaller one, and again and again... The mechanism is similar to Russian nesting dolls. The complicated, interlocked ownership structure labelled Chinese Boxes – an ownership structure unsuitable for the Western model of corporate management.

42 Öniş and Bakır, "Banking Regulations."

the general tendencies of the 1990s, Pamukbank and Yapı Kredi lent generously to the member companies of Çukurova Holding but had not received proper payback. As a consequence, TMSF and the Banking Regulation and Supervision Agency (*Bankacılık Düzenleme ve Denetleme Kurulu*, BDDK) decided to nationalize Pamukbank in June 2002.<sup>43</sup> The regulatory bodies also limited Çukurova Holding's authority over Yapı Kredi in addition to some other measures towards them. Çukurova Holding responded by suing regulators; however, the judicial process did not last long as a debt restructuring agreement signed in January 2003 between BDDK and Çukurova Holding bypassed the process. The agreement established a new fifteen-year schedule for the repayment of a US\$3.086 billion debt to Pamukbank (actually debt to the government) and of a US\$1.937 billion debt to Yapı Kredi. The agreement also stated that Çukurova Holding was obliged to sell its stake in Yapı Kredi Bankası by January 2005.<sup>44</sup>

The outcome could have been different had Çukurova Holding been politically opposed to the AKP government. Karamehmet showed his talent for managing relationships with the government. According to Craig Mellow, the AKP government favored Çukurova Holding and pressured the BDDK to revise its measures against Pamukbank and Yapı Kredi Bankası.<sup>45</sup> It is useful to compare the AKP government's approach to Karamehmet to their aggressive approach to the Uzan family, which I explain in detail in the following section 5.5.

To pay his debt, the first strategy Karamehmet deployed was to use Turkcell as a cash cow. In addition to annual dividend payments, Turkcell's business relations with the other companies of Çukurova Holding were useful in this respect. In addition, Karamehmet tried to divest some of the companies under his control to Turkcell. One example reported in the newspapers was Turkcell's attempt to acquire Digiturk, an affiliate satellite television company

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43 "Pamukbank'a El Kondu," *Hürriyet*, June 19, 2002.

44 Leyla Boulton, "Turkey Settles Bank Row Ahead of IMF Deadline," *Financial Times* (London), January 28, 2003.

45 Craig Mellow, "Byzantine Empire," *Institutional Investor* (International Edition), January 2003, 1.

of Çukurova Holding.<sup>46</sup> The other major partner, Sonera, was not sympathetic to these actions by Çukurova Holding which created some disagreements between the partners.<sup>47</sup> The restructuring of Fintur, the international company that controls stakes operators abroad, was also a step by Karamehmet to generate revenue, as he sold Çukurova Holding's stake to Sonera.<sup>48</sup> It was also said that part of US\$1.68 billion in funds raised by the IPO of Turkcell on the NYSE in 2000 was appropriated by Çukurova Holding rather than being channeled into new investment.<sup>49</sup> Despite raising significant funds through bonds and IPOs in 1999 and 2000, the annual average investment by Turkcell was well below US\$200 million between 2001 and 2003. Actually, there was a general tendency among controlling groups hesitate to direct operators to invest passionately in that period as a consequence of the telecommunications bust. Shareholders focused on debt servicing and the dividend paying capacity of the companies during the crisis; in other words, the cash cow functions of the operators were prioritized by the controlling groups. This general inclination was intensified by the original conditions of Turkey in the case of Çukurova Holding, as its extra debt burden was created by national banking reform.

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46 "Turkcell Subsidiary Intends to Buy Digital Platform," *Business Wire* (New York), September 4, 2003.

47 Nicholas George and Metin Münir: "Teliasonera Faces Fight for Turkcell Control," *Financial Times* (London), September 30, 2003. "Teliasonera's patience began to run out earlier this month when Turkcell announced plans to buy back a majority stake in loss-making Digiturk, Turkey's leading digital TV broadcaster, from Cukurova-owned YKB. Turkcell had sold Digiturk to Cukurova in March 2002. Yavuz Uzay of Global Securities in Istanbul, says the deal has 'no strategic fit whatsoever' for Turkcell, appears to be designed to provide Cukurova with cash and is a sign of poor corporate governance. The Nordic group says Turkcell's board has in general worked well, and it was surprised by the calling of the EGM. Teliasonera's representatives on the Turkcell board agreed that Turkcell should enter talks with Digiturk, but the board has laid down strict financial conditions for the deal. Teliasonera wants Turkcell to remain a purely cellular company, and is concerned by Turkcell's potential relationship with other Cukurova-affiliated companies such as its publishing group. The Nordic group fears that the Digiturk deal could trigger a buying spree, industry insiders say."

48 "Sonera, Turkcell, Cukurova Group Sign Letter of Intent Regarding Fintur Eurasian GSM and Turkish Tech Business," *Business Wire* (New York), 28.02.2002.

49 Mellow, "Byzantine Empire."

The second wave of measures deployed by Karamehmet was to divest his shares in Turkcell to create revenue. In this sense, Telia-Sonera's development and strategy as the foreign partner of Turkcell was also significant. One of the effects of the telecommunications bust was the emergence of an inclination among European operators to consolidate ownership. An outcome of that strategy was the merger of Sonera (formerly Finland Telecom) and the financially-healthier Swedish operator Telia in March-November 2002 and the formation of Telia-Sonera as a Scandinavian international mobile telephone operator. Telia-Sonera was motivated to expand geographically into transition economies. It was also motivated to capture control of Turkcell as it perceived the Turkish telecommunications market as a hot prospect. This was also in line with their goal of expanding in Eurasia, as the Turkish operator had consolidated significant numbers of operators under its control in countries with growth potential.<sup>50</sup> The merger of Telia and Sonera following the crisis and the consequent strategy to expand in Eurasia was a small-scale example of the spatial replacement of capital in Harveyan terms. The growth opportunities in the mature markets of Scandinavia had diminished which first forced the consolidation of the companies, and then their expansion to markets with greater prospect for growth. In this respect, Turkcell's importance grew because of the growth prospects in Turkey and the operator's activities in other peripheral regions, especially in transition economies.

Another factor that determined the fate of Turkcell was the Russian strategy to convert over-accumulated petrodollars into infrastructure investments (another example of a sectoral and spatial replacement,) – a policy directly promoted by Putin.<sup>51</sup> Naturally, the transition economies of Eastern Europe, as the traditional periphery of Russia, were the first target of the strategy. The overlap in the strategies of Russian telecommunications companies and Telia-

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50 "Telia/Sonera Might Be Interested in Majority Stake in Turkcell – Claim," *Nordic Business Report* (Coventry), April 15, 2002.

51 Ben Marlow, "Russia on a Roll," *Sunday Business* (London), August 27, 2006.

Sonera resulted in a concrete dispute over control of MegaFon, a Russian operator, between the Alfa Group of Russia and Telia-Sonera in August 2003.<sup>52</sup>

On March 25, 2005, Telia-Sonera announced that an agreement between it and Çukurova Holding that stipulated their takeover of a 27% stake in Turkcell owned by Çukurova Holding for US\$3.1 billion. The transaction was expected to be completed in the second quarter of 2005.<sup>53</sup> This amount was enough for Çukurova Holding to repay its debt to the government and was reasonable for Telia-Sonera to pursue its expansion strategy. However, the deal was sabotaged by the Russian Alfa Telecom when it made a counteroffer to Çukurova Holding on March 30. The basic character of the offer was the acquisition of a 13.22% indirect stake in Turkcell for US\$1.6 billion and a debt issuance amounting to US\$1.7 billion, for which an additional 14% indirect stake was collateral.<sup>54</sup> Çukurova Holding accepted the offer as it gave the opportunity to maintain control over Turkcell.

The most significant aspect of the offer that connects it to the theory of my dissertation was the fact that it was a politically mediated spatial replacement of capital through core-periphery lobbying between Putin and Erdoğan – a good example of the real-life practice of capital replacements directly engaged with infrastructure investments in the periphery. Putin was directly involved in line with his general strategy to channel petrodollars to energy and telecommunications. Alfa Telecom's loan agreement was the largest single Russian investment abroad up to 2005, which was perceived as a political success for Russia and Putin.<sup>55</sup> Erdoğan was also motivated to make the agreement as

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52 “MegaFon Shareholders Fault Alfa Purchase,” *Info-Prod Research* (Middle East), August 21, 2003.

53 Nicholas George and Vincent Boland, “TeliaSonera Pays \$3.1bn for Control of Turkcell,” *FT.com*, March 25, 2005. “TeliaSonera to Increase Holding in Turkish Mobile Operator,” *Nordic Business Report* (Coventry), March 25, 2005.

54 “Alfa Group Says Outbid TeliaSonera for Turkcell,” *FT.com*, March 30, 2005.

55 Ian Watson, “Putin Offers Perestroika to Nervous Russian Oligarchs,” *Sunday Business* (London), August 14, 2005. “Russia/Turkey: Telecoms Deal Broadens Alfa's Options,” *Oxford Analytica Daily Brief Service*, December 7, 2005. “Russian Banker Thanks Putin for Help with Huge Turkish Mobile Phone Deal,” *BBC Monitoring Former Soviet Union*, December 5, 2005. “Text of report by Russian Channel One TV on 5 December. [Presenter:] “There has been a



it involved the repayment of Çukurova Holding's debt to the government while simultaneously maintaining Turkish control over the largest mobile operator.<sup>56</sup> The Swedish and Finnish governments were not as active as their Russian and Turkish counterparts despite the fact that the solution was to Telia-Sonera's disadvantage.<sup>57</sup>

I argue that the political agreement between Putin and Erdoğan over Alfa Telecom's offer was the privatization of a public receivable. This was in concordance with the general strategy of the government to utilize the national telecommunications sector as a revenue generator. Disputes around Telsim – and the privatization of Türk Telekom, as well – were settled in the crucial year 2005. The outcome of actions taken in 2005 in the Turkish telecommunications sector was a total of around US\$14.3 billion in funds: US\$3.1 billion from Alfa Telecom agreement, US\$4.55 billion from TMSF's divestiture of Telsim to Vodafone, and US\$6.55 billion from block sale of 55% of Türk Telekom. (See

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major foreign deal involving a Russian bank. Alfa-Grup bought a stake in a leading Turkish mobile phone operator. This was announced today by the head of Alfa-Bank, Petr Aven, at his meeting with Vladimir Putin.' [Aven, indicated as the president of the Alfa-Bank open joint-stock company, addressing Putin in his office:] 'We paid 3.2bn dollars to buy a stake in Turkey's biggest telephone operator, Turkcell. I'd like to say thank you, because the deal would not have gone through without your own support or the political support of our leadership. It is a great success for us, and Russia's largest foreign investment.' [Putin:] 'We discussed it with the [Turkish] prime minister when we met in Sochi.'"

56 "Clean Slate," *Country Monitor*, 13.45, December 5, 2005, 8. "The Turkish finance minister, Kemal Unatikan, has taken the unusual step of praising the head of a conglomerate held responsible for spiriting away an estimated US\$3bn from one of his own banks. The object of Mr Unakitan's praise is Mehmet Emin Karamehmet, head of Cukurova conglomerate. Unlike the owners of the other 20 Turkish banks that collapsed between 1997 and 2003, most of whom face heavy jail sentences and fines, Mr Karamehmet has managed to pay back the majority of the money missing from his Pamukbank, as well as debts run up at his other bank, Yapi Kredi. It was by no means an easy process, and the government was prepared to overlook the feet that Cukurova missed no less than four payment deadlines. This indulgence stemmed mainly from the nature of Cukurova's key asset—a highly desirable controlling stake in Turkey's leading mobilephone operator, Turkcell. ... With agreements in place to pay of the remainder over an apparently comfortable timeframe, Cukurova's position has been transformed from defaulting debtor to a 'shining example,' albeit at the expense of TeliaSonera."

57 Paivi Munter, "Corporate Sweden Learns a Tough Lesson," *FT.com*, December 2, 2005. Paivi emphasized the significance of the lobbying.

section 6.3.) All these cases were finalized in 2005 were settled through political initiative of Erdoğan as he negotiated Telsim's debt to Motorola and Nokia with Bush, and a part of Telsim's sale revenues were transferred to the repayment of this debt (section 5.5). He also negotiated the withdrawal of Telecom Italia and merger of Aria and Aycell with Berlusconi, and that merger determined the outcome of the privatization tender of Türk Telekom.

These cases demonstrate that how the political mediation of capital replacement through core-periphery lobbying fortified the persistence of the political forum as the dispute resolution mechanism – a mechanism that promoted resolutions that would bring maximum revenues to the government and guaranteeing minimal loss of capital replacements and withdrawals by core companies. The structural analysis tools of Marxist geography (especially Harvey's concepts) and World Systems Theory contribute to the formulation of this pattern. However, still there is room for freedom of the political leaders to choose a policy orientation, as politicians can promote infrastructure development or revenue maximization within the limits of the structural context. Political initiatives in the 2000s prioritized the exchange value of the telecommunications sector by promoting revenue-maximizing solutions in the political forum. This limited but effective freedom of policy-formation sets an area that stretches theoretical methods emphasizing structural determination at the expense of the role of political leadership. My stance is to introduce the role of political leadership to the analysis to enrich the theoretical considerations with actually-existing practices.

Now I go back to the chain of events to make an intellectual follow-up to the politically-mediated resolution. The politically made debt agreement created new problems for Turkcell as it further complicated the ownership structure. The shares taken as collateral for the debt were neither direct stakes in Turkcell İletişim Hizmetleri A.Ş. (Tier 1) nor in Turkcell Holding (Tier 2), but in Çukurova Holding's shares in Çukurova Telecom, an ownership stratum established for the purpose of that loan agreement. Çukurova Telecom was Tier 3, was controlled by Çukurova Holding (51% for Çukurova Holding and 49% for Alfa Telecom) and had control over Tier 2. That was the last step of Karamehmet's Chinese box strategy. He was seeking to monetize his shares in the tiers without losing control of the operator. For example, Çukurova

Holding incrementally reduced its direct shares in Tier 1 from 13.29% in 2006 to 0.05% in 2008 to generate revenue in additional public offerings.<sup>58</sup> As a consequence, the total of the direct and indirect shares of Çukurova Holding in Turkcell İletişim Hizmetleri (Tier 1) declined to the level of 13.8% by 2010 (where it remained in 2016) but it did not lose its claim to control over the operator. Until a new dispute emerged between Çukurova Holding and Altimio (an affiliate of the Russian Alfa Telecom), Çukurova Holding was able to dominate the board of directors and control Tier 1 with a minority stake.

Table 5.2 Ownership Structure of Turkcell in 2005

Strata	Corporate name	Owner of the controlling stake
Tier 1	Turkcell İletişim Hizmetleri A.Ş.	Turkcell Holding
Tier 2	Turkcell Holding	Çukurova Telecoms
Tier 3	Çukurova Telecoms	Çukurova Holding

Telia-Sonera insisted on its agreement with Çukurova Holding and sued in international arbitration court.<sup>59</sup> The relationship between Çukurova Holding and Alfa Telecom (later to be called Altimio) also did not go well, as Çukurova Holding failed to pay its debt.<sup>60</sup> As a consequence of the triangle of disagreements among Çukurova Holding, Telia-Sonera, and Altimio, Turkcell failed to elect a board of directors. An “independent”<sup>61</sup> council of directors was appointed by the Capital Markets Board of Turkey (*Sermaye Piyasası Kurulu*,

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- 58 For an example of Çukurova Holding raising funds through public offers, see “Cukurova Sells Turkcell Stake in \$176m Deal via JP Morgan,” *Euroweek*, March 4, 2005. “JP Morgan sold a 1.65% stake in mobile telecom company Turkcell last Friday, raising around TL223.63m (\$176m) for Cukurova Investments, a major shareholder.”
- 59 For a summary of the viewpoint of Telia-Sonera, see “TeliaSonera AB Initiates a New Arbitration Proceeding against Cukurova Conference Call – Final,” *Fair Disclosure Wire* (Lithicum), August 19, 2005.
- 60 Vincent Boland and David Ibson, “Ultimatum on Turkcell Loan,” *Financial Times* (London), April 18, 2007. “Altimio Warns Banks against Deals with Cukurova,” *Euroweek*, May 11, 2007, 1.
- 61 The council included former ministers of AKP governments like Hilmi Güler and Atilla Koç.

SPK) in March 2013. This takeover of control by the AKP government triggered a mass exodus of high-ranking employees including CEO Süreyya Ciliz.<sup>62</sup> The government domination of Turkcell was fortified by a US\$1.6 billion credit issued to Karamahmet in July 2014 to guarantee its debt service to the Russian Alfa Telecom and maintain Turkish control over Turkcell.<sup>63</sup> The credit issued by Ziraat Bankası was among the first steps by the government to provide public financing for the infrastructure sector whose financing mechanism had been harmed by the downturn of the Turkish economy in the 2010s and the rapid depreciation of the TL starting in 2013.

The investment performance of Turkcell continued to be well below that of the period between 1998 and 2000 until the issuance of 3G licenses in 2009. In the eight-year period between 2001 and 2008, a total of around US\$2.93 billion was invested in infrastructure – an annual average of US\$367 million. This was still better than the period between 1994 and 1997, which had a US\$107 million of annual average, but was well below the average of the period between 1998 and 2000, which had an annual average of US\$930 million. This reflects the negative impact of double crises, in part, but was also a consequence of disharmony between leading partners Çukurova Holding and Teliasonera. In this period, Turkcell continued to make use of various financial instruments including syndicated loans, bond exports, and public offerings.<sup>64</sup>

After 2005, a new era started as two new potential competitors were introduced into the Turkish telecommunications sector with the privatizations of Türk Telekom and Telsim, namely Saudi Oger and Vodafone. The pressure of newcomers paved the way for a more competition-friendly regulatory framework. The Electronic Communications Law that was enacted in 2008 was a

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62 “Turkcell Akcell Oldu... 5 AKP’li Girdi 8 Yönetici Gitti,” *Cumhuriyet*, January 29, 2015.

63 Füsün Sarp Nebil, “Putin Gelmişken Turkcell’de Hissedarlar Savaşında Son Durum Nedir?” *t24.com.tr*, October 11, 2016.

64 For some examples, see “Turkcell Announces New Financing Arrangement,” *World IT Report*, September 22, 2003. “Turkcell Raises US\$100 Million in Islamic Finance Syndicate,” *PR Newswire* (New York), January 16, 2004. “Turkcell Provided Mandate for USD3 Billion Financing,” *PR Newswire* (New York), January 9, 2007.

consequence.<sup>65</sup> The law managed to decrease the market share of Turkcell from a level of absolute domination to a point closer to that of Vodafone (former Telsim). Turkcell nonetheless maintained the market leadership in the 2010s.<sup>66</sup>

## § 5.5 The “Privatization” of Telsim

Telsim was formed as a consortium of Rumeli Holding (the Uzan family), Deutsche Telecom, Alcatel, and Siemens and started to provide mobile telephone service in 1994. The Uzan family consolidated its ownership and control in the following period.<sup>67</sup> Until the nationalization of Telsim in 2004, the Uzan family maintained control over the operator.

Telsim had a business relationship with Motorola since its start in 1994. Motorola, an electronics manufacturer based in the United States, provided infrastructure equipment and handsets (mobile telephone devices) for Telsim.<sup>68</sup> Then Nokia of Finland also had a role in providing equipment to Telsim.<sup>69</sup> However, Telsim’s investment amounts were relatively small when compared to that of Turkcell. The suspension of operations between November 1995 and July 1996 by the government<sup>70</sup> and the relatively small investments in network expansion resulted in Turkcell leading the market well ahead of Telsim. (See subsection 4.3.3 and section 5.3).

The license issuance in 1998 created a further need for financing for Telsim both to pay the license fee of US\$500 million and to make new infrastructure investments. However, Telsim did not have the financial charm of Turkcell in

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65 For the details of the law, see Atiyas, “Regulation and Competition in the Turkish Telecommunications Industry,” 177-191.

66 Quarterly market reports of BTK.

67 For details, see Scheller, “GSM Developments in Turkey.”

68 “Motorola, Turkey Cellular Pact,” *Wall Street Journal*, December 8, 1994. “Motorola, Turkey Firm Sign \$ 90 Million Deal,” *Journal of Commerce*, December 4, 1996. “Motorola Wins Telsim Contract,” *Communications Today*, October 14, 1997.

69 “Turkish GSM Operator Signs \$30 Million Deal with Nokia,” *Communications Today*, August 26, 1997.

70 Two Telsim advertisements about the issue stated their view: “Türk Telekom Genel Müdürü, Ulaştırma Bakanı ve Özer Çiller’in Talimatı ile Hareket Ediyor,” *Milliyet*, December 1, 1995, 13. “Türk Telekom Gn Md Cengiz Bulut Doğru Söylemiyor.” *Milliyet*, December 5, 1995, 5.

the eyes of international creditors because of its minor slice of the Turkish mobile telephone market. The positive factor was that there was still huge room for growth in the sector, through which Telsim may get a better position. Nevertheless, the financial instruments utilized by Telsim in the period after 1998 were neither as various nor generous as Turkcell's. The main financial instrument utilized by Telsim in the expansion period of Turkish mobile telephone network was its vendor financing agreements with Motorola and Nokia.

In the 1990s, competition among the equipment manufacturers of core countries seeking to capture a market share in periphery middle-income countries with plenty of room for growth in telecommunications was fierce as electronics markets in core high-income countries started to mature. Some of these manufacturers became involved in shadow-banking by offering a financial instrument called vendor financing to telecommunications operators. Vendor finance was an instrument through which vendors provide funds for telecommunications operators to purchase the vendor's products. In some cases, vendors offered additional credit for needs other than purchasing equipment. Vendor finance was popular in the United States and Europe in the second half of the 1990s and had become vital for operators as banks started to approach the telecommunications business more hesitantly.

The volume of vendor credits continued to grow until the first signs of the telecommunications bust. In the aftermath of the telecommunications bust a general idea emerged that vendor financing agreements were risky in nature as vendor companies could not evaluate the credibility of operators as well as banks and agreements could collapse.<sup>71</sup> According to estimations in a news report, prominent equipment providers like Alcatel, Cisco, Ericsson, Lucent, Motorola, Nokia, Nortel, Qualcomm, and Siemens had around US\$25.6

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71 There were many news reports and commentaries on vendor financing issues: "Who Pays the Telecoms Vendor?," *Global Telecoms Business*, 52, October 2000, 44. Carl Mortishead, "How to Lose Your Jacket in the 3G Stakes," *The Times*, January 24, 2001. Margo McCall, "Vendor Financing Becomes Extinct," *Wireless Week*, 7.24, June 11, 2001, 17. Margo McCall, "Vendors Scale Back Financing," *Wireless Week*, 8.1, January 7, 2002, 1, 54.

billion of vendor financing on their books by July 2001, and 40% of these credits was under serious risk of collapse.<sup>72</sup> These are estimations as vendor loan agreements were neither essentially transparent nor publicly announced. To be sure, vendor credits should be handled as yet another financial instrument of the spatial replacement of capital.<sup>73</sup>

Telsim was awarded one of two GSM 900 licenses in April 1998 (Turkcell was awarded the other one) and was burdened with a US\$500 million license fee. In addition, in order to compete with Turkcell and enjoy the commercial autonomy provided by the license, Telsim needed to invest heavily. In May 1998, a US\$500 million network expansion deal was announced between Motorola and Telsim.<sup>74</sup> In February 2000, a new Motorola-Telsim three-year equipment purchase agreement worth US\$1.5 billion was announced.<sup>75</sup> This was followed by another three-year Nokia-Telsim agreement worth US\$900 million and three years in June 2000.<sup>76</sup> Through these purchase agreements amounting to around US\$2.9 billion, Telsim heavily invested in infrastructure in the period after license issuance in 1998 and until the double crises in 2001.

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72 Stephen Bartholomeusz, "Telco Traumas an Opportunity, Not a Threat, for Telstra," *The Australian*, July 19, 2001.

73 For core manufacturing exporters, there is a longstanding tradition of supplying credit to clients in the periphery. For a discussion on earlier practices of increasing trade dependency through the mechanism of credit, see Keyder, *State and Classes in Turkey*. Also see Keyder, *Definition of a Peripheral Economy: Turkey in the 1920s*, especially chapter 5.

74 "\$500M GSM Expansion by Telsim in Turkey; Motorola and Telsim Cement Relationship in World's Single Largest GSM Contract Award," *Business Wire*, May 14, 1998. The statement in the title of the news report was based on the press release of Motorola, but the claim that the agreement was the biggest in Turkey was not true. Motorola was seeking to promote their financial profile by over-emphasizing the lucrativeness of the deal.

75 "Motorola Signs Deal on Turkish Wireless," *The New York Times*, February 4, 2000. Motorola signed a three-year US\$1.5 billion contract with Telsim to provide infrastructure, handsets, and services.

76 "Nokia Wins \$ 900 Mil Deal for Turkish GSM Network," *Investor's Business Daily*, June 13, 2000. It is crucial to note that these agreements were announced as mere equipment purchases; the vendor credit aspect of the agreements was not made public. The equipment provision agreements generally included unannounced vendor financing, but this never goes public if the debt servicing works properly.

Figure 5.5 shows the great difference between the periods 1994-98 and 1998-99, as well as the significant proportion taken up by the license fee (the darker bar on 1998) in the total investment.<sup>77</sup> To fill the missing informations in the dataset, I predict that Telsim invested an additional US\$1.9 billion until its nationalization in February 2004. These investments were perhaps concentrated in 2000 before the double crises. However, it is unclear whether Telsim channeled all of the funds raised into network expansion, or – as vendors claimed – the Uzan family channeled the money into their personal fortunes.

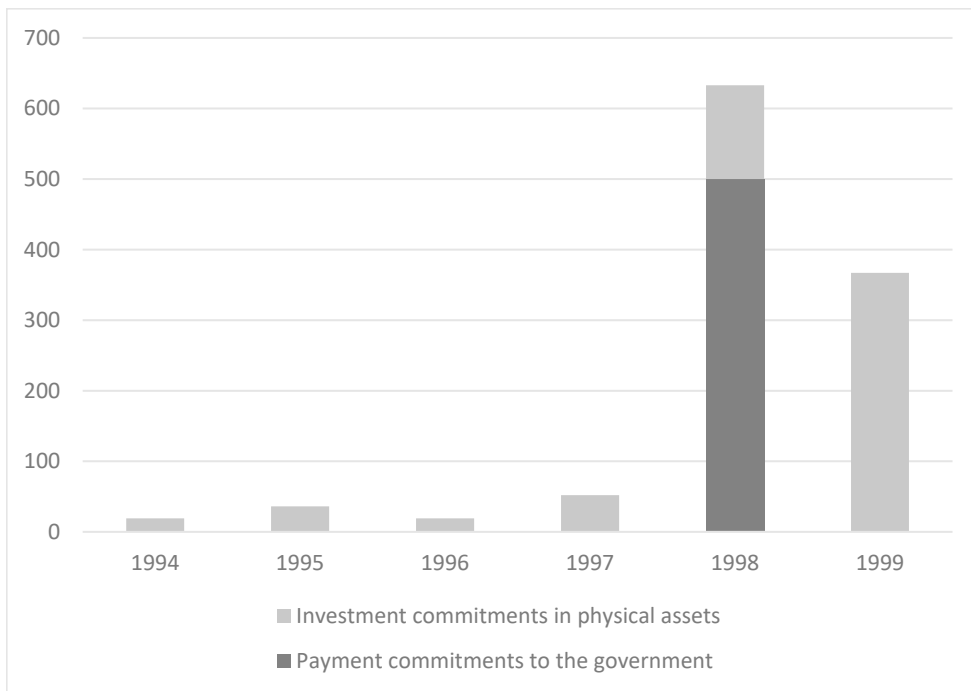


Figure 5.5 Investments of Telsim, 1994-1999. Source: Compiled by the author based on WB PPI.

It was not before until the of Telsim's of US\$728 million loan payment to Motorola in March 2001<sup>78</sup> that the public became aware that agreements be-

77 The WB PPI investment data for Telsim for the years between 2000 and 2002 are missing.

78 "Motorola Debtor Telsim Misses Payment Deadline," *Wall Street Journal*, May 15, 2001. "Motorola Inc says Telsim, a Turkish wireless carrier, missed a deadline to repay \$728 million of a \$2 billion loan extended by Motorola."



tween Telsim and Motorola which had been announced as equipment purchases were actually loan agreements in the form of vendor financing. It was also announced that as a guarantee, Motorola held 66% of Telsim's stake in collateral.<sup>79</sup> These were agreements with record-high amounts. Especially the agreement between Telsim and Motorola was announced proudly by Motorola to be the largest of its kind. In July of 2001, Nokia announced that it "had stopped supplying equipment to Telsim after Turkey's second biggest telecoms operator failed to repay US\$240m in vendor financing."<sup>80</sup> The loan agreement between Nokia and Telsim gave Nokia a 7.5% share of Telsim as collateral. The shock doubled when it was discovered that a secret capital increase of Telsim was approved in a shareholders meeting convened in Ankara in April 2001 just six days before the deadline for the installment of the Motorola debt, deluding Motorola's stake held in collateral for its loan from 66% to 22% and Nokia's from 7.5% to 2.5%.<sup>81</sup>

From the perspective of Motorola, the default by Telsim was a blow that endangered the whole of the operations of the giant producer. Shareholders and bankers accused Motorola of not making the necessary investigation into the Uzan family and Turkey and of overemphasizing the positive effect of agreements. From the perspective of the Bush administration, it was unacceptable that a huge American industrial company face such a crisis with its close ally, Turkey. From the perspective of the Turkish government, this was threat to Turkey's credibility given that it was in a great need of financial help from United States-dominated international financial institutions to recover from crisis.

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79 Christopher Bowe and Nikki Tait, "Telsim Misses \$728m Payment to Motorola," *Financial Times* (London), May 15, 2001.

80 Christopher Brown-Humes, "Nokia Ends Equipment Supplies to Telsim," *Financial Times* (London), July 7, 2001.

81 Leyla Boulton, Dan Roberts, and Nikki Tait, "Washington Aids Motorola on Telsim Debt," *Financial Times* (London Edition), August 10, 2001. "Business: Facing Down the Uzan Clan; Motorola and Nokia in Turkey," *The Economist*, 360.8235, August 18, 2001, 46-7.

Motorola and Nokia failed to agree on a rescheduling of Telsim's debt and started legal proceedings in the United States in January 2002.<sup>82</sup> This was followed by a series of court cases in several countries and finally a case against Turkey in the international arbitration tribunal of the WB in 2004.<sup>83</sup> In this period, American and European governments confiscated the assets of Uzan family, including condos, yachts, and planes.<sup>84</sup> Motorola and Nokia argued that the Uzan family had misused the vendor financing by channeling funds into their personal fortunes instead of into infrastructure investments. The Uzan family argued that the financial troubles were not rooted in their fortune but in tragic events in Turkey: The earthquake, the financial crisis, and ensuing depreciation of TL.<sup>85</sup>

The Bush administration became directly involved in the crisis and pressured the Turkish government.<sup>86</sup> However, the Ecevit government was not active in the issue. The AKP and Erdoğan acted more effectively than Ecevit.

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- 82 The incident attracted a great deal of attention in the American press. See Gary Bradford, "Technology Briefing Telecommunications: 2 Companies Sue Turkish Concern," *The New York Times*, January 29, 2002. Shawn Young, "Motorola and Nokia Allege Fraud, Sue Turkish Mobile-Phone Family," *Wall Street Journal*, January 29, 2002. James Doran, "Motorola and Nokia Take on Turkish Family," *The Times*, January 29, 2002. Ben Klayman, "Motorola, Nokia Sue Telsim under Antiracketeering Laws," *The Globe and Mail* (Canada), January 29, 2002.
- 83 December 28, 2004, *Motorola Credit Corporation, Inc v. Republic of Turkey* (ICSID Case No. ARB/04/21).
- 84 Braden Keil, "Mogul Dumps Trump - Turkish Telecom Titan Cem Uzan Balks On \$38m Condo," *The New York Post*, November 8, 2001.
- 85 For the arguments of Uzan family about the process, see an advertisement by Telsim, "An Important Question for Motorola and Its Shareholders About Full Disclosure," *New York Times*, May 29, 2003. Ayla Uzan, "No Court Has Declared the Uzan Family or Its Companies Bankrupt," *Financial Times* (London), September 13, 2005.
- 86 "Business: Facing Down the Uzan Clan; Motorola and Nokia in Turkey," *The Economist*, 360.8235, August 18, 2001, 46-7. "The Bush administration, whose support was pivotal in securing some \$15.7 billion in WB and IMF loans earlier this year to rescue Turkey's economy, has alerted the Turkish government to the damage Telsim's behaviour could inflict on the country's already shaky image among international investors. Finland's foreign trade minister, Kimmo Sassi, has said his government is preparing to intervene on Nokia's behalf." Douglas Frantz, "Turkey's Leader Visits U.S. to Plead for Urgent Economic Aid," *The New York Times*, January 14, 2002. "Mr. Ecevit is likely to be disappointed, too, when President Bush raises the

From the perspective of the AKP government, the relationship with the United States was crucial, especially after it failed to obtain the consent of parliament for the United States military incursion into Iraq in March 2003 to be based in Turkey. The government was also motivated to foster FDI and privatizations to generate revenue and repay its commitments to the international community. Another factor that motivated Erdoğan was Uzan's move to form a political party. In the parliamentary elections of 2002, following an impressive election campaign that took advantage of the merchandising web of Telsim and propaganda on Star TV, the *Genç Parti* led by Cem Uzan had around 7% of the vote – under the 10% threshold but still the liveliest opposition to the AKP. In 2003, the Erdoğan-led AKP government started to take measures against the Uzan family in the fields of banking, energy, and media.<sup>87</sup> In February 2004, the most lethal move by the government was the transfer of the control of Telsim and other 218 companies of the Uzan family to the TMSF.<sup>88</sup>

In June 2004, the AKP government used its majority in TBMM to enact Law 5189 that made it possible for foreign companies to participate in the privatization tender for Türk Telekom. The law also authorized the TMSF to divest assets transferred to its control, thus making possible the sale of Telsim.<sup>89</sup> In August 2005, the TMSF announced that Telsim was for sale.<sup>90</sup> Agreements

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issue of \$2 billion owed to Motorola by Turkey's second-largest cellular phone company, Telsim. The State Department and American lobbyists have already pressed the Turkish government unsuccessfully to persuade Telsim's owners to repay the debt. Administration officials said they expect Mr. Bush to raise the matter again. Analysts said the disputed loan has harmed Turkey's ability to attract foreign investment, but Turkish officials said they cannot force Telsim, a private company, to repay the debt.”

87 Suna Erdem, “Pretenders Nip at the Heels of the Titan,” *The Times*, June 14, 2003. “Turkey: Uzan Bank Seizure Highlights Sector Weakness,” *Oxford Analytica Daily Brief Service*, July 8, 2003. Jon Gorvett, “Troubles Mount for Turkey's Berlusconi,” *The Business*, July 27, 2003.

88 “Uzan Grubu'na El Konuldu,” *Hürriyet*, February 14, 2004.

89 “New Law Passes in Turkish Parliament to Permit Sales of Turk Telekom, Telsim,” *BBC Monitoring European*, 17.06.2004.

90 “TMSF Telsim'i Satışa Çıkardı,” *Hürriyet*, 25.08.2005.

between the government and Nokia and Motorola that stipulated that a portion of the revenues from the sale of Telsim would be channeled to Motorola and Nokia followed this announcement.<sup>91</sup>

The winner of the tender was Vodafone, a United Kingdom based multinational which made an offer of US\$4.55 billion.<sup>92</sup> As agreed between the government and Motorola and Nokia, Motorola received US\$910 million and Nokia received US\$341 million of the privatization revenue.<sup>93</sup> The good news echoed throughout the United Kingdom, the United States, and Finland, as the revenue generated was far more than expectations of around US\$2.5 billion.<sup>94</sup> The unexpectedly high value of the sale was in part the consequence of the participation of petrodollar-rich groups from the Middle East. Naturally the sale triggered the use of *cliché* expressions like “Turkish Delight” and “turkey the bird” as well as dry, English-style humor.<sup>95</sup>

It is crucial that the Telsim case was not the only one when a vendor financing agreement in telecommunications failed. The real factor behind the collapse of a series of vendor agreements in the United States and Europe was the telecommunications bust and the risky nature of the agreements. In the

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- 91 Jonathan Gorvett, “Turkey’s Telsim Finally on Course for \$ 2bn Sale after Nokia Deal,” *The Business*, September 4, 2005. “Equipment giant Nokia will get a 75% slice of the proceeds of the Telsim GSM network’s sale, or \$ 150m (£81m, €120m), whichever turns out to be the largest.” Paul Taylor, “Motorola agrees to settle Telsim claims,” *FT.com*, October 28, 2005. “Motorola on Friday agreed to settle its claims against the Turkish mobile carrier Telsim Mobil and the Turkish Savings and Deposit Insurance Fund (TMSF) for \$500m in cash and a 20 per cent share of the proceeds from the sale of Telsim by the government if it yields more than \$2.5bn.”
- 92 “Vodafone Gets the Right Number in Turkish Telecoms Auction,” *The Evening Standard* (London), December 13, 2005.
- 93 Heather Timmons, “Vodafone to Buy Turkish Phone Company,” *The New York Times*, December 14, 2005.
- 94 “Nokia Applauds the Successful Auction of Telsim’s Assets,” *PR Newswire*, December 13, 2005. “Motorola Comments on Telsim Sale,” *FinancialWire* (Forest Hills), December 14, 2005.
- 95 “No Turkish Delight for Vodafone,” *Birmingham Post*, December 14, 2005. “Mobile Giant’s Turkish Delight; It’s the Business,” *Daily Star*, December 14, 2005. Jeremy Warner, “Has Vodafone Bought a Turkey, or Is This an Inspired Bet on Europe’s Eastern Frontiers?,” *The Independent* (London), December 14, 2005.

case of Telsim, the situation was worsened by the February 2001 Turkish financial crisis and the following banking reforms. The outcome of the default may have been different if it did not involve a suspicious family like Uzans whose past business record and political clashes with Erdoğan were infamous. Erdoğan's political collaboration with the Bush administration was another factor that paved the way for the political solution for which the Bush administration pushed.<sup>96</sup>

The case studied in this section is similar to that in the previous section. This time, following an unsuccessful spatial replacement of capital, the reversal of capital was politically mediated. Erdoğan was seduced by Bush following a good example of core-periphery lobbying. In this lobbying process, trials in American courts and in international arbitration functioned as additional pressure in the political forum to form a resolution that would favor core companies rather than true mechanisms of dispute resolution. The outcome was the transfer of the ownership of a mobile telephone operator from a domestic conglomerate to a European operator and the covering of damage from the sunken vendor credits of United States and Finland originated electronics manufacturers. The introduction of Vodafone with the acquisition of Telsim in 2005 changed the balance to domestic operator Turkcell's disadvantage. From the viewpoint of domestic political leaders, the resolution also eliminated of an opposition party and filled government coffers through a privatization that was not officially recorded as privatization.

## § 5.6 Concluding Remarks and Bridge to Next Chapter

The interaction among the fluctuations of international capital markets, the Turkish holding pattern and the Turkish government's prioritization of revenue generation set the scene of this chapter. The global bust of telecommunications stocks negatively affected Turkish private mobile telephone operators as these operators were indebted because of bold investments between 1998

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96 Similar solutions were found at the hands of the Turkish government for the issue of the US sugar company Cargill, as Bush pressed for the alteration of health standards in Cargill's favor and Erdoğan complied. For the Cargill case, see Zülküf Aydın, "Neo-Liberal Transformation of the Turkish Agriculture," *Journal of Agrarian Change* 10, no. 2 (2010): 166-169.

and 2000. The situation worsened with the February 2001 crisis and the following banking regulations. In addition to the distraction to the Turkish telecommunications market as a consequence of the February 2001 crisis, the holdings that controlled private operators suffered under great debt obligations rooted in sanctions on their banks. The government prioritized privatization revenue as well as the guarantee that banks would service their debts to the public. Another motivation of the government was to maintain the confidence of foreign investors and creditors. These motivations of the government gave birth to hasty, under-designed interventions.

Çukurova Holding had debt obligations to the public rooted in Yapı Kredi Bankası and Pamuk Bank which it controlled. Karamahmet, the leader of the family that controlled Çukurova Holding, adopted a strategy to monetize its stakes of Turkcell. However, at the same time, Karamahmet was motivated to maintain controlling power over Turkcell. Actually, Çukurova Holding's stake in Turkcell could have been purchased by the foreign partner, Telia-Sonera, for a price sufficient to pay its debt. Telia-Sonera was motivated to make such an acquisition as it was seeking opportunities to expand in Turkey and beyond. At this point, Turkish and Russian political authorities formed a loan agreement between Russian Alfa Telecom and Çukurova Holding. The loan agreement included Çukurova Holding's stakes as the collateral. This was the first step towards management chaos at Turkcell. Karamahmet failed to honor his debt to Alfa Telecom, and the Russian group took over a part of his stake. In this point, the three partners failed to elect a board. The control crisis reached a new phase in the 2010s when the Turkish state further intervened by appointing members to the board of Turkcell, taking over both the debt obligation and the collateral stake from Alfa Telecom.

Telsim failed to pay the vendor credits borrowed from equipment manufacturers Motorola and Nokia. Lobbying of the Bush administration in behalf of Motorola, the political rivalry between the Uzan family and Erdoğan, and the family's debt to public rooted in İmar Bankası resulted in the nationalization of all assets of the Uzan family, including Telsim. The Turkish state resold Telsim to Vodafone a year later.

In the next chapter I focus on the case studies of the Aria-Aycell merger and Türk Telekom's privatization. Unlike the cases of Turkcell-Telsim, the case

of Aria-Türk Telekom concerns foreign investors. Turkish privatization policy was based on a “strategic foreign partner” argument. Attracting a foreign investor to the telecommunications sector seemed to be an optimal solution for a policy that sought to raise revenue through a block sale and at the same time attract foreign investment in infrastructure and technology transfer. On the surface, the advent of Telecom Italia as the GSM1800 operator in 2000 was a successful implementation of the strategic partner strategy. Telecom Italia paid a major sum to acquire the license which satisfied government’s need for revenue. In addition, the Turkish public was excited about the prospect of technology transfer and investment by a competent European operator. However, a closer investigation into Telecom Italia shows that it was not the ideal strategic partner given fragilities in its ownership structure and its lack of experience. The entrance of Telecom Italia gave birth to negative consequences that went beyond the mobile telephone sector. Telecom Italia’s partnership in Avea with state-owned Türk Telekom became a trump card in its hands to manipulate the outcome of the privatization of Türk Telekom. The consortium dominated by Saudi Oger which had Telecom Italia in tow as the minor partner, won the auction. Telecom Italia sold out its stake to the majority partner after privatization and left Turkey with a non-strategic partner: Saudi Oger.

## Road to a Non-Strategic Foreign Partner: The Avea Merger and Privatization of Türk Telekom

### § 6.1 Introduction

Turkish conglomerates were at the helm of the first two mobile telephone operators. The Uzan family controlled Telsim between 1994 and 2004 and lost control when TMSF nationalized Telsim along with other companies of the family. Çukurova Holding controlled Turkcell between 1994 and 2013 and lost their control when the SPK intervened and appointed former AKP ministers as new “independent” board members. The corporate management models, political relationships and fragile banking activities of these Turkish conglomerates affected the fates of private mobile telephone operators. Despite the legal barriers to control telecommunications operators by foreign companies, the spatial replacement of capital from core high-income countries to peripheral Turkish economy took place through credit mechanisms, as Turkcell and Telsim borrowed boldly to finance their investments. This was the basic dynamic that triggered the crisis of Turkcell and Telsim analyzed in chapter 5.

Following the legislation of the necessary legal framework, the introduction of direct investment by foreign companies into the Turkish telecommunications sector started. This was a more direct form of the spatial replacement



of capital<sup>1</sup> which was directed by the expansion strategies of individual foreign telecommunications companies. In 2000, when the GSM1800 license was granted to the İş-Tim consortium, Telecom Italia, the largest partner of the consortium,<sup>2</sup> became the first core company to directly invest in the Turkish telecommunications sector.<sup>3</sup> The introduction of the direct investment of foreign companies progressed further in 2005 with the divestiture of Telsim from TMSF to Vodafone and with the privatization of 55% of Türk Telekom to the consortium of Saudi Oger and Telecom Italia. This chapter focuses on capital replacements through direct investments by individual companies in the sector, the role of core-periphery lobbying and the political forum in facilitating the introduction and withdrawal of core companies, and the role of the Aria-Aycell merger (a hasty resolution formed by lobbying at political forum) on the outcome of the Türk Telekom's privatization tender in 2005.

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- 1 The spatial replacement of capital is a concept developed by Harvey. See subsection 2.4.1.
  - 2 The minority partner of the İş-Tim consortium was İş Bankası, a semi-public bank which operated as a holding governed by professionals.
  - 3 Actually, core companies invested in urban-scale telephone operators at the beginning of the twentieth century through the concessions of the Ottoman state. These were nationalized in the 1930s. Telecom Italia was the first core company to invest in Turkish telecommunications after these nationalizations. For the nationalization of urban-scale operators, see subsections 1.2.1 and 1.2.3.

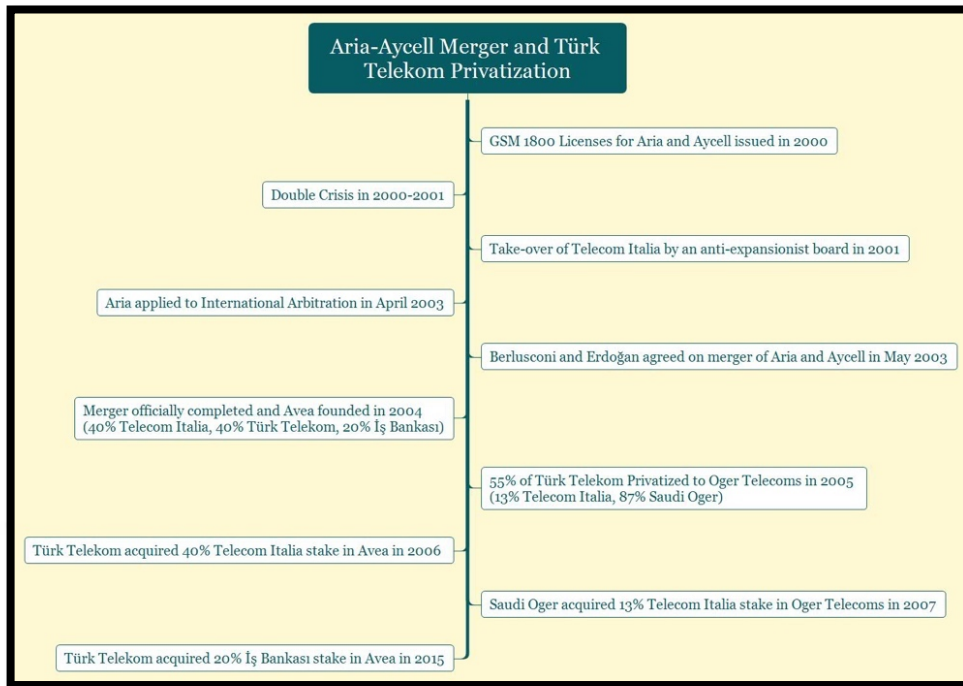


Figure 6.1 A chronology of the Aria-Aycell merger and the privatization of Türk Telekom

Telecom Italia established the third private mobile telephone operator in Turkey – Aria – and started operations in the difficult conditions of aftermath of the double crises – that is, the telecommunications bust and February 2001 crisis. These conditions prevented Aria from successfully grabbing a respectful slice of the market share. Given its lack of commercial success along with a change in Telecom Italia’s strategy from expansion in the periphery to withdrawal from the periphery, Telecom Italia decided to withdraw from Turkey and minimize its losses. This was a tragic development for the Turkish economy, as a foreign investor brought about a very bad example of corporate management and financial compass, not unlike bad examples among Turkish conglomerates. Indeed, the introduction of direct investments by core companies was hailed with the expectation that better models of corporate management would be transferred in addition to technology. Turkey’s privatization policy was based on attracting “a strategic foreign partner” to remedy the shortage of domestic investment by bringing in foreign funds as well as technological

knowhow and good practices of corporate governance.<sup>4</sup> However, contrary to expectations, the outcome was poor economic performance and the subsequent withdrawal of the company within a short period of seven years with the help of core-periphery lobbying by Italian President Silvio Berlusconi. Actually, this should have been no surprise, as the Italian business environment had a bad reputation of interlocked ownerships, secrecy and lack of transparency, characteristics which could trigger sudden, dramatic changes in the composition of boards of directors and the expansion strategies of individual Italian companies. However, the Turkish government was focused on the revenue generated from the tender and paid little attention to the financial fragility and complex ownership structure of Telecom Italia.

Following the shift of Telecom Italia's strategy from expansion to withdrawal, the company's Italian managers urged Berlusconi to reach an agreement with the Turkish Prime Minister Erdoğan to merge Aycell (the affiliate mobile telephone operator of SOE Türk Telekom) and Aria. This merger created a deadlock on the eve of Türk Telekom's privatization concerning future control of Avea (the new operator resulting from the merger of Aria and Aycell). As a result, Telecom Italia managed to win the tender for Türk Telekom along with partner Saudi Oger. However, Telecom Italia was determined to withdraw from Turkey, so, they divested their stakes in Avea and Türk Telekom to Saudi Oger.

From the viewpoint of the Turkish government,<sup>5</sup> attracting huge amounts of foreign investment was a success. In the age of outward-oriented development and growth, attracting FDI was perceived as the best way to finance development and transfer new technologies and knowhow. In addition, the successful introduction of FDI to into the national economy was a sign of commitment to the strategy outlined by leading actors of the international community like the European Union and IMF. Successfully attracting FDI was synonymous with successful privatization, a claim codified as the strategic partner argument in telecommunications policy research. In this respect,

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4 For details of the strategic foreign partner argument, see subsections 2.2.2 and 2.3.1.

5 The DSP-MHP-ANAP coalition led by DSP leader Ecevit was in power when Telecom Italia started Turkish operations in 2000. Following the 2002 elections the AKP government led by Erdoğan came to power.

US\$2.525 billion in revenue generated from the GSM1800 license acquisition by Telecom Italia and the US\$6.55 billion in revenue from Türk Telekom's privatization were record high amounts for privatization up to that time. As I express in chapters 4 and 5, government handled the introduction of private capital into the sector after 1994 by prioritizing the revenue generation dimension of privatization. This was in concordance with anti-inflationary budget disciplining measures of the period. In this respect, the privatization of telecommunications was a spearhead. As a consequence, the Turkish government facilitated the introduction and maintenance of the presence of core companies in Turkey. This effort included preventing the appearance of disputes between foreign investors and their domestic partners or the government. The government's prioritization of revenue generation and pragmatic approach to the disputes fixed the problems in the short term in the political forum. However, this approach also created long-term deadlocks, the outcome of which was poor performance in terms of the development in infrastructure and utilities sectors. The cases of the GSM1800 license issuance and Türk Telekom's privatization are a good example of the character of Turkish telecommunications policy in this respect.

I argue that it is necessary to study the two cases of Aria and Türk Telekom together as the outcome of the tender for Türk Telekom cannot be explained without taking the historical background of the introduction and withdrawal strategies of Telecom Italia and the assist of the Turkish government into account. The academic literature handles the Türk Telekom's privatization as an absolute victory for the pro-privatization camp and evaluates the extent to which competition and liberalization goals were accomplished but omits the basic cause of the outcome of the tender as it relates to the Aria-Aycell merger. My study contributes to the literature by revisiting the Türk Telekom's privatization and linking it to the Aria dispute which was shaped the prioritization of revenue generation and pragmatism of the Turkish government.

The organization of the chapter is as follows. Following this introductory section (6.1), the second section (6.2) explains the introduction of Telecom Italia through the acquisition of the GSM1800 license, their commercial failure in Turkey, the application to international arbitration based on accusations of unfair roaming regulations, and the consequent merger of Aycell and Aria.

The third section (6.3) analyzes the reasons first two attempts to privatize Türk Telekom failed. The fourth section (6.4) explains developments about privatization 2005 linked to the deadlock of Avea. The fifth section (6.5) engages with evaluations of the value of the privatization of Türk Telekom in comparison with the other privatizations at the time. The sixth section (6.6) concludes.

## § 6.2 Telecom Italia's Landing and Flight

### 6.2.1 GSM1800 License Auction and İş-Tim

As early as November 1999, İş Bankası and Telecom Italia Mobile agreed to form a consortium for the anticipated mobile license tender in Turkey.<sup>6</sup> Telecom Italia had been relatively passive with respect to acquisitions, mergers, and license tenders in Western Europe in the 1990s as a consequence of its relatively late privatization in October 1997<sup>7</sup> and the lack of a focused strategy in the following period. In February 1999, Roberto Colaninno, the chairman of Olivetti, launched a hostile takeover<sup>8</sup> that exploited the fragmented nature of the shareholder structure of Telecom Italia.<sup>9</sup> Following the successful financial coup, Colaninno took the helm of Telecom Italia and the company adopted an expansionist strategy to telecommunications services aimed at peripheral middle-income countries in Latin America and on the periphery of Europe. In a statement, Colaninno expressed his expansionist ambitions by saying that he wanted “Telecom Italia to become Telecom World.”<sup>10</sup> The agree-

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6 “İş Bankası, Telecom İtalia ile Cep İhalesine Giriyor,” *Hürriyet*, November 14, 1999.

7 A 44.7% stake in Telecom Italia was privatized in a public offering generating a revenue of about \$10.9 billion. See *Privatization Barometer Database*.

8 If a company takes control of another company without the consent of management it is called a hostile takeover.

9 Deborah Ball, “Olivetti Launches Bid for Telecom Italia,” *Wall Street Journal*, February 22, 1999.

10 David Lanchner, “The Battle for Telecom Italia, Part II,” *Institutional Investor*, 35.4, April 2001, 73-80.

ment with İş Bankası was in concordance with the expansion strategy of Colaninno's Telecom Italia. İş-Tim was under the control of Telecom Italia as they directly and indirectly controlled 49% of the shares.<sup>11</sup>

The original plan for GSM1800 licenses that was designed in 1998 was to issue two additional licenses. One would be awarded at auction and the other one was reserved for Türk Telekom to make the SOE (State Owned Enterprise) more attractive in a possible forthcoming privatization tender.<sup>12</sup> However, in 1999 the DSP-MHP-ANAP coalition revised the plan and decided to issue three licenses to increase potential revenue to be generated. If the plan of the government had worked, there would have been a total of five competing mobile operators.

In April 2000, the first auction took place for a license to provide GSM1800 mobile telephone service. İş-Tim consortium submitted the highest bid amounting to US\$2.525 billion. The foolhardiness of the offer is clear when compared to the second highest one, the Sabancı, Doğan, Doğuş, and Telefonica International consortium's offer of US\$1.350 billion.<sup>13</sup> It is also useful to compare the amount to that of the GSM900 licenses issued to Turkcell and Telsim in April 1998 for US\$500 million each. The aim of such a generous offer was to block a second auction as stated by Marco de Benedetti when he proudly announced that İş-Tim had offered US\$1 billion more than the true value of the license.<sup>14</sup> The design of the license tender stipulated that the minimum bid in the second auction would be the winning offer of the first. As a consequence, there were no offers made by other consortiums in subsequent auctions.<sup>15</sup> In that way, even before starting, Telecom Italia pushed a potential

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- 11 "İş-TİM Telekomünikasyon Hizmetleri A.Ş. 355 trilyon TL Sermaye ile Kuruldu," *Milliyet*, September 6, 2000.
- 12 Press release of Transportation Minister Ahmet Denizolgun, see "Cep'e İki Lisans Daha Geliyor," *Milliyet*, August 15, 1998. Gürek argues that Türk Telekom demanded to start mobile services to compete with Turkcell and Telsim, a plan opposed by mobile operators. Harun Gürek, "Cepte İki İhaleye Çıkılacak," *Milliyet*, July 21, 1999.
- 13 "İş Bankası'ndan Rekor Teklif: 2 Milyar 525 Milyon Dolar," *Hürriyet*, April 12, 2000.
- 14 "Telecom Italia: GSM 1800'e 1 Milyar Dolar Fazla Verdik," *Hürriyet*, May 5, 2000.
- 15 "Cep Elde Kaldı," *Milliyet*, April 18, 2000. "İş'e Rakip Çıkmadı," *Milliyet*, May 3, 2000.

competitor out of the game and damaged the original design of the government.

The Turkish public was ecstatic with the effect of the offer. US\$2.525 billion bid was a landmark that exceeded the overall total privatization revenue of Turkey from the 1980s to 2000. In addition, it was perceived as a dramatic increase in Turkey's FDI performance.<sup>16</sup> Under the restrictions of the IMF Stand-By Agreement of 1998-2008, the government lacked policy instruments like setting interest, foreign exchange rates and inflationary financing.<sup>17</sup> Under such circumstances, US\$2.525 billion in revenue was vital. The first payment would amount to US\$500 million + US\$85 million in value added tax and would be registered in the 2000 budget; the second payment would amount to US\$2.025 billion + US\$340 million and would be registered in the 2001 budget. The revenue would be channeled to repaying domestic public debt and preventing the emergence of a huge public budget deficit.<sup>18</sup> Prime Minister Ecevit emphasized the revenue generation aspect of the license.<sup>19</sup> In addition, it was perceived as an encouraging starting point for the future tender for the privatization of Türk Telekom. The process accomplished in privatization agenda fulfilled commitments to the international community and creditors – an achievement that would be awarded.

The great popular and political interest in the realization of privatization payments was a consequence of the capital dependency of the Turkish peripheral government to finance its public spending. The growing public debt of the 1990s was required a steady inflow of capital. This dependence on capital also created the basis for intervention by the international community which the belated conditions regarding public budget discipline and the elimination of inflationary financing to release credit. Beyond the official loans of the IMF,

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16 Eylem Türk, "Açık Koyu Sohbetler: "Buna 'Flamingo Sendromu' Derler," *Milliyet*, December 10, 2000, 1, 2. "Bu Yıl İş-Tim'le Güldük," *Milliyet*, December 16, 2000, 11. "Yabancı Sermaye 2000'i Sevdi," *Milliyet*, January 9, 2001, 9.

17 For details of the stand-by agreement and its implementation by subsequent governments, see Bağimsız Sosyal Bilimciler, *IMF Denetiminde On Uzun Yıl: Farklı Hükümetler, Aynı Siyaset 1998-2008* (Ankara: BSB, 2007).

18 "Ekonomi Alt-Üst Olacaktı," *Milliyet*, October 28, 2000, 11.

19 "Ecevit: 3 Milyar Dolar Gelecek," *Milliyet*, October 28, 2000, 11.

the commitment to a stabilization program was an indicator for private foreign creditors and investors. Privatizations were crucial for both budget discipline and commitment to the stabilization program.

Another factor that boosted the morale of the Turkish mainstream media about the advent of Telecom Italia was the quality of the investment in addition to its quantity. An investment in the telecommunications sector by a core-originated telecommunications company was perceived as synonymous with technology transfer and integration into the European as well as the world economy. Telecom Italia was a prominent telephone operator in Europe with one of the largest subscriber bases.<sup>20</sup> It was hoped that Telecom Italia would boost competition, lower prices, and improve the infrastructure and condition of telecommunications services. İş-Tim was going to start with zero market share and would invest additional billions of dollars in infrastructure, which was supposed to be an additional boost.<sup>21</sup>

Despite optimism around the outcome of the auction, there were still suspicions about the merit of the offer. Ersin Özince, the chairman of İş Bankası, Marco de Benedetti, and Roberto Colaninno had to publicly defend the accuracy of their license acquisition.<sup>22</sup> İş-Tim's strategy to push out potential bidders was successful. However, in part as a consequence of Colaninno's hostile takeover, Telecom Italia was highly indebted. Such a huge amount to acquire a license acquisition when added to the potential costs of necessary infrastructure investments harmed the company's ability to service its debts.

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- 20 The Business Wire depicted the company as follows: "About Telecom Italia Mobile: TIM with 41 million customers throughout the whole world operators in Europe, the Mediterranean basin and in South America. The countries concerned are Austria, France, Greece, the Czech Republic, the Serbian Republic, Spain, Turkey, Bolivia, Argentina, Brazil, Chile, Peru and Venezuela.... TIM already holds three licenses for UMTS technology in Italy, Spain and Austria." "TIM and Webraska Set to Launch Italy's First Wireless Navigation Services," *Business Wire*, February 12, 2001. For a news report on the overseas operations of Telecom Italia: "Telecom Italia Digitel'i Alıyor," *Milliyet*, November 14, 2000, 10.
- 21 Among many example is "İş-Tim Stressiz Arıyor," *Milliyet*, January 26, 2001, 8. "Merhaba 0555," *Milliyet*, March 22, 2001, 14.
- 22 Press releases of Özince: "GSM'ye Fas Fiyatı Verdik," *Milliyet*, April 26, 2000. "GSM'de 3 Milyar \$'a Bile Çıkardık," *Milliyet*, May 7, 2000. Marco de Benedetti's press releases: "Dünyanın En İyi İşini Başardık," *Milliyet*, May 5, 2000.



The Turkish government was culpable for the fact that revenue generation was prioritized with respect to the license issuance and for the fact that the complicated ownership structure of Telecom Italia was not adequately considered. The Turkish government and bureaucracy should have better investigated the financial status of Telecom Italia. In addition, it was possible to block the offer by Telecom Italia given its bad intention to push out a potential competitor by offering a billion dollars more than the true value. However, the government's motive to generate revenue dominated the process and gave birth to such a consequence.

### 6.2.2 *Problems that Emerged before the Signing of the Contract*

The auction took place on April 12, 2000. However, the formal contract for the license was signed on October 27, and the first installment of the payment was received on November 13. This seven-month lag was a consequence of disagreements over issues between the government and İş-Tim in addition to legal procedures. The first of the two main problems – with the Ministry of Finance – concerned the payment of value added tax. The second – with the Ministry of Transportation – concerned the GSM1800 license issued to Türk Telekom.

According to Metin Münir, participants were informed that the license fee was subject to a value added tax (*katma değer vergisi*, KDV) of %17 just a few hours before the auction. This was a terrible news for bidders as the percentage was high and deeply affected their financial plans. However, participants went ahead with the auction, and Telecom Italia won.<sup>23</sup> The *fait accompli* of the ministry was conceded by İş-Tim; however, the parties did not agree about the

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23 Metin Münir, "Travesty of Communication: Telecoms by Metin Munir: Telecom Italia May Have Won the Third Cellular Telephone Licence in Turkey, But the Terms Agreed with The Government Have Been Subject to Confusion Ever Since," *Financial Times* (London Edition), April 18, 2001. The value added tax problem also emerged in the license payment of Telsim. Telsim filed a case about that disagreement but the legal proceedings were not yet finished when the GSM1800 auction was on the road. The Ministry of Transportation consulted with the Revenue Administration (*Gelirler Genel Müdürlüğü*) before the auction and the administration informed it that the license fee should be subject to value added tax. "İş-Tim'e KDV Sürprizi," *Milliyet*, October 25, 2000, 5.

payment schedule. The Ministry of Finance insisted that the tax payment, a total of US\$455 million, be paid as a part of the first installment.<sup>24</sup> İş-Tim defended the stance that the payment of the value added tax also be in installments.<sup>25</sup>

The second problem concerned the future mobile operator of Türk Telekom. The license agreement between İş-Tim and the government stipulated that this operator be an independent affiliate, rather than a direct service of Türk Telekom. The mobile branch was to pay for the ready infrastructure of Türk Telekom like other competitors. However, an article in the 2001 public budget stated that mobile services would be directly provided by Türk Telekom. In violation of the original agreement, direct operations would allow the operator to use the infrastructure of Türk Telekom for free. In addition, it was suspected that even if Türk Telekom would pay the license fee only in the books as a deduction from the amount owed by the treasury to the Türk Telekom. If this would be the case, the burden of financing the license fee would unfairly disappear for Türk Telekom. İş-Tim would be at a disadvantage relative to the mobile operations of Türk Telekom in terms of infrastructure and financing.<sup>26</sup>

After a while it became clear to İş-Tim that it was not possible to solve the problems directly with Finance Minister Sümer Oral and Transportation Minister Enis Öksüz. The directors of the consortium adopted the strategy of expressing their arguments in press reports and of lobbying pivotal figures and leaders of political parties in the reigning coalition. As I express above, the license payment was vital to bring equilibrium to the public budget. This significance of the payment was a main advantage for İş-Tim which it exploited. Telecom Italia threatened to withdraw from the sector and argued that a withdraw would send a bad message to foreign investors and creditors.<sup>27</sup> On the final day of the legal term of the contract, Marco de Benedetti, Ersin Özince,

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24 “İş-Tim’e KDV Sürprizi,” *Milliyet*, October 25, 2000, 5.

25 “İş-Tim Borsa Yolunda,” *Milliyet*, October 13, 2000, 5.

26 Esra Yener, “Rekor İhale Tehlikede,” *Milliyet*, October 26 2000, 1, 11.

27 Marco de Benedetti threatened to leave Turkey. “Dünyanın Sonu Değil Ya GSM’yi Almaz, Gideriz,” *Milliyet*, October 29, 2000, 9.

and the political leaders Ecevit, Yılmaz, and Devlet Bahçeli<sup>28</sup> directly engaged in negotiations. Following a busy day, they bypassed the ministers and came to an agreement that was predominately in line with the terms of İş-Tim. The formal contract for the license was signed on the last day, October 27.<sup>29</sup> This was another example of the political mediation of capital replacement through dispute resolution in the political forum. Pressure on the government as a result of its capital dependency – in other words, the urgency of servicing its debt – determined the shaping of the resolution.

As part of the agreement, the High Council of Planning (*Yüksek Planlama Kurulu*, a council consisting of prime minister and other ministers) would decide that the mobile operator be a separate branch of Türk Telekom, a company with capitalization of US\$2.525 billion. That new company would pay for services attained from Türk Telekom in order to guarantee fair competition.<sup>30</sup> It was also conceded by the government that the value added tax would be paid in installments. İş-Tim paid US\$500 million plus US\$85 million on November 13, 2000. Nonetheless, İş-Tim still objected to the imposition of the value added tax and filed a case against the Ministries of Finance and Transportation in the tax court (*3 Nolu Vergi Mahkemesi*) on December 7.<sup>31</sup> In December, Türk Telekom Chairman İsmail Hakkı Alptürk announced that their

28 Devlet Bahçeli is leader of MHP. Alpaslan Türkeş, a retired colonel, was the founder and leader of the ultra-nationalist MHP until his death in 1997. The MHP was a bastion of nationalist, anti-communist paramilitary forces in the 1960s and 1970s. The September 12 Coup closed the MHP and banned Türkeş from politics. Türkeş and MHP returned to the politics following the 1987 referendum that lifted the political bans, but they were unsuccessful in the general elections. Devlet Bahçeli, an academic and member of the elite cadres of MHP, surprisingly became the successor to Türkeş. Under the leadership of Bahçeli, the MHP became more moderate and closer to the center-right tradition. In the 1999 elections the MHP collected 17% of vote and became the coalition partner of DSP until the 2002 elections. After a long period of opposition to AKP, Bahçeli turned to be a key ally of Erdoğan in his presidential campaign following an unsuccessful coup on July 15, 2016. AKP and MHP formed the Cumhur İttifakı in the general elections of 2018, in which Erdoğan was selected as the president and the Cumhur İttifakı won the majority of the seats in the TBMM.

29 “Cep Krizini Liderler Çözdü,” *Milliyet*, October 28, 2000, 11.

30 “Öksüz’e YPK By-Pass’ı,” *Milliyet*, October 28, 2000, 11.

31 “İş-Tim Ödediği KDV’nin İadesini İstiyor,” *Milliyet*, February 16, 2001, 11.

board decided to postpone the value added tax payment to the next year. This meant that the official contract was also postponed and that the operations of the Türk Telekom affiliate would start later than those of İş-Tim.<sup>32</sup> İş-Tim started operations in March 2001 under name Aria. The mobile affiliate of Türk Telekom, Aycell started operations at the late date of December 2001, yet another favor to the foreign-controlled competitor.

The problems between the government and İş-Tim persisted in 2001 and were among the factors that triggered the February 2001 Crisis. The license issuance was a tactical and strategic move made on the part of the government. The strategic aspect was the adoption of internationalist privatization policies and the tactical aspect was the expected contribution of the license fee payment to servicing a public debt payment on February 20. İş-Tim was expected to pay the second instalment on February 13, a week before the crucial debt payment.<sup>33</sup> As a consequence, news about the license agreement directly, negatively affected on a fragile economic structure. İş-Tim paid the second installment as planned. Nevertheless, a crisis emerged between February 19 and 21, 2001. İş-Tim was not responsible for the February 2001 crisis, but the significance of the payment was exploited by İş-Tim to oblige the government to accept its terms, and the emergence of such a public disagreement was among the negative shortterm effects that triggered the crisis.

This was an example of the exploitation of the capital dependency of peripheral Turkish government by a core-originated company in order to force a favorable resolution in the political forum. Arrighi and Keyder emphasize the role of the official debt and outcoming capital dependency of states in processes of peripheralization – namely, further unequal integration into the world economy. Writing on the economic collapse of peripheral countries that followed Debt Crisis of 1982, Arrighi states that “unilateral transfers of monetary resources are as effective a weapon in keeping peripheral and semiperipheral states in their place as” unequal exchange and unilateral labor transfer.<sup>34</sup> In a similar manner, when analyzing the peripheralization of the Ottoman

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32 “İş-Tim 1-o Önde,” *Milliyet*, December 22, 2000, 9.

33 “20 Şubat Sendromu,” *Milliyet*, 11.02.2001, 9. “Hazine Zorlu Döneme Giriyor,” *Milliyet*, February 12, 2001, 10.

34 Arrighi, “The Developmentalist Illusion,” 24.

Empire through trade and direct investments in infrastructure in the nineteenth century, Keyder emphasizes thirteen official loans taken out by the empire between 1854 and 1875, the international financial crash of 1873, following bankruptcy of the empire in 1875, and finally the formation of the Public Debt Administration (*Düyun-i Umumiye*) in 1881.<sup>35</sup> The capital dependency of the Turkish government was similar in the early 2000s as public debt to foreigners had grown throughout the 1980s and 1990s. This paved the way for further relaxation of control over capital replacements from core countries and further liberalization of the operations of core-originated companies in Turkish infrastructure sectors – in other words, a peripheralization based on spatial replacement of capital from core countries.

### 6.2.3 *Aria: The Plane that Crashed during Take-Off!*

Telecom Italia Mobile (TIM), the major partner of the İş-Tim consortium had a complicated, multilayered ownership structure pattern known as the chinese boxes.<sup>36</sup> The first layer was Telecom Italia, the parent company of TIM. In the second layer was Olivetti which had had control of Telecom Italia in 1999. In the third layer, Bell was controlling Olivetti with a minority stake.<sup>37</sup> In the final layer, Bell was owned by two investment companies, namely Hopa and Fin-gruppo. The top segments of the pyramid did not have sufficient levels of capitalization and the hostile acquisition in 1999 created a huge debt burden. As a consequence, the top segments demanded that the lower segments provide cash flow that presumes debt servicing.<sup>38</sup> In the face of the telecommunications bust, an affiliate company employing an expansionist strategy aimed at crisis-prone peripheral countries like Turkey was not preferred. At this point, Pirelli Chairman Marco Tronchetti Provera, who had secured a big amount of

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35 Keyder, *State and Classes in Turkey*, 37-42.

36 I employ same metaphor for the Turkcell ownership crisis. See section 5.4.

37 Bell was founded by Colaninno and other Northern Italian investors in 1998.

38 Krishna Guha, "Pirelli Treads in Others' Footsteps to Seize Control," *Financial Times* (London Edition), July 31, 2001.

cash through deals with United States companies and was set for expansion<sup>39</sup> took the opportunity to offer Bell shareholders a premium of 80% for their 23% stake in Olivetti in July 2001.<sup>40</sup> This offer succeeded and Provera took the helm of Telecom Italia.<sup>41</sup>

Provera's priority was not expansion in the periphery of Europe, South America, and elsewhere. Transition from the Colaninno to the Provera era meant incremental dismissal of overseas telecommunications operations. The inclination to dismiss continued even after 2006 when Provera was replaced. This inclination of Provera to dismiss overseas investments coincided with the poor performance of Aria in the Turkish mobile market (in part as a consequence of the February 2001 crisis), preparing the end of Aria.

From the theoretical viewpoint of the dissertation, the takeover of the board of directors of Telecom Italia was a consequence of unsuccessful replacement of capital from the core to the periphery. The lack of Telecom Italia's success was part of general lack of success of replacements to telecommunications sectors, which resulted in the telecommunications bust. To minimize the losses of its unsuccessful replacement of capital, Telecom Italia to total withdraw from peripheral countries completely. Telecom Italia's withdrawal from Turkey was part of this general withdrawal which included divestitures of the operations in Greece, Czechia, Serbia, Bolivia, Chile, Peru, Venezuela, and Cuba.<sup>42</sup>

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39 Paul Betts, "Pirelli Treasury Moves to London," *Financial Times* (London Edition), December 14, 2000.

40 Fred Kapner and Juliana Ratner, "Pirelli and Benetton Grab Control of Telecom Italia," *Financial Times* (London Edition), 30.07.2001; "Pirelli ve Benetton, Telecom Italia'yı Aldı," *Hürriyet*, July 29, 2001.

41 "Telekom İtalia'nın Yönetiminde Değişiklik Yapıldı," *Hürriyet*, July 30, 2001.

42 Andreas Kornelakis, "European Market Integration and the Political Economy of Corporate Adjustment: OTE and Telecom Italia, 1949–2009," *Business History* 57, no. 6 (2015): 885–902. Kornelakis explains Telecom Italia's dismissal of overseas operations as follows (896–97): "In 2000, TI held stakes in various European countries such as France (9 Telecom Group, Bouygues Decaux Telecom), San Marino (Intelcom RSM), the Netherlands (BBNeD), Greece (Stet Hellas), Austria (Telekom Austria Group, Mobilkom Austria), Spain (Auna Group), Czech Republic (Radiomobil) and Serbia (Telekom Srbija). Its overseas operations were strategically focused on Latin America, holding stakes of companies in Argentina (Telecom Argentina),

In addition to the general inclination of the Italian company to withdraw from the periphery, Aria's weak market share in Turkey further motivated it to withdraw from Turkey. By April 2003, the market share controlled by Aria was around 5% with around 1.3 million subscribers. Aria's strategy was to deploy infrastructure in the three most populous cities of Turkey: Istanbul, Ankara, and Izmir. For the rest of the country the company relied on roaming agreements – in other words, on the infrastructures of its foes Turkcell, Telsim, and Aycell (Türk Telekom). Given that prices for roaming were unreasonable, Aria was unable to exploit the nationwide infrastructures of its competitors, and its subscribers were unable to use their mobile telephones in the countryside. That was the main reason for the failure of Aria to capture a larger share of the mobile market despite its extremely cheap services.

Fatih Yurdal, the head of the sectoral regulatory agency TK (*Telekomünikasyon Kurumu*) at the time, was sympathetic to the roaming demands of İş-Tim; however, when asked by İş-Tim to intervene in June 2001, he was unable to force Turkcell and Telsim to make an agreement with İş-Tim with reasonable roaming rates. There was a big gap between the offer of İş-Tim and demands of Turkcell and Telsim – as much as hundreds of million dollars. Yurdal blamed the situation on the present legal framework and stated that he hoped future legislation would give more authority to the TK.<sup>43</sup> In December 2001, the TK again attempted to force Turkcell and Telsim to make an agreement in line with the pricing and payment conditions determined by the regulatory authority. In response, Turkcell sued TK claiming that the authority had no legal right to force roaming agreements.<sup>44</sup> In June 2003, the competi-

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Brazil (Brasil Telecom, Maxitel, Tele Nordeste Celular, Tele Celular Sul), Bolivia (Entel Bolivia Group), Chile (Entel Chile Group), Peru (TIM Peru), Venezuela (Digitel) and Cuba (Etec S.A.).... By the end of 2009, TI had sold off stakes in all European operations (except BBNEE in the Netherlands) and most Latin American (except for TIM Brasil Group and Telecom Argentina).” Kornelakis omits the Turkish affiliate Aria.

43 Leyla Boulton, “Is-Tim Appeals for Pact on Roaming,” *Financial Times* (London Edition), June 29, 2001.

44 “Turkcell Sues Telecommunications Authority and the Ministry,” *Europemedia*, December 3, 2001.

tion agency RK (*Rekabet Kurulu*) decided that Turkcell and Telsim had violated competition law by not signing a reasonable roaming agreement with İş-Tim. The RK fined Turkcell and Telsim 1% of their net sales from 2001 amounting to US\$15.6 million for Turkcell and US\$6.1 million for Telsim. Following the decision, Turkcell announced that it would appeal.<sup>45</sup>

As I express above, telecommunications policy research has so far produced few studies about the introduction of private operators into the Turkish mobile telephone market and has focused instead on the privatization of Türk Telekom. In line with this negligence, the Aria case is understudied by scholars. When scholars write about the Aria case and the withdrawal of Telecom Italia from Turkey, they make do with explaining the inability of the Turkish regulatory framework to force infrastructure sharing agreements. According to Atiyas, Aria “did little to challenge the dominance of Turkcell, partly because the intentions of the government and the regulator to impose roaming obligations on the incumbents [Turkcell and Telsim] were successfully frustrated by the incumbents through legal challenges.”<sup>46</sup> This approach does not take into account that Telecom Italia’s withdrawal from Turkey had little to do with poor regulatory design of competition in Turkey. As I explain above, following a strategic shift from expansionism to withdrawal, Telecom Italia was withdrawing from many countries with varied administrative and regulatory structures.

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45 “Turkish Competition Board Fines Turkcell E13m,” *Europemedia*, June 11, 2003. “Turkey industry: Two Mobile Phone Operators Fined,” *EU ViewsWire*, June 17, 2003.

46 Atiyas, “Competition and Regulation in Turkish Telecommunications Industry,” iii, 27-29. In a more detailed account, Atiyas and Doğan explain that the non-existence of roaming obligations in the 1998 license agreements with Turkcell and Telsim provided these operators the opportunity to go to civil courts and block pro-competition dispute resolution by the TK and RK. From the pro-competition perspective of the authors, this was poor design of sequencing and competition and a lack of regulatory foresight that resulted in deadlock with respect to the roaming dispute. Atiyas and Doğan, “Sequential Entry and Competition in the Turkish Mobile Industry,” 518-520. For a similar approach, see Ardiyok and Oğuz: “Competition Law and Regulation in the Turkish Telecommunications Industry,” 240. In subsection 2.2.1, I explain the ladder of investment argument behind the pro-competition stance of telecommunications policy research.



#### 6.2.4 *Appeal to International Arbitration and the Merger Agreement*

The legal and judicial proceedings concerning the roaming dispute continued between the operators and the regulator in the following years. However, the structure failed to produce a stable, definitive resolution, as I express above. In 2003, company managers started to leak stories about their possible flight from Turkey.<sup>47</sup> On April 6, Aria applied to the International Arbitration Tribunal of the International Chamber of Commerce in Paris against the TK. Aria claimed that its damages over three years amounted to US\$4.5-5 billion (the US\$2.5 billion license fee and the US\$425 million value added tax, and approximately US\$2 billion in infrastructure investments), because of the inability of Turkish regulatory authorities to enforce reasonable roaming prices for roaming, despite the fact that the license agreement contract included articles on the issue of roaming.<sup>48</sup> The Turkish constitution was amended on August 13, 1999 by Law 4446 to the authorize international arbitration for license agreements.<sup>49</sup> In line with the legislation, the GSM1800 license contract signed on October 27, 2000 included an article stating that disputes between the company and state authorities would be solved in the International Arbitration Tribunal of the International Chamber of Commerce in Paris.

The news that the case was in international arbitration negatively affected on the Turkish public opinion and the government.<sup>50</sup> The FDI flow attracted by investments being made by Telecom Italia in Turkey was still the largest up to that time. The failure of Turkey's regulatory framework was a negative indicator for other possible investors. Company managers also emphasized the international community's perception that the conditions of foreign investment in Turkey were difficult. By this time, the AKP had come to power in the

47 "TIM Doubtful over Future in Turkey," *Mobile Communications International*, 101, April 2003.

48 Robert Budden and Leyla Boulton: "Turkish Telecom Group Seeks Damages," *FT.com*, April 6, 2003. "Aria Seeks E2.3bn in Damages through International Arbitration Tribunal," *Europe-media*, April 9, 2003.

49 For details, see Türkiye Cumhuriyeti Başbakanlık Kanunlar ve Kararlar Genel Müdürlüğü, "Milletlerarası Tahkim Kanunu Tasarısı ve Gerekeçesi," (TBMM, Ankara, June 8, 2001).

50 Sadi Özdemir, "Aria'dan Türkiye'ye 2.5 Milyar Dolarlık Dava," *Hürriyet*, April 7, 2003. Sadi Özdemir, "Telekomünikasyon'da Aria Şaşkınlığı," *Hürriyet*, April 8, 2003.

2002 election. Pressure emerged on the AKP government and Prime Minister Recep Tayyip Erdoğan to solve the problem. This pressure was in line with the perceived commitment of the AKP government to integrate the Turkish economy into the European and world economies. The capital dependency of the Turkish economy as a peripheral middle-income country provided the basis for the pressure applied by the company.

Just one month after the application to international arbitration, Aria managers publicly announced that a merger of Aria with Aycell was the solution, pushing forward a marriage metaphor.<sup>51</sup> The position of Türk Telekom's affiliate mobile operator, Aycell, in the mobile telephone market was even worse than the that of Aria.

On May 12-13 Italian Prime Minister Berlusconi visited Turkey and personally negotiated the Aria dispute with Erdoğan. Following the visit, Erdoğan announced that he had reached an agreement with his "close friend."<sup>52</sup> In his European tour following his assumption of the prime ministry, the first country Erdoğan visited was Berlusconi's Italy. Berlusconi was perceived as being supportive of Turkish membership in the EU and would take over EU's rotating presidency in July 2003. In the early period of AKP rule, membership in the EU was a primary goal of Turkish foreign policy. This expectation about EU accession further motivated Erdoğan to improve his good personal relationship with Berlusconi. Actually, the visit of Berlusconi to Turkey was scheduled for July 2003. But he decided to push up his visit to May 12-13.<sup>53</sup> It was rumored that the factor that pulled the visit was a sincere telephone chat between the close friends "Tayyip and Silvio" in which Erdoğan demanded it.<sup>54</sup> Reha Erus reported that the Aria issue was among the hot topics of the visit in

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51 "Aycell ile Evlenelim, Türkiye'de Kalalım," *Hürriyet*, May 8, 2003. A possible merger with Turkcell was recommended by Ernst & Young earlier, but not accomplished. "Aycell'i Turkcell ile Birleştiren Önerisi," *Hürriyet*, March 3, 2003.

52 "Turkish PM: Aria and Aycell to Merge," *Europemedia*, May 13, 2003.

53 "Berlusconi Türkiye'ye Geliyor," *Hürriyet*, May 5, 2003.

54 Turan Yılmaz, "Telefonda Sıcak Davet," *Hürriyet*, May 7, 2003.

addition to the Turkey-EU relationship, Cyprus, and Iraq.<sup>55</sup> Erdoğan and Berlusconi met in Ankara and held a press conference during the day. When an Italian journalist asked about the Aria issue, Erdoğan proudly announced that they would solve the issue by evening and that the journalist should “show patience.”<sup>56</sup> Following dinner with the Turkish-Italian Business Council in Istanbul the evening of that same day, Erdoğan announced that they had decided upon a “triple merger of Aria-Aycell-İş Bankası.”<sup>57</sup> It was a quick resolution to an horrible problem that was being handled in international arbitration and “a bright example of Erdoğan’s problem solving ability.” Kemal Unakıtan, the privatization representative of the government, was also engaged in the negotiations and showed “a great gem of ability.”<sup>58</sup> Even the details about the shareholder structure of the “marriage” were leaked the day following: TIM 40%, Türk Telekom 40%, and İş Bankası group 20%.<sup>59</sup> During the visit of Berlusconi, the problems of Italian construction company Astaldi was also solved as learned from a statement by Astaldi’s managers.<sup>60</sup>

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- 55 Reha Erus, Ateş Yalazan, and Hasan Tüfekçi, “Türkiye’nin Avukatı Berlusconi Geliyor,” *Hürriyet*, May 12, 2003. Esat Pala, “İtalya Başbakanı Berlusconi Geliyor,” *Hürriyet*, May 12, 2003.
- 56 Erdoğan: “Akşama kadar sabırlı olmanızda fayda var. Akşama işi bitirmeye kararlıyız.” “Berlusconi’den Kıbrıs Önerisi,” *Hürriyet*, May 12, 2003, 16:16.
- 57 Erdoğan: “Böyle güzel, anlamlı bir toplantıda, bugün noktalanmış olan bir müjdeyi özellikle vermek ist[iyorum]. Bildiğiniz gibi, Türkiye’de Aria’nın ciddi bir yatırımı vardı ve Aycell, Aria ile İş Bankası üçlü olarak birleşmek suretiyle yeni bir dönemi başlatmış olacaklar. Her iki ülke için de bu adımın hayırlı olmasını diliyorum.” “Üçlü Birleşmeyle Yeni Dönem,” *Hürriyet*, May 12, 2003, 22:31.
- 58 Leyla Boulton, “Kemal Unakıtan: A Vivid Speaker with Pragmatic Approach,” *FT.com*, June 30, 2003. Kemal Unakıtan was Minister of Finance for AKP governments between 2002 and 2008.
- 59 “Turkish PM: Aria and Aycell to Merge,” *Europemedia*, May 13, 2003. Emre Özpeynirci, “İki Başbakan Nişan Taktı Aria, Aycell ile Evleniyor,” *Hürriyet*, May 13, 2003.
- 60 In 1999, the Düzce earthquake caused a great damage to the Bolu tunnel part of the Istanbul-Ankara highway project. Astaldi was the company constructing the project in partnership with Bayındır Holding. The project was insured by Generali Insurance. A dispute emerged between Astaldi and Bayındır Holding about a US\$100 million insurance payment. Astaldi managers announced that Berlusconi solved the problem and that the Turkish General Directorate of Highways has paid US\$40 million to them. “Astaldi: Berlusconi Çözdü Türkiye’de Para Alıyoruz,” *Hürriyet*, May 21, 2003.

The formation of the merger agreement between Berlusconi and Erdoğan is another good example of the pattern I call core-periphery lobbying. The merger decision was hastily formed in the political forum and bypassed the procedures of national regulatory agencies like the TK and RK as well as international arbitration. This merger agreement was also one of the first examples of an emerging style of hasty dispute resolution by Erdoğan, characterized by a lack of technical expertise and no patience for consultation and precisely calculation of the outcomes. In this merger agreement with Berlusconi and in other agreements with Bush concerning the Telsim-Motorola dispute and with Putin concerning Turkcell's debt, Erdoğan carried the extant tradition of dispute resolution in the political forum to a new level.<sup>61</sup>

Telecom Italia director Marco de Benedetti reacted positively to the merger. He announced that following the agreement between the prime ministers, they had changed their mind about leaving Turkey. He expected that the merged operator would capture the second largest market share in the short run. The agreement was mutually beneficial as Aycell needed the technological support of TIM and Aria needed the nationwide infrastructure of Türk Telekom. Benedetti stated that the solution in Turkey was not legal, but fundamental, and the coming period would be much better for Italian-Turkish relationships. He also announced that the case against the TK in international arbitration had been withdrawn.<sup>62</sup> Chairman of the Turkish business association TÜSİAD, Tuncay Özilhan, also reacted in a positive manner. He stated that the agreement was mutually beneficial for all parties. Özilhan was im-

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61 These initial agreements on telecommunications issues and his later engagement with core companies and political leaders concerning a series of economic and political issues started a process of the concentration of the decisionmaking authorities in Erdoğan's persona, in which all economic, political, and diplomatic institutional procedures are bypassed. The appreciation of core countries' political and business elites as well as of Turkish business elites about Erdoğan's swift, pragmatic approach fed the concentration of power in his hands. The responsibility of Western capitalism and Turkish business is of the Erdoğan's recent authoritarian turn rests in these kinds of agreements – the last and most significant one being the agreement with the EU about Syrian refugees.

62 Reha Erus, "TIM: Türkiye'den Çıkmayız Cepte İkinci Büyük Oluruz," *Hürriyet*, May 14, 2003.

pressed by the efforts of Berlusconi to resolve the problem of an Italian company in a brief, two-day visit to Turkey. He wished that the Turkish government would also follow the issues of Turkish business abroad and he was hopeful regarding talented politicians like Erdoğan and Unakıtan.<sup>63</sup> Following Erdoğan's announcement of the merger, Aycell General Manager Cahit Paksoy stated that the technical details of the agreement were yet to be determined. He also revealed a significant element of the agreement: That the Aria-Aycell merger was a phase in the process of the privatization of Türk Telekom.<sup>64</sup> This is a good point at which to shift the focus of my analysis to Türk Telekom's privatization.

### § 6.3 Türk Telekom in Launch Suit: 2000-2005

Türk Telekom was separated from the PTT in 1994 as a step of the restructuring and privatization of the telecommunications sector. However, the government was unable to privatize Türk Telekom as the Constitutional Court blocked it and demanded that a better legal framework be legislated first. It was not before proper legislation was in place in 1998 that a privatization tender became possible.<sup>65</sup> Following the decision to place Türk Telekom on the agenda for privatization, the government significantly cut public investment in the fixed telephone network and channeled the profits of Türk Telekom into

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- 63 Nurten Erk, "Berlusconi İş Takibinde Örnek Olsun," *Hürriyet*, May 14, 2003. Crucially, Özilhan was head of the Efes and Anadolu groups which also held a stake in Aria. Efes Holding AŞ held 6.25%, Anadolu Sigorta 0.5%, and Anadolu Hayat 0.25% a total of seven points under İş Bankası Group's 51%. That shows that the agreement between Erdoğan and Berlusconi also made happy the pivotal figures of Turkish business.
- 64 Ibid. "(...) Paksoy, birleşmenin Türk Telekom özelleştirmesine giden giden sürecin bir aşaması olduğunu belirtti. [Paksoy stated that the merger was a phase of the privatization process of Türk Telekom.]"
- 65 For a detailed analysis of Constitutional Court decisions and laws on Turkish telecommunications privatization, see subsection 4.3.1. Also see "Turkey: Telecoms Law Will Generate Revenues," *Oxford Analytica Daily Brief Service*, February 2, 2000, 1.

the public budget in line with its revenue-oriented approach to the telecommunications sector.<sup>66</sup>

Following the new legislation, the privatization of a 20% stake in Türk Telekom was in the pipes for the first quarter of 2000. The winning company would have special rights regarding management of the company to balance the fact it would not hold a majority stake.<sup>67</sup> In addition, it was announced that one of the forthcoming mobile licenses to be given to Türk Telekom as an incentive in the privatization tender.<sup>68</sup> The mood was optimistic as the US\$2.55 billion offer by İş-Tim for a mobile license, which exceeded expectations, encouraged the government and the public concerning the privatization of Türk Telekom.<sup>69</sup>

The first privatization tender for Türk Telekom was organized in September 2000; however, the tender failed to attract offers given that it was for only a 20% stake. The government decided to organize a new tender and increase the stake to 33.5% with additional management rights. This was another disappointment as it became clear by the first quarter of 2001 that there would be no offers, and the second tender was cancelled.<sup>70</sup> The privatization of Türk Telekom was eventually accomplished in 2005.

This section analyzes the main factors that caused first two Türk Telekom tenders to fail. These factors are also key to analyze the reversal of conditions

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66 For an engagement with Türk Telekom in the period between 1994 and 2000, see subsection 4.3.2.

67 Leyla Boulton, "Turkey to Auction Telecommunications Company Stake," *Financial Times*, March 6, 2000, 12.

68 Leyla Boulton, "Phone License Sold for \$2.5bn," *Financial Times*, April 13, 2000, 14.

69 For instance, Gazi Erçel, the head of the Central Bank, stated that the total value of Türk Telekom was around US\$30 billion despite the fact that analyses by specialist expected around \$18-20 billion. The income generated by divesting a 20% stake was expected to be around \$3.9-6 billion, a significant amount given the disinflationary program of the DSP-MHP-ANAP coalition government led by Ecevit. This was to be followed by a public offering of an additional 14% stake, which meant an additional \$2.5-5 billion in revenue if it were achieved. Leyla Boulton and M. Wolf, "Turkish Telecoms Sell-Off to Be Launched This Week," *Financial Times*, May 1, 2000, 4.

70 For details on these unsuccessful tenders, see Atiyas and Doğan, "Political Economy of Liberalization of Fixed Line Telecommunications in Turkey," 4-5.

between 2001 and 2005 which made the privatization of Türk Telekom possible. In order of significance, these factors were (i) lack of financing opportunities, (ii) legal restrictions on foreign ownership, (iii) the heterogeneous approaches of coalition governments to privatization policy, and (iv) a decline in the attractiveness of fixed telephone service.

The first, most crucial factor that determined the failure of the tenders was the lack of financing opportunities. The timing of the first tender was unfortunately in September 2000; the depreciation of telecommunications assets in international capital markets had started about a half-year earlier in March 2000. When the second was cancelled in March 2001, it was clear that the financial investment fever towards telecommunications was over. In addition, the Turkish economy was suffering the most significant national financial crisis of the outward-oriented period, namely February 2001 crisis, at that time. I call that coincidence of the telecommunications bust and the February 2001 crisis the double crises, as I explain in detail in section 4.5.2. As a consequence of the double crises, it was not possible to convince shareholders or creditors to supply the financing of an adventurous acquisition in a financially-risky sector in a financially-risky country.

The second significant factor that triggered the failure of the tenders was the minority stake did not bestow controlling power over Türk Telekom. Even if the telecommunications company could successfully attract financing in the hostile international financial environment, the victor would be the minority partner in Türk Telekom vis-à-vis the Turkish government. This further deterred potential offers.

The third significant factor was that partners in the coalition governments of the 1990s did not have a homogeneous stance about privatization policy. When coalition partners Çiller of the DYP and Karayalçın of the SHP agreed to privatize Türk Telekom in 1994, one of the most prominent members of the SHP, Mümtaz Soysal, started a legal campaign to block its privatization. In 2000, Ecevit of the DSP, Yılmaz of the ANAP, and Bahçeli of the MHP came to an agreement, but MHP member Enis Öksüz, who was the Minister of Transportation in the coalition government, openly criticized foreign presence in the strategic telecommunications sector. This was not a positive sign for potential bidders.

The fourth factor was the decline of fixed telephone service in Turkey. Türk Telekom's main asset was its fixed telephone operation which had significantly expanded between 1980 and 1994 but had been neglected thereafter. It had lost a significant proportion of its subscribers after 2000, as I explain in detail in chapter 3 and subsection 4.3.2. Fixed telephone operations had lost a lot of its charm during the 1990s in the eyes of potential bidders.

Given these factors, it is possible to explain the transformation of the conditions of the privatization of Türk Telekom. First, in the half decade following the double crises, the appetite of creditors and shareholders for telecommunications investments began to revive. The expansion strategies of companies were not as aggressive as in the 1990s, but there was interest in acquisitions and mergers that would provide strong market positions. Following the telecommunications bust, there were depression and withdrawal. Then concentration under strong companies like Vodafone and United States operators took place. This was followed by a wave of cautious expansion. In addition, new actors like the petrodollar funds of the Middle East and Russia joined the game and started to seek acquisition opportunities.

Peripheral middle-income countries in general started to recover following a period of deadly financial crises between 1997 and 2001. The new standards of the Post-Washington Consensus – like stronger financial regulations, anti-inflationary measures, and more effective and inclusive social policies in peripheral economies – coincided with abundant capital in international markets. As a consequence, the 2000s were a period of growth fueled by short- and long-term capital inflows from core countries. Turkey was also part of this trend of financial regulation, tight monetary policy, and appreciated national currencies. As a consequence, the long-term financing of investment projects by foreign banks became possible. This was reflected in and increase in direct capital investments in Turkey, especially through privatization acquisitions and finance projects. FDI in 2005 in Turkish telecommunications, namely the acquisition of Telsim by Vodafone, the financing of Çukurova Holding by the Russian Alfa Group, and finally the acquisition of the majority stake of Türk Telekom by Saudi Oger were essential parts of this revival of Turkish financing.



Turkish legislation under the crisis-management of Kemal Derviş and the one-party rule of the AKP abolished barriers to foreign ownership and control of telecommunications operators. As a consequence, it became possible to showcase a 55% majority stake guaranteeing control over Türk Telekom in the tender in 2005.<sup>71</sup>

The AKP government's determination with respect to the agenda of privatization agenda with the support of nascent technocratic agencies like the TK and fortified entities like the Central Bank, ÖİB, and RK reversed the doubts of foreign companies about the political commitment of coalition governments to privatization. This facilitated offers by foreign companies. Erdoğan's style of dispute resolution through core-periphery lobbying in the political forum lubricated the spatial replacement of capital from core countries to Turkey, as I discuss in detail in the previous section.

As a final factor that reversed the outcome of and facilitated the 2005 privatization, Türk Telekom affiliates TTNET and Avea had improved by 2005, encouraging offer makers. The internet service provider TTNET held a market-share of more than 90% in 2005 (4.3.2). Avea (Aria plus Aycell until merger in 2004) increased its market share in the mobile telephone segment from zero in 2000 to 3.8% in 2001 to 16.5% by 2005 (figure 6.2). Into the bargain was thrown the fact that the mobile phone market still had plenty of room for growth, as mobile phone penetration was at only 64% in 2005.<sup>72</sup>

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71 For the details of these legal amendments that facilitated foreign ownership and control, see 4.3.1.

72 WB Development Indicators.

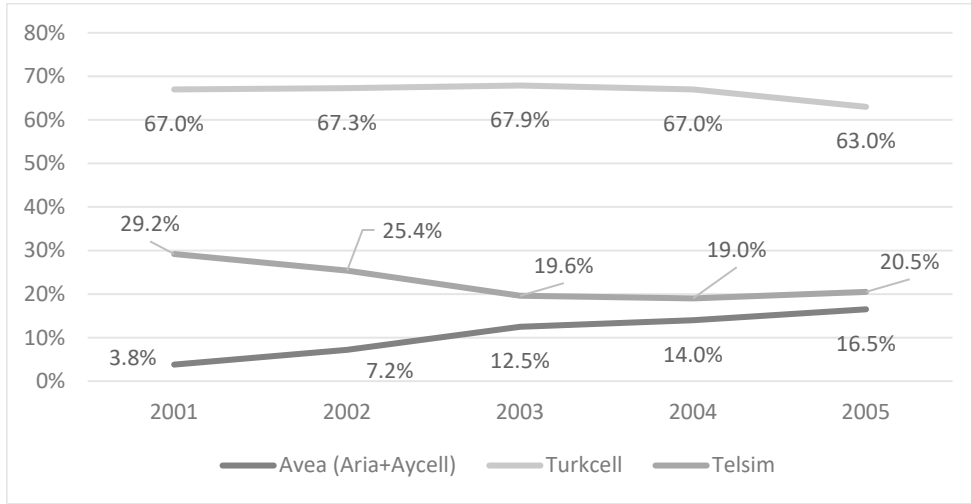


Figure 6.2 Market share of Avea, 2001-2005. Source: Compiled by the author based on İhsan Kulalı and Hakan Bilir, “Türkiye GSM Pazarına Genel bir Bakış: Şebeke Etkisi, Pazar Yapısı ve Sektörel Düzenlemeler,” *SDÜ İİBF Dergisi* 17, no. 3 (2012): 420.

The inclusion of affiliates TTNET and Avea functioned to whet appetites given the declining fixed telephone operations of Türk Telekom.<sup>73</sup> However, “the appetizer” Avea was also a source of crisis, as future control of the operator was unclear. In the following section, I emphasize the Avea’s control crisis as a significant determinant of the outcome of the Türk Telekom’s privatization. In addition to mobile and internet affiliates, much valuable real estates were included in the package. Türk Telekom possessed buildings in central city districts. In the context of the rising price of real estate throughout the 2000s and 2010s, these buildings would be a significant stream of income for the winning company.<sup>74</sup>

73 Kablo TV was also an affiliate of Türk Telekom and was the sole cable television and cable internet operator of the period, though with a low penetration. However, as a consequence of the recommendation by the RK, Kablo TV was detached from Türk Telekom before being privatized.

74 Telekomcular Derneği, *Bir Talanın Hikayesi*.

## § 6.4 Privatization of Türk Telekom: Avea as a Trojan Horse

The dispute rooted in the unsuccessful operations of Telecom Italia in Turkey directed the Turkish and Italian Prime Ministers, Erdoğan and Berlusconi, to make a hasty resolution to merge Aria and Aycell in 2004, as I analyzed in section 6.2. I argue that this merger determined the outcome of the privatization tender for Türk Telekom in 2005 which favored the withdrawal strategy of Telecom Italia but deterred the “strategic foreign partner” policy of the Turkish government. This section revisits the privatization process of Türk Telekom in 2005 to prove this argument.

By February 2004, the merger of Aria and Aycell was officially finalized. The shareholder structure took the form that was leaked one day after the agreement between Berlusconi and Erdoğan. Telecom Italia Mobile held a 40% stake, Türk Telekom held another 40% and İş Bankası Group had 20%. The license of Aycell was to be cancelled and the name of the new operator would be İş-Tim & TT, which was later changed to Avea.<sup>75</sup> As a consequence, Telecom Italia became a partner in Türk Telekom, an SOE which was to be privatized. This was a source of confusion for the possible privatization of Türk Telekom. Potential bidders in privatization tender were expected to be European telecommunications companies. The issuance of a mobile operator license to a Türk Telekom affiliate was designed to make the SOE more attractive. By the early 2000s, mobile telephony had started to take the upper hand over fixed telephony. Even in Turkey, the mobile telephony was replacing the fixed telephone. Given this, the fixed telephone operations of Türk Telekom were not really attractive; however, the mobile operations which had a respectable market share were attractive.

It was expected that a prominent, experienced telecommunications company from Europe would jump at the opportunity of the privatization of Türk Telekom. Before the Aria-Aycell merger, Telecom Italia was one among the possible bidders. After the merger, a problem emerged, as the details about the future control of Avea remained uncertain. If a company other than Telecom Italia won the Türk Telekom’s privatization tender, it would have a 40% stake

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75 “Istim-Aycell Merger Completed,” *Info-Prod Research* (Middle East Version), February 25, 2004.

in Avea, equal to the stake of Telecom Italia. There was the potential for disagreement over control of the operator. There were two possible ways of dealing with the problem. The first was for Türk Telekom to purchase the stake of Telecom Italia, thereby securing an 80% stake and full control over the operator. The second way to concede from the beginning that Telecom Italia and its future partners would emerge victorious in the privatization tender.

When answering a question in the third quarter Telecom Italia Mobile SpA Earnings Conference Call in 2004, Marco De Benedetti candidly stated that its position in Turkey was a real opportunity:

Conrad Werner, Analyst, Morgan Stanley: (...) I am just wondering if you could may be give us brief update on that operation and may be tell us whether you are still happy with the joint control situation with Turk Telecom you feel but the business is performing up to it so peak potential under that structure... (...) Marco De Benedetti: So what concerns Turkey, well Turkey is doing quite well. We will be in the second half of this year the second operator in the market in terms of revenue. Our estimation is that the revenues in the second half of a way, will be higher than Telsim's. That was one of the objectives we had to become the second operator and I think we have reached that. In terms of market positioning we are in line with our objective. So you know a 16% market share. Now that's pretty much in line with what we have had. So from an operational point of view we always have you know a target to do better. But I have to say that I am quite satisfied with how things go. (...) Clearly we have a partner, which is called Turk Telecom which is undergoing a privatization process and obviously we are following that very carefully because that you know it is a variable, which is outside our control. The government's rules are quiet clear. So I don't think we have any risk in that, but may be there could be some opportunities. So all in all we are quite happy with the progress of the company.<sup>76</sup>

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76 "Q3 2004 Telecom Italia Mobile SpA Earnings Conference Call," *Fair Disclosure Wire*, November 8, 2004. Emphasis mine.

The stake of Telecom Italia in Avea was perceived by potential bidders as an uncertainty in the upcoming privatization process. The European public and telecom businesses were not fully informed of the details of the merger agreement and its possible outcomes.<sup>77</sup> For instance, the Spanish telecommunications company Telefonica chose not to submit a bid because of uncertainty of the future control of Avea.<sup>78</sup> On the other hand, Telecom Italia was heavily indebted, people were not sure it would realize its advantage and be successful in the coming privatization.<sup>79</sup> As the Türk Telekom tender became a real possibility, Telecom Italia's pivotal professionals started to threaten the Turkish authorities. As an example, Provera stated that if they failed to win the tender, they would withdraw from Avea. He argued that the Turkish government should clearly inform the company about terms of withdrawal.<sup>80</sup> Provera explained the strategy regarding Türk Telekom privatization as follows:

Marco Tronchetti Provera: (...) So, in Turkey, as you know, we already have an investment in AVEA - 40% of the Mobile operation, together with TurkTel[elekom], that has 40% and IsBank that has 20%. Now they are in the process of privatization, we are in touch and more than in touch with some investors, to prepare -- to bid together with these investors. We don't want to go alone for the privatization, and *we don't want to put much money in it*. So we want to leverage on the Mobile operation we have, and to *put a few hundred millions*. When I say a few, I mean really a few. And I confirm that we expect to reach the target - the debt target '07 - including the possible investment in Turkey. And so *we will not exceed this target because of Turkey*. So we will stick to this target, and the cash involved will not affect this target. (...) [W]e are now talking with two possible partners. So that means we are going

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77 "Turkey Industry: Government Still Trying to Sell Turk Telekom Stake," *EIU Views Wire*, December 3, 2003.

78 "Avea'yı Anlayamadık Telekom'dan Çekildik," *Hürriyet*, April 26, 2005.

79 J. Knaepen, "Turk Telekom's Privatization Time May Be at Hand," *Wall Street Journal*, January 14, 2005.

80 "Telekom Italia: Avea'dan Çekilebiliriz," *Hürriyet*, April 29, 2005. "Telekom'u Alamazsak, Avea'dan da Çıkarız," *Hürriyet*, April 30, 2004.

to participate to the privatization being one-third of what will be privatized. And take into account [the idea of] AVEA, which we already have invested in, and you can imagine that the leverage that can be made on top of those strategies, [that three], is such that we can depart on the process of privatization, sticking to the targets that we already said. So being [partnering partners], we will be not in a position to consolidate, even if, as you know, inside AVEA, inside TurkTel, there is no debt. So, anyhow, we do not expect in case we win to consolidate TurkTel[elekom].<sup>81</sup>

Provera states that if this was the case, the withdrawal should have taken place before the tender, not afterward.

What we underlined with the government is that we want to facilitate the process of privatization, providing full transparency to the process itself. And thanks to comments made by some of the potential bidders that were not happy having inside Avea the presence of another operator, we wanted to clarify that to provide the transparency. We are ready to sell with an agreed price, in case we lose the bid, the stake we had in Avea to TurkTel, in order to simplify life to all possible bidders and in order to simplify the process of privatization, in order to guarantee that after the bid is over, there will not be two operators inside a single company, which is really something very difficult to handle. So, in our mind, it's more fair to do it before the process of privatization is over than after. And that's why we asked if the government, and the body that takes care of privatization, we asked them and we told them that we are open to discuss, and our bankers are open to discuss with [indiscernible], the bankers of TurkTel, in order to define a price, a fair price for our stake before the bid [indiscernible]. Secondly, the partners we are talking with, of course, are not competitors. I haven't seen any deal done by two operators to run a single company. So that's why

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81 “Q1 2005 Telecom Italia Earnings Conference Call – Final,” *Fair Disclosure Wire*, May 10, 2005. I added the emphasis to signify the real intent of Telecom Italia to withdraw from the periphery to guarantee debt servicing.

we are just talking with possible industrial and financial partners, but the industrial partners are more coming from the telecom sector.<sup>82</sup>

Provera analyzed the situation in Turkey and determined that confusion about control of Avea was in Telecom Italia's favor. He clearly warned the Turkish government about the consequences if any competing telecommunications company one the tender. If that were expected to be the case, he demanded the Turkish government purchase its stake in Avea outright. Otherwise, Telecom Italia would form an alliance with a financially-powerful outsider and be the most advantageous bidder.

When the day of the tender came, the outcome was in line with the strategy of Provera. The only telecommunications insider among the bidders was Telecom Italia, in a consortium with the financially-wealthy Saudi Oger.<sup>83</sup> Telecom Italia invested only US\$200 million in the consortium in line with Provera's close-fisted strategy. The consortium was victorious in the tender and became the owner of a 55% stake in Türk Telekom.<sup>84</sup> The takeover's effect over Avea was the capture of the controlling majority stake by Telecom Italia.<sup>85</sup>

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82 Ibid.

83 Vincent Boland, "Privatisation: Telecoms Sale Close to Finish of a Long Journey," *FT.com*, June 28, 2005. Boland explains the situation: "Most of the parties interested in buying Turk Telekom are financial investors, with Telecom Italia the only purely international telecoms operator in the field. Telefonica of Spain, an early favourite, withdrew a few weeks ago. Second, a sale is made excessively complicated by the likelihood of an ownership dispute at Avea, Turk Telekom's mobile division. Both Turk Telekom and Telecom Italia have a 40 per cent stake in Avea, which is Turkey's number three mobile operator (of three). While this may make the Italian operator favourite to buy Turk Telekom it also means that any other buyer may be involved in years of litigation over control of the mobile unit."

84 The formal name of the victorious company was Oger Telecommunications (*Oger Telekomünikasyon Anonim Şirketi, OTAŞ* in Turkish). 99% stake of Oger Telecommunications was owned by Oger Telecom Ltd Dubai. Saudi Oger LLC owned and 87% stake in Oger Telecom Ltd Dubai, and the remaining 13% stake was owned by Telecom Italia. "İtalyanlar 500 Milyon Dolar Aldı, Avea'yı Bıraktı," *Hürriyet*, July 14, 2006.

85 Here is the calculation: Oger Telecom Ltd Dubai's 55% stake in Türk Telekom meant it had a 22% ( $0.55 \times 0.4 = 0.22 = 22\%$ ) stake in Avea, as 40% of Avea belonged to Türk Telekom. Telecom Italia's share in Avea increased by approximately 2.8% ( $0.22 \times 0.99 \times 0.13 = 0.028 = 2.8\%$ )

However, as I express above, Telecom Italia's general strategy was to dispense with operations abroad except for some strategic ones. Its Turkish operations was among the dismissals in July 2006 when Telecom Italia's stake in Avea was taken over by Türk Telekom for US\$500 million.<sup>86</sup> In June 2007, Telecom Italia sold its stake in Oger Telecommunications to Saudi Oger for US\$477 million, completing its withdrawal from Turkey.<sup>87</sup>

## § 6.5 Polemic on the Value of Türk Telekom's Privatization

As I explain throughout chapters 4, 5, and 6, the main character of Turkish telecommunications policy was to maximize government revenue through privatizations in the period after 1994. That motivation to maximize the revenue promoted a prolonged polemic on the value of Türk Telekom. Both the common and mainstream intellectual perception is that the best timing for the privatization of Türk Telekom would have been in the 1990s as the decade was suitable for astronomic offers. However, this common perception assumes that the stubborn resistance of "archaic" lefties and Kemalists prevented the realization of a large privatization revenue. This perception is rooted in statements by Çiller, and it is possible to find many similar statements by her in the Turkish press such as this excerpt from her conversation with journalist Fikret Bila:

Alas, if we had only been successful in selling it as the T of the PTT in 1993 or 1994... They did not allow it. Turkey missed a golden opportunity. It was worth 40 billion dollars in those days. Turkey's domestic

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in Avea over Oger Telecom Ltd Dubai. This 2.8% stake when added to Telecom Italia's original 40% stake in Avea gave Telecom Italia the controlling majority stake of 42.8%.

86 Ümit Çetin, "Avea'daki İtalyan Hisseleri 500 Milyon Dolara Telekom'a Geçiyor," *Hürriyet*, June 14, 2006. "Telecom Italia Gives Turk Telecom the Reins at Avea," *TelecomWeb News Break*, July 17, 2006.

87 "TIM, Oger Telecom Hisselerini Saudi Oger'e Sattı," *Hürriyet*, June 29, 2007. In 2015, Türk Telekom agreed with İş Bankası Group to take over its stake in Avea, cementing the control by the mobile operator. "Türk Telekom ve İş Bankası, Avea Hisseleri İçin Pay Devir Sözleşmesi İmzaladı," *Hürriyet*, April 30, 2015.



debt was around 14-16 billion dollars. Even half of the value was sufficient to solve the debt problem.<sup>88</sup>

On the surface, the argument makes sense when one considers the flow of funds to telecommunications sectors in the 1990s. As I note above, the government's attempt to privatize the Türk Telekom was in response to increasing financial flows into the sector. However, when one compares the hypotesized amount with actual, realized telecommunication privatizations, the argument of Çiller is unrealistic. The annual average of total privatization revenues of low- and middle-income countries in the peak years between 1996 and 2000 was around US\$13.3 billion.<sup>89</sup> In the same period the average for core European countries was US\$22.3 billion.<sup>90</sup> It is clearly an exaggeration to postulate that the privatization in Turkey would exceed the combined annual average of core European countries and low- and middle-income countries. Another Archimedean point is evaluations of news reports in international finance periodicals from 1993 and 1994. These reports estimated the potential value as US\$2 billion in one case,<sup>91</sup> US\$7 billion in another,<sup>92</sup> and a total annual privatization income of US\$3.5 billion in a third case.<sup>93</sup>

The privatization accomplished in 2005 was again widely evaluated by the public in terms of the value of the privatization. Critics of the privatization argued that US\$6.55 billion for 55% of Türk Telekom was a low amount. The telecommunications privatizations in that same year summarized in table 6.1 provide a measure for comparison.

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88 Fikret Bila, "PTT'nin T'siyken Satsaydık Makus Talihimizi Yenerdik," *Milliyet*, July 4, 2005. The phrase translated by the author. The original Turkish statement: "(...) Keşke, 1993'te, 1994'te, PTT'nin T'si olarak satabilseydik. Sattırmadılar. Türkiye bir altın fırsatı kaçırdı. O zaman 40 milyar dolar ediyordu. Türkiye'nin iç borcu ise 14-16 milyar dolarlar civarındaydı. Yüzde 50'sini sattığımızda, iç borcu bitiyorduk. Yarısının bedeli bile borç sorununu hallediyordu."

89 *WB PPI Database*.

90 *Privatization Barometer Database*.

91 "The Iron Fist of Tansu Ciller," *Project & Trade Finance*, no 123, July 1993, 6.

92 "Turkey: PTT Leads Sales Drive," *Project & Trade Finance*, no 125, September 1993, 63.

93 "Steady as You Go," *The Banker* 144, no. 819, May 1994, 30.

Table 6.1 Prominent telecommunications privatizations of 2005

Company	Country	Population in 2005 (millions)	Method	Stakes	Revenue (\$US millions)
Türk Telekom AŞ	Turkey	67.86	Block Sale	55%	6.550
France Telecom	France	63.17	Public Offering	6.2%	4.176
Cesky Telecom AS	Czech Republic	10.21	Block Sale	51.1%	3.507
PTCL	Pakistan	153.35	Block Sale	26%	2.890
Koninlijke KPN NV	Netherlands	16.31	Public Offering	12.4%	2.955
OTE	Greece	10.98	Public Offering	10%	1.036
Telecom Egypt	Egypt	74.94	Public Offering	20%	890

SOURCE Compiled by the author based on Privatization Barometer Database, WB PPI, WB Development Indicators.

The fact is that the Türk Telekom's privatization pulled in the most revenue among others that year. However, when compared with others in terms of value of the one percent stake, public offerings in France and Netherlands were more valuable. This was a consequence of income per capita differences between these core high-income countries and Turkey. Another factor that to be taken into account is the potential of the subscriber base to grow. In this respect Turkey, Pakistan, and Egypt were similar given their low rates of penetration and large populations, indicators of a high potential for growth. However, the privatizations in Pakistan and Egypt did not transfer a controlling stake as did the Turkish tender. When all these measures of income level, growth potential, and control are taken into account, the revenue generated from the Türk Telekom's privatization can be evaluated as respectable amount. From the viewpoint of the Turkish government, which focused on revenue maximization, this privatization was a success. However, the revenue maximization approach omitted the fact that the best bidder was not necessarily the

best investor in and developer of infrastructure. In addition, lucrative commitments of payment to the government can become an unmanageable debt burden and impose additional financial limitations on direct investment in developing physical infrastructure and improving the quality of services.

Türk Telekom started facing financial problems following the steep depreciation of the TL after 2013. In the late 2016, it became clear that Saudi Oger had serious troubles in servicing its debt.<sup>94</sup> In 2018, Turkish banks seized Saudi Oger's 55% stake in Türk Telekom as debt repayment.<sup>95</sup>

## § 6.6 Concluding Remarks

The most remarkable finding of this chapter is the direct relationship of the outcome of the Türk Telekom's privatization and Aria-Aycell merger agreement. The merger agreement shaped by Berlusconi and Erdoğan in a quick fashion created deadlock with regard to control of the nascent Avea by allocating equal 40% stakes to Türk Telekom and Telecom Italia. This came to mean that the winner of a future privatization auction for Türk Telekom would not be able to control Avea. However, the bestowing of Türk Telekom along with a mobile operator was designed to make it a more attractive asset in the first place. Acquisition of Türk Telekom without secure control over Avea was not a good idea for potential offer makers. Telecom Italia acknowledged and exploited the situation. In the end, it succeeded to form the consortium Oger Telecoms in which it was a minority partner to win the Türk Telekom's privatization auction. This link between the Avea merger and Türk Telekom's privatization is a novel contribution to the academic literature on the privatization of Türk Telekom. This finding is crucial to prove that hasty, underdesigned solutions fashioned by political leaders harm future policy outcomes and create unexpected negative outcomes.

The second significant finding of the chapter is that Telecom Italia's withdrawal from Turkey was decided by a new board that took control in 2001.

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94 Sırrı Emrah Üçer, "Türk Telekom'da Borç Krizi Ne Olacak?" *Birgün*, October 26, 2016. "Çözüm Türk Bankalarında," *Yeni Şafak*, November 1, 2016.

95 Akbank, Garanti Bankası, and İş Bankası captured approximately 50%, 33%, and 16% of 55% stake. "Türk Telekom'un %55'lik Hissesi için Flaş Gelişme," *Hürriyet*, August 29, 2018.

Telecom Italia's legal and political steps were a part of a minimum-loss withdrawal strategy. The new board was determined to dismiss investments in risky countries like Turkey to convince stakeholders that the company was focusing on servicing debt and delivering dividends, rather than on adventurous expansion. In this respect, the US\$2.525 billion paid by the earlier board in 2001 to acquire a Turkish telephone operator with no market share was evaluated as adventurous and risky. They managed to recuperate losses through the capture of a 40% stake in Avea after the merger. This stake gave them a foot in door with respect to Türk Telekom, too. Shortly after its privatization, they monetized their assets in Türk Telekom and Avea and left Turkey.

The theoretical connections of these factual findings of the dissertation can be summarized as follows: The spatial replacement of capital from core countries to the peripheral Turkish economy through direct investment by a core-originated telecommunications company triggered similar mechanisms to the spatial replacement through credit mechanisms, the focus of the chapter 5. The spatial replacement of an individual company's capital to Turkey necessitated political mediation. The capital dependency of the government rooted in accumulated public debt encouraged the core-originated company (Telecom Italia) to press for more advantageous payment conditions.

However, the spatial replacements by the company towards a series of peripheral companies became a financial risk after the telecommunications bust in 2000. Therefore, the core originated company changed its vision about expansion to the periphery and decided to reverse the replacements. To prevent the absolute devaluation of the unsuccessful spatial replacement to be reversed, the core-originated company planned a minimum-loss withdrawal plan. The core-originated company argued that Turkish regulatory authorities' inability to enforce fair infrastructure sharing resulted in a damages of US\$3 billion. Actually, the core-originated company was withdrawing from peripheral countries like Turkey, anyway. However, they were aware that bringing the issue up in international arbitration was an effective way of applying pressure. In order to execute its minimum-loss withdrawal plan, the core originated company needed the support of its own political leadership, Berlusconi of Italy in this case. Berlusconi engaged in core-periphery lobbying – in other words, in unequal negotiations with the political leader of the recipient peripheral

country, Erdoğan of Turkey in this case. Through core-periphery lobbying, Berlusconi and Erdoğan hastily agreed on a resolution to the dispute in the political forum that bypassed the international arbitration and Turkish civil court and regulatory procedures. The resolution determined the outcome of the future Türk Telekom's privatization in favor of Telecom Italia. Finally, Telecom Italia succeeded in withdrawing from Turkey with minimum losses.

Scholars' efforts to evaluate the withdrawal of Telecom Italia in terms of a regulatory failure has limited explanatory power in this case. A much better regulatory framework would have resulted in the same outcome, as Telecom Italia was too determined to leave Turkey along with other peripheral countries. Perhaps if the process had been designed by a competent technocratic reason, Telecom Italia would have not won the auction for the mobile telephone operator license in the first place. A competent investigation of the Italian company would have revealed its complicated ownership structure which was open to financial coups. However, such an imagination about the possible positive outcomes of an ideal regulatory mechanism is beyond the factual analysis.

The experience of Turkey's privatization of Türk Telekom is a case by which to evaluate the strategic foreign partner argument. The preference for the block sale of fixed telephone operators to a foreign investor for a good price was not the ideal strategy. This strategy which focused on privatization revenue, took the worst possible form, when the privatization in the mid-1990s was not achieved. The investment fever in international capital markets was missed. Investment in the fixed network was cut and profits made by Türk Telekom were channeled to the public budget. The privatization was planned in 1994 but delayed to 2005! In this decade-long lag investment was inadequate. In 2005, in an underdesigned and ultra-consolidated fashion, the national fixed network was sold to a Saudi group with no experience in the telecommunications sector. The best label for Saudi Oger in the case of Türk Telekom would be "nonstrategic foreign partner."

A much better policy would have been to enforce the autonomy of the Turkish fixed telephone incumbent through a European-style privatization in the form of public offerings to raise capital and to continue to support new investment and regional expansion both financially and technologically.

Kamil Yılmaz recommended such a policy in the mid1990s as he appreciated the significance of the public investment leap in the 1980s and the continuing investments in the early 1990s. A better policy option would have included support for local electronics manufacturers instead of their early, hasty privatization. As a scholar and consultant throughout the 1990s and 2000s, Haluk Geray recommended such a policy. Strategic planning of domestic opportunities would have performed better than the adoption of nonstrategic foreign partners to maximize privatization revenue.



## Conclusion

This dissertation focuses on Turkish telecommunications policies in the context of Turkey's outward-oriented growth strategy. I argue the period of outward-oriented growth (1980-2010s) should be divided into two sub-periods with respect to telecommunications policy.

The first was between 1980 and 1994 and characterized by the extensive public investments in telecommunications network. These public investments reached peak between 1984 and 1987, under direct overseeing of Özal, and labeled as the telecommunications leap. The leap expanded the fixed telephone network from sporadic levels to the national scale, upgraded it technologically by deploying digital exchanges, and introduced new services.

The second period is between 1994 and 2010s (still going on in 2018) and characterized by the privatization policies. In this manner, the first private operators introduced in 1994 in the mobile telephone segment. The construction of the mobile telephone network from zero, achieved by the private investments. The private investments in mobile telephone network peaked in the period between 1998 and 2000. In 2000, two new mobile telephone operators introduced. However, as the investment fever towards telecommunications in the global scale came to an end in late 2000, the Turkish operators' investment tempo decelerated. The situation worsened by the Turkish February 2001 Cri-

sis. In the segment of mobile telecommunications, a new revival started between 2005 and 2008, which halted by the global crisis and consequent Turkish economic downturn.

In the fixed segment of the telecommunications, the privatization attempts in 1990s faced with a strong opposition and challenge of Constitutional Court. In 1994, the fixed telephone operator Türk Telekom was detached from the PTT in order to be privatized. However, the first auction only took place in 2000. Two auctions in 2000 and 2001 failed to attract offers. In 2005, privatization was achieved as a part of a general privatization policy in Turkey. Between 1994 and 2005, public investments in the fixed telephone network were cut by the government. In response to the national crises of 1994 and 2001 triggered by public debt, governments channeled the profits of Türk Telekom into the treasury. The general approach of consecutive governments to telecommunications was shaped by the need for revenue. Privatization policies concentrated on generating revenues rather than on channeling private funds into infrastructure development.

I argue that the first period between 1980 and 1994 prioritized the use value of the telecommunications system in the context of outward-oriented growth. The integration of the Turkish economy into the world economy accelerated in the 1980s. This integration, in other words, increase in volume and speed of the flow of commodities and money between the external world and Turkey, as well as within Turkey which required physical transportation, energy, and telecommunications infrastructures. Among these infrastructure sectors, telecommunications was additionally significant as the workhorse of the financial sector when global accumulation patterns came to be dominated by finance. Turkish leaders, especially Özal, were aware of the crucial role of telecommunications in the economic integration of Turkey into the world economy. In this manner, public investment programs were deployed to develop the weak telecommunications sector. For this investment program, liberals utilized the instruments of the previous statist period. The investment was planned and coordinated by the government and state agencies. In other words, statist instruments were utilized for pro-private ends. The result was successful: An impressive development of the telecommunications sector that was comparable to the most impressive expansions in various countries.



I argue that in the second period between 1994 and 2010s, the exchange value of the telecommunications system was prioritized in the context of public budget disciplining. The governments of this period handled the introduction of private capital in a way that maximized revenue generated by privatizations. A great proportion of the total of private investment was privatization payments to the government. Actually, the prioritization of revenue was also the case in the privatization of other infrastructure sectors. This maximization of privatization revenue meant the amounts channeled into the infrastructure development were decreased. The companies that won the auctions suffered the great burden of privatization payments and had limited financial means to deploy physical investments. I do not argue that the privatization period did not contribute to infrastructure development: Rather, I argue that a privatization policy focused on increasing investment rather than revenue would have been more successful in terms of infrastructure development.

Academic studies on Turkish telecommunications policies emphasize the institutionalization of pro-competition regulations instead of infrastructure development. I argue that the goal of infrastructure development should be introduced to the academic agenda. Therefore, in this dissertation I compare two periods in terms of infrastructure development.

When I compare these two periods in terms of investment performance, I reach three conclusions:

First, the absolute volume of financial resources channeled into infrastructure development is greater in the privatization period than in the public investment period. International capital markets offer greater opportunities for funding through various financial instruments, especially in periods like the telecommunications investment fever in the 1990s. As a consequence of the bad timing of Turkish telecommunication privatizations, Turkey missed out on the substantial flows of the mid-1990s. The only period in which Turkey exploited the international telecommunications boom was the period between the issuance of proper licenses for two mobile telephone operators in 1998 and the global bust of telecommunications in 2000. As the privatization of fixed telephony was delayed until 2005, the fixed network missed out on the investment fever altogether. Still private investments managed to build a mobile telephone network with a penetration of over 90%. This is a historical high for

Turkey, but not as impressive as when compared to international penetration levels. After 2009, internet service through the mobile telephone network started, too. In 2016, the penetration of mobile internet reached 50% and in 2018 exceeded 70%. On the other hand, the penetration of the fixed telephone network declined in the hands of a “nonstrategic foreign partner.” The penetration of fixed internet service roamed around 10% in the 2010s, 15% in 2018 and fiber-optics penetration is only 3% in 2018. In a nutshell, private investment contributed to infrastructure development in the telecommunications sector but would have been greater with a different privatization policy.

The second conclusion I reach from the comparison of the public investment period to the privatization period in terms of investment performance is that investment as a fraction of GDP was greater in the public investment period between 1980 and 1994. The real significance of economic magnitude is more precisely determined when converted to a fraction of GDP. When I make this conversion, the vast investment amounts during the privatization period appear much smaller and the modest amount of public investment appears much greater. Public investments increased the penetration of the fixed telephone network from 2% to approximately 30% by the mid-1990s. This was an impressive level in comparison with middle-income countries to be; however, there was still a mountain to climb to reach the penetration level of high-income countries which was around 50-60%. The investment cuts after decision to privatize in 1994 further blocked the development of the fixed telephone network from reaching the standard of core high-income countries. Some rightfully argue that the decline of the penetration of the fixed telephone network was a consequence of the advent of the mobile telephony in 1994, but the explanatory power of the fixed-mobile substitution argument in the decline of fixed telephone penetration is partial. In core high-income countries, the advent of internet services through fixed telephone networks had a sticky effect on the penetration level of fixed networks. The investments of fixed telephone operators focused on the provision of internet service through the advanced technologies of fiber-optic transmission. In a similar manner, cable television networks in core high-income countries evolved to provide telephone and internet services. In other words, in core high-income countries, fixed telecommunications networks persisted through technological updates

and investments. However, in Turkey, the investments declined dramatically in the fixed segment and the system deteriorated to the benefit of the mobile telephone network. Turkish society had limited access to quality internet service and is dependent on the usage patterns of mobile telephones.

My third and final conclusion from the comparison of the public investment period with the privatization period is that investment during the privatization period was much less consistent and fluctuated more than during the public investment period. This was a consequence of the dependence and vulnerability of private telecommunications investments to fluctuations in international capital markets. The drastic jumps in private investment in the periods 1998-2000 and 2005-2008 were offset by dramatic falls in 2001 and 2009 when there were crises in international capital markets. These crises worsened following the depreciation of the TL in 2001, 2013, and 2016-2018. Especially in the late 2010s, the authoritarian political inclinations of Erdoğan became clear and international markets became hesitant to finance infrastructure projects at the core of his political agenda. As a consequence of these factors that contributed to the inconsistency of private investment, the Turkish government launched public support measures for private infrastructure investments like revenue guarantees, public bank credit, and a Sovereign Wealth Fund. However, the revenue-generating approach of the government to infrastructure sectors persists. In the near future, the tendencies to support private investment and revenue generation through authorizations may come into conflict. For example, the government supported US\$6 billion of physical investment in Istanbul's third airport project by pushing for credit from public and private domestic banks in 2015. However, at the same time, the government received a payment commitment of US\$29 billion. This amount is to be paid to the government by the authorized consortium in installments. These two policies may conflict if government support of financing fails to stimulate more private international financing. To sum up, the fluctuating, inconsistent nature of private financing in infrastructure poses a risk in terms of infrastructure development and contrasts with the planned, consistent flow of public investment.

I argue that political lobbying has been the main forum when disputes occur among between private partners. The financial troubles faced by operators

created disputes among partners, creditors, competitors, and the government. In every case, the settlements were shaped by the government and political leaders, and other settlement mechanisms like courts, regulatory bodies and international arbitration played only a secondary role. When the problem concerned a domestic holding company, the government would intervene in place of sector specific mechanisms. This was in concordance with historical patterns of Turkish politico-business culture. In the case of Turkcell and Telsim, crises not only concerned the troubles of the mobile telephone operators but also the banking operations of the controlling holdings. As a consequence, instead of sector specific engagement, the government engaged centrally with the holdings. This was the case for Çukurova Holding with respect to Turkcell Turkcell, Yapı Kredi, and Pamukbank and for Rumeli Holding with respect to Telsim and İmar Bankası. These patterns explain the inadequacy of sectoral regulatory agencies to resolve disputes beyond conventional explanations in the literature like the poor quality of legal framework. When disputes concerned a foreign investor or creditor, the highest level political leader of the respective country directly contacted the leader of the Turkish government to enforce a solution. This was the case for Siemens and Helmut Kohl, Motorola and George Bush, Telecom Italia and Silvio Berlusconi, Alfa Telecom and Vladimir Putin. In these disputes, international arbitration played only a secondary role in accelerating the process rather than being the essential forum of dispute settlement. The Turkish government's willingness to comply with the lobbying of foreign leaders was a consequence of commitment to the outward-oriented growth strategy given that foreign investment was perceived as the main channel of growth. The secondary, subdued role of the Turkish national economy in the global capitalist hierarchy was another factor that encouraged foreign leaders to push for solutions. The solutions made by the government were often hasty and under-designed and triggered new problems. Government intervention in the Turkcell control crisis paved the way for the inability of partners to convene the board of directors. Later, the board was reshaped by the government and Turkcell started to be directed by government. The agreement between Erdoğan and Berlusconi to merge Aria and Aycell convinced Telecom Italia to withdraw its complaints from international arbitration. However, the equal stakes of Telecom Italia and Türk Telekom in Avea

triggered confusion when it came to the privatization of Türk Telekom in 2005. In the end, the consortium formed by Saudi Oger and Telecom Italia won the auction, though Telecom Italia liquidized its assets in Türk Telekom and left Turkey. The re-privatization of Telsim to Vodafone after its nationalization was a relatively good decision as Vodafone was an experienced investor; however, the nationalization of Telsim in the first place was a move partly triggered by the lobbying of George Bush in exchange for the debts of Telsim to Motorola. The revenue generated from the sale of Telsim to Vodafone was shared with Motorola in order to satisfy the Americans. These cases are explained in great detail in the main chapters of the dissertation.

The attention of academics to the telecommunications sector declined in the 2010s relative to the 2000s as the investment amounts in telecommunications declined in Turkey. Scholars have become more motivated to study energy policies once private Turkish investments were concentrated on this sector in the late 2000s and the 2010s. I expect similar academic attention to be paid to transportation policies as private infrastructure investment projects started to concentrate on this sector in the mid2010s. However, studies of energy and transportation policies have much to learn from the study of telecommunications policy, as the telecommunications was the first sector to privatize. The Turkish telecommunications sector was the first to attract major investments, especially in terms of foreign direct investments. The US\$2.525 billion purchase of the GSM1800 license by Telecom Italia in 2000 was a record in privatization history as well as in foreign investment history. This record recurred when Vodafone paid US\$4.55 billion for Telsim and Saudi Oger paid US\$6.55 billion for 55% of Türk Telekom in 2005. These record high auctions brought together new patterns of international financing and new patterns of dispute. The telecommunications sector was an internship for the Turkish government with respect to overseeing financing agreements, settling disputes, and convincing foreign investors. Historical accounts of investments, crises, disputes, and government interventions have much to say about future possible problems that could emerge around huge infrastructure investments. Especially in the period since 2016, extraordinary events have taken place on Turkey's political stage and a serious depreciation of the TL has occurred. As

a consequence, infrastructure projects financed in foreign exchange nominated credit have fallen in a fragile debt servicing period, just like the difficulties experienced by private mobile telephone operators in the aftermath of the double crises in 2000-2001.

I analyze the Turkish telecommunications policy in the context of outward oriented development strategy by putting two periods, namely public investment period between 1980 and 1994 and privatization period between 1994 and 2010s. It is possible to further elaborate these periods by dividing second one into two sub-periods, starting from sometime between 2008 and 2018. Recent studies on Turkish economy and society has an inclination to analyze recent decade after 2008 as a separate period of analysis.<sup>1</sup> The effect of 2007-2008 global economic crisis to the Turkish economy is a significant mark stone. An economic down-turn took place in Turkey since the Great Recession in 2007-2008. The economic troubles became more visible since 2013 and finally exploded in August 2018 with a foreign-exchange crisis. International financing opportunities for investments in infrastructure networks and urban megaprojects in Turkey declined in the 2010s relative to the 2000s, as another significant change that justifies putting of a new period. In addition, in the face of drastic depreciation of TL, existing foreign debt stock of private infrastructure operators became a crisis dynamic ready to explode. The government responded by providing public credits and financing guarantees backed by public banks and treasury, a suspicious strategy that transfers risk to the public budget. Is this also a new period for Turkish telecommunications? Control of Turkcell was taken over by government controlled SPK in 2013. Government still manages Turkcell through “independent” board members appointed by SPK. Withdrawal of Saudi Oger from Turkey in 2018 made the Turkish state largest shareholder in Türk Telekom again thirteen years after the privatization in 2005. This would be a first step for an obligatory return to the public ownership of infrastructure networks in Turkey, if the international and domestic

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1 For a study that analyzes economic and political factors that gave birth to a new period for Turkey in specific and periphery of EU in general, see Ziya Öniş and Mustafa Kutlay, “Global Shifts and the Limits of the EU’s Transformative Power in the European Periphery: Comparative Perspectives from Hungary and Turkey,” *Government and Opposition* (2017): 1-28. Published online on June 29, 2017.

economic troubles deepen and international creditors and companies continue to shift their route away from Turkey in the near future. However, today in 2018 it is not possible to determine a clear turning point for a new era of telecommunications policy.

Following the regulatory reforms of the 1990s and 2000s, a new phase of neoliberalism was focus of attention, namely Post-Washington Consensus phase. Along with a new wave of social policies, this phase was characterized by the emphasis on capable institutions and comprehensive rule sets that encompass private economic activity (regulation), instead of institutional withdrawal of the government from the economic policy (deregulation) in the Washington Consensus phase. This search for a new governmental structure was a consequence of unsuccessful experimentations of peripheral countries with the liberal economic reforms and globalization in the 1980s and 1990s, in other words during the phase of Washington Consensus. However, the institutional reform wave in peripheral countries was a direct transplantation of independent central bank and sectoral regulatory agencies of US and Western Europe, instead of specific policies that were shaped in accordance with the needs and institutional traditions of specific countries. In the 2000s, two factors prepared Turkey for such an institutional reform process, namely acceleration of EU accession process and shock therapy of IMF following February 2001 crisis. Central Bank and existing regulatory agencies were strengthened, and new sectoral regulators were found in this period of aftermath of crisis and EU accession. This triggered an academic attention towards transformation of state in Turkey into a regulatory state. However, the Turkish state did not transform into a regulatory state. Instead novel regulatory agencies joined the persistent structure of state and were forced to adapt existing bureaucratic and political power balances. This came together with the dissolution of planning bureaucracy of the developmentalist era, namely pacifying and disbanding of SPO. As a part of restructuring of infrastructure sectors, sectoral public operators like PTT and TEK were disintegrated in the 1990s, which were also part of planned policy-making body of Turkish bureaucracy. Recently established regulatory agencies were too weak and too much dependent to the ruling political party. The power vacuum emerged in the eco-

economic policy making was filled by the executive in the 2000s and 2010s. Regulatory reform process resulted in a failure of post-privatization regulation and this failure contributed to rise of a right-populist state instead of a regulatory state. The formation of Turkish presidential regime in the 2010s is being achieved through a total reshuffling of state bureaucracy and dramatic events like failed coup attempt, mass purge in state offices, and economic crisis.

To sum up, in the 1990s and 2000s, Turkish state transformed under pressure of economic liberalization. However, this change was not a change that was in accordance with the expectations and/or wishful thinking of liberal scholars. Instead existing bureaucratic tradition of planning and regulation – a tradition that was far from being in an ideal shape of a developmentalist state model but still had some potential of policy making– nearly dissolved in the 2010s. For sure, it is a kind of transformation of state; however, it was not a transition from a developmentalist state to a regulatory state.

The urban dimension of telecommunications infrastructure has been a main theme of urban sociologists, especially in accounts that engage with the financial nodes of New York, London, and Tokyo. Role of the metropolises to be played in the global scene is dependent on the telecommunications network. In the last decade there have been numerous studies on Istanbul as construction projects and urban renewal radically transformed the city. In addition, the history of Erdoğan's mayoralty of Istanbul has been a main factor in his putting the city at the core of his economic and political plans. The accounts of urban infrastructure in Istanbul are yet to be written. The bridges and tunnels, ports, railroads, water resources, subways, highways, and telecommunications infrastructure of Istanbul provide a rich landscape for academic study which would complement studies on residential construction.

The timespan covered by my dissertation was limited to the outward-oriented growth period of Turkey after 1980. However, earlier periods of Turkish telecommunications policy pose many interesting questions. Despite its early nationalization in the 1930s, the take-off of network expansion was delayed until the 1980s. This needs to be explained.

Ottoman investments in post and telegraph networks as well as foreign investments in post and telephone networks would provide a useful historical comparison to contemporary Turkish telecommunications.



A multidisciplinary account that engages with the simultaneous revival in modern Turkey of television in particular and media in general, on one hand, and telephone in particular and telecommunications in general, on the other is necessary. The study of telecommunications should transform itself into the study of communications in order to cope with the convergence of media and telecommunications systems. In core high-income countries, the consolidation of internet service providers, audio-visual content producers, and the media sets stage for discussions on telecommunications policy. A study that traces the interaction between telephone and television (in other words between telecommunications and communications) in Turkey back to their penetration booms in the 1980s would answer many questions and provide a basis for further intermodal research.



## Appendix A Private Investment Data for Selected Peripheral Middle-Income Countries

Country	Gov/To Category	Mobile	Fixed	Mob-Fix	Av:81-	Av:91-	Av:96-00	Av:01-	Av:06-	Av:11-15	Av.
Nigeria	9% Africa	2001	2006	5	-	-	0,09%	1,55%	1,27%	0,37%	0,89%
Jordan	31% Mena	1994	2000	6	-	0,21%	0,29%	1,90%	0,65%	0,62%	0,83%
Romania	10% Transition	1993	1998	5	-	-	1,20%	0,95%	0,60%	0,31%	0,79%
Tanzania	3% Africa	1994	2001	7	-	0,29%	0,23%	0,60%	1,59%	0,77%	0,75%
Philippines	3% East Asia	1991	1988	-3	0,12%	0,45%	1,27%	0,97%	0,65%	0,48%	0,75%
Peru	19% Latin	1994	1994	0	-	1,14%	1,06%	0,56%	0,56%	0,46%	0,72%
South Africa	4% Africa	1993	1997	4	-	0,36%	0,87%	0,96%	0,64%	0,39%	0,70%
Kazakhstan	6% Centr. Asia	1994	1997	3	-	0,14%	1,41%	0,54%	0,65%	0,36%	0,69%
Bulgaria	18% Transition	1994	2004	10	-	0,19%	0,29%	1,18%	0,96%	0,48%	0,67%
Chile	1% Latin	1989	1988	-1	0,37%	0,96%	0,98%	0,72%	0,66%	0,49%	0,66%
Morocco	48% Mena	1999	2000	1	-	-	0,15%	0,54%	0,66%	0,65%	0,56%
Ukraine	12% Transition	1996	2011	15	-	0,02%	0,63%	0,92%	0,72%	0,22%	0,54%
Brazil	21% Latin	1996	1998	2	0,00%	0,01%	0,82%	0,97%	0,47%	0,44%	0,52%
Argentina	13% Latin	1990	1990	0	0,04%	0,71%	0,62%	0,47%	0,41%	0,43%	0,51%
Egypt	31% Mena	1998	2005	7	-	-	0,36%	0,40%	0,88%	0,32%	0,51%
Thailand	0% East Asia	1989	1990	1	0,07%	0,83%	0,40%	0,71%	0,27%	0,34%	0,50%
Indonesia	13% South Asia	1993	1994	1	-	0,11%	0,75%	0,41%	0,51%	0,25%	0,44%
Malaysia	12% South Asia	1988	1990	2	0,20%	0,56%	0,64%	0,46%	0,35%	0,29%	0,44%
Pakistan	24% Centr. Asia	1990	1994	4	0,05%	0,05%	0,05%	0,56%	1,16%	0,21%	0,41%
India	19% South Asia	1994	1994	0	-	0,05%	0,19%	0,58%	0,65%	0,25%	0,39%
Russia	3% Transition	1994	1997	3	-	0,05%	0,26%	0,77%	0,46%	0,39%	0,38%
Mexico	13% Latin	1990	1991	1	0,04%	0,51%	0,39%	0,43%	0,30%	0,29%	0,37%
Colombia	11% Latin	1994	2006	12	-	0,19%	0,20%	0,23%	0,57%	0,51%	0,36%
Turkey	33% Tur	1994	2005	11	-	0,06%	0,32%	0,10%	0,34%	0,26%	0,23%

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