

# ENERGY PRIVATISATIONS, BUSINESS-POLITICS CONNECTIONS AND GOVERNANCE UNDER POLITICAL ISLAM

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## Abstract

The changing connections between business and political Islam under liberalisation can best be studied through an analysis of moral justifications, political connections in business and institutional modifications. Our evidence on energy utility privatisations through a comprehensive analysis of political connections with firm and industry specific data demonstrates that Turkey's Justice and Development Party reshaped industry structures to nurture a new breed of politically linked businesses. In order to build a patronage regime in energy markets, the party manipulated regulatory institutions, suppressed the media and advocacy groups, and immobilised the judicial process in response to allegations of misconduct. The highly personalised and opaque allocation of assets increased the power of business groups that enjoyed close ties with the Prime Minister and key party officials. Leading politically connected firms emerged as not only the major beneficiaries but also key supporters of authoritarian politics. Our findings have important implications for the analysis of political Islam, regulatory institutions, and the vulnerabilities of energy privatisations in emerging economies.

**Keywords:** Privatisation, energy markets, politically connected firms, political Islam, Turkey

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# **ENERGY PRIVATISATIONS, BUSINESS-POLITICS CONNECTIONS AND GOVERNANCE UNDER POLITICAL ISLAM**

## **1. Introduction**

The Washington Consensus has been a powerful transformational policy tool for the economic liberalisation trajectory of emerging economies. However, the “consensus” template was selectively adopted and “morphed” according to the objectives and interests of policy elites (Peck, 2010)<sup>1</sup>. The neo-liberal economic perspective provided the underlying rationale for market liberalisation in a variety of forms. The critical consequence is that the outcome of the past two decades of policy experimentation has neither been a decisive departure from neo-liberalism nor a new model of post-liberal transformation (Öniş, 2006; Ban and Blyth, 2013; Groves et al, 2013). These important findings call into question the economic resilience and global influence of the leading emerging economies. The persistent implications of neo-liberal policies for the allocation of assets and opportunities, industry structures and political institutions deserve further investigation.

Our paper extends this approach and analyses energy privatisations in Turkey. Neo-liberalism can be described as an ideological stance, a political discourse and at the same time a policy tool for market liberalisation policies. In this paper we mainly refer to it as a policy tool and market governance approach<sup>2</sup>. What makes Turkey interesting, and unique among Muslim nations, is that its market liberalisation had first been opposed and later adopted by an Islamic political movement that rose to prominence in the 1990s and consolidated its democratic gains in the 2000s with a parliamentary majority of the Justice and Development Party (AKP). With the support of the rapid growth of Islamic charities and fraternity organisations, the AKP challenged the secular status quo and achieved three

consecutive electoral victories in national polls since 2002. However, its broader appeal for the masses rested on steady economic growth, a centre-right liberal outlook (Tepe, 2005; Bacik, 2008), and systematic purges the party undertook against its critics and opponents (Polat, 2013). Discussions of the so-called “Turkish Model” and Weberian “Islamic Calvinists”, through which political Islam authenticated its form of market capitalism, have been widespread in European policy and academic circles for a decade (ESI, 2005; Tuğal, 2012). The economic and political trajectory of the country is closely watched by other Muslim states, especially in the Middle East and Central Asia. Therefore, Turkey’s developmental trajectory carries emblematic significance for Islam’s relationship with democracy and capitalism.

Our analytical framework shows that neo-liberal policy customisations take place through moral justifications, political connections in business and institutional modifications. The evidence presented in this paper suggests less of a success story, and shows the growing political and economic uncertainties. The outcome of energy utility privatisations illustrates how the AKP adapted the Washington Consensus principles to reshape industry structures and nurture a new breed of politically connected businesses in gas and electricity distribution networks between 2003 and 2013. In order to build a patronage regime in energy markets, the AKP government manipulated regulatory institutions, suppressed the media and advocacy groups, and immobilised the judicial process in response to allegations of misconduct. At the same time the party facilitated new partnership structures among its affiliated business groups and small regional players in order to overcome their financial and managerial constraints. Highly personalised and opaque allocations of assets have essentially increased the power of business groups that enjoyed close ties with then Prime Minister Recep Tayyip Erdoğan (here after, PM Erdoğan)<sup>3</sup> and leading party members.

The paper makes contributions in the following areas. First, we demonstrate the importance of interchange between moral ideologies and neo-liberalism, supporting views on the adaptability of the Washington Consensus (Peck, 2010; Babb, 2013). We also show how religious justifications have been employed for the economic empowerment of new interest groups. This finding indicates a profound rupture in the character of political elites and market rules (Rudnykyj, 2009; Tuğal, 2009; Atia, 2012; Polat, 2013). Second, the empirical evidence illustrates how re-allocation regimes of energy utility privatisations generated a new breed of politically connected firms through regulatory and judicial interventions. This finding supports studies that have shown the influence of political control over privatisations and deep ties between ex-politicians and privatised firms in cross-country analyses (Ramamurti, 2002; Boubakri, Cosset and Saffar, 2008; Barlotti and Faccio, 2009). However, we illustrate how a single political party in power can create a comprehensive system of politically connected firms. Finally, the impact of deepening ties between the government and businesses requires further analysis. Our evidence on the customisation of privatisations contributes to the debate on the value and costs of political connections (Acemoglu, Johnson, Kermani, Kwak and Mitton, 2010), implications for political institutions and the regulatory environment (Acemoglu and Robinson, 2006; Choi and Thum, 2009; Hefetz et al., 2012), the contested legitimacy of business fortunes, and economic development prospects (Authors, Claessens, Feijen, and Laeven, 2008).

The article proceeds with an analysis of three propositions on moral ideologies, political connections, and biased institutional modifications of business-politics ties. This is followed by a background analysis of the rise of political Islam and its incorporation of neo-liberalism. Our evaluation of electricity and gas privatisations in the fourth section presents the stages and the scope of de-regulation across regions. The fifth section provides a comprehensive analysis of political connections with firm and industry specific data. The

conclusion reviews the theoretical and empirical contributions of the paper.

## **2. Analytical Framework**

We analyse the changing connections between business and politics under political Islam through an examination of moral philosophies, the nature of ties, and institutional workings. The following propositions frame our perspective:

Proposition 1: *Moral customisations of the neo-liberal economic rationale provide means for significant political transformations.* In his book, *Morals by Agreement*, Gauthier (1986) suggested that a perfectly competitive market is a morally free zone, an arena of social life in which moral evaluation has no role to play. Hausman (1989) provided a critique of the notions of a morally free market. What underlines this understanding of markets, Hausman (1989) points out, is “a hypothetical history in which individuals convert Hobbes’ brutish state of nature into Locke’s docile one by not benefiting themselves at the expense of others” (p. 330). Markets promoted freedom in two ways according to Milton Freedman: i) participation in economic action is itself an exercise of freedom; ii) markets guarantee a separation of powers that is necessary for political freedom. Proponents of neo-liberalism have long assumed that since markets accomplish the economic tasks of allocation and distribution without relying on a centralised bureaucracy they prevent such monopoly (McMohan, 1981: 273).

On the contrary, applications of neo-liberal economics did not lead to the envisaged freedom and separation of powers but rather mutated in opposite directions. Any synthesis between moral philosophies and neo-liberalism simultaneously reconfigures the role of the state and political institutions as a counter trend to secularisation. In Russia, the increasing power of the Orthodox Church goes hand in hand with oligarchic market control and the legitimisation of President Vladimir Putin’s authoritarian rule (Payne, 2010). In Mexico,

the promotion of popular capitalism and free enterprise widened the opportunities for entrepreneurs in the economy, politics and the government with increasing international ties. However, the rise of the new right and social Christian values clashed with libertarian groups in this process (Salas-Porrás, 2005). In the USA, Christianity has been a force to promote religiously motivated morality over markets. Much of neo-conservative politics, and especially the Tea Party movement, support economic liberalism with fundamentalist religious values along with intolerance to liberties<sup>4</sup>.

One of the most interesting examples of moral adaptations is the incorporation of Islamic beliefs and norms into neo-liberal policy frameworks in countries such as Indonesia, Egypt and Turkey. The rise of Islamism across a number of developing countries has been both a response to the crisis in secular nationalist development projects as well as an outcome of a societal search for an alternative authentic moral direction for economic development, empowerment, and justice (Gülalp, 1999; Authors; Atai, 2012). A number of scholars argued that neo-liberalism transformed political Islam and facilitated its shift from economic exclusion and political marginalisation to a move towards power domination. Paradoxically, this conversion happened through a discourse of authentication and condemnation of western capitalism (Authors; Yavuz, 2004; Tuğal 2009). The process of change showed not only the adaptability of neo-liberalism but also of Islam on an individual level and Islamism on the political stage (Atia, 2012). The rejuvenation of political Islam involved the spread of religious values for an individual's transformation, for a new self-interested and disciplined workforce, and for an authentic national economic revival (Rudnyckyj, 2009). Islam as a belief system is not centralized and hierarchical. While there are no structures of authority to integrate communities and marginalize extremists, there is also no "monolithic" religious organisation (McGraw, 2010). Consequently, there emerged a fertile ground for market applications and moral

justifications in the absence of ecclesiastical directives. Rudnyckyj's (2009: 131) description of an emerging spiritual economy in the most populous Muslim country, Indonesia, illustrates reflexive transformation:

“The creation of a spiritual economy in Indonesia is neither a wholesale translation of Weber's spirit of capitalism, nor is it a strict interpretation of Islamic texts and practices. It is an unprecedented assemblage that is as much the Islamisation of neo-liberalism as it is the neo-liberalisation of Islam.”

Other scholars also support this observation. In Egypt there has been a similar spiritual revival as a form of pious neo-liberalism. This moral call empowered Islamist movements and opened new channels in domestic politics (Atia, 2012; Ismail 2012; 2013).

Proposition 2: *Privatisations offer opportunities for new allocation mechanisms in favour of politically connected firms.* The spread and effects of political connections in businesses are widely acknowledged but mostly understudied within the context of neo-liberal transformations. Studies on politically connected firms (here after PCF) offer a useful avenue to explore the nature of politics-business relations with a prospect of better understanding of the changes taking place at firm and industry levels under privatisations. Business-politics connections are described in a number of studies as direct and indirect involvement of politicians and their close associates in firm ownership and management (Faccio, 2006; Faccio, Masulis, and McConnell, 2006). Firm based studies show that businesses get preferential access to a number of value enhancing resources and opportunities through political favouritism. Politicians, however, collect rents and/or electoral support in return.

Faccio (2006) found corporate political connections to be relatively widespread (they exist in 35 of the 47 countries that she sampled). But they appear to be less common in countries with more stringent regulation of political conflicts of interest and more

widespread in countries that are perceived as being highly corrupt. Connections are also more widespread among larger firms. However, the study detected a rather small and sporadic number of PCF in some countries where PCF were expected to be widespread. For example, it identified only one company connected with a minister or MP in Turkey and the Philippines, and none in South Africa and Brazil.

Using a loan-level data set of more than 90,000 firms in Pakistan between 1996 and 2002, Khwaja and Mian (2005) show that PCF borrow 45 per cent more and have 50 per cent higher default rates than others. They conclude that such preferential treatment occurs exclusively in government banks and has an economic cost as it often goes to poorly performing firms. Similarly, in her study on Italy, Sapienza (2004) shows that state-owned banks serve as a mechanism to supply political patronage. In a cross-country examination, Faccio, Masulis and McConnell (2006) illustrate that PCFs are more likely to be bailed out than are their non-connected peers and they exhibit poorer operating performance than others at the time of the bailout and over the following two years. Johnson and Mitton (2003) pointed out that PCF benefited from the capital controls imposed in Malaysia during the Asian financial crisis in 1998 and those associated with Prime Minister Mahathir Mohamad had significantly higher stock returns. By using political campaign contribution data, Claessens, Feijen and Laeven (2008) similarly show that Brazilian firms that provided contributions to elected federal deputies experienced higher stock returns than firms that did not.

While clearly privatisations offer opportunities for new allocation mechanisms in favour of politically connected firms, studies mostly focus on post-privatisation. Boubakri, Cosset and Saffar (2008) investigated the extent of political connections in newly privatized firms around the world. Using a sample of 245 privatized firms headquartered in 27 developing countries and 14 industrialised countries over the period 1980 to 2002, the



authors find that 87 firms have a politician or an ex-politician on their board of directors or supervisory board. They also show that political connections of newly privatised firms are a worldwide phenomenon. They illustrate that the ideology of the executive appeared to be insignificant, a result that contrasts with theoretical arguments in Biais and Perotti (2002) and empirical evidence based on OECD countries in Bortolotti and Faccio (2009). A centralised system of political authority, Bortolotti and Faccio (2009) show, increases government control over privatised firms. However, none of these analyses explain how political parties promote connections and use privatisations as means of building power in markets.

Proposition 3: *Deepening business-politics ties alters industry structures, political institutions and development prospects.* Political interference in privatised firms brings about the question of the benefits and impairments of political connections on industry structures, political institutions and development models. Political economy approaches look at the issue through economic justice, regime type and allocative efficiency points of view. Such studies tend to link political interference to business or businessmen's careers in politics in relation to corruption and clientelist ties. They examine how relations between dominant business groups and the state shape the political regime type and institutional trajectories (Nam 1995; Guriev and Rachinsky 2005; Choi and Thum 2009). They also address the way in which client business networks and lobby groups benefit from selective and pro-business programmes and in turn shape the policy agenda (Salas-Porras 2005; Thomas et al. 2009).

Robinson and Verdier (2003) argue that clientelism emerges in countries where productivity is low. However, it is prematurely assumed that modernisation and development eliminates clientelism. The first necessary condition is that the relation must be beneficial for both parties and there is a scale problem<sup>5</sup>. A well-known example of

clientelism is the relationship between large companies and the state in the era of Park Chung-hee's military regime between 1963 and 1979 in South Korea. Nam (1995) shows how most of the financial incentives were given to the largest companies in return for their support of the military regime. The government controlled the allocation of credit and foreign currency, and the *chaebol* enjoyed preferential access to these and other resources.

Thus, not only the connections but also the character of the connectedness have important implications for political institutions. In many late industrialising economies, governments historically developed clientelist ties with industrialists and supported the formation of business groups by protecting them through tariffs and trade restrictions. They also granted discretionary concessions (for example, in media, mining, and other licensed and regulated sectors), direct and indirect subsidies to certain favoured industries (Buğra 1995; Khanna, and Palepu, 1999). However, privatisation changes the relationship between politicians and businesses.

Studies on post-Soviet economies showed that state insiders, as managers of economic units and civil servants, diffused into the ownership structures of key industries through de-regulation and privatisation. While inter-elite conflicts have led to opaque allocation mechanisms, authoritarian political regimes are progressively entrenched whereby ruling elites increased their ownership and/or political control of the key industrial assets (Authors; Junisbai 2012). In a study of Russia's largest oligarchs, Guriev and Rachinsky (2005) illustrate how the concentration of ownership of large industrial establishments served the highly corrupt political regime in which neither oligarchs nor the bureaucracy are interested in implementing policies that will open the economy to broader participation, fair allocation and competition. In China, Wank (2002) argues that clientelist networks evolved in line with market opening as the business fortunes of those connected to the Communist Party increased. Local officials implemented the economic reform

policies first and foremost as a way to ensure their self-interest and provide further benefits to the political elite.

Political actors around the world have distributed a large number of state assets according to their customisation of neo-liberal policies. Party ideologies and leadership styles become important in determining institutional workings and the direction of change. Thus, choices made by political elites in the allocation of assets have long-term implications for governance and markets (Acemoglu and Robinson, 2006).

### **3. The Political Economy of Neo-Islamic Liberalisation**

The September 1980 military coup created initial conditions for market de-regulation and subsequent suppression of opposition interests and left wing politics. Tied to an economic reform agenda, Turkey had three disbursements with IMF stand-by agreements between 1980 and 1984. The largest amount, 1.250 billion USD, was received in 1980 (Arpac and Bird, 2009). Throughout the 1990s, liberalisation policies focused primarily on financial deregulation to address endemic crises in public finances and budget deficit problems. Notwithstanding its undemocratic origins, however, Turkey's market liberalisation lacked focus and was riddled with boom and bust cycles. The government followed a hot money policy of high interest rates for treasury bills and domestic currency appreciation to attract short-term speculative financial capital to compensate for the increasing growth in government expenditures. While the government was the major borrower, foreign and domestic banks, as the major lenders, had the financial incentives to main this high interest margin (Bakır, 2009; 580-81). The privatisation model, which was carried out through cabinet decrees and strong executive authority, met political and judicial opposition. The Constitutional Court overruled the privatisation initiatives of key strategic industries on several occasions (Çetin and Oğuz, 2007). The 1990s were years of asymmetric but

widespread financial crises in Argentina, Mexico, Russia and East Asia where Washington Consensus applications brought about dismal growth prospects (Macleod, 2004; Babb, 2013). Turkey had weak coalition governments and no visible leadership in the economy. The first major challenge to neo-liberal policies was a fiscal and balance of payment crisis followed by an IMF stabilisation program in 1994 and another in 1999 (Öniş, 2011; Bakır and Öniş 2010).

Triggered initially by a political dispute, a more severe financial crisis came with the stock market crash of 2001. In response to rapid deterioration in economic outlook, a range of banking reforms and institutional arrangements put in place by the coalition government brought about significant regulatory improvements and institutional stability. A former World Bank technocrat, Kemal Dervis, designed the key reform policies of the IMF stabilisation package as Turkey's economy minister, which significantly improved the economic outlook (Arpac and Bird, 2009)<sup>6</sup>. These were accompanied by a major wave of democratisation as part of the EU accession process.

The rise of Islamic politics to centre stage has been closely linked to widespread discontent with market liberalisation, which was associated with reckless western capitalism, societal inequalities, and financial failures<sup>7</sup>. Erdoğan's election as the mayor of Istanbul in 1994 powered the rise of the Islamic political movement, which subsequently led to the formation of AKP in 2001. The party cadres came from right wing religious formations<sup>8</sup>. Benefitting from its predecessor's reforms that established the Bank Regulation and Supervision Authority, AKP broadly followed the Consensus principals. The FDI law in 2004 removed remaining bureaucratic obstacles. FDI peaked in 2007 and 2011, two AKP general election victory years (see Figure 1). After the last conditional IMF loan in 2006, a more confident AKP began to follow disjointed economic policies. Turkey accumulated large currency reserves, its economic growth looked less affected by

the 2008 financial crisis, and the country grew less dependent on IMF loans as it could borrow from international markets<sup>9</sup>. However, Turkey has also become one of the most leveraged economies with a net external debt of 413 billion USD, about 51 per cent of GDP (Harvey and Bilgic, 2013). With slow economic growth, increasing inflation, and the highest trade deficit in history (79.8 billion USD), the economic outlook looks rather shaky.

Neo-liberalism and democratisation offered two critical tools for AKP in its aspiration towards hegemonic regime change (Polat, 2013). The party re-configured the institutions of the secular state establishment. In the markets, it strengthened its control over privatisations, urban development projects and capital flows. The social welfare reforms in public health, mass housing provisions and education received popular support (Bartu and Kolluoglu 2008; Tekeli and Kaplan, 2008; Karaman, 2013). Increasingly authoritarian, PM Erdoğan consolidated his power over the media (Kuban and Sozeri, 2012). In response to the wave of protests in the summer and autumn of 2013 and several high profile corruption scandals in December 2013, the AKP introduced extensive purges in the judiciary, the police and civil service.<sup>10</sup>

AKP's neo-liberal economic policies have been popularly promoted through a veneer of Islamic ethics and symbols, which also endorsed intolerance and conservative beliefs in society.

i) Moral markets: Promoting the idea of an authenticated capitalism resting on morally superior Islamic principals has been one of the key pillars. This crystallised in the promotion of openly religious entrepreneurs who supported Islamic politics and frequently demonstrated their piety through public acts of charity and rituals (Atasoy, 2009; Hoşgör, 2011). The establishment of MÜSİAD, in 1990 was the first step in the growth of formalised pro-Islamic business solidarity (Çokgezen, 2000). Intra-business struggles led

to organisational splits between pro-AKP associations and their rivals (Authors; Bayırbağ, 2011)<sup>11</sup>. MÜSİAD and later TUSKON (established in 2005) enjoyed extensive political and business ties with the AKP government.<sup>12</sup> Without resting on a well-defined Islamic economics or code of practices (Kuran, 1997)<sup>13</sup>, religious references, donations and charity activities were frequently used as acts of Islam's ethics in economic behaviour. Paradoxically, the usury banned by Islam has been widely used among conservative businessmen<sup>14</sup>.

ii) Virtuous individual: The belief that good Muslims do not cheat, they care about the poor and fellow Muslims, and do not touch illicit and forbidden gains have been widely promoted. Despite opposite examples, such as fraudulent financial partnership initiatives (Authors), this created an effective discourse on the virtues of Islamic business ethics as opposed to secular ones with dubious morals. AKP in power promoted religious education by changing the national curriculum and increasing the number of priesthood' schools, with a total disregard to the sizeable non-Sunni population<sup>15</sup>. Islamic women with headscarves became an important symbol of virtue. AKP's leading politicians' wives routinely emerged in public with long dresses and stylised headscarves. While being highly effective supporters of the party, these women rarely emerged out of the control of men. Obedient, docile and religious women have been showcased as models of the new society. In many occasions, male AKP MPs have expressed their illiberal views on abortion, dress style, and the behaviour of women<sup>16</sup>.

iii) Networked Islamic community: Liberalisation helped the growth of a popular version of Islam under the control of Islamic brotherhood networks beyond and within the state. Islamist politicians have long been active in informal networks of various fraternity groups. These developed alternative markets, a parallel societal force, and a geographically diffused system of charity, education and welfare organisations. Thanks to the modern

advanced economy that AKP inherited, its economic advances has been more successful than other Islamist parties such as the Muslim Brotherhood in Egypt (Tuğal, 2012; Gumuscu, 2010). Tuğal (2009) referred to this transformation as the de-radicalisation of the Islamist political movement and its embrace of neo-liberalism as a “passive revolution”.

### **Figure 1**

#### **4. Gas and Electricity Utility Privatisations**

Over the past decade three consecutive AKP governments presided over the most extensive privatisation programme in the energy utility sector. The political significance of this sector rests in its strategic position in a growing domestic market and the dependency on foreign energy sources. There are three important structural outcomes of AKP’s privatisation programmes. The first is the changing industry structure brought about by a new configuration of state control and growing private sector ownership. The second are governance changes that affected the institutions of regulation. Political interference by leading party individuals and their relatives paralysed regulators. Thirdly, new allocation mechanisms spread assets to new national champions and local SMEs. These happened frequently through block sales rather than utilising capital markets.

The privatisations of energy utilities have been pursued under broadly similar liberalisation templates since the 1990s following IMF and World Bank guidelines (see Andres, Foster, and Guasch, 2006 for Latin America; Sirasoontorn and Quiggin, 2007 on Thailand, and Tankha, 2009 for Brazil). Private finance began investing in the entire energy sector and new hydroelectric power plants and two nuclear power stations were planned from the late 2000s. However, some of the fundamentals of Turkish energy

markets remain fixed. The country relies heavily on imported gas and oil whilst it also aspires to be a regional market and a transit hub between Europe and Asia. It promotes new energy routes to complement the Baku-Tbilisi-Ceyhan pipeline. In 2012 domestic gas production (632 million standard cubic meter-Sm<sup>3</sup>) was dwarfed by imports (45,922 million Sm<sup>3</sup>). Russia was the major supplier (58%) followed by Iran (18%), and Algeria (9%). The state owned gas supplier, BOTAS, almost had monopoly status in imports (92.2 per cent). Nearly half of the imported gas is used in electricity production (48 per cent) (EPDK, 2013).

A governance template, with largely independent regulatory institutions, was in place when AKP came to power. The formation of the Energy Market Regulatory Agency (EPDK), the Turkish Electricity Market Law and the Natural Gas Market Law were enacted in 2001 (see Atiyas and Dutz, 2004; Özkıvrak, 2004; Ulusoy and Oğuz, 2007). As a semi-independent governmental body supervised by the Ministry of Energy and Natural Resources, EPDK's board is independent over licensing and other market related activities. There is no parliamentary committee to oversee its activities. Thus, compared with the pre-2001 era, the post-2001 governance regime permitted executive control to shape new market structures. This expedited the de-regulation of the sector that had begun with the first privatisation law for the electricity sector in 1984 and the split of the Turkish Electricity Authority (TEK) into two companies in 1993, one for generation and transmission (TEAŞ) and another for distribution and retailing (TEDAŞ). Generation and transmission was unbundled into three state owned enterprises: a production, a transmission and a wholesale company. However, full privatisation was not possible until the 2000s due to financial constraints and strong bureaucratic opposition. As a response, ad-hoc strategies were used to permit business groups to enter the sector with Treasury guarantees during the AKP governments (see Çetin and Oğuz, 2007).



New allocation mechanisms for state assets have been mostly through block sales (see Figure 2). Privatisation through capital markets was rarely used. By opting for the block sale method, AKP governments showed their preference for revenue maximisation and rapid results as opposed to prioritising the inclusion of broader segments of the population (Öniş, 2011). While capital markets are newly developing, block sale also offers wider possibilities to build political control over the process. A number of major privatisation cases included foreign and domestic consortia as well as major Turkish banks and old business groups. For example Türk Telekom A.Ş. was purchased by OGER Telecom (a Saudi-led consortium); the state refinery, TÜPRAŞ, was acquired by the Koç Holding and Shell, while TEKEL, the state alcohol and tobacco monopoly, was privatised through the asset sale method and was first purchased by British American Tobacco and local firms. The privatisation of a 25 per cent share of Halk Bank was done through a public offering. Apart from these high profile sales, major market transformations in the energy sector took place through the piecemeal sale of assets (see Atiyas and Dutz, 2004). Privatisation has generated a total of 53.54 billion USD in revenues over the period 1986–2013 (see Figure 1). The revenues collected in the pre-2001 period represented only a small fraction of this amount, 8.4 billion USD between 1985 and 2000 (of which 2.7 billion USD was generated in a single year, 2000). Large-scale privatisations brought significant implications for public revenues. Electricity privatisations were most extensive; the government generated an income of 12.9 USD billion in total by 2013 (24% of all privatisation revenues).

## Figure 2

The transfer of operating rights through share sales has been the most common model of privatisation of the electricity distribution network. In this model, winning firms have the right to hold a unique distribution license for specific regions but ownership of capital assets remains with the state. The winner becomes a regional monopoly, and households have no choice to buy electricity from other firms. Hence, there is no mechanism to create competition and consumer surplus. In addition, the government guarantees an income floor through retail price control overseen by the EPDK. Bagdadioglu, Basaran and Price (2007) question if indeed a cost reflective tariff has been an essential component of Turkish electricity reform. They show that the tariffs create real hardship for some households, which might not be compensated through the rather underdeveloped Turkish social security system. To avoid the possible political costs of this situation before the general election of November 2007, the government disregarded EPDK's advice and postponed pursuing such tariffs for at least five years.

#### *Political connections in privatisations*

In our empirical analysis we studied all electricity and gas privatisation bids and their winning firms, then scrutinised the existence of political ties between the firms and the AKP. First, we categorised political connections and then filtered and sieved media and internet sources to identify the type of connections for each firm. The formal procedures of building connections have been opaque, leading to questions about the status of regulatory boards in safeguarding their independence (Sönmez, 2011). AKP frequently interfered in the process (Çetin and Oğuz, 2007; Öniş, 2011). However, there has been no comprehensive empirical analysis of the degree of political control over market deregulation. Thus, our study provides an original analysis that also complements our recent

paper on business performance and political connectedness in Turkish industry rankings (Authors).

Benefitting from Faccio's (2006) analysis we distinguish two types of political connectedness: direct personal ties (PCF-1) and networked access to politicians (PCF-2). The first group enjoys direct channels of informal and personal access to the Prime Minister, Cabinet Ministers and leading AKP members of parliament and/or may have them as owners and managers. Some PCF-1 are well-known such as the rapidly growing Çalık Holding whose CEO is the son-in-law of PM Erdoğan (Tunç, 2010). The board chairman of Kiler Holding is the brother of a leading AKP member of parliament (Harvey and Bentley, 2010); and the chairman of the board of Cengiz Holding is a close associate of PM Erdoğan. The second group of ties (PCF-2) involve indirect access through institutional networks of the pro-AKP business lobbies, MÜSİAD and TUSKON. We identified these firms through "Tuskontrade" and "e-MÜSİAD" web engines. We checked the accuracy of information through other web sources, company information sites, as well as the trade press<sup>17</sup>.

We studied different stages of privatisation bids through archival data of several state agencies since there is no single body of information. As gas and electricity utility privatisations have been completed recently, the data we compiled here shows an original analysis of the spread of assets among firms. The official privatisation data is available through the records of the Privatisation Agency (*Özelleştirme İdaresi Başkanlığı*). In addition, we reviewed the publications of the EPDK and the Official Journal of the Turkish State (*Türkiye Cumhuriyeti Resmi Gazetesi*) to identify the winning firms (in electricity between 2008-2013 and in gas distribution between 2003-2013). Additional sources, such as the reports of professional bodies, advocacy groups and interviews with industry experts at the international energy conference in 2012 provided further depth to our analysis<sup>18</sup>.

## 5. Findings

A distinct feature of utility privatisations is the extended length of stages. The bidding process experienced long delays due to bureaucratic interventions, bilateral negotiations and monetary constraints of firms in debt financing. Although a closed-envelope method is utilised for collecting offers, the allocation decision process continues with bilateral negotiations. If necessary, the Auction Commission can contact the firms that are in the process of negotiation with EPDK for public auction (Privatisation Agency, 2009 and 2010). The evidence shows that an SME-based privatisation with no significant FDI flow encountered frequent liquidity problems. Bidders' inability to follow through on their commitments led to alternative arrangements of financial pooling. The strategic preferences of bidders led them to switch among different bids in order to maintain their liquidity<sup>19</sup>. SMEs formed consortia to increase their financial and business power, especially in electricity bids<sup>20</sup>. The beneficiary firms as listed in Tables 1, 2 and 3 are mostly new to the energy sector. As newly diversifying business groups they have stakes in construction, trade and services, but often with no or a small industrial base. Some of them such as Kiler, Yıldızlar SSS, Limak and Arsan-İşkur-Kipaş entered the electricity sector after 2002. A closer examination of other consortia also shows that firms in media, education and services formed alliances to benefit from privatisations.

The bargaining nature of the process created a vulnerable structure amenable to political interventions and informal transactions. There are allegations of insider dealings by the bidder firms<sup>21</sup>; poor bureaucratic oversight, and corruption in assessment of bids and offer decisions<sup>22</sup>. However, these claims have not been fully investigated since TEAŞ have carried out privatisation agreements with confidentiality clauses. These clauses blocked the possibility of open scrutiny and information over the privatisation of public

assets<sup>23</sup>. The appointment of family members and relatives of AKP ministers and MPs to key government positions, including to those regulatory institutions further hindered the transparency and damaged the credibility of the selection process. A case in point is the appointment of the AKP minister and the then Speaker of the Parliament Cemil Çiçek's son to the board of EPDK<sup>24</sup>. Energy experts we interviewed pointed out that the AKP focused on a re-allocation struggle to favour a clientelistic regime instead of developing a long-term energy strategy<sup>25</sup>. PM Erdoğan's son was alleged to have benefitted as a disguised partner in several energy privatisation deals<sup>26</sup>.

### **Table 1**

#### **Electricity Distribution**

The vast majority of bids (16 of 20) was won by AKP connected firms (see Table 1)<sup>27</sup>. There is a clear bias towards firms that enjoy direct personal ties to leading AKP members (PCF-1). Kolin and Limak have individually and collectively won the most bids along with Cengiz Holding, all closely associated with PM Erdoğan. Another PCF-1 consortium, Elsan-Tümaş-Karaçay, secured one of the largest markets, the Gediz region.

Advocacy groups and professional associations have been campaigning for a more transparent system of transfer. However, their opinions were sidelined by the government and were rarely reported in the mainstream media. A special report by the Chamber of Electrical Engineers [CEE] (EMO, 2009) provides a detailed study of the irregularities in electricity privatisation bids in three regions. The analysis traces the partnership structures and sheds light on network relations among individuals linked to the governing party, the Prime Minister and Istanbul Municipality. The region of Göksu<sup>28</sup> (see Table 1) was won by

AKEDAŞ in 1996 under the predecessor of AKP, the Refah Party coalition government, but the transfer did not take place due to legal challenges. The CEE study found that the company ownership structure changed to include partners linked to the government at the transfer stage. This firm remained on paper for 13 years and was re-granted the bid in 2008 under a new structure as a partnership of Arsan-İşkur-Kipaş. In one report the major owners were said to come from the textile industry, one being Kipaş textile (with 27.5% share)<sup>29</sup>. AKEDAŞ is now listed as a subsidiary of Kipaş Holding<sup>30</sup>. In the region of Menderes (see Table 1) the winning bid changed its partnership structure without EPDK having performed due diligence. The new partners were reportedly affiliated with a business group that owns a pro-government TV channel and was linked to a charity fraud case shelved by the government<sup>31</sup>.

In the third region, Meram<sup>32</sup>, the winning bidder, Alarko, went into partnership with the third bidder, Cengiz Holding, after it won the tender alone. This partnership is purported to be linked to the influence of the AKP ties of Cengiz Holding. The company had already won other large public tenders such as Eti Aluminium (see Table 3)<sup>33</sup>. Controversy over Eti Aluminium's privatisation in 2005 points out corrupt deals between the firm and the leading AKP ministers and the Prime Minister<sup>34</sup>. Another professional organisation, the Chamber of Metallurgical Engineers [CME], challenged the privatisation decision of Eti Aluminium with the claim that the process was unconstitutional and included irregularities. Although the chamber won the case, the AKP government did not enforce the court decision and the handover of Eti Aluminium to Cengiz Holding went ahead.<sup>35</sup> In October 2013 the Supreme Court upheld the earlier decision and found PM Erdoğan and several leading members of his cabinet guilty of not complying with the judicial decisions and issued legal damage fines against the Prime Minister and seven ministers involved in the case. In the meantime, Cengiz Holding expanded its group

interests in energy by winning other public tenders and signed a credit line of 50 million USD with the European Bank for Reconstruction and Development (EBRD) for a modernisation project worth 232 million USD (see Table 3)<sup>36</sup>.

Aside from these overt cases of political interference, there are covert ones. Controversy around rapidly growing business groups, which benefitted from AKP favouritism in privatisation are at least reported, albeit in limited scope (see Table 3). However, many SMEs involved in tenders remain disguised. The use of different company names and complex partnerships conceal the real ownership structures. Our survey shows highly opaque relations among firms in dissimilar industries. These findings support the claims made by the CEE and CME reports and others. There is miniscule information about bidders' business activities, their shareholders and governing boards. For example, public information on the rapidly growing Kipaş Holding is very limited. The firm's webpage is similarly vague with only a three-member managing board disclosed. Its partner business, Ideal Medya, has been subsumed under another media firm in their bidding documentation. The company website has no reference to energy, but rather to knowledge, health and education. Its governing board is unidentified. AKP controlled local governments and some official sites are listed as clients<sup>37</sup>.

### **Gas Distribution**

The first major cycle of gas privatisations were completed between 2003 and 2007 and politically connected firms seem to have taken control of networks serving 76 per cent of the population in 15 out of 19 metropolitan centres. Throughout this first stage, consumer prices, connection fees and minimum bids have been the key negotiation points between the Privatisation Agency and bidders. Table 2 illustrates these and the major distribution networks for 66 cities. AKP connected firms won the natural gas distribution

bids of 15 out of 19 large, 13 out of 18 medium and 18 out of 29 small cities.

## **Table 2**

By 2013, the privatisation of the gas distribution network was concluded in all 19 major regions, except for the Istanbul region. Politically connected firms won fifteen of these bids. Among them, Kazancı Holding appears to have gained a dominant position as it won 7 large, 8 medium and 10 small town bids (see Table 2). However, the company is accused of manipulating the process through unlawful acts. First, it used two different legal names (Aksa and Anadolu) in order to disguise its multiple bids from the Competition Authority. The minor firm, Anadolu, transferred its business to Aksa after winning the bids<sup>38</sup>. However, the Competition Authority cleared the company from any wrongdoing as it did not see any act damaging the clause for market competition. Second, in 2005, the prosecutors opened a case accusing Kazancı Holding, two intermediary firms and several high ranked officials of bribery and corruption in privatisation tenders. The case progressed slowly and finally in 2012, the defendants were found guilty of establishing mafia-style relations to coerce officials and manipulate tender decisions. Most notably, many leading figures including the CEO of Kazancı Holding, were given prison sentences of 3-4 years<sup>39</sup>. With the routine interference into the judiciary by the government, the verdict has not been enforced<sup>40</sup>.

The privatisation tenders for natural gas distribution of major cities have significant economic and geo-political implications for the energy sector. Any disruption in the relations with these key suppliers will have enormous impact on gas imports, market prices and the viability of domestic firms<sup>41</sup>. Having only feeble alternative energy sources makes Turkey highly vulnerable to a future energy crunch. Major firms that have personal



connections to the PM and the cabinet ministers attempt to transform themselves into leading agents in energy politics. The AKP's electoral success is dependent on its ability to expand business opportunities and secure Turkey's growing energy needs. Thus, the interests of the actors are mutually enhancing as politically connected firms are pursuing new geo-political roles. Kazanci Holding is a case in point. Despite fraudulent practices, the firm reportedly courted the government to win the Istanbul distribution network (see Table 3). They campaigned to develop new pipeline routes and business ventures with Northern Iraq, Azerbaijan, and Turkmenistan<sup>42</sup>. Similarly, Cengiz Holding sought deals with Rosneft and Gazprom with the support of the government. These practices distort the new market provisions with uncompetitive behaviour and opaque political deals. These politically connected firms emerged also as key supporters of authoritarian policies through their donations to AKP initiatives and contrived capital pools<sup>43</sup>.

Capital consolidation in energy markets is taking place through three forms of beneficiary firms. The large ones, such as Kazanci, Cengiz and Çalık Holdings won multiple bids and are involved in strategic international deals (see Table 3). These are personally connected to the PM and leading AKP members. The second group of firms originate from SMEs in regional markets with often small amounts of capital and no energy sector know-how but they have the access to political connections through business networks. Small firms subsumed in the bids as local players become part of a process of herding (Banerjee, 1992). Firms mimic the patterns of success in the allocation of bids by emulating or getting involved with connected firms. Outcomes of bids in different phases take a long time, but these give a signal to other potential bidders about the direction of decisions. A third category, those firms that did not seek party connections previously or were not in support of Islamic politics, herded to get fringe benefits, typically through subcontracting and service delivery. Those without personal connections resorted to

joining fraternity groups, obtained membership in MÜSIAD or TUSKON and developed new patronage ties with local party officials. The massive capital base needed for the TÜPRAS privatisation (over 4 billion USD—one third of total electricity privatisation revenue) was beyond the means of members of MÜSIAD and TUSKON, mainly SMEs, in the early 2000s.

### **Table 3**

## **6. Conclusion**

Turkey's energy utility privatisation experience has been part and parcel of rising political Islam and its evolving relationship with neo-liberal economic policies. As we have shown, moral customisations of economic rationale made significant political and institutional transformations possible (preposition 1). Religious references have been frequently used to gain moral high ground and to cover up corrupt business deals<sup>44</sup>. While appealing to popular conservative values, the AKP promoted an antagonistic relationship between secular (morally dubious) capitalists versus hard working Muslim (moral) entrepreneurs. This polarisation helped to justify its manipulation of markets and privatisation assets<sup>45</sup>. References to AKP's pious Muslim leadership and their benevolence have also been aggressively used to discredit corruption allegations that erupted in December 2013. Meanwhile, AKP's governance in markets has increasingly moved towards authoritarian populism. Energy privatisations did not attract significant FDI, failed to lead to a substantial increase in R&D and had weak competition provisions. The issues of scale and consolidation as well as lack of a national interest definition remain problematic for even publicly owned companies.

Privatisations offered opportunities for new allocation mechanisms in favour of

politically connected firms (preposition 2). The AKP allocated privatised assets to a new breed of national champions and small regional players. The majority of winners in the privatisation bids enjoyed two forms of political connections: i) the leading firms displayed personal ties to the PM and key party officials, ii) secondary but minor regional players are members of pro-government groups. In a strategic industry, many winning firms are new to the sector and might find securing political support beneficial. However, favouritism and personal loyalties rose above the objectives of efficiency and competitiveness. Politically connected firms generally are less efficient and they are not better operators than state enterprises. They are likely to bring future economic and welfare costs to energy markets and the broader literature shows that PCFs have dubious performance outcomes (Fan, et al., 2007; Boubakri, Cosset and Saffar, 2008; Authors).

Deepening business-politics ties radically changed political institutions, industry structures and development prospects (preposition 3). In order to build a patronage regime in energy markets, the AKP manipulated regulatory institutions, suppressed the media and advocacy groups, and immobilised the judicial process against allegations of misconduct. Highly personalised and opaque allocation of assets increased the power of business groups that enjoyed close ties with the PM and key party officials. Even the highest court decisions on corruption allegations have not been enforced. The most critical business implication of this is the legitimacy problem that the winning firms will face in the long run. Patronage links to party leaders can be a liability when these powerful political allies leave office or turn against them<sup>46</sup>. Therefore, these PCFs will work hard to keep their protectors in office through their rents and financial support to authoritarian institutions.

The collusion between politicians and business interests damages political institutions and the regulatory framework. AKP's moral call in markets lacks a coherent political philosophy. The AKP neither put forward an alternative economic programme nor

worked hard to develop a long-term developmentalist agenda. Thus, policy inconsistencies, widespread corruption and ambivalence make Islamic politics unpredictable without an enduring developmental ideology<sup>47</sup>. Within the last two decades, neo-liberalism and political Islam exhausted establishment institutions. However, the future of political Islam remains handicapped by authoritarian instincts and moral conundrums<sup>48</sup>. This is bad news for those who hoped to see economic modernisation through moderate and west-friendly Islamic politics in Turkey as a role model for others (Tepe, 2005; Tepe and Demirkaya, 2011; Tuğal, 2009; 2012).

International evidence of energy privatisations provides a pessimistic picture as well. Privatisations have not been a long-term cure or a credible alternative for poor management under state ownership with detrimental consequences for local economies and disadvantaged groups (Zhang et al., 2008; Hefetz et al., 2012; Groves et al. 2013). Energy privatisations in Latin America brought about a range of disappointments. Evidence points out that neither competition nor economic growth objectives were achieved (see Macleod, 2004 on Mexico; Blind, 2009 on Argentina). Privatisation was supposed to unlock global private capital flows into developing country infrastructures. These flows remained a small fraction of public investment. Contrary to the calls for sound regulation, institutional reforms and financial support, energy privatisations did not prevent bid owners' tendency to seek short-term rents at the expense of long-term productivity (Bacon and Beson-Jones, 2001). Good financial returns and efficient performance post privatisation has only been a short-term gain (see the cross-country study of Andres, Foster and Guasch, 2006). Nagayama's (2007) findings on 83 countries suggest that neither unbundling nor the introduction of a wholesale pool market on their own necessarily reduces the electric power price. Contrary to expectations, there is a tendency for the price to rise.

Meggison and Netter (2001) ask if privatisation can play a role in equipping

companies and countries to meet the challenges posed by major economic forces such as globalisation and new technologies. In addition to political interference and poor regulatory systems, there is no conclusive evidence to suggest that unbundling energy utilities creates the capacity to face global competition, attract FDI and provide better value for money for customers. On the contrary, there is evidence around the world that badly designed and implemented systems of deregulation and privatisation could produce outcomes worse than those of public monopoly (Sirasontorn and Quiggin, 2007; Hefez et al., 2012; Groves et al., 2013).

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1 The original Washington Consensus, developed by John Williamson in 1989, aimed to cure endemic financial and economic crises in developing countries, especially in Latin America, and played a critical role in their market liberalisation. The Consensus envisaged a set of policy remedies, which were widely implemented as conditional lending policy templates by the IMF and the World Bank: 1-fiscal discipline, 2-re-orientation of public expenditures, 3-tax reform, 4-financial liberalisation, 5-unified and competitive exchange rates, 6-trade liberalisation, 7-openness to FDI, 8-privatisation, 9-deregulation, 10-secure property rights (see Rodrik 2006 for a critique).

2 Larner (2000) pointed out that neo-liberalism can be understood in three conceptual spheres: ideology, policy framework and governmentality. Neo-liberalism does not rest on a unified political ideology. Indeed, we argue that despite the IMF and World Bank templates, the fluidity of the concept makes it attractive to multiple and often contradictory adaptations of new market making processes.

3 This relationship is likely to deepen further since PM Erdoğan was elected President for a 7-year term in August 2014.

4 In addition to promoting the idea of abolishing the Federal Reserve, sealing the US borders, and ending investment in infrastructure, Tea Party grass roots favour tight controls on immigration. The latter can deprive the US agricultural industry of a major source of cheap labour. This stance caused a rift between the Tea Party and their supporter, the US Chamber of Commerce (see Formisano, p.76).

5 Choi and Thum (2009: 608) suggested that, “a regime may face a critical-mass problem in setting up a system of politically-connected firms.” They pointed out that clientelism emerges under specific institutional parameters such as: a) the regime has to have sufficient exploitative power to make it less attractive for entrepreneurs to run their firms independently from the political sphere; b) the stability of the regime has to be sufficiently low so that it is forced to share its rents with political allies.

6 The IMF disbursed by far the largest stand-by loan, 12.821 billion USD, to support the regulatory and banking reforms. Given the scale of the need for financial assistance after February 2001, Turkey was more dependent on the support of the IMF and the World Bank than before, revealing the dismal outcome of two decades of liberalisation (Öniş, 2011).

7 Turkey’s Islamist political movements have long been in ideological conflict with modern

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secularism and a Eurocentric worldview (Gülalp, 1999; Tuğal 2009). Their political message was influenced by the teachings of 19<sup>th</sup> century Islamic thinkers who sought to shape an autonomous cultural and economic domain for Muslims in a post-colonial world (Kuran, 1997; Mura, 2014).

8 Several Islamic parties before the Justice and Development Party (AKP) faced closure or judicial bans due to their anti-establishment religious bias by secular state institutions and the judiciary. Nevertheless, Turkish politics accommodated and frequently promoted Islam against the spread of communism during the cold war. The both Prime Minister Erdoğan and President Abdullah Gül were members of the Refah Party, as a former party member and the deputy leader, respectively, until it was dissolved. A chronology of Islamist political parties includes the following key developments: The first Islamist party, the National Order Party (Milli Nizam Partisi-MNP) was established in 1970. The Constitutional Court closed down MNP in 1971. Promoting a state order based on religion was against the secular republican ideals and the Constitutional Court also closed down a handful of its successors. The National Salvation Party (Milli Selamet): 1972-1980. The Welfare Party (Refah Party-RP) in 1983-1998; The Virtue Party (Fazilet Partisi) 1997-2001. All these parties were either led or initiated by Necmettin Erbakan (1926-2011) who headed Felicity Party (Saadet Partisi-SP) when young cadres broke away to form AKP in 2001.

9 This relative prosperity and policy independence is similar to the experience of other emerging economies (Babb, 2013).

10 Growing political pressures unleashed unprecedented protests against the autocracy of PM Erdoğan in May-June 2013 across the country. Uniting around those groups who opposed the construction of a shopping mall in Istanbul's Gezi Park, thousands marched in major cities to express their discontent with AKP rule and its infringements on personal liberties. The government's heavy-handed use of the police force led to a dozen of deaths and injured more than seven thousand protestors. Months later, on 17 and 25 December of 2013, strings of high level corruption allegations, evidenced with secretly typed recordings, emerged in the internet showing how AKP's top officials and their relatives, including the PM Erdoğan and his son, have been involved in corrupt deals and money laundering. PM Erdoğan accused the Gülen Movement of orchestrating these recordings and judicial procedures (see reporting at Financial Times, by Daniel Dombey, March 18, 2014). In response, the AKP government led extensive purges in the judiciary and the police force to cover up, and subsequently cleaned all involved and closed the dossiers on 1 September 2014 (See also the reporting by Letsch, 2013; Aras, 2013). The Gülen Movement had long been a partner with Erdoğan's government in their power struggle against the military and secular establishment. However, this cooperation turned into a fierce competition and enmity in recent years. The Movement is accused of infiltrating into the police, judiciary and other state organs and pursuing an agenda of their own under orders from their spiritual leader, Fetullah Gülen, who leads a reclusive life in Pennsylvania, USA.

11 While MÜSİAD emerged as a new pro-AKP business group with representative offices in 48 countries (with 3,300 members), several business federations united to form TUSKON (with 45,000 members) in 2005. TUSKON's base is dispersed among SMEs in Anatolian cities with links to the Gülen Movement.

12 An important example is the former president of MÜSİAD, Ömer Bolat, who became a member of the governing board of the AKP.

13 Kuran (1997) provides a critique of Islamic economics and shows that the roots of intellectual development on Islamic economics goes back to the cultural concerns of Muslim

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identity in India before the partition of Pakistan led by Indian Muslim thinker, Sayyid Abu'l-Al'la Mawdudi (1903–79). Mohammad Iqbal (1876–1938), Indian poet and philosopher, first played with the idea of Islamic economics as part of his search for Islamic reassertion. The Egyptian poet, and a leading member of the Islamic Brotherhood, Sayyid Qutb (1906-1966) has been one of the most prominent political thinkers on Islamic revival in the Muslim world and highly influential in Turkey. In his book, *Milestones*, Qutb presented a fundamental counter-hegemonic political theology along with political questions of power, sovereignty, the worldly as well as the spiritual (see Mura, 2014).

14 A recent study carried out by several leading Islamic employers' associations, including TUSKON and MÜSİAD, asserts that pious and conservative entrepreneurs have increased their market power in the Turkish economy. Naturally, the study illustrates a widespread support for the idea that Islam and capitalism can accommodate one another while there exists a confused position on whether Islam offers an alternative economic perspective. Despite an overwhelming support for Islamic ethics, however, the share of four financial institutions that operate on principals of Islamic banking, is only 4.3% of total active funds in Turkish banking. Surveyed entrepreneurs claimed that in order to remain competitive they had to opt out of the risk sharing and partnership principals of Islamic banking (PESA, 2013; p.31, 32)

15 The main non-Sunni Muslim minority in Turkey are the Alevis, who constitute at least 15% of the population. In the period between 1983 and 1997, the numbers of Imam Hatip high schools almost doubled to 604 while student enrolment reached half a million (Pak, 2004). Many AKP politicians, including PM Erdoğan, graduated from these high schools and promoted them when in power. The graduates of these schools often became professionals in public institutions rather than being preachers at mosques.

16 This conservatism signals a reverse trend in women's freedoms in Turkey, where they gained the right to vote and participate in municipal (1930) and general elections (1934) much earlier than many other nations. In addition to pursuing hostile policies toward caesarean births and abortion, PM Erdoğan has been promoting the idea that women should give birth to at least three children to avoid an aging population. The recent comment by the deputy Prime Minister, Bülent Arinc, one of the co-founders of AKP is illustrative and created a huge uproar among Turkish women. He lamented the moral decline of modern society: "A man should be moral but women should be moral as well, they should know what is decent and what is not decent...[sic.] She should not laugh loudly in front of all the world and should preserve her decency at all times," See, The Guardian report: <http://www.theguardian.com/world/2014/jul/29/turkish-minister-women-laugh-loud-bulent-arinc#start-of-comments> (accessed on 6 September 2014)

17 We used a broad range of media as well as specialist publications through online searches for key words, expressions and cross-referencing. In addition to national newspapers such as *Milliyet*, *Hürriyet* and *Radikal*, we studied *Dünya*, a finance newspaper. Local newspapers reviewed include: *Konya Haber*, *Kayseri Gündem*, *Düzce Postasi*, *Gaziantep27.net*, *Haber Antalya*, *Antakya Gazetesi*, *Denizli Haber*, *Ordu Olay*, *Gazete55.net*, and *Yeni Adana*.

18 The International Congress on Energy and Politics (EPOL) took place in Antalya with the participation of industry members, academics and civil servants from EPDK in 2013.

19 See a report by PWC, [http://www.pwc.com.tr/tr\\_TR/tr/publications/industrial/energy/assets/EnergyDeals2011\\_v12-n.pdf](http://www.pwc.com.tr/tr_TR/tr/publications/industrial/energy/assets/EnergyDeals2011_v12-n.pdf) (accessed on 20 October 2012).

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20 These include: Kolin-Limak-Cengiz, Elsan-Tümaş-Karaçay and Arsan-İşkur-Kipaş

21 See reporting on Aksa and Fernas:

<http://www.radikal.com.tr/Radikal.aspx?aType=RadikalDetayV3&ArticleID=1094346&CategoryID=77> (accessed on 20 October 2012).

22 See for example: <http://enerjienstitusu.com/2012/07/13/ozellestirme-idaresinden-yalanlama/>

<http://www.radikal.com.tr/Radikal.aspx?aType=RadikalDetayV3&ArticleID=1089752&CategoryID=80> (accessed on 20 October 2012).

23 [http://www.emo.org.tr/ekler/f0917ea498b1665\\_ek.pdf?dergi=6](http://www.emo.org.tr/ekler/f0917ea498b1665_ek.pdf?dergi=6) (accessed on 20 October 2012).

24 Before being appointed to the board of EPDK in May 2012, Ahmet Çiçek also served on the management board of TEKEL.

[http://haber.gazetevatan.com/Bakan\\_Cicekin\\_oglu\\_ismini\\_dun\\_sildiridi/285213/4/Gundem;](http://haber.gazetevatan.com/Bakan_Cicekin_oglu_ismini_dun_sildiridi/285213/4/Gundem;)

<http://haber.sol.org.tr/devlet-ve-siyaset/epdkya-cemil-cicekin-oglu-atandi-haberi-55439> (accessed on 20 October 2012).

25 Interview with the former manager of Turkish Petroleum and coordinator of the Centre for Eurasian Strategic Studies, Necdet Pamir, at the EPOL Conference, April 2013.

26 Yavuz Baydar, a respected journalist, addressed these allegations: <http://yavuzbaydar.wordpress.com/2014/03/07/energy-tenders-allegedly-scraped-for-bosphorus-360-a-company-linked-to-his-son/> (accessed on 23 March 2014).

27 The electricity distribution grid is divided into 20 regions plus the province of Kayseri, which was privatized in 1990.

28 Adıyaman and Kahraman Maraş provinces.

29 See: <http://www.kanal46.com/haber/akedasa-devirde-islemler-tamamen-bitti/37606>

30 See: <http://www.kipas.com.tr/tr/kurumsal/yonetim-kurulu.html> (accessed on 30 Oct 2013).

31 The owner of Kanal 7, Aykut Zahid Akman, was found guilty of fraud in Germany and the whereabouts of 41 million Euros collected remains a mystery. <http://www.milliyet.com.tr/default.aspx?aType=YazarDetay&ArticleID=992577;>

<http://www.cnnturk.com/2013/turkiye/01/23/deniz.feneri.davasinda.ceza.pazarligi.iddias/693612.0/> (accessed on 30 Oct 2013).

32 The Meram region includes Konya, Karaman, Ereğli, Niğde, Aksaray, Nevşehir, Kırşehir and Akşehir.

33 Cengiz Holding took over the Oymapınar Dam and won several key mining and metallurgy tenders in copper and aluminium (Eti Alüminyum, Eti Bakır and Karadeniz Bakır İşletmeleri).

34 Eti Alüminyum, established in 1962, is Turkey's sole liquid aluminium manufacturer and one of the world's few integrated aluminium facilities capable of manufacturing from ore to end product.

35 [http://www.metalurji.org.tr/index.php?option=com\\_content&view=category&id=34:haberler&layout=blog&Itemid=58](http://www.metalurji.org.tr/index.php?option=com_content&view=category&id=34:haberler&layout=blog&Itemid=58) (accessed on 18 November 2013).

36 See:



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[http://www.ebrd.com/pages/project/psd/2013/local\\_translations/44174.pdf](http://www.ebrd.com/pages/project/psd/2013/local_translations/44174.pdf) (accessed 18 November 2013).

37 <http://www.idealmedya.com.tr/referanslarimiz.html> (accessed on 30 October 2013).

38 <http://www.rekabet.gov.tr/File/?path=ROOT%2fDocuments%2fGerek%25c3%25a7eli%2bKurul%2bKarar%25c4%25b1%2fkarar3379.pdf> (Accessed on 21 November 2013).

39 [http://www.radikal.com.tr/turkiye/enerji\\_devi\\_aksanin\\_patronuna\\_hapis\\_soku-1094346#](http://www.radikal.com.tr/turkiye/enerji_devi_aksanin_patronuna_hapis_soku-1094346#) (accessed on 21 November 2013).

40 The 2014 annual speech by the President of the Turkish Bar Association, Mr Turhan Feyzioğlu, addressing the subjects of political interference, disregard of the judiciary and the rule of law, prompted PM Erdoğan to protest; he yelled and stormed out of the conference hall taking with him President Gül and the Chief of Army. The rift between the judiciary and the AKP reached an all time high when none of the government representatives, PM or the President attended the annual ceremony held by the High Court of Turkey to mark the start of the legal year on 1 September 2014.

41 [http://www.kas.de/wf/doc/kas\\_13056-544-2-30.pdf](http://www.kas.de/wf/doc/kas_13056-544-2-30.pdf) (accessed on 21 November 2013).

42 <http://enerjienstitusu.com/2013/03/15/kazanci-holding-tanap-ve-irak-dogalgazi-icin-temasta/> (accessed 21 November 2013).

43 See Srivastava and Harvey (2014) and Dombey (2014). There are numerous examples on how PCF comply with PM Erdoğan's directives, especially in mega projects and infrastructure investments. An illustrative case is the way in which businesses were coerced to generate a pro-AKP press by creating an informal cash pool. A seasoned journalist, Can Dunder, in a 5 part series in Cumhuriyet Daily, investigated these close ties. ([http://www.cumhuriyet.com.tr/haber/turkiye/103021/Havuzda\\_paralar\\_boyle\\_depolandi.html](http://www.cumhuriyet.com.tr/haber/turkiye/103021/Havuzda_paralar_boyle_depolandi.html)). Based on leaked voice recordings, Dunder illustrates how PM Erdoğan forced several businessmen, among them Cengiz Holding and Kolin, to invest cash funds for the takeover bid of Sabah-ATV, a major newspaper and TV group. The businessmen talk desperately about the pressures they faced. We also listened to these recordings before the government shut down the internet sites and introduced bans on Twitter and YouTube. The 7 August 2014 article of Dunder is especially illustrative:

[http://www.cumhuriyet.com.tr/haber/turkiye/103021/Havuzda\\_paralar\\_boyle\\_depolandi.html](http://www.cumhuriyet.com.tr/haber/turkiye/103021/Havuzda_paralar_boyle_depolandi.html)

Another example demonstrates the extent to which pro-AKP religious education is spread by the support of businessmen. The TÜRGEV, a growing religious educational charity and school network, led by PM Erdoğan's son, Bilal, has been receiving land and money donations from businessmen. For example, the police investigations report that a leading construction mogul, Ali Ağaoğlu, donated 50,000 sqm land to TÜRGEV, reportedly to secure the help of Bilal Erdoğan in his construction licenses and land acquisition in Istanbul. (See Can Dunder's analysis at Cumhuriyet:

[http://www.cumhuriyet.com.tr/haber/turkiye/102567/\\_Tak\\_tak\\_cuvalla\\_gelir\\_insallah\\_.html](http://www.cumhuriyet.com.tr/haber/turkiye/102567/_Tak_tak_cuvalla_gelir_insallah_.html)

(accessed on 2 September 2014)

44 One such striking example is the manager of Halk Bank who was caught with 4.5 million USD cash stored in shoeboxes at his home during the 17 December 2013 corruption inquiries. He tried to clean his name by claiming that the money was going to be donated to build Islamic preacher schools.

[http://www.radikal.com.tr/turkiye/halkbank\\_genel\\_muduru\\_ayakkabi\\_kutulari\\_imam\\_hatip\\_i\\_cindi-1167347](http://www.radikal.com.tr/turkiye/halkbank_genel_muduru_ayakkabi_kutulari_imam_hatip_i_cindi-1167347) (accessed 1 September 2014). Another widespread belief is that PM and his son accumulated unaccounted financial power to help Islamic causes.

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45 In response to the widespread corruption allegations, the pro-AKP press spread the view that traitors and foreign enemies fabricated the evidence against good Muslims. Morality based arguments won the party electoral support in March 2014 local elections and the presidential referendum in August 2014.

46 A case in point is how the formerly favoured business groups and schools of the Gülen Movement began facing ruthless purges by the AKP.

47 The government favours eclectic development policies, often dictated by PM Erdoğan, resting predominantly on extensive construction projects, mega infrastructure investments (mostly in Istanbul) and state procurement schemes.

48 Even some of Turkey's Islamist thinkers, such as Ali Bulaç, are deeply concerned about this authoritarian power consolidation, corruption and the capture of the state and the market by a party that promotes its own version of Islamisation. Writing in the Gülen Movement linked newspaper, Zaman, Bulaç argued that employing religion in politics for narrow interests not only damages the state but also Islam. [http://www.zaman.com.tr/ali-bulac/din-siyasete-karisirsa\\_2220066.html](http://www.zaman.com.tr/ali-bulac/din-siyasete-karisirsa_2220066.html) (accessed on 2 September 2014)

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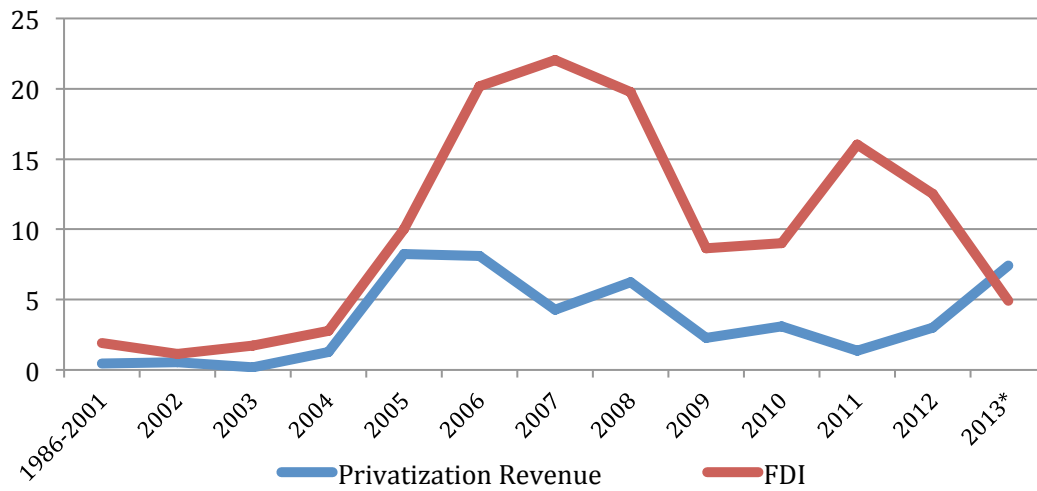
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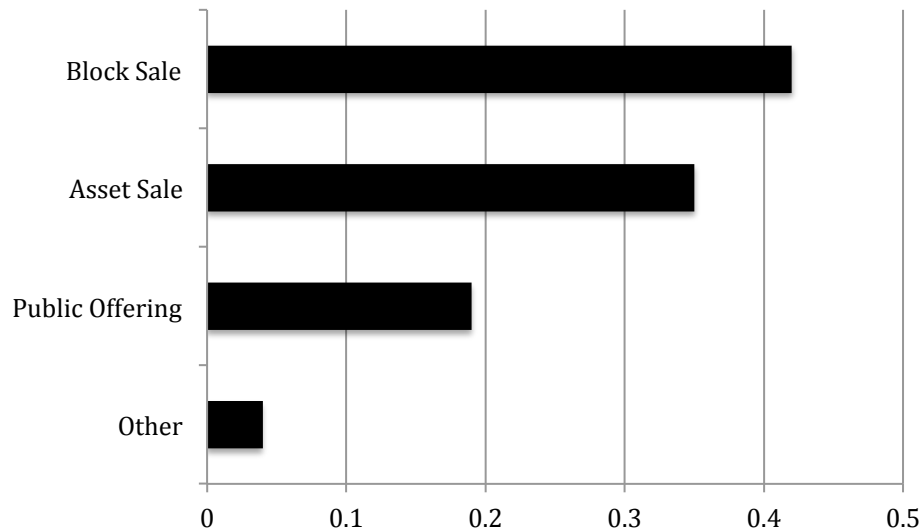
**Figure 1. Foreign direct investment and privatization revenues (billion \$)**



Source: Privatization Administration and Turkish Treasury, 2013

\*By the end of June

**Figure 2. The distribution of the type of privatization sales <sup>a</sup>**



Source: Privatization Administration, 2013

a: The figure shows the share of the value of each methods applied between 1985 and 2013. The category of “Other” includes privatization via capital markets and other transfers. The value of electricity distribution privatization accounts for %22 of total privatization revenues collected between 1986 and 2013. All electricity distribution bids have been carried out in the asset sale method.