

**TURKISH-BRITISH ECONOMIC RELATIONS 2002-2012: AN INTENSELY  
POLITICAL RELATIONSHIP**

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## **ABSTRACT**

### **TURKISH-BRITISH ECONOMIC RELATIONS 2002-2012: AN INTENSELY POLITICAL RELATIONSHIP**

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Over the last ten years Britain and Turkey have sustained an unusually harmonious economic relationship. However, this has not been the outcome of undirected free markets and the effective exploitation of comparative advantage. Instead, it has come about as the result of a series of political compromises. This analysis looks at how the relationship has evolved on a variety of political levels: through international organisations, state-to-state diplomacy, the direct state sponsorship of British business in Turkey and the varied political relations of British multinationals inside Turkey. At each level, activist British governments have used political methods to promote British business, even sometimes at the expense of their reputation or other strategic interests. Complementing this is a structural power imbalance between the two countries, which has helped open up Turkey's markets to British capital.

**Keywords:** Britain, Turkey, Commercial Relations, Foreign Direct Investment, BAE Systems, Tesco, Vodafone, British American Tobacco, HSBC.

## ÖZ

### TÜRK-İNGİLİZ EKONOMİK İLİŞKİLERİ 2002-2012: YOĞUN DERECEDE SİYASİ BİR İLİŞKİ

ANGLISS, JOHN

Uluslararası İlişkiler Bölümü

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Son on yıldır, İngiltere ile Türkiye arasında son derece uyumlu iktisadi ilişkiler sürmektedir. Ancak, bu durum kontrolsüz serbest pazarlar ve karşılaştırmalı üstünlüğün etkili bir kullanımı sonucu olarak değil; bir takım siyasi uzlaşmalardan dolayı ortaya çıkmıştır. Bu tez, uluslararası örgütler, devletlerarası diplomatik ilişkiler, Türkiye'deki İngiliz şirketlere doğrudan devlet desteği, Türkiye'deki İngiliz uyruklu çok uluslu şirketlerin farklı siyasal ilişkileri gibi konulara bakarak bu ilişkinin nasıl geliştiğini incelemektedir. Her seferinde, İngiliz etkin hükümetleri, İngiliz ticaretini desteklemek için, bazen kendi itibarlarını ya da diğer stratejik çıkarlarını tehlikeye atmak pahasına da olsa, siyasi metotlar uygulamışlardır. Aynı zamanda, iki ülke arasında yapısal güç dengesizliği olduğundan, Türkiye'nin pazarları İngiliz sermayesine açılmıştır.

**Anahtar Kelimeler:** İngiltere, Türkiye, Ticari İlişkiler, Doğrudan Yabancı Yatırımlar, BAE Systems, Tesco, Vodafone, British American Tobacco, HSBC.

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## LIST OF ABBREVIATIONS

AÇEV	Mother-Child Education Foundation
ADSL	Asymmetric Digital Subscriber Line
AKP	Justice and Development Party
ALEC	American Legislative Exchange Council
AYDER	Alternative Life Association
BCCT	British Chamber of Commerce of Turkey
BAE	BAE Systems Plc.
BAT	British American Tobacco
BICOM	British Israel Communications and Research Centre
BP	British Petroleum
BTC	Baku-Tbilisi-Ceyhan Oil Pipeline
BTK	Information Technology Institute
CENTO	Central Treaty Organization
CBE	Commander of the Most Excellent Order of the British Empire
CBI	Confederation of British Industry
CEO	Chief Executive Officer
CHP	Republican People's Party
CIA	Central Intelligence Agency
DEA	Drug Enforcement Administration
DESO	Defense Export Services Organisation
DHKP/C	Revolutionary People's Liberation Party/Front
DSO	Defense and Security Organisation
EADS	European Aeronautic Defence and Space Company N.V.
EDM	Early Day Motion

EPDK	Energy Market Regulation Authority
EU	European Union
FBI	Federal Bureau of Investigation
FCM	Fleming Family & Partners Capital Management
FDI	Foreign Direct Investment
FNSS	FNSS Defence Systems A.Ş.
G3	G3 Good Governance Group Limited
G7/G8/G20	Group of 7/ Group of 8/ Group of 20
GDP	Gross Domestic Product
HSBC	(pre 2001) Hong Kong and Shanghai Banking Corporation (post 2001) HSBC Holdings plc.
IBRD	International Bank for Reconstruction and Development
IFC	International Finance Corporation
IMF	International Monetary Fund
IP	Internet Protocol
IRG	Iraq Research Group
JETCO	Joint Economic and Trade Committee
JTI	Japan Tobacco International
KRO	Kurdish Reconstruction Organization
LIC	Lower Income Country
LSE	London Stock Exchange
MI5/MI6	Military Intelligence, Section 5/Military Intelligence, Section 6.
MIC	Middle Income Country
MIGA	Multilateral Investment Guarantee Agency
MOD	Ministry of Defence
MP	Member of Parliament

NATO	North Atlantic Treaty Organization
ODTÜ	Middle East Technical University
OECD	Organisation for Economic Co-operation and Development
OEEC	Organisation for European Economic Co-operation
SIPRI	Stockholm International Peace Research Institute
TBBC	Turkish British Business Council
TBCCI	Turkish-British Chamber of Commerce and Industry
TCKB	Development Ministry of the Turkish Republic
TEPAV	Economic Policy Research Foundation of Turkey
TIV	Trend Indicator Values
TK	Telecommunications Authority
TMSF	Savings Deposit Insurance Fund
TOBB	Turkish Union of Chambers of Commerce and Commodity Exchanges
TOFAŞ	Turkish Automobile Factory A.Ş.
TRT	Turkish Radio and Television
TTED	Telecoms Technical Employees Association
TUSKON	Confederation of Turkish Businessmen and Industrialists
TÜPRAŞ	Turkey Petrol Refineries A.Ş.
TÜSİAD	Turkish Industry and Business Association
UAE	United Arab Emirates
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Program
UK	United Kingdom of Great Britain and Northern Ireland
UKTI	United Kingdom Trade and Industry
US	United States of America
WTO	World Trade Organization

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## CHAPTER ONE

### INTRODUCTION

#### 1.1 Introduction

In 2002, there were only around 5,000 foreign companies operating in Turkey, of which around 300 were British<sup>1</sup>. Today, by contrast, there are 31,000 foreign companies, of which over 2,000 are British<sup>2</sup>. Four of the main economy-wide changes contributing to this have been the implementation of laws and policies designed to attract more foreign direct investment (FDI)<sup>3</sup>, an increase in the pace and scale of privatisation, the advent of political stability<sup>4</sup> and the end of high levels of inflation.<sup>5</sup> Even otherwise critical outsiders have generally judged the economic aspect of the Justice and Development Party (AKP)'s first decade in power a story of the success of its free market ideology. An American magazine reflected the status quo earlier this year when it talked of the success of Turkey's "free market, pro-business reforms" even as it castigated its "authoritarian Prime Minister"<sup>6</sup>, whilst another opined in its editorial that, "Erdoğan's formula of delivering economic prosperity in a free market, where the military takes a back seat to elected officials and an Islamic-leaning government rules under a secular constitution, remains a

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<sup>1</sup> "Şimşek: İhracat Odaklı Daha Makul Büyüme Oranlarına Dönüyoruz", *Bloomberg*, <http://www.bloomberght.com/haberler/haber/1239601-simsek-ihracat-odakli-daha-makul-buyume-oranlarina-donuyoruz> [accessed 16.11.2012]. "British Investment in Turkey", *The Daily Mail*, 20.11.2003.

<sup>2</sup> "Şimşek: İhracat Odaklı Daha Makul Büyüme Oranlarına Dönüyoruz", *Bloomberg*; O'Hare, Sean, "UK Firms Look to Turkey for Growth", *The Daily Telegraph*, 28.09.2011.

<sup>3</sup> Including tax breaks and free government land for investors. "Investment in Turkey", *KPMG*, <http://www.kpmg.com/TR/en/IssuesAndInsights/ArticlesPublications/Documents/Investment-Turkey-2011.pdf> [accessed 16.11.2012]. pp. 11-16.

<sup>4</sup> One party has ruled Turkey from 2002 to 2012 as opposed to seven different prime ministers supported by different coalitions of parties at different times between 1992 and 2002.

<sup>5</sup> Seyidoğlu, Halil, "Uluslararası Mali Krizler, IMF Politikaları, Az Gelişmiş Ülkeler, Türkiye ve Dönüşüm Ekonomileri", *Doğuş Üniversitesi Dergisi*, 4: 2 (2003). pp. 146-148.

<sup>6</sup> Zirin, James D., "Erdoğan's Turkish Spring: Crosscurrents in the Bosphorus", *Forbes*, 06.04.2012.

potent one.”<sup>7</sup> But whilst Turkey has undergone significant market liberalisation in the last ten years, to call it “free market” or “laissez-faire” is mistaken, since the Turkish economy is still subject to continual political interventions of different kinds, both by Turkish and foreign political actors.

Over the last ten years Britain and Turkey have sustained an unusually harmonious economic relationship. However, this has not been the outcome of undirected free markets and the effective exploitation of comparative advantage. Instead, it has come about as the result of a series of political compromises. This analysis looks at how the relationship has evolved on a variety of political levels: through international organisations, state-to-state diplomacy, the direct state sponsorship of British business in Turkey and the varied political relations of British multinationals inside Turkey. At each level, activist British governments have used political methods to promote British business, even sometimes at the expense of their reputation or other strategic interests. Complementing this is a structural power imbalance between the two countries, which has helped open up Turkey’s markets to British capital.

In this atmosphere of rapid foreign policy change very little work has looked at the economic dimension of Turkey’s existing relationships. Much of the literature on the recent politics of Turkey’s international economic relations has overlapped with the priorities of AKP foreign policy makers, scrutinising the economic aspects of topics such as rapprochement with the Middle East or the economic dimension of the European Union (EU) accession process<sup>8</sup>. In light of the recent exponential

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<sup>7</sup> “Turkey’s Leaders Are Failing to Live Up to Their Own Model: View”, *Bloomberg*, <http://www.bloomberg.com/news/2012-02-24/turkey-s-leaders-are-failing-to-live-up-to-their-own-democracy-model-view.html> [accessed 14.11.2012]. The CIA World Factbook also states that “Turkey’s largely free-market economy is increasingly driven by its industry and service sectors.” “Turkey”, *CIA World Factbook*, [https://www.cia.gov/library/publications/the-world-factbook/geos/countrytemplate\\_tu.html](https://www.cia.gov/library/publications/the-world-factbook/geos/countrytemplate_tu.html) [accessed 14.11.2012].

<sup>8</sup> See Kanat, Kılıç Buğra, “AK Party’s Foreign Policy: Is Turkey Turning Away From the West?”, *Insight Turkey*, 12:1 (2010), pp. 205-225, Altınışık, Meliha Benli, “The Possibilities and Limitations of Turkey’s Soft Power in the Middle East”, *Insight Turkey*, 10:2 (2008), pp. 41-54, Öniş, Ziya and Şuhnaz Yılmaz, “Between Europeanization and Euro-Asianism: Foreign Policy Activism in Turkey during the AKP Era”, *Turkish Studies*, 10:1 (2009), pp. 7-24, Alessandri, Emiliano, “The New Turkish Foreign Policy and the Future of Turkey-EU Relations”, *Istituto Affari Internazionale Working Papers* No. 3 (2010) <http://www.iai.it/pdf/DocIAI/iai1003.pdf> [accessed 20.11.2012], and Habibi, Nader and Joshua Walker, “What is Driving Turkey’s Reengagement with the Arab World”, *Middle East Brief*, No. 49 (2011), <http://www.brandeis.edu/crown/publications/meb/meb49.html> [accessed 20.11.2012].

increase in foreign trade and investment in Turkey, however, foreign capital has become a more important force in Turkey than at any time since the beginning of the republic. A different, and too often overlooked, perspective on the countries' bilateral relations can be gained through examining the importance of British economic interests in Turkey to British foreign policy makers, as well as the ways in which other actors have reacted to those interests.

## 1.2 The Historical Context of British-Turkish Economic Relations

Although British merchants had been present in Constantinople for hundreds of years, often representing the crown and trading at the same time, the balance of bilateral trade was made up of Ottoman exports until the 1838 Treaty of Balta Limani<sup>9</sup>. This treaty came at a crucial moment of weakness for the Ottoman Empire; Mohamed Ali was threatening to declare Egypt and Syria independent and begin a civil war. It contained articles very favourable to British merchants, allowing them to trade unhindered throughout the empire, breaking up Ottoman commercial monopolies, allowed them to sell British goods with a minimal tariff and lead to the destruction of Turkish manufacturing, which was still in its early stages<sup>10</sup>. Prime Minister Palmerston in turn assisted the Ottomans with their military response, eventually defusing the threat and helping the Ottoman army regain Syria<sup>11</sup>. From the time of that treaty, the balance of trade and power began to shift so sharply in the favour of western powers that within a few decades the Ottoman economy was almost entirely in the hands of foreign capital<sup>12</sup>.

When the Turkish republic was founded in 1923, it seemed clear to many of Turkey's new leaders that economic dependency on Britain and other foreign powers ought to be limited as much as possible. Britain had been one of Turkey's enemies in

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<sup>9</sup> Pamuk, Şevket, *The Ottoman Empire and European Capitalism, 1820-1913*, (Cambridge: Cambridge University Press, 1987), pp.28-29.

<sup>10</sup> Schroeder, Paul W., *The Transformation of European Politics: 1763-1848*, (Oxford: Oxford University Press, 1996), pp.736.

<sup>11</sup> Ibid. pp.738-739.

<sup>12</sup> Kepenek, Yakup, *Development and Structure of the Turkish Economy*, (Ankara: METU Press, 2011), p.7.

World War One (WW1) and Turkey's War of Independence and had occupied Istanbul from 1920-1923<sup>13</sup>. Mustafa Kemal Atatürk, the first President of Turkey, was of the opinion that "National sovereignty must be strengthened with economic sovereignty... Military and political victories, however big they are, must be crowned with economic victory or else they are untenable and will not last long"<sup>14</sup>. In 1924, the issue of Mosul, an oil-rich Ottoman province claimed by Turkey but occupied by the British army, was decided by the League of Nations in Britain's favour<sup>15</sup>. By that time, Turkey had suffered badly in a decade of war, and under the terms of the Lausanne Treaty, the Turkish Republic had taken on the Ottoman Empire's debts to western countries<sup>16</sup>. At the Izmir Economic Congress, it was decided to allow foreign capital into the Turkish economy under tight controls and regulation, but very little foreign capital came in.

In the aftermath of the great depression of 1929, the government switched to an economy based around import substitution, state-led development and financial controls, leaving British firms largely unable to invest in its economy<sup>17</sup>. Moreover, the Turkish government had ambitious plans to become an industrial nation in its own right. Through importing the goods necessary to develop as an industrial power, Turkey soon opened up a trade deficit with Britain. This was increased in the 1940s by large British loans to Turkey as inducements to enter the Second World War<sup>18</sup>, including the British government funding of an iron and steel factory complex in Karabük in 1937<sup>19</sup>.

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<sup>13</sup> Fleet, Kate, "Money and Politics: The Fate of British Business in the New Turkish Republic", *Turkish Historical Review*, 2:1 (2011), pp. 18-38.

<sup>14</sup> Aktan, Okan H., "Atatürk'ün Ekonomi Politikası: Ulusal Bağımsızlık ve Ekonomik Bağımsızlık", *Hacettepe Üniversitesi Edebiyat Fakültesi Dergisi*, Cumhuriyetimizin 75. Yıl Özel Sayısı (1998) p.31. Atatürk's well-known declaration that "we must reach, and surpass, the level of contemporary civilisation" was an economic as well as a cultural goal.

<sup>15</sup> Zürcher, Erik J., *Turkey: A Modern History, Revised Edition*, (London: I.B. Tauris, 2004), p.201.

<sup>16</sup> "Peace Treaty of Lausanne", *The World War One Document Archive*, [http://wwi.lib.byu.edu/index.php/Treaty\\_of\\_Lausanne](http://wwi.lib.byu.edu/index.php/Treaty_of_Lausanne) [accessed 25.07.2012].

<sup>17</sup> Özçelik, Özer and Güner Tüncer, "Atatürk Dönemi Ekonomi Politikaları", *Afyon Kocatepe Üniversitesi Sosyal Bilimler Dergisi*, 9: 1 (2007). pp. 256-262.

<sup>18</sup> Hale, William "Anglo-Turkish Trade since 1923: Principles and Problems", in Hale, William and Ali İhsan Bağış (eds.), *Four Centuries of Turco-British Relations: Studies in Diplomatic, Economic and Cultural Affairs*, (Pickering, Yorkshire: Eothen Press, 1984), pp. 105-112.

<sup>19</sup> Kuruç, Bilsay, *Mustafa Kemal Döneminde Ekonomi*, (Ankara: Olgaç Basımevi, 1987), p. 228.



Turkey nevertheless managed to maintain a neutral position while the threat of Axis invasion from Greece and Bulgaria remained, only symbolically entering the war on the Allied side in 1945. In the immediate aftermath of the war, Turkey was pressured by the Soviet Union to give up the cities of Kars and Ardahan and to allow Soviet military bases in the Black Sea straits. Britain and America sided with Turkey in this dispute, pushing Turkey strongly into the western camp.<sup>20</sup> In the immediate post-war years, Turkey also became a solid political member of the western bloc, becoming a founder member of the UN in 1945<sup>21</sup>, joining the OEEC (later the OECD) in 1948, the Council of Europe in 1949, and NATO in 1952<sup>22</sup>, and fighting as part of the United Nations and NATO mission to Korea from 1950<sup>23</sup>. At the same time, the country transitioned to a democratic multi-party political system, holding its first elections in 1946 and seeing a peaceful handover of power to the populist Demokrat Parti in 1950. Turkey continued to rely upon British economic support until 1947 when it was replaced by American Marshall Aid, but it was made clear that both British and American post-war aid was “primarily for investment in agriculture” in order that Turkey should become a supplier state to a re-strengthened Europe, and that Turkey needed to abandon its plan for industrial development as a part of the liberalisation process<sup>24</sup>. Turkey was resigned to accepting its new place as a peripheral power in the western economic order, joining the World Bank and IMF in 1947<sup>25</sup> and allowing American and World Bank economic experts to have a strong influence on the economic policies it unveiled in the Development Plan of the same

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<sup>20</sup> Weinberg, Gerhard L., *A World at Arms: A Global History of World War II*, (Cambridge: Cambridge University Press, 1995), p. 787.

<sup>21</sup> “United Nations Country Team”, *United Nations Turkey*, <http://www.un.org.tr/index.php?ID=12&LNG=2> [accessed 16.11.2012].

<sup>22</sup> Müftüler-Bac, Meltem, “The Never Ending Story: Turkey and the European Union”, *Middle Eastern Studies*, 34: 4 (1998), p. 243.

<sup>23</sup> Turkey also joined the Central Treaty Organization (CENTO), a British-sponsored Middle East defence pact which wound up in 1979. “Milestones: 1953-1960: The Baghdad Pact (1955) and the Central Treaty Organization (CENTO)”, *US Department of State*, <http://history.state.gov/milestones/1953-1960/CENTO> [accessed 16.11.2012].

<sup>24</sup> Ekzen, Nazif, *Türkiye Kısa İktisat Tarihi: 1946'dan 2008'e İliştirilmiş Ekonomi* (Ankara: ODTÜ Yayınları, 2009), pp. 23-30.

<sup>25</sup> “List of Members”, *IMF*, <http://www.imf.org/external/np/sec/memdir/memdate.htm> [accessed 04.01.2013], “Turkey: Host of 2009 Meetings”, *World Bank*, <http://blogs.worldbank.org/voices/turkey-host-of-2009-annual-meetings> [accessed 04.01.2013]. The World Bank at the time was known as the International Bank for Reconstruction and Development (IBRD)

year<sup>26</sup>. These and other economic policies of the 1940s and 50s were designed to favour already developed nations, opening the Turkish economy up to foreign investment and using policies of privatisation and the construction of infrastructure to move state spending from the industrialisation of the country to the facilitation of the import and export of goods. They also represented the introduction of a Turkish variant of Keynesianism, using the regulation of state spending to control economic growth, and regulating the money supply by pegging the Turkish lira to the US dollar<sup>27</sup>.

By the end of the 1950s, Marshall Aid and other western credit to Turkey was running low. The Demokrat Parti was still the party of power, but a huge demographic shift towards urbanisation had led to unemployment and a corresponding measure of unpopularity, which they countered with increasingly illiberal measures<sup>28</sup>. This meant that industrialisation again became a politically popular idea, but Prime Minister Menderes could not find financial backing from his western allies. Finally, he arranged a meeting in Moscow to seek credit from the Soviet Union, but before this could take place, the army overthrew his government in the first of the century's three military coups<sup>29</sup>.

The 1960 coup and 1961 return to democracy allowed the Turkish government to re-steer the economy towards industrialisation. The 1961 constitution now defined the Turkish Republic as a "social state",<sup>30</sup> and the Turkish government committed itself to a severe policy of import substitution and near-absolute protectionism.<sup>31</sup> This "planned era" would continue until the late 1970s, creating hundreds of new public entities known as "State Economic Enterprises".<sup>32</sup> Since

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<sup>26</sup> Kepenek, *Development and Structure of the Turkish Economy*, pp. 22-23.

<sup>27</sup> Türel, Oktay, *Geç Barbarlık Çağı 2*, (Istanbul: Yordam Kitap, 2011), pp. 39-41.

<sup>28</sup> Bulut, Sedef, "Üçüncü Dönem Demokrat Parti İktidarı (1957-1960): Siyasi Baskılar ve Tahkikat Komisyonu", *Gazi Akademik Bakış*, 04 (2009), pp. 138-144.

<sup>29</sup> Çakır, M. Faruk, "Amerikan Bakış Açısından Türkiye'de 1957-60 Dönemi Siyasal Gelişmeleri ve Türk-Amerikan İlişkileri", *Ankara Üniversitesi SBF Dergisi*, 59-1 (2004), p. 61. Some contemporary Turkish authors argue that western intelligence agencies provoked the coup. See Yalçın, Soner, *Bay Pipo*, (Istanbul: Doğan Kitap, 2000), p. 98.

<sup>30</sup> "1961 Anayasası", *TBMM*, <http://www.tbmm.gov.tr/anayasa/anayasa61.htm> [accessed 06.01.2013].

<sup>31</sup> Togan, Sübidey, *Economic Liberalization and Turkey* (Oxford: Routledge, 2010), p. 14.

<sup>32</sup> Boratav, Korkut, *Emperyalizm, Sosyalizm ve Türkiye*, (Istanbul: Yordam Kitap, 2010), pp. 384-387.

Turkey was earning very little foreign currency through exporting goods,<sup>33</sup> it was very difficult for industrialists and the owners of large businesses in Turkey to obtain the money they needed to expand their operations, and they began lobbying for Turkey to apply for more IMF funding.<sup>34</sup> At first, Britain signed a large number of credit agreements to allow Turkey to pay for imports in sterling, but these tailed off in the early 1970s.<sup>35</sup> By 1978, in the wake of the oil shocks and increased foreign borrowing, Turkey experienced a long-term foreign exchange crisis<sup>36</sup>. At the same time, Britain's inaction over Cyprus and the arms embargo imposed on Turkey by the United States led Turkish politicians to question their membership of NATO<sup>37</sup>.

The Iranian revolution of 1979 left Turkey as the only dependable western ally in Turkey's neighbourhood, leading the United States, Britain, France and West Germany to meet and discuss ways of keeping Turkey on their side. They decided to help Turkey with \$1 billion in OECD foreign exchange<sup>38</sup> and use their power within the IMF to allow Turkey to borrow a large amount more from the IMF.<sup>39</sup> This much-needed money, however, would be conditional upon Turkey undertaking a programme of neoliberal reforms which would privatise much of the "social state" and re-open its economy to western investment.

It is not by chance that western governments wanted Turkey to enact these particular reforms. Throughout the western world, the low growth and oil shocks of the 1970s encouraged the spread of neoliberal economic ideology, which claimed to be able to promote growth and to normatively be a force for freedom against

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<sup>33</sup> In fact, as late as the 1990s, remittances from Turkish workers abroad, mostly in Germany and Holland, made up the vast majority of foreign capital entering Turkey. Sayan, Serdar and Ayça Tekin-Koru, "Remittances, Business Cycles and Poverty: The Recent Turkish Experience", *MPRA Working Papers*, p.6, <http://mpra.ub.uni-muenchen.de/6029/1/Remit-Turkey-Germany.pdf> [accessed 26.11.2012].

<sup>34</sup> Yalman, Galip, *Transition to Neoliberalism: The Case of Turkey in the 1980s* (Istanbul: Istanbul Bilgi University Press, 2009), pp. 269-272.

<sup>35</sup> "Uluslararası Antlaşmalar" *Türkiye Cumhuriyeti Dışişleri Bakanlığı*, <http://ua.mfa.gov.tr/> [accessed 16.11.2012].

<sup>36</sup> Rodrik, Dani, "Premature Liberalization, Incomplete Stabilization: The Özal Decade in Turkey", *NBER Working Papers*, No. 3300 (1990), pp. 2-3.

<sup>37</sup> "Senate Approves Lifting Arms to Turkey Embargo", *Washington Observer-Reporter*, 26.06.1978.

<sup>38</sup> This would later expand to \$4 billion over four years and be complemented by separate World Bank and IMF loan programmes. Thomas, Vinod et al., *Restructuring Economies in Distress: Policy Reform and the World Bank* (Oxford: Oxford University Press for the World Bank, 1991), p. 445.

<sup>39</sup> Celasun, Merih and Dani Rodrik, "External Financial Relations and Debt Management", in Sachs, Jeffrey D. and Susan M. Collins (eds.), *Developing Country Debt and Economic Performance, Vol. 3: Indonesia, Korea, Philippines, Turkey* (Chicago: University of Chicago Press, 1987), pp. 756-758.

government repression. According to neoliberals, rather than government spending promoting growth by providing employment and spreading wealth around the economy, it suppressed growth, since governments were taking on functions and providing services which the market could more efficiently provide on its own. In addition, neoliberals argued that government regulation, intervention and control stifled growth by constraining the naturally healthy functioning of markets, which they believed would function in a Darwinian manner, ruthlessly eliminating inefficient economic actors and increasing the productivity of the whole economy if left alone. Hence, they believed that government ought to be minimal in size and function primarily as an impartial referee if at all in the economic realm, not as a guarantor of welfare or as an economic actor in and of itself.<sup>40</sup> At the time the loan to Turkey was being discussed in 1980, Margaret Thatcher, a strong believer in neoliberalism, had recently become British Prime Minister. The World Bank and IMF had also been heavily influenced by the ideas of neoliberalism from the mid-1970s onwards.<sup>41</sup> Prime Minister Turgut Özal, himself a former World Bank advisor, claimed to be inspired by Thatcher, something not only shown in the fact that his politics were an admixture of social authoritarianism and economic neoliberalism but also in his adoption of her famous slogan: “There is no alternative”.<sup>42</sup> He also saw the opening up of the Turkish economy as an enormous opportunity for the country to develop using foreign capital: from 1923 until 1979, only around US\$228 million in total had entered the Turkish economy.<sup>43</sup>

It has often been suggested that the military coup of the 12th September 1980 was necessary in order to force through these neoliberal reforms.<sup>44</sup> Whether or not this is correct, the reforms, begun before Turkey was returned to democracy and

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<sup>40</sup> Kendall, Gavin, “What is Neoliberalism?”, *Speech made at TASA Conference*, 2003, <http://www.tasa.org.au/docs/conferences/2003/Political%20Sociology/101103%20Kendall.pdf> [accessed 08.01.2013].

<sup>41</sup> Peet, Richard, *Unholy Trinity: The IMF, World Bank and WTO*, (London: Zed Books, 2003), p. 13.

<sup>42</sup> Yalman, *Transition to Neoliberalism: The Case of Turkey in the 1980s*, pp. 310-311.

<sup>43</sup> Şener, Sefer and Cüneyt Kılıç, “Osmanlı’dan Günümüze Türkiye’de Yabancı Sermaye”, *Bilgi Dergisi*, 16:1 (2008), pp. 30-36.

<sup>44</sup> See, for example, Özügür, Sonay Bayramoğlu, “Türkiye’de Devletin Dönüşümü Parlamenter Popülizmden Piyasa Despotizmine”, in Mütevellioğlu, Nergis and Sinan Sönmez (eds.), *Küreselleşme, Kriz ve Türkiye’de Neoliberal Dönüşüm* (Istanbul: İstanbul Bilgi Üniversitesi Yayınları, 2009), p. 269, or Türel, *Geç Barbarlık Çağı 2*, p. 19.

continued, in one way or another, by every Turkish government since,<sup>45</sup> have had a serious impact on Turkey's political and economic direction. Özal launched a radical programme of financial and trade liberalisation, as well as beginning the privatisation of state assets which continues to this day.<sup>46</sup> Within two years of the coup, the share of economic development in the government budget had been slashed from 43% to 25.7%.<sup>47</sup> However, against the will of the Bretton Woods institutions, Turkish exports were boosted by artificially suppressing wages and through government subsidy.<sup>48</sup> British and foreign companies began to cautiously enter the market in small ways throughout the 1980s, but by 1990 only 37 of Turkey's 500 biggest companies were majority foreign-owned<sup>49</sup>. Very few British companies were involved in Turkey's economy until after full capital account liberalisation in 1989.

The 1990s saw Turkey with a series of weak coalition governments, spiralling inflation and a poor economic situation, as well as the disruption of trade with Iraq. The amount of FDI entering the Turkish economy, whilst still an enormous increase on the previous decade, did not match expectations, as many outsiders did not trust Turkey's political and economic situation to stabilise.<sup>50</sup> The money that did come into the economy as FDI was used to pay for a 141% public sector wage rise at a time of already-extreme inflation.<sup>51</sup> However, some large British companies did enter the Turkish market at this time, enticed by government liberalisation in sectors such as banking and energy. The 1990s were also a time when European Union membership began to seem a viable option for Turkey: it entered the EU Customs Union in 1995 and accepted as a candidate member in 1999, though accession

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<sup>45</sup> Odekon, Mehmet, *The Costs of Economic Liberalization in Turkey* (Cranbury, NJ: Rosemont Publishing, 2005), p. 30.

<sup>46</sup> Karabulut, Kerem, *Özal Dönemi Türkiye'nin Ekonomi-Politiği*, p. 989, <http://web.inonu.edu.tr/~ozal.congress/pdf/57.pdf> [accessed 15.11.2012].

<sup>47</sup> Türel, Oktar in Kuruç, Bilsay, *Bırakınız Yapsınlar, Bırakınız Geçsinler*, (Ankara: Olgaç Basımevi, 1986), p. 128.

<sup>48</sup> Özbay, Funda R., "Türk Sanayileşme Sürecinde Bütünleştirilmiş Strateji", *Afyon Kocatepe Üniversitesi İİBF Dergisi*, 2: 1 (2000), pp. 86-88.

<sup>49</sup> Türkan, Ercan, "Türkiye'de Ekonomik Aktivite İçinde Yabancı Sermaye Payı", *Ercan Türkan*, <http://www.ette.gen.tr/yayinlar/yayin-17.pdf> [accessed 16.11.2012]. p. 11.

<sup>50</sup> Loewendahl, Henry and Ebru Ertuğral-Loewendahl, "Turkey's Performance in Attracting Foreign Direct Investment: Implications of EU Enlargement", *ENEPRI Working Paper*, No. 8 (2001). pp. 27-29.

<sup>51</sup> Boratav, Korkut, Yelden, Erinc A., and Köse, Ahmet H., "Globalization, Distribution and Social Policy: Turkey, 1980-1988", *CEPA Working Papers*, 1: 20 (2000), p. 28.

negotiations were not opened until 2004.<sup>52</sup> At each of these stages, the British government strongly supported Turkey's bids, although other EU members were dubious about its motives and refused to let it in.<sup>53</sup> Towards the end of the 1990s, the British government had begun to recognise the future potential of the Turkish markets and considerably increased the number of economic attachés it had in the country.<sup>54</sup> At the same time, in 1999, Turkey launched a new exchange-rate based stabilisation programme with the backing of the World Bank and IMF.<sup>55</sup>

In late 2000 and early 2001, after a decade of poor growth, Turkey suffered two of the worst economic crises in its history in quick succession, leading to a great loss of confidence in the ailing Bülent Ecevit's government. His response was to recruit Kemal Derviş, an expatriate Turk with 24 years of experience at the World Bank including as Vice President, as his new Minister for Economic Affairs. Derviş blamed fiscal policy and immediately began a new wave of neoliberal reform, which he dubbed "the national program". In return for these reforms, the IMF and World Bank were willing to provide the credit Turkey needed for an almost Keynesian public works program. As Yakup Kepenek argues, western governments and businesses have begun investing in Turkey at levels which allow for the industrialisation of its economy, but at exactly the same time as industrialisation itself is no longer enough to be able to compete with the developed world, since the most important "means of production" has now become the ownership and production of technology.<sup>56</sup>

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<sup>52</sup> Öniş, Ziya, "Turkey-EU Relations: Beyond the Current Stalemate", *Insight Turkey*, 10: 4 (2008), pp. 36-38.

<sup>53</sup> Redmond, John, "Turkey and the European Union: Troubled European or European Trouble?", *International Affairs*, 83: 2 (2007), pp. 308-309.

<sup>54</sup> Hale, "Anglo-Turkish Trade since 1923: Principles and Problems", pp. 118-120.

<sup>55</sup> Akyüz, Yılmaz and Boratav, Korkut, "The Making of the Turkish Financial Crisis", *UN Conference on Trade and Development Discussion Papers*, No. 158 (2002), p.1.

<sup>56</sup> Kepenek, Yakup, "Sanayileşme Politikaları ve Türkiye'nin Sanayileşmesi", *TMMOB Congress Presentations*, No. 10653, <http://arsiv.mmo.org.tr/pdf/10653.pdf> [accessed 15.01.2013], pp. 356-360.

## CHAPTER TWO

### ECONOMIC LIBERALISATION

#### 2.1 Introduction

The global macroeconomic environment from 2002-2012 was very much one regulated and controlled by political entities, both states and international organisations, but the ideology which supported this order was that of economic liberalisation and the free market. Turkey under the AKP government redoubled its efforts at liberalisation with the encouragement of developed states and international organisations, which promised that the results would be more investment, more trade, and a healthier economy. However, the international organisations lending Turkey the money to develop, regulating international trade and requiring that Turkey liberalise further are heavily dominated by a handful of developed western states with their own economic agendas. The economic consequences have been a booming Turkish economy but on western terms and with intrinsic weaknesses. In this chapter I look at the broader context in which British trade and investment with Turkey has developed and focus on the consequences for Turkey of British and western power in the international economic sphere. The first section examines Turkey's need for credit, and how private foreign direct investment and loans from international organisations have come at a cost. The second analyses Turkey's trade relations, how Turkey is running larger and larger current account deficits and how international organisations limit its power to make its own trade policy.

## 2.2 Credit and Investment

Since Turkey is a developing country, it needs to find the credit to fund additional investment in productive capacity, including the foreign technology needed to make production as efficient as possible. Two crucial ways that Turkey obtains foreign credit are through foreign direct investment and loans from international organisations. But the financial liberalisation which has aimed to encourage foreign direct investment has been double-edged, not only allowing in productive but also speculative capital. Moreover, foreign investment in Turkey is still comparatively limited, even after far-reaching reform. On the other hand, international financial organisations have lent money in a politically partisan fashion and demanded further economic reform in exchange.

### 2.2.1 Opening Turkey up to Foreign Investment

Throughout the import substitution period of Turkey's development (roughly 1960-1980), most investment was provided by the state or private individuals within Turkey, who could only buy foreign equipment and inputs using rationed foreign exchange obtained from a combination of agricultural exports, various types of international aid, loans from international financial organisations and remittances from migrant workers<sup>57</sup>. During Turgut Özal's period of economic and political influence from late 1979 to 1993 he tried to solve this problem by opening the Turkish economy up to foreign direct investment, meaning that foreign capital could directly invest in Turkey's economy and recoup their investments through years of profit<sup>58</sup>, and by liberalising exchange controls<sup>59</sup>. Although this would increase

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<sup>57</sup> Keyder, Çağlar, *State and Class in Turkey: A Study in Capitalist Development* (London: Verso, 1987), p. 145.

<sup>58</sup> It was always possible for foreign companies to invest directly in Turkey and thus gain the same levels of protection as Turkish companies. However, Özal's liberalisation measures allowed private companies to compete in more areas of the Turkish economy and removed many barriers to easily move investment funds in and out of the country. Keyder, *State and Class in Turkey*, pp. 152-158.



competition in the domestic Turkish market, large Turkish businesses were not in general opposed to these developments. In fact, it has been argued that this process was initiated by private businesses in Turkey which wanted more credit from international financial institutions regardless of conditionality<sup>60</sup>.

The AKP era has seen a broad expansion of these policies, opening Turkey up to British and other foreign capital. These can be categorised within three main degrees: the reduction or removal of barriers to foreign investment, the provision of incentives for foreign investment, and direct intervention in the economy in order to create profitable opportunities for foreign investment. In most cases this was undertaken in line with IMF and World Bank conditionality requirements, although AKP enthusiasm for reform was such that some were pre-emptive<sup>61</sup>. One example of this continued enthusiasm can be found in the foreword to a report commissioned by the party in 2007: “In this report our use of industrial terminology is not an expression of the interventionist policies of yesterday, but are used in order to express the informative and... enabling approach of modern times.”<sup>62</sup> Turkey is in the process of removing all further restrictions on British investment as part of its implementation of Chapter Four of the European Union acquis.

A prominent barrier to foreign investment was the very limited circumstances under which a foreigner could own land or real estate: originally foreigners could only own up to 2.5 hectares in a limited number of areas. In 2003, the law was changed in order to allow foreign nationals to buy land anywhere in the country apart from areas bordering military installations, and in 2005 it was again amended to allow foreigners to own up to 30 hectares of land<sup>63</sup>. In 2011, the law was changed to allow foreign nationals the right to own real estate in their own right, rather than having 29 or 49 year leasehold arrangements<sup>64</sup>. British companies and individuals

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<sup>59</sup> Which were acting as an effective tariff on exports. Wei, Shang Jin and Zhiwei Zhang, “Collateral Damage: Exchange Controls and International Trade”, *NBER Working Paper 13020* (Cambridge, MA: NBER, 2007), pp. 16-17.

<sup>60</sup> Yalman, *Transition to Neoliberalism: The Case of Turkey in the 1980s*, pp. 269-272.

<sup>61</sup> For example, the case of Cem Uzan, discussed later in this section.

<sup>62</sup> Türel, *Geç Barbarlık Çağı 2*, p. 298.

<sup>63</sup> “Toprak Satışı Bağımsızlıktan Vazgeçmektir”, *Aydınlık*, 20.01.2012.

<sup>64</sup> Özkaya, Orhan, “Yabancılar Taşınmaz Satışı’na Mahkemedden Onay”, *Aydınlık*, 01.06.2011.

have taken particular advantage of this: nearly a quarter of all land sales to foreigners between 2003 and 2007 were to British citizens or companies<sup>65</sup>.

Another barrier to foreign investment was the number of industries controlled by government-run monopolies or where government-run firms had a high market share. In the AKP era, many of these state-run industries have been privatised, allowing foreign companies to take them over along with their infrastructure and dominant market positions. Among them were monopolies on electricity production and distribution, fixed line telecommunications and broadband internet, as well as government interests in banking, mobile telecommunications, tobacco, sea and airports, the sugar industry and petrochemicals. Sales of the gas industry<sup>66</sup>, the state theatre<sup>67</sup>, the motorways<sup>68</sup>, the government's remaining banks and its share in Turkish Airlines<sup>69</sup> are planned in the near future.

Several reforms were also carried out in order to ease and incentivise foreign investment. In 2003, the government introduced a Foreign Direct Investment Law which allowed foreign investors the same rights as Turkish investors. Now foreign investors gained the right to patent and copyright protection, to remove their money and profits from the country at any time, to exploit Turkish natural resources in pursuit of profit, the right to vote as a shareholder in a Turkish company, and the right to open new companies and branches without a Turkish partner<sup>70</sup>. British companies have been quick to make use of these new freedoms: while there were only just over 300 British companies operating in Turkey in 2003<sup>71</sup>, by 2011 this had increased to 2,237<sup>72</sup>, just under 10% of the total number of foreign companies<sup>73</sup>. An

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<sup>65</sup> "Yabancılar Toprak Satışında Yeni Yollar: Tapu Kanununda Değişiklik Yasa Tasarısı", *TMMOB* [http://www.hkmo.org.tr/genel/bizden\\_detay.php?kod=4284&tipi=5&sube=0](http://www.hkmo.org.tr/genel/bizden_detay.php?kod=4284&tipi=5&sube=0) [accesssed 01.10.2012].

<sup>66</sup> "Doğalgaz Piyasasında Özelleştirme Hamlesi", *Sol Portal*, <http://haber.sol.org.tr/ekonomi/dogalgaz-piyasasinda-ozellestirme-hamlesi-haberi-60071> [accesssed 11.11.2012].

<sup>67</sup> "Sanatta Özelleştirme Başladı", *Birgün*, 17.09.2012.

<sup>68</sup> "Otoyolları ve Köprülerin Özelleştirilmesi Hakkında İhale İlanı", *T.C. Başbakanlık Özelleştirme İdaresi Başkanlığı* [http://www.oib.gov.tr/2011/ilan/2011-08-25\\_otoyol\\_kopruler.htm](http://www.oib.gov.tr/2011/ilan/2011-08-25_otoyol_kopruler.htm) [accesssed 02.10.2012].

<sup>69</sup> "Satış Sırası THY'de", *Milliyet*, 27.09.2012.

<sup>70</sup> "Yabancı Sermaye Raporu" *Yabancı Sermaye Genel Müdürlüğü* (Ankara: TC Başbakanlık Hazine Müsteşarlığı, 2005), p. 1. *Doğrudan Yabancı Yatırım Kanunu*, Law No. 4875, 05.06.2003.

<sup>71</sup> "British Investment in Turkey", *The Daily Mail*.

<sup>72</sup> "Lord Green boosts UK-Turkey Science and Innovation Links", *UK Trade and Investment*, <http://www.ukti.gov.uk/uktihome/media/pressRelease/131372.html> [accesssed 02.10.2012].

<sup>73</sup> "Yabancı Şirket Sayısı 27 Bine Çıktı", *Sabah*, 18.03.2011.

additional incentive was a steep drop in corporate taxes, which went from 30% down to 20% in 2006<sup>74</sup>.

As an extra incentive, the last ten years have seen a comparatively light touch in terms of competition law. For example, of 283 investigations carried out by the Competition Authority last year, only 9 ended in a party being disciplined<sup>75</sup>. Since foreign multinationals often want to expand quickly through mergers and acquisitions, this is an attractive selling point. In the fast-moving consumer goods sector, which contains a large number of foreign firms including Britain's Tesco, no mergers have been blocked and complaints about discriminatory practices from organisations representing smaller and more traditional retailers have not been upheld<sup>76</sup>.

This collection of state-sponsored liberalisation measures has succeeded in attracting considerably more foreign investment than Turkey has ever before seen. However, this foreign investment has not contributed as much to the Turkish economy as had been hoped.

### **2.2.2 Foreign Investment in Turkey, 2002-2012**

Convincing foreign businesses to use their foreign direct investment to add value to Turkey's economy has been very difficult. One of Turkey's most important businessmen, Rahmi Koç, is on record claiming that foreign countries have no interest in moving production to Turkey or sharing technology with Turkish producers. He believes they see Turkey solely as a market<sup>77</sup>. This opinion is supported by the foreign investors themselves: every academic survey into why they invest has shown the size and profitability of the local market to be the principal incentives, with the potential for producing in Turkey or exporting from there to

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<sup>74</sup> Kızılot, Şükrü, "Ücretliye Tatlı Tatlı Değil Acı Acı", *Hürriyet*, 01.04.2006.

<sup>75</sup> "2011 Yılı Karar İstatistikleri", *Rekabet Kurumu*, <http://www.rekabet.gov.tr/> [accessed 02.10.2012].

<sup>76</sup> Çelen, Aydın et al., "Fast Moving Consumer Goods Competitive Conditions and Policies" in *Competitiveness and Regulation in Turkey* (Ankara: TEPAV, 2007), pp. 219-220.

<sup>77</sup> Yalman *Transition to Neoliberalism*, p. 276 (footnote 48).

other countries far down the list<sup>78</sup>. On the other hand, this relative lack of success in developing based on foreign direct investment is not only being experienced in Turkey. Despite widespread structural adjustment programmes throughout the developing world, transnational companies make four dollars of sales in foreign markets for every dollar of value they add there<sup>79</sup>, suggesting they are rarely making use of these countries as anything but markets<sup>80</sup>.

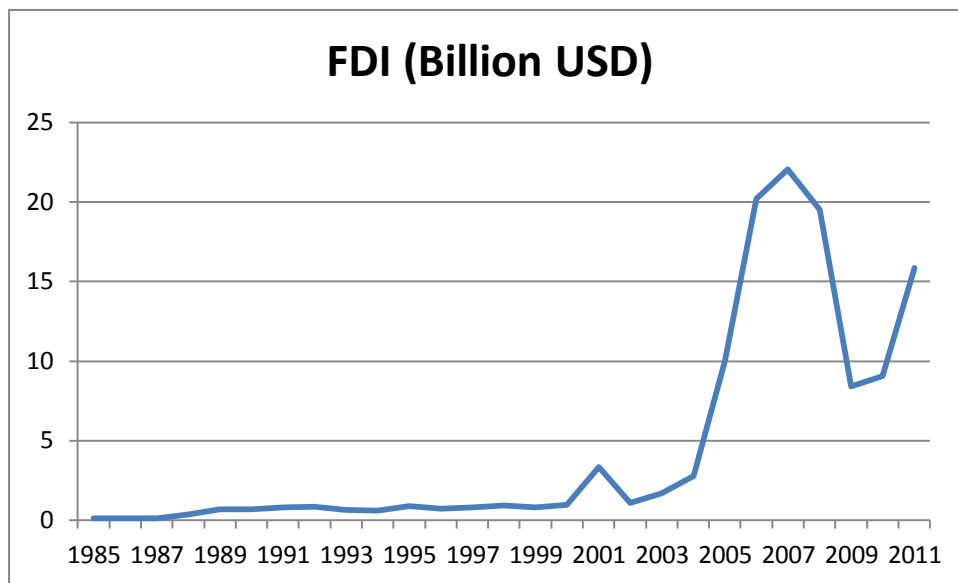


Fig 2.1. Net foreign direct investment entering Turkey in billions of 2012 United States dollars<sup>81</sup>

<sup>78</sup> For a survey of these, see Coşkun, Recai, “Determinants of Direct Foreign Investment in Turkey”, *European Business Review*, 13:4 (2001), pp. 221-226.

<sup>79</sup> *World Investment Report 2012* (New York: UNCTAD, 2012), p. xi.

<sup>80</sup> The question of why foreign direct investment is less productive than domestic investment is explored in more detail in Prasad, Eswar et al., “Foreign Capital and Economic Growth”, *Brookings Papers on Economic Activity*, No. 1 (2007), pp. 153-230.

<sup>81</sup> “World Databank”, *World Bank*, <http://databank.worldbank.org/ddp/home.do> [accessed 11.11.2012].

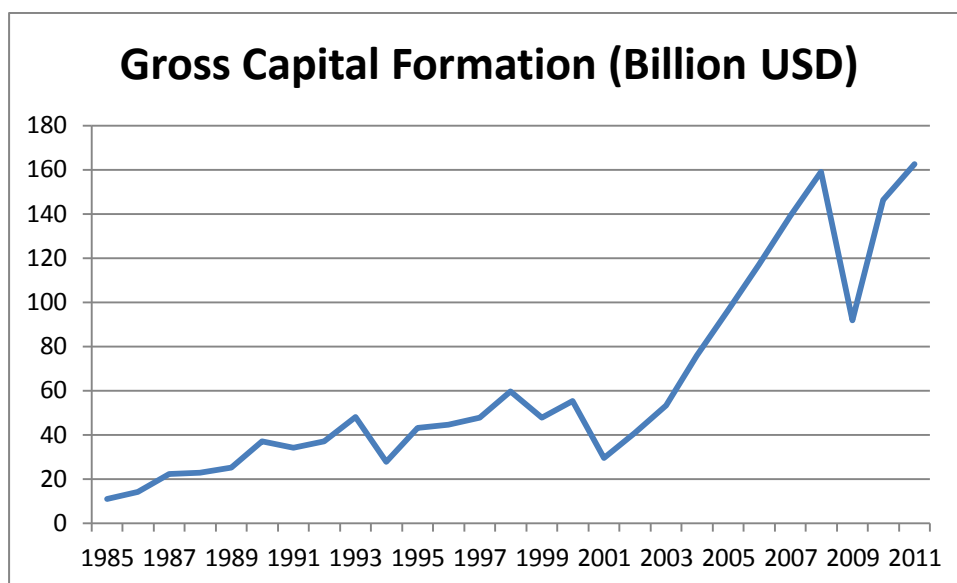


Fig. 2.2. Turkish gross capital formation in billions of 2012 United States dollars<sup>82</sup>

Since the IMF-led recovery package in 2001, Turkey’s share of foreign direct investment has dramatically risen<sup>83</sup>, yet much of the investment that Turkey does receive each year from Britain and similar economies is still relatively non-productive. A significant amount of this new foreign direct investment represents the receipts from the privatisation of government assets and the foreign purchase of land<sup>84</sup>, both spheres in which British capital has been active. Some of this investment is the establishment of sales outlets and marketing departments for products produced elsewhere, such as the Marks and Spencer franchises which have recently become a feature of Turkish high streets. Some of the other FDI is represented by foreign companies taking over existing Turkish businesses, though not investing in them, or worse, asset-stripping and selling them on. At the present time, even if all foreign investment were to be productive, much of the productive investment in the Turkish economy would still come from domestic sources, the state, and loans from international financial institutions, as can be seen from comparing the relatively small amount of foreign direct investment into the Turkish economy (fig. 2.1) with total productive investment in the Turkish economy (fig 2.2).

<sup>82</sup> “World Databank”, *World Bank*.

<sup>83</sup> “World Databank”, *World Bank*.

<sup>84</sup> From 2005-2007 these two items made up over 50% of foreign direct investment. Yeldan, Erinç, “Patterns of Adjustment under the Age of Finance: The Case of Turkey as a Peripheral Agent of Neoliberal Globalization”, *Political Economy Research Institute Working Papers*, No. 126 (2007), p. 9.

### 2.2.3 International Organisations, Loans and Conditionality

Britain has an important but not dominant role in both the World Bank and the IMF. It is one of the major shareholders and funders of both organisations, and under the present rules this buys it more influence. Turkey is a regular beneficiary of World Bank and IMF loans, and Britain is one of its chief supporters within those organisations. Whilst the actual meetings of these organisations are carried out in an opaque fashion without recorded voting, Britain's advocacy of Turkey in the European Union and elsewhere suggests that it would have supported the extension of loans to the country. However, these loans have come with the burden of conditionality, which has required Turkey to liberalise sections of its economy in return.

It has been repeatedly demonstrated in the literature that the IMF and World Bank are under the control of a very small group of shareholder countries, which includes the United States and Britain<sup>85</sup>. This means that they can influence the types of credit options extended to different countries as well as the types of conditionality they would have to submit to. In particular, countries are more likely to get large IMF loans if they are in the process of becoming politically closer to the United States and its allies and much less likely to if the relationship is souring<sup>86</sup>. In addition, countries which had a close relationship with the United States received their loans with less conditionality<sup>87</sup>. The after-effects of loans is also worth noting: the recipients of IMF or World Bank funding became considerably more likely to vote in line with the average member of the G7 (now G8) in the UN General

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<sup>85</sup> For instance, see Fratianni, Michele and John Pattison, "Who is Running the IMF: Critical Shareholders or Staff?", *Indiana University Working Papers*, No. 6 (2004). and a round-up of papers which have established these links in Harrigan, Jane et al., "The Economic and Political Determinants of IMF and World Bank Lending in the Middle East and North Africa", *World Development*, 34:2 (2006), pp. 321-324.

<sup>86</sup> Thacker, Strom, "The High Politics of IMF Lending", *World Politics*, No. 52 (1999), pp. 69-70.

<sup>87</sup> Dreher, Axel and Nathan M. Jensen, "Independent Actor or Agent: An Empirical Analysis of the Impact of U.S. Interests on International Monetary Fund Conditions", *Journal of Law and Economics*, 50 (2007), pp. 119-121.

Assembly than before the funding<sup>88</sup>. All these results indicate that developed countries are able to use the lending power of international institutions as a form of incentive mechanism and that the countries who get loans as a result respond by becoming more politically co-operative. One excellent example of this is the attempt by these countries to use loans to prop-up Boris Yeltsin's Russia, which was undertaken against all of the guidelines for good lending at the time, but which was politically expedient<sup>89</sup>. More recently, countries involved in the Arab Spring which overthrew their anti-western dictators were promised US\$20 billion in funds from international institutions by G8 members<sup>90</sup>. As these incentives can make a big economic difference, especially in times of crisis, this is another source of political power for developed nations such as Britain which can be used to influence the actions of countries like Turkey.

The IMF's job is to "ensure stability in the international system", primarily by providing loans to countries who are in financial difficulties and who cannot obtain affordable credit elsewhere<sup>91</sup>. 24 directors "represent" all the member-nations according to a special voting formula. Every nation gets 250 votes automatically, then they receive an additional vote for every US\$100,000 they provide for the IMF to lend<sup>92</sup>. Since this figure has not increased as inflation has reduced the relative value of the dollar, that means that today the original 250 votes per country represent only 2.1% of the total votes<sup>93</sup>. In turn, this means that almost all the directors who "represent" the member-states come from and represent the creditor nations: the global rich states of the world. Britain's fixed contribution to the IMF gives it 5.02% of the votes, and in total directors coming from the G8 rich nations represent over 60% of the votes<sup>94</sup>. Even then, there have been very few contested votes, since most

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<sup>88</sup> Dreher, Axel and Jan-Egbert Sturm, "Do the IMF and World Bank Influence Voting in the UN General Assembly?", *CESIFO Working Papers*, No. 1724 (2006) pp. 31-32.

<sup>89</sup> Stiglitz, Joseph, *Globalization and Its Discontents*, (London: Penguin Books, 2002), pp. 166-170.

<sup>90</sup> Who strangely fail to see the contradiction between their announcement and the supposed independence of those bodies. Alderman, Liz, "Aid Pledge by Group of 8 Seeks to Bolster Arab Democracy", *The New York Times*, 27.05.2012.

<sup>91</sup> "Our Work", *IMF*, <http://www.imf.org/external/about/ourwork.htm> [accessed 27.08.2012].

<sup>92</sup> Buira, Ariel, "The Governance of the IMF in a Global Economy", *Centre for International Governance Innovation*

<http://dspace.cigilibrary.org/jspui/bitstream/123456789/13260/1/The%20Governance%20of%20the%20IMF%20in%20a%20Global%20Economy.pdf?1> [accessed 01.08.2012]. p. 2.

<sup>93</sup> Buira, "The Governance of the IMF in a Global Economy", p. 2.

<sup>94</sup> Buira, "The Governance of the IMF in a Global Economy". p. 6.

decisions are taken by apparent consensus without a formal vote,<sup>95</sup> meaning that economically marginal countries rarely get to have any influence. Britain has recently been a strong supporter of the IMF reforms agreed in 2010, which will transfer 6% of the votes from developed countries to “large, dynamic, emerging markets” including Turkey<sup>96</sup> but would retain the US and EU effective vetoes. However, as of 2012 the new reforms have still not been implemented<sup>97</sup>. The Deputy Managing Director of the IMF, Dr. Nemat Shafik, is both a British citizen and a former Permanent Secretary of Britain’s Department for International Development, which is one of the principal points of contact between the British Government and the IMF<sup>98</sup>.

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<sup>95</sup> Buira, “The Governance of the IMF in a Global Economy”. p. 4.

<sup>96</sup> “G-20 Ministers Agree ‘Historic’ Reforms in IMF Governance”, *IMF*, <http://www.imf.org/external/np/exr/faq/quotasgov.htm> [accessed 04.10.2012].

<sup>97</sup> “IMF Executive Board Reviews Progress Toward Implementation of the 2010 Quota and Governance Reform”, *IMF*, <http://www.imf.org/external/np/sec/pr/2012/pr1287.htm>, [accessed 04.10.2012].

<sup>98</sup> “Nemat Shafik”, *IMF Direct Blog*, <http://blog-imfdirect.imf.org/bloggers/nemat-shafik/> [accessed 04.10.2012].



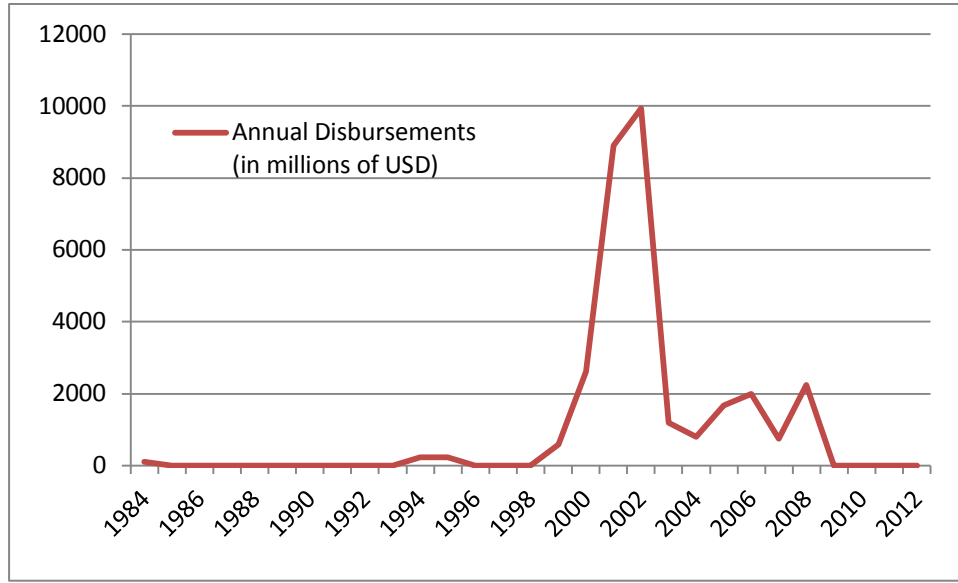


Fig. 2.3. IMF loans to Turkey, 1984-2012<sup>99</sup>.

The financial crises in 2000 and 2001 led to Turkey requiring over US\$20 billion in emergency loans from the IMF<sup>100</sup>. In return Turkey agreed to further reduce the size of its public sector, bring in even tougher anti-inflation measures, free its Central Bank from direct state control and to submit to a “close monitoring period” up until 2005<sup>101</sup>. At that time, inflation targeting was seen as a boon for British and foreign interests, since it would make the Turkish government focus on making the foreign exchange to pay back foreign creditors. It is also noteworthy that Turkey was no longer given the favourable rates of interest on its loans that it had enjoyed in the past, meaning that debt repayment has been much more urgent<sup>102</sup>. Over the course of the 2000s, Turkey has agreed to further reductions in its social security budgets and further privatisations in return for IMF stand-by agreements<sup>103</sup>. Its final stand-by

<sup>99</sup> A disbursement is the IMF’s term for a loan made against securities composed of the country taking out the loan’s national currency. “Turkey: Transactions with the Fund”, *IMF*, <http://www.imf.org/external/np/fin/tad/extrans1.aspx> [accessed 04.09.2012].

<sup>100</sup> Yeldan, Erinç, “Behind the 2000/2001 Crisis: Stability, Credibility and Governance, for Whom?”, [http://www.bilkent.edu.tr/~yeldane/Chennai\\_Yeldan2002.pdf](http://www.bilkent.edu.tr/~yeldane/Chennai_Yeldan2002.pdf) [accessed 04.09.2012]. pp. 9-10.

<sup>101</sup> Eksen, Nazif “AKP İktisat Politikaları (2002-2007)” in Uzgel, İlhan and Bülent Duru (eds.), *AKP Kitabı: Bir Dönüşümün Bilançosu*, (Ankara: Phoenix Yayınevi, 2010), p. 476-477.

<sup>102</sup> Yeldan, Erinç, “Turkey and the Long Decade with the IMF” *The Bretton Woods Project*, <http://www.brettonwoodsproject.org/art-561814> [accessed 04.09.2012].

<sup>103</sup> Sönmez, Sinan, “Türkiye Ekonomisinde Neoliberal Dönüşüm Politikaları ve Etkileri”, in Mütevellioğlu and Sönmez, *Küreselleşme, Kriz ve Türkiye’de Neoliberal Dönüşüm*. pp. 61-62.

agreement was agreed in 2008, but negotiations are ongoing in case of an economic downturn. However, the IMF continues to pressure Turkey to limit its inflation rate and criticise Deputy Prime Minister Ali Babacan's policy of trying to limit imports of consumer goods<sup>104</sup>, which limits the amounts which British and other retailers would sell in the country.

Gaining in importance as Turkey's financial exposure becomes more serious is the World Bank Group, which consists of 5 different agencies, of which 3 are active in Turkey. These are the International Bank for Reconstruction and Development (IBRD), which "lends to governments of middle-income and creditworthy low-income countries", the International Finance Corporation (IFC), which "provides loans, equity and technical assistance to stimulate private sector investment in developing countries" and the Multilateral Investment Guarantee Agency (MIGA), which "provides guarantees against losses caused by non-commercial risks to investors in developing countries"<sup>105</sup>. The World Bank operates on the same system of basic votes and top-up votes as the IMF does. Britain is one of the World Bank's largest shareholders and donors and was briefly the largest donor in 2007<sup>106</sup>. Britain has also been interventionist in the way the institution is run<sup>107</sup> and it is trying to shape World Bank policy on Middle Income Countries like Turkey: according to a recent government report, "The Bank provides a valuable platform in which the UK can engage with them [Middle Income Countries] on global public goods and their role in LICs [Lower Income Countries]."<sup>108</sup> Britain proved that it was capable of altering World Bank policy with its actions when it withheld £50

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<sup>104</sup> "Turkey Should Pull Down Inflation Goal, IMF Says", *Hurriyet Daily News*, 30.01.2012.

<sup>105</sup> "About Us", *World Bank Group*.

<http://web.worldbank.org/wbsite/external/extaboutus/0,,pagePK:50004410~piPK:36602~theSitePK:29708,00.html> [accessed 27.08.2012].

<sup>106</sup> Landler, Mark, "Britain Overtakes US as Top World Bank Donor", *The New York Times*, 15.12.2007.

<sup>107</sup> See for example: Elliott, Larry, "Britain Asks World Bank to Cut Officialdom and Speed Up Aid", *The Guardian*, 04.10.2009.

<sup>108</sup> "UK engagement with the World Bank Group 2011/2012", *Department For International Development* <http://www.dfid.gov.uk/documents/publications1/uk-engage-wrld-bnk-11-12.pdf> [accessed 11.11.2012].

million from the Bank in 2006 in protest at President Paul Wolfowitz's punitive anti-corruption measures: in response, the Bank backed down<sup>109</sup>.

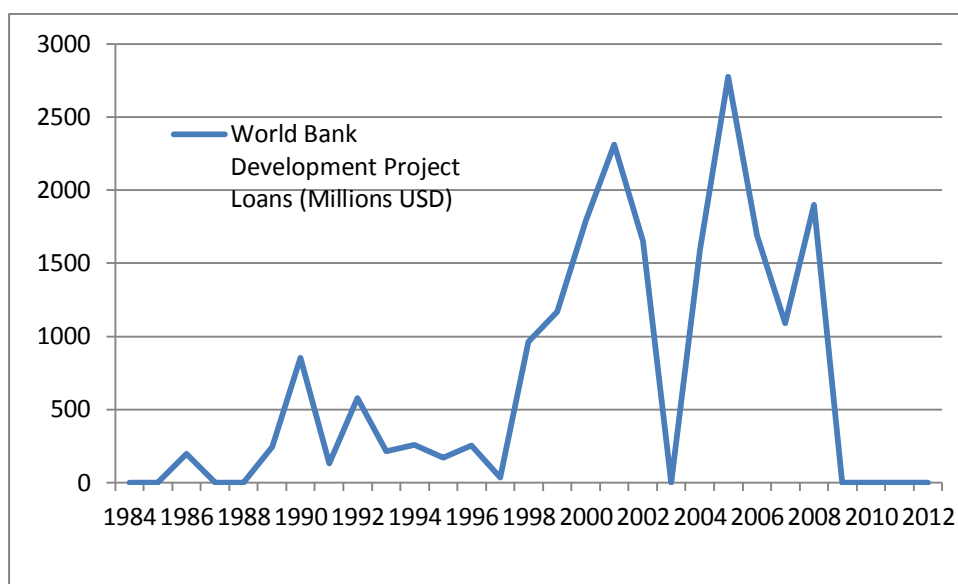


Fig. 2.4. World Bank Loans To Turkey by Year Approved, 1984-2012<sup>110</sup>.

Turkey has received a considerable amount of credit from the World Bank over the years. When Prime Minister Özal, himself a former World Bank employee<sup>111</sup>, committed Turkey to a policy of liberalisation in the 1980s, the World Bank rewarded the country with five successive structural adjustment loans, seeing Turkey as a potential model for demonstrating the virtues of export-oriented economies to other less developed countries<sup>112</sup>. In return for nearly US\$2.5 billion of structural loans over seven years, Turkey committed to economic policies of export promotion, import liberalisation, reform of finance, agriculture and the civil service, and a

<sup>109</sup> Thornton, Philip, "Benn Beats World Bank Chief over Corruption Policy", *The Independent*, 19.09.2006.

<sup>110</sup> "Country Lending Summaries - Turkey", *World Bank Group*, <http://web.worldbank.org/> [accessed: 04.09.2012].

<sup>111</sup> "30 Yıl Önce İlanlarla Ecevit'i Deviren TÜSIAD, İlanı İlk Ecevit'e Okutmuş", *Radikal*, 14.01.2009.

<sup>112</sup> Demir, Firat, "A Failure Story: Politics and Financial Liberalization in Turkey, Revisiting the Revolving Door Hypothesis", *World Development*, 32:5 (2004), p. 852. This was the largest number of loans ever made to a single country. Rodrik. "Premature Liberalization, Incomplete Stabilization: The Özal Decade in Turkey", p. 10.

shrinking of the public sector<sup>113</sup>. But these structural adjustment loans were the exception: most of the World Bank's business concerns individual projects such as infrastructure, technological development, loans to small and medium enterprise, and public sector improvement<sup>114</sup>. Since 1998, the World Bank has begun working more closely with the IMF and they have begun reciprocally including the same forms of conditionality into their loan agreements, thus making it difficult for countries to obtain any kind of credit without liberalising in the way that they want<sup>115</sup>. This also meant that countries like Turkey deemed to be truly committed to liberalisation were able to secure extra loans<sup>116</sup>.

Throughout the period 2002-2012, the World Bank has agreed to undertake projects in Turkey in fields as diverse as health and railroad reconstruction, but there is a clear overall direction to the project approvals: preparing the country for external investment<sup>117</sup>. A large proportion of the projects have been in the energy sector, including revamping Turkey's electricity and gas networks in order to be able to supply more customers. A second theme is financing for small and medium enterprises within Turkey, to allow them to expand production, especially in the energy sector. The World Bank also loaned Turkey the money to carry out a complete land survey in order to make foreign purchases of land easier. There was even a grant of US\$434,000 to Turkey's Investment Promotion Agency. The World Bank envisages spending up to an additional US\$6.35 billion in Turkey between 2012-2015<sup>118</sup>.

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<sup>113</sup> Thomas et al., *Restructuring Economies in Distress*, pp. 446-458.

<sup>114</sup> "Projects and Grants in Turkey", *World Bank Group*, <http://www.worldbank.org.tr/> [accessed: 04.09.2012].

<sup>115</sup> Dreher, Axel, "The Development and Implementation of IMF and World Bank Conditionality", *Hamburg Institute of International Economics Discussion Papers*, No. 165 (Hamburg: HWWA, 2002), pp. 23-24.

<sup>116</sup> Dreher, "The Development and Implementation of IMF and World Bank Conditionality", p. 24.

<sup>117</sup> Source for all project data: "Country Lending Summaries - Turkey", *World Bank Group*.

<sup>118</sup> "The World Bank Group Country Partnership Strategy for the Republic of Turkey for the Period 2012-2015", *The World Bank* (Washington DC: World Bank, 2012), p. v.

## 2.2.4 The Credit Crunch

Financial liberalisation measures have restricted Turkey's ability to protect itself from economic crisis, either by employing preventative measures before a potential crisis or extraordinary measures during a crisis. In particular, it is prevented by its commitment to allowing foreign investors to remove their money at any time from taking action to limit short term capital flows ("hot money"). These short term capital flows represent capital invested in ventures aim with the aim of getting the best short-term return but without tying the money up over a particular timescale, which means that it can be removed from the economy instantly in the event of a crisis, removing liquidity from the economy and making the crisis even deeper. Korkut Boratov has estimated that by 2005 hot money constituted 40% of foreign investment<sup>119</sup>. Seeing as London-based hedge funds have a history investing in Turkey<sup>120</sup>, we can infer that a significant percentage of these short term capital flows are British in origin.

In 2008-9, Turkey was hit by the global financial crisis, which marks the first time in the Republic's history that the Turkish economy had been open enough to be part of a global credit crunch<sup>121</sup>. The crisis was caused by two main factors. First, there was a temporary but enormous outflow of short term capital, meaning that businesses and the government stopped being able to borrow cheaply in domestic markets. Second, Turkey's export markets, especially those in the EU, contracted, meaning that export-oriented sectors were less profitable for Turkish businesses and some failed<sup>122</sup>. However, the economy recovered much more quickly than many other economies affected by the global financial crisis, and some observers decided

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<sup>119</sup> Boratov, Korkut, "AKP'li Yıllarda Türkiye Ekonomisi", in Uzgel and Duru, *AKP Kitabı*, p. 465.

<sup>120</sup> See for instance Delevingne, Lawrence, "Emerging Market Picks from GLG, Brevan Howards and Canyon", *Absolute Return and Alpha*, <http://www.absolutereturn-alpha.com/Article/3020495/Emerging-market-picks-from-GLG-Brevan-Howard-and-Canyon.html> [accessed 04.10.2012]. and Walker, David, "Renaissance Offers Turkish Focused Fund that Does not Devour Volatility Budget", *Investment Europe*, <http://www.investmenteurope.net/investment-europe/news/2157400/renaissance-offers-turkish-fund-delight-devour-volatility-budget> [accessed 04.10.2012].

<sup>121</sup> Rodrik, Dani, "The Turkish Economy after the Global Crisis", *Ekonomi-Tek*, 1:1 (2012), p. 43.

<sup>122</sup> Uygur, Ercan, "The Global Crisis and the Turkish Economy", *Third World Network Global Economy Series*, 21 (2010). pp. 51-52.

that “[i]f there was no balance of payments crisis, no bank failure and no immediate need to sign an IMF standby agreement, the logical conclusion was that Turkey had largely avoided a crisis which originated from outside and was largely beyond its own control”.<sup>123</sup> But whilst the crisis was not attributable to domestic causes and did not require a rescue package from international financial institutions, “in many ways, Turkey was hit harder by the global financial crisis of 2008-2009 than by any of the previous instances of a sudden stop in capital inflows” because the economy contracted so quickly in such a short amount of time<sup>124</sup>. The government’s response was a stimulus package comprising 65% of Gross Domestic Product (GDP) and spread over 2008-2010: a smaller stimulus package than employed in economies where banks collapsed, but still a significant contribution to Turkey’s foreign debt<sup>125</sup>. Since then, Turkey has recovered in terms of raw economic growth, but Turkey’s unemployment rate still hasn’t recovered, and its external deficit and external borrowing have continued to increase year on year<sup>126</sup>. Moreover, the short term capital flows which had been a key factor in exacerbating not only the credit crunch, but also Turkish liquidity crises in 1994 and 2001, have begun flowing back into the economy in even larger amounts<sup>127</sup>.

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<sup>123</sup> Öniş, Ziya, “Crises and Transformations in Turkish Political Economy”, *Turkish Policy Quarterly*, 9:3 (2010), p. 58.

<sup>124</sup> Rodrik, “The Turkish Economy after the Global Crisis”, p. 42.

<sup>125</sup> Rawdanowicz, Łucasz, “The 2008-2009 Crisis in Turkey: Performance, Policy Responses and Challenges for Sustaining the Recovery”, *OECD Economics Department Working Papers*, No. 819 (2010), p. 10.

<sup>126</sup> Rodrik, “The Turkish Economy after the Global Crisis”, pp. 43-44.

<sup>127</sup> İnel, Aysu and Fazıl Kayıkçı, “Evaluation of Sustainability of Current Account Deficits of Turkey”, *Modern Economy*, No. 3 (2012), p. 49.

## 2.3 Balance of Payments

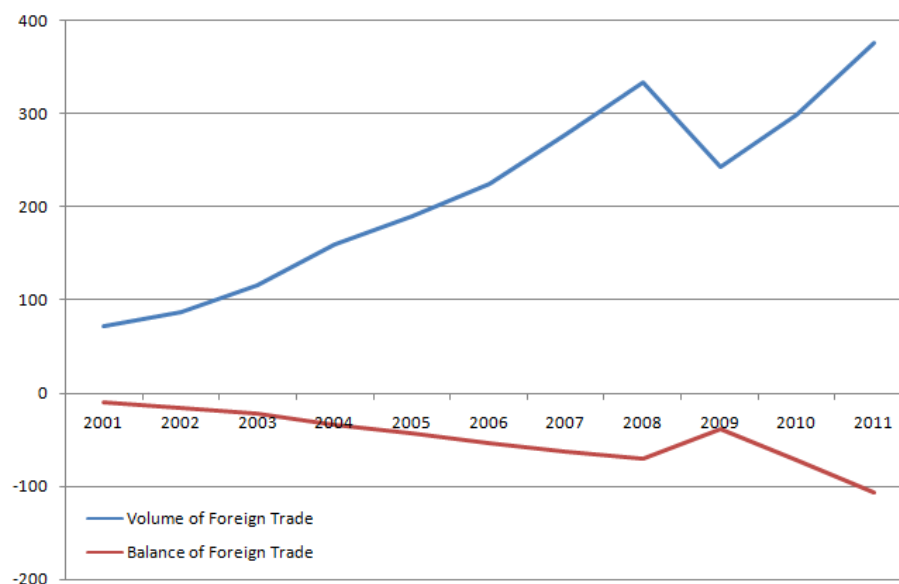


Fig. 2.5. Volume versus balance of Turkish foreign trade, billion US\$<sup>128</sup>.

One perennial difficulty that has plagued Turkey is in meeting its balance of payments requirements. International plans like the Baker initiative, which Turkey subscribed to, were predicated on the idea that middle income countries like Turkey could use a combination of foreign investment and loans to begin producing more exports and grow themselves out of debt<sup>129</sup>. But so far, Turkey's present growth has increased its demand for imports so much that it has resulted in an even bigger current account deficit<sup>130</sup>. This has not been a process unaffected by politics. Turkey's membership of the World Trade Organization (WTO) commits it to keeping its markets open to foreign goods, no matter how damaging they may be to Turkey's domestic producers. And Turkey's involvement in the European Union customs union further limits its power over its trade relations with other countries. In

<sup>128</sup> "Yıllara Göre Dış Ticaret", TÜİK, [http://www.tuik.gov.tr/VeriBilgi.do?alt\\_id=12](http://www.tuik.gov.tr/VeriBilgi.do?alt_id=12) [accessed 25.07.2012].

<sup>129</sup> William R. Cline, "The Baker Plan and Brady Reformulation: An Evaluation", in Husain, Ishrat and Ishac Diwan (eds.), *Dealing with the Debt Crisis: a World Bank Symposium* (Washington, DC: The World Bank, 1995), pp. 176-178.

<sup>130</sup> "World Databank", *World Bank*.

both cases, the more powerful nations are able to use these organisations to serve their own economic needs by liberalising goods in which they have a comparative advantage and thus helping create Turkey's current account deficit.

### **2.3.1 Trade Liberalisation and the World Trade Organization**

Turkey is also a member of the World Trade Organization (WTO), which was established in order to enforce governments' commitments to free trade<sup>131</sup>. This organisation maintains a nominal equality between its 157 members, yet many of its most important decisions are brokered by "the Quad": Canada, Japan, the United States, and the European Union, of which Britain is a part<sup>132</sup>. This again ensures that developing countries like Turkey are often left underrepresented. The effects of developed world control are clear in the decisions of the WTO courts, which judge what impediments to trade are legitimate and which aren't. For example, the World Trade Organization has allowed the United States to ban Thai shrimp caught in nets which could endanger turtles, yet has punished countries trying to force the labelling of genetically modified foods, which are predominantly produced using seed technology licensed from the United States<sup>133</sup>. In Turkey's case, this means it is not allowed to protect its infant industries from foreign competition, but that its agricultural products are not guaranteed to be able to compete on equal terms in foreign markets.

The WTO has the power to enforce its agreements by allowing countries to impose trade restrictions on those who have violated the WTO agreements to their detriment<sup>134</sup>. How effective a tool this is, of course, depends on the relative importance of their economies to one another: if Britain and Turkey should choose to

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<sup>131</sup> "About the WTO – A statement by the Director-General", *WTO*,

[http://www.wto.org/english/thewto\\_e/whatis\\_e/wto\\_dg\\_stat\\_e.htm](http://www.wto.org/english/thewto_e/whatis_e/wto_dg_stat_e.htm) [accessed 27.08.2012].

<sup>132</sup> "Membership, Alliances, and Bureaucracy", *WTO*,

[http://www.wto.org/english/thewto\\_e/whatis\\_e/tif\\_e/org3\\_e.htm](http://www.wto.org/english/thewto_e/whatis_e/tif_e/org3_e.htm) [accessed 27.08.2012].

<sup>133</sup> Stiglitz, Joseph, *Making Globalization Work* (London: Penguin Books, 2006), pp. 129-130, 176-177.

<sup>134</sup> Stiglitz, *Making Globalization Work*, pp. 75-76.



mutually restrict trade, they may each lose the same amount of business but the proportional effect will harm Turkey much more. Moreover, the free trade agreements which have been concluded have only liberalised those areas of trade where developed countries have a comparative advantage, freeing capital flows but not labour flows and removing tariffs and subsidies from industrial goods but not agricultural ones. In total, about 70% of the gains from WTO agreements go to the 15% of the world which is already developed<sup>135</sup>. Nonetheless, Turkey would lose out a great deal if it left the organisation or decided to reverse its economic liberalisation, since it could potentially lose access to export markets across the world.

### 2.3.2 The EU and its Customs Union

Britain has long been an outspoken advocate of Turkish EU membership, and the British government describes itself as Turkey's strongest supporter in the EU<sup>136</sup>. This is in stark contrast to the position of the French and German governments, which say that Turkey should be given a "privileged partnership" instead<sup>137</sup>. David Cameron was right to emphasise that Turkey's entry to the EU would increase its economic, military and political strength<sup>138</sup>, but Britain also sees Turkey as a useful ally in the EU for less altruistic reasons. Both Britain and Turkey combine Atlanticist foreign policies with relatively free market economic policies, meaning that they would be able to form a combined counterweight to the Franco-German alliance which now

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<sup>135</sup> Stiglitz, *Making Globalization Work*, p. 78

<sup>136</sup> "UK-Turkey Relations and Turkey's Regional Role: Written Evidence From the Foreign and Commonwealth Office", *UK Parliament*, <http://www.publications.parliament.uk/pa/cm201012/cmselect/cmfaff/1567/1567we02.htm> [accessed 08.10.2012].

<sup>137</sup> Bila, Sibel Utku, "Cameron 'Angry' at Slow Pace of Turkish EU Talks", *L'Agence France Presse*, 27.07.2010. <http://www.google.com/hostednews/afp/article/ALeqM5i0fq8SXM-21FOXT329w44iHDr1Vg> [accessed 20.11.2012].

<sup>138</sup> Cameron, David, "PM's Speech in Ankara", *Number10.gov*, <http://www.number10.gov.uk/news/pms-speech-in-turkey/> [accessed 08.10.2012].

prevails within the EU governing apparatus<sup>139</sup>. Turkey's biggest step towards EU membership so far has been to become a part of the EU customs union.

As part of its quest to enter the European Union as a full member, Turkey has further committed itself to the path of liberalisation through the enactment in 1995 of a European Union-Turkey customs union. This has all of the features of the full European Union customs union with an exception for agriculture, which the EU will keep their protectionist tariffs on. Since Turkey's agricultural sector is well-developed, Turkey is losing out from European Union agricultural protectionism<sup>140</sup>. This customs union binds Turkey to reducing its tariff rates to zero for all but agricultural products coming from the EU, and also to reducing its tariff rates to the EU-approved ones for third countries. Hence, almost every country in the world gained better access to Turkish markets as a result of this agreement<sup>141</sup>, even if they are not reciprocating by granting Turkey better access to their own<sup>142</sup>. At the same time, Turkey is forbidden from making its own bilateral economic agreements with non-EU states without the acquiescence of the EU<sup>143</sup>. This state of affairs has even caused the current Turkish government to threaten to leave the customs union<sup>144</sup>. In addition, Turkey will have to begin applying EU competition rules, meaning that it is barred from using the state to aid the development of particular economic sectors<sup>145</sup>. Since Turkey isn't a full EU member, it will not even have a say in the shaping of future rules that it will have to adopt in order to remain part of the customs union.

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<sup>139</sup> Meral, Ziya, "UK and Turkey: A New Alternative European Alliance?", *Huffington Post UK*, [http://www.huffingtonpost.co.uk/ziya-meral/uk-and-turkey-a-new-alter\\_b\\_1142461.html](http://www.huffingtonpost.co.uk/ziya-meral/uk-and-turkey-a-new-alter_b_1142461.html) [accessed 09.10.2012].

<sup>140</sup> Frieden, Jeffrey A., "Invested Interests: The Politics of National Economic Policies in a World of Global Finance", *International Organization*, 45:4 (1991), pp. 434-437. According to the Stolper-Samuelson theorem, it is scarce resources and forms of production which gain from economic protection or lack of trade.

<sup>141</sup> Togan, Sübidey, "The EU-Turkey Customs Union: A Model for Future Euro-Med Integration", *MedPro Technical Report*, No. 9 (2012), p. 2.

<sup>142</sup> Akman, M. Sait, "The European Union's Trade Strategy and its Reflections on Turkey: An Evaluation from the Perspective of Free Trade Agreements", *Dokuz Eylül Üniversitesi Sosyal Bilimler Enstitüsü Dergisi*, 12:2 (2010), pp. 25-26.

<sup>143</sup> "1/95 Sayılı Ortaklık Konseyi Kararı (Gümrük Birliği Kararı)", *Türkiye Cumhuriyeti Dışişleri Bakanlığı*, <http://www.mfa.gov.tr/1-95-sayili-ortaklik-konseyi-karari-gumruk-birligi-karari.tr.mfa> [accessed 09.10.2012].

<sup>144</sup> Bozkurt, Abdullah, "Suspending Customs Union with EU", *Today's Zaman*, 06.01.2012.

<sup>145</sup> Togan, Sübidey, "The EU-Turkey Customs Union", p. 11.

## 2.4 Conclusion

As shown in the EU example, Turkey has opened up its economy to all foreign investment, whether productive or rent-seeking, and has not only removed all barriers to western industrial goods entering the country, but also given up its right to determine its own international trade policy. In doing so, it has created two structural weaknesses, both of which have only become threats in the period 2002-2012. First, it has allowed enormous amounts of hot money to freely enter the Turkish economy, partially driving out better investment and meaning that any future crisis will have a much more serious effect on the Turkish economy. Secondly, it has led to a large balance of payments deficit, which makes Turkey dependent upon foreign aid and investment continuing at high levels. From the British perspective, the benefits are clear. British investors and finance companies can reap high levels of interest in Turkey with little risk of losing their investments, since they are free to sell up at a moment's notice in a time of crisis. And British companies are free to sell their wares in the lucrative Turkish market on an even footing with their Turkish competitors without contributing very much to the Turkish economy. The trade and finance liberalisation adopted by the Turkish government at the behest of the IMF has led to a situation in which international organisations, multinational companies and foreign governments have much greater power over the way Turkey's economy is run.

## CHAPTER THREE

### POLITICAL PROMOTION OF BRITISH ECONOMIC INTERESTS

#### 3.1 Introduction

In recent years the British government has made promoting British business in Turkey a high priority. At the same time, the Turkish government needs foreign direct investment from countries like Britain to fuel its economy. Economy Minister Zafer Çağlayan has gone so far as to say that he hopes that Turkey can become the world leader in attracting FDI.<sup>146</sup> For this reason, the British and Turkish governments have undertaken a wide range of actions in order to help British companies enter and thrive in Turkish markets. In this chapter I am going to look at how the political promotion of British companies works in Turkey, how some deals are almost entirely political and correspondingly how British investments in Turkey can have political consequences. In doing so I show that bilateral trade and investment is a politically managed and inherently political action in today's Turkey. I will consider political involvement in the investment process, in an order roughly running from most to least official. First, I will briefly look at government to government relations, and how economic affairs have been made a priority in official relations. Secondly, I will look at the British apparatus of trade promotion, which includes a businessmen's forum, a trade and investment promotion agency and non-governmental chambers of commerce. Finally, I will look at a case study of one of the most politicised forms of sales and investment, the arms industry, and how different layers of government have provided British arms company BAE Systems with different kinds of assistance at different times. In each case, the commonalities

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<sup>146</sup> "Interview: Zafer Çağlayan: Bridging the Gap", *The Business Year*, <http://www.thebusinessyear.com/> [accessed 31.10.2012, interview conducted 2012]. An unlikely goal, since Turkey's net FDI has never yet reached a tenth of that of the United States. "World Databank", *World Bank*.

are how political agency secures or enhances opportunities for profitable British investment in Turkey.

### 3.2 Official Relations

Official relations between Britain and Turkey have been warm during the AKP period, and this has gone hand in hand with the maintenance of strong economic relations. The governments of the two countries have found common ground on most issues, and even where they have disagreed, it has been in an amicable way. Moreover, the two countries have been in constant development of their relationship at many different levels, whether at international summits, reciprocal visits or on the telephone. This stable political relationship has both benefitted and benefitted from increased levels of British trade and investment in Turkey.

The most important, but far from only, official show of the importance of the relationship to Britain came with the Queen's visit to Turkey in 2008, her first since 1971<sup>147</sup>. The visit was planned for a crucial time: Turkey's assessment of its chances of entering the EU was dimming and thus the importance of British support for Turkey's entry had lessened. The emphasis of the speeches was consequently not only on Britain as Turkey's ally in Europe but also the benefits of closer economic co-operation<sup>148</sup>. During her 4-day stay, the Queen managed a symbolic visit to the Bursa Chamber of Commerce, whilst Prince Philip visited Turkish car manufacturer TOFAŞ<sup>149</sup>, which is a joint venture between Italian company Fiat and the Koç family<sup>150</sup>. In 2010, President Gül again met the Queen, this time at an awards

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<sup>147</sup> "Outward State Visits Since 1952", *The Official Website of the Queen's Diamond Jubilee*, <http://www.thediamondjubilee.org/outward-state-visits-1952> [accessed 31.10.2012].

<sup>148</sup> "Kraliçe II. Elizabeth Türkiye'ye Geldi", *CNN Türk*, <http://www.cnntrk.com/2008/turkiye/05/13/kralice.ii.elizabeth.turkiyeye.geldi/458325.0/index.html> [accessed 11.11.2012].

<sup>149</sup> "Britain's Queen Elizabeth's Visit to Turkey Continues", *Hürriyet Daily News*, 11.05.2008.

<sup>150</sup> "Yerli Otomobil'in Sahibi Belli Oldu", *NTVMSNBC*, <http://www.ntvmsnbc.com/id/25314240/> [accessed 20.11.2012].

ceremony to celebrate his nomination as “Statesman of the Year” by British establishment think tank Chatham House<sup>151</sup>.

President Gül reciprocated with a state visit of Britain in 2011, the first from a Turkish head of state since President Kenan Evren in 1988<sup>152</sup>. One highlight of the trip was his being the keynote speaker at the annual conference of the Confederation of British Industry (CBI)<sup>153</sup>, which calls itself “the UK’s top business lobbying organisation” and promises that “our unmatched influence with government, policymakers and legislators means we can get the best deal for business – at home and abroad”<sup>154</sup>. The President of the CBI was Sir Roger Carr, who had been CEO of Thames Water when it had completed its £530 million investment in Turkey’s Izmit Water Supply Project over a decade before<sup>155</sup>. Another honour of President Gül’s London visit was to open the Tatlıdil British-Turkish businessmen’s conference<sup>156</sup>. At the official banquet held in Gül’s honour, the guests invited by Gül included journalists and newspaper editors, politicians, the chairman of the Turkish Union of Chambers of Commerce and Commodity Exchanges (TOBB), the deputy chairman of the Turkish Union of Exporters, British Ambassador to Turkey David Reddaway, and the businessmen heading the Doğan, Doğuş, Gürmen, Kibar and Akfen Groups of companies. Those invited by the British government included the Archbishop of Canterbury and other senior politicians and civil servants, the Chair of the British Council, the Chairman of Chatham House, the heads of United Kingdom Trade and Industry (UKTI) and Turkish-British business groups, the Lord Mayor of Westminster, and many representatives of British and Turkish businesses<sup>157</sup>.

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<sup>151</sup> “Cumhurbaşkanı Gül’e 'Yılın Devlet Adamı' Ödülünü Kraliçe Verdi”, *T.C. Cumhurbaşkanlığı*, <http://www.tccb.gov.tr/sayfa/ziyaretler/ingiltere-ozel/chatham-house/> [accessed 31.10.2012].

<sup>152</sup> “İngiltere Özel”, *T.C. Cumhurbaşkanlığı*, <http://www.tccb.gov.tr/sayfa/ziyaretler/ingiltere-ozel/> [accessed 31.10.2012].

<sup>153</sup> “Kraliçe Locasında Klasik Müzik Keyfi”, *Hürriyet*, 21.11.2011.

<sup>154</sup> “CBI: The UK’s Top Business Lobbying Organisation”, *Confederation of British Industry*, <http://www.cbi.org.uk/> [accessed 31.10.2012].

<sup>155</sup> “Izmit Domestic and Industrial Water Supply Project, Turkey”, *water-technology.net*, <http://www.water-technology.net/projects/izmit/> [accessed 31.10.2012].

<sup>156</sup> “Gül, Londra’da CEO Forumu’na Katılacak”, *Milliyet*, 21.11.2011.

<sup>157</sup> Douglas Flint, Group Chairman of HSBC; Rahmi Koç, President of Koç Holdings; Philip Dilley, Chairman of the Arup engineering Group; Ragip Balcıoğlu, Director of Beko Plc.; Franz Humer, Chairman of Diageo; Gerard Kleisterlee, Chairman of Vodafone; Dick Olver, Chairman of BAE Systems and John Nelson, Chairman of Lloyds of London. “Who Ate the Queen’s Halal Nosh?”

The AKP period also saw a large number of official visits at prime ministerial level with business concerning the EU and commercial links. Tony Blair visited Turkey in 2004, an event overshadowed by bombings of branches of British bank HSBC, in order to negotiate with President Sezer and Prime Minister Erdoğan on the subject of EU entry<sup>158</sup>. Blair returned in December 2006 almost immediately after EU members voted to suspend talks on EU entry over the Cyprus issue, pledging his continued support for Turkish membership<sup>159</sup> and even promising to support direct flights from the UK to Northern Cyprus<sup>160</sup>. When Prime Minister Cameron visited in 2010, he sought to win Turkish affection by criticising EU leaders for not allowing Turkey to become a member and criticising Israel – which had poor relations with Turkey at that time - for its policies on the Gaza strip<sup>161</sup>. But although his comments on foreign affairs took the headlines, Cameron’s speech was addressed to TOBB and included a pledge to double trade with Turkey within five years<sup>162</sup>. Before the trip, the news had broken that it was “part of an effort to focus the UK's foreign policy on winning trade and investment deals”<sup>163</sup>. And the most substantial outcome of Cameron’s visit was the signing of a wide-ranging strategic partnership which committed both countries to increasing bilateral trade and investment under the auspices of a newly-formed Joint Economic and Trade Committee (JETCO)<sup>164</sup>. The JETCO is an annual meeting of the two countries’ trade ministries carried out in order to advance their commercial relationship<sup>165</sup>.

Prime Minister Erdoğan reciprocated with regular visits to London. His first was immediately after his election in 2002, as part of a tour of Europe designed to

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*Christian Voice*, <http://www.christianvoice.org.uk/index.php/who-ate-the-queens-halal-nosh/> [accessed 22.11.2012].

<sup>158</sup> “Bombings Overshadow Blair’s Visit to Turkey”, *The Daily Telegraph*, 17.05.2004.

<sup>159</sup> “Blair to Pay a Surprise Visit to Turkey on Friday”, *USAK: Journal of Turkish Weekly*, 14.12.2006.

<sup>160</sup> “Locking Horns: Intransigence on Both Sides is Holding the Country Back From the EU”, *Oxford Business Group*, <http://www.oxfordbusinessgroup.com/news/locking-horns-intransigence-both-sides-holding-country-back-eu-0> [accessed 31.10.2012].

<sup>161</sup> “David Cameron Accuses France and Germany of Double Standards over Turkey”, *The Guardian*, 27.07.2010.

<sup>162</sup> “PM’s Speech in Turkey”, *Number10.gov.uk*, <http://www.number10.gov.uk/news/pms-speech-in-turkey/> [accessed 01.11.2012].

<sup>163</sup> “David Cameron Flies to Turkey to Drum Up UK Trade”, *London Evening Standard*, 26.07.2010.

<sup>164</sup> “Strategic Partnership”, *British Embassy Ankara*, <http://ukinturkey.fco.gov.uk/en/about-us/working-with-turkey/bilateral-relation/strategic-partnership> [accessed 01.11.2012].

<sup>165</sup> Çeviköz, Ünal, “Embassy Announcement”, *Turkish Embassy in London*, <http://london.emb.mfa.gov.tr/ShowAnnouncement.aspx?ID=150255> [accessed 20.11.2012].

encourage EU members to support Turkish entry<sup>166</sup>. Erdoğan's first visit to the EU after Turkey began EU accession negotiations was back to London, where the British government tried to solve the Cyprus issue by mediating between Erdoğan and Greek Cypriot leader Papadopoulos<sup>167</sup>. Upon returning home, Erdoğan sent Britain Turkey's application to begin the EU accession process<sup>168</sup>. When he returned in 2010 it was for the first Tatlıdil meeting, but the occasion was somewhat soured by the presence of an Early Day Motion (EDM) in the House of Commons to recognise the mass killing of Armenians in 1915 as "genocide" and to institute a day of remembrance<sup>169</sup>. Then in 2011 Erdoğan visited with ministers including his economic minister in order to discuss trade, international development and the situation in Libya, as well as urging the relaxation of visa restrictions for Turkish businessmen<sup>170</sup>. Finally, he returned this year in an official capacity to attend the Olympics<sup>171</sup>. According to leaked Wikileaks documents, Erdoğan had also come to London to speak off the record at a Chatham House reception in 2009<sup>172</sup>.

Finally, there were many reciprocal visits from foreign ministers. Just taking British foreign ministers alone, Jack Straw, Margaret Beckett, David Miliband and William Hague visited Turkey in 2004<sup>173</sup>, twice in 2007<sup>174</sup>, then again in 2009<sup>175</sup> and 2010<sup>176</sup>. The EU dominated the proceedings in the early part of the 2000s as Britain

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<sup>166</sup> "Erdoğan, Berlin'den Londra'ya Giderken Soruları Yanıtladı", *Milliyet*, 20.11.2002.

<sup>167</sup> "Erdoğan Londra'ya Gitti" *CNN Türk*

<http://www.cnntrk.com/2005/turkiye/07/26/erdogan.londraya.gitti/113537.0/> [accessed 11.11.2012].

<sup>168</sup> Because Britain held the EU Presidency that year. "Ek Protokol Londra Dönüşü İmzalanır", *Yeni Şafak*, 27.07.2005.

<sup>169</sup> "Erdoğan Londra'da 'Soykırım Uyarısı' Yapacak", *Milliyet*, 15.03.2010.

<sup>170</sup> "Başbakan Erdoğan Londra'da", *CNN Türk*,

<http://www.cnntrk.com/2011/dunya/03/30/basbakan.erdogan.londrada/611673.0/index.html> [accessed 11.11.2012].

<sup>171</sup> "Londra'ya Tarihi Çıkarma", *Sabah*, 22.07.2012.

<sup>172</sup> "Turkish PM Erdoğan on Economy and Politics", *The Daily Telegraph*,

<http://www.telegraph.co.uk/news/wikileaks-files/london-wikileaks/8305211/Turkish-PM-Erdogan-on-Economy-and-Politics.html> [accessed 16.11.2012].

<sup>173</sup> "Gül ile Straw'un Ortak Basın Toplantısı", *TC Avrupa Birliği Bakanlığı*,

<http://www.abgs.gov.tr/index.php?p=34228Zl=1> [accessed 01.11.2012].

<sup>174</sup> "İngiltere Dışişleri Bakanı Margaret Beckett'in Ülkemizi Ziyareti", *TC Dışişleri Bakanlığı*,

[http://www.mfa.gov.tr/no\\_51--\\_23-mart-2007\\_-ingiltere-disisleri-bakani-margaret-beckett\\_in-ulkemizi-ziyareti-hk\\_.tr.mfa](http://www.mfa.gov.tr/no_51--_23-mart-2007_-ingiltere-disisleri-bakani-margaret-beckett_in-ulkemizi-ziyareti-hk_.tr.mfa) [accessed 01.11.2012]; "Miliband Reaffirms British Support for Turkey EU Bid", *Reuters*, <http://uk.reuters.com/article/2007/09/05/uk-turkey-britain-eu-idUKL0584853820070905> [accessed 20.11.2012].

<sup>175</sup> "Transcript: British Foreign Secretary David Miliband", *Hürriyet Daily News*, 11.05.2009.

<sup>176</sup> "Davutoğlu, William Hague ile Biraraya Geldi", *HaberKıbrıs*,

[http://haberkipris.com/n.php?n=a9ca3b7f-2010\\_07\\_27](http://haberkipris.com/n.php?n=a9ca3b7f-2010_07_27) [accessed 11.11.2012].



negotiated on Turkey's behalf. With one day left before the theoretical deadline for Turkey's application process to begin, British ambassador to Turkey Peter Westmacott stayed at the AKP headquarters long into the night, working to help the Turkish bid<sup>177</sup>. As Jack Straw recounts in his memoirs, "I offered Abdullah [Gül] one form of words. No good. Then another. No good either. I asked Condi [Condoleeza Rice] if she could work the phones for me, which she did... I then asked Tony [Blair] in London, if he would call Erdoğan for one last push."<sup>178</sup> Straw was later awarded the Republic medal by Gül for his efforts<sup>179</sup>, which was the highest honour a non-head of state could receive<sup>180</sup>. But after 2005, trade and investment took priority. In 2011 this shift was formalised: instead of a visit by the Foreign Minister, Cameron sent Vince Cable, an economist with the role of Secretary of State for Business, Innovation and Skills<sup>181</sup>. Cable brought with him a delegation of British businessmen from firms including arms manufacturers Rolls Royce and BAE Systems, pharmaceutical company GlaxoSmithKline, financial services company Legal and General<sup>182</sup>, architects Foster and Partners and retailers Tesco Kipa. They met members of the Confederation of Turkish Businessmen and Industrialists (TUSKON)<sup>183</sup> and a free-market think tank, the Economic Policy Research Foundation of Turkey (TEPAV)<sup>184</sup>. Then at the Istanbul Finance Summit he gave a speech advocating a partnership in which Turkish and British businesses would collude to make Istanbul into a global financial centre. He had even picked out the British partners interested in the project: lobbying groups The CityUK and London Z

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<sup>177</sup> Ekşi, Özgür, "En Güzel Sonuç", *Hürriyet*, 05.10.2005. Interestingly, Westmacott's close links with President Gül and the AKP later earned him a place in a conspiracy theory in which he was controlling them. Akgül, Ahmet, *AKP İntihara Gidiyor: Bizden Söylemesi 1* (Istanbul: Bilge Karınca Yayınları, 2007), pp. 278-284.

<sup>178</sup> Straw, Jack, *Last Man Standing: Memoirs of a Political Survivor*, (Kindle Edition: Macmillan, 2012), Locations 6474-6475.

<sup>179</sup> "Cumhurbaşkanı Gül, Jack Straw'a Cumhuriyet Nişanı Tevcih Etti", *Türkiye Cumhuriyet Cumhurbaşkanlığı*, <http://www.tccb.gov.tr/haberler/170/84124/cumhurbaskani-gul-jack-strawa-cumhuriyet-nisani-tevcih-etti.html> [accessed 10.11.2012].

<sup>180</sup> *Madalya ve Nişanlar Kanunu*, Law No: 2933, <http://www.mevzuat.adalet.gov.tr/html/651.html> [accessed 22.11.2012].

<sup>181</sup> "Türkiye-İngiltere Bilgi Ortaklık Belgesi İmzalandı", *TC Ekonomi Bakanlığı*, <http://www.ibp.gov.tr/haber-goster.cfm?haberkodu=1101239> [accessed 01.11.2012].

<sup>182</sup> Who have a 3.62% holding in BAE Systems. "Major Shareholders: BAE Systems Plc.", *Morningstar*, <http://lt.hemscott.com/SSB/tiles/company-data/forecasts-deals/major-shareholders.jsp?epic=BA.&market=LSE> [accessed 23.11.2012].

<sup>183</sup> "UK Business Secretary Attends TUSKON Luncheon", *TUSKON US*, <http://www.tuskonus.org/tuskon.php?c=17Zs=27Ze=254> [accessed 01.11.2012].

<sup>184</sup> "İngiliz İş Heyeti, Türkiye Ekonomisi Hakkında TEPAV'da Bilgi Aldı", *TEPAV*, <http://www.tepav.org.tr/tr/haberler/s/2347> [accessed 01.11.2012].

Partners, and businesses HSBC, Clifford Chance and DLA Piper<sup>185</sup>. This big project was one more inducement to a further extension of the trade and investment relationship which had boomed throughout the AKP era.

### 3.3 Trade and Investment Promotion

Alongside this intensifying government to government contact, a plethora of government-sponsored and civil-society trade and investment promotion groups have sprung up to cater for the increased British interest in Turkey's markets. The foremost of these include the Tatlıdil Turkish-British businessmen's conference, United Kingdom Trade and Investment, the British Council in Turkey and a range of British business associations within Turkey. Working with and within these organisations are some very influential people from the British and Turkish establishments.

The Tatlıdil ("Sweet Talk") forums are an annual event in their second year at which Turkish and British businesspeople and political figures meet and talk. It's officially a joint initiative between the British and Turkish governments and it was initiated by Turkish Prime Minister Tayyip Erdoğan<sup>186</sup>, but Turkish editorialists have criticised it for being dominated by British business interests<sup>187</sup>. The Tatlıdil forums have been held in Oxfordshire in 2011 and Istanbul in 2012<sup>188</sup>. They are co-chaired by Jack Straw, the former British Foreign Minister who oversaw the opening of Turkey's EU accession negotiations and Turkish former Foreign Minister Yaşar Yakış, who served from 2002-2003<sup>189</sup>. Both are still members of parliament in their respective countries. One of the leading figures behind the Tatlıdil forums is Suzan

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<sup>185</sup> Cable, Vince, "Istanbul Finance Summit", *Department for Business, Innovation and Skills*, <http://www.bis.gov.uk/news/speeches/vince-cable-istanbul-finance-summit-turkey-2011> [accessed 01.11.2012].

<sup>186</sup> "Türkiye-İngiltere 'Tatlıdil Forumu' Sona Erdi", *Zaman*, 09.10.2011.

<sup>187</sup> Munyar, Vahap, "İngiltere İle İşleri Tatlı Dil Büyütecek", *Hürriyet Yazarlar*, <http://www.hurriyet.com.tr/yazarlar/18725325.asp> [accessed 01.11.2012].

<sup>188</sup> "Büyükelçi Çeviköz: Tatlıdil Forumu, İngiltere İle İyi İlişkilerimizin Bir Sonucu", *Bugün*, 09.10.2012.

<sup>189</sup> "Second Edition of Turkey-Britain Tatlı Dil Forum to Be Held in Istanbul", *Anadolu Ajans*, <http://www.aa.com.tr/en/news/88652--yh> [accessed 01.11.2012].

Sabancı Dinçer, a member of the Sabancı dynasty and still head of the board of directors at the group's bank, Akbank<sup>190</sup>. She is the head of the Turkish British Business Council (TBBC), as well as a board member of influential British establishment think tank Chatham House. In addition, she is a member of the Turkish Industry and Business Association (TÜSİAD), Turkey's largest businessmen's association, and attends the annual Bilderberg summit alongside representatives of British business and political life<sup>191</sup>. The British government awarded her a CBE for her contribution to Turkish-British relations this year<sup>192</sup>. Other important figures who have attended the summits include Turkish Foreign Minister Ahmet Davutoğlu, EU Foreign Affairs Representative Catherine Ashton and representatives of major business interests from both countries<sup>193</sup>.

Another important initiative from the perspective of British business is United Kingdom Trade and Investment (UKTI), a British government department which aims to encourage British businesses to succeed in foreign markets. To that end, it has a series of offices throughout the world integrated into the British embassy and consulate network, including offices in Ankara, Istanbul and Izmir<sup>194</sup>. The minister in charge of UKTI is Lord Stephen Green, who frequently visits Turkey to encourage British business. Lord Green was the Group Chairman of HSBC at the time when the group bought Turkey's Demirbank and he remained with the group until 2010<sup>195</sup>. The Chief Executive of UKTI, meanwhile, is Nick Baird, who was British Ambassador to Turkey between 2006-2009 and remains a participant at the Tatlıdil forum<sup>196</sup>. UKTI has also established firm ties with some Turkish businesses. For example, the costs of its "British Business Showcase" in London for the Olympic

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<sup>190</sup> "Suzan Sabancı Dinçer", *Suzan Sabancı Dinçer*, <http://www.suzansabancidincer.com/> [accessed 01.11.2012].

<sup>191</sup> "Suzan Sabancı Dinçer" *Suzan Sabancı Dinçer*.

<sup>192</sup> "Suzan Sabancı Dinçer'e Onursal Mükemmeliyet Önderliği Nişanı", *Akşam*, 06.10.2012.

<sup>193</sup> "No:224, 6 October 2011, Press Release Regarding the "British-Turkish Tatlıdil Forum", *Republic of Turkey Ministry of Foreign Affairs*, <http://www.mfa.gov.tr/> [accessed 01.11.2012].

<sup>194</sup> "Offices in Turkey", *UKTI*, <http://ukinturkey.fco.gov.uk/en/business/contacts-and-offices-sectors/offices-in-turkey> [accessed 11.11.2012].

<sup>195</sup> "HSBC Group Chairman to Step Down to Become UK Minister of State for Trade and Investment", *HSBC*, <http://www.hsbc.com/1/2/newsroom/news/2010/group-chairman> [accessed 01.11.2012].

<sup>196</sup> "Our CEO – Nick Baird", *UKTI*, <http://www.ukti.gov.uk/uktihome/aboutukti/keypeople/ourceo.html> [accessed 01.11.2012].

Games were paid by Beko Plc, a British division of Turkey's Koç Holdings<sup>197</sup>. UKTI has also been involved in controversy back in Britain. In countries like Turkey it sponsors and protects companies such as Vodafone and Tesco<sup>198</sup> which avoid tax in the UK, leading protestors to question why those companies are being given state help<sup>199</sup>.

The British Council is involved in promoting cultural and economic relations between Britain and other countries. It is funded by the British government but operates semi-independently<sup>200</sup>. It operates offices in Ankara and Istanbul and uses them to promote the English language, British culture, English literature and higher education in Britain<sup>201</sup>. In recent years it has put particular emphasis on recruiting Turkish students to British universities. It has also enlisted British government support for its proposal for British universities to open campuses or a joint British-Turkish university in Turkey. Two universities responded to its appeal to enter the Turkish market: Westminster University, an ex-polytechnic which is among the most popular for outgoing Turkish students<sup>202</sup>, and the University of Liverpool, a Russell Group university which has already set up a separate university in China<sup>203</sup>. The first joint university programme between a Turkish and a British university has already begun: students at Istanbul Bilgi University can now opt to take their final year at the University of Liverpool and obtain a degree accredited jointly by that university and by the Turkish authorities<sup>204</sup>. The head of negotiations towards opening a British university in Ankara under the auspices of Westminster University is Dr. Harvey

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<sup>197</sup> Çakır, Tolga, "Turkish Investor KOC Sponsors UKTI's British Business Showcase", <http://www.turkishnews.com/en/content/2012/08/05/turkish-investor-koc-sponsors-uktis-british-business-showcase/> [accessed 01.11.2012].

<sup>198</sup> "En İyi Ticaret Promosyon Organizasyon Ödülü UKTI'nin", *Hürriyet*, 26.10.2010.

<sup>199</sup> "Vodafone", *UK Uncut*, <http://www.ukuncut.org.uk/targets/4> [accessed 01.11.2012].

<sup>200</sup> "Management and Structure", *British Council*, <http://www.britishcouncil.org/about/management> [accessed 03.11.2012].

<sup>201</sup> "British Council", *British Council Türkiye*, <http://www.britishcouncil.org/tr/turkey.htm> [accessed 03.11.2012].

<sup>202</sup> "Dünya'daki En Gözde Üniversiteler", *Hürriyet*, <http://fotoanaliz.hurriyet.com.tr/galeridetay.aspx?cid=53650&rid=4369&p=1> [accessed 22.11.2012].

<sup>203</sup> "Select Committee on Business and Enterprise Eighth Special Report", *UK Parliament*, <http://www.publications.parliament.uk/pa/cm200708/cmselect/cmberr/1070/107004.htm> [accessed 03.11.2012]. "University of Liverpool", *Russell Group*, <http://www.russellgroup.ac.uk/our-universities/3779-university-of-liverpool/> [accessed 22.11.2011].

<sup>204</sup> "Global University - Taking Our Place in the 21st Century World", *University of Liverpool*, <http://www.liv.ac.uk/about/global-university/> [accessed 01.11.2012].

Marshall, a Conservative councillor and the former Lord Mayor of Westminster<sup>205</sup>. He is also head of the Turkish-British Chamber of Commerce and Industry, one of many civil society organisations in Turkey.

There are a considerable number of civil society organisations aiming to promote bilateral trade and British investment in Turkey. The British Chamber of Commerce of Turkey (BCCT) organises trade missions, matches small and medium enterprises and organises other events intended to help British businesses find Turkish partners<sup>206</sup>. The Turkish-British Chamber of Commerce and Industry (TBCCI) helps British companies to establish themselves in the country and publishes a newsletter for the British business community<sup>207</sup>. The Turkish British Business Council (TBBC), meanwhile, is part of the Turkish Chambers of Commerce (TOBB) and it organises finance and investment seminars in London and has a special focus on helping British companies secure contracts to provide public services in Turkey<sup>208</sup>. Finally, Business Network is a group primarily directed at people of Turkish extraction living in the UK, but it also aims to “matchmake” Turkish and British small and medium enterprises and publishes a glossy magazine aimed at joint Turkish-British businesses<sup>209</sup>. One frequent speaker at conferences hosted by these institutions is Turkish Finance Minister Mehmet Şimşek. After graduating from the University of Essex, Mehmet Şimşek worked as an economist first at the American Embassy in Ankara and later at Merrill Lynch in London. He claims to have left Merrill Lynch after 7 years to become an AKP member of parliament because he was so impressed by the effort the party was making to try to convince London traders to invest in Turkey<sup>210</sup>. During his tenure as Turkey’s

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<sup>205</sup> “Councillor Information”, *City of Westminster*, [http://transact.westminster.gov.uk/cttee/committee1/cldr.cfm?cldr\\_id=32](http://transact.westminster.gov.uk/cttee/committee1/cldr.cfm?cldr_id=32) [accessed 01.11.2012].

“Interview with Dr. Harvey Marshall, Chairman of the TBCCI”, *Turkish British Chamber of Commerce and Industry Newsletter*, January 2010.

<sup>206</sup> “The British Chamber of Commerce of Turkey”, *British Chamber of Commerce of Turkey*, <http://www.bcct.org.tr/> [accessed 01.11.2012].

<sup>207</sup> “TBCCI”, *Turkish British Chamber of Commerce and Industry*, <http://www.tbcci.org/> [accessed 01.11.2012].

<sup>208</sup> “Turkey – Now”, *Dış Ekonomik İlişkiler Kurulu*, <http://www.turkey-now.org/Default.aspx?mID=131> [accessed 01.11.2012].

<sup>209</sup> “Business Network”, *Business Network*, <http://www.biznet-uk.org/> [accessed 01.11.2012].

<sup>210</sup> “New Faces in AKP”, *European Stability Initiative*, <http://www.esiweb.org/index.php?lang=enZid=244> [accessed 01.11.2012].

Economic Minister he obtained British citizenship, causing a minor scandal in the Turkish press<sup>211</sup>.

### **3.4 Political Business Promotion: The Case of BAE Systems**

The British government has not only set up forums and trade fairs for businessmen and politicians to make contact, it also encourages the development and survival of its national champions through more robust means. In order to demonstrate this, BAE Systems will be considered as a case study of some of the ways that the British government has promoted British trade and some of the ways that British companies seek government support. BAE Systems is one of the world's largest arms manufacturers and makes up the bulk of British arms sales to Turkey<sup>212</sup>. It both directly sells arms manufactured in Britain and it produces arms in Turkey. In the arms industry, standard practice is for one government to sell the arms of its arms companies to another government rather than for governments to directly deal with civilian companies. However, the British government has gone beyond this, helping BAE Systems sell its arms in Turkey and elsewhere by subsidising it in times of trouble, having politicians lobby directly on its behalf and by covering up evidence of bribery and corruption. Although it has received punishment from the US Government, BAE Systems continues to conduct its affairs in an opaque way with links to British intelligence services.

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<sup>211</sup> Yılmaz, Önder, "Bakan Şimşek 'Çifte Vatandaş'", *Milliyet*, 08.10.2007. He was entitled to apply for British citizenship because he had lived there for over 5 years. "Who Can Apply for British citizenship and Other Forms of British Nationality?", *UK Border Agency*, <http://www.ukba.homeoffice.gov.uk/britishcitizenship/eligibility/> [accessed 22.11.2012].

<sup>212</sup> Norton-Taylor, Richard, "BAE Tops List of Global Arms Manufacturers", *The Guardian*, 12.03.2012.

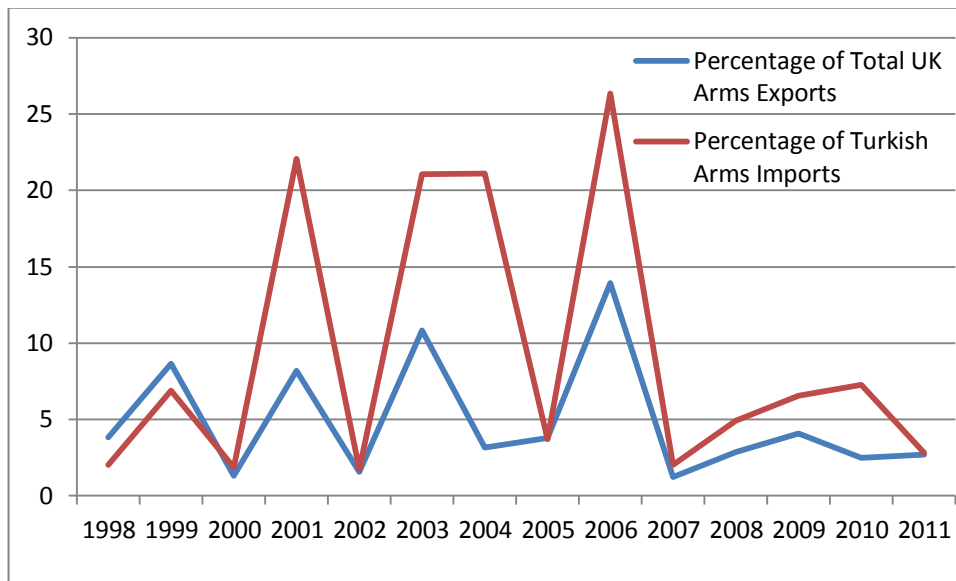


Fig 3.1 British arms exports to Turkey as a percentage of total British arms exports and imports of British arms as a percentage of total Turkish arms imports, 1998-2011<sup>213</sup>.

The British-Turkish arms relationship is an important one, and BAE Systems is at the centre of the relationship. Britain is the 5th largest exporter of arms globally, and Turkey the 6th largest importer<sup>214</sup>. Turkey was made a United Kingdom Trade and Investment Defense and Security Organisation (UKTI DSO) “priority market” in 2006, and has remained so ever since, with their present delegation to Turkey including an army colonel and a naval commander<sup>215</sup>. BAE Systems is by far the largest arms company in Britain, employing 48,000 people<sup>216</sup>, and the arms industry is the only remaining substantial heavy industry left in the country<sup>217</sup>. The company already has close ties to the British political elite: CEO Dick Olver is a member of

<sup>213</sup> “Top List TIV Tables”, *Stockholm International Peace Research Institute*, <http://armstrade.sipri.org/armstrade/page/toplist.php> [accessed 04.11.2012] and “Strategic Export Controls”, *Foreign and Commonwealth Office*, <http://www.fco.gov.uk/en/publications-and-documents/publications1/annual-reports/export-controls1> [accessed 04.11.2012].

<sup>214</sup> “Top List TIV Tables”, *Stockholm International Peace Research Institute*.

<sup>215</sup> “Prosperity in a Changing World”, *UK Trade and Investment* (London: UK Trade and Investment, 2006), p. 24. “Defence and Security Opportunities”, *UKTI Defence and Security Organisation*, (London: UK Trade and Investment, 2011), pp. 3-4.

<sup>216</sup> Neville, Simon, “EADS Chief Assures Workers that Jobs will be Safe in Planned BAE Merger”, *The Guardian*, 19.09.2012.

<sup>217</sup> Hartley, Keith, “The Economics of the UK Defence Industrial Strategy”, *Security Challenges* 3:2 (2007), pp. 28-29.

Prime Minister David Cameron's Business Advisory Group<sup>218</sup> and before that was on Prime Minister Gordon Brown's equivalent Business Council for Britain<sup>219</sup>. Former Foreign Minister Jack Straw received multiple donations from Lord Thomas Taylor, who was employed as a BAE consultant for over ten years<sup>220</sup>, while the Conservative Party has received nearly £600,000 in donations from Syrian BAE Systems associate Wafic Said and his wife<sup>221</sup>. These close links are reflected in government willingness to subsidise the company at times when it is in trouble. The most recent example of this is in 2003, when it looked like BAE might have to close down some of its aerospace factories due to low sales volume. After "a fierce cabinet battle", the Labour government at the time agreed to automatically award the company a multibillion pound contract for Hawk trainer jets rather than putting it out to competitive tender<sup>222</sup>.

British governmental lobbying effort on behalf of BAE Systems has also been grand in scale. For example, in the run-up to the Turkish navy choosing a supplier for new frigates in 2011, Turkish government representatives met BAE Systems CEO Ian King at the Tatlıdil forum, saw the technology on offer at the UKTI DSO-sponsored Naval Systems Seminar and Exhibition at the Middle East Technical University (ODTÜ) in Ankara<sup>223</sup> and President Abdullah Gül even toured a new BAE Systems ship as part of his state visit to Britain in 2011<sup>224</sup>. British Ambassador to Turkey David Reddaway let it be known beforehand that "[Gül's] visit will have a very important defence component. We expect an agreement to be signed either before or during the visit"<sup>225</sup> and on the second day of the trip, Britain and Turkey

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<sup>218</sup> "Business Advisory Group", *Number10.gov.uk*, <http://www.number10.gov.uk/news/business-advisory-group/> [accessed 04.11.2012].

<sup>219</sup> "Business Council for Britain – Members", *Department for Business, Innovation and Skills*, <http://www.bis.gov.uk/about/who-we-are/bcb/members> [accessed 04.11.2012].

<sup>220</sup> Murray, Craig. "How BAE and a Rather Mysterious Labour Peer Get Rich as our Troops Die", *London Evening Standard*, 01.09.2007.

<sup>221</sup> Evans, Rob and Rajeev Syal, "Questions Raised over Conservative Party Donations by Businessmen's Wives", *The Guardian*, 28.05.2010.

<sup>222</sup> Gow, David, "BAE Wins Cabinet Fight for Hawk Jets Contract", *The Guardian*, 12.06.2012.

<sup>223</sup> "Naval Systems Seminar", *Naval Systems Seminar*, <http://www.navalssystemseminar.com/> [accessed 04.11.2012].

<sup>224</sup> "President of Turkey Tours HMS Dauntless", *Royal Navy*, <http://www.royalnavy.mod.uk/News-and-Events/Latest-News/2011/November/24/111124-HW-Dauntless-Turkey> [accessed 04.11.2012].

<sup>225</sup> Şık, Barkın "İngiltere Gül'den İmza Bekliyor", *Cumhuriyet*, 19.10.2012.



signed a new military co-operation agreement<sup>226</sup>. At the same time, the company pledged to build more armaments in Turkey itself and help Turkey to become a net exporter of arms by 2023<sup>227</sup>. Yet BAE Systems still did not win the contract, which will probably go to Lockheed Martin<sup>228</sup>.

We do not know what private conversations went on between British and Turkish politicians during Gül's state visit, but we know that British politicians have been willing to help sell on BAE Systems' behalf before. Prime Minister Tony Blair was briefed before a 2006 trip to the United Arab Emirates that they were going to buy some more aircraft and to mention BAE Systems<sup>229</sup>. The British government has also not demurred from being personal with Turkey, either. When British alcohol producers were going to be fined for tax evasion, Prime Minister Tony Blair wrote a letter to Prime Minister Tayyip Erdoğan encouraging him to drop the charges, and ultimately succeeded in getting them special exemptions<sup>230</sup>. Therefore it is possible that the British government attempted to personally lobby Turkish politicians on BAE Systems' behalf as well.

BAE Systems also has a long history of being assisted in underhand practices by the British state. Between 1985 and 2005, BAE Systems and its nationalised predecessor British Aerospace earned more than £43 billion in revenue from sales of aircraft to Saudi Arabia. In order to secure the contract, it paid out around £6 billion in bribes during that time, authorised by the Ministry of Defence and its Defence Export Services Organisation (DESO). Among the principal recipients of the bribes were Saudi Prince Bandar and middleman Wafic Said<sup>231</sup>. This was not a lone

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<sup>226</sup> "UK-Turkey sign Military Co-operation Treaty in London", *Vigilance Magazine*, <http://www.vigilance-securitymagazine.com/industry-news/defence-and-security-strategy/1267-uk-turkey-sign-military-co-operation-treaty-in-london> [accessed 18.11.2012].

<sup>227</sup> "BAE Systems Seeks to Jointly Develop a Naval Capability with Turkey", *Defence Turkey Magazine*, <http://www.defpro.com/daily/details/916/> [accessed 18.11.2012].

<sup>228</sup> Ekşi, Özgür, "Lockheed Martin Sole Bidder Left for Frigates", *Hürriyet Daily News*, 21.05.2012.

<sup>229</sup> Vina, Gonzalo, "Blair Says World Faces 'Struggle' Against Extremism", *Bloomberg*, 20.12.2006.

<sup>230</sup> Gökçe, Dinçer, "Viskiye Buz Gibi Af", *Radikal*, 15.02.2011. The issue came up again this year when it was claimed by CHP Parliamentary Group Leader Muharrem İnce that "First Tony Blair talked about it with the President, then David Cameron came to meet him in Ankara. The President promised him that "if we can't do it by the 12th September referendum, we'll make sure it happens afterwards". "Torba Yasa İngiliz Viskisi İçindi", *Kanal B*, 27.11.2012, <http://www.kanalb.com.tr/haber.php?HaberNo=45742#.ULXkGiAeWSp> [accessed 28.11.2012].

<sup>231</sup> Leigh, David and Rob Evans, "Secrets of al-Yamamah", *The Guardian*, <http://www.guardian.co.uk/baefiles/page/0,,2095831,00.html> [accessed 04.11.2012].

exception: it is known that from 1998 onwards bribes from BAE Systems went to South American countries, Tanzania, Romania, South Africa, Qatar, Chile and the Czech Republic<sup>232</sup>. Yet governmental approval from DESO continued and even throughout the 2000s Prime Minister Tony Blair and senior cabinet members interfered to prevent the Serious Fraud Office from properly investigating the issue<sup>233</sup>. In 2007, the American Justice Department decided to act unilaterally to charge BAE Systems under the 1977 Foreign Corrupt Practices Act and when the case was concluded in 2010 the company had to pay a US\$400 million fine<sup>234</sup>.

Yet a more recent scandal in Britain has shown that the company may still be trying to buy political influence. Adam Werritty was a close friend of Defence Minister Liam Fox and was the director of a charitable trust, Atlantic Bridge UK<sup>235</sup>. Liam Fox was forced to resign from his post as Defence Minister when it emerged that Werritty had accompanied Fox on 18 separate official overseas visits<sup>236</sup> and attended 22 Ministry of Defence meetings despite not being employed by the Ministry of Defence<sup>237</sup>. Werritty was so omnipresent in the Ministry of Defence that the Israeli intelligence service Mossad believed that he was Fox's chief of staff and he was able to arrange meetings with high-ranking Israeli politicians<sup>238</sup> and six off-

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<sup>232</sup> Leigh, David and Rob Evans, "BAE's Secret Money Machine", *The Guardian*, <http://www.guardian.co.uk/baefiles/page/0,,2095840,00.html> [accessed 04.11.2012].

<sup>233</sup> Leigh, David and Rob Evans, "Nobbling the Police", *The Guardian*, <http://www.guardian.co.uk/baefiles/page/0,,2098531,00.html> [accessed 05.11.2012].

<sup>234</sup> "BAE Systems PLC Pleads Guilty and Ordered to Pay \$400 Million Criminal Fine", *The United States Department of Justice*, <http://www.justice.gov/opa/pr/2010/March/10-crm-209.html> [accessed 05.11.2012].

<sup>235</sup> Atlantic Bridge UK was linked to Atlantic Bridge US, which was set up by the American Legislative Exchange Council (ALEC), an American think tank linked to the tea party movement for small government in America. The patron of the two Atlantic Bridges was Margaret Thatcher, and its members included British cabinet ministers William Hague, George Osborne, Michael Gove and Chris Grayling as well as American Senators Jon Kyl and Jim DeMint and George W. Bush's ex-special counsel Karl Rove. Doward, Jamie, "Liam Fox's Atlantic Bridge Linked Top Tories and Tea Party Activists", *The Observer*, 15.10.2011.

<sup>236</sup> Werritty didn't accompany Fox on his Turkey visit, but he did go along with Fox to the UAE, Qatar, Bahrain, Israel and the United States, among others. "Full List of Meetings Between Liam Fox and Adam Werritty" *Guardian Datablog*, <http://www.guardian.co.uk/politics/datablog/2011/oct/10/liam-fox-and-adam-werritty-links-liamfox?intcmp=239> [accessed 22.11.2012].

<sup>237</sup> "Liam Fox and Adam Werritty Meetings: Timeline", *The Daily Telegraph*, 11.10.2011.

<sup>238</sup> Merrick, Jane and James Hanning, "Revealed: Fox's Best Man and His Ties to Iran's Opposition", *The Independent on Sunday*, 16.10.2011.

the-record meetings with the British Ambassador to Israel<sup>239</sup>. Werritty also had dinner with Fox and US General John Allen, who is now head of the NATO forces in Afghanistan<sup>240</sup>. He was debriefed by MI6 after his travels<sup>241</sup>.

BAE Systems money may well have paid for Werritty to accompany Fox on these trips. The official report into the scandal revealed that Werritty travelled using funds given to his company Pargav Ltd by six different donors: IRG Ltd, Jon Moulton, G3 Ltd, Tamares<sup>242</sup>, Oceania Investments and Michael Davis<sup>243</sup>. The latter three are all linked to the British Israel Communications and Research Centre (BICOM), a pro-Israeli lobbying group<sup>244</sup>. G3 Ltd, which gave the company around

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<sup>239</sup> Brady, Brian, "Liam Fox, Adam Werritty, and the Curious Case of Our Man in Tel Aviv", *The Independent*, 27.11.2011. Former British ambassador Craig Murray has claimed that "[M]y source says that co-ordinating with Israel and the US on diplomatic preparation for an attack on Iran was the subject of all these meetings". Murray, Craig, "Matthew Gould and the Plot to Attack Iran", <http://www.craigmurray.org.uk/archives/2011/11/matthew-gould-and-the-plot-to-attack-iran/> [accessed 05.11.2012].

<sup>240</sup> Drury, Ian and Robert Steiner, "£60m Deal then Cash for Fox's Man: Tycoon Bought Aircraft Firm Before Handing £35,000 to Adam Werritty", *The Daily Mail*, 15.10.2011.

<sup>241</sup> Bernstein, Jon, "Fox Affair: The Alleged Links to Mossad and US Radical Right", *The New Statesman*, 16.10.2011. A 1999 article also named BAE Systems' predecessor, British Aerospace, as among those British firms in the habit of regularly employing ex-spies. "Cloak and Dagger Ltd.", *Management Today*, 15.02.1999. More recently, BAE Systems employed former head of MI6 Sir John Scarlett to convince the government that a potential merger with another arms firm would not be harmful to national security. "BAE, Mandarins, and a Whiff of a Stitch-Up", *The Daily Mail*, 30.10.2012.

<sup>242</sup> Tamares Capital, belonging to prominent pro-Israeli businessman Chaim "Poju" Zabludowicz, retains the lobbying services of Tetra Strategy. "Tamares Capital", *Who's Lobbying?*, [http://whoslobbying.com/uk/tamares\\_capital](http://whoslobbying.com/uk/tamares_capital) [accessed 22.11.2012]. Tetra Strategy introduced Werritty to another of its clients, the Dubai-based Porton Group. "Harvey Boulter: I Assumed Werritty Was An MOD Man", *The Guardian*, 10.10.2011. Other clients of Tetra Strategy include the Government of Dubai and the Advanced Manufacturing Research Centre (AMRC), which is partially funded by BAE Systems. "Tetra Strategy", *Who's Lobbying?*, [http://whoslobbying.com/uk/tetra\\_strategy](http://whoslobbying.com/uk/tetra_strategy) [accessed 22.11.2012].

<sup>243</sup> "Allegations Against Rt Hon Dr Liam Fox MP: Report by the Cabinet Secretary", *Cabinet Office*, <http://www.cabinetoffice.gov.uk/sites/default/files/resources/allegations-fox.pdf> [accessed 05.11.2012].

<sup>244</sup> Neate, Robert, "Adam Werritty Bankrolled by Three Pro-Israel Business Tycoons", *The Guardian*, 18.10.2011. Michael Davis is also CEO of Xstrata Ltd., a global mining company. Its chairman is Sir John Bond, former chairman of HSBC Holdings and Vodafone. Blas, Javier et al., "Pay-out vote sees exit of Xstrata chairman", *The Financial Times*, 20.11.2012. Xstrata is about to be taken over by Glencore, which already owns a 1/3rd stake. Blas, Javier, "Boost for \$80bn Glencore-Xstrata merger", *The Financial Times*, 02.11.2012. The founder of Glencore and sister company Trafigura is Marc Rich, who was formerly on the FBI's Most Wanted Fugitives list for tax evasion and for undermining the Iranian and Iraqi oil embargoes. Bill Clinton pardoned him in 2001 after being petitioned by prominent Israeli politicians Ehud Barak and Shimon Peres. Honigsbaum, Mark, "The Rich List", *The Guardian*, 13.05.2001. Among those associated with Rich is Minister for International Development Alan Duncan, who worked for him from 1982 to 1988. "The Rt Hon Alan Duncan MP: Minister of State for International Development", *Gov.uk*, <https://www.gov.uk/government/people/alan-duncan> [accessed 22.11.2012].

£60,000, is a security intelligence firm called G3 Good Governance Group staffed by ex-MI6 officers<sup>245</sup> which counts BAE Systems among its clients<sup>246</sup>. Given that Werritty had attended many meetings about British arms sales, he could have helped BAE Systems, either by advancing their interests or by feeding information back through G3<sup>247</sup>. John Moulton, who gave Werritty £35,000, is the owner of a company, Gardner UK, which makes parts for planes including the BAE Systems-EADS Eurofighter<sup>248</sup>.

Meanwhile, IRG Ltd is the Iraq Research Group, led by Stephen Crouch, for whom Werritty secured from Fox a personal introduction to Arms Sales Minister Gerald Howarth<sup>249</sup>. Crouch has long been involved in Northern Iraq, both as co-ordinator of the Kurdish Reconstruction Organization<sup>250</sup> and working together with Kurdish groups fighting Saddam Hussein<sup>251</sup>, but according to the Guardian he now works as a defence industry lobbyist<sup>252</sup>. There is no public information on whether or not he represents BAE Systems in any capacity. Since Crouch had donated money to the Conservative Party on behalf of Heritage Oil chairman Tony Buckingham in the past<sup>253</sup> and when the Guardian tried to contact him in 2011 he was in Istanbul for a meeting with an Iraqi delegation<sup>254</sup> it is possible that he is also working with British company Heritage Oil in northern Iraq. Another member of the Iraq Research Group is Rupert Bowen<sup>255</sup>, a former British diplomat and MI6 agent who has been working for Buckingham's civilian operations since the 1990s<sup>256</sup>. Tony Buckingham's money is in oil but he is a former British military officer better known for his part ownership of mercenary groups Executive Outcomes and Sandline International, which fought

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<sup>245</sup> Neate, Robert, "Fresh Questions Over Company that Funded Adam Werritty's Jet-Set Life", *The Guardian*, 16.10.2011.

<sup>246</sup> Shipman, Tim and Ian Drury, "Fox is Found Guilty of Breaking the Ministerial Code But He'll Still Get £17,000 Payoff", *The Daily Mail*, 18.10.2011.

<sup>247</sup> Sengupta, Ken, "Werritty Attended Talks About Arms Deal with Israel and China", *The Independent*, 15.10.2011.

<sup>248</sup> Drury and Steiner, "£60m Deal Then Cash for Fox's Man", *The Daily Mail*.

<sup>249</sup> Leigh, David and Rupert Neate, "Donor in Liam Fox Scandal Revealed as Defence Lobbyist Stephen Crouch", *The Guardian*, 26.10.2011.

<sup>250</sup> Flint, Julie, "For Kurds, Winter Killing Season Approaches", *The Observer*, 06.10.2001.

<sup>251</sup> Black, Ian, "Enigma They Know as 'Lawrence of Kurdistan'", *The Guardian*, 04.01.1995.

<sup>252</sup> Leigh and Neate, "Donor in Liam Fox Scandal Revealed as Defence Lobbyist Stephen Crouch".

<sup>253</sup> "Lobbyist Named in Scandal Probe Has Links to MP", *South Wales Evening Post*, 02.11.2011.

<sup>254</sup> Leigh and Neate, "Donor in Liam Fox Scandal Revealed as Defence Lobbyist Stephen Crouch".

<sup>255</sup> Leigh and Neate, "Donor in Liam Fox Scandal Revealed as Defence Lobbyist Stephen Crouch".

<sup>256</sup> Abrams, Fran et al., "Who is Tony Buckingham? And Why Does Everyone Want to Talk to Him?", *The Independent*, 13.05.1998.

in Angola, Papua New Guinea and Sierra Leone<sup>257</sup>. His colleague from those companies, Tim Spicer, now runs the British mercenary organisation Aegis Defence Services, which has the contract to co-ordinate private security companies operating in Iraq<sup>258</sup> and will be one of the private security companies keeping the peace after coalition troops leave<sup>259</sup>. A client of the IRG said “He [Stephen Crouch] introduced us to the Aegis security firm and Tim Spicer in Iraq. I thought he was part of MI5 or MI6. It was implied he was part of them”<sup>260</sup>.

Buckingham also has dealings with Turkish businessmen: in 2009 his Heritage Oil pulled out of a merger with its working partner Genel Enerji, which is owned by Turkish magnate Mehmet Emin Karamehmet<sup>261</sup>. Karamehmet is one of Turkey’s wealthiest men, but it has emerged in the Wikileaks documents that the American government were advising their companies against getting involved with him, saying he was untrustworthy and had issued death threats to previous American partners<sup>262</sup>.

There are several other connections between Buckingham’s mercenary past and BAE Systems. Another of his colleagues at Executive Outcomes, Simon Mann, has apparently left the business after serving five years in jail for a failed coup attempt in Equatorial Guinea he planned with Mark Thatcher, the son of former Prime Minister Margaret Thatcher<sup>263</sup>. Two of the other members of the coup plot were the owners of a mercenary company with a £250,000 British government

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<sup>257</sup> Campbell, Duncan, “Marketing the New ‘Dogs of War’”, *The Center for Public Integrity*, <http://www.publicintegrity.org/2002/10/30/5681/marketing-new-dogs-war> [accessed 05.11.2012].

<sup>258</sup> Baer, Robert, “Iraq’s Mercenary King”, *Vanity Fair*, 01.03.2007.

<sup>259</sup> Bowman, Tom, “As U.S. Military Exits Iraq, Contractors To Enter”, *National Public Radio*, <http://www.npr.org/2011/05/17/136357821/as-u-s-military-exits-iraq-contractors-to-enter> [accessed 05.11.2012]. The Chairman of Aegis Defence Services is Nicholas Soames, who was Defence Minister from 1994 to 1997 and Shadow Defence Minister from 2003 to 2005. “Management”, *Aegis Defence Services*, <http://www.aegisworld.com/index.php/new2/about-us-2/management2> [accessed 05.11.2012].

<sup>260</sup> Leigh and Neate, “Donor in Liam Fox Scandal Revealed as Defence Lobbyist Stephen Crouch

<sup>261</sup> Genel Enerji is run by CEO Tony Hayward, who was at the head of BP during the Deepwater Horizon oil spill. “Türkiye’nin 7 Yıllık Gazını Satın Aldı”, *Habertürk*, 12.08.2012. “Heritage-Genel Enerji Birleşmesi Sonuçsuz”, *NTVMSNBC.com*, <http://www.ntvmsnbc.com/id/25024286> [accessed 10.11.2012].

<sup>262</sup> “Wikileaks’te Karamehmet Belgeleri”, *HaberTürk*, 17.05.2011.

<sup>263</sup> Pollara, Priscilla and Emily Hill, “Stiff Upper Lip: Daughter of Jailed Mercenary Simon Mann Reveals Very British Reunion after Five Years in Notorious African Prison”, *The Daily Mail*, 21.08.2011.

contract in Iraq<sup>264</sup>. Mann has said in spoken evidence to Chatham House that the coup had been given the go-ahead by the CIA and the British Government as well as backing from the Spanish government<sup>265</sup>, while the “Senior Project Advisor” of Mann’s fake company used as cover for the coup was Justin Longley, the nephew of the Head of MI6, Richard Dearlove<sup>266</sup>. The person Mann accuses of funding the proposed coup is Ely Calil, an oil trade fixer of Lebanese descent but British citizenship<sup>267</sup> whose family left Turkey in 1941 after “falling out with the regime”<sup>268</sup>. Calil has friends in the British establishment who include Peter Mandelson, who has served as both Britain and Europe’s Trade Minister, Lord Jeffery Archer, Mark Thatcher and BAE Systems’ intermediary Wafic Said<sup>269</sup>. If BAE Systems are in contact with British mercenary groups in Iraq, it may be because they want to secure market share from this increasingly important military sector.

BAE Systems may also have a hidden link to a huge British investment with a disreputable player in the Istanbul property market. Yeşil İnşaat, a Turkish construction company, announced in 2007 that it was going to construct 10,000 apartments in Istanbul with a billion dollars of investment from a British investment group called Fleming Family and Partners Capital Management (FCM) Salamanca<sup>270</sup>. The project, initially called “Modernist” and later renamed “Innovia”, had liveable apartments by May 2010<sup>271</sup> and its fourth stage is now under construction<sup>272</sup>. However, no news report on the developments has mentioned FCM Salamanca since that first announcement. Engin Yeşil, the chairman and owner of

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<sup>264</sup> Barnett, Antony et al., “Mercenaries in 'Coup Plot' Guarded UK Officials in Iraq”, *The Observer*, 06.06.2004.

<sup>265</sup> Mann, Simon, “Cry Havoc: Simon Mann’s Account of his Failed Equatorial Guinea Coup Attempt”, *Chatham House*, <http://www.chathamhouse.org/sites/default/files/021111mann.pdf> [accessed 10.11.2012].

<sup>266</sup> Rufford, Nicholas, “MI6 Chief’s Nephew was Partner of Coup Leader”, *The Sunday Times*, 19.09.2004.

<sup>267</sup> Gallagher, Ian, “Former Mercenary Simon Mann 'to Testify' Against Businessman who Plotted 'Wonga Coup'”, *The Daily Mail*, 10.10.2011.

<sup>268</sup> Edwards, Richard, “Gang Robs Millionaire Ely Calil of £12,000”, *The Daily Telegraph*, 04.03.2008.

<sup>269</sup> Silverstein, Ken, “Invisible Hands: The Secret World of the Oil Fixer”, *Harpers Magazine*, 01.03.2009.

<sup>270</sup> Kuburlu, Ceyhun, “Türkiye’de İstikrar Korunursa Yabancı ’Limitsiz’ Yatırım Yapar”, *Hürriyet*, 18.04.2007.

<sup>271</sup> “Innovia 1.Etap’da Bitmiş Daireler İçin Müthiş Fırsat!”, *EvArıyorum.com*, <http://www.evayirorum.com/innovia-1etapda-bitmis-daireler-icin-muthis-firsat.html> [accessed 22.11.2012].

<sup>272</sup> “Innovia”, *Innovia*, <http://www.innovia.com.tr/etaplar.php> [accessed 22.11.2012].

Yeşil İnşaat, has an interesting past. He moved to America as a student and married a US citizen<sup>273</sup>. He then founded a number of companies in America including a mail-order contact lens business, a voice over IP business and a prepay telephone service<sup>274</sup>. He was charged with selling cocaine in 1990 but the Federal Bureau of Investigation (FBI) and the Drug Enforcement Administration (DEA) filed a motion stating for Yeşil to have his sentence reduced to just 20 months because he had infiltrated a major heroin distribution ring on their behalf<sup>275</sup>. After the 2001 World Trade Center bombers were shown to have used Yeşil's company's untraceable prepaid phone cards<sup>276</sup>, he became entangled in an attempt by American right-wingers to make him into a connection between Al Qaeda and John Kerry in the run-up to the 2004 election<sup>277</sup>. But in fact, he was acquainted with political figures from both parties: a company in which he held a big stake had Jeb Bush, Wesley Clark and Jorge Perez on its board<sup>278</sup>. He returned to Turkey in 2006, saying it was because he believed in Prime Minister Recep Tayyip Erdoğan's leadership<sup>279</sup>.

FCM Salamanca is a joint venture between Salamanca Group Holdings and Fleming Family and Partners Holdings<sup>280</sup>. The head of Salamanca Group Holdings is Martin Bellamy, an ex-British military officer<sup>281</sup>. However, this group appears to mostly be a shell company for other interests: until the "People" section was recently removed on a similar corporate website, the two were identical down to the same projects and same team, and both had joint companies with Fleming Family and

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<sup>273</sup> "Yeşil v. Reno", 157 F.3d 106 (2nd Circuit 1998) [United States Court Verdict].

<sup>274</sup> Peterson, Bill, "Haute Living Features Engin Yeşil, Turkish Tycoon", *Haute Living*, 08.11.2006.

<sup>275</sup> "United States v. Yeşil and Golan", 968 F.2d 1122 (11th Circuit 1992) [United States Court Verdict].

<sup>276</sup> Taniş, Tolga, "ABD Komplosunda Başrol Türk'ün", *Hürriyet*, 17.02.2007.

<sup>277</sup> Washington, Lawrence, "Spy Story Like a Novel", *Rocky Mountain News*, 17.02.2007.

<sup>278</sup> "Türk İşadamı Engin Yeşil'in Florida'daki Şirketine Yediemin Atandı", *Haberler*, <http://www.haberler.com/turk-isadami-engin-yesil-in-florida-daki-2597689-haberi/> [accessed 20.11.2012].

<sup>279</sup> Pala, Orhan, "İşte Dolar'ın Taptığı Türk", *Borsa Gündem*, <http://www.borsagundem.com/haber/Iste-Dolar-in-taptigi-Turk/102145-1> [accessed 05.11.2012].

Since that time, allegations have emerged that Yeşil and five guests were taken under arrest for possessing cocaine in Istanbul, but no charges were brought and Yeşil İnşaat have issued a denial.

"Engin Yeşil Gözaltına Alındı", *Hamburghaber.de*, <http://www.hamburghaber.de/haber-Engin-Yesil-gozaltina-alindi-9197/> [accessed 05.11.2012].

<sup>280</sup> "Welcome to FCM Salamanca", *Salamanca Capital*, <http://salamancacapital.com/real-estate-fund-advisory-europe.htm> [accessed 05.11.2012].

<sup>281</sup> "People", *Salamanca Capital Merchant Banking*, <http://salamancacapital.com/fund-manager.htm> [accessed 05.11.2012].

Partners<sup>282</sup>. Fleming Family and Partners is a different story: it is a boutique family bank handling the assets of only 41 extremely high net worth families<sup>283</sup>. Its biggest client apart from the Fleming family itself is Wafic Said, the middleman who arranged BAE Systems' bribery of the Saudi government<sup>284</sup>. Said's son Khaled is on the board of the company, and its senior advisor, Tim Clark, is also a senior advisor to Chatham House, deputy chairman of G3 Ltd<sup>285</sup> and chairman of its defence-investments based sister company C5 Ltd<sup>286</sup>. If Salamanca's investment is primarily Wafic Said's money or BAE Systems' money, it is worth questioning whether the deal is more than a simple investment transaction.

Finally, BAE Systems also produces armaments in Turkey through a joint venture. In 2005 the company acquired 49% of FNSS, a Turkish military venture jointly owned by Nurol Holdings<sup>287</sup> and since then has been producing armoured vehicles in Turkey for the Turkish government and other governments in other Muslim majority states<sup>288</sup>. Its partner, Nurol Holdings, is owned by the Çarmıklı family, who have extensive political contacts in Turkey. Sibel Çarmıklı was the government's mayoral candidate for the upmarket Beşiktaş area of Istanbul in 2009 and Prime Minister Erdoğan visited Georgia in order to open Nurol Holdings' new hotel in 2010.<sup>289</sup> On the other hand, its political fortunes may have faded more recently: many important members of the family were arrested in January 2012 as part of the Ergenekon investigations into anti-governmental conspiracy,<sup>290</sup> leading critics to suggest they may have fallen foul of the Fethullah Gülen religious

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<sup>282</sup> "Company", *Alliance Bond Investment Partners*, <http://alliancebond.com/global-real-estate-investment-private-equity-company.htm> [accessed 05.11.2012].

<sup>283</sup> Sunderland, Ruth, "The Family with the Golden Touch", *The Observer*, 07.01.2007.

<sup>284</sup> "Business Career", *Wafic Rida Said*, [http://www.waficsaid.com/business\\_career.htm](http://www.waficsaid.com/business_career.htm) [accessed 05.11.2012].

<sup>285</sup> "Panel of Senior Advisors", *Chatham House*, <http://www.chathamhouse.org/about-us/psa> [accessed 05.11.2012].

<sup>286</sup> "C5 Capital", *C5 Capital*, <http://www.c5capital.co.uk/board.php> [accessed 05.11.2012].

<sup>287</sup> "BAE Systems Signs Co-operation Agreement With Turkish Defence Company For Wheeled Armoured Vehicles", *Army Guide*, [http://www.army-guide.com/eng/article/article\\_272.html](http://www.army-guide.com/eng/article/article_272.html) [accessed 04.11.2012].

<sup>288</sup> Soncan, Emre "Malezya ve Arabistan Ordusuna Araç Üretiyor, Gözü Avrupa'da", *Zaman*, 27.10.2012.

<sup>289</sup> "Erdoğan Bakü'de", *Cumhuriyet*, 17.05.2010.

<sup>290</sup> "6 Yıl Sonra 19 Baskın", *Hürriyet*, 04.01.2012.



movement<sup>291</sup>. The patriarch of the Çarmıklı family, Nurettin Çarmıklı, now spends most of his time in London rather than Turkey<sup>292</sup>.

### 3.5 Conclusion

British foreign policy between 2002-2012 has been heavily influenced by economic considerations at all levels of contact. British politicians have sought a strong relationship with their Turkish counterparts, both by supporting them on issues like EU membership and by creating personal ties through regular visits, and have used this relationship to support their commercial interests. Official and unofficial support for British businesses in Turkey through organisations such as the UKTI gives them political connections and power they would otherwise not have access to. Finally, the BAE Systems case study shows how far the British state can take support for business it considers essential. They subsidise it, lobby on both official and personal levels on its behalf, allow it to break the law and even apparently buy influence at the highest levels of government. We do not know whether BAE Systems has bribed Turkish officials, but it would fit into a pattern of similar illegal actions around the world in recent years condoned by the British state. Combined, this package of state support for British business overseas has provided it with a competitive advantage not enjoyed by many of its competitors in Turkey.

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<sup>291</sup> “Çarmıklı Neden Hedef Oldu”, *OdaTV*, <http://www.odatv.com/n.php?n=carmikli-niye-hedef-oldu-0501121200> [accessed 22.11.2012].

<sup>292</sup> “Çarmıklı Neden Hedef Oldu”, *OdaTV*.

## CHAPTER FOUR

### POLITICAL BUSINESS

#### 4.1 Introduction

In this chapter, I look at the stories of four of the largest British companies in Turkey over the period 2002-2012. In each case, the companies have grown at an unusually fast rate, beginning either as marginal players or with no stake at all in the Turkish market and ending up through organic and inorganic growth as major players in their industries. In this, they have been aided by practical support from both the British and the Turkish governments as well as the Turkish government's ongoing policy of privatisation and liberalisation. However, there have also been examples of these companies benefitting from questionable business practices in order to gain an upper hand in a business ecosystem dominated by well-connected local family dynasties.

The case studies described in this paper do not represent extreme cases, cherry-picked in order to indict British capital in general. Instead, they were chosen being among the largest and most influential investors in the Turkish economy<sup>293</sup>. Yet a close analysis of their experience in Turkey showed that they have each become political actors and exploited their access to political power in order to better succeed in Turkish markets. Neither is there anything particularly unusual about their circumstances as foreign investors: they benefitted from a time when political and economic relations between Britain and Turkey were very good, but it seems unlikely that these types of politicised trade relations are confined to British and Turkish actors.

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<sup>293</sup> Indeed, a tweet from UKTI earlier this year simply read “Turkish economy grew by 8.9% in 2010 - more than 2,200 UK cos already active in the mkt, inc. HSBC, Vodafone, Tesco #uktrade #Turkey”. “UKTI”, *Twitter*, <http://es.twitter.com/UKTI/status/195798979240407040> [accessed 17.11.2012].

## 4.2 Limitations of this Section

It soon became clear that British investment in Turkey is of so wide a scope that a single paper could not do justice to it all. However, the case studies included within this chapter, of large players in the supermarket, tobacco, banking and telecommunications industries, are able to convey a sense of many of the ways in which British firms do business in Turkey. That being said, there are still some obvious omissions arising from the constraints of time and space.

The first is the energy industry. Documents sent by United Kingdom Trade and Investment suggest that this has by far the largest turnover of any industry for British firms, amounting to some US\$11 billion<sup>294</sup>. British Petroleum (BP) operates and has a 30% share in the Baku-Tbilisi-Ceyhan (BTC) oil pipeline, which ships oil to the Mediterranean from the Caspian Sea<sup>295</sup>. Shell, meanwhile, is building a pipeline from the North Sea to the Mediterranean, has a major gas interest in Turkey and a 2% stake in Turkish petroleum refining company TÜPRAŞ<sup>296</sup>. But this industry is so politicised, requiring the utmost secrecy in transnational negotiations, that it is difficult to discover how decisions are made. On the second tier of the energy industry, there are some smaller firms, such as Heritage Oil, investing in northern Iraq with Turkish ties which I have been able to mention in passing.

The second is land and construction. British companies and, to a lesser extent, individuals have bought enormous amounts of Turkish land since its sale was liberalised in 2003<sup>297</sup>. Yet at the moment it is very difficult to make out who. British mining interests in the country are limited and investments made in the tourism sector only take up a limited amount of land. It would be worth researching what purposes this land is being purchased for. Here there was only room to incidentally reference one of the biggest British construction contracts, the half-British funded “Modernist”/“Innovia” development in Istanbul, but there are large numbers of

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<sup>294</sup> “UK Owned Companies in Turkey”, *UKTI*, Sent via email by Raul Kharbanda at UKTI, 23.11.2011.

<sup>295</sup> “Bakü-Tiflis-Ceyhan (BTC)”, *BP Türkiye*, <http://www.bp.com/sectiongenericarticle.do?categoryId=9032198&contentId=7058942>. [accessed 18.11.2012].

<sup>296</sup> “Ürünler ve Hizmetler”, *Shell*, [http://www.shell.com.tr/home/content/tur/products\\_services/](http://www.shell.com.tr/home/content/tur/products_services/) [accessed 16.11.2012].

<sup>297</sup> “AKP Türkiye Topraklarını Satmak İçin Kimlere Mektup Yazdı?”, *OdaTV*, <http://www.odatv.com/n.php?n=akp-turkiye-topraklarini-sakmak-icin-kimlere-mektup-yazdi-0705121200> [accessed 16.11.2012].

shopping malls and upscale residential apartments being funded by British companies<sup>298</sup>.

Thirdly, this paper does not devote much space to examining trade based on consumer products. Unilever, GlaxoSmithKline, Diageo, AstraZeneca and Harvey Nichols are all very successful in their own right in Turkey, but as their products are usually sold in other stores it is very difficult to trace when and by whom they are being sold, and what political relationships these companies are entering into as a result.

There is also the question of the reliability of the data as a sample. Firms do not like to press-release bad news, and investigative journalists cannot cover every aspect of every firm's dealings. With the period under investigation so recent, this account has had to rely on news reports and government papers in order to understand what is going on, rather than having more weighty biographies and analyses behind it. Therefore, these case studies are best taken as a series of qualitative tableaux representing the types of activities known to be being conducted by British businesses in some portion of the Turkish economy during the past ten years, rather than an exhaustive account of their proportions and totalities.

### **4.3 British American Tobacco**

The 2008 Turkish government privatisation of Tekel Tobacco, the former monopoly supplier of tobacco to the Turkish market, appeared to mark the end of a long process of liberalisation which began with the introduction of competition in that market in 1983 and the legalisation of tobacco imports in 1984<sup>299</sup>. The government had been striving to sell off the company for a long time, but the first two attempts failed and the government intervened to ensure its success third time around. This intervention was initially made on the grounds of expediency, but it eventually led to a battle between the government and laid-off factory workers that culminated in a 73-day

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<sup>298</sup> "Turkey: Staggering Facts About the Turkish Economy", *United Kingdom Trade and Industry*, <http://ukinturkey.fco.gov.uk/resources/tr/word/UKTI/killer-facts> [accessed 16.11.2012].

<sup>299</sup> Aysu, Abdullah, "TEKEL'de Gözyaşı Döken Timsahlar", *Bianet*, <http://www.bianet.org/bianet/bianet/119705-tekelerde-gozyasi-doken-timsahlar> [accessed 20.11.2012].

protest and the largest strike that Turkey had seen since 1980<sup>300</sup>. All the benefits of Tekel's market share accrued to the purchaser, British American Tobacco (BAT), while Turkey lost jobs and the Turkish government ended up compensating workers whom BAT didn't want. In this section I will examine how this process was allowed to occur.

British American Tobacco operates in around 180 different countries and is the second largest tobacco company in the world<sup>301</sup>, with a 13% global market share<sup>302</sup>. It has over 200 brands including Kent, Dunhill, Lucky Strike, Pall Mall, Viceroy, Rothmans and Benson and Hedges<sup>303</sup>. The company began life in 1902 as an agreement between Britain's Imperial Tobacco and America's American Tobacco Company to create a joint export company in order to enjoy a dominant position in export markets, but in 1911, the American Tobacco Company sold its shares to British investors, making it an all-British operation, listed on the London Stock Exchange<sup>304</sup>. Its deputy chairman from 1998-2007 was Kenneth Clarke, a Conservative Party politician who had previously served as Health Minister and Chancellor of the Exchequer, who stood for party leader in 2001 and who is now again a government minister<sup>305</sup>. Clarke has been accused of abusing his political power when representing the company overseas<sup>306</sup>. The company has also been criticised for opening factories in Burma and North Korea<sup>307</sup>, for encouraging the

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<sup>300</sup> "Gazeteler TEKEL Eyleminden Genelinde Etkilendi", *Bianet*, <http://bianet.org/biamag/toplum/119885-gazeteler-tek-el-eyleminden-genelde-etkilendi> [accessed 20.11.2012].

<sup>301</sup> "Who We Are", *British American Tobacco*, [http://www.bat.com/group/sites/uk\\_\\_3mnfen.nsf/vwPagesWebLive/DO52ADCY?opendocument&SKN=1](http://www.bat.com/group/sites/uk__3mnfen.nsf/vwPagesWebLive/DO52ADCY?opendocument&SKN=1) [accessed 12.11.2012].

<sup>302</sup> "Global Market Share", *British American Tobacco*, [http://www.bat.com/group/sites/uk\\_\\_3mnfen.nsf/vwPagesWebLive/DO6Z2EUD?opendocument&SKN=1](http://www.bat.com/group/sites/uk__3mnfen.nsf/vwPagesWebLive/DO6Z2EUD?opendocument&SKN=1) [accessed 12.11.2012].

<sup>303</sup> "Our International Brands", *British American Tobacco*, [http://www.bat.com/group/sites/uk\\_\\_3mnfen.nsf/vwPagesWebLive/DO6Z2KVH?opendocument&SKN=1](http://www.bat.com/group/sites/uk__3mnfen.nsf/vwPagesWebLive/DO6Z2KVH?opendocument&SKN=1) [accessed 12.11.2012].

<sup>304</sup> "Early Years: 1902-1932", *British American Tobacco*, [http://www.bat.com/group/sites/uk\\_\\_3mnfen.nsf/vwPagesWebLive/DO5DTGBV?opendocument&SKN=1](http://www.bat.com/group/sites/uk__3mnfen.nsf/vwPagesWebLive/DO5DTGBV?opendocument&SKN=1) [accessed 12.11.2012].

<sup>305</sup> "Kenneth Clarke: Electoral History and Profile", *The Guardian*, <http://www.guardian.co.uk/politics/person/978/kenneth-clarke> [accessed 12.11.2012].

<sup>306</sup> "BAT's \$40m Vietnam deal 'nothing to do with Clarke'", *The Guardian*, 25.08.2001.

<sup>307</sup> Cobain, Ian and David Leigh, "Tobacco Firm has Secret North Korea Plant", *The Guardian*, 17.10.2005.

smuggling of its products worldwide in order to evade taxes<sup>308</sup> and for concealing hundreds of thousands of euros it spent lobbying the European Parliament for fewer restrictions on sales of its product<sup>309</sup>.

The sale of Tekel Tobacco was a plan which took a long time to implement. British American Tobacco had first proposed opening a joint factory with Tekel Tobacco in Adana in 1986, but the privatisation law was so convoluted that it was unclear whether this would be legal or not<sup>310</sup>. From 1991 to 1999, the company held regular meetings with prime ministers, finance ministers and other government officials in order to prepare the way for a takeover of Tekel Tobacco<sup>311</sup>. In 1996, Prime Minister Mesut Yılmaz announced that Tekel Tobacco would be sold by public auction, but he then decided not to act on it during his brief period of office. Newly discovered documents show that British American Tobacco were against a public auction and had lobbied the government to sell Tekel Tobacco privately to them instead on the basis that the government would get a better offer<sup>312</sup>.

A private deal was prepared to sell Tekel Tobacco to British American Tobacco for US\$280 million in 1999, but it was cancelled by Prime Minister Bülent Ecevit when he came into office<sup>313</sup>. Prime Minister Ecevit then had to reverse his policy of not selling Tekel Tobacco in the year 2000 as part of a large packet of privatisation and reform in order to activate a desperately needed IMF stand-by loan. However, after gaining Parliamentary approval for privatisation in 2001, it was vetoed by President Ahmet Sezer, who disagreed with Ecevit on allowing the IMF to dictate policy<sup>314</sup>. When the AKP came to power in 2002, they negotiated a new

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<sup>308</sup> Maguire, Kevin, "Dubai Diplomat Accused of Smuggling BAT Cigarettes", *The Guardian*, 17.12.2001.

<sup>309</sup> "Obscured By the Smoke: British American Tobacco's Deathly Lobbying Agenda in the EU", *Corporate Europe Observatory*, [http://corporateeurope.org/sites/default/files/sites/default/files/files/resource/Obscured\\_by\\_the\\_Smoke.pdf](http://corporateeurope.org/sites/default/files/sites/default/files/files/resource/Obscured_by_the_Smoke.pdf) [accessed 12.11.2012].

<sup>310</sup> Lawrence, S., "British American Tobacco's failure in Turkey", *Tobacco Control*, 18:1 (2009), p. 23.

<sup>311</sup> Lawrence "British American Tobacco's failure in Turkey", p. 24.

<sup>312</sup> Lawrence "British American Tobacco's failure in Turkey", p. 25.

<sup>313</sup> Dorsey, James M., "Turkey's New Government Calls Off \$280 Million BAT Deal", *Wall Street Journal*, 02.04.1999.

<sup>314</sup> Erdem, Ali Bülent, "Tütüncülüğümüz ve Sağlığımız için Tekel İhtiyaçtır", *Sendika.org*, [http://www.sendika.org/yazi.php?yazi\\_no=9936](http://www.sendika.org/yazi.php?yazi_no=9936) [accessed 11.11.2012].

stand-by arrangement with the IMF and again agreed to privatise Tekel Tobacco<sup>315</sup>. This time an auction was actually held in 2003 and was won by Japan Tobacco International, but the deal was cancelled in retrospect since the US\$1.1 billion bid was deemed too low<sup>316</sup>. Although this was an unfortunate precedent, in 2008 a second auction was held, and the company was bought by British American Tobacco for US\$1.72 billion<sup>317</sup>. This brought BAT's share of the lucrative Turkish market up to 36% from 7% and made the Turkish tobacco industry a practical duopoly between the firm and American company Philip Morris<sup>318</sup>.

The 2008 auction was not without controversy. Another bidder, European Tobacco, dropped out of the race while the auction was being prepared. The reason was a Customs Undersecretariat Audit Commission report from 2005, which only came out in 2007 and accused many other Mersin-based tobacco and alcohol companies of financing terrorist activities in Northern Iraq by smuggling cigarettes<sup>319</sup>. European Tobacco was a Mersin-based company which only began to trade after the report was written, and whose products were already notorious for being smuggled into the country to avoid cigarette taxes (76% of cigarettes smuggled into Turkey were European Tobacco brands)<sup>320</sup>. Consequently, gossip began to circulate that European Tobacco was involved, and the company withdrew from the auction as a result.<sup>321</sup> It wasn't until 2011 that the rumours were revisited, as the manager of its Mersin factory, Hulusi Kaymaz, was charged along with 50 others with being involved in smuggling 3 million packets of cigarettes into Turkey<sup>322</sup>. The joint owner of European Tobacco, Mahmut Arslan, had been AKP mayoral candidate for Mersin<sup>323</sup> and a long term donor to the AKP, and was so close to Finance

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<sup>315</sup> "Turkey Reveals Privatisation Plans", *BBC News*, 13.01.2003.

<sup>316</sup> "TEKEL Satışında İnce Hesaplar", *Birgün*, 19.02.2008.

<sup>317</sup> "Tekel'i 1.72 Milyar Dolara BAT Aldı", *MSNBC*, <http://arsiv.ntvmsnbc.com/news/436544.asp> [accessed 11.11.2012].

<sup>318</sup> "BAT Acquires Tekel", *Tobacco Journal*,

[http://www.tobaccojournal.com/BAT\\_acquires\\_Tekel.48850.0.html](http://www.tobaccojournal.com/BAT_acquires_Tekel.48850.0.html) [accessed 12.11.2012].

<sup>319</sup> "İşte Mesut Barzani ile İlişkili 7 Şirket", *Haber7.com*,

<http://www.haber7.com/haber/20071025/Iste-Mesut-Barzani-ile-iliskili-7-sirket.php> [accessed 11.11.2012].

<sup>320</sup> Şardan, Tolga, "Polis Takibindeki İşadamı 4 Bakanlı Zirveye Katılmış", *Milliyet*, 30.10.2011.

<sup>321</sup> "Barzani Baskısı Tekel'den Vazgeçirdi", *Star Gazete*, 16.11.2007.

<sup>322</sup> Gülbakan, Yusuf "Pişkin Kaçakçı", *Yeni Şafak*, 25.09.2011.

<sup>323</sup> "Kaçakçılıkla Servet Biriktirilebilir Mi?", *Sol Portal*, <http://haber.sol.org.tr/ekonomi/kacakcilikla-servet-biriktirilebilir-mi-haberi-49956> [accessed 12.11.2012].

Minister Ali Babacan that he had been invited to the Finance Ministry meetings on preventing cigarette smuggling throughout 2010 and 2011<sup>324</sup>. European Tobacco is often called a joint Turkish-British operation in the Turkish media,<sup>325</sup> but on closer inspection the part of the company which is owned by the British-registered European Tobacco Limited<sup>326</sup> has not declared its ownership. Its two registered directors, however, are brothers Ramez and Nameer Nasri.<sup>327</sup> The Nasri brothers claim to own stakes in companies called European Tobacco in Turkey, Azerbaijan, Moldova, Ukraine, Romania, Georgia, Tajikistan and Mongolia<sup>328</sup>, as well as property companies which have built five five-star hotels and an enormous shopping centre in Iraq<sup>329</sup>. They have been linked to tobacco smuggling in Romania and Georgia as well as arms trafficking in Russia<sup>330</sup> and have close links with the Barzani family in Northern Iraq<sup>331</sup>.

Soon after the auction, it became public knowledge that British American Tobacco saw Turkey more as a market than a production hub. Its own website admits as much, beginning its section on the Tekel Tobacco purchase with the words “[t]he Turkish cigarette market is the eighth biggest cigarette market in the world”<sup>332</sup>. As part of the privatisation deal it was only keeping on a fifth of the staff, and as part of the deal the government simply allowed it not to hire the remaining 8,364 Tekel

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<sup>324</sup> Şardan, “Polis Takibindeki İşadamı 4 Bakanlı Zirveye Katılmış”.

<sup>325</sup> For example, see “Türk Sigara Pazarı 5 Yabancı Elinde”, *Milliyet*, 19.06.2009.

<sup>326</sup> “En Lezzetli Fotoğraf Yarışması”, *Grafikhaber.net*, <http://www.grafikhaber.net/yarisma-haberleri/en-lezzetli-fotograf-yarismasi.html> [accessed 12.11.2012].

<sup>327</sup> “European Tobacco Limited”, *Company Check*, <http://companycheck.co.uk/company/03823835> [accessed 12.11.2012].

<sup>328</sup> “Top Organizations Interviews: Mr Ramez Nasri Owner European Tobacco Baku”, *Winne World Investment News*, <http://www.winne.com/ca/azerbaijan/report/2004/to05inter.php> [accessed 12.11.2012].

<sup>329</sup> “NGC – Nasri Group of Companies Limited” *NGCompanies.com* <http://www.ngcompanies.com/> [accessed 12.11.2012]. McCarthy, Terry, “The Entrepreneur: Developer Bullish on Future” *USA Today*, 19.03.2007.

<sup>330</sup> Kordzaia, Irakli, “Who is Nizar Nasri and is the Georgian Tobacco Manufacturing given in the Hands of an International Criminal?”, *Georgian Tobacco Manufacturing*, <http://www.gtminfo.com/articles/news00390-eng-30sep2006.htm> [accessed 12.11.2012]. Originally published in Georgian in the newspaper *Alia*, 02.10.2006. Vdovii, Lina et al. “Transnistria – Europe’s Hub of Smuggling and Trafficking”, *Romanian Centre for Investigative Journalism*, <https://www.crji.org/articles.php?id=4196> [accessed 12.11.2012].

<sup>331</sup> Şanlı, Ufuk, “Kaçak Sigara Kürt Lider Barzani’ye Kadar Uzandı”, *Vatan*, 10.11.2011.

<sup>332</sup> “Biz Kimiz”, *British American Tobacco Türkiye*, [http://www.bat.com.tr/group/sites/BAT\\_7X7FK5.nsf/vwPagesWebLive/DO7X7JQ9?opendocument&SKN=1](http://www.bat.com.tr/group/sites/BAT_7X7FK5.nsf/vwPagesWebLive/DO7X7JQ9?opendocument&SKN=1) [accessed 16.10.2012].



Tobacco factory employees<sup>333</sup>. Since the government had already promised there would be no layoffs<sup>334</sup>, it initially continued to pay their wages. However, after a short while, the government reclassified the ex-Tekel Tobacco workers as “temporary government workers” in order to be able to put them to work in government departments on a much reduced salary and lay them off after eleven months. In addition, the workers would not be allowed to be unionised and would not get bonuses or redundancy pay<sup>335</sup>. Of those 8,364, only 28 accepted the new terms: the remainder chose direct action<sup>336</sup>.

It took ex-Tekel Tobacco workers 73 days of protest in Ankara and a general strike called by sympathetic unions for the government to give them compensation. Protestors initially camped outside the AKP headquarters, but were dispersed by police and moved to Güvenlik Park and finally to outside the Türk-İş trade union headquarters. The government responded by telling workers their temporary contracts were now cancelled<sup>337</sup>. Eventually, a group of five large trade unions decided to call for a general strike<sup>338</sup>. Despite Prime Minister Erdoğan’s insistence that the protest was ideological and therefore illegal, his threats to stop it by force had no effect<sup>339</sup> and the unions succeeded in mobilising tens of thousands of workers in what became the biggest demonstration Turkey had seen since 1980<sup>340</sup>. Eventually a series of legal cases provided a solution: the government lost its fight against paying compensation for the lost wages of its employees and was made to extend the

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<sup>333</sup> “Tekel Tartışmasında Devlet-İşçi Ne İstiyor”, *Haber-Aktüel*, <http://www.haberaktuel.com/tekeltartismasinda-devlet-isci-ne-istiyor-haberi-250395.html> [accessed 11.11.2012].

<sup>334</sup> “Turkey Reveals Privatisation Plans”, *BBC News*, 13.01.2003.

<sup>335</sup> “TEKEL İşçilerinin Direndiği 4-C Nedir?”, *CNNTurk.com*, <http://www.cnnurk.com/2010/ekonomi/genel/01/21/tekel.iscilerinin.direndigi.4.c.nedir/560353.0/index.html> [accessed 11.11.2012].

<sup>336</sup> Ergen, Ahmet, “Tekel İşçisi İşsiz Kaldı, 28’i 4C’li Oldu”, *NTVMSNBC*, <http://www.ntvmsnbc.com/id/25051989/> [accessed 11.11.2012].

<sup>337</sup> “TEKEL İşçilerine 41 Bin’er Lira Tazminat”, *Haber7.com*, <http://www.haber7.com/haber/20100118/TEKEL-iscilerine-41-biner-lira-tazminat.php> [accessed 11.11.2012].

<sup>338</sup> “Genel Eylem’den Başbakan’a Mesaj: Tekel Çadırına Gel, Alkışlayalım”, *Hürriyet*, 05.02.2010.

<sup>339</sup> “Tekel Eylemi Haksız İşgal Var, Ay Sonu Müdahale Ederiz”, *Hürriyet*, 05.02.2010.

<sup>340</sup> “Kitap: Yeni Çıkanlar”, *Radikal*, 22.06.2012.

period in which the workers could apply for the temporary work contracts but won the case requiring the workers to leave the streets<sup>341</sup>.

Many of those employees who did remain in employment for British American Tobacco did not have a better time of it. The company closed their factory in Tokat later in 2009 and their factory in Tire in 2010<sup>342</sup>. It plans to close its factories in Istanbul, Adana, Bitlis and Malatya in the medium term, leaving Samsun as the only BAT factory still in operation in Turkey<sup>343</sup>. In addition, the company's strategy to move away from the Tekel cigarette brands and encourage the purchase of its international brands, as well as the loss of Tekel as tobacco purchaser of last resort, has hit tobacco production in Turkey. In the year after privatisation, domestic tobacco production fell from 118,940 tonnes to around 80,000 tonnes<sup>344</sup>. Between 2007 and 2011, official employment in the tobacco farming sector in Turkey fell from around 145,000 to around 55,000<sup>345</sup>, but this is likely to be a small fraction of the total number of people affected<sup>346</sup>. In addition, even the Samsun factory itself may be a temporary measure. The factory presently sells one third of its production to European Union countries with high import duties on non-EU cigarettes such as Romania and Spain because the EU customs union allows Turkey to avoid these tariffs, and the company hopes for it to specialise in this niche in the future<sup>347</sup>. If Romania and Spain lower their import tariffs or make bilateral trade agreements with cheaper tobacco producers, the long term future of production of tobacco in Turkey could be under threat.

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<sup>341</sup> "Tekel İşçileri İlk Raundu Kazandı Peki Bundan Sonra Ne Olacak?", *Turktime*,

<http://www.turktime.com/haber/TEKEL-Iscileri-Ilk-Raundu-Kazandi/86645> [accessed 16.10.2012].

<sup>342</sup> *British American Tobacco Annual Report 2009* (London: British American Tobacco, 2010), p. 190. *British American Tobacco Annual Report 2011* (London: British American Tobacco, 2012), p. 34.

<sup>343</sup> This vision is described as the company's goal in the *British American Tobacco Annual Report 2009*, p. 58

<sup>344</sup> Demirsar, Metin, "A Turbulent Year for Turkish Tobacco", *Tobacco Journal*, [http://www.tobaccojournal.com/A\\_turbulent\\_year\\_for\\_Turkish\\_tobacco.49941.0.html](http://www.tobaccojournal.com/A_turbulent_year_for_Turkish_tobacco.49941.0.html) [accessed 12.11.2012].

<sup>345</sup> "Tekel İki Yıllık Sektör Karına Satılıyor", *Milliyet*, 26.02.2008. "Tütün Üreticisinin Geleceği Tehdit Altında", *Haberler*, <http://www.haberler.com/tutun-ureticisinin-gelecegi-tehdit-altinda-3947187-haberi/> [accessed 20.11.2012].

<sup>346</sup> Each "farmer" counted here is estimated by the Turkish government to represent an additional uncounted 2 or 3 family members unofficially employed doing the same work. *Dokuzuncu Kalkınma Planı 2007-2013* (Ankara: Devlet Planlama Teşkilatı, 2007), pp. 43-44.

<sup>347</sup> Cochrane, Paul, "Turkey Hit by Tax Hikes and Legislation", *Tobacco Journal*, [http://www.tobaccojournal.com/Turkey\\_hit\\_by\\_tax\\_hikes\\_and\\_legislation.50652.0.html](http://www.tobaccojournal.com/Turkey_hit_by_tax_hikes_and_legislation.50652.0.html) [accessed 12.11.2012].

The eventual outcome of the privatisation of Tekel Tobacco has not just been the shifting of its production from the public to the private sector but a huge shift in cigarette and tobacco production and ownership from Turkey to other countries. By 2009, British companies BAT and Imperial Tobacco controlled nearly half of the Turkish tobacco market<sup>348</sup>; the remainder was divided between Japanese and American companies and European Tobacco. Most of their sales now came from international brands produced outside Turkey with very little Turkish tobacco, if any, in the blend. The withdrawal of the livelihood of thousands of factory workers in order to ensure the sale of Tekel to British American Tobacco caused a national incident and a public success for the trade union movement in Turkey to the detriment of the government. However, much less has been heard of the hundreds of thousands of Turkish tobacco growers who will have had to shift their livelihoods or move to the cities in order to survive. British American Tobacco, however, has continued to thrive in Turkey and expand the sales of its international brands. As their brands tend to be at the low cost end of the market, the company has also been actively lobbying the government to do more about illegal tobacco smuggling<sup>349</sup>, which is estimated to comprise around 20% of total cigarette sales<sup>350</sup>.

#### **4.4 HSBC**

HSBC was initially another British beneficiary of a Turkish government policy of privatisation and liberalisation, being able to open, profit and expand due to Turkish government policy. When financial crisis hit Turkey in 2001, HSBC was able to acquire the good assets of Demirbank, which had gone into administration and been taken over by the state. Since that time, however, it has had a mixture of political fortunes in the country. In the past ten years, the Turkish Competition Commission has twice judged that it was obstructing competition in the banking sector and

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<sup>348</sup> "Foreigners Rule Local Tobacco Market", *Hürriyet Daily News*, 20.07.2009.

<sup>349</sup> Ertem, Cemil, "Kriminal Bir Sektör Olarak Tütün Endüstrisi", *Taraf*, 06.06.2012.

<sup>350</sup> "Kaçakçılara Gün Doğacak", *StarGündem*, <http://www.stargundem.com/ekonomi/eko-gundem/1286288-kacakcilara-gun-dogacak.html> [accessed 11.11.2012].

attempts to take over rivals Denizbank and Finansbank have fallen through. Finally, the bank became the target of a series of bomb attacks in 2003 and 2004<sup>351</sup>, showing how it has come to symbolise British and western interests in Turkey. This section looks at how and why HSBC has entered the Turkish market and how politics have shaped its fortunes since.

HSBC is a British business originally founded in 1865 in Hong Kong and Shanghai primarily to transfer the proceeds of the sales of Indian opium in China back to Britain<sup>352</sup>. It moved its headquarters to London in 1992 when it took over Midland Bank, and as it was becoming clear that Hong Kong was going to revert back to Chinese rule<sup>353</sup>. However, it keeps close links with China: Vincent Cheng, the Chairman of its Asian banking arm between 2005 and 2011, played a number of roles in the Chinese government and is currently a member of the National Committee of the 11th Chinese People's Political Consultative Conference (CPPCC)<sup>354</sup>. It has also threatened to move back to Hong Kong if the British government increases regulations on banks in response to the financial crisis<sup>355</sup>. HSBC has now grown to a worldwide operation, with 100 million customers in 87 countries<sup>356</sup>. However, it has not escaped controversy. The bank recently came under criticism from the US Senate for being lax in applying money laundering regulations in the United States, likely allowing large amounts of narcotics money to flow between the US and Mexico<sup>357</sup>. It had also been moving money to and from the US from countries on its sanctions lists such as Iran and Syria and doing business with a Saudi bank linked to Al Qaeda<sup>358</sup>. On top of this, the bank's private bank had helped

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<sup>351</sup> Sturke, James, "Bomb Blasts Before PM Lands in Turkey", *The Guardian*, 17.05.2004.

<sup>352</sup> Conne, Jean-Louis, "HSBC: Chinese for Making Money", *Le Monde Diplomatique English Edition*, <http://mondediplo.com/2010/02/04hsbc> [accessed 17.11.2012].

<sup>353</sup> Treanor, Jane, "HSBC Wins Concessions After Relocation Threat", *The Guardian*, 20.12.2011.

<sup>354</sup> "Biography of Vincent Cheng", *HSBC*, <http://www.hsbc.com/1/2/newsroom/news/2008/vincent-cheng> [accessed 17.11.2012]. Schaeffer Muñoz, Sara et al., "HSBC's Profit Soars", *The Wall Street Journal*, 01.03.2011.

<sup>355</sup> Armitstead, Louise, "HSBC Reveals Plans to Quit London for Hong Kong", *The Daily Telegraph*, 05.03.2011.

<sup>356</sup> "About Us", *HSBC*, <http://www.hsbc.co.uk/1/2/about> [accessed 17.11.2012].

<sup>357</sup> "HSBC Money-Laundering Scandal Casts a Cloud Over Lord Green, The Trade Minister", *The Daily Telegraph*, 07.17.2012.

<sup>358</sup> Rushe, Dominic, "HSBC 'Sorry' For Aiding Mexican Drugs Lords, Rogue States and Terrorists", *The Guardian*, 17.07.2012.

wealthy British customers to evade tax by hiding their money in Switzerland<sup>359</sup>, and its American subsidiary was the one of the largest lenders of sub-prime mortgages in the run-up to the 2008 financial crisis<sup>360</sup>. There are political implications to this too: HSBC Group Chairman and HSBC Private Bank (Suisse) Chairman at the time of the scandals was Stephen Green, now a Conservative peer and the government's present Trade Minister<sup>361</sup>.

In 1990, the British bank Midland Bank opened a Turkish branch in Istanbul, becoming one of the first foreign banks and the first British bank to do so<sup>362</sup>. Foreign banks had been allowed to operate in the Turkish market since 1984, but they had only been able to move money in and out of the country freely from 1989<sup>363</sup>. In 1992, HSBC took over Midland Bank and continued its Turkish operations, changing the company's name in Turkey to HSBC in 1999<sup>364</sup>. Throughout the 1990s, Midland Bank/HSBC remained a small operation in Turkey, only adding personal banking services to its corporate services in 1997<sup>365</sup>. By the time of its takeover of Demirbank in 2001, it was still only a 200-employee firm, but the HSBC group was looking to expand its Turkey operations<sup>366</sup>.

Demirbank's investment strategy throughout the 1990s led to financial disaster in 2001, but the government had guaranteed that it would not let any banks go bankrupt and so it was taken into government hands. Demirbank (literally "iron bank") had been founded in 1953 by iron merchants in Istanbul and had specialised in giving loans to small and medium enterprises in Turkey, gaining a reputation for

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<sup>359</sup> Mathiason, Nick, "'Britons Evaded £200m in Tax' Using HSBC-Owned Swiss Bank", *The Observer*, 29.07.2012.

<sup>360</sup> Norris, Floyd, "The Deal that Fuelled Sub-Prime", *The New York Times*, 05.03.2009.

<sup>361</sup> Mathiason, "'Britons Evaded £200m in Tax' Using HSBC-Owned Swiss Bank". Lord Green is also an Anglican priest who has authored numerous religious books including one entitled "Serving God? Serving Mammon?". McBay, Alistair, "Motes and Beams in Banking Ethics", *National Secular Society*, <http://www.secularism.org.uk/blog/2012/08/motes-and-beams-in-banking-ethics> [accessed 17.11.2012].

<sup>362</sup> "HSBC Türkiye", *HSBC*, [http://www.hsbc.com.tr/tr/HSBC\\_hakkinda/HSBC\\_turkiye/](http://www.hsbc.com.tr/tr/HSBC_hakkinda/HSBC_turkiye/) [accessed 18.10.2012].

<sup>363</sup> Yalman, *Transition to Neoliberalism*, pp. 291-292.

<sup>364</sup> "Midland Bank Tarih Oldü", *Radikal*, 10.09.1999.

<sup>365</sup> "HSBC Türkiye", *HSBC*.

<sup>366</sup> "HSBC'nin Türkiye Planı", *Capital Dergisi*, <http://www.capital.com.tr/hsbcnin-turkiye-plani-haberler/17629.aspx> [accessed 12.11.2012].

caution which had remained with it until the 1990s<sup>367</sup>. Halit Cingilloğlu, the owner of Demirbank, was well connected politically and a close personal friend of Prime Minister Tansu Çiller<sup>368</sup>. No one intervened when he made the radical switch to a risky growth strategy in the bond markets, which led to Demirbank growing eight-fold between 1990 and 2000<sup>369</sup>. By the year 2000, it was almost unbelievably leveraged, holding US\$7.5 billion of securities against capital of just US\$300 million<sup>370</sup>. US\$5.5 billion of these were government treasury bills due to return Demirbank a very good profit at the end of the year<sup>371</sup>, but in order to sustain this investment it had to keep borrowing on the short-term money markets<sup>372</sup>. This money began to dry up: on the one hand, foreign borrowing became more expensive, on the other, domestic banks stopped lending to Demirbank because of rumours of its insolvency<sup>373</sup>. Halit Cingilloğlu argued that this was a deliberate conspiracy by rival banks to ruin him by artificially raising the price of credit<sup>374</sup>. The Turkish Central Bank was unable to bail out Demirbank because it would cause the government to exceed the net domestic asset limits it had agreed with the IMF<sup>375</sup>. In consequence, it had to wait until Demirbank completely collapsed, then take it under public control.

Since the government had been made by the IMF to guarantee all bank deposits in order to increase banking confidence in the aftermath of the 1994 financial crisis, the government agency which took over Demirbank was the Savings

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<sup>367</sup> Coşar, Nevin, “Demirbank: The History of a Small Turkish Commercial Bank”, *Business and Economic History*, 28:2 (1999). pp. 125-130.

<sup>368</sup> “Büyük Kriz’in Onuncu Yılı”, *Sabah*, 21.02.2011.

<sup>369</sup> Alper, C. Emre and Öniş, Ziya, “Soft Budget Constraints, Government Ownership of Banks and Regulatory Failure: The Political Economy of the Turkish Banking System in the Post Capital-Account Liberalization Era”, *Boğaziçi University Department of Economics Working Papers*, No. 2 (2002), p. 16.

<sup>370</sup> Gençay, Ramazan and Selçuk, Faruk, “Overnight Borrowing, Interest Rates and Extreme Value Theory”, *European Economic Review*, No. 50 (2006). p. 548.

<sup>371</sup> Ekinci, Nazım Kadri, “Anatomy of the Recent Crisis in Turkey”, *Journal of Economic Co-operation*, 23:1 (2002), p. 98.

<sup>372</sup> Saltoğlu, Burak and Jon Danielsson, “Anatomy of a Market Crash: A Market Microstructure Analysis of the Turkish Liquidity Crisis”, *Financial Markets Group Discussion Papers*, No. 456, (London: London School of Economics, 2003). pp. 21-22.

<sup>373</sup> Arı, Ali and Rüstem Dağtekin, “Early Warning Signals of the 2000/2001 Turkish Financial Crisis”, *International Journal of Emerging and Transitional Economies*, 1:2 (2008), p. 193.

<sup>374</sup> “Devlet Kağıdına Yattı İki Bankasını Kaybetti”, *Hürriyet*, 31.10.2002.

<sup>375</sup> Saltoğlu, Burak and Taylan Eren Yenilmez, “Analyzing Systemic Risk with Financial Networks: An Application During a Financial Crash”, *MPRA Papers*, No. 26684 (2010), p. 9.

Deposit Insurance Fund (TMSF), which had been established for that purpose<sup>376</sup>. The Savings Deposit Insurance Fund took on all the bank's bad debt and worked out what was salvageable from the business. By January 2001 it was ready to accept bids on the resurrected Demirbank, and in October 2001 it agreed to sell it to HSBC for US\$350 million<sup>377</sup>. The deal was a bargain from HSBC's perspective: it had previously valued Demirbank at US\$1 billion because of its market share and 198 existing branches<sup>378</sup>. In addition, the two companies' business models were a good match, since both companies had focussed on the custom of small and medium enterprises and the nascent mortgages market<sup>379</sup>. For its part, in taking on Demirbank's bad debt the Turkish government incurred losses of US\$3 billion<sup>380</sup>. In 2004 the Cingilloğlu family began a lawsuit against the Savings Deposit Insurance Fund for having resold the bank. Rumour went around that the sale to HSBC had been cancelled retrospectively, but the court ultimately upheld HSBC's ownership of the company<sup>381</sup>.

From that time onwards, HSBC has been an important player in the Turkish banking market and has sometimes appeared too powerful to Turkey's Competition Commission. HSBC's next acquisition in the Turkish market was the Advantage Card, an installment card with 1.5 million existing customers which it bought for US\$75 million in 2002<sup>382</sup>. However, the firm continued the previous owner's practice of making corporate customers sign exclusivity contracts promising that they would only accept this installment card. Consequently, HSBC was fined 5 trillion Turkish Lira in 2003 for obstructing competition<sup>383</sup>. Since then, there have been several inquiries into other potentially restrictive or cartel-like behaviour

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<sup>376</sup> Arı, Ali and Rüstem Dağtekin, "Early Warning Signals of the 2000/2001 Turkish Financial Crisis", p. 194.

<sup>377</sup> "Basın Açıklaması", *Tasarruf Mevduatı Sigorta Fonu*, 20.09.2001.

[http://www.tmsf.org.tr/documents/ilanlar/tr/20092001\\_tmsf\\_2.htm](http://www.tmsf.org.tr/documents/ilanlar/tr/20092001_tmsf_2.htm) [accessed 18.10.2012].

<sup>378</sup> "Demirbank Satıldı", *Radikal*, 21.09.2001.

<sup>379</sup> Aysan, Ahmet Faruk and Ceyhan, Şanlı Pınar, "Why Do Foreign Banks Invest in Turkey", *MRPA Papers*, No. 5491 (2006), p. 15.

<sup>380</sup> "Batan Bankalar Her Türk'ün Cebinden 246 Dolar Götürdü", *Hürriyet*, 09.10.2002.

<sup>381</sup> "TMSF'den Demirbank Açıklaması", *Hürriyet*, 30.09.2004. Halit Cingilloğlu now owns banks in 7 different European countries and is the Honorary Turkish Consul to Bruges. "Cingilloğlu'nun İnanılmaz Yükselişi", *Referans*, 08.10.2009. The Cingilloğlu family is still seeking compensation from the Turkish state and has taken its case to the European Court of Human Rights. "Devletten 5 Milyar Dolar İstiyorlar", *Sabah*, 09.08.2012.

<sup>382</sup> "Advantage, 75 milyon dolara HSBC Bank'ın", *Hürriyet*, 09.08.2002.

<sup>383</sup> "HSBC'ye Benkar Yüzünden 5 Trilyonluk Ceza", *Hürriyet*, 28.08.2003.

involving HSBC. In 2009, the Competition Commission launched an investigation into eight large banks including HSBC which were offering special inducements to public sector employees to use their branches to collect their wage packets. Smaller banks had claimed that this was unfair practice, but it was ruled to be within the law<sup>384</sup>. 2011 saw the start of a still-continuing investigation into high levels of interest on credit card debt from the 12 largest banks in Turkey including HSBC<sup>385</sup>. In short, although HSBC may not be carrying on illegal uncompetitive practices today, it is unafraid of getting very close to the legal limits on them.

In 2003 and 2004, HSBC was targeted by a series of bomb attacks perpetrated by two radically different groups for different reasons. In some ways, the company was a likely target. HSBC had emerged in Turkey as a symbol of successful British business overseas at a time when British armed forces were invading Iraq and occupying Afghanistan, making it a target for Islamists. At the same time, it was seen as representative of the global finance industry and capitalism in general, making it a target for radical leftists. The 2003 Istanbul bombings were by far the most serious. They came in two waves: on the 15th November 2003 two synagogues were bombed, killing 25 people. Then on the 20th, the British Consulate and the HSBC headquarters were bombed, killing 27 more people, including three HSBC employees and the British Consul-General<sup>386</sup>. These attacks were initially claimed by a group called the Islamic Great Eastern Raiders Front, but they are now known to have been carried out by a group connected to al-Qaeda<sup>387</sup>, many of whom were successfully apprehended by Turkish and international police forces over the next few years<sup>388</sup>. The HSBC bomber himself escaped and was killed in Syria in recent months fighting on behalf of the Free Syrian Army<sup>389</sup>. HSBC would again be a target of bombings as Tony Blair prepared to visit Turkey in 2004. Again, there were two

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<sup>384</sup> “Bankaların Maaş Promosyonuna Onay”, *TRT Haber*, <http://www.trthaber.com/haber/gundem/bankalarin-maas-promosyonuna-onay-39836.html> [accessed 11.11.2012].

<sup>385</sup> “12 Bankaya ‘Faizde Rekabet İhlali Var Mı?’ Soruşturması”, *Hürriyet*, 22.11.2011.

<sup>386</sup> “Istanbul Rocked by Double Bombing”, *BBC News*, <http://news.bbc.co.uk/2/hi/europe/3222608.stm> [accessed 11.11.2012].

<sup>387</sup> “Bin Laden Allegedly Planned Turkey Attack”, *NTVMSNBC*, <http://www.msnbc.msn.com/id/3735645/ns/news/t/bin-ladenallegedly-planned-attack-turkey/> [accessed 11.11.2012].

<sup>388</sup> “İstanbul’u Bombalayanlar Elde”, *Radikal*, 31.01.2007.

<sup>389</sup> “HSBC Bombacısı Halep’te Öldürüldü”, *Aydınlık*, 17.08.2012.



waves, though neither produced any casualties. The first, on May 16th, saw percussion bombs go off outside four branches of HSBC in Istanbul and Ankara<sup>390</sup>. The second, on the 28th September, saw another four bombs explode outside HSBC branches in Istanbul, Izmir, Ankara and Adana<sup>391</sup>. The bombings in 2004 were carried out by the Revolutionary People's Liberation Front (DHKP/C), a Communist terrorist organisation which claims to want to liberate Turkey from western imperialism, and although these bombs caused more noise than harm, the group has a history of attempted suicide bombings and assassinations<sup>392</sup>. As President Abdullah Gül told the media in 2003; “[t]his time the target turned out to have been the British”<sup>393</sup>. Because HSBC was a British political actor, and because Britishness at that time seemed to symbolise wars and the imposition of capitalism to Islamist and Communist alike, the political realm again interfered with the economic.

#### 4.5 Vodafone

Vodafone is a British company which only entered the Turkish market in 2005 but has grown at an enormous speed in Turkey through a series of takeovers and lawsuits. Today the company boasts 17.5 million customers in Turkey and is the country's second largest mobile telecommunications firm<sup>394</sup>, but this success was kickstarted by the highly political seizure and sale of the assets of one of Turkey's richest families by the state: his communications companies became the centre of Vodafone's empire. Since then, Vodafone executives have been working in a world of Turkey's biggest businessmen and women, buying assets from Borusan and Koç Holdings and taking rival Turkcell to court. But Vodafone learnt from the circumstances in which it entered the Turkish market not to make too many political

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<sup>390</sup> “Bombs Hit HSBC Banks in Turkey Before Blair Visit”, *Houston Chronicle*, 16.05.2004.

<sup>391</sup> “Dört Şehirde Bombalı Gece”, *Milliyet*, 29.10.2004.

<sup>392</sup> Mango, Andrew, *Turkey and the War on Terror* (Oxon: Routledge, 2005), pp. 26-28.

<sup>393</sup> “Gül: Hedef İngiliz Çıkarları”, *NTVMSNBC*, <http://arsiv.ntvmsnbc.com/news/244740.asp> [accessed 11.11.2012].

<sup>394</sup> “Vodafone Türkiye”, *Vodafone*, <http://www.vodafone.com.tr/VodafoneHakkinda/Vodafone-Turkiye-Hakkinda.php> [accessed 19.10.2012].

enemies, and has sponsored government initiatives including the Tatlıdil British-Turkish business forum.

Vodafone operates in over 60 countries and has networks in over 30 different countries. It has the 7th most valuable brand in the world<sup>395</sup>, is the fourth biggest company on the London Stock Exchange<sup>396</sup> and the second largest telecommunications company in the world after China Telecom<sup>397</sup>. It is primarily a mobile telecommunications company but it also has data and fixed line services<sup>398</sup>. This year it became the target of protests after it was revealed that the company had entirely avoided corporation tax in Britain the year before<sup>399</sup> on top of £6 billion it had avoided in 2010<sup>400</sup>, leading Members of Parliament to criticise the tax service for giving them “preferential treatment”<sup>401</sup>. The British government has shown it is willing to fight on the company’s behalf, as well: when India sought earlier this year to recover capital gains tax from a Vodafone corporate takeover, Chancellor of the Exchequer George Osborne used a trip to New Delhi to chide the Indian Finance Minister, saying “Vodafone has paid many millions of dollars in taxes and invested a huge amount in the Indian economy. India has every right to levy taxes, but everyone has got an interest in that tax regime being predictable and being one that is welcoming of investment”<sup>402</sup>.

The Uzan family controlled a significant business empire by the time of its fraud case in 2004. It was begun by Kemal Uzan as a firm of multinational building

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<sup>395</sup> “About Us”, *Vodafone*, [http://www.vodafone.com/content/index/about/about\\_us.html](http://www.vodafone.com/content/index/about/about_us.html) [accessed 12.11.2012].

<sup>396</sup> As of 12.11.2012. “FTSE All-Share Index Ranking”, *Stockchallenge.co.uk*, <http://www.stockchallenge.co.uk/ftse.php> [accessed 12.11.2012].

<sup>397</sup> “Global 500 2011: Global 500 1-100 - Fortune”, *CNNMoney*, [http://money.cnn.com/magazines/fortune/global500/2012/full\\_list/index.html](http://money.cnn.com/magazines/fortune/global500/2012/full_list/index.html) [accessed 12.11.2012].

<sup>398</sup> “Business Solutions”, *Vodafone*, <http://www.vodafone.com/content/index/about/what/business.html> [accessed 12.11.2012].

<sup>399</sup> Wimpers, Chris, “David Gauke: Tax Avoidance Deal For Vodafone Led To 'Increasingly Hysterical' Reaction From UK Uncut”, *Huffington Post UK*, [http://www.huffingtonpost.co.uk/2012/07/23/david-gauke-tax-avoidance-vodafone-ukuncut\\_n\\_1694143.html](http://www.huffingtonpost.co.uk/2012/07/23/david-gauke-tax-avoidance-vodafone-ukuncut_n_1694143.html) [accessed 12.11.2012].

<sup>400</sup> Martin, Daniel, “Taxman Let Vodafone Off £6bn Bill”, *ThisIsMoney.co.uk*, <http://www.thisismoney.co.uk/money/news/article-1704527/Taxman-let-Vodafone-off-6bn-bill.html> [accessed 12.11.2012].

<sup>401</sup> “MPs attack HMRC's 'cosy' deals with big business”, *BBC News*, <http://www.bbc.co.uk/news/business-16253205> [accessed 20.12.2011].

<sup>402</sup> Pandey, Vinay, “British FM George Osborne Calls for Greater Predictability in India's Tax Policies While Batting for Vodafone”, *The Times of India*, 03.03.2012.

contractors and grew to include 217 Turkish companies in the fields of banking, media, telecommunications, construction, aluminium and energy<sup>403</sup>. In 1990 Kemal Uzan's charismatic son Cem had gone into business with the son of President Turgut Özal to start the first legal private television channel in Turkey, Star TV<sup>404</sup>. As he built up a media business composed of newspapers, magazines, radio stations and television channels, as well as running two football clubs, Cem Uzan became a well known figure in Turkish life<sup>405</sup>.

Cem Uzan used his fame to set up his own political party, the Genç Parti (Youth Party) in 2002, in order to contest the elections that year. The electoral environment was extremely volatile and Cem Uzan made a name for himself with live musical concerts at his party rallies and a series of populist pledges, such as leaving the IMF, quadrupling the number of university places and reducing taxes on minimum-wage earners to zero<sup>406</sup>. The Genç Parti did remarkably well for a newly-founded party, but not well enough: their 7.5% of the vote was not enough to gain them a place in Parliament<sup>407</sup> and moreover, it also took votes from other minor parties. That meant that only two parties achieved representation in parliament, the AKP and the Republican People's Party (CHP), and that the AKP achieved an absolute majority of the seats. Given that Uzan had been highly critical of the AKP in the election campaign, he was vulnerable to political attack on his economic wealth.

After the election, things began to fall apart for the Uzan family. After the election, Erdoğan's government seized two of the Uzan family's largest energy companies on the pretext that they had breached regulations<sup>408</sup>. Uzan lost his temper at Erdoğan later that month at a meeting in Bursa, saying to him, "[w]hat kind of Muslim are you? Your eyes are full of greed and fear. You don't fear God at all.

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<sup>403</sup> "Yolun Sonu", *Hürriyet*, 15.02.2004.

<sup>404</sup> Atal, Nevzat and Gemici, Hacer, "Tüyo Özal'dan Özel TV Uzan'dan", *Sabah*, 16.02.2004.

<sup>405</sup> "Uzan'ın Medyası Satışa Çıkıyor", *Radikal*, 18.07.2005.

<sup>406</sup> "Genç Parti Genel Başkanı Cem Uzan: Sizden Kandırmak İçin Oy İstemiyorum, Bizde Allah Korkusu Var", *Haber Vitrini*, <http://www.habervitrini.com/haber/genç-parti-genel-başkanı-cem-uzan-sizden-kandırmak-icin-oy-istemiyorum-biz-de-allah-korkusu-var-42286/> [accessed 11.11.2012].

<sup>407</sup> Turkey operated with a "barrage" system whereby only parties gaining over 10% of the vote achieve representation.

<sup>408</sup> Purvis, Andrew, "Not Just Business as Usual", *Time*, 27.07.2003.

You're godless. Godless swine"<sup>409</sup>. His Star newspaper that morning had been blunter, with its headline "Are you powerful enough for this? Backstabber!", to which Erdoğan responded by pressing charges<sup>410</sup>. The next month, the banking regulator decided to take the Uzans' banks, Adabank and İmar Bank, into the custody of the Savings Deposit Insurance Fund for being a "danger to the banking system"<sup>411</sup> and the family's television stations were taken off the air for having been used to promote Uzan's political ambitions<sup>412</sup>. Then the family found itself unable to pay back US\$2 billion it had borrowed from Nokia and Motorola, who took them to court in America and Britain and won the right to their assets<sup>413</sup>. Finally, unpaid tax was invoked to transfer the rest of the Uzan family's Turkish companies to the Savings Deposit Insurance Fund, the largest seizure of private assets since the law had been passed in 1942<sup>414</sup>. First Kemal Uzan then Cem's brother Hakan fled the country upon coming under fear of prosecution. Finally, Cem escaped the country by yacht<sup>415</sup>. The Turkish courts had issued a warrant for him not long before, charging that he had embezzled funds from his own banks before the state takeover<sup>416</sup>.

Over the next few years, all the Uzan family's companies were sold to new owners by the Turkish government. Among them was their flagship telecommunications company Telsim, which had a mobile telecommunications licence valid until 2023 and a large customer base<sup>417</sup>. The Telsim-Motorola and Telsim-Nokia cases were resolved out of court by the Savings Deposit Insurance Fund over the next year<sup>418</sup>, so the state could auction off the company without billion-dollar legal cases detracting from its value. The auction took place in December 2005 between six different telecoms companies and with a reserve price

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<sup>409</sup> "Cem Uzan İçin 1 Yıl Hapis İstendi", *Milliyet*, 20.06.2008.

<sup>410</sup> "Star ve Uzan Erdoğan'a 'Kalles' Dedi, Savcılık Soruşturma Açtı", *Zaman*, 14.06.2003.

<sup>411</sup> "Uzan Grubu'nun Hesabı Hala Kapatılmadı", *HaberTürk*, 09.04.2009.

<sup>412</sup> Purvis, "Not Just Business as Usual".

<sup>413</sup> "Motorola'ya Uzanlar'ın Mallarına El Koyma Hakkı", *Hürriyet*, 07.12.2004.

<sup>414</sup> Uras, Güngör, "Servet Transferi Dönemi Başlıyor", *Milliyet*, 19.02.2004.

<sup>415</sup> "Cem Uzan Türkiye'den Kaçtı mı?", *Radikal*, 01.10.2009.

<sup>416</sup> "TMSF Cem Uzan'ın Tutuklanması İstemiyle Mahkemeye Başvurdu", *Milliyet*, 05.10.2009.

<sup>417</sup> Kutlay, Mustafa, "Üç Kez 'Sattım' Demeden Telsim'i Vermek Yok", *Hürriyet*, 13.12.2005.

<sup>418</sup> "Telsim Case: Motorola Settles with TMSF", *USAK: The Journal of Turkish Weekly*, 30.10.2005.

"Nokia Reaches Settlement in Telsim Case", *Telecompaper*,

<http://www.telecompaper.com/news/nokia-reaches-settlement-in-telsim-case--485506> [accessed 11.11.2012].

of US\$2.8 billion. It was won by Vodafone for US\$4.55 billion<sup>419</sup>. Vodafone also bought the Uzans' telecoms research company Oksijen for US\$9.2 million at a separate auction in 2006<sup>420</sup>.

Since then, Vodafone has been expanding organically and inorganically, growing Telsim's 21.7% market share and 2.35 billion Turkish Lira turnover to a 27.1% share and a 3.7 billion Lira turnover within 5 years<sup>421</sup>. It bought the Kocabiyik family's company Borusan Telekom for an undisclosed sum in 2009 and in doing so acquired its own fibre optic network and 3G mobile service, as well as a large number of business customers<sup>422</sup>. Then in 2011 it bought the Koç family's company Koç.net for 30 million Turkish Lira, which gave it a fixed-line network in Turkey, along with the ability to provide ADSL internet and more specialist services for business customers<sup>423</sup>.

One of Vodafone's biggest challenges to growing organically was number convertability: Turkcell was by far the largest mobile phone provider in Turkey, and customers did not want to switch provider if they couldn't keep their telephone numbers. The Turkish Telecommunications Authority (TK) wanted to introduce a system so that customers could move from one network to another and retain their numbers, but Turkcell began a court case to stop it on the basis that they had been issued the rights to their telephone numbers for a 25-year period. In response, Avea and Vodafone and the Telecoms Technical Employees Association (TTED) began a court case to stop 3G services coming to Turkey until telephone numbers became convertible, on the basis that this was anti-competitive and would further entrench Turkcell's position as market leader<sup>424</sup>. The Competition Commission and Council of State (*Danıştay*) sided with Vodafone and Avea, Turkcell lost their case and number

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<sup>419</sup> "Dünya Devi Vodafone Telsim'i Aldı", *NTVMSNBC*, <http://arsiv.ntvmsnbc.com/news/353549.asp> [accessed 11.11.2012].

<sup>420</sup> "Vodafone'dan Uzan'ın Oksijen'ine 9.2 Milyon Dolar", *Hürriyet*, 14.06.2006.

<sup>421</sup> "Vodafone'dan Büyük Başarı", *İhlas Haber Ajansı*, <http://www.ihha.com.tr/NewsDetail.aspx?nid=176420&cid=5> [accessed 20.11.2012].

<sup>422</sup> Ersoy, Ercan and Fletcher, Clementine, "Vodafone Buys Turkey's Borusan Telekom for 3G Service", *Bloomberg*, <http://www.bloomberg.com/apps/news?pid=newsarchive&sid=axvH.isf1dQU> [accessed 20.11.2012].

<sup>423</sup> "Koç.net'i Vodafone Net Yaptı, Pakete 125 Yeni Ürün ve Hizmet Ekledi", *Hürriyet*, 14.12.2011.

<sup>424</sup> "Numara Taşıyamıyoruz, 3G İhalesini Erteleyin Davası", *Haberler.com*, <http://www.haberler.com/numara-tasiyamiyoruz-3g-ihalesini-erteleyin-davasi-haberi/> [accessed 20.11.2012].

convertability was introduced<sup>425</sup>. More recently, however, Vodafone has itself been fined 1.53 million Turkish Lira by the Information Technology Institute (BTK) for deliberately misleading customers about their prices and overcharging them for services<sup>426</sup>.

Understandably given the fate of Telsim's previous owners, Vodafone has been careful not to make itself powerful enemies. The Turkey Vodafone Foundation pays for 552 pre-schools across poorer areas of Turkey to be run by the Mother-Child Education Foundation (AÇEV)<sup>427</sup>, which is the pet project of director Ayşen Özyeğin, wife of Hüsnü Özyeğin. Hüsnü Özyeğin is one of Turkey's richest men and got his first job in business from his close friend Mehmet Emin Karamehmet, who owns a majority stake in Vodafone rival Turkcell<sup>428</sup>. The Turkey Vodafone Foundation also works with the government Development Ministry (TCKB), local government and the UN Development Program to provide summer camps, training and education for handicapped and socially disadvantaged youths<sup>429</sup>. It has also been co-sponsor of the Information Technology Institute's project to build a giant digital archive in Izmir, which is somewhat dubious given the latter's responsibility to regulate Vodafone's affairs<sup>430</sup>. Vodafone is the main sponsor of the Turkey arm of the Global Student Entrepreneur awards, and it invited onto the jury such scions of Turkish business as Ali Sabancı and Faruk Eczacıbaşı, as well as the head of the Information Technology Institute, Burhan Karaçam<sup>431</sup>. Finally, Vodafone has also been a sponsor of and enthusiastic participant in the Tatlıdil Turkish-British businessmen's forum, and one of its founder-members is the current co-chair<sup>432</sup>. This

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<sup>425</sup> "Numara Taşıma Savaşı Kızışıyor", *Hürriyet*, 13.04.2007. "Vodafone: Danıştay'ın Kararı, Tüketici İçin bir Zafer", *Hürriyet*, 05.12.2007.

<sup>426</sup> "BTK'dan Vodafone'a 1,5 Milyon Lira Ceza", *Akşam*, 25.09.2012.

<sup>427</sup> "Geleceğe İlk Adım Sınıflar", *Hatay Kent Gazetesi*, 20.09.2012.

<sup>428</sup> "Emerging Leaders: Husnu M Ozyegin, Founder and Chairman, Fiba Group, and Banking Entrepreneur, Turkey", *Thomas White Global Investing*, <http://www.thomaswhite.com/explore-the-world/emerging-leaders/husnu-ozyegin.aspx> [accessed 20.10.2012]. Ilıcak, Nazlı, "Ayşen Özyeğin", *Sabah*, 27.12.2007.

<sup>429</sup> "AYDER Hakkında", *Alternatif Yaşam Derneği*, <http://www.ayder.org.tr/?s=db-orta-dernek&id=1&y=1> [accessed 20.10.2012].

<sup>430</sup> "Dijital Arşiv Açıldı", *Yeni Asır*, 10.10.2012.

<sup>431</sup> "Üniversiteli Girişimciler New York İçin Yarışacak", *Capital Dergisi*, <http://www.capital.com.tr/universiteli-girisimciler-new-york-icin-yarisacak-Etkinlik/24833.aspx> [accessed 12.11.2012].

<sup>432</sup> "Sir Julian Horn-Smith", *Digicel*, <http://www.digicelgroup.com/en/about/board-of-directors/sir-julian-horn-smith> [accessed 20.10.2012].

gives Vodafone executives a further chance to integrate into the upper echelons of the Turkish business class.

#### 4.6 Tesco

Tesco is a retail giant in the UK, where it operates nearly 3,000 stores and takes in up to one seventh of all trade<sup>433</sup>. Its size is also why it can't expand much further: not only has the company saturated the market, but it is also coming under increased pressure from the UK Competition Commission not to expand<sup>434</sup>. It therefore has a lot of money to invest in developing its enterprises overseas. Tesco's investment into Turkey began in 2003 with an investment in Kipa and jointly constructing hypermarkets in the Izmir region under the Kipa name. In 2006, Tesco purchased the whole of Kipa (by then, comprised of 5 hypermarkets)<sup>435</sup> and began to expand its operations beyond the Aegean region as Tesco Kipa<sup>436</sup>.

In 2011, Tesco Kipa extended its operations to the Thrace region of Turkey, purchasing the Ardaş chain of stores there. The Turkish Competition Commission agreed that the deal could be done, and Tesco gained 21 new stores<sup>437</sup>. This was followed by unfounded rumours that Tesco was going to buy other chains of stores<sup>438</sup>. In 2009, it also entered the Turkish energy market, obtaining a licence from the Energy Market Regulation Authority (EPDK) and beginning to produce its own hydro-electricity together with the Zorlu Group<sup>439</sup>.

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<sup>433</sup> Wallop, Harry, "£1 in Every Seven Now Spent in Tesco", *The Telegraph*, 16.04.2007.

<sup>434</sup> "Slough Tesco Store Stopped by Competition Commission", *BBC News*, <http://www.bbc.co.uk/news/uk-england-berkshire-12000146> [accessed 19.11.2012].

<sup>435</sup> "İngiliz Süpermarket Devi Tesco Kipa'yı Aldı", *NTVMSNBC*, <http://arsiv.ntvmsnbc.com/news/203618.asp> [accessed 11.11.2012].

<sup>436</sup> "Tarihçe", *Tesco Kipa*, <http://tesco.kipa.com.tr/pages/tarihce.asp> [accessed 20.10.2012].

<sup>437</sup> "Tesco Kipa, Ardaş'ın 21 Marketini Satın Aldı", *Sabah*, 24.12.2011.

<sup>438</sup> "Uyum Gıda: Tesco ile Görüşmüyoruz", *FinansGlobal*, <http://www.finansglobal.com/featured/tesco-uyum-gidaya-talip-oldu/> [accessed 11.11.2012].

<sup>439</sup> Çelik, Pınar "Tesco, Kipa'yı Çıkartıyor", *Sabah*, 22.01.2012. "Natural Electricity to Tesco-Kipa by Zorlu Energy Group", *Zorlu Energy*, <http://www.zorluenerji.com.tr/EN/PRESS/default.asp?fPage=22&fId=100> [accessed 12.11.2012].

By February 2012, Tesco had built or bought 148 stores in Turkey, including shopping malls, hypermarkets, supermarkets and smaller “express” supermarkets<sup>440</sup>. The company insists it will continue its fast-paced growth: when it opened its hundredth store in 2008, its CEO pledged to expand to 200 stores by the end of 2013<sup>441</sup> and said that the majority would be hypermarkets<sup>442</sup>. From 2006 onwards Tesco’s time had been taken up buying up land and building stores, primarily centred around Izmir and Antalya, but expanding outwards in all directions<sup>443</sup>. However, one of the most competitive markets was be Istanbul, which the company would attempt to enter in 2008 with two hypermarket developments<sup>444</sup>.

Building up a retail empire at such short notice comes at a price, however. Tesco engaged an entrepreneur, Mehmet Karasu, to find it a prime hypermarket site in Silivri, a neighbourhood in the outskirts of Istanbul. It agreed to buy the site from him for US\$8.4 million after he had obtained planning permission for their hypermarket. Tesco eventually paid him about US\$13 million for the land, which he had paid only US\$3.5 million for – an astonishingly high markup – once it had planning permission, which took an unusually short time to obtain<sup>445</sup>. When a document proving that Mehmet Karasu had paid AKP Deputy Leader Şaban Dişli US\$1 million in the interim came into the hands of CHP parliamentarian Kemal Kılıçdaroğlu, the issue became political<sup>446</sup>. Whilst accepting that he had taken the million dollars, Dişli maintained his innocence of bribery, saying that it was a legitimate business contract<sup>447</sup>. The two legal witnesses of the million dollar contract, Mehmet Levent Solak and Aziz Sezginer, were local politically connected

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<sup>440</sup> “Tesco at a Glance”, *Tesco Plc.*, [http://www.tescopl.com/files/pdf/factsheets/at\\_a\\_glance.pdf](http://www.tescopl.com/files/pdf/factsheets/at_a_glance.pdf) [accessed 21.10.2012].

<sup>441</sup> Dolu, Şükruallah, “Türkiye Planlarımızda Değişiklik Olmayacak”, *Yeni Şafak*, 06.12.2008.

<sup>442</sup> “Tesco’s Turkish Unit Plans 5-Year \$1.5 Billion Expansion”, *Reuters*, <http://www.reuters.com/article/2008/01/25/tesco-turkey-idINL2576504120080125> [accessed 20.11.2012].

<sup>443</sup> “Tesco Kipa’dan 4 Bin Kişiye İş İmkani”, *Hürriyet*, 17.04.2007.

<sup>444</sup> “Tesco’s Turkish Unit to Open First Istanbul Store”, *Bloomberg*, <http://www.bloomberg.com/apps/news?pid=newsarchive&sid=aXKHfDUOwHNo&refer=uk> [accessed 20.11.2012].

<sup>445</sup> Barker, Alex and Braithwaite, Tom, “Tesco Pulled into Bribery Case on Tesco Site”, *Financial Times*, 15.08.2008.

<sup>446</sup> Bilgen, Çağlayan, “CHP’de ‘Dişli’ Bir İmar Olayı!”, *Milliyet*, 22.08.2012.

<sup>447</sup> “Şaban Dişli İddiaları Kameraların Karşısında Yanıtladı”, *CNN Türk.com*, <http://www.cnntrk.com/2008/turkiye/08/16/saban.disli.iddialari.kameralarin.karsisinda.yanitladi/490669.0/index.html> [accessed 11.11.2012].



businessmen who had been given shares in the operation in return for helping Karasu to obtain the credit necessary for him to buy the land in the first place. It turned out that the three men had had difficulty getting the bank loans to buy the land and so had decided to find politically influential people to help them do it. They are accused of paying 78,000 Turkish Lira to Sezai Şahin, nephew of Secretary of State Mehmet Ali Şahin, in return for help obtaining credit from Vakıfbank and the million dollars to Şaban Dişli in return for a reference at Denizbank<sup>448</sup>. Dişli alleged that Tesco executives had also come with him to Denizbank to help him get the loan. Tesco's response was to deny that they had been involved in the financing, asking "would we not have noticed the 6 million dollar difference [on the original price]?" Dişli answered this by publically accusing Tesco of being "liars"<sup>449</sup>. Dişli himself was forced to resign his positions within the AKP<sup>450</sup> but the party would not remove his parliamentary immunity so he was unable to be prosecuted<sup>451</sup>. Since that time, transcripts of his private telephone calls used in court in another case have shown that he had tried to extract cash for influence on other occasions as well<sup>452</sup>. After the affair became public, Sezginer sued Karasu, alleging that he hadn't been paid his share of the proceeds. The judge dismissed the case, prompting Sezginer's lawyer to angrily remark that he couldn't believe the verdict because "we had demonstrated about 60 instances of [Karasu] breaking the law"<sup>453</sup>.

This was not the end of the Tesco bribery scandals. Şaban Dişli charged that the CHP-run Silivri Municipality had themselves been donated 325,000 Turkish Lira from Tesco in return for supporting the plan, a claim which was later verified<sup>454</sup>. The next month, it had become that Tesco had also directly paid a 3.3 million Turkish Lira "donation" to Yalova City Council in return for immediate planning permission

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<sup>448</sup> "Şaban Dişli: Banka Hesabı 'Rüşvet Belgesi' Sayılmaz", *Bianet*, <http://www.bianet.org/bianet/bianet/109085-saban-disli-banka-hesabi-rusvet-belgesi-sayilmaz> [accessed 20.11.2012].

<sup>449</sup> Demirkan, Öge, "Şaban Dişli Açıklamalarıyla TESCO'yu Yalancı Çıkardı", *Vatan*, 04.09.2008.

<sup>450</sup> "Şaban Dişli AKP'deki Görevlerinden İstifa Etti", *Radikal*, 02.09.2008.

<sup>451</sup> "Yolsuzluğun da Odağı Oldular", *Hürriyet*, 19.08.2008.

<sup>452</sup> Benli, Mehmet Hasan, "Rüşvet Davasında Çok 'Dişli' Sorular", *Radikal*, 28.10.2010.

<sup>453</sup> Demirci, Şenol, "60 Delil'e Takipsizlik", *Milliyet*, 15.08.2008.

<sup>454</sup> Tufan, Mesut, "Tesco'dan Silivri Belediyesi'ne 325 Bin YTL'lık 'Kuşkulu Bağış'", *Yapı.com.tr*, <http://yapi.com.tr/haberler/haber-tescodan-silivri-belediyesine-325-bin-ytlk-kuskulu-bagis-63143/> [accessed 21.10.2012].

for their new hypermarket there<sup>455</sup>. Finally, another document was leaked to the CHP, showing that Mehmet Karasu had also bribed the Deputy Mayor of Silivri<sup>456</sup>. Tesco has also been legally lobbying for its interests: board member Yılmaz Atilla went to the press to predict disaster for the Turkish economy if it didn't devalue the lira to help domestic exporters<sup>457</sup>. Whilst Tesco Kipa imports far more than it exports, the devalued lira would help the company buy Turkish property and businesses for fewer pounds and continue its expansion for less money.

Finally, Tesco's impact on Turkey as a society has been questionable. The company fought unionisation in its stores by firing trade unionists<sup>458</sup> for years until forced by the government to accept it<sup>459</sup>. Because the centralised hypermarket and supermarket are more labour-efficient than bazaars, smaller supermarkets or family-owned shops, each job created by the group will result in a net loss of employment in the Turkish economy as a whole. Even the few factories in Turkey which do supply Tesco with goods are not necessarily of benefit to the whole society: because they have to be competitive with sweatshops in Asia some have been accused of paying sub-minimum wages, making workers do 80 plus hour weeks and not paying the wages they owe their workers<sup>460</sup>.

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<sup>455</sup> Munyar, Vahap, "Tesco Kipa'dan 3.3 Milyon YTL Aldım 'Arsan Büyüdü Vergisi' Adaleti Sağlar", *Hürriyet*, 12.09.2008.

<sup>456</sup> "Dişli Olayında Yeni İddia", *Vatan*, 15.10.2008. Karasu appeared in the news again more recently when his workers went on strike claiming he used physical violence against them for asking for their unpaid wages "Alesta İşçileri Direnişe Başladı", *Etkin Haber Ajansı*, <http://www.etha.com.tr/Haber/2010/04/24/emek/alesta-iscileri-direnise-basladi/> [accessed 20.11.2012].

<sup>457</sup> "Tesco Kipa: Enflasyon Fazla Düşerse Ciddi Tehlike Olur", *Hürriyet*, 21.02.2009.

<sup>458</sup> "Sendika İstemeyen TESCO KİPA İşçileri Çıkartıyor", *HaberSol*, <http://haber.sol.org.tr/sonuncu-kavga/sendika-istemeyen-tesco-kipa-iscileri-cikartiyor-haberi-58888> [accessed 11.11.2012].

<sup>459</sup> "Tez Koop İş TESCO KİPA'da Toplu Sözleşme Yetkisi Aldı", *HaberSol*, <http://haber.sol.org.tr/sonuncu-kavga/tez-koop-is-tesco-kipada-toplu-sozlesme-yetkisi-aldi-haberi-57545> [accessed 11.11.2012].

<sup>460</sup> "Background on Hey Tekstil, Turkey", *Clean Clothes Campaign*, <http://www.cleanclothes.org/urgent-actions/background-heytekstil> [accessed 21.10.2012].

## 4.7 Conclusion

The four case studies in this chapter each tell the story of one of the largest British investments in Turkey. Taken together, their commonalities show how the political and economic realms in Turkey interact and how outside investment affects the whole. First, all the companies examined here were beneficiaries of the Turkish government's policy of privatisation and economic liberalisation. British American Tobacco, HSBC and Vodafone all purchased their Turkish subsidiaries directly from the government, which was committed to a policy of privatisation and in each case took on large debts in order to make the sale more attractive to foreign companies. Secondly, all of the companies were helped along by political intervention on their behalves. Third, these case studies showed how common it was for British companies to break or coming close to breaking Turkish law in pursuit of their aims. Fourth, each of the case studies showed the importance of not losing the favour of government and to a lesser extent billionaire fellow market-makers in order to succeed in Turkey. The raid upon European Tobacco, the fates of Halit Cingilloğlu and the Uzan family and the furore over Şaban Dişli's favour all point to the fact that under usual circumstances, power trumps wealth in the Turkish economy. Finally, looking at the results of British investment in our case studies from a systemic perspective, we see a pattern of attempts to downsize and limit production, especially for export, from the country in favour of each multinational company's global supply chains, which typically bypass Turkish producers. British investment in Turkey in recent years has been supported by a government ideologically committed to the idea of opening up Turkey's markets to foreign competition. The same liberal economic ideal requires that the market be "free" of government intervention and competition. However, when British companies have entered the Turkish market, they have done so when there has been explicit political support, and the outcomes have been mixed for Turkish workers and consumers alike.

## **CHAPTER FIVE**

### **CONCLUSION**

The Turkish economy is now deeply embedded in an international system in which the nation state no longer has a monolithic claim to political power over economic actors. Other political actors such as international organisations, multinational companies and foreign governments are now able to exercise significant power within the Turkish economy through their influence over the Turkish state and market. This situation has been brought about through a process of trade and financial liberalisation in Turkey which began over thirty years ago and continues today. This process itself was alternately encouraged and demanded by international institutions strongly influenced by western governments, as well as by western governments themselves. Those international institutions, in demanding privatisation and a very specific set of policies in the financial sector, also caused a large new part of the Turkish economy to be sold to the private sector. Thus, the process of “opening up” Turkey to foreign trade and investment was not a decision made solely by the Turkish government and it has reduced the power of the Turkish government over its own economy.

This influx of British capital into Turkey and increase in bilateral trade means that the British government has taken more and more interest in Turkey’s domestic affairs. British foreign policy today has a heavy bent towards achieving positive outcomes for British business, especially in fast-growing markets like Turkey’s. A series of British governments from 2002 to 2012 used official political events as an opportunity to emphasise their support for British investors and traders. This even went as far as lobbying for special treatment in tax affairs and for business contracts, and turning a blind eye to British companies’ illegal practices in foreign jurisdictions. Consequently, British companies had political advantages in the Turkish market which allowed them to thrive where some of their rivals could not. At the same time, this new emphasis on economic affairs has important effects in other areas of foreign

policy, since any problem Britain experienced in political or social relations would harm economic relations as well<sup>461</sup>.

British businesses have complemented this broad base of support by forming political alliances in their own right. In different industries in Turkey, different circumstances inform whether a company has more to gain from cultivating the Turkish government, the British government, politicians, businessmen, international organisations, its rivals, a regulatory body or the British secret services. In each case, the businesses concerned increased their economic growth thanks to their political links. The UKTI and a raft of business organisations in Turkey seek to continually promote and lobby for British business on less of a “high politics” platform. Their high-visibility sponsors include influential Turks such as Finance Minister Mehmet Şimşek and businesswoman Susan Sabancı Dinçer. This multi-tiered support may not always mean that British companies get awarded contracts or are included in the political decision-making process, but it does give them a certain immunity from the arbitrary measures from the Turkish state some of their locally-based rivals are periodically subject to. At the same time, British companies supported by the British government have come to be seen as a manifestation of British political power in the country. Hence, two radically different groups with radically different objections to the way Britain was using its power in the world were both able to protest against it by bombing branches of HSBC in Turkey.

It seems unlikely that these aggressive commercial practices are unique to the institutions of British government or to British companies, and the case studies presented here encompass numerous passing examples of them using the same tactics in other jurisdictions. Instead, it would be well worth considering to what degree this is generalisable to other international economic relationships between other pairs of countries with considerably different amounts of power in the international system, and if so, what the implications are for traditional models of bilateral international relations. On the international level, Britain and other western countries co-operate

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<sup>461</sup> The present distaste for France, occasioned by that country’s 2006 parliamentary attempt and 2011 success in outlawing the denial of an Armenian genocide in Anatolia, is a case in point. It has likely harmed French companies’ ability to work within the politicised Turkish economy as well as their reputation with consumers. See Çölaşan, Emin, “Bastırın Fransız Firmaları, İş Size Kaldı!”, *Hürriyet*, 10.10.2006, and “Fransız Mallarına Boykot Çağrısı”, *Zaman*, 24.12.2011.

through international institutions in order to open up foreign markets to western capital. Another fruitful area of research might be to what extent national commercial rivalries come to the fore once multinational companies based in different countries begin competing in an open foreign marketplace, and whether this competition might also have long-term foreign policy consequences.

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*Radikal*

*Referans*

*Sabah*

*Star*

*Taraf*

*Vatan*

*Yeni Asır*

*Yeni Şafak*

English Language:

*Forbes*

*Harper's Magazine*

*Haute Living*

*Hürriyet Daily News*

*Management Today*

*Rocky Mountain News*

*South Wales Evening Post*

*The Daily Mail*

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*Army Guide*, <http://www.army-guide.com/>  
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