

The privatisation experience in Turkey and Argentina: A comparative study, 1986-2007

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Abstract

This paper examines and compares in details the privatisation experiences in Turkey and Argentina during the 1986-2007 period. The sales methods used in both countries are discussed and public offer and block sales are appraised to reflect their impacts on the welfare of the society. The privatisation practice of Argentina is discussed in terms of its scope, sales method and post-privatisation results and in particular key issues such as monopolisation and consumers' protection are accentuated. The effectiveness of regulatory policy both in Turkey and Argentina is also discussed and the role to be played by the regulatory body in deterring anti-competitive behavior is debated. The relative effect of privatisation policy on macroeconomic performance in both countries is reflected. In the context of Turkey, reference is made to various studies which have examined efficiency and productivity of public companies during the post-privatisation period, particularly in the cement and telecommunications sectors. In the final section, some key issues relevant to Turkish and Argentinean privatisation policies are discussed and some conclusions are drawn.

Keywords: Privatisation, Regulation, Turkey, Argentina

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1. Introduction

The Argentinean experiment of the 1980s and 1990s has received considerable worldwide attention as a model of neo-liberal restructuring.

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Similarly, the Turkish experiment, which was also an early case of neo-liberal restructuring resting on the market economy model, was equally recognised as a success story during its early stages in the mid-1980s.

The level of economic development registered by Argentina during the post-war period should not be underestimated. The resort to the import-substitution industrialisation model accomplished notable development in Argentina. It appears that the size of Argentina's GDP was quite comparable with that of Turkey, even though its per capita income was much higher owing to a smaller population size. Obviously, an interesting feature of the Argentinean development experience is that the country went through extreme upheavals both in economic and political terms, recording low growth, hyperinflation, mounting external debt and a prolonged period of military governments during 1996-1983 period (Öniş, 2006).

Similarly, Turkey experienced notable political and economic instability in the post-war period; however, the extent of instability confronted was less alarming than in the Latin American case. It was not until 1983 that Argentina returned to democracy under a presidential system. Carlos Menem was elected president in 1987 and he played an important role in carrying out neo-liberal reforms and, associated with them, a sweeping privatisation programme.

Meanwhile, Turkey, which realised a lower base of development in the post-war period, was able to achieve higher rates of economic growth, at least until the 1990s. The industrial development and transformation that occurred during the 1960s and 1970s was achieved by resorting to five-year development plans and pursuing an import-substitution industrialisation model based on heavy protectionism. It should be noted that the Turkish development experience also was marked by serious macroeconomic instability and economic crises. After the 1980 political crisis, which led to the breakdown of the democratic regime, Turkey managed to return to democracy in 1983, the same year as Argentina did.

It is often argued that both countries were forced to undertake the transition through a neo-liberal policy model in line with pressure from powerful external actors such as the IMF and the World Bank as a result of fiscal and balance of payments crises caused by the failure of the ISI model of development (Öniş, 2006)

2. Neo-Liberalism and Rationale for Privatisation

Following the implementation of an extreme version of a neo-liberal programme during the presidency of Carlos Menem in the early 1990s, Argentina was able to recover rather swiftly from the prolonged instability and crises of the previous era, achieving high rates of economic growth for the first time during the post-war period. Moreover, inflation, which had

reached hyperinflationary proportions by the beginning of the decade, was reduced to single-digit levels in a reasonably short space of time.

Contrary to past performance, Argentinean governments in the 1990s were able to display the commitment necessary to maintain strict discipline over monetary and fiscal policy. The Convertibility Plan and its institutional counterpart, the Currency Board, were implemented by the Argentinean authorities through close collaboration with the IMF (Öniş, 2006). The aim of the plan was to peg the Argentinean peso to the US dollar on a one-to-one basis to restore confidence and to eliminate hyperinflation. The plan eliminated the power of governments to finance deficits through the Central Bank and restricted new money creation to the inflow of foreign exchange (Öniş, 2006). To maintain the fixed exchange rate, the Currency Board maintained dollar reserves and was able to increase the supply of pesos without an equivalent increase in dollars in its possession.

By the mid-1990s all public utilities and public industrial enterprises had been privatised. Privatisation revenues were utilised as part of the government's overall macroeconomic policy package to counter fiscal and current account imbalances and they contributed to the achievement of the fixed exchange rate.

The success of the monetary and fiscal policy package in curbing hyperinflation, creating the favourable environment for large inflows of capital and rapid growth, helped to maintain public support over a considerable period.

Clearly the large inflows of external capital made a major contribution to the process of economic growth. However, the dependence of growth primarily on external forces rather than on the competitive strength of the domestic economy highlighted the inherent fragility of the growth dynamic that was associated with the IMF-induced neo-liberal reforms.

On the other hand, in the Turkish case, the origins of neo-liberal reforms may be traced to an earlier date, mainly 1980. Neo-liberal reforms had been in progress in Turkey over a period of two decades. The capital account liberalisation, however, occurred at a relatively advanced stage of the programme, in 1989. In contrast, Argentina's encounter with neo-liberalism was more recent and the reform process was accomplished in a far more radical manner over a much shorter period of time in the context of the 1990s.

In the Turkish case, there appears to have been a lower degree of commitment to the fiscal stabilisation component of neo-liberal restructuring. In fact, a degree of fiscal instability prevailed during the second phase of neo-liberal reforms in the 1990s. Fiscal instability in an environment of an open capital account regime created a highly fragile pattern of economic growth during the post-1990 era. The outcome was

three successive crises, in 1994, 2000 and 2001, respectively, with costly ramifications¹.

After the 2001 crisis in Turkey, we observe a transition to a new era of low inflation and sustained economic growth. However, notable elements of fragility, such as a large current account deficit and dependence on inflows of short-term capital, continued to characterise the system during 2004 and 2005.

Both countries experienced post-stabilisation booms and a surge in exports as their economies recovered from previous crises. These initial booms, however, were not translated into sustained increases in exports or economic growth. It is interesting to note that Argentina and Turkey displayed similar vulnerabilities before the outlook of their major financial crises. Similarly, Argentina used an exchange rate anchor that was implemented in a rigid fashion while Turkey adopted one that was looser after 1999 to achieve an effective reduction in inflation but that helped to undermine export competitiveness (Öniş, 2006). Furthermore, given the inadequacy of export growth, financing the current account deficit at the prevailing exchange rates and levels of demand required substantial capital flows resulting in a pronounced increase in the level of external indebtedness.

During the 1970s Argentina managed to grow moderately. However, like many other Latin American countries, it experienced an economic crisis in the early 1980s and its economy declined into a period of negative growth. Privatisation as a new policy was introduced following the economic and financial crisis in 1983. The major goals were to eliminate public deficits and to promote competition and efficiency by divesting the public enterprises, to repay the massive external debt and to attract foreign investment to the country.

Similarly, the master privatisation programme which was launched in Turkey in 1986 was aimed to improve the productivity and efficiency of public enterprises by transferring them to the private sector, to reduce the excessive public deficit by reducing the amount of transfers to the SOEs from the treasury, to promote competition, to improve the quality of goods and services and to attract foreign capital to accelerate the growth rate of industrialisation.

3. Major Goals of the Turkish Privatisation Programme

Privatisation most commonly means the transfer of state dominance in industrial and commercial activities partially or totally to the private sector through the sale of public assets. The comprehensive privatisation programme that was first carried out in the UK after 1980 constituted a

¹ For a recent study of economic crises in Turkey, see Akyüz and Boratav (2003).

model for many developed and developing countries. Privatisation policies were practiced in West European countries such as France, Germany and Italy to a greater extent, while similar policies were implemented in Mexico, Argentina and Chile in Latin America, and in Malaysia and Singapore in South-East Asia. Privatisation as one of the fundamental tools of the market economy was also extensively adopted in Turkey from 1986 while the Özal government was in power. The financial and trade liberalisation policy² initiated by the Özal government facilitated the adoption of a more comprehensive privatisation policy. This government was more decisive in tackling the notorious structural problems of the SOEs and reconsidered the role of the public sector with the aim of reducing the size of the government and public spending.

In the context of Turkey, it was believed that the major SOEs should be restructured to improve their financial performance, while others became candidates for sale to private investors. The successive governments in Turkey were convinced that regulations, policies and incentives should be readjusted to liberalise the Turkish economic environment for private investment and foreign direct investment (FDI) in particular (Öniş, 1991). As argued by some scholars (Vickers and Yarrow, 1988; Grimstone, 1987), a partial or complete change of ownership would lessen the scope of political intervention in the operation of public enterprises, reduce bureaucratic controls and limit arbitrary interference. It was also argued that privatisation in the form of asset sales might result in gains in allocative efficiency. Generally speaking, it was also argued that the removal of artificial entry barriers that might make markets more contestable could prevent monopoly power and ensure an efficient allocation of resources.

Obviously, exposing the firm to increased competition promotes efficiency and productivity and the realisation of these objectives does not depend upon a change of ownership. Therefore, if the principal aim is to increase economic efficiency, the policy priority should be to increase competition. Thus the crucial factor determining the efficiency of an enterprise is not whether it is publicly or privately owned, but how it is managed (Kirkpatrick, 1987).

Officials in Turkey asserted that, “the aim of privatising public sector enterprises in the manufacturing and service sectors is to increase private sector involvement and at the same time reduce the financial and administrative burden of the government”. In fact, the major objectives of the privatisation programme in Turkey were numerous, but the primary ones were as follows: (i) to transfer the decision-making process in almost half of the economy from the public to the private sector to ensure a more effective play of market forces; (ii) to promote competition, improve efficiency and

² For extensive evaluations of the Turkish liberalisation process during the 1980s and the 1990s, see Arıcanlı and Rodrik (1990), Togan (1993) and Öniş (1998).

increase the productivity of public enterprises; (iii) to develop a viable capital market and to facilitate a wider share ownership; (iv) to reduce the financial burden of the SOEs on the general budget; (v) to assist in reducing the size of the public sector with its monopolistic tendencies; and (vi) to raise revenue for the Treasury (Morgan Guaranty Bank, 1986)³.

In order to execute the privatisation programme, the Özal government decided to establish an agency called the Public Participation Fund (PPF) in 1984. The PPF was given wide responsibilities to undertake the privatisation process in Turkey. However, divestitures involving SOEs were given to the Council of Ministers while the Board of the PPF was fully authorised in the case of joint ventures. In 1995, the PPF was converted into the Privatisation Administration (PA), which was affiliated with the Minister of State responsible for the implementation of the privatisation programme.

4. Scope of the privatisation programme and sales methods in Turkey

During the 1988-1991 period, a variety of activities, SOEs and public participations were partially or totally transferred to the private sector. In the initial stages, the public enterprises that were privatised included corporations in telecommunications (Teletaş), airline catering (USAŞ), cement production (Çitosan), petro-chemicals (Petkim), iron and steel production (Erdemir), steel cable production (Çelik Halat), a retail chain (Gima), a petroleum refinery (Tüpraş) and a number of other enterprises and majority holdings.

On January 1989, 90 percent of the shares of five cement plants owned by Çitosan, a state cement corporation, were sold to Ciments Français, a French cement production company, for \$105 million (TL 256 billion), where the French company was willing to undertake investment up to \$75 million until 1993 and 10 percent of the shares were retained as a “golden share” held by the state. It was also agreed that during the ensuing years, 39 percent of shares were to be sold to individuals, of which 10 percent were to be employees of the acquired plants (İsrafil 1989).

The majority holding in USAŞ, which was affiliated with Turkish Airlines (THY), was also included in the privatisation programme and eventually sold in 1987 to SAS Service Partner (SAS), an affiliate of Scandinavian Airlines System Group. SAS was committed to pay almost 21 percent of pre-tax profits to the PA in Turkey over a 10 year period between 1989-1998 and pledged to sell 30 percent of USAŞ shares to the public, first priority to be given to employees. In actual fact, SAS committed itself to investing in the tourism industry, especially in hotel chains over the

³ For a comprehensive account of the Turkish privatisation experience, see Öniş (1991). Ercan and Öniş (2001). Karataş (2001).

following five years (Gültekin 1989). USAŞ, which was basically a catering and airport service company, was expected to be modernised by SAS in order to be lifted up to international standards in its services to various airlines and in the introduction of new technology and know-how to develop its organisation.

However, the transfers of Çitosan and USAŞ to foreign companies did not benefit the economy to a great extent because neither company sustained operations in Turkey after facing low profits and interference from successive governments in power. During the first phase of privatisation (1988-1991), a considerable proportion of state shares in joint ventures such as Kepez Electric, Çukurova Electric, Arçelik (electrical appliances and consumer durables) and Tofaş (automotive) were also sold either by block sale or public offering methods.

There are three distinct modes of sales technique in Turkey, namely “block sales”, “public offering” for flotation, and sales of the “assets and premises” of public enterprises and subsidiaries. Generally speaking, the “block sales” method has dominated a fairly large number of privatisation processes which, in turn, has led to widespread concern about corruption and the undervaluation of enterprises. Obviously, the limited size and depth of the İstanbul Stock Exchange (ISE) has clearly restricted the sale of larger SOEs by public offering or flotation. Industries which were subject to privatisation during the 1986-2007 period and the total sales proceeds derived from various industries through “block sales” are presented in Table 1.

Various conclusions can be derived from the privatisation data for the 1986-2007 period. First, within the manufacturing industry, the block sales revenue from the basic metals and metal products industry represents the greatest part of the proceeds with \$3.6 billion, followed by the cement industry with \$907.7 million, the sugar industry with \$80.7 million and the earthenware and ceramics industry with only \$61.5 million. This was followed less significantly by electrical machinery and the rubber and plastic industry.

Second, in the same period, the block sales revenue obtained from services and telecommunications stood at \$6.9 billion, followed by the electricity and gas industry with \$5.7 billion, followed by the banking and insurance industry with \$716 million.

Third, the total gross proceeds resulting from the “block sales” of public enterprises during the 1986-2007 period reached a value of \$18.2 billion (see Table 1). Thirty-six percent of this total was received from the block sales of Türk Telekom. Receipts from electricity and gas accounted for 32 percent, basic metals and metal products for 20 percent, the cement industry for 5.0 percent and banking and insurance for only 4 percent.

Table 1
Gross Proceeds from the Sale of Shares and Assets of Privatised SOEs in
Turkey: 1986-2007

Type of Industries and Sales Methods	Sales proceeds (\$)
I. Sale of Shares by Block Sale	
Animal feed	2,571,501
Automotive industry and machinery	33,097,426
Banking and insurance	716,275,561
Basic metals, metal products	3,607,249,624
Cement industry	907,669,147
Earthenware and ceramics	61,537,402
Electrical machinery	57,009,312
Electricity and gas	5,749,961,496
Food processing and soft beverages	26,227,923
Paper industry	402,065
Rubber and plastic industry	42,517,253
Seed improvement and insecticides	8,693,910
Services and telecommunications	6,861,737,413
Sugar industry	80,686,169
Textiles	383,611
Other	3,146,826
Sub-total	18,159,166,639
II. Revenue by public offering	6,441,256,378
Sub-total	24,600,423,017
III. Sales of Assets and Premises	4,821,223,576
IV. Sales of incomplete Enterprises	4,368,792
V. Transfers with value	615,730,069
Grand total	30,041,745,454

Source: Privatisation Administration (2007)

Fourth, Table 1 shows that the SOEs privatised in the manufacturing sector accounted for 27 percent of all transactions. The third category of sales in Turkey was in the form of sales of installations and assets (premises and land) were owned by the public enterprises.

During the 1986-2007 period, the total sales proceeds amounted to \$30 billion, which mainly included block sales of Türk Telekom, Tüpraş, Erdemir, Petrol Ofisi (Poaş), and the public offering of Türk Telekom, Halkbank, THY, Erdemir, Tüpraş and Petkim.

There is also a fourth category involving the sale 1986 and 2007 of assets and premises of “incomplete enterprises” which belonged to the Meat and Fish Corporation (EBK), dairy products corporations, olive oil plants, Sümerbank Holding (textiles and clothing) and MKEK (Machine and Chemical Corporation), Sümerbank shoe factory, Sorgun ammoniac

fertiliser factory, Diyarbakir cigarette factory and Elazığ sodium bicromate factory. The total value of these assets amounted to \$4.4 million.

Finally, there were also asset transfers in return for a value including the transfer of İsdemir shares to Erdemir, several Sümer Holding assets to various state institutions and municipalities, and a number of real estate properties owned by TEKEL to the Ministry of Finance. Receipt from the sale of these factories amounted to \$615.7 million.

As can be seen from

, the total sale proceeds in the period of 1986-97 from full and partial divestment amounted to \$3.6 billion. In 1998 sale proceeds for the year exceeded \$1 billion for the first time with the public offering of İşbank. In 2000 revenues exceeded \$2 billion with the block sale of Poaş and the public offering of Tüpraş. During the years following 2001 crisis, privatisation revenues slumped to a few hundred million dollars. Privatisation activities accelerated again beginning from 2004, peaking in 2005 with \$8.2 billion⁴.

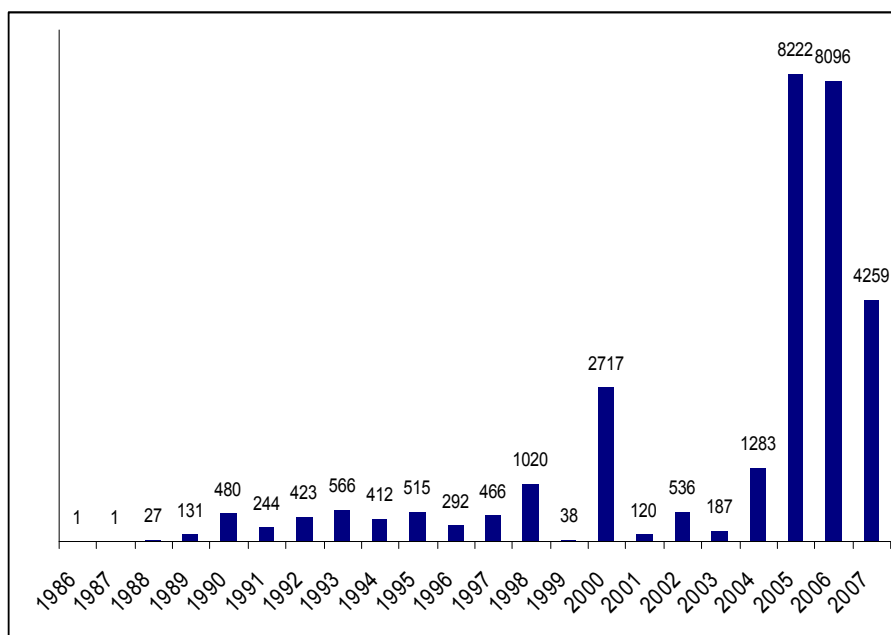
Table 2 provides information on the pattern of privatisation proceeds over the years according to methods used. The sales proceeds reached the level of \$9.5 billion over the 1986-2004 period, significant fluctuations also were recorded from year to year depending on the macroeconomic environment and political stability which prevailed in Turkey. The maximum amount of sales proceeds was realised particularly in the years 1998 and 2000 and recently both in 2005 and 2006. It should be remarked that the total figure obtained from privatisation reached \$30 billion by the end of 2007.

It should be noted that the privatisation of principal SOEs in 2005 and 2006 which included Türk Telekom (telecommunications), Tüpraş and Erdemir contributed to the massive revenue obtained from privatisation. The total proceeds resulting from these sales amounted to almost \$13.5 billion, which raised the total proceeds to \$25.8 billion by the end of 2006. The ambitious sales of these and enormous state enterprises were realised because the ruling AKP (Justice and Development Party) government had committed itself to a privatisation programme as recommended by the IMF-monitored programme inherited from the previous coalition government.

In addition, the macroeconomic performance achieved between 2003 and 2006 was more conducive to launching a new phase of privatisation process as supported by the accelerated inflow of FDI to Turkey. Another factor was perhaps the intention of the government to reduce the size of the public sector and raise additional revenue for the Treasury in order to pursue tight budgetary policies.

⁴ This figure, however, also includes revenue from the sale of mortgage shares, dividend income from nominated enterprises and principal loan collection.

Figure 1
Privatisation Revenue by Year: 1986-2007 (\$ Million)



Source: Privatisation Administration statistics at www.oib.gov.tr

Table 2
Privatisation Proceeds in Turkey by Year: 1986-2007 (\$ Million)

Mode	1986-2004	2005	2006	2007	Total
Block Sales	3,927,166,639	7,054,000,000	7,178,000,000	0	18,159,166,639
Asset Sales	1,494,772,653	404,272,515	626,195,569	2,295,982,839	4,821,223,576
Public Offering	2,860,019,875	273,719,603	207,820,151	1,838,642,981	5,180,202,610
Sales on ISE	800,819,126	460,234,642	0	0	1,261,053,768
Incomplete Asset Sales	4,368,792	0	0	0	4,368,792
Transfer to the Companies	377,563,020	30,013,471	84,149,739	124,003,839	615,730,069
Total	9,462,863,711	8,222,240,231	8,096,165,459	4,229,771,667	30,041,745,454

Source: Privatisation Administration (2007); Privatisation Administration statistics at www.oib.gov.tr

It is not always easy to calculate the financial benefits from privatisation to a government. The gross value of the shares sold might be deceptive because it does not take into account a whole variety of deductions. First, there are considerable expenses involved in the major flotation of the shares of privatised enterprises. The government is usually reticent about such costs and their precise calculation may sometimes be

made difficult by the existence of bonus shareholders and lending made available to employee shareholding.

Second, underwriting during privatisation is an expensive business and it is often resorted to in order to ensure precaution against the failure of the market to absorb the entire issue in one go or in the case of a tender offer, if demand from the public is inadequate. In addition, there are fees paid to stockbrokers, banks and the cost of advertising and administration.

Third, it should be noted that the government also might be obliged to write-off existing debts and loans, or to inject new capital prior to privatisation. Obviously, in that case, capital write-off or injections need to be offset against the sale proceeds. There is, however, no specific information disclosed by the PA to illustrate the scale of such expenditures in each SOE.

5. Privatisation Practice in Argentina

The privatisation process which was initiated in Argentina in the 1980s came as a result of a severe macroeconomic crisis which involved an over 3000 percent rate of inflation, a large amount of foreign debt to lending agencies and countries, low levels of domestic savings and excessive trade and budgetary deficits. In 1983 the privatisation was included on the agenda by the pressure imposed by the World Bank, but only a very limited level of privatisation was realised. However, in 1989, after Carlos Menem was elected president, a broader privatisation programme was established in order to liberalise the economy and carry out the policy of deregulation.

The major objectives of the ambitious privatisation programme were to decrease the budget deficit of the public sector, to obtain tax revenues from the sale of SOEs, improve the efficiency of the SOEs with the injection of new technology, attract FDI, increase the quality of services, decrease the domestic and foreign debt and, finally, stimulate the growth of the capital markets.

The key industry given priority was telecommunications. Entel was privatised through block sales as it was considered to be an effective instrument to attract FDI and new technology. In fact, Entel was a rather obsolete, debt-generating and inefficient phone company in the 1980s. In the initial stages, many companies that supplied equipment to Entel had made large profits and consistently opposed every effort to privatise the company and even collaborated with the Telephone Workers Union to block its sale (Corrales, 1998).

In order to ensure wider share ownership, about 10 percent of Entel shares were sold to employees working at this enterprise. Before privatisation Entel had been divided into two entities, one of which was granted a monopoly in the south and the other in the north of Argentina.

When Entel was put on sale, it was made clear that foreign participation should be obligatory since it was believed that no domestic company had the managerial expertise to upgrade services. The second condition was that the buyers were required to raise a maximum of \$214 million in cash, \$380 million in Argentinean external debt payable over a three-year period plus the amount of debt papers that each consortium could offer, with a defined floor of \$3.5 billion (Petrazzini 1996). Eventually, the winning consortium was STET, a French company, for the north and Telefonica of Spain for the south. The sale proceeds resulting from the deal was totalled \$214 million in cash, \$380 million in notes and \$4.95 billion in debt papers⁵. It is noted that almost 60 percent of stocks were held by the consortia, 10 percent being allocated to employees and the remaining 30 percent being sold on the national and international stock markets (Petrazzini 1996).

Another key deal involved the privatisation of Aerolineas Argentinas (Argentina Airlines), which was transferred to foreign companies to attract FDI and new technology. The airline was sold in 1990 to Spanish airline operator Iberia through tender offer to obtain \$260 million (\$130 million in cash and \$130 million to be paid over a 10-year period) and \$2.0 billion in foreign debt. At the end of this privatisation, Argentina was able to reduce its foreign deficits considerably.

The other companies which were divested included oil and gas production, electricity, transportation, railways and shipping, petrochemicals and oil derivatives. The privatisation programme also included banks and finance, airports, radio and TV networks, water and sewage systems and postal services (Ministerio de Economica, 2000).

The limited scope of privatisation during Alfonsin's presidency (1983-1989) depended on the government's inability and unwillingness to act and the private sector's ambivalence toward the entire privatisation process. There was also the lack of an adequate legal framework to facilitate the privatisation process. Indeed, the economic environment was not convenient for large-scale privatisation and the capital market in Argentina was not developed enough to absorb large sales of SOEs. An additional factor was clearly the resistance of labour unions to the privatisation policy⁶.

Hyperinflation in 1989 reached almost 3,195 percent over that of the previous year and continued to soar to 2,315 percent in 1990. It was reported that by the end of the 1980s that the SOEs accounted for over 50 percent of Argentina's fiscal deficit and a substantial portion of its external debt (Lieberman, 1993). As soon as Menem came to power in mid-1989, the

⁵ In fact, Entel's new owners were required to honour the existing contracts with Siemens for at least two years and the state assumed the bulk of the debt. For more details and complexities faced during the transfer of Entel, see Corrales, J. (1998).

⁶ For a detailed discussion concerning the limitations of the Argentine privatisation experiment and the problems encountered in telecom privatisation, see Manzetti, L. (1993).

government passed a legislation known as the Law of the Reform of the State. The process of privatisation had the support of and assistance from the World Bank and the United Nations Development Programme (UNDP) through the sectoral Public Enterprise Reform Adjustment Loan and a Technical Assistance PE Reform Loan. Indeed, following the adoption of the convertibility plan in early 1991, privatisation received even greater importance in increasing Argentina's international competitiveness.

Clearly the government in Argentina was expected to use the revenue from privatisation to pay its internal and external debts. It should be noted that in the initial phase privatisation in Argentina was perceived as a means of survival, but allocation efficiency was recognised only in the second phase of privatisation (United Nations, 1999). Another expectation from privatisation in Argentina was to stimulate the inflow of FDI and promote the capital market.

The choice of methods used for privatisation was dependent on market structure, competitive conditions and the amount of state stake. The sales methods included i) the sale of the assets of firms that operated in competitive markets such as electricity generation, peripheral activities and most productive SOEs; ii) public offerings such as YPF and most of the residual stakes; and iii) the concessions, franchises and licences for periods that varied between 10 and 95 years for roads, railways, telecommunication networks, water and sewerage infrastructure and the distribution of electricity, gas and oil production.

The evidence shows that the investment level dropped from 20 percent of the GDP during the 1970s to 10 percent in the 1980s. There was a lack of investment in the maintenance and improvement of the productivity of existing public corporations. According to some scholars, this was the turning point that made privatisation policy the only possible way. During 1982-1987, while Alfonsín's government was in power, the privatisation activity was confined to the sale of industrial and utility companies. The initial revenue derived from privatisations amounted to only \$32 million in an economy with a GNP of \$70 billion.

The pace of the privatisation drive under Menem's presidency was swift and the scope of privatisation was much broader. President Menem insisted that all SOEs be privatised by the end of 1992. He also made it clear that he would remove from office all ministers who did not achieve this goal. Consequently, privatisation in Argentina proceeded at an impressive rate during his presidency. During the 1991-1997 period, the privatisation programme included the sale of many public enterprises such as TV stations, utility companies, airlines, railroads and oil companies.

In addition, there were over a hundred concessions and contracts for services that were granted particularly in the case of road maintenance, port operation, park cleaning and health services which were offered to private

entities. By the end of 1992, almost 23 enterprises and concessions had already been sold to private companies. The sales included oil, gas, utility and steel companies, military factories, port facilities, railroads and a race track (Lieberman, 1993). During the 1990-1997 period, President Menem's government gathered in over \$24 billion by selling a collection of SOEs that had cost billions of dollars to run.

However, after the 2001 crisis, all privatised concessions were renegotiated. Accordingly, most of the existing concession contracts were cancelled, leading to re-nationalisation or re-privatisation. The reasons for the failure were (i) the preoccupation of the government with alleviating the fiscal situation rather than creating an adequate regulatory framework and (ii) privatised firms had to be closely related to policy makers since they could not survive under favourable regulatory rules due to their inefficiency or were unwilling to operate in Argentina with squeezed margins. As a result, the profitabilities of those firms depended greatly on regulatory agencies, policy makers and the state. Some of these firms like telephone and petroleum companies enjoyed lucrative returns. Some of the main objectives of the privatisation were achieved, in terms of productivity increase and the adoption of new technologies. Heavy investment activities were realized in high margin businesses and tariffs were set in line with cost structures. However, the market structure was not transformed into a competitive one and public monopolies were now private ones (Baer and Montes-Rojas, 2008).

With the 2001 crisis and devaluation in 2002, privatised firms ceased their investment plans. Services deteriorated to pre-privatisation levels, creating public discontent. The increasing prices, essential for the privatised firms to attain profitability, became politically unviable, so the government started renegotiations in order to achieve the original objectives of efficiency and consumer gains. In fact, in several sectors, the achievement of these goals had been impossible from the very beginning. An example is water and sewerage privatisations, where the firm had no incentive to expand the service to the lower income segment of the population. The firm stayed in operation only by having its infrastructure investments undertaken by the state and by servicing only already existing customers. Likewise, the service quality of the railways, which had a long history of deficits and demand fluctuations, depended heavily on state subsidies. Apart from that, the SOEs were acquired under the conditions of the continually appreciating peso, adding to the profits of foreign investors. After the 2002 devaluation, the peso profits could no longer be internationally competitive. Furthermore, the 'institutional capture' of the state by the private concessionaries was the main reason for the weak regulatory framework, with the 'monopolies' actually regulating their own markets. The new owners' main goal was to retain the monopoly profits with powerful lobbying activities, disregarding

the efficiency improvement goals. This experience shows the importance of the presence of a strong and independent regulatory authority (Baer and Montes-Rojas 2008).

6. An appraisal of the privatisation policy in Argentina

The privatisation of SOEs in Argentina was an important part of the large-scale reform programme initiated in the country. The time constraint set by President Menem accelerated the process for completion within a short period of time. The first phase of privatisation in Argentina included the largest enterprises such as telephone, airlines and railways. However, there were a number of defects in the implementation of the privatisation policy in Argentina.

First, the expected efficiency gains were not fully realised after the implementation of privatisation. The sale of Entel in 1989 can be given as an example. The telecommunications industry was privatized in order to improve competition and allocative efficiency in the industry. Obviously, it can be argued that more innovation and creativity in a telephone company could be exercised if the constituent parts belonged to different private owners rather than to the public sector.

In fact, when Argentina divided its monolithic telephone company into two regional monopolies and sold them to two different private consortia, it was able to create competition between the two companies regarding the rate of expansion, rate of digitalisation and the quality of services (Petrazzini, 1996; Ramamurti, 2000). Meanwhile, it is reported that the two telephone companies had invested almost \$5 billion in infrastructure by 1994 in order to bring telephone and communications services to international standards (Micklethwait, 1994).

However, the available evidence indicates that there has been lack of effective regulatory policy in this field and quality of services has not improved to meet the expectations of the consumers. Clearly, the government regulation of monopolies might be more effective when the firms involved are private rather than state owned.

Second, despite the fact that privatisation has provided some advantages for Argentinean consumers and telecommunications equipment makers, the regulatory framework adopted after the privatisation process has created a monopolistic or duopolistic structure. The conditions for the sale of Entel were established prior to deciding some crucial aspects of the regulatory framework that would control the future functioning of the service providers (Herrera, 1993).

The sale of the SOEs at the highest price was the main goal in order to obtain the support of the taxpayers and the public at large. Another example of a politically palatable option was the privatisation of Aerolineas

Argentinas. In actual fact, neither of these privatisations was well developed in terms of economic or social welfare considerations (Cavallo, 1997).

Third, another aspect of Argentina's privatisation programme was the fact that the majority of shares were held by foreign companies and shareholders. This implies that a wider share ownership was relegated and instead, the largest majority of shares was controlled by foreign companies. It is indicated that almost 60 percent of shares were controlled by foreign ownership in all privatisations. Spain has 15 percent of the total shares, while respective shares are 12 percent for the USA, 9 percent for Italy, 7 percent for France, 6 percent for Chile, 3 percent for Canada and 2 percent for the UK, with minor shares being held by Switzerland, Belgium and others (United Nations, 1999).

Fourth, during the period of privatisation in Argentina under discussion there was extensive use of "equity-debt swap" agreements in order to reduce the foreign debt to international lending agencies and foreign corporations. The revenue collected from privatisation increased at a speed that also contributed to total public revenue. Argentina managed to reduce its foreign debt to GNP ratio and gradually managed to close the public deficit. However, the key issue was that privatisation through "equity-debt swap" agreement implied that dynamics of the economy would be controlled largely by foreign companies and shareholders.

Fifth, ironically it was observed in Argentina that resistance to privatisation by the strong trade unions was alleviated to some extent by the concerted efforts of President Menem, who had very good relations with the trade unions. In fact, the government in Argentina was able to introduce some voluntary retirement schemes, a workers' retraining programme and monetary incentives for share ownership of the labour.

Finally, it is often claimed that the "regulatory measures" to control monopolistic and oligopolistic tendencies during the post-privatisation period were not effective and some foreign and domestic corporations enjoyed large profits. It seems that the government in Argentina was not successful in addressing the issues of competition policy and the regulation of monopolies in order to maximize potential efficiency gains.

Privatisation in Argentina, like in other developing countries, has resulted in a significant loss of jobs. However, a large number of employees opted for early retirement as a consequence of privatisation. The number of workers who joined the voluntary retirement programmes provided by firms in Argentina is illustrated in Table 3.

The success of the privatisation programme that was adopted in Argentina is reflected in the macroeconomic indicators recorded in the post-privatisation period. It can be inferred that the extremely high inflation rate (1,382.4 percent on average) prior to privatisation tended to fall to 84 percent in 1991 and to 0.3 percent in 1997. During the 1991-1997 period,

the rate of inflation, on average, was almost 17.1 percent, which can be regarded as a spectacular achievement. Clearly, the reduction in the inflation rate cannot be attributed solely to the successful implementation of the privatisation programme, but it might have had a positive effect on the stabilisation of the economy together with the tax reforms introduced and drastic drop recorded in government expenditures.

Table 3
Number of Workers Who Joined Voluntary Retirement
Programme by Firm

	Number of workers	Percentage
YPF (petroleum refinery)	22,208	33.3
Yacimientos Carboniferos Fisc. (YCF)	1,277	1.9
Gas del Estado	1,170	1.8
Segba (electricity)	2,741	4.1
Agua y Energia AYE	3,134	4.7
Hidronor	100	0.2
Administracion General de Puertos (AGP)	675	1.0
Empresa Lineas Maritimas Argent. (ELMA)	2,140	3.2
Empresa Nacional de Correo Teleg (Encotel)	4,000	6.0
Femesa Ferrocarriles Metropolitanos	1,825	2.7
FFAA	27,419	41.1
<i>Total</i>	66,689	100.0

Source: United Nations (1999).

Although inflation in Argentina was reduced to single-digit levels by the end of the 1990s, this was at the expense of a complete loss of flexibility of monetary policy. As a result, the government authorities were unable to respond to the emergence of a recession towards the end of the decade through an expansionary monetary policy (Öniş, 2006).

Meanwhile, the growth rate of GDP, which had been negative -0.1 percent on average before privatisation (1985-1990 period), showed an upward trend during the post-privatisation 1991-1997 period, rising to 10.5 percent in 1991 and remaining positive in 1993 with 6.3 percent and in 1996 with 5.5 percent. Eventually, GDP growth rate in Argentina increased to 8.1 percent in 1997 (Table 4). Over the 1991-1997 period, the average annual growth rate of GDP was 6.2 percent. The figures for the subsequent periods are illustrated in Table 4.

Contrary to these positive developments, the urban unemployment rate, which was 6.6 percent on average during 1986-1990, increased drastically to much higher levels where unemployment rate reached 17.5 percent in 1995 and 1996 later levelling off at 15 percent. The average rate

of urban unemployment rate during the post-privatisation period was 12 percent. This is a reflection that the privatisation policy adopted in Argentina generated a massive rate of unemployment and unfair distribution of income.

Although nearly 1 million jobs were created after the convertibility plan, unemployment rose to almost 12 percent, while underemployment was also not far behind in 1994. It is also pointed out by the World Bank that the poorest fifth recovered slightly after 1989, but also had fallen furthest after 1980 with incomes in real terms 60 percent of their level in 1980 (Micklethwait, 1994). During the 1989-1993 period, although the number of Argentines living below the poverty line (roughly \$400 per month per family) fell from 38 percent in 1989 to 13 percent in 1993, UNICEF economists argue that the government did not have an effective social policy beyond fighting inflation (Micklethwait, 1994).

In fact, during the course of 2001, Argentina's recession deepened and the economy became vulnerable. The IMF was willing to help through additional funding, but this was tied to the condition that Argentina eliminates its budget deficit. Obviously, with the economy facing recession and tax revenues declining drastically the only way to balance the budget was to introduce massive cuts in government spending. It was no surprise that this policy provoked a great wave of protests by the labour unions (Öniş, 2006). It should be noted that this in turn generated a major crisis of confidence on the part of investors and led to capital flight from the country.

In so far as fiscal surplus is concerned, there was a discernible positive development in budgetary deficit where it dropped from -3.9 percent of GDP between 1985-1990 to -0.5 percent of the GDP during the 1991-1997 period (see Table 4). This clearly reflects that there was a considerable improvement in the fiscal balances in Argentina. During the 2001 crisis, the budget deficit rose to as high as four percent of GDP. However, with the stabilisation period thereafter, a budget surplus of one percent of GDP was attained on average between 2003 and 2007.

In contrast to Turkish privatisation practice, in Argentina there was a deep sense of commitment to the implementation of the programme by the presence of a strong executive authority backed by the president. The unequivocal commitment to reform by the government provided an unusual space for the technocrats associated with the centralised privatisation agencies to implement an ambitious programme at a greater pace. An important characteristic of the Turkish privatisation case was the fact that there were intra-bureaucratic and intra-state struggles that generated obstacles to larger scope privatisations (Ercan and Öniş, 2001).

In Argentina, the extent of the economic and political crises experienced prior to privatisation created a crucial opportunity to speed up the pace of privatisation. It should also be noted that a favourable external

Table 4
Macroeconomic Indicators for Argentina: 1986-2007

Year	GDP Growth	Fiscal Surplus (percent of GDP)	Urban Unemployment + Rate (percent)	Inflation Rate (percent)
1986	7.1	-3.1	5.55	81.9
1987	2.5	-5	5.85	174.8
1988	-2.0	-6	6.3	387.7
1989	-7.0	-3.8	7.6	4923.5
1990	-1.3	-1.5	7.45	1343.9
<i>average of 1986-90</i>	<i>-0.1</i>	<i>-3.9</i>	<i>6.6</i>	<i>1382.4</i>
1991	10.5	-0.5	6.45	84.0
1992	10.3	0.6	6.95	17.5
1993	6.3	1.2	9.6	12.6
1994	5.8	-0.1	11.4	3.9
1995	-2.8	-1.2	17.5	1.6
1996	5.5	-2.3	17.2	0.1
1997	8.1	-1.0	14.9	0.3
<i>average of 1991-97</i>	<i>6.2</i>	<i>-0.5</i>	<i>12.0</i>	<i>17.1</i>
1998	3.9	-1.5	12.9	0.7
1999	-3.4	-3.1	14.27	-1.8
2000	-0.8	-2.6	15.1	-0.7
2001	-4.4	-3.8	17.4	-1.5
2002	-10.9	-0.3	19.7	41.0
<i>average of 1998-02</i>	<i>-3.1</i>	<i>-2.3</i>	<i>15.9</i>	<i>7.5</i>
2003	8.8	0.3	17.3	3.7
2004	9.0	2.0	13.6	6.1
2005	9.2	0.4	11.6	12.3
2006	8.5	1.0	10.2	9.8
2007	8.7	1.4*	9.2	8.5
<i>average of 2003-07</i>	<i>8.8</i>	<i>1.0</i>	<i>12.4</i>	<i>8.1</i>

Source: IMF World Economic Outlook Database – April 2008 (www.imf.org), United Nations 1999; Gasparini and Bebezuk, 2000, Instituto Nacional de Estadística y Censos (Argentina National Institute of Statistics and Census) Database www.indec.gov.ar, Secretaría de Hacienda (Secretary of Treasury of Argentina) <http://www.mecon.gov.ar/hacienda/>

* 3rd quarter figure

context or the presence of a powerful external anchor provided additional space for the “state elites” in which to manoeuvre and an additional impetus

for rapid implementation. Obviously, the rationalisation of the reform process and overcoming the political opposition were relatively smooth processes of such a powerful external anchor. However, in the initial stages of the Turkish privatisation programme the role of the external anchor was not so decisive. Clearly, in the context of Argentina, the World Bank and the IMF involvement in the reform programme was much more significant.

It appears that FDI played a significant role in the privatisation process in Argentina. American, French, Italian and Spanish firms were among the chief participants in the process. It is evident that from an overall perspective the FDI was 40 percent of total revenues generated by the process. The most important successes of the Argentinean privatisation programme were the increase recorded in the public savings and foreign debt reduction. Owing to the abandonment of subsidies given to SOEs in 1994, savings as high as \$1.5 billion were retained. Privatisation revenue helped to improve international balances and as a result foreign debt was reduced as much as \$79 billion.

Another dimension of the Argentinean experience was that a significant investment increase was maintained after the privatisation process. In the context of the telecommunications industry, an investment of \$7 billion was expected to increase and improve the quality of the services in the 5 years following 1994.

On the other hand, privatisation in Argentina was particularly criticised for having been implemented with great speed without a restructuring process and consequently the government had to accept underpriced sell-outs. In addition, these enterprises faced some serious economic problems and eventually required additional government support to survive. At a later stage, the government in Argentina had to repurchase almost 28 percent of Aerolineas Argentinas' stocks because the relevant company could not find new sources with which to overcome its losses. The problems faced by the company were high prices and low quality in airline services. The transportation and telecommunications industries can be cited as examples to demonstrate that regulations and competition were inadequate in Argentina. Perhaps another dimension was the fact that the privatisation process in Argentina changed the balance of power where foreign capital became more influential than ever before.

The general feeling is that citizens in many Latin American countries view the privatisation of industries as at least a partial failure. The temporary reduction in employment levels which is regarded as a short-term cost of privatisation programmes has aggravated citizens' negative feelings. Recently, the leading political candidates in Argentina, Mexico and Peru have also questioned and expressed displeasure with the free market system and privatisation policy (Gordon, 2006).

7. Recent developments in the Turkish privatisation experience

During the 2002-2007 period, while the AKP government was in power, there was a strong commitment to the execution of a privatisation programme that included the divestiture of considerably large SOEs. The programme included enterprises such as Türk Telekom, Poaş (petroleum distribution), Seka (paper production), Tüpraş (refinery), Petkim (petrochemicals), Tekel (tobacco and cigarettes) and Erdemir (steel-iron).

Potential purchasers, either domestic or international, were invited to bid for these profitable corporations in 2005 and 2006. Particularly foreign companies had to weigh a number of economic and political factors when assessing the attractiveness of acquiring a particular enterprise and the price they were prepared to pay. Despite some resistance from the labour unions and social democratic parties in Turkey, foreign companies acting in joint venture with powerful domestic partners in Turkey managed to acquire the ownership of these large SOEs.

The overall economic climate in Turkey was improved due to the IMF monitored programme enforced in 2001 to stabilise the financial market and the overall economy. An additional pressing problem was, of course, servicing the external and internal debts that were exerting great pressure on the Treasury. The financial and economic targets which were designed together with the IMF following the 2001 economic crisis necessitated regular scrutiny and adjustments in order to minimise deviation from the pre-determined targets for inflation, public deficit and primary surplus. The stand-by arrangement with the IMF in 2002 was intended to support a three-year economic programme that aimed to sustain growth, deliver price stability and move towards convergence with the EU economies (Krueger, 2005).

Particularly after 2004, there was a discernible decline in the rate of inflation (below 10 percent) while the growth rate of GDP settled at 8.4 percent in 2005 and 6.9 percent in 2006. In addition, there was an acceptable realisation of balanced budget in successive years owing to a rise in tax revenues and a tight fiscal policy in line with the recommendation of the IMF-monitored programme. The government authorities also took measures to reverse spending overruns and committed themselves to saving revenue over-performance in order to achieve a primary surplus in excess of 6.5 percent of the GNP target.

The overall economic climate in Turkey after 2002 was of paramount concern and prospective investors tended to focus on the macroeconomic environment and credibility of the government's liberal economic policies. It seems that a privatisation programme enjoys much higher levels of credibility when governments are able to show great commitment to

privatisation. The relatively stable political environment in Turkey was a contributory factor in attracting FDI and participation by international corporations in the Turkish privatisation process. In contrast to earlier periods, there has been a firm commitment to privatisation in the last five years partly due to common pressure imposed by the IMF and the World Bank.

With the inclusion of the recent sale of the largest public enterprises mentioned above, the privatisation revenue by the end of 2007 increased to above \$30 billion. It appears that the AKP government is determined to press for more divestiture of SOEs in Turkey in order to provide more grounds for a market economy and competition and to use some of the privatisation receipts for amortising domestic debt. Clearly, the greater pace of privatisation will also have an indirect positive effect on budgetary performance through lowering interest payments and reducing the public deficit.

However, it should be noted that the most controversial issue is the establishment of the market value of an enterprise before its sale. The undervaluation of assets can be costly in terms of welfare loss to tax payers, the public as a whole and the Treasury. Therefore, where large issues are involved, the potential risk of under-pricing can be reduced by selling in small lots to establish a trading price before the majority of shares is placed on the market. In the valuation of assets, it is also prudent to assure the objectivity that comes from using the services of independent consulting agencies.

In Turkey's context, there was a significant impediment in providing sufficient budgetary funds to finance the contingent liabilities of the divested corporations, especially the provision of severance pay for laid-off workers. In the earlier periods, the governments in Turkey, under adverse economic conditions, did not have the sufficient resources to meet their contingent liabilities.

Obviously, the primary concern of the labour unions is the displacement of workers that might result from privatisation. However, despite the importance of employment issues, virtually no relevant data are available on loss of jobs. It is interesting to observe that the PA does not usually divulge information about retrenchments among divested SOEs.

However, according to the Privatisation Law (No. 4046, Article 22), those personnel working in privatised companies as civil servants have the right to be transferred back to the state. For instance, in the case of Türk Telekom, approximately 10,000 employees exercised their options to return to the public service after privatisation. Turkey also received \$250 million worth of support from the World Bank as part of a "Privatisation Social Support Project" for the 2001-2005 period, addressing job loss compensation. The project was supported in 2005 with an additional \$465

million in order to compensate for the loss of jobs or for providing retraining for those who sought jobs in other industries (Kilci, 2006).

A detailed comparison of the privatisation programmes implemented in Argentina and Turkey is illustrated in Table 5.

8. Post-privatisation performance in Turkey

8.1. Technical efficiency and labour productivity

A relatively large number of enterprises were sold in Turkey during the 1986-2007 period and, therefore, sufficient time has now elapsed for a proper evaluation, particularly in the cement and telecommunications industries. It is generally acknowledged that technical efficiency and performance are closely related to prices, market conditions, market shares and capacity utilisation, which in turn depend on domestic and regional demand changes.

8.1.1 The case of the cement industry

In an earlier study by Tallant on the cement industry (1993), it was found that efficiency and profitability largely depended on high rates of capacity utilisation. The study focused on substantial regional variations. In terms of capacity utilisation, private cement plants seemed to be more efficient especially when compared to public plants located in the east and south-east Anatolian regions. The private sector cement plants had the highest rate of capacity utilisation at 88 percent for the 1988-1991 period, with slightly lower averages for the mixed concrete segment and Çitosan's plants located in the western part of Turkey. However, the capacity utilisation rates for the Çitosan's plants located in the eastern part were far lower at 65 percent.

Similarly, in a study carried out by Çakmak and Zaim (1994), it was shown that there was no significant relationship between plant efficiency and ownership. It was concluded that the transfer of ownership was unlikely to generate substantial improvements in productive efficiency unless supported by government policies to increase competitiveness in the industry.

Saygılı and Taymaz (1996) argued that the ownership change at the privatised cement plants did not largely improve efficiency, which seemed to vary widely among the regions. In this study, it was concluded that geographical location, local market share and local cement demand seemed to determine efficiency rather than ownership. Clearly, apart from ownership types, there are other basic variables that play significant roles in technical efficiency. For instance, Saygılı and Taymaz (1996) in their econometric model emphasised the rate of increase in regional demand, plants' export rates, firms' respective shares in the regional output, technology adopted in

Table 5
Argentinean and Turkish Privatisation Experiences from a Comparative Perspective

	Argentina (1983-89; 1990-2007)	Turkey (1986-2007)
Goals of Privatisation Programme	<ul style="list-style-type: none"> To eliminate public deficit To repay massive external debt To promote competition and efficiency To divert resources from loss-making SOEs to more productive fields To promote foreign capital and transfer of new technology To generate additional revenue To improve the quality of goods and services, To stimulate growth of the capital market 	<ul style="list-style-type: none"> To transfer inefficient SOEs to the private sector To promote competition and efficiency To reduce financial burden of Treasury To reduce size of public sector To ensure wider share ownership To develop and expand the capital market To attract foreign capital To raise additional revenues for the Treasury
Scope of Privatisation	<ul style="list-style-type: none"> Telecommunications Airlines, railways Oil and gas production Electricity, petro-chemicals Banks and finance Airports, ports Water and sewage system Radio and TV networks Steel and iron (All public utilities are privatised) 	<ul style="list-style-type: none"> Telecommunications Cement, steel-iron Steel cables, retail chain Petroleum refinery Animal feed, basic metals Electrical machinery Banking and insurance Paper and rubber Petroleum distribution (Public utilities are not privatised yet)
Sales Methods	<ul style="list-style-type: none"> “Equity-debt swap” agreement excessively Block sales Limited use of public offerings BOT system Franchising, licensing 	<ul style="list-style-type: none"> Primarily block sale Less by public offering International sale BOT system Licensing
Regulation – Regulatory Measures	<ul style="list-style-type: none"> Regulatory authority created Price regulation Less effective regulatory policy Regulatory framework created monopolistic and oligopolistic structure (Entel) Foreign and domestic corporations enjoyed monopoly profits Lack of competition also in electricity and gas 	<ul style="list-style-type: none"> Competition Authority established (1994) Controls trade and agreements which restrict competition Regulates mergers and acquisitions above critical size Controls monopoly pricing Ensures fair competition
Use of Sales Proceeds	<ul style="list-style-type: none"> Sales proceeds reached \$ 28 billion Basically to repay and reduce external debt (\$79 billion repaid) To close public deficit To raise public revenue Used to improve international balances Allocated large funds to education, health and social welfare 	<ul style="list-style-type: none"> Sales proceeds amounted to \$30 billion by 2007 To repay external and domestic debt Transfer to Treasury No specific funds to education and health, social welfare

production and the region in which the enterprise operates. More generally, it is often argued that technical efficiency depends upon technological experience, production organisation and managerial ability.

Insofar as labour productivity and employment were concerned, during the post-privatisation period there is sufficient evidence to show that labour productivity in the private cement plants was higher than that in the public ones (Tallant, 1993; Saygılı, 1995).

There were also significant improvements in labour productivity after privatisation in the five cement plants of Çitosan (Ankara, Afyon, Söke, Balıkesir and Pınarhisar plants), which were transferred to Ciments Français (Karataş, 1995). The reduction in employment was reported to be greatest for the privatised plants, which is consistent with the presumption that over-staffing was more severe in plants that had been publicly owned.

A more specific study on employment by Özmucur (1997) supported the assertion that productivity and efficiency in the private cement companies are much higher than in the public ones. According to Özmucur (1997), private cement companies had a decrease in employment of 7.8 percent, while the privatised firms had a decrease of 15.5 percent. Özmucur (1997) has also demonstrated that there are positive increases in labour productivity and capital labour ratios both in private and privatised cement firms.

8.1.2. The case of Türk Telekom

The Türk Telekom privatisation, the largest project in privatisation history, has demonstrated efficiency and labour productivity gains in the post-privatisation period.

Three alternative profitability ratios are used to measure the financial returns to the new management of the privatised Türk Telekom. These are return on equity (ROE) (profit to equity ratio), EBITDA per labour and net profit margin

- 1- Return on equity measures the rate of profit to total equity.
- 2- EBITDA per labour is the quotient of 'cash' operating profit earned per employee.
- 3- Net profit margin is the rate of profit accrued per unit of sales.

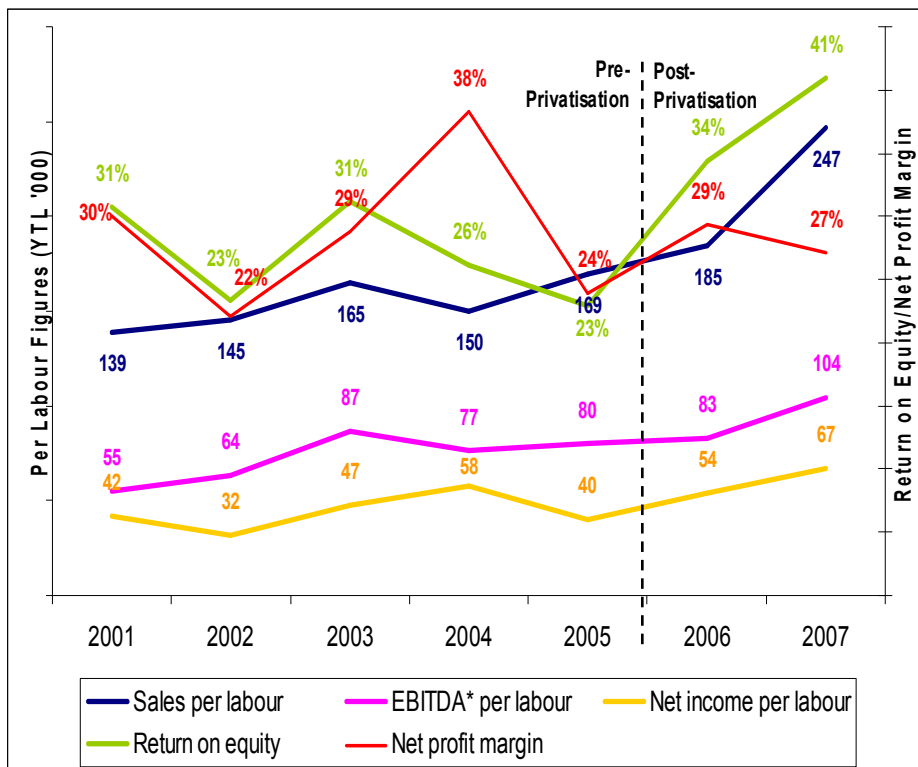
It is important to note that all financial profitability ratios share the following shortcomings: First, they do not take into account the social objectives of public enterprises. Second, in non-competitive market conditions high financial profits may not really reflect an efficient enterprise operation, but may simply result from "above normal profits" being made because of the firms' monopoly powers. Therefore, while financial performance may be indicative of private enterprise efficiency,

it should be used with some reservation in evaluating public enterprise performance.

a) Return on equity figure, which had an average of 27 percent between 2001-2005, increased to 34 percent in 2006 and 41 percent in 2007 as evidence of improved investment returns in the private era. It is likely that the profitability improvement (increase of ROE) was perhaps due to the rehabilitation and renewal investments undertaken in Türk Telekom and also to the reduction in the number of employees (see

Figure 2).

Figure 2
Comparison of the Pre-Privatisation and Post-Privatisation Periods of Türk Telekom (2001-2007) (2007 price level)



Source: Türk Telekom company data (2001-2007),

* Earnings before interest, tax, depreciation and amortisation,

b) Calculated on a real basis, taking 2007 price levels, sales per labour, which was YTL 154,000 on average for 2001-2005, rose to YTL 185,000 in 2006, and finally YTL 247,000 in 2007. Accordingly EBITDA⁷ and net

⁷ Earnings before interest, tax, depreciation and amortisation.

income per labour figures with an average of YTL 72,000 and YTL 44,000, respectively, for the same period, reached YTL 104,000 and YTL 67,000 in 2007, respectively (see

Figure 2). The increase in labour productivity in Türk Telekom can be attributed to the rising value added realised in the post-privatisation period and also due to the drop in the number of employees from 51,737 by the end of 2005 to 37,035 by the end of 2007.

c) The net profit margin stayed rather stable between the pre and post privatisation periods, with averages of 29 percent and 27 percent for the two periods, respectively. The main reason for the pattern of profit margin was the liberalisation and regulation in the telecommunications industry. The entrance of competitors in different segments started to break the previous monopolistic power of the company whereas the regulation on prices promoted cost-oriented pricing and protection on the consumer side.

8.2. Transparency and ownership concentration

One of the key problems in the Turkish privatisation process is the lack of transparency in making specific deals. Admittedly, in the case of tender offers conducted for the sale of Petlas (airplane tyres), EBK (meat-fish), Tedaş (electricity distribution), Poaş, Seka (paper) and Tüpraş (refinery), competitive bidding procedures have been ignored and prices have been set without convincing valuation methodology.

There were also claims that “block sales” had been made to dubious purchasing firms and/or industrialists who strongly supported the political party in power. However, there have been few court decisions resulting in the cancellation of such kind of transactions. In addition, it is often argued that special privileges such as monopoly rights, concessionary financing terms and protection from imports have been granted to newly privatised enterprises. Open tendering procedures are resorted to, but indirect approaches by particular firms have also been encouraged. Obviously, fair criteria should be laid down for the evaluation of bids by prospective firms and the tendering process should be competitive with full public disclosure of all bids (Bennell, 1997).

There are conflicting opinions about whether privatisation has achieved greater success in securing wider share ownership. Another crucial issue is whether shareholders have responded effectively to incentives designed to discourage quick sales on the stock market. During the earlier phases (1988-2002), successive governments in Turkey had often reaffirmed their commitments to encourage wide ownership of public assets and also to broaden the participation of small investors in Turkish equity markets. The proportion of shares held by private individuals in Turkey reached almost 20.9 percent by 2006, according to statistics of the Central Registry Agency (CRA); however, it is far below the figure observed in advanced western

countries. Even as early as 1985, it was 40 percent in the UK and 70 percent both in Germany and the USA (Mayer and Meadowcroft, 1985).

There is a great deal of evidence showing that the diversity of ownership was not sustained for long after the share issue in the UK in the case of British Aerospace, Cable and Wireless and British Telecom (BT), where the number of investors dropped from 2.3 million in 1984 to 1.7 million in 1987. It is interesting to note that “individual shareholders” represented almost 35 percent of BT in the UK in 1985, while 4.6 percent was held by employees, 47.4 percent by institutions and 13.7 percent by overseas holders (Mayer and Meadowcroft, 1985).

In the case of Turkey, the share of domestic individual investors in the total float of publicly owned or privatised companies is usually insufficient to suggest that diversity of ownership does not exist. As of the end of 2006, in the case of Tüpraş, the share of individual investors in total float was 14 percent while it was 31 percent for THY, 8 percent for Vakıfbank (quasi-state owned bank) and 22 percent for Poaş⁸.

In the case of the Türk Telekom privatisation, the sales method was block sales, where 55 percent of the shares were sold to the Saudi Oger Company in 2005 following an open bidding conducted by the Ministry of Finance and PA for a total value of \$6.55 billion. However, the PA has committed itself to selling the remaining shares through public offering, thus creating a large investor base for the company. The initial public offering process involving up to 15 percent is scheduled to be concluded by the second quarter of 2008. There already have been significant privatisation transactions through public offerings in recent years, particularly in corporations such as İşbank, Tüpraş, Petkim and THY. It is often argued that block sales and public offerings have to be considered together, since efficiency gains from being a private company can only be gained through block sales and the resulting change of control while a wider investor base can be attained through public offerings.

It appears that over the last five years, there has been a significant drop in the number of domestic investors on the ISE. The discernible decline in the number of domestic shareholders basically has been due to allegations that there have been manipulations in the trading of shares on the stock exchange that have reduced its reliability, and to tax concessions recognised for foreign investors in Turkey. Accordingly, during the 2004-2006 period, the proportion of foreign shareholders on the ISE increased to 70 percent. Particularly the extremely high real return prospects and tax concession that involved exemption from withholding tax for foreign shareholders were very influential in this increase.

⁸ CRA statistics.

Therefore, the government in Turkey is under pressure to provide the same tax concession to domestic investors. It seems that if the government fails to ensure equality between domestic and foreign shareholders in terms of concessions it will be rather difficult to have wider share ownership in the capital markets.

Table 6 illustrates the changes over the years in the volume of share trading and the number of investors on the ISE. There was a considerable drop in the number of shareholders/investors between 2001 and 2006 where it declined from 1.4 million to 1.1 million in 2006. However, this drop can also be attributed to the fact that the leap between 2000 and 2001 was basically a result of a rally of initial public offerings (IPOs) that brought new investors to the market who previously had maintained savings in deposit accounts. Some of these new investors may have acted as one-timers and, after having realized their investments in these IPOs, may have left the market and returned to their traditional ways of investing. Nevertheless, if figures for 2006 and 2000 are compared, a significant increase in number of investors still can be observed.

Table 6
Share Trading Volume and the Number of Investors in Turkey

Year	Number of Investors (000)	Daily Trade Volume (\$ million)
1997	250	231
1998	338	284
1999	561	356
2000	603	740
2001	1,383	324
2002	1,227	281
2003	1,204	407
2004	1,106	593
2005	1,072	794
2006	1,079	919
2007	1,040	1,194

Source: ISE Bulletin 2007 (www.imkb.gov.tr), TSPAKB Annual Report (www.tspakb.org.tr), ISE data (2008) (<http://www.imkb.gov.tr/veri/veriset1.zip>)

8.3. Foreign shareholding

In the initial phase, the Özal governments (1984-1992) were eager to sell SOEs through public offerings, as testified by the sale of Teletaş; however, later the policy was switched to block sales by selling the majority of shares of Çitosan and USAŞ to French and Scandinavian companies, respectively (Ciments Français held 90 percent of Çitosan's shares in five cement plants and SAS held 70 percent of USAŞ).

During the second half of the 1990s, there was a slowdown in the pace of the privatisation drive in Turkey because of a lack of consensus among the coalition governments in power about the form of privatisation to pursue and the instability of the economy and the financial markets. However, since 2002 when the AKP government was formed, the attention has shifted to foreign investors as a means of reviving the privatisation drive.

Given the fact that Türk Telekom was sold to a Saudi company and Tüpraş to Koç-Shell at the outset, is fair to question whether privatisations in Turkey will proceed by attracting more foreign investors at the expense of broadening share ownership among small investors. However, considering the cases of publicly-listed Erdemir and Tüpraş, the recent IPO of Halkbank (state bank) and the prospective public offering of 15% of the shares of Türk Telekom, it can be deduced that a dual approach has been adopted in Turkey. First, majority shares are sold through block sales to enable change of control for better management and higher efficiency; and second, minority shares are to be offered to the public in order to share the value increases with a wider investor base.

8.4. Regulation and consumer protection

The Competition Board, a regulatory body on competition in Turkey, has responsibility to safeguard the consumers' welfare, and to control the public and private companies in the industrial sector in order to rationalize their prices and improve the quality of their services. The Turkish Competition Law was enacted in December 1994, but its operation only started in 1997 despite the Customs Union agreement with the EU in 1996 and privatisation practices in Turkey following 1988. According to the Turkish Competition Law (1994), a wide range of activities listed under three headings are controlled and restricted: agreements and trade practices that restrict competition, abuse of dominant position and monopolisation and mergers and acquisitions.

First, according to the Turkish Competition Law (Article 4) agreements and concerted practices among the firms that aim, directly or indirectly, to prevent, distort and restrict competition in a certain market for goods and services are considered unlawful and prohibited (Mumcu and Zenginobuz, 2001).

Second, the Competition Law prohibits the abuse of dominant power in markets. This is in fact similar to a provision included in the EC Treaty (Article 86). Article 6 in Turkey defines dominant position as "the power of one or more undertakings in a particular market to act independently of their competitors and customers and to determine economic parameters such as price, supply and the amount of production and distribution" (Mumcu and Zenginobuz, 2001). It appears that Article 6, is also applicable to

telecommunications industry players that are included in the privatisation programme and /or undergoing regulatory changes.

Third, the Competition Law includes articles related to “mergers and acquisitions” where accordingly, it prohibits mergers and acquisitions that aim to create or strengthen a dominant position and lead to inhibiting competition in the markets for goods and services (Article 7). Competition Law and Communiqué No. 1997/1 states that “if the total market share of the merged corporations exceeds 25 percent of the relevant market or the total turnover of the undertakings that take part in the action exceeds 25 trillion TL (in 1997 prices), then an authorization must be obtained from the Competition Board.”

It is clearly stated that privatisation cases also fall under the Competition Board’s jurisdiction. It is indicated that before an actual privatisation can take place, the Competition Board has to issue an authorisation to the effect that privatisation will not distort fair competition in the relevant markets for goods and services.

It appears that the Competition Board is given extensive powers of inspection and investigation regarding issues that pertain to the infringement of Competition Law. The Competition Board is an independent body such that it is not subject to the instructions or orders of any other governmental body, including the council of ministers that appoints the members of the Competition Board. The Board may evidently request information from all related parties and, if necessary, it can carry out on the spot examinations.

Türk Telekom, an absolute monopoly in telecommunication industry prior to privatisation, encountered competitive pressure from multiple segments mostly through regulations. Long distance operating licenses rendered by the Ministry of Transportation had been operational, resulting in huge revenue losses in Türk Telekom’s long distance calls. Voice Over Internet Protocol (VOIP) operators also acquired niche positions in the market through Türk Telekom’s own infrastructure in spite of this being illegal initially. However, at present such activities have become legal. The divestiture of TTNET (an Internet service provider company) as a separate company was established to create an arm’s length distance between fixed line and broadband operations in order to promote competition in the broadband industry. Lastly, local calls, which are the major revenue source of Türk Telekom, will be opened to competition during 2008, in order to create a fully liberalised telecommunications industry. Provided that competitors of Türk Telekom make the necessary preparations in infrastructure and organisation, it is expected that when the competition in local calls becomes legally available, Türk Telekom will face competition at an accelerating pace.

Having built more than 55 schools for \$160 million, Türk Telekom also fulfils corporate social responsibility duties. Türk Telekom has started

to open “internet houses” in each district nationwide planning up to 850 and has also announced a special programme for the training of 600,000 teachers to be prepared for the 21st century’s education concept.

Like in other countries, the privatisation process in Turkey has been claimed to have created economic rents, simply by protecting the private enterprises from competition. For instance, in the case of Türk Telekom, Tüpraş and Poaş, the purchasing companies since privatisation may seem to enjoy monopoly power and to have been able to raise their prices to maximise profits. However, the free market system and regulatory measures prevent such kinds of abuse of monopoly power. For instance, the oil products distribution market has become more fragmented with new and powerful entrants like Opet. The refinery products market has also become open to competition from imports and pricing is done under liberal market conditions. The pricing policy in the telecommunications industry is strictly under the control of the Telecommunications Authority (TA), leaving no room for monopoly power abuse. Although Türk Telekom is still the dominant player in the market, the monopoly power has been restricted in pricing. The tariff changes are strictly regulated by the TA and are subject to its approval.

On the other hand, the newly privatised companies are expected to undertake renewal and new investments in order to expand their services to society. From the consumers’ standpoint, Türk Telekom and Tüpraş should be able to finance their new investments from the windfall profits generated by the fixing of prices higher than those compatible with ordinary levels of profitability. Obviously, higher prices for gas, oil and telephones might have regressive effects on low income groups and distort even further the unjust income distribution in Turkey.

8.5. Macroeconomic environment

During the post-1990 period, there was a rapid deterioration of the fiscal position of the state sector. The government sector resorted to excessive domestic debt financing by making use of new issues of debt instruments. Throughout this period the government debt instruments dominated the financial markets in Turkey. In 1995 the share of public securities represented 90 percent of the total. The unsteady economic performance was accompanied by high rates of inflation, an accelerating rate of domestic and external debts, and budget deficits (Table 7).

The inflation rate, which was at its highest level of 99.1 percent in 1997, thereafter slowed down to 39 percent in 2000. However, the sharpest drop in the inflation rate was observed during 2002-2006 period when the IMF-monitored programme was fully implemented to restore the fiscal imbalances. The declining trend continued in the subsequent years. The inflation rate dropped to 18.4 percent in 2003 and 9.7 percent in 2006.

As an integral part of the IMF-monitored programme, the budget deficit to GDP ratio improved and dropped from a high level of 16.9 percent in 2001 to 1.7 percent in 2007. Meanwhile, the current account deficit, which was at a low level of \$0.6 billion in 2002, increased at an alarming rate, reaching \$31.9 billion in 2006 and \$37.7 billion in 2007 (see Table 7). At the moment, this current account deficit is financed through FDI and rather volatile portfolio investments or so-called “hot money”; the share of FDI in financing has gradually been more significant, making the balance less reliant on “hot money”. However, in the ensuing years, the excessive deficit in the current account will continue to occupy the economic agenda unless it is remedied by serious policy measures.

Table 7
Macroeconomic Indicators for Turkey: 1986-2007 (per cent)

	Growth Rate (percent)	Inflation Rate (percent)	Budget Deficit / GDP (percent)	PSBR / GDP (percent)	Current Account (\$ billion)	External Debt (\$ billion)	External Debt/GDP (percent)
1986	6.9	30.7	-2.8	3.6	-1.5		
1987	10.0	55.1	-3.5	6.0	-0.8		
1988	2.1	75.2	-3.1	4.8	1.6		
1989	0.3	64.3	-3.3	5.3	0.9	43.9	30.7
1990	9.3	60.4	-3.0	7.3	-2.6	52.4	26.1
1991	0.9	71.1	-5.3	10.1	0.3	53.6	27.0
1992	6.0	66.0	-4.3	10.5	-1.0	58.6	27.9
1993	8.0	71.1	-6.7	10.2	-6.4	70.5	29.6
1994	-5.5	125.5	-3.9	6.1	2.6	68.7	39.9
1995	7.2	76.0	-4.0	4.9	-2.3	75.9	33.9
1996	7.0	79.8	-8.3	8.6	-2.4	79.3	33.1
1997	7.5	99.1	-7.6	7.6	-2.6	84.4	33.7
1998	3.1	69.7	-7.3	9.3	2.0	96.4	36.3
1999	-3.4	68.8	-11.9	15.5	-0.9	103.1	42.0
2000	6.8	39.0	-10.9	11.8	-9.9	118.6	44.7
2001	-5.7	68.5	-16.9	16.4	3.8	113.6	59.0
2002	6.2	29.7	-15.2	12.7	-0.6	129.6	56.1
2003	5.3	18.4	-11.3	9.3	-7.5	144.1	47.4
2004	9.4	9.4	-7.1	4.7	-14.4	160.6	40.9
2005	8.4	7.7	-1.7	-0.4	-22.1	168.5	34.9
2006	6.9	9.7	-0.8	-3.0	-31.9	205.3	38.8
2007	5.0	8.4	-1.7		-37.7	247.1	37.2

Sources: Turkish Statistical Institute (TURKSTAT) www.tuik.gov.tr; Undersecretariat of Treasury of Turkey www.treasury.gov.tr, State Planning Organisation (DPT) of Turkey www.dpt.gov.tr, Central Bank of Turkey (TCMB) www.tcmb.gov.tr, IMF www.imf.org.tr

The external debt obligations increased to 59 percent of GDP in 2001 and remained at high levels during the 2003–2006 period though at a

declining trend. The total level of external debt amounted to \$113.6 billion in 2001 and \$247.1 billion in 2007, its ratio to GDP being 37.2 percent by that time (Table 7). However, much of this increase came from the private sector, not the public sector. As of 2002, the private sector accounted for 33 percent of the total external debt with \$43.2 billion, whereas the share of the private sector in the total external debt reached 64 percent, with \$157.9 billion by the end of 2007. Private external debt, as long as it creates net value added through investments and is hedged against currency movements may not be problematic although there exists the urgent need to monitor private companies' indebtedness.

The most urgent problems in Turkey remain the retarded growth of private investment, the insufficient generation of employment opportunities and unfair distribution of income. It is safe to argue that the macroeconomic environment, which is dominated by still high rates of inflation (as compared to other emerging economies), mounting public deficit and external debt, constitutes a significant obstacle to the effective implementation of the stabilisation and privatisation programmes.

9. Conclusion and some lessons

The problems related to the Argentinean and Turkish privatisation experiences have centered primarily on the underpricing of public assets during the divestiture of public enterprises, the high costs of sales, unsustainable wide share ownership by individuals and the ineffective regulatory measures that have accompanied the privatisation of major enterprises.

The expected efficiency gains were not fully realised in Argentina in the post-privatisation era. For instance, in the communications sector, competition was not generated in order to promote innovation or creativity to satisfy consumers' demand. In Turkey, however, few studies were carried out to test efficiency and productivity in the cement industry where the outcome demonstrated that profitability and productivity in the privatised cement enterprises were much higher than in the public cement enterprises (Çakmak and Zaim ,1994; Saygılı and Taymaz ,1996). In addition, in Turkey, it was also discovered that there was no close relationship between plant efficiency and ownership of corporations. It was concluded that the transfer of ownership was unlikely to generate substantial improvements in productive efficiency unless supported by the government to increase competitiveness in the industry.

In Argentina, there was also a lack of effective regulatory policy to reduce consumer prices and improve the quality of services to meet the expectations of the public. The regulation accompanying major privatisations in Argentina, namely those of as Entel, Aerolineas Argentinas, petroleum refinery (YPF), electricity (Segba) remain a point of criticism.

Some foreign and domestic companies enjoyed large profits while the government was not successful in promoting competition or adopting effective regulatory measures to control monopolies and oligopolies. While the government's role as a producer was reduced, it failed to assume the role as a regulator. In the context of Turkish privatisation, it is arguable that in the communications sector, more than one alternative network should be licensed and the governments should be prepared to produce yet more competitors. Similar arguments can be raised on the question of petroleum refineries (Tüpraş), petro-chemicals (Petkim) and the electricity distribution (Tedaş) industries. Therefore, criticism of the government's handling of regulation will not subside unless genuine competition across all sections of the communication network (mobile, Internet services provider, Voice Over Internet Protocol), gas supply, petroleum refinery and electricity distribution industries are realised. However, the main obstacle in front of the creation of more competitive markets in those industries is the heavy investment requirement to be undertaken in order to establish alternative operators or competitors above critical size. The natural entry barrier arising from the required size to operate efficiently and lack of a required amount of capital are the main reasons that the mentioned sectors exhibit a monopolistic structure although respective regulations allow for the inclusion of competitors, as in the case of telecommunications.

The privatisation of major enterprises in Argentina (Entel, airways, petroleum refinery and steel-iron) was achieved with considerable underpricing of public assets and special discounts. It involved a loss of income on the part of taxpayers and the Treasury. In the case of Turkey, although some privatisation transactions raised the concerns of underpricing, recent privatisations like Tüpraş, Petkim and Türk Telekom, have demonstrated a highly competitive bidding process putting premiums on shares vis-à-vis market prices and/or market expectations.

Particularly in the case of offers for sale, underwriting, legal and advertising costs have been said to have been excessively high although they could have been avoided to protect the interest of the Treasury and hence the taxpayers. In both countries, costs for divestment prior and during privatisations have been excessive and drawn some serious criticism. However, at least in the case of Turkey, the costs were in fact in line with the market standards when compared with private sector public offerings. The fact that privatisations in the form of public offering usually are greater in size than private ones explains possible diversion from expected deal costs. Taking into consideration market conditions and market depth, in order to close the offerings successfully, the budget of advertising campaigns had to be increased and the fees given to investment banks raised in order to incentivise sales efforts.

Like in other developing countries, privatisation in Argentina led to a high rate of unemployment and a significant number of employees opted for early retirement. The privatisation of utilities in Argentina has been blamed for the significant increase in unemployment since 1993. In spite of some remedial measures that were introduced to tackle the privatisation-induced loss of jobs, Argentina has faced a very dramatic record of unemployment during the post-privatisation period. Therefore, there is a need for more effective regulation policy to establish a decline in the rate of unemployment in Argentina. The employees affected should be either compensated in the case of job losses or subjected to retraining for alternative employment in other sectors. In the case of Turkey, the clause in the Privatisation Law allowing personnel in privatised companies to be transferred back to the state, and the World Bank sponsored “Privatisation Social Support Project” addressing job loss compensation are positive efforts to protect employment in privatised companies against unfair layoffs.

The primary aim of privatisation, which is to ensure wide share ownership for social reasons, was partly accomplished in Argentina since major sales were based on “block sales” and “equity-debt swap” agreements. Similarly in Turkey, privatisation basically was conducted on the basis of “block sales” to internal and foreign corporations with the view that the foreign firm involvement would ensure the inflow of foreign capital and advanced technology. “Block sales” was particularly dominant in the case of SOEs operating in industries like cement, telecommunications, sugar and plastic, food processing and beverages, electricity and gas, banking and insurance, basic metals and metal products. During the recent privatisations of Poaş, Türk Telekom, Tüpraş and Erdemir the block sales method was again favoured in place of public offering. However, according to the PA’s statistics, for the 1986-2007 period, public offerings (together with allocated sales on the stock exchange) ranked second in privatisation by types right after block sales, with proceeds of \$6.4 billion and a share of 21.4 percent⁹.

In the case of public offerings, a large number of shareholders tended to sell their shares quickly with high profits. This means that fiscal incentives to mitigate the quick sale of shares have not been so effective in deterring people from investing in other assets or instruments making the objective of wider share ownership unattained. Clearly, effective incentive measures are needed to deepen share ownership in Turkey. Perhaps tax advantages for investment in shares and free bonus shares as applied in the UK can be recommended. In the UK, small investors buying shares for the first time were given special priority over large investors in the allocation of

⁹ When the three major block sales privatizations are excluded (Türk Telekom, Tüpraş and Erdemir) with proceeds amounting to \$13.5 billion together, the public offering method ranks first in types of privatization with a share of 40.7 percent.

shares with a discounted purchase and an instalment purchase plan which required a small initial down payment and enabled the investors to receive their shares and pay the balance over a specified period (Vickers and Yarrow, 1988; Miller, 1995). Policies on this issue have been inadequate in Turkey and serious measures have to be introduced in order to promote wider share ownership. However, this issue is observed not only in the IPOs of privatized companies, but rather is a problem faced in all of the IPOs in the Turkish capital markets as a result of investors' short-termist attitude in Turkey¹⁰.

It is safe to argue that in Turkey privatisation increased supply of equity and volume of trading on the stock exchange, leading to improvement in the related regulatory and institutional framework. It is essential to provide general principles to ensure the smooth functioning of the capital market and regulation of dealers and listing of companies. The Capital Markets Board in Turkey has extensive authority to contribute toward the expansion of the capital markets and to encourage the equity financing of private and public companies.

While a considerable number of SOEs have been liquidated during the process of privatisation in countries such as Mexico (Aspe 1993), Argentina (Myrne and Corti, 1993) and Malaysia (Adam *et al.* 1992), a similar decisive action has not been undertaken in Turkey for political and socio-economic reasons. It is obvious that the closure of inefficient SOEs would require the government to show a fair amount of political courage in the light of severe resistance from the trade unions in Turkey.

For privatisation policy to be successful in Turkey the disclosure of information and transparency about the prudent use of privatisation proceeds are needed to demonstrate that the welfare of citizens and workers has improved substantially. It is logical to claim that the revenue collected from the privatisation process should be devoted to capital expenditure rather than current expenditure to generate more employment opportunities.

In an accountable and transparent system, the principles behind the allocation of the resources should be well defined to avoid subjective treatment. A portion of the proceeds should be allocated to technological R&D, education and health without being over populist. These investments, which will improve overall efficiency, might create positive returns to the economy and enhance the competitiveness. The best way to follow such a course of action would be to enact a law on the use of proceeds in order to overcome misconduct and feed the public with positive signals (Ercan, 2005). In addition, privatisation proceeds should be allocated to the amortisation of domestic and foreign debt which exerts a great burden on the Treasury. Both experiences show that privatisation proceeds have already been utilised in order to reduce external debt and PSBR.

¹⁰ According to Ertuna *et al.* (2003), the average cumulative abnormal return within the first three days of IPOs in Turkish capital markets is 17 percent.

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Özet

Türkiye ve Arjantin’de Özelleştirme Deneyimleri: Bir Karşılaştırma, 1986-2007

Bu araştırma, Türkiye ve Arjantin’de 1986-2007 döneminde uygulanan özelleştirme politikasını incelemekte ve iki ülke arasında karşılaştırma yapmaktadır. Her iki ülkede izlenen satış metodlarına değinilerek halka arz ve blok satış metodlarının toplumun refah seviyesi üzerindeki etkileri tartışılmıştır. Arjantin’deki özelleştirme politikası uygulaması kapsam, satış metodları ve özelleştirme sonrası sonuçları ve özellikle tekelleşme ve tüketici koruması açısından analiz edilmiştir. Türkiye ve Arjantin’deki regülasyon politikasının etkinliği ve özelleştirme sürecinde ortaya çıkan işsizlik olgusunun önlenmesi için önerilen yaklaşımlar ele alınmıştır. Özelleştirme politikasının her iki ülkedeki makroekonomik performans üzerindeki sınırlı etkisi de yansıtılmıştır. Türkiye bağlamında, özelleştirme sonrası (post-privatisation) dönemde özelleştirilen kamu kuruluşlarıyla ilgili ekonomik etkinlik ve verimlilik araştırmaları irdelenmekte ve özellikle çimento ve iletişim sektöründeki etkinlik sonuçları tartışılmaktadır. Araştırmanın son bölümünde ise Türkiye ve Arjantin’de uygulanan özelleştirme politikasıyla ilgili olarak karşılaştırılan bazı temel konular vurgulanmaktadır.

Anahtar kelimeler: Özelleştirme, Regülasyon, Türkiye, Arjantin.
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