Financialisation of non-financial corporations in emerging markets: the case of the Turkish energy sector

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Abstract

Financialisation is the increasing role of finance within the economy. The global economic environment started stagnating in the 1970s, thus prompting advanced economies to enter emerging markets which simultaneously paved the way for financialisation.

The aim of this research is to advance an understanding of the financialisation process in the non-financial sector of emerging countries; focussing on the Turkish energy sector. Crucial to this thesis is the investigation on whether or not Turkish energy firms channelled their funds from the productive realm towards the financial sphere. Qualitative data gathered from 28 in-depth interviews, secondary sources and financial statements of listed energy firms, have been contrasted with quantitative data from Borsa Istanbul and the Central Bank of the Republic of Turkey.

This thesis produced a number of key findings: financialisation in emerging countries follow a different pattern to those in advanced economies; the Turkish experience is unique since the grounds for financialisation was set by the state; empirical data reveals that energy firms focus primarily on new projects to set up power plants in order to meet increasing energy demands; and financial activities in Turkey are limited as the financial market is relatively new, considering electricity trading on Borsa Istanbul only started in 2015. However, firms engage in protective hedging activities, borrowing in foreign currencies and issuing corporate bonds. A different form of financialisation centred around the mechanism of interest-bearing capital, has been identified in the Turkish energy sector.

This thesis proposes a framework to analyse financialisation across non-financial corporations in emerging markets by investigating events occurring on the macro, meso and micro level. A potential indicator to evaluate financialisation amongst non-financial corporations by investigating firms' financial statements i.e. looking at net-non-operating-income/loss has been recommended. However, further research is needed to find a distinct measure for comparisons for the profitability of real investments vis-à-vis financial investments.

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Abbreviations

Advanced Economies (AEs)
Banking Regulation and Supervision Agency (BDDK)
Borsa Istanbul (BIST)
Central Bank of Republic of Turkey (CBRT)
Central Intelligence Agency (CIA)
Credit Rating Agencies (CRAs)
Developing and Emerging Countries (DECs)
Electricity Generation Company (EUAS)
Energy Market Regulatory Authority (EMRA)
European Union (EU)
Financial Assets (FA)
Financial Liabilities (FL)
Fixed Financial Assets (FFA)
Foreign Exchange (FX)
Gross Domestic Product (GDP)
International Finance Corporation (IFC)
Istanbul Chamber of Industry (ISO)
Justice and Development Party (AKP)
Mergers and Acquisitions (M&A)
Ernst & Young (E&Y)
Multinational Enterprises (MNEs)
Non-Financial Corporations (NFCs)
Petroleum Pipeline Corporation (BOTAS)
PricewaterCoopers (PwC)
Prime Minister (PM)
Stand-By Agreement (SBA)
State-Owned Enterprises (SOEs)
Tangible Fixed Assets (TFA)
Turkish Energy Exchange (EPIAS)
Turkish Lira (TL)
Over-The-Counter (OTC)
Washington Consensus (WC)
Trillion (tn), Billion (bn), million (m)

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Author's Declaration

I declare that this thesis is a presentation of original work and I am the sole author. This work has not previously been presented for an award at this, or any other University. All sources are acknowledged as References.

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York, December 2019

1. Introduction

The aim of this research is to advance an understanding of the financialisation process in the non-financial sector of emerging countries, specifically drawing upon Turkey's energy sector. Financialisation is a shift in the economy towards finance. This raises the question, 'has capitalism entered a new stage?' (Foster, 2007, p. 1). Disturbing global economic growth patterns resembling the environment of predatory lending, as seen during the 2007 pre-crisis, is what has brought both the terms 'neoliberalism' and 'globalisation' into the limelight. Magdoff and Sweezy documented the trends of the financialisation process in the 1960s, which continued throughout the 1970s and 1980s. The global economic environment started stagnating in the 1970s, thus allowing mature capitalist economies to enter emerging markets. This process revealed three characteristics: firstly, the global growth rate slowed down; secondly, it enabled a monopolistic rise for Multinational Enterprises (MNEs); and finally, all trends together paved way for the financialisation process in emerging markets (Foster, 2007; Magdoff and Sweezy, 1987).

Financialisation is a contested term. Some argue that it is the dominance of market-based finance over bank-based finance (Sawyer, 2014) whereas others argue that financialisation is primarily shareholder value as a tool of corporate governance (Froud et al., 2000). Palley (2007) describes it as the rise of a group in political and economic power whereby others highlight the boom of new financial trading instruments (Dymski, 2009). Krippner (2005) states that financialisation is 'profit making through capital rather than real production' whereas Epstein (2005) defines it broadly as an increasing role of finance among different actors and financial institutions who operate in both domestic and international markets. This debate is still on-going (see section 2.3). The last decades experienced a higher integration of Non-Financial Corporations (NFCs) into global capital markets, falling fixed capital investments with an increase in fixed financial assets, rocketing profits of banks from speculative investment activities, and increased levels of household indebtedness (Orhangazi, 2008).

For this research, financialisation has been defined as 'a pattern of accumulation in which profits accrue primarily through financial channels rather than through trade and commodity production' (Krippner, 2005, p. 174).

This study will use three main research methods. Firstly, 28 open ended semi-structured interviews conducted with field experts. Secondly, the financial statements of listed energy firms on Borsa Istanbul (BIST) are investigated for the periods between 2002 and 2017, inclusive. Finally, an in-depth review of relevant literature. The data will be triangulated and validated through cross-verification. One argument of this research is that in order to capture

financialisation in any sector, analysis of various levels such as the macro, meso and micro-level are indispensable. Central to this study is searching for an answer to the questions: How did financialisation of Turkey's energy firms affect the investment behaviour of these companies between 2002-2017? Does financialisation work in the same way in emerging markets as in Advanced Economies (AEs)?

Specifically, within the setting of financialisation in the Turkish energy sector, the objectives of this research are to:

1. Evaluate to what extent financialisation has occurred in the Turkish energy sector between 2002 and 2017 and whether it has followed the same pattern as in AEs.
2. Identify the driving forces behind the financialisation process within the Turkish economy and assess them within a framework on a macro, meso and micro-level.

At risk of oversimplification of the purpose and value of each of the above objectives, objective one focuses on reasons and emerging issues, whereas objective two aims to make key contributions to the literature of financialisation. The stated research objectives are interrelated, and links have been made across all chapters to highlight relevant events and developments.

Driving forces behind financialisation in the Turkish context will be explored. Financialisation in Turkey has been identified and segmented into four stages:

- Stage 1: Turkey's export-oriented strategy between 1980 and 1988;
- Stage 2: The financing of public debt between 1989 and 2001;
- Stage 3: The state-led financialisation between 2002 and 2007 (institutional change and the implementation of neoliberal policies); and
- Stage 4: The debt-led economic growth between 2007 and 2017.

Objective one will attempt to answer the question: 'To what extent has financialisation occurred in the Turkish energy sector between 2002-2017 and what form has it taken?' In this setting, political developments and their effect upon the economy are discussed. The second objective aims to identify the driving forces behind the financialisation process within the Turkish economy and assess them within a framework on a macro, meso and micro-level. In this light, the research question, 'to what extent has the financialisation process in the Turkish energy sector been driven by Turkey's interests?' will be critically discussed. Further, Foreign Direct Investment (FDI) inflows and their effect on the investment behaviour of Turkish energy companies will be analysed. As a result, both a review of literature and the collection of empirical data will help to better understand financialisation in this context. Recent examples and data retrieved from interviewees will be triangulated to improve the validity of findings.

Financialisation will be assessed within the framework of a level analysis by drawing upon regulatory theory. This will facilitate a better understanding of the interrelation of financialisation throughout different levels. Firstly, on a macro-level; global forces that impact upon Turkey. Secondly, on a meso-level; transnational level market forces such as supply and demand and strategic alliances of organisations and their effects. Finally, on a micro-level; developments within the state such as regulatory changes, consumer trends and media influence. Interrelated developments throughout the three levels will enable the examination of financialisation in a framework and show how it affects the Turkish energy sector. Finally, the micro-level analysis deals with the core element of financialisation amongst Turkish energy firms by investigating questions such as: Has there been a shift from real investments to financial investments?; and what specific financial investments are involved? For this thesis, energy firms are understood as companies who primarily engage in the production of electricity. The definition of financialisation offered by Krippner (2005) is non-existent in the context of the Turkish energy sector. However, a critical discussion coupled with empirical findings will present a different form of financialisation; the form of interest-bearing capital (Becker et al., 2010) and the turn towards 'new' financial channels to access external funds.

Contribution of this research

The first contribution of this thesis is a framework to support the analysis of the financialisation process of NFCs in EMEs. This study illustrates that financialisation is interconnected throughout different levels, herein described as the macro, meso and micro-level. By investigating aspects on each level and linking several events that have taken place across multiple stages, a profound understanding of financialisation has been achieved. Existing work in this field lacks in depth, especially when considering factors that influence the investment behaviour of NFCs. Moreover, the literature draws upon a one-size-fits-all approach and represents financialisation based either on macro-economic indicators or economic models that capture only partial elements of the whole picture. Therefore, this thesis sheds new light on the topic by using a mixed-method research design and by drawing upon a macro-to-micro approach that delivers a more insightful analysis. This approach fits well into the regulationist theory which holds that the flourishing ground for financialisation is set by local authorities. Furthermore, this thesis provides support for Kaltenbrunner and Painceira (2018) and Powell (2013) that financialisation in EMEs are influenced and subjected to state relations and are subordinated to the international monetary and financial system.

The second contribution of this thesis is to provide a critical review of the issues that are pertinent to financialisation in Turkey, by obtaining the views of 28 experts on the Turkish economy, specifically, the energy sector. This allows for a meaningful cross-verification of the

literature and empirical data (quantitative and qualitative), from which results an improved understanding of financialisation in an emerging country. The setup of the Turkish energy sector – with seven listed companies and the remaining players consisting of holding groups or family owned businesses – enables to circumvent the financial market pressure upon firms. This aids for the analysis of the energy sector on its own, i.e., an examination of firms' investment decisions without accommodating financial markets expectations and striving for attractive financial statements as in AEs. Furthermore, this study argues that financialisation in Turkey has a 'state-led' character starting earlier than the 1989 account liberalisation and the first use of the term 'financialisation' in the literature. Subsequently, after the implementation of neoliberal policies in collaboration with international financial institutions, Turkey's state-led financialisation adapted a form of 'dependent' financialisation.

The third contribution of this thesis is empirical evidence that highlights that financialisation follows a different pattern in AEs vis-à-vis EMEs. I found that financialisation in Turkey is different to those in advanced markets by primarily being centred on the mechanisms of interest-bearing capital (interest payments). While in AEs a shift of capital from the realm of production to finance is notable, my findings show the opposite for the case of Turkey. Companies struggle to access funds for real investments in order to meet the rising energy demand. Krippner's (2005) definition of financialisation has been brought to light by scrutinising the investment behaviour of Turkish energy firms' financial statements. By drawing upon quantitative data, hypotheses tests, and cross-verification with primary data, the results reveal that there is strong evidence against the findings of Akkemik and Özen (2014); Demir (2009a; 2009b; 2007); Demiröz and Erdem (2018) and Tellalbasi and Kaya (2013) in respect of their claim that there is a higher level of engagement in short-term financial activities by Turkish NFCs. Furthermore, by highlighting the sources of funds for the energy sector and by examining the relationship between companies' liabilities and interest payments, financialisation centred on the mechanism of interest-bearing capital came to the fore. The current studies (Bahce et al., 2014; Bedirhanoglu et al., 2013 and Demiröz and Erdem, 2018) fail to account for financialisation amongst Turkish NFCs by using an ill-suited indicator. They compare non-operating income to operating income but neglecting non-operating expenses, which leads to distorted findings. In this regard, by scrutinising listed companies' financial statements – i.e., asset composition and profit and loss accounts – a qualitative approach has been suggested. The indicator of 'net-non-operating income/expenses' helps to widen the analysis by considering more aspects insofar as determining both increased financial income and financial expenses.

1.1. Financialisation

The existing literature argues that rather than being a phenomenon that spread across the globe, the thriving ground for financialisation was provided by single nation-states (Becker et al., 2010). In this context, countries are influenced by elites (rentier class) and politicians that adequately influence and implement structural changes (Hayek, 1949).

Fine (2008) distinguishes neoliberalism into two distinct phases starting from the 1970s and ending in the 1990s, without restricting neoliberalism to finance. Jones (2012) divides neoliberalism into three phases, however, Jones' first phase ranges from 1920s through to the 1950s and provides a much more profound insight into the term neoliberalism.

Fine (2008) argues that the second phase is built upon the first phase and expands the inequalities that had been created in the first phase, while deepening the financialisation of the economy. The second stage was marked by the privatisation of public services, the expansion of speculative assets at the cost of real investments (Demir, 2007), the expansion of financial instruments and services, and the increase of finance vis-à-vis the real industry. The chief economic commentator of the Financial Times mentioned that 'the U.S. itself looks almost like a giant hedge fund. The profits of financial companies jumped from below 5% of total corporate profits, after tax, in 1982 to 41% in 2007' (Wolf, 2008).

In this regard, Chile is considered to have been the first country to have effectively been 'neo-liberalised'. The dictator Augusto Pinochet came to power after a United States-backed military coup on 11th September 1973. By the end of 1974, the ruling military dictatorship appointed Pinochet as president (Kornbluh, 1999; Stern, 2004). Simultaneously, a group of economists known as the 'Chicago Boys', under the patronage of Milton Friedman at the University of Chicago, took positions in high governmental departments to work as advisers. Reforms proposed by the 'Chicago Boys' were approved by Pinochet. After 'the miracle' of Chile, the country's economy started faltering, and the Chicago Boys were heavily criticised by economists such as Amartya Sen, who argues that the neoliberal policies served the interests of American corporations at expense of Chileans, thus causing the economy to stagnate (Kornbluh, 2013; Stern, 2004).

Aside from Chile, other emerging countries were also affected during the first stage of neoliberalism by powerful actors who influenced respective governments to adapt the 'Washington Consensus' (WC), structural adjustment programs, financial deregulation and capital liberalisation in order to open their domestic markets to global investors and MNEs (Stiglitz, 1998a, 1998b). The second phase of neoliberalism was marked by the change of the

state's unfavourable role from a public service provider to one of a rescuer of the private sector, which was evident during the subprime crisis (Brooks, 2016).

The literature on financialisation in EMEs is relatively new. Few studies have focused on the policy shifts in EMEs as financialisation has increased. Most of the macroeconomic policy shifts towards more market-friendly and open economies were advocated by the World Bank (WB) and International Monetary Fund (IMF) during the renowned WC era. This shift fundamentally changed and influenced the role of the financial sector and subsequently that of the non-financial sector in the affected countries. Scholars argue that financialisation does not follow a linear process, rather it is country specific and the degree of financialisation depends on the country itself (Becker et al., 2010).

Arguably, financialisation led to capital accumulation in the periphery, most commonly amongst NFCs. NFCs investments in fixed assets decreased while simultaneously, holdings of financial assets increased. Furthermore, regulatory changes created thriving ground for the aforementioned trends, which are explained in more detail in section 2.3 of chapter 2.

In recent years, a growing body of literature has investigated changes amongst NFCs. Palma (2009) regards financialisation as a redistribution of income to a class of rent. Changes are particularly evident in the debt driven consumption that increased household indebtedness, the financial sector, and in the international dimensions of financialisation (Aglietta, 2000; Demir, 2009a; Demir, 2009b; Demir, 2007; Dos Santos; 2013; Dos Santos, 2011; Ergunes, 2009; Ertürk, et al., 2008; Fine, 2013; Fine, 2008; Foster, 2007; Krippner, 2005; Lapavitsas, 2014; Lapavitsas, 2011; Magdoff and Foster, 2014; Magdoff and Sweezy, 1987; Orhangazi, 2014; Orhangazi, 2008; Palley, 2007; Stockhammer, 2012; Stockhammer, 2010; Stockhammer, 2004). Analysis of financialisation literature provides well-established foundations for applying findings to emerging markets. Nevertheless, a theory that explains the phenomenon applying in the peripheral countries is missing. Recent work has been conducted on semi-peripheral frameworks focusing on emerging countries, and Eastern and Southern European countries (Becker et al., 2010; Rodrigues, Santos and Teles, 2016; Tarhan, 2014). Remarkably, literature is limited on the financialisation process in industrialised capitalist countries.

Little research has been conducted on Turkish NFCs and is largely non-existent for the Turkish energy sector. The aim of this thesis is to address this gap by investigating the Turkish energy sector as an important feature of the financialisation process in emerging markets.

1.2. Emerging Countries

This section provides insight on the functioning of 'emerging markets' and their importance in the global economy.

This thesis uses the definition of 'emerging countries' according to Khanna and Palepu (2010). Over the last 30 years, the world economy has focused on emerging markets. Globalisation assured the disappearance of investment restrictions and trade barriers and caused a convergence of emerging markets towards mature markets. The term 'emerging markets' was coined at the International Finance Corporation in 1981 during investment plans into developing countries (Khanna and Palepu, 2010; Van Agtmael, 2007). Emerging markets exhibit features in common with the developed markets with the underlying premise that transactional areas where the buyers and sellers come together are not fully developed; these voids increase transaction costs and make it more challenging to operate in those markets (Khanna and Palepu, 2010). It would be wrong to assess a country based solely on its Gross Domestic Product (GDP) per capita. For instance, according to the World Bank and U.S. Central Intelligence Agency (CIA), Qatar was ranked as the second strongest economy in the world in 2017, with 124,900 USD GDP per capita however, it remains within the group of emerging economies (CIA, 2018b).

The participation of EMEs in the global economy changed the fundamental characteristics of the EME business and economic environment through access to capital on the international financial markets, new technologies, and international human capital. One of the biggest advantages of emerging markets is their low production costs when compared to the industrialist countries. Cheap and well-educated labour is the hallmark of EMEs. They attract corporations from mature markets and encourage them to shift their production sites to emerging markets so as to keep the costs at a minimum and bring higher profit margins (Khanna and Palepu, 2010; Van Agtmael, 2007).

For obvious reasons, the business operations in emerging markets are different from those in developed markets. Therefore, it is important to review each country's market structure individually to better understand its unique economic character, such as its historic, economic, legal, political and cultural attributes. Two of the most important factors of well-functioning markets are to keep transaction costs at a minimum and to avoid information asymmetry (Khanna and Palepu, 2010). The predominant aspect of emerging markets is the absence of specialised intermediaries and an enforced regulatory system, which leads to substandard market conditions (Khanna, Palepu and Sinha; 2005).

In recent decades, GDP growth rates of emerging countries have significantly outpaced those of developed countries and accounted for tremendous changes in the social structure. Many

people in EMEs were lifted out of poverty and the middle class grew like never before. The contribution of the middle-income classes to the world GDP more than doubled from 21% in 1990 to 45% in 2011; figures that speak volumes of the success of EMEs and their increasing contribution to the global economy. In 2011, 72% of the world's population lived in middle-income countries, which is significantly higher than what it was in the 1990, where the same figure stood at 22% (De la Torre and Rigolini, 2011).

The definition of 'middle class' does not encompass class stratification alone. It helps to quantify the purchasing power and income level of a region. Methods to determine a country's middle class varies, however, a common technique used it calculate it is by deducting the richest 20% and poorest 20% from the whole population. Yet, by cross country comparisons, this method is not representative, because the median income level for each country differs (The Economist, 2011). For example, a median wage in a developed country could be the average wage of top earners in a developing country. The WB defines middle class earners in developing countries as those earning between the range of 2 USD – 13 USD per day (The Economist, 2011). The definition of the WB is questionable because people who earn merely above 2 USD a day cannot realistically be classified as middle class due to changing standards and consumer good prices in developing countries. Moreover, the risk that those people could slip down to under 2 USD is high. A more accurate calculation of the WB is to separate the initial range into two sections, 2 USD – 9 USD and 9 USD – 13 USD. During the years 1990 – 2005, ten times more people entered the former bracket than the latter (E&Y, 2013; The Economist, 2011; Yueh, 2013).

Ernst & Young (E&Y; 2013) reports that MNEs use a range between 10 USD and 100 USD per day to define the middle-income class; a range broad enough to be considered the 'global middle class' income for any country. Businesses contend that at this aforementioned range, peoples' disposable income is high enough to purchase consumer goods such as domestic appliances and cars, as is the case in mature markets (E&Y, 2013).

A recent study has been conducted by the FTI Consulting's (2015) Risk Research Project, with 150 North American and European origin MNEs that operate in emerging markets. FTI interviewed risk and compliance executives to determine what factors have caused huge losses. Since 2010, 83% of the interviewed multinationals suffered on average 325 m USD per incident, whereby the average of the losses per company has been 1.38 bn USD over the period 2010-2015. Remarkably, none of the costs were from poor product quality, wrong marketing practise or false supply chain decisions; 99% of these losses are either due to regulatory, reputational, fraud or bribery, as can be observed from Figure 1-1 below (FTI Consulting, 2015; Hochberg, Klick and Reilly, 2015).

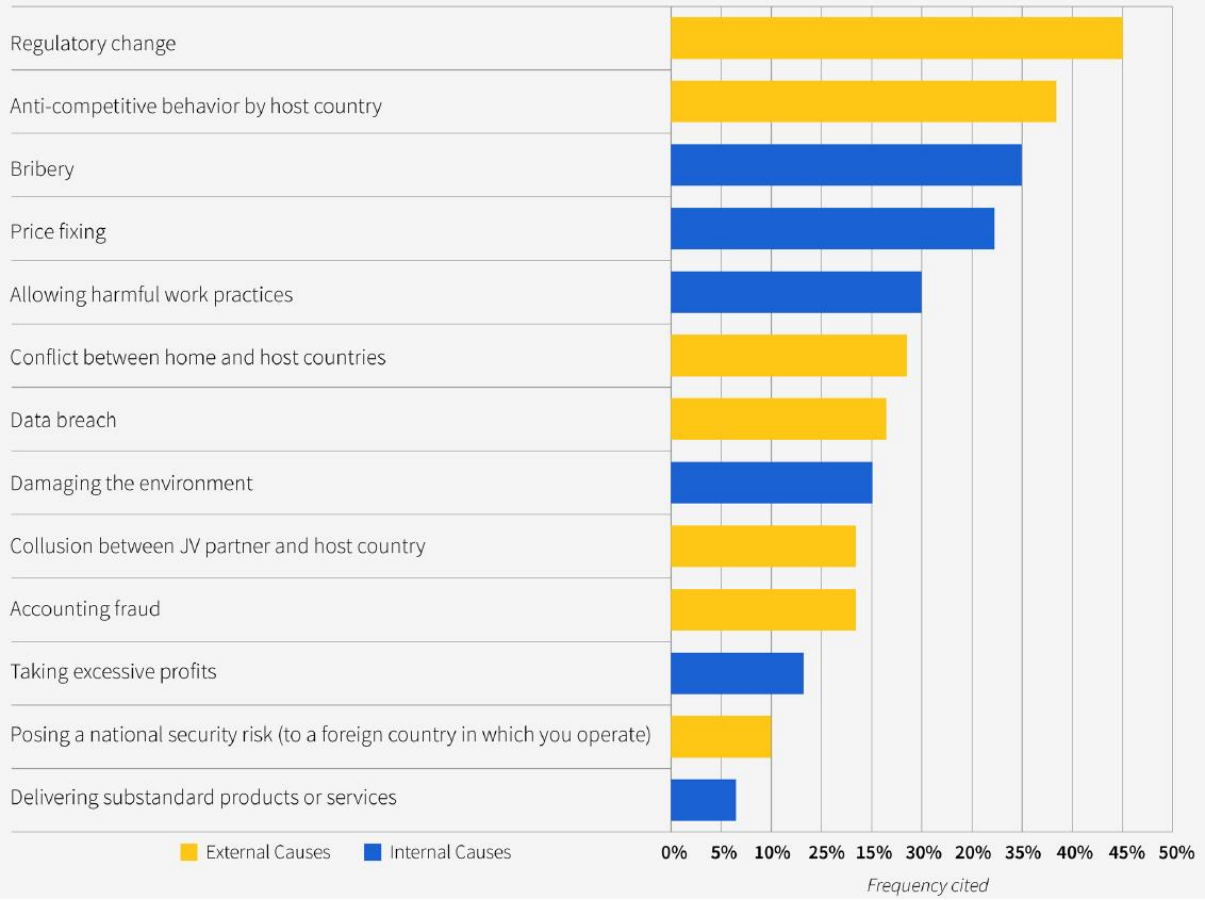

Figure 1-1: Frequency of loss-making incidents.
Source: FTI Journal July 2015 – What Companies Do Right (and Wrong) in Emerging Markets.

EMEs are moving gradually towards developed markets by becoming more industrialised and embracing free market economics. Hence, the importance of EMEs among investors increased over the last few years, while growth markets started stagnating. According to PwC, 'commentators and investors began questioning the future role of these (growth) markets as leaders of global growth. In their view, the growth markets' era was over' (PwC, 2017, p. 2).

1.3. Why Turkey

This section explains why Turkey is the focal country for this study and what distinguishes Turkey from other EMEs. Contextualisation and a clear understanding of Turkey's political economy is required and is provided in section 4.1 of chapter 4. However, the following section aims to provide a brief overview of Turkey by summarising key economic aspects.

Turkey's case is slightly different than other emerging countries and worth considering because of its new and highly developed infrastructure. The country's liberal and reformist investment climate has been ranked by the OECD FDI Regulatory Restrictiveness Index 1997-

2015, on rank 2 (ISPAT, 2017). ‘Turkey and Vietnam … have both undertaken extensive reforms over the past 15 years’ (Thomsen and Mistura, 2017).

The Turkish political landscape during the 1990s was marked by a multi-party-political system with never-ending disputes in parliament, high domestic debts, an unstructured financial sector and a vulnerable economy. In December 1999, Turkey pegged its currency to the dollar-euro basket, which played a contributing factor leading to the commencement of the economic crisis of 2000. On 22nd December 1999, Turkey signed its 16th Stand-By Agreement (SBA) with the IMF (Akyüz and Boratav, 2003; IMF, 2015; Saltoglu, 2013).

By the end of the year 2000, economists had failed to accurately predict economic variables such as the consumer price index. As a result, authorities anticipated turbulent times ahead and tried to ease the situation in cooperation with the IMF by launching a large bailout programme to keep the Turkish economy afloat. However, speculation against the Turkish Lira (TL) and capital flight rendered the IMF programme useless (Yeldan, 2002). The TL was in a free-fall, and interest rates on government bonds saw a sharp rise. As a result, Turkey unpegged its currency in early 2001 which resulted in the country’s biggest recessions in history, larger than the crisis in 1994 and 2000. By the end of 2001, the IMF together with the Turkish government, rolled out a second programme called ‘Strengthening the Turkish Economy’, which laid the foundation for economic recovery until 2013. The second programme even withstood the global financial crisis in 2007/2008, whereas other countries in the European Union (EU) suffered and had to launch heavy bailout programmes (Babacan, 2009; CBRT, n/a; Kol and Karacor, 2012; Kuepper, 2018).

Nevertheless, following the start of the 2007 U.S. subprime crisis, Turkish authorities have shifted their focus towards global and multi-level governance to limit risks of contagion. Supranational organisations like the IMF, OECD and the WB are focused on solid and sustainable financial regulations that are considered crucial to facilitate growth in emerging markets. Over the last decade, the growing interconnectedness of markets increased the risk of external shocks to domestic economies. It is widely agreed that one of the main drivers for the subprime crisis was insufficient national and international regulation (Babacan, 2012). This lack of regulation largely stems from the ideology of the free market (Singh and Zammit, 2011).

Turkey is situated between Eastern Europe and Western Asia, bridging both continents. In 2017, the population was 80.85 million with a GDP of 841.2 bn USD. The age distribution in Turkey is as follows: 0-14 years (24.68%), 15-24 years (15.99%), 25-54 years (43.21%), 55-64 years (8.58%) and over 65 years (7.53%) (CIA, 2018a).

Turkey’s employment rate for the group of 15-64-year olds (50.1%) is below the OECD average (67%), while the unemployment rate (10.1%) in the first quarter of 2015 was above

the OECD average (7%). The country also ranked among the top three OECD countries for inequality in earnings (OECD, 2015b). A high number of people work without any social security, and unregistered employment is 32.1% (Turkstat, 2016). Turkey‘s poverty rate, i.e., the ratio of the number of people whose income is below the poverty line, was at 16.9% in 2010 (CIA, 2010). In 2014, 0.03% of the population had a daily per capita of 2.15 USD, while 1.62% had 4.30 USD (TUIK, 2018). According to official statistics, 30 million people in Turkey are in need of government assistance: such assistance includes scholarships for students as well as the provision of basic goods (Cetingulec, 2016). Even though rural poverty has declined, poverty is prevalent across the country, and more so in the Anatolian and eastern regions (IFAD, 2016). Turkey is among the fastest growing economies within the G20 OECD countries, see Figure 1-2.

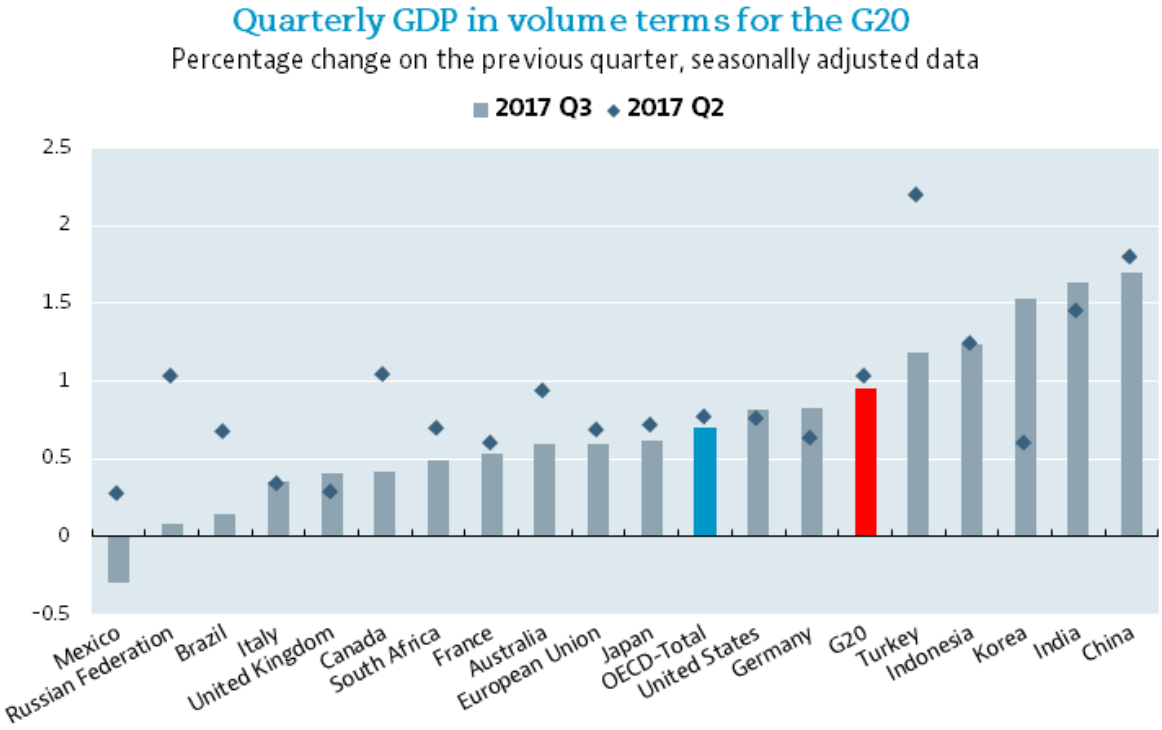

Figure 1-2: G20 GDP Growth – First quarter of 2017.
Source: www.oecd.org.

After the AKP took office in 2002, the government promoted economic growth, see chapter 4 for a detailed analysis of this growth. In 2011, the AKP government set out their Vision 2023 which will be the 100th anniversary of the Republic of Turkey. In his speech of 2011, the former foreign minister accentuated the relationship between political and economic growth whereby regional security directly correlates with the domestic economy (Davutoglu, 2011). AKP’s Vision 2023 is to bring Turkey among the top ten economic powerhouses with a 2 tn USD GDP, a per capita income of 25,000 USD, and exports worth 500 bn USD. To put things into perspective, Turkey was ranked as the 18th largest economy in 2016, the country’s GDP stood at 857 bn USD, per capita income was around 10,800 USD, and exports amounted to 140 bn

USD (WB, 2018b). Furthermore, AKP's Vision intends to transform Istanbul into one of the top global financial centres (Kayagil, 2015). In 2015, the G20 summit took place in Antalya, whereby Turkey successfully conveyed its future goals and elevated its economic credibility (Kayagil, 2015). A strong Turkey is also in the interest of the EU for several reasons, but most importantly: A strong Turkey equals a strong ally to the West, and the EU benefits economically from a prosperous Turkey, due to the fact that Turkey was the EU's fourth-largest export market and its sixth-largest source of imports (Satter, Werz and Hoffman, 2016).

OECD's average GDP growth is 1.7% compared to Turkey's average growth of about 5% (OECD, 2017b). Istanbul and Ankara are amongst the biggest cities with the highest GDP in the world. Istanbul's GDP surpasses that of several European countries, including Romania, Hungary, Ukraine and Slovakia (Foreign & Commonwealth Office, 2014; ISTIKA, 2017).

Turkey is Europe's largest commercial manufacturer, second largest bus manufacturer and home to many automobile manufacturers like Mercedes-Benz, Renault, Fiat, Honda, Hyundai, and Toyota. Turkey is also one of the world's top ten fruit and vegetable producers, and one of the leading shipbuilding nations (Foreign & Commonwealth Office, 2014). The country's main export goods include cars and car parts, textiles, clothing, iron, steel, white goods, and, chemicals and pharmaceuticals. Importing countries are spread all around the world; the main export partners in 2014 were Germany (9.6%), Iraq (6.9%) and UK (6.3%) (Tradingeconomics, 2016). Imports include refined petroleum products, machinery, chemicals and semi-finished goods. In 2014, the country's main import partners were Russia (10.4%), China (10.3%) and Germany (9.2%) (Simoes, 2016; Tradingeconomics, 2016).

Over the last few years, Turkey has become economically closer to the EU and was recognised in 1999 by the EU Helsinki Council as a potential candidate for full EU membership (Nugent, 2007). Recently, Turkey's negotiations for accession into the EU have been catalysed through the migration crisis in Europe (Peel and Pitel, 2018). Since October 2005, EU accession negotiations are in progress, and 13 out of the 35 chapters of the 'acquis communautaire' have been opened so far (Morelli, 2013). However, a full membership does not seem likely in the near future (Wright, 2016). On the other hand, a visa-free travel deal was in sight until a recent diplomatic crisis between Germany and Turkey and further political turbulences in Turkey which derailed the EU accession process (Chazan and Srivastava, 2017; Jones, 2017a; Jones, 2017b; Peel and Pitel, 2018).

An important indicator for foreign corporations is the time to set up a company, which in Turkey is approximately 7.5 days, while the average among OECD countries is more than 15 days (WB, 2016). Turkey's biggest advantage is its strategic geographical location that advantageously bridges it to the Middle East, Asia, Europe and North Africa.

In recent years the Turkish government enacted several economic packages to promote growth. The latest medium-term programme between 2016 and 2018, revealed initial positive results and boosted growth figures in 2017. Exports rose to 13.9% while GDP at market price almost doubled from 3.3% in 2016 to 6.1% in 2017, see Figure 1-3. The programme was in place until the end of 2018 and resulted in a more positive outlook for 2019 (MOD, 2016; OECD, 2017b).

	2014	2015	2016	2017	2018	2019
	Current prices TRY billion	Percentage changes, volume (2009 prices)				
GDP at market prices	2 044.5	5.9	3.3	6.1	4.9	4.7
Private consumption	1 242.2	4.7	3.9	5.5	5.7	4.6
Government consumption	288.1	3.9	9.5	0.0	1.9	6.2
Gross fixed capital formation	590.7	9.3	2.2	7.0	7.2	6.4
Final domestic demand	2 121.1	5.9	4.2	5.2	5.6	5.3
Stockbuilding[1]	2.8	-1.5	0.0	-1.2	-0.1	0.0
Total domestic demand	2 123.9	4.5	4.5	4.7	5.7	5.4
Exports of goods and services	485.9	4.3	-1.9	13.9	8.6	6.1
Imports of goods and services	565.3	0.9	3.8	7.2	12.2	8.2
Net exports[1]	- 79.4	0.8	-1.4	1.3	-1.3	-0.9
Memorandum items						
GDP deflator	_	8.1	8.0	7.9	9.4	8.5
Consumer price index	_	7.7	7.8	10.7	9.9	8.9
Core inflation index[2]	_	8.0	8.5	9.6	9.3	8.9
Unemployment rate (% of labour force)	_	10.3	10.9	11.1	11.0	11.3
Current account balance (% of GDP)	_	-3.7	-3.8	-4.0	-4.9	-5.4

Figure 1-3: GDP at market prices.
Source: www.oecd.com.

Turkey's growth is mainly driven by consumption. The core sectors are construction and related industries such as timber, steel and energy, which are at the forefront of the country's recent economic rise. Construction and its sub-sectors make up 30% of the GDP and employ about 10% of the working population (OBG, 2016). Turkey's construction sector is competitive by global standards and Turkish construction corporations actively participate in overseas projects (OGB, 2016). 'Forty-three of the top 250 international construction firms are Turkish' (The Economist, 2016b).

However, the country's high dependency on foreign capital inflows and mounting current account deficit makes the Turkish economy prone to external shocks (IMF, 2016b). One of the major concerns is the rise in Non-Performing Loans (NPLs). In 2014, the rate of NPLs in the Eurozone stood at an average of 7.8%, varying from Italy (14.6%) and Spain (13.3%); Turkey has a relatively low NPL level similar to that of Germany (3%). Pundits forecasted a rise in

Turkey's NPLs, which was expected to adversely affect the Turkish banking sector's profit margins (OBG, 2016). In spite of the expressed concerns of Oxford Business Group (OBG), the Turkish banking sector made the highest net profit of all time in the first half of 2017. According to BDDK, 2017 year-on-year profits for the first half of the year increased by 29% to 12 bn USD (USD/TL=3.7760) (Daily Sabah, 2017b; Reuters, 2017a).

In Figure 1-4, the NPL ratios have been broken down according to NFCs. The energy sector ranked second lowest after the defence industry. Interestingly, shares of loans granted for project financing of total loans was the highest for energy projects with 8.03% in 2016, followed by infrastructure projects with 3.03% in 2016 (CBRT, 2017a; CRBT, 2017c).

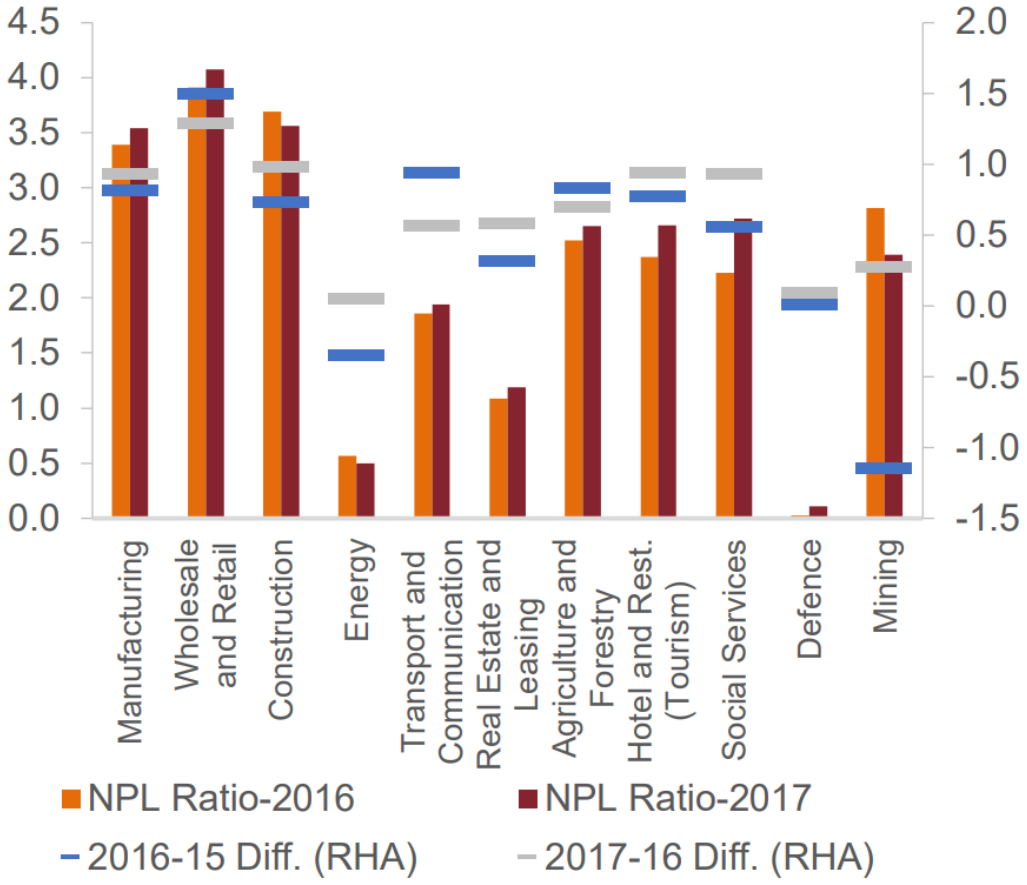

Figure 1-4: NPL of NFCs.
Source. www.cbrt.com

Turkey's consumption-driven economy needs new reforms similar to those in sight during the tenure of the ex-prime minister of Turkey, Ahmet Davutoglu. Such reforms 'included an overhaul of the Turkish labour market, the rollout of a government-mandated retirement scheme and the development of Turkish bond and equity markets to make it easier for local companies to raise capital' (Srivastava, 2016).

Political risk is a heavy burden on the Turkish economy, influencing credit rating and exchange rate on international markets, see section 5.3 of chapter 5. In brief, Credit Rating Agencies

(CRAs) confirmed Turkey's neutral with a negative tendency outlook due to two main factors: firstly, continued loss of institutional strength; and secondly, increased risk of external shocks given the country's wide current account deficit (Anadolu Agency, 2018a; Moody's, 2018a). In particular, the enormous influx of three million refugees, and the conflict with the Kurds in the eastern region pose future challenges (BBC, 2018a). Since the mid-1980s, Turkey is suffering from a separatist terror group, the Kudistan Workers' Party (PKK). Bilgel and Karahasan (2016) estimated that Turkey's GDP between 1988 and 2015 could have been 14% higher without this conflict which lowered the economic activity for the eastern region.

Between 2002 (Q4) and 2015 (Q4), Turkey's public debt increased from 64,533 m USD to 112,955 m USD, while in the same period, private sector debt rose from 43,060 m USD to 283,756 m USD. Public debt has been outpaced by private debt by more than three times. Turkey's GDP grew from 233 bn USD to 857 bn USD (Keles, 2015; Undersecretariat of Treasury, 2016). Since mid-2014, the TL has been in steady decline against major currencies such as the USD, which has put heavy pressure on the overall Turkish Economy, see Figure 1-5 (XE, 2018a). A fall in the TL boosted exports but it led to a confidence loss from households and investors, negatively affected inflation, and put pressure on Turkish companies (IMF, 2017d; OECD, 2017a). After the tension between Russia and the U.S. over Syria intensified, the TL took a further hit due to regional insecurity (Samson, 2018a).

Figure 1-5: USD/TL.
Source: www.xe.com.

According to the Financial Stability Report 2015 released by the Central Bank of Republic of Turkey (CBRT), worrisome trends amongst Turkish NFCs are surfacing. Annually compiled

financial accounts within Turkey indicate that the most indebted sector is that of the NFCs. The CBRT reported:

> '…NFCs' behaviours, their relations with resident and non-resident sectors and the risks they bear have become an important determinant of the general economic outlook and a need arose for a more detailed analysis of the assets and liabilities of this sector' (CBRT, 2015a, p. 14).

Due to the nature of NFCs' high investments in non-financial assets, the net financial overall worth of Turkish NFCs stood at -1774 bn TL by the end of 2014, while maintaining a financial net worth to GDP with minus 100% over the years, as can be seen in Figure 1-6 as under.

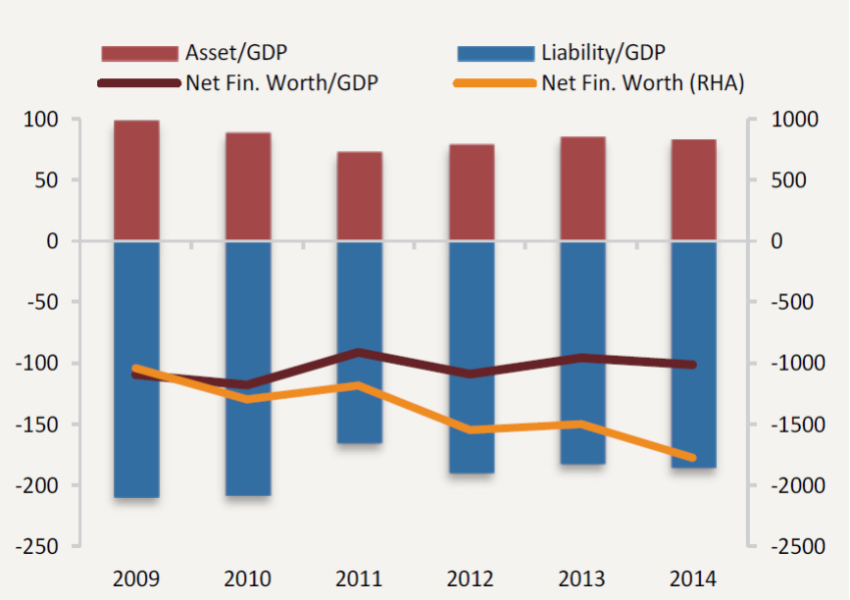

Figure 1-6: Net Financial Worth/GDP (%, Billion TL).
Source: CBRT – Financial Stability Report May 2015.

The financial structure of Turkish NFCs show that more than half of the assets stem from other account receivables that are mainly trade credits and advances vis-a-vis resident NFCs. On the other hand, the liabilities are dominated by shares and other equity, loans and other payables, see Figure 1-7 (CBRT, 2015a).

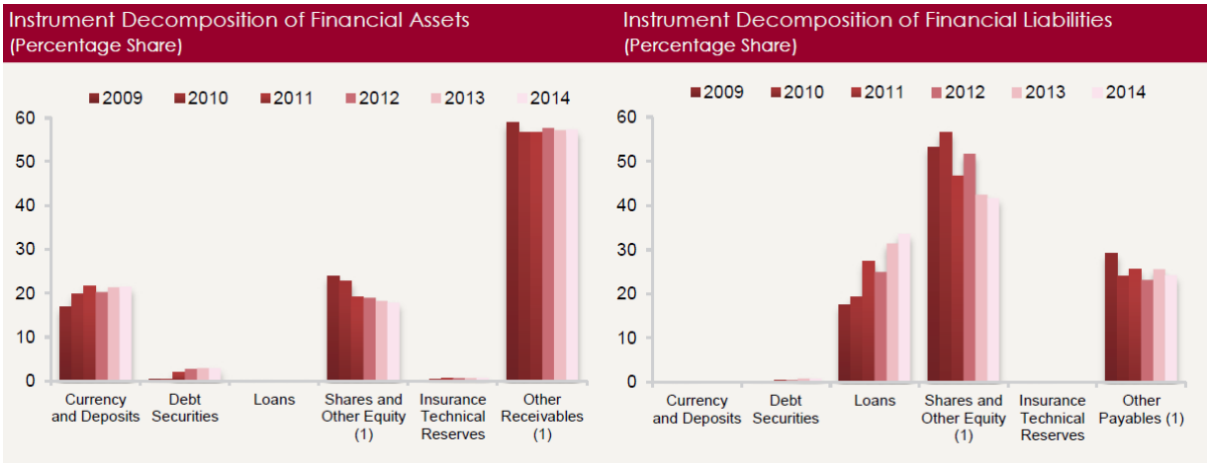

Figure 1-7: Decomposition of Financial Assets and Liabilities.
Source: CBRT – Financial Stability Report May 2015.

The interconnection between different sectors is noteworthy. While the majority of the asset/liability relationships exist amongst the NFCs, the second biggest group is that of the banks. More interesting is the maturity structure of the Financial Assets (FA) and Financial Liabilities (FL). Between 2009 and 2014, the level of FA and FL remained at a relatively constant level, as can be seen from Figure 1-8 below (CBRT, 2015a).

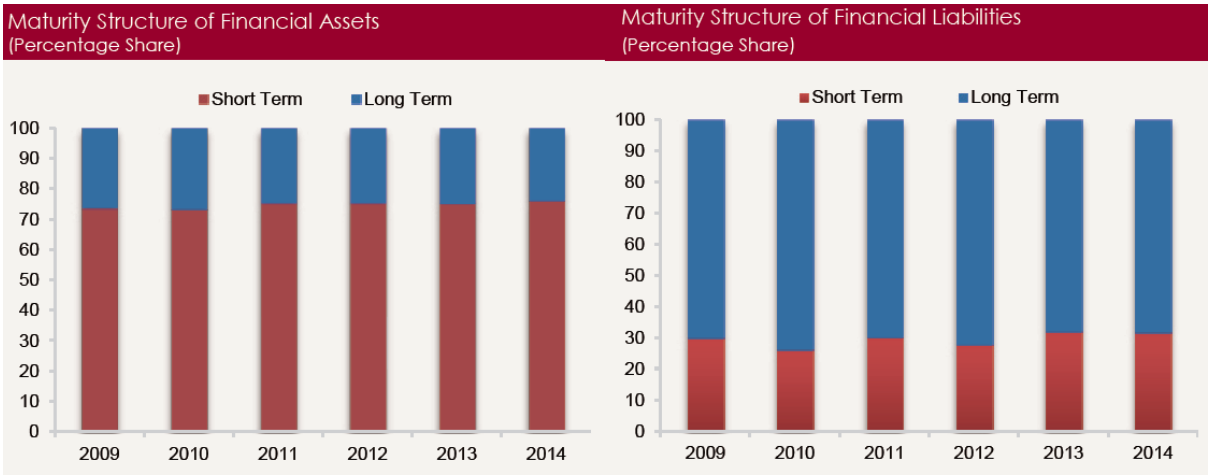

Figure 1-8: Maturity structure of FA and FL.
Source: CBRT – Financial Stability Report May 2015.

Few changes occurred in the Foreign Exchange (FX) position. TL items remained at around 80% in NFCs' balance sheets. The net financial position of the NFCs had higher FX liabilities than FX assets due to net open positions being held by companies and partly due to a rise in FX loans (CBRT, 2015a). The predominant fact however, is that domestic policy helped to accelerate and support the rise of the financial liberalisation process, especially throughout the 1990s (Bakir and Önis, 2010).

One of the arguments of this thesis is that although several changes impacted Turkish corporations throughout history, the most drastic change – financialisation – started from 2002. As Figure 1-9 shows, the debt of Turkish NFCs is at an all-time high. Total credit to private NFCs rocketed starting from Q1 2002 with 65 bn TL to Q1 2018 2,790 bn TL. On average NFCs' debt rose by 25% from year-to-year between 2002 and 2018 (FRB, 2018).

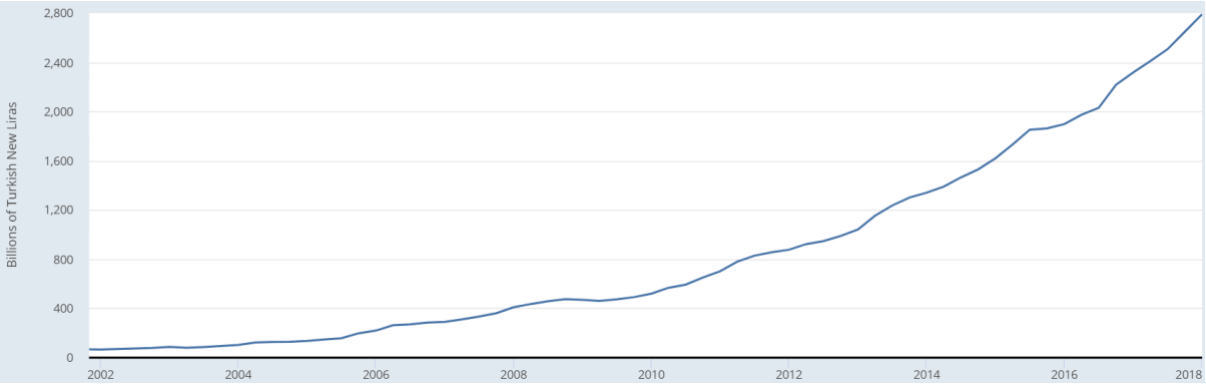

Figure 1-9: Total credit to private non-financial sector, Turkey.
Source: Bank for International Settlements and Federal Reserve Bank of St. Louis (2018) https://fred.stlouisfed.org/series/CRDQTRAPABIS.

The differences in the current era is not only related to greater access to international capital on the markets but is also linked to the changing behaviour of NFCs' intensified engagement in financial assets and the change in capital asset structure. Akkemik and Özen, (2014); Demir (2009a; 2009b; 2007); Demiröz and Erdem (2018); and Tellalbasi and Kaya (2013) claim that Turkish NFCs' channelling of available funds into short-termed speculative financial activities, led to a lower overall degree in fixed capital investments. The interconnectedness of markets and the growing influential power of supranational organisations and their role within the contemporary economy also contributed to these changes (Demir, 2007). The most interesting aspect is that Turkey's economy was relatively unaffected during the global crisis in 2007/2008 due to regulations that were implemented in the aftermath of the crisis in 2000/2001, in conjunction with external partners, i.e. the IMF (Babacan, 2009; ISPAT, 2017).

However, Turkey's corporate debt problem was first highlighted by Wheatley and Srivastava (2016) and later by Pitel (2018a), followed by publications of CRAs and top Turkish economists such as Acemoglu (2017), Boratav (2017b), Acemoglu and Ucer (2015), Rodrik (2015) and Yeldan (2015). At their core, all stressed Turkey's widening current account deficit, enormous corporate debt, and rising inflation, which makes the country vulnerable to external shocks. At the time of writing, the corporate debt is approximately 70% of the GDP (McKinsey, 2019; Pitel, 2018c).

Financialisation amongst NFCs in Turkey is distinct to that of other countries due to three underlying factors. Firstly, shareholder pressure is limited due to the nature of the business

systems in Turkey. Most companies are controlled by large groups and organised as holdings (Bahce et al., 2014). Secondly, the stock market capitalism in Turkey is rather underdeveloped as share buybacks have only been permitted since 1st July 2012, only under certain conditions (Hergüner et al., 2017). Finally, since 2002, Turkey is governed by the AKP without a major opposition which helps to highlight and understand political effects on economy and vice versa.

1.4. Research Objectives

The following section highlights the research problem and is followed by an outline of this thesis.

Over the last three decades, changes in capitalism occurred through three socio-economic phenomena: neoliberalism, globalisation and financialisation. Much is known about the first two terms; however, there is considerable debate about the definition and classification of what exactly financialisation is and what its origins are (Epstein, 2005). Financialisation led to various changes within several countries. This dissertation aims to draw attention to changes within Turkish NFCs, with a focus on the energy sector.

After the liberalisation era started in the 1970s, answers were missing as to how the activities of EMEs have been affected and what kind of changes took place across NFCs. The changes included a decline in the real economy, structural changes in corporate governance and an increased engagement of the middle class in investment activities. In this respect, an increasing importance of financial engineering, engagement of non-financial sector in financial activities and vice versa, entry of foreign banks into EMEs, rise in Financial Insurance Real Estate sectors (FIRE) and contribution to the GDP increased. Through active lobbying and reshaping of regulations to benefit the elite class and big players in the economy, and speculation on daily goods, the financialisation process accelerated (Brooks, 2016; Lapavitsas, 2014; Lapavitsas, 2011; Mukunda, 2014).

There have been a few studies relating to changes in Turkish NFCs (Akkemik and Özen, 2014; Bahce et al., 2014; Bedirhanoglu et al., 2013; Demir, 2009a; Demir, 2009b and Demir, 2007; Demiröz and Erdem, 2018; Tellalbasi and Kaya, 2013). However, there is little analysis available as to the extent of how financialisation affected the investment behaviour of Turkish NFCs. It would be wrong to generalise financialisation for all NFCs in a country due to sector specific regulatory changes and other externalities that might affect the success of NFCs. This

thesis intends to fill this lacuna on financialisation in the context of Turkish NFCs, specifically the Turkish energy sector, by drawing upon regulatory theory and providing evidence from listed energy firms' financial statements.

Financialisation in the periphery heavily depends on capital inflows, while governments try to attract foreign capital through privatisation and providing legislative incentives. Therefore, most of the economic policies in EMEs follow overvalued exchange rates and high interest rates to attract investors (Becker et al., 2010). However, despite the high mobility of capital, in today's world it is evident that an imbalanced perverse trend of capital flows from developing countries into industrialised, partially financialised countries.

Becker et al., (2010) distinguish financialisation into two forms: firstly, financialisation based on 'fictitious capital' (a la Marx) such as securities including capitalised land rent, and secondly, interest bearing capital. Furthermore, the authors stress the fact that financialisation in the periphery is evident in the form of capital centred on the mechanism of interests. This can be explained due to the nature of peripheral countries, since their economic growth shows a dependent character (Powell, 2013). Economic policies with the aim to attract foreign capital serve as a provisional assurance for foreign investors. The downside of these policies can usually be seen in the current accounts dependency on money inflows and in the eroding capacity of production (Becker et al., 2010). However, strong increasing financial asset prices are key features of growing financialisation within an economy, whereas rising overall prices accelerates demand for further financial assets. This on the other hand, led investors to review their expectations towards an upward trend, neglecting uncertainty and other risks such as endogenous sources of instability (Becker et al., 2010). Monetary policies pursued by the central bank, sustaining high interest rates in the aim to combat inflation and/or capital flight might have detrimental effects on the productive sector (Demir, 2009a; Demir, 2009b; Marois, 2011). A reversal of these policies can result in abrupt capital outflows (capital flight), which was seen in Turkey in the mid-90s.

The financialisation trend in Turkey has been explored by few scholars who have illustrated the shift from tangible assets to those of financial assets. Demir (2009a; 2009b) found that NFCs are turning away from long-term investments and are engaging in short-term investments due to macroeconomic instability. On the other hand, Bedirhanoglu et al., (2013) contended 'that it cannot be definitely argued that profit rates in the financial sector are systematically over and above those in NFCs' (Bedirhanoglu et al., 2013, p. 227). The authors illustrated this by contrasting operating profits against non-operating profits amongst NFCs, see Figure 1-10 below.

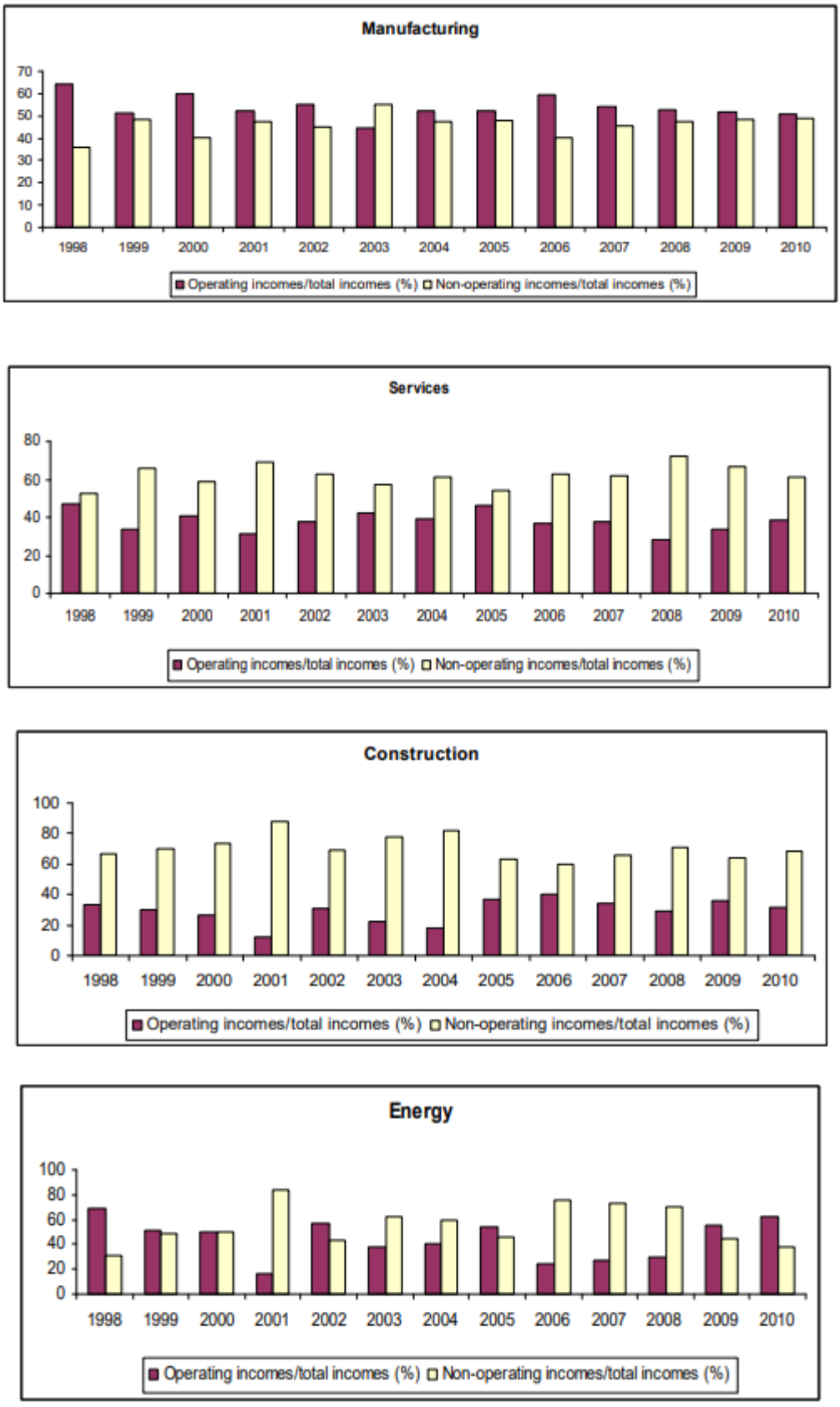

Figure 1-10: Operating Incomes and Non-Operating Incomes of Total Incomes (%).
Source: Bedirhanoglu et al., 2013, pp. 224-225.

Figure 1-10 shows the non-operating incomes for the following sectors: Manufacturing, Services, Construction and Energy. A detailed discussion of this comparison is provided in section 6.1 of chapter 6. It is important to scrutinise each sector on its own to identify the drivers behind certain investment trends as opposed to taking a one size fits all approach. By drawing upon regulatory theory, this research will highlight links between social and legal norms, including state interventions to analyse the accumulation process within the energy sector.

In sum, this research aims to investigate firms' investment behaviour by examining the asset composition of energy firms. Furthermore, this study explains how financialisation is prevalent in the Turkish energy sector. For this purpose, the investment behaviour of listed energy companies is contrasted with macro data retrieved from the CBRT for the period between 2002 and 2017, inclusive. Subsequently, quantitative data is compared with qualitative data (primary and secondary) to verify findings. The Research Objectives (RO) and Research Questions (RQ) for this thesis are listed below:

RO1: Evaluate to what extent financialisation has occurred in the Turkish energy sector between 2002 and 2017 and whether it has followed the same pattern as in AEs.

RO2: Identify the driving forces behind the financialisation process within the Turkish economy and assess them within a framework on a macro, meso and micro-level.

RQ1: To what extent has financialisation occurred in the Turkish energy sector between 2002 and 2017 and what form has it taken?

RQ2: To what extent has the financialisation process in the Turkish energy sector been driven by Turkey's interests?

Outline Structure of this Thesis

Chapter 1: Introduction

The introductory chapter provides background information on financialisation, how it is defined, and why it is important in the context of emerging countries. A brief overview of Turkey is presented to explain why Turkey has been selected for this study. A full discussion about Turkish economy and politics is available in chapter 4. The final part of chapter 1 sets out the research problem, the focus of the research and the research questions.

Chapter 2: Theoretical Context

This chapter starts off with a brief overview of neoliberalism, followed by an introduction to financialisation. Subsequently, this section discusses financialisation amongst different schools of thought and presents the theoretical concept for this thesis. Furthermore,

financialisation in AEs and developing/emerging countries is presented. Subsequently, financialisation in the context of Turkey has been explained and a brief overview of external organisations that contributed to financialisation has been provided. Throughout this thesis, there are links and references made to chapter 2.

Chapter 3: Research Methodology

Chapter 3 discusses and justifies the use of the following research methods: semi-structured open-ended interviews, case studies and secondary research. This chapter considers the use of secondary data as primary data and discusses which approaches are used to identify financialisation in the context of listed Turkish energy companies. Together with a framework for analysis of the qualitative data, limitations of the adopted approaches are highlighted. Subsequently, validity, reliability and potential problems of a case study of listed energy firms on Borsa Istanbul (BIST) are presented.

Chapter 4: Financialisation in Turkey

Chapter 4 aims to contextualise the underlying problem and offers a discussion on the contemporary economic and political situation in Turkey. It provides details on how neoliberalism changed the Turkish economy and compartmentalises financialisation into four broad periods. Furthermore, it provides a discussion of current political issues including the attempted military coup in 2016. In this chapter, Turkey's import dependency and measures taken by the government in order to bring the current account deficit problem under control are considered. Additionally, chapter 4 provides an overview of Turkey's energy sector and how the privatisation of SOEs occurred. Subsequently, it highlights current problems (market interference by the government) and other market dynamics in Turkey's energy sector.

Chapter 5: Level Analysis Framework and forces on the Macro and Meso-level

Chapter 5 introduces the level analysis framework by considering various aspects on the macro, meso and micro-level. On the macro-level the framework introduces global forces that impact upon Turkey's energy sector, while on the meso-level market forces, competitors and strategic alliances are discussed. Finally, the micro-level addresses the internal environment of Turkey. Subsequently, section 5.2 elaborates on selected aspects on the macro-level that have been explained in chapter 4. Section 5.3 of chapter 5 elaborates on external organisations by drawing upon interview data of 28 elite interviews. Chapter 5 concludes by summarising key drivers of the financialisation process in Turkey on the macro and meso-levels and sets the stage for the micro-level in chapter 6.

Chapter 6: Micro-level analysis Financialisation in the Turkish Energy Sector

This chapter provides answers to questions such as: 'Is there a shift from real investments to that of financial investments among companies in the Turkish energy sector?' and 'which

financial investments are those companies engaging in?'. Chapter 6 analyses the investment behaviour of Turkish energy companies and their capital asset structure and liquid asset management for the period of 2002-2017. Micro-data retrieved from listed companies have been contrasted to macro-data obtained from the Central Bank Republic of Turkey. Subsequently, quantitative findings have been triangulated with primary data retrieved from 28 field experts. The analysis sheds light on energy companies' financial activities and indicates a trend between real investments and financial investments.

Chapter 7: Research Findings & Conclusion

The final chapter revisits the overall aim and research objectives of this thesis. The findings are summarised and connected to the specific research questions. Importantly, the contribution of this thesis is to provide a better understanding of financialisation in EMEs, whereby a framework for analysis has been suggested. Finally, this chapter highlights the limitations of this study and provides recommendations for future research, i.e., how to progress this thesis.

2. Literature Review

This chapter provides a review of the main theoretical and conceptual frameworks that underpin this thesis.

The subprime crisis of 2007 rekindled debates on conventional theoretical approaches and economic policies by highlighting the relationship between economic growth and finance. 'Financialisation' has gathered attention over the last few decades owing to its broad impact in various fields, however, the meaning of the term remains contested. Extensive literature on financialisation centring on Advanced Economies (AEs) is readily available, however, literature regarding emerging and developing markets is still expanding.

This chapter focuses on Research Objectives (ROs) one and two as set out in chapter 1. Chapters 5 and 6 provide a more detailed analysis while chapter 4 focuses on the context of this thesis. The ROs are presented below:

1. Evaluate to what extent financialisation has occurred in the Turkish energy sector between 2002 and 2017 and whether it has followed the same pattern as in AEs.
2. Identify the driving forces behind the financialisation process within the Turkish economy and assess them within a framework on a macro, meso and micro-level.

In this chapter, different aspects of financialisation will be considered, focusing on Turkish Non-Financial Corporations (NFCs), i.e. energy sector. Palley defined financialisation as 'a process whereby financial markets, financial institutions, and financial elites gain greater influence over economic policy and economic outcomes. Financialisation transforms the functioning of economic systems at both the macro and micro levels' (Palley, 2007, p. 2). According to Palley, the changes within different levels of the economy and the power gained amongst financial actors and elites, are all linked to financialisation. Others have approached financialisation within an economy from different perspectives, analysing its role in increasing income inequality and household indebtedness, wage stagnation, augmentations in the financial sector vis-à-vis real sector, and shifts in real sector income towards the financial sector (Davis, 2017; Demir, 2009a; Demir, 2009b; Greenwood and Scharfstein, 2013; Krippner, 2005; Orhangazi, 2008).

2.1. Introduction

This research focuses on the investment behaviour of NFCs, i.e. Turkish energy firms. Neoliberal policies can be marked as a turning point in operations of emerging countries' economies and provide the entry point to the financialisation analysis in Turkey. Furthermore, different aspects of financialisation are explored, focusing on Turkish NFCs, i.e. energy sector, with special attention to the link between fixed assets and financial assets.

The financial markets' conventional role of providing services for the real economy, such as channelling savings into fixed investments, drifted towards the mediation of operations in international financial markets. The changing investment behaviour of NFCs have been documented in mature markets and some emerging markets. The increased engagement of NFCs in financial markets is evident in companies' balance sheets, on the asset side; financial assets and intangibles have risen as a share of total assets, while investments in fixed investments fell remarkably (Demir, 2009a; Demir, 2009b; Lapavitsas, 2014). On the liability side, there is an increasing reliance on internal funds while external financing needs are satisfied by bank loans and long-term bond issuances. NFCs' changing investment behaviour led to a reorientation of the financial sector, whereby banks changed their income sources by increasing the involvement of households in financial activities over the last few decades (Lapavitsas, 2014; Lapavitsas, 2009).

While the neoclassical approach focuses on the financial aspects, alternative schools of thought provide a more profound analysis of the interaction between finance and the real economy. Post-Keynesian, Marxian, and regulationist schools of political economy, all provide evidence based on historical events and interactions with other disciplines for the rise of finance within economies (Bonizzi, 2013).

A brief overview of neoliberalism in section 2.2 will provide the entry point towards the financialisation literature in section 2.3 of this chapter. After a general introduction to financialisation, the theoretical framework for this thesis is presented in order to provide the reader with a better understanding for the following sections. In the beginning, the term 'financialisation' and its deviation from neoliberalism will be addressed. Due to the opaque nature of the term financialisation and its variously coined definitions, consideration of different schools of thought is required. Section 2.3.1 lays out the theoretical context of this thesis and explains its importance. Subsequently, section 2.3.2 presents financialisation in AEs, while section 2.3.3 focuses on financialisation in emerging markets. Furthermore, the discussion will

draw upon literature from other emerging markets including Latin American and Asian countries, to highlight similarities of financialisation among emerging markets. In this context, section 2.3.4 presents the path towards financialisation in Turkey with a brief overview of historical developments. In section 2.3.5 the discussion will encompass a short summary of the role of Credit Rating Agencies (CRAs) and International Financial Institutions (IFIs) in Turkey. Finally, section 2.4 sums up this chapter.

The objective of this chapter is to provide the reader with an informed and critical understanding of the key issues, providing solid ground for a clear justification for why there is a need for empirical research in the field of financialisation in the Turkish energy sector. There are few studies on financialisation in Turkish NFCs by Akkemik and Özen (2014); Bahce et al., (2014); Bedirhanoglu et al., (2013); Demir (2009a; 2009b; 2007); Demiröz and Erdem (2018) and Tellalbasi and Kaya (2013). However, these scholars draw upon financialisation literature of AEs and do not conceptualise financialisation for NFCs in Turkey.

2.2. Neoliberalism

In the late 1960s, EMEs came to the fore in public and academic debate. In the pursuit of a more globalised and liberal world economy, the Washington Consensus (WC) encouraged deregulation and liberalisation in many sectors across different countries. Crises in emerging markets could be traced back to deregulation policies in the financial sectors (Chomsky, 1999; Freeman, 2010). Obstfeld (1988) argues that capital account liberalisation can provide benefits for developing economies who have little capital. International capital markets allow to borrow from abroad to finance investments and promote economic growth without requiring sharp increases in their own savings. There are different types of capital flows; like Foreign Direct Investments (FDIs) which may include a transfer of technology or human capital, these flows can boost long-term growth (Obstfeld, 1998). Stiglitz argues that foreign money inflows are not intrinsically bad; it depends on their type. There are two types of FDIs: enclave FDIs and beneficial FDIs (Stiglitz, 1998b). Other capital flows, such as short-termed portfolio investments, often referred to as hot, or speculative, debt inflows might have a detrimental effect upon countries' economies (Dell'Ariccia et al., 2008; Ostry, Prati and Spilimbergo, 2009).

Ostry, Prati and Spilimbergo, (2009) state that there is a growing acceptance to regulate short-term capital flows among policymakers. The paradox is that governments do not have to follow corrupt practices to be punished on financial markets (Soros, 1998). According to Soros (1998)

three major patterns appear evident before a financial crisis occurs: first, abrupt financial input and outflows; second, destabilisation of other countries (which shows a contagion effect); and finally, fundamental problems in the global financial system whose extent in emerging markets hit record highs. According to Kaminsky and Reinhart 'problems in the banking sector typically precede a currency crisis - the currency crisis deepens the banking crisis, activating a vicious spiral; financial liberalisation often precedes banking crises' (Kaminsky and Reinhart, 1999, p. 473).

However, the fact that international markets do not operate according to economic theory have been highlighted by various crises': the 1982 international debt crisis, the 1992-1993 European Exchange Rate Mechanism, the 1994-1995 Tequila crisis (Latin America), the 1997-1998 Asian crisis, the 1998, 2008, 2014 and 2016 Russian Rubble, 1999-2002 in Argentina and 1998-2001 then 2013-2017 in Turkey. The International Monetary Fund (IMF) investigated main drivers of financial imbalances between 1999 – 2007, whereby three main factors came to the fore. Firstly, rising global imbalances (capital flows) were evident. Secondly, monetary policy that might have been too instable. Finally, inadequate supervision and regulation occurred (Merrouche and Nier, 2010). According to other economists like Krugman, Paulson and Bernanke, 'regulatory failure' was the main driver of the global financial crisis in 2007 (Courville, 2012; Krugman, 2014; Krugman, 2011; Soros, 2009; Soros, 2008; The Economist, 2009). Neoliberalism, at its core reduced the role of the state and increased market competition through deregulation which has proven to be a false ideology (Ostry, Loungani and Furceri, 2016).

Throughout history, the downsizing of the government has been achieved via two ways: first, privatisation of governmental functions, and second, austerity policies like those demanded by the Maastricht Treaty to limit governmental spending (Ostry, Loungani and Furceri, 2016). Schumpeter (1996) highlights that the process of creative destruction is an essential element of capitalism. 'History confirms that free markets are not self-regulating. They are inherently volatile institutions, prone to speculative booms and busts' (Schumpeter, 1996, p. 83). In a similar vein, Soros (2003) defines 'reflexive interactions' as the non-rational behaviour of markets which is influenced by market participants' expectations. Ultimately, markets have been created through heavy governmental intervention which shows that a reversal can only be achieved by government. 'The threat to peace and economic progress does not come from tyrannous or expansionist states. It comes from the absence of effective government of any kind' (Gray, 1998, p. 202). Rodrik believes that governments could change societies for the better and that they could play a crucial role well beyond merely maintaining a functional market (Rodrik, 2008). This view is also shared by Stiglitz (1998b) and Kolodko (2000), where

both scholars advocate greater participation of the state in the economy, contrary to Williamson (2000).

A change of thinking amongst IFIs is in sight, even the World Bank (WB), an institution that promoted the neoliberal agenda for decades acknowledged this fact: ‘certainly, state-dominated development has failed, but so has stateless development … History has repeatedly shown that good government is not a luxury but a vital necessity. Without an effective state, sustainable development, both economic and social, is impossible’ (WB, 1997, p. 5).

The lack of regulation was not only a result of the Washington Consensus (WC). The seeds of the subprime crisis had been sowed earlier through a policy implication in the UK. In 1983 the Thatcher government initiated the ‘Big Bang’; the deregulation of financial markets. London Stock Exchange rules changed in 1986 and altered the City of London. According to Stone, chief executive of The Share Centre, this ‘enabled London to gain and build a position as the world's leading centre for financial services’ (Cordell, 2016; Howard, 2016; Robertson, 2016).

Nigel Lawson, Margaret Thatcher’s Chancellor of the Exchequer from 1983 to 1989, argued that the amendment of this regulation had a far-reaching and unintended outcome (BBC, 2010; Lawson et al., 2006). David Willetts, a former Conservative minister 1992-2015, expressed concerns about ‘unethical behaviour’ and that financial deregulation could lead to ‘boom and bust’. Willetts concluded while there might be ‘individual financial failures’, he did not expect ‘a systemic problem’ (cited in Robertson, 2016). Ellicott and Wilkes (2014) linked the Black Monday of 1987, the stock values crash, to the Big Bang. Robertson (2016) argues that the Big Bang in 1986 provided the ground for a systematic financial collapse that came to the fore in 2007. In 2011, the former British prime minister, Gordon Brown, admitted that he ‘made a big mistake over the handling of financial regulation in the run-up to the banking crisis of 2008 and that he did not realise the entanglements of global institutions’ (BBC, 2011a).

The ill-placed and disastrous policies of the WC were highlighted by the subprime crisis of 2007, whereby the coordinated interaction of governments and intergovernmental organisation rescued the financial sector. As a first response for the financial crisis in 2007, governments initiated massive bailouts for privately owned corporations at the expense of taxpayers. This followed by cuts of public expenditure and privatisation which paradoxically neoliberal ideas suggest. Stiglitz (2010) described this as privatising profits and socialising losses. In this light, scholars turned towards the question ‘has neoliberalism been oversold?’ (Ostry, Loungani and Furceri, 2016). Ostry, Loungani and Furceri, (2016) state to ‘set the

stage' for re-examination of the neoliberal agenda, while maintaining that their paper does not mirror IMF's mainstream culture. On the other hand, Donnan (2016) refers to Rodrik who stated that:

> 'there is definitely a gap between the IMF's research arm and other parts of the institution. The operational side of the IMF, which is really where things happen, where country programmes are designed, and where loan terms are negotiated is typically much more orthodox. There the change is slower and is lagging behind the thinking' (Donnan, 2016).

Until 1989, Alan Greenspan, ex-chairman of the U.S. Federal Reserve Bank believed that free markets were rooted in human nature, and only tyranny prevented the rest of humankind embracing them (Greenspan, 1997). Later the same year, Greenspan acknowledged that free markets are more culture than nature. 'The dismantling of the central planning function does not, as some had supposed, automatically establish (market capitalism) (Greenspan, 1997).

The most striking aspect of neoliberalism was the change of the state's unfavourable role of a public service provider to one of a rescuer of the private sector, which was evident during the U.S. subprime crisis in 2007. Undeniably, neoliberalism changed from a qualitative aspect to a quantitative one. The magnitude of economic crisis increased and what decades of privatisation could not achieve in certain countries, forced countries such as Greece to sell off public property for fire sales within a couple of weeks (Pempetzoglou and Patergiannaki, 2017; Rankin and Smith, 2015). However, Aalbers highlighted that neoliberalism cannot die that easily. It took several decades for those ideas to manifest themselves throughout history, so it will take time to get rid of this ideology (Aalbers, 2013). Following Aalbers (2013), Gray (1998) stated that there are no alternatives to capitalism, only its continuous changing forms. As pointed out by Harvey (2005), neoliberalism was a very successful project in order to restore and consolidate class power achieved by ideas such as individual freedom, liberty, responsibility, privatisation and the free market. This project aims to benefit a few instead of the wider population. In this context, Aalbers (2013) noted that there are no neoliberal systems, neoliberalisation or neoliberalism is a process.

Given the criticism that neoliberalism received, especially from its former promoters, this ideology should have been abandoned. However, neoliberalism resembles a continuously mutating disease which cannot be cured for good. It appears in different variations and forms which are directly or indirectly linked to its core values. Following the discussion above on neoliberalism, the next section focuses on financialisation.

2.3. Financialisation

This section provides an introduction of financialisation, with a focus on the increased role of finance amongst NFCs. First, definitions of financialisation will be presented followed by a discussion of the term including different interpretations of financialisation. After discussing approaches of financialisation across different schools of thought, the theoretical concept for this thesis is presented. Section 2.3.2 is going to introduce financialisation in developed markets in various contexts such as shareholder and financial market pressure upon NFCs. Subsequently, financialisation in emerging markets and in Turkey are presented. In this light, the role and influence of CRAs and IFIs are clarified. Finally, this section ends with a summary of key findings and my understanding and interpretation of what financialisation is.

Definitions of Financialisation

Financialisation is a widely stretched concept which has been defined differently by various authors:

Palley (2007) defined financialisation as the growing influence of financial elites that transform the very functioning of the economy at the macro- and micro level and contribute to political as well as economic outcome changes. Ertürk et al., (2008) described financialisation as coupon pool capitalism and pointed at the unfinished business of financialisation. Stockhammer (2004) based his definition on a post-Keynesian theory and argued that financialisation is the engagement of NFCs in financial markets. Other authors (Dore 2008; Dore, 2002; Froud et al., 2000; Krippner, 2005; Williamson, 2000) highlight the rising influence of institutional investors and the proportion of corporate profits derived from financial activities and their influence on the changing policy of retained investment decision, distributing retained earnings to shareholders. Harvey (2005) suggests that financialisation is the qualitative change in finance's role in the economy. For Engelen (2008), the term financialisation describes a form of internationalisation or globalisation. Epstein (2005) provides a broad understanding of financialisation, which he termed as 'the increasing importance of financial markets, financial motives, financial institutions, and financial elites in the operation of the economy and its governing institutions, both at national and international levels' (Epstein, 2005, p. 1). Similar to Epstein (2005), Dore (2002) referred to financialisation as the increased dominance of finance in contrast to total economic activities.

Kotz (2008) defines financialisation as the expansion of the role of finance within the economy. Kotz (2008) raises doubts towards Epstein's (2005) broad definition in comparison to the quantitative expansion and the qualitative role of finance changes. Becker et al., (2010) takes

Epstein's (2005) frequently cited definition one step further by following up on Marx's (1976) notion of fictitious capital and distinguishes financialisation into two main forms – 'financialisation based on the take-off of a second circuit of 'fictitious capital', i.e. securities, and financialisation based on interest-bearing capital and, thus, on high interest rates' (Becker et al., 2010, p. 228). Becker et al., (2010) argue that the term 'fictitious capital' refers to securities in their different kinds, including capitalised land rent. Becker et al., (2010) argue further that the two circuits of capital are mutually dependent, and prices in the second circuit respond much faster when compared to the first circuit.

Aalbers (2008) and Krippner (2005) argue that profit making is attributed to financial conduits rather real production within the economy. Both, Aalbers (2008) and Krippner (2005) underpin their arguments by providing evidence for the rising share of the financial sector in light of faster growing international capital flows, whereby such growth is disproportionate to real economic output of countries GDPs. Sweezy reaffirms his view that financialisation was a product of stagnation in the 1970s. Sweezy (1994) states that:

> Traditionally financial expansion has gone hand-in-hand with prosperity in the real economy. Is it really possible that this is no longer true, that now in the late twentieth century the opposite is more nearly the case: in other words, that now financial expansion feeds not on a healthy real economy but on a stagnant one?

A partial answer to Sweezy's question came from Palley who referred to Arrow and Debreu's (1954) theory, and suggested that growing financial markets, including financial instruments and financial assets, will increase efficiency. According to this theory, markets can better price economic outcomes, allocate resources more efficiently and mitigate portfolio risks (Palley, 2007). One year earlier, Friedman (1953) argued that speculation has a stabilising effect, since speculators drive back the diverging prices of market fundamentals. The increasing number of traders increases volume and liquidity that makes markets less prone to small external factors that might cause disturbance (Friedman, 1953). In respect to these speculations, Hirshleifer (1971) suggested that private enclosed information does not have any social value in promoting productive arrangements, while on the contrary, public information can affect these related decisions. For market participants with special knowledge, price revaluation (in the form of anticipated speculative profits) provides an incentive whereby, from a social point of view, an overinvestment in acquiring and dissemination is purely wasteful or useless (Hirshleifer, 1971).

Changing role of finance

The role of finance has changed and with it, the importance of finance in our daily lives (Aalbers, 2013). Financialisation is not bad per se; it can be used to ease the exchange of tangible goods and services into financial instruments. This enables an easier trade in the real economy and provides opportunities for both the seller and buyer to hedge themselves against risks or exercise favourable trades. The biggest advantage is that people can trade their future earnings for mortgages and insurances in order to help mitigate against financial risks (Denning, 2014). It provides the opportunity for individuals to consume in advance of receiving their respective earnings (Tobin, 1984). Problems emerge as soon as financialisation gets excessive and promotes a misallocation of resources, giving rise to the question: when does financialisation become excessive?

Arcand, Berkes and Panizza, (2012) evaluated in their IMF Working Paper WP/12/161 a threshold after which the development of the financial sector does not contribute positively to a country's economy. The origin of the paper was the critique of regulatory reforms on capital standards by former FED chairman Alan Greenspan which he referred to as 'excess of buffers at the expense of our standards of living' (Greenspan, 2011 cited in Arcand, Berkes and Panizza, 2012). Arcand et al., (2012) questioned the assumption that large financial sectors always contribute to economic growth by testing different empirical approaches. Arcand, Berkes and Panizza, (2012) indicate in their study that there is no positive correlation between financial depth and economic growth when a country's financial sector is vast. However, a positive correlation has been found in countries with small and intermediate financial sectors. The scholars conclude by arguing that the estimated threshold after finance starts affecting the economic growth negatively lays between 80-100% of GDP (Arcand, Berkes and Panizza, 2012). In support of Arcand, Berkes and Panizza's, (2012) earlier findings by Cecchetti, Mohanty and Zampolli, (2011) suggest a threshold for debt to GDP ratios for households and the public sector around 85% and corporate sector around 90%. Exceeding these thresholds constrains and damages welfare (Cecchetti, Mohanty and Zampolli, 2011).

Three possible reasons have been suggested by Arcand, Berkes and Panizza, (2012). Firstly, they refer to Minsky's financial instability hypothesis which basically states that large systems are more likely to be affected by volatility and crash endogenously. Minsky (1992) identifies three actors that contribute to the private sector's debt accumulation, through hedge, speculative, and ponzi borrowers, referring to banking as a profit seeking activity.

The second reason originated from Nobel prize winner James Tobin according to whom more is spent on financial products rather than invested into the real economy as a result of

economic misallocation of the resources. It is worth citing Tobin's (1984, pp. 14-15) concerns in full:

> We are throwing more and more of our resources, including the cream of our youth, into financial activities remote from the production of goods and services, into activities that generate high private rewards disproportionate to their social productivity' and 'I fear that, as Keynes saw even in his day, the advantages of the liquidity and negotiability of financial instruments come at the cost of facilitating nth-degree speculation which is short-sighted and inefficient.

The third possible reason for economic growth depends on the quality of the provided capital. In the subprime crisis, derivatives increased the resilience of the underlying assets and deteriorated the overall credit quality which in the end decreased the financial stability. In connection with the quality of finance, it is also important for what the money is used for, to finance long-term investments in production, consumption, or for speculation (Arcand, Berkes and Panizza, 2012; Tobin, 1984). Beck et al., (2012) show that the indebtedness of corporations positively correlates with economic growth whereas the rise in credits of households does not contribute to economic growth. IMF's (2017e) household debt and financial stability report indicates a trade-off between rising household debt and short- and medium-term impact on a country's economy. While in the short-term a rising debt/GDP ratio is associated with a growing economy, in the medium-term (three to five years), this effect reverses and leads to a household debt cycle. Furthermore, the report argues that household indebtedness is associated with an increased risk of banking crisis (IMF, 2017e).

In a similar vein, Blecker argues that financialisation invalidates the core of free trade by subverting the theory of comparative advantages of international economy. Blecker (1998, p. 1) comments that:

> It is now well known that the volume of international financial transactions far exceeds what is necessary to finance ordinary trade in goods and services, and that the lion's share of those transactions are driven by purely financial considerations such as hedging strategies, arbitrage opportunities, and currency speculation.

According to the standard market theory, demand and supply balances the market; however, financial speculation offsets this mechanism and leads to unbalanced exchange rates that have the power to affect a country's Balance of Trade (BoT) in a negative or positive way. 'Old ideas such as the law of comparative advantage, purchasing power parity, automatic balance of payments adjustments, and predictable exchange rates continue to serve as benchmarks for research, and dominate both pedagogy and policy advice' (Blecker, 2001, p. 2).

The on-going financialisation progress is subverting the standards of international economy. Therefore, Blecker (2001) favours for a change in models and filters to create new more reliable indicators for the decision-making progress for policy implications in international economy. Blecker (2001) states also that financial liberalisation impairs the international trade by transforming capital into an even more unsustainable resource which can be directed into a country that provides the best return for an investor. Multinational Enterprises (MNEs) and institutional investors profit at most from open financial market policies; they shift funds globally into attractive markets with the aim of profit maximisation. The aforementioned fact is one of the major reasons why corporations are keen on liberal financial markets and advocate their interest in international trade agreements like the North American Free Trade Agreement (NAFTA) and World Trade Organization (WTO). It is apparent that the main beneficiaries of the liberalisation policies are foreign investors. In the case of a change in the host country's political and social environment, foreign investors have an exit strategy which simultaneously also puts pressure on host countries' politicians to maintain and enhance the country's economic attractiveness for foreign investors by providing tax incentives, special rights and other incentives (Blecker, 2001; Blecker, 1998).

The classical international economics approach constitutes of 'twin pillars' automatic adjustment mechanism in the Balance of Payments (BoP) and international trade through comparative advantages. 'Money is not neutral when nominal exchange rates determined by autonomous financial dynamics affect real trade flows' (Blecker, 2001, p. 34). His main argument is that policy analysis should be reassessed and adjusted to ensure a sound global economy, and countries should not blindly adapt policies such as the Washington Consensus (WC) to liberalise trade and finance; otherwise economies are exposed to a great risk by bringing themselves into vulnerable positions through 'openness' policies on the global market (Blecker, 2001).

Despite the high mobility of capital in today's world, an imbalanced perverse trend of capital flows from developing countries into industrialised, partially financialised countries are evident. Blecker (1998) referred to a study of Feldstein and Horioka where the authors showed that between 1960s and 1970s, savings and investment rates in industrialised countries strongly correlated, and the flow of international capital was from poorer to the richer countries. Almost three decades ago, Robert Lucas prompted the question 'why does capital flow from poor to rich countries?' (Lucas, 1990). One possible answer has been provided by Mendoza, Quadrini and Rios-Rull, (2006) who argued that while global financial integration deepened, differences among countries' financial development persisted and caused imbalances. A huge drawback of the financial liberalisation is the speculative capital movement that aims upon destabilisation of certain economies (Blecker, 1998; Lapavitsas, 2014).

From another point of view, Feldstein and Horioka do not support the view of long-term arbitrage by reasoning that most investors are risk averse and therefore constrain investments domestically rather than being exposed to global risks. Following this fact, a few countries such as the U.S., legally restricted saving institutions to invest into liabilities that are denominated in USD, in order to limit investors' risks and keep savings at home. Subsequently, Feldstein and Horioka argued, in the case of risk seeking investments through full mobilised capital, authorities of those countries would intervene by imposing restrictions to export capital. They found indirect evidence that capital movements do not maximise an investor's net-of-tax return, due to the fact that international tax regulations offset profits. Therefore, trade without taxes would make investments around the globe indifferent and return on investments would be equal everywhere (Feldstein and Horioka, 1979). Furthermore, they set up three arguments for international capital flows; first, there is a small difference in a country's savings and investment rate; second, savings and investment rates among different countries highly correlate; and finally, savings and investment rates indicate a strong correlation for a randomly selected year for any given country (Feldstein and Horioka, 1979).

Industrialised countries indicated that their own national savings financed large parts of domestic investments through national savings; they did not engage actively in international capital markets to borrow or lend money (Feldstein and Horioka, 1979). In this sense, Blecker advocate new regulations to control international financial movements, to prevent abrupt short-term speculative capital flows. These regulations should not only protect investors, they should also enhance protection for a debtor country, helping to ensure long-term investments (Blecker, 1998).

Bootle considers the financial sector as a distributive industry. He argues that in order for a country to be successful, it should maximise creative and minimise distributive developments independent from the economic stage of development of that country. Bootle (2012) states that a society where growth occurs at the cost of others, in his viewpoint, is impoverished. However, the overriding aspect and probably the most important element is power. According to Mukunda real power 'comes not from forcing people to do what you want but from changing the way people think, so that they want to do what you want' (Mukunda, 2014, p. 11).

In the beginning of the financialisation debate, scholars affiliated to IFIs defended, by referring to empirical researches and cross-country datasets from the IMF, that deregulation of markets have a positive outcome on markets. By doing so, pro liberalisation scholars argued that state intervention caused economic dysfunctionality and could lead to crisis. A country with a debilitating economy is an easy target for MNEs or global financial institutions to enter and manipulate the country's economy. Results of such entries by MNEs into EMEs with weaker

economies is not very clear. However, after several crises, even the proponents of the neoliberal agenda recognised the need for tighter regulations in EMEs this has even been advocated by IMF economists (Ostry, Loungani and Furceri, 2016).

In this light, globalisation has been described by Emmerij as the acceptance of free market thoughts and privatisation as the underlying driving force that fuels economic growth; he asserts that globalisation is driven by various factors, such as availability of capital and technology; however, the main driver of this process is the private sector whereas the regionalisation is driven by the state (Emmerij, 1997). The fact that remains unclear is whether or not financialisation coupled with the neoliberal agenda had positive effects upon EMEs. Johnson's (1982) theory of the 'Developmental State' was one of the first attempts to explain the industrialisation in Northeast Asia. Remarkable are the close ties between elite bureaucracy and renowned businessman while the state acts as an instructor for business and industry and gives guidance (Johnson, 1982).

Similar to Johnson (1982), Marx (1967) and Keynes (1936) highlighted in the context of finance a distinct monied class (rentier class) that dominates the finance sector through ownership over capital and by positioning themselves in key roles within the political system. However, Lapavitsas (2011) doubts the existence of a rentier class in contemporary economy. In this context, Powell (2013) argue that Developing and Emerging Countries (DECs) are subordinated within the financial hierarchy, similar to Kaltenbrunner and Painceira (2018). For the case of Turkey, a through discussion is provided in chapters 4, 5 and 6 by assessing financialisation on a macro-, meso- and micro-level after presenting the political economy of that country.

Financialisation in EMEs came to the fore in recent years, with many socio-economists and economists attempting to explain the phenomena. In the context of financialisation in EMEs, there is a growing literature with different theoretical approaches to address diverse aspects and to conceptualise financialisation. Bonizzi (2013) identified three main schools of thought: Marxist, Post-Keynesian and Regulationist.

Marxists focus on global and national economic aspects in political economy and class structures of countries. Ashman, Fine and Newman, (2011) emphasise on interest-bearing capital, and situate financialisation between accumulation of real and fictitious capital, whereby the accumulation process primarily happens through the expansion of speculative investments as opposed to real investments. Fine (2013) highlights the close link between neoliberalism and financialisation, where privatisation led to a deterioration of public services and empowered private capital. Powell (2013) in his concept 'subordinate financialisation' views financialisation from an imperialist angle; Powell (2013) claims that financialisation in

the periphery is subordinate to developed economies and is subjected to state relations. In a similar vein, Kaltenbrunner and Painceira (2018) argue that financialisation in DECs are influenced by their subordinated integration into a financialised and structured world economy. In contrast to post-Keynesian and institutional approaches, Marxists focus on the power class relations by disproving an existence of a rentier class (Lapavitsas, 2011).

Post-Keynesian theorists such as Demir (2009a, 2007) focus on the rise of financial profits and the inclination of speculative activities among investors. Stockhammer (2004) highlights in this context the rising power of shareholders and changed management behaviours. Stockhammer (2004) stresses the increased engagement of NFCs in financial activities, and similar aspects have been highlighted by Dore (2008) and Palley (2007), who described the increased pressure of large financial investors upon companies' management.

The Regulationist School focuses on two central aspects, regime of accumulation and mode of regulation, whereby the notion goes beyond a mere technical understanding of regulations and state - it also takes social norms into consideration (Becker et al., 2010). 'The regulationist mainstream has moved in the direction of an institutionalist approach with a post-Keynesian imprint which still maintains some links to Marxists origins' (Becker et al., 2010, p. 225). In contrast to Keynesians, Regulationist economists regard international organisations, state, and social force shaping norms and policies as explicit factors (Becker et al., 2010). Kotz (2008) argues that the neoliberal Social Structure of Accumulation (SSA) exists at the level of global capitalism and can be found in different countries. However, SSA's vary among individual countries' institutions and show that many aspects of financialisation can immediately be traced back to neoliberal reformation, whereby few characteristics of financialisation are distinct (Kotz, 2008). Kotz (2008) states a further two possible changes; first, finance becomes more powerful vis-à-vis NFCs and second, the relation between finance and NFCs becomes either tighter or weaker. 'Neoliberalism can be understood as the latest institutional form of capitalism' (Kotz, 2008, p. 2). In this context, Becker et al., (2010) provides a concrete framework to analyse financialisation in the (semi-) periphery which is detailed in the section below.

2.3.1. Theoretical Concept

This thesis draws on Becker et al's., (2010) model to address financialisation in the context of the Turkish energy sector. Based on a critical reconstruction of regulation theory, Becker (2002) conceptualises the relationship between changes in an Accumulation Regime (AR) and

territorial state. Keeping in mind the notion that the state and other institutions play a key role in change processes, he starts off from a socially centred spatial viewpoint. Furthermore, he deals with the interactions of stakeholders who engage in transactions of economic commodities (such as capital, goods, and information) and territorial regulations (Becker, 2002). Becker (2002) states that from a regulationist perspective, a multi-dimensional approach is required in order to capture the full picture of an AR. Becker defines three axes: firstly, extensive/intensive accumulation; secondly, extraverted/introverted accumulation, and finally, productive/financialised accumulation (Becker, 2002, p. 76). This thesis focuses on the last axis - financialisation.

The first axis, 'extensive/intensive' accumulation refers to the form of productive accumulation. Following Marx's notion, an increase in value added is made possible by reducing variable costs such as wages or by increasing productivity. 'In a dominant extensive accumulation regime, the value creation is achieved through a transformation of work organisation, the traditional way of life may endure or be destroyed, but it is not radically reoriented by the logic of utilitarian functionalism' (Aglietta, 1987 cited in Becker, 2002, p. 68). As a result, the relationship between resource – production goods departments, section one in Marx (1976) and consumer production departments – section two in Marx (1976), is weak. This weak relationship causes problems and might lead to a production surplus (Becker, 2002). Growth would be mainly based on the rising employment of wage-earners. However, their consumption would make a small portion of the capitalistic production which would simultaneously highlight the boundaries of this regime (Aglietta, 1987 in Becker, 2002).

On the other hand, a predominantly intensive regime of accumulation creates a new mode of life for the wage labouring class. It achieves an integration of the two production departments, which allows a more regular and faster growth of accumulation and rate of value added (Aglietta, 1987 in Becker, 2002). This change in conditions of production would be reflected in a remarkable rise in productivity. In the end, rising productivity would bring a rise in wages which would be spent on capitalist goods (Becker, 2002).

At their core, both sides of the axis deal with the same issue: the connection between the development of productive force, distribution, consumption, and the relationship between resource departments and consumer goods departments (Becker, 2002).

However, both of these types of ARs eventually reach their saturation point. In such a scenario, there are two possibilities: firstly, increase of extraverted accumulation or secondly, shift of the socio-economic boundaries. Noteworthy is that the first aspect is linked to geographical location and partners, while the latter is dependent on politics and its swing

(Becker, 2002). In the case of Turkey, boundaries for extensive and intensive accumulation is highly influenced from abroad, see section 4.1 of chapter 4.

The second axis is the Extraverted/Introverted Accumulation. An important aspect for Ominani 1986 in Becker 2002 is the development of a strategy to integrate a country into international markets. Ominani highlights import substitution, export promotion and substitutions as critical elements. Furthermore, he lists five types of ARs for developing countries with increasing complexity starting from non-industrial to a mixed ARs (Ominani 1986 in Becker 2002). First, non-industrial due to the absent of resource (production goods) departments. Hence, exports are predominantly in the form of resources while at the same time an import dependence is prevalent (Becker, 2002). Second, rentier ARs have communalities with a non-industrial AR. Resource exports contributed to a partial industrialisation such as seen throughout OPEC countries in the 1970s (Becker, 2002). Third, introverted industrialisation is primarily based on import substitution of consumption goods. Fourth, a taylorist AR is more industrial export oriented while suppressing wages. Lastly, the most complex form, a mixed AR. This AR is marked with a deeper import substitution linked with a diversification of export goods (Becker, 2002).

Extraverted accumulation is mostly seen in mature export orientated economies whereas DECs are characterised by a high import dependence. In contrast, introverted accumulation focuses on the domestic market whereby extraversion is more outward oriented (Becker et al., 2010).

The degree of external or internal orientation can be determined by various forms of capital flows. Especially in DECs, foreign trade is an important aspect in the formation of ARs due to asymmetries in external relations and socio-political dynamics. For Turkey, a dominant introverted AR was evident throughout the 1930s and 1940s while the state encouraged the formation of national capital. After Turkey's account liberalisation in 1989, an increase in foreign capital linked with a closer integration within the global markets is evident, for more details see section 5.2 of chapter 5.

The third axis Productive/Financialised Accumulation. During 1980s financial actors such as pension funds and investment banks increasingly started to gain in importance. According to Palloix (1996) in Becker (2002), since the crisis in the 1970s, more and more traders and financial actors turned away from the real economy (realm of production) and engaged in the realm of finance. Financial institutions changed their role from being an intermediary in the market towards taking an autonomous position within the economy (Lapavitsas, 2011). During the 1980s, the incrementally independent operations of financial institutions came to the fore

while financial innovations provided alternative investment opportunities. Simultaneously, with the creation of new financial products the real economy started suffering (Lapavitsas, 2011). Return on financial investments were more lucrative than investments in the real economy (Krippner, 2005). Furthermore, financial investments provided the advantage of a high degree of liquidity in case of perceived risks (Arrighi, 1994).

ARs are usually defined at a national level; however, ARs are not independent. ARs are marked by varying flows of commodities and capital which positions those regimes internationally on a more hierarchically order (Becker, 2002). The different axes are shown below in Table 2-1:

Extensive Accumulation	**Intensive Accumulation**
Extraverted Accumulation	**Introverted Accumulation**
Productive Accumulation	**Financialised Accumulation**

Table 2-1: Three Axes of Accumulation Regimes. Source: Becker, 2002.

Limitations of Financialisation

There are a few critiques of financialisation which have been explored by Brett (2015), and these have been addressed in this section. In his work on ‘the limits of financialisation’, Brett (2015) articulates his valid concerns regarding the conceptualisation and analytical use of financialisation. He starts off by labelling financialisation as the new buzzword of 2010, lacking a definitive scope for the concept (Brett, 2015). The catchphrase financialisation was linked to the 2007 global financial crisis, and post 2010 research in and around financialisation had increased (Brett, 2015). This trend was expected, because financialisation as defined by himself ‘the (increased) contemporary importance of finance’ in its core deals with issues related to finance. The events leading to the financial crisis were not caused by an overproduction of goods that could not be consumed. Rather, the sale of 'innovative financial products' (fictitious capital) with misrepresented values were at the very root of the problem. However, Brett (2015) argues that the concept of financialisation stands on shaky ground with its definition of: 'increased contemporary importance of finance'. Bret’s statement is not entirely valid due to the fact that researchers across various fields use this 'increased contemporary importance of finance' to contrast it against other sectors of the real economy. The concept of financialisation is in many cases linked to the changing contemporary economic activities which were non-existent until a few decades ago, such as the rise of shareholder value,

increasing household indebtedness and turn of NFCs towards financial activities and vice-versa.

Two examples are offered to make this point clear; one of General Electric (GE) (non-financial sector) another from Goldman Sachs (financial sector). In the early 2000s, Ford's profit was attributed more to their sale of loans rather than their sale of cars, and GE Capital generated nearly half of all of GE's earnings (Mukunda, 2014). In 1980, with the inclusion of NFCs, the total value of U.S. financial assets was five times the country's GDP, and in 2007 it was 10 times the GDP' (Mukunda, 2014). Kocieniewski (2013) has highlighted a key example of a financial institution engaging in non-financial activities. Goldman Sachs had bought physical aluminium and stored it in warehouses across North America and later speculated on a shortage in the market which drove up the prices and costed U.S. consumers 5 bn USD, since 2010. In this light, Krippner's (2005) definition of financialisation being 'a pattern of accumulation in which profits accrue primarily through financial channels rather than through trade and commodity production' helps to better position this this thesis. Given the fact that financialisation is used as an umbrella term in various studies, different definitions of financialisation will emerge maintaining its focus on contemporary capitalism. 'Financialisation, like globalisation and neoliberalisation, is a concept that tries to make sense of contemporary capitalism and the way it is embedded in societies as well as changing (and depending on your ideological and theoretical stance, disrupting) those same societies' (Aalbers, 2015, p. 215).

Another issue that Brett raises is in regard to analytic tensions of the concept of financialisation. 'Financialisation, by contrast, has fundamentally fragmented. To the degree that it is excessively vague and stretched, it is an increasingly nebulous and even, arguably, unhelpful signifier (Brett, 2015, p. 187). Aalbers (2015, p. 215) questioned Brett's (2015) statement by asking:

> Does it work for you as a heuristic device? Does it help you explain or understand social reality? Does it throw new light on your empirical results? Does it help connecting practices, processes, and theories that were hitherto considered— or at least studied—independently of each other and to consider these as related?

All of Aalbers' questions can be answered with a clear yes. As highlighted earlier, financialisation is a concept with a wide use in various fields. Hence, Brett is right in stating 'that we need to be much more wary of relying on the concept and of mobilising it for the purposes of both categorisation and explanation' (Brett, 2015, p. 184). The context in which the concept of financialisation is going to be used in is of high importance. Financialisation is not a one-size fits all concept. The varying traits of financialisation can emerge in various

fields, as finance itself does in our daily lives reaching from observable scenarios such as grocery shopping, to the less apparent hidden opportunity costs. The same accounts for financialisation which cannot be bluntly confined to a certain schema.

However, this thesis regards financialisation as a powerful concept which links literature from various subjects, in order to help understand changes throughout different levels of analysis without confining it to one realm. As with many other concepts, financialisation, has its limitations and drawbacks, however, not to the extent that they are described and criticised by Brett (2015).

The following section provides an overview of the financialisation literature of developed markets.

2.3.2. Financialisation in developed markets

This section focuses on financialisation in developed markets. Finance played a pivotal role in the process of capital accumulation. Though the reasons for why and how financialisation occurred are contested, the main debates centre around the following aspects:

- Problems in the productive sphere in the 1970s and 1980s led to a stagnation of the economy (Magdoff and Sweezy, 1987)
- Underperformance and slowdown of aggregate demand in the 1970s (Crotty, 2005; Davis, 2017)
- Higher degree of labour militancy at home and increased international competition abroad (Krippner, 2005).
- Booming financial markets coupled with deregulation (Orhangazi, 2008).
- Increased shareholder and market pressure upon firms and an increased engagement of NFCs in finance (Aalbers, 2008; Orhangazi, 2008; Palley, 2007).

Shareholder and financial market pressure upon firms

Dore (2008) and Palley (2007) highlight the increased pressure of financial markets upon managers who changed their focus to prioritise shareholder wealth maximisation. Asker, Farre-Mensa and Ljunggvist, (2014) highlight that U.S. public firms invest only half as much in assets as U.S. private firms do. The longing to maximise short-term share prices distorts firms' investment behaviour. Dore (2008) and Milberg (2008) highlight the rising power of shareholders over managers. This power shift within U.S. companies has also been documented by Lazonick and O'Sullivan (2000) and Orhangazi (2008). In the U.S., firms are

subjected to an increased pressure by shareholders to pay-out dividends, which shortens the planning horizons and increases uncertainty for companies (Orhangazi, 2008).

Financial markets' increasing role

Aalbers (2008) and Lapavitsas (2013) state that the financial markets' main objective of supporting the real economy shifted dramatically over the last decades and became a sector that aims to increase trade in financial products and services. Aalbers (2008) further argues that the real economy turned to one of the biggest income sources of financial markets by paying transaction fees, costs for hedging activities, asset management, and advice services. Tobin (1984) raised the issue that speculative activities in financial markets do not profit the real economy. In this context, Bootle (2012) argues that activity in the financial sector is primarily distributive. Arcand, Berkes and Panizza, (2012) warned that if a financial system was too large it may inhibit economic growth. In this context, Mukunda (2014, p. 6) pointed out that:

> First, larger and more-complex financial systems may be more prone to crashes—a point made by a variety of economists, including Hyman Minsky, Charles Kindleberger, and Raghuram Rajan (who in 2005 famously argued that the risks of financial instability were much higher than most economists thought—only to be dismissed by Larry Summers as a 'Luddite' for his skepticism of financial innovation).

Subsequently, securitisation is a well-known innovation that had been designed to hedge risks as it increased the size of financial markets (Dore, 2008). Dore (2008) and Palley (2007) highlighted that governments were promoting equity ownerships as they enhanced liquidity on the markets and increased the number of traders and funds that in the end expanded the overall trade volume.

NFCs increased engagement in finance

The fact that finance is not only restricted to the financial sector has been widely documented (Crotty, 2005; Dumenil and Levy, 2009; Dumenil and Levy, 2001; Ertürk et al., 2008; Krippner, 2005; Milberg, 2008; Orhangazi, 2008; Palley, 2007). Over the last decades, NFCs started channelling their investments into financial assets instead of production. Milberg (2008) states that, contrary to the traditional reinvestment of profits to improve business activities, profits are used to increase shareholders' return. In addition, Krippner (2005) and Orhangazi (2008) argue that manager's channel funds into financial assets' rather than real investments due to the disproportional profitability. In this light, Mukunda highlighted the sharp

rise of financial units' assets within NFCs who engaged more in financial markets; by providing an example of Ford who made more money by selling loans than cars. If you include nonfinancial corporations, in 1980 the total value of U.S. financial assets was five times the country's GDP. In 2007 it was 10 times the GDP' (Mukunda, 2014). In this context, Araujo, Bruno and Pimental, (2012); Shin (2012); Demir (2009b) and Kalinowski and Cho (2009) highlighted the falling share of GDP in emerging markets due to plummeting investments in fixed assets.

In the context of financialisation few authors highlighted the increased cash holdings of firms. Bates, Kahle, and Stulz (2009) stated that in firms where agency problems exist, the management, given the lack of profitable investments, opt to accumulate cash instead of making payments to shareholders. Furthermore, drawing upon the cash theory, Bates, Kahle, and Stulz (2009) argue that firms hold cash for hedging purposes during turbulent times. However, despite the fact that financial markets provide a vast opportunity for hedging instruments, 'firms face many risks that they cannot hedge or are reluctant to hedge with derivatives' (Bates, Kahle, and Stulz, 2009, p. 2019). In a similar vein, Al-Najjar (2013) investigated the determinants of cash holdings of firms in emerging markets. He found that next to the capital structure, there is a crucial role played by leverage, dividends, firm size, and industrial/institutional systems. Furthermore, he argues that firms in countries with weak capital markets and frail shareholder protection tend to hold more cash. His findings show that the determinants of cash holdings for emerging economies and AEs are similar (Al-Najjar, 2013).

In contrast to Al-Najjar (2013), Davis (2017) argues that, in the context of the U.S., real investments are weak due to a rise in shareholder value coupled with the short-termism of firms in order to provide profitable figures. She states that firms of different sizes have varying motives in acquiring financial assets. She reasons that smaller firms purchase financial assets to hedge against market volatilities, while larger firms may intend to become a financial service provider – i.e., loans (Davis, 2013). Another explanation provided by Davis (2013) is that 'small firms have faced growing real-side constraints that have led them to borrow less and hold more liquidity, inhibiting fixed investment' (Davis, 2013, p. 21).

There is an increased Mergers and Acquisitions (M&A) trend perceptible. The literature on M&A is wide and ambiguous; however, the focus of this section is to describe the value creation of M&A. McCarthy (2013) stated that M&A activities are predominantly driven by speculative motives, whereby financial innovation, globalisation, and deregulation played a pivotal role in merger waves. According to Foster (2010), M&A activities caused a decline in the number of independent firms operating in different industries, whereby an increased

picture of monopolisation/oligopolisation was evident. For instance, the U.S. finance sectors' top ten financial conglomerates' proportion of financial industry assets held, increased from 10% in 1990 to 60% in 2008 (Foster, 2010). Furthermore, Foster (2010) argued that:

> Traditionally, economics textbooks have treated new stock issues as raising capital for investment. The proliferation of merger activity highlights the fact that this is, in fact, hardly ever the case, and that most stock activity is directed at increasing financial gains.

In his book, *Das Finanzkapital*, Hilferding (1910) explained his idea of 'promoter's profit'. Promoter's profit 'is a source of gain which arises only from the conversion of profit-bearing into interest-bearing capital' (Hilferding, 1910, chapter VII – Fictitious Capital, pp. 137-178). Guillen (2014) described it as 'the profit appropriated by finance capital for the mere act of negotiating the fictitious capital, that is, for controlling the issuance and circulation of stocks and public and private bonds and securities' (Guillen, 2014, p. 463). Following upon Hilferding's (1910) notion, financial institutions and related industries – such as consultancies – earn promoter's profits. Foster and Magdoff (2009) stated that while the promoter's profit for financial institutions in 1980 stood at 20% for income resulting from service fees and at 80% for interest income, in 2009 the ratio was 42% and 58%, respectively. In the same vein, Lucas (2012) stated that the annual earnings of investment banks resulting from M&A transactions was between 3 bn USD and 6 bn USD.

From a more psychological viewpoint, Veblen (1904) analysed large-scale businesses that grew via M&A. In his book – *The Theory of Business Enterprise* – he distinguishes between two types of financial profit: promoter's profit and capital gain resulting from changes on markets (increases in stock value). At the beginning of the twentieth century, large corporations focused on value maximisation of their common stock, instead of profit maximisation through business optimisation (Veblen, 1904). In this respect, 110 years later, Guillen (2014) associated M&A with the financialisation of the economy, by arguing that while synergies played a secondary role the focus was on driving up the stock values of companies. What is known today as 'expected future earnings' was described by Veblen in 1904 as 'putative earnings' and are the core of Veblen's (1904) corporate finance theory. He highlighted the fact that managers' goals were to manipulate stock markets in order to benefit from this incongruity; here it is worth citing Veblen (1904, p. 50) in full:

> Under these circumstances the men who have the management of such an industrial enterprise, capitalised and quotable on the market, will be able to induce a discrepancy between the putative and the actual earning-capacity, by expedients well known and approved for the purpose. Partial information, as well as misinformation, sagaciously

> given out at a critical juncture, will go far toward producing a favourable temporary discrepancy of this kind, and so enabling the managers to buy or sell the securities of the concern with advantage to themselves.

Furthermore, Veblen (1904) stressed that there was no mutual interest between corporate managers and companies. While it was the main concern of companies to produce and sell products, it is in the interests of mangers to drive up stock prices. In this light, Heskett (2004) reasoned that due to the asymmetrical compensation of managers through stock options, they often have a greater incentive to engage in M&A transactions. Although stock price manipulation posed major risks for the company, the risks for managers were limited due to the limited number of shares held (Veblen, 1904). In this respect, Veblen (1904) stated that corporate growth, via M&A, became the driving force of corporation finance; moreover, M&A were the vehicles the capitalist system needed in order to maintain growth.

The involvement of investment banks in certain deals increased the likelihood of the execution of transactions for two reasons: first, publicising the deal through the dissemination of information on the market and, second, assisting in financing the deal. What Veblen (1904) described as capital structure and asset manipulation at the beginning of the 1900s is, in contemporary accounting, now known as ‘creative accounting’. Furthermore, Veblen (1904) elaborates on goodwill, which he explains as the value of fictitious capital created by the finance capital that reflects the expectations of profits (earning capacity) resulting from the firm’s operations.

From an alternate point of view, Kleinert and Klodt (2002) and McCarthy (2013), identified deregulation, globalisation, and privatisation as the key determinants of M&A transactions. Furthermore, Kleinert and Klodt (2002) stated that M&A transaction volumes are inflated by the speculative bubble of stock markets and that many transactions have been equity financed. However, after the subprime crisis starting in 2007/2008, financing M&A activities became more difficult for three reasons: first, companies could not finance M&A deals with new stock because of falling stock markets; second, UNCTAD (2009) stated that prior to 2008 the majority of M&A had been cash financed, which was not the case anymore; and third, the overall costs for M&A transactions rose due to the deteriorating lending conditions of the banks for the corporate sector (UNCTAD, 2009). In this context, Jo and Henry (2014) argue that in order to maximise the financial gains from M&A transactions, the going concern values must be manipulated. ‘That (going concern) is, the value of intangible assets (including corporate goodwill)—the difference between the stock market value and the real asset value of a corporation—increases’ (Jo and Henry, 2014, p. 19).

The value creation for companies itself through M&A is highly debated and, according to McKinsey (2012), it depends on the M&A transaction itself. However, in contrast to McKinsey (2012), Meckl and Röhrle (2016) have a strong negative view about M&A. Meckl and Röhrle (2016) examined 55,399 transactions that took place between 1950 and 2010 by drawing upon 33 similar M&A studies. They found that M&A transactions tend to have a negative rather than a positive outcome for companies. A similar study published by one of the biggest consultancies, KPMG, found that M&A transactions are more value destructive than creating (Atkinson, 1999). In this context, Liedtke and Young (2017) stated that in M&A transactions the buyer is always willing to pay a control premium to become the majority shareholder and to exercise control over the entity. The majority shareholder has access to four theoretical value enhancements: 'cash flows from the existing assets to the firm can be increased; expected growth rate in these cash flows can be increased; length of the high growth period can be extended; and the cost of capital can be reduced' (Liedtke and Young, 2017). Kose, Yue and Taffler (2008) found that on average the control premium had been overpaid by 7–9% when the management of both firms, acquirer and target, were overconfident. The acquirer is generally willing to pay a premium in order to gain control over the company. This is because the acquirer believes that they can create more value with the new company than the existing owners could.

In this light, Robert, Lanes and Wilson (1999) identified five types of synergies that are fundamental in the calculations of acquirers: cost savings, revenue enhancements, process improvements, financial engineering, and tax benefits. According to the Boston Consulting Group (BCG), synergies are defined as the 'the source of the tangible expected improvement in earnings (calculated at an annual run rate) that occurs when two businesses merge' (Walker et al., 2016). Walker et al., (2016) stress that accurate value estimation of the synergies is essential for success in M&A deals, while firms who are overpaying are penalised in the market. In this respect, acquiring firms should announce any expected synergies before deals are made in order to avoid a down-bidding by investors. Kengelbach et al., (2013) supported the notion that shareholders reward transparency and reasoning behind a deal. Furthermore, Walker et al., (2016) found that publicly announced targets are significantly lower – 15% lower on average for cost synergies and 21% lower on average for revenue synergies – than internal synergy expectations.

A striking observation that has been highlighted by Kengelbach et al., (2018) is that while weak-economy transactions create value, deals executed during times of strong economy destroy value over a period of approximately two years. On average, the total shareholder return of strong economy transactions was 9% below weak-economy mergers. Kengelbach et al., (2018) stated two possible reasons for this difference in performance. First, acquirers tend

to overpay in strong economic times and later get penalised by shareholders for not meeting targets. Second, transactions in weak economic times have more conservative targets than those in stronger economic times, providing additional chance for value creation (Kengelbach et al., 2018).

From another point of view, Lucas (2012) identified four pitfalls of M&A transactions: inward focus on integration, failing to meet synergy targets, neglecting product cycles, and overpaying for control premiums. A striking fact has been stated by Miles, Borchert and Ramanathan (2014), the partner consultants at Bain & Company – who surveyed 352 executives in North America, Europe, and Asia – found that on average approximately 70% of companies announce synergies that are higher than the scale curve suggests (see Figure 2-1 below).

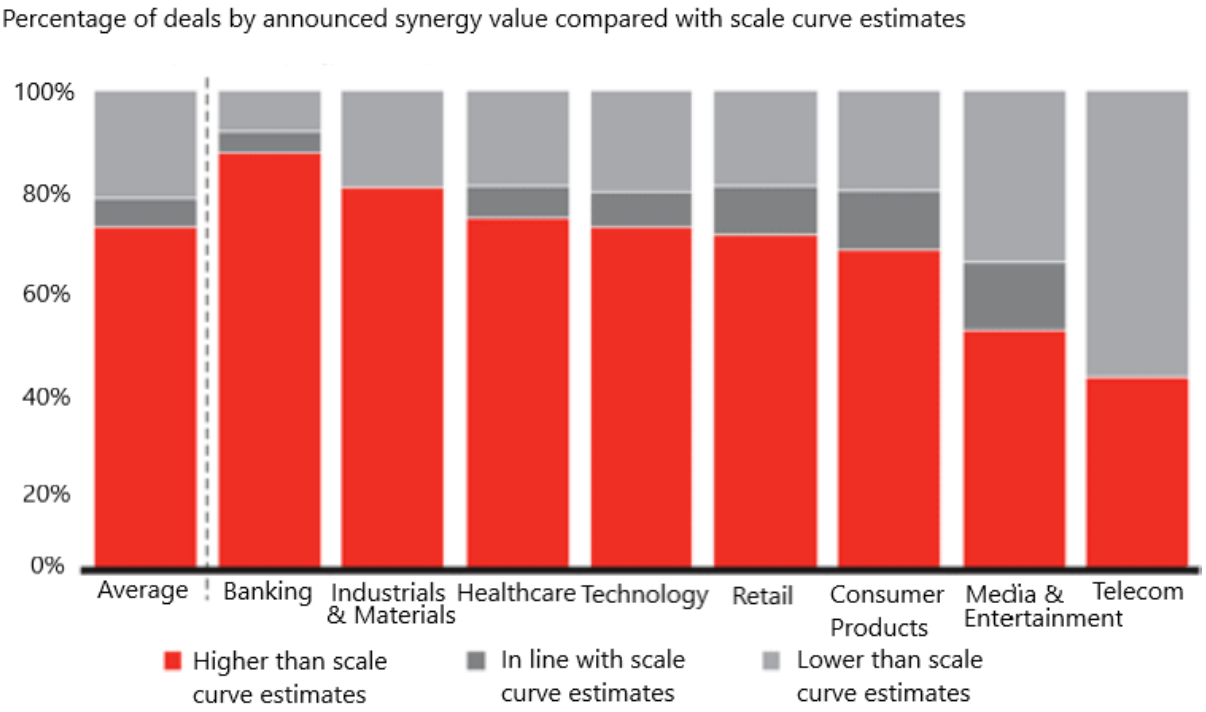

Figure 2-1: Synergies announced by Firms before a deal.
Source: www.bain.com.

Masset and Cravatte (2014), partner consultants from Deloitte, found that value destruction can happen due to gaps in transaction and integration. On the transition side, insufficient due diligence on work conducted by the acquirer, overestimation of synergies, management's emotional involvement in the deal, market volatilities, and competitive bidding processes in the beginning can destruct value. Regarding the integration gap, poor planning, failure to recognise strategic and cultural fit, absence of clear role allocation/leadership, lack of time to implement new processes, failure to retain key talent, lack of resilience in workers, and an inability to focus on core activities in order to maintain daily business can all have an adverse

effect on expected outcomes (Masset and Cravatte, 2014; Miles, Borchert and Ramanathan, 2014).

In a nutshell, benefits of M&A transactions for the real economy are controversial. Unlike greenfield investments, M&A do not add new productive assets. Entering a new market without large investments into Property, Plant, and Equity (PPE) is a less risky strategy, especially when the market outlook is murky. However, M&A are still considered to be value creators for economies of scale, internalising costs, creating/combining services, and other synergies. In this light, Lewis and McKone (2016), partners at L.E.K. Consulting suggest asking two key questions in order to mitigate the risks before pursuing M&A transactions: first, 'how will the deal help our customers to complete their journey?' and second, 'is the deal using our foundational assets to create value in a different context?' (Lewis and McKone, 2016). Others, such as Haas and Phillips (2015), partner consultants at AT Kearney, encourage multiple M&A deals per year by arguing that frequent buyers increase value faster and that Wall Street rewards those companies.

Ferraz and Hamaguchi (2002) argue that M&A have replaced inefficient company owners and their management with better ones. , Murat Colakoglu, partner at PwC Turkey, cited by Stevenson and Pascoletti (2015), has stressed that on the subject of infrastructure investments, large investments are needed in energy transmission and gas distribution. However, investors have to pay attention before acquiring State-Owned Enterprises (SOEs). Colakoglu highlighted that many of the state-operated facilities were old and required larger investments than equivalent greenfield investments (Stevenson and Pascoletti, 2015).

At this point it is striking that there is a major abyss between academics (not operating in consulting) and consultants; while the former group questions the benefits and real value of such deals, the latter encourages M&A transactions. Companies engaging in M&A transactions before the subprime crisis in 2007/2008 were the biggest losers after the companies who started investing in Turkey in the pre-period of 2013. Almost all firms faced huge financial pressures and were forced to restructure their credits.
The final remark for this section comes from Ellis Baxter of the Harvard Business Column: 'In the end, M&A is about buying more volume. It is a flawed process, invented by brokers, lawyers, and super-sized, ego-based CEOs' (cited in Heskett, 2004).

The next section focuses on the financialisation literature in EMEs.

2.3.3. Financialisation in emerging countries

According to Guillen (2014), from a historical viewpoint, financialisation has been linked to a transition, where the hegemonic power of the moment attempts to use its monetary and financial domination to preserve its position. There is a wide range of literature existing in developed countries that supports the notion of financialisation. In this context, financialisation can be understood as a process whereby the engagement of NFCs in financial activities increased due to falling profit margins within the real economy since the 1970s. Deregulations on financial markets enabled the participation of NFCs in the realm of finance, which was primarily only accessible by financial institutions before. The increased interest of NFCs in financial assets spurred the creation of innovative financial products and simultaneously provided an alternative income channel to companies' core businesses (Orhangazi, 2008).

In this light, Milberg (2008) stated that liberalising policies during the 1970s boosted interest rate differentials, which widened the rate of return between real and financial sector. In this light, Eichengreen (2004) suggests that international financial markets are more diversified and less regulated, and hence more open, as it makes them more prone to externalities. This provides private investors the opportunity to maximise their individual returns. Eichengreen (2004, p. 6) states that:

> The removal of capital controls and liberalisation of domestic financial markets means that keeping the exchange rate low and domestic savings high no longer guarantees that additional investment will be cantered in the traded goods sector. In the present deregulated financial environment, there is a tendency for loose credit conditions to pump up investment in non-tradables, notably property, fuelling building booms and heightening financial fragility.

Financial liberalisation has been the most important institutional factor for regulators in transforming the regime of accumulation (Agliette and Breton, 2001). Enhanced through information and communication technology, asset price inflation driven by debt changed corporations' business strategies. Therefore, Agliette and Breton (2001) placed the stock markets at the core of their research, and so within the changed system those were the driving forces. Akyüz (1993) suggests that financial liberalisation eased operations for investors globally and eased the trade of in foreign currency denominated assets. However, the ample supply of capital on the international markets brought new challenges for domestic authorities with to hot money inflows resulting in a deterioration of domestic currencies current accounts and so making countries more reliant on foreign capital (Akyüz, 1993). 'Under conditions of

capital account liberalisation, the exchange rate becomes just another asset price that can be subject to speculation' (Arestis, Ferreiro and Serrano, 2014, p. 30).

In this context, Kaltenbrunner and Painceira (2018) argue that the recent financial transformation in EMEs displays tendencies similar to those in AE whereby these changes are fundamentally shaped by their subordinated integration into a financialised and structured international monetary system. Furthermore, Kaltenbrunner and Painceira (2018) stress that the 2007/2008 crisis became a global financial crisis due to the interconnection of the U.S. financial system and the global financial system. After the end of the gold standard, the U.S. established themselves as the 'issuer of world money, which profits from those uneven monetary relations and cements its position on the top of the international monetary hierarchy' (Kaltenbrunner and Painceira, 2018, p. 16). This constellation puts EMEs into a subordinated role in international financial relations.

In the aftermath of the double crisis in Turkey in 2001/2002, regulatory changes resulted in a rise of capital inflows. The increase in capital inflows caused an appreciation of the Turkish Lira (TL), which made borrowing in foreign currencies cheaper. In order to increase profitability, large corporations turned towards Foreign Exchange (FX) loans instead of TL loans. In the early 2000s, Turkey's private sector foreign debt was 50 billion USD (1/3 of total foreign debt), by the end of 2014 this stood at 275 billion USD (2/3 of total foreign debt). The foreign debt stock of NFCs also soared from 33 billion USD in 2013 to 118 billion USD by 2014 (Demiröz and Erdem, 2018).

In May 2018, CBRT's (2018c) analysis showed that corporate FX loans/FX-indexed loans (from here onwards referred to as FX loans) stood at 335 bn USD, comprising of 293 bn USD of FX loans and 42 bn USD of import-related loans. FX debts increase a country's overall vulnerability to external shocks and in most cases requires an intervention of the central bank. In order to reduce Turkish firms' exposure to FX risks, amendments to Decree No. 32 have been made and the president introduced a new ban on FX transactions between Turkish residents. As Minasyan and Özden (2018) explain, Decree No. 32 requires:

> all contract prices in; real and movable property sale and purchase contracts, all types of movable and real property lease contracts, including vehicle lease and financial lease contracts, employment and service contracts and contracts of work and any other payment liabilities arising from the foregoing contracts, cannot be agreed upon in foreign currency or indexed to foreign currency.

Parties who have existing agreements falling into Decree No. 32 are obligated to convert their FX agreements to TL within 30 days from the start of 13th September 2018 (Erdogan, 2018). The need for this regulatory change came after concerns were raised by the CBRT, who

cautioned of potential risks to the country's economy due to its large amounts of FX debts. However, this law does not cover the subsidies or loans given out to the energy sector. According to CBRT's (2018c) report, 88 firms held FX loans with a value of over 500 million USD, 2,250 firms held loans with a value over 15 million USD, and approximately 44,000 companies held loans with a value of less than 15 million USD (see Figure 2-2 below).

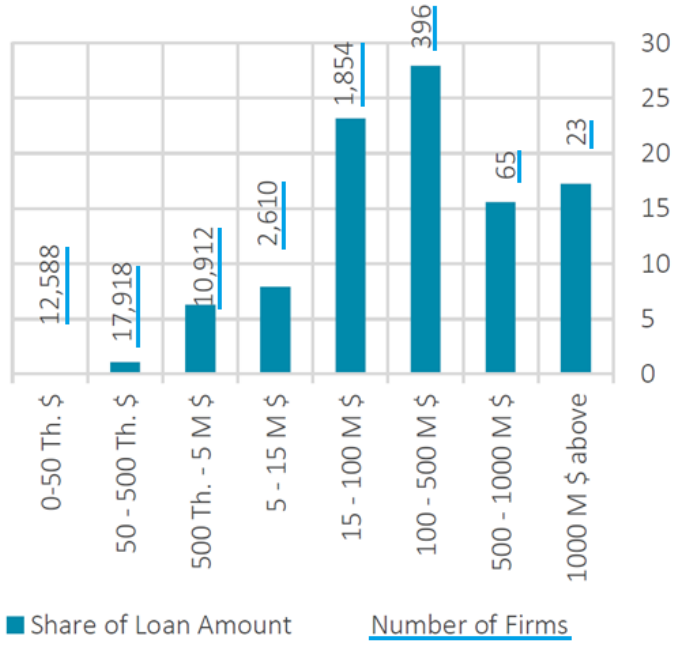

Figure 2-2: Breakdown of FX Loans by Corporate Loan Balances in Percentage.
Source: http://www.tcmb.gov.tr.

Approximately 15% of total FX loans are held by small companies. The total amount of FX loans is considerably low; however, considering that those small firms do not have FX incomes, their exposure to FX risks are higher than those companies with FX income (CBRT, 2018c). It is concerning that approximately 80% of FX loans, 20 bn USD, are held by 15,600 firms and are due within three years.

Since February 2018, volatilities in FX rates have increased the volume of derivatives (see Figure 2-3). However, despite the rising number of financial instruments, the number of firms with FX debt engaging in those transactions is relatively low, approximately 10% of the 45,000 firms. CBRT recommends that large companies have hedging strategies in place in order to protect against currency volatilities (CBRT, 2018c).

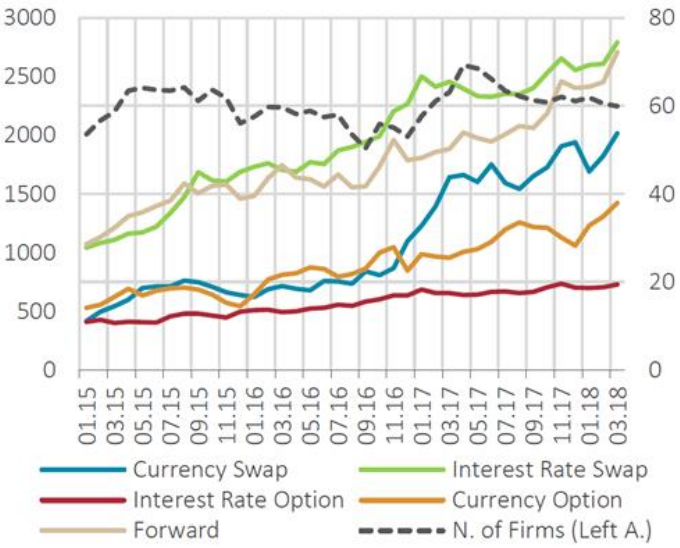

Figure 2-3: Breakdown of Derivatives Transactions by Type (Billion TL).
Source: http://www.tcmb.gov.tr.

Domestic financial constraints have contributed to the increased engagement of NFCs in financial markets and their rising indebtedness. Between 2004 and 2014, the debt of NFCs in EMEs rose, on average, by 26% of the GDP to 18 trillion USD. In contrast, the debt of Turkish NFCs has grown at above average rates over the last decade, rising by 44% of GDP to 69% of GDP (Cecen et al., 2016).

FDIs to emerging markets

From a different point of view, Khanna and Palepu (2011) argue that the dominant traits of EMEs are institutional voids that enable efficient business operations. These voids can be in the form of underdeveloped financial systems, absent or weak intellectual property rights, services providers, or the use of big data. However, these voids provide opportunities for local firms and MNEs. In this context, DECs present great growth opportunities for developed countries and their MNEs. FDIs are the largest external liability in DECs and are simultaneously their main debit in their current accounts. In a few countries – i.e., Latin American countries – the FDI income of MNEs counts as a big liability for economies. However, FDI income increases with economic growth and shrinks when the economy deteriorates. There are policies in place that aim to withdraw portfolio investments during economic downturns; however, FDI income is not subject to such policies. Given the considerable amount of FDI income in DECs, some officials have already started adopting measures to restrict FDI income repatriations during difficult times (Ludena, 2014).

There are different types of capital flows, like FDIs, that may include a transfer of technology or human capital. These flows can boost long-term growth (Obstfeld, 1998; Stiglitz, 1998b). In

this aspect, Ghosh, Qureshi and Sugawara, (2014) found that the composition of foreign capital inflow matters. Generally, foreign capital inflows lead to volatilities within the macro-economy and increase susceptibility to financial crises. Ghosh, Qureshi and Sugawara, (2014) found that while FDIs are the safest types of investment, portfolio flows are the riskiest. Furthermore, overvalued currency and rising credits of residents are the underlying aspects that accelerate foreign capital inflows to emerging economies and ultimately lead to a crisis (Ghosh, Qureshi and Sugawara, 2014).

However, FDIs come with their advantages and disadvantages. Advantages include:

- FDIs allow technology transfer and managerial know-how that can contribute to an increased output in the host country (Borensztein, Cowan and Valenzuela, 2007);
- FDIs provide an additional income source for local governments in terms of taxes and increasing employment;
- MNEs will train local workers and transfer foreign best practices to improve skills of the workforce;
- Risk diversification for capital owners through spreading their lending and investments activities in various areas;
- Countries increasingly endeavour to adapt and implement best practice, i.e., corporate governance, legal systems, and accounting frameworks to attract more investors;
- International markets reward 'good' governments by increasing investment activities and vice-versa punish governments who pursue bad policies (The Economist, 2016c).

The main disadvantage of FDIs are that the opening up of domestic markets can create major risks and result in various crises, such as those seen in the 1990s in Latin America, Russia, and Turkey. Bosworth and Collins (1999) mainly attributed these risks to countries with a relatively inexperienced financial system and weak regulatory oversight. However, the ultimate question is: 'do the benefits of FDIs outweigh the risks for developing countries?' This question has been answered with a strong 'yes' by Bosworth and Collins (1999).

It is important to understand the origin of FDIs. FDI inflows to Turkey by region indicate that Europe (the blue line in Figure 2-4) accounted for greater than 80% of total FDI inflows to Turkey in the period 2002–2006 (except for in 2005). In 2007, Europe's share decreased to 67.80% after a rebound in 2009 to 83.75%. A steady decline in total FDI inflows from Europe followed and it stood at 64.37% in 2016. The main investors from Europe were Germany, Austria, Belgium, France, Netherlands, United Kingdom, Spain, Luxembourg, and Switzerland.

North America (the orange line in Figure 2-4) generally accounted for less than 10% of total FDI inflows to Turkey, except for two years – 2007 with 24.65% and 2015 with 13.50% (Ministry of Trade, 2018). The main investor from North America was the U.S.. Asian FDIs (the green line in Figure 2-4) had a very volatile pattern until 2008. After taking a hit in 2009, Asian FDIs showed growth in 2010 and then stood at a comparatively steady range of 20% of total FDIs inflows to Turkey. Investments from Africa (the red line in Figure 2-4) are approximately 3.5% for the period 2002-2016 of total investments while the highest FDIs came in 2013 with 2.23% of total FDIs. Other countries that invested in Turkey were the Gulf states, near and Middle Eastern countries (such as Azerbaijan), and other Asian countries (like China and Japan; Ministry of Trade, 2018).

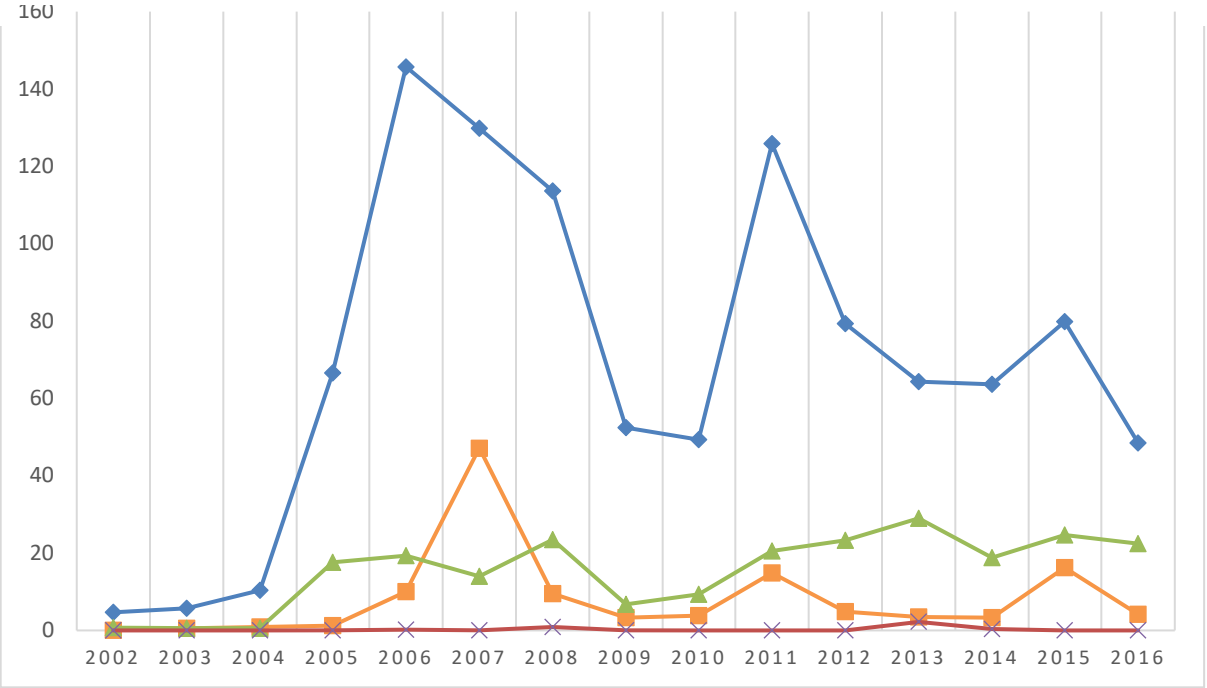

Figure 2-4: FDI Inflows to Turkey by Regions (Blue – European FDIs), Orange – North American FDIs, Green – Asian FDIs and Red – African FDIs (M USD).
Source: www.economy.gov.tr.

By the end of 2014, 42,150 companies with foreign capital were registered in Turkey. Almost half of the companies (19,469) were from Europe. Germany ranked first with 6,070 companies, followed by the United Kingdom with 2,781 companies and the Netherlands with 2,453 companies. The second largest region that was represented, with 11,508 companies in Turkey, were from near and Middle Eastern countries (Ministry of Trade, 2014).

Host countries hope to benefit from FDIs through the creation of new jobs and a reduction in unemployment rates via technology transfer. However, a closer look into the nature of FDIs in Turkey shows that FDIs aim to purchase existing businesses or have been used for M&A, moreover acquisitions, rather than greenfield investments. The core aspect is that FDIs aim

to purchase production facilities in emerging markets in order to lower foreign companies' production costs (Yeldan, 2008a).

In support of Yeldan (2008a), Chaisrisawatsuk and Chaisrisawatsuk (2007) argued that there is an interdependency between investments from abroad and the imports of the host country. FDI flows displayed a feedback effect to exports amongst the trading partners. The more investments that flow into a country, the more the economy becomes dependent on the MNEs' home country, e.g., technological transfer. The importing country has to import more and more from the MNEs' home country, which might in turn distort economic development in the host country (Chaisrisawatsuk and Chaisrisawatsuk, 2007).

In this context, the effectiveness of capital controls has been investigated by Chamon and Garcia (2014) by looking into Brazil's case in particular. From late 2009 until mid-2011, the Brazilian government adopted capital controls that proved to be effective and partially segmented the Brazilian financial market. Tobin tax, an idea that was first introduced by Keynes (1936), suggests a taxation of ten per cent on all FX deals in order to reduce disruptive short-term speculation in FX markets (Chamon and Garcia, 2014). Tobin tax can reduce speculative investments and promote monetary policy. Furthermore, it can contribute to tax revenues and weaken financial interest vis-à-vis economic interest (Palley, 2001). The downside of Tobin tax is that it might channel funds to other countries (Mehta, 2013). However, in cases where the local government attempts to hinder the profit repatriations of MNEs, companies will be more inclined to transfer pricing, base erosion, and profit shifting, which is currently addressed by the Organisation for Economic Co-operation and Development (OECD) (OECD, 2018). For instance, the U.S. adopted the Tax Cuts and Jobs Act (TCJA) in order to provide incentives for the profit repatriation of U.S. firms. The Board of Governors of the Federal Reserve System estimated that U.S. MNEs held approximately 1 trillion USD in cash abroad in 2017. The TCJA states that tax has to be paid only where profits are made, which did not require companies to pay the U.S. taxes when repatriated (Smolyansky, Suarez, and Tabova, 2018). According to the TCJA, instead of the 35% corporate tax rate, firms have to pay 15.5% on cash and 8% on illiquid assets when repatriated to the U.S. (Davison and Chandra, 2018).

In this light, Dymski (2018) stated that after the disintegration of Money-Centre Banks (MCBs) in the late 1970s, two fundamental changes happened. First, depositors turned towards money-market mutual funds and, second, large-cap companies engaged directly in credit markets for external funds. These drastic changes forced the restructure of MCBs business activities, which resulted in a higher engagement in DECs (i.e., Latin America). At the same time, the liberalisation and deregulation policies that were advocated by the International

Monetary Fund (IMF) provided entry points for large banks into DECs. Under the pretext of adjustment programmes in the aftermath of economic crises in DECs, IFIs systematically eroded next to governmental institutions the banking capacity of those countries – who were not able to compete against their advanced counterparts from AE – via financial deregulations (Dymski, 2018). 'Developing countries' vulnerabilities are not due to their failure to organise themselves and to create policy space for themselves; they are bound within the constraints imposed by a world whose policy parameters are shaped by unregulated international financial markets' (Dymski, 2018, p. 5). Figures 2-5 and 2-6 demonstrate that from 2009 onwards the current account positions of both of DECs and AEs change.

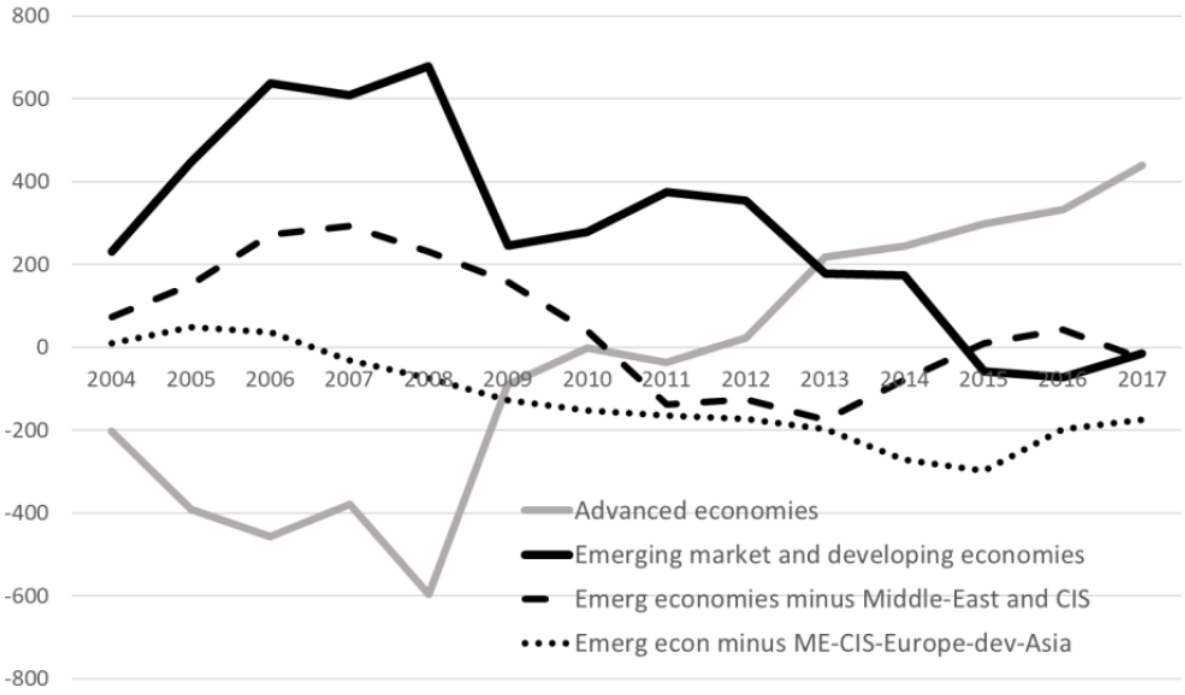

Figure 2-5: Current Account Position, Selected Global Areas Between 2004-2017; Y-Axis: billion USD; X-Axis: years.
Source: Dymski, 2018 – IMF.

Prior to the subprime crisis of 2007/2008, DECs held a current account surplus that was mirrored in the deficit of AEs. However, the current account positions held by DECs and AEs shows a reversing pattern, which is primarily driven by austerity policies in AEs (Dymski, 2018). Data on the net international investment position for the period 2009–2016, retrieved from BIS, strengthens the findings of the inverse relationship shown in Figure 2-5. Figure 2-6 highlights the shift of DECs from net creditor positions towards net debtors, while the contrary is the case for AEs (Dymski, 2018).

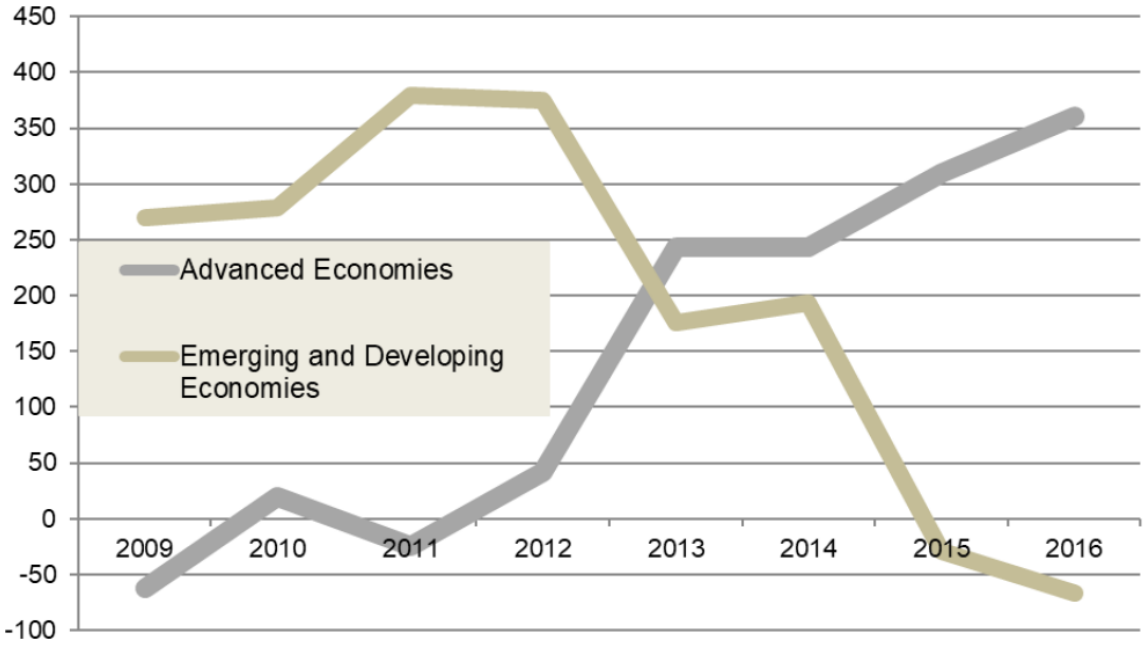

Figure 2-6: Net International Investment Position, Advanced Economies in Contrast to Emerging Economies in Billion USD.
Source: Dymski, 2018 – Bank for International Settlements (BIS).

In this context, Bräuning and Ivashina (2017) state that central banks usually focus on their domestic economy and neglect any potential international spill-over effects of their policies. As soon as the U.S. central banks turn towards a contractionary monetary policy, domestic banks in the debtor countries come under pressure. Bräuning and Ivashina (2017) found that cross-border interbank claims in EMEs vis-à-vis mature markets rises with quantitative easing by the U.S. Bräuning and Ivashina (2017) estimate that U.S. monetary quantitative easing increases loan volumes to EMEs by 32 percentage-points, which analogously decreases by a similar amount with a policy reversal. Furthermore, there is a strong link between the availability of bank credits to EMEs and U.S. monetary policy.

In a similar vein, Bhattarai, Chatterjee and Park (2015) found that U.S. expansionary central bank policies have significant effects upon EMEs, such as: an exchange rate appreciation, a reduction in long-term bond yields, and an increase in capital inflows. The findings of Bhattarai, Chatterjee and Park (2015) are more pronounced for Turkey than for other emerging markets. This is further supported by the findings of Robert, Subrata and Garima (2014), who stated that unconventional monetary policies increase capital flows to EMEs and cause unpleasant effects, such as a rise in asset prices and exchange rates. Altunok et al., (2016) supported Robert, Subrata and Garima (2014) by drawing upon Turkey's case and showing that quantitative easing increases the credit supply in Turkey. In this context, Rajan (2014)

cautioned about the far reaching and unfavourable effects of monetary policies and highlighted the fact that local authorities' measures are not successful against global forces.

Following Turkey's financial liberalisation in 1989, NFCs had easier access to funds on international financial markets, which provided an opportunity to invest into financial assets along with investments in fixed assets. 'In Turkey after the liberalisation, the high interest rates resulted in a downward slide of the investment function and there was no improvement in fixed capital formation' (Bedirhanoglu et al., 2013, p. 214). In the case of Turkey, the country's Gross Fixed Capital Formation (GFCF) correlates with events taking place within the global economy. For instance, the 1997 Asian currency crisis caused a drop in Turkey's GFCF to Gross Domestic Product (GDP) from 26.42% in 1997 to 19.91% in 1999. This crisis has been followed by Turkey's own economic turmoil, which caused a further decrease in GFCF to 18.07% in 2001. The subprime crisis that began in 2007 caused a similar pattern to its predecessors by creating a fall in GFCF from 28.10% in 2007 to 22.38% in 2009 (WB, 2018c).

One of the early authors that explained financialisation was Arrighi (1994). He described the engagement of NFCs in finance due to falling profit rates within the real sector. This fall in profit rates was the turning point of NFCs towards alternative income channels, i.e., financial instruments. Capital started shifting from the sphere of production towards finance. Arrighi (1994) describes this as the decline of industrial hegemony and the beginning of financialisation. In this context, Lapavitsas (2013) argued that financialisation provided high returns on the financial markets, which caused the absorption of productive capital. The increased capital accumulation and changing investment behaviour of NFCs in EMEs has been documented by many scholars (Akkemik and Özen, 2014; Araujo, Bruno and Pimental, 2012; Bahce et al., 2014; Bedirhanoglu et al., 2013; Correa, Vidal and Marshall, 2012; Demir, 2009a; Demir, 2009b; Demir, 2007; Demiröz and Erdem, 2018; Farhi and Borghi, 2009; Kaltenbrunner and Painceria, 2018; Kalinowski and Cho, 2009; Rethel, 2011; Shin, 2012; Tellalbasi and Kaya, 2013). Araujo, Bruno and Pimental, (2012) noted a growth in financial accumulation in Latin American countries in the aftermath of the implementation of the WC. Correa, Vidal and Marshall, (2012) stated that the Mexican government contributed to a more finance-led growth regime. Crotty and Lee (2002) found similar results after the implementation of IMF policies in South-Korea. Rethel (2011) elucidated Malaysia's interventionist policies and found three main elements; 'a shift in corporate and household financing patterns, the emergence of high-end securitisation, and the transition from state investment to mass investment in Malaysia's state-led unit trust industry' (Rethel, 2011, p. 493). Furthermore, Rethel (2011) emphasises that not just external influences contributed to changes in financial markets, and in fact the origins lie deeper in the structure of local institutions.

Financialisation in the context of international trade has been discussed by Blecker (2001), while (D'Arista, 2005) discussed financialisation with regards to financial crises. Lapavitsas (2011) highlights the reorientation of banking activities since the 1970s: First, banks started targeting individuals and households as source of income; second, banks positioned themselves as mediators on financial markets to earn from spreads and transaction fees (Lapavitsas, 2011). Lapavitsas' (2011) explanation accounts for the increased lending activities of banks towards individuals and households that were one of the main driving forces behind the subprime crisis in the U.S.. The expansion of household indebtedness among emerging markets was observed by Rethel (2011) for Asian countries; Dos Santos (2013; 2011), Ergunes (2009), Karacimen (2014) and Painceira (2012) for Latin American countries, Poland, and Turkey; Ashman, Fine and Newman, (2011) for South Africa; Becker et al., (2010), Cetkovic (2011) and Gabor (2010) for Eastern Europe. Marois (2011) argued that in the post-crisis era in Mexico and Turkey the role of finance became a dominating role within the economy.

Focusing on NFCs in EMEs, Demir (2009a, 2009b, 2007) found that for Argentina, Mexico and Turkey, foreign capital inflows in form of portfolio investments or FDIs encouraged domestic NFCs to invest more in short-termed high yielding speculative financial investments rather in fixed assets, while financial liberalisation does not contribute to imperfections on capital markets. Farhi and Borghi (2009) and Rossi Junior (2013) highlight the increased engagement of NFCs from emerging markets in financial activities in the form of speculative foreign exchange derivatives. Dymski (1999) highlighted the potential negative outcome in form of Minsky crises. The channelling of capital flows into financial markets lead to price inflation that inadvertently increases the tendency of NFCs to become more vulnerable to shocks on markets (Eichengreen, 2004). The rising level of indebtedness might lead to susceptibility; hence, larger funds are needed to service debts.

In the context of Turkey, Akkemik and Özen (2014), Demir (2009a; 2009b; 2007), Demiröz and Erdem (2018) and Tellalbasi and Kaya (2013) argue that Turkish companies are shifting working capital towards financial investments – i.e., real-sector savings are being used in short-term speculative investments instead investments into long-term projects. On the other hand, Bahce et al., (2014) and Bedirhanoglu et al., (2013) defer from such a conclusion, even though the authors acknowledge the rising importance of financial investments. The authors conclude that 'it cannot be argued that profits made in the financial realm are "systematically" higher in contrast to those in the non-financial sector' (Bedirhanoglu et al., 2013, p. 227).

Demir (2009a; 2009b; 2007) indicates a trend of Turkish companies channelling their funds from real-sector savings towards speculative short-term investments. These short-term

expenses hinder investments into long-term projects. Furthermore, an 'increasing uncertainty, real-interest rates and capital flow volatility have a significantly negative effect on manufacturing firm profitability in Turkey' (Demir, 2009a, p. 11). Demir (2009a) suggests that an increase in financial activities by the same firms help to mitigate risks in sudden market volatilities. In this respect, Demir (2009a; 2009b) stated that investments into financial assets provided high real-interest rates combined with the advantage of fast liquidation, which is in contrast to the irreversible fixed-asset investments in cases of economic downturn.

In support of Demir (2009a; 2009b; 2007), Akkemik and Özen (2014) argue that Turkish firms channel their capital from the sphere of production towards finance in the form of short-term investments into high-yielding and interest-bearing assets. Along the same line, Tellalbasi and Kaya (2013) reason that financialisation caused a transformation in the modus operandi of NFCs by increasing their profits earned from non-core operations through speculative transactions in financial markets, which adversely affects fixed investments. Chapter 6 of this thesis will provide more details.

The following section provides an overview of the change in political and economic ideology in Turkey.

2.3.4. The path of financialisation in Turkey

With regard to Turkey, Bugra and Savaskan (2014) employ a historical institutionalist approach. They focus on the transformation in the institutional setting of capitalist relations, where political interventions are subjected to the state. They provide insight into Turkey's economy and culture as conceptualised by political interventions and state-society relations, which are influenced by the dynamics of economic globalisation. Within the same context, Yalman (2009b) provides a class-based analysis of the political economy in the light of neoliberalism of modern Turkey, starting from the republic of Turkey up until the 1980s. He draws upon Gramscian ('organic intellectuals') and Marxist theories to elucidate the Turkish state-society relations. In contrast to Bugra and Savaskan (2014), Yalman follows a Weberian approach to display the independence of capitalists (economic) from Turkish bureaucratic elites (politic) in order to illustrate the absolute autonomy of the modern Turkish state. Marois draws up on a historical materialistic analytical framework by using four premises to build his arguments on; the first two elements are states and banks as social relations, the third element

is that crises are essential for emerging finance capitalism, and the final element is labour forming the main foundation to abstract value (Marois, 2011). Marois (2011, p. 3) argues that:

> The neoliberal element is premised on the defeat and on-going repression of organised labour's capacity to resist market-oriented structural adjustment alongside the intensification of profit and labour productivity imperatives since the 1980s. The finance-led element involves Turkish state and government elites developing new institutional capacity to absorb, socialise, and manage the accumulation of risks of foreign and domestic financial capital at times of crisis.

Subsequently, Marois (2011) states that, in the case of Turkey, financial crises were resolved by systematically reinforcing and strengthening the financial capital among classes and was never politically neutral.

From a different point of view, Heper argues that Turkey has a strong state tradition, whereby state elites and governmental institutions play a dominant role within the society and economy vis-à-vis actors outside the state-led structure (non-state units) (Heper, 1985).

Metz reasons from a historical viewpoint, by stating that the Ottoman Empire established a strong tradition of government direction of the economy. Furthermore, Metz (1995) suggests that the Ottoman economic doctrine attributed to the state both the right and the duty to control the economy for the common good. By doing so, the state controlled a large proportion of the land and suppressed power centres, blocking the development of a landed aristocracy (Metz, 1995). On similar lines, Gürbey states that, 'The Ottomans were convinced that the only way to maintain an ethnically, religiously and linguistically heterogeneous empire was through empowering the state apparatus and repressing groups that could potentially challenge their power' (Gürbey, 2006, pp. 7-8). The inherited attitudes from the Ottoman Empire continued to play a role in the Turkish political economy throughout the late twentieth century (Metz, 1995).

Metz (1995) claims that the sharp reorientation of Turkey's economic policies after 1980 included a repudiation of much statist doctrine, which, however, still influenced Turkish economic thinking. Inasmuch as Atatürk had declared that once Turkey had reached a satisfactory level of development, certain SOEs could be returned to private control; the post-1980s economic reforms perhaps could be considered a continuation of one aspect of the original statist program. Metz (1995) highlights that in the mid-1990s several sectors were dominated by SOEs. Those sectors were either considered of national importance such as

energy, transportation and communication, or private investors were reluctant to invest in them.

The neoliberal era in Turkey started with Turgut Özal, Turkey's 26th Prime Minister, taking office in the 1980s (Cosar and Yegenoglu, 2009). In the context of neoliberalism, Hayek and Smith suggested that dictatorship may be a necessary system for a transition period. At times it is necessary for a country to pass through some form of dictatorial power. 'When you have the invisible hand on your side, destroying obstacles to the market is just helping nature (in Adam Smith's words) to remedy the 'bad effects of the folly and injustice of man'' (Lebowitz, 2004, p. 2).

Consistent with this view, Özal was a technocrat with an authoritarian leadership style, who contributed briefly to the recovery of the Turkish economy (Acar, 2002). Önis (2004) claimed that Özal's style of leadership was appropriate to the time, as it enabled a smooth transition to neoliberalism. With this in mind, Friedman (1970) stated that not every politician and/or bureaucrat in an emerging market is open to political change that is linked with a tremendous change towards economic liberalisation.

Karatasli (2015) and Önis (2004) argue that, in contrast to Latin American countries, Turkey's neoliberalism process was not initiated by foreign interest groups. According to Acar, while Özal was studying in the U.S., his experience marked him profoundly; 'American society's technological development, glittering lifestyle of consumption and opulence along with its emphasis on freedom, individualism, and mobility provided the basics of his model of development for Turkey as well as for his personal, professional, and political life' (Acar, 2002, p. 164).

Unlike the 'Chicago Boys', Özal was loyal to the traditional and cultural values of Turkey (Karatasli, 2015; Önis, 2004). Önis claimed that despite Özal himself having worked in high managerial and influential positions, he was a repudiator of power concentration within the top layer of bureaucratic elites, and a critic of the étatiste concept (Önis, 2004). Birand and Yalcin support this argument by drawing a comparison to Pinochet's Chicago Boys. Özal encouraged intellectuals, known as 'Özal's princes', to come back to Turkey and take up high managerial positions within the public sector to revitalise the domestic economy with their know-how, whereas the Chicago Boys lead to the demise of Chile (Birand and Yalcin, 2001). There is vast literature on the implementation of neoliberal reforms, pushed by technocrats who were supported by or received their education in the U.S. (Babb, 2004; Fuentes and Valdeavellano, 2015; Klein, 2010; Kiely, 2016; Mitchell, 2002; Opazo, 2016; Sadowski, 1991; Saunders, 1999; Stewart, 1997). Önis listed the single steps for emerging countries like Turkey who adopted

neoliberal policies. First, it was an inevitable move to counter the balance of the payment crisis and failed industrialisation; second, a dedicated and powerful leader created trust among external and powerful lenders; third, to maintain the changed conditions it needed consent and backing from the wider public (Önis, 2004).

In regard to powerful lenders, Krueger stated that in January 1980, the IMF in cooperation with the WB, implemented one of its very first reforms in Turkey. The reform established a more flexible exchange rate regime, devaluated the TL, and liberalised the trade regime. Furthermore, price controls on SOEs eased, and structural reforms were implemented in the banking sector. All these measures focussed on the reduction of fiscal debts and on bringing the inflation rate under control; however, there was little success of this program (Krueger, 2004a, 2004b).

1989 was a turning point for the Turkish economy, as the focus shifted from inward-oriented to an export-oriented economy (Önis, 2004). This change came however, with a few drawbacks. Ersel (1996) states that Özal, despite criticism of the CBRT, pushed through the liberalisation of the capital account in 1989. According to various scholars such as Alper and Önis (2003), Ersel (1996), Rodrik (1991), and Özgüzer (2012) Turkey's capital account liberalisation was premature due to the under-regulated financial system and macroeconomic instability within the country. Despite his impact on Turkey's economic growth and his positive contributions, Özal made one major mistake; he neglected the establishment of a strong legal infrastructure, which was indispensable for a market economy and upholding the rule of law (Önis, 2004). Özal's neglect of effective rule of law was not in line with Lippmann's (1937) and Smith's (1991) notion about the needs of a free market economy.

Boratav, Yeldan and Köse, (2000) explain that after the capital account liberalisation, Turkey's Public-Sector Borrowing (PSB) to GDP stood at an average of 4.5% between 1981-1988, while the figure surged to 8.6% for the period 1989-1997. A fundamental change in PSB financing took place after the removal of interest ceilings, where at the same time the Turkish private sector experienced soaring real interest rates as never before. To cover PSB needs, the government issued government debt instruments to domestic banks. Boratav, Yeldan and Köse explained that: 'The public sector has been trapped in a short-term rolling of debt, a phenomenon characterised as Ponzi-financing in the fiscal economics literature. For this scheme to work, however, domestic financial markets required the continued inflow of short-term capital inflows' (Boratav, Yeldan and Köse, 2000, p. 25).

Turkey's policies in form of high real interest rates and overvalued currencies were negative for the productive sphere of the economy, by discouraging exporters and producers, and leading to a deterioration of trade deficits (Boratav, Yeldan and Köse, 2000). Yeldan found that the IMF had been involved with the macro management of Turkey between 1993 and 2003. The Turkish economy post-crisis followed a high interest rate and overvalued exchange rate policy, to attract capital from international investors. Yeldan (2006) argues that this stabilisation package was detrimental rather than beneficial for the economy, as it reduced agricultural subsidies, diminished the public-sector role in the economy and accelerated privatisation. Yeldan stated that the CBRT lost control over fiscal policy instruments, exchange rate and interest rate, which quickly turned into exogenous parameters determined by global markets. Turkey's liberalisation resulted in a high dependency on hot money inflows to the Turkish economy. These short-term speculative flows had been used to finance budget deficits, which resulted in an exacerbation of Turkey's economic situation (Yeldan, 2006).
Yeldan stated that speculative-led growth - 'hot money' inflows – shrank the size of the public sector considerably, which resulted in the deterioration of the public health sector. In regard to Williamson's (2000) Washington Consensus (WC) and the point of privatisation, Yeldan (2007, p. 30) says that in Turkey:

> Originally the privatisation ideology was based on 'economic efficiency' arguments based on the myth that private sector decisions are always rational and efficient, whereas the public sector is inherently corrupt and its policies lead to waste… in Turkey, as elsewhere, privatisation meant corruption, rent seeking, and unlawful episodes aimed at transferring public property to the domestic and international capital at fire-sale prices.

Boratav supports Yeldan's (2007; 2006) findings, stating that 'in 1998-2002, the IMF used Turkey as an experimental laboratory for testing their inflation-targeting models, whereby this experiment caused an unprecedented economic crisis in Turkey' (Boratav, 2017b). The absence of the rule of law in the banking sector came to the forefront during the 2001 crisis. Akyüz and Boratav argue that reckless policies and the deficiency of fiscal discipline resulted in a finically fragile environment and unmanageable public debt (Akyüz and Boratav, 2003). According to Alper and Önis, in the case of Turkey, 'whilst the IMF itself is an inherently political institution, it seems to have underestimated the inherent political problems associated with building an effective regulatory state needed in the era of financial globalisation' (Alper and Önis, 2003, p. 22).

Yeldan (2007) highlights Boratav, Yeldan and Köse's, (2000) argument by providing evidence for the growing power of transnational companies and IFIs within Turkey. At a time when domestic industries' dependence on imports increased, and Turkish corporations were forced to make capital-intensive investments by purchasing foreign technology with antagonist outcomes on local employment, the real governors of Turkey with veto power over any economic or political decision against any interest of global capital came to the fore (Yeldan, 2007). Yeldan (2006) provides evidence for the detrimental and simultaneous rising power of international organisations upon the Turkish economy. Yeldan raises awareness of foreign influence by highlighting the negative outcome for the Turkish economy after rejecting a war motion that was intended to improve the utilisation of Turkish soil by U.S. troops before the beginning of the Iraq war in exchange for 24 bn USD aid. After the rejection of this motion by the parliament, negative headlines were disseminated by IFIs and rating agencies which affected Turkey unfavourably (Yeldan, 2007).

The following example has been retrieved from an OECD report entitled 'Regulatory Reforms in Turkey: Important Support to Economic Improvement: Governance' cited in Yeldan (2007, p. 21):

> It is vital to have open communication channels in order to have continued public support for the reforms. There is a need for dissemination of the targets and the advantages of the regulatory reforms. Another benefit of this approach is to eliminate the widespread public view that the reforms are imposed from abroad. For this reason, the public perception should be treated as an important issue within the communication strategy of the government.

Cizre and Yeldan argue that the origin of the crisis in Turkey was not a result of technical or administrative mismanagement in implementing neoliberal reforms; instead they claim that the economic and political crisis emanated from external organisations outside the country (Cizre and Yeldan, 2005).

The following section, 2.3.5. External Organisations will elaborate on the influence of external organisations in Turkey.

2.3.5. External Organisations

The underlying section discusses the power and influence of major external organisations in the context of Turkey. However, due to the focus of this PhD thesis, these institutions are discussed briefly, and reference points are provided for chapters 5 and 6.

The first part will cover CRAs by providing a brief background about their role within an economy. Subsequently, the big three rating agencies (Fitch, Moody's and Standard & Poor's) will be introduced including their credit ratings for Turkey from 2001 - 2017. The second part will deliberate on the influence of IFIs upon Turkey.

Credit Rating Agencies (CRAs)

It is crucial to understand the evolvement of CRAs to appreciate their role in international finance. The main objective of credit agencies is to determine the creditworthiness of borrowers and how likely they are to be able to repay their debt. With regards to the need of credential borrowers, CRAs appeared on the market at the start of the 1900s. In 1909, John Moody published his first publicly available bond rating, focusing on the railroad sector. This was followed by Poor's Publishing Company in 1916 and Fitch entered the sector in 1924. In 1941, Poor's and Standard Statistics merged and were acquired by McGrawHill in 1966 (Sylla, 2001; White, 2010). Since then, 'the big three' private CRAs have had an uncontested dominance on the international financial markets (White, 2010).

The CRAs' role is to redress information asymmetry amongst parties, lenders, and borrowers by assessing the borrower's creditworthiness. Bond issuers with higher ratings have to pay lower interest rates, and vice-versa. There is a clear correlation between bond spreads and rating grades (Elkhoury, 2009). Credit ratings are important for countries, especially in emerging markets. Ratings can have the following benefits: increase FDI inflows, improve the country's access to international capital markets, and promote transparency of public sector spending.

In this context, Borensztein, Cowan and Valenzuela (2007) argue that the effect of the sovereign ceiling is an important externality for emerging markets and is significant in size. High public debt increases the cost of credit for private borrowers by reducing capital flows (Borensztein, Cowan and Valenzuela, 2007). Similar findings by Almeida et al., (2017) show the impact of sovereign debt downgrading on financial markets and economies. The sovereign debt ceiling affects corporate ratings asymmetrically. 'Firms with a rating equal to or above their sovereign prior to the downgrade (bound firms) are significantly more likely to be downgraded after a sovereign downgrade than firms rated below their sovereign (non-bound

firms)' (Almeida et al., 2017, p. 251). Bound firms reduce their investment activities and dependence on financial markets due to a significant increase in capital costs after the downgrading, rather than of reduced capital supply (Almeida et al., 2017).

In a similar context, Archer, Biglaiser and DeRouen (2007) investigated the importance of sovereign bond ratings in relation to a country's democratic values. It was found that political factors had little effect upon ratings (Archer, Biglaiser and DeRouen, 2007). However, in developing countries, CRAs regard upcoming elections as negative and downgrade sovereign ratings. Hence, the cost of capital for developing countries is higher in the 60-day pre-election period than it is in the post-election period (Block and Vaaler, 2004).

At this point, however, it has to be asked: 'how trustworthy are CRAs' ratings'? In 2007, in the wake of the financial crisis, CRAs received heavy critique from prominent economists such as Stiglitz:

> I view the ratings agencies as one of the key culprits. They were the party that performed the alchemy that converted the securities from F-rated to A-rated. The banks could not have done what they did without the complicity of the rating agencies (as cited in Neate, 2011).

CRAs played a major role in the subprime crisis by providing false and misleading ratings for investors, including defrauding, and over-rated debt securities of insolvent companies, and high-risk mortgage securities that were sold with good ratings (CFR, 2015; White, 2010; White 2009). Harrington, who worked at Moody's for eleven years until he resigned in 2010, had affirmed that rating agencies suffer from a conflict of interest because they are paid by the very banks and companies they are supposed to rate objectively (Neate, 2011). Harrington claims that Moody's uses a long-standing culture of 'intimidation and harassment' to persuade its analysts to ensure ratings match those wanted by the company's clients (Neate, 2011). Harrington (2011) states that 'the goal of management is to mould analysts into pliable corporate citizens who cast their committee votes in line with the unchanging corporate credo of maximising earnings of the largely captive franchise' (as cited in Hilzenrath, 2011). IOSCO (2003) also highlighted the conflict of interest that analysts at CRAs face and how this conflict of interest might affect the objectivity of their ratings. Conflicts may arise between sell-side analysts and their own firm, depending on the client and the services they have purchased. Rating issuers can be pressured to issue satisfactory ratings to their clients in return for additional purchases (IOSCO, 2003). IOSCO's (2008) report drew attention to peculiar topics, i.e., the CRAs issuing of unrequested and unsolicited lower ratings to make them solicited after they have been purchased by the client, which is as an aggressive selling strategy.

The biggest criticism of CRAs however, is towards the 'issuer pays' model (Coffee, Lannoo and Langohr, 2010; Johansson, 2010; Shorter and Seitzinger, 2009). In order to provide a better understanding of the modus operandi of CRAs, a brief background has been provided. This model evolved in the 1970s after the invention of the copying machine. At that time, technological advancement was regarded as a threat for the business of CRAs. CRAs used to only provide subscribed members with information ratings; however, since the introduction of the copying machine people could easily copy and distribute ratings amongst non-members for free. This threat gave rise to a revamp of the CRAs' business model because, at the time, the CRAs realised that bond issuers were strongly dependent on their ratings and were also willing to pay more for better ratings. After the Penn Central Transportation Company's bankruptcy in 1967 (which was at that time the largest bankruptcy case in U.S. history), bond issuers' willingness to pay for their credit ratings started rising. The asset-backed securitisation trend also started in the 1970s, before the subprime crisis, when CRAs were selling high-risk assets for the best 'AAA' credit ratings (Coffee, Lannoo and Langohr, 2010; Shorter and Seitzinger, 2009; White, 2010).

Now an interesting question: 'who regulates the CRAs and who made them so powerful?' The U.S. Securities and Exchange Commission (SEC) set the rules and requirements for Nationally Recognised Statistical Rating Organisations and CRAs. SEC's requirements set the entry standards for new competitors very high, to preclude new market entrances and preserve the exclusive club of the 'big three' rating agencies (Kingsley, 2012). Therefore, most of the criticism centres on the 'issuer pays' model, whereby bond issuers pay for their initial rating and the subsequent ratings. The advantage of this model is that potential investors have free access to bond ratings; on the other hand, bond issuers are paying and are willing to pay more in order to receive a better rating (CFR, 2015; Coffee, Lannoo and Langohr, 2010).

In this regard, the credit rating sector is monopolised by the big three. According to ESMA (2017), the big three hold more than 90% of the market share. Standard and Poor's (S&P) has 46.26%, Moody's has 31.27%, and Fitch Ratings has 15.65% (ESMA, 2017). White (2009) highlights the fact that regulations created this exclusive trio; hence, deregulations would be a more apt policy to increase competition and moderate ratings. White (2009) suggests that prudential regulations for financial institutions and abolishing the reliance on credit ratings would be the first step towards improvement.

The interrelation of CRAs and the U.S. government is distinctive, which is highlighted by the following event. In 2011, S&P put the U.S. rating on credit watch with negative implications after the country failed to create a credible plan to reduce the country's debt in the long term, raising the debt ceiling – S&P downgraded the U.S. from AAA to AA+ (Brandimarte and Bases,

2011). After S&P striped the U.S. of its gold-standard AAA rating, 'the yield on the benchmark U.S. Treasury ten-year note dropped from 3.5% to a 65-year low of 1.77%' (MacKenzie, 2011). After S&P downgraded the country's credit rating for the first time, the president of S&P – Deven Sharma – was forced to leave (Neumann, 2011; The Telegraph, 2011). A good relationship with the big three CRAs can lead to better credit ratings and, according to Sebastian Mallaby from the council on foreign relations, 'the more government has power and is meddling with rating agencies, the more the rating agencies will be browbeaten into giving a generous rating to the sovereign' (CFR, 2015).

After the Greek crisis in Europe, and the big three consequently downgrading the country's rating, a ripple effect catalysed market movement and resulted in a big sell-off of Greek bonds. Further comments from the big three and major banks worsened the economic situation in Greece (Voigt, 2011).

Voices resonated within the EU suggesting that some American rating agencies, together with U.S. fund managers, were working against the Eurozone (Financial Times, 2018; Kingsley, 2012). In response, the EU tried to set up their own rating agency; however, due to a lack of funding, the project failed. A partner from Roland Berger, a strategic consultancy company, was not able to gather 30 investors to fund the initial €300 m start-up capital (Müller and Schult, 2011; Nielsen, 2013; Spiegel, 2012).

Turkey's Credit Ratings and the big three

The following section shows Turkey's ratings received from the big three. The significant influence of CRAs upon Turkey's economy was mentioned multiple times during the interviews conducted for this thesis. Turkey's rating started as a highly speculative rate and became a lower medium-grade rating. However, recent political events have pushed the country's credit rating back towards a non-investment grade (see Table 2-2, 2-5, and 2-6).

In September 2017, foreign debt amounted to 438 bn USD, which is more than half of Turkey's Gross Domestic Product (GDP) – 257 bn are denominated in USD while 140 bn are in Euro. Approximately, 91% of Turkey's foreign debt has been borrowed from investors who rely on CRAs' ratings (Özyildiz, 2018). An interesting aspect in this sense is the impact that U.S.-Turkey political relations have on the credit ratings given to Turkey; whenever political tensions are high, Turkey's credit rating falls.

Fitch

In January 2018, Fitch confirmed Turkey's rating as BB+ with a stable outlook (see Tables 2-2 and 2-3). According to Fitch (2018), 'Turkey's rating is a balance of its high external financing vulnerabilities, political and geopolitical risks, high inflation and macroeconomic volatility, against low public debt, commitment to fiscal stability and strong growth performance' (as cited in Kutlu, 2018a).

At the end of 2017, Turkey's debt/GDP ratio was estimated at 28.4%; while, in comparison, the average of EMEs was at 47.8%. Due to higher commodity exports, Turkey's current account deficit to GDP widened further by around 5.3%. Fiscal measures that have been introduced, coupled with recovery in tourism, which contributed to the growth of the Turkish economy by 6.8% in 2017 (Kutlu, 2018a).

Fitch		
Rating	**Outlook**	**Date**
BB+	Stable	Jan 27, 2017
BBB-	Negative	Aug 19, 2016
BBB-	Stable	Nov 05, 2012
BB+	Stable	Nov 23, 2011
BB+	Positive	Nov 24, 2010
BB+	Stable	Dec 03, 2009
BB-	Positive Watch	Oct 27, 2009
BB-	Stable	May 09, 2007
BB-	Positive	Dec 06, 2005
BB-	Stable	Jan 13, 2005
B+	Positive	Aug 25, 2004
B+	Stable	Feb 09, 2004
B	Positive	Sep 25, 2003
B-	Positive	Aug 06, 2003
B-	Negative	Mar 25, 2003
B	Stable	Feb 05, 2002
B	Negative	Aug 02, 2001
B+	Negative Watch	Apr 02, 2001

Table 2-2: Fitch Credit Rating.
Source: www.fitchratings.com.

Fitch		Rating description
Long-term	**Short-term**	
AAA	F1+	Prime
AA+		High grade
AA		
AA−		
A+	F1	Upper medium grade
A		
A−	F2	
BBB+		Lower medium grade
BBB	F3	
BBB−		
BB+	B	Non-investment grade speculative
BB		
BB−		
B+		Highly speculative
B		
B−		

Table 2-3: Fitch Credit Grading.
Source: www.tradingeconomies.com and https://tradingeconomics.com/turkey/rating.

Standard & Poor's (S&P)

In February 2018, S&P affirmed Turkey's sovereign credit rating as BB, creating a negative outlook (see Tables 2-4 and 2-5). S&P stressed the fact that an economic slowdown or unfruitful monetary policies to restrain inflation might lead to a downgrading of the rating. According to S&P (2018): 'We also consider that the composition of Turkey's external financing (mostly debt with little equity) and the use of the proceeds (primarily investment in construction and public consumption) represent a risk to its future economic and financial stability' (as cited in Kutlu, 2018b). Furthermore, a change in Turkey's external finance would likely hamper a roll-over of Turkey's large external debt and could cause major difficulties for corporations within the leveraged economy (Saglam, 2018).

S&P		
Rating	**Outlook**	**Date**
BB	Negative	Jan 27, 2017
BB	Stable	Nov 04, 2016
BB	Negative	Jul 20, 2016
BB+	Stable	May 06, 2016
BB+	Negative	Feb 07, 2014
BB+	Stable	Mar 27, 2013
BB	Stable	May 01, 2012
BB	Positive	Feb 19, 2010
BB-	Stable	Sep 17, 2009
BB-	Negative	Nov 13, 2008
BB-	Stable	Jul 31, 2008
BB-	Negative	Apr 03, 2008
BB-	Stable	Jun 27, 2006
BB-	Positive	Jan 23, 2006
BB-	Stable	Aug 17, 2004
B+	Positive	Mar 08, 2004
B+	Stable	Oct 16, 2003
B	Stable	Jul 28, 2003
B-	Stable	Nov 07, 2002
B-	Negative	Jul 09, 2002
B-	Stable	Jun 26, 2002
B-	Positive	Jan 29, 2002
B-	Stable	Nov 30, 2001
B-	Negative	Jul 11, 2001

Table 2-5: S&P Credit Grading.
Source: www.tradingeconomies.com.

S&P		Rating description
Long-term	Short-term	
AAA	A-1+	Prime
AA+		High grade
AA		
AA−		
A+	A-1	Upper medium grade
A		
A−	A-2	
BBB+		Lower medium grade
BBB	A-3	
BBB−		
BB+	B	Non-investment grade speculative
BB		
BB−		
B+		Highly speculative
B		
B−		

Table 2-4: S&P Credit Ratings.
Source: www.standardandpoors.com.

Moody's

On the 6th of March 2018, Moody's downgraded Turkey's sovereign rating from Ba1 to Ba2, see Table 2-6 and Table 2-7 (Pitel, 2018a). Turkey's decline in its credit rating left the country to fall into the same class as Azerbaijan, Brazil, Croatia, and Costa Rica (Daily Sabah, 2018a). Moody's (2018), the U.S.-based agency, built its decision on 'the continued loss of institutional strength', being linked to the accusation of Erdogan causing political suppression and trying to influence central bank outcomes (as cited in Daily Sabah, 2018a). Moody's raised concern over Turkey's account deficit, globally rising interest rates, high external debt, and credit roll-over ability, given the volatile political environment. The agency highlighted the increased risk of external shocks which, in a worst-case scenario, could lead to a payment crisis (Pitel, 2018a).

In February 2018, Moody's revised Turkey's growth forecasts from 3.2% to 4% for 2018 and from 3.3% to 3.5% for 2019 (Kurtaran, 2018). Moody's (2018) stated that: 'This revision reflects the view that the government will continue to take fiscal measures to keep economic growth high prior to the 2019 presidential elections in November' (Daily Sabah, 2018a). To put Turkey's growth into perspective, the IMF's 2017 emerging market and developing economies real GDP estimations, Turkey's projected growth of 5.1% was higher than that of Azerbaijan (-1.0%), Brazil (0.7%), Costa Rica (3.8%), Croatia (2.9%), and Georgia (5%; IMF, 2017c).

According to BNP Paribas/TEB strategist Erkin Isik, 'the mentioned risks are not new to the market and the focus is mostly on global risk sentiment rather than local developments' (Daily Sabah, 2018b). Furthermore, the surprise and unannounced publication of Moody's rating is related to recent political developments between the U.S. and Turkey. The market was not expecting any announcement; hence, reactions were minimal, and Turkey's economic situation remained similar to the previous year's performance (Daily Sabah, 2018b). According to a study of the Bank for International Settlements (BIS), credit default swap spreads respond three weeks after a downgrade (Financial Times, 2018).

Ertem (2018) harshly critiqued Moody's decision by saying:

> Undoubtedly, ratings and assessments by organisations like Moody's should be overlooked now, which is what the markets have been doing for a while. However, we have seen that these economic hitmen who work on the Turkish economy have continued their operations particularly on exchange rates through some unfounded news.

Moody's		
Rating	**Outlook**	**Date**
Ba2	Stable	March 6, 2018
Ba1	Negative	Mar 17, 2017
Ba1	Stable	Sep 23, 2016
Baa3	Negative Watch	Jul 18, 2016
Baa3	Negative	Apr 11, 2014
Baa3	Stable	May 16, 2013
Ba1	Positive	Jun 20, 2012
Ba2	Positive	Oct 05, 2010
Ba2	Stable	Jan 08, 2010
Ba3	Positive	Sep 18, 2009
Ba3	Stable	Dec 14, 2005
B1	Positive	Feb 11, 2005
B1	Stable	Oct 21, 2003
B1	Negative	Jul 10, 2002
B1	Stable	Jan 15, 2002
B1	Negative	Apr 06, 2001

Table 2-6: Moody's Credit Grading.
Source: www.tradingeconomies.com.

Moody's		Rating description
Long-term	**Short-term**	
Aaa	P-1	Prime
Aa1		High grade
Aa2		
Aa3		
A1		Upper medium grade
A2		
A3	P-2	
Baa1		Lower medium grade
Baa2	P-3	
Baa3		
Ba1		Non-investment grade speculative
Ba2		
Ba3		
B1		Highly speculative
B2		
B3		

Table 2-7: Moody's General Credit Ratings.
Source: www.moodys.com.

One aspect that comes to the fore is the still significant power of credit ratings despite the events that took place during the subprime crisis in 2007. One possible reason for this has been stated by Ramakrishnan and Scipio (2016), who argue that many investors, despite the harsh critique, regard ratings of the big three as a quality label. However, Turkey's Minister of Economy, Zeybekci, questioned Moody's decision and highlighted that Turkey's Non-Performing Loans (NPLs) to total loans stood at approximately 3%, while on the other hand NPL figures across Europe stood at a much higher level (see Figure 2-6 below; Bloomberg HT, 2018a).

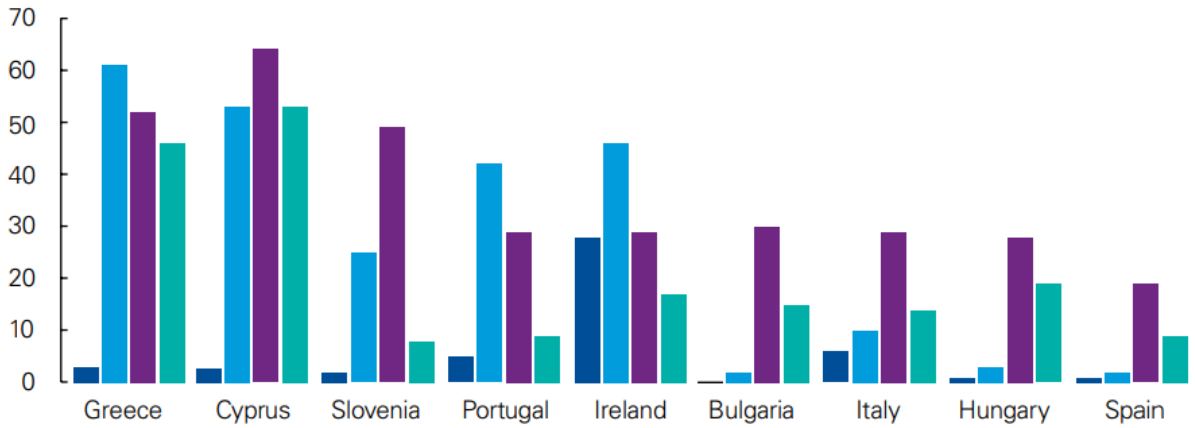

Figure 2-7: NPLs (as a percentage of total loans) by Sector End – June 2016.
Source: www.kpmg.com.

International Financial Institutions (IFIs)

The second part of this section is devoted for IFIs activities in Turkey.

There are many IFIs that have been defined as supranational institutions set up by the sovereign states that are their shareholders (EIB, 2018a). Depending on the IFI itself and its mission and vision, funds result either through its members or the issuing of bonds. IFIs are also known in the literature as Multilateral Development Banks (MDBs) and their presence in Turkey started increasing throughout the 2000s.

Some of the active IFIs within Turkey are: the European Bank of Reconstruction and Development (EBRD), the French Development Agency (AFD), the European Investment Bank (EIB), a development bank owned by the German government, Kreditanstalt fur Wiederaufbau (KfW), the Gesellschaft für Internationale Zusammenarbeit (GIZ), the Islamic Development Bank (ISDB), the Japanese Bank for International Cooperation (JBIC), and International Finance Corporation (IFC). Their aims – according to their own websites – are to promote reforms, to strengthen democracy and well-functioning market economies, to endorse environmentally friendly initiatives (lower carbon footprint) and socially sustainable development, and to develop a sound effective investment climate (EBRD, 2018a; EIB, 2018c). Additionally, they aim to promote sustainable private sector investments in developing/emerging countries, to reduce poverty and inequalities, to protect public goods, and to improve living standards (AFD, 2018; IFC, 2018). Noteworthy, are similarities of Williamson's (2000) Washington Consensus, and the policies that have been pursued by IFIs throughout the 1980s. In this context, the most renowned IFIs are the IMF and the World Bank (WB).

In 1944, after the establishment of the IMF and the WB, both organisations aimed to stabilise and improve the global economy. The IMF is seen as the most powerful non-governmental organisation and most influential financial institution in the world (Peet, 2003; The Economist, 2014a). IMF's decree is the surveillance of the international monetary system and it oversees economic and financial development amongst its member countries (IMF, 2018a):

> The IMF assesses whether domestic policies promote countries' own stability by examining risks they might pose to domestic and balance of payments stability and advises on needed policy adjustments. It also proposes alternatives when countries' policies promote domestic stability but could adversely affect global stability.

Critique of IFIs

Henning (2009) highlights the important roles of IFIs; however, the pivotal aspect is the ability for example of the IMF to mobilise and channel funds towards these purposes. The question that can be prompted at this point is, 'why should unelected bureaucrats have so much power when their economics failed so many times in the past?' (The Economist, 2014a). 'Today, IMF policies directly affect economies of 189 countries and influence, sometimes drastically and often disastrously, the lives of the vast majority of the world's people' (Peet, 2003, p. 56).

The IMF has been criticised in reducing local governments' authority with their policies that exacerbate social problems such as unemployment and rise in public debt. Delegates of the IMF enforce the fund's economic beliefs upon a country, increasing the countries' dependency and need for their support (Peet, 2003). The IMF's intervention brings controversy with it, including national state interests versus the fund. It is crucial that during negotiations the borrowing party signals reassuring steps towards the market to influence lenders' perceptions (Bird and Rowlands, 1997). Help from IFIs comes with conditionality because implementing external policies is insufficient; moreover, borrowers have to establish a reputation for predictability in order to prove that there will be no policy reversals or contractual deviations in the future (Dhonte, 1997).

In the case of Turkey, Yeldan and Unuvar (2016) clearly highlighted this clash of interests by stating that the IMF's programme after the crisis in 2001 aimed to maintain high real interest rates in order to attract short-term capital (hot money) linked with a contractionary fiscal policy. These hot money inflows led to an abundance of Foreign Exchange (FX), caused an overvaluation of the TL, and turned Turkey into a haven for imported goods (Yeldan and Unuver, 2016; Yeldan, 2008b).

It needs to be highlighted that 'the IMF does not consider itself to be an aid agency or a development bank' (Peet, 2003, p. 62). The IMF does not cover a country's whole financing needs. Moreover, the institution understands itself as 'the bankers guide' to signal to the market – i.e., financial institutions – that the country is complying with the IMF's policies (Peet, 2003). 'In fact, the IMF bailouts are a form of insurance for the foreign and domestic individuals, firms, and banks that had made high-risk investments in the country subject to the crisis du jour' (Niskanen, 1998).

Johnson and Schaefer (1997) go a step further and argue that the IMF is outdated and does not fulfil its original task anymore, not even its new self-assigned role to foster growth in developing countries. Johnson and Schaefer (1997) argue that the fund has failed to improve poor and developing countries' economies and has instead contributed to creating a worse

situation than before – therefore, there is little support for the 'improved' IMF concessions. The IMF's lending practices are opaque; short-term assistance results in a long-term dependency; and short-coming economic growth policies and funding programmes are largely ineffective, if not more damaging (Johnson and Schaefer, 1997).

Support for Johnson and Schaefer (1997) can be found in a study conducted by UNCTAD, where 33 out of 48 Least Developed Countries (LDCs) participated in Structural Adjustment Facility (SAF) and Enhanced Structural Adjustment Facility (ESAF) programmes – the former was led by the IMF and the latter by the WB. Those programmes aimed to improve the participating country's economic performance through financial and trade liberalisation. The WB argued that countries participating in SAF and ESAF programmes experienced an improved economic performance, however, UNCTAD (2000, p. 110) argued that:

> Diagnostic tests indicate that this assumption is unreliable and thus the differences in performance cannot reliably be attributed to the ESAF programmes … It implies that the efficacy of the economic reforms, on which so many lives and livelihoods now hang, is, and must remain, an act of faith.

The following section focuses on IFI activities in Turkey.

The activities of IFIs in Turkey

IFIs intervened in Turkey via three channels. First, by cooperating with the local government and providing grants and loans for humanitarian aid and the development of infrastructure. Second, by the IFIs public arms, e.g., the WB's International Development Association (IDA) that provides interest-free loans, advisory services, and grants to the public sector, including SOEs. Third, the IFIs private sector arms, e.g., WB's International Finance Corporation (IFC) that promotes commercial loans, asset management, venture capital, syndications, and advisory services (IFC, 2011; DFC, 2010).

Perry (2011) elicited the question 'should international official funds, such as that of IFIs, be allocated in direct support of private sector activities in developing countries?' There is backing that the cooperation of IFIs with governments has helped to solve the administrative problems of projects and encouraged private investors to conduct investments after seeing collaborative activities between IFIs and governmental institutions (Perry, 2011). However, IFIs were also 'until recently, advising developing countries against using public national development banks to lend directly to private firms and recommending privatising, liquidating, or transforming

these institutions into non-banking developmental agencies' (Perry, 2011, p. 3), which would contribute to the creation of an oligopolistic positioning of IFIs on a global scale.

According to the IFC (2011), the public sector plays an important role in supporting the private sector in encouraging development. Aid programmes and IFIs' public sector arms, including Turkey's own Development Bank, are crucial for private sector investments. Furthermore, IFIs' private sector-oriented arms complement the first two channels by providing advisory and financial support for private companies.

In this light, Bird and Rowland (1997) propelled the question: 'do IFIs effectively act as agents for private foreign lenders and aid donors?' IFIs' interests differ from those of private lenders; while the latter aim for maximum profits, IFIs act in the interest of the greater public – hence a problem might arise that their own institutional policies will be subjected for conditionality (Bird and Rowlands, 1997). In response to Bird and Rowlands' (1997) question, Perry (2011) highlighted that the role of IFIs is to act as the banker's guide and to signal to the market that certain countries' officials are willing to cooperate.

IFIs in Turkey's energy sector

Turkey's fast-growing economy and society has forced major transformation within its energy sector. Since the 1990s, there has been an annual increase in energy demand of 7% (IFC, 2018). The EIB has been supporting Turkey's development since the mid-1960s. Since the early 2000s, the EIB has invested approximately 28.6 bn EUR into Turkey, whereby 10% of the flow was into the Turkish energy sector (EIB, 2018b). Another powerful organisation that has contributed to Turkey's growth is the EBRD. Since 2000, the EBRD has invested approximately 10 bn EUR in total – their current portfolio is approximately 7.2 bn EUR. The main areas of EBRD's portfolio consist of projects in infrastructure (22% of the total); industry, commerce, and agribusiness (30%); financial institutions (33%); and energy projects (16%). EBRD's private sector share of its portfolio is currently at 97% (EBRD, 2018c). Similar investments have been conducted by the AFD and since 2004 it has invested 2.2 bn EUR into Turkey, whereby 716 m EUR has been used to finance energy projects (AFD, 2018).

These projects not only helped Turkey to mitigate and overcome problems of supply, they also encouraged private sector investments. IFC partnerships helped to solve problems collectively with civil society and develop institutions, partners, and foundations (IFC, 2018).

These strategic investments can be seen by private sector arms of IFIs – i.e., the IFC, which is the largest global development institution focused solely on private sectors in developing

countries (IFC, 2015). According to the IFC (2018), investments equate in general to 5–20% of a firm's equity. Examples of these activities in the Turkish context are presented below:

- In 2015, the IFC acquired a 27% stake in GAMA Energy for 203 m EUR to support the company's expansion of power and water services in Turkey. This acquisition was the IFC's and the fund's first and largest equity investment in global infrastructure. This equity investment in Turkey's energy sector has been executed by the WB's private sector arm, the IFC, with a stake of 20.25%, and IFC Asset Management Company, with a stake of 6.75% (GAMA, 2015; Lee, 2015).
- In 2011, IFC acted as a coordinator and helped Enerjisa to obtain 700 m EUR in loans. The IFC helped to mediate between two large banks – UniCredit (an Italian bank) and WestLB AG (a German bank) – to arrange a debt package for the company's second-phase investment programme (Ulgen, 2011). The first investment package was also arranged by IFC in collaboration with Akbank (a Turkish bank), WestLB AG, and EIB (Verbund, 2008).
- Between 2010 and 2015, the IFC mobilised approximately 7 bn USD for global energy projects from commercial lenders and Development Finance Institutions, whereby 1.5 bn USD went to Turkey (IFC, 2016).

The following sub-section addresses the agenda and motivation of IFIs engagement.

The agenda of IFIs

Next to IFIs' official goals – stated in the beginning of this section – alternative motives such as economic and political goals have been identified. Economic goals have been further divided into two sub-groups: their profit-oriented operation and the creation of future markets.

The profit-oriented operation of IFIs

IFIs mainly generate profits from large volumes of loans financed at low margins. Profits are retained to increase the capital bases of those institutions. In 2016, EIB's total assets stood at 573.2 bn EUR, with a net profit of 2.8 bn EUR (EIB, 2016). Comparable results are in the IMF's general department income statement of 2016 where total assets stood at 524.3 bn USD – approximately 651.2 bn EUR[1] – and there was a profit of 1.4 bn USD (approximately 1.2 bn EUR; IMF, 2016a). EBRD also announced in 2016 a net profit of approximately 1 bn EUR, which was 25% higher than the previous year's figure (Williams, 2017b). EBRD's profit was mainly driven by the institution's net interest income (EBRD, 2018b). In sharp contrast, the net income of the three biggest investment banks are much higher. For instance, J.P. Morgan's

[1] 30th April, 2016, IMF SDR 524383; USD: 1.41733, EUR: 1.1413 (Source: www.imf.org; www.poundsterlinglive.com).

gross profit for 2016 was 90.3 bn USD, while its net profit was 24.7 bn USD (Nasdaq, 2018a). In 2016, Goldman Sachs' net revenue was 30.6 bn USD and net earnings were 7.4 bn USD (GoldmanSachs, 2016). For the same year, the Bank of America's total revenue was 93.6 bn USD, with a net income of 17.8 bn USD (Nasdaq, 2018a; Nasdaq 2018b). This short comparison illustrates that IFIs' business model is in a sharp contrast to those of investment banks.

IFIs are creating future markets

Equally important are the subsidies paid by supranational organisations for certain regions, which can harm developing countries. For instance, the EU's Common Agricultural Policy (CAP) – which subsidises EU agriculture with 30 bn GBP – has been criticised over the last few years because it supports Europe's wealthiest farmers at the cost of those in developing countries. These subsidies force African farmers to produce at lower costs and results in driving them out of business. Local farmers are not able to compete with EU-subsidised products, so give up production and are then forced to import EU goods (Euractiv, 2013; Frith, 2006). Subsidised goods affect global prices, since subsidised goods become more competitive and lead to more exports than they would do otherwise (Clay, 2013).

According to Claire Godfrey, trade policy adviser for Oxfam: 'not only does the CAP hit European shoppers in their pockets but strikes a blow against the heart of development in places like Africa' (Frith, 2006). The underlying problem of subsidies and grants is that they distort competition and help to keep prices artificially low, so developing countries cannot compete (Tran, 2011). Once local competition is driven out of the market, locals are forced to accept inflated prices from abroad, as was the case in Burkina Faso, where tomato prices hovered over 5 EUR per kilogramme (Hoair, 2017).

This effect is not restricted only to food and can be seen across multiple industries and trades. Another notable case was seen in Mozambique, where U.S. subsidies undercut the local price of cotton and made it hard for farmers to make a living. Cotton is a major crop in several parts of Africa; however, there are no governmental subsidies available in those countries (Beaubien, 2006). In this light, Boysen, Jensen and Matthews (2016) provide evidence in their study from Uganda that reducing EU subsidies would have a positive effect upon Uganda's development and would help to decrease poverty.

Political goals

Knight and Santaella (1997) highlighted 'demand-side' and 'supply-side' factors that lead to agreements between the IMF and borrowers. Next to economic variables such as GDP and international reserve holdings, Knight and Santaella found that fiscal discipline and experience in the implementation of IMF programmes increases the prospect for securing IMF assistance

in participating countries (Knight and Santaella, 1997). Thacker (1999) provided evidence from developing countries (between 1985 and 1994) that revealed that political realignment towards the U.S. increases the likelihood of receiving IMF assistance. In support of Thacker (1999), Dreher, Sturm and Vreeland (2009) provided evidence that there is a positive relationship between support within the United Nations (UN) Security Council and favourable assistance by the IMF. Similar findings have been found by Kilby (2009), who used UN voting as an indicator of alignments to the U.S. and examined the WB's structural adjustment loan disbursements to 97 countries between 1984 and 2005. The WB's loan disbursements are strongly directed by a country's alignment towards the U.S., rather than macro-economic indicators. Supranational organisations are dominated by the political interests of the more powerful members (Bird and Rowland, 2001; Thacker, 1999).

The findings of Bird and Rowland (2001), Dreher, Sturm and Vreeland (2009), and Thacker (1999) have been supported by Oatley and Yackee (2004), who confirmed that the U.S. exercises power over the IMF to pursue their own interests. Furthermore, the IMF provides larger loans to countries who maintain close political relations with the U.S. and American banks who are exposed to greater risk – i.e. large write offs as in the case of Mexico (Oatley and Yackee, 2004). Similar findings have been presented by Borz and Hawes (2006), who highlighted the potential 'moral hazard' of the U.S. in lobbying the IMF to protect American banks. U.S. politics plays a pivotal role in IMF's decision making (Anderson, Harr and Tarp, 2005; Henning, 2009). In this context, the former chief economist of the WB commented in Stiglitz (2003, p. 195):

> They'll say the IMF is secretive and insulated from democratic accountability. They'll say the IMF's economic 'remedies' often make things 'worse' – turning slowdowns into recessions and recessions into depressions. And they'll have a point. I was chief economist at the World Bank from 1996 until last November (1999), during the gravest global economic crisis in a half century. I saw how the IMF, in tandem with the U.S. Treasury Department, responded. And I was appalled.

For Turkey's case, Yeldan (2007) provided an example where the Turkish parliament received a war motion by the U.S. to utilise Turkish soil in order to invade Iraq. After the Turkish parliament's rejection of this war motion, the country experienced unfavourable economic developments that were mainly driven by CRAs and IFIs' dissemination of negative news. According to a U.S. official, 'Turkey is now no longer qualified for the 15 bn USD aid package agreed after weeks of intensive bargaining' (Smith, 2003). Washington pledged to assist Turkey's troubled economy through the IMF; however, after the decision by the parliament was made public, the Turkish stock fell by 8% and pressure increased upon the already

tumbling economy (Smith, 2003). This event clearly highlights the IMF being used by the U.S. to pursue their foreign policy agenda. The U.S. conditioned their financial assistance on Turkey's military assistance, which would have happened through IMF support (Amanpour, 2003; Amberin, 2003; Filkins, 2003).

Along the same lines, in 2017, subsidies coming from the EU plummeted following Turkey's diplomatic crisis with Germany (Jones, 2017a; Jones, 2017b). Anderson, Harr and Tarp (2005), Bird and Rowland (2001), Henning (2009), Oatley and Yackee (2004), and Thacker (1999), are all in consensus that IFIs are used to pursue powerful countries' foreign policy interests. There is a strong relationship between IFIs support and the political agenda of countries controlling IFIs. The most pronounced use of IFIs to pursue political goals was been seen in December 2017, through the role of the U.S. within the UN General Assembly. The UN Jerusalem resolution had caused turmoil in the global political arena and led to many questions regarding financial aid and IFIs' real motives. Before the resolution took place, U.S. ambassador Nikki Haley announced that she would take the names of those countries that vote against the resolution and report directly back to the president (Beaumont, 2017). The UN General Assembly voted – with 128 in favour, 9 against (only countries with close ties to the U.S.; see Figure 2-7), and 35 abstentions – declaring the unilateral U.S. recognition of Jerusalem as Israel's capital 'null and void'. As a result, the U.S. ambassador threatened the UN Assembly (Beaumont, 2017; Nichols, 2017). Haley said: 'what we witnessed here in the Security Council is an insult. It won't be forgotten' (Nichols, 2017).

Figure 2-8: UN Jerusalem Resolution Votes.
Source: www.aljazeera.com.

In a response by the U.S. president Donald Trump, who amplified his threats to all the nations 'who take hundreds of millions of USD, even billions of USD and vote against the U.S.', he emphasized that he was monitoring the votes very closely. Furthermore, Trump said: 'Let them vote against us, we'll save a lot. We don't care. But this isn't like it used to be where they could vote against you and then you pay them hundreds of millions of dollars' (Beaumont, 2017). In response to Trump's statement, Erdogan replied: 'Mr. Trump, you cannot buy Turkey's democratic will with your dollars' (Reuters, 2017b). Furthermore, the Turkish president continued: 'I am calling on the whole world: Do not sell your struggle for democracy for a few dollars. Your stance is important' (Hürriyet, 2017).

The examples provided above raised questions about the true face hiding behind the friendly mask of IFIs. Repeatedly, powerful nations such as the U.S., have demonstrated that IFIs act as political tools to enforce political goals upon countries. Turkey experienced these from European IFIs, as well as North American based IFIs.

An earlier example for U.S. intervention in Turkey was marked with renowned agreements such as the Truman Doctrine, Marshall Plan or bilateral agreements. Probably the most important one was the Marshall Plan which had been signed in 1948. Like other European countries, Turkey received help in four forms: subsidies (62.4 m USD), loans (72.8 m USD), and technical assistance and consultancy services (Ertem, 2009). One year earlier, in 1947, Truman announced his support for Greece and Turkey by allocating 300 m USD to modernise its military in face of the pending Soviet threat. During this period, the U.S. military supplied Turkey with outdated weapons mostly remainders from WW2. The caveat was that the costs for spare parts and maintenances of the U.S. supplies had to be carried by the Turkish government. This prompted a heavy burden on the Turkish economy and depleted the country's FX reserves within a short period of time (Kalyon, 2010). Turkey had to pay more than it received in form of help from the U.S. (Ertem, 2009). Furthermore, Turkey was forbidden to use any of these weapons without consent from the U.S., which was a tactic to reinforce their dominance and control over the country's military (Ertem, 2009; Kalyon, 2010). Technical staff which had been deployed from the U.S., urged Turkish officials to invest into infrastructure such as roads and railways. Together with the improvement of Turkey's infrastructure, its imports of vehicles and oil increased (Ertem, 2009). Due to this support, Turkey was able to refuse Soviet aid (Kalyon, 2010). Even though this support meant that America could get rid of their old armoury, at the same time it resulted in the modernisation of the Turkish military. Next to Truman, Marshall's plan helped Turkey to modernise and import technology which contributed to the country's advancement in agriculture. Furthermore, U.S. investments into Turkey were worth its weight in gold, when America had a trusted ally during the cold war.

2.4. Conclusion

In conclusion, the origins of financialisation can be traced back to neoliberalism. Furthermore, financialisation is a dynamic process deviating from neoliberalism that displays an adaptive character to its surrounding environment and can transpire on various grounds. Notably, financialisation does not pulsate out as new form. Moreover, it is a mutation resulting from neoliberalism and has always coexisted within its multiple facets.

An interesting aspect about the concept of financialisation is its adoption from experts across different disciplines, such as sociologists within the field of social science. Many different varieties of financialisation have been studied, such as shareholder and financial market pressure upon firms, increasing size of banks, rising household and corporate indebtedness. The focus of this thesis lies on NFCs' increased engagement in finance, i.e. the rise of financial investments vis-a-vis real investments in the context of the Turkish energy sector. The most important aspect for studies in the realm of financialisation is to set clear boundaries for the research and to define how the term will be used. Furthermore, in order to provide a richer picture and underpin this research, a theoretical model is indispensable, see section 2.3.1 of chapter 2. Given the highly complex relationship between finance and the real economy, i.e. the role of fixed investments in economic growth, this chapter raises important questions such as:

1. To what extent has financialisation occurred in the Turkish energy sector between 2002 and 2017 and what form has it taken?
2. To what extent has the financialisation process in the Turkish energy sector been driven by Turkey's interests?

The growing influence of IFIs suggests that the utopia of global free-market capitalism and constraining local administration is a by-product of contemporary economic globalisation. However, 'globalisation has now become the most widely used term of international institutions. The tendency of capital towards concentration and centralisation is the basic law of capitalism leading to the growth of monopolies and cartels' (Siddiqui, 2012, p. 19). Marxist economists go further, arguing that neoliberal policies show imperialistic characteristics to maintain and extend the powers of AEs over the weaker DECs.

The fluidity of finance across national borders, coupled with the dominance of rentier interests, subverted policies of national states. Those tendencies of fluid finance resulted in a greater unity in mature economies, while developing economies experienced more disintegration,

disruption and separation. In light of highly mobile international finance, competition amongst capitalist powers has not vanished; moreover, they emanated to a new phenomenon (Siddiqui, 2012). Davies stated that neoliberalism managed to construct its own political authority 'because economic techniques themselves become imbued with a quasi-sovereign form of authority – that is, they become ritualised and rhetorically powerful' (Davies, 2016, p. 26). As in the past, the abdication of responsibility by the state and blind faith in free markets ended in the near meltdown of the international banking system. Many explanations of the financial crisis and of financialisation, offered by Arrighi (1994), Crotty (2005), Dumenil and Levy (2001), Harvey (2005), Magdoff and Sweezy (1987), Orhangazi (2008) and Sweezy (1997) suggest that the roots of financialisation lie in deregulation and liberalisation policies throughout the 1980s.

There are a few characteristics of financialisation in AEs that differ to those in DECs. In a nutshell, financialisation in AEs resulted from several factors, such as the underperformance and slowdown of aggregate demand in the 1970s (Crotty, 2005; Davis, 2017) and the problems in the production sphere – the stagnation of the economy – during the 1970s and 1980s (Magdoff and Sweezy, 1987). Simultaneously, a higher degree of labour militancy at home and increased international competition abroad accelerated this process (Krippner, 2005, more details in section 2.3.2).

In contrast, financialisation in DECs followed a different pattern where the deregulation and liberalisation (Washington Consensus (WC)) of the markets was the driving force (Chomsky, 1999; Freeman, 2010). The notion of the WC has been advocated either internally (in the case of Turkey, as stated by Birand and Yalcin, 2001; Karatasli, 2015; and Önis, 2004) or externally (in the case of Latin American countries, as stated by Stern, 2004). The major difference of AEs compared to DECs are the strong state traditions whereby large SOEs have been dissembled via the active involvement of IFIs, as in the case of Turkey (Yeldan, 2007). Furthermore, the change from a bank-based towards a market-based financial system (Lapavitsas, 2014; Lapavitsas, 2009) and financial liberalisation, which eased operations for international investors, especially the trade of foreign currency denominated assets, played a major role (Akyüz, 1993). Furthermore, changes in financial institutions, such as the increased lending activities of banks towards individuals and the expansion of household indebtedness among emerging markets, were observed by Rethel (2011); for Asian countries; Ergunes (2009), Dos Santos (2013; 2011), Painceira (2012), and Tellalbasi and Kaya (2013) for Latin American countries, Poland, and Turkey; Ashman, Fine and Newman (2011) for South Africa; and Becker et al., (2010), Cetkovic (2011), and Gabor (2010) for Eastern Europe. The WC provided flourishing ground for MNEs to penetrate DECs (Boratav, Yeldan and Köse, 2000; Yeldan, 2008b; Yeldan, 2007; Yeldan, 2006), whereby financialisation had a subordinate

character (Becker et al., 2010; Lapavitsas, 2013; Powell, 2013). In this context, Karowoski and Stockhammer (2017) identified six explanations for financialisation in emerging markets: First, financial deregulation; second, foreign and short-term capital inflows; third, asset-price inflation; fourth, change from a bank-based towards a market-based financial system; fifth, NFCs' increased engagement in finance; and lastly, the rising indebtedness of households. However, it is notable that none of the aforementioned reasons alone account for the financialisation process. Other debates presented by Aglietta and Breton (2001) highlight macroeconomic dynamics and Dumenil and Levy (2001) focus more on politics and class dynamics.

As a response to stagnating profits in the realm of production, NFCs were looking for alternative income sources. This led the banks to create new financial products (Orhangazi, 2008). 'Financialisation has emerged as a decisive way of absorbing the investible surplus that inundated the sphere of production by channelling it to the realm of finance' (Lapavitsas, 2013, p. 795). Arrighi (1994) described this phase as the decline of industrial hegemony. At the same time, financial deregulation across financial markets shifted the financial sector's role from supporting the real economy via credits towards that of a service provider of financial products (fees earner) and of targeting private households (Aalbers, 2008; Lapavitsas, 2013). Simultaneously, an increased shareholder and financial market pressure upon firms started building, whereby companies were forced to present profitable short-term financial statements at the expense of the firms' long-term investments (Dore, 2008; Lazonick and O'Sullivan, 2000; Orhangazi, 2008; Palley, 2007). As a result, this led to a higher engagement of NFCs in financial activities. Managers channelled funds into financial assets rather than real investments, due to the disproportional profitability (Crotty, 2005; Dumenil and Levy, 2009; Dumenil and Levy, 2001; Ertürk et al., 2008; Krippner, 2005; Milberg, 2008; Orhangazi, 2008; Palley, 2007).

In respect of Turkish NFCs, Bahce et al., (2014) and Bedirhanoglu et al., (2013) did not confirm the findings of Akkemik and Özen (2014), Demir (2009a; 2009b; 2007), Demiröz and Erdem (2018), and Tellalbasi and Kaya (2013) who argued that NFCs engaged in short-term investments rather than financial investments in Turkey. In particular, the absence of reliable data sources does not allow a conclusion that profit rates are higher in the financial sector in comparison to non-financial sectors. Bedirhanoglu et al., (2013) highlighted that after the liberalisation of the capital account in 1989, large company groups within Turkey focused on expanding their shares within the financial sector, which blurred the distinction between financial and non-financial activities.

The next chapter describes the research methodology for this thesis.

3. Research Methodology

This chapter aims to discuss the research approach and methods chosen for this study and sets out the limitations of these choices. This research is qualitative in nature and combines a mix of different techniques, such as semi-structured interviews conducted with experts in the context of the Turkish economy, multiple case study to analyse micro level data of listed energy firms in Borsa Istanbul (BIST), complemented by macro level data from the central bank covering the sector as a whole, including other secondary data to support findings. The relevant theories identified are set in International Political Economy (IPE) and regulatory theory in order to investigate the investment behaviour of Turkish energy firms.

3.1. Introduction

In order to find answers for the research questions as outlined in section 1.4 of chapter 1, 28 qualitative elite interviews have been conducted with people from various backgrounds (e.g. consultants, economists, banks, academics, journalists, senior managers of energy firms and officials). Qualitative methods, particularly interviews, offer alternative means to collect data and identify significant findings that can help to construct conclusions from said data. The interviewees have been carefully selected based on pre-set criterion; this includes professional background, employment history, current position of employment, and the individual's ability to provide relevant data for this research. The interviewer's strategy was to conduct as many face-to-face interviews as possible, following Silverman's (2010; 2001) that observing an individual's body language and facial expressions could enhance understanding between the interviewer and interviewee. The choice of semi-structured interview questions allowed greater flexibility in the questions and answers provided, and as Flick (2014) implies, this generated follow up questions when necessary. The semi-structured interview technique allowed a greater flexibility for the interviewer, by means of adapting the wording of the questions and in changing the questions throughout the interview according to the flow of the interview (Van Teijlingen, 2014). The interviews had a rather loosely structured form that helped to capture the story behind a responder's experience (see Appendix A – Interview questions). This study uses thematic analysis; see section 3.2.4 of this chapter. Thematic analysis is one of the most commonly used analytical approaches in qualitative analysis, which can help derive conclusions that many other methods may overlook (Creswell, 2009). As suggested by Denzin (1978) and Miles and Huberman (1994), the findings from qualitative and quantitative research methods must then be triangulated and tested against each other to strengthen the thesis' arguments in relation to the defined research questions.

The theoretical framework has been adopted from Becker et al., (2010) and is described in section 2.3.1 of this chapter. Becker et al., (2010) used a similar approach to analyse financialisation in the periphery and emerging countries in order to identify socio-economic dynamics by drawing upon regulatory theory. In particular, the theory of regulation enables researchers to investigate different forms of financialisation. In contrast to Keynesian approaches, explicit to the theory in the French Regulationist School are the state, international organizations, and social forces shaping norms and policies (Becker et al., 2010). This analysis will help to provide insight into policy changes that may have contributed to financialisation within the Turkish energy sector.

3.2. Research Design and Methods

Qualitative research is more subjective in nature when compared to quantitative research. This is because qualitative data collection and methods may lead the researcher towards making an analysis based on their own interpretations of the collected data. The value of such qualitative methods lies in examining perceptions of what is being questioned or put forward in the research itself (Creswell, 2009). It is also important to note that conducting research on 'elite' individuals with an expertise on Turkey's economy, cannot be collected quantitatively, unlike numerical data. However, to support qualitative data, financial statements of listed companies (micro level data) and aggregated (macro level data) for the Turkish energy sector have been tested to support the findings.

Qualitative research has been identified as an appropriate method to investigate the underlying factors involved in the trend of Turkish NFCs' engagement in financial activities. The focus is not only on the 'what' and 'when' shift from fixed assets to financial assets, but more so on the 'how' and 'why'. In investigating the 'how' and 'why', views of pundits are central in understanding Turkish energy firms' engagement in financial activities within the energy sector. Currently there are very limited studies providing insight on the financialisation of Turkish NFCs (Akkemik and Özen, 2014; Bahce et al., 2014; Bedirhanoglu et al., 2013; Demir, 2009a, 2009b; Demiröz and Erdem 2018 and Tellalbasi and Kaya, 2013). Therefore, this study will investigate the underlying factors in the context of financialisation and analyse the investment behaviour of Turkish energy firms through providing empirical evidence.

While Creswell (2009) defines three components of a research design, Crotty (1998) identifies four elements. There are differences in the use and interpretation of terminology used amongst different authors. For example, Creswell (2009) uses the term 'worldview' to describe a basic set of beliefs that guide action, Lincoln and Guba (2000) refer to them as paradigms, Crotty (1998) distinguishes between epistemology and ontology, whereas Neuman (2000) speaks

broadly about research methodologies. However, the authors agree on one aspect which is the fact that from a philosophical stance the student must consider the nature of the study, the questions to be answered, and the research objectives before deciding on the appropriate research design (Creswell, 2009, 2003; Crotty, 1998; Saunders, Lewis and Thornhill, 2015).

Crotty (1998) defines ontology as the structure of reality and deals with 'what is true', 'what exists', and 'what is real'. He argues that ontology and epistemology, 'what it means to know' are mutually dependent. In terms of epistemology, this research used constructionism instead of objectivism. Constructionism opposes the idea of objectivism, which states that meaningful reality exists outside our consciousness and is going to be discovered (Crotty, 1998). In contrast to objectivism, constructivism holds that truth or meaning exits through our engagement with realities in this world, and reality is socially constructed (Creswell, 2003; Crotty, 1998). One cannot arrive at meaning without a mind, and this meaning would be constructed, not discovered (Crotty, 1998). Objectivism is mostly used in ethnographic studies, whilst constructivism relies on the participants' views on the research topic (Creswell, 2003). Interpretivists mostly use qualitative methods because the interpretive paradigm 'portrays a world in which reality is socially constructed, complex, and ever changing' (Thomas, 2003, p. 6). By using the interpretive research paradigm, research questions are answered based on the experience and interpretation of participants. Subsequently, the gathered data aims to gain in-depth insight into the complex environment. In contrast to post-positivists, constructivists do not start off with a theory; moreover, constructivists 'generate or inductively develop a theory or pattern of meanings' (Creswell, 2003, p. 9).

Lincoln and Guba (1985) stress the importance of trustworthiness within a research study. The authors' term compromises four elements: firstly, creditability which is confidence in the truth of the findings; secondly, transferability of the findings into another context; thirdly, dependability of the findings, such as consistency and repetitiveness; and lastly, confirmability which describes that the study should be neutral and free of researcher bias (Lincoln and Guba, 1985).

The emerging literature in financialisation of NFCs is best suited to an interpretive qualitative approach that can yield a rich understanding of pertaining issues. Through interviewing field experts and prompting the questions 'how' and 'why', a much deeper understanding can be gained vis-à-vis a quantitative approach. For this research, constructivism and an interpretive research paradigm helped to evaluate collected data. The selected strategy of inquiry was qualitative, consisting of 28 open-ended semi-structured interviews to help gain deeper insight, supported by secondary data from other sources (e.g. newspaper articles, magazines, CBRT, companies' official websites, existing research, and official sources). These findings have been triangulated to increase the validity of research findings (more in section 3.2.4).

3.2.1. Case Study Approach

In order to complement the qualitative interviews, a multiple case study with listed Turkish energy firms was conducted. The advantage of a case study is that it can be used as a tool to assist this research and help understand financialisation through detailed contextualising.

The use of a case study can also expand on findings and provide for a more in-depth analysis through studying a small sample of data at micro level. For this research, a multiple case study with listed Turkish energy firms has been applied. This helped create patterns in data by investigating contemporary real-life phenomena, where no clear boundaries are set (Yin, 2008). As described by Zainal (2007), multiple case design findings have been triangulated to increase the robustness of findings. The principle trait of a case study is its attempt to bring to light a set of decisions, and to analyse why a certain approach was taken, how it was taken, and what it resulted in (Yin, 2008).

A case study approach is apt for descriptive and exploratory studies that focus on the 'how' and 'why' questions (Benbasat, Goldstein and Mead, 1987). This approach emphasises on describing individual or group behaviour, sequences of events or processes (Stake, 2005). The defining feature of the case study approach is the testing and/or contribution to an existing theory (Yin, 2008). Benbasat, Goldstein and Mead (1987) prompt the following four questions to help evaluate whether a case study approach is suitable for research (Benbasat, Goldstein and Mead, 1987, p. 372):

1. Can the phenomenon of interest be studied outside its natural setting?
2. Must the study focus on contemporary events?
3. Is control or manipulation of subjects or events necessary/possible?
4. Does the phenomenon of interest enjoy an established theoretical base?

Due to the nature of this research, the answers to the abovementioned questions are as follows:

1. The phenomenon cannot be studied outside of its natural setting;
2. The study must focus on contemporary events amongst Turkish energy firms;
3. The control or manipulation of Turkish energy firms or financialisation is not possible; and
4. The theoretical knowledge around financialisation is still evolving.

A case study inquiry can cope with technically distinctive situations where many variables of interest are in play. This approach takes multiple sources of evidence into consideration and subsequently triangulates data from other sources (Yin, 2008).

The case study method engendered an intensive, holistic description to provide insight into real-life situations and advanced the understanding of investment activities among Turkish energy corporations. Furthermore, an interpretivist approach enabled to provide a richer understanding of shared social meanings and the interactions of individuals in the research field itself. However, this approach falls short in dealing with unintended results and often neglects historical context (Stake, 1995). The drawback of the case study approach for the research in question is limited due to the regulatory theory which reviews political and economic issues starting from the 1980s.

The potential dangers in a case study are examined by Yin (2008). He suggests that the researcher needs to be well-founded and justified in their methodology and research decisions, and the method should be clear, focussed and structured in order to avoid unnecessary or irrelevant data collection; diverse data collection channels or sources should be followed to provide variety in the research and methodology (Yin, 2008). The data collected should be transparent and the application of a theoretical framework is advised to enable unexpected issues to be considered (Zainal, 2007). Yin (1994) highlights the limitations to conclusions made from sample sizes in the microscopic view of case studies, and the generalisations made to a wider range.

However, according to Yin (1994) the establishment and objective setting for the research is far more important than the sample size itself. For this research, in order to support the findings of the 28 elite interviews, a multiple case study has been used. A case study to analyse financial statements of companies has also been used by Calota and Vintilescu (2013). Following this approach, a multiple case study design has been used to investigate the financial statements of all listed energy companies on BIST. Firstly, the relationship between tangible fixed assets and fixed financial assets of all listed energy companies on BIST, and aggregated data from the CBRT has been contrasted. The micro- and macro-data has been tested in order to create a trend which subsequently has been triangulated with primary and secondary data to improve the validity of this research's findings.

3.2.2. Semi-Structured Interviews

There are three ways to conduct an interview: structured, semi-structured and unstructured. (Saunders, Lewis and Thornhill, 2015). As interviews make up a majority of the data collection for this study, it is important that the format of these interviews contain a level of structure. Structured interviews can be a tool used to explore a person's view towards a subject matter (Van Teijlingen, 2014).

Fully structured interviews may limit the collection data relating to the anticipated issues in the research methodology; they do not give a chance for outliers to be considered, or data relating to things that were not initially anticipated to arise. Unstructured interviews, on the other hand, provide means for a conversation to flow, but has little to no structure, which is something required for a study such as this. Open ended semi-structured interviews were consequently chosen for this study, as they combine the most useful elements of structured and non-structured interviews, which facilitate for sound and topical data collection (Saunders, Lewis and Thornhill, 2015).

Semi-structured interviews also give way to the 'how' and 'why' (Stephens, 2007), which are invaluable for this thesis. By focusing on Turkish energy firms' engagement in financial activities, personal opinions and experiences can be brought into the pool of data as evidence. It is important however, to remember that the open-ended nature of questions provided by the researcher may lead to the questions including some form of the researchers' own personal interest and interpretations (Saunders, Lewis and Thornhill, 2015). Semi-structured interviews also give room for follow-up questions and expansion on previous questions if necessary (Creswell, 2009; Saunders, Lewis and Thornhill, 2015).

In order to ensure the trustworthiness of this research, as defined by Lincoln and Guba's (1985), I presented my interview questions to my supervisors and consulted with experienced researchers who are independent of this research, prior to conducting my field work. Through applying this critical and constructive feedback, I made a conscious effort to minimise any personal biases for this study.

Interviewing Elites

Interviews are widely used for qualitative research; however, the body of literature related to interviewing elites in qualitative research only focuses on recent years (Harvey, 2010; Mikecz, 2012; Smith, 2006; and Stephens, 2007).

The aim of interviews may be to 'see the research topic from the perspective of the interviewee and to understand how and why they come to have this particular perspective, rather than abstractions and general opinions' (King, 2004, p. 11). According to Saunders, Lewis and Thornhill's (2015) classification of three types of interview, this thesis will focus on the 'semi-structured' type; which is apt for interviewing elites. I pre-determined the questions, which leads to a systematic style of interviewing with the option to ask probing questions if deemed necessary, alongside the more open-ended and thought provoking pre-determined ones (Saunders, Lewis and Thornhill, 2015). For this study, given the seniority of the interviewees, the following guide below has been used, see Figure 3-1.

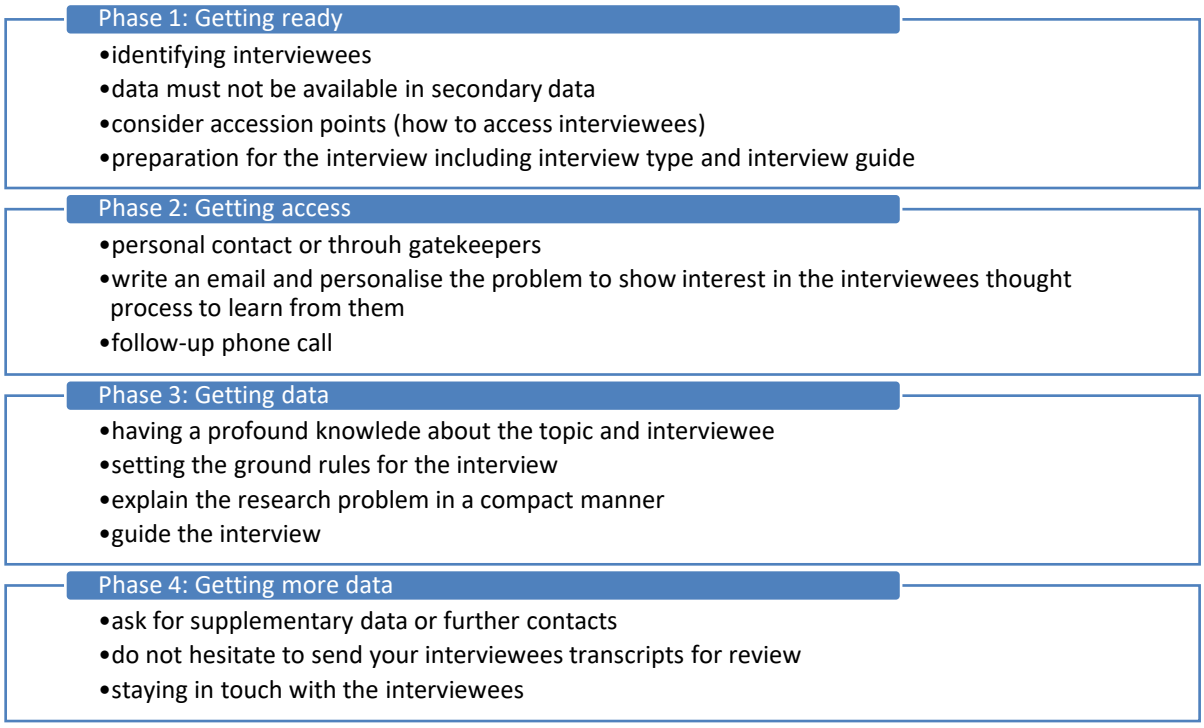

Figure 3-1: Adapted from Thomas (1993) – Interviewing important people in Big Companies.

The term 'elite' is not always defined within the literature but is typically used to describe professionals with ostensibly closer proximity to power or specialised expertise (Lancaster, 2017). Woods (1998) suggests that these are a minority group of individuals at the top of the income scale, whereas Burt (2009) implies that the status stems from the connectivity and networking abilities of an individual. With these definitions in mind, and for the purposes of this study, an 'elite' individual is someone who has a profound understanding of the Turkish economy particularly of the energy sector, has authority to a certain degree to influence decisions/outcomes and is connected to institutions such as universities, banks, government, firms, publishers and business consultancies (Lancaster, 2017).

Interviewing 'elites' holds many advantages - such as providing invaluable internal information, data and insights into business strategies and methods of operation (Saunders, Lewis and Thornhill, 2015). One of the biggest advantages of elite interviews is that the participants can assist with the contribution of individual opinions and sources which other candidates may not have access to. A benefit to arranging interviews with elites, as that they usually have a suitable and private space to conduct the interview (Stephens, 2007).

Despite the positive factors listed above, there can also be several challenges in conducting interviews with elites. These pitfalls include the fact that the pool of candidates is sparse, which limits the ability to build a statistically significant sample size; they are visible but not accessible (Thomas, 1993). Another factor to consider is that the 'desirability' of such individuals results in difficulty with making successful initial contact (Lancaster, 2017). This factor could also lead

to acquiring unreliable data, as an individual who understands their level of desirability may attempt to exaggerate or bend the truth in an interview (Smith, 2006). The awareness of an individual's influence may lead to a contrast in interview dynamics, whereby the interviewee holds the most power. These factors impinge on the reliability of the interview itself and the data which is collected from it (Stephens, 2007). Keeping these limitations in mind, I made a conscious effort to not give the lead of the conversation away to the elite interviewees.

Other factors that could assist in this dynamic include the age and experience level of the interviewer. Stephens (2007) further suggests that the age difference between the interviewee and the interviewer can undermine the seriousness. Ways to get around this 'power-struggle' situation could include an in-depth research on the candidate before the interview. The interviewer should be confident and concise when asking the interview questions, taking his tone and linguistic choices into consideration when attempting to build rapport (pragmatically speaking). As Smith (2006) points out, rapport can be built by discussing something both the interviewee and interviewer are interested in. This rapport build links to the use of open-ended questions which help expand on points made and enable the discussions to be highly detailed and more fluent.

To arrange an interview with elite candidates, time and location flexibility must be considered. It is also important to consider workload levels of candidates, as some may be constrained by meetings or other engagements. It is suggested that location could impact how much information or data a candidate may reveal (Harvey, 2010). As stated by Smith (2006), it is important for the interviewee not to be overheard, but to also not to be distracted by the external surroundings or ambience (such as in public places). Anything that may lead others to believe the candidate is being interviewed publicly may cause the interviewee to become introverted, and less willing to be open in the answers they provide (Harvey, 2010). For this research, a face-to-face interview style seemed to be the most appropriate, as the candidates were in elite positions, see Table 3-1 below (Harvey, 2011).

Financial Institutions	Senior Bankers in local and foreign banks
Consultancies	Senior Consultants in local and international Consultancies
Government/Officials	Senior Officials/Authorities
Researchers (Academia/Journalists)	Senior Researchers with a specialisation in the Turkish economy
Energy firms	C-Level-/ Senior Managers working for local and International Energy Firms

Table 3-1: Positions held by the interviewees.

Furthermore, the chance to interact with the candidate on a more personal level, provides for the opportunity to interact using non-verbal communication methods, such as body language and gesticulation (Creswell and Clark, 2007; King, 2004).

The importance of body language has been highlighted by Ekman (2009; 2004), Novarro and Karlins (2008), Pease and Pease (2006) and so I chose to engage actively with nonverbal communication literature for this study.

> Nonverbal communication can also reveal a person's true thoughts, feelings, and intentions. For this reason, nonverbal behaviours are sometimes referred to as tells (they tell us about the person's true state of mind). Because people are not always aware, they are communicating nonverbally, body language is often more honest than an individual's verbal pronouncements, which are consciously crafted to accomplish the speaker's objectives (Novarro and Karlins, 2008, p. 4).

Face-to-face interviews have distinctive advantages vis-a-vis telephone or skype interviews. Stephens (2007) listed a few types of difficulties based on his experience conducting 'elite' telephone interviews. First, interruptions can occur due to a bad connection, or through a misunderstanding of the questions itself. Second, due to problems in utterance, the interviewer can find difficulty in controlling the flow of conversation, which automatically inhibits the establishment of a rapport with the interviewee. Third, the important components of non-verbal communication cannot be interpreted (Navarro and Karlins, 2008). Fourth, given the lack of visual communication abilities, clarifying of specialised terms can be difficult as they can interrupt the flow of the conversation. Fifth, unclear articulation in telephone interviews can cause difficulties and this cannot be accounted for in the case of both parties involved (Stephens, 2007). Sixth, hands-free telephones need to be available, otherwise problems in taking notes or looking for specific data in documents can prove challenging for the interviewer. Finally, in telephone interviews there is no possibility to provide copies or documents for the interviewee. To avoid difficulties such as these experienced by Stephens (2007), and given the manageable number of interviewees, the interviews have been conducted where possible, in a face-to-face arrangement. Furthermore, Kvale's (1996) criteria for being a good interviewer has been adopted for this study, and recordings were made after obtaining consent from the interviewees. The recorded data has been subsequently transcribed 'full verbatim' and completely anonymised in accordance with King and Horrocks' (2010) suggestion.

In total, 25 out of 28 interviews were conducted face-to-face. Three interviewees cancelled their interview appointments several times in a row and after postponing their subsequent appointments from week to week, the interview was eventually conducted via Skype or

Whatsapp. One of the three has been conducted as a Skype video call while the other two were phone calls. However, as the interviewer, I did not sense that this had any impact on the collected data. The focus was on the data collected instead of the emotions conveyed by the interviewees. Nevertheless, said data is influenced by the rapport that the interviewer builds with his interviewees which is in many cases easier face-to-face rather than on the phone. Almost all interviewees were foreign educated (outside Turkey, or did part of their education outside of Turkey) or held at least a Master's degree, which was in many cases the main point used to build rapport. Before the interviews commenced, I used this mutual point as an icebreaker to find common ground and build rapport with the interviewees.

3.2.3. Secondary Data

In addition to collecting data using interviews, this study also relies on data selected from secondary literature and archival documents. Evidence has been gathered from the central bank Republic of Turkey (CBRT) and Borsa Istanbul (BIST), see Table 3-2 below. Other secondary sources include a wide range of documents such as financial statements of listed companies within the Turkish energy sector. In addition to documents created by the corporations themselves, other documents originating from third parties are considered in the analysis, such as news reports, journal articles, publications by consultancies and banks, official reports and regulatory documents.

Macro data: Central Bank Republic of Turkey (CBRT)	**Micro data:** Borsa Istanbul (BIST) listed energy firms
Electricity, Gas, Steam and Air Conditioning Supply	Akenerji (AKENR), Aksen Enerji (AKSEN), Aksu Enerji (AKSUE), Ayen Enerji (AYEN), Zorlu Enerji (ZOREN),

Table 3-2: Macro data retrieved from the Turkish Central Bank and Micro data from Borsa Istanbul.

Secondary data to support primary data

In a more exhaustive analysis of the energy sector, changes within companies' annual reports and income statements has been retrieved from firms' official websites and BIST for the years between 2002-2017. There are seven listed energy companies on BIST, in total. However, only five companies have been taken into consideration for this study. Odas Enerji (ODAS) and Enerjisa (ENJSA), both have a relatively short history, starting from 2012 for the former and 2018 for the latter. For Akenerji (AKENR), Ayen Enerji (AYEN), Zorlu Enerji (ZOREN) and Aksu Enerji (AKSUE), their income statements were available on a quarterly base from 2002

till 2017. However, income statements for Aksen Enerji (AKSEN) were available after the company's initial public offering made at the start of 2009. Individual company data of Turkish energy firms has been contrasted to aggregated data retrieved from the CBRT for the overall Turkish energy sector.

For this purpose, listed firms' changes in asset composition over the last 16 years have been investigated, i.e. the relation between financial assets versus tangible assets. Furthermore, as explained by Becker et al., (2010), capital centred on the interest-bearing mechanism, i.e. bank loans including rise in interest payments have been illuminated.

The use of documents as source of data elicits some advantages; usually these sources are free and/or highly accessible, they provide a source for background information and could show varying perspectives (Bryman and Bell, 2007). It is important to consider certain aspects before making use of secondary data. Bryman and Bell (2007) list questions that need to be raised before using a document: 'Who produced the document? Why was the document produced? Is the author subjective? Is the material genuine?' (Bryman and Bell, 2007, p. 576).

The major drawbacks of secondary data are that information is disorganised, out of date, incomplete or inaccurate, and biased through being selective in the information they provide (Creswell, 2009; Saunders, Lewis and Thornhill, 2015, 2009). Another issue that needs to be considered in official company publications is the written style of the document (objectivity of the data). Most newspaper articles and documents published by organisations are written to pursue a specific goal or convey a particular message, and are usually biased (Atkinson and Brandolini, 2001).

Secondary documents allowed incorporating third parties' views and opinions to those of the interviewees. This helped to develop and draw a comprehensive picture of the change in the investment behaviour of listed Turkish energy companies on BIST.

In this context, important are annual reports and other secondary sources published by firms. The annual reports provide qualitative and quantitative information of the company, historic as well as future oriented. Next to quantifiable information such as the firm's asset composition are non-quantifiable information. Economic trends, business strategies and sectoral insight can be retrieved.

Identifying trends

Previous studies looked into the case of emerging and advanced markets to highlight NFCs increased form of financialisation. In order to address research objectives in section 1.4 of chapter 1; firstly, data from CBRT's database of company accounts for the years 2002 – 2017

has been retrieved in order to indicate the macro trend within the overall sector. Secondly, this trend has been contrasted to data from listed Turkish energy firms; and finally, this trend has been triangulated with primary data retrieved from elite interviews and other secondary data.

There are three important reasons why this study uses firms from 2002 – 2017. First, in 2001 after the establishment of the International Financial Reporting Standards (IFRS), all firms used in this study adopted IFRS norms. Secondly, in 2002 the AKP stepped into office which enables to understand politics and regulations implemented in Turkey and their contribution to financialisation in the energy sector. Finally, five out of the seven listed companies' financial statements are available starting from 2002.

CBRT has compiled annual accounts of corporations since 1990 and started publishing them in English from 2000 onwards, as 'Corporate Accounts'. Aggregated accounts data from the Turkish economy was prepared according to NACE Rev. 1. (Nomenclature Generale des Activites Economique dans les Communautes Europeennes) (CBRT, 2001). In 2011 CBRT switched to 'NACE Rev.2 economic activity classification updated by European Statistics Office (EUROSTAT) for assessing new and developing sectors and analysing them in accordance with international standards' (CBRT, 2012, Introductory Notes). Despite the revision of the NACE criteria for construction of classification and formulation of explanatory notes, the overall characteristics remain unchanged (Instat, 2012). The CBRT (2015b) stated that:

> Size classification is made on the basis of net sales criterion of BACH (The Bank of Harmonised Data on Company Accounts), which functions under the General Directorate of the Economic and Financial Affairs of the European Commission, and the total assets criterion[2] of the European Union.

In the process of identifying firms to include in a given year's study of Company Accounts, the largest possible representativeness of those firms with active loan balances vis-à-vis the financial sector (as of year-end of the last reporting period), and of those firms whose data are used for GDP calculations by the Turkish Statistical Institute (TURKSTAT) in the previous years, are sought for. Data for the entities included in the Company Accounts are available for a period of three successive years preceding the reporting year without any interruption (CBRT, 2016).

This analysis reveals new insights into the form(s) of financialisation taken place throughout the Turkish energy sector and analyses the trends on both macroeconomic level and

2 In Construction and Activities of Holding Companies Sectors -where annual net sales figures erratically change from year to year- the total assets criterion, while in other sectors, the net sales criterion is used for scale classification.

microeconomic level. These changes have been highlighted in chapter 6, whereby different periods of financialisation in Turkey are presented in chapter 4.

Turkish Non-Financial Corporations (NFCs)

NFCs' increased holding of highly liquid assets are also linked to carry trading activities that have been intensified in the wake of the financial liberalisation. Enlarged market pressures in an international trading environment under flexible exchange rates led to new strategies and financial innovations, such as hedging and carry trading.

A small number of large corporations dominate the Turkish economy. Figure 3-2 shows the relationship of the total number of NFCs (in blue) to large corporations (in red). In 2000, the number of total corporations stood at 7537 which decreased to 6667 in 2004. The main reason for this was the recovery of the Turkish economy from its double crisis in 2000/2001. Starting from 2004, the number of corporations increased until 2014 and stood at 10376. Since 2014, the number of corporations in Turkey has been steadily declining.

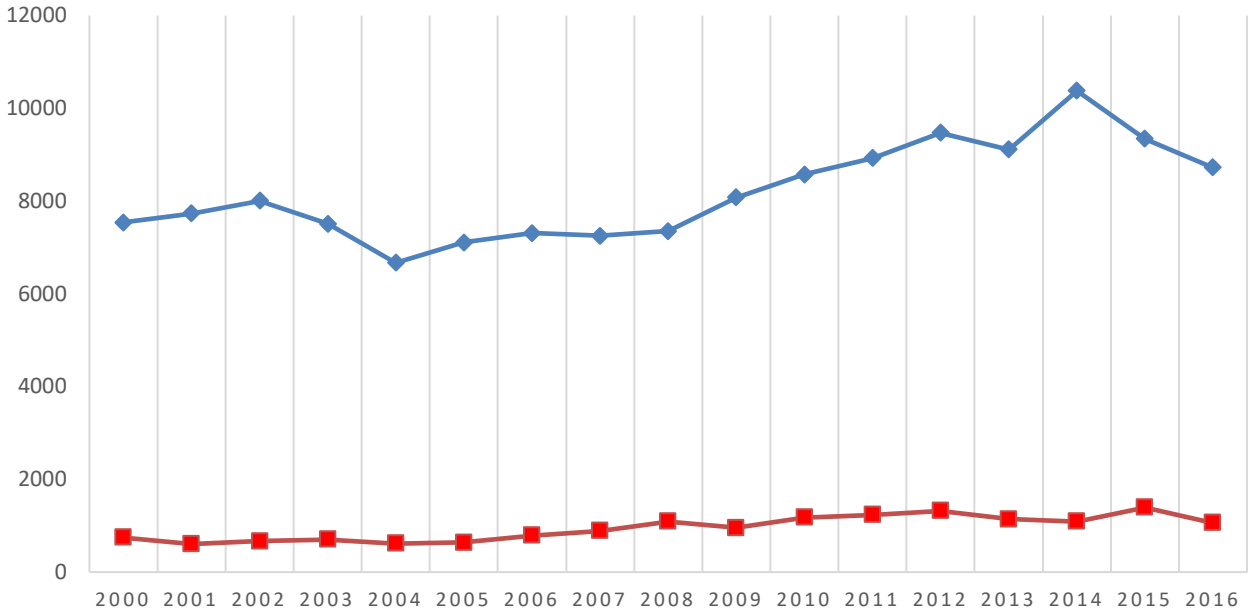

Figure 3-2: Total corporations / Large corporations in Turkey.
Source: CBRT, Company Accounts 2001-2017.

Large corporations in Turkey employed 57.4% of total employees and accounted for 80.2% of Total Assets (TA) in Q4 2016, see Table 3-3 below. Furthermore, they accounted for 70% of total Net Turnover (NT) on average, owned about 60% of TA and their Own Funds (OF) were 57.1% (CBRT, 2017b).

The Turkish manufacturing sector is the largest sector within the economy and acts as an umbrella for 23 subsectors such as: food products, beverages, tobacco products, textiles,

wearing apparel, leather and related products, wood and of products of wood and cork, paper and paper products, printing and reproduction of recorded media, coke and refined petroleum products, chemicals and chemical products, pharmaceutical products, rubber and plastic, basic metals, non-metallic mineral products, electrical equipment, furniture and motor vehicles. It would have been beyond the scope of this study to scrutinise the manufacturing sector.

In terms of TA the manufacturing sector ranks first, followed by the construction sector, and thirdly the energy sector, which is reasonable due to the capital-intensive nature of those industries. However, when comparing TA to NT, the construction sector accounts for 39,187,828,000 TL which is less than half of the energy sector's NT of 87,529,792,500 TL. The energy sector is comprised of 60 large firms making up a total of 319 companies, which is only a third of construction companies, 195 of which are large firms amongst a total of 945 (CBRT, 2017a, 2017c). Further, the Turkish energy sector has the third largest TA, NT and OF among all sectors and makes it worth studying in more detail, see also 'Why the Turkish Energy Sector?' below.

Sectors	Companies total	Large corporations	Employees total	Employees large in %	NT total	NT large in %	TA	TA large in %	OF total	OF large in %
A - AGRICULTURE, FORESTRY AND FISHING	166.0	5.0	13,641.0	37.5	1,920,947.5	39.2	3,129,327.8	40.6	1,688,855.6	55.3
B - MINING AND QUARRYING	106.0	17.0	45,097.0	75.7	11,999,371.0	81.8	42,530,409.7	81.5	26,846,713.0	91.2
C - MANUFACTURING	3,057.0	508.0	881,122.0	63.5	482,347,695.9	82.3	483,739,836.3	78.2	169,545,523.5	80.8
D - ELECTRICITY, GAS, STEAM AND AIR CONDITIONING SUPPLY	**319.0**	**60.0**	**50,889.0**	**84.8**	**87,529,792.5**	**94.4**	**137,851,158.6**	**74.5**	**50,690,399.9**	**89.9**
E - WATER SUPPLY, SEWERAGE, WASTE MANAGEMENT AND REMEDIATION ACTIVITIES	47.0	6.0	36,301.0	57.9	2,491,639.0	58.0	1,495,096.4	31.4	631,402.7	24.0
F - CONSTRUCTION	945.0	196.0	115,299.0	60.0	39,187,828.7	74.2	185,282,007.7	84.4	39,122,302.4	88.0
G - WHOLESALE AND RETAIL TRADE, REPAIR OF MOTOR VEHICLES AND MOTORCYCLES	2,387.0	290.0	224,775.0	49.8	243,112,469.7	75.2	104,368,687.2	56.0	27,013,844.5	54.6
H - TRANSPORTATION AND STORAGE	343.0	36.0	169,406.0	80.5	84,031,815.1	90.0	135,464,776.9	81.5	57,465,739.7	87.3
I - ACCOMMODATION AND FOOD SERVICE ACTIVITIES	551.0	14.0	109,433.0	30.2	5,515,305.6	41.2	7,701,862.9	15.3	912,930.5	8.2
J - INFORMATION AND COMMUNICATION	95.0	22.0	37,665.0	73.5	39,614,612.9	93.1	76,751,621.6	95.0	38,195,024.3	97.0
K - ACTIVITIES OF HOLDING COMPANIES	54.0	39.0	10,910.0	97.7	514,941.6	91.0	63,559,571.4	98.3	27,550,046.1	98.1
L - REAL ESTATE ACTIVITIES	111.0	3.0	4,794.0	6.3	680,951.4	20.7	2,466,977.4	10.5	1,221,674.6	18.3
M - PROFESSIONAL, SCIENTIFIC AND TECHNICAL ACTIVITIES	76.0	7.0	8,037.0	19.9	3,175,957.8	62.5	3,628,015.2	43.9	641,936.8	31.9
N - ADMINISTRATIVE AND SUPPORT SERVICE ACTIVITIES	188.0	29.0	95,753.0	41.4	17,049,261.7	78.9	20,945,748.3	78.6	1,963,735.5	57.8
Q - HUMAN HEALTH AND SOCIAL WORK ACTIVITIES	151.0	6.0	54,225.0	32.9	3,816,080.0	48.6	4,913,416.2	34.7	374,922.8	10.9
S - OTHER SERVICE ACTIVITIES	33.0	2.0	3,431.0	2.0	2,219,936.6	75.2	1,851,861.3	74.5	46,385.9	20.9

Table 3-3: Overview of the sectors.
Source: CBRT, Company Accounts 2017.

Companies total= total companies within that sector; large corporations = total of large corporations within the sector; Employees = total number of employees within the sector; Employees in % = Employees employed by large corporations in percentage to Employees; NT total = Net Turnover of the sector; NT large in % = Net Turnover that the large corporations account for in percentage to total; TA = Total Assets in that sector; TA large in % = Total Assets within the sector owned by large corporations in percentage to TA; OF total = Owned Funds total within the sector; OF large in % = Owned Funds in percentage of large corporations to OF total.

Why the Turkish energy sector?

Energy is vital for economic growth, as witnessed during the 1970s oil crisis, i.e. OPEC's oil embargo in 1973/1974 (Macalister, 2011). During the interviews, few participants highlighted the importance of energy for the economy. According to interviewee Off5, energy is vital for an economy and energy goes hand in hand with politics because a lack of sufficient energy can cripple an entire nation. With a similar viewpoint, interviewee Loc10 stressed the fact that many wars have been fought and are still ongoing over energy resources. Political aims fuelled by an attempt to control the oil industry is what makes this the leading cause of war. Since 1973, between a quarter and a half of interstate wars have been associated with oil-related causal mechanisms (Colgan, 2013). The most renowned instance in recent times is the U.S. invasion of Iraq for its oil reserves. According to Chuck Hagel, former U.S. Secretary of Defence, 'people say we're not fighting for oil. Of course, we are. They talk about America's national interest. What the hell do you think they're talking about? We're not there for figs' (Greenwald, 2013; Juhasz, 2013; Moore, 2013). In line with Hagel, Alan Greenspan, former head of the U.S. Central Bank wrote: 'I am saddened that it is politically inconvenient to acknowledge what everyone knows: the Iraq war is largely about oil' (Allen, 2007; Beaumont and Walters, 2007; Juhasz, 2013).

By employing an economic model, Stern (2011) showed the relationship between energy and economic growth. Next to Solow's growth model's input factors labour and capital, Stern incorporated energy as a non-substitutable element. Stern's (2011) model shows that when energy is scarce, economic growth is inhibited, whereas abundant energy can be associated with some economic growth. In sum, Stern argues that energy does not attribute fully to economic growth however, economic growth models without the consideration of the element of energy are also inadequate (Stern, 2011).

Turkey's fast-growing economy has brought its energy sector among the fastest growing in the world. In the past decade Turkey has become second after China, in natural gas and electricity demand growth (MFA, 2017).

A detailed discussion about the Turkish energy sector is provided in section 4.3 of chapter 4, however, this section aims to provide a brief overview. Regulatory changes within the energy sector helped Turkey sustain its rapid economic growth and satisfy the fast-rising domestic energy demand. Changes have been made in electricity, gas, renewable energy and energy efficiency. A new energy sector authority was established, energy prices were reformed, a functional electricity market was created and there was a shift in large-scale dependency towards natural gas (Budak and Nyman, 2015). State-Owned Enterprises (SOEs) have been privatised and regulatory changes promoted increased private investments (Budak and Nyman, 2015). The first attempt to encourage private investors in the energy sector was in

1984 and it failed mostly due to the lack of a comprehensive regulatory framework. In 2001, energy market reforms were enacted by the government, which helped restructure SOEs and develop a platform for the trade of electricity (PMUM) (Budak and Nyman, 2015).

In early 2008, a new cost-based energy pricing mechanism was introduced. Between 2008-2009, a series of tariff adjustments brought the energy sector to financial viability. These adjustments attracted a large volume of private investments and allowed the government to start privatising SOEs. Between the years 2008-2013, this privatisation program enabled investors to take over the power distribution in Turkey (Budak and Nyman, 2015).

Currently, about 25% of Turkey's energy demand is met by domestic resources. However, the country's rising energy demand over the last decade resulted in a high dependency on foreign energy imports (MFA, 2017). Turkey's reliance on energy imports increased on average, annually by 6%. The negative impact of foreign dependency is reflected in the country's current account balance which is discussed in detail in section 4.1 of chapter 4 (Uysal, 2016). The government has realised this problem and taken steps to satisfy Turkey's growing energy demand through implementing a new energy strategy.

The overall aim of the new energy strategy is to transform Turkey into an energy hub for the region. Turkey's geographical location, due to its proximity to more than 75% of the world's oil and gas reserves, gives it a competitive advantage. Through diversification of the energy supply sources and establishing additional supply routes, Turkey has the potential to become an important regional energy hub for Europe and its neighbours. Furthermore, Turkey's favourable climate provides opportunities for development of renewable resources (MFA, 2017). The government has set a target for its production of renewable energy to reach 30% of total energy consumption by 2023 which is currently around 5% (Uysal, 2016).

Turkey is located in the Mediterranean sun belt and has similar solar potential to Spain and Portugal, which provides ground for solar, thermal water heating and photovoltaic systems, see Figure 3-3 (Asker, 2012).

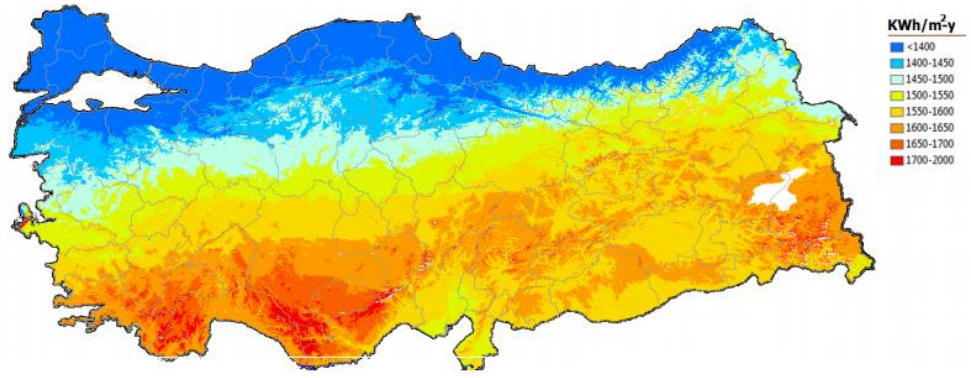

Figure 3-3: Turkey solar radiation.
Source: General Directorate of Renewable Energy Turkey.

The goals of strengthening its position between East-West and South-North Energy Corridors and becoming an energy trade hub is reflected in the government's energy strategy. The MFA (2017) stated that:

> The 'East-West' gas pipeline projects which are envisaged to bring gas from the Caspian Sea and the Middle East to Europe through Turkey, are referred to as the 'Southern Gas Corridor' (SGC). South Caucasus Pipeline (SCP), Baku-Tbilisi-Erzurum Natural Gas Pipeline (BTE), Turkey-Greece Interconnector (ITG) are existing pipelines while the Trans-Anatolian Natural Gas Pipeline (TANAP) and the Trans-Adriatic-Pipeline (TAP), are planned projects within the context of the Southern Gas Corridor. The delivery of gas to Turkey through TANAP will start in mid-2018 and to Europe in 2020.

Furthermore, Ceyhan (Yumurtalik) Marine Terminal will be reconstructed to an important energy trading hub, from where more than one million barrels of oil per day is currently exported to the global markets, see Figure 3-4 (MFA, 2017).

Figure 3-4: Turkey's energy routes.
Source: MFA, 2017.

The ambitious plan of the government and reforms in the energy sector has motivated many private investors to take a part in Turkey's energy vision. The governments' strategy to develop the country's energy sector and its provision of incentives explains the sharp rise in new entrants, see Figure 3-5. In 2016, the CBRT company accounts showed that 319 energy firms out of 8629 total companies in Turkey, accounted for 10.8% of the total assets within the Turkish economy (CBRT, 2017a, 2017b).

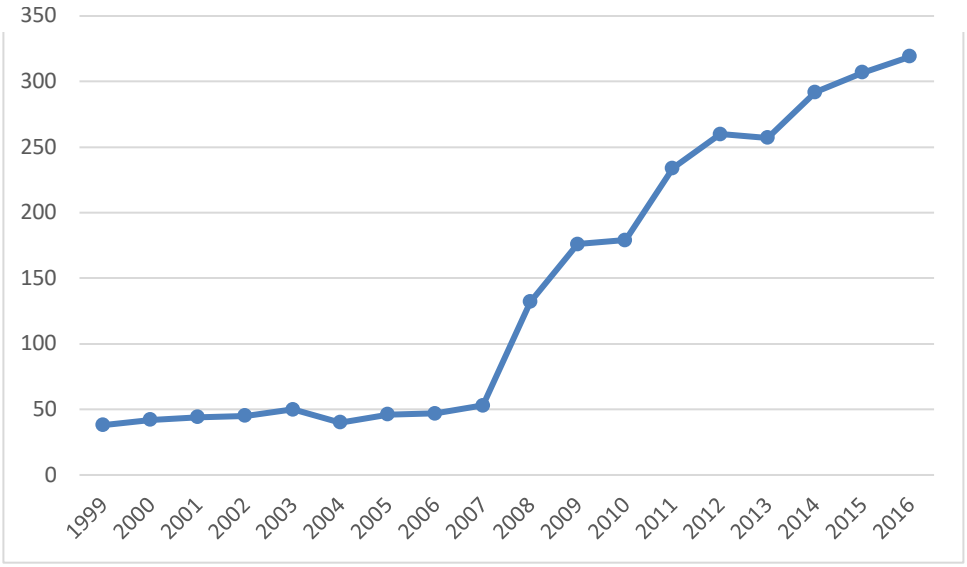

Figure 3-5: Rising number of firms within the energy sector.
Source: CBRT 2017 company accounts.

In order to elaborate the degree of financialisation of Turkish energy firms, all possible means have been taken into consideration, i.e. financial statements of all listed companies, trading volumes of derivatives from BIST and company accounts of the CBRT. A detailed discussion to prove or disprove the turn of Turkish energy firms towards finance can be found in chapter 6. However, a brief overview of key aspects has been provided below to indicate the financialisation process amongst Turkish energy firms.

Firstly, the following section highlights changes in the asset composition of all corporations within the energy sector. The graph below depicts changes in Financial Fixed Assets (FFAs) in the overall energy sector starting from 1999-2016, see Figure 3-6. FFAs started rising from 0.4% in 2001 to 15.6% in 2014 and declined to 11.7% in 2016.

FFAs predominantly constitute of non-marketable securities, participations, affiliated enterprises whereby a small portion of around 0.1% are non-marketable securities. According to the Management Study Guide (MSG), a financial investment has been defined as ‘putting aside a fixed amount of money and expecting some kind of gain out of it within a stipulated time frame’ (MSG, 2018). The rise and increased number of Mergers and Acquisitions (M&A) within the energy sector are also reflected in the companies’ balance sheets retrieved from the CBRT. Hence, for this study M&As fall within the category of financial investments due to the nature of that those investments, for details see section 2.3.2 of chapter 2.

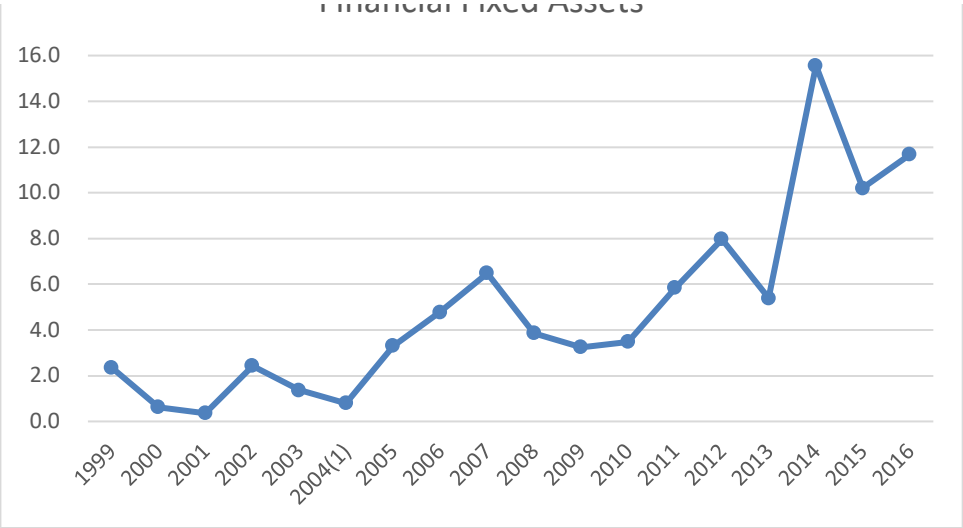

Figure 3-6: Financial Fixed Assets overall energy sector 1999-2016.
Source: CBRT.

Secondly, income statements retrieved from the CBRT for the energy sector have been scrutinised and operating to non-operating income contrasted without invalidating the accounting principle of matching; more detail in chapter 6. However, in order to provide a full picture non-operating expenses for transactions of the same category have been taken into account. Furthermore, financial income has been contrasted to financial expenses.

Finally, trade volumes for derivatives retrieved from BIST starting from 08-2013 on a monthly basis have been analysed; more detail in chapter 6. Energy corporations can only trade via an intermediary on BIST, hence the traded data does not reveal how much each company trades, however it does provide a trend for the overall sector.

The counterpart of those FFAs are Tangible Fixed Assets (TFAs). Within the balance sheets, these constitute of Property, Plant and Equipment (PPE). Interesting to note, TFAs started decreasing from 57.5% in 2001 to 37.5% in 2010 and levelled off in 2016 by 47.5%. When comparing FFAs (Figure 3-6) with TFAs (Figure 3-7), the former rose by 10%, whereas the latter fell by 10% during the same period. An inverse relationship between TFAs and FFAs is apparent which prompts the question, is there a shift of tangible assets towards those of financial assets?

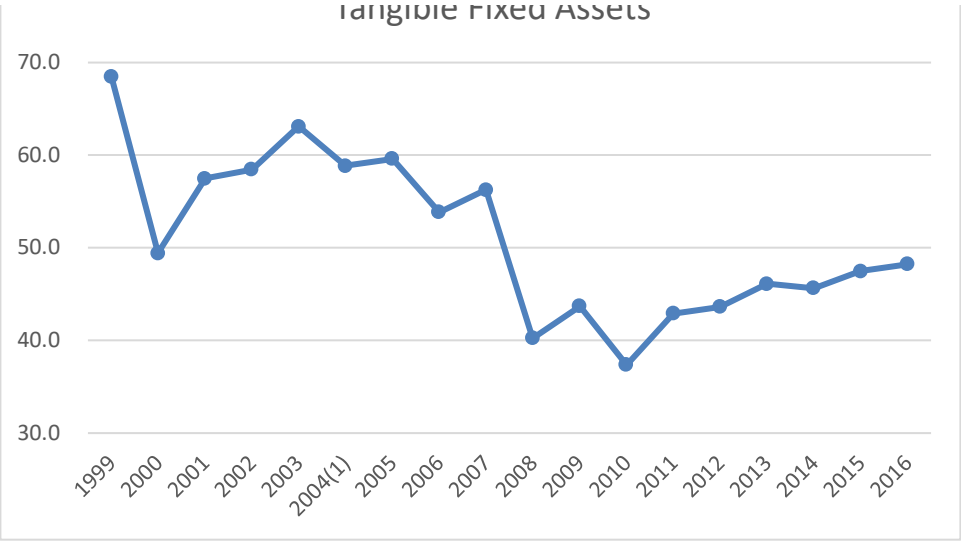

Figure 3-7: Tangible Fixed Assets overall energy sector 1999-2015.
Source: CBRT.

A possible explanation for this trend might be attributed to the regulatory changes in 2001 which were brought into place to strengthen the existing framework within the energy sector. Further, between 2008 and 2013, the government also initiated a privatisation program for the entire power distribution network (Budak and Nyman, 2015) which further encouraged FDI. However, this does not explain the increase of financial assets in 2014 and the income from non-core activities as described by Akkemik and Özen (2014); Bahce et al., (2014); Bedirhanoglu et al., (2013); Demir (2007, 2009a, 2009b); Demiröz and Erdem (2018); and Tellalbasi and Kaya (2013).

Since 2008 onwards, the Central Bank of the Republic of Turkey (CBRT) has been providing detailed information on aggregated data for companies according to their asset size. The asset composition among the three different classes of companies (small, medium and large) reveals that there is a change in investment trends within the energy sector.

Figures below display changes within the asset composition of energy firms according to their sizes (small, medium and large). The red lines illustrate the TFAs whereby the blue lines represent the FFAs. In order to highlight changes across the sector, each class size of companies (small, medium and large) has been illustrated separately. Throughout this section, the first graph displays the change of the asset composition vis-à-vis total assets in percentage while the second graph shows the change in percentage within the group of fixed assets.

Small Companies

Figure 3-8 shows the inverse relationship among Total Assets (TAs), this relationship is more distinct for the years 2012 – 2016 (CBRT, 2017b).

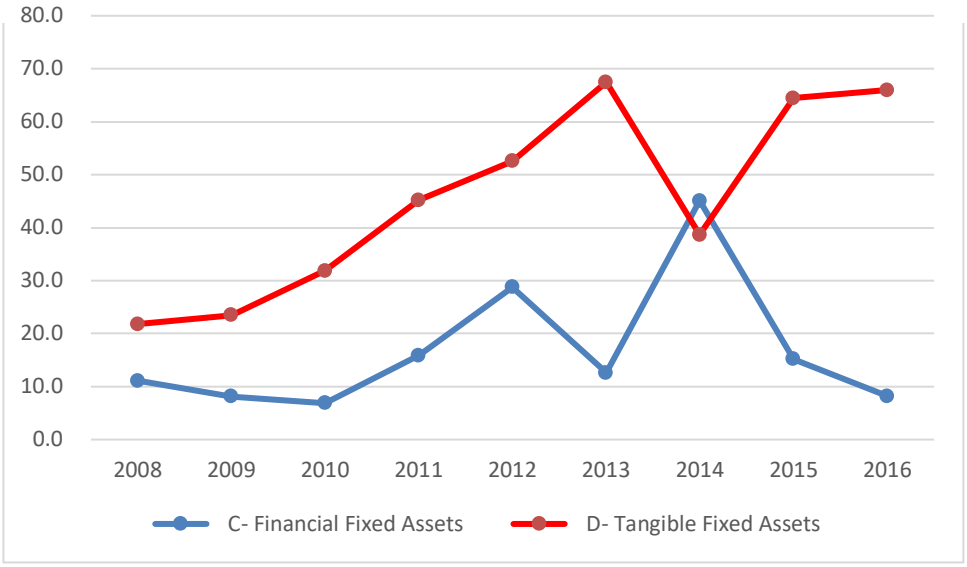

Figure 3-8: Small firms TFAs and FFAs change to total assets.
Source. CBRT.

The same relationship within Fixed Assets (FAs) are more pronounced; see Figure 3-9. The fall in TFAs from 77.2% in 2010 to 42.3% in 2014 is mirrored in a rise of FFAs from 16.7% in 2010 to 49.3% in 2014 (CBRT, 2017b).

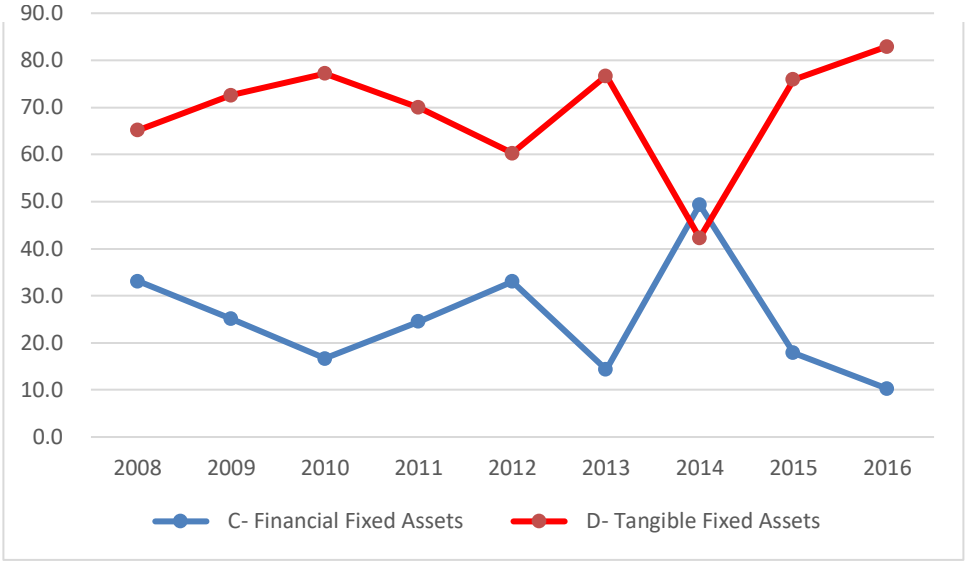

Figure 3-9: FFA and TFA for small firms in relation to fixed assets.
Source: CBRT.

Medium Companies

A similar pattern is evident for medium sized companies within the energy sector. A fall in TFAs within TAs is noticeable starting in 2009 from 70% to 48.2% in 2015, while FFAs rose from 3.6% to 19.1% in the same period, see Figure 3-10 (CBRT, 2017b).

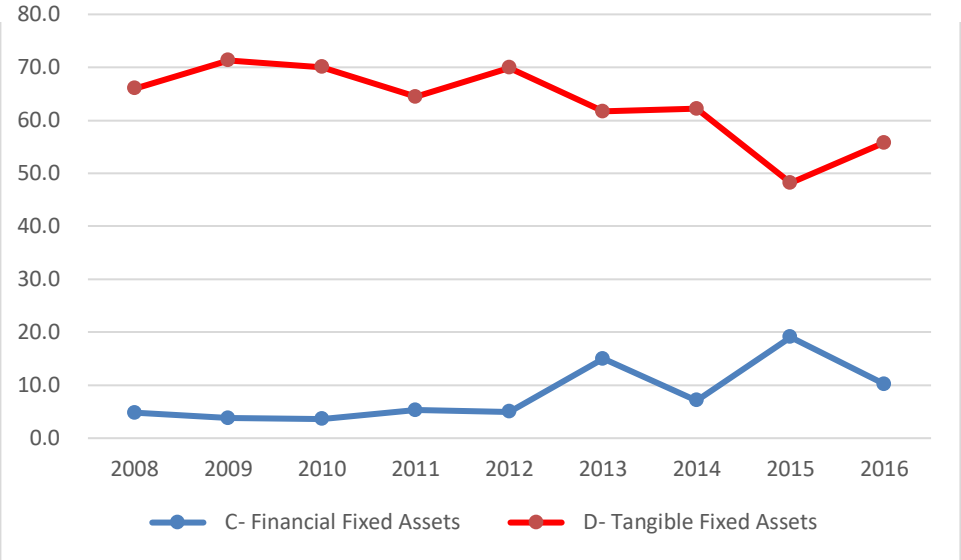

Figure 3-10: FFA and TFA for medium sized companies to total assets.
Source: CBRT.

The change of medium sized firms' asset composition within FAs is evident. TFAs started falling from 88.7% in 2009 to 61.2% in 2015 which is reflected in a rise of FFAs from 4.7% in 2009 to 24.2 in 2015, see Figure 3-11 (CBRT, 2017b).

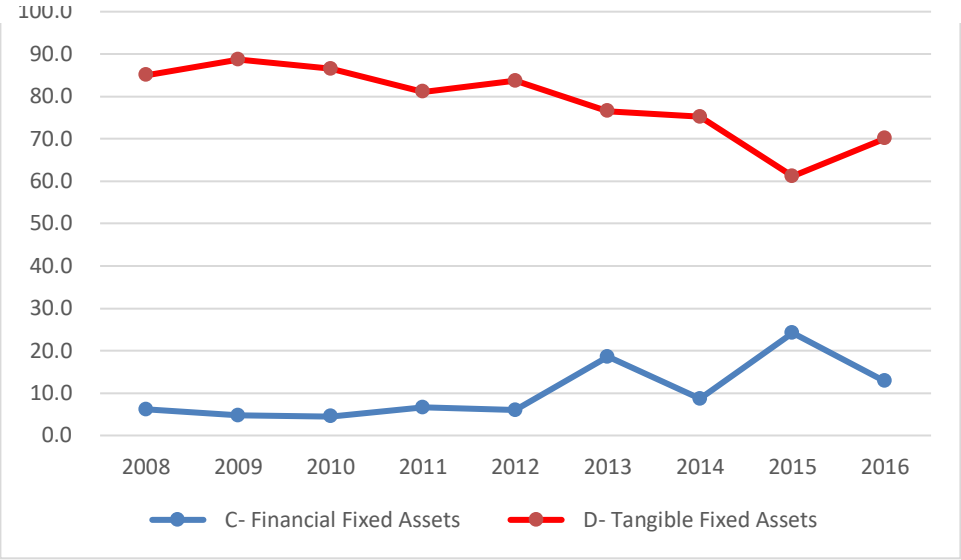

Figure 3-11: FFAs and TFAs for medium size companies within FAs.
Source: CBRT.

Large Companies

Given the fact that large Turkish energy corporations account for 74.5% of TAs within the sector, any change within those companies' asset composition is more of significant them than it is to the other two groups. Large firms display a slightly different TFA pattern to TAs, than medium and small sized firms. No inverse relationship is evident, see Figure 3-12. However, in 2008, TFAs stood at 38.1% and was at 43.4% by 2016. For the same period, FFAs rose from 2.4% to 12.6% which is a net change of about 10%; double the amount of TFAs change (CBRT, 2017b).

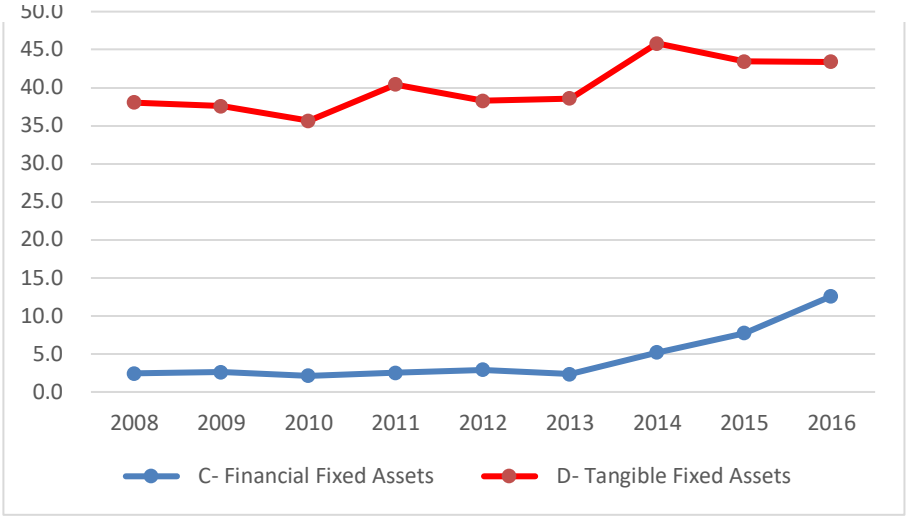

Figure 3-12: FFA and TFA large corporations to TA.
Source: CBRT.

A more interesting picture is evident within the change of FAs. TFAs fell from 87.9% in 2008 to 61.5% in 2016 while FFAs rose from 5.6% in 2008 to 17.9% in 2016, see Figure 3-13 (CBRT, 2017b).

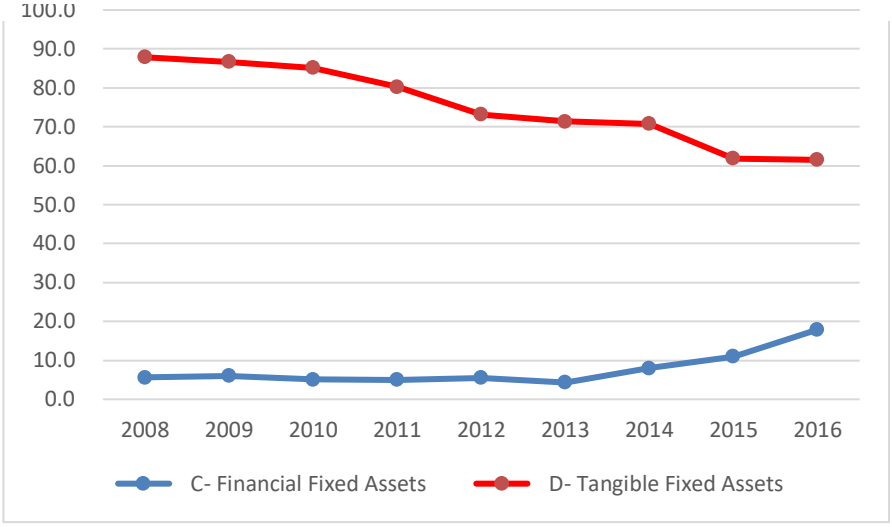

Figure 3-13: FFA and TFA large corporation to FA.
Source: CBRT.

Turkey's dependence on foreign capital inflows are reflected in energy firms' balance sheets: a detailed discussion is provided in chapter 6. The dramatic increase of foreign capital inflows over the last decades coupled with the CBRT's inevitable hike in interest rates, increased the country's vulnerability to external shocks (Blitz, 2015, 2016; Pitel, 2018a, 2018c).

3.2.4. Data Analysis Strategy

A challenging task of qualitative research is the data analysis, caused by a lack in availability of rigorous procedures that extract data and draw conclusions (Miles and Huberman, 1994). Patton (1987) suggests three steps in analysing data: first, organise data; second, reduce data through summarising and categorising; third, identify patterns and themes within the collected data. This thesis will use a thematic analysis approach as it facilitates for identifying patterns in apparently random information, as suggested by Bryman and Bell (2007), Merriam (1998) and Saunders, Lewis and Thornhill (2015). Thematic analysis has been described by King and Harrocks as recurrent and distinctive features of participants' accounts, 'characterising particular perceptions and/or experiences, which the researcher sees as relevant to the research question' (King and Harrocks, 2010, p. 150).

Thematic analysis interprets data by seeking patterns and themes across predefined themes, and highlights differences and communalities in retrieved data (King and Harrocks, 2010). The biggest challenge of qualitative analysis is to make sense of the voluminous data (Patton 1987). For this study, the data analysis strategy encompassed a documenting of the qualitative data obtained from the elite interviews which have been tape-recorded. The tape-recordings have been fully transcribed and where needed, translated by me from Turkish to English.

Mason (2002) stresses the importance of a consistent analysis when discovering explanations. Drawing from Miles and Huberman's analysis (1994) a systematic approach has been adopted for this thesis. The meanings emerging from the data have been tested for their plausibility and validity accordingly. Miles and Huberman (1994) identified three interwoven streams: data reduction, data display and verification; see Figure 3-14.

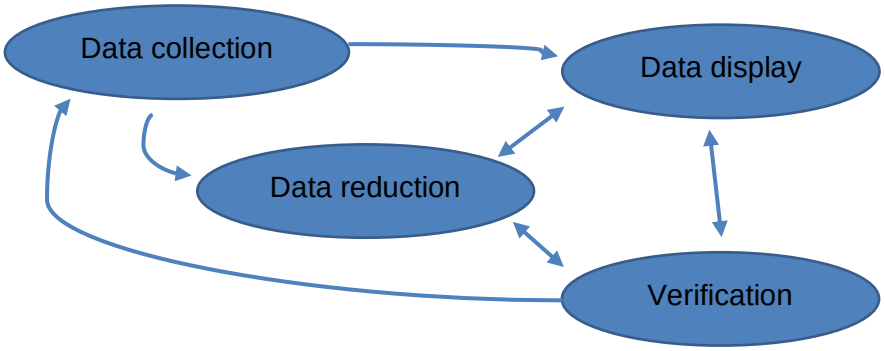

Figure 3-14: Adapted from Miles and Huberman (1994) – Components of Data Analysis: Interactive Model.

Miles and Huberman's (1994) analysis forms an interactive cyclical process. Hereby, the investigator has to move steadily among these four points during data collection. Coding helped to reduce data and brought certain ideas to the fore, which has been analysed later through data display. The displaying of data led to preliminary findings that required validation. Therefore, qualitative data analysis is a continuous and iterative process until the data reaches saturation. Miles and Hubermann (1994, p. 12) stated that:

> Such a process is actually no more complex, conceptually speaking, than the analysis modes quantitative researchers' use. Like their qualitative brethren, they must be preoccupied with data reduction (computing means, standard deviations, indexes), with display (correlation tables, regression printouts), and with conclusion drawing/verification (significance levels, experimental/control differences).

Boyatzis (1998) identified five important elements that a good code must entail: a label, a term that characterises a theme, a description of when the theme occurs, a qualification that identifies a theme, and finally a set of examples to eliminate confusion. Emerging new themes during the interviews have to be considered to identify similarities and differences in the responses among the different groups of participants, government officials, academics, economic journalists, business analysts, senior managers of financial institutions and senior managers from the energy sector (Boyatzis, 1998).

Subsequently, a verification of the gathered data through two techniques as described by Creswell and Miller (2000), triangulation and member checking, has been applied.

For the evaluation process, this thesis used NVivo software to manage and analyse the data. Therefore, an online training course on NVivo and literature 'Qualitative Data Analysis with NVivo' from Bazeley and Jackson (2013) was undertaken.

3.3. Limitations

This section elaborates on the limitations of the chosen methods.

3.3.1. Interviews

Face-to-face interviews are characterised by synchronous communication in time, as it poses the advantage of reading social cues during the interview (Opdenakker, 2006). Permissioned tape recording gives the researcher the ability to focus on the information provided by the interviewee rather than taking notes. However, tape recording can lead to negligent note-taking during the interview, which, in the case of a malfunctioning tape-recorder, can result in

inconvenient outcomes (Opdenakker, 2006). Next to technical difficulties, the transcribing of the recordings is very time consuming; one hour of tape can take up to six hours of transcribing (Bryman, 2001). Opdenakker (2006) suggests that another disadvantage of face-to-face interviews is conducting the interviews themselves, i.e. travelling to the interview location and meeting the interviewee and taking into consideration last minute cancellations due to unforeseen circumstances.

Additionally, it is important to be aware of the selection bias, whereby some interviewees are more likely to participate than others (Cortes et al., 2008). For instance, some people are more inclined to share their experiences with others to promote their reputation. On the other hand, some potential interviewee candidates may choose not to participate in the interview altogether, due to their position and fear of negative repercussions (Cortes et al., 2008).

For this research, elite interviews have been conducted with people that have profound knowledge of the Turkish economy. Every effort was made to ensure that participants were not put into any danger, taking into consideration the dynamics within the Turkish political arena. Additionally, full anonymity was guaranteed.

The quality of the data that is collected during the interview was also highly dependent on the participants and the interviewer. Each interview is unique and not comparable to other interviews due to factors such as mental and physical health condition, location, and mutual understanding of the content. The limited sample size of elites needed to be broad enough to ensure wide coverage of the topic (Wyse, 2014). Therefore, this research includes a hand-picked list of participants based on their relevance and potential contribution to the research.

Another issue is the selective information provided by the interviewees, who might have difficulties with recalling memories or recreating certain events (Saunders, Lewis and Thornhill, 2015). These limitations cannot be avoided, but to a certain degree can be mitigated through comparing interviewees' data.

3.3.2. Reliability and validity of the research

Lincoln and Guba (1985) and Maxwell (1996) argue that there is a general consensus which suggests qualitative research needs to demonstrate credibility. Therefore, qualitative researchers establish common procedures such as triangulation, thick description, member checking, peer reviews, and external audits in order to ensure validity (Lincoln and Guba, 1985; Maxwell, 1996). A Critique made mostly from quantitative researchers regarding the absence of standardised means to assure validity, highlights the need to address this area (Maxwell, 1996). Bosk (1976) stressed 'all field work done by a single field-worker invites the question, why should we believe it?' (Bosk 1976 as cited in Maxwell, 1996, p. 279).

In contrast to quantitative research, qualitative research is not based on scores, instruments, or research designs, moreover, scholars make use of a lens established to retrieve views of people who conduct, participate in, or read and review a study (Creswell and Miller, 2000).

Procedures for validity include strategies used by researchers to establish the credibility of their study. Creswell and Miller (2000) suggest that validity refers not to the data but to the inferences drawn from it. The scholars further highlight the fact that data analysis is an interactive process rather than a linear process (Creswell and Miller, 2000). Creswell and Miller (2000) defined three lenses in order to establish validity in a qualitative study. First, the researcher themselves have to decide whether or not the collected data is saturated or provides sound themes/categories. Furthermore, the analysis itself plays an essential role, as it needs a clear developed research guide and research methodology. Second, qualitative research inquires credential participants (Creswell and Miller, 2000). 'The qualitative paradigm assumes that reality is socially constructed, and it is what participants perceive it to be. This lens suggests the importance of checking how accurately participants' realities have been represented in the final account' (Creswell and Miller, 2000, p. 125). The third lens comprises of the externality of the interviewee. In the final step, verification and drawing-conclusions, the researcher will use two techniques (triangulation and member checking), as suggested by Merriam (1998), Miles and Huberman (1994) and Lincoln and Guba (1985).

Triangulation

Triangulation is a systematic procedure used to validate data retrieved from multiple sources to eliminate overlapping's in order to find common themes/categories within the data (Creswell and Miller, 2000; Denzin, 1978). To examine the data and to identify the underlying aspects for the change in investment behaviour of Turkish energy firms, data has been triangulated in order to cross check findings from multiple-sources, to increase 'trustworthiness' (Lincoln and Guba, 1985) of the research, see Figure 3-15 below. Triangulation refers to the use of different means of data collection techniques to depict the same data across multiple forms, to ensure data consistency throughout (Saunders, Thornhill and Lewis, 2015).

The data retrieved from the primary research, open-ended semi-structured elite interviews, have been triangulated with secondary macro data from the CBRT, micro data of listed energy firms from Borsa Istanbul's Electricity Index (BIST XELKT), official documents, newspaper articles, publications and other secondary sources.

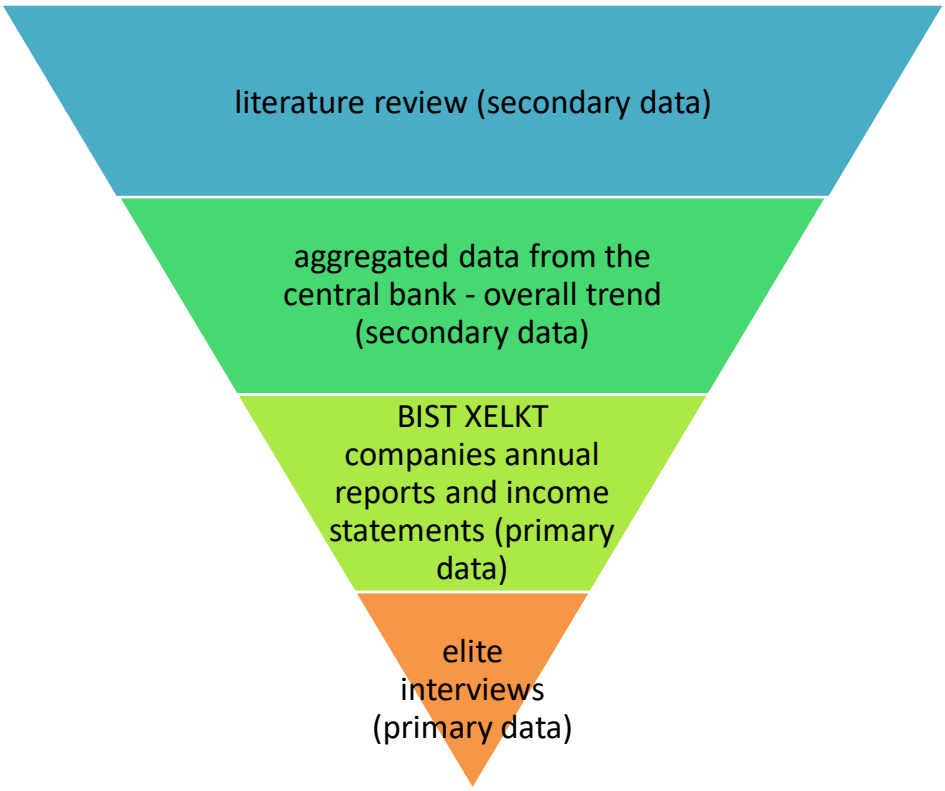

Figure 3-15: Triangulation of different sources.

Member checking

Another technique that has been used for this research was member checking. Member checking allowed the researcher to confirm the accuracy of the collected data with the participants.

Creswell and Miller (2000) and Lincoln and Guba (1985) suggest that member checking is a highly important method to confirm and validate findings by taking data back to the interviewees. Member checking helps the researcher to obtain participants' views on themes and categories, and the chance to receive invaluable feedback or suggestions. This incorporation of participants' feedback helps to increase the quality and credibility of the study (Creswell and Miller, 2000).

For this study, member checking turned out to be an invaluable technique. It allowed me to present and discuss overall findings of the interviews with participants who showed a deep interest in this research. After the findings have been discussed with former interviewees, participants pointed out few additional factors and provided constructive feedback which greatly benefitted this research.

Snowball Sampling

This thesis used a non-probability sampling (snowball sampling) that consists of two steps. First, identified potential subjects in the population, given the fact that the availability of experts with a profound knowledge within the Turkish economy and energy sector is scarce. Second, through contact with the initial interview participants, recommendations to other potential interviewees were taken into consideration. In this case the interviewee acted as a gatekeeper for a circle of people who are difficult to enumerate (Saunders, Lewis and Thornhill, 2015). According to Vogt (1999 cited in Atkinson and Flint, 2001, p. 1):

> Snowball sampling may simply be defined as a method for identifying and expanding potential research subjects through the smaller initial sample of interviewees. This is made possible through referrals made from one participant identifying another individual as a potential interviewee.

Advantages of this technique include that it is economical, efficient and effective to produce in depth-results. Snowball sampling is often associated with studies in the realm of drug users, prostitution, pickpockets, aids sufferers and seriously ill participants. This approach is also used in some studies to engage with the 'hard to reach' (Atkinson and Flint, 2001).

Atkinson and Flint (2001) highlight a few difficulties of this technique. The primary concern identified with this technique is the limitation of the validity of data through a bias in interrelationships of individuals' social networks that miss people who are not connected to this network. 'Because elements are not randomly drawn but are dependent on the subjective choices of the respondents first accessed, most snowball samples are biased and do not therefore allow researchers to make claims to generality from a particular sample' (Griffiths et al., 1993 cited in Atkinson and Flint, 2001, p. 2).

The second disadvantage is to identify the initial respondents, whereby this argument can be mitigated by taking key authors and key speakers as the starting point. Finally, it could be difficult for interviewers to engage with participants due to their suspicious and unapproachable behaviour (Atkinson and Flint, 2001). For this research, prior to the initial contact with the potential interviewee, I did a background check on the person and studied their publications, newspaper/magazine articles, curriculum vitaes, videos and other sources. After conducting initial research on the interviewee, I carefully considered their relevance for this study. Overall, snowball sampling proofed to be a very effective technique to gain access to a closed circle, i.e. CFOs or senior managers within energy companies.

Secondary Data

Secondary data i.e. financial statements are limited due to the fact that there are only seven listed energy companies in Turkey. Aggregated data provides only a macro view without providing an explanation for the reasons 'why'. The Turkish energy sector follows the concept of 'pure play'; it was not possible to retrieve single financial ratios for different types of energy firms' subdivision, i.e. gas power plants, solar power plants or gas power plants. It would have helped to provide a better picture of the overall sector, however, the focus laid on the produced end product itself; electricity. Therefore, all energy firms have been viewed as the same regardless of their input because the output is always electricity in every case.

3.3.3. Research Ethics

It is important for the researcher to take ethical implications into consideration before, during and after conducting research (Saunders, Lewis and Thornhill, 2015).

After considering the ethical implications of a study, the interviewee may choose to withdraw their input as it could have personal or cultural implications. These are complicated matters to put across and need to be coherent and clear for the participant in question to make an informed decision about their participation in the research or study (Bryman and Bell, 2007; Saunders, Lewis and Thornhill, 2015).

Creswell and Clark (2007) highlight the difficulties of qualitative research and the ethical issues that researchers have to face. Bryman and Bell (2007) identified that the main ethical areas concern harm to participants, lack of informed consent, invasion of privacy and deception.

For this research, I ensured I was addressing all ethical concerns by providing all participants with information sheets – Appendix B Consent Form & Information Sheet. These two forms provided the interviewees with important information such as the purpose of the study, how the retrieved data will be managed, how confidentiality will be maintained, the duration of the interview and where the findings will be published. Prior to every interview, myself and the interviewee signed the consent forms to document mutual consent for the interview. In many cases, due to the elite position of the interviewees, participants did not regard the consent form as necessary, and in these cases a verbal consent has been taken. Confidentiality and maintaining anonymity of the interviewees are the norm in academic research. Therefore, I have assigned a code to represent each participant when quoting or referencing statements within the thesis.

Codes for interviewees

References to interviewees from the three different interview groups have been coded as following: Internationals as 'Int' and the code for the participant 1-10 e.g. 'Int1' which stands for the first interviewee of the group international, 'Int2' for the second interviewee of the group international and so on. In-text citations of interviewees are as follows: e.g. Int1 and Int2. Officials are referenced as 'Off' and Locals as 'Loc' following the same numbering principle as mentioned for Int1 and Int2, see Table 3-4 below.

Internationals	Officials	Locals
Int1 Energy & Infrastructure Project Finance Manager Tier 1 bank	Off1 Strategy development expert at BIST and EXIST	Loc1 Portfolio Manager at a large energy firm
Int2 Energy Specialist at a Turkish SME	Off2 Energy Expert at EMRA, has a PhD	Loc2 Researcher Editor Energy Column, has a PhD
Int3 Senior Management German Energy firm	Off3 Energy Expert at EUAS	Loc3 Project Finance Manager at a large leading bank
Int4 Senior Manager at big four with a focus on energy and infrastructure, Private Equity Energy and infrastructure	Off4 Advisor to the Energy Minister	Loc4 Power Trader Turkish SME
Int5 Economic Advisor at the Embassy of a European Country	Off5 Former Advisor Energy Ministry, Energy Consultant	Loc5 CFO large energy firm
Int6 Partner at the big four with a focus on energy and infrastructure	Off6 Researcher at the Turkish Energy Ministry	Loc6 Energy Trader at a large energy firm
Int7 Senior Consultant at a niche consultancy focus on energy and infrastructure	Off7 Energy Expert at EMRA, has a PhD	Loc7 CFO large energy firm
Int8 Interdealer broker at one of the largest operating in the market, Financial Trading	Off8 Senior Advisor at the Turkish Development bank, former IFI	Loc8 Senior Manager at BIST, VIOP specialist
Int9 Senior Manager IFI, Portfolio Manager energy firm		Loc9 Finance Manager at a large energy firm
Int10 Portfolio Manager at the London Stock Exchange, energy investments in EME, holds a CFA		Loc10 Energy Consultant to CEOs of large Turkish energy firms, Risk Manager

Table 3-4: Codes for Interviewees and the positions held of the individuals.

This thesis attempts to identify underlying reasons within the financialisation process of Turkish NFCs rather than individual views. I endeavoured to ensure close commitment to academic professionalism and ethical research by considering a number of measures, as explained by King and Horrocks (2010). Ethical practice involves developing and sharing with the participants an informed consent and ensuring their anonymity, as ethical analysis is considered an integral part of research ethics (King and Horrocks, 2010). In section 3.3.4 of chapter 3, I provided a reflection of the primary data collection, including difficulties encountered.

3.3.4. Reflection on the fieldwork

This section reflects on the challenges I come across throughout my fieldwork.

After receiving approval for my fieldwork by the Ethics Committee on the 20th July 2017, I seriously questioned how I was supposed to conduct any interviews in Turkey, after the failed military coup that took place just five days earlier. I had heard from colleagues who had conducted elite interviews in EMEs before that it is next to impossible to reach out to high-profile interviewee candidates and that even if you do reach out, your fieldwork can take up to one year. Given the failed military coup and my many sleepless nights, I was contemplating changing my research subject. Nevertheless, I decided to try my luck by reaching out to people.

I started by writing emails and cold calling people; however, I did not receive any replies. When I called potential interviewees, they were reluctant and afraid due to the turbulent political landscape. I soon realised that this 'faceless' reaching out was futile – either I had to go to those people in person or get interviewees via gatekeepers. At that time, I was considering reaching out via Facebook, since this social platform provides information about me and people could also see my photos and identify me as a PhD student; however, I scrapped this idea because Facebook is not a professional platform. I then made the decision to explore the opportunities that may be available through LinkedIn. I was not sure how reliable this medium was, but after some intensive research I found that it is a reputable online platform that aims to connect professionals. I could not find any reason against using LinkedIn to reach out to potential interviewees and so I created a profile.

One amazing feature about LinkedIn is that you can narrow down your target group with keywords. Some of the keywords used for this study were: 'Turkey + Economist + Energy + Finance'. After skimming through peoples' profiles, I shortlisted potential interviewees based on the predefined criteria detailed in section 3.1 of this chapter. An advantage of LinkedIn, based on the subscription that you have, is that you can send messages directly to people

and you can see when those messages have been read. I began by slowly reaching out to five shortlisted candidates and hoped for responses. Surprisingly, within a couple of hours the first interviewee replied that he would be interested in an interview and asked for further information. I promptly sent him information about the project, including a consent form.

Over a short period of a couple of weeks, I had 12 potential interviewees. Subsequently, I arranged meetings across Turkey, Istanbul, Izmir, and Ankara and purchased a one-way ticket to Turkey to start my fieldwork. In retrospect, I should have planned more days at each location because interviewees postponed for later dates and sometimes this meant that I could not conduct those interviews. However, all in all, I was positively surprised by the high response rate of people via LinkedIn.

Below, I set out the two main events that took place prior to conducting my fieldwork, which I consider to have contributed to the willingness of interviewee candidates to engage with this study:

1. The failed military coup; and
2. Dr Sinan Külfeoglu, a researcher at the University of Cambridge's speech

With regard to the failed military coup, as outlined at the beginning of this section, I was petrified when I saw the event taking place live on TV. However, after receiving some reassurance from the interviewee candidates that despite the present circumstances, they were still willing to participate in the study, I gained confidence that I will have the level of engagement necessary to successfully conduct the fieldwork. It is worth noting that during the interviews I repeatedly heard that we (as a nation) have to overcome certain structural problems within the country and become less reliant on foreign technology. Furthermore, interviewees stressed that we have to invest more time and effort into research and development in order to overcome our deficiencies, rather than complaining about the situation. Also, a recurring statement was that we have to increase and improve local production capabilities. There was a strong nationalistic ('we') element evident, which I explained to myself through the failed coup d'état. People genuinely wanted to contribute to this study, and if they were not an eligible interviewee candidate due to their experience or background, they were keen to refer me to others who they thought could be a potential candidate.

Another aspect which helped me in my fieldwork was the elite status of my participants who were aware of the importance of the research. Many of my interviewees thanked me for conducting this research and appreciated being selected as an interviewee. Another factor that influenced the participation of people in these interviews was probably the interviewees' own educational backgrounds, notably that majority had at least a Master's degree.

The second event that I believe indirectly affected the willingness of interviewees to participate in the research was an online video statement made by Dr Sinan Külfeoglu, a researcher at the University of Cambridge. In this statement, Dr Külfeoglu raised several problems within Turkey, i.e., in the energy security of the country, the top down implementation of new ideas and the brain drain within the country. His video clip resonated with many people across the country and was the highlight of local media for several weeks, causing mixed feelings throughout Turkey. In Turkey – and in other EMEs where the state plays a big role in the daily lives of people, there is a strong top-down culture, and any changes, innovations, or any other findings have to be approved by the top in order to be implemented or realised. Dr Külfeoglu, a young academic, had approached many institutions eager to present his findings on how to improve Turkey's energy infrastructure and highlighted problems in the contemporary system. After several failed attempts and being unable to find the right people, he voiced his concerns that due to the existing top-down culture in Turkey, innovations are discouraged, and a brain drain exists on YouTube. I believe that Dr Külfeoglu's video raised awareness and made people more sensitive towards research and sharing knowledge rather than waiting that change should happen.

Furthermore, qualitative research has a large element of luck in it, i.e., reaching out to the right person at the right time. For instance, on the 4th September 2017, I called interviewee X to ask him whether he was willing to participate in my research. During that conversation, I discovered he was planning to go to a conference in Ankara on the 7th September 2018. He offered me an interview at the venue and also invited me to attend the conference. This conference was organised by the German Corporation for International Collaboration (Gesellschaft für Internationale Zusammenarbeit – GIZ) and the German Academic Exchange Service (DAAD), and the German ambassador to Turkey, Martin Erdmann, gave the opening speech.

Straight after the phone call, I contacted the conference organisers directly and asked if I could attend the conference. I was keen to go because it had many high-profile participants. After mentioning my interviewee's name, the organiser agreed to my attendance and on the same day I purchased a flight from Izmir to Ankara. The two-day event helped me to find six further interviewees, such as economists, senior managers (including one chief financial officer of a large energy firm), and researchers.

On the other hand, not everything went smoothly with this research and I encountered several problems; I mention a few of them, however. My fieldwork was ill-timed, not only due to the military coup but also because it fell over the summer break, where many people took time

off, and overlapped with Eid (a religious event in Turkey). Potential participants postponed our meetings several times until we finally got together.

During my fieldwork, I also learnt that people in high-ranked positions display power via letting his counterpart wait. In one case, I scheduled an interview with an interviewee for 10 a.m., but at approximately 10.30 a.m. he text-messaged me and asked if we could postpone the interview to 2 p.m. Later, at 1.40 p.m., he messaged again and asked if we could postpone to 4 p.m. At 5 p.m., he called and apologised, explaining that he would be unable to make it that day, and we rescheduled the interview for the following day at 10 a.m. The next day, when I was about to give up hope of his appearance, I received a call from him at 11.30 a.m. to say he was on his way. Finally, at approximately 12.30 p.m. – just as we were about to start the interview – he asked me if he could see the questions that I was going to ask him. When I then showed him the questions, he responded that he would be the wrong person to answer them and referred me instead to a contact of his. Fortunately, his contact was a perfect fit for my interviewee criteria, and we had a productive discussion for approximately two hours.

4. Financialisation in Turkey

To succinctly identify the problem that this thesis intends to address, contextualisation and a clear understanding of Turkey's political economy is required – this is presented in this chapter. For this purpose, opinions from elite interviews have been triangulated with the literature and newspaper articles in order to identify trends. Furthermore, this chapter provides the fundamentals for the following analysis in chapters 5 and 6, i.e. for RQ1: 'To what extent has financialisation occurred in the Turkish energy sector between 2002 and 2017 and what form has it taken?' in chapter 6.

Section 4.1 discusses the implementation of neoliberal policies in collaboration with International Financial Institutions (IFIs) and, subsequently, identifies four traits of financialisation in Turkey: first, Turkey's export-oriented strategy between 1980 and 1988; second, the financing of public debt between 1989 and 2001; third, state-led financialisation between 2002 and 2007 (institutional change and implementation of neoliberal policies); fourth and finally, debt-led economic growth starting from 2007 until 2017. Subsequently, a short summary of Turkey's economic performance under the Justice and Development Party (AKP) regime will be provided for the years 2002–2017. Furthermore, the background of Turkey's attempted military coup of 15th July 2016, will be explained. It is important to understand why investors and businesses perceive the current political landscape to be fragile. Furthermore, this section explains Turkey's current geopolitical conflict with its neighbouring countries. After contextualising, this section will provide clarity on the current AKP regime and its main critics. In this regard, examples are provided of how Turkey's politics has departed from western values. Finally, data from a recent study illustrating the confidence of Turkish people and their perception of the overall economic climate is presented. Section 4.2 describes the measures taken by the Turkish government to promote renewable energy investments and simultaneously to bring the current account deficit under control. Section 4.3 provides an overview of the Turkish energy sector. In this section, Turkey's energy capacity, the importance of oil and gas and the country's higher engagement in renewable energy investments are elaborated. Finally, section 4.4 concludes the core aspects of this chapter.

Contribution of this chapter

This chapter reasons that financialisation in Turkey had a 'state-led' character starting way earlier than 1989's account liberalisation. Turkish Non-Financial Corporations (NFCs) first contact took place, even before the term 'financialisation' had been used within the literature, throughout the 1940s. Nahum (1988) and Sabanci (1985) explain how the government approached their business groups (Sabanci Holding and Koc Holding) and assisted them to

expand into different business areas that were outside of their core business activities, such as financial services. At the time, the government was aiming to create a local capitalist class. In the 1990s, after the implementation of neoliberal policies in collaboration with IFIs in Turkey, besides a state-led financialisation, a debt-led economic growth became clearer. After the financial crisis in 2008, consumption became the main driver of economic growth which has been financed by foreign capital that had been attracted with high interest rates.

4.1. Turkish Politics and Economy

A common topic highlighted throughout all interviews was the neoliberal agenda promoted by the IFIs in the 1980s. Almost all participants highlighted the causal link between the implemented policies and the contemporary economic situation in Turkey. Since the late 1970s and early 1980s, the implementation of neoliberal economic policies – involving trade liberalisation and the deregulation of labour and financial markets – had caused a change in the government's role with respect to the economy. Capital cross-border transactions and the role of finance on both the national and global scale gained importance (Bahce et al., 2014).

Throughout the 1980s, the IFIs promoted the neoliberal agenda in emerging markets and developing countries by taking the position that financial liberalisation would restore growth and stability and improve the overall economy. Turkey's liberalisation process lacked sustainable economic policies and the institutional and regulatory framework in the banking sector was comparatively weak (Macovei, 2009). However, in Turkey and elsewhere, financial deregulation caused speculative short-term capital inflows, which caused severe economic instabilities and financial crises (Cizre and Yeldan, 2005). The literature (Acemoglu and Ucer, 2015; Boratav, 2003; Cizre and Yeldan, 2005; Önis and Aysan, 2000; Rodrik, 2015; Yeldan, 2015; Yeldan and Unuvar, 2016), as well as primary research for this thesis, suggest it is necessary to segregate financialisation into four main stages between 1980 and 2017. The liberalisation process in Turkey was primarily driven between external interest groups and political elites. The political elites collaborated with local bureaucrats and representatives of IFIs to adopt neoliberal policies. The idea of statism had prevailed, but after debates among different economic schools of thought, liberalisation and privatisation gained ascendancy. The goal was to diminish the state and let the private sector run the markets. After the 1980s, privatisation gained in popularity in order to escape the rigidity of official institutions. The aim was to increase efficiency and productivity in order to better serve the Turkish people. This ideology was a global trend and was prevalent in several other countries as well. The IFIs' neoliberal agenda was accelerated in the post-cold war period and was welcomed by the

international finance sector. As returns flattened out in mature markets, investors turned to emerging economies, seeking higher rewards (Interviewees Loc2, 2017; Loc10, 2017; Off2, 2017; Off7, 2017; Off8, 2017).

After Turkey's financial liberalisation in 1989, a period of 'speculation-led economic development' was evident. This period was characterised by risky investments and fragile financial structures. Financial liberalisation resulted in a rise of financial activities, unproductive rent-seeking activities, and a decrease in real sector growth. Financial liberalisation is an unsustainable and ill-placed setting to support real economic growth in less developed countries (Grabel, 1995a; Grabel, 1995b). After the liberalisation of the capital account, Turkey received a major inflow of short-term foreign capital, which led to the first economic crisis in 1994 (Köse and Yeldan, 1998) and was followed by a major double crisis in 2000/2001 (Akyüz and Boratav, 2003). After 2002, the AKP government adopted neoliberal policies and specialised in standard technologies and low labour cost production. Between 2002 and 2006, Turkey's GNP grew on average by 7.8% per annum (Yeldan and Unuvar, 2016).

In the aftermath of the financial crisis in 2008, the economy began to display a different pattern of economic growth – one that was mainly driven by consumption rather than by an increase in total factor productivity. To finance this consumption, massive foreign capital inflows were attracted by high interest rates (Acemoglu and Ucer, 2015). As Yeldan and Unuvar confirm, 'all these changes can be placed within the concept of financialisation, i.e. an overall ascendance of finance over the real economy, industry in particular' (Yeldan and Unuvar, 2016, p. 2). For a better understanding, Turkey's financialisation has been divided into four stages and references have been made to each stage in the later chapters of this thesis.

Stage One: Export-oriented strategy, 1980–1988

Towards the end of 1979, Turgut Özal presented the President Süleyman Demirel, a special report known as the '24 January decisions', which came into force on the 24th January, 1980. The bases of this programme was the devaluation of the Turkish Lira by 32.7% to promote exports, the reduction of the state's share within the economy, and the lifting of all subventions except for those on fertiliser, transportation, and energy (Boratav, 2003). The overarching goal was to attract foreign capital. In this aspect, the government liberalised foreign trade, encouraged overseas contracting services, promoted exports through low interest credits, and provided tax incentives. Özal's programme received support from the World Bank (WB) and enabled Turkey to engage more actively in international trade.

From 1980 to 1988, Turkey followed export-oriented policies; however, due to the lack of structural reforms and a legal framework, the newly implemented economic package resulted in increased imports of foreign goods (Altunoz, 2014; Gocer, 2013). The export-oriented strategy was unsustainable because these policies were mainly based on low wages (Boratav, 2003). Despite the measures implemented at the beginning of 1980, Turkey's current account problem continued. The deficit became a chronic issue, which primarily resulted in a trade deficit. Kaya (2017) described the main reasons by highlighting the lack of savings, the inflation-targeting policies that contributed to an overvaluation of the Turkish Lira, the rise in the trade deficit, the country's economic import orientation and Turkey's high dependency on imports.

Stage Two: Public debt financing, 1989–2001

Turkey's financial liberalisation began in January 1980, and the capital account was liberalised by August 1989. Towards the end of the 1980s, large foreign capital inflows were pivotal in restoring economic growth. However, structural problems within the economy had been neglected, such as fiscal imbalances and falling exports (Önis and Aysan, 2000). Özal's overarching goal was to reduce the power of the national conglomerates that had been established over several decades in Turkey. The major problem was the excessive expansion of a small capitalist class that had prevented future development and stalled economic growth. Despite the crisis that happened in Turkey as a result of Özal's liberalisation, he was right to break the ruling small capitalist class apart. As argued by Khanna and Palepu the dismantling of business groups will follow naturally once institutions are in place, and 'increasing competition will force the business groups to restructure themselves' (1999, p. 2).

In the early 1990s, Turkey experienced a lot of foreign capital inflows that were coupled with an erratic and unsustainable surge of approximately 80 private banks (Cizre and Yeldan, 2005). Foreign capital inflows were mainly short-term speculative investments (hot money) that did not amount to investment in the real economy and so this further destabilised the economy. Therefore, periods of fast growth were followed by harsh recessions (Babacan, 2009; Önis and Aysan, 2000).

In the 1990s, Turkish banks were involved in financing the public-sector deficit by borrowing money from abroad, which replaced the government's direct involvement in international capital markets (Önis and Aysan, 2000). Turkey's premature liberalisation made the country vulnerable to foreign intervention. Local banks abused the situation of the crisis and lent the state capital at high interest rates, which had been borrowed from abroad at lower costs.

Opportunists used the need of the state to engage in carry trading. An unregulated financial system changed the role of Turkish banks, becoming intermediaries to finance a public-sector deficit, leading to a disconnection between financial activities and the real economy (Boratav and Yeldan, 2001). Officials realised that sustainable growth cannot be maintained through short-term capital inflows, so the government decided to implement a low interest rate policy to avoid borrowing at high interest rates and to finance the current account deficit (Önis and Aysan, 2000). In 1994, the ill-placed monetary policies that aimed to lower domestic interest rates triggered a financial crisis that resulted in an abrupt capital outflow (Rodrik, 2012).

Between 1998 and 1999, a contagion effect of currency crises in emerging markets slowed down the Turkish economy. These years were marked with negative growth and an inflation rate of over 60%, where the IMF joined with the government to implement a disinflation programme (Uygur, 2010). However, with the help of a Turkish IMF economist, Kemal Dervis, a promising turnaround was in sight. Interviewee Loc10 stated that, 'in the aftermath of the 1998 Asia crisis, new reforms were implemented in Turkey by the IMF with the aim of stabilising the country's economy and rebuilding trust amongst international investors'. In 1999, the IMF approved a three-year stand-by credit for Turkey. In collaboration with the IMF, the Turkish government implemented an economic programme to bring the country's high inflation under control, a problem that had been troubling the economy for 25 years (IMF, 1999). In hindsight, the financial crisis was the result of a sharp increase in hot money inflow that was encouraged by lenient politics and a profit-oriented financial sector (Cizre and Yeldan, 2005; Rodrik, 2015). Turkey was an important destination for FDIs, given its geopolitical location and close distance to Europe and Russia. This provided a potential 'gas hub' for the region, see section 4.3 of this chapter.

The IMF programme aimed to address fundamental deficits through fiscal adjustment, structural reforms, and monetary and exchange rate policies (IMF, 1999). The IMF also proposed a privatisation programme to decrease local government borrowing (IMF, 1999). The programme provided the foundation for breaking up State-Owned Enterprises (SOEs). Interviewee Off2 (2017) stated:

> In 2001, electricity and natural gas laws came out, which was at a time when Turkey's accession talks to the EU intensified. There was a clear political interference from abroad. The Turkish economy was not performing well and with new regulations they [IFIs and EU] tried to help by disciplining the state through privatisations. In this period, Turkish politicians were convinced that privatisations will be a panacea for Turkey's economic problems.

However, a dispute between President Ahmet Necdet Sezer and Prime Minister Bülent Ecevit led to an immense withdrawal of funds and a sharp 40% fall of the Turkish Lira against the USD in 2001 (CNN, 2001; Rodrik, 2012). Cizre and Yeldan (2005, p. 389) stated:

> Yet as the Turkish economy moved into a new stage of macroeconomic stabilisation program, it has become clear that an ill-timed decision on liberalisation of capital movements in 1989 had already generated the structural preconditions of the crisis. In this context, the emergence of the February 2001 crisis is directly related to the implementation of the IMF-led adjustment package unveiled in December 1999.

The official explanation for Turkey's 2001 crisis is based upon the mainstream 'political and economic mismanagement perspective', which was embedded in the IMF's structural adjustment programme. This orthodox perspective states that conflicting private and political interests of policy makers affected their economic policy making. Following this notion, the lack of political will to implement a fully free market, coupled with weak regulation, laid the foundation for the later crisis (Cizre and Yeldan, 2005).

Kemal Dervis reasoned that previous IMF programmes lacked coordination and willingness to take on ownership, which resulted in the structural reforms being unfruitful. Dervis also attributed the failure of previous IMF programmes to the fact that those programmes were led by civil servants instead of ministers. As the former Economic Turkish minister himself, Dervis stressed that politicians with a strong commitment towards IMF policies are absent, whereby the implementation of those policies are key for success (Boultan and Wolf, 2001). However, he received widespread accusations that he was an agent of the West, pursuing Western interests (Karamuk, 2011). The biggest criticism of Cizre and Yeldan (2002) was that he prioritised the economy over politics. He regarded both political and economic spheres as mutually exclusive, when he should have addressed both simultaneously. Dervis (2001, p. 16) emphasised that a strong economy would lead to a strong political environment in Turkey:

> I do believe that the economy deserves priority. One has to deal with the political issues too, but I do believe that an economy in crisis, an economy that is weak is a very bad moment to try to deal with the political aspect.

It is notable that Turkey's 2000/2001 crisis happened in the midst of the IMF 1999 economic programme, intended to support local government for the period 2000–2002 (IMF, 1999). The situation highlighted that developing economies with weak financial markets cannot survive myopic hot money inflows from international capital markets (Boratav and Yeldan, 2001; Cizre and Yeldan, 2005).

Interviewee Int6 stated that: 'In order to prevent scenarios like those which had occurred in 1994 and 2001/2002, the government endeavoured to promote long-lasting infrastructure investments by providing incentives for FDIs. Interviewee Off4 explained that before the 2000s, only Turkey's top ten companies had access to international capital. This left out many small and medium-sized companies that needed funds for their growth. Foreign financial institutions realised this opportunity and penetrated the Turkish credit market, considerably expanding their credit disbursement to Turkish companies. With this in mind, interviewee Int4 reported that investments in the energy sector started in 2001, together with IMF reforms negotiated by Kemal Dervis.

In the period before 2001, the whole economy was in turmoil and no proper economic developments had been made. The reason for this was that the majority of business activities were dominated by the state. In line with interviewee Int4, Loc2 stated that one of the IMF's conditions for their intervention in 2001 was the privatisation of the Turkish energy sector. In this light, interviewee Loc10 pointed out that:

> In the aftermath of the Asia crisis and Turkey's 2001/2002 crisis, IMF's intervention was highly welcomed by the financial markets. At the time, investors were seeking higher returns on the markets. This led to a channelling of investments, predominantly to Emerging Market Economies (EMEs) due to the higher returns.

Turkey was an important destination for FDIs and was a rising star amongst EMEs. Interviewee Int7 argued that Turkey's trade-off between risk and premium was better in comparison to its counterparts.

Another key aspect in this context was mentioned by interviewee Loc6, who stated that Turkey did not have a history of energy companies prior to 2002. As mentioned earlier by interviewee Int4, the government dominated the Turkish energy sector. After 2002, local textile firms and construction firms entered the energy sector, details in section 5.2 of chapter 5.

Stage Three: State-led financialisation, 2002–2007 (institutional change, adoption of neoliberal policies)

Interviewees Off2 and Int7 stated that in 2001 the Turkish government, the EU, and the WB jointly enacted laws for the liberalisation and the privatisation of SOEs in the energy sector. These laws were the cornerstones for the privatisations of the Energy Distribution Companies (EDCs) in 2008. Officials tried to reconstruct Turkey's energy sector to increase efficiency. They separated distribution, generation, and supply, see details in section 4.3 of this chapter.

Eventually, the government realised that they could not operate energy production plants efficiently and decided to hand these over to the private sector. Interviewees Off8 and Loc4 confirmed that privatisation helped to reduce huge administrative costs, source out the problem of electricity loss to the private sector, and avoid the costly maintenance of PP. The government had divested a huge debt burden.

The sharp increase in private-sector debt – primarily driven by IMFs' structural adjustment programme – resulted in a currency crisis in the beginning of 2001. During the post-crisis fiscal policy contraction, high real interest rates were adopted to promote foreign capital inflows. The IMF's stabilisation programme resulted in increased foreign capital inflows, which mainly came in the form of speculative investments (Off, 2017; Yeldan, 2007). Table 4-1 represents the IMF's choice to follow a high interest rate of 18% to attract foreign capital (IMF, 2001).

	2002	2003	2004	2005	2006
GNP Real Growth Rate	3.0	5.0	5.0	5.0	5.0
Non-interest Budget Balance / GNP (%)	6.5	6.5	6.5	6.5	6.3
Inflation Rate	35.0	20.0	12.0	8.0	5.0
Nominal Rate of Interest on Domestic Debt	69.6	46.0	32.4	27.4	23.9
Real Rate of Interest on Domestic Debt	25.6	21.7	18.2	18.0	18.0

Table 4-1: Macroeconomic Targets of the Current IMF programme.
Source: Yeldan, 2007; IMF, 2001; Turkey country report, www.imf.org.

Between 2000 and 2003, inflation fell from 70% to a single digit percentage, while the economy grew by 7% on average. The IMF pointed out concerns about Turkey's medium-term growth; it could only be maintained through a series of changes and privatisations, reform of the judicial system, improving regulations and raisings standards to the EU level, and decreasing market activity of state-run entities, such as banks (IMF, 2005).

The official version of the programme was to report on Turkey's growth by monitoring various economic factors – i.e., public borrowing – and suggesting further economic improvements. Nevertheless, below the surface of the IMF's apparently benevolent policies lay a radical programme aimed at a fundamental restructuring of political, as well as social, life in Turkey. A striking element of the suggested policies showed that their prime aim was to eliminate public services – e.g., social security, education, and health – and privatise them (Yeldan, 2007, p. 27):

> In fact, the AKP abandoned the discourse manipulating anti-IMF and anti-liberal reactions in the country immediately after taking office and showed no hesitation in fully adopting neoliberal policies entrusting national resources and economic future of the country directly to foreign capital and the non-fettered workings of the market.

In an unprecedented act, AKP, with a majority in the Turkish parliament, implemented neoliberal policies without any major opposition. The government adopted a neoliberal agenda in order to please international capital and cleared any regulatory hurdles in their way (Yeldan, 2007).

Between 2002 and 2006, Turkey achieved rapid economic growth that was mainly driven by structural changes. During this period, private investments rebounded from 12% of GDP to 22%. Investments were mainly in machinery and equipment (Acemoglu and Ucer, 2015). According to interviewee Off3, this period was also marked by a higher output from the manufacturing sector. After the AKP took office, the economy saw an increase in productivity. In this context, Off3 (2017) explained that:

> During the privatisation of SOEs, the AKP did not care to sell off assets to locals to promote a local industrial class. Therefore, the regime welcomed foreign investors because the AKP were primarily interested in rekindling the economy and keeping it afloat as long as possible. They profited from the regulatory changes and initiatives that Özal had already started implementing during the 1990s.

Acemoglu and Ucer (2015, p. 6) confirmed that due to a 'strong productivity growth at around 7% per annum, the share of manufacturing in GDP in constant prices increased from around 22% in 2001 to almost 24% in 2007'.

Bakir and Önis (2010) criticise the Turkish government for ignoring the increasing financialisation of the Turkish economy after implementing the Post-Washington Consensus (PWC). On the other hand, they praise the new prudential regulation, which became more robust and able to withstand external forces against it (Bakir and Önis, 2010). Drawbacks of this process are reflected in the banking sector by providing flourishing opportunities for foreign banks, weaknesses in promoting productive bank intermediation that finance the real economy, and economic growth. Furthermore, new policies led to poverty reduction via growth of employment, whilst also stimulating financialisation in the economy. The focus was on prudent regulation whilst ignoring regulatory costs, consumer protection, and competition regulation (Bakir and Önis, 2010).

With regard to the energy sector, interviewee Loc2 confirmed that since 2002 private energy generation has increased coupled with the privatisation of SOEs. Turkey was plagued with electricity blackouts because the infrastructure needed an overhaul. In this context, the government changed the constitution to allow private companies to invest and build electricity power plants.

Interviewee Loc7 emphasised that investors were seeking for guarantees before considering engaging in investments at the beginning of Stage Three. Energy investments are highly capital intensive and investors therefore needed reassurance. The authorities realised the need for guarantees for investors and acted accordingly with supportive policies for energy investments. Interviewee Int5 emphasised that:

> Political reforms helped foreign investors to enter the Turkish market. The government promoted BO/BOT projects with special conditions and subsidies, together with incentives for large foreign companies. For example, if there is a large corporation that seeks to conduct a long-term investment in Turkey, the government might provide security for this firm from the treasury. The warranties vary in form: they can be subsidies, purchase guarantees, or tax benefits. Depending on the size of the investment, the investors' home country can directly intervene in the negotiations.

Sharing the same viewpoint as interviewees Loc7 and Int5, interviewee Off3 argued that in terms of renewable energy, banks had not financed those projects until mid-2000s due to an absence of guarantees of purchase. During 2005-2006, the first guarantee of purchase was implemented by the government. This was a milestone for renewable energy investments, and at the same time, the first incentive mechanism provided by the government. Furthermore, banks had easier access to external funds, which encouraged investment (Loc7, 2017). This view is supported by interviewee Off2. Banks had a more laissez-faire attitude towards credit disbursements, until the Global Financial Crisis (GFC) when banks became stricter in their credit allocations. Nevertheless, Turkey's energy capacity grew immensely during this period.

Interviewee Loc3 also referred to the dramatic rise in investments after 2002. He cautioned about the direct link between abundant liquidity and the rise in energy investments. Furthermore, interviewee Loc3 argued that the rise in energy investments resulted from the dire need to balance out the widening current account deficit, which was partly driven by energy imports. Renewable energy investments, therefore, became a fixed part of the Turkish government's agenda.

Interviewee Off8 stressed that the first investors in the Turkish energy sector were mainly foreign investors. In support of interviewee Off8, Loc2 and Int4 stated that foreign companies entered the market mostly in the form of Joint Ventures (JVs) or Mergers and Acquisitions (M&A). Local investors were hesitant in the beginning, but after a short time they started investing in the energy sector as well. Foreign companies had advantages over local investors for two main reasons: first, technology transfer from their home countries and, second, easy access to funds, more details in section 5.2 of chapter 5.

The beginning of Stage Three is marked with a massive gold rush to the energy sector (Interviewees Loc7, 2017). Investors displayed a pronounced herd behaviour regarding investments in energy projects. After the privatisation of SOEs and the liberalisation of this industry, people feared missing out on great opportunities. Furthermore, this investment trend was driven by the lack of transparency and the mismanagement of forecasts (see section 6.1.1 of chapter 6). Many investors saw opportunities in this sector and channelled the funds accordingly. Furthermore, this rush was boosted by Turkey's credit upgrade by the big three rating agencies (see section 5.3), which established trust and confidence amongst investors. After the rating upgrade, big players entered the Turkish energy market; examples include: Germany's E.ON, which set up Enerjisa in collaboration with Sabanci; the CEZ group from the Czech Republic, which set up Akenerji with the Akkök Group; Germany's EnBW with Borusan; and Canada's pension fund's 40% stake in Polat energy. 'Everyone wanted a share of this big cake' (Interviewee Int3, 2017).

Stage Three was, in a sense, a steppingstone to Stage Four and the expansion of credit in the energy sector. In 2002/2003, companies invested in small projects such as gas and coal power plants. After realising their investments over a short time, the banks' interest in providing credit to the energy sector increased. The investments have been financed predominantly via banks, except for local small-scale investors who came from unrelated industries such as textiles and construction (Interviewee Loc6, 2017). Between 2002 and 2007/2008 – until the beginning of Stage Four – investors in energy projects used past financial statements as evidence of their successful investments in order to get approval for larger projects. After the financial crisis in 2007/2008, the banks changed their stance towards energy projects (see section 6.1.1 of chapter 6).

Stage Four: Debt-led growth, 2007–2018 (private and corporate debt)

Turkey experienced its third economic crisis after the country's current account liberalisation in the wake of the GFC in 2008, which resulted from the subprime crisis in the U.S. (Rodrik, 2012). In contrast to its predecessors, this GFC was the result of international financial problems, while the triggers for the earlier ones were domestic (Macovei, 2009). In Turkey, this crisis showed few differences in comparison to the earlier crisis during the 1990s. As interest rates and inflation declined the government adopted a range of economic packages to stimulate the economy. 'There was no effort to reduce the current account deficit as in the earlier crisis; adjustment came with a sharp fall in private demand, lower import prices and some unexpected, unexplained foreign exchange inflows' (Uygur, 2010, p. 2).

Notably, in the wake of the GFC, Turkey's economy performed well in comparison to its counterparts in Europe. Even though economic activity shrank due to a sharp decline in external as well as internal demand and the scarce availability of funds, the economy took a smaller hit than other European countries (Macovei, 2009). An aspect that might explain this is that investment growth in Turkey had started to decline in 2007, before the subprime crisis hit Turkey. The effect of subprime crisis on the Turkish economy was therefore limited, mainly because of the country's sound banking sector and strong international reserves.

An aspect that has been praised is the structure of the financial sector, linked with an improved banking regulatory framework. Domestic banks improved their capital structure and adopted effective risk management mechanisms, which helped to create a solid base that reduced the impact of external shocks (Babacan, 2009). This was highlighted by the absence of toxic assets, which caused major debt write offs in other countries (Babacan, 2009; Uygur, 2010). 'The main difference between the Turkish economy and its peers is that we did not transfer any public funds to the banking sector or change the deposit guarantee scheme' (Babacan, 2009, p. 13). In contrast, Uygur (2010) argued that although governmental programmes were issued, those programmes were not sustainable due to concerns of fiscal imbalances.

During the general election in 2007, political uncertainties led to volatility of capital inflows, which was reflected in the Turkish Lira and interest rate hikes (Uygur, 2010). Similar observations have been stated by interviewees Loc7 and Loc10 and by Credit Rating Agencies' (CRAs) market outlooks (Block and Vaaler, 2004; see section 5.3 for more details). After the removal of red tape and the adoption of an ambitious privatisation programme, the implementation of tax reforms, and the allowance of profit transfers, Turkey became a favourable location for international capital (Babacan, 2009).

A turnaround in economic policy was evident post-2007 (Acemoglu and Ucer, 2015; Yeldan and Unuvar, 2016). This was marked by an institutional reversal due to political factors and the collapse of accession talks with the EU. After 2007, government spending became the main economic driver, while productivity growth stagnated. The Stage Four debt-led growth between 2007 and 2018 (private and corporate debt) contrasts with the Stage Three state-led financialisation between 2002 and 2007 – a different economic growth pattern. In Stage Three, the economy grew 'internally' through increased total factor productivity; in Stage Four, the growth was driven 'externally'. Stage Four is also marked by a higher current account deficit, low productivity, low savings, massive monetary and fiscal stimuli were put in place to revive the economy and lower investments in machinery than in Stage Three, which indicates that capital inflows have been used for consumption.

Yeldan and Unuvar (2016) describe the years after 2007 as a debt-ridden speculative growth that transformed the economy into a haven for cheap imports and labour surplus. Interviewee Loc10 highlighted that Turkey's dependency on foreign funds heavily increased after 2007/2008. Banks started borrowing from abroad and lending to domestic firms. Enterprises that had their own credit rating or those that could access the international financial markets cut out Turkish banks as intermediaries in order to access external funds. The massive inflow of foreign funds is reflected in Turkish firms' corporate debt to GDP in Figure 4-1. In 2006, Turkish firms' debt level stood at 27%, while in 2017 the same figure more than doubled to 68%.

Figure 4-1: Turkey's Corporate Debt.
Source: www.ft.com.

Interviewee Loc10 highlighted the massive expansion of the construction industry. According to INTES (Employer's Association of Turkey's Construction Industry), the growth performance of the construction sector shrank sharply after the 2001 crisis but a year later the recovery started. Between 2004 and 2006, a record growth within the construction sector was recorded. After peaking at a growth rate of 25.96% in 2006, the sector slowed down the following year. The downtrend was attributed to the upcoming elections, which led to economic and political uncertainty within Turkey.

After the GFC, Turkey's construction sector contracted by 4.23% in 2008. Then, following the implementation of economic packages in 2010, the construction sector grew at a rate of

14.17%. Growth was moderate throughout 2012 and then picked up again early in 2013. Due to geopolitical risks, conflicts with neighbours, and volatilities in the world economy, the growth performance has slackened again in recent years (INTES, 2017). The construction and energy industries are interrelated; together with the boom in the construction sector, a rise in energy investments was perceptible. From an investor's perspective, big players invested heavily during Stage Three and were too committed to leave the market in Stage Four during the political turmoil. However, their early engagement in this sector helped them to repay most of their project costs (Interviewee Int7, 2017).

Turkey's booming energy sector received a lot of international attention and provided global consultancy firms with the opportunity to get their share from this trend. Consultancies such as Deloitte and Ernst & Young (E&Y) were amongst the most active players advising potential investors (Interviewee Loc2, 2017).

Stage Four was marked with investments in renewable energy projects, especially after the government introduced a support mechanism for electricity manufacturers from renewable energy resources (YEKDEM) and provided a guarantee for the purchase of energy in USD. In this context, the government followed schemes adopted by other countries, such as Denmark with its wind farms (Interviewee Off1, 2017). Interviewee Loc5 stated that:

> Renewable energy projects – such as wind, solar, and geothermal – became easier to finance. These projects were funded in three ways: firstly, by foreign banks through syndicated loans; secondly, by export credit agency coverage in order to boost countries' exports and to support domestic companies to do business abroad; and, thirdly, by foreign investors, which were usually major companies themselves.

Towards the middle of Stage Four, an increased issuance of corporate bonds with an extended period of ten years was noticeable, because it was non-existent before (Interviewee Off7, 2017). One of the major changes within the overall economy was that money came in the form of credits rather than FDIs. Firms have faced difficulties with their credit repayments, especially over the last couple of years when many energy firms have had to refinance themselves. After 2012, there was an increased disinvestment, which also affected the energy sector. Interviewee Int7 mentioned the dull investment appetite of new investors and that their engagement was much weaker.

Recent GDP growth figures show that the Turkish economy recovered in the third quarter of 2017 by an 11% (year-on-year) increase in comparison to 2016, demonstrating economic resilience (see Figure 4-2; Wheatley, 2017; Turkstat, 2017). These growth figures came after a difficult year (2016) and were driven by domestic and external demand, of which private

consumption played a large part. Turkey managed to restore confidence among international investors and attracted investments from abroad, contributing to 3.5% of the GDP figure (Koc, 2017). Anticipated wage growth and an increase in investments are reflected in the country's economic growth figure (EBRD, 2017a). The fiscal stimulus, a temporary cut in value added tax for durable consumer goods, and a 70 bn USD credit guarantee fund rekindled Turkey's economic growth (Daily Sabah, 2017a; Williams, 2017a).

Gross domestic product results, III Quarter: July-September, 2017

Year	Quarter	GDP current prices (Million TRY)	GDP current prices (Million $)	Chain-linked volume index GDP (2009=100)	Growth rate (%)
2016	I	563 891	191 396	140.1	4.8
	II	631 233	217 634	155.7	4.9
	III	666 176	225 232	161.8	-0.8
	IV	747 226	228 482	173.4	4.2
2017	I(r)	649 481	175 918	147.5	5.3
	II(r)	735 543	205 175	164.2	5.4
	III	827 230	234 550	179.7	11.1

(r): Related quarters were revised.

Table 4-2: GDP Q3 2017.
Source: www.turkstat.gov.tr.

In 2016, Turkish Statistical Institute's (TUIK) revised their calculation methods of the GDP and subsequently the country's GDP/saving rate jumped from approximately 15% to 25% (Alp, 2016). The most important change was in the field of fixed capital investments, whereby 'R&D expenditures' and 'armour costs' are considered as investments. Furthermore, the underlying base year was 2009 when it should have been 2010 in order to obtain a more accurate reflection of economic growth figures (Yeldan, 2015).

Under the pretence of 'statistical improvements', the level and growth tendency of national income after 2002 have been raised too high in comparison to more recent base years. The main reason for this is to disseminate a more positive economic growth picture of the country. Major changes have been made in sector shares, investments, and saving rates, which in fact do not hold much importance. According to Boratav (2017a), the new GDP calculation method breaches trust issues. Governments want to present themselves in a good light to potential investors and other countries (Interviewee Off6, 2017). In order to do so, statistics are altered by twisting the underlying base year or leaving out certain components of the equation that drag down the average. In the same light, Interviewee Loc1 quoted Mark Twain 'there are three kinds of lies: lies, damned lies, and statistics' (Interviewee Loc1, 2017).

The different Stages above elaborated to what extent has financialisation occurred in the Turkish energy sector between 2002 and 2017. Further support for this will be provided in the analysis chapters 5 and 6.

Summary of the four stages

After Turkey's capital account liberalisation in 1989, three major crises occurred in 1994, 2000/2001, and 2008. These crises were based on hot money flows and short-term speculative rent-seeking investments. The disastrous effects of hot money outflows were apparent, especially during the 1994 and 2000/2001 crises. In the beginning, it seemed that hot money inflows contributed to the country's economic growth and were positive. However, if a country's growth is primarily building upon hot money inflows this makes an economy prone to market volatilities, as seen in Turkey's case.

Interviewee Int6 stated that 'the main problem in Turkey was that investments have mainly involved foreign funds'. Turkey's saving rate was, and is, low; while on the other hand, spending keeps rising. Towards the beginning of Stage Four, the Turkish economy was mainly driven by consumption rather than production. In order to finance spending, a consumption driven culture came to the fore that covered its needs by borrowing excessively from abroad (Interviewee Int6, 2017).

A striking element that can be observed for the Turkish case is that traits of financialisation have been reported long before the term 'financialisation' existed. In contrast to the four stages listed above, the first signs of financialisation in Turkey have been described by two Turkish business magnates – Bernar Nahum and Sakip Sabanci – in their autobiographies. Sabanci (1985) explains how the government approached Sabanci Holding Group and helped his father to expand from the textile industry into the banking sector. Sabanci's bank, which is today known as Akbank, is Turkey's largest privately-owned bank. In a similar vein, Nahum (1988) describes how one of Turkey's richest families, Koc, entered the automotive sector with the help of the government. Later Koc expanded to other areas and is now active in many sectors reaching from finance and energy, to white goods. The government helped these two business groups to enter different business areas that were outside of their core activities. They did this for three main reasons: firstly, due to a market gap and the high profits that can be earned in these areas; secondly, to make sure that a trusted partner is a player in those sectors; and thirdly, the government wanted to enable the growth of a local capital class. Distinctive for Turkey's capitalist class are large family-owned business groups with operations in a wide range of different industries. In contrast to other EMEs, Yalman (2009a, p. 21) states that large Turkish business groups have an:

inclination to diversify into 'new growth industries' unrelated to their main line of activity but promoted by the incentive policies of the states concerned, is the relative lack of investment into industries that would enhance the competitiveness of the economy as a whole.

In the case of Turkey – the shareholder and financial market pressure upon firms is limited because the majority of firms are privately owned by large business groups, similar to chaebols in South Korea (Bugra, 1994).

This thesis argues that Turkish NFCs' first contact with financialisation was in the 1940s. Given the unstable economic environment, Koc and Sabanci expanded their businesses into land and financial services, in order to diversify risks (Nahum, 1988; Sabanci, 1985). A similar development can be observed in the beginning of *Stage Three* when construction and textile businesses entered the energy realm with very limited expertise but were supported by the government.

Summary of Turkey's economic performance

Between 2002 and 2014, Turkey's frequently praised economic growth performance, under the AKP, has been modest in comparison to other EMEs (see Figure 4-2). Turkey shows a 50% increase in per capita GDP, while Sri Lanka and Nigeria almost doubled their GDP growth. Vietnam, Bangladesh, Uruguay, and Ghana also performed better than Turkey (IMF, 2014). Furthermore, poverty rates and inequality decreased among EMEs, which is typical for middle income countries (Rodrik, 2015).

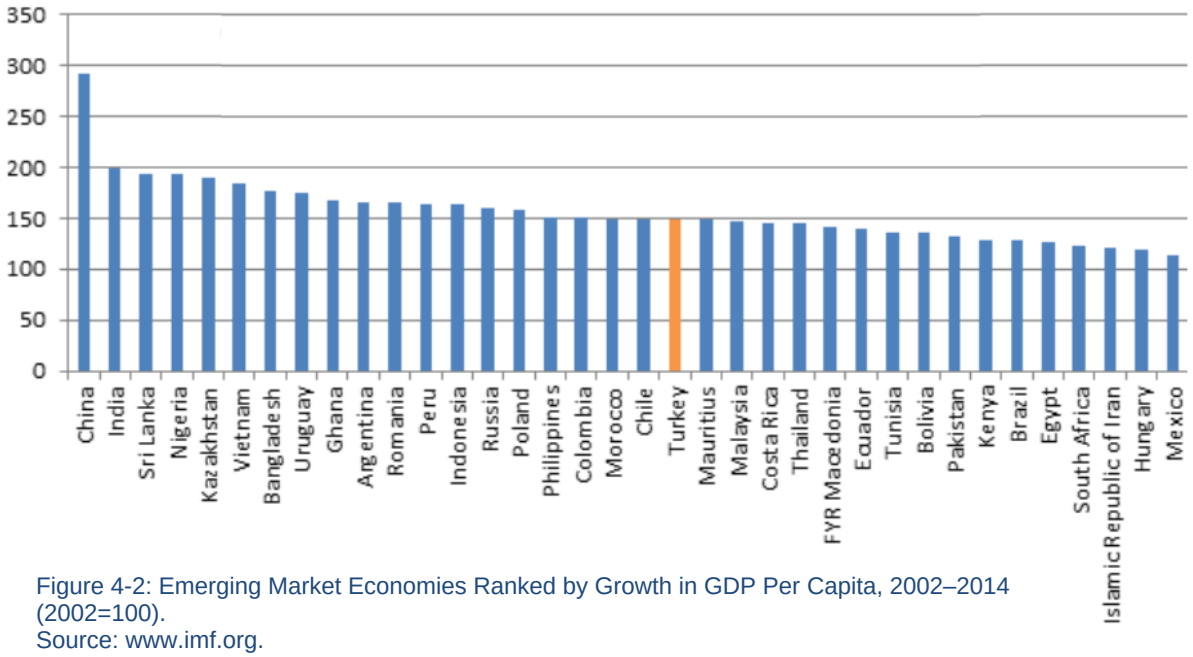

Figure 4-2: Emerging Market Economies Ranked by Growth in GDP Per Capita, 2002–2014 (2002=100).
Source: www.imf.org.

Turkey's growth can be attributed to the availability of cheap foreign capital, as reflected in the country's low savings rate (see Figure 4-3). The domestic saving rate has been in steady decline since 1998, falling by almost 10% in the period 1998–2014. In comparison to other EMEs, where the average savings rate was at 25% in 2013, Turkey's national savings are very low at approximately 15% in 2014 (Rodrik, 2015; IMF, 2014).

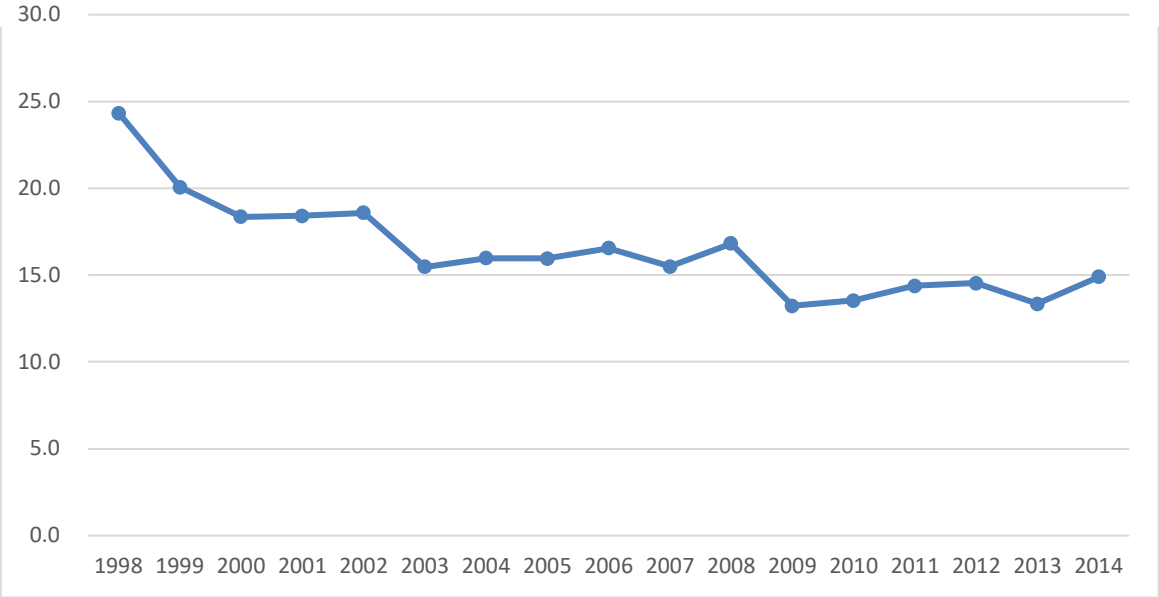

Figure 4-3: Savings Rate in Turkey.
Source: www.mod.gov.tr.

AKP's economic strategy was to rely on foreign capital instead of using expansionary monetary policies and to shift public-sector borrowing to the private sector (see Figure 4-4). Turkey's economic growth, stimulated by external finance, is reflected in the country's rising current account deficit as a share of the GDP (see Figure 4-5; Rodrik, 2015). 'The relationship is both statistically and quantitatively significant. An added one percentage point growth is associated with a 0.4% larger current account deficit (as a share of GDP)' (Rodrik, 2015).

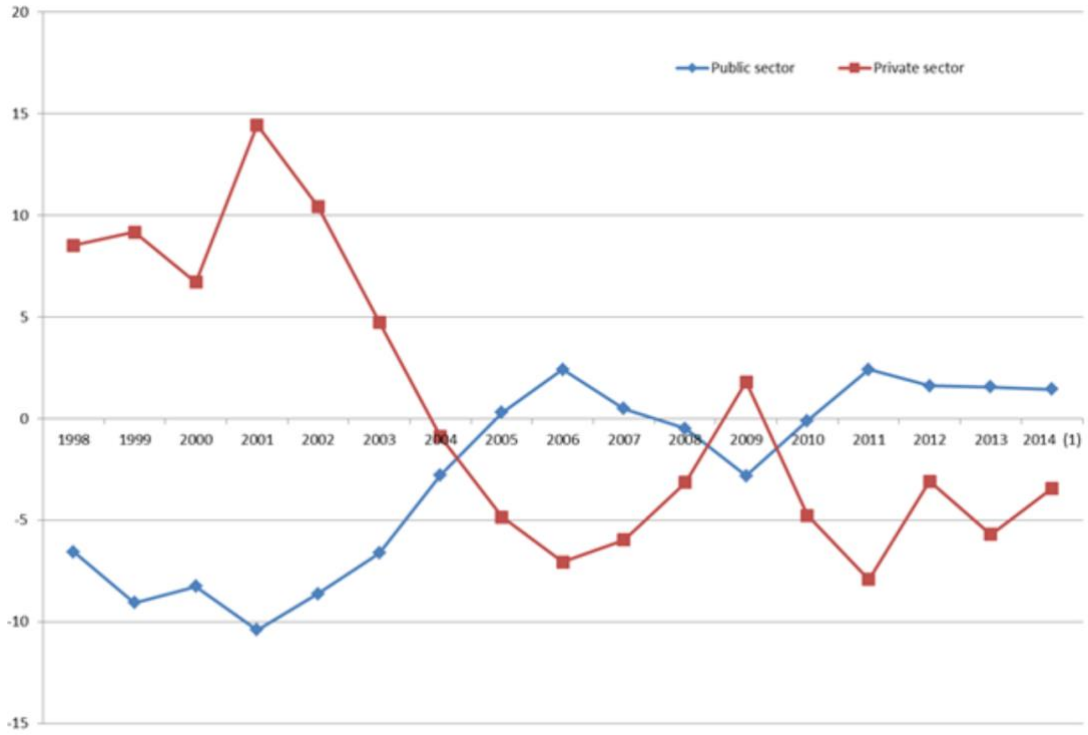

Figure 4-4: Private and Public-Sector Saving-Investment Balances (2008=100).
Source: www.rodrik.typepad.com.

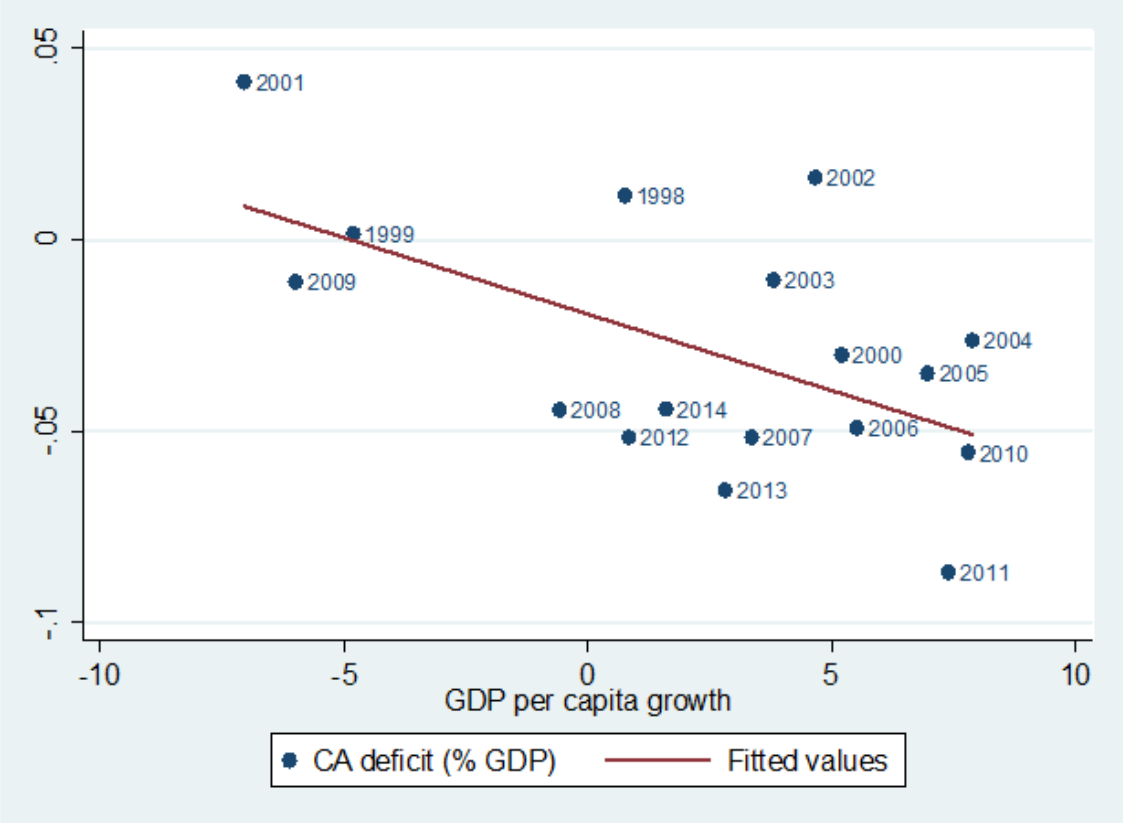

Figure 4-5: Turkey's Current Account Deficit as a Share of GDP (1998–2014).
Source: www.rodrik.typepad.com.

Erdogan has been praised not only for a reduction in public debt, but aside from year 2009, he has managed to shift it into a surplus. However, the decline in public debt is mirrored by a rise in private debt. 'Financial indiscipline and recklessness have not disappeared; they have moved from the public to the private sector' (Rodrik, 2015). Through easier access to financial markets, the private sector has been encouraged to borrow more.

Turkey's debt-led growth is noticeable between 2008 and 2012 (see Table 4-3). In 2008, GDP was at 742.1 bn USD and external total debt stock was at approximately 281 bn USD, whereby there was 52.5 bn USD of short-term external debt. Over the period of 2008–2012, GDP rose in net figures by 44.3 bn USD, while simultaneously the net accumulated external debt amounted to 55.8 bn USD with a rise in net short-term external debt of 48.4 bn USD. The decomposition of the 55.8 bn USD from lenders reveals that 18.5 bn USD have been created by the public sector and 37.3 bn USD by the public sector.

Years	Total External Debt Stock (bn USD)	Short-term External Debt Stock (bn USD)	GDP (bn USD)
2008	281.05	52.52	742.09
2009	269.22	49.02	616.70
2010	291.92	77.37	734.93
2011	304.21	82.00	773.98
2012	336.86	100.95	786.39
2008-2012 difference	55.82	48.43	44.30

Table 4-3: Debt-led Growth Between 2008 and 2012.
Source: Yeldan and Unuvar, 2016; CBRT.

After the 2008 crisis, the financial sector borrowed 36.7 bn USD, while NFCs borrowed a comparatively small amount of 0.6 bn USD. However, between 2003 and 2008, NFCs accounted for approximately 67% of net external debts accumulated by the private sector, while the same amount after the GFC contracted to 1.6% (Yeldan and Unuvar, 2016). This pattern shows the increasing credit share of the financial sector vis-à-vis NFCs and increased inflows of hot money.

In conclusion, the statements of Turkish officials need to be considered very carefully. Erdogan's regime did not make any significant changes in terms of economic policies compared with previous governments. According to the 'Balance of Payments Statistics of February 2018', Turkey's current account deficit increased by almost 60% year-on-year (Figure 4-6 CBRT, 2018b).

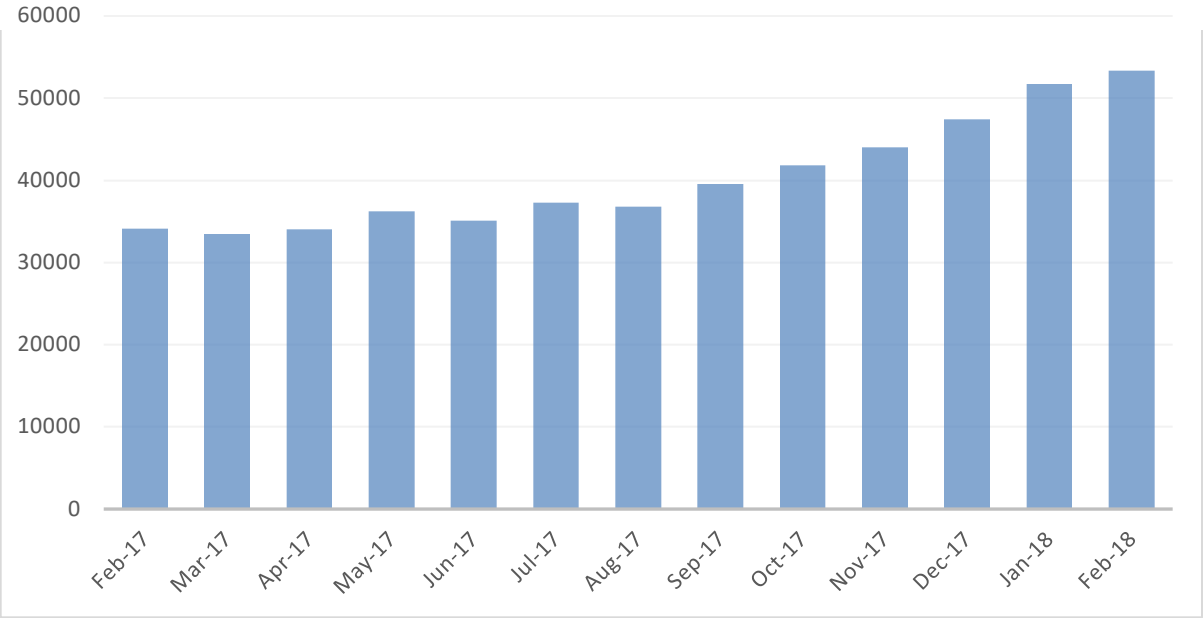

Figure 4-6: Turkey's Current Account Deficit in million USD rose by 60% from February 2017 to February 2018. Source: www.cbrt.com.

Through the implementation of neoliberal policies and the help of international organisations (IMF and EU), AKP managed to reset the Turkish economy. Turkey's economic policies are not sustainable because it is a heavily import-dependent country with almost no local innovation. Domestic manufacturing is dominated by the automobile industry, which is foreign owned. Furthermore, big conglomerates hinder the rise of innovative start-ups due to their market power. The country's main economic driver is consumption, which relies on foreign capital inflows (Rodrik, 2015). In this light, studies raised attention to Turkey's mounting private household indebtedness through the expansion of consumer credits (Ergunes, 2009).

AKP/Gulen and the military coup

The AKP was founded in 2001 by a generation of younger politicians around Erdogan, who had already been active in various consecutive forbidden parliamentary parties (CNN, 2018b). The AKP originated mainly from the tradition of the movement Milli Görüs; which, over many years, represented the backbone of the national-religious orientation with its broad network of organisations. After gaining popularity, the Gulen Movement – identifying themselves as a Sunni-Muslim grouping – was integrated into the political project. Whilst the Gulen Movement was strongly right-wing and shared the same socio-political conservatism of Milli Görüs, they were also very Western-oriented. The influential cleric, Gulen (who has been living in exile in Pennsylvania since 2000), set up a network in the 1980s whereby he systematically infiltrated the government. After the military coup in 1980, which targeted mainly leftists, Turkish politics

shifted to the right (Eligür, 2010). In the wake of the so-called 'Turkish-Islamic synthesis', the militant anti-communist Gulen movement had been able to place its people inside the state apparatus, especially in executive levels (military and police department); this was later trailed by infiltrating the judiciary of the country (Eligür, 2010; Sik, 2011).

AKP leaders were aware of their vulnerable position in Turkey, despite their strong parliamentary majority. AKP's biggest threat came from Kemalists with key positions within the military and judiciary, who challenged Islamist politicians. AKP sought Western-oriented alliances with neoliberal policies and capitalist direction in order to increase their base within the country. The Gulen movement proved helpful in eroding the stronghold of the Kemalists within the Turkish state and in fortifying the AKP's position within key governmental positions (Sik, 2011).

The Gulen movement's biggest hit against Kemalists, intellectuals, and especially the military, happened during the 'Ergenekon' trials. The Ergenekon trials aimed to prosecute and imprison individuals who were forming networks (a parallel state), hoping to destabilise the government. It was hoped that this process would erode Turkey's 'deep state' ultranationalists, pivotal key figures, and security forces. However, part of the digital evidence proved to be fake, which led to scepticism of fair trials and raised the question of 'who prosecuted those accused individuals?'; the answer pointed towards a questionable network of lawyers that were strongly linked to the Gulen movement (Sik, 2017).

Between 2007 and 2012, Gulen and Erdogan undermined Turkey's deep state. In exchange, Gulen demanded more authority and power, which was denied by Erdogan. Erdogan started to remove Gulen's supporters from the government, which ended in a fierce power struggle (Cakir, 2014). By the end of 2012, a debate erupted between the alliance of the Gulen movement and the AKP. At the time, Gulen seemed to gain a reputation for providing a better private education in Turkey compared to government-run schools – and they are also one of his network's financial sources (Sik, 2017). The official debate concerned Gulen's private teaching institutions, which Erdogan aspired to shut down in order to build more public schools. Gulen did not approve of AKP's decision due to his potential loss in income (Hürriyet, 2013). According to official statistics in 2012, private teaching institutions employed approximately 60,000 teachers and 40,000 service personal (i.e., security and administrative staff) and had 1.5 million students registered (Günay, 2012). The main benefit for graduates of the Gulen community is the wide array of positions his supporters hold within the state and the private sector. Nepotism and inside businesses are rumoured to help the Gulen network. Gulen's organisation also owns an Islamic bank with affiliation to other financial institutions, media, educational institutions, and a huge network of businesses. These are some of the

reasons why Erdogan accuses Gulen of attempting to run a parallel state within Turkey (Kozok, 2016; Worland, 2016).

By the end of 2013, the Gulen movement published questionable data concerning bribes taken by ministers and even Erdogan's sons (Orucoglu, 2015):

> In the course of the investigation the police confiscated some 17.5 million USD in cash, money allegedly used for bribery: 4.5 million USD was found at the residence of Suleyman Aslan, the director of state-owned Halkbank, and 750,000 USD at the home of Baris Guler, son of the former minister of the interior.

Shortly afterwards, Erdogan accused Gulen of a political operation that aimed to damage the Turkish economy.

On the 15th of July 2016, Turkey saw a failed military coup. The investigation is ongoing, and both the sitting government and the suggested perpetrators are accusing each other for being behind the coup. While Gulen argues that Erdogan tried to tighten his grip on power, Erdogan has accused Gulen of being a U.S. stooge who tried to create a political crisis similar to that of the Arab Spring in the Middle East. The failed military coup is Turkey's biggest political debate and is highly relevant for the future political and economic scenario of the country.

According to Suleyman Soylu, minister of internal affairs, 48,305 people have been arrested in connection to the failed military coup, but the figure for people in custody is three times this number (DHA, 2018). Following the failed coup and until July 2018, Turkey was in a state of emergency (BBC, 2018b). Among the people in custody were 2,431 judges and prosecutors, 167 generals, 6,982 soldiers, 104 supreme court personal, 41 council of state members, 8,816 policemen, 23 governors and 72 governor's assistants and 31,550 civilians and civil servants (TRT, 2017). After declaring martial law, the Turkish government closed over 850 businesses, with a value of 10 bn USD, on terrorism charges (Deliormanli, 2017).

Turkey's economy remains vulnerable in the face of political turmoil. Most concerning is the ongoing political instability – especially after the failed coup. However, Turkey now has a chance to turn this crisis into an opportunity by making use of the rise in patriotism that has united the Turkish people, so that positive change can be made for the future of the country.

Another risk, however, is the mayhem around the country's eastern border, where Turkey is actively fighting against the terrorist organisations of Kurdistan Workers' Party (PKK), Islamic State (ISIS), the Democratic Union Party (PYD), and the People's Protection Units (YPG). YPG is a Kurdish nationalist group following the ideology of Adullah Ocalan (founder of the PKK; Sardan, 2016; Stein and Foley, 2016). Turkey recently engaged in a military offensive – 'Olive Branch' – in the Afrin region on the northern Syrian border. The goal of 'Olive Branch'

was to create a 30-kilometre secure zone for Turkey (Bilginsoy, 2018), because recent developments in northern Syria threaten the whole region's security.

In the beginning, the PYD and its militia, YPG, proved to be a valuable alliance for the U.S. in the fight against ISIS. However, the multidimensional politics of the U.S. (where it is difficult to predict the country's short and long-term interest in Syria), coupled with President Trump's internal issues throughout the U.S. state apparatus, left U.S. politics within the Middle East as an unpredictable and indecisive actor (Ataman, 2018; Ataman, 2016). This created opportunities for others, such as YPG, to gain autonomy in that region. After the withdrawal of Syrian forces from the Turkish border, YPG took control over Afrin, Kobani, and Jazira, and named the region Rojava (Bilginsoy, 2018). As of January 2019, the situation is still unclear. Trump fulfilled one of his campaign promises by withdrawing from Syria and held talks with Erdogan to support him in the fight against ISIS and to avoid a power vacuum (Hope, 2018) however given recent political turmoil amongst the two countries, it is unlikely this support will materialise.

The current government – AKP

The president criticised the minimal of support from the Western alliance governments and their lack of measures against individuals connected to the Gulen movement, which received heavy censure. Erdogan criticised countries that claimed to be allies but granted asylum for the putschists (Erdogan, 2017a). 'The thwarting of the coup marked a turning point in the history of democracy; it will be a source of hope and inspiration for all peoples who live under dictators' (Erdogan, 2017a). According to the leader of the opposition, the Republican People's Party (CHP), in order to prevent a possible future military coup, the democratic institutions had to be strengthened with parliamentary supervision, and more transparency should be provided by an independent medium (Kilicdaroglu, 2017).

A state of emergency enabled the president to appoint indirect judges and prosecutors. Erdogan justified the declaration of a state of emergency by highlighting the 50,000 lives lost during the PKK conflict and the 150 lives lost during the latest coup d'état (Erdogan, 2017a). Critics of Erdogan argued that Turkey's latest coup attempt highlighted the differences in the country's political stance and ideology, which is incompatible with western standards. However, in November 2015, France declared a state of emergency after the Paris attacks that claimed 130 lives. Almost two years after the terror attacks, the French government declared the state of emergency over (Osborne, 2017). Cook (2016) argued that since the coup, Erdogan pursued a more authoritarian approach that meant Turkey stepped away from liberal European democracy. In 2018, 151 journalists and people who worked in the media

have been jailed (Kose, 2018); half of these were former employees of media houses working for the Gulen Movement (Cumhuriyet, 2016).

Cagaptay describes Erdogan as an astute politician who has strategically exploited and divided opposition parties amongst each other. ‘The gap between various groups in the Turkish opposition can be wider than the gaps between Erdogan and his opponents’ (Cagaptay, 2017, p. 126). He accuses the president of having an authoritarian worldview, deeming only his own decisions as right and imposing them upon the people (Cagaptay, 2017).

From another viewpoint, Eligür (2010) argues that the AKP conflicts with democratic values and embraces a political Islam in Turkey, undermining the post-Ataturk secular stance. In contrast, Hale and Ozbudan (2009) contend that the AKP is not an Islamist party that relies on Islamic aspects in terms of ideology and their identity. Instead, they portray the AKP as a Muslim equivalent of the conservative parties in western democracies and compare it to the Christian Democratic Union (CDU) in Germany. Furthermore, they claim that the AKP has likely made the biggest contribution to Turkish democracy compared to any other party and that they have done this by keeping a secular stance and a neutral stance towards religion (Hale and Ozbudan, 2009).

After the 2013 Gezi protests, analysts reported a regime that became more autocratic. However, this was AKP’s long-term strategy and not something that evolved after a certain event (Rodrik, 2015). Six interviewees echoed these views, arguing that current political instability is discouraging investors by spreading fear and, thus, damaging the economy. The government’s policies and decisions are reflected in the country’s credit ratings (Interviewees Int5, 2017; Int9, 2017; Loc1, 2017; Off1, 2017; Off3, 2017; Off5, 2017).

An emphasis on religious aspects, instead of on national identity, allowed the party to expand their voter base in the eastern regions of Turkey. In addition, the AKP gained votes and followers by highlighting a Kurdish Islamic synthesis, which was not the case with previous Kemalist governments (Grigoriadis and Dilek, 2017). The AKP followed a model of a ‘liberal Islam’ that stands for the combination of democracy, free market capitalism, and a moderate and conservative Islam (Alaranta, 2014; Eligür, 2010). However, Erdogan himself criticises the term ‘moderate Islam’ (Erdogan, 2017b): ‘They are now trying to pump up this idea again. What they really want to do is weaken Islam ... We don’t want people to learn about religion from foreign facts’.

A dominant characteristic throughout Turkish political history has been short-term governments, weak ideologies, and short tenures of the political parties. Since 1946, no

government – other than the AKP – has managed to maintain its majority and stay in office for more than a decade. Turkey's Public Housing Development Administration (TOKI), not only solved AKP's resource problems, it helped the party to create clientelist relationships with a direct link to electoral success, bringing enhanced durability in office (Marshall, Aydogan and Bulut, 2015). In contemporary Turkish politics, where globalisation and neoliberal economic policies have shaped the country, TOKI is a tool that is used to nurture and expand clientelist relationships. The AKP contributed to the emergence of new patron–client relationships and maintained AKP's electoral success (Marshall, Aydogan and Bulut, 2015). The AKP, through the help of the multiplier effect, transformed Turkey's construction industry and its subsectors (Marshall, Aydogan and Bulut, 2015).

TOKI plays a crucial role within the Turkish construction sector, which is simultaneously the backbone of the Turkish economy and a major vehicle of capital inflows for the AKP (Congar, 2014). TOKI is one of Turkey's most powerful institutions, with several authorities who develop and transfer the treasury's lands into development areas by choosing their own procedures. Furthermore, TOKI can directly subcontract development areas and decide whom they want to allocate those construction projects to without a public announcement for bids. Corruption and scandals within TOKI are nothing new – as seen in the case of a previous president, Süleyman Demirel, who has also faced heavy criticism (Sak, 2012). In this context, it is no secret that an established close-knit circle among the AKP receives certain public construction projects (Interviewee Loc4, 2017).

AKP's clientelism and patronage is not only restricted to TOKI and construction, however, because it has also come to the fore in the energy sector. Both AKP's allies and those businessmen that are close to the president received favourable conditions for the construction of new energy plants. Certain projects came under scrutiny; for example, with regard to their payback period. Akin (2017) stated:

> It was not a big surprise that the recent tender for the thermal power plant in Ankara Cayirhan with 6.04 USD cents per kW/h has been given to AKP sponsor's Kolin, Kalyon and Celikler. Furthermore, the recent sale of the Nuclear Power Plant 'Akkuyu' to Cengiz, Kolin and Kalyon showed that AKP continues to favour their supporters. Akkuyu will receive 12.35 USD cents per kW/h which is robbery. AKP has to stop exploiting Turkish citizens.

This has been further highlighted by Turkey's Electricity Transmission Authority's (TEIAS) release of prices for tenders of new wind power plants, who will produce and supply electricity to a negative price of -1.61 USD cents. The company who won the tender will sell the same electricity back to the market for 3.49 USD cents. This is half of the price of thermal power

plants and a quarter of nuclear power plants (Akin, 2017). Throughout the interviews, the allocation of tenders has been raised multiple times. Interviewee Int7 stated that 'most of the tenders have been allocated in questionable procedures to firms who are close to the government'. This statement has been confirmed by many other interviewees, such as Int9, Off1, Off3, Loc4, and Loc10.

Consumer confidence

An insightful study by Credit Suisse shows that political uncertainty is weighing down Turkey's economy. It showed that current trends both in Turkey and in other emerging markets are alarming (Muminoglu, 2017). Two questions relating to the finances of individuals showed that Turkish citizens are the most pessimistic among their peers with regard to predicted future income (see Figure 4-7).

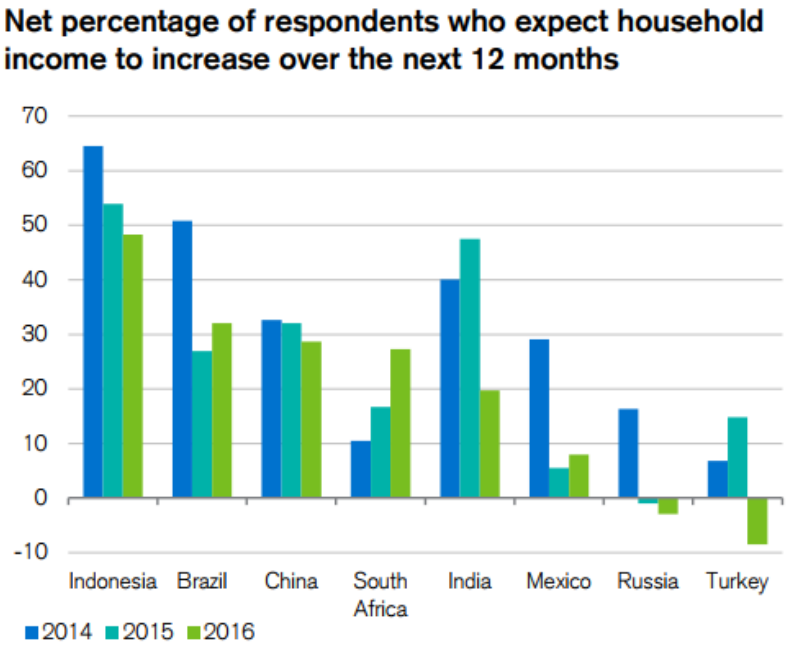

Figure 4-7: Expected Increase over Next 12 Months.
Source: Credit Suisse Research Institute – March 2017; www.credit-suisse.com.

Despite the government releasing several economic programmes, high commodity prices are increasingly a burden on the country's current account. The survey revealed that, throughout lower income groups, there is a more pessimistic attitude towards income expectations. The fall by approximately 12%, compared with the previous survey, is mainly down to the government's rise of the Turkish basic income by 30% (Muminoglu, 2017; Muminoglu and Buldur, 2018).

Given the political uncertainty and the geopolitical conflict in the region, Turkish consumers have a negative outlook (see Figure 4-8). Turkish people spend on average 25% of their salary on housing and public utilities and another 20% on food (see Figure 4-9; Muminoglu, 2017). It is surprising that Credit Suisse's survey indicates that households' savings are rated at approximately 17%, which is slightly higher than the official figures of 13.5% in 2015 (TUIK, 2018).

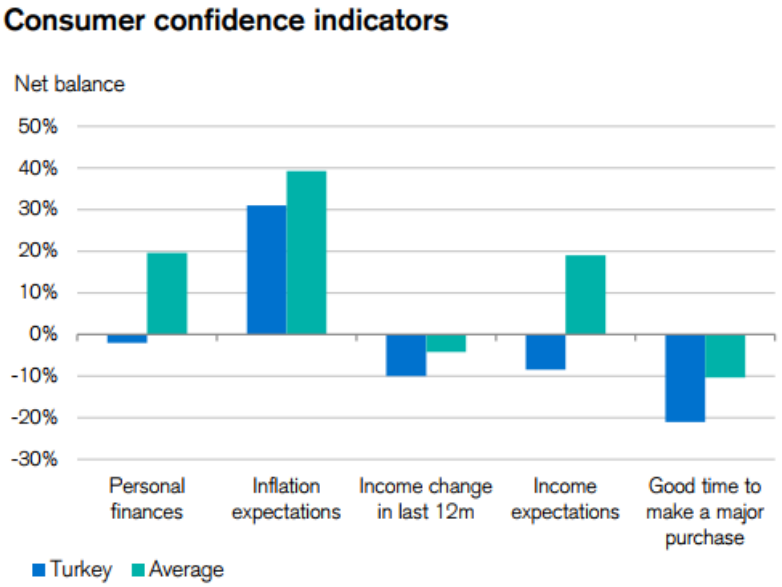

Figure 4-8: Consumer Confidence Indicators.
Source: Credit Suisse Research Institute – March 2017; www.credit-suisse.com.

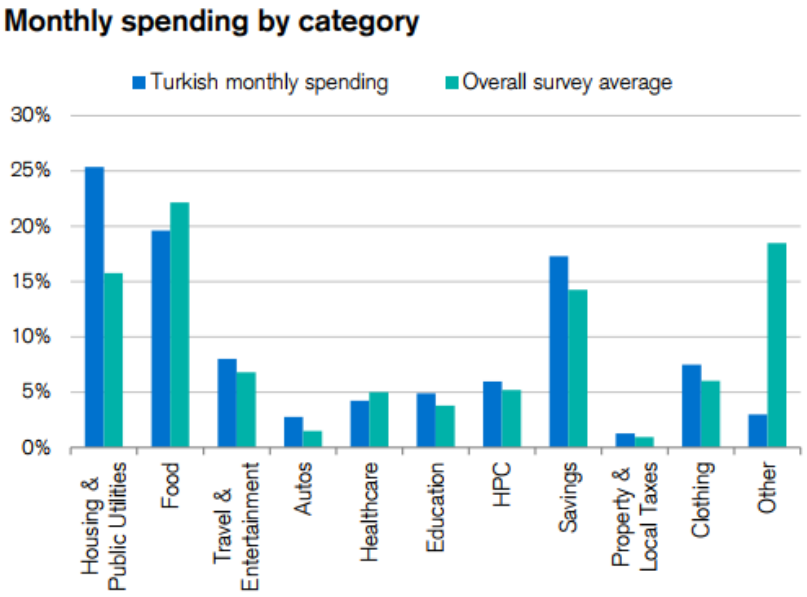

Figure 4-9: Monthly Spending by Category.
Source: Credit Suisse Research Institute – March 2017; www.credit-suisse.com.

To sum up, between 1960 and 1997 four elected governments faced a military putsch. After the latest coup attempt of 15th July 2016 – whereby 150 people died and 2,193 were injured – a vast range of arrests and dismissals of high-profile people with links to the Gulen Movement followed. However, terror attacks, a failed military coup, geopolitical conflicts with neighbours, and a war that is ongoing in Syria, and drifting apart from the EU, dominate contemporary Turkish politics. Especially, after the failed Kurdish-Islamic synthesis and the military coup attempt in 2016, the government increasingly emphasised nationalist elements.

Pressures building upon the Turkish economy after the downgrading of its credit rating are further marked by recent studies displaying diminishing trust of Turkish citizens in the economy. Even after Erdogan's victory in the 2018 general elections, political pressure took a toll on Turkey's economy. These concerns have been highlighted by the IMF (2018b), which warned that the Turkish economy is overheating and that signs of a positive output gap, the widening current account deficit, and the decline of the Turkish Lira (TL), make the country vulnerable to external shocks. Not to mention, the mounting private-sector debt coupled with rising inflation.

4.2. Investment incentives

As mentioned earlier, the Turkish government acted on the current account deficit and introduced a range of investment incentives, specifically targeting the energy sector. This section will highlight the current account deficit and the measures taken to reduce it.

In the 1990s, Turkey's GDP to current account deficit ratio was approximately 1% (Kaya, 2017); however, the trade deficit widened between 2003 (3.35%) and 2008 (5.28%; CBRT, 2018a). In the aftermath of the financial crisis, the account deficit plummeted in Q4-2009 to 1.75%. After peaking in Q4-2011 at 8.93%, the account deficit shrank due to major improvements in the economy (CBRT, 2018a). Figure 4-10 shows the current account deficit in relation to GDP. Officials argue that the main driver for the account deficit is the heavy dependency on energy imports, which account for an on average account deficit of 4.33% between 2003 and 2017. The same figures are reflected in the gap between the green line (current account/GDP, excluding energy) and the orange line (current account/GDP) in Figure 4-10, which accounts for the current account deficit.

While other heavy energy-importing countries, such as South Korea, maintained a strong current account surplus, Turkey runs a deficit. The government tries to downplay the size of the deficit by explaining that energy imports account for this trend, as if the government does not have to finance the energy part. One interviewee (Interviewee Off5, 2017) argued that:

The underlying reason for Turkey's current debacle is simply political mismanagement. Other countries such as China and South Korea tackled these issues decades ago, while we on the other hand were still paying for contracts that have been agreed 20 years ago.

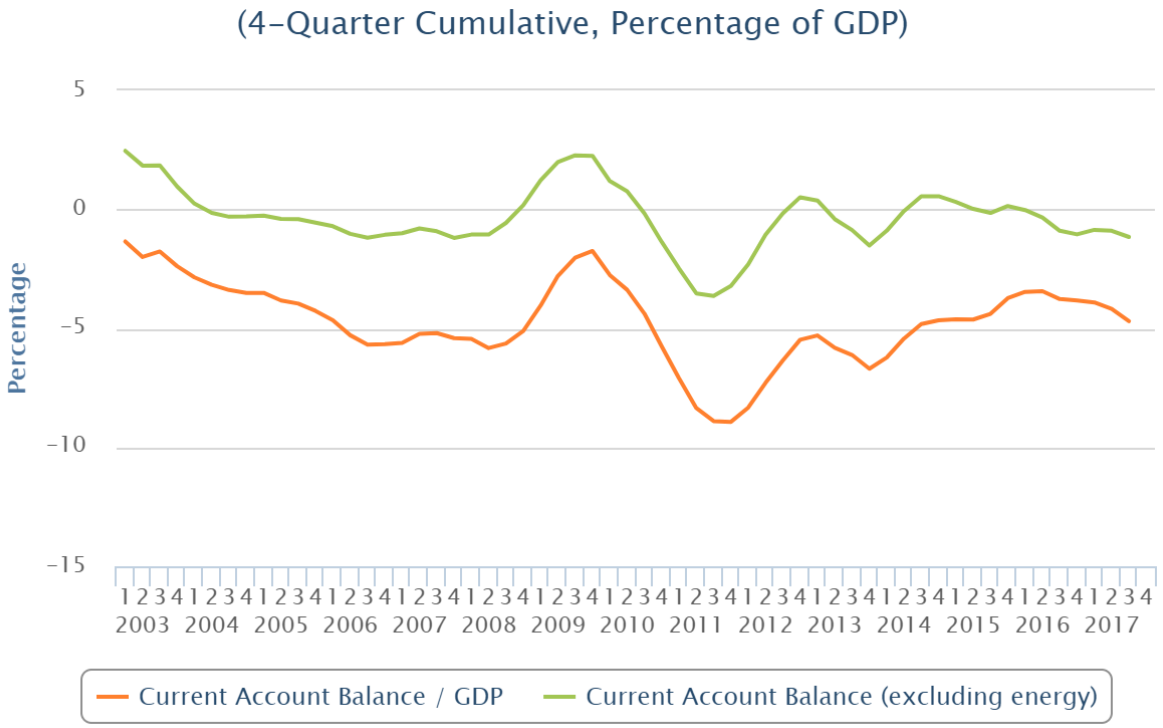

Figure 4-10: Current Account Balance/GDP.
Source: www.tcmb.gov.tr.

In 2016, imports to Turkey declined by 4.2% to 198.6 bn USD, where exports shrank by 0.8% to 142 bn USD; Turkey's trade deficit reduced by 11.7% to 56 bn USD (KPMG, 2017). In 2016, the ratio of exports to cover imports was 71.8%, while the same figure for the previous year was 69.4% (TUIK, 2018).

> The value of exports per kg was 1.44 USD in 2015 and decreased to 1.37 USD in 2016. Import prices also declined severely, especially due to the low levels in oil prices. This factor has played the biggest role in the decline in the foreign trade deficit of Turkey, an oil importing country (KPMG, 2017, p. 20).

Another reason for the decline in imports and exports is the appreciation of the USD against TL, which put further pressure on the Lira due to the geopolitical conflicts with the country's neighbours. Turkish exports to Russia declined by 57% (1.9 bn USD) and exports to Iraq by 19% (1.1 bn USD; KPMG, 2017). The main reason for the sharp drop in exports to Russia was the political tension between Turkey and Russia, after Turkey shot down a Russian fighter

jet (NTV, 2015). Figure 4-11 shows Turkey's foreign trade, whereby the red bars (imports) above the blue area (exports) show the trade deficit.

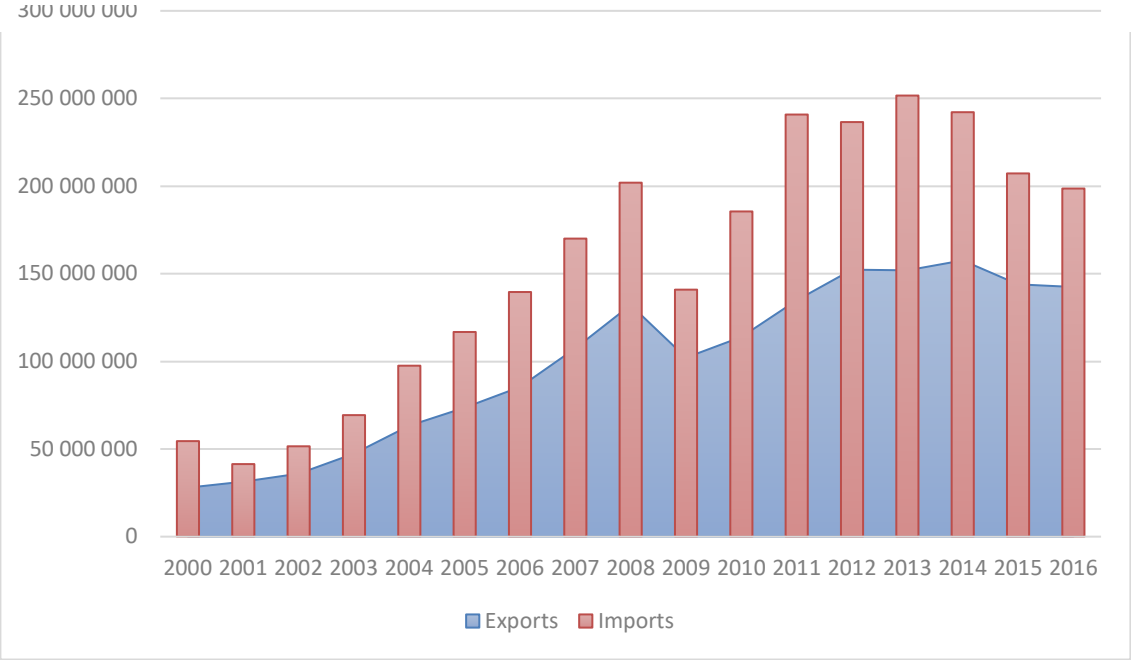

Figure 4-11: Foreign Trade between 2000-2016 in Turkish Lira. In red imports, the blue area illustrates exports while the difference above the blue area displays the trade deficit.
Source: TUIK.

The Turkish government laid out the Medium-term Program (MTP) for 2018–2020, which aims towards speeding up economic growth, reducing the unemployment rate, and improving income equality. The targets set by the government are ambitious and need numerous structural reforms (KPMG, 2017). Alongside their recently announced MTP, Turkey is providing a series of investment incentives to promote the country's growth and target the current account deficit.

On 31st March 2015, Turkey experienced a total electricity blackout for ten hours, leaving millions of people without electricity. The cause, described by TEAIS, was that a connection between Europe and Turkey was disrupted, leading to a power shortage (Coskun and De Clercq, 2015). In major cities, such as Istanbul and Ankara, the entire infrastructure stopped functioning – such as the metro, trams, traffic lights, factories, and cell phone networks (Daily Sabah, 2015). This was the biggest incident of its kind experienced in Turkey in recent times, but it was not isolated. Indeed, Turkey occasionally experiences power cuts, especially during winter months (CNN, 2018a; Hürriyet, 2018a; Hürriyet, 2018b). After massive criticism, the government then announced energy cuts in advance as 'planned power cuts' for grid maintenance in order to limit disruption to people (Hürriyet, 2018a).

Every winter, Turkey faces a high risk of power cuts due to insufficient energy supply (Interviewees Loc2, 2017; Off6, 2017). Interviewees Loc2 and Off6 emphasised that after 2015's nationwide blackout, the government was forced to increase the country's energy supply. Furthermore, Interviewee Off5 highlighted that officials realised the country's heavy dependence on foreign resources and enacted a vast range of investment incentives (i.e., for investments in the energy sector). Hence, new regulations and reforms have been implemented in order to encourage private investments into the energy sector.

Incentives

To address the current account problem, the government enacted a wide range of investment programmes, especially targeting local energy production. Four different investment incentive schemes (general, regional, large-scale, and strategic) were implemented at the beginning of 2012 and both local and foreign investors have equal access to them (ISPAT, 2018). The investment schemes aim to: diminish the country's current account deficit; contribute to more dispersed development throughout the country by encouraging investments with higher benefits in lesser developed regions; enable technology transfer; and further integrate Turkey into the global economy (ISPAT, 2018; KPMG, 2017).

Turkey has been split into six regions (see Figure 4-12) and the regional investment incentives schemes target specific regions in Turkey to promote their development. The six regions are ranked according to their level of development; whereby 1 stands for highly developed regions and 6 for lesser developed regions (ISPAT, 2018). Each region has then been designated different thresholds for the incentive instruments (see Table 4-4).

Figure 4-12: Regions 1–6.
Source: www.invest.gov.tr.

Regional Investment Incentives Scheme Instruments								
Incentive Instruments				Region					
				I	II	III	IV	V	VI
VAT Exemption				YES					
Customs Duty Exemption				YES					
Tax Reduction	Tax Reduction Rate (%)			50	55	60	70	80	90
Rate of Contribution to Investment (%)	Out of OIZ*			15	20	25	30	40	50
	Within OIZ*			20	25	30	40	50	55
Social Security Premium Support (Employer's Share)	Support Period	Out of OIZ*		2 years	3 years	5 years	6 years	7 years	10 years
		Within OIZ*		3 years	5 years	6 years	7 years	10 years	12 years
		Upper Limit for Support (%)	Out of OIZ*	10	15	20	25	35	No limit
			Within OIZ*	15	20	25	35	No limit	No limit
Land Allocation				YES					
Interest Rate Support	TRY Denominated Loans (points)			N/A	N/A	3 points	4 points	5 points	7 points
	FX Loans (points)					1 point	1 point	2 points	2 points
Social Security Premium Support (Employee's Share)				N/A	N/A	N/A	N/A	N/A	10 years
Income Tax Withholding Allowance				N/A	N/A	N/A	N/A	N/A	10 years

*OIZ: Organized Industrial Zones

Table 4-4: Regional Investment Incentives Scheme Instruments.
Source: www.invest.gov.tr.

The general investment incentives scheme is applicable for investments taking place independent from the region, as long as they meet the criteria. Investments into Region 1 and 2 must be at least 1 million TL, while the other regions require a minimum investment of 500,000 TL in order to benefit from customs duties and VAT exemptions. Region 6 has additional incentives for certain projects – such as income withholding tax and social security premium relief (ISPAT, 2018).

Large-scale investment incentive schemes aim to boost research and development and technology competitiveness by providing incentives for twelve investment areas (see Table 4-5). The incentives vary depending on the industry and investment amount (ISPAT, 2018).

Large-Scale Investments		
	Investment Subject	**Minimum Fixed Investment Amount (million TRY)**
1	Production of refined petroleum products	1,000
2	Production of chemical products	200
3	Harbors, harbor services and airport investments	200
4	a) Automotive main industry b) Automotive supply industry	200 50
5	Production of railway and tram locomotives and/or tram cars	50
6	Transit pipeline transportation services	
7	Electronics industry	
8	Production of medical, high-precision and optical equipment	
9	Production of pharmaceuticals	
10	Production of aircraft and spacecraft and/or related parts	
11	Production of machinery (including electrical machinery and equipment)	
12	Mining (including metal production)	

Table 4-5: Large-scale Investments.
Source: www.invest.gov.tr.

Strategic investment incentives schemes aim to reduce import dependency and encourage domestic productivity. Eligible investments receive VAT and customs duty exemptions, tax reduction, social security premium support for the employees and employers, income tax withholding allowance, interest rate support, land allocation depending on availability, and VAT refunds (ISPAT, 2018). In addition to the aforementioned schemes, there are specific research and development incentives, Technology Development Zones, industrial thesis in collaboration with universities, Scientific and Technological Research Council of Turkey (TUBITAK), The Technology Development Foundation of Turkey loans (TTGV), and Export Support available (ISPAT, 2018).

Towards the end of 2016, the government announced the 'Centre of Attraction Programme' to boost domestic and foreign investments – predominantly for the eastern and south-eastern Anatolian regions (Özen, 2017). The new laws – no. 6728 and no. 6745 – have been enacted to support the overall investment environment (Altay and Cebe, 2016). Incentives are designed for call centres, industry, and storage centres, as well as support for facility relocation and production support (Özen, 2017). In the first week of 2018, the economy minister announced 14 projects that will receive approximately 80 bn TL under the 'Super Incentives' programme. The 14 projects are mainly in the realm of metallurgy and petroleum chemicals (Haberler, 2018). The underlying notion of the Centre of Attraction Programme is to balance the country's regional growth in less developed areas, by promoting production plants and employment. The Super Incentives programme target strategic sectors in various fields – i.e., technology and energy – in order to increase Turkey's competitiveness and reduce the country's foreign dependency (KPMG, 2017; TIM, 2017).

In order to encourage private investors' engagement with the energy sector, new regulations have been introduced. Opportunities for renewable energy resources – such as wind, solar, geothermal, and hydro, are available. Investment in renewables is backed by lucrative feed-in tariffs. Turkey's Vision 2023 envisages the following targets for the energy sector:

- First, to raise total installed power from 80,000 GW to 120,000 GW. In this light, increase the share of renewables to 30% of total energy production – wind power to 20,000 MW, solar energy to 5,000 MW, geothermal to 1,000 MW, and maximising the use of hydropower.
- Second, to increase the use of conventional energy sources – such as coal-fired power plants – from 17.3 GW to 30 GW, to construct nuclear power plants (three in total), and to raise Turkey's natural gas storage to more than 11 bn m^3.
- Third and lastly, to improve the energy infrastructure by extending transmission lines to 60,717 KM and increasing the use of smart grids (ISPAT, 2018).

The actions conform to the government's commitment to energy efficiency because the new regulations aim to improve efficiency and save on consumption (ISPAT, 2018). For instance, in 2016, the government introduced the new Renewable Energy Resource Zone (YEKA) model, with the intent to 'commission large-scale renewable energy projects through utilisation of locally manufactured components in the renewable power plants' (ISPAT, 2018).

Throughout my primary research for this thesis, I found that many respondents praised and welcomed the Renewable Energy Resources Support Mechanism (YEKDEM; see section 5.2 of chapter 5), which was introduced in 2013. It is a support mechanism designed for electricity

manufacturers who use renewable energy resources to generate power. Feed-in tariffs provide a guaranteed purchase of the energy and therefore, retail companies assigned by the Energy Market Regulatory Authority (EMRA) are obligated to purchase the energy of producers who are subjected to YEKDEM. Producers who benefit from feed-in tariffs cannot sell the electricity produced to other companies on the open market (Enerji Enstitusu, 2018b; Hakki, 2015).

YEKDEM's goal is to encourage investments in renewable energy and to provide a guarantee for licensed electricity manufacturers. Furthermore, through the implementation of feed-in tariffs, risks such as finding buyers and competitiveness vis-à-vis conventional manufacturers have been reduced. Nevertheless, YEKDEM's main critique is that feed-in tariffs are denominated in USD, where volatilities in exchange rates can then have positive or negative effects.

To sum up, Turkey's growth after the 1980s can be attributed to three phases: first, the shift from agriculture towards increased service and industry activities; second, technology transfer from abroad and an overhaul of the industry sector; third, a more global economy where Turkey positioned itself as a lucrative destination for investments (KPMG, 2017). The government prioritised FDIs to Turkey by following a neoliberal agenda and it enacted various regulations to promote growth within the energy sector. Furthermore, officials tried to reduce energy imports and implemented new regulations to encourage investments and tackle the country's current account deficit problem. However, investors remain sceptical about further investment due to the immense political uncertainty following the 2018 general election (Interviewee Int7, 2017).

4.3. Turkish Energy Sector

In 1902, electricity production started off as an activity of the private sector and became nationalised between 1938-1944. In 1970, the whole energy sector was been transferred to the Turkish Energy Corporation (TEK). Ten years later, the responsibility to distribute energy to municipalities was added to TEK's duties (Uluatam, 2011). Until the 1990s, TEK, a vertically state-owned monopoly dominated the electricity generation, transmission and distribution (Mapila and Abdo, 2017).

Throughout the 1990s, Turkey needed an expansion of its energy production capacities and sought for greenfield investments to ensure a consistent and secure power supply. In order to promote investments, the government initiated several programs such as the Build-Operate-

Transfer (BOT), Build-Operate (BO), Transfer of Operating Rights (TOR) and issued for small manufacturers licences for autoproducer (Mapila and Abdo, 2017). BOT investments coupled with purchase guarantees of the state prompt lucrative investments for investors however, they turned into heavy long-term burden for taxpayers (Colakoglu, 2015 cited in Stevenson and Pascoletti, 2015).

Liberalisation on the energy sector took place after the double crisis in 2000/2001 whereby one of the IMF's conditions was the privatisation of Turkey's energy sector. Turkey complied, as it was driven by the motive to become a member of the EU and get its economy back on track, more details in section 4.1 of this chapter. Subsequently, officials passed the electricity market law 4628 whereby the market design and legal framework was adapted from the EU (Gözen, 2012, Uluatam, 2011).

In 2001, with technical and financial assistance from the World Bank (WB) and the Turkish Electricity Generation and Transmission Corporation (TEAS) was unbundled and divided into three separate entities, see Figure 4-13 below: Electricity Production Corporation (EUAS), Turkey Electricity Transmission Corporation (TEIAS) and Turkey Electricity Trading and Contracting (TETAS). EUAS has the operational rights for SOEs such as large Hydroelectric Power Plants (HPPs). Further, EUAS has the right to establish, rent and operate new production facilities if needed. Before doing so, EUAS must consider private sector investments, which is a condition under the law (Külfetoglu, Tanrisever, Derinkuyu, 2016; Uluatam, 2011).

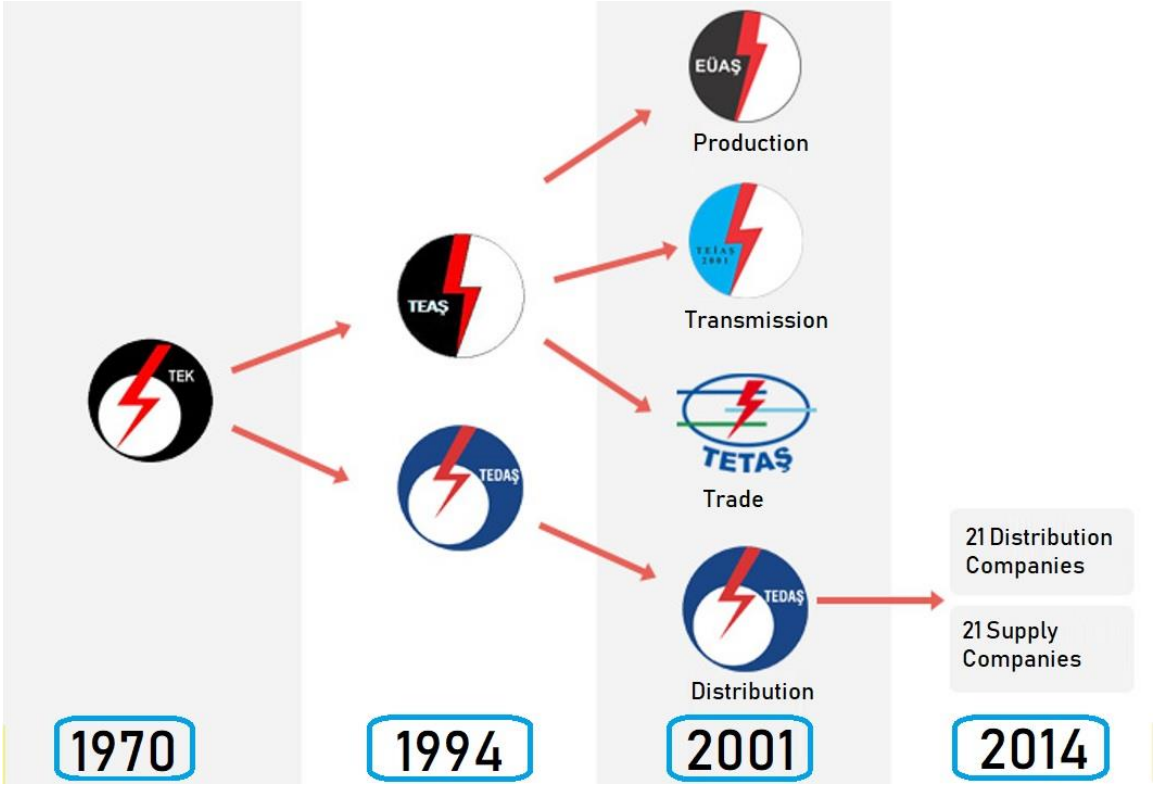

Figure 4-13: Splitting of Turkish Energy Corporation (TEK).
Source: http://www.tetas.gov.tr/tr-TR/Sayfa/Tarihce.

Turkey Electricity Transmission Corporation (TEIAS) took over the SOEs in transmission and operates under the Ministry of Energy and Natural Resources. TEIAS is responsible for the preparation of an investment for new transmission facilities, the establishment and operation of these facilities including the financial settlement system in which electricity is sold (Uluatam, 2011).

The last corporation, TETAS, took over existing electricity purchase and sale agreements from TEAS and TEDAS and deals with wholesale transactions. At the same time, TETAS is also responsible to cover the costs arising from BO, BOT and TOR contracts (Uluatam, 2011). The unbundling process, primarily driven by the WB, repositioned TETAS' role from a single buyer to an individual market participant. The number of wholesalers in the market increased exponentially from 1 in 2003 to 156 by 2017 (Mapila and Abdo, 2017).

In 2014, further unbundling of TEDAS took place into 21 distributions and 21 supply companies. This contributed to a separation between distribution and supply (sales) processes. The legal entities that carry out electricity distribution services and electricity distribution duties into the 21 different regions defined by Energy Market Regulatory Authority (EMRA). Generally, the tasks of distribution companies are maintenance, repairs, installation and operation of issues related to distribution. On the other hand, electricity supply companies are responsible for task related to sales activities, renewing/cancelling subscriptions and billing (Emre, 2017). In 2015, with support from the WB, EMRA established the Turkish Energy Stock Market. The same year, '30% of total electricity was sold through the stock market, with the remaining electricity purchased through bilateral contracts' (Mapila and Abdo, 2017).

With the creation of free market conditions, the role of the private sector in the electricity market was expected to increase. According to the Electricity Energy Sector Reform and Customisation Strategy Document of March 2004, the reform and privatisation of the electricity sector has five main objectives:

- Decreasing operational costs through efficient generation and distribution of electricity,
- Ensuring the security of electricity supply and increasing the supply quality,
- Reducing the technical losses and leaks in the electricity distribution and bringing those values up to OECD countries' averages and preventing,
- Ensuring that necessary renewal and expansionary investments can be made without becoming a burden for the government by the private sector,
- Benefits resulting from competition in the production and trading of electricity in terms of service quality and market competitiveness should reflect on the end-users (Uluatam, 2011).

Turkey's rising energy demand is primarily driven by the rapid economic growth over the past few years and by its rising population. Turkey's industrialisation is still ongoing, see details in section 4.1 and 4.2 of this chapter. In contrast to the Euro area, Turkey shows large potential for growth in terms of electric power consumption kWh per capita, see Figure 4-14 below. According to Mapila and Adbo (2017, between 2000 – 2015, Turkey's energy intensity has grown on average by 5.5 % annually.

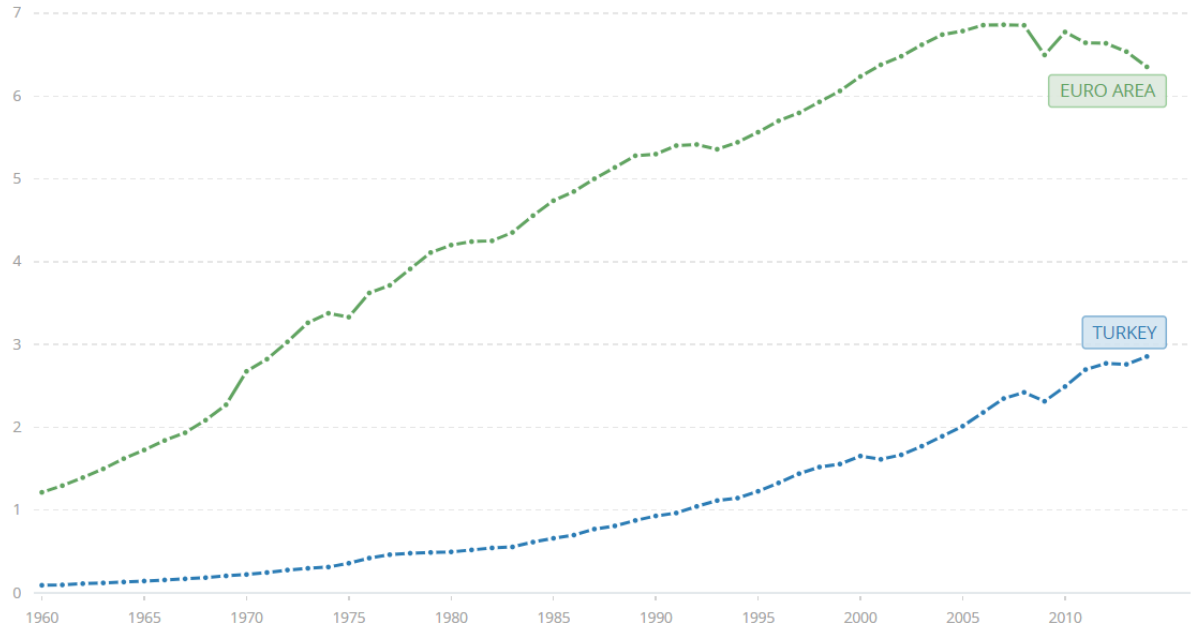

Figure 4-14: Electric power consumption kWh per capita. Y-axis thousands, X-axis years. Source: https://data.worldbank.org/indicator/EG.USE.ELEC.KH.PC?end=2014&locations=TR-XC&start=1960&view=chart.

The result of the active engagement of the WB in Turkey's liberalisation of its energy sector via regulation, technical and financial assistance resulted in a 40% market liberalisation by 2007. In 2008, the IFC channelled 3 bn USD aiming to spur a further private market creation. The IFC provided loans of 1.8 bn USD to Enerjisa, ACWA, Akenerji and Rotor Elektrik (Mapila and Abdo, 2017).

At the same time, IFC made 407 m USD in equity investments for Unit, Akfen Energy and Gama Energy. Furthermore, IFC help to raise SEDAS, an electricity distribution company, 240 m USD in loans. Total commitments of the WB Group stood by 8.9 bn USD whereby 5.6 bn USD came from the International Bank for Reconstruction and Development (IBRD), 3 bn USD from the IFC and Multilateral Investment Guarantee Agency (MIGA) 300 m USD (Mapila and Abdo, 2017).

Energy Market Model

Electricity is a commodity that, unlike many other commodities, cannot be stored and therefore must be produced and consumed simultaneously. In Turkey, there are three main sources for the electricity production, being EUAS, then BO-BOT-TOR, and lastly private energy producers (see Figure 4-15 below).

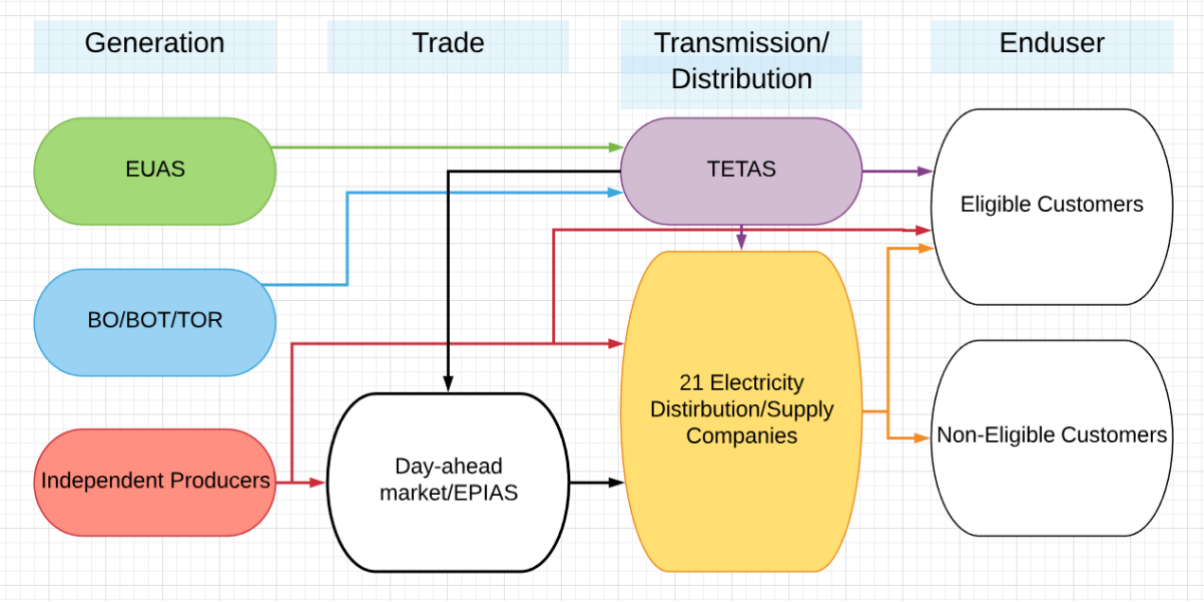

Figure 4-15: Electricity market in Turkey.

Electricity produced by BO-BOT-TOR and EUAS is sold to TETAS. In this respect, TETAS is still Turkey's largest electricity supplier. Approximately 98% of the electricity supplied by TETAS is taken by distribution/supply companies in a legally regulated framework and sold to non-eligible consumers at certain tariffs defined by EMRA. A small portion of 2% of the electricity supplied by TETAS is sold directly to eligible customers and EPIAS' Power Balancing Market. Independent Producers can produce and supply to different buyers to varying prices (Külfetoglu, Tanrisever, Derinkuyu, 2016). Eligible customers are end-users who consume more than 2000kWh or 818 TL in 2018. If a household has an invoice with a monthly average of 68 TL or the total of the electricity bill exceeds 818 TL, this household is eligible to change its supplier. The following Tables 4-6 and 4-7 provide the limits for eligible customers starting from the year 2002 onwards (EPIAS, 2018b).

Years	2002	2004	2005	2006	2007	2008	2009	2010
limit MWh	9000	7700	7700	6000	3000	1200	480	100

Table 4-6: Eligible customer limit in MWh from 2002-2010.

Years	2011	2012	2013	2014	2015	2016	2017	2018
limit MWh	30	25	5	4.5	4	3.6	2.4	2

Table 4-7: Eligible customer limit in MWh from 2011-2018.

Anyone who is below this limit is obligated to purchase its electricity from its distribution company to set tariffs from EMRA.

Energy Capacity in Turkey

Since 1976, Turkey's energy production capacity grew every five years on average by 30%, see Figure 4-16 below.

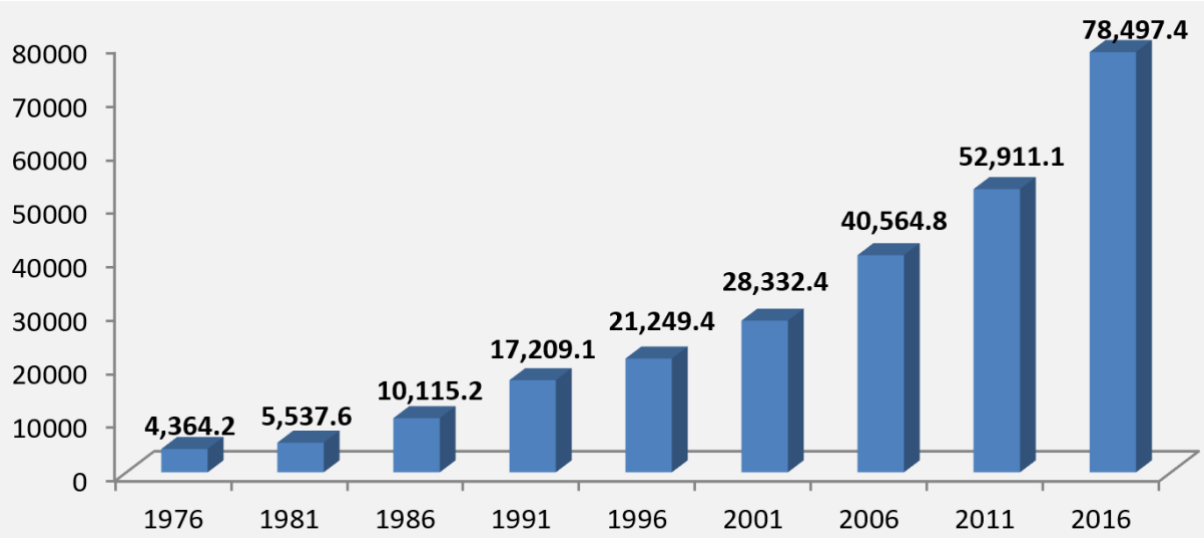

Figure 4-16: Current energy production capacity in Turkey.
Source: https://www.teias.gov.tr/en/node/2111.

Table 4-8 below shows the energy capacity according to producers and their contribution as of June 2018. As a SOE, EUAS contributes to approximately a quarter of the overall energy production capacity in Turkey. About 10% of the production capacity is held by BO-BOT-TOR. The contracts of BOTs started to expire in 2018 and the last few will expire in 2019. The government is planning to privatise those Power Plants (PPs) in the future. Despite the liberalisation process, independent producers own approximately 61% of the whole energy production capacity in Turkey. Notably, with 58 PPs, EUAS own about 23% of the market capacity while 1,147 independent producers held 61%. This underpins the fact that there is room for larger PPs with higher capacities on the private side.

Producer	Capacity in MW	Contribution in %	Number of PPs
EUAS	19,856.80	22.8	58
TOR	2,018.80	2.3	84
BO	6,101.80	7.0	5
BOT	1,358.80	1.6	12
Independent Producer	52,799.40	60.5	1,147
Unlicensed PPs	5,003.10	5.8	5,580
Total	**87,138.70**	**100**	**6,886**

Table 4-8: Energy producers and their capacities.
Source: https://www.teias.gov.tr/sites/default/files/2018-07/kurulu_guc_haziran_2018.pdf.

The Table 4-9 below illustrates the used resources for energy production and their capacity in MW in use. Noteworthy, are the number of PPs of conventional energy sources vis-à-vis renewable energy sources. While approximately three times more renewable energy PPs are in operation, their capacities are almost equal to those of conventional energy PPs.

Resources	Capacity in MW	Contribution in %	Number of PPs
Fuel-Oil	294.0	0.3	11
Local Coal	9,872.6	11.3	30
Imported Coal	8,793.9	10.1	11
Gas + LNG	22,800.5	26.2	250
Waste	624.1	0.7	101
Multifuel/gas	4,058.3	4.7	69
Geothermal	1,144.2	1.3	40
Hydroelectric Dam	20,304.1	23.3	117
Hydroelectric Stream	7,600.6	8.7	509
Wind	6,620.6	7.6	165
Solar	2,647.2	0	3
Unlicensed PPs	5,003.1	5.8	5,580
Total	**87,138.9**	**100**	**6,886**

Table 4-9: Energy Production by Resources.
Source: https://www.teias.gov.tr/sites/default/files/2018-07/kurulu_guc_haziran_2018.pdf.

A closer look into the pie chart below in Figure 4-17 stresses that approximately half of Turkey's energy is produced with conventional resources such as imported coal (10%), local coal (11%) and natural gas + LNG (26%) which are at the same time the primary driver of the current account deficit. On the other hand, renewable energy resources such as geothermal (1.3%), hydroelectric dam (23.3%), hydroelectric stream (8.7%), wind (7.6%) and solar (licenced 0%) make up about 41% of the overall capacity. Interesting to note that the majority of the solar PPs are unlicensed PPs (1MW< do not require a license). The government is pursuing ambitious investments into RE projects with the aim to further decrease Turkey's energy dependency on conventional resources. The governments' target is to increase licenced RE projects in solar to 5 GW (currently 2.6 GW), wind 20 GW (currently 6.62 GW) and geothermal to 4 GW (currently 1.14 GW) (Enerji Enstitusu, 2018a).

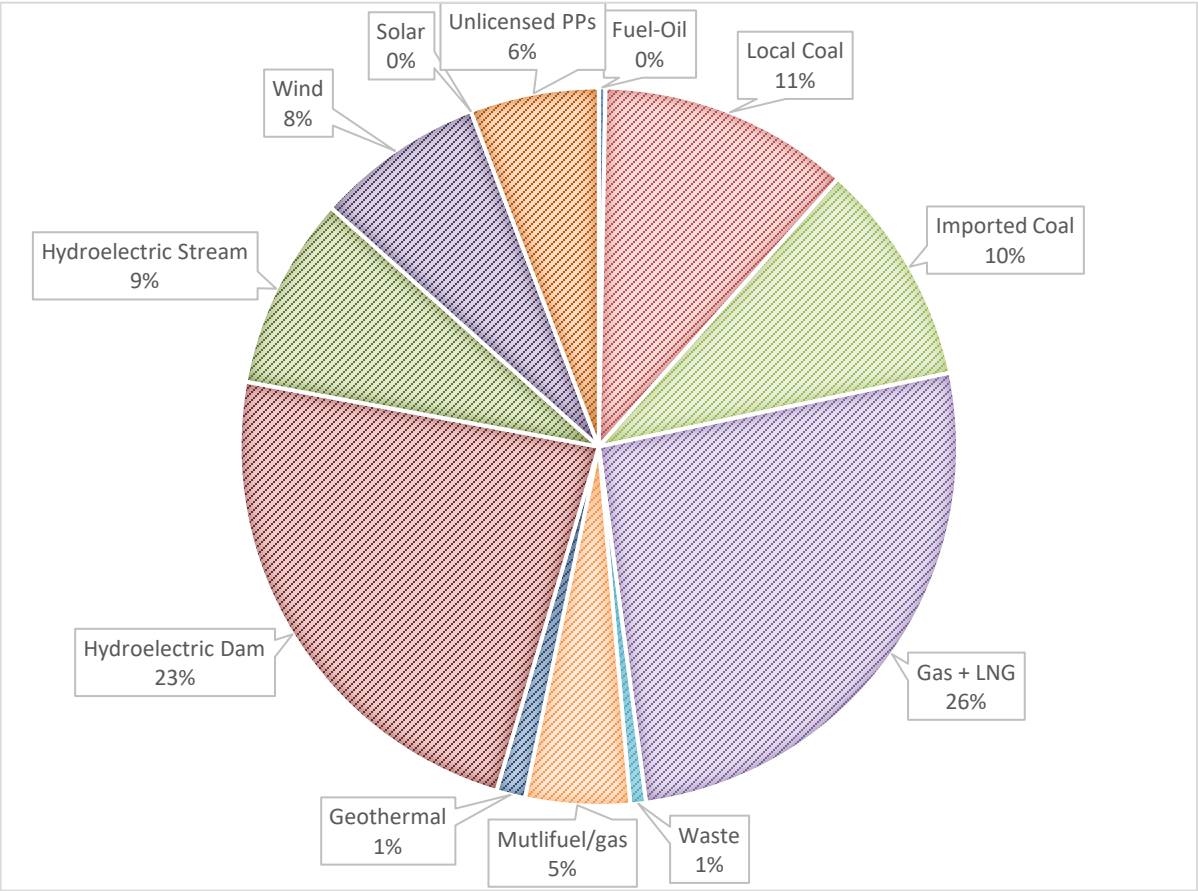

Figure 4-17: Energy resources.
Source: TEIAS.

In this context, it is worth mentioned Turkey's largest energy producing organisations. Table 4-10 below illustrates the largest energy producers according to their GW production capacity.

Company	GW in 2017
Elektrik Üretim A.S. (EUAS)	19.90
Enerjisa Enerji Üretim A.S.	3.61
Eren Enerji Elektrik Üretim A.S.	2.79
Aksa Enerji Üretim A.S.	2.24
Atlas Enerji Üretim A.S.	1.20
İçdaS Elektrik Enerjisi Üretim ve Yatirim A.S.	1.20
Egemer Elektrik Üretim A.S.	0.90
RWE & Turcas Güney Elektrik Üretim A. S.	0.80
Sanko Enerji San. ve Tic. A.S.	0.67
Termik Elektrik San. ve Tic. A.S.	0.62
Çelikler Seyitömer Elektrik Üretim A.S.	0.60
Çelikler Orhaneli Tunçbilek Elektrik Üretim A.S.	0.58
İçdaS Çelik Enerji ve UlaSim Sanayi A.S.	0.47
Zorlu Dogal Elektrik Üretim A.S.	0.38
İZDEMİR Enerji Elektrik Üretim A.S.	0.35

Table 4-10: Largest Energy Firms in Turkey according to their GW.
Source: http://www.euas.gov.tr/Documents/sektor_raporlari/EUAS-Sektor_Raporu2017.pdf

Strikingly, a SOE such as EUAS, is approximately six times bigger than the largest independent energy producer, Enerjisa. Enerjisa is Turkey's leading independent energy producer, a JV between Sabanci holding and E.ON (Germany). To put this into perspective with European countries' largest energy producers, see Table 4-11 below.

Company	Country	2017 GW
EdF	(France)	129.30
Enel	(Italy)	84.92
Engie	(France)	59.00
Iberdrola	(Spain)	48.45
RWE	(Germany)	43.27
Uniper	(Germany)	35.32
Vattenfall	(Sweden)	28.56
Endesa	(Spain)	22.73
EUAS	(Turkey)	19.90
Statkraft	(Norway)	17.48
PGE	(Poland)	16.27
CEZ	(Czech)	14.87
Fortum	(Finland)	13.72
EnBW	(Germany)	13.05
E.ON	(Germany)	10.33

Table 4-11: Largest Energy firms in Europe according to their GW.
Source: http://www.euas.gov.tr/Documents/sektor_raporlari/EUAS-Sektor_Raporu2017.pdf

EUAS, whose energy production capacity is continuously being reduced, will be soon be disappearing from Table 4-11 above. In 2017, EUAS was the 9th largest energy producer in Europe in comparison to 14 privately owned companies. However, this raises the question of who will replace EUAS' role in this table and which European Countries' energy company will dominate the Turkish energy market?

Importance of global oil and gas prices

The following section aims purely to outline the importance of oil and gas for the world economy without diving into details.

Energy is considered to be one of the most important parameters in international relations. Especially for developing countries' economic and social developments it plays a crucial role. Many wars have been fought over energy resources such as oil and gas, probably the most renowned one was the invasion of Iraq in 2003 (Clark, 2005; Juhasz, 2013; Muttitt, 2012; Nafeez, 2014).

Figure 4-18 below shows the oil price in USD per barrel from 1995 till 2018. The grey areas within the figure display periods of recession whereby a sharp decline in oil prices occurred during the subprime crisis in 2007/2008.

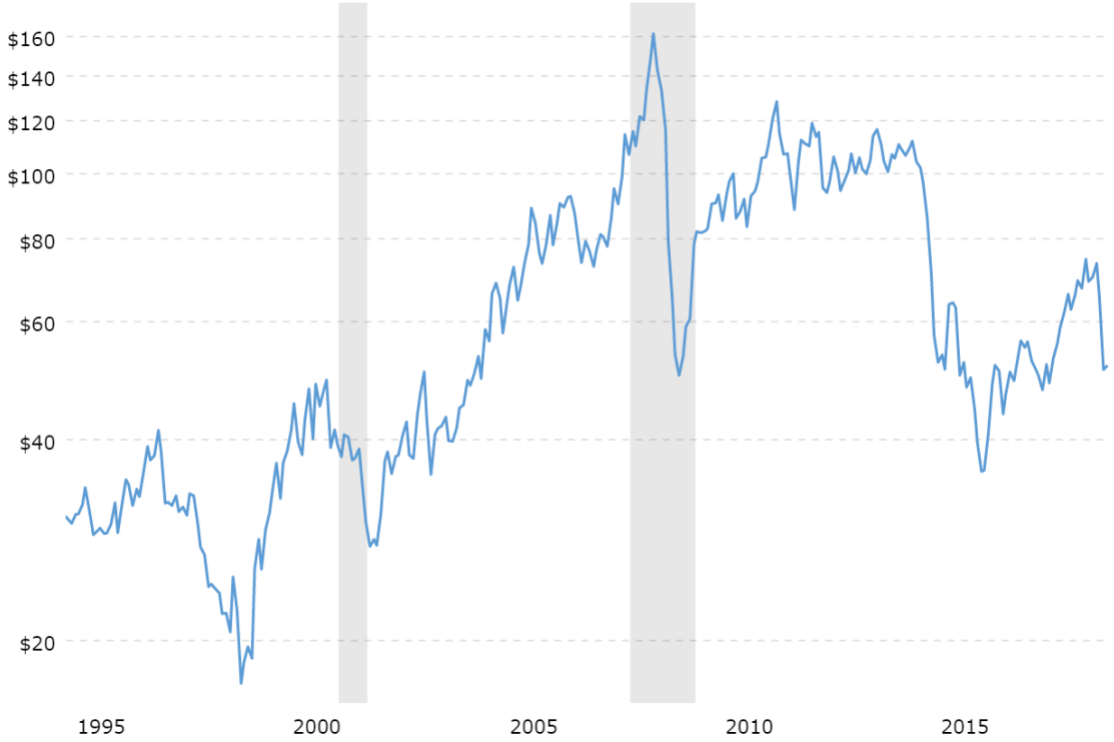

Figure 4-18: Oil prices per barrel.
Source: https://www.macrotrends.net/1369/crude-oil-price-history-chart.

Prior to the crisis, oil was in a high demand especially in emerging economies such as China and India. Output cuts by the OPEC drove oil prices up to an all-time high of 160 USD per barrel. During the subprime crisis oil prices fell to approximately 50 USD. In early 2010, oil prices started recovering until 2014. By 2014, several factors contributed to a plunge in oil prices but the most influential one was a slowing down of the global economic environment primarily driven by China and other BRIC countries falling demand. Around the same time, new technological advancements allowed countries such as the U.S. and Canada to increase their domestic oil production via fracking. A plummeting oil demand in North America put further pressure on oil prices. Another aspect that needs to be considered is on the supply side. Given the plummeting global oil prices, Saudi Arabia kept its production stable without any output reduction in order prevent losing market shares. Saudi Arabia is aware that fracking is costly and after a certain point not profitable when oil prices are too low this would bring back its North American customers (Samuelson, 2014; The Economist, 2014b).

Similar developments happened affected natural gas prices. 80% of the world's natural gas reserves are in Russia and the Middle East. Gas prices (Figure 4-19 below) are more volatile than oil prices due to several reasons such as variation in the production, import and export

volumes, storage, technological advancements, climatic changes and costs of competing fuels (Daiss, 2018; Malik, 2018).

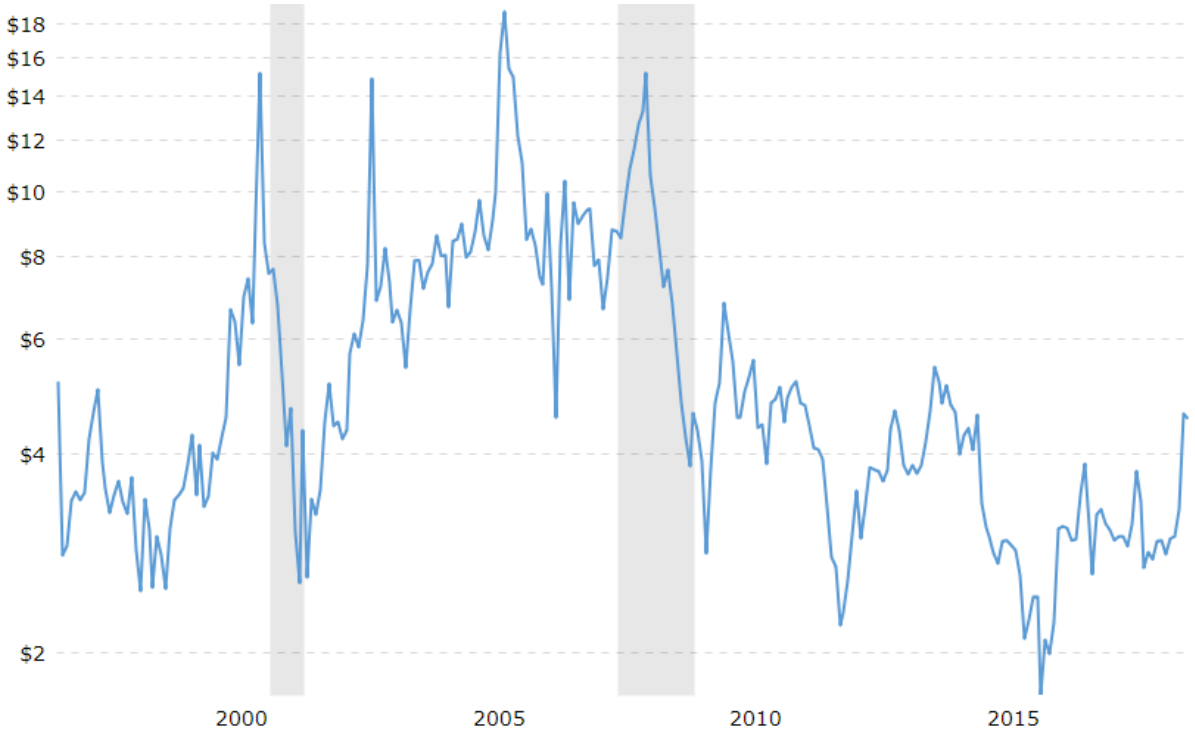

Figure 4-19: Gas Prices between 1995 and 2018.
Source: https://www.macrotrends.net/2478/natural-gas-prices-historical-chart.

Turkey's proximity to the world's oil richest region has its own challenges. Turkey's foreign dependency on LPG and crude oil imports in light of the geopolitical tensions increases the country's own energy supply risks (Bilirgen, 2018). For example, in 2017, Iraq's referendum resulted in a period of tension between Turkey and Iraq. Iraq's northern region with about 6 million people failed to declare their independence. After the failed referendum, Bagdad sent forces to seize northern oil fields which resulted in a price hike for crude oil (Zhdannikov, 2018). According to Alparslan Bayraktar, Commissioner at EMRA, the Turkish government realised the importance of its geographical location (bridge to Europe) and endeavoured over the last years to turn Turkey into an energy hub – energy corridor to Europe, see Figure 4-20 below (Stevenson and Pascoletti, 2015).

Botas is responsible for approximately 80% of Turkey's natural gas imports which comes from Russia via the West Pipeline and Blue Stream Pipeline. The rest is provided by private firms such as Kibar Energy, Shell, Bosphurus Gas, Eurasia and Enerco-Akfel Gas using the West Pipeline. Furthermore, Botas has currently ongoing projects to import gas via new pipelines from Russia (Turkish Stream), Azerbaijan and Iran (TANAP) and northern Iraq (Öztürk, 2017).

Figure 4-20: Natural Gas and Crude Oil Pipelines in Turkey.

1. Russia – Turkey natural gas pipeline via Ukraine, Romania, Bulgaria (West Pipeline).
2. Russia – Turkey natural gas pipeline (Turkish Stream – planned).
3. Russia – Turkey natural gas pipeline (Blue Stream).
4. Azerbaijan – Turkey natural gas pipeline (TANAP – planned).
5. Iran – Turkey natural pipeline (TANAP – planned).
6. Northern Iraq – Turkey pipeline (planned).

After the 'Crimea Crisis' where Russia annexed West Ukraine, the EU responded by imposing sanctions on Russia (Delegation of the European Union to Russia, 2014; Walker and Trynor, 2014). In December 2018, Russia seized three Ukrainian vessels including their crew members (Röttgen, 2018). Since Russia's political ties with the EU remain complicated, natural gas supply security via the West Pipeline is questionable. Therefore, gas supplies will be shifted from the West Pipeline to the Turk Stream, which is planned to be completed by the end of 2019 (Gazprom, 2019).

Concerning this arrangement, German Chancellor, Angela Merkel received critique from Trump for the regions' high reliance on Russian gas (Rinke, 2018). This emphasised and highlighted Turkey's role as an energy hub. Natural gas from Azerbaijan will be transported via the TANAP pipeline to Europe. Gas from Azerbaijan is cheaper in comparison to Russian gas which will help the EU to reduce its dependency on Russian gas and improve regional energy supply security (Azernews, 2015; Rinke, 2018). These developments provide opportunities for additional income sources and reduce its own energy bills and for additional income (Öztürk, 2017).

Engagement in higher renewable investments

Given Turkey's large foreign energy dependency, the government enacted several programs to encourage investments into RE projects.

Hydroelectric

Hydroelectric Power Plants (HPPs) have a share in electricity production of approximately 32%. The main benefits of HPPs are that they are environment-friendly, clean, renewable, high-efficient, fuel-free, long-lasting, operating expenses are very low in comparison to conventional PP. The hydroelectric potential of Turkey constitutes to 16% of the EU (Bilirgen, 2018). On the downside, HPPs are highly dependent on climatic conditions which can cause problems from time to time. For instance, in 2017 due to the low water level in dams, HPPs overall contribution was relatively low.

The fact that HPPs heavily depend on meteorological conditions causes problems over time. For example, in 2017 the government reported that water levels at dams stood at a record low since 2007, however, this situation changed in 2018. In 2018, heavy rains contributed to an increase in water levels across dams in Turkey by 30% (Anadolu Agency, 2017; Enerji Enstitusu, 2018d).

The share of total hydroelectric energy generation from streams and dams increased between 2012-2014 on average by 10% while flattening out after 2015 by around 3%, see Figure 4-21 below.

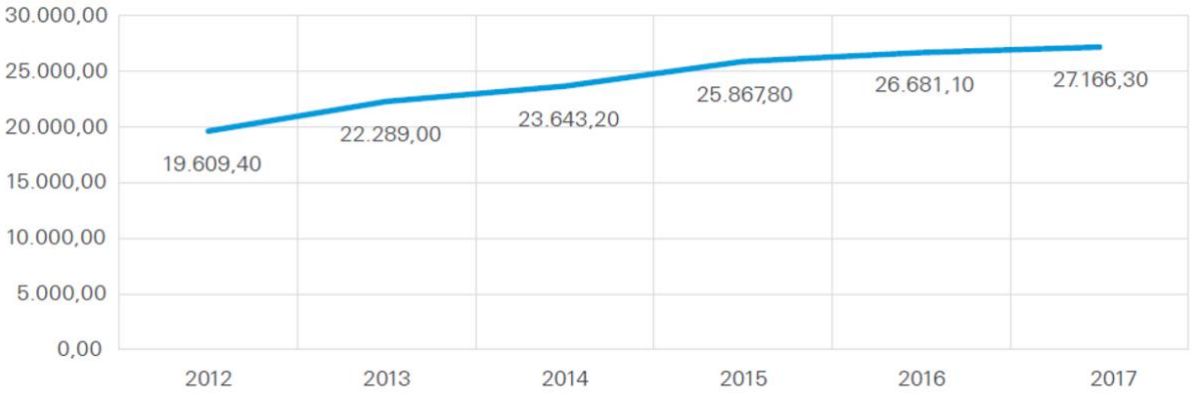

Figure 4-21: Hydroelectric generation capacity between 2012-2017, x-axis: years, y-axis: MW. Source: TEIAS.

Wind

One of the most important sources of renewable energy is wind energy. In 2000, the global wind energy production was 17.4 GW while the same figure rose to 432.9 GW in 2015. It is forecasted that wind energy will reach a global output of 1,749.8 GW by 2030 (Bilirgen, 2018).

In 2016, licensed operating wind PP capacity was 5,738 MW while the same figure increased to 6,620.6 MW in 2018 (EUAS, 2018).

Turkey's overall wind energy production potential is 48,000 MW which equals approximately to 1.3% of Turkey's surface. These figures highlight Turkey's favourable geography and its high potential. Between the years 2012-2017, Turkey's capacity to produce energy from wind rose on average by 24%, see Figure 4-22 below (Bilirgen, 2018).

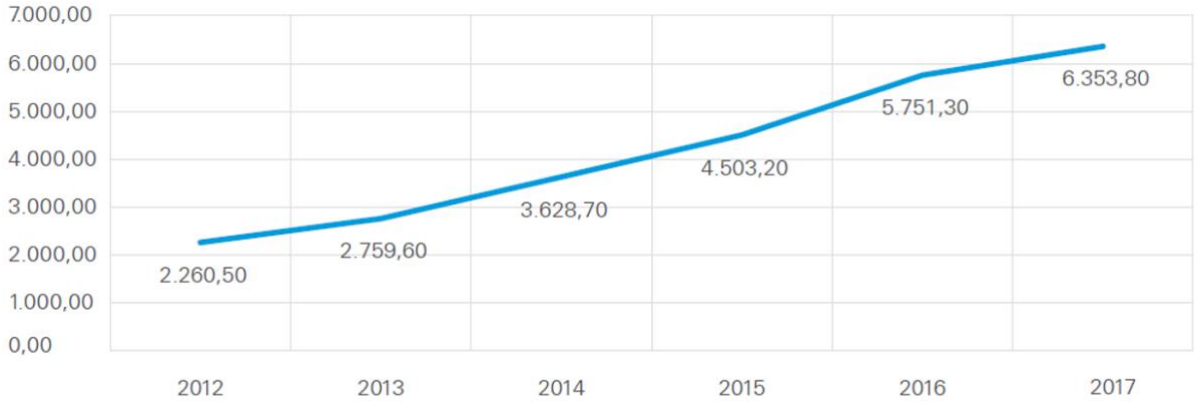

Figure 4-22: Wind generation capacity between 2012-2017, x-axis: years, y-axis: MW.
Source: TEIAS.

Solar

According to the sun energy potential atlas, Turkey has an annual sunshine time of 2,741 hours (7.5 hours/day of sunshine on average) and 1.527 kWh/m² per year. Decreasing costs for solar panels with an increase in the production capacity proved to be a lucrative investment (Ministry of Energy and Natural Resources, 2018).

In 2014, Turkey's solar energy production capacity was 40 MW (Figure 4-23 below), but this capacity rose exponentially to 2,060 MW by the end of 2017. The actual figure for licensed and unlicensed solar PPs by the end of 2018 is estimated to be around 6,600 MW (Gungor, 2018).

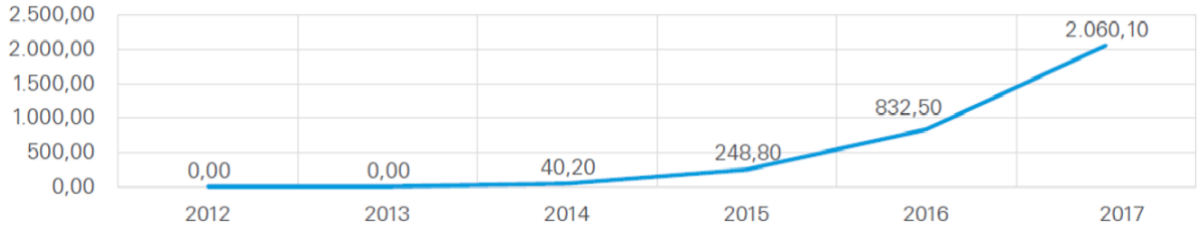

Figure 4-23: Solar energy generation capacity between 2012-2017, x-axis: years, y-axis: MW. Source: TEIAS.

Geothermal

Turkey's geothermal energy potential is estimated to 31,500 MW. Approximately 80% is in Western Anatolia, 10% Central Anatolia, 5% Eastern Anatolia and the rest in other regions of the country. The top five countries with geothermal energy resources are the U.S., Philippines, Indonesia, Turkey and New Zealand (Bilirgen, 2018). The number of geothermal fields suitable for electricity generation in Turkey has increased from 16 in 2002 to 25 in 2017. The alternative use of geothermal besides energy production is its use for residential heating purposes. This figure tripled from 30,000 homes in 2002 to approximately 120,000 homes in 2018 (Bilirgen, 2018). The installed capacity of geothermal energy rose from 162.2 MW in 2012 to 1019 MW in 2017, see Figure 4-24 below. Turkey is one of the fastest growing country's that produces electricity from geothermal energy.

Figure 4-24: Geothermal energy generation capacity between 2012-2017, x-axis: years, y-axis: MW. Source: TEIAS.

4.4. Conclusion

Chapter 4 provided important context on contemporary economic and political developments in Turkey. It started off with a discussion on Turkish politics and economy, identified four stages of financialisation in Turkey, summarized Turkey's recent economic performance and provided context for the failed coup attempt of 15th July 2016. Further, it presented key elements such as the implementation of neoliberal policies in collaboration with IFIs and the four stages of the financialisation process in Turkey:

> First, Turkey's export-oriented strategy between 1980 and 1988; second, the financing of public debt between 1989 and 2001; third, state-led financialisation between 2002 - 2007 (institutional change and implementation of neoliberal policies); finally, debt-led economic growth starting from 2007 until 2017.

Noteworthy, in the aftermath of the financial crisis in 2008, the economy began to display a different pattern of economic growth – one that was mainly driven by consumption rather than by an increase in productivity. The economy grew internally through increased productivity that took place in Stage Three. However, the growth in Stage Four was driven externally. This is noticeable by the higher current account deficit, low savings and productivity, fiscal and monetary policies that focussed on boosting the economy by increasing consumption. In order to finance this consumption, massive foreign capital inflows were attracted by high interest rates.

The AKP followed a neoliberal agenda and with the help of international organisations (IMF and EU), the AKP managed to reset the Turkish economy. However, an economic performance analysis for the period 2002-2017 highlights several deficiencies. Turkey's economic policies are not sustainable because it is a heavily import-dependent country with almost non-existing local innovations. In this context, the CBRT reported that the Turkish economy developed beyond the traditional labour-intensive industries like textiles, manufacturing required more raw materials and sophisticated machinery and equipment, most of which continued to be imported (Edgerly, 2013). Nevertheless, several interviewees such as interviewees Loc6, Loc10 and Off5 and scholars such as Acemoglu and Ucer (2015) and Rodrik (2015) stressed that the country's domestic manufacturing is predominantly foreign owned, big conglomerates hinder the rise of innovative start-ups due to their market power and the current main economic driver is consumption, which relies on foreign capital inflows.

Furthermore, Turkish politics is a troubled realm. Between 1960 and 2016 five elected governments faced a military putsch. This has been followed by numerous terrorist attacks, a failed military coup said to be instigated by the Gulen Movement, geopolitical conflicts with neighbouring countries, an ongoing war in Syria, and an undesirable shift away from the EU

as a result of conflicting political interests. As a response to these instances, including the failed Kurdish-Islamic synthesis, the government shifted towards placing more emphasis on nationalism.

The mounting pressure on the economy required massive action by the government. In order to bring the current account deficit under control, the government initiated several support mechanisms to boost renewable energy investments to reduce Turkey's foreign energy dependency. Given the geopolitical uncertainties in its neighbouring countries, Turkey is vulnerable to any energy supply changes. Further, factors such as climatic changes (warmer summers and colder winters) coupled with other localities have direct effects upon energy prices, details in section 4.3 of this chapter.

Financialisation is not a new concept for Turkish NFCs. Towards the mid-1900s, large family owned businesses such as Sabanci Holding and Koc Holding have expanded with the assistance of the government into new business sectors outside their core activities, such as financial services, in order to create a local capitalist class and diversify risks.

The following chapter, chapter 5, will present the level analysis framework. Subsequently, it will elaborate on FDIs that have been channelled to Turkey, i.e. Turkish energy sector since 2002 and the role of investors (local and foreign). In this context, the role played by external organisations such as CRAs and IFIs are discussed. For this purpose, 28 elite interviews have been conducted. Chapter 5 does not only compare and contrast empirical findings, moreover it also analyses empirical findings within the literature. The research objective of chapter 5 is to: 'Identify the driving forces behind the financialisation process within the Turkish economy and assess them within a framework on a macro, meso, and micro-level'.

5. Level Analysis Framework and forces on the Macro- and Meso-level

Chapter 5 builds upon chapter 4 and illuminates the major externalities that influenced Turkey's economy and politics on a macro and meso-level. In this setting, Foreign Direct Investments (FDIs) and external organisations such as Credit Rating Agencies (CRAs) and International Financial Institutions (IFIs) are presented. This chapter also addresses the following Research Objective (RO) 2: 'Identify the driving forces behind the financialisation process within the Turkish economy and asses them within a framework on a macro, meso and micro-level'. This chapter starts off by introducing the level analysis framework (section 5.1) by highlighting key macro and meso-level developments and chapter 6 focuses on the micro-level.

A synopsis of FDIs in Turkey is presented in section 5.2 of this chapter highlighting their importance through presenting interview data and secondary data consisting of graphs. Furthermore, the countries where the funds stem from and the different investor types (local and foreign) are presented. Consequently, the aims and the investment behaviour of the different investors are discussed.

The third part of this chapter (section 5.3) introduces external organisations such as CRAs and IFIs. This section provides an account of how much control and power these entities have on the Turkish economy. Examples are provided to highlight the market power of CRAs and the significant attributed impact of their credit ratings. Further, this section discusses the activities of IFIs within Turkey and highlights their official goals. Next to their official goals, IFIs pursue economic and political goals which have been identified and discussed.

The final part of this chapter (section 5.4), summarises the findings of chapter 5 to answer Research Question (RQ) 2: 'To what extent has the financialisation process in the Turkish energy sector been driven by Turkey's interests?'. In this regard, chapter 5 sets out the fundamentals for chapter 6 where aspects on the micro-level are elaborated on.

Findings:

This chapter explains how after the double crisis in 2001/2002, support from IFIs was conditioned on Turkey liberalising its energy sector. In the beginning of AKP's term, it followed a pro-EU agenda that later reversed. Despite the liberalisation and privatisation of the energy sector, the government remains a powerful and dominating player within the energy sector. In the early 2000s, until the subprime crisis in 2007/2008, Turkey was praised as an emerging star among Emerging Market Economies (EMEs). In order to tackle the high current account

deficit, the government enacted investor friendly regulations to boost investments into Turkey, focussing on energy investments. International consultancy firms promoted investment opportunities where the upgrade of Turkey's credit rating led to an increase in investments. Furthermore, low interest rate policies pursued by Advanced Economies (AEs) encouraged investments into EMEs. Between 2002-2017, approximately 76% of the investments to Turkey originated from the European Union (EU), while Asia and the Middle East accounted for approximately 16%.

In this regard, an investigation into external organisations' activities (CRAs and IFIs) provided support for the notion of 'subordinate financialisation' that Turkey's state relations and its role within the international financial system are major influence factors. Firstly, the realm of power and influence that CRAs have is considered. Specifically, the interlink between the status of political relations with the U.S. and its impact on a country's credit score is explored. Secondly, IFI presence in Turkey is considered positive by investors. Their official goals are to promote welfare and raise living standards. Next to their official goals, IFIs pursue alternative goals such as political and economic. Their engagement in Renewable Energy (RE) investments contributed to a change in local energy politics. IFIs provide funds with favourable conditions to investors and promote sales of products from European firms via certain incentives. However, after the political crisis between Germany and Turkey in 2017, funds from the EU crashed. Subsequently, this section offers further support to Kaltenbrunner and Painceira (2018) and Powell (2013) findings which state that Developing and Emerging Economies (DECs) are subordinated to developed economies, subjected to state relations and influenced by their role within the international monetary and financial system.

Contribution of this chapter:

A critical review of issues pertinent to financialisation in an emerging market is offered in this chapter, through presenting the views of 28 field experts in the field of the Turkish economy, i.e. energy sector. This allows for a meaningful cross-verification of literature and empirical data, from which an improved understanding of financialisation in an emerging country, particularly with regard to financialisation in the Turkish energy sector results.

Secondly, by suggesting a framework to support the analysis of financialisation in an emerging country, a profound understanding can be achieved. This study illustrates the interconnected macro, meso and micro-levels of financialisation. By drawing upon regulationist theory, the flourishing ground for financialisation is set by local authorities. Furthermore, this thesis

provides support for Kaltenbrunner and Painceira (2018) and Powell (2013), that financialisation in EMEs are influenced and subjected to state relations and subordinated to the international monetary and financial systems. Subsequently, after the implementation of neoliberal policies in collaboration with IFIs, Turkey's state-led financialisation adapted a form of 'dependent' financialisation. As such, the activities of external organisations such as CRAs and IFIs are critically assessed in the context of Turkey.

5.1. Level Analysis Framework

The following section addresses RO2: 'Identify the driving forces behind the financialisation process within the Turkish economy and asses them within a framework on a macro, meso and micro-level'. A detailed discussion for the emergence of financialisation has been provided in chapters 2 and 4. While elaborating RO2, the findings and discussions of chapters 4 and 5 are briefly summarised and illustrated on the macro and meso-levels of Figure 5-1. The defined primary levels in Figure 5-1 are not concluding because there are other levels and aspects in-between the main levels. Nevertheless, the defined primary levels help to analyse and comprehend the mutual relationships across the different levels. The following analysis is focused on the Turkish energy sector. An attempt of conceptualising financialisation across macro, meso and micro-level has been attempted by Deutschmann (2011), however, his work can be perceived as a first and fundamental draft but requiring further refinement. On a micro-level, this thesis differs to Deutschmann's (2011) insofar as his analysis focuses on the individual whereas this thesis is in relation to specific sector.

Macro-contextual level: global forces that impact upon Turkey's energy sector.
Meso-transnational level: market forces, competitors, strategic alliances, and supply and demand.
Micro-national level: forces that address the internal environment of a country.

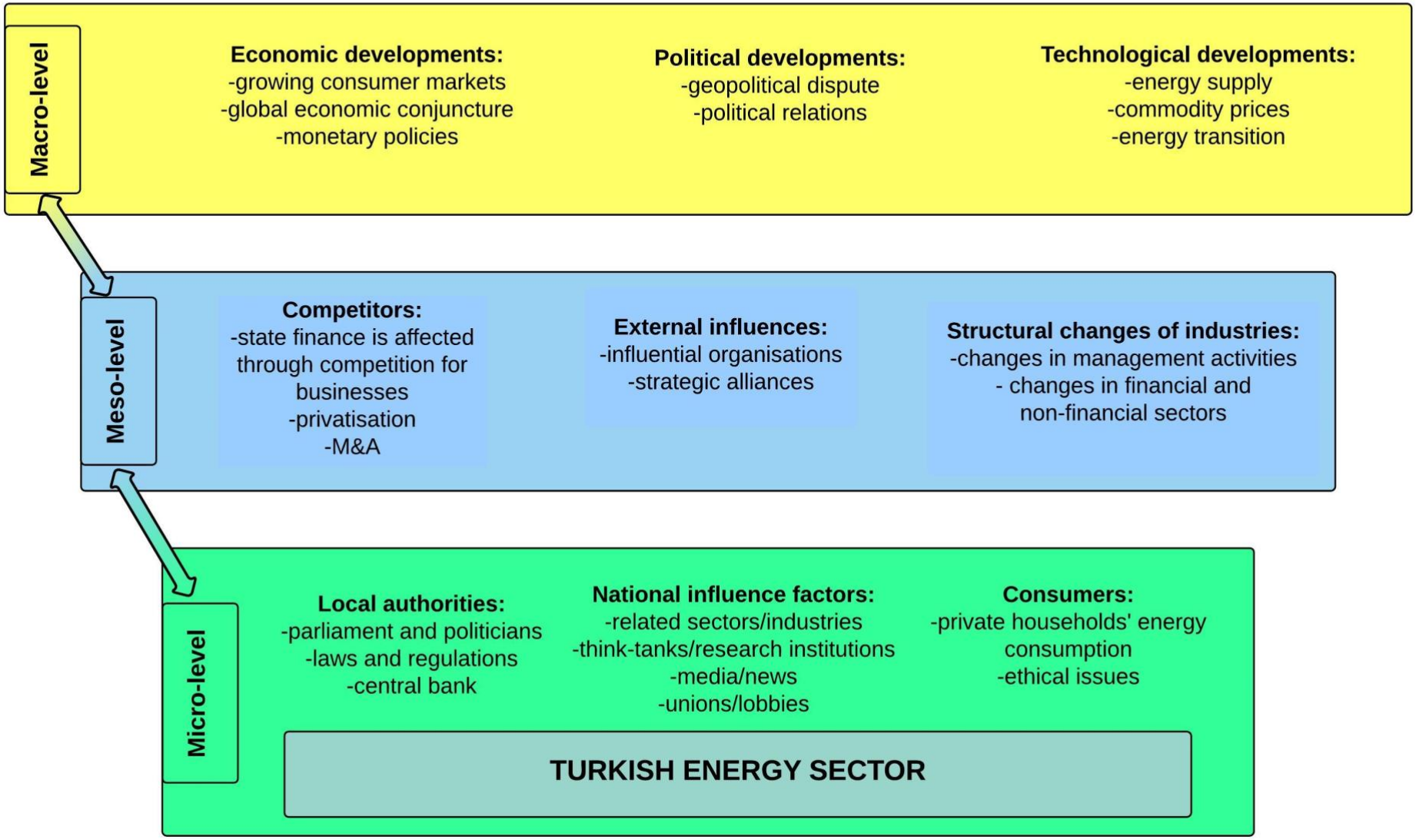

Figure 5-1: Different Levels that Ultimately Affect Turkey's Energy Sector.

Macro-Level

The macro-level (also known as the global level), provides an explanation of the highest level of global force impacts on Turkey. These are outcomes resulting from interactions amongst all states on a global scale. Two aspects are crucial: first, the position of a state within the global market and second, this state's interrelationships with others (Nau, 2015). In the case of Turkey, the three main macro-level aspects identified are economic, political, and technological developments:

Economic developments affecting Turkey are largely the global economic conjuncture, monetary policies followed across other states and growing consumer markets. While the global economic conjuncture is heavily influenced by the largest economies, their slowdown in economic activities also affects Turkey. Of equal importance, are monetary policies pursued by stronger economies, i.e., low-interest policies in AEs that cause a channelling of funds towards EMEs. Growing consumer markets provide lucrative investment opportunities for investors (see section 4.1 of chapter 4). The downside of those capital flows can result in a currency crisis. After the double crisis experienced in 2001/2002, Turkey was forced to adopt policies suggested by the IMF (see section 2.3.5 of chapter 2).

Political developments explain the geopolitical issues and political relations of Turkey with other countries. In regard to the former – the ongoing civil war in Syria – which has at the time of writing lasted for more than eight years, endangers the whole region's security. After the repetitive failed attempts of the Syrian government to ensure security in the region, Turkey was forced to establish a safe zone in Northern Syria of 30 km. Since 2011, powerful nations – such as the U.S. and Russia – have also failed to end the ongoing civil war. The importance of political relations has been highlighted in the case of Turkey by drawing upon the latest political tensions with the U.S. in relation to the crisis. Political turmoil has caused a freefall of the Turkish currency on international markets and further increased the pressures on the local economy (see section 4.1 of chapter 4).

Technological developments are all new innovations that can cause a significant change in a country's current global market position. In the case of energy, new advancements in fracking and more efficient RE resources have caused a fluctuation of commodity prices across the globe. In this regard, importance of global energy prices such as oil and gas has been explained in section 4.3 of chapter 4. The role models for Turkey in terms of energy transition are European countries, such as Germany and Sweden – with 80% and 100% of their energy coming from renewable sources, respectively. Currently, Turkey is only covering 30% of its demand from renewable sources.

Meso-Level

The meso-transnational level involves market forces (supply and demand), competition, strategic alliances and structural changes within industries. Three main groups identified at this level are competitors, external influences, and structural changes of the industries:

Competitors such as large business groups or Multinational Enterprises (MNEs) – can directly affect state finances. For instance, in order to attract foreign investors, states within Brazil and China undercut their offers amongst each other to provide lucrative incentives to attract foreign investors/companies. This allowed foreign companies to play the states against each other and receive attractive offers which, in many cases are hard to undo, such as tax breaks and free land (Beattie, 2014; Hornberger, 2011). As a matter of fact, 'states increasingly find themselves in competition as vendors to a corporate and financial clientele' (Davis, 2009, p. 171). MNEs and financial institutions' international mobility and the fact of their borderless existence, i.e. switching locations as they please, give those stateless actors power vis-à-vis national states. In the case of Turkey, a few large investors directly negotiated with the government and secured guarantees from the treasury prior to investing. Turkey announced several incentive schemes for foreign investors, which provide certain tax cuts and subsidies depending on the region they invest in (for more details see section 4.2 of chapter 4).

External influences are exercised by any powerful organisation that can employ a level of soft or hard power against the government. As discussed in section 5.3 of this chapter, these institutions can heavily influence Turkey's politics and economy. For example, the EU influenced Turkey's local energy policy by providing subsidies and promoting RE projects, and made the government more sensitive towards RE. Another example can be seen in the case of certain IMFs, who conditioned their aid to the liberalisation of the Turkish energy industry. In terms of economy, the credit rates from CRAs heavily influence foreign investors' investment decision making and the Turkish Lira vis-à-vis other currencies. Next to IFIs, CRAs, and supranational organisations, strategic alliances amongst companies/countries can influence a country. For instance, the Organisation of the Petroleum Exporting Countries (OPEC) or the Gas Exporting Countries Forum (GECF) can directly affect a country's Balance of Payment (BOP).

Structural changes within industries are explained as changes in management activities and changes in the financial and non-financial sectors. The former (changes in management activities) explains a company's increased exposure to financial

markets, which animates managers to please financial investors with short-term goals while neglecting long-term projects that would increase the company's future profitability. The rise of institutional investors led to changes in ownership structures of corporations. 'Whereas in the 1950s households owned about 90% of U.S. corporate stock ownership, the relationship between household and institutional ownership had reversed by 2000. Households held only 42% of public shares, while institutional investors owned 46%' (Crotty, 2005, p. 274). The financial market's power vis-à-vis listed firms has increased drastically over the last decade (Orhangazi, 2008); however, in the case of Turkey this phenomenon is minimal to non-existing, see section 6.1 of chapter 6. Most Turkish energy firms are owned by large and private business groups and only seven companies are publicly listed. Hence, the financial pressure upon companies is very limited. On the other hand, changes in financial and non-financial sector activities are more apparent in Turkey. In this context, section 6.1 of chapter 6, provides examples of investment banks and institutional investors' investments in Turkish energy firms and the increased engagement of Turkish energy firms in the realm of finance. A changing role within the banking industry further increased the financialisation process. A rising middle-class sought for alternative investments on financial markets vis-à-vis holding their funds on a traditional savings account. At the same time, Non-Financial Corporations (NFCs) turned more towards financial markets and started lending amongst each other. As a result, banks lost their income sources and had to restructure their traditional business model. This led banks to evolve into service providers (fee earners) and target individual households (Lapavitsas, 2013; Orhangazi, 2008).

Micro-Level

The lowest level – the micro-level, also defined as the national level, addresses the internal environment of a country. This level also locates traits of the local system of specific states, such as the political environment of that country. Democratic and non-democratic political ideologies hereby indicate the establishment of stable or failed institutions, which affect state behaviour. There are three main aspects to this level: local authorities, national influence factors, consumers and energy companies.

Local authorities are at the centre of every country and can intervene via regulatory changes by enacting new laws that target a specific industry. The government has full control either to support or discourage certain sectors within the economy by enacting targeted policies. To a certain extent, Turkey's rising current account deficit was driven

by energy imports. In order to encourage investments into RE projects, the government implemented YEKDEM incentives (see section 4.2 of chapter 4). Another important role is played by the country's autonomous central bank, whose main concern is to protect the domestic economy from external shocks. In the case of the Central Bank of the Republic of Turkey (CBRT), its efforts to protect the TL's fall were limited.

Internal influences are unions/lobbies, media/news, think tanks/research institutions, pundits, and other related sectors. In the case of Turkey, unions and lobbying play a big role as internal influencers. For instance, when local coal producers started suffering and experienced huge market pressure, the government suddenly started levying imported coal and subsidised local coal producers, see section 6.1.1 of chapter 6. With regard to the Turkish energy industry, related sectors played a decisive role in its creation. For instance, the booming construction industry led to a rise in energy demand, details in section 4.1 of chapter 4.

Consumers can influence certain industries with their behaviour by following certain trends. In the case of Turkey, the increased ownership of electronic gadgets per household over the years has led to a rise in energy demand. Furthermore, an interesting aspect which has been stated by interviewee Loc10 is religious beliefs which prohibit the use of hedging instruments for central Anatolian companies.

Energy Companies are the focus of this study. Chapter 6 provides a detailed analysis on a micro-level by considering the question: 'Is there a shift from real investments to that of financial investments among Turkish energy firms?' Furthermore, chapter 6 illuminates the financial activities of such firms by providing qualitative and quantitative data.

The described level analysis framework in this section provides a better understanding of the financialisation process in Turkey. The advantage of this framework is that it illustrates various changes across different levels and explains their links without secluding the causes or triggers of certain events. All the elements listed above contribute and ultimately affect Turkey's energy sector. Throughout chapter 4 and 5, it has been endeavoured to address and explain major aspects within the level analysis to provide a better understanding of changes in contemporary Turkey. Chapter 6 provides a detailed discussion on a micro-level, by analysing to what extent the financialisation process in the Turkish energy sector has been driven by Turkish interest, and by proposing an answer to this.

Before turning to the analysis of the data, an overview of the 28 interviewees and their background is presented below in Figure 5-2, 5-3 and 5-4. The interviewees were selected

from three different groups. The first group, **internationals**, are people who work for international consultancies, banks, non-local authorities/governments and energy corporations. The second group, **locals**, consist primarily of energy consultants, portfolio managers/bankers, researchers and c- level/managers working at local energy companies. The last group, **officials**, are persons who work for authorities directly related to the Turkish energy sector.

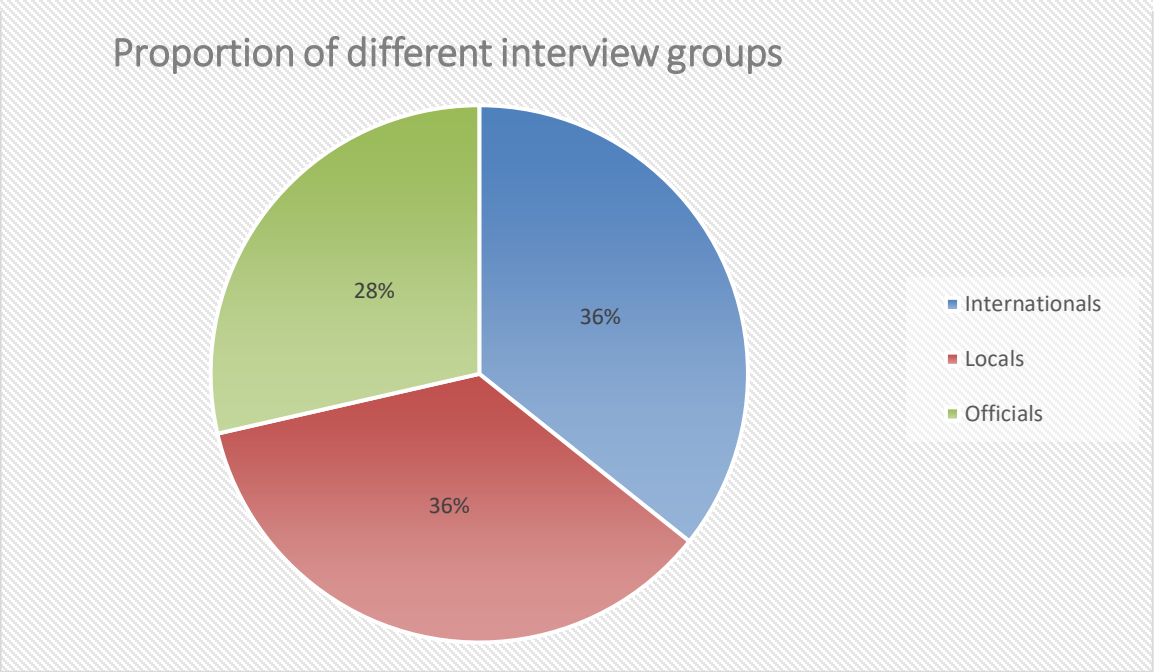

Figure 5-2: Three groups of interviewees.

It has been endeavoured to carefully select interviewees related for this underlying thesis based on relevance of the person to this topic and level of experience. All interviewees have at least 8 years of working experience.

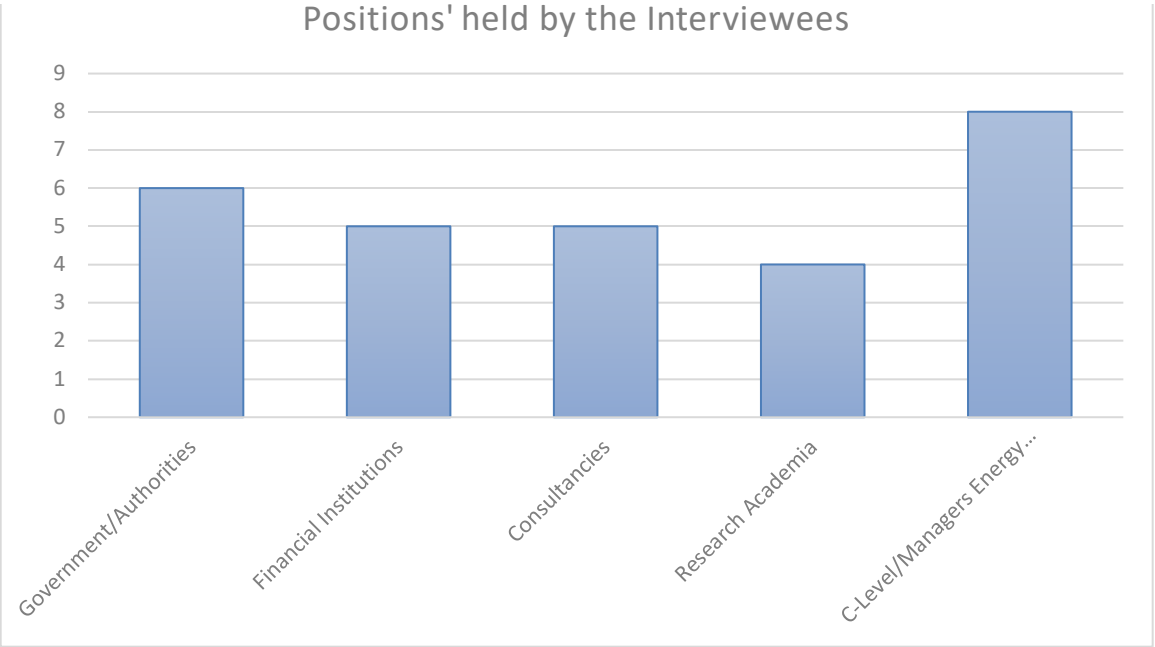

Figure 5-3: Positions' held by the interviewees.

The educational background of the interviewees reveals that 21 of them hold a Master's degree, 3 hold Bachelor's degrees and 4 hold PhD degrees, as set out in Figure 5-4 below.

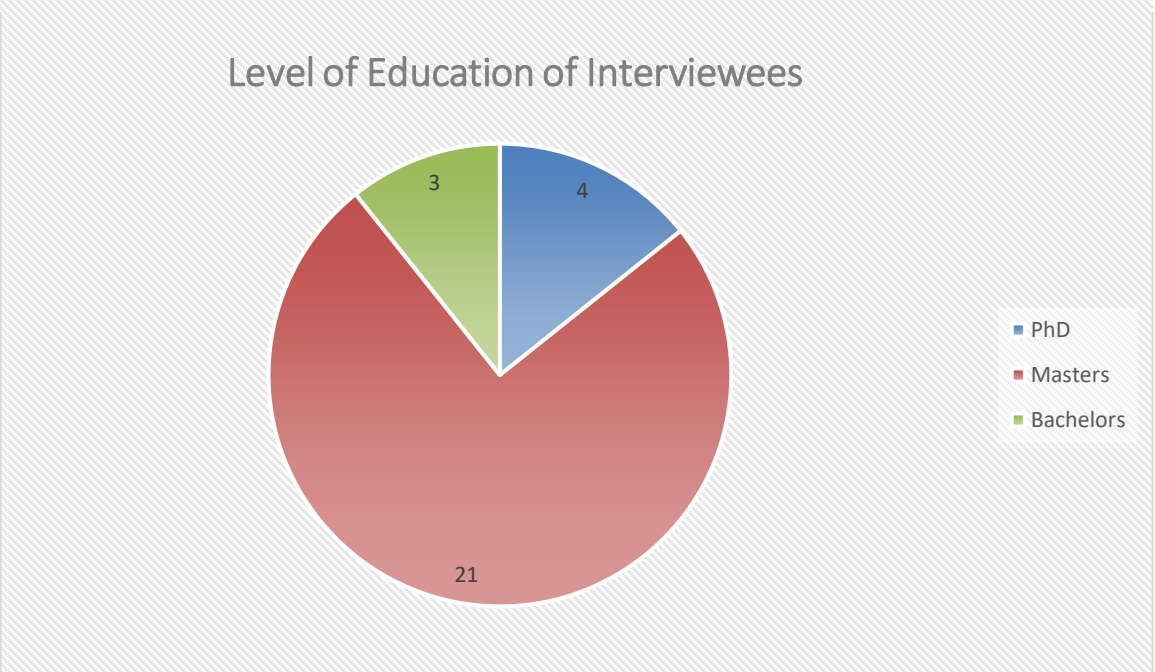

Figure 5-4: Education Level of Interviewees.

As explained in detail in section 3.2 of chapter 3, it is important to note that qualitative research is more subjective in nature than quantitative research. The collected interview data are subjective opinions based on the experience and viewpoints of individuals. However, qualitative research was identified as a suitable method to investigate the underlying factors to analyse financialisation in the context of Turkish NFCs. The focus is not only on the 'what' and 'when', but more so on the 'how' and 'why'. In investigating the 'how' and 'why', views of experts are central in understanding Turkish energy firms' engagement in financial activities and whether or not there is a change from tangible investments towards those of financial investments. In order to support qualitative findings, quantitative data retrieved from secondary sources such as newspaper articles, magazines, CBRT database, companies' official websites (financial statements and annual reports), existing research, and official sources have been triangulated to support the findings.

5.2. Foreign Direct Investments (FDIs)

This section deals with FDI inflows to Turkey and focuses on the questions: 'what are the main drivers?' and 'where do the funds originate from?'. The question 'why?' has been covered in section 4.1 of chapter 4, and so this chapter will deal with 'how and in what form did investments take place?'.

Over the last decade, Turkey was an attractive destination for international capital that resulted primarily from regulatory changes and reforms that were implemented by the government in collaboration with IFIs. Since the early 2000s, Turkey has received an unprecedented amount of FDIs, while the period prior to 2000 is associated with negligible to non-existing FDI inflows. The turning point for FDIs was the year 2002/2003, with the inauguration of the Justice and Development Party (AKP) to government. However, economic and political developments over the last decade were marked with volatile FDI flows (Figure 5-5). For instance, in 2007, FDI inflows to Turkey were approximately 22 bn USD, while the same figure halved in 2017 to 10.9 bn USD (Anadolu Agency, 2018b; YASED, 2018).

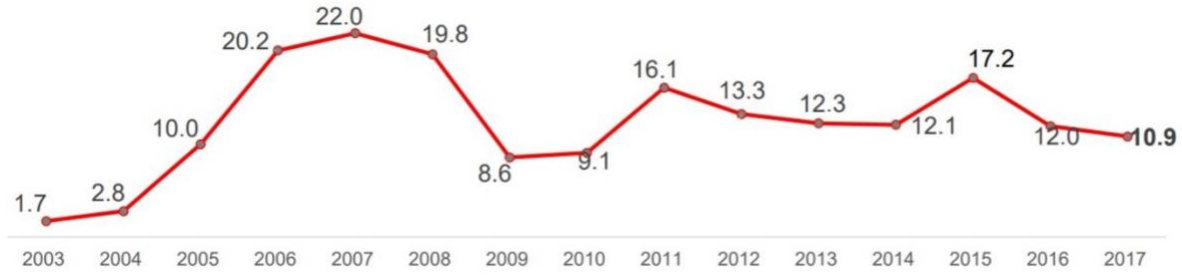

Figure 5-5: FDI Inflows to Turkey (bn USD).
Source: www.yased.org.tr.

Start of the FDI inflows

The first question was 'how did the money inflow influence the investment behaviour of corporations in the energy sector between 2002-2017?'. After the double crisis in 2001/2002, Turkey adopted neoliberal policies and set the foundations for the privatisation of the energy sector. Interviewee Int4 highlighted the newly implemented policies of the government in collaboration with IFIs. In this context, interviewees Int4, Int9, Loc2, Loc10 and Off6 argued that IFIs conditioned the liberalisation of the energy sector in exchange for their support. Interviewee Loc2 stated that:

> In 1999, a standby agreement was signed between the IMF and the Turkish government. During the 90s, Turkey struggled with its debt problem which later led to various economic crises. At that time, Turkey became the second largest IMF credit recipient after Brazil. However, one of the conditions of their [IMF] support was the liberalisation of the energy sector. After 2002, they [IFIs] supported a lot of investments into the energy sector, because they knew there is an immediate return. For the time being, the gas sector was left behind.

Kemal Dervis, a Turkish technocrat who negotiated terms and conditions with the International Monetary Fund (IMF) played a crucial role in those negotiations (for details see section 4.1 of chapter 4). Furthermore, interviewee Int4 emphasised that after the implantation of these policies, international investors started trusting Turkey and that the year 2002 can be marked as a turning point for the Turkish economy.

In the beginning of the 2000s, Turkey frequently suffered from electricity blackouts due to an impoverished infrastructure. Interviewee Loc2 explained that the energy sector needed a lot of investment in order to overhaul the systems in place. Furthermore, Loc2 stated that:

> The Turkish electricity sector was publicly owned, and the state lacked in funds to renew or expand the current production of energy. Politicians were aware of this situation due to public discontent and acted accordingly by encouraging private investments into the energy sector.

Interviewees Int9, Loc2, Loc4, Loc6, Loc10, Off6 and Off8 argued that the newly elected AKP government and their political agenda aimed to align with the West, with the goal of Turkey's accession into the EU. Initially, AKP's efforts showed positive results through the increased investment activities of European companies in Turkey. In this context interviewee Loc4 explained:

> Years 2002-2017 fall into the tenure of the current [AKP] government. Their vision was to get closer to Europe wherefore their political agenda had many common interests with the EU. After regulatory changes in the beginning of the 2000s, investments into the energy sector increased. Investments came mainly from major European companies such as RWE, EON, OMV, Statkraft, Alpiqu and the CEZ Group. Those companies' market entries doubled the volume of the Turkish energy sector. The electricity market became livelier.

On the same lines, interviewee Loc2 argued that:

> There were also local [Turkish] investments as well. The government encouraged joint ventures between domestic and foreign companies. The electricity sector attracted a lot of interest which was also promoted by big international consultancies such as Deloitte and E&Y.

The AKP amended many regulations in order to send positive signals to the EU and show their willingness to cooperate. In 2002/2003, funds from abroad were highly sought after in order to stabilise Turkey's weak economic situation following an economic double crisis. Turkish firms were heavily dependent on funds from abroad for certain investments, i.e., into energy projects. At the same time, these positive developments in Turkey were acknowledged and praised by the IMF. In this light, CRAs upgraded Turkey's investment grade in late 2002/2003, which increased trust and confidence amongst investors. In this context interviewee Int1 stated that:

> The main driver was Turkeys upgrade in its investment grade by the big rating agencies such as S&P, Fitch and Moody's. Their upgrade in credit rating contributed to investment inflows to Turkey and also into the energy sector. Those ratings are indispensable for emerging markets.

Interviewees Loc10 explained that in the late 1990s, there was a global trend of capital flows from mature markets towards emerging markets in pursuit of higher returns. Turkey was in this aspect an important destination for investments from abroad due to its favourable geographical location and array of opportunities. Further, Loc10 explained that:

> During the 90s, expansionary monetary policies of the U.S. also influenced the capital flow towards emerging markets. When international banks lend to firms in emerging markets, it is largely denominated in USD, which creates a relationship between emerging markets' credit cycles and U.S. monetary policies.

According to interviewee Int3, Int6, Int7, Int10, Loc10 and Off8 the upgrade in the credit ratings was the kick-off of FDI inflows to Turkey, more details in section 5.3 of this chapter. Interviewees Int3, Int4, Loc4, and Loc10 stated that in the case of Turkey, domestic banks act as intermediaries for international banks' capital.

In 2002, the total FDIs was 571 m USD; this amount skyrocketed in 2007 to 19,137 m USD (Tables 5-1 and 5-2). Turkey's incoming FDIs were mainly flowing into the country's tertiary sector, which involves industries such as construction, wholesale and retail trade, transportation and storage, and financial insurance and banking activities. In 2002, after the implementation of the new banking reforms that were initiated by the IMF, Turkey's 'Services' adopted 'Financial and Insurance Activities', including: financial service activities (banks); insurance, reinsurance and pension funding (except compulsory social security); activities of holding companies; and other activities that are auxiliary to financial services – all started booming until 2008. Within 'Industrial Services', 'C. Manufacturing' and 'D. Electricity, Gas, Steam, and Air-conditioning Supply' were the main investment destinations (CBRT, 2018b). Table 5-1 and 5-2 provides an overview of overall FDIs flown into Turkey's most important sectors. FDIs into Turkey's Utilities sectors are highlighted below.

Part 1	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
Agriculture	**0**	**0**	**4**	**5**	**6**	**9**	**41**
Industrial Services	**166**	**447**	**343**	**908**	**2,988**	**5,037**	**5,187**
C. Manufacturing	96	347	206	865	1,701	4,131	3,972
D. Electricity, Gas, Steam…*	68	87	63	2	1,164	567	1,055
Services	**405**	**249**	**843**	**7,622**	**14,645**	**14,091**	**9,520**
F. Construction	0	8	2	81	215	287	337
G. Wholesale and Retail Trade	73	177	36	78	456	234	2,088
H. Transportation and Storage	1	0	6	21	453	679	96
K. Financial and Insurance Activities	249	54	127	3,856	6,954	11,717	6,136
Total	**571**	**696**	**1,190**	**8,535**	**17,639**	**19,137**	**14,748**

Table 5-1: Foreign Direct Investments in Turkey by Key Sectors – Part 1 (M USD).
Source: http://www.tcmb.gov.tr.

Part 2	2009	2010	2011	2012	2013	2014	2015	2016
Agriculture	**48**	**81**	**32**	**43**	**47**	**61**	**31**	**38**
Industrial Services	**3.887**	**2.887**	**8.040**	**5.480**	**4.757**	**4.258**	**5.772**	**3.067**
C. Manufacturing	1.640	924	3.599	4.519	2.209	2.742	4.225	2.241
D. Electricity, Gas, Steam…	2.153	1.824	4.293	773	1.795	1.131	1.338	676
Services	**2.331**	**3.288**	**8.064**	**5.238**	**5.086**	**4.312**	**6.271**	**4.429**
F. Construction	209	310	301	1.427	178	232	106	291
G. Wholesale and Retail Trade	389	435	707	221	379	1.136	598	688
H. Transportation and Storage	230	183	221	130	364	594	1.524	635
K. Financial and Insurance Activities	817	1.621	5.883	2.084	3.415	1.470	3.516	1.766
Total	**6.266**	**6.256**	**16.136**	**10.761**	**9.890**	**8.631**	**12.074**	**7.534**

Table 5-2: Foreign Direct Investments in Turkey by Key Sectors – Part 2 (M USD).
Source: http://www.tcmb.gov.tr.

Even though Turkey's Service Industry received about three times more FDIs than its secondary industry, a sharp rise is notable in FDI inflows to, Manufacturing and Electricity, Gas, Steam, and Air-conditioning Supply.

The share of FDIs going into energy in comparison to overall FDIs going to Turkey was approximately 12% in 2002 (CBRT, 2018b). FDIs going into energy started decreasing in 2003 to 2005, due to uncertainties surrounding the newly elected government and their stance on energy policies. After the government published news and regulations to rebuild the energy sector, FDIs into the energy sector started increasing from 2006 (6.60%) onwards and peaked in 2009 at approximately 34%. However, political uncertainties led to a sharp decrease in 2012 that then recovered in 2013. FDIs into the Turkish energy sector then levelled out and stood at approximately 9% in comparison to total FDI inflows in 2016.

After the liberalisation of the Turkish energy sector, foreign investors followed the developments very closely and realised the opportunities. Turkey has one of the fastest growing energy sectors among Organisation for Economic Co-operation and Development (OECD) countries (Kaplan, 2015). Demand in Turkey's energy consumption is growing in line

with the economy and the main driver for the increasing demand is the ongoing industrialisation and urbanisation, coupled with growth expectations in population. Interviewee Loc10 explained that:

> Since the start of the Syrian war, we have about 3 million Syrians coming to Turkey according to official figures, where I believe that the unofficial figure is higher … In Turkey we have a growing middle class that purchases bigger houses and more electrical devices reaching from smartphones, tablets to large LED TVs … Turkey is still going through its industrialisation since we could not fully transform into a service industry.

In this context, interviewees Int1, Int3, Int4, Int6, Int7, Int10, Loc1, Loc5, Loc6, Loc7, Loc9, Loc10, Off1 and Off4 highlighted that Turkey is an emerging economy with great investment opportunities.

Between 2007 and 2012, Turkey's energy consumption increased at a Compound Annual Growth Rate (CAGR) of 2%. Between 2001 and 2016, Turkey's energy demand more than doubled from 126,871 GWh to 278,346 GWh, which on average equates to a yearly increase of 5% (EPDK, 2018). In comparison to the OECD average per capita energy consumption rate, Turkey is underperforming, and this illustrates room for growth (ISPAT, 2013).

Interviewee Loc6 described that when investments first began to take place in the Turkish energy sector, the sector experienced investment euphoria and many investors followed the trend to have a share of the pie. Furthermore, high growth potential and continued rising demand coupled with a short amortisation period of the projects increased many investors' interest in this sector; see section 6.1.4 of chapter 6 which highlights the profitability of this sector. Interviewee Int7 stressed that:

> In comparison to other emerging markets, Turkey is still better off despite its political risk. If you contrast Turkey's political risk to those of the Middle East, Russia, Latin America, and Africa you can at least see a consistent leadership despite its ups and downs. This is one of the most important aspects for our clients.

Sharing a similar view, interviewee Loc9 argued that Turkey still provides great investment opportunities due to voids in technology and know-how. Furthermore, Loc9 stated that these voids are generally targeted by MNEs with long-lasting experiences in those realms. Despite the subprime crisis in 2007/2008, Turkey (orange line in Figure 5-6) managed to attract considerable amounts of FDIs among OECD countries (black line in Figure 5-6) by maintaining its status as a comparatively stable emerging market.

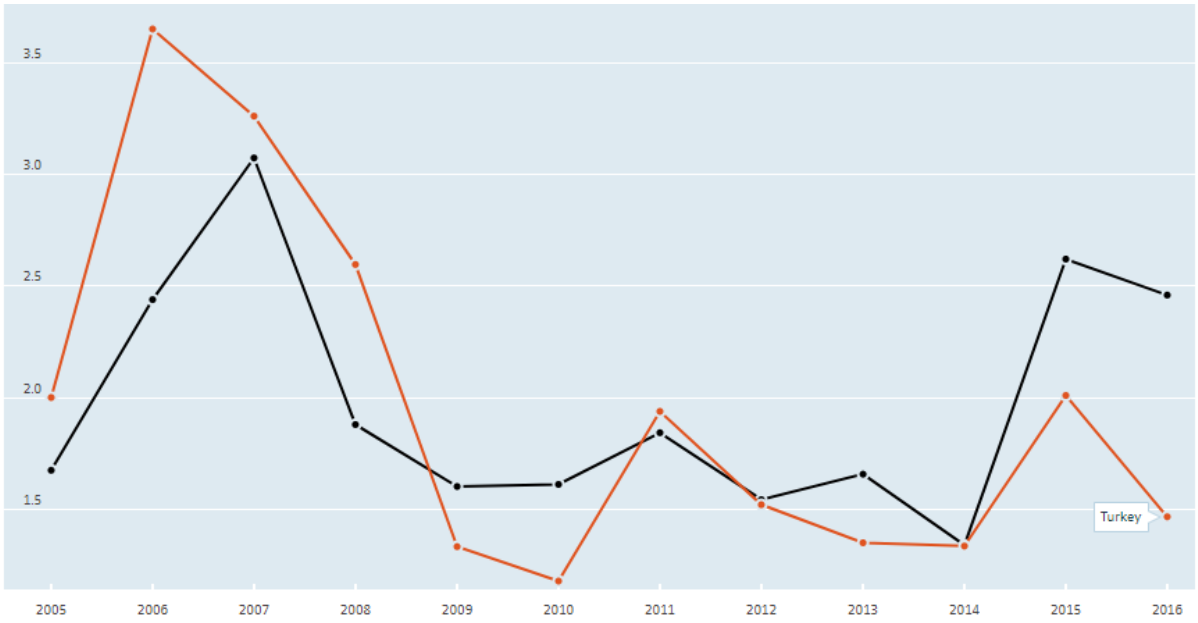

Figure 5-6: Turkey compared to OECD Countries' FDIs Inward in % of Gross Domestic Product (GDP). Source: www.oecd.org.

The electricity sector attracted a lot of global interest and was promoted by international consultancies. Those consultancy firms played a pivotal role for foreign investors by providing consultancy services and in-depth reports. These findings have bene supported by interviewees Int3, Int4, Int7, Loc2, Loc4, Loc6, Loc10, Off5, Off6 and Off7. Interviewee Loc2 highlighted the role of their yearly publications for investors. In addition, interviewee Int6 reasoned that 'in the end, it is a win-win situation for both – investors profit from lucrative investments, while consultancies earn their money by doing their job'.

In a similar vein, interviewee Loc4 provided an example for an international consultancy firms' contribution for market improvement:

> In December 2011, we changed to hourly settlement prices which were before daily. Before 2009, it was even on a monthly basis. In particular, Deloitte actively contributed in the implementation of the new system. In the end it is like this, if a new market player enters the marketplace, he has to sell the electricity with a guaranteed commitment that it will be purchased by the government or he has to trust that it will be sold on the free market. The better the trading options on the market, the more companies are willing to join.

In this light, interviewees Int6, Off5, and Off7 highlighted the trust of international investors in those big, reputable consultancy firms (such as: McKinsey; Ernst & Young (E&Y); and

Deloitte). These firms were highly active in publicising the Turkish energy sector and pointing at investment opportunities.

IFIs also trust these consultancy agencies. Interviewee Off8 stated that as well as the analysis and reports of the consultancies, IFIs also conduct their own research. Off8 clarified that:

> The reports of consultancy firms are used as indicators/guides; however, the final decisions of investments are made based on their own research, regardless of the investor. Later, if a decision has been made to go ahead with a project, consultancy firms assist.

The involvement of IFIs and consultancies created trust and led to easier access to funds for energy projects. Interviewee Loc6 stressed that the popularity of this sector made it easier to find and organise funds due to banks' interest in this field. Interviewee Int7 highlighted the increased engagement and interest of foreign investors towards 2005-2006. Interviewee Loc3, however, raised the question of whether the sharp rise in energy investments resulted from the easy accessibility of funds or was there another reason? Interviewees Loc6 and Int7 argued that the monetary policies pursued by central banks in developed countries were a driving force for liquidity abundance in EMEs. After the financial crisis in 2007/2008, low interest rate policies were pursued by central banks across developed countries, which in the late 2000s dropped even further to negative interest rates. The major goal of these policies was to indirectly force investors to spend their funds within the real economy in order to boost economic growth (Barton, 2014). However, many followed various strategies under which diversifying fixed-income portfolios across different sections on bond markets led to higher yields than government bonds. Investors turned more towards corporate bonds, Mortgage-Backed Securities (MBS), and emerging markets (PIMCO, 2018). However, in Loc3's opinion there is an alternative reason for this:

> Investments are not happening because of the abundance of liquidity. Moreover, because the government influences various aspects, such as legislation, and provides incentives for producers, they [the Turkish government] are actively providing incentives for investors in this field. The government realised its heavy energy import dependency – i.e., energy imports from neighbouring countries, and wanted to achieve more self-sustainability. The underlying reason why the government is turning towards green energy is its current account deficit. Therefore, the statement of increased availability of funds leading to a rise in investments has to be viewed carefully.

Interviewees Int1, Int2, Int3, Int4, Int5, Int6, Int9, Int10, Loc1, Loc2, Loc3, Loc4, Loc6, Loc7, Loc10, Off1, Off2, Off3, Off4, Off5, Off6 and Off8 stated that IFIs' increased engagement in

Turkey, linked with the country's current account deficit led to regulatory changes such as Renewable Energy Resources Support Mechanism Turkey (YEKDEM) to promote RE investments. According to Loc4 and Off5, the main driver for Turkey's focus on green energy investments was to prevent a further rise in the current account deficit. The government enacted a handful of legislations and subsidies to target this and made funds available. Furthermore, the government announced it would spur development in this area and endorsed several support mechanisms.

In this regard, interviewees Int2, Int9, Int10, Loc1, Loc5, Loc6, Loc7, Loc8, Off4 and Off8 stated that private and public banks started an increased lending scheme for energy investments. The availability of funds helped to increase energy investments. Interviewee Int5 mentioned the incentives for MNEs (see section 4.2 of chapter 4.) and recollected dealing with a large MNE from abroad planned to conduct long-term investments in Turkey:

> A couple of months ago, I was mediating a deal between a large European MNE and the Turkish treasury. The planned investment of the company is approximately 100 m USD. Investments in this amount require some sort of guarantees from the state. The government has different options which vary in their form; they can be subsidies, purchase guarantees, or tax cuts, and they are indispensable in attracting foreign investors.

Turkey experienced a transformation in its energy sector, especially in regard to Renewable Energy (RE), due to the implementation of regulations by the government and this transformation was partially driven by the EU. In this light, interviewees Loc2, Loc4, Int2, and Off3 mentioned the EU's external energy agenda as an influential factor upon Turkey's own energy policies. Tekin and Williams (2009) argue that the EU is interested in diversifying its energy import routes in order to secure future energy supplies. The main suppliers of energy to the EU are Russia, the Caspian region, and the Middle East, which increases Turkey's strategic importance for the EU's 'southern strategy' (Demiryol, 2013). Interviewee Off4 stated that:

> The goal is to establish an energy corridor that goes through Turkey to guarantee the EU's energy supply. Hence, Turkey's cooperation is of high importance for the EU. At the same time, this is in the interest of the government, they want to transform Turkey into an energy hub for the region.

However, despite political turmoil, the EU provides funds for certain projects in Turkey – such as RE projects, which have an influence upon Turkey's domestic energy policy. In this context,

interviewees Off6 and Loc4 pointed out that after Turkey's relationship with the EU worsened, i.e. Germany, funds from the EU crashed.

While these subsidies can be attractive for potential investors, the main question is for how long can the government sustain these incentives? The great liberalisation of the energy sector has been questioned after the government started subsidising private companies such as local coal producers (PwC, 2018). Following from this, when the government is subsidising conventional and RE producers, then why is there a free Turkish energy sector? Considering this query, interviewee Loc2 raised the question:

> Why not nationalise everything and get back to Turkey's Electricity Generation Company (EUAS) a SOE? The answer is that the government needs private investments and it cannot withstand the heavy burden on its own.

In this respect, interviewee Off3 provided the following example:

> In December 2006, Turkey had an operating capacity of 30 MW in wind energy; today it is approximately 6000 MW. The implementation of YEKDEM was a major milestone for RE investments, due to the higher engagement of private investors in RE projects. Hence, to make it attractive for potential investors and to maintain a smooth energy transition, subsidies and other mechanisms are provided and necessary.

In the same context, interviewee Loc10 mentioned the boom of the construction sector, which is at the same time the backbone of the Turkish economy. The construction sector in Turkey provides jobs in many industries that are directly or indirectly related to construction. Loc10 also highlights the interdependence of both sectors – construction needs energy as much as energy needs construction; therefore, both sectors go hand in hand. Loc10 stated that:

> The only sector that contributes to [significant] growth in Turkey is the construction sector. It drives its related sub-sectors like, glass, bricks, beton and energy. However, in the long term this will not contribute to any value in Turkey. If these funds had been instead channelled into production, to set up manufacturing plants etc., Turkey would have been in an entirely different situation right now. These policies are not sustainable; they only focus on where the highest returns are.

As highlighted by Pitel (2018a) earlier in section 4.1 of chapter 4, Turkish firms rely heavily on funds from abroad. For now, Turkey's attractive investment opportunities and Returns on Investment (ROI) have kept funds flowing. However, the country's troubled relationship with the U.S. and its tense domestic politics all pose major risks for Turkish companies (Pitel, 2018a). After 2012, the country's safe status was not enough to keep economic growth on

track. Geopolitical and local political turmoil discouraged investors and put a lot of pressure on the country's ambitious goal to become one of the top ten global economies by 2023 (Deliormanli, 2017). In 2011, after a short recovery from the financial crisis, the country was exposed to several political crises that adversely affected FDI inflows.

Interviewees stated that the decrease of FDIs to Turkey can be elucidated by a few pivotal incidents:

- First, together with the start of the Arab Spring, civil wars in neighbouring countries erupted, i.e., the Syrian Civil War that caused a large influx of refugees into Turkey.
- Second, Turkey's seventeenth general election was held with huge uncertainty dominating the political realm.
- Third, a crisis between politicians and high-ranked military generals (such as army, navy, and air force leaders), where many military leaders resigned in protest to arrests of their colleagues as a result of the Ergenekon case. In 2007, the Ergenekon case came to light when military senior officers were accused of planning to plot against the state and over the years several arrests followed (BBC, 2011b; Cameron-Moore, 2011).
- Fourth, later the same year, a bomb killed three people and left many injured in central Ankara.
- Fifth, in 2011 when Kurdistan Workers' Party's (PKK) strike against Turkish forces caused the loss of 24 lives from the Turkish side and approximately 20 from the perpetrators' side. This attack was the biggest single attack against Turkish forces since the 1980s (Icgen, 2011).
- Sixth, in 2012 after the civil war in Syria intensified, greater waves of refugees migrated to Turkey. The same year, Syrian forces fired a mortar grenade into a Turkish border town and killed several citizens. Turkish forces responded with a swift artillery strike towards the Syrian attack. The political tension between Turkey and Syria were then exaggerated further after Syrian forces shot down a Turkish F-4 jet (Aljazeera, 2012).

All these incidents have shaken the trust of global investors and caused volatile FDI inflows to Turkey (more details can be found in section 4.1 of chapter 4).

From another perspective, interviewees Loc1 and Loc3 pointed out the disinvestments that have happened in Turkey over the last years. Investors were discouraged from investing due to political uncertainty and regulatory hurdles. Interviewee Loc3 argued that:

> The current government does not necessarily provide a safe ground for investments due to frequent regulatory changes. It enacts a law, waits to see if it brings the desired

> outcome, and if not, then it revokes its decision. Newly enacted regulations can have negative effects upon current projects or planned projects and these issues have caused many investors to leave over the last three years.

With respect to the energy industry, the largest FDI outflows in relation to FDI inflows occurred after 2012. The FDI outflows started in 2012 at approximately 6.7%, peaked in 2014 at 14%, and slowed down in 2015 to 8.7% and 2016 to 7.4%, where it then levelled off at approximately 5% (CBRT, 2018b).

Investors

The following sub-section discusses different investor types, foreign vs. local, and their investment strategies within the Turkish energy sector. Next to foreign MNEs entering the Turkish energy sector, it is interesting to observe that large financial institutions, i.e., investment banks, engage within the realm of energy. The engagement of IFIs through the acquisition of stakes in energy firms will be discussed in detail later in section 5.3 of this chapter. In this sub-section, foreign investors' motives and investment activities within the Turkish energy industry are discussed. Subsequently, the motives and investment activities of local investors are considered.

Foreign investors

For many years in a row, the Turkish energy industry had the largest volume of M&As in USD amongst all other industries (E&Y, 2018; E&Y, 2017). Interviewee Off2 questioned the real value creation of these investments taking place within Turkey's energy sector:

> The privatisation of State-Owned Enterprises (SOEs) contributed to big revenues for the government. If we probe the question, do we create value with the sale of those publicly owned powerplants to private investors? I do not think so; they only change hands. The same logic applies for M&As taking place within this sector. Bigger firms purchase smaller firms and increase their market share, and in the end nothing really changes.

In countries like Turkey, FDIs for strategic M&A activities aim to partially or wholly purchase an existing company in order to gain market shares (Deloitte, 2018a; E&Y, 2018). In such a case, value creation is very limited, if it even exists. In this context, interviewee Off8 argued:

> The first investors in the Turkish energy sector were not local investors, but foreign investors. Due to their (technological) know-how and availability of funds, they started investing into Turkey in order to exploit market voids and benefit from synergies.

Interviewee Off5 reasoned that:

> Technology transfer to Turkey has limited benefits for the country itself because the Research and Development (R&D) centres remain in the MNEs' home country where the real value creation takes place. This is due to the higher qualified workforce in those countries. Even if countries like Turkey receive FDIs and technologic transfers from more developed markets, they will remain dependent on importing foreign technology.

Interviewee Off5's rational built upon competition amongst mature markets based on technological advancements, which is parallel to Vernon's (1992) product life cycle theory.

Further, interviewees Loc6 and Off5 highlighted that these forms of foreign capital inflows aggravate Turkey's technological dependency on developed countries (see section 5.3 for more details). According to the Turkish International Investors Association (YASED), during the record inflow year of 2007 only 10% of the 22 bn USD FDIs constituted greenfield investments, the rest was utilised either for privatisation purposes or M&A transactions (Dura, 2009).

The Turkish Ministry of Economy referred in their own report's section 'Foreign Direct Investments in Mergers and Acquisitions' on E&Y and Deloitte's M&A reports. Due to analytical differences, both E&Y and Deloitte's reports display divergent figures; however, they indicate the same trend. E&Y used disclosed M&A figures, while Deloitte estimated the undisclosed M&A values, which explains the analytical differences between the two reports. For instance, in 2016, Deloitte's (2018a) report stated that the number of executed M&A deals was 246 with a volume of 7.3 bn USD. In contrast, E&Y's (2018) report stated that the number of deals in 2016 was 234 with a volume of 4.6 bn USD. According to both consultancies (see Figure 5-7; E&Y represented in yellow and Deloitte in green), the volume of M&A transactions remained at a comparatively low level in 2009 and then increased until 2012. In 2012, M&A volumes stood at approximately 23 bn USD while in 2016 this figure shrank to 7.3 bn USD according to Deloitte (2018a). In 2017, the M&A transactions recovered from the previous year's coup d'état, the figures correspond with the events mentioned by the interviewees.

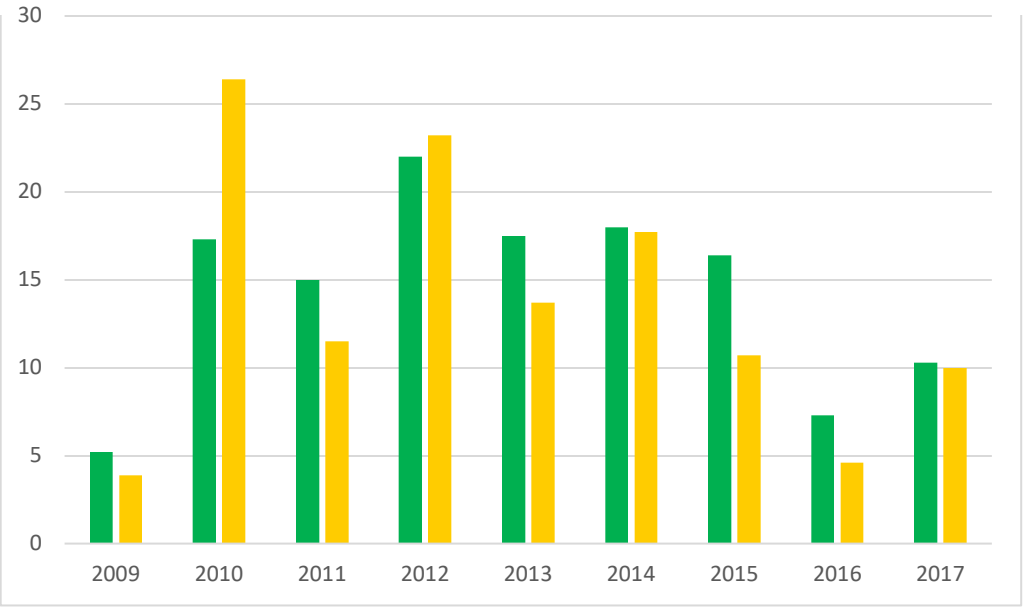

Figure 5-7: Deal Values from Both M&A Reports (Deloitte and Ernst & Young).
Source: www.deloitte.com and www.ey.com. The green columns present Deloitte's (2018) undisclosed M&A values while the yellow columns present E&Y's (2018) disclosed M&A deal values in bn USD.

Due to the differences in the analysis methods of the two consultancies, conclusions should be made carefully regarding the participation of foreign investors in Turkish M&A volumes. On average, E&Y (2017; 2018) indicates a roughly stable foreign investor participation of approximately 40% over the last nine years. In contrast, Deloitte reported that in 2009 the foreign investor participation was at 43% after peaking in 2011 to 74%, it contracted to 30% in 2013. After its low point in 2013, the participation accelerated and reached approximately 70% in 2015 and levelled to 55% in 2017 (Deloitte, 2018a).

Both reports display greater similarities with regard to the origin of foreign investors by regions and where the funds stem from. In 2015, the majority of M&A volumes came from the Gulf States (39%), followed by North America (25%) and Europe (19%). In the following year, a strong change was evident; while Europe and Asia Pacific's participation jumped to 31% each, North America dropped to 5% and the Gulf States' M&A activities reduced sharply to 13%. In 2017, Europe's participation in Turkish M&A deals surged to 55%, while Asia Pacific's involvement decreased slightly to 29%. Major drops were seen in North America's and the Gulf State's participation to approximately 5% (Deloitte, 2018a). Interviewee Off8 commented that:

> Foreign investors usually entered the Turkish electricity market by cooperating with big, local, domestic firms, setting up joint ventures. Before investing in Turkey, foreign investors set up a special purpose vehicle with the intention of minimising the regulatory risks by cooperating with local firms.

The entrance of foreign MNEs into the Turkish electricity market was also linked to a saturated and highly competitive European market. Interviewees Int2, Int6, Loc2, and Loc6 stated that falling profit margins in the MNEs' home markets were the main reason for entering the Turkish market. In this context, Loc6 explained that:

> The main reason for the entrance in the Turkish energy sector was the profitability of the market. The overall market is getting more competitive in Europe and companies do not have profit margins like in Turkey. That is why few realised the opportunity and started investing into Turkey.

Furthermore, interviewees Int6 and Loc2 stated that at the forefront of foreign entries were German energy firms. For example in E.ON's (2007, p. 76) annual report, the company made the following statement:

> We also aim to grow by entering new markets and by acquiring shareholdings through the privatisation of state-owned energy companies. We successfully entered Russia's attractive electricity market … We're examining privatisation opportunities in, for example, South-eastern Europe and Turkey.

Noteworthy, financial investors' activity is comparatively low in comparison to overall deal volumes (see Figure 5-8). This indicates a low level of value investments vis-à-vis strategic investments. A possible reason for this trend is Turkey's underdeveloped capital markets, for more details see section 6.1.1 of chapter 6.

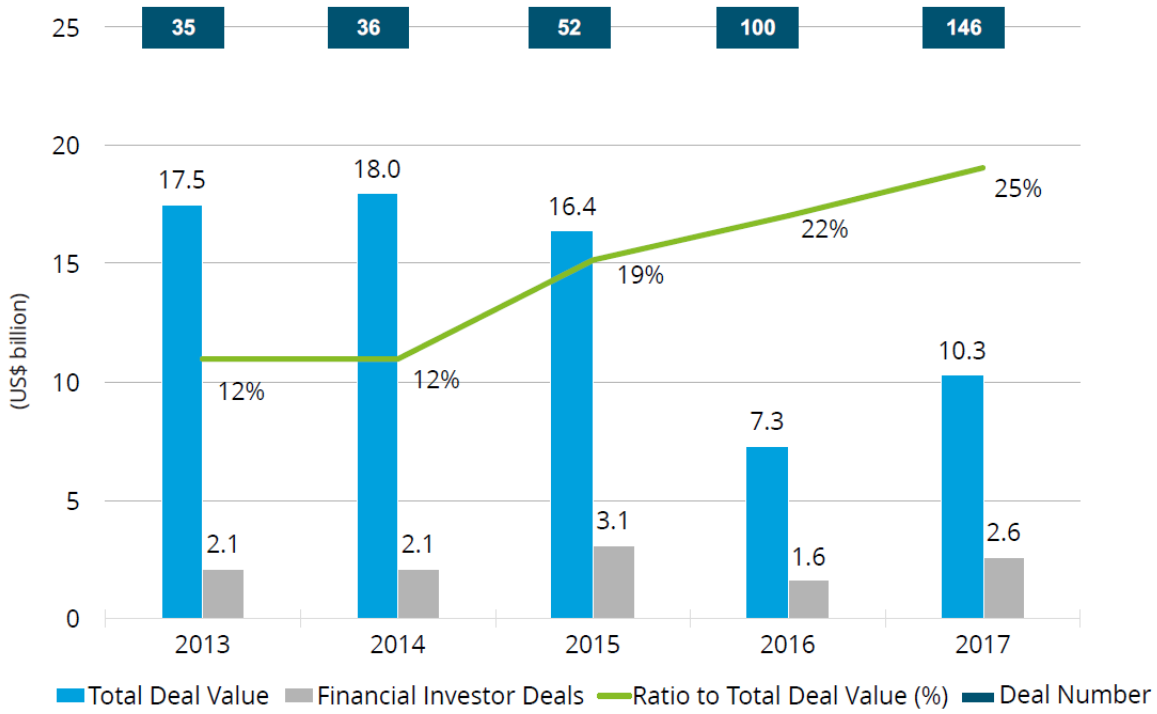

Figure 5-8: Financial Investors in Comparison to Overall Deal Volume.
Source: www.deloitte.com.

Within the group of financial investors, the majority of deal value is driven by Private Equity (PE) approximately 70% over the period 2013-2017. Furthermore, there was a growing participation of development banks from 1% in 2013 to 32% in 2016 (Deloitte, 2018a).

A feature of financialisation is not only the rising dominance of finance within the real economy; it is also the engagement of financial institutions with non-financial activities. This can be provided in the case of Turkey whereby an investment bank, Goldman Sachs, invested 1.3 bn USD to acquire 13% of SOCAR Turkey Energy A.S. in 2015 (Reuters, 2015). Interviewee Loc1 stated that:

> Large institutional investors identified the rising energy demand in Turkey and started engaging. In this sense, Investment Banks (IBs) hold a crucial role in the market because their interests are different to those of commercial or development banks. They regard Turkey as a profitable domicile for investments with a potential to earn large profits. The engagement of IBs within the Turkish energy sector also attracts other large institutional investors, such as pension funds.

Interviewees Int8 and Int3 provided another example of Goldman Sachs, where the IB also invested in AKSA Energy in 2012 and acquired a stake of 16.62%. In April 2018, the owner, Kazanci Holding, bought those shares back from Goldman Sachs (Boyutu, 2018). Furthermore, interviewee Off8 mentioned that the Canadian Public-Sector Pension Fund acquired a 45% share of Polat Enerji. Interviewee Off8 further explained:

> There are also other pension funds active in Turkey, e.g., from Denmark and the Netherlands. Their investment decisions are driven by various factors but primarily through the unconventional monetary policies followed by central banks across developed markets.

According to E&Y (2018), 16% of all M&A transactions in 2016 were executed by financial investors, while 84% were executed by strategic investors. In contrast, in 2016 participation was 33% and 67% of all M&A, respectively. This is in line with Off8, Int4, and Int7 who confirmed that over the last decade MNEs have mainly entered Turkey by pursuing strategic goals. With regard to the Turkish energy sector, foreign investors aimed mainly to expand their operations. Energy investments are – in comparison to other sectors such as IT and manufacturing – low in number of deals, but their deal volumes are considerably higher.

Local investors

In direct contrast to foreign investors, local investors have a young history within the energy sector. After 2002, local investors were mainly attracted by the potential growth of the energy market and grasped their chance after the liberalisation of the energy industry. The different local investor groups – from construction, textiles, manufacturing, ports, and harbours – were working either with public energy firms together or had prior knowledge about the operation of Power Plants (PPs). Interviewees Int1, Int3, Int4, Int9, Loc1, Loc2, Loc4, Loc6, Loc10, Off3, Off5, Off6 and Off8 stated that after the liberalisation of the energy sector, local firms from different sectors vertically integrated into the energy sector, i.e. construction firms in hydro PPs. Interviewee Loc6 explained that in the beginning most of the firms that entered the realm of energy came from highly competitive environments and they were trying to reap the initial profits before many more investors entered the industry. Interviewee Off6 explained that:

> Prior to 2002, there were no energy companies existing in Turkey because the energy industry was publicly owned. After the liberalisation of the market and the privatisation of SOEs, private investors started engaging with this industry. Local firms who entered this industry did not start as energy companies. Local investors entered from a range of different sectors such as mining, ports, and harbours, but primarily from textiles and construction. All firms engaging within the realm of energy did not have prior experience in this field or at least energy was not their core business.

In support of Off6, Loc6 emphasised that a few companies had a little prior knowledge in the field of energy due to their small PPs which only catered for their own energy demands.

The question of 'who those investors are and why are they engaging in the realm of energy' provides a richer picture of local investors in the Turkish energy industry. Interviewees Off5 and Loc6 stated that the investors were mainly people who had earned a lot of money in other sectors and were looking for lucrative investment opportunities. Loc6 provided examples of small-scale investors who built smaller projects without any external funding:

> I worked on several projects up to 15 MW in hydro- or wind-power plants, which cost approximately 1 m USD per 1 MW. These investors were former entrepreneurs from the textiles or construction industry who believed and trusted in the future of the energy sector.

Interviewee Off5 highlighted that in the mid-2000s there was an apparent investment euphoria and that this trend intensified after the fast amortisation of small scaled PPs. Furthermore, Off5 emphasised on the quick ROI and cross-sector support of businesses. Interviewee Off5

provided an example of an investor who ran a large bakery chain and who also had a construction business:

> At first glimpse it seems very strange that this investor was engaging in two completely unrelated industries. However, daily sales realised from the bakery sustained the family within the short run, while the real profits are made from the construction business. Constructing is capital intense and projects are generally long-term oriented, with large profit margins.

Between 2002 to 2007/2008 (stage three in section 4.1 of chapter 4), over a time span of five to six years, those companies provided their financial statements to banks to apply for larger and bigger projects. Interviewee Off5 highlighted the attractiveness of electricity as a product itself:

> Energy is timeless in contrast to other industries such as the textile industry (where new fashions come out every season), the food industry (where products spoil), or the agriculture and farming industry (where your animals get sick and die or your crops spoil). Energy (depending on the type, conventional or RE) is one of the safest and longest lasting economic investment[s] that someone can make.

Interviewees Int4, Loc6, and Int1 stated that construction firms' engagement within the energy sector was predominantly due to their prior know-how in executing several projects. Interviewee Int1 stated that they mainly engaged in hydroelectric PP projects and deepened their activities from only building to also operating those plants. Interviewee Int1 explained that:

> Next to their existing know-how – i.e., building hydroelectric PPs – it is also a diversification strategy of firms. The construction industry itself is a volatile business and follows the economic cycle of a country, while the power industry tends to be more stable. Following the notion of a horizontal integration within the value chain, construction firms diversified their risk and improved their profitability by deepening their engagement in the realm of energy from a sole builder to an operator.

In support of interviewee Int1, Int4 argued that hydroelectric PPs have a large portion of engineering, procurement, and construction costs, which could have easily been cut off by large construction companies such as Cengiz, Limak, Kolin, and Enka.

In contrast to construction firms, a few manufacturers – such as those of textiles, aluminium, and car parts – already had their own PPs to produce electricity to cover their own energy demands since the 1990s. Those firms had licences to convert any excess energy (heat and

steam) originating from their production process into energy, which would have otherwise gone to waste. Interviewee Loc6 explained that these were the only market players with a background in energy:

> These firms had a little background in energy production vis-à-vis other domestic investors. After 2002, those firms expanded their electricity production and not only catered for their own demand, but also sold electricity to the public.

In this context, interviewee Int4 provided an example of Enerjisa, which was initially powering Sabanci Holdings companies and changed afterwards to a sole energy producer. Interviewee Off4 stated another example of Sancon, whose core business was textiles but is now active in energy production. Manufacturers with licences for their own consumption were arguably the most experienced local investors.

The last main group of local investors were large ports and harbours who were active in import and export. Interviewee Loc6 stated that:

> They are the ones who were inexperienced in the energy sector with their projects in comparison to construction and manufacturing firms. Harbours were already importing coal to Turkey and later engaged with the production of energy by setting up PPs.

In this regard, interviewee Off6 highlighted the fact that there is an agency problem within Turkey between the government and large business groups. Furthermore, Off6 stated that larger firms are either closely aligned with the government or have inside men who provide them with guidance of future plans of the government in order to keep up with the market.

According to a few interviewees – such as Off6, Off5, Int2, Loc2, and Loc4 – opportunist investment behaviour is evident. Interviewee Off6 stated that:

> They [local investors] do not know much about the energy industry and do not invest much into it, just enough to get by. They only try to maximise their profits by getting all available benefits provided by the government, i.e., subsidies and purchase guarantees. Notably, almost all new investments are in RE projects with minimum risk. After 2020, when the support mechanism cuts off, the overall market situation will change.

Interviewee Off6's notion is supported by Off5 and Loc4 who both stated that firms are only engaging in projects that are directly related to their own core business, i.e., construction firms with laying pipelines, buildings, depots, and hydroelectric PPs. Furthermore, interviewees Off5, Off6, Loc2 and Loc6 predicted that this is a medium-term investment strategy that will

not hold in the long term. Interviewee Off6 (2017) stressed this point by stating that: 'Local investors do not follow a long-term strategy with their investments in Turkey, they are simply engaging due to the quick profitability'. As a potential reason, interviewee Loc7 explained that in the realm of energy investments, which is a capital-intensive sector, amortisation of 15–20 years is considered very long amongst local investors. Interviewee Loc7 stated that due to the premature stage of Turkey's capital stock, Turkish investors are shorter-term oriented vis-à-vis foreigners who have access to funds with favourable conditions. Therefore, IFIs and foreign investors' investment strategies differ to those of local investors.

Interviewees Int1, Int4, Int5, Int9, Loc1, Loc3, Loc4, Loc6, Loc7, Loc10, Off1, Off7 and Off8 highlighted that IFIs provide funds for more favourable conditions than domestic banks. IFIs and foreign investors are more long-term oriented and over the last years they have expanded their already existing operations. In similar respects, interviewees Off7 and Loc6 argued that Turkish investors' investment decisions are also driven with their emotions rather rational calculations. Interviewee Loc6 provided an example of the privatisation of the electricity distribution companies:

> In 2008, during the privatisation of the electricity distribution companies only one foreign company – the CEZ group in collaboration with a local company – engaged in those tenders for the 21 regions. While local investors tried to outbid each another, foreigners remained quiet. I guess the main reason was that nobody could estimate the real costs at that time which in hindsight was the right decision. All local distribution companies are currently in the red.

Interviewees Loc6 and Off7 contrasted foreign investors and local investors' risk appetites by highlighting that Turkish companies are highly risk-oriented versus the calculated investments of foreigners.

The following section provides a brief overview of the activities of external organisations in Turkey and how they affect the country.

5.3. External Organisations

This section follows up on the discussion above and moves from the macro- to the meso-level within the analysis framework. Due to the scope of this thesis, the influence of external organisations on Turkey is discussed in brief, more details in section 2.3.5 of chapter 2. To start, the influence of CRAs is covered and this is followed by activities of IFIs.

The Influence of Credit Rating Agencies (CRAs)

This section highlights CRAs' market power and the significance of credit ratings in Turkey.

According to interviewee Int3, Turkey's credit upgrade was a pivotal event that led to an increase in FDI inflows. Ratings are indispensable for international investors who need an opinion of a third-party before conducting investments. Interviewee Int7 provided the following analogy:

> CRAs have a reputation of providing guidance for investors. They have the ability and power to heavily influence investors' decision-making processes on the international markets. Their credit upgrade is similar to a green traffic light for investments.

During the interviews Int3, Int6, Int7, Int10, Loc10 and Off8 highlighted the significant power of CRAs. Int3 stated that:

> Indisputably CRAs have influential power upon investors and their investments, despite their outing as the culprits of the subprime crisis in 2007. Their credit upgrade led to an increase in FDI inflows to Turkey while their downgrading caused the opposite.

In this context, Almeida et al., (2017) and Borensztein, Cowan and Valenzuela (2007) highlighted the problem with the sovereign debt ceiling. An example for this can be provided from Turkey. After Moody's downgraded the country's credit rating – the agency placed eleven Turkish corporations on review for downgrade (Moody's, 2018b). According to interviewee Off8, Turkish MNEs are heavily reliant on their credit ratings to access external funds and a sovereign downgrade is often problematic for major Turkish corporations. Along the same lines, Block and Vaaler (2004) stressed that before upcoming events such as general elections, uncertainty on the markets increases funding costs for governments on the international markets. Recognising this connection, interviewee Int7 stated that:

> Investments slow down prior to general elections and, subsequently, overall economic activities do too. The market becomes turbulent before general elections and political uncertainties take their toll on the economy, as seen in previous elections. We can expect the same for this upcoming general election too.

Int7's forecast was true for the general elections, which were originally planned to be held in 2019 but due to economic and political turmoil the elections took place in June 2018. After the president announced the snap election on the 18th April 2018, the Turkish Lira (TL) came

under huge pressure vis-à-vis major currencies, such as the USD (see Figure 5-9 below), and the TL depreciated more than 20% within three months.

Figure 5-9: TL vs. USD After the Announcement of the Snap Election.
Source: www.xe.com

As a matter of fact, the very same CRAs who contributed to the rise in FDI inflows to Turkey now caused disfavour; moreover, FDI outflows. Interviewee Int7 pointed at the market power of CRAs by referring to the country's downgrade and its currencies freefall on the financial markets. A downgrade by one of the three big agencies is often linked to capital outflows and higher interest payments to investors. However, there are underlying problems with these institutions: firstly, agency problems and secondly, the 'issuer pays' model. The later allowing the issuer to purchase favourable credit ratings.

Recent political developments between the U.S. and Turkey question the objectivity of those CRAs – i.e., Moody's recent publication – and raises the question: 'are CRAs representing the foreign policy interests of the U.S. government?' In this regard, Saglam (2018) argued that:

> Apparently, the [Turkish] government has started a blame game, holding others responsible for inflation and interest rates that are actually the direct outcome of the government's management style and policy choices. This defensive attitude of the government itself is a confession of bad management.

In contrast to Saglam (2018), QNB bank's Chief Economist, Burak Kanli, said that Moody's decision came as a surprise and noted that the period when the CRAs had a say is now over (Daily Sabah, 2018b). In support of Kanli, instead of using macro-data, Moody's took more

subjective criteria into consideration (Dunya, 2018). Interviewee Loc4 supported Kanli's notion by highlighting that:

> Whenever Turkey's political situation gets complicated with the U.S., the Turkish economy suffers. As an example, we just saw this recently with the American Pastor who had been held in custody in Turkey. This situation puts pressure on Turkey's economy. … I can give you a second example as well; Turkey's current talks with Russia to purchase the s400 defence system. The U.S. is already threatening us with sanctions if we end up buying them from Russia instead from them [U.S.].

Another critique which originally seemed to be a conspiracy, proved itself as not too far-fetched after considering certain events – came from the Turkish President, Erdogan. After the president's critique of CRAs, reasoning that their actions are politically motivated, Fitch decided to close their Istanbul office, more details in section 2.3.5 of chapter 2. Fitch (2018) justified their closure by stating that 'political and security developments have undermined economic performance and institutional independence' (as cited in Samson, 2018b).

The following section sheds light on the current activities of IFIs in Turkey.

International Financial Institutions (IFIs) in Turkey

The intervention of IFIs are perceived positively by investors; however, the terms and conditions that accompany their engagement needs to be scrutinised. Interviewee Off8 stated that investors prefer funds from IFIs to those of private banks due to favourable conditions. In this context, interviewee Loc3 stated that IFIs can provide credit for conditions that Turkish banks cannot, i.e., longer payback periods and interest rates below the market rate. Interviewee Loc3 stated that:

> In Turkey there is a psychological threshold of 12 years for credit repayments; however, sometimes this period is 13 or 14 years. Banks do not usually go beyond 12 years in terms of a project payback period, but the European Bank for Reconstruction and Development (EBRD) and the International Finance Corporation (IFC) offer payback periods up to 16 years and with lower interest rates vis-à-vis local banks.

Furthermore, interviewees Loc3, Loc5, Int1, Int4, and Int9 explained that from the viewpoint of local banks, if they see that the credit applicant is collaborating with an IFI then they feel more secure and at ease in approving credits. The reason for this is that IFIs have high standards and are very careful before investing in a project. Interviewees Int1, Int5, Off8, and Loc5

confirmed that IFI presence and engagement in projects within Turkey is highly important and is perceived positively amongst investors – they create trust and encourage investments into Turkey. Interviewee Off8 also mentioned that the engagement and presence of IFIs encourages small-scale investors who would otherwise have abstained from investing into Turkey. The presence of IFIs in Turkey contributed to an improvement in the trust of investors and enabled major collaborations, such as the Verbund and Enerjisa investment of 1 bn EUR (Verbund, 2008). Furthermore, IFIs' favourable conditions for project finance even influenced local commercial banks' terms and conditions and positively benefitted investors (Interviewees Int1, 2017; Loc3, 2017; Off1, 2017). Interviewee Off1 stated:

> If we follow a very basic supply and demand notion, they enter the credit/finance market as new players and cause falling interest rates for new credits and more competitive conditions. They are no game changers, but their existence is perceivable.

In this sense, interviewees Off4 and Off5 emphasized that IFIs operate closely with big consultancy firms and local authorities in order to evaluate a project's feasibility and sustainability. 'Given information are treated with the same level of credibility independent of their source, either government or one of those big consultancy firms' (Interviewee Int4, 2017). In a similar vein, Off4 highlighted the importance of good credit ratings for firms. Larger firms in the energy sector can reach out easier to IFIs due to their own credit ratings. An additional interesting point was highlighted by interviewee Int4, who described that in an event of a default of a local Turkish firm on a credit from an IFI, those institutions help to sell the remaining assets of the debtor – this is usually at a very cheap price to foreign companies.

On the other hand, interviewee Int1 stated that certain projects are only feasible because of the engagement of IFIs, i.e., infrastructure projects. Int2 emphasised on the IFIs' help for local firms. Furthermore, Loc1 stated that IFIs play a pivotal role in Turkey's energy transition, whereby they lead the way:

> If the government and the private sector collaborate effectively, an interdependent relationship – synergy – can be established, whereby regulators improve private sector engagement through the rule of law, regulations, and public investments. In developing/emerging countries, the private sector plays a crucial role in developing a regulatory system and making governments more accountable.

Interviewees Int3, Int9, Loc5, Loc7 and Off4 stated that over the last two to three years, the EBRD and IFC made enormous investments into RE projects. Due to the current situation of the market, IFIs have stayed on hold. Their aim was like many others who saw Turkey as an emerging market with growth potential – to invest in profitable projects. Interviewees Int1, Int3,

Int4, Int7, Int8, Int9, Loc4, Loc5, Loc6, Loc7, Loc8, Loc10, Off1, Off4, Off6 and Off7 stated that IFIs provide loans or directly invest equity into certain private companies.

The question someone can pose at this point is: 'when do IFIs provide funds and when do they take shares in companies?' This question has been answered by interviewees Loc5, Loc6, Loc10 and Off4, who all pointed out that that the YEKDEM mechanism played an important role in the investments of IFIs in Turkey. For instance, the Akfen Group is collaborating with an IFI, especially after the YEKDEM mechanism was installed. Interviewees Loc5, Loc6 and Off4 highlighted that they only invest in renewable energies. Almost all interviewees mentioned the fact that foreign support has been primarily given to projects that were eligible for the YEKDEM mechanism. The reason for this is that it created more confidence amongst investors due to the state's guarantee for purchase.

The next question 'what is on their [IFIs] agenda?' resulted initially in similar answers to those stated by IFIs. Interviewees Int2, Int3, Int5, Int7, Int8, Int9, Int10, Loc1, Loc3, Loc5, Loc6, Loc9, Loc10, Off1, Off4, Off6, and Off8 answers were similar to the IFIs' official defined goals and missions such as: to fight global warming; to provide economic growth for underdeveloped regions and create an economic output; to promote growth in emerging and developing countries by investing in infrastructure; and to set the foundations for future investments. Further, they aim to close the gap of social injustice between developed and developing countries; to act in line with the Kyoto and Paris protocols; to reduce emissions; and to resolve problems related to environmental degradation. Interviewee Loc1 described their activities by providing an example of a large MNE that does Corporate Social Responsibility (CSR) activities.

Follow up questions – such as 'what is their motive?' and 'how do they profit from those investments?' – indicate alternative purposes to those listed above. Interviewees Int5, Int7, Int9, Loc1, Loc7, Loc9, Loc10, Off3, Off6 and Off8 provided alternative motives of IFIs which have been divided into two groups: economic goals and political goals, more details in section 2.3.5 of chapter 2.

Interviewees Loc1 and Int9 attempt to answer the question, 'how do IFIs profit through their engagement?' Loc1 stated that:

> We cannot directly pinpoint, because of x, y, or z. For example, EBRD has about 70-member countries. They aim to increase welfare in certain countries and promote development.

To follow up on Loc1's statement, another question of 'why are they [IFIs] interested in promoting development?' was asked. In this context, interviewee Int9 said: 'Let me put it like this, they do not directly profit from this, it is more like a win-win situation for both sides'. Other interviewees highlighted their political and economic goals. They not only influence projects, they also contribute to a change in the host country's policies, as in the case of Turkey. Since the increased engagement of IFIs in RE in Turkey, Turkish authorities have started focusing on renewable energies and encouraged investments in this field.

Interviewee Loc1 stated that alongside their main goals, IFIs aim to generate profits. It does not matter for them where they invest in – Japan, Africa, or Turkey – as long as the returns on their projects are positive. A further investigation into Loc1's statement revealed that IFI profits mainly result from interests on large credits, see section 2.3.5 in chapter 2 for details.

Interviewee Off8 stated that the pre-process of IFI investments are very extensive and difficult. These kinds of organisations need the initial guarantee of the local treasury. IFIs negotiate agreements directly with the treasury and other banks, e.g., the Industry Development Bank of Turkey (TSKB) or the Development Bank of Turkey. Before investments are made, the country's risk premium will be evaluated and considered. The risk premium is set and negotiated with the treasury. Interviewee Off8 explained that:

> There is a certain price range for different IFIs and projects London Interbank Offered Rate (LIBOR + administration fees + project fees + the interest rate of approximately 1.5% + another spread depending on the type of project). Despite all those individual costs, funds from IFIs are much cheaper in comparison to commercial banks. Commercial banks evaluate projects based upon 'hard facts' – a company's credit rating and the payback period. On the other hand, development banks and IFIs consider the social and environmental aspects. For instance, company X wants to set up a hydroelectric power plant. During the project evaluation process of company X, questions about the location – if there are other hydroelectric power plants in that region already – and sustainability for socioeconomic aspects will be scrutinised.

Next to economic motives, IFIs have also political motives. Firstly, the ability to provide funds shows superiority and, secondly, it serves as a channel to collect information. Interviewees Int5, Int7, Int9, and Loc10 argued that it is important for IFIs to maintain good relationships with local governments in the countries where they are operating. Through their presence, they collect information and data about a country or region first-hand, such as: information regarding political developments, regional information (i.e., available resources), and other relevant details (Interviewees Int5, 2017; Int7, 2017; Int9, 2017; Loc10, 2017). In this context, interviewees Int5, Int9 and Off6 described that IFIs display a certain degree of

economic/political power over a recipient country. By providing aid/subsidies, the providing country has a sort of leverage vis-à-vis the recipient country when it comes to a particular decision that is in the interest of the aid-providing country (Interviewees Int5, 2017; Int9, 2017, Off6, 2017). Interviewee Off3 also argued that IFIs have a certain degree of soft power that can be used to reward good governance or punish it. Similar findings have been provided by Bird and Rowland (2001) and Dreher, Sturm and Vreeland (2009) who showed that a recipient country that aligns more towards the foreign policies of the U.S. increases the probability of receiving financial aid from IFIs such as the IMF and the WB, see section 2.3.5 in chapter 2 for details. Along the same lines, an example can be provided were a diplomatic crisis between Germany and Turkey caused to a fall in subsidies coming from the EU (Jones, 2017a; Jones, 2017b).

With respect to Turkey, interviewees Int5, Int7, Loc10, Off3 and Off6 mentioned that EU subsidies distort the competition within the realm of energy production and influences the country's energy policy. According to interviewees Off3 and Int5, since IFIs started channelling funds into RE projects, the government has started focusing on green energy more. However, Turkey itself lags behind in both technology and know-how for this energy transition, which is why it is important to collaborate with foreign MNEs that are predominantly from the EU. In this context, interviewees Int5, Int9, and Loc10 stated that the unofficial aim of IFIs is to create and enable companies from developed countries to enter new markets such as DECs. In this context, interviewee Int5 stated that:

> No one is willing to spend billions of USD in a country without hoping for any return. IFIs do not engage in large investments because they are benevolent; moreover, they see a potential future market in Turkey. For Europe, Turkey is a perfect destination for investments due to the close geographical location. The market in Europe is saturated and growth potential is available in DECs.

Next to European firms, Chinese firms are operating with a similar strategy if not more efficient and slightly more obvious. Interviewee Off3 stated that:

> Chinese companies, in collaboration with the Chinese government, provide all-round packages. For example, Chinese firms come to Turkey and set up a wind farm, and organise the credit and materials needed for that project. Subsequently, the buyer pays his loan according to the length of the contract. This is not only applicable for Turkey; moreover, this is a general strategy of export-oriented countries used to boost their sales.

A similar example has been provided by interviewee Loc7:

> Regarding wind projects in Turkey, recent developments are happening. If someone wants to obtain a credit from a European IFIs, he has to agree upon the given terms and conditions – i.e., to use only produced raw materials by European firms (e.g., Siemens or Nordex). Those organisations help European firms or countries where the IFIs' funds stem from.

Int5's and Loc7's examples are mirrored in Loc6's statement that the market in Europe is very competitive and energy firms' profit margins are very low. In this context, interviewee Off3 stated that the Turkish government realised these developments and acted accordingly during the latest public offering of renewable energy projects (YEKA). For the latest YEKA offering, the government made it conditional for the winner of the tender to produce 65% of the raw materials in Turkey and that 80% of the engineering should be Turkish (Erdil, 2017; Interviewee Off3, 2017).

5.4. Conclusion

This chapter elucidated the importance of FDIs including their importance by providing primary data and secondary data that consists of graphs. The first section illustrated where the funds to Turkey stem from and explained the different investor types (local and foreign) including their aims and investment behaviours.

In a nutshell, Murat Colakoglu, PwC Partner in Turkey explained that the Turkish power sector resembles the developments that have taken place within the telecommunication sector (cited in Stevenson and Pascoletti, 2015):

> In 1996, the Turkish telecommunications sector was nascent, far behind that of other developed countries, and lacking in infrastructure. However, when investments were made, Turkey benefitted significantly from the technology used in more mature markets. Telecommunications experienced a large attendant jump in the calibre of local technology, when investments materialised. A similar jump can be expected in the power industry.

Turkey was conditioned by the IMF to liberalise the country's energy sector in exchange for external help. At that time, Turkey desperately needed external funds to bring its economy back on track. Therefore, the government liberalised the country's energy sector leading to

the rise of large FDIs into this sector. The overriding aim was to overhaul the outdated infrastructure with the help of private investments. However, unlike the state-led financialisation period towards the mid-1900s – where large holding groups such as Koc and Sabanci came to the fore – the energy industry's liberalisation led to a fragmented market structure. According to interviewee Int1, the Turkish energy sector is fairly fragmented and – in contrast to other countries where only three or four big firms dominate the market – there are many active energy firms, for details see section 4.3 of chapter 4.

In Turkey, the government plays a decisive role in the country's economy, which has been highlighted in section 4.1 of chapter 4. After stepping into office, the AKP followed a pro-European political course to align more towards the West. Regulatory changes and the country's willingness to cooperate with IFIs resonated positively on the international markets. Furthermore, Turkey's credit upgrade by the big three rating agencies improved and rebuilt confidence amongst international investors, which led to a rise in FDI inflows. With the active support of big consultancy firms such as Deloitte, McKinsey, E&Y, and KPMG – who generated positive publicity for Turkey and highlighted profitable industries for foreign investors – investments into Turkey started soaring. Towards the mid-2000s, Turkey became a rising star amongst emerging markets. This trend was further encouraged by unconventional monetary policies in advanced markets such as the U.S. and the EU, which caused investors to channel their funds into emerging markets. Turkish authorities realised this opportunity and enacted more investment-friendly policies and incentive packages to further encourage FDI flows to Turkey.

It is noteworthy that since 2002, on average approximately 76% of the investments to Turkey have originated from the EU, while Asia and the Middle East have accounted for approximately 16%. Despite the comparatively low FDI volume from the Middle East compared to Europe, the number of companies operating from the Middle East in Turkey is more than half of the number of companies from the EU. With the rising amount of FDI inflows to Turkey, investments into the energy industry accelerated (see Figure 5-10 below). Towards the end of the 2000s, Turkey's booming construction industry – which is indirectly linked to the country's energy sector – further increased the demand for energy.

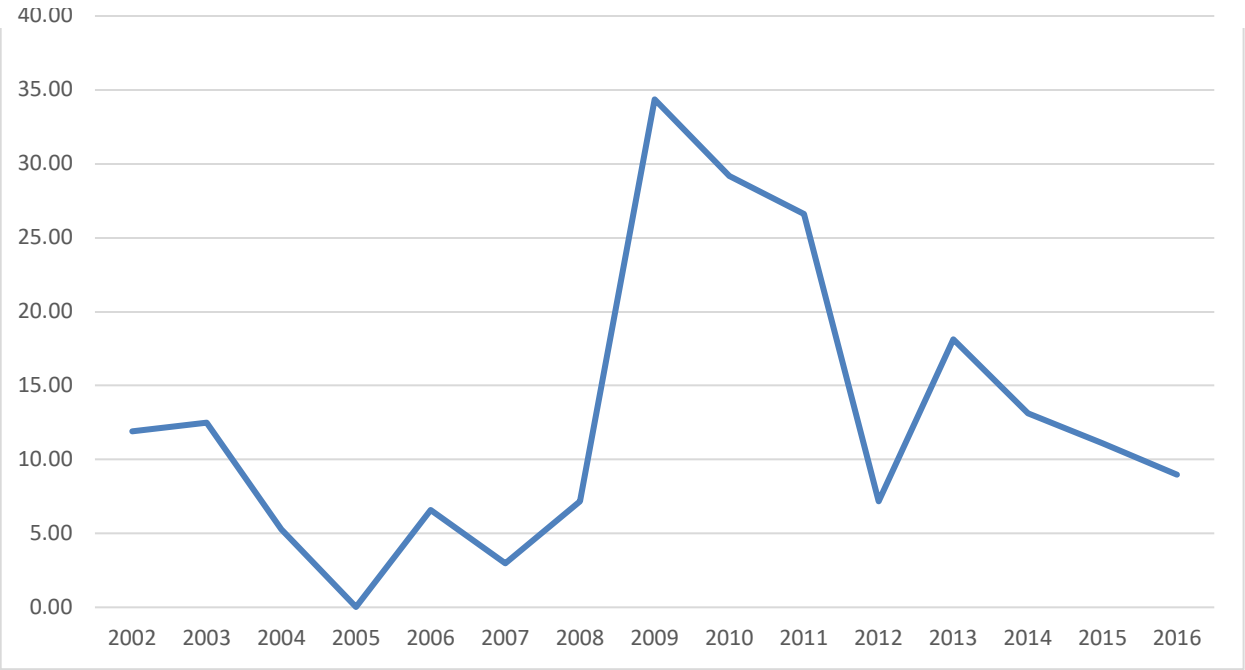

Figure 5-10: FDI flows into Turkey's Utility sector to Total FDIs.
Source: www.tcmb.gov.tr.

From 2012 onwards, political turmoil and pressure built up and adversely affected the country's economy and foreign investments. Nevertheless, in 2016, Turkey attracted 12 bn USD in FDIs, which decreased to 10.9 bn USD in 2017 (Anadolu Agency, 2018b). In this background, a few of the interviewees Int7, Loc3, Loc10 and Off1 highlighted the fact that next to FDI inflows, there are also FDI outflows from the energy industry. A comparison of FDI outflows to FDI inflows shows that the outflows happened from 2012 onwards, with the highest outflow of 14% happening in 2014. The second highest value was in 2015 with approximately 8.8%, followed by 2016 with 7.4% (CBRT, 2018b). The argument that major outflows are happening in the Turkish energy industry can be neglected, since amidst the most political tense period (between 2012 and 2017) the average FDI outflows averaged approximately 7.7% in comparison to FDI inflows towards the Turkish energy sector. These observations provided ground for the government to stress on global investors' confidence in the country's economy by emphasising Turkey's geographical location and rising economy (Beattie, 2014).

Robert Zoellick, the president of the World Bank stated, that in the 2000s 'FDI inflows were the single biggest source of capital for developing countries and were a critical input for technology transfer in developing country firms' (as cited in Hornberger, 2011). In the case of Turkey, over the last 15 years, FDIs into the energy sector have ranked third after financial services and manufacturing (Invest, 2018). According to the Turkish International Investors Association (YASED), in 2007 – when the country received its all-time high FDI inflows of 22

bn USD – only 10% constituted greenfield investments, the rest was utilised for privatisation purposes or in M&A transactions. Furthermore, interviewees Off5 and Int9 argued that Turkey is heavily import-dependent, not only in terms of energy imports but also on foreign technology imports. The interviews have been supported by Yeldan (2008a) who argued that a striking aspect of the IMF's '1998 programme' – which has been implemented in Turkey – is the absence of the notion of national savings within the programme. With regard to investments, the IMF reinterprets the idea and only uses this term in connection with the promotion of FDIs. The neoliberal agenda that has been imposed upon Turkey aimed to profit from Turkey's cheap labour and transform the country into an import-dependent assembly line for international manufacturers (Yeldan, 2008a).

Alongside MNEs, there are also institutional investors within the Turkish energy industry. A striking phenomenon that has been defined as one of the traits of financialisation is the engagement of financial institutions in non-financial operations. The engagement of IBs such as Goldman Sachs, is evident within the Turkish energy industry due to the potential for high-profit margins. Next to IBs, pension funds activity is apparent, such as the Canadian Pension Funds' acquisition of a stake of 40% in Polat Enerji. These kinds of investments are partially driven by unconventional monetary policies and lucrative investment opportunities due to the incentives provided by the Turkish government, i.e., YEKDEM. Interestingly, the majority of foreign investors engage in projects that are subject to governmental incentives. In this context, Murat Colakoglu, PwC Partner Turkey stated that the acquisition of a 45% share in Polat Enerji by the Canadian Public-Sector Pension Fund (PSP-Canada's largest) was significant. For this reason, they assumed that the 10-year feed-in tariff system must have proven reliable to the large pension fund seeking a steady income (Stevenson and Pascoletti, 2015, p. 14). In the same light, Aygen Yayikoglu, managing partner of Crescent Capital, reasoned, 'the investors' appetite is present, as it is from western European utilities. Now that there is an increased focus on renewable energy including solar and wind, some smaller and mid-sized developers in Europe are also establishing themselves here (cited in Stevenson and Pascoletti, 2015, p. 33).

With regard to local investors, all of those players are from another industry and have minimal knowledge in the realm of energy. Local investors were active at the earlier stages of the value chain and entered the energy industry vertically or laterally. According to interviewees Loc4, Off5 and Off6, the engagement of firms in the realm of energy is an opportunist, medium-term investment strategy aiming to benefit from the currently available incentives offered by the government. In contrast, foreign investors entered the energy industry due to their prior know-how and technological advancement in this field.

The ultimate question is, what will happen after the public incentives cease? How can the government ensure that developments in the realm of energy will be conserved and further, how can the government encourage greenfield investments vis-à-vis M&A?

In relation to CRAs, a thorough discussion has been provided in section 2.3.5 of chapter 2. As indicated above by interviewees, the U.S. government has close ties with CRAs. Countries that closely follow the foreign policies of the U.S. have received 'favours' in both economic and strategic terms. The countries with more complicated political relations with the U.S. not only encounter political difficulties but also face economic hardship, as seen as in the case of Turkey. Moody's' unjustifiable downgrading raised concerns about the institution's decree and objectivity. Additionally, this decision was exaggerated in terms of qualitative content and the dissemination of this rating came at a time when the political relationship between the two countries had worsened. It seems likely, therefore, that the U.S. government punishes countries that do not submit to their foreign policies. There is, however, room for research into U.S. foreign policies conflicting with a country's interests, and to contrast these political differences with the publications of CRAs to support the findings of Powell's (2013) subordinate financialisation.

In comparison to local banks, IFIs finance projects under lucrative conditions, i.e., with long payback periods and lower market interest rates. Interviewees Loc5, Loc6, Loc10 and Off4 pointed out that the YEKDEM mechanism played an important role in the investments of IFIs in Turkey. It created more confidence amongst investors due to the state's guarantee for purchase. Since the increased engagement of IFIs in RE in Turkey, Turkish authorities have started focusing on RE and encouraged investments in this field. The main difference of IFIs in contrast to commercial banks is the consideration of wider aspects such as social benefits, sustainability and favourable financial conditions.

However, next to their official goals, IFIs have alternative economic and political motives. Anderson, Harr and Tarp (2005), Bird and Rowland (2001), Interviewees Int5, Int9 and Off6, Henning (2009), Oatley and Yackee (2004) and Thacker (1999), all indicated that there is a strong relationship between IFI support and AEs' political agenda. Interviewees Int5, Int9, and Loc10 argued that the actual goal of IFIs' seemingly benevolent activities are to establish future markets for foreign companies. In this respect, it is interesting to observe the amount of funds received from the EU and the number of EU-based companies that are operating in Turkey. According to the Ministry of Trade (2014), about half of the foreign companies operating in Turkey are from the Eurozone.

To sum up, it is the role of the government to set the fundamentals for the economy. A more liberal and open market enables technological transfer and positive economic spill-over

effects; however, only as long as there are clear and set guidelines and strong regulations in place. Nothing is wrong with the notion of liberalising markets or IFIs' support of local and private firms, since healthy competition ultimately benefits the end user. However, problems may occur for countries that are heavily import-dependent with low domestic innovative technologies. Turkey is a late adapter in terms of technology and imports technology from more developed countries. This combination can further increase Turkey's dependency on foreign goods, while allowing it to become a consumer of EU technologies. In this regard, this section has provided support for Kaltenbrunner and Painceira (2018) and Powell (2013) who stated that DECs are subordinated to AEs, subjected to state relations and influenced by their role within the international monetary and financial system.

After discussing aspects on the macro- and meso-level, the next chapter offers an analysis on the micro level. Chapter 6 considers the following question: 'Is there a shift from real investments to that of financial investments among Turkish energy firms?' In this setting, the financial activities of such firms will be explored through the use of qualitative and quantitative data.

6. Micro-level Financialisation and the Turkish Energy Sector

The underlying chapter builds upon the findings of chapters 4 and 5 by focusing on the micro-level. Further, the second Research Question (RQ2): 'To what extent has the financialisation process in the Turkish energy sector been driven by Turkey's interests?' has been discussed. As outlined in chapter 1, this thesis builds on Krippner's (2005) notion that 'financialisation is a pattern of accumulation in which profits accrue primarily through financial channels rather than through trade and commodity production' (Krippner, 2005, p. 174).

This chapter starts off by illuminating financialisation amongst Turkish Non-Financial Corporations (NFCs) and provides a clear understanding and background to financialisation in Turkey. In this context, secondary data retrieved from the Central Bank of the Republic of Turkey (CBRT), together with data from Borsa Istanbul (BIST), provide the basis for the analysis and hypothesis tests. Based on primary data, section 6.1.1 lists some of the current challenges which are affecting the energy sector. Challenges faced by the Turkish banking sector and financial markets, and general snags related to energy investments, are discussed in detail. Section 6.1.2 then illuminates a detailed analysis of energy companies' financial investments, whereby the findings of section 6.1.2 are in line with the results of hypothesis test of section 6.1.3. Section 6.1.4 contrasts the profitability of the investments of energy projects against financial investments. Section 6.2 provides a summary of the findings to meet Research Objective (RO) 1: 'Evaluate to what extent financialisation has occurred in the Turkish energy sector between 2002 and 2017 and whether it has followed the same pattern as in Advanced Economies (AEs)'.

Findings:

Turkey followed a different financialisation pattern to those of AEs. Most notable are the increased strategic Mergers and Acquisitions (M&A) activities seen over the last decade, which are mainly driven by foreign investors. Next to increased M&A activities, firms display an engagement in financial instruments, i.e., corporate bond issuance, borrowing in Foreign Exchange (FX), and hedging. Corporate bonds issuance started around 2012/2013, while the borrowing of FX loans started around 2010. The trading of electricity contracts on BIST started relatively recently, in 2015. Prior to that, trading took place on Over-The-Counter (OTC) markets. It is stressed that energy firms engage in financial activities (hedging) purely to protect themselves against market volatilities. There is no support for an engagement of firms in speculative short-term financial activities, as stated by Akkemik and Özen (2014), Demir (2009a; 2009b; 2007), Demiröz and Erdem (2018), and Tellalbasi and Kaya (2013). Neither is there present the form of financialisation as defined by Krippner (2005). However, a different

form of financialisation centred around the mechanism of interest-bearing capital (Becker et al., 2010), is evident for Turkish NFCs. Since 2012, the interest expenses of FX loans have dramatically increased, which has led to increased vulnerability for the whole economy.

Statistical tests show that there are significant relationships between: Fixed Financial Assets (FFA) and Tangible Fixed Assets (TFA); TFA and Financial Liabilities (FL), FFA and FL; and Financial Expenses (FE) and FL, with a confidence level greater than 95%. The quantitative findings are in line with the primary data, which confirmed these trends. The five investment opportunities presented in section 6.1.4, four Renewable Energy (RE) projects and one financial investment, highlight the attractiveness of real investments vis-à-vis financial investments.

Contributions of this chapter:

Firstly, through triangulation of different sources and mixed methods (qualitative and quantitative), this chapter clarifies that Turkish energy firms do not tend to engage in financial short-term investments vis-à-vis long-term investments, as stated in the literature by Akkemik and Özen (2014), Demir (2009a; 2009b; 2007), Demiröz and Erdem (2018), and Tellalbasi and Kaya (2013). Firms actively engage in new RE investments due to their higher profitability in comparison to financial investments. However, in contrast to Krippner's (2005) definition, financialisation in Turkey is centred on the mechanism of interest-bearing capital, as stated by Becker et al., (2010).

Secondly, the approaches used to capture a picture of financialisation amongst NFCs in Turkey in previous studies have been insufficient or misleading. An issue that may distort the analysis of financialisation amongst NFCs are the macro-datasets that represents the top 500 companies of a country. In the case of Turkey, the Istanbul Chamber of Industry (ISO) 500 companies are active in various fields. Hence, their capital structure varies drastically due to the nature of the industries that the firms are operating in. In contrast to previous studies that have analysed financialisation on a national level, this study is sector specific. A generalisation for a whole country would be inappropriate due to varying capital intensities amongst different industries. Krippner stated that, 'as a result, even those accounts that are concerned with understanding the rise of finance in structural terms typically assert the presence of this phenomenon (financialisation) without providing any direct evidence for it' (Krippner, 2005, p. 174). Hence, as highlighted by Aalbers (2015), for analytical purposes this study focuses on an isolated sector.

By drawing upon quantitative hypotheses tests and cross-verification with primary data, financialisation has been explained. Furthermore, by scrutinising listed companies' financial statements – i.e., asset composition and profit and loss accounts – a qualitative approach will be recommended in order to capture the trends of financialisation in any given sector. The current studies of Akkemik and Özen (2014), Bahce et al., (2014), Bedirhanoglu et al., (2013), Demir (2009a; 2009b; 2007), Demiröz and Erdem (2018), and Tellalbasi and Kaya (2013) fail to account for financialisation with a 'one size fits all approach'. Furthermore, a more suitable qualitative approach to investigate financialisation amongst NFCs has been proposed in order to strengthen the level of accuracy of the analysis.

Finally, the main differences between financialisation in emerging markets vis-à-vis mature markets are considered, which partially confirms the existing literature and adds a new approach to financialisation in both Developing and Emerging Countries (DECs).

6.1. Real investments against financial investments

The following section is considered pivotal for this thesis. It provides detailed answers for the two questions: 'Is there a shift from real investments to that of financial investments among companies in this sector?' and 'Which financial investments are those companies engaging in?'. This chapter helps to build a better understanding of the financialisation of NFCs in various ways; however, the following aspects have to be considered in more depth:

1. A fundamental understanding of why companies display a certain type of investment behaviour within an industry is indispensable.
2. Reference points must be established by scrutinising the financial statements (asset composition) of listed companies in order to detect any trend in financialisation.
3. A richer picture can be provided by selecting an individual sector in order to circumvent complex ownership and the overall activities of holding structures within an economy – i.e., to avoid a blurring of the lines between financial institutions and NFCs.
4. An incorporation of the regulatory aspects that affect companies' investment-making decisions is essential.
5. Through interviews and secondary research (analysing financial statements), quantitative data can be triangulated with qualitative findings to improve the credibility of the findings.

The following section covers the financialisation of Turkish NFCs.

Financialisation amongst NFCs in Turkey

After the account liberalisation in 1989, the neoliberal ideology fundamentally shaped DECs (i.e., Turkey), where a financialist approach dominated over a productivist approach (Bedirhanoglu et al., 2013). Support for the increased engagement of NFCs within the financial sphere for developed countries has been provided by a wide range of authors, such as Crotty (2005), Davis (2017), Demir (2009a; 2009b), Dumenil and Levy (2005), Epstein and Jayadev (2005), Orhangazi (2008), Stockhammer (2004), Tori and Onaran (2017; 2015), and Van Treeck (2008).

Demiröz and Erdem (2018) highlighted that the Non-Operating-Income (NOI)/pre-tax profit ratio of non-industrial activities to balance sheet profits of the top 500 industrial firms between 1982 and 2014 indicated a shift in industrialists' activities. The authors stated that, 'the economic interest of industrialists shifted to more profitable activities other than industrial production in the 1990s. Operating profitability declined from 25% in 1994 to less than 4% in 2003' (Demiröz and Erdem, 2018, p. 188). However, given the fact that the top 500 firms are spread across various industries, this statement has to be viewed with caution.

Demiröz and Erdem's (2018) own calculations for the Turkish energy sector and for the Operating Income (OI) and NOI as a share of total income in percentage are noteworthy (see Figure 6-1 below) and are strikingly similar to those from Bedirhanoglu et al., (2013). However, in both studies the actual problem of contrasting OI to NOI is that the Non-Operating Expenses (NOE) have not been considered in the calculations. This approach only reports half of the story – it would be the same as asking a gambler 'how much did you make' and he would only state his gains without mentioning his losses. Hence, a more apt indicator to capture financialisation would be the Net Non-Operating Income/Loss (NNOI) instead of NOI.

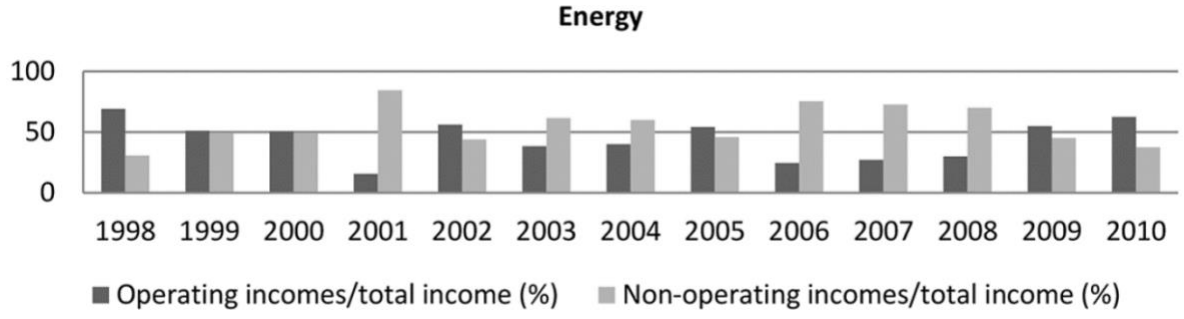

Figure 6-1: Operating incomes/total income and Non-operating-incomes/total income.
Source: Demiröz and Erdem (2018).

Bahce et al., (2014) and Demiröz and Erdem (2018) use the ratio of NOI to total income of NFCs as an indicator for financialisation. Their findings point to a high level of NOI in services,

construction, and energy, see Figure 1-10 in chapter 1 where Demiröz and Erdem (2018, p. 190) conclude that:

> [Our] empirical findings suggest that firms in the real sector consider alternative investment opportunities in financial markets when making their decisions on physical investment. Accordingly, rather than investing in long-term fixed investment, these firms may choose to invest in short-term financial instruments.

The second issue with this approach is in the term 'NOI' itself. This is because it covers various aspects of non-core activities. As Demiröz and Erdem (2018, p. 185) explain:

> Income and profit from other operations includes dividend income from affiliates, dividend income from subsidiaries, interest income, commission income, provisions no longer required, profit on sale of marketable securities, exchange gains, rediscount income, and others. The position 'others' contains positions such as: released provision for lawsuits and doubtful receivables; project income; insurance reimbursement; and income from asset stripping.

It is important to note that Demiröz and Erdem's approach does not take the weight of those single non-core activities within the group of NOI into consideration. Figure 6-2 shows the relation of OI to NNOI, while taking NOE into account. Without violating the accounting concept of matching, NNOI is a more accurate indicator because next to NOI positions (blue line) – such as interest income and exchange profits – it also takes the expenses and losses of these positions into account. In Figure 6-2, NNOI (red line) is negative except for the year 2004. This can be explained by inflation adjustment profits for that particular year, which makes up 50% of all NOI.

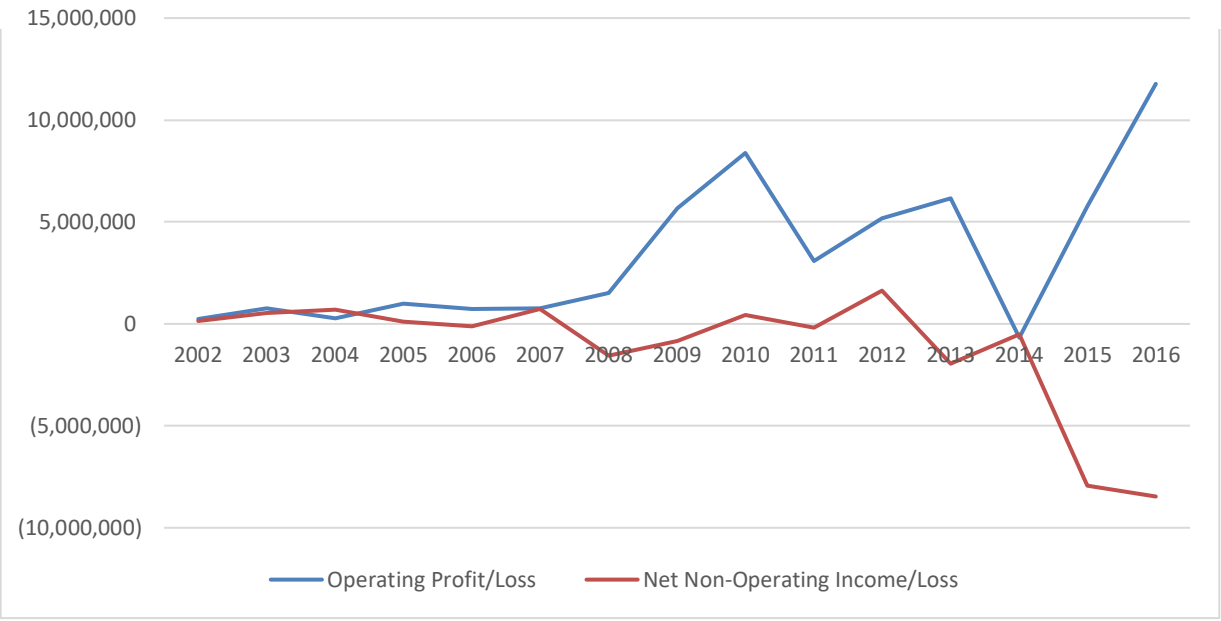

Figure 6-2: Operating Income Contrasted to Net Non-operating Income/Loss.
Source: CBRT Company Accounts.

In the case of the Turkish energy sector, there are seven listed companies and only five of those companies provide financial statements since 2002 and one provides them from 2009 onwards. In order to provide concrete examples, 40 consecutive and quarterly published NOIs and NOEs covering 2009–2017 from Ak Energy (AKENR), Aksa Energy (AKSA-AKSEN), Aksu Energy (AKSUE), Ayen Energy (AYEN), and Zorlu Energy (ZOREN), have been scrutinised. Two main points stood out from this analysis:

- First, across all of the investigated companies the NOI was constituted by irregular income sources, such as: sale of assets, insurance pay-outs, or released provisions.
- Second, no trails of income on short-term financial activities could be found. In the income statements, however, after the position of operating profit/loss, companies stated their financial income and financial expenses. It is noteworthy that any financial income made from short-term investments should have appeared here. A breakdown of the Financial Income (FI) account consists of foreign exchange gains, interest income, profit on derivative instruments, unearned credit finance income, and other extraordinary financial income. An example of AKENR's 2015 annual report has been provided below in Figure 6-3 for illustration purposes.

a) Financial income:

	2015	2014
Income from derivative instruments	48,692,734	-
Foreign exchange gains from financing activities	43,586,098	11,667,928
Interest income from financing activities	12,959,519	6,995,373
Total	**105,238,351**	**18,663,301**

b) Financial expense:

	2015	2014
Foreign exchange losses from financing activities	557,600,663	170,097,221
Interest expense from financing activities	220,722,801	126,248,795
Expense from derivative instruments	-	6,305,276
Other financial expense(*)	7,654,067	7,894,879
Toplam	**785.977.531**	**310.546.171**

Figure: 6-3: Example of the Financial Income and Financial Expenses.
Source: AKENR's Annual Statement in 2015.

It can be seen from Figure 6-3 that AKENR's FI for 2015 totalled approximately 105 m TL. This consisted of 46.3% derivative instruments, 41.4% FX gains, and 12.3% interest income. Financial Expenses (FE) was seven times higher at approximately 786 m TL. A decomposition of FE shows it consisted of 71% FX losses, 28% interest expenses, and 1% other financial expenses. Over the past eleven years, AKENR's FE was 6.8 times higher on average than FI.

Likewise, other listed companies (such as AKSA-AKSEN, AYEN, and ZOREN) displayed a similar trend over the years. For the years where FI was higher, the majority of the FI consisted of FX gains and interest income, while FE showed higher FX losses and interest expenses. On the other hand, AKSUE displayed consistently higher FI than FE between 2006–2015. The following reasons contributed to AKSUE's higher FI levels: first, the company's solid financial structure whereby liabilities in comparison to its counterparts were relatively low and hence minimal interest expenses built up on the FE side; and, second, AKSUE had high cash holdings and a solid equity base, which explains the comparatively higher interest income. Noteworthy, investments into short-term financial products aiming for high interest rates are absent for all of the listed companies.

Similar findings are evident from the macro-data provided by the CBRT, which shows the figures for the overall sector, see Table 6-1 below. There is an increasing disparity between interest income to interest expenses, which can be explained by the rocketing liabilities of those firms.

Year	Interest Income	Interest Expenses	Short-term Expenses	Long-term Expenses	Difference Income-Expense
2002	**194,294.00**	**-181,199.88**	-124,339.39	-56,860.49	**13,094.12**
2003	**323,725.28**	**-392,005.60**	-76,371.15	-315,634.45	**-68,280.31**
2004	**70,495.08**	**-130,364.25**	-47,419.91	-82,944.34	**-59,869.17**
2005	**109,762.89**	**-251,222.74**	-39,342.70	-211,880.04	**-141,459.85**
2006	**116,607.58**	**-1,220,319.45**	-86,069.53	-1,134,249.92	**-1,103,711.87**
2007	**153,336.72**	**-976,313.59**	-79,536.45	-896,777.14	**-822,976.87**
2008	**282,318.55**	**-2,314,466.83**	-265,348.90	-2,049,117.93	**-2,032,148.28**
2009	**275,730.95**	**-1,504,157.58**	-470,334.13	-1,033,823.45	**-1,228,426.63**
2010	**436,480.71**	**-1,429,983.32**	-717,508.15	-712,475.16	**-993,502.61**
2011	**543,695.12**	**-2,465,323.36**	-893,744.25	-1,571,579.11	**-1,921,628.24**
2012	**967,732.49**	**-1,429,898.41**	-738,181.42	-691,716.99	**-462,165.92**
2013	**843,324.59**	**-2,744,082.03**	-951,423.95	-1,792,658.08	**-1,900,757.44**
2014	**809,020.73**	**-2,638,830.88**	-1,081,778.18	-1,557,052.70	**-1,829,810.15**
2015	**850,657.25**	**-6,211,200.34**	-3,024,923.35	-3,186,276.99	**-5,360,543.09**
2016	**1,137,350.51**	**-7,128,123.14**	-3,966,358.03	-3,161,765.11	**-5,990,772.63**

Table 6-1: Interest Income in Contrast to Interest Expenses for the Turkish Energy Sector in TL.
Source: CBRT.

However, in the context of financialisation few authors highlighted the increased cash holdings of firms, such as: Al-Najjar (2013), Bates, Kahle, and Stulz (2009), and Davis (2017; 2013) more details in section 2.3.2 of chapter 2. In the case of the Turkish energy sector, however, the findings from the literature are partially in hold. In order to provide a detailed analysis, the listed firms' cash and cash equivalents/current assets and marketable securities/current assets are shown and discussed below. Turkish energy companies are risk aware and use

financial instruments to minimise exposure to market and liquidity risk. Figure 6-4 below, illustrates that AKENR had marketable securities in both 2004 and 2005.

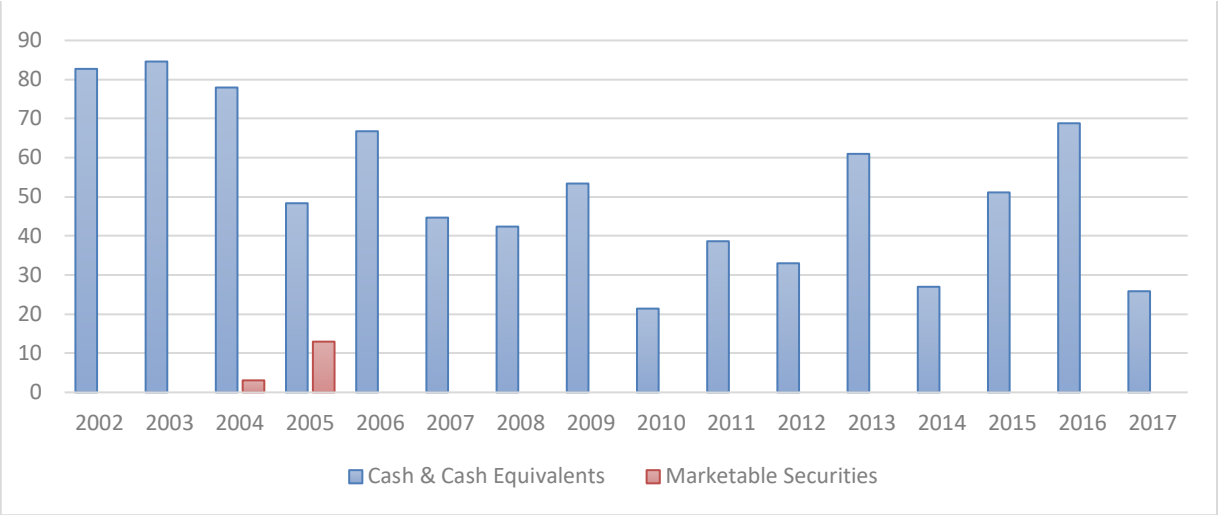

Figure 6-4: AKENR – Cash & Cash Equivalents/Current Assets and Marketable Securities/Current Assets. Y-axis: percentage. X-axis: years.
Source: http://www.akenerji.com.tr/en/annual-report.

The following statement is from AKENR's annual report in 2005 (p. 96):

> The Group is exposed to interest rate risk through the impact of rate changes on interest bearing liabilities and assets. These exposures are managed using natural hedges that arise from offsetting interest rate sensitive assets and liabilities … to decrease the interest rate risk, the cash equivalents which are not used, are put to the time deposits by the Group.

AKENR's total foreign assets for each currency in 2005 was as follows: 7,209,740 TL, 21,445,279 USD, and 19,547,766 EUR (AK Energy, 2005).

Figure 6-5 below, contrasts the cash and cash equivalents to marketable securities held by ZOREN. Two years are of particular interest, 2011 and 2014. In both years, ZOREN held short-term financial assets consisting of USD time deposits. 'As of 31.12.2011, the maturity and interest rates of time deposits vary between April and May 2012, 3.78% and 4.5% respectively' (Zorlu Energy, 2011, p. 96). The maturity of time deposits for the short-term financial holdings for 2014 with less than one year had an effective interest rate of 6.25% (Zorlu Energy, 2014).

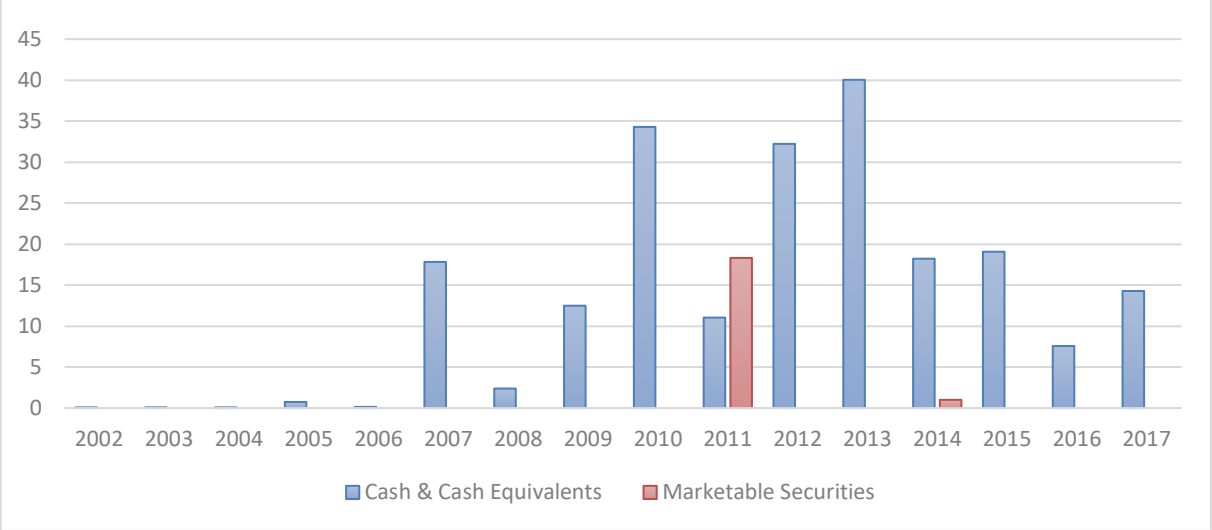

Figure 6-5: ZOREN – Cash & Cash Equivalents/Current Assets and Marketable Securities/Current Assets. Y-axis: percentage. X-axis: years.
Source: http://www.zorluenerji.com.tr/tr/yatirimci-iliskileri/yillik-faaliyet-raporlari.

AYEN's marketable securities are negligible between 2002 and 2006 in comparison to their cash holdings (see Figure 6-6). Marketable securities that were classified as financial assets that were available for sale existed in the Türkiye Is Bankasi (Turkey's largest bank) as Type-B mutual funds (Ayen Energy, 2006, p. 58).

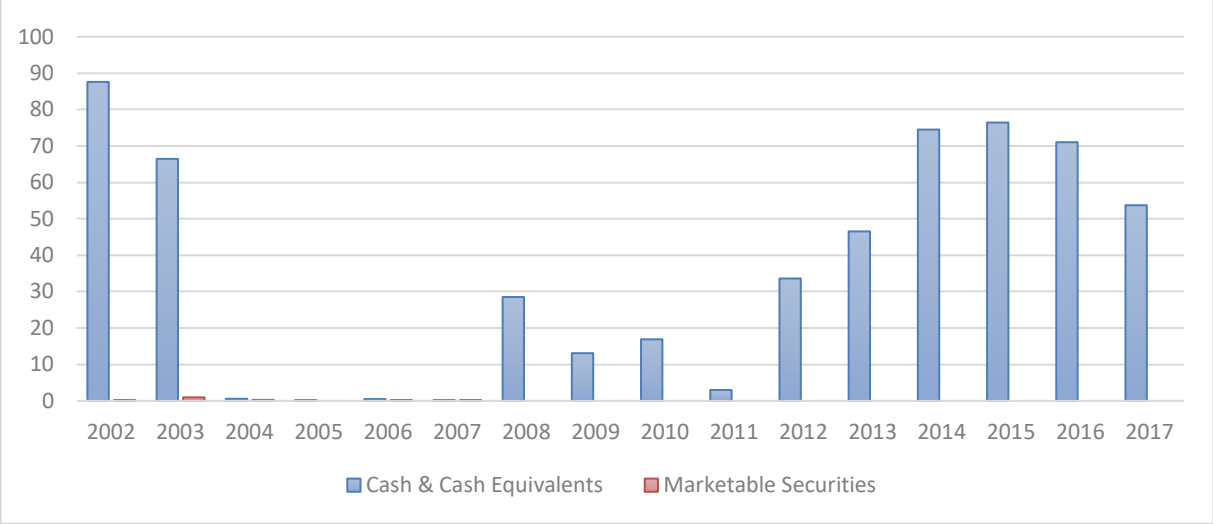

Figure 6-6: AYEN – Cash & Cash Equivalents/Current Assets and Marketable Securities/Current Assets. Y-axis: percentage. X-axis: years.
Source: http://www.ayen.com.tr/eng/Finansalraporlar.aspx.

As seen above in the case of AYEN, AKSUE's cash and cash equivalent holdings in comparison to their marketable securities display a similar pattern (see Figure 6-7). AKSUE's short-term financial investments consist of Type-B mutual funds (Aksu Energy, 2013; Aksu Energy, 2003; Aksu Energy, 2002).

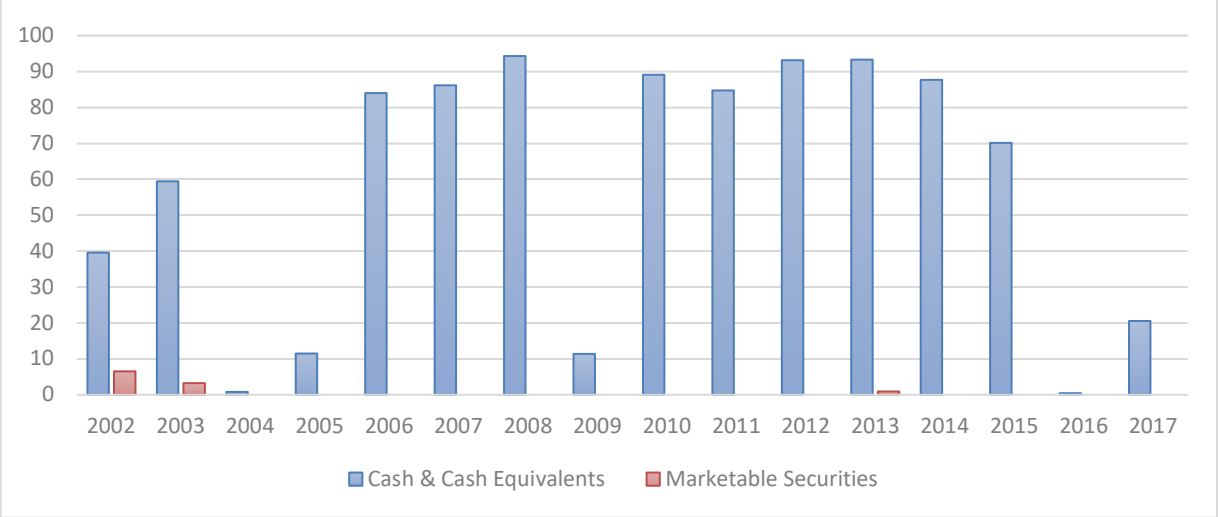

Figure 6-7: AKSUE – Cash & Cash Equivalents/Current Assets and Marketable Securities/Current Assets. Y-axis: percentage. X-axis: years.
Source: http://aksuenerji.com.tr/ana-sozlesme/faaliyet-raporlari/.

AKSA-AKSEN displays a similar pattern to its peers (see Figure 6-8). The firm had minimal marketable securities for the years 2011 and 2012, which consisted of public offering bonds from Türkiye Is Bankasi (Aksa Energy, 2012; Aksa Energy, 2011).

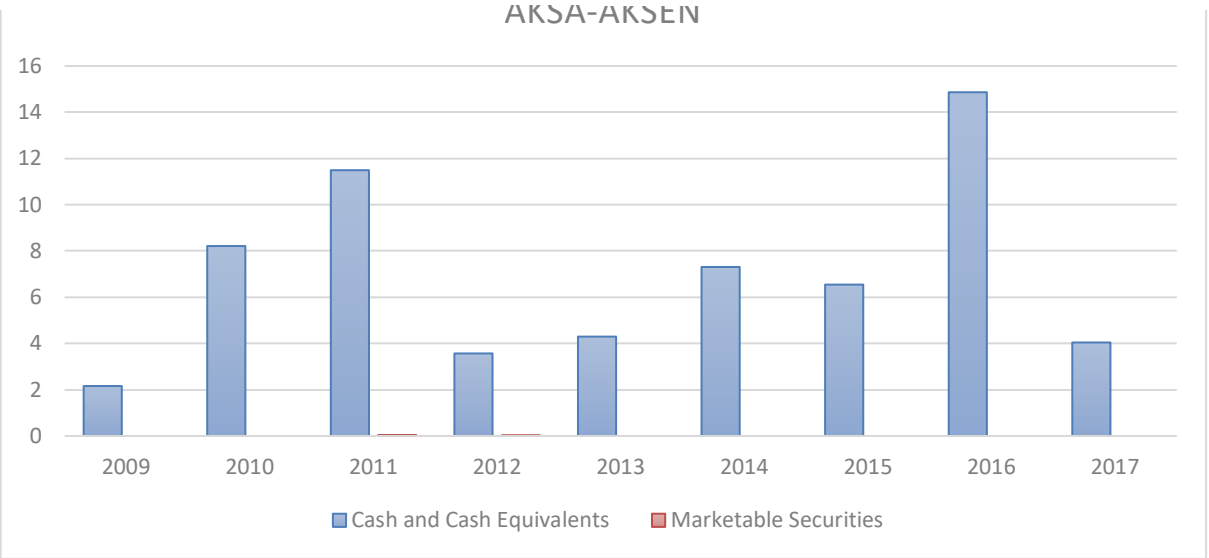

Figure 6-8: AKSA-AKSEN – Cash & Cash Equivalents against Current Assets and Marketable Securities/Current Assets. Y-axis: percentage. X-axis: years.
Source: http://www.aksainvestorrelations.com/presentations/investor-presentations/.

Figure 6-9 illustrates the cash and cash equivalents/current assets and marketable securities/current assets for all energy companies that reported to the CBRT.

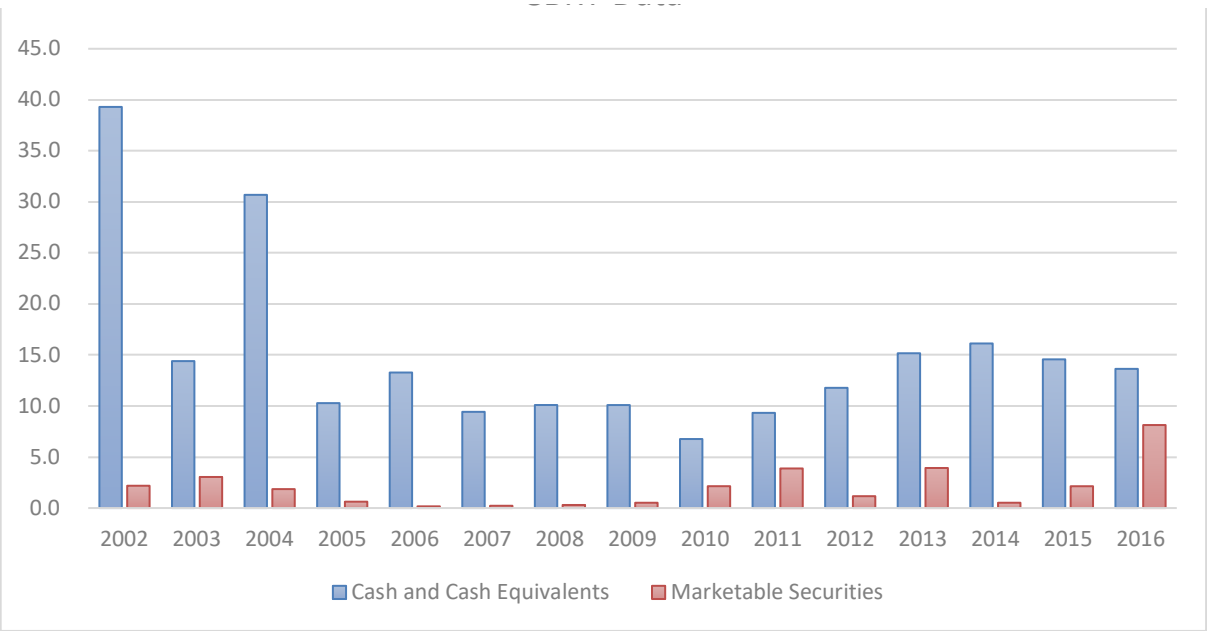

Figure 6-9: CBRT Data – Cash and Cash Equivalents Against Marketable Securities. Y-axis: percentage. X-axis: years.
Source: http://www.tcmb.gov.tr/wps/wcm/connect/EN/TCMB+EN/Main+Menu/Statistics/Real+Sector+Statistics/Company+Accounts/Company+Accounts+Data/.

A more evident pattern is recognisable for all energy companies' financial data reported at the CBRT. The cash and cash equivalents were high at the start of the 2000s. After 2007/2008, a slight increase in cash and cash equivalents is notable indicating that firms were building up capital buffers to avoid disruption in capital flows. Most of the cash holdings were denominated in major foreign currencies, such as in the case of AKENR in USD and EUR (AK Energy, 2005). After 2007/2008, marketable securities rose gradually; however, for the period 2002–2015, their volume is approximately 1/8 in comparison to cash and cash equivalents, except for in 2016.

In 2016, a rise in short-term financial securities is notable, which may have been predominantly due to the failed military coup attempt. After this event, a series of economic uncertainties followed where companies tried to secure part of their cash flows with the acquisition of short-term financial instruments. This is in line with the findings of Al-Najjar (2013) and Bates, Kahle, and Stulz (2009). However, an active engagement of companies in short-term financial instruments in order to make profits is not evident. Companies engage in marketable securities primarily for hedging purposes and increase their cash holdings to avoid cash flow disruptions. Nevertheless, an interesting question remains: at what point do NFCs

shift their investments from production towards finance? An answer is provided in section 6.1.4 of this chapter. To sum up this section, this section critically discussed a few aspects of the studies that have been conducted on Turkey's NFCs. Subsequently, a detailed analysis of energy firms' interest incomes, interest expenses, and cash and cash equivalents have been contrasted to marketable security holdings. The next section, section 6.1.1 discusses the current challenges for Turkish banks and financial markets and the problems with energy investments.

6.1.1. Current Challenges

The following section highlights challenges for the energy sector in Turkey.

The Banking Sector in Turkey

According to interviewee Loc8, Turkish banks are not market makers in the electricity sector because they are simply not knowledgeable enough. Turkish banks did not want to set up power desks or coal desks like Goldman Sachs due to the high costs. Banks started engaging in energy investments after giving out large loans and then realising that they were too deep in the business. In 2018, the total loans to the energy sector (7.27%) are ranked third after wholesale (12.42%) and construction (8.17%; BDDK, 2018). Figure 6-10 shows the total loans given out to the energy sector, starting from 2010 onwards, in percentage to the total loans given out by banks. As of September 2018, non-performing loans from the overall loans given out to the energy sector jumped from 0.6% (2017) to 2.71% (BDDK, 2018; Öztürk, 2017). The reasons for this trend are explained in the sub-section below, titled Problems with Energy Investments.

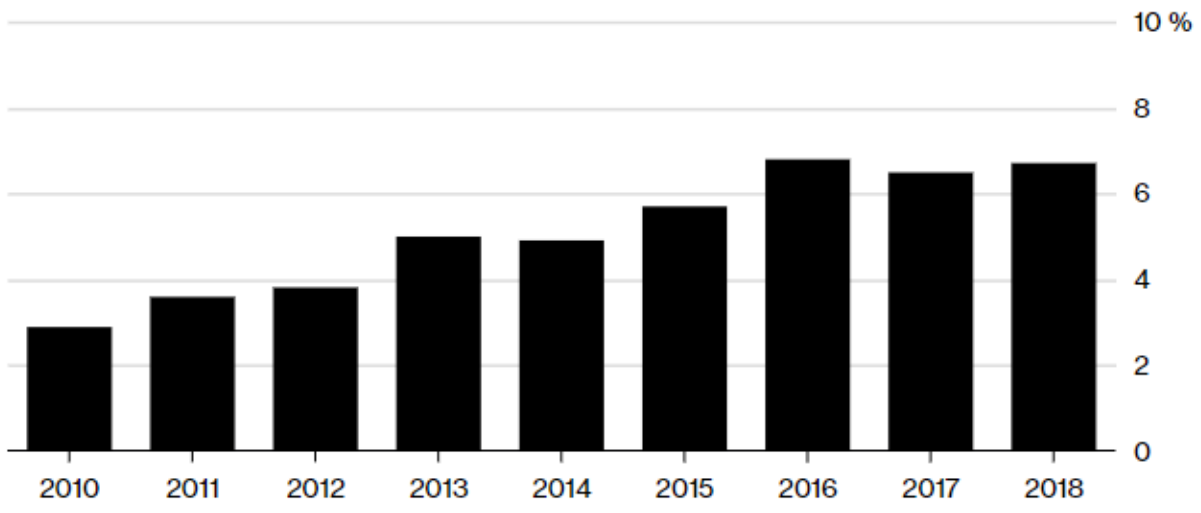

Figure 6-10: Bank's Exposure to Potential Defaults.
Source: Ersoy and Kandemir (2018) – BDDK.

Interviewee Loc6 stated that towards the middle of Stage Three of state-led financialisation (see section 4.1 of chapter 4) companies vertically integrated into the energy sector and engaged in small-scale investments. Interviewees Off3 and Loc6 stated that, after the liberalisation of the energy sector, firms engaged in small-scale energy investments and provided their financial statements to the banks (for five to six years) in order to get credits. Interviewee Loc6 said that, at the same time, IFIs started engaging in investments and local firms were following this trend, while banks kept a laissez-faire attitude towards credit disbursements. Interviewee Off3 stated that:

> The banks were clueless in the beginning and just appraised the projects based on their feasibility. The banks relied on the guarantee of purchases from the state and granted credits. However, local banks experienced massive losses due to a lack in due diligence, such as with regard to the location of Power Plants (PPs) and environmental forecasts. The result was the construction of Hydroelectric Power Plants (HPPs) without access to water. The banks seized these PPs after the operators failed to serve their credits, however, banks realised that they could not sell them.

After experiencing these kinds of fallouts, banks started being more cautious when granting credits to RE projects. Interviewee Off4 argued that the current situation is the result of careless banking, because 'in the beginning, they gave out credits recklessly and now they are overcautious'. In this context, interviewee Off3 shared his personal experience:

> In Turkey, if you are not one of the big players [and are] without enough funds, banks are reluctant to provide you [with] credits. For instance, you have a licence for a brilliant project, [but] no bank in Turkey would provide you money to realise this project without high securities. This is in sharp contrast to European banks; they look primarily to the feasibility of the projects and after a rigid process of evaluation they either grant you the credit or do not. In Turkey, something like that would never happen. Only if you have enough financial funds, i.e., private securities, and your project is solid, then Turkish banks might fund your project.
>
> I am talking here from my own experiences. I had a solar project for 8 Megawatt (MW). I sold 5 MW of this for 950,000 USD. I still had 3 MW remaining. If you want to set up a PP with 3 MW, it requires 3 m USD. I wanted to add some cash to the revenue that I made from the sale of the 5 MW to have equity of 30–40% for this project. No bank wanted to give me a credit, despite having 30–40% of the equity for a project. I want to stress that this project was a good and feasible project, which has been highlighted by the sale of 5 MW.

> Now you are probably wondering why no bank was willing to participate in this project? The bank said to me, if you want a credit for 2 m USD you have to provide me with a guaranty of 4 m USD. Keep in mind, this project even had a guarantee of purchase by the government for the next ten years for 0.133 USD per kWh. I have roughly over 600,000 USD annual guaranteed purchases from the state. Despite this fact, they [the bank] have not approved my credit, and this is the current dilemma we are in with our energy investments.

Interviewee Loc6 stressed that it is getting more and more difficult to find external funds for new investments. Interviewee Int8 confirmed both Loc6 and Off3's statements and mentioned that the biggest problems are credit limits and new credit lines for firms. This is also apparent on the trading side where companies do not do business amongst each other without a security from the bank. This drives transaction fees and slows down the overall market (Interviewee Int8, 2017).

Difficulties with credit limits are also accelerated by the problems of the Turkish capital markets. Raiser (2015) stressed that Turkey has a low investor base where banks are both investors and issuers. Banks dominate the Turkish financial sector. The costs of funding from international capital markets are lower than those from the Turkish capital markets. Furthermore, Turkey has low domestic savings and the investments are more short-term oriented, which can be explained by the illiquid small secondary-debt market. In general, investors follow a buy-and-hold strategy due to the scarcity of corporate securities. The lack of corporate ratings and the poor disclosure of financial statements linked with weak corporate governance pose further problems. However, the main problem is the lack of strong institutional investors (Raiser, 2015).

The Turkish banking sector's profit, as of September 2018, was 42 bn TL (BDDK, 2018, p. 8). The non-cash credit developments are illustrated in Figure 6-11 below. In 2010, the FX share stood at 55.5%, while TL was approximately 44.5%. This increased in September 2018, to an FX share of 65% and TL of 35% (BDDK, 2018).

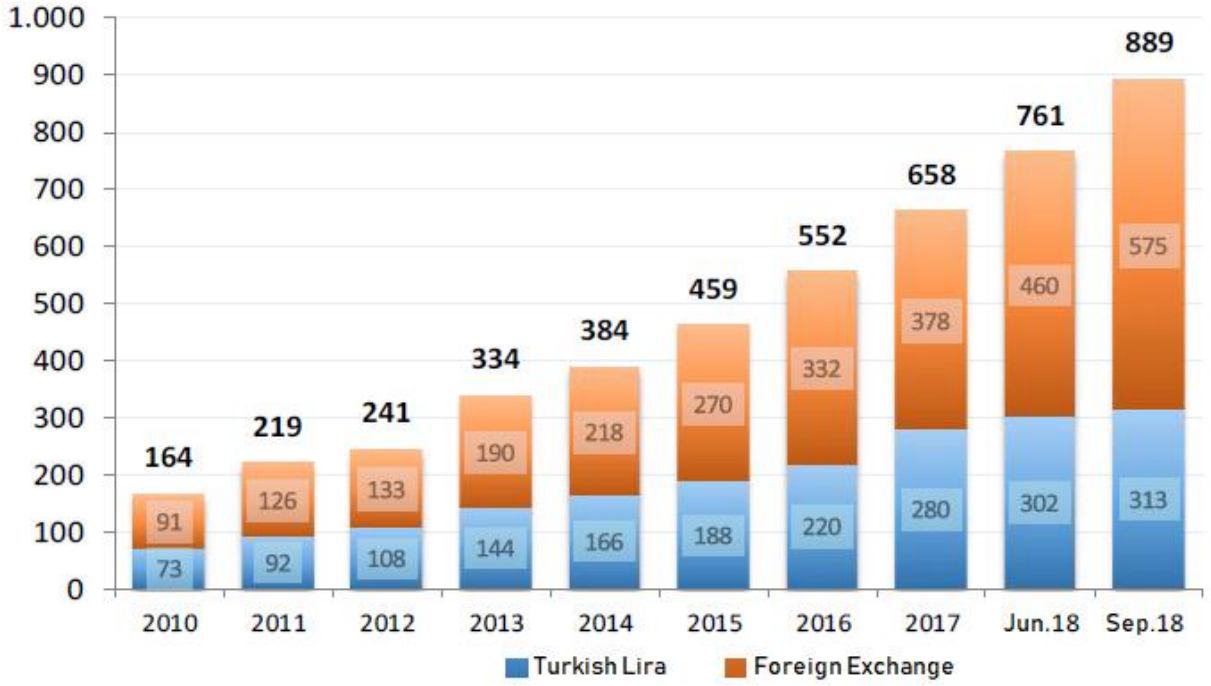

Figure 6-11: Turkish Lira and FX Holdings of Banks. Y-axis: billion TL. X-axis: years.
Source: BDDK.

Underdeveloped financial markets

On the 21st December 2012, BIST opened its derivatives market (VIOP). From the 5th April 2013, onwards, the trading of electric futures was possible (VIOP, 2017). Interviewee Loc3 said that:

> The first companies that opened trading accounts were domestic visionary energy firms in collaboration with foreign companies, followed by locals. However, the financial markets in Turkey are relatively new and the longest contracts are 12–15 months. In contrast, to the German equivalent of VIOP, they provide contracts for 5, 10, and 15 years. The major problems are that Turkish markets are underdeveloped and have limited products available.

De Eskinazis (2015) explained that VIOP is expected to pick up over the next few years through a close collaboration with the stock exchange NASDAQ. VIOP is looking to increase its financial products, ensure an easy access to market players, and increase transparency. Furthermore, the increasing number of market participants will lead to higher market liquidity and lower trading costs (De Eskinazis, 2015). Interviewee Int9 explained that that there are a few projects taking place in collaboration with NASDAQ in order to better understand how the financial markets work and ascertain financial products can be implemented into VIOP (BIST, 2017). Interviewee Loc8 stated that:

> In the beginning electricity trading companies were reluctant to participate in VIOP due to the high fees and the lack of understanding of this market, i.e. financial instruments (options and futures). Energy firms still conducted their trades on OTC markets as before, instead of VIOP. They had to use an intermediary (bank), who usually charged a lot of fees. They also did not want to show their competitors that they were engaging in those trades. As a result, VIOP implemented a market-maker model to disguise the actual firm behind the deal and only showed the intermediary who was executing the trades.

In this context, interviewees Loc6 and Loc8 mentioned the rising number of OTC brokers. 'People who were former traders decided to set up their own brokerage because there were large profits in this business. There is no monitoring or anything at all' (Interviewee Loc8, 2017). This situation caused trust issues among market participants and OTC brokers because regulatory frameworks were absent. On the other hand, too many regulations can also be detrimental for a market. Loc8 stressed that Turkish firms working in the energy sector are not ready for the Markets in Financial Instruments Directive (MiFID 2). Further, Loc8 (2017) explained:

> We as a UK-based company, even if we operate in Turkey, we have to obey the rules of the Financial Conduct Authority [FCA] due the fact that we have our licence from them. In Turkey, Energy Market Regulatory Authority [EMRA] enforces this on the retail side, but not on the trading side.

Another aspect that prohibits the expansion of the growth of energy firms' engagement in financial activities is inaccurate fundamental reports (Interviewee Loc6, 2017). Interviewee Int9 provided an example:

> Let's assume you want to buy electricity and you think today the weather conditions are bad, hence the electricity prices will be low. However, the prices unexpectedly skyrocket. Why? Because the government shut down a coal PP overnight and justifies it by simply stating 'we had to'.

Interviewee Int2 highlighted that forecasts are very crucial for trading, i.e., weather. Since accurate fundamental analysis is lacking, it is very difficult to predict market prices. Interviewee Loc7 stated that investors are reluctant to invest since they cannot make any predictions. In this context, interviewee Int2 provided another example: 'no one would have expected that prices would go up to 211 TL in December 2017. This year's annual average is 160 TL/MW (01.01.2017–25.08.2017)'. These prices were shocking; however, the December 2018, average energy prices hovered at approximately 350 TL (EPIAS, 2018a). Interviewees Int2

and Int9 believe that higher transactions would take place on VIOP if fundamental analysis was more accurate. The importance of these forecasts is illustrated in Figure 6-12 below.

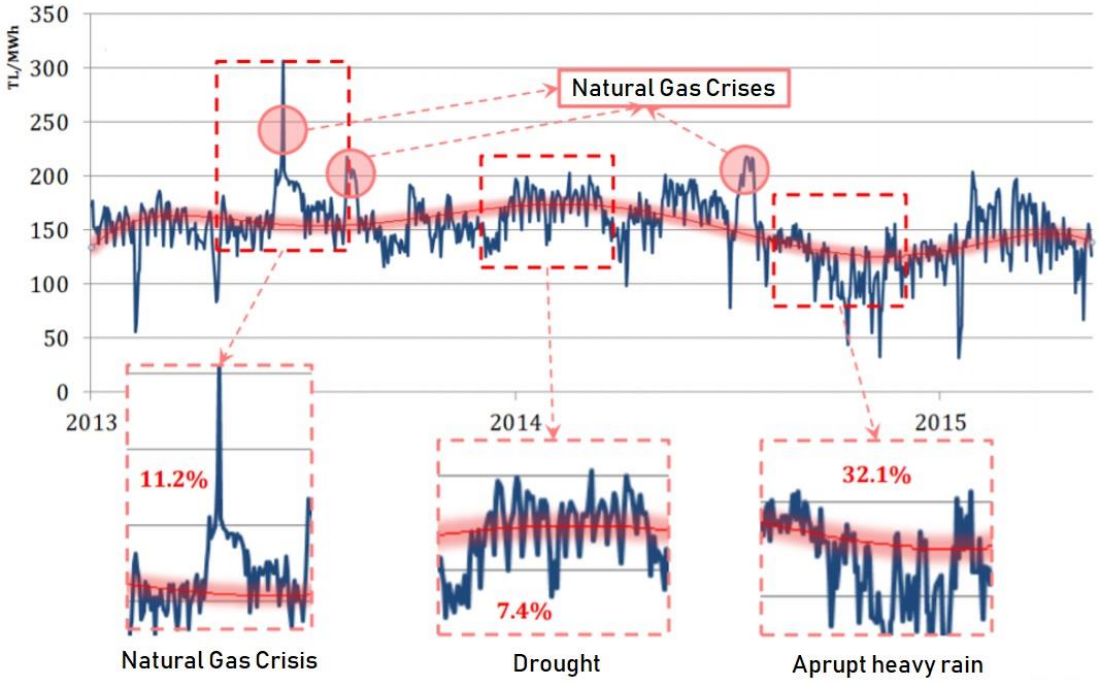

Figure 6-12: Turkish Spot Electricity Prices.
Source: De Eskinazis (2015) – Enerjisa.

In 2013, a natural gas crisis during the winter months caused sudden price hikes. A similar price increase is illustrated in the beginning of 2015. Furthermore, Figure 6-12 displays the price volatilities resulting from environmental issues, such as drought, in 2014, which led to higher spot prices. In the following year, abrupt heavy rain led to a fall in spot prices, since hydro energy PPs had more water to operate (De Eskinazis, 2015). The investment behaviour of the people changed after experiencing sudden downturns on the market (see section 6.1.2 for more detail).

Problems with Energy Investments

Next to political risks, as discussed in detail in chapter 4 including their repercussions in chapter 5, investors have to consider risks such as market risks, firms' operational risks, and regulatory risks.

Market Risk/operational risks

Interviewee Int4 explained that 'an important aspect within the energy sector are theoretical gross margins (spreads) for different PPs:

> A spread is a PP selling a unit of electricity when considering the costs required for the raw materials to produce the unit of electricity. Spark spread refers to gas PPs, dark spread to coal PPs, quark spread to nuclear PPs, and bark spread to biomass PPs. For example, for a gas PP the spark spread is the difference between the sales price of a unit of electricity and the cost of the raw material (gas) required for the generation of that unit of electricity.

The spark spread needs to be considered when planning PP investments. Spark spreads are determined by both electricity and gas prices, which vary over time. When the spark spread is too low, the PPs are expected to be completely deactivated since the input prices would exceed the output prices. There are also other factors that can reduce spreads for existing PPs, such as regulatory changes and new alternative power sources (Külfetoglu, Tanrisever, and Derinkuyu, 2016).

In this context, interviewee Loc6 described the 'gold rush' of energy investments after the privatisation of certain elements within this industry (see section 4.1). At the beginning, funds for investments were made easily accessible for companies, which resulted in the construction of PPs with large capacities. Interviewee Loc6 explained that:

> In Turkey it is usually the case that one sector experiences a boom at a time. For example, market participants predict that energy investments are lucrative and will increase, and this prediction would lead many investors to focus on that sector, like in the case of the energy sector. However, in the mid-2000s investors were debating whether the investment trend was a current bubble or a sustainable trend. In 2010, investors realised that they can make money in this sector and they then channelled further funds into new investments. It is clear that the mismanagement of forecasts is prevalent. Analysis and forecasts are not accurate, e.g., assume that the need for new energy PPs is three, however investors set up five.

This creates overcapacity and oversupply on the market, and this is exactly what happened between 2012 and 2015. After the economy started slowing down, a few events acted as a catalyst for the downturn of the economy (see section 4.1 of chapter 4).

Approximately 26% of the 87 GW of electricity in Turkey is produced by natural gas. After the gas crisis in the winter of 2015, caused by a political dispute between Turkey and Russia, Russia reduced its gas supply to Turkey (Rzayeva, 2018). In 2018 a political dispute between the U.S. and Turkey led to a sharp depreciation of the TL. This resulted in a price hike for imported goods. BOTAS, the state pipeline operator, increased prices from 717 TL/kWh (2017) to 1,700 TL/kWh (2018). The TL depreciated faster against the USD than the rate at which electricity prices increased. Zumrut Imamoglu, Chief Economist at TUSIAD, said that:

‘While costs are increasing because of the currency shock, companies cannot adjust their prices accordingly due to state regulation and price ceilings, which in turn, causes financial problems’ (cited in Ersoy and Kandemir, 2018). This caused a major problem for companies because all investments are conducted in USD and revenues are in TL. In this respect, Selim Guven, Commercial Director of Acwa Power in Turkey, said: ‘Our margins have evaporated. There is no predictability or visibility in the market, which makes it even more difficult for restructuring. And that jeopardizes the financial stability of these companies’ (cited in Pamuk, 2018).

Since 2003, 95 bn USD has been invested into the energy sector in Turkey and approximately 51 bn USD of the debt is outstanding (Ersoy and Kandemir, 2018). Interviewee Loc4 argued that the main problem was the shrinking spreads between sales and production costs (see Figure 6-13 below for the profits of gas PPs).

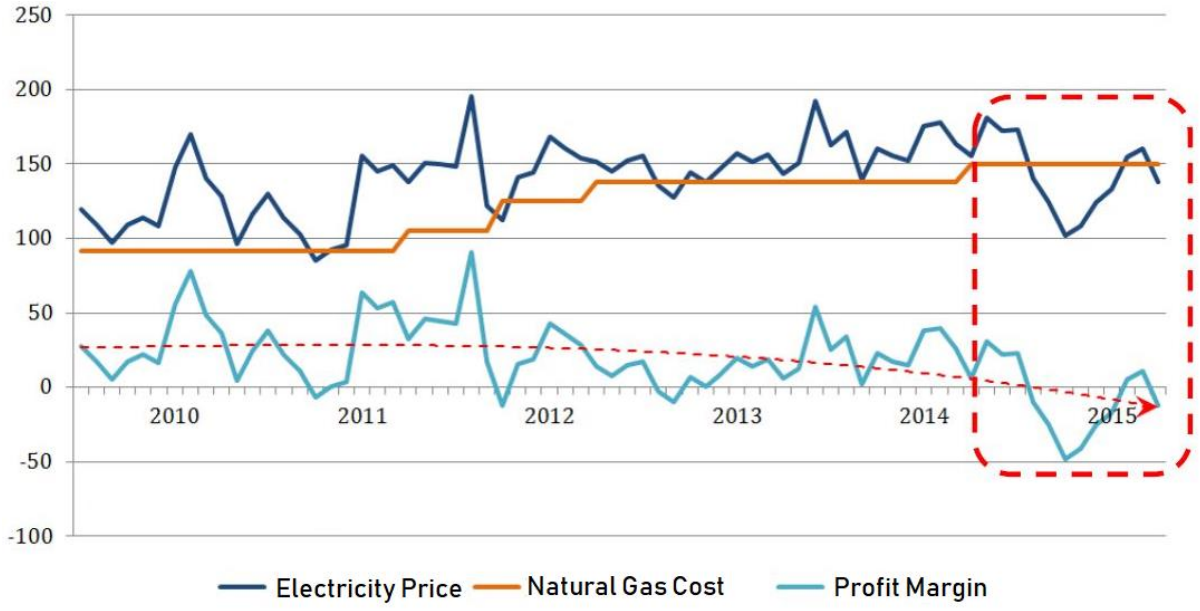

Figure 6-13: Profit/Cost for Gas PPs.
Source: De Eskinazis (2015) – Enerjisa.

Energy producers have been struggling with their profitability as their revenue in USD tumbled owing to the weaker TL (Argus Media, 2018). Rising borrowing costs and a fall in the TL led to major liquidity problems in the energy sector, which in turn led many companies restructuring their debts. In 2010, 1 MW of electricity cost 80.7 USD, which fell to 45.1 USD in 2018 (see Figure 6-14 below). However, in 2010, 1 USD equalled 1.50 TL on average, while in 2018 1 USD was approximately 5.50 TL (see Figure 6-15 below).

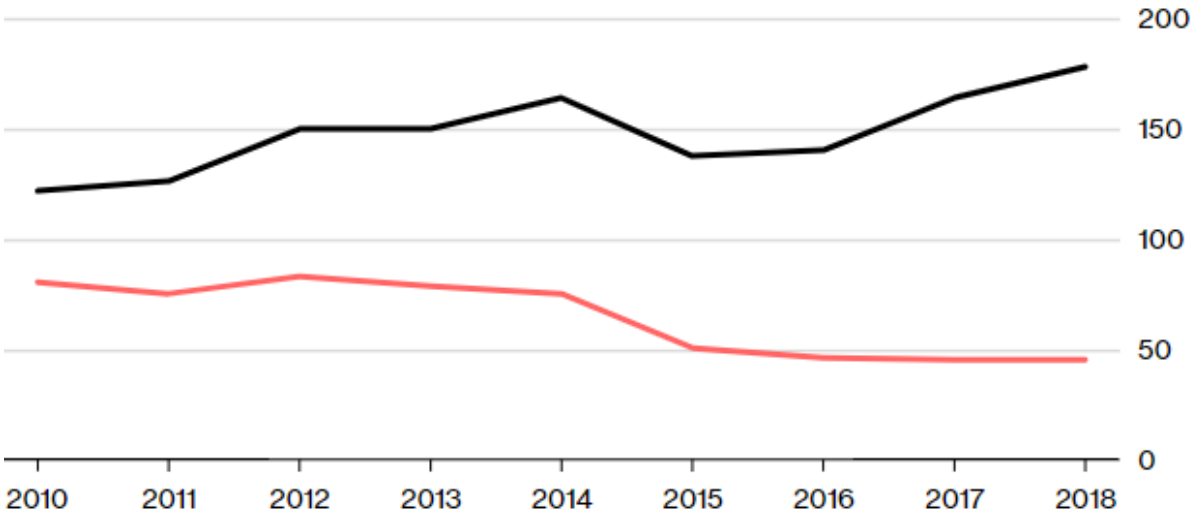

Figure 6-14: Lira/MW Prices Against USD/MW Prices.
Source: Ersoy and Kandemir (2018).

Figure 6-15: TL/USD 2010–2018.
Source: https://www.xe.com/currencycharts/?from=USD&to=TRY&view=10Y.

As a result of the electricity price reductions and the fall in value of the TL against the USD, gas PP operators were forced to temporarily shut down their operations in August 2018, due to the all-time low spark spread. According to Argus Media (2018), in August 2018 six gas PPs – with a total capacity of 5.3 GW – stopped their operation due to the TL record low against the USD. The shutdown resulted from high operational costs as gas prices spiked due to the

weak TL. ‘Day-ahead spark spreads without taxes for gas-fired units with 55pc efficiency fell to 10.68 TL/MWh today [12 August 2018], compared with an average of 29.25 TL/MWh on working days earlier in August’ (Argus Media, 2018). Interviewee Int2 stated that gas PPs need a spread of approximately 30–40 TL/MWh in additional to the raw material (gas) price in order to be sustainable. Argus Media (2018) reported that ‘spark spreads turned negative on 12 August at minus 3.52 TL/MWh’.

The situation described above led to a sell-off of several gas PPs, such as OMV’s (an Austrian oil company) 890 MW PP to Bilgin Energy. Other foreign gas PP owners are also looking for options to sell their plants, such as: RWE, CEZ, E.ON, Acwa, Ansaldo, and Inter Rao (Argus Media, 2018). In 2013, OMV started operating its gas PPs in Turkey. Like many other foreign investors, the company was attracted by the market liberalisation and the highest growth forecasts after China. However, OMV sold its plant for only half of the 600 m EUR that it had initially invested (Pamuk, 2018). The current situation shows that power companies turn towards banks in order to restructure their loans. Recent developments have led to major corrections of the growth forecasts, with further economic contraction expected in 2019 (Pamuk, 2018).

However, it is the smaller local firms that are suffering right now (Interviewee Off1, 2017). In this context, Serdar Ekiz, a solar PP investor, highlighted that as of September 2018, approximately 10% of Turkey’s solar PPs are for sale. Investors have serious cash flow problems and want to reduce their outstanding credits, and they want to do more business in cash.

Ekiz further highlighted that nothing is wrong with the product itself; however, investors raised concerns about the delayed payments from the electricity distribution companies. The payment delays, coupled with a depreciation of the TL, meant that investors suffered major losses. Interviewee Loc4 reported that producers experienced higher repayments of their credits since they are denominated in USD. Hence, many solar PP investors want to reduce their risks by selling their assets (Tuncel, 2015). Ekiz’s statement was confirmed by Interviewee Loc10 in a follow-up interview. Loc10 stated that:

> Currently, large holding groups struggle to repay their credits. For example, Berek Energy and Zorlu Energy, one of the largest, are in the red. I know this from the reports that I receive from the electricity distribution companies. Large holding groups are selling off their assets, but to be fair, they can only sell their RE assets because foreign investors are strictly against investments in conventional energy sources since there is no support mechanism for them. After their asset stripping, holdings payback their debts to banks or restructure their existing credits.

Local cash flow problems linked to a weak TL increased the interest of local energy producers in expanding their operations abroad. Furthermore, low energy prices and the surplus of electricity supply in Turkey, coupled with FX income, provided great opportunities abroad. For instance, Aksa Energy and Zorlu Energy widened their foreign operations. The former in Ghana, Madagascar, and Mali, while the later in Pakistan, Palestine, and Israel. Zorlu Energy is an important energy producer in Israel by meeting 7% of the country's energy. Other examples can be provided from Türk Unit and Calik Energy. Türk Unit is currently working on the construction of gas PPs in Iran which are going to meet 10% of the country's energy demand. Similarly, Calik Energy has increased its foreign operations, i.e. in Uzbekistan, Iran, Georgia, Turkmenistan and Iraq (Öztürk, 2017).

Interviewees Off3, Loc3, and Loc10 said that over the last few years, energy firms have experienced increased liquidity problems. Interviewees Off3, Loc3, Loc6, and Loc10 stated that the biggest problem that the Turkish energy sector is facing right now are financial risks, i.e., cash flow problems. All of the bigger players in the market are in Joint Ventures (JVs) with large energy firms that support their local partners. Regarding JVs, interviewee Int7 stated that there are some difficulties such as 'operational risks: time to money of the investment, bureaucracy/red tape, and cultural differences between JVs, i.e., German and Japanese corporate cultures clash with those of Turkish firms'.

Regulatory risks and State interference

Approximately 53% of Turkey's total natural gas demand is imported from Russia. In November 2015, a political crisis with Russia highlighted the importance of Turkey's energy supply security (Rzayeva, 2018; Öztürk, 2017).

Despite the recent decision to increase domestic coal exploration by subsidising the local coal sector, Turkey's coal imports have increased. This is because the local coal's efficiency degree is lower than that of imported coal. As a result, the government enacted a tax on imported coal and stopped giving out licences for new coal PPs that operate with imported coal (Öztürk, 2017). In this regard, it is important to consider the fact that providing incentives for a particular sector or a group of corporations can distort the competition within the local economy (Beattie, 2014). Pamuk (2018) argued that this not only damages competition amongst producers, but it damages the financial sustainability and predictability and scares (foreign) investors.

It is planned to import natural gas from countries such as Israel, Northern Iraq, and Egypt. The natural gas extracted from Israel will be transported by Zorlu Energy, ENKA, and Turcas-

EnerjiSA. The expected amount of gas to be imported to Turkey will be approximately 8–10 bn m^3 (Öztürk, 2017).

Interviewees Int2, Off1, and Off8 stated that sudden regulatory changes can happen overnight in Turkey. These kinds of events, as happened with local coal subsidies, scare foreign investors and mean that they do not want to come back to Turkey due to the greater regulatory risks. In this context, Int9 provided an example:

> A Norwegian company, Statkraft, started a project with 520 MW but stopped and sold the project to a domestic investor due to regulatory risk. Despite the guarantee of purchase by the government, the company did not trust the government. Also, after sudden regulatory changes the government could not attract foreign investors. Investors are hesitating and do not fully trust the government.

Interviewee Off1 used the following metaphor to emphasize that the single biggest risk is the regulatory risk: ‘After the start of the football match, rules of the game change’. In addition to this, interviewee Loc10 reasoned that in the electricity market, insider knowledge is highly valuable in order to foresee the future steps of the government. If the foreseeability is decreasing, then market players shift towards more secure and predictable markets.

Since 2002, Turkey has reduced the role of State-Owned Enterprises (SOEs) in the market; however, the government still holds approximately 20% of the installed power. This has caused major problems, such as undercutting market prices in the merit order. In a nutshell, the merit order ranks the available sources of energy according to their marginal costs of production. The energy sources will be operated from the lowest to the highest marginal costs (see Figure 6-16 below; Appunn, 2015).

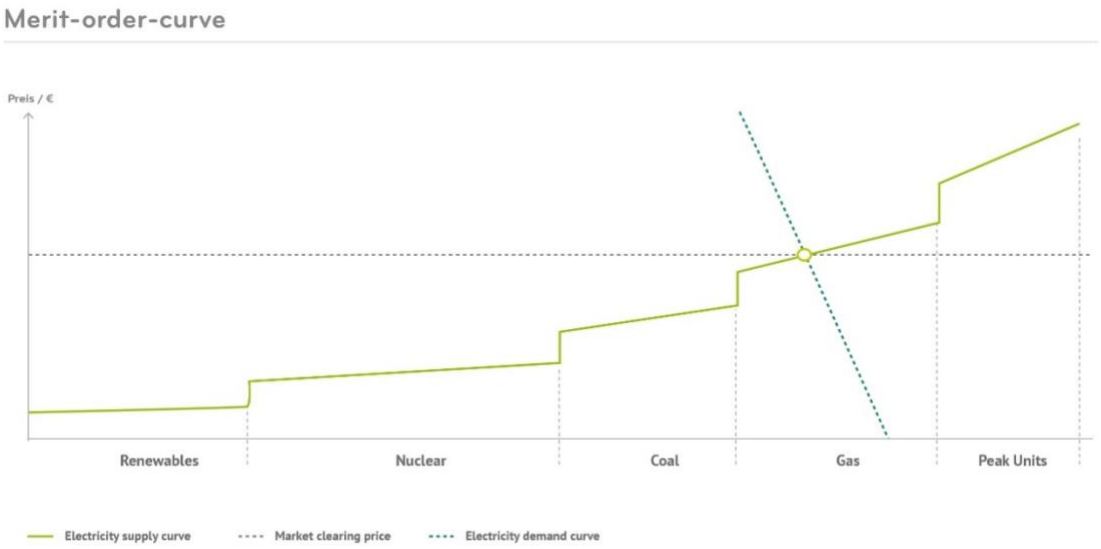

Figure 6-16: Merit-order-curve.
Source: https://www.next-kraftwerke.be/en/knowledge-hub/merit-order-curve/.

State-owned Electricity Generation Company (EUAS) has approximately 20% of the overall production capacity and inserts '0' for marginal costs. The government is subsidising its own PPs, while the private sector has to account for marginal costs. This causes the preference for SOEs over private companies (Interviewees Int2, Int4, Int7, Int8, Int9, Off1, Off2, Off3, Off6, Loc1, Loc2, Loc4, Loc5, Loc6, Loc8, and Loc10). SOEs try to keep the market price at the lower end and by setting a price ceiling for the market price the government manipulates the market, which is against the notion of a free market (Pamuk, 2018). In this context, Off1 argued that cross-subsidies among SOEs are the biggest obstacles in the energy sector. Along the same lines, Yetik Mertk, President of Enerjisa Energy, argued that 'removing the cross-subsidies in the next years would create better chances for a free energy market in Turkey' (cited in Enerji Günlügü, 2018a).

Turkey's natural gas market remains largely under state control and needs to be liberalised in order to have a free and competitive energy market (Pamuk, 2018). Önder Karaduman, Chairman of the Board at Turkey's Electricity Producers Association (EÜD), argued that 'it is impossible to discuss the state of Turkey's energy market and claim that it is healthy when natural gas prices are not subject to market forces and not the product of market competition. BOTAS must be disassembled' (cited in Stevenson and Pascoletti, 2015).

Turkey's current account deficits are illustrated in Figure 6-17 below. The green line shows the current account excluding the energy costs and the yellow line displays the current account excluding energy and gold. Turkey's current account deficit (the difference between the green and the orange line) is approximately 6%.

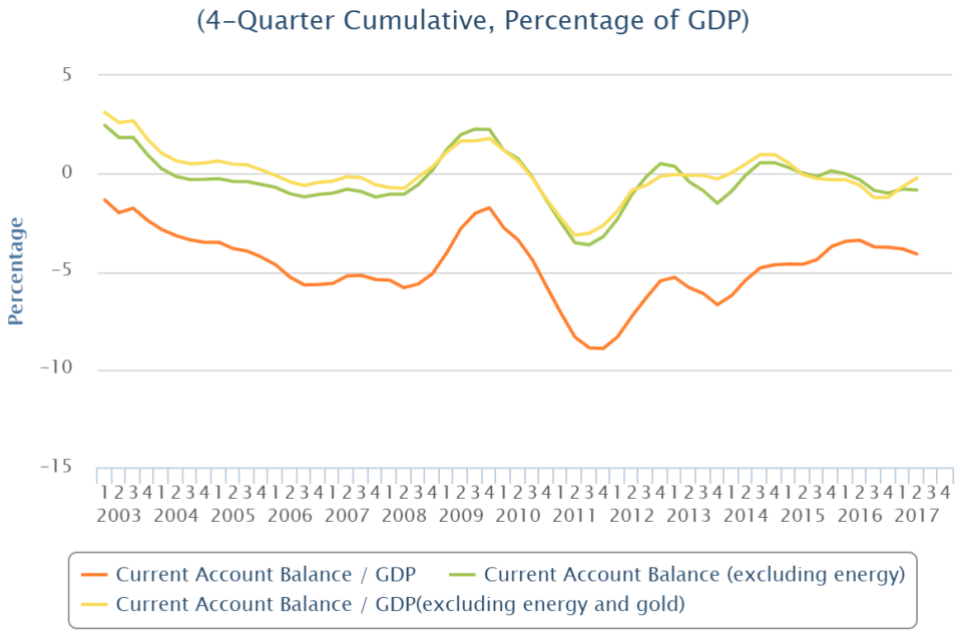

Figure 6-17: Current Account Deficit.
Source:
http://www.tcmb.gov.tr/wps/wcm/connect/EN/TCMB+EN/Main+Page+Site+Area/Kaldirilan+Sayfalar/Interactive+Charts/Current+Account+Balance

In order to reduce spending on energy imports, the government enacted several measures (such as YEKDEM) and created tax-free investment zones (see details in section 4.2 of chapter 4). In 2017, the government provided subsidies to local coal PPs (Enerji Enstitusu, 2018c). This controversial measure has damaged price stability on the market. Selim Guven, Commercial Director of Acwa Power, claims 'you need predictability, consistent state policies, financial stability and access to longer term funding ... at the moment we are struggling in all these aspects' (cited in Pamuk, 2018).

In order to accelerate the market liberalisation, the government established a few authorities (such as EMRA and Turkish Energy Exchange (EPIAS)). EMRA's task is to protect the end-user in the energy sector. Interviewee Loc8 provided an example from the public disclosure platform, KAP, whose task is to distribute market news. Approximately 30% is held by the government. Interviewee Loc8 stated:

> In several cases, the government shut down PPs for maintenance without announcing this publicly or announced it later. This is a breach of regulations and needs to be addressed by the Capital Markets Board of Turkey (SPK), however, nothing happens; they turn a blind eye.

Interviewee Loc8's statement has been supported by interviewees Int2, Int7, Int8, Int9, Off3, Off6, Loc2, Loc4, and Loc10. In a similar vein, Int8 stated that:

> One of the major problems right now is the allocation of responsibilities to the right agencies/organisations. In a few cases tasks and responsibilities have not been allocated. For example, energy trading-related issues are looked after by EMRA, which is wrong. Moreover, it falls into the jurisdiction of the SPK, since trading is directly related to financial activities.

The following section (section 6.1.2) will illuminate companies' financial activities, such as M&A, hedging, FX loans, and corporate bond issuance.

6.1.2. The financial activities of Turkish energy companies

This section highlights the financial activities of Turkish energy companies, based on financial statements retrieved from listed companies and primary data from 28 in-depth interviews with field experts. This chapter provides evidence for the absence of financialisation in terms of the increased engagement of NFCs in financial activities in order to profit from short-term speculative investments. However, instead of an increase in marketable securities, as seen in mature markets (Orhangazi, 2008), a rise in financial expenses and M&A is evident. Strategic M&As aim to increase a firm's competitive position within the market. M&As do not contribute to the real economy due to the nature of those deals (Hilferding 1910; Veblen, 1904) and because existing firms are already traded for premiums (for more details see the sub-section titled *Mergers and Acquisitions (M&A)* below and section 2.3.2 of chapter 2). In the case of energy firms, affiliated enterprises and participations account for the lion's share within FFA. Next, the increase in financial expenditures – primarily interest expenses – will be discussed.

As clarified in chapter 5, the mid-2000s were marked with an increase in capital inflow to Turkey, primarily for M&A activities with strategic motives to takeover local firms and to expand the market share of MNEs (E&Y, 2017; E&Y, 2018; Deloitte, 2018a). These findings are in line with the statements of interviewees Int3, Int4, Int6, Int7, Loc1, Loc6, Loc9, and Off8 who explained that after the FDIs boom in 2002/2003 many foreign companies entered the market.

The next section sheds light on the type of M&A transactions that have taken place in Turkey's energy sector.

Mergers and Acquisitions

An interesting development of the post-1980 liberalisation in Turkey was the late establishment of Turkey's Competition Authority (TCA). Almost two decades later, the TCA was given the authority to oversee M&A transactions in order to regulate and ensure

competition across the sectors. According to UNCTAD (2015), the gross value of cross-border M&A quadrupled between 2003 and 2007, which suggests that Turkish cross-border M&A were in line with the global trend.

In order to delineate the differences between mergers, acquisitions, joint ventures and privatisation, definitions have been provided:

- Mergers are the merging of companies with another firm to form a new legal entity.
- Acquisitions are where the buyer either takes complete control over a target firm or acquires enough shares to be a minority or majority shareholder.
- Joint Ventures are business agreements that create a new business entity while separating the parties' own business entities from the JV. Hereby, parties pool their resources and share losses and costs associated with the JV.
- Privatisations are the transfer of public enterprises into private hands, either forever or subcontracting them for a certain period.

Since 2006, an increased establishment of JVs between local and foreign companies have taken place, such Enerjisa which was created by a joint venture between E.ON and Sabanci. In a JV, the overriding goal for the foreign investor is to limit its risks while entering a new market. On the other hand, the local company benefits from knowledge and resource transfers (Interviewee Off8, 2017).

Privatisation has played an important role in the context of Turkey. After 2003, privatisations in Turkey increased following regulatory changes in the aftermath of the double crisis in 2000/2001 (see Table 6-2). Major business groups used this opportunity to acquire public assets. At a later stage, during the groups' reorientation strategies, the acquired assets have been resold for higher prices. For the period 2002–2014, the share of privatisations in total disclosed values was 99 bn USD, with 57% foreign participation (Demiröz and Erdem, 2018). M&As in Turkey are primarily driven by strategic goals to expand the market share as opposed to growth (financial) investments (Deloitte, 2018a; E&Y, 2018). As highlighted throughout the interviews, the low engagement of financial investors can be explained by Turkey's underdeveloped capital markets (see section 6.1.1 of this chapter for more). Ferraz and Hamaguchi (2002) observed, in the case of developing countries, that capital markets are incipient and show low levels of liquidity. This aggravates financial investors to profit from short-term asset arbitrate. 'Most transactions are made to actually acquire assets, in the expectancy of an increasing stream of net business profits in the long run' (Ferraz and Hamaguchi, 2002, p. 384). M&A transactions primarily aim for new or increased market shares. Furthermore, interviewees Int3, Int4, Int6, Int7, Loc1, Loc6, Loc9, and Off8 stated that

over the years many M&As have taken place, and that JVs have been set up in the energy sector with the aim to increase profitability. In this context, interviewee Loc6 stated that:

> The main reason for the entrance in the Turkish energy sector was the profitability of the market. The overall market is getting more competitive in Europe and companies do not have profit margins like in Turkey. That is why few realised the opportunity and started investing into Turkey.

Interviewee Loc6's statement has been corroborated by statements from the literature by Ozan Korkmaz, Partner, Aplus Energy; Mustafa Karahan, Deputy Chairman, Energy Trader Association; Sinan Ak, General Manager, Zorlu Energy; Mehmet Ali Neyzi, CEO, STFA; and Cihan Karamuk, Director of Public Affairs & Influence Strategy, Schneider Electric who argue that the main reason for the entrance in the Turkish energy sector was the profitability of the market (Stevenson and Pascoletti, 2015).

Table 6-2 below shows that, between 2001 and 2017, 2,351 acquisitions, 499 JVs, 285 privatisations, and 85 mergers took place. Transactions within the energy industry were resulting from privatisations whereby the buyers were predominantly large and local business groups (see section 5.2 of chapter 5). According to the TCA, the figures in Table 6-2 below indicate that acquisitions are more common in Turkey than mergers.

Year	Mergers	Acquisitions	Joint Ventures	Privatisation	Total
2001	6	73	7	0	86
2002	14	83	6	0	103
2003	7	76	9	14	106
2004	7	88	8	19	122
2005	5	122	8	35	170
2006	4	138	23	21	186
2007	6	193	22	11	232
2008	3	209	20	23	255
2009	4	128	12	2	146
2010	3	202	5	66	276
2011	3	168	68	14	253
2012	1	190	91	21	303
2013	1	125	68	19	213
2014	4	130	63	18	215
2015	1	124	25	8	158
2016	7	161	32	9	209
2017	6	141	32	5	184

Table 6-2: Number of M&A, JV and P Between 2001 and 2017.
Source: www.rekabet.gov.tr – TCA Annual Reports.

Interviewees Int3, Loc1, and Loc6 explained that the primary goal of companies was to increase their market share with the goal to increase profits. Interviewees Loc1 and Loc9 highlighted the fact that the majority of M&As aim to increase firms' profitability through synergies, by cutting the operational costs and optimising tax. Along the same lines, interviewees Int3, Int4, Int6, Int7, Loc1, Loc6, and Loc9 highlighted that many foreign companies, predominantly German firms, entered the Turkish energy market after realising the sector's future growth potential. Firms who entered the Turkish energy sector trusted the market and the acquirers' own capabilities. Interviewee Int9 explained that:

> In 2008, E.ON entered the market, however due to several regulatory risks E.ON left the market and has been replaced by RWE in 2009. RWE set up a gas power plant together with Aksoy Holding in Denizli with a share of 70% to 30%. In 2010, SOCAR entered the market and joined forces with PETKIM. Another German firm, STEAG, have a large coal portfolio. All the big firms entered the Turkish market in their own specialised fields. RWE focussing on natural gas and STEAG, coal. Those companies did not enter the market to 100%; they collaborated with Turkish firms to avoid general market risks and regulatory risks.

Khanna and Palepu (2011) described several risks for MNEs operating in EMEs; the most pronounced being political risks. The majority of the firms entering the Turkish energy market during the mid-2000s were primarily from the EU (see section 5.1 for more details). Interviewees Int1, Int9, and Int3 stressed that, despite careful and costly preparations, they could have not anticipated such a political and economic U-turn as that which happened in Turkey. Interviewee Int1 stated that:

> Before conducting our investments, we had a long research and analysis period where we considered various scenarios; however, no one could have anticipated a military coupe. Turkey shifted in its political orientation by 180 degrees. A country that once tried to get closer and make stronger ties with the EU, changed its political ideology.

Interviewees Int3, Int9, Loc1 and Loc2 highlighted that market conditions in Turkey changed drastically after 2012. Turkey, once a prosperous EME, now stood on shaky ground due to political and economic uncertainty (see section 4.1). Interviewees Int7, Int1, Loc4, Loc6, and Loc10 all noted the increased financial pressure that firms faced due to this unexpected downturn of the economy. Almost all firms had to refinance their credits and restructure their finances. In this context, Loc10 stated that:

> Potential new investors cancelled their projects and firms that had already made initial investments cancelled their projects and had to write off large amounts as sunk costs.

> Currently, we have serious political problems with the U.S. and the ongoing war in Syria. Honestly, I am considering shutting down my business and going on standby until the market becomes a bit more stable. Right now, it is very unpredictable.

The current situation (December 2018) does not show any improvements for 2019. Currently, company groups are selling off their PP in order to reduce their debt by asset stripping (Interviewees Int2, 2019; Loc10, 2019; Karakaya, Ersoy and Kandemir, 2018; O'Byrne, 2018). However, it is expected that in the future a consolidation in the Turkish energy sector will take place and an indicator for this upcoming trend are statistics across Europe. Table 6-3 shows each country and its largest energy company's local market share in its home market.

Country	2014	2015	2016
Brussels	59.8	48.5	62.6
Czech Republic	57.5	55.4	52.4
Denmark	36.6	33.0	35.2
Germany	32.0	32.0	33.5
Estonia	84.8	79.8	80.8
Ireland	51.0	55.0	47.0
Greece	71.5	70.7	72.0
Spain	23.8	24.5	25.4
France	86.8	85.7	82.5
Croatia	80.3	77.8	80.7
Italy	29.0	27.0	24.0
Cyprus	100.0	100.0	100.0
Latvia	54.8	57.4	58.6
Lithuania	20.6	22.7	14.3
Luxemburg	61.3	43.8	18.0
Hungary	53.5	53.1	52.9
Malta	100.0	100.0	100.0
Poland	17.9	17.4	16.0
Portugal	46.5	42.5	47.0
Romania	29.9	25.7	28.5
Slovenia	52.4	51.3	53.9
Slovakia	81.9	73.1	71.3
Finland	25.2	25.9	25.6
Sweden	42.9	40.6	42.0
Norway	30.5	28.0	33.3
Montenegro	99.2	98.6	97.7
Macedonia	91.0	90.2	81.3
Serbia	50.8	99.2	98.9
Turkey	28.0	21.1	16.9
Bosnia and Herzegovina	49.4	48.0	43.9

Table 6-3: Biggest Energy Firm's Domestic Market Share Across Europe.
Source: http://www.euas.gov.tr/Documents/sektor_raporlari/EUAS-Sektor_Raporu2017.pdf

No country's largest energy company has a share less than 20% of the overall energy production, except for Lithuania, Poland, and Luxemburg. Lithuania's population is approximately 2.8 million, while Luxemburg's population is less than 600,000. Given the small sizes of both countries, larger energy firms have a big advantage in penetrating these markets due to economies of scale. On the other hand, Poland's population is 40 million, approximately half the size of Turkey's, and it is considered a semi-peripheral country within Europe. In Poland, EDF (France), CEZ Group (Czech), Fortum (Finland), E.ON (Germany), and Iberdrola (Spain) are active, which makes the market very competitive (Invest in Poland, 2012). A similar trend is expected for Turkey. Mustafa Karahan, Deputy Chairman of the Energy Traders Association, stated that 'we will see consolidation of many of the industry's smaller generators, either by the industry's larger players or as part of a trading portfolio. Generally, the number of deals will be greater' (cited in Stevenson and Pascoletti, 2015).

Karahan's view has been shared by Sinan Ak, Managing Director Zorlu Energy (cited in Stevenson and Pascoletti, 2015), who said that:

> Compared with other mature energy industries, such as England and Germany, the Turkish power generation market is highly fragmented. While in England and Germany, six players control 80% of the market, 36 players control this same share in Turkey. In the next five years, we will target profitability. This, specifically, will involve renewables. In 2017, we would like to begin playing a more active role in market consolidation.

The next section discusses Turkish energy firms hedging activities.

Hedging

With the liberalisation and privatisation of the electricity market, the concept of competition entered the electricity sector. The increased competition raised awareness and the needs for risk management methods. Since electricity, unlike other goods, cannot be stored and requires immediate consumption, efficient risk management became of utmost importance. An investigation of companies' financial statements, coupled with 28 in-depth interviews, revealed that energy firms turned towards financial instruments, but purely for protective hedging purposes. 24 out of 28 Interviewees (Int1, Int2, Int3, Int5, Int6, Int7, Int8, Int10, Loc1, Loc2, Loc3, Loc4, Loc5, Loc6, Loc7, Loc8, Loc9, Loc10, Off2, Off3, Off4, Off5, Off6, and Off7) confirmed that Turkish energy firms solely engage in protective hedging activities.

Turkey's derivatives market was established in 2005; however, operations and market activity picked up after its integration to Borsa Istanbul (BIST) and it became known as VIOP by the end of 2012. Interviewee Int9 provided two underlying reasons for energy firms' higher engagement in financial activities. The first reason was the falling limits for eligible customers (see Table 6-4 and Table 6-5 below). Eligible customers are consumers who consume more energy than the eligible customer limit. Simultaneously with the liberalisation of the energy market, customers were free to choose their energy suppliers.

Year	2002	2003	2004	2005	2006	2007	2008	2009
Eligible customer limit MWh	9000	9000	7800	7700	6000	3000	1200	480

Table 6-4: Eligible Customer Limit between 2002-2009 in MWh.
Source: www.devlette.com

Year	2010	2011	2012	2013	2014	2015	2016	2017
Eligible customer limit MWh	100	30	25	5	4.5	4	3.6	2.4

Table 6-5: Eligible Customer Limit between 2010-2017 in MWh.
Source: www.devlette.com

The second underlying reason for energy firms' higher engagement in financial activities is market volatilities. In 2011, the day-ahead market was established and together with this OTC deals increased – the aim was to hedge firms' commercial portfolios. Interviewee Loc4 stressed that OTC deals peaked in 2013. Together with the falling limit for eligible customers, the market gained more depth and competition increased. In this context, interviewee Int9 explained that there were three main risks on the energy markets which participants were exposed to:

> First, there were fundamental risks, such as regulatory and economic risk and volatilities in energy demand and supply that can result from technical risks (outages and physical risks), network risks, and climate risks (wind, sunshine, and rainfall). Second, there were risks on the energy market, such as volatility in energy prices, resource prices (e.g., coal, crude, and gas), emission prices, bid–ask spreads, and the liquidity risk of firms. Third, there were financial risks, such as currency risks, interest rate risks, letters of guarantee, firms' low credit ratings, and counterparty risks.

BIST's overall goal was to provide a trustable business platform for participants by redirecting their activities from OTC markets to VIOP markets (De Eskinazis, 2015; Latour, 2015; Interviewee Int9, 2017). Interviewee Loc8 stated that:

> Before the establishment of VIOP, transactions primarily took place on OTC markets. The main differences between VIOP and OTC are that the former provides

> transparency and credit risk management, eliminates counterparty risk, has a low commission, and is regulated by the authorities. However, companies were more active on OTC markets rather than in VIOP. I can only explain this to myself by thinking that they simply stick to their old habits. They were not open for any changes.

Interviewee Loc8 proceeded by stating that:

> Some OTC deals do not have warranties and even if they do have some sort of a guarantee, the underlying security would not change when prices change – there are no margin calls, they would remain the same. However, on VIOP the warranties change and are calculated on a daily basis. Whenever the credibility of the big player's decreased, or certain companies defaulted, activities on VIOP picked up. Therefore, VIOP encouraged smaller players to engage in safe transactions. Prior to 2015, there were no energy contracts available to trade. Energy contracts have been designed by VIOP together with the banks. Participation on VIOP is only possible via an intermediary who charges service fees.

In this context, interviewees Int2, Int8, Int9, Loc4, Loc6, and Loc10 stressed that the high service fees charged by the banks discouraged market participants to engage in VIOP. As a result, trades generally remained on OTC markets. It is worth highlighting that the margins in the energy sector are low, which makes it difficult for companies to manage the costs related to transactions on VIOP, such as taxes and service fees.

The question: 'How many market participants are active on OTC?' has been answered by interviewees Int3 and Int2. Both reasoned that it is difficult to gauge how many market participants there are on OTC markets because there are many different brokers. Interviewee Int2 said that the market had 20 brokers, but the number halved in August 2017, to ten brokers.

Interviewees Loc6 and Loc4 highlighted that hedging has a very young history amongst Turkish energy companies, in contrast to their counterparts in Europe who have made financial instruments a fixed part of their daily business. Further, interviewees Loc5 and Loc7 highlighted that Commercial Asset Optimisation has gained in importance since 2015. Interviewee Loc6 mentioned the RWE, a German firm, as an example of a firm which incorporated financial activities into their daily business. RWE treats PP as real options (see Figure 6-18).

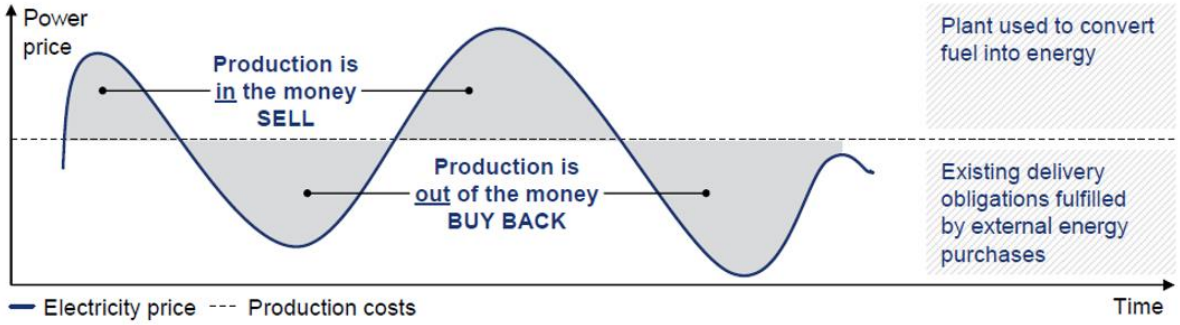

Figure 6-18: How Hedging can Help to Optimise Production.
Source: RWE.

For comparison, the intrinsic value (In The Money – ITM) of a 'call option' equals the stock price minus the strike price, while for a 'put option' the inverse order would be the case. However, in the case of RWE the intrinsic value encompasses the value that is inherent in the physical assets captured by forward hedging and by regularly reviewing and changing hedging approaches. The extrinsic value of an option is made of the cost of the option and the premium. In RWE's approach, extrinsic value is the value in asset optionality, 'captured by long-term optimisation and asset management (prevent outages, PP layup/mothballing, investments), short-term optimisation via dispatch and re-dispatch, ancillary services (grid service and security) and capacity markets' (RWE, 2017, p. 70).

RWE's hedging strategy focuses on risk mitigation and value creation. There are three values that drive a hedge: first, the company's risk appetite, second, the available market liquidity together with the market outlook, and third, the cost of hedging activities (RWE, 2017). According to Glover, Chief Commercial Officer Commercial Asset Optimisation at RWE Supply & Trading, 'a perfect hedge for outright generation positions against commodity price risks is selling power at attractive market conditions' (Glover, 2018, p. 11). The implicit fuel hedge reduces risk vis-à-vis outright hedging. Since power prices correlate with the fuel complex (coal, gas, and CO_2 emissions), taking a long position enables RWE to hedge against downside movements while profiting from upside trends (Glover, 2018).

Turkish energy firms follow a range of different business models. Examples have been provided by interviewees Loc4, Loc6, and Loc10 and by Külfetoglu, Tanrisever, and Derinkuyu (2016; see Figure 6-19).

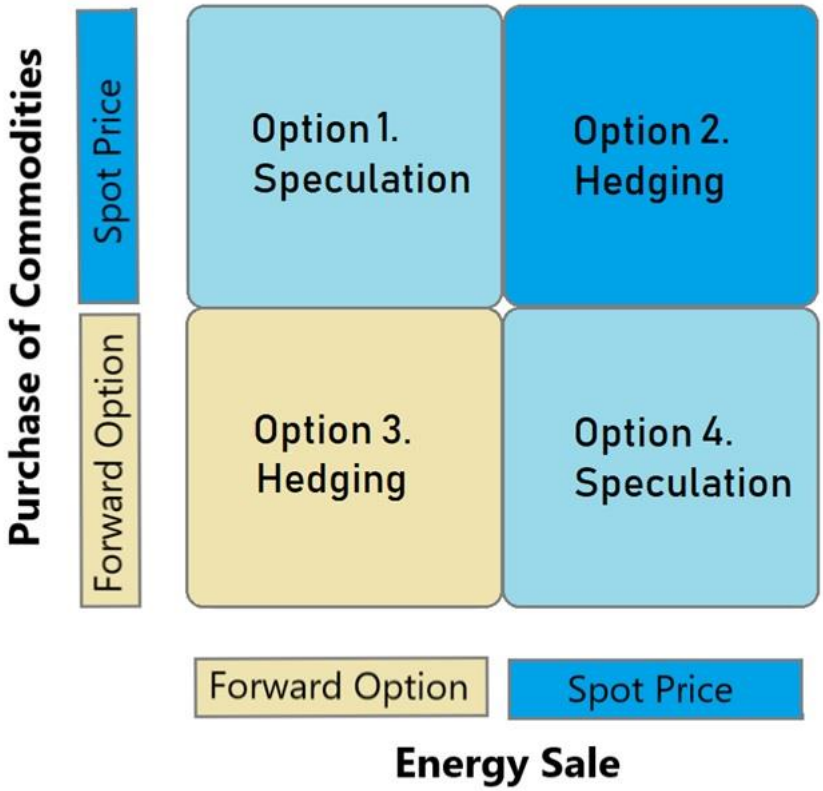

Figure 6-19: Purchase of Gas and Sale of Electricity – Four Options for a Gas Power Plant.

In Figure 6-19, option 1 means that the company purchases the commodity on the spot market, where financial instruments or commodities are traded for immediate delivery, and later sells it on the financial market with a forward. This allows the company to lock in its profit. However, this approach requires a foreseeability of future commodity prices because a price hike in commodities could lead to losses for the company.

In many respects, option 1 is similar to option 4. However, in this business model the company purchases commodities via forwards and then sells them on the spot market. If a company predicts future price hikes in commodities, i.e., during the winter months, then they will try to fix their raw material prices in advance. Subsequently, the sale of energy happens on the spot market, which is anticipated to be higher than the purchase price of the commodity. In contrast to option 1, however, in option 4 the company forecasts higher sales prices. Interviewees Int2, Int9, Off1, Loc4, Loc6, and Loc10 stressed that hedging is difficult on Turkish markets due to unforeseeable events. Sometimes energy prices can fluctuate by 2 TL/MWh without any specific reason (for more details see section 6.1.1).

Option 3 is a fixed daily business activity of the major energy companies in Europe, such as RWE and E.ON. Companies buy commodities for a fixed price and then sell them for a fixed price, which locks in the profit. Interviewee Loc10 mentioned that in this respect companies operate a lot like a bank. However, the feasibility of this approach in Turkey is limited to certain

PPs, such as coal and nuclear. Gas PPs cannot use this approach because BOTAS has the right to adjust gas sales prices to market fluctuations. Therefore, gas PP operators, who account for approximately 30% of Turkey's total energy production, cannot adopt option 3 or option 4 business models (Külfetoglu, Tanrisever, and Derinkuyu, 2016). Furthermore, interviewees Int4 and Int6 stressed that not only do regulatory barriers prohibit gas PPs' engagement in option 3 and option 4, but gas PP operators also lack the know-how and qualified personnel to execute those trades. Due to the current challenges within the market, interview Loc10 stated that hedging is expensive due to the following reason:

> No one can predict the future, not even for the next month, large companies scaled down in energy production where few companies shut down temporary. The main problem is that you cannot find any hedging opportunities. If you find them, they are ridiculously highly priced, and you would rather be in an open position and take the risk.

Finally, option 2 is the more common business model adopted within the Turkish energy market. Companies purchase and sell on the spot markets. Külfetoglu, Tanrisever, and Derinkuyu (2016) argue that option 2 is a natural hedge, since it does not involve market predictions or taking any speculative positions. Whether or not this approach could be classified as a 'natural hedge' is debatable given the fact that the settlement follows 50 days after the transaction date (Interviewee Loc10, 2017). Interviewee Loc7 stated that producers usually go with the spot price, instead of trying to make predictions and taking positions in the market. Interviewee Int9 stressed that whenever the market became more predictable – i.e., when companies' fundamental analyses were in hold – their engagement in financial activities increased. However, since the market in Turkey is opaque and fundamental analyses are rarely in hold, market participants are reluctant to engage in such activities, which explains the relative trade volume on VIOP. An increased trading activity of electricity contracts on VIOP is perceivable after the sharp rise in gas prices that took place in 2015/2016 and 2016/2017 (see Figure 6-20 below). In this context Int6 argued that:

> VIOP is relatively new and that the idea of hedging only started spreading around since the latest price shocks on the market. In 2014/2015, when the spark spread fell to record lows during the winter months, companies' interest in risk management increased and has continued to do so over the last 3–4 years.

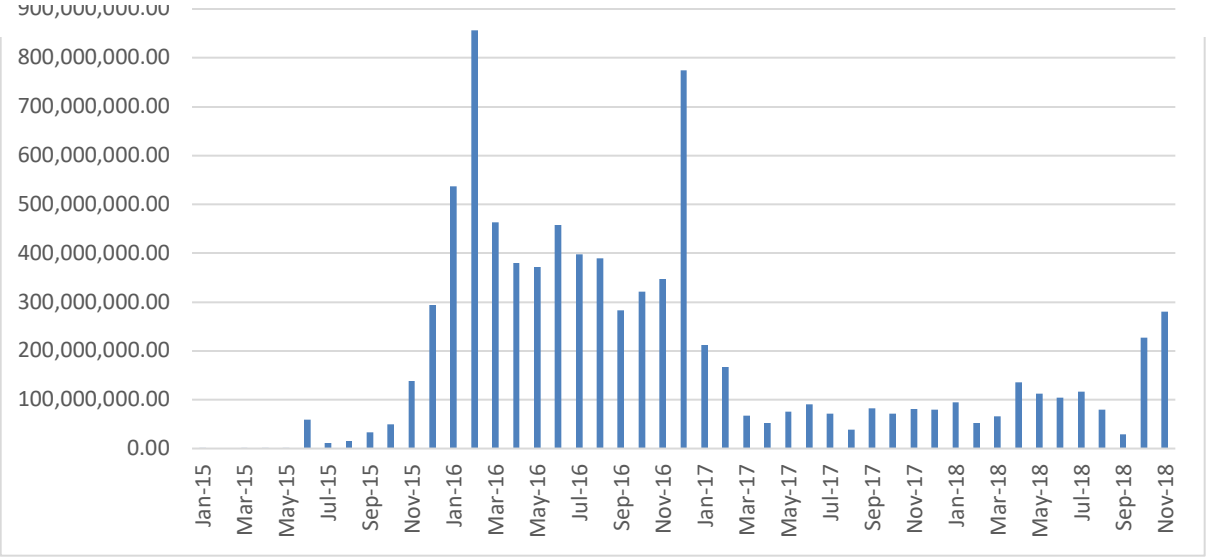

Figure 6-20: Monthly Electricity Contracts Priced in USD.
Source: BIST – VIOP https://datastore.borsaistanbul.com/.

Interviewees Loc7 and Loc10 highlighted that speculative trades in Turkey differ to those in Europe. In Turkey, speculative trades are primarily based on information from inside men, while in Europe analysts predict the future market price.

24 out of 28 interviewees highlighted that hedging is the only financial activity that energy firms engage in. Interviewees Int3, Int7, Loc6, Off3, and Int1 stated that the most that energy firms do in Turkey in terms of financial activities are protective hedges, minor to non-existing speculations, and very recently they have started issuing bonds. Interviewee Off4 added:

> That traditional energy investors are closed minded and reluctant towards financial activities. On the other hand, the firms that are active on VIOP are primarily intellectual- and futuristic-oriented firms. I assume that the next generation of managers will be more sensitive towards the use of financial products.

Interviewee Int2 recalled an event that occurred towards the end of 2016, where a gas crisis in Turkey resulted in a price hike of resources (see section 6.1.1 for more details). In general, Turkey faces an undersupply of gas at certain times due to the fact that pipelines are still under construction and that the energy demand within the country is continuously rising. Those events have taught people to hedge themselves, especially during the cold winter months. Interviewee Loc6 stressed that firms realised that hedging provides benefits when done professionally. Interviewee Loc8 highlighted that when the energy sales prices started plummeting after 2013/2014, firms experienced some serious financial problems. At the same time, trade on OTC markets crashed after large players faced liquidity problems. The spread of negative news such as this caused a panic in the market and led to companies turning away from OTC markets towards VIOP in order to reduce exposure to risks.

Interviewee Int4 stressed the point that the market is relatively small and that bad news spreads very quickly. Interviewee Loc8 reported that anomalies on markets raised awareness for protective hedging. Interviewee Int2 stated that 'usually we buy on fixed prices beforehand via futures. Next to our physical trading activities, we have also financial trading activities; however, hedging is not something that we are engaging heavily with because it is too costly'. Interviewee Loc10 provided an example of the hedging costs for a retailer:

> Turkish electricity retailers operate with a profit margin in the realm of 5/1,000, whereby energy producers depend on the Market Clearing Price (MCP). If you provide warranties for industrial areas that require hourly 100 MW hourly, the letter of guarantee is between 20–30m TL. It could be existence threatening if an invoice is paid one day later than expected (liquidity risk).

Interviewees Int2 and Int8 explained that on the retail side, retailers offer prices to their customers and they try to purchase electricity below that price in order to earn from the spread in-between. Two options available to retailers are as follows: first, hedge, or second, take an open position, which means to buy energy on the spot market. What retailers have started doing is to agree upon contracts in order to fix their profits for a period of three, six, nine, or twelve months. Producers, on the other hand, sell their energy on the spot market, except there are higher bidders from outside.

In this context, interviewee Loc6 highlighted the changing behaviour of producers:

> For example, a PP with a capacity of 1,000 MW realised that there is a need to sell their electricity one year prior to production, e.g., 200–300 MW on the OTC market, 200–300 MW direct to customers with making annual contracts, [and] 50–100 MW on a monthly [basis] via VIOP. By creating new strategies like this, companies started turning towards financial markets.

Interviewees Int1, Int2, Int3, Int5, Int6, Int7, Int8, Int10, Loc1, Loc2, Loc3, Loc4, Loc5, Loc6, Loc7, Loc8, Loc9, Loc10, Off2, Off3, Off4, Off5, Off6, and Off7 stated that companies' engagement in short-term financial activities in order to make profits is not evident. Firms only engage to protect their financial positions; however, they have recently started issuing corporate bonds in order to raise capital for new investments (more details can be found in the sub-section below). Interviewees Loc1 and Loc4 stressed that speculative investments were very little to non-existing. Predominantly, energy firms operate on financial markets in order to minimise their risks. The trades that take place in Turkey are mostly in physical forms. Furthermore, interviewee Loc4 explained that the profits made from financial operations are minimal. For instance, for a physical electricity contract that is worth 150 TL, the maximum that someone can lose/win due to volatility is approximately 10%.

Interviewee Loc4 stressed that hedging is done purely with a protective purpose and not intended to help gain any profits. In this context, interviewees Loc6, Loc10, and Int1 highlighted that given low margin in this industry, businesses simply do not have the funds for financial activities and in many cases not even for protective hedging. Interviewee Loc4 stated that:

> Few companies, especially the bigger ones became more attentive towards leveraged trades. Through leverage you can realise the same profit as someone who owns the underlying asset. Further, this allows for those who do not have sufficient funds to be active on the energy markets.

This gave birth to speculative investments and all big firms have their own optimisation desks (hedging activities), trading desks (speculative positions), and asset traders (who sell the PP or parts of it). Interviewee Loc4 confirmed: 'Again, I want to stress that these activities are not part of their [companies] daily business and do not play an important role. Speculative position taking accounts for less than 10% of the overall trading activities'.

In line with interviewee Loc4, interviewee Loc7 stated that trading desks among companies are weak, but investments have been made to expand these kinds of operations. After volatilities on the market, companies have started adopting the idea of hedging. However, interviewee Loc9 stressed the fact that the current situation – a lack of funds and an illiquid market – does not allow companies to engage in these activities.

From another point of view, it is interesting to note that in the Turkish context religious aspects influence peoples' engagement with financial instruments. Interviewee Loc10 stressed that 'the Anatolian capital' does not consider those kind of financial activities as 'halal' (not permitted in Islam), since it involves the aspect of speculation and profiting without producing anything in exchange.

The following section elaborates on problems with Foreign Exchange (FX) loans of Turkish energy firms.

Foreign Exchange (FX)

Fictional firm's FX-loan example

Turkish firms have the opportunity to either borrow in TL or take up FX loans. According to the CBRT (2017c), the majority of loans have been taken out in TL; however, there are periods where a rise in FX loans being taken are noticeable. 'Firms state that they prefer FX borrowing as its cost is lower' (CBRT, 2017c, p. 36). The figures in the following table (Table 6-6) should help illustrate what has happened in Turkey over the last couple of years according to firms'

balance sheets. A fictional example of funding costs for a firm who can chose between a loan in TL or USD has been provided and Table 6-6 shows the firm's balance sheet as of 1st October 2017.

Balance Sheet as of 1st October, 2017			
Cash	800	Accounts Pay.	1,400
Accounts Rec.	400	Advances	600
Inventory	1,400	Other	800
Other	400	Total Equity	200
Total Assets	**3,000**	**Total Liabilities**	**3,000**

Table 6-6: Balance Sheet of a Fictional Firm for the 1st October 2017.

In Table 6-6, it is assumed that this fictional company requires funding of 2,000 TL. This company has the following two options: Option 1: borrow 2,000 TL in TL or Option 2: borrow 2,000 TL for 560.81 USD (see Table 6-7 below). The exchange rates for these dates were retrieved from www.xe.com.

	01-Oct-17	01-Oct-18
TL loan rate in %	14.69	
USD loan rate in %	3.59	
USD/TL rate	3.5663	6.04726

Table 6-7: TL and USD Loan Rates.
Source: www.xe.com.

Let us suppose that the firm decides to take up the loan in TL with a one-year maturity on the 2nd October 2017. Please see the updated balance sheet of the firm in Table 6-8 below.

Balance Sheet as of 2nd October 2017			
Cash	2,800	Loans	2,000
Accounts Rec.	400	Accounts Pay.	1,400
Inventory	1,400	Advances	600
Other	400	Other	800
		Total Equity	200
Total Assets	**5,000**	**Total Liabilities**	**5,000**

Table 6-8: Balance Sheet of the Fictional firm on the 2nd October 2017.

On the day of maturity, if the company had taken up the 2,000 TL on the 2nd October 2017, in USD, the company would have ended up paying back 3,512.82 TL in total instead of 2,293.80 TL. This would equal to total funding costs of 1,512.28 TL for the loan in USD instead of 293.80 TL for the TL loan (see Table 6-9 below).

	Amount to be Paid Back on the 2nd October 2018	**Total Financing Cost in TL**	**Funding costs in %**
TL loan	2,000*(1+0.1469) = 2,293.80	293.80	**14.69**
USD loan	560.81*(1+0.035663)*6.04726 = 3,512.28	1,512.28	**75.61**

Table 6-9: Funding Costs of a Loan in TL Versus a Loan in USD.

This example of a fictional firm highlights the risks involved for local firms whose income is not in USD when borrowing using FX loans. Volatilities in exchange rates can have major impacts upon the financial stability of firms.

In spite of a falling TL, however, how long can this situation be sustained? In finance, the general rule is to opt for external funds rather than equity because it is cheaper. Given the current economic situation in Turkey, companies might consider the use of equity since debt has become very expensive. Rising borrowing costs are usually the first signs of an economic slowdown that could have a far-reaching ripple effect. Pitel and Arnold (2018) stressed that 'in the next 12 months alone, Turkey's private non-financial institutions will have to repay or rollover 66 bn USD debt. For the banks, the figure is 76 bn USD'. In February 2018, 1 USD equalled 3.70 TL, while in August 2018, the exchange rate hiked to 6.95 TL per USD (XE, 2018b). Following Turkey's currency crisis, Fitch downgraded the credit ratings of 20 Turkish banks (Pitel, 2018d).

Over the last 15 years, 95 bn USD of investments have been poured into the Turkish electricity market via low interest FX loans. 'Around 51 bn USD is yet to be repaid' (Pamuk, 2018). After a 50% depreciation of the TL versus the USD between February and August 2018, many energy firms were forced to restructure their credits (Bloomberg HT, 2018b; Haber Türk, 2018). Most of those credits are denominated in USD, whereby the income of the Turkish energy companies is in TL. Such a scenario had been highlighted by interviewees Int9 and Off6, who warned that depreciation in the TL against other major currencies might lead to huge difficulties within the energy sector since almost all credits are in USD. Interviewee Off3 stated that some electricity distribution companies already faced major problems in servicing their credits, which required sales or credit restructurings (Karakaya and Ersoy, 2018; Tuncay and Coskun, 2018). According to Cecen (2018), 'the sector has a 7 billion USD obligation to banks. A ten-point rise in the TL leads to an increase in our debt by 700 million TL. After privatisation, we made very large investments into the energy infrastructure' (Cecen, 2018 cited in Hürriyet, 2018c). In this context, Zumrut Imamoglu, Chief Economist at Turkish Industry and Business Association (TUSIAD), stated that almost half of companies' profits are spent on interest payments. Next to the problem in exchange rates, Imamoglu explained that regulatory price limits hinder energy companies in adjusting their prices (Enerji Gazetesi, 2018).

Fitch (2018) argued that the sharp depreciation of the TL in August 2018, will affect project financing in the short-term and lead to a downgrade of solar and wind capacity forecasts. The rating agency stated that RE investments will remain attractive in Turkey in the long term. The TL crisis emphasises the need to increase domestic power generation capabilities. Further,

the current trend will lead to an increase in the use of local lignite sources, even though their energy efficiency in comparison to gas is almost half (Fitch, 2018).

Corporate Bond issuance

The issuance of private sector bonds started officially in 2005; however, except for a few firms there were not many participants. It was a milestone in 2010 when the bonds picked up. Prior to 2010, the amount of corporate bonds was little to non-existing. NFCs realised this option as an alternative method to bank loans (Sanli, 2015). Interviewees Int6, Loc3, and Off7 stated that given the rising funding costs from the banks, firms recently started issuing corporate bonds. In 2017, Enerjisa issued Turkey's longest bond issuance of five years in the market. The company raised 335 m TL, where 100 m TL has been bought by the EBRD (Bloomberg HT, 2017). In September 2018, Baskent Energy – a JV between E.ON and Sabanci Holding – announced their intention to issue a bond to the value of 1 bn TL (Enerji Günlügü, 2018b).

Interviewee Int10 stated that based on his own experiences and the projects he has worked on, he cannot imagine that companies engage in short-term financial activities in order to profit. Moreover, companies seek to raise external funds in order to engage in new projects. Interviewee Int10 (2017) stated:

> There is an increasing demand and a need for real investments to satisfy this demand. Of course, a good investment encompasses the following: a reasonable price, feasibility of the project, a favourable rate of borrowing, and many other important factors, but I cannot image that companies engage in short-term financial activities to profit.

In this context, interviewees Int3, Int5, Int6, Int7, Int8, Int10, Loc1, Loc3, Loc5, Loc6, Loc7, Loc10, Off4, and Off5 reasoned that Turkey is an emerging market and real investments are more lucrative than financial investments; hence, 90% of investments are into fixed assets or new RE projects. Interviewee Loc3 stressed that firms are trying to raise external funds for new projects via bonds, with the help of the EBRD. The EBRD supported many firms with raising funds, such as: Enerjisa Energy, Zorlu Energy, Aksa Energy, and other energy projects/firms (EBRD, 2017b; EBRD, 2017c; EBRD, 2016). These projects mainly help to diversify funding sources, reduce exposure to inflation, and increase the tenors of the bonds in the market (EBRD, 2017b).

After highlighting the financial activities of the energy firms, the following sections (sections 6.1.3 and 6.1.4) will provide supporting evidence for section 6.1.2 by drawing upon quantitative data.

6.1.3. Hypotheses Testing

This section provides support for RQ2: 'What form has financialisation taken in the Turkish energy sector between 2002 and 2017?'. This question has been answered by drawing upon quantitative data and the findings are supported with qualitative data. Macro-data on an annual base has been retrieved from the CBRT's company accounts, which are available from 2002–2017. In order to support the findings on a macro-level, the micro-data of listed companies has also been investigated on a quarterly base. For the micro-data, there are seven companies listed on Borsa Istanbul's BIST ELEKTRIK (XELKT): Ak Energy – AKENR; Aksa Energy – AKSEN; Aksu Energy – AKSUE; Ayen Energy – AYEN; Zorlu Energy – ZOREN; Odas Elektric – ODAS; and Enerjisa Energy – ENJSA. However, Enerjisa Enerji had its initial public offering at the beginning of 2018 and Odas Elektrik in the first quarter of 2013, which means that the data for these two companies is not useful in terms of the short time-span. For the remaining five companies, data was collected from Q1 of 2002 through to Q4 of 2017, with the exception of Aksa Enerji for which data was only available from Q4 of 2009 until Q4 of 2017. Nevertheless, the sample size of five listed companies confirmed the trend of the macro-data retrieved from the CBRT and the primary data from the interviews.

For the first test (Test One), two variables have been defined: FFA and TFA. TFA are tangible fixed assets – also known as Plant, Property, and Equipment (PPE) – that have been individually retrieved from each firm's quarterly financial statements of the 2002–2017 timeframe. The FFA variable needs some further explanation. While authors such as Al-Najjar (2013), Bates et al., (2009), and Davis (2017; 2013) described financialisation based on variables such as cash holdings, this research does not take those items into consideration for several reasons. The ideal variable would be marketable securities, which are – in the case of Turkish energy companies – minimal to non-existent (see section 6.1). However, a striking element that has been found was an inverse relationship between TFA and FFA within the Non-Current Assets (NCuA) (see section 3.2.3). Furthermore, from an accounting perspective there are few deficiencies in the use of Current Assets (CuA). CuA are short-term and cash holdings or other positions within that group tend to be very volatile in contrast to those of financial investments in NCuA. In order to capture a more reliable picture, a contrast within the group of NCuAs has been conducted. Since energy companies' marketable securities and cash holdings are minor, they either invest in TFA or FFA or both together.

The second test (Test Two) shows the relationship between TFA and FL. This test aims to identify the relationship between increased liabilities and TFA. Analog to Test Two is the third test (Test Three), which shows the relationship between FFA and FL. The final test (Test Four) indicates the relationship between FL and FE, whereby FE constitutes the company's interest

expenses. Each test (Tests One to Four) is comprised of a regression analysis of two defined variables. The regressions are conducted for both micro and macro-data and the findings are subsequently cross-checked for validity with t-tests.

Test 1 – Financial Fixed Assets (FFA)/Tangible Fixed Assets (TFA)

Test 1 – Micro-data Regression

For all regressions in this section R-squared has been taken into consideration to explain variability. Variability, also known as dispersion, describes how spread out a dataset is. R-squared indicates the closeness of the data to the fitted regression line and is calculated by explained variation divided by total variation. R-squared ranges between 0%-100% while 0% explains none and 100% explains all the response data around the mean (Minitab, 2013).

The confidence levels for macro and micro regressions are 99% except for the first micro regression which is approximately 98%. Since, all confidence levels are above 95% which is statistically significant, for all tests the null hypothesis has been rejected.

The first test rejects H0 = 'There is no significant relationship between FFA to TFA', which led to the acceptance of H1 = 'There is a significant relationship between FFA to TFA' with a >95% confidence interval (see test results below in Table 6-10).

```
. reg tfa ffa
      Source |       SS           df       MS      Number of obs   =       289
-------------+----------------------------------   F(1, 287)       =      5.80
       Model |  2.6475e+16         1  2.6475e+16   Prob > F        =    0.0167
    Residual |  1.3105e+18       287  4.5663e+15   R-squared       =    0.0198
-------------+----------------------------------   Adj R-squared   =    0.0164
       Total |  1.3370e+18       288  4.6423e+15   Root MSE        =    6.8e+07


------------------------------------------------------------------------------
         tfa |      Coef.   Std. Err.      t    P>|t|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
         ffa |  -.0093489   .0038826    -2.41   0.017    -.0169909   -.0017069
       _cons |   3.06e+07    4892307     6.25   0.000     2.09e+07    4.02e+07
------------------------------------------------------------------------------
```

Table 6-10: Regression Results for TFA and FFA.

One unit increase in FFA causes a 1% decrease in TFA. In other words, this negative relationship states that if FFA rises then TFA will decrease. Furthermore, if H0 is true, then the chance of getting a sample as extreme as that in the case above is 1.67%. Out of the total variables, R-squared explains approximately 2% of the proportion of the variation in Y as being

explained by the variation of X. R-squared is very low for the micro regression analysis, therefore this value has to be taken with caution since the micro dataset consists of five listed firms and might be not representative.

Test 1 – Micro-data T-test

In order to support the findings of the micro-tests, an unpaired, unequal t-test was conducted for all tests. Since the test is a two-sample t-test, the data presented in the orange circle below (Table 6-11) is of importance. The values presented on the left and right provide the scores for a one sample t-test score, which can be neglected.

```
. ttest tfa == ffa, unpaired unequal

Two-sample t-test with unequal variances
------------------------------------------------------------------------------
Variable |     Obs        Mean    Std. Err.   Std. Dev.   [95% Conf. Interval]
---------+--------------------------------------------------------------------
     tfa |     289    2.37e+07     4007920    6.81e+07    1.58e+07    3.16e+07
     ffa |     289    7.35e+08    6.03e+07    1.03e+09    6.16e+08    8.53e+08
---------+--------------------------------------------------------------------
combined |     578    3.79e+08    3.36e+07    8.09e+08    3.13e+08    4.45e+08
---------+--------------------------------------------------------------------
    diff |           -7.11e+08    6.05e+07               -8.30e+08   -5.92e+08
------------------------------------------------------------------------------
    diff = mean(tfa) - mean(ffa)                                  t = -11.7581
Ho: diff = 0                     Satterthwaite's degrees of freedom =  290.542

    Ha: diff < 0                 Ha: diff != 0                 Ha: diff > 0
 Pr(T < t) = 0.0000         Pr(|T| > |t|) = 0.0000          Pr(T > t) = 1.0000
```

Table 6-11: Two-sample t-test for TFA and FFA.

The p-value of the two-sample t-test is 0%, which leads to the rejection of H0 = 'There is no significant relationship between FFA to TFA' with a confidence level of 99%. Hence, H1 = 'There is a significant relationship between FFA to TFA' can be accepted.

Test 1 – Macro-data Regression

The macro-data confirms the findings of the micro-data. Throughout this section macro tests have been described as 'ma' for macro and followed by the tested variables for instance, maTFA for macro tangible financial assets. The first test rejects H0 = 'There is no significant relationship between maFFA to maTFA', which led to the acceptance of H1 = 'There is a

significant relationship between maFFA to maTFA' with a confidence level of 99% (see the test results below Table 6-12).

```
. reg matfa maffa

      Source |       SS           df       MS      Number of obs   =        15
-------------+----------------------------------   F(1, 13)        =     68.85
       Model |  5.9805e+15         1  5.9805e+15   Prob > F        =    0.0000
    Residual |  1.1292e+15        13  8.6862e+13   R-squared       =    0.8412
-------------+----------------------------------   Adj R-squared   =    0.8290
       Total |  7.1098e+15        14  5.0784e+14   Root MSE        =    9.3e+06
------------------------------------------------------------------------------
       matfa |      Coef.   Std. Err.      t    P>|t|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
       maffa |   3.092052   .3726427     8.30   0.000     2.287006    3.897097
       _cons |   1.71e+07    3230661     5.30   0.000     1.01e+07    2.41e+07
```

Table 6-12: Regression Results maTFA and maFFA.

MaFFA explains 84% of the variability of maTFA. However, in contrast to the micro-data test, the macro-data results show a positive relationship between maFFA and maTFA. In other words, this positive relationship states that if maFFA rises then maTFA will also increase. Furthermore, if H0 is true, then the chance of getting a sample as extreme as in the case above is 0%.

Test 1 – Macro-data T-test

The p-value of the two-sample t-test is close to 0%, which leads to the rejection of H0 = 'There is no significant relationship between maFFA to maTFA' with a confidence level of 99%. Hence, H1 = 'There is a significant relationship between maFFA to maTFA' can be accepted, see Table 6-13.

```
. ttest matfa == maffa, unpaired unequal
Two-sample t-test with unequal variances
------------------------------------------------------------------------------
Variable |     Obs        Mean    Std. Err.   Std. Dev.   [95% Conf. Interval]
---------+--------------------------------------------------------------------
   matfa |      15    3.50e+07     5818588    2.25e+07    2.25e+07    4.75e+07
   maffa |      15     5784459     1725893     6684354     2082787     9486131
---------+--------------------------------------------------------------------
combined |      30    2.04e+07     4031442    2.21e+07    1.22e+07    2.86e+07
---------+--------------------------------------------------------------------
    diff |            2.92e+07     6069157                1.64e+07    4.21e+07
```

```
------------------------------------------------------------------------------
    diff = mean(matfa) - mean(maffa)                              t =   4.8148
Ho: diff = 0                     Satterthwaite's degrees of freedom =  16.4446

    Ha: diff < 0                 Ha: diff != 0                 Ha: diff > 0
 Pr(T < t) = 0.9999         Pr(|T| > |t|) = 0.0002          Pr(T > t) = 0.0001
```

Table 6-13: Two-sample t-test maTFA and maFFA.

The results are in line with the data of the qualitative interviews. Since companies invest large amounts into maFFA, maTFA, or both together, then a positive relationship between the two variables is expected. This also indicates the investment trend amongst energy companies and their channelling of funds towards long-term fixed assets (NCuA). In line with these findings are the statements from interviewees Int3, Int4, Int6, Int7, Loc1, Loc6, Loc9, and Off8 who stated that over the years, many M&A have happened, and joint ventures have been set up in the energy sector with the aim to increase profitability via synergies. In this context, interviewees Int1, Int4, Int9, Loc1, Loc2, Loc4, Loc6, Loc10, Off3, Off5, and Off6 confirmed that many companies from different sectors have vertically integrated into the energy sector, i.e., construction companies in hydro power plants.

The following test is investigating the relationship between Tangible Financial Assets (TFA) and Financial Liabilities (FL).

Test 2 – Tangible Fixed Assets (TFA)/Financial Liabilities (FL)

Test 2 – Micro-data Regression

The second hypothesis test rejected H0 = 'There is no significant relationship between TFA and FL'. This led to the acceptance of H1 = 'There is a significant relationship between TFA and FL' with a confidence of more than 99% (see results below Table 6-14).

```
. reg tfa fl
      Source |       SS           df       MS      Number of obs   =       289
-------------+----------------------------------   F(1, 287)       =     66.60
       Model |  2.5183e+17         1  2.5183e+17   Prob > F        =    0.0000
    Residual |  1.0852e+18       287  3.7810e+15   R-squared       =    0.1884
-------------+----------------------------------   Adj R-squared   =    0.1855
       Total |  1.3370e+18       288  4.6423e+15   Root MSE        =    6.1e+07
------------------------------------------------------------------------------
         tfa |      Coef.   Std. Err.      t    P>|t|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
```

```
          fl |   .0173342    .002124      8.16   0.000     .0131536    .0215147
       _cons |   965955.4    4564573      0.21   0.833     -8018330     9950241
------------------------------------------------------------------------------
```

Table 6-14: Regression Results TFA and FL.

FL explains 18.84% of the variability of TFA. For every additional increase in FL, the expected number of TFA will increase by 1.7% on average. In other words, this positive relationship states that if FL rises then TFA will also increase. Furthermore, if H0 is true, then the chance of getting a sample as extreme as that in the case above is 0%.

Test 2 – Micro-data T-test

The t-test for Test 2 supports the findings of the regression analysis (see results below Table 6-15).

```
. ttest tfa == fl, unpaired unequal
Two-sample t-test with unequal variances
------------------------------------------------------------------------------
Variable |     Obs        Mean    Std. Err.   Std. Dev.   [95% Conf. Interval]
---------+--------------------------------------------------------------------
     tfa |     289    2.37e+07     4007920    6.81e+07    1.58e+07    3.16e+07
      fl |     289    1.31e+09    1.00e+08    1.71e+09    1.11e+09    1.51e+09
---------+--------------------------------------------------------------------
combined |     578    6.67e+08    5.69e+07    1.37e+09    5.56e+08    7.79e+08
---------+--------------------------------------------------------------------
    diff |           -1.29e+09    1.00e+08               -1.48e+09   -1.09e+09
------------------------------------------------------------------------------
    diff = mean(tfa) - mean(fl)                                   t = -12.8170
Ho: diff = 0                     Satterthwaite's degrees of freedom =  288.919

    Ha: diff < 0                 Ha: diff != 0                 Ha: diff > 0
 Pr(T < t) = 0.0000         Pr(|T| > |t|) = 0.0000          Pr(T > t) = 1.0000
```

Table 6-15: Two-sample t-test TFA and FL.

The p-value of the two-sample t-test is 0%, which leads to the rejection of H0 = 'There is no significant relationship between TFA to FL' with a confidence level of 99%. Hence, H1 = 'There is a significant relationship between TFA to FL' can be accepted.

Test 2 – Macro-data Regression

The macro-data confirms the micro-data by rejecting H0 = 'There is no significant relationship between maTFA and maFL'. This led to the acceptance of H1 = 'There is a significant

relationship between maTFA and maFL' with a confidence of more than 99% (see results below, in Table 6-16).

```
. reg matfa mafl

      Source |       SS           df       MS      Number of obs   =        15
-------------+----------------------------------   F(1, 13)        =    328.30
       Model |  6.8389e+15         1  6.8389e+15   Prob > F        =    0.0000
    Residual |  2.7081e+14        13  2.0832e+13   R-squared       =    0.9619
-------------+----------------------------------   Adj R-squared   =    0.9590
       Total |  7.1098e+15        14  5.0784e+14   Root MSE        =    4.6e+06

------------------------------------------------------------------------------
       matfa |      Coef.   Std. Err.      t    P>|t|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
        mafl |   .6130466   .0338346    18.12   0.000     .5399514    .6861417
       _cons |    6460852    1967443     3.28   0.006      2210449    1.07e+07
------------------------------------------------------------------------------
```

Table 6-16: Regression Results maTFA and maFL.

MaFL explains 96% of the variability of maTFA. For every additional increase in maFL, the expected number of maTFA will increase by 61% on average. In other words, this positive relationship states that if maFL rises then maTFA will also increase. Furthermore, if H0 is true then the chance of getting a sample as extreme as in the case above is 0%.

Test 2 – Macro-data T-test

The p-value of the two-sample t-test is approximately 30% (see Table 6-17 below), which fails to reject H0 = 'There is no significant relationship between maTFA to maFL'. However, noteworthy is the positive relationship between those two variables maTFA and maFL.

```
. ttest matfa == mafl, unpaired unequal

Two-sample t-test with unequal variances
------------------------------------------------------------------------------
Variable |     Obs        Mean    Std. Err.   Std. Dev.   [95% Conf. Interval]
---------+--------------------------------------------------------------------
   matfa |      15    3.50e+07     5818588    2.25e+07    2.25e+07    4.75e+07
    mafl |      15    4.66e+07     9308749    3.61e+07    2.66e+07    6.65e+07
---------+--------------------------------------------------------------------
combined |      30    4.08e+07     5499068    3.01e+07    2.95e+07    5.20e+07
```

```
---------+--------------------------------------------------------------------
    diff |           -1.16e+07    1.10e+07               -3.42e+07    1.11e+07
------------------------------------------------------------------------------
    diff = mean(matfa) - mean(mafl)                                t =  -1.0528
Ho: diff = 0                     Satterthwaite's degrees of freedom =   23.491

    Ha: diff < 0                 Ha: diff != 0                 Ha: diff > 0
 Pr(T < t) = 0.1516         Pr(|T| > |t|) = 0.3032          Pr(T > t) = 0.8484
```

Table 6-17: Two-sample t-test maTFA and maFL.

The macro and micro-data results are in line with the qualitative findings, which stated that new capital has been raised for new investments. This also indicates the investment trend amongst energy companies and their channelling of funds towards long-term fixed assets (NCuA). Companies try to obtain credits in order to invest in new RE projects subject to YEKDEM.

The primary data supports the quantitative findings. Interviewees Int3, Int5, Int6, Int7, Int8, Int10, Loc1, Loc3, Loc5, Loc6, Loc7, Loc10, Off4, and Off5 confirmed that Turkey is an emerging market and real investments are more lucrative than financial investments; hence, 90% of investments are into fixed assets/new RE projects. Furthermore, Int1, Int2, Int4, Int5, Int6, Int7, Int10, Loc1, Loc2, Loc3, Loc5, Loc6, Loc7, Loc9, Loc10, Off2, Off4, Off6, Off7, and Off8 emphasized that the government supports real investments with the YEKDEM mechanism (purchase guarantee). Firms are encouraged to take up loans and invest into new projects. Usually firms invest into projects with a capital to loans ratio of 20/80 or 30/70. Therefore, firms channel all available funds towards new projects subject to the YEKDEM mechanism. In this context, interviewees Loc1, Loc3, Loc4, Loc5, Loc6, Loc10, and Off8 stressed that banks have very strict agreements. Firms cannot utilise their loans for any other purpose then the designated energy projects, otherwise the credit is due immediately. These findings have been confirmed by Mehmet Ali Neyzi, CEO of STFA and Aygen Yayikoglu the Managing Partner of Crescent Capital (Stevenson and Pascoletti, 2015).

The following test is investigating the relationship between Financial Liabilities (FL) and Fixed Financial Assets (FFA).

Test 3 – Financial Liabilities (FL)/Fixed Financial Assets (FFA)

Test 3 – Micro-data Regression

The third test, Test 3, leads to the rejection of H0 = 'There is no significant relationship between FFA to FL' with a confidence level of 99%. Hence, H1 = 'There is a significant relationship between FFA to FL' can be accepted (see results below in Table 6-18).

```
. reg ffa fl
      Source |       SS           df       MS      Number of obs   =       289
-------------+----------------------------------   F(1, 287)       =     98.18
       Model |  7.7208e+19         1  7.7208e+19   Prob > F        =    0.0000
    Residual |  2.2570e+20       287  7.8642e+17   R-squared       =    0.2549
-------------+----------------------------------   Adj R-squared   =    0.2523
       Total |  3.0291e+20       288  1.0518e+18   Root MSE        =    8.9e+08

------------------------------------------------------------------------------
         ffa |      Coef.   Std. Err.      t    P>|t|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
          fl |    .303514   .0306319     9.91   0.000     .2432223    .3638057
       _cons |   3.37e+08   6.58e+07     5.11   0.000     2.07e+08    4.66e+08
------------------------------------------------------------------------------
```

Table 6-18: Regression Results FFA and FL.

FL explains 25% of the variability of FFA. For every additional increase in FL, FFA will increase by 30.35% on average. In other words, this positive relationship states that if FL rises then FFA will also rise. Furthermore, if H0 is true, then the chance of getting a sample as extreme as in the case above is 0%.

Test 3 – Micro-data T-test

The t-test for Test 3 supports the findings of the regression analysis (see Table 6-19).

```
. ttest ffa == fl, unpaired unequal
Two-sample t-test with unequal variances
------------------------------------------------------------------------------
Variable |     Obs        Mean    Std. Err.   Std. Dev.   [95% Conf. Interval]
---------+--------------------------------------------------------------------
     ffa |     289    7.35e+08    6.03e+07    1.03e+09    6.16e+08    8.53e+08
      fl |     289    1.31e+09    1.00e+08    1.71e+09    1.11e+09    1.51e+09
---------+--------------------------------------------------------------------
combined |     578    1.02e+09    5.97e+07    1.44e+09    9.05e+08    1.14e+09
---------+--------------------------------------------------------------------
    diff |           -5.76e+08    1.17e+08               -8.06e+08   -3.46e+08
```

```
------------------------------------------------------------------------------
    diff = mean(ffa) - mean(fl)                                   t =  -4.9219
Ho: diff = 0                     Satterthwaite's degrees of freedom =  472.125
    Ha: diff < 0                 Ha: diff != 0                 Ha: diff > 0
 Pr(T < t) = 0.0000         Pr(|T| > |t|) = 0.0000          Pr(T > t) = 1.0000
```

Table 6-19: Two-sample t-test FFA and FL.

The p-value of the two-sample t-test is 0%, which leads to the rejection of H0 = 'There is no significant relationship between FFA to FL' with a confidence level of 99%. Hence, H1 = 'There is a significant relationship between FFA to FL' can be accepted.

Test 3 – Macro-data Regression

The macro-data confirms the micro-data by rejecting H0 = 'There is no significant relationship between maFFA and maFL'. This led to the acceptance of H1 = 'There is a significant relationship between maFFA and maFL' with a confidence of more than 99%.

```
. reg maffa mafl
      Source |       SS           df       MS      Number of obs   =        15
-------------+----------------------------------   F(1, 13)        =     41.42
       Model |  4.7611e+14         1  4.7611e+14   Prob > F        =    0.0000
    Residual |  1.4942e+14        13  1.1494e+13   R-squared       =    0.7611
-------------+----------------------------------   Adj R-squared   =    0.7428
       Total |  6.2553e+14        14  4.4681e+13   Root MSE        =    3.4e+06
------------------------------------------------------------------------------
       maffa |      Coef.   Std. Err.      t    P>|t|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
        mafl |   .1617524   .0251325     6.44   0.000     .1074571    .2160478
       _cons |   -1747288    1461424    -1.20   0.253     -4904503     1409926
```

Table 6-20: Regression Results maFFA and maFL.

MaFL explains 76% of the variability of maFFA, see Table 6-20 above. For every additional increase in maFL, the expected number of maFFA will increase by 16% on average. In other words, this positive relationship states that if maFL rises then maFFA will also increase. Furthermore, if H0 is true, then the chance of getting a sample as extreme as in the case above is 0%.

Test 3 – Macro-data T-test

The p-value of the two-sample t-test is close to 0% (see Table 6-25 below), which leads to the rejection of H0 = 'There is no significant relationship between maFFA to maFL' with a

confidence level of 99%. Hence, H1 = ‘There is a significant relationship between maFFA to maFL’ can be accepted, see Table 6-21.

```
. ttest maffa == mafl, unpaired unequal
Two-sample t-test with unequal variances
------------------------------------------------------------------------------
Variable |     Obs        Mean    Std. Err.   Std. Dev.   [95% Conf. Interval]
---------+--------------------------------------------------------------------
   maffa |      15     5784459     1725893     6684354     2082787     9486131
    mafl |      15    4.66e+07     9308749    3.61e+07    2.66e+07    6.65e+07
---------+--------------------------------------------------------------------
combined |      30    2.62e+07     5997562    3.28e+07    1.39e+07    3.84e+07
---------+--------------------------------------------------------------------
    diff |           -4.08e+07     9467393               -6.10e+07   -2.06e+07
------------------------------------------------------------------------------
    diff = mean(maffa) - mean(mafl)                               t =  -4.3073
Ho: diff = 0                     Satterthwaite's degrees of freedom =  14.9614
    Ha: diff < 0                 Ha: diff != 0                 Ha: diff > 0
 Pr(T < t) = 0.0003         Pr(|T| > |t|) = 0.0006          Pr(T > t) = 0.9997
```

Table 6-21: Two-sample t-test maFFA and maFL.

The test results are in line with the data from the qualitative interviews since energy companies have their own distributors or have shares in other companies of the holding company. This falls more under within creative accounting than financialisation. Furthermore, as highlighted above in section 6.1.1 – Problems with Energy Investments and section 6.1.2 – Mergers and Acquisitions (M&A), increasing market consolidation is going to happen or is already taking place. An engagement in short-term financial instruments in order to profit from high-yielding interest-bearing assets is not the case. These findings are confirmed by interviewees Int3, Int4, Int6, Int7, Loc1, Loc6, Loc9, and Off8 who stated that over the years, many M&A and joint ventures have taken place and/or have been set up in the energy sector with the aim to increase profitability via various synergies. Furthermore, interviewees Int1, Int2, Int3, Int5, Int6, Int7, Int8, Int10, Loc1, Loc2, Loc3, Loc4, Loc5, Loc6, Loc7, Loc8, Loc9, Loc10, Off2, Off3, Off4, Off5, Off6, and Off7 explained that firms only engage in protective hedging activities or issue corporate bonds for new RE projects. However, speculative short-term financial activities are rare to non-existent.

The following test is investigating the relationship between Financial Expenses (FE) and Financial Liabilities (FL).

Test 4 – Financial Expenses (FE)/Financial Liabilities (FL)

Test 4 – Micro-data Regression

The fourth hypothesis, H0 = 'There is no relationship between FE and FL' has been rejected. However, H1 = 'There is a relationship between FE and FL' has been accepted with a confidence of more than 99% (see results below in Table 6-22).

```
. reg fe fl
      Source |       SS           df       MS      Number of obs   =       289
-------------+----------------------------------   F(1, 287)       =    537.80
       Model |  1.9783e+20         1  1.9783e+20   Prob > F        =    0.0000
    Residual |  1.0557e+20       287  3.6786e+17   R-squared       =    0.6520
-------------+----------------------------------   Adj R-squared   =    0.6508
       Total |  3.0341e+20       288  1.0535e+18   Root MSE        =    6.1e+08
------------------------------------------------------------------------------
          fe |      Coef.   Std. Err.      t    P>|t|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
          fl |   .4858417   .0209501    23.19   0.000     .4446064     .527077
       _cons |  -1.67e+08   4.50e+07    -3.72   0.000    -2.56e+08   -7.88e+07
------------------------------------------------------------------------------
```

Table 6-22: Regression Results FE and FL.

FL explains 65% of the variability of FE. For every additional increase in FL, FE will increase by 49% on average. In other words, this strong positive relationship states that if FL rises then FE will also increase. Furthermore, if H0 is true, then the chance of getting a sample as extreme as in the case above is 0%.

Test 4 – Micro-data T-test

The t-test for Test 4 supports the findings of the regression analysis (see results below in Table 6-23). The p-value of the two-sample t-test is 0%, which leads to the rejection of H0 = 'There is no significant relationship between FE to FL' with a confidence level of 99%. Hence, H1 = 'There is a significant relationship between FE to FL' can be accepted.

```
. ttest fe == fl, unpaired unequal
Two-sample t-test with unequal variances
------------------------------------------------------------------------------
Variable |     Obs        Mean    Std. Err.   Std. Dev.   [95% Conf. Interval]
---------+--------------------------------------------------------------------
      fe |     289    4.70e+08    6.04e+07    1.03e+09    3.51e+08    5.88e+08
      fl |     289    1.31e+09    1.00e+08    1.71e+09    1.11e+09    1.51e+09
---------+--------------------------------------------------------------------
combined |     578    8.90e+08    6.11e+07    1.47e+09    7.70e+08    1.01e+09
```

```
---------+--------------------------------------------------------------------
    diff |           -8.41e+08    1.17e+08               -1.07e+09   -6.11e+08
------------------------------------------------------------------------------
    diff = mean(fe) - mean(fl)                                    t =  -7.1843
Ho: diff = 0                     Satterthwaite's degrees of freedom =  472.357
    Ha: diff < 0                 Ha: diff != 0                 Ha: diff > 0
 Pr(T < t) = 0.0000         Pr(|T| > |t|) = 0.0000          Pr(T > t) = 1.0000
```

Table 6-23: Two-sample t-test FE and FL.

Test 4 – Macro-data Regression

The macro-data confirms the micro-data by rejecting H0 = 'There is no significant relationship between maFE and maFL'. This led to the acceptance of H1 = 'There is a significant relationship between maFE and maFL' with a confidence of more than 99% (see results below, in Table 6-24).

```
. reg mafe mafl
      Source |       SS           df       MS      Number of obs   =        15
-------------+----------------------------------   F(1, 13)        =     82.91
       Model |  5.2074e+13         1  5.2074e+13   Prob > F        =    0.0000
    Residual |  8.1654e+12        13  6.2811e+11   R-squared       =    0.8644
-------------+----------------------------------   Adj R-squared   =    0.8540
       Total |  6.0239e+13        14  4.3028e+12   Root MSE        =    7.9e+05
------------------------------------------------------------------------------
        mafe |      Coef.   Std. Err.      t    P>|t|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
        mafl |   .0534944   .0058751     9.11   0.000      .040802    .0661868
       _cons |  -423048.2   341631.4    -1.24   0.237     -1161098    315001.5
------------------------------------------------------------------------------
```

Table 6-24: Regression Results maFE and maFL.

MaFL explains 86% of the variability of maFE. For every additional increase in maFL, the expected number of maFE will increase by 5% on average. In other words, this positive relationship states that if maFL rises then maFE will also increase. Furthermore, if H0 is true, then the chance of getting a sample as extreme as in the case above is 0%.

Test 4 – Macro-data T-test

The p-value of the two-sample t-test is close to 0%, which leads to the rejection of H0 = 'There is no significant relationship between FE to FL' with a confidence level of 99%. Hence, H1 = 'There is a significant relationship between FE to FL' can be accepted, see Table 6-25.

```
. ttest mafe == mafl, unpaired unequal
Two-sample t-test with unequal variances
------------------------------------------------------------------------------
Variable |     Obs        Mean    Std. Err.   Std. Dev.   [95% Conf. Interval]
---------+--------------------------------------------------------------------
    mafe |      15     2067833    535586.4     2074317    919114.2     3216551
    mafl |      15    4.66e+07     9308749    3.61e+07    2.66e+07    6.65e+07
---------+--------------------------------------------------------------------
combined |      30    2.43e+07     6168725    3.38e+07    1.17e+07    3.69e+07
---------+--------------------------------------------------------------------
    diff |           -4.45e+07     9324144               -6.45e+07   -2.45e+07
------------------------------------------------------------------------------
    diff = mean(mafe) - mean(mafl)                                t =  -4.7721
Ho: diff = 0                     Satterthwaite's degrees of freedom =  14.0927

    Ha: diff < 0                 Ha: diff != 0                 Ha: diff > 0
 Pr(T < t) = 0.0001         Pr(|T| > |t|) = 0.0003          Pr(T > t) = 0.9999
```

Table 6-25: Two-sample t-test maFE and maFL.

New credits have been invested into RE projects that are subject to the government's support mechanism, YEKDEM. Hence, rising liabilities cause increases in interest payments. Next to rising real investments, the increased servicing of FX loans is included (for more details see section 6.1.2). The results are also in line with interviewees Int8, Int9, Loc2, Loc4, Loc5, Loc6, Loc7, Loc10, and Off3 who stated that holdings have liquidity problems and are forced to restructure their loans with banks. Holdings have started asset-stripping activities; they are selling their energy arms in order to raise funds and pay off their current debts.

The next section discusses the limitations of this sub-section.

Limitations

There are seven publicly listed firms on BIST, but only five have been used for testing. However, the CBRT dataset encompasses approximately 300 firms. The number of firms reporting to the CBRT has increased sharply since 2008 – in the period 2002–2007, the average number of firms was 47, but in the period 2008–2016 this Figure rose to 240.

In order to avoid a distorted picture of the relationship between FFA and TFA, depreciation needs to be considered. As explained in the previous section (section 6.1.3), M&As appear

on a company's balance sheet under FFA. Since FFA varies amongst companies, based on their investment focuses, so does the depreciation period for those investments. Furthermore, within the group of TFA are different rates for each asset group, such as machinery, plant, and property which needs to be considered. For instance, the depreciation period for a hydroelectric PP is 40 years while the period for geothermal PP is 30 years. Nevertheless, even after adjusting the values by an average of 20%, no changes in the results were noticeable.

It would have been better if a greater number of companies' financial statements could have been investigated. The overall problem is that most of the companies are privately held by holdings and data is not publicly available. Furthermore, the CBRT is only available on an annual basis and a change in the CBRT's accounting standards makes it difficult to contrast those values for the whole period of 2002–2017. CBRT's annual data provides 15 data points, which is statistically at the lower end. Also, the data retrieved from the five listed companies are not conclusive and could be misleading; however, this is the population of energy firms in Turkey. Even though the quantitative data might not be comprehensive, it is worth highlighting that the results are still in line with the primary data (28 elite interviews) and findings from the literature.

The final part of this chapter (section 6.1.4) contrasts the profitability of the different projects, i.e., real investments into RE projects against financial investments.

6.1.4. Profitability Contrast of real investments versus financial investments

The following section contrasts investments into energy projects with financial investments. There are four different types of RE PPs that are subject to the governmental support mechanism YEKDEM and these have been compared to one financial investment with a similar investment period.

Real investments

Depending on the type of the investment, there are various factors that have to be taken into consideration. For the purpose of simplicity, it is assumed that the four RE projects operate at an optimum level in terms of their efficiency. The degree of efficiency varies across the types of energy sources, for instance: solar PPs (20%), geothermal PPs (85%), hydroelectric PPs (40%), and wind PPs (30–40%). While the efficiency of RE PPs can be volatile, conventional energy sources have a higher constant efficiency degree, for example: gas (70–80%) and coal (40–50%).

Since the raw material costs for conventional energy led to a temporarily shutdown of gas PPs across Turkey in November 2018, this section focuses only on RE projects. The following assumptions have been made: the solar PP in the first example above has been setup in one of Turkey's sunniest region; the geothermal PP is located at one of the country's hot water sources; that the hydroelectric PP is located at a water-rich location; and that the wind PP has been setup in a very windy region. After assuming that these environmental aspects are met, the market conditions will be taken into consideration. Since imports in Turkey are indexed to the USD, the following section will only provide approximate USD prices.

Figure 6-21 below displays the developments of the Market Clearing Price (MCP) in Turkey. The MCP is the current market price at which one MWh of electricity is traded on the market. At the end of 2017, prices ranged between 130 and 220 TL. After remaining at a comparable level of 130–220 TL until July 2018, the price range of the MCP started increasing to 180–360 TL. After peaking in September 2018, the MCP rebound to 160–310 TL by the end of 2018 (see Figure 6-21 below). Interviewee Off2 explained that:

> If the MCP of the market is higher than the USD/TL exchange rate, then firms that are subject to YEKDEM will opt to sell their energy on the market. Only when the MCP is below the USD/TL exchange rate, will companies opt for the feed-in tariff. At the same time, when market prices fall below the prices of the YEKDEM mechanism, firms will increase their output capacity because purchasing prices are guaranteed and equals a guaranteed profit.

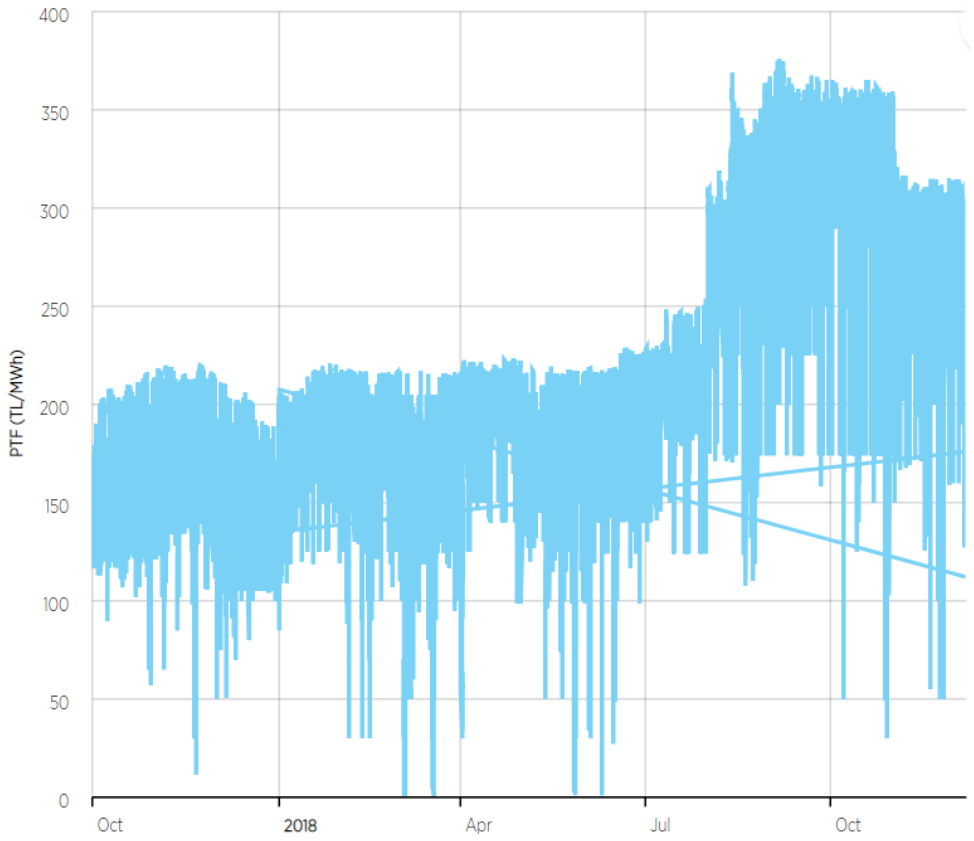

Figure 6-21: PTF Price between October 2017 and December 2018.
Source: https://seffaflik.epias.com.tr/transparency/piyasalar/gop/ptf.xhtml.

Depending on the source of energy, the government provides purchase guarantees for produced energy under the YEKDEM act. The government pays 0.133 USD/kW for solar energy, 0.105 USD/kW for geothermal energy, and 0.073 USD/kW for hydro and wind energy. There are also additional subsidies available if the material for the PP is produced locally. The additional subsidies will be added towards the existing feed-in tariffs, which are: 0.092 USD/kW for solar, 0.052 USD/kW for biomass, 0.027 USD/kW for geothermal, 0.037 USD/kW for wind and 0.023 USD/kW for hydro (see Figure 6-22 below).

Energy investments require the consideration of a wide range of various aspects. The following examples primarily aim to provide the reader with a sense of the Return On Investments (ROIs) for different RE projects. It is stressed that the examples have been provided solely as guidelines and vary for each individual project. The values for the calculations below have been gathered during the primary research. The calculations are the author's own calculations and have been approved by several experts, such as Off6, Off7, and Loc10.

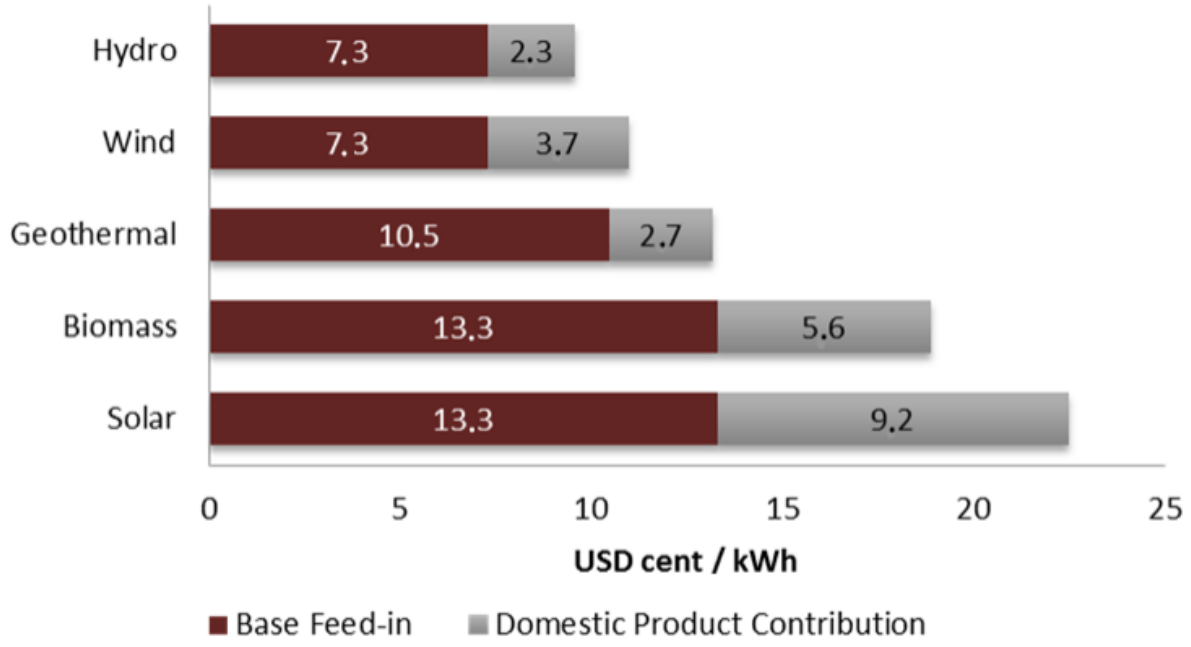

Figure 6-22: Renewable Energy Support Mechanism.
Source: EMRA.

It is assumed that an investment decision has to be made between a fixed investment and a financial investment. The fixed assets are subject to the government's subsidy scheme (YEKDEM), which lasts for ten years. Each example illustrates an investment into a RE PP with a capacity of 500 kW without local production; hence, the bonus subsidy will not be taken into consideration.

The following values are guidelines and may not hold for every case.

Solar Energy

Turkey has a favourable location for solar PPs. According to the Ministry of Energy and Natural Resources, Turkey has an annual sunshine time of 2,741 hours, which averages to 7.5 hours a day. Several regions in the southern and eastern part of the country have a yearly sunshine time of up to 3,000 hours (Enerji, 2018).

An assumption for this calculation is that the PP has been set up in south Turkey. There are several costs for a solar PP, such as research and development (R&D), personnel, operational house, fence, security, lightning, transformer, and the energy transmission line. Furthermore, there are costs for cables, fitting, an inverter, and the most expensive part of the investments are the solar panels. In order to be subject to YEKDEM, the PP has to be built on unfruitful

land. The total cost to establish a solar PP with a capacity of 500 KW is approximately 450,000 USD. This figure can vary by +/-20%, depending on various factors such as whether the property is on a rocky area and the other materials required by the PP.

After successfully setting up a solar PP, an investor has a governmental purchase guarantee of 0.133 USD/kWh for the next ten years. According to the Turkish RE Authority (YEGM), the sun radiation in south-east Turkey is up to 2,000 kWh/m² a year (YEGM, 2018). The operational costs per kW are 0.01 USD. To calculate the income: annual sunshine hours x sun radiation x YEKDEM (minus operational costs per kW) x efficiency = 2,900 x 1,950 x 0.123 USD x 0.2 efficiency, equalling to 139,113 USD/annually (see Table 6-26 below). The ROI in this case would be 209.14% for a ten-year period. The payback period would be 3.23 years.

1. Solar		
Initial costs 1 MW/USD:	900,000.00	
Initial costs for 500 kW:	450,000.00	
Operational cost per USD/kW:	0.01	
	Annual sunshine hours	2,900
	500 kW = radiation kWh	1,950
	YEKDEM 0.133 USD - op.cost.	0.123
	Payment period in years	10
	Efficiency	0.2
Income accumulated in USD:	1,391,130.00	
Income annually in USD:	139,113.00	
ROI accumulated in %:	**209.14**	
Payback period in years:	**3.23**	

Table 6-26: ROI and payback period in years for a solar PP.

Wind Energy

To set up a wind turbine of 500 kW in Turkey, it would cost approximately 700,000 USD. Wind turbines have a life span of approximately 25 years. Wind turbines vary in size, quality, and price. On average, the price ranges from 1,200 to 1,500 USD per kW. For the following example, it is assumed that the cost per kW is 1,300 USD, which equals a total amount of 650,000 USD. For insurance and maintenance, the cost is 20,000 USD. There are roughly 30,000 USD in additional costs for the tower, transformer, remote control station, wires, and transportation. There are a few aspects that can lower the initial setup costs, reduce the amortisation period, and increase the efficiency of the PP, such as: maintained fields where

long greenery does not obstruct the wind, adjacency to the transmission station in order to reduce energy loses, and the wind speed of that region.

With the governmental support of ten years, investors can receive 0.073 USD/kW. The operational costs per kW are 0.009 USD. To calculate the income: operational hours x days x kW x efficiency x YEKDEM (minus operational costs per kW) = 24 hours x 365 days x 500 kW x 0.40 x 0.064 USD, equalling to 112,128 USD/annually (see Table 6-27 below). The accumulated ROI in this case would be 60.18% for ten years, while the payback period would be 6.24 years.

2. Wind		
Initial costs 1 MW/USD:	1,400,000.00	
Initial costs 500 kW:	700,000.00	
Operational cost per USD/kW:	0.009	
	Hours/annually	8,760
	kW	500
	Efficiency of wind	0.4
	YEKDEM 0.073 USD - op.cost.	0.064
	Payment period in years	10
Income accumulated in USD:	1,121,280.00	
Income annually in USD:	112,128.00	
ROI accumulated in %:	**60.18**	
Payback period in years:	**6.24**	

Table 6-27: ROI and payback period in years for a wind PP.

Geothermal

Geothermal PPs are one of the most environmentally friendly energy-producing methods. All geothermal PPs use geothermal steam to operate a turbine. The turbine is connected to a generator, which is supplied by a network to reach individual users and produces electricity. Each geothermal area has its own characteristics and operating conditions. There are no emissions from a geothermal PP and they can generate a large amount of power 24/7. There are different types of geothermal PPs; however, without going into too much technical detail, it has been assumed that the plant location is a suitable hot water location with temperatures of approximately 250°C.

There are various factors that affect the costs of setting up of a geothermal PP, such as: licence, drilling, steel/metals, labour, and connection costs of the PP to an electricity line. Major cost factors include the facility location/size, technology of the PP, water chemistry, water temperature, tax incentives, time to operation of the PP, environmental aspects, and depth/permeability of the source (2.5 to 5 KM).

In contrast to other PPs, geothermal PPs have relatively high initial outlays; however, their operational costs are similar to those of solar PPs, which is approximately 10 USD/MWh. The initial construction costs of a geothermal PP may represent two-thirds or more of the total cost. According to interviewees Off7 and Loc10, an economically competitive geothermal PP can be installed at a cost of 3,600 per USD/kW. For this example, it is assumed that the size of the PP is 500 kW, which equals to 1,800,000 USD.

In order to calculate the annual return of a 500 kW geothermal PP: operation hours x days x efficiency x capacity x YEKDEM support (minus operational costs per kW) = 24 h x 365 days x 0.85 efficiency x 500 kW x 0.095 USD, equalling to 353,685 USD/annually (see Table 6-28 below). The accumulated ROI in this case would be 102.11 % for 10 years with a payback period of 4.95 years.

3. Geothermal		
Initial costs 1 MW/USD:	3,600,000.00	
Initial costs 500 kW:	1,800,000.00	
Operational cost per USD/kW:	0.01	
	Hours per year	8,760
	kW	500
	Efficiency of geothermal	0.85
	YEKDEM 0.105 USD - op.cost.	0.095
	Payment period in years	10
Income accumulated in USD:	3,536,850.00	
Income annually in USD:	353,685.00	
ROI accumulated in %:	**102.11**	
Payback period in years:	**4.95**	

Table 6-28: ROI and payback period in years for a geothermal PP.

Hydroelectric

Hydroelectric Power Plants (HPPs) does not have to be large dams. The main feature of the mini- and micro-plants is that they do not require large investments. A stream PP takes the water from the existing river or stream and funnels it to a turbine that generates electricity. In this context, HPPs are highly dependent on rainfall. If the rainfall is low and the water levels in dams decrease, this might endanger the security of the country's energy supply depending on the proportion of hydro energy in the country's energy portfolio. Turkey generates approximately 32% of its overall generation from HPPs (for more details see section 4.3). Considering marginal costs, smaller HPPs (50 kW or lower) are economically unsustainable. This is because HPPs of any size include an important fixed cost element during the design and approval phases. Therefore, it is recommended to construct a HPP with a capacity larger than 100 kW.

A water turbine with 500 kW produces approximately 2,190,000 kWh/annually. This value is based on the annual operational time (365 days x 24 hours) and the efficiency of the turbine. This number may vary from model to model. According to interviewees Off2 and Loc10, 1 kW of a HPP costs approximately 1,600 USD. Hence, the cost for a 500 kW HPP is approximately 800,000 USD. HPP costs depend on many factors; however, the main factors are the size and the type of the turbine. Generally, HPPs are reliable in the long term and their operational costs are approximately 6.5 USD/MW. The biggest costs occur in autumn after heavy rainfalls.

In order to calculate the annual return of a 500 kW HPP: annual operation time x kW x YEKDEM (minus operational costs per kW) x efficiency = 8,760 hours x 500 kWh x 0.0665 USD x 0.4, equalling to 116,508 USD/annually (see Table 6-29 below). The ROI in this case would be 45.64% for 10 years with a payback period of 6.87 years.

4. Hydro		
Initial costs 1 MW/USD:	1,600,000.00	
Initial costs 500 kW:	800,000.00	
Operational cost per USD/kW:	0.0065	
	Hours per year	8,760
	kW	500
	Efficiency of hydro	0.4
	YEKDEM 0.073 USD - op.cost.	0.0665
	Payment period in years	10
Income accumulated in USD:	1,165,080.00	
Income annually in USD:	116,508.00	
ROI accumulated in %:	**45.64**	
Payback period in years:	**6.87**	

Table 6-29: ROI and payback period in years for a HPP.

Financial Investments

Government bonds have been used as a financial investment in comparison to RE projects. Since YEKDEM guarantees a purchase of energy for ten years, the financial investment will have the same duration. The investment figure is the average of the four RE investments from above, which is approximately 940,000 USD even though the geothermal PP is an outlier with 1,800,000 USD.

Bonds

Despite the 2007/2008 financial crisis, the bonds issued by governments are considered to be safe assets. The Turkish government bond dipped at its all-time low in May 2013, with 6.02%; while its all-time high was in August 2018, with 21.53% (see Figure 6-23 below; Samson, 2018c).

Figure 6-23: Turkish Government Bond, X-axis: years, Y-axis: percentage.
Source: Under Secretariat of Treasury.

In order to keep it simple, it is assumed that the Turkish government sells zero-coupon bonds. Three different buying times have been considered with different interest rates, such as 10% in 2012, 7% in 2015, and 16% in 2018. Given the par value is 940,000 USD, the three investments would result in three different initial selling prices. An investor who bought this zero-coupon bond would be willing to pay 940,000 USD/1.1^10 = 362,410.70 USD in 2012, 477,848.30 USD in 2015, and 213,082.60 USD in 2018. In contrast to real investments with a comparable duration, financial investments are less attractive.

6.2. Conclusion

This section sums up the findings of this chapter and meets the aim of RO1: 'Evaluate to what extent financialisation has occurred in the Turkish energy sector between 2002 and 2017 and whether it has followed the same pattern as in AEs'.

The key differences between AEs and DECs have been summarized, for details see section 2.3.2 and 2.3.3 of chapter 2. In a nutshell, financialisation in AEs differ to those in DECs resulting from several developments, such as the underperformance and slowdown of aggregate demand and the stagnation of the economy during the 1970s and 1980s. During the same period, a higher degree of labour militancy at home increased international competition abroad and accelerated this process. In contrast to AEs, financialisation in DECs followed a different pattern where deregulation and liberalisation of the markets was driven by the WC. The notion of the WC has been advocated internally, as in the case of Turkey, or externally as seen in various Latin American countries. The WC aimed to dissemble large SOEs in order to replace them by private companies and ultimately targeted to reduce the state's role within the economy, as in the case of Turkey. In this context, financialisation in DECs are influenced and subjected to state relations and subordinated to the international monetary and financial system. Furthermore, the change from a bank-based towards a market-based financial system and financial liberalisation eased operations for international investors.

Krippner's (2005) definition has been illuminated by scrutinising the investment behaviour of Turkish energy firms' financial statements. As stated by Akkemik and Özen's (2014); Demir (2009a; 2009b; 2007); Demiröz and Erdem (2018) and Tellalbasi and Kaya (2013) a trend of Turkish companies channelling their funds from real-sector savings towards speculative short-term investments could not be found.

Furthermore, evidence against the findings of Demir (2009a; 2009b) that investments into short-termed financial assets provide high real-interest rates coupled with the advantage of fast liquidation that hinders investments into long-term projects, has been provided. Also, Akkemik and Özen's (2014) findings that Turkish firms channel their capital from the sphere of production towards finance in the form of short-term investments into high-yielding and interest-bearing assets, could not be supported. Furthermore, Tellalbasi and Kaya's (2013) conclusion that financialisation caused a transformation in the modus operandi of NFCs by increasing their profits earned from non-core operations through speculative transactions in financial markets could not be validated. This thesis provides strong evidence against the findings of Akkemik and Özen (2014); Demir (2009a; 2009b; 2007); Demiröz and Erdem

(2018); and Tellalbasi and Kaya (2013) which purport that there is a higher level of engagement in short-term financial activities by Turkish NFCs.

The setup of the Turkish energy sector – comprising of a majority of privately held firms and only seven listed companies – allows to circumvent the financial market pressure. This aids the examination of the energy sector on its own, i.e., an examination of firms' investment decisions without accommodating financial markets expectations and striving for attractive financial statements. Furthermore, the findings have been validated with quantitative data and qualitative data. Through scrutinising listed companies' financial statements – i.e., asset composition and profit and loss accounts – a qualitative approach has been suggested. In this regard, current studies (Bahce et al., 2014; Bedirhanoglu et al., 2013; Demiröz and Erdem, 2018) fail to account for financialisation amongst Turkish NFCs by using an ill-suited indicator. They compare non-operating income to operating income by neglecting non-operating expenses, which leads to misleading findings. A more apt indicator is net-non-operating income/expenses. This suggested indicator helps to widen the analysis by considering more factors in order to determine both increased financial income and financial expenses.

Emerging markets, such as Turkey, provide investors with large growth opportunities, which are further incentivised by governmental support packages and investment zones (see section 4.2 of chapter 4). Hence, real investments are more lucrative than financial investments. This has been highlighted in section 6.1.4 of this chapter by contrasting the profitability of RE versus a financial investment. Furthermore, there is a growing demand that underlines the need for real investments. In this context, Ahmet Aksu, President of Privatisation Administration of the Republic of Turkey asserted (cited in Stevenson and Pascoletti, 2015):

> We have a population of 80 million with a high growth rate and an increasing demand for energy consumption, which constitutes an exciting point for foreign investors. It is worth underlining that the average energy consumption in Turkey is still well below the world average, which means that there is a valuable margin for growth.

As stressed in chapter 5, the state plays a decisive role in Turkey's economy. To promote real growth activities and prevent NFCs from turning towards financial activities, investment incentives have been enacted. The Turkish government enacted a support mechanism (YEKDEM) to encourage energy investments. Firms are encouraged to take up loans and invest into new projects with an equity/loan ratio of 20/80 or 30/70. Investment incentives can be seen as an 'anti-financialisation' instruments that promote real growth through investments into an economy. Turkey's growing demand for energy consumption has attracted many foreign investors. Over the years, many M&A and JV have been set up in the energy sector with the aim to increase profitability via synergies. Mesut Alparsan, CEO of Bisen Energy,

stated that, ‘market liberalisation presented our parent company, Bis Energy, with an opportunity to enter a market at a very early stage with a lack in competition and high profits’ (Stevenson and Pascoletti, 2015).

The Turkish energy sector is growing at a rapid pace, where RE projects have a short amortisation period of five to six years. Furthermore, the engagement of firms in financial activities is limited due to two main reasons: first, real investments are more profitable and, second, financial markets are underdeveloped (see section 6.1.1). It is important to highlight that NFCs in Turkey are heavily reliant on external funds from banks, since secondary market activities are newly advancing. The main purpose of Turkish energy companies is to obtain the capital needed to realise their projects at hand. Turkish energy companies try to secure funds from banks for projects, such as RE projects. This has been affirmed by Ayge Yayikoglu, Managing Partner of Crescent Capital: ‘A significant portion of the lending done for these projects is through Turkish banks. As a country, Turkey is trying to keep up with the demand for energy driven by its population, industrialisation, and urbanisation’ (cited in Stevenson and Pascoletti, 2015).

Given the business structure of holding companies in Turkey, before considering engaging in speculative financial activities, companies would rather pay dividends to shareholders or invest into new RE projects. From the viewpoint of a bank or capital source provider they would not allow the use of funds given for a certain project for any other kind of business activities, i.e., financial activities. ‘Money that has been allocated for a certain project cannot be utilised for other purposes otherwise it is due immediately and those agreements are very detailed and strict’ (Interviewee Loc1, 2017). Interviewee Loc1’s view is supported by interviewees Loc3, Loc4, Loc5, Loc6, Loc10, and Off8. Interviewees Loc5 and Loc9 stated that usually all excess cash is used for new projects (especially those with a support mechanism from the government) or to pay out dividends to shareholders or repay credits, but usually there is no cash left over. In this regard, several interviewees confirmed that engagement in short-term financial activities does not exist. Firms engage in protective hedging activities or corporate bond issuing in order to raise capital for new investments. Speculations are rare to non-existent. The profitability of the energy sector has been highlighted by the engagement of large financial institutions, such as the International Finance Corporation (IFC) and Goldman Sachs who started buying stakes in Turkish energy firms.

Finally, the following RQ has been answered: ‘What form has financialisation taken in the Turkish energy sector between 2002 and 2017?’. Through highlighting the sources of funds for the energy sector and by examining the relationship between companies’ liabilities and interest payments, financialisation centred on the mechanism of interest-bearing capital came

to the fore. The findings of this chapter provide support for Kaltenbrunner and Painceira (2018) and Powell (2013) that financialisation in DECs are influenced and subjected to state relations and subordinated to the international monetary and financial system. After the implementation of neoliberal policies in collaboration with IFIs, Turkey's state-led financialisation adapted a form of dependent financialisation.

The following chapter summarizes the findings of this thesis.

7. Research Findings & Conclusion

The overall aim of this thesis is to advance the understanding of financialisation of Non-Financial Corporations (NFCs) in emerging markets, by drawing upon the case of the Turkish energy sector. The specific Research Objectives (ROs) are as follows:

1. Evaluate to what extent financialisation has occurred in the Turkish energy sector between 2002 and 2017 and whether it followed the same pattern as in advanced economies.
2. Identify the driving forces behind the financialisation process within the Turkish economy and assess them within a framework on a macro, meso and micro-level.

Chapter 7 will revisit the ROs above, summarise the findings of this thesis, and offer conclusions based on these findings. Connections will be made between the former chapters and a brief summary of longer chapters (chapters 4, 5, and 6) is provided. Essentially, the contribution of this thesis is to develop a better understanding of financialisation in Developing and Emerging Countries (DECs). RO1 aims to evaluate the extent of financialisation that occurred in the Turkish energy sector, by answering RQ1: 'To what extent has financialisation occurred in the Turkish energy sector between 2002 and 2017 and what form has it taken?'. RO2 builds upon the findings of RO1 and presents a framework that aids in the analysis of the financialisation process within the Turkish energy sector. The level analysis framework identifies the driving forces of financialisation on a macro, meso and micro-level. Section 7.2 explains the limitations of this thesis. Finally, section 7.3 provides recommendations for future research, i.e., how to progress this thesis. By adopting this structure, it is intended that this thesis will be concluded to reflect on whether or not the objectives stated at the start of this research have been met, including consideration of the value of this study.

7.1. Research Objectives

Section 7.1 summarises the findings and the conclusions reached in respect of both ROs. In doing so, this section outlines the range of this thesis and will then further narrow it down to specific aspects.

7.1.1. RO1: Evaluate to what extent financialisation occurred in the Turkish energy sector between 2002 and 2017 and whether it has followed the same pattern as in advanced economies.

In the late 1960s, DECs came to the fore in both public and academic debate. Through the intervention of International Financial Institutions (IFIs) and accordingly designed policies, Advanced Economies (AEs) began to target DECs by channelling their investments to those countries. As a result, in a world of interconnected markets and quickly moving transnational capital, policy makers faced a less stable political environment.

The increasing power of markets led to a decline of state authority in both domestic and international affairs. Neoliberalism disempowered states (e.g., deregulation), and liberalisation undermined governments' positions and weakened the autonomous decision-making powers of nation-states in regulating domestic economies. The latest example of this was seen in the wake of the subprime crisis of 2007/2008, where authorities struggled to cope with local problems resulting from international markets. This situation highlighted that states should not be taken as the primary object of analysis, since non-state organisations such as supranational organisations and Multinational Enterprises (MNEs), must be considered as externalities for local economies.

The literature identified two main factors contributing to the imbalance between state and market power: technology and finance. Both elements accelerated the integration of national economies into one single global marketplace. Advancement in technology blurred market boundaries amongst national economies. Finance was predominantly channelled for technological innovations, which was driven by changes in the global financial structure and the creation of credits by capitalist markets. After the cold war, 'competition for world market shares has replaced competition for territory, or for control over the natural resources of territory' (Strange, 1996, p. 9). One aspect that holds true for many DECs is the financial constraints of nation-states forced them to give up certain monopolies. This was welcomed by advocates of the neoliberal agenda, since state monopolies depicted barriers that had been removed via the active engagement of IFIs across EMEs. In the pursuit of a more globalised and liberal world economy, the Washington Consensus (WC) – a set of policy prescriptions – endeavoured to weaken the role of local governments within their economies. Subsequently, the literature traces various crises across EMEs back to the WC and the organisations that advocated those ideas.

Prior to Turkey's capital account liberalisation in 1989, the average public-sector borrowing to GDP was approximately 4.5% between the years 1981-1988. After the liberalisation, the same figure hiked to 8.6% between 1989-1997. The removal of interest ceilings led to dramatic

changes in the financing of the public and private sector, both experienced unprecedented real-interest rate hikes. As a result, the public sector was trapped in a short-term debt roll-over cycle. Furthermore, monetary policies in form of an overvalued currency and high real-interest rates had a negative impact upon the economy; investments in the productive sphere declined and exporters were discouraged.

The literature provides support that the International Monetary Fund (IMF) was involved in the macro-management of Turkey between 1993 and 2003. Post-crisis (2002 onwards), the Turkish economy followed a high interest rate and an overvalued exchange rate policy in order to attract capital from international investors. In the case of Turkey, the country's economy was plagued by crisis throughout the 1990s. In 1994, Turkey experienced a major economic crisis triggered by ill-placed monetary policies that caused large capital outflows. Towards the end of the 1990s, the currency crises experienced in emerging markets had a negative effect on Turkey, where inflation rates rose over 60%. In the aftermath of the 1998 Asia crisis, the IMF implemented new reforms in Turkey to stabilise the country's economy and to regain trust on international markets. A year later, the IMF approved a three-year stand-by credit for Turkey. The IMF programme aimed to address fundamental deficits through fiscal adjustments, structural reforms, privatisation to lower governmental borrowing, and monetary policies. However, existing structural problems resulting from a premature account liberalisation in 1989, were exacerbated by the IMF's adjustment programme in 1999. IMF's stabilisation package was detrimental for the economy rather than beneficial. The government lost its independence in creating a balance between the interest rate, the foreign exchange rate, and fiscal policy as instruments to promote economic growth; these parameters were largely determined by global markets. At the same time, liberalisation increased the dependency on foreign capital. Ironically, Turkey's 2000/2001 crisis took place in the midst of an IMF programme that was intended to support local government for the period 2000–2002.

In 2001, a new economic programme was initiated whereby the Turkish government, together with the European Union (EU) and the World Bank (WB), enacted laws for the liberalisation and the privatisation of State-Owned Enterprises (SOEs) in the energy sector. The literature argues that the origins of the crisis in Turkey were not a result of technical or administrative mismanagement in implementing neoliberal reforms; instead, the economic and political crisis emanated from external organisations outside the country. Furthermore, the literature provides evidence for the growing power of MNEs and IFIs within Turkey. This was at a time when the domestic industries' dependence on imports increased and Turkish corporations were forced to make capital-intensive investments by purchasing foreign technology, consequentely negatively impacting on local employment.

Conclusion for RO1

This section provides an answer to RQ1: To what extent has financialisation occurred in the Turkish energy sector between 2002 and 2017 and what form has it taken?

The key elements found for RO1 are the implementation of neoliberal policies in collaboration with IFIs and the four stages of the financialisation process in Turkey:

- Stage 1: Turkey's export-oriented strategy between 1980 and 1988;
- Stage 2: The financing of public debt between 1989 and 2001;
- Stage 3: The state-led financialisation between 2002 and 2007 (institutional change and the implementation of neoliberal policies); and
- Stage 4: The debt-led economic growth between 2007 and 2017.

In the 1980s and 1990s, Turkey initiated its liberalisation process through the implementation of neoliberal policies, with the help of international organisations (IMF and the EU). The country experienced several economic crises throughout the 1990s, the most severe of which was the double crisis in 2000-2001. For a comparison, the Turkish power sector resembles the country's former telecommunications sector. In 1996, the Turkish telecommunications sector was underdeveloped in contrast to those of AEs. After investments were made, the sector experienced significant changes in terms of technology transfer and the modernisation of its infrastructure. A similar transformation is expected for the energy sector. In 2001, Turkey was conditioned by the IMF to liberalise its energy sector in exchange for financial aid. At the time, Turkey had just come out of a double crisis and desperately needed external funds to bring its economy back on track. Therefore, the government complied with IMF policies. The overriding aim was to overhaul the outdated infrastructure with the help of private investments. However, unlike the state-led financialisation period towards the mid-1900s – where the government assisted the Sabanci Holding Group and the Koc Holding Group to expand into different business areas outside their core business activities in order to create a local capitalist class – the energy industry's liberalisation led to a fragmented market structure. Unlike other European countries where only three or four big firms dominate the market, there are many energy firms in Turkey.

With regard to local investors, these were initially all from unrelated industries and had minimal knowledge or experience in the field of energy production. Local investors were active at the earlier stages of the value chain and entered the energy industry either vertically or laterally. Many interviewees stated that the engagement of local firms in the realm of energy was an opportunist, medium-term investment strategy aiming to benefit from the current incentives offered by the government. In contrast, foreign investors entered the energy industry due to their prior know-how and technological advancement in the field. Large consolidation waves

are now predicted – where larger firms take over smaller firms after the support mechanisms run out.

After the Justice and Development Party (AKP) stepped into office, they oriented their political agenda towards Europe and aligned their policies accordingly. International markets welcomed the stance of the new government and Credit Rating Agencies (CRAs) rewarded it with a credit rating upgrade. Subsequently, this increased and rebuilt confidence amongst international investors, which led to a rise in Foreign Direct Investment (FDI) inflows. Simultaneously, through the active support of large, international consultancy firms – who created positive publicity for the country and highlighted the profitable industries for foreign investors – investments into Turkey's energy sector started soaring.

Towards the mid-2000s, Turkey became a rising star among emerging markets. This trend was further encouraged by unconventional monetary policies in AEs such as the U.S. and the EU, which caused investors to channel their funds to EMEs. In this regard, it is noteworthy that approximately 76% of the investments to Turkey since 2002 have, on average, originated from the EU, while Asia and the Middle East have accounted for approximately 16%. With the rising amount of FDI inflows to Turkey, investments into the energy industry accelerated.

Next to MNEs, there are also institutional investors which are present within the Turkish energy industry. A phenomenon that has been defined as one of the traits of financialisation is the engagement of financial institutions in non-financial operations. Due to the potential for high-profit margins, the engagement of investment banks within the Turkish energy industry is evident. Next to investment banks such as Goldman Sachs, the activity of institutional investors is also apparent, such as the Canadian Pension Funds' acquisition of a stake of 40% in Polat Energy. These kinds of investments are partially driven by unconventional monetary policies and the lucrative investment opportunities provided by the Turkish government, i.e., renewable energy resources support mechanism (YEKDEM). It is interesting to note that the majority of foreign investors engage in projects that are subject to the governmental support mechanism.

Furthermore, the participation of IFIs in projects is perceived as positive by investors; however, the terms and conditions that accompany their engagement need to be scrutinised. There are primarily three channels which facilitate the engagement of IFIs in a project: first, by providing subsidies for certain projects; second, by acquiring shares in companies; and third, by providing credits. IFIs do not operate like profit-oriented private companies because their official aim is to increase welfare in certain countries and promote development. There are

two main reasons for why IFIs are interested in promoting development, to achieve their economic and political goals. The benefits for IFIs cannot be directly pinpointed to a single institution or country, given the structure of the organisations. For example, the European Bank for Reconstruction and Development (EBRD) has approximately 70 member countries.

IFIs do not only influence certain projects, they also contribute to local policy changes (as in the case of Turkey). Since the increased engagement of IFIs in Renewable Energy (RE) investments in Turkey, authorities have shifted their focus on RE and encouraged investments via support schemes in this field. Furthermore, many interviewees stressed that no one is willing to spend billions of USD in a country without expecting anything in return. IFIs do not engage in large investments because they are benevolent; rather, they see a potential future market in Turkey. In this context, for Europe, Turkey is a perfect destination for investments due to its close geographical location. The market in Europe is saturated and more growth potential is available in EMEs. In this regard, Turkey lags in technology, infrastructure, and know-how for its energy transition; hence, there is a dependency to collaborate with foreign MNEs, particularly those based in the EU.

There are problems for heavy import-dependent countries such as Turkey, with low domestic innovative technologies; their dependency on foreign goods increases and they fall into a vicious circle of becoming permanent consumers of technologies from AEs. Another concern is that local resources end up being used as 'tools' in an international assembly chain in order to keep production costs at a minimum for MNEs. An interesting aspect is that the credits offered by a few IFIs receive further discounts if, next to the raw materials, maintenance is also bought from European manufacturers. IFIs act as intermediaries and funding is conditioned upon the purchase of technology, including additional long-term services. Ultimately, the funds channelled into the Turkish energy sector aim to create future markets for (European) foreign companies.

In similar respects, through the pretence of financial aid, more AEs are displaying political power vis-à-vis lesser developed countries. Indeed, the most well-known IFI, the IMF, does not consider itself to be an aid agency or a development bank. It is important to note that the IMF deems itself as a guide for investors and covers only parts of a country's financial need. In this context, the literature provides evidence for the power of the U.S. over the IMF. The U.S. conditioned the acceptance of a war motion, which would have allowed the use of Turkish soil by U.S. forces to invade Iraq, for a credit of 24 bn USD provided by the IMF. After the rejection of this motion by the Turkish parliament, negative headlines were disseminated by IFIs and CRAs that impacted the economy unfavourably.

It is indisputable that CRAs have influential power upon investors' decision-making processes, despite being identified as the culprits behind the subprime crisis in 2007. Furthermore, concerns have been raised about the objectivity of CRAs after the recent political developments between the U.S. and Turkey. The U.S. government has close ties with CRAs, and countries that adhere to the agenda of the U.S. Department of State receive economic favours. It is no surprise that countries that have complicated political relations with the U.S. face political and economic hardship. In 2018, Moody's unjustifiable downgrading of Turkey's credit rating raised concerns about the institution's decree and objectivity. Not only that, this decision was exaggerated in terms of qualitative content and the dissemination of this rating came at a time when the political relationship between the two countries worsened.

To conclude, with the help of IFIs, the AKP managed to reset the Turkish economy. Nonetheless, an economic performance analysis for the years between 2002 and 2017 highlights the country's heavy import dependency, absence of local innovations and short-termed economic policies. Interview data and the literature review reveal that the main economic driver is consumption (stage 4: debt led economic growth) and that domestic manufacturing is largely owned by foreign MNEs. However, despite liberalisation and privatisation, the government plays a decisive role within the economy.

The final question: Has financialisation in Turkey followed the same pattern as in AEs?

In a nutshell, financialisation in AEs differ to those in DECs, resulting from several developments such as the underperformance and slowdown of aggregated demand, and the stagnation of the economy during the 1970s and 1980s. In AEs, NFCs started channelling their investments into financial assets, since profit rates within the real sector were falling. During the same period, a higher degree of labour militancy at home increased international competition abroad and accelerated this process. The fall in profit rates was the turning point of NFCs towards alternative income channels, i.e., financial instruments. Capital started shifting from the sphere of production towards finance due to the disproportional profitability. Booming financial markets coupled with deregulation and an increased shareholder and market pressure upon firms led to their engagement in finance. The real economy turned into one of the biggest income sources of financial markets by paying transaction fees, costs for hedging activities, asset management, and advice services.

On the other hand, financialisation in DECs followed a different pattern where deregulation and liberalisation of the markets were driven by the WC. In the case of Turkey, the WC has been advocated internally, while in other countries such as in Latin American, it was mainly promoted externally. The WC aimed to dissemble large SOEs in order to replace them by private companies and ultimately aimed to reduce the states' role within the economy, as in

the case of Turkey. Distinctive for DECs however, are the large family owned business groups with operations in a wide range of different industries. Incentives provided by the state encouraged business groups to expand into unrelated industries. In this context, these investment incentives can be seen as 'anti-financialisation' instruments to promote real growth activities.

In this context, financialisation in DECs are influenced and subjected to state relations and subordinated to the international monetary and financial system. Furthermore, the transition from a bank-based towards a market-based financial system, and the financial liberalisation played a major role for the trading of foreign currency denominated assets for international investors.

7.1.2. RO2: Identify the driving forces behind the financialisation process within the Turkish economy and assess them within a framework on a macro, meso, and micro-level.

RO1 sets out the overall picture, while the primary aim of RO2 is to conceptualise all aspects within a framework. The three different levels (macro, meso and micro-level) are briefly explained below.

On a **macro-level**, global forces impacting Turkey are explained. These forces are resulting from interactions between states. In this regard, two aspects are central: first, a state's role within the global economy and second, a state's political relations to others. For this thesis, three main macro-levels have been identified: economic, political, and technological developments.

> Main **economic developments** that have an impact on Turkey are monetary and fiscal policies of other states, the global economic conjuncture, and emerging consumer markets. The slowing down of economic power houses on a global scale is felt in Turkey. Low interest rates and even negative interest rates in several AEs increased the importance of investments into EMEs. This is in line with Kaltenbrunner and Painceria's (2018) findings that financialisation in developing and emerging economies are influenced by their subordinated integration into a financialised and structured world economy. Growing consumer markets provide lucrative investment opportunities for investors. The downside of those capital flows can result in a currency crisis, as seen in the case of Turkey throughout the 1990s.
>
> The **political developments** expand on the geopolitical issues and political relations of Turkey with other countries. Turkey's recent economic crisis in 2018 resulted from

a set of various developments in the region and a troubled U.S.–Turkey relationship. This is further supported by Powell (2013), who states that financialisation in the periphery is subordinated to developed economies and is subjected to state relations.

Technological developments are new innovations that can cause a significant change in a country's current market position on a global scale. Regarding energy, new technologies improved the efficiency of RE PPs while at the same time advancements in fracking allowed to exploit fossil fuel resources in deeper layers that led to falling oil and gas prices across the globe. These developments helped Turkey to reduce its costs for energy imports while at the same time the government enacted several incentives for RE investments.

The **meso-level** concerns market forces. The following three main groups have been identified at this level: competitors, external influences, and structural changes of the industries.

Competitors – such as large business groups or MNEs – can directly affect state finances. MNEs and financial institutions' international mobility and the fact of their borderless existence, i.e., switching locations as they please, give these stateless actors power vis-à-vis national states.

External influences are any influential organisation that can exercise soft or hard power against a nation state. They can influence a country's economics and politics. For instance, after the double crisis in 2000/2001, the IMF conditioned their support on the liberalisation of the Turkish energy sector. Another example, subsidies coming from the EU made the Turkish government more sensitive towards RE investments and contributed to a change in local regulations. Credit ratings from CRAs can influence investors' investment decisions and ultimately affect a country's economy. Also, strategic alliances such as the know-how transfer and the collaboration between Borsa Istanbul (BIST) and NASDAQ with the aim to improve existing financial instruments on the Turkish market are of importance.

Structural changes within industries are explained as changes in management activities and changes in the financial and non-financial sectors. Examples of financial actors' engagement in non-financial operations and vice-versa have been provided in chapter 5. As documented in AEs, the rise of institutional investors led to changes in the ownership structures of corporations, which in turn led to more short-termism of the NFC investment activities. The literature states that over the last decade there is a rising pressure of financial markets vis-à-vis listed firms. These developments have been further increased by changes within the banking sector. While NFCs started

engaging more in financial market activities such as lending amongst each other, banks responded swiftly to the loss of their traditional (corporate) clients. Financial institutions restructured their business model by actively targeting individual households and repositioning themselves as service providers to boost their fee incomes.

On the **micro-level**, the national level, internal issues within a country are discussed. Three main aspects have been identified on this level: local authorities, national influence factors, and consumers.

Local authorities are at the focal point due to their power to interfere and shape whole industries by enacting new regulations. Targeted policies aimed to ultimately reduce energy imports, helped to boost RE investments in Turkey. Another important actor on this level is the central bank, whose main concern is to protect the domestic economy from external shocks.

Internal influences are, for example, unions/lobbies, media/news, think-tanks/research institutions, pundits, and other related sectors. In the case of Turkey, unions and lobbying plays a big role. For instance, when local coal producers started experiencing difficulties on the market, lobby groups persuaded the government to levy tax on imported coal while at the same time providing subsidies for domestic coal producers. In a similar vein, towards the end of the 2000s, Turkey's booming construction industry – which is indirectly linked to the country's energy sector – further increased the demand for energy investments.

Consumers can influence certain industries with their behaviour or by following certain trends. In the case of Turkey, the increasing number of electronic appliances and devices per household, and the influx of approximately 3.6 million Syrians increased the demand for energy. Next to the end-users, interviewee Loc10 highlighted that the investment behaviour of large Anatolian energy firms dampens the demand for hedging instruments. These firms do not tend to consider hedging activities to be permissible in their religion.

The defined levels in Figure 7-1 are not conclusive because there are other levels and aspects in-between the main levels. Nevertheless, the defined primary levels set below, allow for analysing the mutual relationships across the different levels and to understand the factors affecting the energy sector.

Macro-contextual level: global forces that impact upon Turkey's energy sector.
Meso-transnational level: market forces, competitors, strategic alliances, and supply and demand.
Micro-national level: forces that address the internal environment of a country.

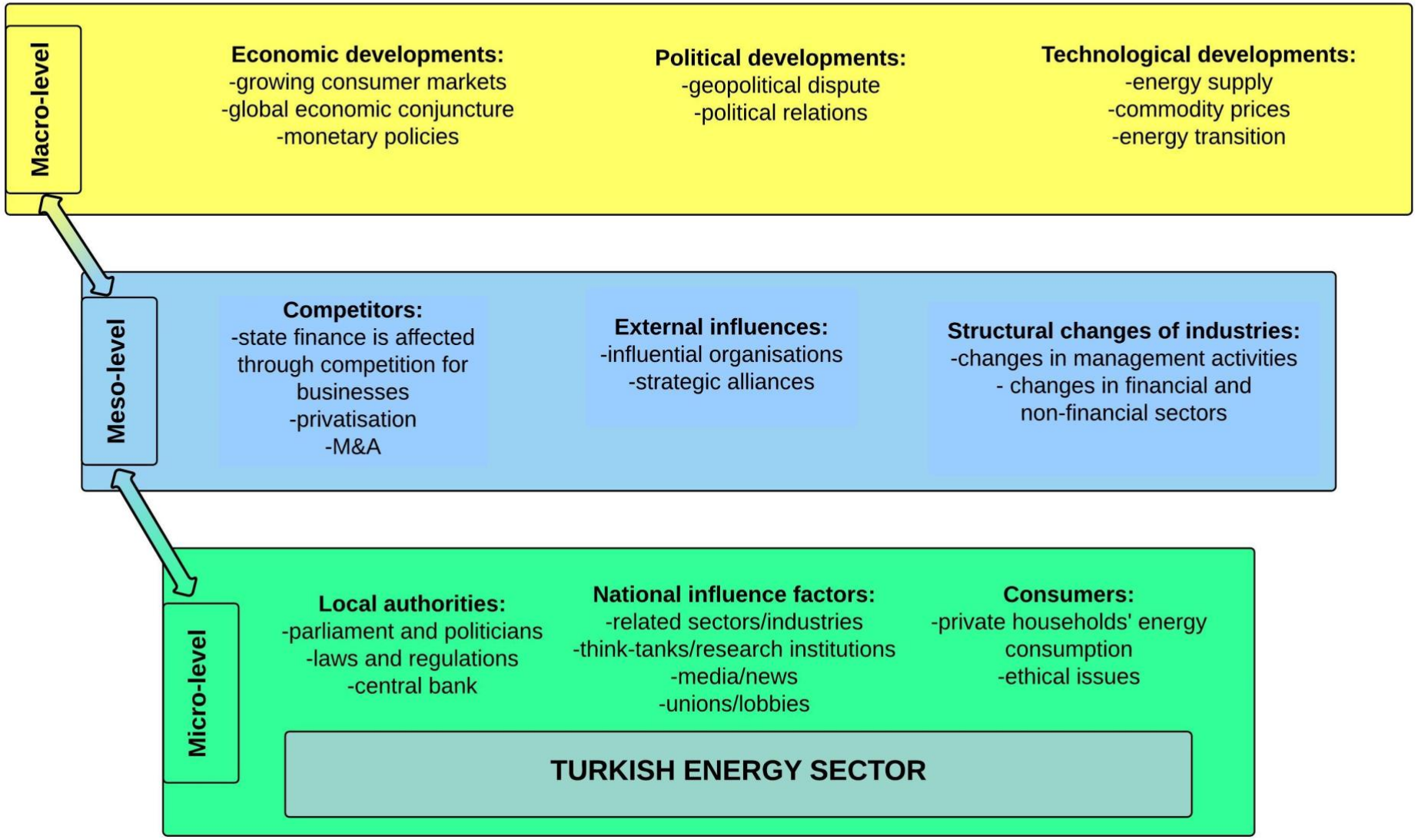

Figure 7-1: Different Levels that Ultimately Affect Turkey's Energy Sector.

Conclusion for RO2

This section provides an answer to RQ2: To what extent has the financialisation process in the Turkish energy sector been driven by Turkey's interests?

The financialisation literature on EMEs suggests that NFCs' higher engagement in financial market activities reduced their dependency on local financial institutions. In the cases of Argentina, Mexico, and Turkey – foreign capital inflows in the form of portfolio investments or FDIs encouraged domestic NFCs to invest more in short-term, high yielding, speculative financial investments, rather than in fixed assets. Financialisation provided NFCs with the opportunity to shift their investible capital towards the financial sphere, which has been described in the literature as the decline of industrial hegemony. In AEs, this gave rise to an increased shareholder and financial market pressure upon firms. Companies were forced to present profitable short-term financial statements at the expense of the firms' long-term success. This led to a higher engagement of NFCs in financial activities, where managers channelled funds into financial assets rather than real investments due to the disproportional profitability.

As explained in RO1, financial deregulation throughout the 1990s caused significant capital inflows to Turkey. This created new opportunities for domestic corporations and NFCs which benefited from these capital flows. Turkey's average energy consumption is below the world average, which indicates large growth potential. Also, Turkey is trying to keep up with the demand for energy, driven by its population, industrialisation, and urbanisation. The RE support mechanism (YEKDEM) encourages firms to take up loans and invest into new projects with an equity/loan ratio of 20/80 or 30/70. Interviewees stressed that Turkish energy companies try to secure funds from banks and then channel all available funds towards new RE projects. Turkey's lucrative market with limited legal and financial restraints has attracted many investors. This is highlighted by the rising FDI inflows, coupled with the entry of foreign companies into Turkey. Over the years many Mergers and Acquisitions (M&A) and joint ventures have been set up in the energy sector with the aim to increase profitability via synergies.

There are a few studies that investigate the financialisation of Turkish NFCs (Akkemik and Özen, 2014; Bahce et al., 2014; Bedirhanoglu et al., 2013; Demir, 2009a; Demir, 2009b; Demir, 2007; Demiröz and Erdem, 2018; and Tellalbasi and Kaya, 2013). Some argue that there is a shift of Turkish companies' working capital towards financial investments, i.e., real-sector savings are used in short-term speculative investments vis-à-vis investments in long-

term projects. There has not, however, been a single NFC sector-specific analysis conducted in Turkey. The existing literature focuses on macro-aspects, which has been adopted from developed countries – hence, it fails to account for Turkey's financialisation process. Depending on the EME itself, structural changes have taken place across several industries. For instance, unlike in AEs, in the case of Turkey, shareholder and financial market pressure upon listed firms is limited, since the majority of firms are privately owned by large business groups. In order to avoid a one-size-fits-all approach, a sector-specific analysis has been conducted in order to illuminate the financialisation process of the Turkish energy sector. By doing so, a mixed-method approach – qualitative (interviews and financial statements of energy firms) and quantitative (data retrieved from the CBRT and BIST) – has been used.

In Turkey, before foreign investors started engaging in energy investments, local firms from unrelated industries started their investments. Hence, the engagement of NFCs in financial activities is limited due to two main reasons: first, real investments are more profitable and second, financial markets are underdeveloped. NFCs in Turkey are heavily reliant on external funds from banks, since secondary market activities are newly advancing. It has been corroborated by the interviewees, that at the time of writing, there is no energy company in Turkey that invests in financial products to profit. The Turkish energy sector is growing at a rapid pace, where RE projects have a short amortisation period of five to six years. This is the reason why even financial institutions started investing into the Turkish energy sector, such as the International Finance Corporation (IFC) and Goldman Sachs. As mentioned earlier, the majority of energy firms are owned by holding companies, hence the business structure would not allow companies to engage in speculative short-term financial activities. Moreover, companies would rather pay dividends to their shareholders or utilise those funds for new RE projects. Furthermore, capital providers would not allow the use of funds designated for a certain project to be used for any other purpose. In the event that the funds are used in breach of what was agreed, then they are due immediately, with little room for exceptions. The interviewees confirmed that firms are only engaging in protective hedging activities, and that speculative short-term investments are not common. Companies engage primarily in new energy investments subjected to YEKDEM, by issuing corporate bonds to raise funds for RE projects. The primary data is in line with the quantitative tests. Micro-data retrieved from listed energy firms individually (on a quarterly basis) have been contrasted to macro-data retrieved from the CBRT for the period between 2002 to 2017. Tests provide statistically significant results for a positive correlation of companies' engagement in M&A activities and real

investments, i.e., RE investments with external funds. In this context, there is also a strong positive correlation between rising interest payments and the rising liabilities of firms.

Finally, it can be concluded that financialisation did not follow the same pattern in Turkey as in AEs. The findings revealed that increased interest payments indicate that financialisation in Turkey's energy sector is centred on the mechanism of interest. This outcome came to the fore after Turkey's recent economic TL crisis in 2018. The outstanding credits of NFCs started troubling the overall economy, which also forced several companies to restructure their debts via asset stripping. Since finance conditions worsened, NFCs were forced to make higher interest payments to banks. It is noteworthy that Turkish banks engage in heavy offshore lending activities and disperse foreign funds within Turkey. These findings highlight Turkey's subordinate role within the international monetary and financial system.

To put everything into perspective within the regulationist theory, RO1 and RO2 expanded on the three axes of accumulation defined by Becker et al., (2010) as follows (for details see section 2.3.1 of chapter 2):

1. Introverted/extraverted: Turkey displayed a dominant introverted accumulation regime throughout the 1930s and 1940s while the state encouraged the formation of national capital. After Turkey's account liberalisation in 1989, an increase in foreign capital and a closer integration within the global markets is evident, for more details see section 5.2 of chapter 5. Turkey remains a net importer and is highly dependent on energy and capital imports to keep its economy running.

2. Extensive/intensive: Intensive accumulation refers to new types of fixed capital by replacing existing technologies. On the other hand, extensive accumulation are additional investments in existing technologies. However, in practice both intensive and extensive accumulation occur simultaneously. Boundaries for these accumulations in Turkey are heavily influenced from abroad, as elaborated in section 4.1 of chapter 4.

3. Productive/financialised: If capital is confronted with limited investment opportunities in the productive realm, funds are channelled towards financial products. In sharp contrast to findings of scholars such as Akkemik and Özen (2014); Demir (2009a; 2009b; 2007); Demiröz and Erdem (2018); and Tellalbasi and Kaya (2013) who argue that Turkish energy firms engage in short-term financial activities, this thesis argues, based on empirical evidence, that firms are channelling available funds into the realm of production. In Turkey, energy companies are struggling to secure funds for real investments. The findings have been

expanded on throughout chapter 6 and analysed in section 6.1.4 by contrasting the profitability of financial and productive investments.

Financialisation based on the expansion of fictitious capital is not the only form of financialisation. Becker distinguishes two main forms of financialisation: financialisation based on securities, and financialisation based on interest-bearing capital and thus, on high interest rates (Becker et al., 2010, p. 229).

Financialisation is heavily dependent on foreign capital via attractive economic policies within DECs. Since 2003, FDI inflows to Turkey started rising which was mainly attributed to the liberalisation and deregulation in various sectors whereby also SOEs in the energy sector have been privatised. After the government announced to rebuild the energy sector, FDIs in the energy sector started increasing from 6.6% in 2006 and peaked to approximately 34% in 2009. However, political uncertainties led to a sharp decrease in 2012; FDIs then levelled out and stood at approximately 9% in comparison to total FDI inflows in 2016. In order to remain an attractive domicile for FDIs, Turkish authorities launched several investment incentives including YEKDEM, details in section 4.2 of chapter 4.

The findings of this thesis highlights Turkey's increased interest payments which revealed financialisation being centred on the mechanism of interest. The recent TL crisis in 2018 forced the CBRT to maintain high interest rates in order to prevent capital flight; however, these policies are only temporary guarantees for investors. The downside of high interest rates is the erosion of productive capacities. Interviewees voiced their limited access to finance and difficulties of obtaining business loans where, as of 2017, the rates are around 32% per annum. It is noteworthy that Turkish banks engaged in heavy offshore lending activities and dispersed foreign funds within Turkey. This caused a continuous deterioration of the current account that is mainly driven by imports. Turkey's situation resembles a vicious circle where capital imports increase the external debt, which in return increases the risk for investors and ultimately causes interest rate hikes by the CBRT. This financialised model gets under pressure as soon as the CBRT starts cutting interest rates. This usually takes the form of foreign exchange crisis as experienced in 1994 and 2000/2001.

The outstanding credits of Turkish NFCs and their burden for the economy are worth mentioning. Since finance conditions worsened, NFCs were forced to make higher interest payments to banks and restructure their existing credits. Several NFCs were forced to sell off assets in order to serve their obligations. Subsequently, the dollarisation/euroisation in Turkey aggravated existing problems. A precarious trend for the Turkish economy was FX loans as

described in section 6.1.2 of chapter 6. In May 2018, CBRT's (2018c) analysis showed that corporate FX loans stood at 335 bn USD, comprising of 293 bn USD of FX loans and 42 bn USD of import-related loans. 88 firms held FX loans with a value of over 500 million USD, 2,250 firms held loans with a value over 15 million USD, and approximately 44,000 companies held loans with a value of less than 15 million USD. Approximately 15 per cent of total FX loans were held by small companies. The total amounts of FX loans were considerably low; however, the credits were denominated in FX while firm income was held in TL. Any external shock (devaluation or depreciation of the TL) implied an imminent disaster for debtors and the risk of an economic crisis. These findings highlight Turkey's subordinate role within the international monetary and financial system and confirms that Turkey's financialisation process did not follow the same pattern as in AEs.

7.2. Contribution of this thesis

The first contribution of this thesis is a framework to support the analysis of the financialisation process of NFCs in EMEs. This study illustrates that financialisation is interconnected throughout different levels, herein described as the macro, meso and micro-level. By investigating aspects on each level and linking several events that have taken place across multiple stages, a profound understanding of financialisation has been achieved. Existing work in this field lacks in depth, i.e., considering factors that influence the investment behaviour of NFCs. Moreover, the literature draws upon a one-size-fits-all approach and represents financialisation based either on macro-economic indicators or economic models that capture only partial elements of the whole picture. Therefore, this thesis sheds new light on the topic by using a mixed-method research design and by drawing upon a macro to micro approach that delivers a more insightful analysis. This approach fits perfect into the regulationist theory which holds that the flourishing ground for financialisation is set by local authorities. Furthermore, this thesis provides support for Kaltenbrunner and Painceira (2018) and Powell (2013) that financialisation in EMEs are influenced and subjected to state relations and are subordinated to the international monetary and financial system.

The second contribution of this thesis is to provide a critical review of the issues that are pertinent to financialisation in Turkey, by obtaining the views of 28 experts on the Turkish economy, specifically, the energy sector. This allows for a meaningful cross-verification of the literature and empirical data (quantitative and qualitative), from which an improved understanding of financialisation in an emerging country result. The setup of the Turkish

energy sector – with seven listed companies and the remaining players consisting of holding groups or family owned businesses – enables to circumvent the financial market pressure upon firms. This aids for the analysis of the energy sector on its own, i.e., an examination of firms' investment decisions without accommodating financial markets expectations and striving for attractive financial statements as in AEs. Furthermore, this study argues that financialisation in Turkey has a 'state-led' character starting earlier than 1989's account liberalisation and the first use of the term 'financialisation' in the literature. Subsequently, after the implementation of neoliberal policies in collaboration with international financial institutions, Turkey's state-led financialisation adapted a form of 'dependent' financialisation.

The third contribution of this thesis is empirical evidence that highlights that financialisation follows a different pattern in advanced economies vis-à-vis EMEs. I found that financialisation in Turkey is different to those in advanced markets by primarily being centred on the mechanisms of interest-bearing capital (interest payments). While in advanced economies a shift of capital from the realm of production to finance is notable, my findings show the opposite for the case of Turkey. Companies struggle to access funds for real investments in order to meet the rising energy demand. Krippner's (2005) definition of financialisation has been brought to light by scrutinising the investment behaviour of Turkish energy firms' financial statements. By drawing upon quantitative data, hypotheses tests, and cross-verification with primary data, the results reveal that there is strong evidence against the findings of Akkemik and Özen (2014); Demir (2009a; 2009b; 2007); Demiröz and Erdem (2018) and Tellalbasi and Kaya (2013) in respect of their claim that there is a higher engagement in short-term financial activities by Turkish NFCs. Furthermore, by highlighting the sources of funds for the energy sector and by examining the relationship between companies' liabilities and interest payments, financialisation centred on the mechanism of interest-bearing capital came to the fore. Further, the current studies (Bahce et al., 2014; Bedirhanoglu et al., 2013; and Demiröz and Erdem, 2018) fail to account for financialisation amongst Turkish NFCs by using an ill-suited indicator. They compare non-operating income to operating income by neglecting non-operating expenses, which leads to misleading findings. In this regard, by scrutinising listed companies' financial statements – i.e., asset composition and profit and loss accounts – a qualitative approach has been suggested. The indicator of 'net-non-operating income/expenses' helps to widen the analysis by considering more aspects insofar as determining both increased financial income and financial expenses.

7.3. Limitations of this thesis

This section elaborates on the limitations of this thesis. Qualitative research is more subjective in nature compared to quantitative research. This is because qualitative data collection and methods may lead to the formation of a personal judgement (researcher bias) as opposed to gathered data. Nevertheless, the value of qualitative methods lies in examining the perceptions of what is being questioned or put forward in the research. In order to investigate the underlying factors involved in the trend of the Turkish energy sector's engagement in financial activities, a qualitative approach was indispensable. The focus is not only on the 'what' and 'when', but more so on the 'how' and 'why'.

In order to mitigate the risk of asking questions of personal interest and interpretation, I presented the interview questions to my supervisors and consulted with independent and experienced researchers. By applying the resultant critical and constructive feedback, I made a conscious effort to minimise any personal biases for this study. While analysing secondary data – i.e., annual reports – the objectivity of the data needed to be questioned. Most newspaper articles and documents published by organisations are written to pursue a specific goal or to convey a particular message and are usually heavily biased.

Another potential limitation is selection bias of the interviewees. Therefore, prior to the selection process of the interviewees, a list with pre-set criteria was used to determine the eligibility of potential interviewees. The interviewees were selected from three different groups. The first group were 'internationals'; people who work for international consultancies, banks, non-local authorities/governments, and energy corporations. The second group were 'locals'; primarily energy consultants, portfolio managers/bankers, researchers, and c-level/managers working at local energy companies. The third and last group were 'officials'; interviewees who work for authorities directly related to the Turkish energy sector. I endeavoured to carefully select interviewees based on their current position and the relevance of their experience related to my research topic.

Furthermore, during the fieldwork, I found that some interviewees were more inclined to share information with me than others. There are several aspects that may have affected the duration of the interviews, such as mental fitness of the interviewee, fear of negative repercussions for the interviewee, or it could simply have been my inability to create a solid rapport with the interviewee. On average, an interview lasted 45 minutes – the shortest was approximately 31 minutes and the longest was approximately 1 hour 45 minutes. However, regardless of the duration of the interview, the priority was the quality of the information

retrieved. Interviews were primarily scheduled for mornings to ensure that interviewees participated with a fresh mind.

Qualitative research lacks in a standardised framework to ensure validity. The fact that all field work is done by a single person raises concerns for the credibility of the research findings. Therefore, procedures to ensure validity are of utmost importance; ultimately, data analysis is an interactive rather than a linear process. During my fieldwork, I had to decide when the collected data was saturated. There is no clear number in qualitative research for interviewing – the literature suggests various numbers ranging from five to 20. I chose to interview 28 elites from different backgrounds, so to ensure I facilitated for a wide scope of responses. Furthermore, with regard to verification and drawing of conclusions, I used two techniques: triangulation and member checking. The triangulation of collected data enables consistency of findings throughout multiple sources, while member checking allowed me to confirm the accuracy of the collected data between interviewees.

Snowball sampling endangers the objectivity of research findings, since people refer others who tend to share the same views as them. This concern has been taken into consideration in order to avoid the bias of the gatekeeper to a new potential interviewee. Since a bias based on interrelation of the referee to the potential interviewee exists, people working in the same team/department with frequent interactions have not been used for this thesis. The focus was to gather data from individuals with contrasting viewpoints. For instance, on one occasion, an interviewee referred me to another interviewee by disclosing: ‘I do not talk to him because we end up in arguments every time, his political stance differs to mine; however, he is a smart guy, try to talk to him’. This held true when I interviewed the referral because he clearly held contrasting views to the previous interviewee.

In order to enhance the quality of this thesis, collected data from elites has been triangulated with various sources such as the financial statements of listed companies, data from the CBRT, and other secondary data. In regard to quantitative data, I was aware that small sample sizes might provide a misleading outcome that is not generalisable for the wider sector. Quantitative data is limited since there are only seven listed energy companies on BIST (only five of which have been used for this thesis). On the other hand, aggregated data retrieved from the CBRT provides annual data for approximately 300 firms. It is noteworthy that firms who reported to the CBRT sharply increased after 2008. In the period between 2002 and 2007, the average number of firms reporting to the CBRT was 47 and this rose to 240 firms in the period between 2008 and 2016.

Since there is no other alternative of retrieving data for energy firms; the two data sources have been triangulated with primary data and other secondary sources. Furthermore, the Turkish energy sector follows the concept of 'pure play'. Therefore, it was not possible to retrieve single financial ratios for different types of energy firms' sub-divisions, i.e., gas, coal, wind, solar, geothermal, and hydroelectric Power Plants (PPs). It would have helped to further specify within the industry, the single sector. However, this thesis focuses on the end product itself, electricity.

In order to avoid a distorted picture of the relationship between Fixed Financial Assets (FFA) and Tangible Fixed Assets (TFA), depreciation needs to be considered. Since FFA varies amongst companies based on their investments, so does the depreciation period for those investments. Furthermore, within the group of TFA there are different rates for each asset group – such as machinery, plant, and property – and this needs to be considered. For instance, hydroelectric PPs have depreciation of 40 years and geothermal PPs, 30 years. Nevertheless, even after adjusting the values by an average of 20%, no change in the results were noticeable.

To conclude, the ongoing issue is that most companies within the industry are privately held by holdings and data is scarce. There is limited publically available data at the CBRT; this data is only available on an annual basis and a change of accounting standards by the CBRT makes it difficult to contrast those values for the whole period of 2002–2017. Furthermore, the annual data provides 15 data points, which is statistically at the lower end. Also, data retrieved from the five listed companies are not conclusive and could be misleading; however, this is the population for energy firms in Turkey. Despite this, even though the quantitative data might not be comprehensive, the results are in line with the primary data (28 elite interviews) and the literature review.

7.4. Recommendations & Further Research

To date, in order to consider financialisation within a specific country, a one-size-fits-all approach has become the norm within the literature, by focusing either on macro-level or micro-level aspects. This research, on the other hand, differs in the following respects: By suggesting a framework to analyse financialisation in an emerging markets' sector – starting off from a macro-level, then analysing changes on the meso-level, and finally examining events and developments happening on the micro-level of a country's sector. The importance

of this work, compared to what has been produced hitherto, lies in its detail-oriented analysis that takes the interrelation of events on multiple levels into consideration in order to identify the drivers of financialisation in a single sector of an EME.

Despite thorough research having been conducted for this project, there are other related areas of study such as international political economics which can further contribute to this work. For example, future research could focus on areas that were only briefly touched on in this thesis, such as the political economic power of AEs upon EMEs, a detailed comparison of the profits of financial institutions versus non-financial organisations for various sectors, and further analysis on the ties between U.S. foreign policy and credit ratings from CRAs, including their effects upon EMEs.

Also, at the risk of generalising, this study presented a framework that can assist as a guide to identify traits of financialisation within a specific sector of an EME. In order to offer an improved chance of the framework presented, it would be fruitful to revisit the financialisation literature and apply it to the BRICS, MINT, and NEXT Eleven countries and determine the details that are appropriate to country-specific cultures in operation. The cultural aspects of a country can impact on economic development and on how the proposed framework can be implemented. For example, in the case of Turkey, this study illustrated that local investors displayed opportunistic investment behaviours in order to benefit from local subsidies, while foreign investors entered the market for the long run. The lack of local innovations, coupled with the country's high import dependency, lowers the competitiveness of local firms versus foreign companies. This will presumably result in an increased acquisition of local firms by foreign companies, in order to improve their profitability. Furthermore, the dependency on imported foreign technology created a vicious circle for the local economy, which can be seen across various sectors.

The approach that has been used to investigate the financialisation process in the Turkish energy sector in this thesis can be taken as a guide for other sectors in Turkey or other EMEs.

Questions that need further investigation are:

- How can the government ensure that the developments in the energy field will be conserved after the support mechanisms stop?
- How can the government encourage greenfield investments versus M&A activities?
- How did conflicting foreign policy interests with powerful countries affect the country's political and economic performance (on a timeline)?

The absence of reliable data sources did not allow for a comparison of profit rates in the financial sector to those in the energy sector. Nevertheless, the data available does confirm that firms within the energy sector have experienced high returns. However, sector-specific indicators – such as an Internal Rate of Return (IRR) or Weighted Average Cost of Capital (WACC) – could have helped to make stronger comparisons with the financial sector.

In order to improve the quality for analysis of financialisation in any sector, in addition to the existing financial indicators in financial statements, non-operating positions must be scrutinized. Hence, this thesis proposes the indicator of 'net-non-operating profit/loss' to further improve the understanding of firms' core activity income in relation to their non-operating income. This approach aids to detect a pattern of accumulation, whereby profit is primarily accrued through financial channels as opposed to commodity production.

8. References

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9. Appendices

Appendix A - Interview Questions

How did the money inflow influence the investment behaviour of corporations in the energy sector between 2002-2017?

How did financialisation change the Turkish energy sector between 2002-2017?

Could you please elaborate on the power of International Financial Institutions in Turkey?

What is on their agenda? (What's the purpose of those subsidies?)

Which market forces affect energy firms?

How do you assess the privatisation of the Turkish electricity distribution in Turkey?

Could you please elaborate if there is a shift from 'real investments' to that of 'financial investments' among companies in this sector?

Which financial investments are those companies engaging in?

Appendix B - Consent Form & Information Sheet

Title of the study: Financialisation of non-financial corporations in emerging markets; the case of the Turkish energy sector

PhD student: Sercan Sevinc, The York Management School
University of York, Freboys Lane, Heslington, York YO10 5GD, email: mss554@york.ac.uk, telephone: 0044 7490544244

PhD supervisor: Prof. Richard Common, The York Management School
University of York, Freboys Lane, Heslington, York YO10 5GD email: richard.common@york.ac.uk, telephone: 0044 (0) 1904 325376

This form is for you to state whether or not you agree to take part in the study. Please read and answer every question. If there is anything you do not understand, or if you want more information, please ask the researcher.

Have you read and understood the information leaflet about the study?	Yes ❒ No ❒
Have you had an opportunity to ask questions about the study?	Yes ❒ No ❒
Do you understand that the information you provide will be held in confidence by the researcher?	Yes ❒ No ❒
Do you understand that you may withdraw from the study for any reason, without affecting any services you receive?	Yes ❒ No ❒
Do you understand that the information you provide may be used in future research?	Yes ❒ No ❒
Do you agree to take part in the study?	Yes ❒ No ❒
If yes, do you agree to your interviews being recorded?	Yes ❒ No ❒

(You may take part in the study without agreeing to this).

Interviewee's name: _____

Interviewee' signature: _____

Interviewer's name: Sercan Sevinc

Interviewer's signature: _____

Date: _____

The effects of the financialisation process on Turkey's energy sector

INFORMATION ABOUT THE RESEARCH

You are being invited to take part in this research. Before you decide to do so, it is important you understand why the research is being conducted and what it will involve. Please take time to read the following information carefully and discuss it with others if you wish. Ask me if there is anything that is not clear or if you would like more information. Take time to decide whether or not you wish to take part. Thank you in advance for taking time for me.

1. What is the purpose of this project?

This research attempts to illuminate the investment behaviour of companies within the Turkish energy sector between the years 2002 - 2017. The aim of this research is to highlight if there is a shift from investments in fixed assets towards that of financial assets. Furthermore, what kind of financial investments have been invested in by of energy firms will be investigated.

2. Who is the researcher?

Sercan Sevinc, PhD student, *telephone: 0044 7490544244, email: mss554@york.ac.uk* at the York Management School – University of York.

I am supervised by Professor Richard Common at the York Management School – University of York. If you would like to receive more information about the research, please speak in first instance to me, alternatively to my supervisor Professor Richard Common, *telephone: 0044 (0) 1904 325376, email: richard.common@york.ac.uk.*

3. Why have I been chosen?

For this research, participants have been carefully selected based on pre-set criterion; this includes professional background, employment history, current position (of employment), and the individual's relevance in terms of providing data that may be invaluable for this research.

4. Do I have to take part?

It is up to you to decide whether or not to take part. If you do decide to take part you will be able to receive a management summary about the findings of this research. You should indicate your agreement on the consent form. You can still withdraw at any time and do not have to give a reason.

5. What is involved?

If you agree to take part, I will visit you at work, or another venue of your choice, to ask you some questions about the changing investment behaviour of companies within the Turkish

energy sector. You will also be asked to sign a consent form. The interview should last around 40 minutes. If you agree, our conversation will be recorded and transcribed to provide a better base for the analysis of the provided information.

6. What are the possible disadvantages and risks of taking part?

Participating in the research is not anticipated to cause you any disadvantages or discomfort. The potential physical and/or psychological harm or distress will be the same as any experienced in everyday life.

7. What are the possible benefits of taking part?

Whilst there are no immediate benefits or payments for those people participating in this research, it is hoped that this research will illuminate the investment behaviour of the Turkish energy sector. Results will be shared with participants in order to inform their professional work.

8. Will my taking part in this project be kept confidential?

All the information that I collect about you during the course of the research ***will be kept strictly confidential***. This research is confidential and all information which I receive will be anonymised with no comments or responses attributed to any specific individual. Please be assured that you will not be able to be identified or identifiable in any reports or publications. Your institution will also not be identified or identifiable. Any data collected about you will be stored protected by passwords and other relevant security processes.

9. What will happen to the results of the research project?

The findings and information will be used for my PhD thesis. Results of the research might be published in journals or other forms of publications. ***You and your institution will not be identified in any journal or publication.*** If you wish to be given a copy of any reports resulting from the research, please provide me with your email address.

10. Who has ethically reviewed the project?

This project has been ethically approved by the ethics committee of the University of York. The chair of the ELMPS committee is Professor Bill McGuire william.mcguire@hyms.ac.uk.