

# AN EVALUATION OF THE NEOMERCANTILIST THEORY WITHIN THE CASE OF ERDEMİR'S PRIVATIZATION PROCESS\*

## ERDEMİR ÖZELLEŞTİRME SÜRECİNİN NEOMERKANTİLİST TEORİ İLE AÇIKLAMASI

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### Abstract:

This study focuses on the auction process and selling of Turkey's major iron and steel company ERDEMİR (Ereğli Iron and Steel Works) by OYAK (Ordu Yardımlaşma Kurumu - Army Solidarity Foundation). The major concern of the study is to observe the Turkish government's real perception within the economic realm and whether neomercantilism is the sole understanding or would there be a necessity to change the view towards neomercantilism. In order to grasp the uniqueness of this situation, the history and structure of ERDEMİR as a national steel producer is introduced. The whole auction process is elaborated including briefly the way leading to this privatization decision at the early stages and the potential actors' natures, and how this intended privatization got into a very different direction at the last stage. Finally, this study explains the reasons behind this result of OYAK's purchase will be explained taking the neomercantilist motivations in Turkey and how they can be evaluated with regard to the nature of OYAK's structure and unique situation in Turkey. These all will pave the way to understand Turkey's current response to world economy within the context of iron and steel industry.

**Keywords:** Erdemir, Oyak, Neomercantilism, Privatization, Political Economy.

### Öz:

Bu çalışma, Türkiye'nin en büyük demir çelik şirketi ERDEMİR'in (Ereğli Demir ve Çelik İşleri) OYAK (Ordu Yardımlaşma Kurumu - Ordu Dayanışma Vakfı) tarafından gerçekleştirilen ihale sürecine ve satışına odaklanmaktadır. Çalışmanın ana konusu, Türk hükümetinin ekonomik alandaki gerçek algısını ve neomerkantilizmin tek bir anlayış olup olmadığını veya neomerkantilizme bakış açısını değiştirmek için bir gereklilik olup olmadığını gözlemlemektir. Bu durumun özgünlüğünü kavramak için ERDEMİR'in tarihi ve yapısı ulusal çelik üreticisi olarak tanıtılmaktadır. Tüm ihale süreci, bu özelleştirme kararının ilk aşamalarından son aşamasına kadar nasıl çok farklı bir yöne girdiğini açıklamaktadır. Son olarak, bu çalışma, OYAK'ın satın almasının ardındaki nedenleri, Türkiye'deki neomerkantilizm motivasyonları ve OYAK'ın yapısının doğası ve Türkiye'deki kendine özgü durum açısından nasıl değerlendirilebileceğini açıklamaktadır. Bunların hepsi, Türkiye'nin demir-çelik endüstrisi bağlamında dünya ekonomisindeki yerini anlamayı sağlayacaktır.

**Anahtar Kelimeler:** Erdemir, Oyak, Neomerkantilizm, Özelleştirme, Politik Ekonomi.

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## INTRODUCTION

It is a commonly encountered situation in today's world economy, that more and more countries are applying the privatization approach in their economies to make their state-owned enterprises to survive. This is usually carried out deriving from the necessities with regard to the privatized enterprises' prior poor economic performances or the government's inefficiency to manage that sector's business. In each situation, the key actors usually involve that state-owned enterprise, the government itself, and the buyer company whether a domestic or foreign one. However, when looking from this perspective, the recent case in Turkey does not ultimately fit this scenario. The case which will be focused on in this study is the auction process and selling of Turkey's major iron and steel company ERDEMİR (Eregli Iron and Steel Works) by OYAK (Ordu Yardımlaşma Kurumu - Army Solidarity Foundation).

The major concern within this ERDEMİR case is to observe the Turkish government's real perception within the economic realm and whether neomercantilism is the sole understanding or would there be a necessity to change the view towards neomercantilism. In order to grasp the uniqueness of this situation, the history and structure of ERDEMİR as a national steel producer will be necessarily introduced in the first part. In the second part, then, some details about OYAK will be given briefly in terms of its past establishment and current structure, which will be beneficial in order to understand why OYAK's purchasing behavior cannot be fully regarded as a complete reflection of either privatization or neomercantilist perception. The whole auction process will be elaborated under the third part, including briefly the way leading to this privatization decision at the early stages and the potential actors' natures, and how this intended privatization got into a very different direction at the last stage. In the final part, the reasons behind OYAK's purchase will be explained taking the neomercantilist motivations in Turkey and how they can be evaluated with regard to the nature of OYAK's structure and unique situation in Turkey. These all will pave the way to understand Turkey's current response to world economy within the context of iron and steel industry. The reason why ERDEMİR was chosen as the case of concern for this study derives from the importance of ERDEMİR's products, that is iron and steel, within the state economy

## 1. STRUCTURE OF ERDEMİR

### 1.1. Structure of Erdemir as a State-owned Enterprise

In contrast to the general perception, ERDEMİR was yet not a pure public enterprise as deriving from its mixed nature, which was elaborated by Szyliowicz (1991: 96) as being a sum of public and private contributions, where the government's contribution was higher in sum compared to the private shareholders. 51% of aggregate capital was belonging solely to the Turkish government. It can be noted, that the striking point for any later opposition to the privatization should be the one against a complete privatization, which would be completed

by foreign companies. In the 2001 dated original contract under the name of ERDEMİR Joint Stock Company<sup>1</sup>, the major shareholders included are listed as Türkiye İş Bankası (İsbank) General Directorate with 30%, Turkish Iron and Steel Administration General Directorate with 17.5%, Sümerbank General Directorate with 17.5%, Ankara Industrial and Commercial Chamber with 12.5% and Koppers Associates (Zurich, Sweden) with 22.5% shares. When considering from the perspective of the shareholders' natures in terms of the structure, it can be noticed that, excluding the Koppers Associates, they were all highly respected and domestically significant economic actors. For example, Sumerbank<sup>2</sup> had been one of the first state institutions initiating the industrial development in Turkey. Moreover, Türkiye İş Bankası<sup>3</sup> was the major national institution with regard to banking established in the early years of the republic for development purposes. Considering these aspects, the privatization of those 'national' shareholders' shares would not be a desirable end. Apart from the shareholders, ERDEMİR as a corporation has also many group companies as Erdemir, İşdemir, Erdemir-Mine, Erdemir- Logistics, Erenco, Erdemir-Gas, EÇSM- Steel Service Center, Çelbor and Erdemir-Romania<sup>4</sup>. These all shareholder companies, however, do serve for the interests of the Turkish economy with their significant export facilities. The reason why OYAK's purchase was met by appreciation, as will be discussed below, would be attached to this reality.

In addition to that, "in early 1990s, a decision was made to allow private participation in the ownership of Ereğli. When the shares were made available, 5.5 percent were sold to the general public" Hogan (1991:70). In fact, this is a striking point to mention that the purchase by OYAK was not the first experience of ERDEMİR with regard to privatization and that its all shares were already not belonging to the state authority at all. However, the term 'public' is crucial to note, that ERDEMİR was still in the hands of Turkish people and thus sustained its nature of being national. Moreover, such a public sale would also strengthen the extent of the opposition towards a foreign company ownership with nationalistic motivations, as ERDEMİR was not in an economically undesirable situation before the privatization issue was on the agenda. According to Hogan (1994:37), however, such a privatization was not a new issue, as "[i]n terms of the future, the principal integrated company, Ereğli, is currently government-owned but will be privatized in the next year or at the most two".

## 2. HISTORY AND STRUCTURE OF OYAK

The reason why OYAK as an institution should be better analyzed in a detailed way for this study is basically to see the relevance to the neomercantilist theory clearly and to approach its stance in this case in a critical way. The nature of the purchasing institution would be important in that sense to grasp the main motivations behind the decision at

<sup>1</sup> [http://www.erdemir.com.tr/tr/kurumsal/ESAS\\_SOZLESME.pdf](http://www.erdemir.com.tr/tr/kurumsal/ESAS_SOZLESME.pdf)

<sup>2</sup> More information about Sumerbank can be found on this relevant webpage: <http://sumerbank.net/tarih.htm>

<sup>3</sup> More information about İsbankası can be found on this official webpage: <http://www.isbank.com.tr/bizitaniyin/ib-taniyin-ogunler.html>

<sup>4</sup> <http://www.erdemir.com.tr/tr/gsrket.asp>

that institution and the major implications of this privatization. The fact that OYAK is a unique and Turkish-origin institution is the basis to compare the situation with regard to neomercantilist theory. What the implications would be, if the purchasing company would have been instead from a different country, will be discussed in the later parts. For this moment, it would be necessary to be informed more about OYAK's unique features.

## 2.1. Historical Background of OYAK as a Public Foundation

OYAK, the Army Solidarity Foundation, has a long past which strengthened its current position and perception in Turkey. It was established<sup>5</sup> by the military bureaucracy in 1961 right after the 1960 coup d'etat under a special statute. As mentioned by the 15th Anniversary Report (1976:3), OYAK is a judicial corporate foundation dependent on private law and has an autonomous nature in financial and administrative terms. Its main purpose for establishment is to provide social assistance and social service to its members as stated under its foundation statute. Its autonomy can be better observed by looking at the budgetary structure of OYAK in the next section. According to Parlar (2005:96), it was perceived as a necessity to reduce the political sensitivity at the lower stages of the army and to enable the command of the high-ranking generals to be carried out. For this aim, some material opportunities were provided to some of the army officials as well, leading to this establishment. Parlar further states, that OYAK was established with a capital of 50 million TL in 1961 and by the year of 1986, it had already acquired 88 thousand members and had ownerships or shares in 28 industrial and commercial institutions including the private companies as OYAK-Renault, Çukurova Çimento, Hektaş, Tam Gıda and Bolu Çimento.

## 2.2. Structure of OYAK Administration and Vision

Article 1 of the OYAK Law says as follows: "An institution related to the Ministry of National Defense to be known as the Armed Forces Pension Fund is hereby established to provide members of the Turkish Armed Forces with mutual assistance set out in this law. The headquarters of the fund shall be in Ankara. The fund shall be subject to the provisions of this law and private law and shall be a corporate body with financial and administrative autonomy". This simply underlines the fact, that the "national" side of OYAK was prominent in its establishment. Having been established under the autonomy of military generals, OYAK later turned out to be a monopolistic and capitalist administration functioning in a widespread area. Returning to the autonomy issue mentioned before, OYAK's budget is worth to analyze. According to its special law, on whose grounds it was founded, specifically article 18, the income of OYAK consists of as follows:

a) 10 per cents of the officers' and junior officers' incomes

b) 10 per cents of the wages and pensions of all civil servants and employees working at the National Defense Ministry and Gendarme Command Post

<sup>5</sup> <http://www.marksisttutum.org/kilicliburokrasi.htm>

c) 10 per cents of the wages of civil servants and employees working under OYAK or any company of whose capital OYAK has a share of more than 50 per cent

d) 5 per cents of the wages of the reserve officers (Parlar, 2005: 107)

Güngör (2005)<sup>6</sup> identified the structure of OYAK with associating it to an insurance company, in that it collects the regular financial contributions from its members and later provides them with some opportunities during their retirements. Such a view would in fact strengthen the position of OYAK with regard to the state, as it acts as if fulfilling some of the responsibilities of the state in terms of the pension opportunities. As also mentioned in the 15th Anniversary Report (1976:1), it is under the duties of the Turkish government, as stated in the constitution, to provide the social security rights of its citizens and to establish necessary institutions to fulfill these requirements. The main aim of the social security institution is to provide their members with the necessary reassurances towards possible threats. In cases when the existing social security institutions within the government body cannot be able to meet the necessary conditions for their members, some additional foundations are naturally established. Thus, OYAK was basically founded on this basis, reflecting a public responsibility issue. To what extent such an advantage to the members could have been sustained in case of a would-be privatization by a foreign-owned company is thus indeed ambiguous, especially providing a legitimate ground for any opposition by those officers as legal members of OYAK. During the 2001 crisis, Turkish government, which was experiencing very serious fiscal problems indeed, did not make any claims on Oyakbank, while many banks went bankrupt because of the same crisis. This bank even continued its monopolistic growth by beating its rivals.

How OYAK developed its advantages can be better observed when looking at its participant institutions which it includes as parts of its economic functioning. Some of them being mentioned before, OYAK with its sub-institutions has a widespread economic functioning including automotive, cement, nutrition, oil and petro chemistry besides its specific companies in finance, industry and service sectors. Parlar (2005:97) refers to this structure by pointing that the striking aspect of OYAK's participants is that as being a capital group owned by military personnel, OYAK had initiated kind of joint ventures with the international capital, big conglomerates and state-owned enterprises. In a sense, this means that military personnel gets directly involved in capitalist relations and belonging to the capitalist class.

### 3. THE AUCTION PROCESS

The reason why ERDEMİR itself cannot be a key actor is that it is in fact exposed to the privatization procedure belonging to the public good, private interests and depending on some calculations with regard to a sustainable economic benefit. The logic behind the key actors evaluation can be simply observed when looking at the then-discussions regarding the privatization

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<sup>6</sup> [http://www.dunyagazetesi.com.tr/news\\_display.asp?upsale\\_id=317413&dept\\_id=80](http://www.dunyagazetesi.com.tr/news_display.asp?upsale_id=317413&dept_id=80)

scenarios, which were completely about whether the privatization would be carried out to the multinational firms or the national ones, be it specifically OYAK. This claim can be better explained under the following headings by seeing their operations directly during the process.

### 3.1. Reasons behind the Privatization

According to the UNIDO table showing the world iron and steel production, provided in Szyliowicz (1991: 46), Turkish production went from 0.6 millions of tons to 5.0 million of tons between the years of 1965 (the year of establishment of ERDEMİR) and 1985. Moving further, Tekin (1997: 201) referred to ERDEMİR in the book “Aspects of Privatization in Turkey” with an analysis of ‘Iron and Steel Production in Turkey’ until the year of 1997, showing that among the three major state-owned iron and steel producers as Isdemir, Karabuk and Erdemir, ERDEMİR has continuously been the one producing the largest amount of iron and steel, reaching its capacity.

Continuing to its investments, ERDEMİR’s main target is to be included within the largest five steel companies in the world. The surprising increase in its endorsement<sup>7</sup> in last year and its profit reaching 823 billion were enough to make it attractive for the world giant companies as International Steel Group, US Steel, Mittal and Arcelor. However, why Turkish government decided to privatize such a profitable state-owned enterprise is questionable. One fact leading to this result would be explained in a way, that ERDEMİR was the only facility producing flat steel. While the demand for flat steel in Turkish industry was 7 million of tones, ERDEMİR could only produce 3 million of tones of flat steel. The rest was provided by importing from outside. Thus, according to Güngör (2005)<sup>8</sup>, ERDEMİR needed to increase its production capacity for this specific type of steel.

Privatization would be regarded as a plausible alternative to provide such an increase in production for the sake of recovering the government’s failure to do that. It is a fact that lack of necessary new investments on state-owned enterprises leads those foundations to their inevitable destruction (Başoğlu, 1998:11). Why privatization is preferred instead of those investments is debatable, but there is no doubt that it is easier for governments to free themselves from such responsibilities. To what extent the specifically foreign companies’ participation in any development of production would be effective, is another concern, as they would work the procedure simply to their own advantage. In this aspect, trust towards a national company that it would prioritize national interests over any other benefits would be logical enough to support the sale to a Turkish company.

### 3.2. Participant Firms to the Auction

The nature of the opposition to the privatization issue can be better understood when analyzing the features of the major applicants to the auction procedure. They were among

<sup>7</sup> A detailed information related to ERDEMİR’s endorsement and profits is provided on this webpage: <http://www.hisse.net/yazi/96/Erdemir-ozellestirme-bedeli>

<sup>8</sup> Güngör, Tevfik [http://www.dunyagazetesi.com.tr/news\\_display.asp?upsale\\_id=235600&dept\\_id=80](http://www.dunyagazetesi.com.tr/news_display.asp?upsale_id=235600&dept_id=80)

the world's most important iron and steel companies and the striking point was that almost each were public enterprises without any involvement of a company with different national origin. If those foreign participant companies are to be listed, they were mainly Arcelor, Mittal Steel, American US Steel, Corrus, Novalipetsk and Severstal (Erzengin, 2007)<sup>9</sup>. The interesting point is, mentioned by Salli (2007)<sup>10</sup>, that ERDEMIR was ranking the second in terms of the profitability following the Russian Severstal, compared to those other major steel companies. ERDEMIR was such a profitable company, that other countries' firms would like to have shares on it, which they could not afford to earn by themselves. Salli further states that Mittal had announced earlier at the beginning of the auction, that if ERDEMIR would not be sold to a company much bigger than itself, its devastation would be inevitable. Despite this claim, yet, ERDEMIR remained in the hands of a domestic firm. When analyzing those participant companies, the very first issue to pay attention for is the merger of Arcelor and Mittal, the two big steel companies, in 2006. As stated in the official webpage<sup>11</sup> of Arcelor-Mittal, "Arcelor was created through the merger of Arbed (Luxembourg), Aceralia (Spain) and Usinor (France). The three European groups were determined to mobilize their technical, industrial, and commercial resources in order to create a global leader in the steel industry. The merger was officially launched on 19 February 2001 and the choice of the Arcelor name was announced on 12 December 2001". This was a merger rather than a sale. All Luxembourg, Spain and France had still their national control over their own shares, while any purchase of ERDEMIR by them would imply a different result.

Although Mittal Steel's boss had stated that "ERDEMIR is Turkish and would still remain Turkish" (despite a possible sale to Mittal) in Milliyet Newspaper<sup>12</sup>, it would be not a convincing claim, taking the previously mentioned profitability of ERDEMIR and other producers' willingness to purchase it into account. Moving to Mittal's structure, it is a British company at its roots. However, individually, Mittal<sup>13</sup> has also developed itself through acquisitions, mostly of state-owned steel companies. According to Hogan (1992:4), the increasing joint establishments among the major international steel companies indeed lead to rational steel pricing for the international trade.

Apart from those foreign companies, there were also domestic participant companies for the auction, mainly Koc Holding, Zorlu Holding and Ereğli Joint Enterprise Group. According to Güngör (2005)<sup>14</sup>, Koc Holding could not compete within this auction process because of its previous failure on Asil Steel and its engagement with Tupras. Besides, Ereğli Joint Enterprise Group was financially weak and leadership would be a problem within the group. In this case, OYAK would seem to be the most advantageous participant.

<sup>9</sup> <http://www.hisse.net/yazi/96/Erdemir-ozellestirme-bedeli>

<sup>10</sup> <http://www.oncevatan.com.tr/ADetay.asp?yazar=3&yz=7068>

<sup>11</sup> <http://www.arcelormittal.com>

<sup>12</sup> <http://www.milliyet.com.tr/2005/06/26/business/abus.html>

<sup>13</sup> For more information about Mittal, <http://www.mittalsteel.com/Company/History> can be visited.

<sup>14</sup> Güngör, Tevfik, [http://www.dunyagazetesi.com.tr/news\\_display.asp?upsale\\_id=235600&dept\\_id=80](http://www.dunyagazetesi.com.tr/news_display.asp?upsale_id=235600&dept_id=80)

### 3.3. Neomercantilist View behind OYAK's Introduction

“Neomercantilism treats states as unitary actors but calls attention to powerful firms and trading arrangements that states use to enhance their international standing” (Ziegler, 2010). With regard to its historical interpretation within the Turkish economy, Türegün (2016) stated that “[i]n the macroeconomic domain, Turkish neomercantilism remained loyal to neoclassical liberalism, producing one of the most successful applications of the ‘sound money and balanced budget’ orthodoxy”. As mentioned previously, OYAK is a foundation with the military support, which implies the public motives behind it. Although it functions under the law for private enterprises, it is still privileged by the government and has a nature of protecting the members of OYAK. OYAK’s willingness of purchasing ERDEMİR would be accepted from this perspective as a pure neomercantilist approach. According to Sönmez (2005)<sup>15</sup>, OYAK’s insistence in ERDEMİR’s privatization case derives from both economic and ideological-political reasons. Military staff in Turkey still regards the iron and steel sectors as being a strategic one. Being very necessary for the weapon industry, this sector’s possible ownership by foreign companies was strongly opposed by OYAK. On the other hand, that OYAK had a special status in the automotive sector with its production of Renault trademark was another reason for OYAK’s insistence, as flat steel was an important input for it. Munyar (2005)<sup>16</sup> mentioned in his article that OYAK’s general director Coskun Ulusoy explained their reason for enthusiasm in purchasing ERDEMİR for a legitimizing purpose by using their ‘national’ characteristic. He stated that if ERDEMİR is to be privatized, then it would be better for it to be purchased by themselves instead of foreign companies.

### 3.4. The Results of the Auction

The auction did finalize on 4th October 2005<sup>17</sup>. To begin with, it is necessary to state, as Sönmez (2005)<sup>18</sup> mentioned, that there was a ‘new investment’ condition previously written in the auction contract for the purchasing side. This could be a reason for the foreign companies to withdraw from their participation or for their discourage to offer higher prices for ERDEMİR, as they already had production surpluses for their own companies. Such a further investment for the new facility would not be attractive for them. In addition, the determination of both OYAK and the consortium led by TOBB to not give up the iron and steel industry to foreign hands could be a reason for this later discouragement of foreign sides. At the end, it was OYAK to have succeeded in purchasing ERDEMİR. According to Salli (2007)<sup>19</sup>, OYAK offered 2 billion 770 million dollar for the 46.12 per cent shares of ERDEMİR to be privatized. Those ERDEMİR shares were purchased by OYAK under the name of Ataer Conglomerate, whose ownership completely belongs to OYAK. How OYAK could offer higher prices than those big foreign companies is a question. As Sönmez (2005)

<sup>15</sup> Sönmez, Mustafa [http://www.sendika.org/yazi.php?yazi\\_no=3538](http://www.sendika.org/yazi.php?yazi_no=3538)

<sup>16</sup> Munyar, Vahap <http://arama.hurriyet.com.tr/arsivnews.aspx?id=5296332>

<sup>17</sup> <http://arama.hurriyet.com.tr/arsivnews.aspx?id=3995376>

<sup>18</sup> Sönmez, Mustafa [http://www.sendika.org/yazi.php?yazi\\_no=3538](http://www.sendika.org/yazi.php?yazi_no=3538)

<sup>19</sup> Salli, M. Kemal <http://www.oncevatan.com.tr/ADetay.asp?yazar=3&yz=7068>



further stated, OYAK did manage this by borrowing from abroad and thus contributing to government's foreign debt. At this point, it seems a kind of shift from the neomercantilist approach, as it makes the state more and more dependent on outside economies. As OYAK has always had the government support, its failure to repay its debts would inevitably result in Turkish government doing so for OYAK. However, according to Güngör (2005)<sup>20</sup>, who supports this privatization, OYAK is a powerful group in terms of its administration and finance and thus it would inevitably find the ways to pay those prices. Moreover, compared to other Turkish applicants with family grounds as Koc and Zorlu Conglomerates, OYAK is a capital group based on a professional administrative unit.

#### **4. NEOMERCANTILISM AS AN EMERGING APPROACH IN TURKEY**

Taking the opinions emerged right after the privatization of ERDEMİR to OYAK and both the supporters and opponents into account, there was both a neomercantilism and a change in this neomercantilist view itself observed in Turkey. On the one hand, the act of privatization could be regarded as a shift from neomercantilism, as privatization itself is one of the components of neoliberal policies. On the other hand, yet, as OYAK's traditional reputation in general was being a kind of public company, this would legitimize that purchase and let the case return to the neomercantilist theory. However, at the very end, as OYAK officially was not a state-owned enterprise but rather a conglomerate of military personnel, this would simply lead to the conclusion that the well-known neomercantilist theory had some questionable points within it when applying to this case. To see this deviation clearly, it would be effective to have a look at the global iron and steel sector.

##### **4.1. Global Iron and Steel Industries**

Iron and steel are the major important inputs for all industrialized countries. They have a wide range of production functions, mainly automotive and weapon industries. Thus, the sector is regarded as being the central of the economies of concerned countries. "China is the world's largest iron and steel producer as well as consumer...The new steel policy will now arrest these steel giants' plans of acquiring stakes in the Chinese steel industry... [It] views iron and steel industry as the backbone of its economy and hence is unwilling to allow foreign entry in the sector", as mentioned in Asia Finance Blog<sup>21</sup> in 2005. In the same year, Turkey was yet to privatize its major state-owned steel company ERDEMİR and indeed foreign companies were among the potential purchasers. On the other hand, as stated in the New York Times<sup>22</sup> in 2005, there was another privatization, which was the one of Ukrainian largest steel mill to the Mittal company, the world's biggest steel maker. This event was regarded as a key acquisition for Mittal. Rocca (2007)<sup>23</sup> explains the worldwide

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<sup>20</sup> Güngör, Tevfik [http://www.dunyagazetesi.com.tr/news\\_display.asp?upsale\\_id=235600&dept\\_id=80](http://www.dunyagazetesi.com.tr/news_display.asp?upsale_id=235600&dept_id=80)

<sup>21</sup> [http://www.asiafinanceblog.com/asiafinanceblog/2005/07/new\\_iron\\_and\\_st.html](http://www.asiafinanceblog.com/asiafinanceblog/2005/07/new_iron_and_st.html)

<sup>22</sup> <http://www.nytimes.com/2005/10/25/business/worldbusiness/25steel.html>

<sup>23</sup> <http://www.worldsteel.org/?action=storypages&id=149>

iron and steel sector for International Iron and Steel Institute as “to a large extent and with China being an exception, the steel industry is today far less dependent on public policy and government finance. Twenty years ago, state-controlled steel companies accounted for two thirds of the world’s production, while nowadays that share is 20% (and less than 5% if we exclude China).” This shows, that China remains unique for its insistence on state-controlled iron and steel industry, while there is a worldwide trend for privatization of the public enterprises. However, as within the ERDEMİR case, the key concern is whether that privatization is done by foreign or domestic companies. The Ukrainian privatization issue was another example for a privatization by foreign company.

On the other hand, moving further for examples, as stated by Dominguez and Peiro (2002)<sup>24</sup>, the largest steel producer in Mexico was privatized in 1998 by a Mexican company. This privatization, however, later led to strategic alliances and co-investments with foreign owned companies. “The arguments the Mexican government used to justify the sale of the steel plants was to make them viable, preserve sources of employment and avoid the State’s having to use its resources for this industry’s much needed modernization”. The increasingly privatized sector worldwide excluding the specific China case provides the fact that Turkey is not in an extremely different situation, apart from the special nature of OYAK.

## 4.2. Turkey’s Response at the Global Level

Celasun (2001:224) stated that:

“Turkey’s official development plan (1996-2000) envisages a series of structural reforms to bolster the institutional framework of the market system, rationalize the public sector, and promote more vigorous human resources development...It calls for the withdrawal of the state from commercial commodity production, more effective handling of the state’s regulatory and oversight functions, greater emphasis on social sectors and urban development and broader participation of the private sector in infrastructure investments”.

This statement supports the fact, that ERDEMİR’s auction contract was including the new investments condition to be purchased by any private foundation. The Turkish government would not continue such investments for the sake of revising state’s regulatory vision. As previously mentioned, ERDEMİR was already not a completely state-owned company, however, it could be claimed that most of its shares were belonging to Turkish parties. At that point, it would be necessary to point out that neomercantilism has the aim of protecting national interests as its core principle. This would clarify the opposition towards the privatization by foreign companies and also the partly appreciation of OYAK’s purchase at the end. It meant, that ERDEMİR is of Turkish origin and it would still remain in Turkey’s hands as a result. At this point, Turkey can be considered as responding to the global trend of privatization, however in a different manner. Since steel is considered to be a very significant component for the military industry in Turkey, OYAK’s purchase, as mentioned before, simply reflects this

<sup>24</sup> [http://www.international.ucla.edu/profmex/volume7/4fall02/Simon\\_Steel.html](http://www.international.ucla.edu/profmex/volume7/4fall02/Simon_Steel.html)

logic, giving the power on steel to this very strategic foundation for military. By not giving up this power to a foreign company, Turkey shows its enthusiasm for neomercantilist policies. "Many industrial policies that affect defense industries are viewed as neomercantilist in nature and benefit the state in at least [three] ways... They generate military weapons and defense-related technologies and products." (Balcam and Veseth, 2005:29). Thus, Turkey's stance can be considered as neomercantilist, taking this calculation in terms of the military industry into account. However, as previously implied, this is not a pure neomercantilist policy, and indeed a challenge to the well-known one.

### **4.3. A Challenge to the Conventional Neomercantilism in the Light of ERDEMİR-OYAK Case?**

The oppositions to ERDEMİR's sale to foreign companies had a neomercantilist motivation in mind. Besides being only a Turkish foundation, taking the commercial nature of OYAK as a conglomerate and even as one on the way to further privatization, the conventional neomercantilism should be better reassessed on this basis. According to Guerrieri and Padoan (1986:30), "the most pervasive definition of neomercantilism is the pursuit of a current account surplus; namely, a persistent excess of exports over imports. The economic justifications for pursuing a neomercantilistic policy are drawn from Keynesian literature". Deriving from this definition, this event can be regarded as a neomercantilist one. However, a further explanation of neomercantilism states that, it "is a more subtle form of protection that accounts for what are essentially mercantilist-defensive-oriented policies many individual nations feel compelled to adopt as a result of domestic pressure to protect certain industries from overseas competition and international economic integration" (Balcam and Veseth, 2005:26).

By privatizing its steel industry, Turkey went away from the protectionist behavior and although it attempted to let the defense industry indirectly remain in the public ownership, OYAK's specific structure and further actions prevented it from having pursued a pure neomercantilist policy. At this point, as OYAK is a big conglomerate having many different private companies under its autonomy, should the neomercantilist view have a necessary adjustment for this case? In fact, according to Hettne (Magnusson, 1993: 249): "There is a qualitative difference between this new form of protectionism and the traditional mercantilist concern with state-building and national power, that is, the pursuit of stateness". In this term, ERDEMİR's privatization can be regarded as a neomercantilist policy, as it does not aim a pursuit of stateness at all, however, that the auction process had went further by including the foreign companies as participants could not be accepted within the neomercantilist approach, as according to Rich, "...neomercantilism is intensely nationalistic". If Turkish government tried to legitimize its privatization decision by reasoning it on neomercantilist protectionism, then the recent developments within OYAK would mean a significant deviation. As written in Hurriyet newspaper<sup>25</sup>, the opposition provided by the TMMOB Mechanical Engineers Chamber would prove this idea, since they argued that ERDEMİR would turn to a private

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<sup>25</sup> <http://arama.hurriyet.com.tr/arsivnews.aspx?id=3877968>

sector monopoly as a result of this privatization. The chamber further referred to the recent fact, that OYAK's possible partnership agreement with the 'international monopolist' Arcelor<sup>26</sup> would make this foreign company have a power on ERDEMIR. This is evident in the late December 2005 news<sup>27</sup>, that OYAK signed an agreement with Arcelor and sold 41 per cent of Ataer Conglomerate, which was established for ERDEMIR's purchase, to Arcelor. If this privatization case is to be insisted to reflect the neomercantilist ideology, and indeed it does, neomercantilist view should be either not critical to such possible foreign ownerships or be better clear as to what extent it would be tolerated. That ERDEMIR officially was not sold to any foreign side at the time of the auction is a justification of neomercantilist view, but, OYAK's further actions do harm its reliability. Would the state put a limit to its neomercantilist ideology in these aspects, if it really adapts one, then there would be no challenge to its traditional view. In other words, in order to act in a 'neomercantilist manner', Turkish state would have better defined the conditions for future actions of OYAK earlier, or such a challenge towards the neomercantilist would be inevitable.

## DISCUSSION and CONCLUSION

Having been one of the Turkey's most profitable and significant state-owned enterprises with its key sector of iron and steel, ERDEMIR attracted high attention during its privatization process. The opinions were divided into two sides, one supporting this action, the other strongly criticizing such a change, each with own justifications. The major concern in this study, however, was, to observe, to some extent the neomercantilist theory would be integrated within this debate and whether this case would necessitate some changes for this conventional view. Having analyzed the structures of both ERDEMIR at stake and its current owner OYAK within the auction process, it would be right to claim that this whole event was a unique nature in terms of the theoretical aspect. Taking the concern of whether this privatization was a neomercantilist policy - as expected- into account, it can be argued, that the privatization decision itself was a reflection of neomercantilist view considering OYAK as a part of public interest. However, the auction process with foreign companies would challenge this neomercantilism and the latest action of OYAK to sell the shares of ERDEMIR to Arcelor would simply question the extent of neomercantilism's protectionism. In general, it should be noted that the case was very specific in nature and it would not be completely appropriate to defend it by framing within the neomercantilist theory.

<sup>26</sup> Detailed information about Arcelor can be found on the webpage <http://www.arcelormittal.com/>

<sup>27</sup> <http://www.evrensel.net/05/12/30/ekonomi.html>

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