



## Reconfiguring State–Business Relations in Turkey: Housing and Hydroelectric Energy Sectors in Comparative Perspective

Feryaz Ocaklı

To cite this article: Feryaz Ocaklı (2018) Reconfiguring State–Business Relations in Turkey: Housing and Hydroelectric Energy Sectors in Comparative Perspective, Journal of Balkan and Near Eastern Studies, 20:4, 373-387, DOI: [10.1080/19448953.2018.1385926](https://doi.org/10.1080/19448953.2018.1385926)

To link to this article: <https://doi.org/10.1080/19448953.2018.1385926>



Published online: 14 Nov 2017.



Submit your article to this journal [↗](#)



Article views: 191



View Crossmark data [↗](#)



Citing articles: 1 View citing articles [↗](#)



# Reconfiguring State–Business Relations in Turkey: Housing and Hydroelectric Energy Sectors in Comparative Perspective

Feryaz Ocaklı 

Department of Political Science, Skidmore College, Saratoga Springs, NY, USA

## ABSTRACT

This article examines the transformation in Turkey's political economy by focusing on state–business relations in two key economic sectors: housing and energy. The housing sector experienced an unprecedented rise in state intervention, while the hydroelectricity sector witnessed large-scale privatization. Seemingly contradictory policies across these two sectors pose a puzzle: why did the Turkish government, well-known for its neoliberal orientation, bring the state into the economy as a producer in the housing sector, while privatizing the hydroelectricity sector? This article argues that the underlying pattern in Turkey's contemporary political economy is the growth of state–business collaboration. Ruling party elites generated new avenues for public–private collaboration in both sectors and blurred the boundaries between the state and the market. The article traces the role of private companies in the Housing Development Administration's (*Toplu Konut İdaresi*, TOKİ) construction contracts, and the role of the General Directorate of State Hydraulic Works (*Devlet Su İşleri Genel Müdürlüğü*, DSİ) in creating a new market in hydroelectricity production.

## Introduction

The Justice and Development Party (*Adalet ve Kalkınma Partisi*, AKP) government in Turkey has privatized more state-owned enterprises than all of its predecessors combined. Telecommunications, oil refineries, steel mills, paper mills, tobacco industries, hydroelectric energy production, railroads, Turkey's flagship airline, and ports were sold to domestic and international investors within a 12-year window between 2002 and 2014. At the same time, the Housing Development Administration (*Toplu Konut İdaresi*, TOKİ) has grown into a dominant player in Turkey's real estate market. An autonomous state institution directly linked to the Prime Minister, TOKİ has at its disposal an impressive array of financial capabilities, land development resources, and contracting experience. It has built 609,440 units in 800 different towns, and plans to complete 1 million housing units by 2023.<sup>1</sup> The rapid proliferation of TOKİ investments under a government well-known for its drive to privatize poses a puzzle: why did TOKİ emerge as the leading producer of new housing units

in Turkey's traditionally market-oriented real estate sector? Why did a government with a penchant for privatization bring the state back into the market as a producer?

In contrast to the growth of TOKİ in the housing sector, successive AKP governments have privatized significant parts of the energy sector. In no area has this shift been more prominent than in hydroelectric energy production. The hydroelectricity sector had hitherto been dominated by state institutions. Large-scale dam projects were developed, maintained, and, in most cases, operated by the central state. The AKP governments restructured the role of the state in hydroelectricity by bringing in private investment for the construction of hydroelectric power plants (HEPPs). What explains the privatization of hydroelectricity production at a time when the state was moving into the housing sector?

This article argues that the seemingly contradictory changes in state-market relations in Turkey, particularly in housing and hydroelectricity, follow a common underlying pattern. In both sectors of the economy the ruling party elites have generated new avenues for collaboration with the private sector that blurred the boundaries between the state and the market. The driving force behind this collaboration had two dimensions: resource generation for the party's populist policies (programmatic dimension), and capital accumulation for construction companies (patronage dimension). Increasing the supply of affordable housing and domestic energy production played an important part in the AKP's programmatic appeal to voters. At the same time, both policies required new investments in construction funded directly by the taxpayer (housing contracts) and on state-owned land (hydropower turbines on river beds). Tenders, contracts, and permits to build on state property reinforced the patronage relations between the AKP and the construction sector. Thus, privatization in the hydroelectricity sector did not lead to state retrenchment, and the growing significance of TOKİ did not reduce private sector activity in housing construction. The AKP's economic policies have instead produced new forms of collaboration between state agencies and private companies. This article traces how the distinction between the state and the market has become less clear in Turkey by investigating the private elements of TOKİ's housing contracts and the role of central state institutions in creating, and then regulating, a new market in HEPP construction.

The findings of this article contribute to the study of political economy of development and to our understanding of contemporary Turkish politics. First, it demonstrates that the traditional dichotomies in the field of political economy, such as public vs. private, state vs. market, and bureaucracy vs. private enterprise, do not provide an accurate picture of reality. These dualities are losing their usefulness as tools of analysis as state agencies and private companies become more intertwined across different economic sectors. Second, this article shows that the AKP government's economic policies cannot be understood simply as manifestations of a general neoliberal orientation. Instead, it focuses on the government's deliberate attempts to foster capital accumulation and address enduring social policy issues like affordable housing through public-private collaborations. Third, this article provides detailed case studies of the housing and hydroelectric energy sectors and the changing role of relevant state institutions.

The next section evaluates the existing approaches to Turkey's political economy. The article then provides a theoretical argument for explaining the simultaneous expansion of state intervention and widespread privatization. The subsequent sections present the research design, methods, and evidence for the proposed theory, which is supported by case studies of Turkey's housing and hydroelectric energy sectors.

## Explaining the growth of TOKİ and private HEPPs investments

It is tempting to turn to policy practitioners to explain their motivations. The incumbent party relied heavily on its housing programme as a source of material for its television advertisements before the 2014 presidential elections. The commercials emphasized citizens' right to housing as an important responsibility of the welfare state. The AKP politicians, including President Recep Tayyip Erdoğan,<sup>2</sup> Prime Ministers Ahmet Davutoğlu<sup>3</sup> and Binali Yıldırım,<sup>4</sup> Ministers Fatma Şahin,<sup>5</sup> Nurettin Canikli<sup>6</sup> and many others have sung TOKİ's praises. According to AKP officials, their housing policy can simply be explained as a product of the party's commitment to social welfare. The government has provided affordable housing to the less fortunate because this is what a social welfare state ought to do.

However, politicians are rarely satisfactory guides to their own policies. The emphasis on social welfare and the social housing programme reflects only part of TOKİ's complex position in Turkey's housing sector. The institution not only provides affordable housing to the poor; it also builds luxury apartments in collaboration with private corporations. Approximately 15% of TOKİ-built housing is considered upscale and has a corresponding price tag.<sup>7</sup> Furthermore, commitment to social welfare would be a more convincing explanation of TOKİ's growth if the same government had not privatized significant parts of the welfare system.<sup>8</sup> The private sector has made inroads into healthcare and education, as well as assistance to the poor through pious charitable foundations since the AKP was first elected into office in 2002.<sup>9</sup> The privatization of hydroelectric energy production through the liberalization of water use rights also runs counter to this explanation and is discussed in more detail below.

Others invoke neoliberalism to account for the AKP's economic programme, social welfare practices, and, by extension, TOKİ.<sup>10</sup> According to this argument, the AKP governments' seemingly contradictory economic policies can be explained by the party's overarching commitment to neoliberalism. Because neoliberalism is a malleable and adaptable set of practices and orientations rather than a rigid ideological blueprint, the AKP's general predisposition toward working with private capital through market mechanisms to achieve its policy goals accounts for the recent evolution of Turkey's political economy. This explanation is problematic due to two main reasons. First, it stretches the concept of neoliberalism, sometimes beyond usefulness. Second, it has become a one-size-fits-all explanation for all economic policies and practices of the AKP government. It discounts the political motives of elected officials who have incentives to generate economic growth, attract voters, and satisfy the demands of their loyal constituencies.

Neoliberalism refers to a wave of policy reforms across the Global South which gained currency in the 1980s. Its earlier variant, dubbed the Washington Consensus, comprised privatization of public enterprises, macroeconomic stabilization, inflation reduction, global free trade agreements, and structural adjustment programmes.<sup>11</sup> Structural adjustment included policies to reduce barriers to trade, investment, and capital flows, and to reduce the state's size relative to GDP through privatization and deregulation.<sup>12</sup> The economy's commanding heights were transferred to private corporations with the urging and support of international financial institutions (IFIs) such as the IMF and the World Bank.<sup>13</sup> In its original form, neoliberalism envisioned a linear movement in the economy toward laissez-faire policies.<sup>14</sup> As a policy paradigm, it emphasized the need to increase the role of markets in resource allocation. Openness to the world economy became a mantra for many

policy makers in the Global South who saw globalization as the only path out of poverty.<sup>15</sup> As an economic theory and political ideology, neoliberalism envisioned a separation between economic and political domains.<sup>16</sup> This emphasis on the need to separate economic from political relations implied conceptualizing the state and the market as essentially distinct entities and processes, and reducing the influence of the former over the latter.<sup>17</sup> Privatizing state-owned enterprises and deregulating financial markets served this goal. Public-private collaboration in the economy had no place in the black-and-white vision of hard-line neoliberalism. The objective was to free the market from the grip of political elites, not to promote political control over economic activity.

The strict form of Washington Consensus did not persist beyond the mid-1990s as the social and economic costs of market fundamentalism began to mount. The debt crisis in Latin America and its subsequent lost decade, the Mexican peso crisis in 1994, and the Asian Financial Crisis in 1997 spelled the end of blind trust in the infallibility of free markets. IFIs acknowledged the need for an effective state for the proper functioning of market economies, ushering in the post-Washington Consensus turn.<sup>18</sup> According to Öniş and Şenses, the key feature of the post-Washington Consensus period was the 'recognition that states have an important role to play in the development process'.<sup>19</sup> When submitted to competitive pressures themselves, states would improve their effectiveness in the economic arena. Therefore, privatization at all costs that ignored the need for proper regulation was no longer pursued as a goal in itself. This shift in emphasis, from 'state as a problem' to 'state as part of the solution', legitimized public-private collaboration in the economy as long as the enterprises in question were governed by good institutions and not shielded from competition.

Despite the weakening of the neoliberal ethos after the criticisms levelled against it by former IFI insiders in the early 2000s,<sup>20</sup> Turkey's newly elected single-party (AKP) government embraced market economics enthusiastically in 2002. The emergence of a devout bourgeoisie, integration with global capital, and Turkey's protracted EU accession process enabled the new government to challenge the deep-seated ideology of national developmentalism that had stymied previous attempts at privatization.<sup>21</sup> The context within which the AKP launched its economic agenda was more permissive of the use of state resources in conjunction with private capital. Neoliberalization had already followed an uneven path across the world, where free market reforms were enacted in regions, states, and subnational units, which had different institutional frameworks.<sup>22</sup> The 'variegated' nature of neoliberalism deepened after the post-Washington Consensus turn when the state was no longer seen as just an obstacle to economic activity.<sup>23</sup> The AKP could effectively use state power in the service of capital accumulation without necessarily drawing the ire of international financial institutions such as the IMF, World Bank, or the World Trade Organization.

A narrow view of neoliberalism as a unidirectional set of policies geared towards reducing the state's size and impact on the economy cannot explain why the AKP increased direct state intervention into Turkey's traditionally market-oriented housing sector. If neoliberalism is conceived more broadly as a patchwork of uneven policy orientations that seek to impose market discipline on economic enterprises, then the blurring of the boundaries between the state and the market could be analysed as a consequence of the 'variegation' of neoliberalism. This article argues that politicians' interests are better served when they are able to use state resources to generate capital accumulation in the private sector while, at the same time, spreading the benefits of these policies to vote-rich lower income groups. Business elites who benefit from lucrative government contracts have incentives to support this arrangement and the politicians

behind it. The AKP's nurturing of TOKİ is best explained by the logic of state-led capital accumulation in the private sector, the interlacing of the state and market forces in housing construction, and the AKP's desire to attract low-income voters who benefit from the social housing programme. Similarly, the privatization of the hydroelectric power plant (HEPP) sector is a product of increasing state-business collaboration in hydroelectricity production, whereby the AKP government used state power to secure private property rights over public water for development purposes despite fierce opposition from environmental protestors.

### The interweaving of the state and the market in Turkey

In their recent book, Buğra and Savaşkan describe the AKP's approach to privatization as 'legal particularism'.<sup>24</sup> The AKP formed the government soon after the 2001 economic crisis and the subsequent reforms undertaken by World Bank economist Kemal Derviş. The structural reforms achieved a degree of success in reining in arbitrary political intervention into the economy by creating autonomous regulatory agencies. However, the AKP proceeded to limit these agencies' jurisdiction through new laws and regulations. The result was renewed political intervention into the economy through legal means.<sup>25</sup> The government's behaviour vis-à-vis the market during this period shaped not only the performance of the Turkish economy, but also the way in which growth was attained. The emphasis on attracting foreign capital led to growing foreign direct investment (FDI). However, only a small portion of the FDI inflows was invested in the productive economy.<sup>26</sup> Foreign multinationals bought publicly owned companies through the privatization programme or acquired domestic private firms.<sup>27</sup> Capital flows not only failed to boost greenfield investments, but also fuelled a consumer credit boom among low-income households and decreased savings rates.<sup>28</sup>

During the same period, the state directly intervened to increase production in some economic sectors while privatizing others. Neither the social welfare argument articulated by political elites, nor the neoliberal ideology argument found in the literature alone can account for the significant shift in state behaviour. The AKP's promotion of public-private collaboration in order to generate new resources for its populist policy programmes and capital accumulation in the construction sector provide a better explanation for the recent evolution of Turkey's political economy. The intentional blurring of the boundaries between the state and the market stimulates both a programmatic agenda—increasing the supply of affordable housing and domestic energy production—and helps to uphold the patronage networks organized around the AKP. As a result, state agencies like TOKİ have become more directly involved in economic sectors that were previously dominated by private companies. Corporations have in turn become more active in sectors, such as hydroelectricity, that were previously state-dominated.

Hydroelectric energy production has traditionally been characterized by big, 'white elephant' projects such as the Southeastern Anatolia Project (*Güneydoğu Anadolu Projesi*, GAP). Hydroelectric dams were built and maintained by state institutions throughout the twentieth century. Since 2003, however, the AKP has encouraged private entrepreneurs to build over a thousand turbines on rivers and streams across the country. The AKP reversed the long-standing hydroelectric energy policy from state control to privatization. On the other hand, privatization did not lead to state retrenchment. The General Directorate of State Hydraulic Works (*Devlet Su İşleri Genel Müdürlüğü*, DSI) emerged as a regulator of the private sector, while state coercion was used to suppress



social mobilization against private HEPP projects.<sup>29</sup> At the same time, Turkey's housing sector experienced significant growth in state involvement. The state stepped into a sector traditionally dominated by private firms as a producer through the revitalization of TOKİ after 2002. However, this shift did not reduce the role of corporations. TOKİ outsourced the engineering and physical construction of its housing blocks to private companies. It assisted in the growth of construction companies by supplying them with state-owned land and finance.

The outcome of the dual and seemingly opposed changes across the housing and hydro-electricity sectors in Turkey is the simultaneous growth of state and corporate activity in both areas. The central state became a significant actor in housing construction through TOKİ, while at the same time buying the services of construction companies to complete its projects. HEPP construction opened a new avenue for private investment, while preserving the DSI's role as a regulator and overseer. The DSI also maintained its sole responsibility for building and maintaining large-scale dam projects. The expansion of the state's economic footprint in conjunction with growing private investment created a mutually beneficial partnership between the party and business elites. The economic interests of the private sector and the political interests of the ruling party reinforced each other.

The following empirical analysis is based on interviews with politicians, bureaucrats at TOKİ and the DSI, official reports published by TOKİ and DSI, reports and analyses by civil society institutions, and newspaper articles.

### The making and re-making of TOKİ

Housing construction as an economic sector emerged in parallel with urban migration in Turkey. While the new republic was overwhelmingly rural in its first decades, World War II marked a watershed in its demographic structure. Industrialization, particularly the state-owned and state-supported ventures meant to substitute manufactured imports, acted as a 'pull' on the rural population by making available new and desirable employment opportunities. At the same time, the transition to multi-party politics in 1946 and the election of the opposition Democrat Party (*Demokrat Parti*, DP) to office brought about economic transformation in the countryside. The DP's emphasis on the agrarian economy, particularly the introduction of mechanized agriculture, had a profound impact on Turkey's rural landscape. Not only did this transformation increase productivity, it also led to rising unemployment through the replacement of unskilled labour. This 'push' factor encouraged further migration to the cities. The movement of peoples between rural and urban areas was further facilitated by the development of transportation infrastructure in the form of a network of roads.<sup>30</sup> A combination of these factors increased demand on new housing in the cities. The construction sector that developed as a result of this demand was made up of small-scale contractors and owner-builders.

The law of condominium ownership (*kat mülkiyeti kanunu*) of 1965 further facilitated the housing sector's growth.<sup>31</sup> It led to the proliferation of multi-storey buildings (so called *mid-rises*) by enabling multiple families to buy apartments in a single building. It increased the middle class' access to the much-coveted apartments that were symbols of Western-style living.<sup>32</sup> Measures such as this, however, were insufficient to stem the tide of informal housing developing on the periphery of the large cities. The apartment revolution did not reach the low-income migrants from the countryside who found simpler housing solutions

in the growing shantytowns. By the end of the 1970s, Turkey's housing sector was characterized by a mixture of formal houses and apartment blocks in city centres and informal housing in the peripheral neighbourhoods. These two disparate forms of housing, which represented very different social classes and lifestyles, were united in the absence of the state in their construction process. The state only built a very limited amount of housing stock for its own employees.<sup>33</sup>

The 1980s witnessed the second great wave of urban migration, the cooperative housing movement, and a major set of pro-market economic transformations first under the military regime (1980–1983) and later under the Turgut Özal governments. These changes were closely linked to each other. The economic opening brought about by the free market policies increased employment opportunities in the city centres that were better suited to take advantage of the new market economy.<sup>34</sup> The economic capital, industrial infrastructure, as well as the ease of transportation in the cities made them better able to adapt to the conditions of free trade. The response by the rural population was the second exodus to the cities. It led to a remarkable transformation of Turkey's demographic structure. The urban population surpassed the rural population for the first time in history in the late 1980s.<sup>35</sup>

One of the responses to the explosion in the urban population was the proliferation of housing cooperatives. Composed of private participants, cooperatives created a pool of resources and took advantage of economies of scale in building series of very similar housing units at a cheaper cost. Cooperatives were an innovative solution for those who could afford to contribute to common pool resources—typically bureaucrats and factory workers with steady incomes. They became the main access channel to home ownership for most families with modest means.<sup>36</sup> However, cooperatives did not address the housing needs of lower-income groups. The latter continued to live and even thrive in the expanding shantytowns surrounding the urban centres.

Another response to urban population growth in the 1980s was the formation of the Housing Development Administration Fund and TOKİ in 1984.<sup>37</sup> This was the state's first major step into the housing sector. It is worth noting that Özal's neoliberal policies did not reduce or eliminate state involvement in housing production. To the contrary, they initiated it. The state officially stepped into housing construction and financing during the heyday of 'Washington Consensus' neoliberalism in Turkey.

TOKİ and the Housing Fund focused primarily on the financing of housing units for lower-income families, with the express goal of reducing unplanned growth in the urban areas. TOKİ became an autonomous state institution in 1993 with increased support from the state budget. Between 1984 and 2002, it built 43,145 houses.<sup>38</sup> These included immigrant housing (*göçmen konutları*) for the large wave of Turkish immigrants from Bulgaria who arrived after 1988, and emergency relief housing after earthquakes and other natural disasters. Although this was an important shift from the past, TOKİ still occupied a relatively small portion of the new housing market in Turkey. The real sea change would take place after 2003, when TOKİ was regenerated under the AKP government as a major actor in the construction business.

On 1 January 2003, the newly formed AKP government passed an 'Emergency Action Plan for Housing and Urban Development'. It laid out a five-year plan to build 250,000 houses by the end of 2007. This plan established the government's motivation to bring the state into the housing construction sector as a significant actor.<sup>39</sup> Framed in terms of



meeting the social needs of low-income citizens, TOKİ-built housing was conceptualized as part of the state's social welfare function.

Building housing units at the scale envisioned by the action plan required enormous resources and capabilities on the part of TOKİ. During the next several years, the government invested impressive sums in institution building.<sup>40</sup> The dissolution of the Real Estate Bank (*Emlak Bankası*) in 2001 had already endowed TOKİ with shares in real-estate companies and real-estate stock.<sup>41</sup> Furthermore, the institution was given the prerogative to make zoning plans, to nationalize privately owned land and buildings, to produce shantytown transformation (urban renewal) projects, and to build or finance construction projects in 2004.<sup>42</sup> The same year also saw the passage of an amendment to the Land Office Law (*Arsa Ofisi Kanunu*) whereby the jurisdiction of the Land Office was transferred to TOKİ. This significant change in the law afforded the institution the ability to develop unspecified amounts of state-owned land for the purpose of housing production.<sup>43</sup> TOKİ acquired 64.5 million square metres of land at the time of the immediate transfer.<sup>44</sup> As a result, TOKİ was a wholly different organization in 2005 compared to the pre-AKP era. It had attained a significant financial infrastructure, an unprecedented ability to nationalize private property, and a free hand to develop state-owned land for the purpose of social housing construction.

Armed with these capabilities, TOKİ set out to transform the Turkish housing sector. The institution, which had planned to build 250,000 housing units by 2007, surpassed its expectations. It had started the construction of 565,000 houses by February 2013.<sup>45</sup> According to the Turkish Statistical Institute, TOKİ satisfies 5–10% of total housing demand in Turkey.<sup>46</sup> The majority of TOKİ's construction efforts are focused on its social housing programme. The social housing programme targets lower- and middle-income families who face difficulty in buying a house on the open market. The institution is known for providing a relatively affordable repayment structure that makes it possible for lower-income families to buy one- or two-bedroom apartments. TOKİ officials claim that the institution offers repayment terms that are advantageous over similar housing units one could buy on the market.<sup>47</sup> The social housing programme also includes the so-called urban renewal projects that have led to controversy and accusations of gentrification in Istanbul, Ankara, and other large cities.

What is significant for our purpose is not only the size of TOKİ's massive operation, but also the way the institution integrates private capital into its business practices.<sup>48</sup> TOKİ uses its financial resources and legal jurisdiction to zone new housing projects, to produce construction plans, to acquire land and finance, and to complete the customer-side responsibilities of sales and repayment plans. However, it brings in construction companies from the private sector to physically build the apartment blocks.<sup>49</sup> The institution's collaboration with private companies in the engineering and construction processes places it at the forefront of the state-private sector nexus: it provides significant opportunities for construction companies to receive lucrative government contracts.

The construction process starts at TOKİ's end with extensive zoning, project development, and financial planning. When the institution is ready to initiate the physical building process, it puts out a tender notice (*ihale ilanı*) on its website.<sup>50</sup> Construction companies that satisfy the conditions set forth on the tender are invited to make bids. These requirements include documentation for financial and technical capabilities and prior experience in delivering similar construction projects.<sup>51</sup> Although bidding is open for both domestic and foreign companies, domestic firms receive a 15% price advantage.

The awarding of government tenders through TOKİ is an effective way to foster capital accumulation. The AKP government has bolstered its ties to construction companies by increasing the number and value of state contracts.<sup>52</sup> Furthermore, TOKİ projects can typically be undertaken by small- and medium-sized construction companies. The housing projects do not require the engineering expertise necessary to build more challenging structures such as ports, bridges, or large dams. The low-tech, high-profit nature of TOKİ's housing contracts enabled the government to cultivate new companies that lacked the size and know-how for larger projects. The labour-abundant business of building housing blocks has also enabled these companies to create jobs in the local economy.

TOKİ's revenue sharing model demonstrates the patronage process at work. Approximately 15% of TOKİ's construction projects consist of high-income housing.<sup>53</sup> According to this model, the institution partners with private companies to develop relatively expensive housing units on TOKİ-owned land. The income from the sale of these units is shared between TOKİ and the private partner.<sup>54</sup> Producing high-income housing does not contribute to the state's social welfare function, and the institution justifies this practice by emphasizing that these projects generate new revenue for TOKİ's lower-income housing projects. However, the use of state powers (such as eminent domain) and resources for the generation of luxury apartments is not a good fit with the institution's stated goals.

TOKİ sees itself as an atypical institution—free from the stifling bureaucratic culture of the Turkish state. Its organizational structure gives a clue as to why this may be so. The institution is not part of the general state bureaucracy. It reports directly to the Prime Minister.<sup>55</sup> The long-serving former Prime Minister, Recep Tayyip Erdoğan, was renowned for taking a personal interest in TOKİ projects. The visitors to the institution's headquarters in Bilkent, Ankara, get a glimpse of the relationship between contractors and the institution. The elegant interior of the TOKİ centre opens to a reception area where businessmen can be seen waiting for their appointments with bureaucrats. The atmosphere is respectful, if a bit nervous, where contractors show deference to the institution and its personnel. Here, businessmen come to state officials to further their interests, and not vice versa.<sup>56</sup>

TOKİ's business model awards the incumbent party a significant advantage in nurturing construction companies with large contracts and creating a segment of capital that owes its growth to the government. It also enables the AKP to broaden public support for its economic policies by making it possible for lower- and lower-middle-income groups to own homes.<sup>57</sup> The system of state-led housing production via private companies simultaneously fulfils the party's programmatic promises while providing resources for patronage.<sup>58</sup> That the AKP established a scheme for public-private sector cooperation of this magnitude in the age of globalization and free market policies shows that the traditional dichotomy between the state and the market has lost much of its usefulness in the analysis of Turkey's political economy.

### **The other side of the coin: hydroelectricity**

In contrast to the housing sector, hydroelectric energy production has traditionally been a state-dominated enterprise in Turkey. The engineering and financial challenges of building large-scale dams, with their attendant reservoirs, waterways, and powerhouses, meant that markets would fail to supply the necessary public good—energy infrastructure. The state

became an energy producer in the early years of the Turkish Republic. It remained the predominant supplier of electricity well into the twenty-first century.

The first HEPP in Turkey was built in 1902 in Tarsus, and the first sustained electricity grid fuelled by hydropower was established in Ödemiş in 1933.<sup>59</sup> Although the early republican regime built a number of small-scale hydropower plants, the level of investment was low until after World War II. Following the war, the Turkish state struggled to establish a viable electricity grid. It relied on a multitude of energy sources managed by different state institutions. Four agencies—DSİ, İller Bankası, Etibank, and Sümerbank—were tasked with building dams and hydropower plants.<sup>60</sup> The establishment of two bureaucratic institutions in particular shaped the development of the hydroelectricity sector: DSİ in 1954 and the Turkish Electricity Institution (*Türkiye Elektrik Kurumu*, TEK) in 1970. DSİ quickly became the largest builder of dams in the country. It increased the ratio of hydroelectric energy to total electricity production from a meagre 4.4% to 34% within 10 years of its foundation.<sup>61</sup> The establishment of TEK eliminated the hydropower production activities of the İller Bankası, Etibank, and Sümerbank. TEK became the sole state agency responsible for the distribution of electricity. It took approximately 20 years for TEK to interconnect the different electricity networks already in existence and to establish a national electricity grid by 1990.<sup>62</sup> During this period, DSİ completely centralized the state's dam-building activities. Its ambitious projects changed Turkey's geography. The GAP stands out in this respect for its scale and visibility. The significant challenges of building and maintaining dams were initially tackled by multiple state institutions, which led to disconnected electricity networks. The state only gradually centralized its hydropower activities in the hands of two institutions: DSİ and TEK. The private sector was conspicuously absent from hydroelectricity production until after the completion of a national electricity grid supported by a network of large-scale hydropower dams.

Private corporations first entered the hydropower space in 1984 following the enactment of a law that allowed non-TEK entities to produce, transport, distribute, and sell electricity.<sup>63</sup> The intention behind the law was to relieve the state of some of its electricity production duties. However, only a few private companies were interested in investing. The framework was meant to incentivize the private sector to build large-scale dams, like DSİ, which required significant amounts of investment. The private sector remained an afterthought in hydropower production until 2003, when the newly elected AKP government started encouraging the construction of small hydroelectric power plants.

The AKP justified the privatization of HEPP construction as an effort to take advantage of the country's vast untapped energy potential and to reduce dependence on foreign energy sources.<sup>64</sup> The new scheme's main goal was to open relatively small rivers and streams to HEPP construction. While DSİ would continue to build and maintain large-scale dam projects, the private sector would step in to build turbines that do not collect water in a reservoir. The river-type HEPPs are constructed on streams, taking advantage of the water's natural fall without building pressure with the help of a dam. They are considered renewable sources of energy to the extent that the natural cycle of water replenishes the original source.

The turning point in the opening of streams to HEPP construction was the regulation of water use rights (*su kullanim hakkı*) by the government.<sup>65</sup> Private entrepreneurs bid for the right to use a stream's kinetic energy between specific points of elevation.<sup>66</sup> Investors could bid on a project already outlined by DSİ, or submit their own plans for the construction of a HEPP.<sup>67</sup> When a bid is accepted, the private company receives the right to build a turbine

that would harvest the water's energy between two predetermined points of elevation. The privatization of water use rights has since become controversial, leading to protests and clashes between local populations, private company employees, and police forces.<sup>68</sup>

Following the passage of the water use rights regulation in 2003, DSI quickly received upwards of 1700 licence applications for HEPP construction. The institution was ill-equipped to examine each project and to monitor compliance in a short period of time. This was in part responsible for the botched attempts at turbine construction that destroyed the ecosystems supported by some rivers.<sup>69</sup> The decision to make water use rights a private commodity led to the creation of a market in licences.<sup>70</sup> Once a company received a licence to construct and operate a HEPP, it could sell it to another company for profit. Investors also discovered that many hastily prepared projects were physically and economically unfeasible,<sup>71</sup> leading the number of applications to drop to approximately 1200.<sup>72</sup> The majority of these projects were located in the Black Sea region, particularly in the provinces of Trabzon, Giresun, Artvin, and Rize.<sup>73</sup>

The Deputy Manager of DSI Hydroelectric Energy Department explained that the institution faced difficulties administering the private HEPP projects.<sup>74</sup> The DSI's main strengths were in engineering and service provision. Regulating and monitoring the HEPP investments of private companies was a new challenge, and the institution needed time to adapt to this role. Furthermore, DSI bureaucrats have found themselves under pressure from politicians as well as the market. The manager described receiving multiple phone calls and meeting requests each day from parliamentarians acting on behalf of private companies.<sup>75</sup> The persistent lobbying by politicians put pressure on DSI employees. Moreover, the growing market in private HEPP construction and management has drained the human capital available to DSI. The manager explained that he had worked for the department for five years, and he was already the most senior member of the team. Private companies were hiring DSI employees experienced in hydroelectricity projects for higher wages than the institution could offer. This put an additional pressure on the current employees to keep businessmen happy, since they may be their next employers.

The traditionally state-led hydroelectricity sector provided few investment opportunities for private capital until 2003. The AKP government's decision to privatize water use rights opened the sector up for new investment by enabling firms to build small turbines on streams. It redefined the practical meaning of 'private property' and 'state ownership' in the case of a natural resource—water's kinetic energy. The provision of permits to build turbines on public water sources went together with the use of coercive state power. The government responded with force to numerous ecological protests, particularly in the Black Sea region.

Similar to the TOKİ case, small-scale HEPP construction does not require significant expertise in engineering. Relatively small companies with modest engineering capabilities can build turbines, whereas they would be hard pressed to set up a dam. Furthermore, the hydroelectric energy sector did not lead to state retrenchment. To the contrary, the role of the DSI in the HEPP space has increased since the privatization of water use rights in 2003. In addition to building, maintaining, and operating large-scale dam projects, the institution has been tasked with issuing HEPP licences and monitoring compliance by private companies. The shift in Turkey's hydroelectricity sector resulted in the expansion of the DSI's mandate and led to more collaboration between the institution and the private sector.

## Conclusion: beyond the state–market dichotomy

The cases of TOKİ and private HEPP projects demonstrate the complexity of Turkey's neo-liberal political economy. Successive AKP governments have sought to reach their economic policy objectives by working with market actors. The government's large-scale privatization programme as well as the private sector's HEPP construction efforts outlined above point to this fact. Even in areas where state agencies increased their direct participation in economic activity, such as the massive housing projects funded and coordinated by TOKİ, private companies were not side-lined. To the contrary, the cases examined above demonstrate an increasingly intertwined state–business collaboration.

This article has argued that the state's active involvement in the economy through public–private business ventures can better be understood as a means to generate capital accumulation in the private sector through patronage relations while fulfilling programmatic promises. The fruits of such collaboration are then partially redistributed to lower-income groups. The growth of public–private collaboration in the housing sector and hydroelectricity production demonstrate that a narrow definition of neoliberalism, or an uncritical appeal to the state's social welfare function, cannot account for the recent transformations in Turkey's political economy. In housing as well as hydroelectricity, the AKP elites have created opportunities for market actors by issuing state tenders. Both TOKİ and the DSİ have transformed into state agencies that provide contracts to construction companies and that monitor private investments. Both institutions play an indispensable role in helping to regulate their respective economic sectors. At the same time, the proliferation of TOKİ projects across the country enabled an increasing number of lower-income families to own their homes, broadening the public support behind the government's economic policies. A more complete understanding of Turkey's contemporary political economy requires us to recognize that public–private business ventures serve not only the narrow interests of politicians and business elites, but also, to a certain extent, the interests of a wider public that benefits from the outcomes of such arrangements.

The findings of this article have implications for other developing democracies. The rise of the Bharatiya Janata Party (BJP)<sup>76</sup> in India, as well as the economic policies pursued by the former Kirchner government in Argentina,<sup>77</sup> have raised questions regarding the role of the state vis-à-vis business groups in the Global South. Focusing on public–private collaboration and the links between incumbent governments and business elites promises a more fruitful approach to the post-Washington Consensus political economy than does the uncritical use of the term neoliberalism. Furthermore, housing and hydroelectricity are cases of a broader set of economic sectors that are being reshaped by state–business collaboration. Other economic sectors in which states have become more active participants by working together with market actors, such as healthcare, education, public utilities, infrastructure, and tourism, among others, could also be analysed with renewed focus.

## Acknowledgements

I would like to thank Tim Dorlach and Osman Savaşkan for their helpful comments on the earlier versions of the manuscript. I would also like to thank Ziya Öniş, Yelena Biberman, and the participants of the TIPES Interdisciplinary Workshop on the Political Economy of Contemporary Turkey in July 2015.

## Disclosure statement

No potential conflict of interest was reported by the author.

## Notes on contributor

**Feryaz Ocaklı** is an Assistant Professor of Political Science and International Affairs at Skidmore College. He has authored and co-authored articles, some of which have appeared in *Politics & Society*, *Democratization*, *Middle Eastern Studies*, *British Journal of Middle Eastern Studies*, *South European Society and Politics*, and *Journal of Global Security Studies*.

## ORCID

Feryaz Ocaklı  <http://orcid.org/0000-0001-5057-4940>

## Notes

1. Ö. Yıldırım, *Turkish Real Estate Market*, Deloitte, Istanbul, 2014.
2. <<http://www.aksam.com.tr/siyaset/erdogan-39-3bdan-toki-39-3bye-ovgu/haber-24144>> (accessed 5 November 2017).
3. <<http://www.milliyet.com.tr/basbakan-davutoglu-ndan-toki-projesine-manisa-yerelhaber-600838/>> (accessed 5 November 2017).
4. <<http://www.milliyet.com.tr/binali-yildirim-dan-izmir-icin-siyaset/detay/1841906/default.htm>> (accessed 5 November 2017).
5. <[http://www.zaman.com.tr/gundem\\_bakan-fatma-sahin-toki-konutlarinin-kura-cekilisine-katildi\\_2013644.html](http://www.zaman.com.tr/gundem_bakan-fatma-sahin-toki-konutlarinin-kura-cekilisine-katildi_2013644.html)> (accessed 23 July 2017).
6. <<http://www.turkiyegazetesi.com.tr/ekonomi/285978.aspx>> (accessed 5 November 2017).
7. Toplu Konut İdaresi Başkanlığı (TOKİ), *Due Diligence Document*, April 2013, p. 20.
8. A. Buğra, 'Poverty and citizenship: an overview of the social-policy environment in Republican Turkey', *International Journal of Middle East Studies*, 39(1), 2007, pp. 33–52.
9. G. Zencirci, 'Rethinking wealth, reconfiguring piety: neoliberal Islam and the "Ottoman" culture of generosity in Turkey', Unpublished Manuscript.
10. C. Tugal, 'Fight or acquiesce? Religion and political process in Turkey's and Egypt's neoliberalizations', *Development and Change*, 43(1), 2012, pp. 23–51; C. Tugal, 'Occupy Gezi: the limits of Turkey's neoliberal success', *Jadaliyya*, 4 June 2013; U. Bozkurt, 'Neoliberalism with a human face: making sense of the Justice and Development Party's neoliberal populism in Turkey', *Science & Society*, 77(3), 2013, pp. 372–396; L. Harris and M. Islar, 'Neoliberalism, nature, and changing modalities of environmental governance in contemporary Turkey', in Y. Atasoy (ed.), *Global Economic Crisis and the Politics of Diversity*, Palgrave Macmillan, New York, 2013, pp. 52–78.
11. P. Evans and W. H. Sewell, Jr., 'Neoliberalism: policy regimes, international regimes, and social effects', in P. A. Hall and M. Lamont (eds), *Social Resilience in the Neoliberal Era*, Cambridge University Press, New York, 2013, pp. 35–69.
12. J. Williamson, 'What Washington means by policy reform', in J. Williamson (ed.), *Latin American Readjustment: How Much has Happened*, Institute for International Economics, Washington, DC, 1989, pp. 7–20.
13. D. Yergin and J. Stanislaw, *The Commanding Heights: The Battle for the World Economy*, Free Press, New York, 1998.
14. H. Chang, *Kicking Away the Ladder: Development Strategy in Historical Perspective*, Anthem Press, London, 2003.
15. D. Rodrik, *The Globalization Paradox: Democracy and the Future of the World Economy*, W. W. Norton, New York, 2011, pp. 164–165.



16. M. Friedman, *Capitalism and Freedom*, University of Chicago Press, Chicago, 2002.
17. This process resembles the nineteenth century liberalism described by Karl Polanyi in his *Great Transformation*. K. Polanyi, *The Great Transformation: The Political and Economic Origins of Our Time*, Beacon Press, Boston, 1944.
18. Z. Öniş and F. Şenses, 'Rethinking the emerging post-Washington consensus', *Development and Change*, 36(2), 2005, pp. 263–290.
19. Ibid., p. 275.
20. J. E. Stiglitz, *Globalization and its Discontents*, W. W. Norton, New York, 2002.
21. K. Ağırtan, 'Beyond politics of privatization: a reinterpretation of Turkish exceptionalism', *Journal of Balkan and Near Eastern Studies*, 19(2), 2017, pp. 136–152.
22. B. Jessop, 'Variegated capitalism, das Modell Deutschland, and the Eurozone crisis', *Journal of Contemporary European Studies*, 22(3), 2014, pp. 248–260.
23. N. Brenner, J. Peck, and N. Theodore, 'Variegated neoliberalization: geographies, modalities, pathways', *Global Networks*, 10(2), 2010, pp. 182–222.
24. A. Buğra and O. Savaşkan, *New Capitalism in Turkey: The Relationship Between Politics, Religion and Business*, Edward Elgar Publishing, Cheltenham, UK, 2014.
25. Ibid., p. 124.
26. Turan Subaşı, 'The political economy of Turkey's economic miracle', *Journal of Balkan and Near Eastern Studies*, 1(2), 2014, pp. 137–160.
27. V. Necla Geyikdağı and F. Karaman, 'Foreign direct investment and profit transfers: the Turkish case', *Journal of Balkan and Near Eastern Studies*, 15(4), 2013, pp. 383–395.
28. E. Karacimen, 'Financialization in Turkey: the case of consumer debt', *Journal of Balkan and Near Eastern Studies*, 16(2), 2014, pp. 161–180.
29. <<http://www.hurriyet.com.tr/gundem/29612011.asp>> (accessed 5 November 2017); <<http://www.milliyet.com.tr/artvin-de-hes-protestosu-artvin-yerelhaber-895126/>> (accessed 5 November 2017); <[http://www.radikal.com.tr/turkiye/zilede\\_olayli\\_hes\\_eylemi-131426](http://www.radikal.com.tr/turkiye/zilede_olayli_hes_eylemi-131426)> (accessed 23 July 2017); <<http://bianet.org/bianet/toplum/153462-baraj-hes-fuari-protestosuna-gaz>> (accessed 5 November 2017).
30. S. V. Lall, N. Lozano Gracia, Jung Eun Oh, Mihaly Kopanyi, and M. Ionescu-Heroiu, 'Anadolu Kaplanları'nın Yükselişi: Türkiye Şehirleşme İncelemesi' [Rise of the Anatolian Tigers: Turkey Urbanization Review], *Policy Brief*, World Bank Group, Washington, DC, 2015.
31. Toplu Konut İdaresi Başkanlığı (TOKİ), *Türkiye'de Konut Sektörü ve T.C. Başbakanlık Konut İdaresi'nin (TOKİ) Konut Üretimindeki Yeri* [Housing Sector in Turkey and the Role of Turkish Housing Development Administration (TOKİ) in Housing Production], TOKİ Araştırma Dizisi 2, April 2006, p. 44.
32. O. Pamuk, *Istanbul: Memories and the City*, Vintage, New York, 2006.
33. A. Buğra, 'The immoral economy of housing in Turkey', *International Journal of Urban and Regional Research*, 22(2), 1998, pp. 303–317.
34. A. Sen, *Development as Freedom*, Oxford University Press, Oxford, 1999.
35. Buğra and Savaşkan, op. cit.
36. Buğra, 'The immoral economy of housing in Turkey', op. cit., p. 308.
37. A. Öncü, 'The politics of the urban land market in Turkey: 1950–1980', *International Journal of Urban and Regional Research*, 12(1), 1988, pp. 38–64.
38. TOKİ, *Due Diligence Document*, op. cit., p. 9.
39. Sule Altaban Karabey, Branch Manager of Foreign Relations, Strategic Planning Department, TOKİ, Interviewed by author. Ankara, 19 August 2013.
40. S. Demiralp, S. Demiralp, and İ. Gümüş, 'The state of property development in Turkey: facts and comparisons', *Koç University-TÜSİAD Economic Research Forum Working Paper Series*, Working Paper 1503, January 2015.
41. TOKİ, *Türkiye'de Konut Sektörü*, op. cit., p. 74.
42. Ibid., p. 74.
43. Ibid., p. 74.
44. TOKİ, *Due Diligence Document*, op. cit., p. 13.
45. Ibid., p. 13.

46. Ibid., p. 19.
47. Sule Altaban Karabey, TOKİ, Interviewed by author, op. cit.
48. İ. Atiyas, 'Economic institutions and institutional change in Turkey during the neoliberal era', *New Perspectives on Turkey*, 47, 2012, pp. 57–81.
49. Sule Altaban Karabey, TOKİ, Interviewed by author, op. cit.
50. The current tender notices are available at <<http://www.toki.gov.tr/ihale-tarihleri>>.
51. Ibid.
52. Ersonmez Yarbay, Founding Chairman, AKP Ankara Provincial Organization, Interviewed by author. Ankara, 16 September 2015; Buğra and Savaşkan, *New Capitalism in Turkey*, op. cit.
53. TOKİ, *Due Diligence Document*, op. cit., p. 20.
54. Sule Altaban Karabey, TOKİ, Interviewed by author, op. cit.; TOKİ, *Due Diligence Document*, op. cit., p. 36.
55. TOKİ, *Due Diligence Document*, op. cit., p. 59.
56. Notes from the author's visit to the TOKİ Headquarters in Bilkent, Ankara in August 2013.
57. Z. Öniş, 'The triumph of conservative globalism: the political economy of the AKP era', *Turkish Studies*, 13(2), 2012, pp. 135–152.
58. M. Marschall, A. Aydoğan, and A. Bulut, 'Does housing create votes? Explaining the electoral success of the AKP in Turkey', *Electoral Studies*, 42, 2016, pp. 201–212.
59. M. Gokdemir, M. İ. Komurcu, and T. Ulas Evcimen, *Türkiye'de Hidroelektrik Enerji ve HES Uygulamalarına Genel Bakış* [A General Outline of Hydroelectric Energy and Hydroelectric Power Plant Applications in Turkey], Türkiye İnşaat Mühendisleri Odası Su Yapıları Kurulu [Turkish Chamber of Civil Engineers Committee of Water Structures], 2012.
60. Ibid.
61. Ibid.
62. Ibid.
63. <<http://www.mevzuat.gov.tr/MevzuatMetin/1.5.3096.doc>>.
64. Kemal Seyrek, DSI Technology Department, Interviewed by author. Ankara, 19 August 2013.
65. Hidroelektrik Enerji Dairesi Ders Notları, DSI Hydroelectric Energy Department, Department of Hydroelectric Energy Lesson Notes, DSI, Turkey.
66. Serkan Karakus, Deputy Head of DSI Hydroelectric Energy Department, Interviewed by author. Ankara, 16 August 2013.
67. Gokdemir et al., *Türkiye'de Hidroelektrik Enerji* [Hydroelectric Energy in Turkey], op. cit.
68. <<http://www.aljazeera.com.tr/haber/tokatta-hes-eylemi>> (accessed 5 November 2017); <<http://www.cnnturk.com/haber/turkiye/rizeliler-yeni-bir-hes-mucadelesine-hazirlaniyor>> (accessed 5 November 2017); <[http://www.zaman.com.tr/gundem\\_zilede-olayli-hes-eylemi\\_2283521.html](http://www.zaman.com.tr/gundem_zilede-olayli-hes-eylemi_2283521.html)> (accessed 23 July 2017).
69. Serkan Karakus, Interviewed by author, op. cit.; <[http://www.radikal.com.tr/cevre/cevre\\_bakani\\_haklisiniz\\_hesler\\_dogayi\\_mahvediyor-1162231](http://www.radikal.com.tr/cevre/cevre_bakani_haklisiniz_hesler_dogayi_mahvediyor-1162231)> (accessed 5 November 2017); <[http://www.zaman.com.tr/gundem\\_ikizdere-kuruyor\\_2100907.html](http://www.zaman.com.tr/gundem_ikizdere-kuruyor_2100907.html)> (accessed 23 July 2017), <<http://www.posta.com.tr/video-izle/turkiye/HES-insaati-cenneti-mahvetti.htm?VideoID=18113>> (accessed 5 November 2017).
70. Buğra and Savaşkan, op. cit.
71. Kemal Seyrek, Interviewed by author, op. cit.
72. Serkan Karakus, Interviewed by author, op. cit.
73. Gokdemir et al., *Türkiye'de Hidroelektrik Enerji* [Hydroelectric Energy in Turkey], op. cit., pp. 25–26.
74. Serkan Karakus, Interviewed by author, op. cit.
75. Ibid.
76. T. Thachil, 'Embedded mobilization: nonstate service provision as electoral strategy in India', *World Politics*, 63(3), 2011, pp. 434–469.
77. E. Aytaç and Z. Öniş, 'Varieties of populism in a changing global context: the divergent paths of Erdoğan and Kirchnerismo', *Comparative Politics*, 47(1), 2014, pp. 41–59.