SEVDE ACABAY THE POLITICAL ECONOMY OF TURKEY WEALTH FUND Bilkent University, 2019

THE POLITICAL ECONOMY OF TURKEY WEALTH FUND: A CASE STUDY WITHIN THE STATE-BUSINESS RELATIONS IN TURKEY

A Master's Thesis

by

SEVDE ACABAY

Department of International Relations

İhsan Doğramacı Bilkent University

Ankara

August 2019

To My Fiancé Mustafa Said

THE POLITICAL ECONOMY OF TURKEY WEALTH FUND: A CASE STUDY WITHIN THE STATE-BUSINESS RELATIONS IN TURKEY

The Graduate School of Economics and Social Sciences

of

İhsan Doğramacı Bilkent University

By

SEVDE ACABAY

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I certify that I have read this thesis and have found that it is fully adequate, in scope and in quality, as a thesis for the degree of Master of International Relations.

....

Asst Prof. Dr. Berk Esen

Supervisor

I certify that I have read this thesis and have found that it is fully adequate, in scope and in quality, as a thesis for the degree of Master of International Relations.

....

Assoc. Prof. Dr. Cenk Aygül

Examining Committee Member

I certify that I have read this thesis and have found that it is fully adequate, in scope and in quality, as a thesis for the degree of Master of International Relations.

....

Assoc. Prof. Dr. Tore Fougner

Examining Committee Member

Approval of the Graduate School of Economics and Social Sciences

....

Prof. Dr. Halime Demirkan

Director

ABSTRACT

THE POLITICAL ECONOMY OF TURKEY WEALTH FUND: A CASE STUDY IN THE STATE-BUSINESS RELATIONS IN TURKEY

Acabay, Sevde

M.A., Department of International Relations

Supervisor: Asst. Prof. Dr. Berk Esen

August 2019

This thesis aims to explain the reason for the establishment of the Turkey Wealth Fund. It represents an outlier case within the recent global phenomenon of sovereign wealth funds due to being established even though Turkey does not have trade or budget surplus which are considered as the minimum criteria for establishing and financing a sovereign wealth fund. Searching the answer in Turkish domestic politics, the paper argues that Turkey Wealth Fund is established as a new instrument to be used in the selective resource distribution which the government systematized to sustain the state-business relations within the political transformation of Turkey to competitive authoritarianism under the Justice and Development Party. It is one of the tools in economy that employed as a way of legitimization and concealment of the distribution of resources since it provides further discretion. Its foundation alone summarizes the systematization of the erosion of the rule of law and the reinforcement of the President Erdoğan's political dominance.

Key Words: Sovereign Wealth Funds, Turkey, State-Business Relations, Resource Distribution, Justice and Development Party

ÖZET

TÜRKİYE VARLIK FONU'NUN EKONOMİ POLİTİĞİ:
TÜRKİYE'DE DEVLET İŞ İLİŞKİLERİNDE BİR VAKA ANALİZİ

Acabay, Sevde

Yüksek Lisans, Uluslararası İlişkiler Bölümü

Tez Danışmanı: Dr. Öğr. Üyesi Berk Esen

Ağustos 2019

Bu tez, son zamanlarda küresel ve akademik bir fenomen olan Ulusal Varlık Fonları içerisinde aykırı bir örnek teşkil eden Türkiye Varlık Fonu'nun kuruluş nedenini açıklamayı amaçlamaktadır. Türkiye, bir varlık fonu oluşturmak ve finanse etmek için asgari kriter olarak kabul edilen ticaret veya bütçe fazlasına sahip olmamasına rağmen, 2016 yılında varlık fonunu kurmuştur. Böyle bir fona duyulan ihtiyacın sebebini Türk iç siyasetinde arayan bu araştırma, Adalet ve Kalkınma Partisi'nin, devlet-iş ilişkilerini sürdürmek için sistematik hale getirdiği seçici kaynak dağıtımında kullanılacak yeni bir araç olarak Türkiye Varlık Fonu'nun kurulduğunu savunmaktadır. Fon, kendisine verilen hukuki ve ekonomik ayrıcalıklar sayesinde, ekonomide, daha fazla takdir yetkisi sağladığı için kaynak dağıtımının meşrulaştırılması ve gizlenmesinin bir yolu olarak kullanılması amaçlanmaktadır.

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ADIA:	Abu Dhabi Investment Authority
ASELSAN:	Military Electronics Industries of Turkey
BİST:	Istanbul Stock Exchange Corporation
Bpifrance:	Public Investment Bank of France
CA:	Competitive Authoritarianism
CEO:	Chief Executive Officer
CIC:	China Investment Corporation
DEİK:	Foreign Economic Relations Board of Turkey
DISK:	Confederation of Progressive Trade Unions of Turkey
Diyanet:	Presidency of Religious Affairs
DPA:	Directorate of Privatization Administration
EU:	European Union
GDP:	Gross Domestic Product
GIC:	Government of Singapore Investment Corporation
GNAT:	Grand National Assembly of Turkey
HSK:	Council of Judges and Prosecutors
HSYK:	Supreme Board of Judges and Prosecutors
ICBC:	Industrial and Commercial Bank of China
IMF:	International Monetary Fund
IRA:	Independent Regulatory Agency
ISI:	Import Substitution Industrialization
ISO:	Istanbul Chamber of Industry
IWG:	International Working Group of Sovereign Wealth Funds
JDP:	Justice and Development Party
KHK:	Decree Law
KİK:	Public Procurement Authority

MP:	Member of the Parliament
MÜSİAD:	Independent Industrialists' and Businessmen's Association
NBIM:	Norges Bank of Investment Management
OECD:	The Organisation for Economic Co-operation and Development
OPEC:	Organization of the Petroleum Exporting Countries
PAP:	People’s Action Party
PBC:	Planning and Budget Committee
PDP:	People’s Democratic Party
PwC:	Pricewaterhouse Coopers
RPP:	Republican People’s Party
SEE:	State Economic Enterprise
SME:	Small and Medium-sized Enterprise
SOE:	State-Owned Enterprise
SPK:	Capital Market Boards of Turkey
SPO:	State Planning Organization
SWF:	Sovereign Wealth Fund
SWFI:	Sovereign Wealth Fund Institute
TBB:	Bank Association of Turkey
THY:	Turkish Airlines
TMSF:	Saving Deposit Insurance Fund of Turkey
TOBB:	The Union of Chambers and Commodity Exchanges of Turkey
TOKİ:	Housing Development Administration
TÜSİAD:	Turkish Industrialists' and Businessmen's Association
TWF:	Turkey Wealth Fund
US:	The United States of America
VAT:	Value-Added Tax
YİKOB:	Investment Monitoring and Coordination Department

CHAPTER I
INTRODUCTION

Sovereign Wealth Funds (SWFs) recently became the highlight of international economy and politics by “capturing the imagination of financial and research analysts, and eliciting the concern of states” (Lenihan, 2014, p. 227). Especially after the 2008 Financial Crisis, SWFs appeared as a safe and profitable instrument to safekeep or to turn the specific state revenues into long-term investments for the future generations. The countries which have natural resource, in particular, adopted the trend of SWFs. Following the same trend, in 2016, Turkey has established Türkiye Wealth Fund Management Company (here after TWF) which is a relatively new example of SWFs. Immediately after its establishment, various fundamental problems surfaced. The first conspicuousness is that TWF does not fit into the frames of the SWF patterns. As it will be explained in detail, the minimum necessary condition for the establishment of SWF is that the country must be running budget or trade surplus in order the SWF to operate and be financed. The problem, which is also the starting point of the puzzle of the thesis, is that Turkey does not have a budget or trade surplus. Apart from having a surplus, the economy was having one of its worst times since the last three years. In fact, 2016, in which TWF is established, was the year that the GDP growth rate saw its lowest value (%3.18) after the 2008 Financial Crisis. On top of that, the controversial establishment of the fund was rushed yet; no action is taken by the fund nor any detailed macroeconomic purpose/plan for the fund has been laid out which brought along heated discussion regarding its intentions.

Despite the oppositions and raised concerns, the fund is established with unprecedented legal privileges. Its portfolio consist of the last big state-owned enterprises (SOEs) of Turkey since the others were privatized. The official website does not provide any information on the management of the fund and assets; on the performance monitoring and supervision; or on specific jurisdictions of the fund. There is not even an address of the fund's headquarters or a building. Besides the board of directors, no one knows how many people work there or even the definition of the work. It seems that not only the conditions for the establishment of the fund are not met but also, its viability and sustainability are seriously questioned. Accordingly, there is not any concrete indicator showing that TWF would contribute to the development of Turkish economy or at least positively affect the current situation in finance. Even the broadest and simplest questions regarding the fund are left unanswered which begs the ultimate question: *Why Turkey has established this fund?*

This study attempts to breakdown the SWF of Turkey by looking for answers primarily in the political realm of the fund. In that, the paper argues that TWF is another tool that will be used to improve the partisan state-business relations which is established by the Justice and Development Party (JDP) administration as a mean to consolidate its incumbency in exchange for the distribution and provision of state resources for the loyal business circles. More specifically, the fund is a perfect mean to accumulate the state resources in the hands of the president who has become the ultimate power with little-to-no accountability after the 2017 referendum. The privileges defined to the fund make it virtually untouchable by the public authorities such as Court of Accounts; yet, it harbors the most important state assets that usually requires auditing. Also, with the most recent changes, the president Erdoğan not only became the chairman but also the sole authority over the fund. Since the fund is legally excluded from the usual checks and balance mechanisms of Turkish finance, it becomes vulnerable and subject to the chairman's discretionary use, that is, the president Erdoğan's. Considering the current context and authoritarian tone in Turkish Politics, the establishment of a privileged and above-the-law wealth fund provides the much-needed secrecy for the neopatrimonial. The argued political impact of TWF not only suits well within the literature of neopatrimonialism in Turkey but also it fills a certain gap in domestic political economy by showcasing the connection between business elites and the success of the regime that steadily turns into authoritarian through a new tool.

In order to demonstrate the argument, the chapters are designed as follows:

Chapter I displays the technical framework of the thesis including the methodology and research design. Under the theoretical framework, it presents the competitive authoritarianism and briefly explains why it suits in analyzing the current domestic political scene in Turkey. It also introduces neopatrimonialism as, later, it is used in explaining the changes under authoritarianism and political implications brought by the 2017 referendum.

Chapter II explores the SWFs as the contemporary phenomenon within international political economy. Since the framework on SWFs are not yet clear, this chapter attempts to describe and lay out the common practices so that the comparison can be made with the TWF. First, the chapter elaborates on the issues with the definition and the trajectory of the SWFs. Even though they became the highlight in the aftermath of 2008 Financial Crisis, their origins go back to the oil crisis of 1970s. After the taxonomy, the political implications of the SWFs both within the domestic and international levels are discussed.

Chapter III moves the discussion on SWFs to the case study of the TWF. This chapter constitutes the main elaboration on the argument that TWF is established as an instrument for clientelist resource distribution under the neopatrimonialism of the President Erdoğan. It details the seventeen years of the JDP ruling by dividing it into four phases by its political evolution. The competitive authoritarianism, which defines the JDP and the government after 2010 is presented as the end result of the creation of loyal business class along with the selective distribution of state resources. Finally, the incorporation of the TWF into the capital accumulation pattern of Erdoğan is demonstrated by the showcase of the pattern. Consequently, the argument on the ulterior motive for the establishment of TWF is justified.

Chapter IV is the empirical chapter that thoroughly analyzes the TWF within the political economy of authoritarianism and neopatrimonialism. Performing as an evidence display, the chapter presents the fundamental problems in TWF which positions the fund in an above-the-law status. The formal and informal linkages of the fund are shown in line with the current legal framework of Turkish finance and the political connectedness. It is presented that TWF will be used as a search engine and the provider of the foreign borrowing (without the regulatory oversight) which the government desperately needs for its landmark mega-projects, and for the sustainability of the established state-business relations.

Chapter V presents the concluding remarks by recapitulating the highlights of the findings along with the puzzle. Arising from the limitations on the availability of data, the shortcomings of the research is listed. Finally, the room for further interpretation and future research is stated on the viability of the TWF as the economic pillar of the authoritarian regime; and also, on the possible policy and behavior changes of the JDP after the TWF is fully operationalized.

1.1. The Research Design

TWF is chosen as the focus of this study because, as it is observed (and presented in the next chapter), the phenomenon of SWFs is a reflection of the states not only in terms of their economic outlook but also as a finished product of their political pattern. The way countries employ their SWFs, structure its management type or financing methods reveal fingerprints projecting their leniency and practice. To that end, TWF showcases a debated and elaborated subject of transformation in Turkey's political scenery. Although occasionally the problematic structure of TWF has been expressed in news journals, there is not any academic study which elaborates the impact and aspects of TWF in domestic political economy. The present thesis is the first study which connects the TWF to the state-business relations in Turkey, as a part of the system of resource distribution of the government within the competitive authoritarian setting. The rather obvious reason for the case selection is that TWF represents a divergence in the trend of SWFs in international political economy in terms of the incompatibility with its proposed functions, the current economic situation in Turkey and the ulterior reasons behind its establishment. Thus, TWF is an outlier in terms of its position among all other SWFs; and it is a part of the resource distribution pattern of the incumbent in Turkish domestic politics and economy. Overall, the contribution of this research is twofold: First, as a case study of a recent phenomenon and also by presenting a divergent example, it enriches the new and narrow literature of SWFs. Secondly, it contributes to the literature on political economy of competitive authoritarianism in Turkey by demonstrating the utilization of a major economic actor (TWF) as a part of the partisan capital accumulation. Although unlikely, if relevant cases can be observed, a correlation can be created between the use of SWFs and systematization of clientelist network in competitive authoritarian regimes.

Overall, the present research is created based on three inter-related propositions:

1. Sovereign Wealth Funds consists of the transferred revenues of state which comes from budget and/or trade surpluses.

2. Turkey, which does not have a budget or trade surpluses, has established its wealth fund in 2016.

3. Based on the two propositions, there is an incompatibility between the general framework of SWFs and Turkey's wealth fund. It follows that TWF should be an outlier case.

Based on these propositions, the main research question is formulated as follows: Why Turkey has established Turkey Wealth Fund? The explanatory case study design is chosen because: 1) The question this research seeks answer is *why* the TWF is established rather than how or what is it; which requires an explanatory approach; 2) TWF is part of a greater phenomenon (SWFs) in which it can be regarded as an outlier. Being a recent feature of global political economy, SWF studies does not have an extensive literature which requires, for this research, a descriptive study on the SWFs – even though it is primarily an explanatory research. To assess the TWF and find an answer to the main research question, it is necessary to:

1. Define and discuss the framework of the SWFs. This will enable to categorize and present the borders of the common practices among other countries and help identifying Turkish case as the outlier. It is a necessary step in eliminating the other explanations on TWF's establishment and to seek answer within the domestic politics.

2. Elaborate and present the political economy of the JDP as the argument proposes a relation between TWF and the state-business relations. By doing so, a clear framework of the rewards and punishment system that the government acquires in economy will be presented. This will enable the third step in making the connections between the defined system and the newly established TWF.

3. Analyze the TWF within the legal framework in order to assess the proposed connection. To achieve this, various laws on state entities such as Public Finance Law, Trade Law and Capital Market Law need to be examined. Also, the affiliations of the TWF officials, the practices of the fund and its overall autonomy needs to be defined and compared with the other public institutions which were known as the part of the resource distribution system of the JDP. This will help strengthening the connection if the fund shows similarities.

In order to deliver these objectives of explanation and understanding, I used the method of explaining outcome process tracing which is promoted by Beach and Pederson (2013) as one of the ways of process tracing to find a convincing explanation to a puzzling outcome. Benefitting from the neopatrimonialism and clientelist network literature, I explained the reason behind the establishment of the wealth fund within the resource accumulation desire of the patron in increasingly authoritarian tendencies of the government. For this, I have used mostly primary resources that are acquired through secondary data collection.

For this research, however, accessibility to the data is the biggest challenge. In its most general sense, collecting information as compelling evidences of political problems such as systematic corruption and anti-democratic actions of the authorities is always an obstacle in the way of conducting academic research. Likewise, Turkish case studies regarding state authority, authoritarianism and state-business relations are challenging study fields. More specifically, the issue of TWF is particularly sensitive for the government and the president. Compared to its publicized impact to the economy, the media coverage of TWF after its establishment is pretty low. The questions raised and tabled by the MPs are left unanswered and any official document (other than its establishment law) are either not published or stamped as top secret. Since the TWF is avoided from the media and public attention, there is not any specific way of acquiring information regarding the status and the activities of the fund which makes it a curious topic even though a challenging one. In addition, the fund is a recent development which, again, leads to an untapped area of research and the expected impact of it in economy and politics are yet to be seen.

In an attempt to compensate the lack of accessibility to the direct information on TWF, I have done archival research on parliamentary minutes and Planning and Budget Commission (PBC) minutes which date from the late 2016 to present, in order to find traces of privileged status of the fund such as unlawful legislation or decision-making process. Likewise, I used the parliamentary questions and answers as empirical evidences for the proposed autonomy of the fund which serves to the JDP. As case studies require in-depth analysis, the study utilizes the existing literatures as secondary resources such as global political economy, Turkish domestic politics, patronage networks and state-business relations.

Since this is a case study, the scientific methods of measurement of the research's quality can be blurry. For example, the generalizability, as well as the reliability, of this research is limited. Because, it thoroughly examines the TWF as an outlier case which makes it difficult to draw conclusions that could be theorized to fit for every SWF. Also, the main purpose of the study is to explain and understand the proposed connections between the TWF and the resource accumulation of Erdoğan and the JDP government through state-business relations – along with the exploration of SWFs. Likewise, in terms of reliability, the measures of the exact replicability of the study for another SWF in another setting is by no means clear. Nevertheless, as Thomas (2016) states, "there are other forms of interpretation that come from case studies which owe their legitimacy and power to the exemplary knowledge of these studies rather than to their generalizability" (p. 69). Accordingly, this research attempts to present comprehensive examination and analysis on the subject which was not elaborated in the academia before. Still, as a potential pioneering study on TWF, it contributes to the efforts to future hypothesizing of the proposed connection as basis. With all the listed shortcomings in mind, this research helps creating the frames of the reason behind the establishment of the wealth fund. However, it lacks sufficient evidences for pinpointing exact use of the assets of TWF or the way they would be utilized by the President Erdoğan. Still, several possible ways in using the fund are listed in the conclusion chapter.

1.2 Conceptualization

1.2.1. Competitive Authoritarianism

The term "competitive authoritarianism" (here after CA) is coined by Levitsky and Way in 2002. They explain the need for a new classification as the expected transition to democracy in developing countries in the regions such as Africa and Latin America did not happen. Even 10 years after the end of the Cold War, the so-called transitioning countries "either remained hybrid or moved in an authoritarian direction" (p. 51). The existing terminology for the hybrid regimes such as pseudo-democracy, illiberal democracy or electoral authoritarianism is argued to be biased[1] due to the given premise that these countries were "on the road to democracy and that they have simply been stalled or temporarily delayed" (Herbst, 2001, p. 359).

When it comes to its position, CA does not imply a certain direction. It is situated between a full-blown authoritarianism and democracy. The features of democracy can be seen in CA although they are seriously damaged:

> "In competitive authoritarian regimes, formal democratic institutions are widely viewed as the principal means of obtaining and exercising political authority. Incumbents violate those rules so often and to such an extent, however, that the regime fails to meet conventional minimum standards for democracy" (Levitsky and Way, 2002, p. 52).

According to Levitsky and Way, the democracies have four minimum requirements in order to be counted as a democracy: 1) free and fair elections, 2) right to vote, 3) "political rights and civil liberties" (p. 53) and 4) no political tutelage (military, judiciary, religious etc.) over government. In CA, these conditions are only symbolically exhausted with systematic violations. By the same token, complete authoritarianism cannot take over because the rules of democracy cannot be defied openly or annulled. For CA, there are elections and opposition parties, yet the

[1] For a detailed discussion on the conceptual bias and analytical stretching of the types of democracy, see Collier and Levitsky, 1997. For a critique on the transitional countries' paradigm, see. Carothers, 2002.

process is not fair due to the pouring down of the government resources into the incumbent's campaign and leaving the other parties out. The civil liberties are exercised with limitations, that is for example, negative comments regarding the administration is perceived as threat and have consequences. The state resources are divided among the loyal supporters of the incumbent party and, thus, the public institutions and media provide their services accordingly. The rules are bent in favor of the incumbent; "an uneven playing field between government and opposition" (p. 53) is created.

After the idea of "transitional countries" (Carothers, 2002, p. 9) burst and Huntington's (1993) third-wave democracies were, in fact, stuck in the gray zone, the literature around the progress towards democracy started to be questioned and replaced by arguments on authoritarianization and hybrid regimes without the democracy highlight (Diamond, 2002; Schedler, 2002; Zakaria, 1997). With reference to a trend that rises without full democracy (especially in Russia and China), Ignatieff says:

> "From the Polish border to the Pacific, from the Arctic Circle to the Afghan border, a new political competitor to liberal democracy began to take shape: authoritarian in political form, capitalist in economics, and nationalist in ideology" (2014).

Among these countries, who are having a transformation towards authoritarianism, Turkey is one of the vivid examples in which the divergence from democracy rather started out fast. Freedom House's reports in 2011, 2013, and 2014 shows the increasing authoritarian behavior by government on rule of law, civil liberties and press freedom:

> "In Turkey, a range of tactics have been employed to minimize criticism of Prime Minister Recep Tayyip Erdoğan. They include jailing reporters (Turkey leads the world in the number of imprisoned journalists), pressuring independent publishers to sell their holdings to government cronies, and threatening media owners with reprisals if critical journalists are not silenced" (2014, p. 3).

Currently, it is not news that Turkey, day by day, reminds more of an authoritarian regime rather than a democracy. Focusing after 2011, scholars categorized the prevalent regime in Turkey under different subtitles of democracies. For Türkmen-Dervişoğlu (2015), Turkey is an illiberal democracy due to the routine violation of rule of law, civil liberties and political rights by the dominant party. She explains the authoritarian turn in Turkey based on Erdoğan's "dominate in order to survive" (Akkoyunlu and Öktem, 2016, p. 207) strategy. In order to keep his room for maneuver wide enough, Erdoğan distorts the truths (sometimes even his own words) and resorts to arbitrary use of his power. Although her findings are on point and fairly reflects the situation, the proposed category is not suitable due to the aforementioned analytical bias on democracy. Also, the *alteration* of the rule of law rather than open and direct violation is exercised more by JDP in order to render the allegations of illegality void and keep the pious statesman image in the eyes of its electoral base intact. Tuğal (2009) proposes that what happened in Turkey was a passive revolution and argues that it is the politics of Islam which absorbed its radical parts and became integrated with the market-oriented policies. For Taş (2015), Turkey has transitioned to "delegative democracy" (O'Donnell, 1994) which is a form of "anti-institutional, anti-political and clientelist majoritarian democracy" (Taş, 2015, p. 778). While explaining their arguments, the scholars examine the issue whether solely from political perspective (such as, proposing Islamism as the main resource of JDP's authority) or give the individual level analysis with ethnographic research or as a case study comparison. Because that the different levels of analysis and the comparative aspect of the case is beyond the scope of this paper; and this study focuses on the political economic basis of the JDP's authoritarian tendencies and crony relations as a *basis* for the specific study on Turkey Wealth Fund, the further discussion on the origins of rise of authoritarianism and populism in Turkey will not be necessary for the research.

> "Rather than openly violating democratic rules (for example, by banning or repressing the opposition and the media), incumbents are more likely to use bribery, co-optation, and more subtle forms of persecution, such as the use of tax authorities, compliant judiciaries, and other state agencies to "legally" harass, persecute, or extort cooperative behavior from critics" (Levitsky and Way, 2002, p. 53).

Applying Levitsky and Way's CA to Turkey, Esen and Gümüşçü (2016) argues that Turkey no longer satisfies the minimum criteria of a democratic regime and it is becoming increasingly authoritarian. Following this research, Castaldo (2018) also contributes to the literature by adding the impact of populism as the catalyst in Erdoğan's Turkey. Analyzing the case under democratic backsliding, Esen and

Gümüşçü demonstrates that Turkey fits into what Levitsky and Way presents as the core features of CA which, thus, provides a better explanatory power for current circumstances in domestic politics and political economy as it will be laid out in the next sections.

1.2.1 Neopatrimonialism

Shmuel Eisenstadt is the creator of the term neopatrimonialism (Uğur-Çınar, 2018). According to the literature, it is an inherently antidemocratic concept (Erdmann and Engel 2007) which is constituted by "a set of mechanisms and norms that ensured the political stability of authoritarian regimes; and undermined political participation and competition" (Van de Walle, 2007, p. 1). Ultimately, it refers to the patrimonial relations between the ruler and the connections which exceed the public and private separation and bureaucracy since "the patrimonial penetrates the legal-rational system and twists its logic, functions, and effects" (Erdmann and Engel, 2006, p. 18). In this context, the informal politics and networks dominate the legal frameworks and formal institutions. Hence, the neopatrimonial "does not rely exclusively on traditional forms of legitimation or on hereditary succession" (Yılmaz and Bashirov, 2018, p. 1819); instead, he/she tries to create a loyal surrounding through formal and informal means.

There are various concepts that are used in conjunction with neopatrimonialism such as clientelist network, personal rule and authoritarianism (Krueger, 1984; Lande, 1983; Lemarchand and Legg, 1972; O'Neil, 2007; Pitcher, Moran and Johnston, 2009; Roth, 1968). Although the literature is quite extensive regarding the discussions on the definition, the correct utilization and the framework of neopatrimonialism,[2] in general; the neopatrimonial dominations are associated with systematic clientelism which relies on personal favors mostly in the allocation of state resources; and with presidentialism which, usually, is "the systematic concentration of political power in the hands of one individual, who resists

[2] For a critical analysis on the literature of neopatrimonialism *see* Erdmann and Engel, 2006.

delegating all but the most trivial decision-making tasks” (Bratton and Van de Walle, 2007, p. 63).

After the 2017 amendment package has passed, Turkey switched from parliamentary to presidential system. Considering that the authoritarianism has been lingering and built since the first JDP administration, the change in the political system where the parliament became secondary to the president Erdoğan[3] is better suited within neopatrimonialism. The mechanisms of selective resource distribution, which will be presented in detail, were concentrated in the hands of Erdoğan as well as the political system. Especially in the explanation of the incorporation of TWF into this pattern, neopatrimonialism within the competitive authoritarian regime presents better explanatory power. From the beginning of the legislation process of TWF establishment, the traces of political capture are seen and explained within the concept of neopatrimonialism.

[3] In Turkish politics, the leader (the prime minister and the president) has always been the main and influential actor. With presidential system, the role of the president is greatly reinforced. *See*, Uğur-Çınar, 2018.

CHAPTER II
SOVEREIGN WEALTH FUNDS

There has been a considerable amount of attention on the SWFs with the start of the millennium. That is, SWFs have become a trendy topic although they are not the creation of 21st century. Especially after 2008 Financial Crisis, the number of the SWFs and the assets they own has risen to important enough amount that placed them close to the center of academic debates. For some, SWFs are the new loophole in the global financial system that would change the state's position as a political actor (Bootle, 2009; Yi-Chong, 2010). More specifically, these funds are "creating a political backlash in the form of financial protectionism" (Roubini, 2007, p. 2) which can be interpreted as bringing a national control mechanism to governments in the neoliberal system. For the defenders at the end of this spectrum, SWFs would even mark the era as the beginning of the return to state capitalism which possibly would result in a paradigm shift (Bremmer, 2009; Cohn 2012). Whereas for others, SWFs are just a temporary excitement that would fade away earlier than expected and are not challenges directed at the existing global financial system (Reisen, 2008).

Why do SWFs create such an intense debate among policymakers and academic alike? First reason is the increasing numbers of SWFs: Although SWFs are not new; their numbers have increased dramatically in 21st century which created the attention and questions over this new little-known investment vehicle. Equally important, the amount of capital these funds manage is considerably large and keeps growing. SWFs market size corresponds to 6% of all global assets under management by institutional investors (Kalter, 2016).[4] Such enormous capital combined with the government ownership raises the concerns even more on SWFs' purposes. For the cynics of this issue, "SWFs might be used for overt or tacit political purposes" because the "fears of an instrumental use of SWFs are real" (Cohen, 2009, p. 713). The legitimacy is a parallel concern on how SWFs operate because the countries that recently established their wealth funds have their own problems regarding democracy and transparency of their actions, regulations and practices. SWFs' overseas investments are equally non-transparent, or investment strategies are simply unknown that creates the basis for these criticisms.

Briefly stated, the market size, the intentions and the legitimacy are three issues that highlight SWFs and justify that it is a topic deserves academic attention both in terms of global financial paradigm and for political economy within state-market-government context. This chapter represents the descriptive part which maps out the default of SWFs so that the analysis on Turkey Wealth Fund can be made in comparison. The chapter starts with the definition(s) of SWFs and builds on by explaining the issue with the vagueness of it. Secondly, the historical trajectory of SWFs is explained. Later, the classification issue is addressed that based on what to include as a distinctive character, the scope of SWFs and their area of jurisdiction changes. Accordingly, widely used and acknowledged classifications are laid out. Lastly, the chapter elaborates on the rise of SWFs in 21st Century and provides a preliminary literature review in progress.

1.1. Definition and Trajectory

There is no consensus on the definition of SWFs. The term was first coined by Rozanov with a highlight that "a different type of public-sector player has started to register on the radar screen" (2005, p. 1). In its most basic terms, SWFs are funds that are created as an alternative tool for investment by governments. Main function

[4] This percentage equals approximately to $ 6 trillion. The updated number is $ 7.8 trillion in 2018.

is the utilization of surpluses the countries have through investment instead of keeping them in the bank or Federal Reserve. Yet, every country has different surpluses (trade, budget, current account etc.) and/or different ways to handle its economy with differing regimes; resulting in a diversity of SWF establishments and managements. What Rozanov called "sovereign wealth managers" (p. 2) is an early representation of the commonalities of SWFs that existed up until 2005. Especially after 2008 Financial Crisis, the number of these funds almost doubled and so did the diversity of the nature and structure of SWFs. This situation requires at least a generally accepted definition with clear frames so that this newest trend in financial economy can be understood as the same by everyone and can function properly.

Because of the characteristic and fundamental differences in SWFs around the world, it becomes a confusing issue as which funds to include and how to separate them. The emphasis on how to define these funds rose because of the increased concerns on their practices when they became popular within this century. The definition presents a departure point; actors in global political economy emphasize the functions of SWFs that is crucial to them. Depending on the variable included in it, the categories may expand and become generic or too limited. For example, US Treasury (2007) defines SWF as "government investment vehicle which is funded by foreign exchange assets" and as a result, excludes Temasek, an important and studied wealth fund of Singapore. On the other hand, some defines these funds as "pools of money governments invest for profit" (Teslik, 2009, p. 2) which is general enough to include every state-owned fund such as pension funds or state-owned enterprises. Couple of definitions is given below to present the viewpoint of some important actors on the issue.[5]

International Monetary Fund (IMF) defines SWFs as government-owned investment funds that are "set up for a variety of macroeconomic purposes" (2008, p.5). Without

[5] For the variety of the definitions see The Definitions in Appendix I.

giving clear boundaries, IMF includes common practices of SWFs and, classifies them under five categories based on their primary objectives. The Sovereign Wealth Fund Institute (SWFI) defines SWF as: “a state-owned investment fund or entity that is commonly established from balance of payments surpluses, officially foreign currency operations, the proceeds of privatizations, governmental transfer payments, fiscal surpluses and/or receipts resulting from resource exports” (n.d.). Because that the definition rests on various well-known SWFs’ practices, its terms can only be seen as the examples of common practices rather than a definitive border. Based on the given definition, it can be said that the SWFI classifies the funds depending on how they are financed. Also, the institute excludes pension funds. According to the Santiago Principles, which are the 24 generally-accepted principles by the International Forum of Sovereign Wealth Funds (IFSWF) members, SWFs are defined as:

> “Special purpose investment funds or arrangements that are owned by the general government. Created by the general government for macroeconomic purposes, SWFs hold, manage, or administer assets to achieve financial objectives, and employ a set of investment strategies that include investing in foreign financial assets” (IWG, 2008, p. 3).

Members of the International Working Group of Sovereign Wealth Funds (IWG)[6] has signed the declaration called Santiago Principles and agreed on this definition. Since the practices of SWFs and their respected countries are crucial when defining the implications of SWFs on others and markets, IWG’s definition will be taken as the regarded definition for this paper. With the definition in mind, Table 1 shows the top 20 SWFs by asset size around the world.

Table 1: Top 20 SWFs by Asset Size.

Country	Name of the Fund	Assets (USD-Bil)	Year of Establishment

[6] The organization specifically established as an international initiative for the creation of a consensus among 26 countries which had SWFs in 2008 with the aim of providing a framework and a more transparent accountability for SWFs and their practices. As new countries owned SWFs, they signed Santiago Principles. For detailed information see, http://www.ifswf.org/about-us

Norway	Government Pension Fund	1058.05	1990
China	China Investment Corporation	941.4	2007
UAE - Abu Dhabi	Abu Dhabi Investment Authority	683	1976
Kuwait	Kuwait Investment Authority	592	1953
China	Hong Kong Monetary Authority Investment Portfolio	522.6	1993
Saudi Arabia	SAMA Foreign Holdings	515.6	1952
China	SAFE Investment Company	441	1997
Singapore	Government of Singapore Investment Corporation	390	1981
Singapore	Temasek Holdings	375	1974
Saudi Arabia	Public Investment Fund	360	2008
Qatar	Qatar Investment Authority	320	2005
China	National Social Security Fund	295	2000
UAE - Dubai	Investment Corporation of Dubai	233	2006
UAE – Abu Dhabi	Mubadala Investment Company	226	2002
South Korea	Korea Investment Corporation	134.1	2005
Australia	Australian Future Fund	107.7	2006
Iran	National Development Fund of Iran	91	2011
Russia	National Welfare Fund	77.2	2008
Libya	Libyan Investment Authority	66	2006
US - Alaska	Alaska Permanent Fund	65.7	1976

Source: SWFI, 2018.

According to IWG, the main properties of SWFs can be presented with three elements: Ownership, investment and purpose. SWFs are owned by government – whether central or subnational. Also, the monetary authorities who hold the currency reserves are not counted as sovereign wealth funds. When it comes to investment strategies, those funds which only invest in domestic assets are excluded from the definition. So, SWFs should have an international dimension on investment. Third, SWFs should have macroeconomic purposes and “are created to invest government funds to achieve [those] financial objectives” (IWG, 2008, p. 34). Even though these elements are broadly defined and still render a wide range of SWF practices, by giving the frame, it helps us to categorize and limit the funds to some extent.

In terms of its place and role in overall, a SWF can be pictured as a cushion or a buffer zone of an economy. Its structure enables the state and acts in economic sphere; correspondingly, "fund seeks to maximize financial returns for the benefit of long-term public policies" (Bernstein, Lerner and Schoar, 2013, p. 220). Although it cannot compensate for a sound macroeconomic policy, a well-structured and managed sovereign wealth fund can be of great help for a country's economy. It can prevent (or at least ease) over appreciation of national currency caused by a newly-developing sector. The sudden accumulation earned from this new sector can be put in wealth fund for future generations or it can be put to an investment via the fund so that a windfall would be prevented. Given that the limits are not defined, SWFs can also play a role in a country's domestic or international politics. It is for sure that SWFs have the flexibility for the owner countries to explore and, even, push further. The concerns raised by that ambiguity will be discussed later.

1.1.1 Trajectory of SWFs

Although the term SWF is recently coined, the first example of the fund in generic terms goes back decades. Kuwait Investment Office is referred as the first SWF in the literature (Alhasel, 2015; Cohen, 2009; De Bellis, 2011; Drezner, 2008). The fund began its activity in 1953 in London as an office responsible for the management of the surpluses of country's oil revenues and later in 1983, it became the official government-owned fund called Kuwait Investment Authority (Alhasel, 2015; Balin, 2008). Yet, some scholars argue that the first resemblance of SWF goes back further than 20th century.[7] According to Yi-Chong and Bahgat (2010), the first

[7] Rose, P. (2011) claims Michigan Permanent School Fund that is established in 1835 is the first SWF; SWFI (2018) claims it is the Texas Permanent School Fund -established in 1854. For an analytical discussion on modern SWFs and their historical instances see in references, Braunstein (2014).

historical example of the fund with a saving mandate is Caisse des Depots et Consignations of France that is established in 1816. Braunstein (2014) adds that the "supervisory board [of the fund] appointed by French government had the mandate of protecting government as well as private deposits" (p. 173). The adopted definition changes the proposed date regarding the first practices of wealth funds but still, in terms of trend, there are two points/events in global economic history that flourished the notion of wealth funds: commodity price booms of 1970s and 2000s.[8]

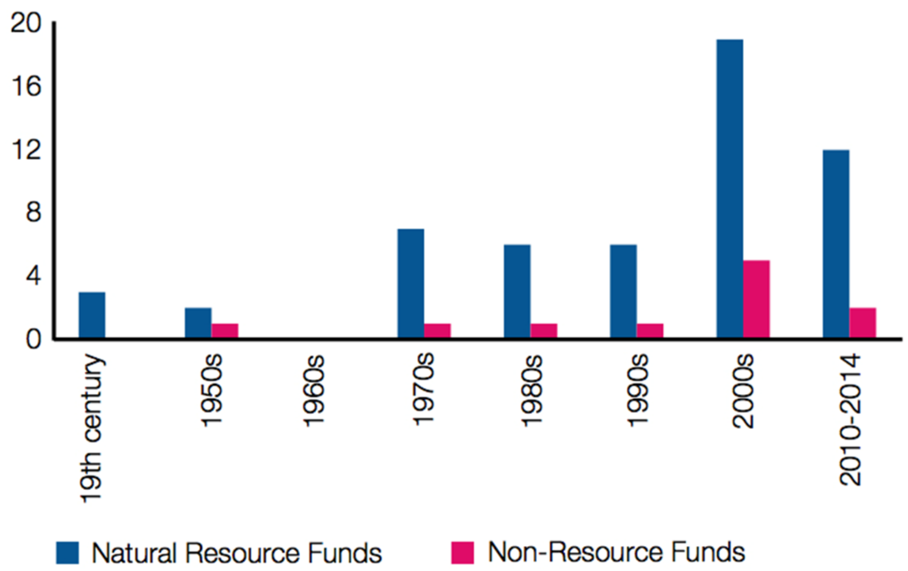

Figure 1: Number of SWFs by decade. *Source: Harvard Kennedy School, 2014.*

In 1970s there was an increase in almost all commodity prices, due to several political and economic reasons. The price of sugar, for example, skyrocketed to five times of its former value (Cooper and Lawrence, 1975). The unexpected rise in all prices caused a general oversupply in producer countries. At the same time, the United States (US) decided to leave the gold standard. It had a negative impact especially on oil producing countries since the oil was priced and contracts made on US dollars. The Organization of the Petroleum Exporting Countries (OPEC) were

[8] Also called oil boom since the initial rise in the prices were observed in oil. Alternatively, the specified periods also named after the crises that followed the booms: 1970s oil crises and 2008 financial crises.

already in trouble and US' support of Israel in Yom Kippur War against Egypt in 1973 became the last straw for the OPEC which decided to place an oil embargo on the US. As the immediate result of the embargo, oil prices quadrupled in 1974. Oversupply and the embargo led to an accumulation of liquidity in OPEC; and for other countries, it led to the pursuit of other ways to protect their economy. "Oil exporters such as the United Arab Emirates, Saudi Arabia, and Alberta used their SWFs as a way to absorb excess liquidity that could potentially overheat their economies" (Balin, 2008, p. 2). US (Alaska Permanent Fund), Canada (Alberta's Heritage Fund) and Abu Dhabi (Abu Dhabi Investment Authority) established their wealth funds in 1976 as oil based (commodity-based) wealth funds. Also, Temasek Holdings is established in Singapore in 1974. It is different from the other SWFs of the time because Temasek is designed to be financed by the excess in foreign exchange reserves of Singapore. By being a non-commodity-based wealth fund, Temasek became the first example of a newly emerged type of SWF.

Commodity prices have also begun to rise in early 2000s due to growing demand from China. Helbling, Division Chief in IMF Research, explains the beginning of the rise as follows: "On the demand side, an unexpected, persistent acceleration in economic growth in emerging and developing economies was a major force behind the commodity price boom of the early 2000s" (2012, p. 30). Just like any other boom and bust cycle in commodity markets, the increase in prices started in the high times of global growth and "geopolitical uncertainty" (World Bank, 2009, p. 53). But this cycle was much bigger and sustained than the earlier boom and bust periods. Commodity prices started to rise in 2003 and until 2006; it was not seen as warning sign or a threat. Expected scenario would be an incredible increase in prices followed by supply shocks and an imminent recession. In 2008, the recession has started; yet, this time the prices did not fell enough to their pre-crisis level. Even after the recession has ended, "they remain well above their levels in the early 2000s and are projected to remain high" (World Bank, 2009, p. 95).

The long period of high commodity prices benefitted the commodity exporter countries. Although the recession has hurt every country, it created an opportunity to grow especially for the developing countries. Accelerated growth and rapid accumulation in developing countries carries the risk of overheating the economy[9] and boom periods often qualify as the basis. But in this cycle, as it is evaluated by World Bank, the resource-dependent developing countries better managed the crisis than they did in the past via establishing sovereign wealth funds and accumulating foreign reserves in them instead of spending windfall revenue (2009). Indeed, many SWFs have been established in this period in order to keep the sudden money and turn it into a sustainable income or investment capital. China Investment Corporation (CIC), the success symbol of the non-commodity SWF thanks to persistent trade surpluses, is established in 2007. Other famous non-resource-based SWFs that established in this period are Investment Corporation of Dubai (2006), Australian Future Fund (2006), and Korea Investment Corporation (2005).[10] Number of natural resource-based SWFs also increased in this period. Overall, 2000s is the second wave of SWF rise and highlight. Almost a decade later, the phenomenon still continues as new SWFs are established.

1.2. Taxonomy of SWFs

There are different ways to categorize sovereign wealth funds. The difficulty arises from the numerousness of the practices of many SWFs with differing priorities, financing and economic objectives. In the literature, there are several attempts made on creating an across-the-board typology[11] and some of them are given below. In general, SWFs are classified either based on their finance capital, macroeconomic purpose or investment strategies. In order to simplify the diversity hidden on the details and make it more suitable for a read on political study, the existing categorizations will be shortly presented.

[9] For more information on overheating economies, see IMF Global Financial Stability Reports and Fiscal Monitor. *Also see* Langdana, 2009.
[10] For the full list of SWFs see, Table 1: The List of SWFs in Appendix I.
[11] See in reference, IMF (2008); SWFI (n.d.); PWC (2016); Yi-Chong (2010); Schwartz (2012)

The first way to categorize SWFs is based on how are they financed/funded. It is known that SWFs are established thanks to certain surpluses countries have. Based on the existing practices, there are mainly two ways to source these funds. First way is through natural resource (commodity exports) surpluses. The countries which have oil, natural gas or mining elements such as phosphate or diamond create surplus and finance their wealth funds by benefitting from the high commodity prices. Because of that, they are also referred as commodity-based funds. Although not applicable to all of them, the logic behind is that these resources are finite and expected that the supplies are going to be expired in a certain time period. By reserving some of the earnings gained by resource prices, countries try to preserve and transfer the national wealth to the future generations or keep it as an emergency liquidity in case of volatility and crisis. Couple of well-known examples of these resource-rich economy SWFs are United Arab Emirates' Abu Dhabi Investment Authority (ADIA) which is established at 1976; Russia's National Welfare Fund and Kuwait Investment Authority one of the oldest SWFs –established in 1953. Norway's Government Pension Fund is also a prominent commodity-based wealth fund which is at the top of the list of the largest SWFs by asset under management.[12] Botswana's certain portion of income from diamond extraction goes to its SWF, the oldest wealth fund in Africa, Pula Fund. Chile's Pension Reserve Fund is financed from its copper mining. These funds are gathered under this category based on their origin of investment yet their activities regarding their economic purposes or strategic investments are not limited to stabilization or savings; they vary greatly.

The second category SWFs are non-commodity resource-based funds that "the source of reserve accumulation is mostly not linked to primary commodities but, rather, related to the management of inflexible exchange-rate regimes" (Beck and Fidora, 2008, p. 350). Accordingly, these funds are financed by the transfers of excess exchange reserve from central bank. What SWFs bring to the table, different from central banks, is their ability to invest in high risk-return profiles of assets. As

[12] Based on SWFI's 2018 data.

the commodity-based SWFs are popular in resource-rich economies, non-commodity SWFs are usually seen in Asia. Thanks to their rising financial credibility, Asian developing countries accumulated enough foreign exchange reserves which makes them perfect match for this type of SWF. Two pioneering examples are from Singapore: Temasek Holdings, the legendary SWF that "turned humble millions from Singapore's treasury into assets worth over US$100 billion" (Shih, 2009, p. 331); and Government of Singapore Investment Corporation (GIC) which is still in the top ten of largest SWFs by its US$390 billion worth of assets (SWFI, 2018). Following Singapore's footprints, China's CIC became a riveting SWF. There are non-commodity-based SWFs from other parts of the world such as Australian Future Fund which also holds a great amount of asset worth a hundred billion US dollar.

Although this categorization is nice and clear, it does not create a framework for SWFs because these are only the known-so-far ways to fund SWFs which can change since; countries look for new ways to invest via different tools to different places. Also, there are certain newly-established SWFs (as one of them will be examined in later chapters) which do not fall into neither category due to not having any kind of surpluses but are still established. This is still a useful way to identify SWFs in order to map their investment patterns yet, there is a need for a way to classify SWFs other than financing.

According to IMF, SWFs can be examined under five categories based on their stated policy objectives. These are 1) stabilization funds, 2) savings funds, 3) development funds, 4) pension reserve funds and 5) reserve investment corporations. Stabilization funds, as the name suggests, aims at protecting economy from price volatility and internal-external shocks by acting as buffers. They have fiscal stabilization mandates and need assets of high liquidity to invest. Basically, they are rainy-day funds which can provide liquidity in down times of economy. Savings funds are set to "share wealth across generations" (IMF, 2013, p. 5) and to alleviate the possible effects of Dutch Disease.[13] They have long term horizons with investment preference on equities or low liquidity assets. Development funds make investments and allocate resources to increase the domestic development (productivity) of the country in long-term. Usually, these funds invest in infrastructure projects. Pension reserve funds are long term investment vehicles which preserve “the real value of capital to meet future liabilities” (PwC, 2016, p. 6). Big portion of their portfolio is allocated to equities. Reserve investment corporations are also long-term investors which hold the excess reserves to gain higher returns and aim at reducing “the negative carry costs of holding reserves” (IMF, 2013, p. 6).

Although IMF’s classification is functional and accepted, some funds fit in more than one category due to having various policy objectives. Because of that, some categories are proposed to be interbedded or merged. For example, in State Street Corporation’s study on asset allocation of SWFs, it is noted that the development funds can be counted as strategic investment “where typically %50 or more of their investments are in national companies” (Hentov, 2015, p. 3). Also, pension reserve funds and reserve investment corporations have the same working principle and objective (long-term, high risk-return profile) even though investments are made on different assets. Therefore, the categories can be reduced to smaller numbers and PricewaterhouseCoopers (PwC) provides a useful taxonomy as explained below. They still are not mutually-exclusive, but the classification is simpler.

The Figure 2 shows that, SWFs are divided into three categories based on the economic objectives by PWC: 1) capital maximization, 2) stabilization and 3)

[13] The term Dutch Disease originally comes from 1950s and 60s when Netherlands discovered natural gas reserves and faced de-industrialization. The windfall revenue from natural gas led to an appreciation of national currency while manufacturing sector (non-booming sector) is weakened. When there is a boom in resource sector, other sectors often lose their capital, labor etc. to the booming sector and the international competitiveness of the country in non-booming sector decreases sharply; thus, leaves a negative impact on country’s growth.

economic development. The second and third category refers to the same funds of IMF's classification while the first category, by definition, includes the saving funds, pension reserve funds and reserve investment corporations of IMF classification. To give an example, CIC falls into the capital maximization category under investing reserves branch. Likewise, Korea Investment Corporation and Libyan Investment Authority also manage their investment funds in international financial markets and fall under capital maximization class. Examples for the SWFs purposed on intergenerational wealth would be Norges Bank Investment Management (NBIM) and Kuwait Investment Authority. New Zealand Super Fund is a good example for funding future liabilities branch as its priority is to "save now in order to help pay for the future cost of providing universal superannuation" (NZ Super Fund, 2018, Legislation, para. 4).

For Stabilization category, a prominent example would be Russia Reserve Fund. The accumulated money in Reserve Fund and New Wealth Fund of Russia[14] were used at the beginning of 2009 by providing loans to the companies and credits to the banks in order to improve liquidity and reduce the effects of financial crisis to its general economy (Fortescue, 2010). Russia Reserve Fund's prior objective is still facilitating stability. Chile's Economic and Social Stabilization Fund[15] (ESSF), whose main aim is on "fiscal deficits and amortization of public debt" (Chile Ministry of Finance, 2018, ESSF, para. 2), and Mexican Oil Income Stabilization Fund are other examples for the second category. For the third category, the SWFs whose primary objective is to provide domestic development via infrastructure projects and/or industrial policies are referred. Nigerian Infrastructure Fund, Mubadala Development Company, Bpifrance (Public Investment Bank of France) and Temasek are few examples. It is important to keep in mind that some of these funds hold an important amount of assets and may have more than one objective, thus not belonging to one category exclusively. Another case is that overtime, funds may want to expand their

[14] The original fund established in 2003 and later was separated into two and subjected to name and policy changes several times.
[15] ESSF replaced the Copper Stabilization Fund in 2007 and almost all of its initial capital is derived from the old fund.

objectives and diversify their portfolio to lower the risks of potential crises which possibly results in bigger SWFs with more objectives and macroeconomic purpose. Nevertheless, PwC's classification gives more clear distinctions than other categorizations.

Table 2: Framework of Macroeconomic Objectives of SWFs.

Mission	Objective	Description
Capital maximisation Building a capital base for the growth and preservation of national wealth	Balancing intergenerational wealth	Investing to create intergenerational equity e.g. transforming non-renewable assets into diversified financial assets for future generations.
	Funding future liabilities	Growing and preserving the real value of capital to meet future liabilities, such as contingent liabilities like pensions.
	Investing reserves	Investing excess reserves into potentially higher-yielding assets via financial strategies aiming at higher long-run returns, and reducing the negative carry costs of holding reserves.
Stabilisation Macroeconomic management and economic smoothing	Facilitating fiscal stability	Using counter-cyclical fiscal tools to insulate the economy from internal and/or external shocks, e.g. changes in commodity prices, to smooth consumption.
	Stabilising the exchange rate	Using the fund's resources to balance large capital inflows and outflows in the short-run (which may be caused by commodity price volatility) to prevent asset price bubbles and reduce price volatility.
		Using the fund to manage amount of capital entering the domestic economy over the long run, to ensure the exchange rate is maintained at a level to allow for other export activities, e.g. to prevent Dutch Disease.
Economic development Investment to boost a country's long-run productivity	Investing in hard infrastructure	Domestic development in capital assets, including but not limited to transport, energy, water management and communications.
	Investing in social infrastructure	Domestic development in soft infrastructure: human capital and the institutions that cultivate it. This includes socio-economic projects such as education and health.
	Pursuing industrial policy	Creating a diversified economy in order to reduce dependency on one resource or source of funding. Official, strategic efforts by governments to boost productivity in specific sectors.

Source: PwC, 2016.

1.3. Rise of SWFs in 21st Century

First attention-grabber for SWFs is that their asset size in total is enormous. According to the European Central Bank's report on SWFs in 2008, their size alone is enough to make them significant global players which "probably managing between USD 2 and 3 trillion" (p. 5). This number (their market size) went up to $ 7.84 trillion in June 2018, according to Sovereign Wealth Fund Institute's (SWFI) latest data. With such a major amount of assets, these organizations can surpass some of the largest private counterparts of theirs, resulting in drawing attention on their agenda and primary objectives. Addition to their market size, their numbers are increasing: Figure 3 shows the percentage of SWFs by the year of establishment. The SWFs established in between 2000 and 2009 add up to almost half of the all wealth funds existed. The 2/3 of SWFs are established in 21st century. Although the first SWF was established in 1816[16] and SWFs are used throughout two centuries, sudden rise in numbers created a question mark regarding SWFs intentions and ability to reach those intentions: Why countries rush on SWFs in this century?

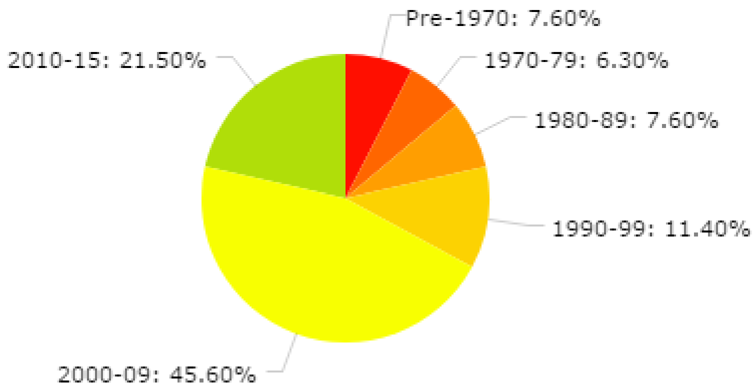

Figure 2: Percentages of the Numbers of SWFs by the Year of Establishment.
Source: SWFI, 2018, SWF Rankings.

Then, the question refers to something beyond economic frames; since SWFs are not the only state vehicles in finance[17] and certainly not the only investors in global financial market.[18] Bremmer (2009) argues that SWFs are important because they extend the state's reach by providing a hidden ability for political gains while keeping presence in economy. Other state vehicles can do the job only so far, but the ambiguity in SWF practices and the undefined scope is the perfect cover for political agendas. Although not everyone asserts that SWFs are nothing but a political

[16] Groupe Caisse des Dépôts of France.
[17] According to Bremmer (2009) there are state-owned enterprises (SOEs), national champions and sovereign wealth funds that state can use in finance to make investment
[18] See Figure 2: The Global Assets Under Management in Appendix I.

leverage, it is true that the implications of the political face of SWFs are not covered by IFSWF or other institutions. The next part will discuss the legitimacy, transparency and governance of SWFs.

1.3.1 Politics of SWFs

Linked with the first two, maybe the two most important reasons of the highlight of SWFs is the government ownership and transparency issue. Increased numbers and management of large assets become more problematic when it is combined with state being in charge – not only specific to SWFs but in general. Chen et. al. (2014) proves that state ownership reduces the investment sensitivity that "state ownership leads to departures from optimal investment decisions" (p. 415). But for SWFs, it goes beyond that due to the possibility of states having intentions that are not purely economic.

To start with, transparency evaluation can be a good indicator. Figure 4 shows the transparency rankings of SWFs in the first two quarters of 2015. The index which is developed by Carl Linaburg and Michael Maudell in SWFI, rates the SWFs based on 10 criteria of each having one-point contribution to overall grade.[19] In SWFI's up-to-date data, the transparency ratings of 23 SWFs out of 79 are unknown; and only 14 of them are rated as 10 – which corresponds to fully transparent (2018). Also, it should be kept in mind that this index depends on the data taken from officials and the funds' website information. Although it gives a preliminary picture on transparency, the consistency of the data published on websites of the funds with the real-life performances is not proven. As it will be discussed later, Turkey Wealth Fund's official website, for example, provides information regarding the monitoring process to be conducted by three different bodies (TWF, 2016). However, the process has not been carried out yet as it was proposed. In that sense, transparency evaluations are difficult to be certain and should be revisited.

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[19] For the principles of the index criteria see Figure 3: Linaburg-Maudell Index Principles in Appendix I. For the latest ratings, *see* Figure 4: Linaburg-Maudell Index Principles in Appendix I.

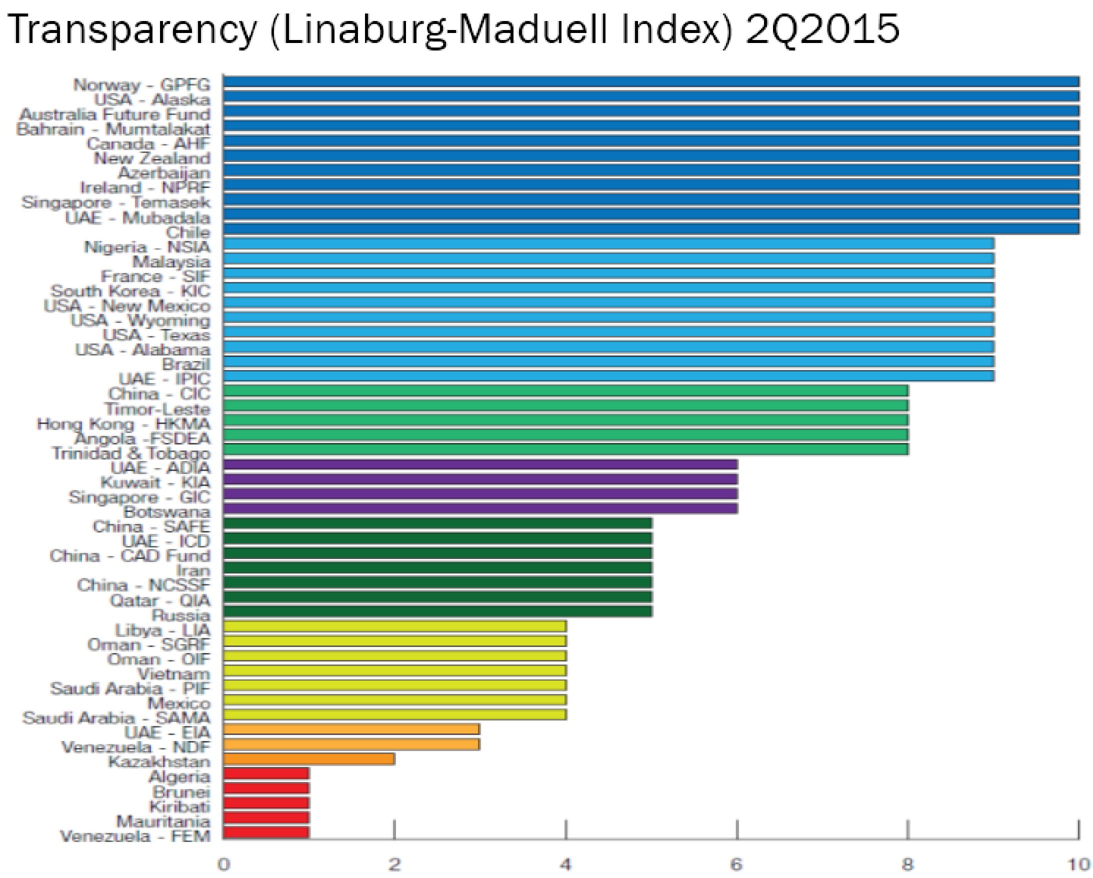

Figure 3: SWF Transparency Rankings. *Source: SWFI, 2016*

Indeed, SWFs have the capability to carry out any given objective by state thanks to their broadly defined (or not defined at all) area of activity both in domestic and international sphere. Since state cannot be stripped from its political side, the investments or economic plans made and carried out via SWFs draw hesitations. It is a fact that SWFs are almost tripled compared to the beginning of the 21st century and this increase usually constituted by states which are categorized as less-democratic or authoritarian. SWFs are, practically, "extensions of state" (Drezner, 2008, p. 117) which means they can be more of political institution rather than a market actor. When the political gain is prioritized over economic practices by an entity which has the means of an economic institution, then any large investment made on a specific country, region or sector by SWFs enables the place to be open to the political influence and purpose of the funding country. This potential becomes even greater when combined with the non-transparent nature of them, since "two thirds of SWFs are in the hands of non-OECD countries and all are categorized as ‘flawed democracies’ or ‘authoritarian regimes’” (Yi-Chong, 2010, p. 15). SWFs, then, can invest abroad, buy shares of companies and be passive but influential actors in another country’s economy and/or; they can be used as inhibitors/accelerators of politicized gain in its own domestic market. As Aggarwal and Goodell (2018) suggest, it is the “mixed economic and strategic goals of their ultimate sovereign owners” (p. 79) that blurs the image of SWFs. This blurring image can be observed both on domestic and systemic levels.

1.3.1.1 Issues in Domestic Level

One of the concerns on SWFs raised by scholars is the structure of the funds that allows non-transparency and ambiguous governance. Usually, it is discussed in the context of international politics and national security; but lately, there has been some referrals to SWFs and domestic politics (Bernstein, Lerner and Schoar, 2013; Braunstein, 2018; Hatton and Pistor, 2011; Pekkanen and Tsai, 2011; Tranøy, 2010). Braunstein, for example, argues that issues with SWFs are political because the allocation of income to the fund’s portfolio creates winners and losers within the country (2018). De Bellis proposes that “internal political accountability” (2011, p. 378) is an important factor on investment decisions made for SWFs – which is related to the degree of independence the funds management have and the regime type. In his article where he proposes three processes of state formation via SWFs, Schwartz (2012) claims that one of the objectives of SWFs is to “perform a directly political function by shifting the distribution of value inside production chains” (p. 520). Apart from theoretical approaches, there are also case studies that lay out the impacts of domestic politics on SWFs’ characteristics, governance structure and possible corruptions (Oshionebo, 2018; Raphaeli and Gestern, 2008; Shih, 2009, Wang and Li, 2016).

Overall, the highlight of the literature is that part of SWFs’ bad reputation is rooted in the domestic politics. That is, the management of the fund and governance structure defines the image of the SWF at least in the context of its practices in the country. As expected, the major force behind SWFs is government since the government decides the degree of autonomy of the SWF, how it is managed and how the decision-making is carried out. The problematic part is that the governments have a limited lifespan. A big initiative such as SWF goes beyond governments yet; it is seen that the survival of the governments in political competitions surpasses SWF's initial objectives and led to a new outlook for the funds. Shih (2009) showcases examples from China and Singapore and explains SWFs' role in the power struggle as follows:

> "In democracies, politicians are 'office seekers' who structure platforms to capture a winning share of voters. In dictatorships, ensuring political survival is even more challenging because of the potential of a coup launched by the ruler's closest followers. In other regimes, rival factions launch political campaigns and corruption investigations to diminish each other's influence. Given the constant possibility of dethronement, leaders of any government, especially ones without a clear due process for leadership transition, must place political survival on the top of their agenda and direct the instruments of state, including SWFs, toward that end" (p. 330).

Shih's explanation fits several examples of SWF governance. First, from his study, Temasek Holding's structure shows that the people who manage the fund are all affiliates of the ruling party: People's Action Party (PAP) (Shih, 2009). Temasek has ten directors and three of them along with the chairman were previously worked in government positions (Temasek, 2018). In practice, the chief executive officer (CEO) of the fund is the sole executive and without president's approval, no appointment or removal of personnel can be made (Chen, 2016). The mentioned CEO of Temasek who appointed in 2004 is the wife of prime minister. Through Temasek, state controls the media: Various TV and radio channels, broadcasting systems, some major journals are owned by a company of which Temasek owns the majority (Schwartz, 2012). Since the ruling party has a strong grip on state apparatus and the business elite have close relations with the party bureaucrats, Temasek, and partly GIC, was under the family control which did not require a short-time strategy or further political showdown. Instead, SWFs were able to focus on long term-profit for Singaporean economy (Slater, 2006; Chen, 2016; Shih; 2009)

Another example of SWF use as a means of domestic policy tool is a parallel civil society creation "by fusing state interest with select segment of society" (Schwartz, 2012, p. 526). SWFs are the suitable establishments providing both flexibility – (because the rules are not clear) and reach (because states get to be a legitimate economic actor). Via establishing new SWFs, the authority in Abu Dhabi raised new institutional areas to prevent political rivalry. Sheikh Zayed al Nahyan, by establishing ADIC under ADIA, separated the decision-making units as foreign and domestic. Thanks to that, the sheikh created itself a maneuver room in favor of his allies and against his rivals. "By placing different factions of the royal family on the board of directors at each SWF, the Emir could reward his allies and pacify potential rivals without allowing any individual to accumulate enough power to pose a serious political threat" (Hatton and Pistor, 2011, p. 36).

These are only few examples of SWF activity within domestic politics context. Although the instances can be increased especially on authoritarian regimes, it is hard to collect information on this issue because the secrecy of SWFs is still a huge obstacle not only for this purpose but for purely investment purposes as well. It can also prove a correlation between the regime type and SWF functioning with further research.

1.3.1.2 Issues in Systemic Level

From the international level as well, government ownership complicates the issue and national security comes into consideration due to the high chance of the SWF-holding countries' strategic political investment making. When it is the 'nation' or 'state' who makes the investment, then, it is inevitable that some national or political agenda will be included. The "market-capital system will automatically assume that the government will not behave in the same way as private investors" (Yi-Chong, 2010, p. 14) which, as a result, raises the national security risks of the countries which have been invested. This can easily turn into a realist debate over boundaries, zero-sum game and security dilemma; and strengthens the hand of the sceptics of market capitalism.

Gilson and Milhaupt (2009) propose another reason for the lack of trust on SWFs. They believed that SWFs, on their own, do not cause problem on transparency because the hedge funds in many countries are also equally non-transparent: "The fear is that SWFs will use their influence on portfolio companies to secure technology, gain access to natural resources, or improve competitive positions for domestic companies, potentially in a fashion that has national security concerns for the portfolio company's country of incorporation" (p. 354). Then, it is the fear of government, not the fear of a large, nontransparent investor, which drags all these discussions into the political realm.

Regarding the nature of the organization, ownership issue confuses the boundaries of SWF: Is it a political or a market actor? As Lenihan (2013) states, the current rivalry among the states are the geo-economic competition and "the incentives for it increase, when it can be achieved without disruption to either free trade or the diplomatic relations of states" (p. 228). In a sense, SWFs fills the void of the need for an effective tool of state to increase its assets and comparative economic power while not causing a major and clear-cut divergence from the current system. However, the potential political implications made by state through SWFs become the basis for scholarly concerns on state's role in global economy. For the followers of this concern, the possibility of reversal of privatization, which is against neoliberal agenda, could create instability through "creation or perpetuation of asset bubbles" (Lenihan, 2013, p. 228). They "could contribute to an unwinding of global imbalances through a diversification out of US dollar-denominated government bonds in which the bulk of traditional reserves is invested" (ECB, 2008, p. 6). Following these risks, some scholars argue that SWFs can change the entire frame of the global financial investment and lead to a shift in the global political system from neoliberal market economy to something more statist (Halliday, 2008; Şimşek, 2017; Schwartz, 2011) such as new generation state capitalism in which "the state functions as the leading economic actor and uses markets primarily for political gain" (Bremmer, 2009, p. 41).

1.4. Conclusion

Overall, SWFs are undoubtedly becoming important in 21st century. The asset size, the structure and practices these funds feature brought new dimensions and discussions in the global markets as well as political economy. Although the phenomenon was not new, the funds and their sphere of influence are still being experienced by the countries in this century. Still, the continuation of SWFs' rise and whether they are here to stay remains to be seen. Yet again; it is safe, at least, to say that their impact radius, and the suspicion they brought along, will be discussed for a while in political economy.

As it is covered in this chapter, the vagueness of the structure and economic practices of the funds are contemporary issues in the emerging political economy literature. What is even more pressing is the political aspects of SWFs which requires more attention. In a way, SWFs presents some sorts of clues not only about the economic performance, but also about the current political scenery and the regimes of the home countries. While the SWFs established in the previous century set de facto framework of the funds, with each passing year, new SWFs are being established and require more detailed and diversified analyses on the framework. In order to create a sounder literature on SWFs, each SWF deserves an analysis on its own since each country has a different economic, political and social setting. Following this line of thought, the next chapter, will analyze a recently established wealth fund in the context of political economy: Turkey Wealth Fund. Compared to the literature on wealth funds, it represents, as it is argued, a unique creation in terms of its financing and a political reasoning behind its foundation.

CHAPTER III
THE STATE-BUSINESS RELATIONS AND TURKEY WEALTH FUND UNDER JUSTICE AND DEVELOPMENT PARTY

TWF is established in August 2016, bringing along heated discussions and questions in domestic politics regarding its intentions. Since Turkey does not have budget and trade surpluses, the establishment of a wealth fund would be in vein, unless there are other reasons. Searching for an answer in international financial markets or global economy did not yield any results because, the fund has been inactive since its inception; that is, it has not engaged in any investment, project or agreements for three years. This chapter explores the domestic politics for the reason behind the TWF:

During 17 years of its incumbency, the JDP has led the regime to the lines of authoritarianism where the government gets to choose the winners and losers especially in the economy. As the economic situation has worsened, the government needed more authoritarian means to recover the failing image of the JDP via manipulation of the indicators and even the markets. As detailed here, starting from the aftermath of failed coup attempt, the neopatrimonial tendencies of the President Erdoğan outweighed the party authoritarianism that currently, the existing mechanisms of reward and punishment in economy are used to strengthen Erdoğan's hand. As the shares for the beneficiaries of the resource distribution gets smaller due to economy, Erdoğan's authoritarianism gets denser and requires new tools for the sustainability of the system. This chapter presents the patterns of the resource accumulation in the President Erdoğan's neopatrimonial regime and argues that TWF is the newly acquired method of the existing economic pattern of Turkey's political transformation under Erdoğan's ruling. The chapter demonstrates the argument in the following order: First, a brief discussion on the actors' influence over institutional change in Turkey is presented since it is what JDP has accomplished today. Later, the background of the political economy and authoritarianization under JDP ruling is laid out. Under four phases, the change in JDP into a clientelist party with an authoritarian power structure is shown. Later, the patterns of resource distribution through clientelist state-business relations and the resource accumulation of Erdoğan are explained under the authoritarianization of JDP administrations. For the last part, the TWF and how it is positioned within the neopatrimonalist setting is presented. It is concluded that TWF is a way of legitimization of the accumulation of the state resources as it provides further discretion. Its foundation alone summarizes the problematic systematization of the erosion of law and consolidation of political dominance. [20]

2.1. Preliminary Discussion on Actors and Institutional Change in Turkey's Political Economy

As it will be presented in detail below the next section, JDP managed the economic transformation process of Turkey and undertook a restructuring project of political economy via creation of new institutions and classes in society especially by 2010. The party's own performance certainly has the major role in its success but also, the circumstances in Turkey played a part in this achievement such as the degree of the influence of actors and institution-building. In order to lay out the context in which JDP took the charge, a short discussion on the existing actors and institutional change prior to JDP would prove useful.

During the Import Substitution Industrialization (ISI) era in Turkey,[21] the industrialists were the supporters of the applied policies. Military and bureaucracy

[20] The detailed work on TWF along with its legal framework, practice and intentions are reserved for the next chapter.

[21] In ISI era, as in other late-industrializing countries as well, the domestic market was protected by the state via high tariffs and quotas on certain products and low interest-rates for industrialists with

were also supporters, since the ISI represented a nationalist and state-centered policies and gains. Thanks to 1961 constitution, labor unions were strengthened and thus incorporated into politics on economy (i.e. DISK[22]). One of the achievements of ISI, according to Barkey, was the creation of a trust-base for private sector which was previously seen as “unruly and untrustworthy” (1990, p. 61). In terms of coalition-building, ISI yielded the RPP-JP coalition since public support was on JP in terms of private sector, while RPP wanted planning. In economy as well, the actors through different coalition-buildings created new institutions such as SPO[23] and TOBB[24] that would lead the system to be internalized and implemented. Yet, after Demirel changed the course of ISI in favor of private sector, power centers and coalitions underwent various changes through 1970s.[25] Finally, with the abandonment of Gold exchange rate system, country’s debts increased overnight which combined with the increased political instability has led to shifts in power centers and eventual change of system from ISI to export-led growth.

When developed countries left the Bretton Woods system and started to transform their economies, late-industrializers were still trying to develop a domestic market and industry with consumer durables. Turkey during 1970s was a conflict-driven country which was trying to solve its balance of payments problems without planning long-term disciplines for the economic structure. With the January 24 Decisions (*24 Ocak Kararları*), Demirel brought rapid change to the system; and the 1980 military regime adopted these decisions since they promised low inflation via solving the balance of payments problem. Also, in the long run, it would create a transitioning process from interventionist state on domestic market to outward-

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the aim of creating a national economy that was strong enough to produce the goods which are imported before and; later, to export them.

[22] *Devrimci İşçi Sendikaları Konfederasyonu*/ The Confederation of Progressive Trade Unions of Turkey.

[23] State Planning Organization (SPO) is one of the important institutions that established in ISI which was supported not only by RPP and military but also by international actors such as OECD.

[24] In 1950, TOBB (the Union of Chambers and Commodity Exchanges of Turkey) was founded to police the ISI policy conducts such as distribution of licenses for quotas.

[25] For example, the creation of TUSIAD (Turkish Industrialists and Businessmen’s Association) led to interest conflicts with ISO (Istanbul Chamber of Industry). Also, SPO (the bureaucratic power center), has turned into an institution which supported private sector’s needs.

oriented growth. The major opponents of liberalization policies were the Istanbul-based capital who truly benefited from subsidies and state protection during ISI era (i.e. Koç Group). Now that the deregulation was implemented, wages were negatively affected, and worker unions protested the policies as well as industrialists born in ISI. Biggest change in 1980s were the financial liberalization reforms initiated by Özal government that also supported by the IMF. In addition to Central Bank, private banks were authorized to do foreign exchange to a certain extent and the state-led interest rates were replaced by the market-determination. Also, the limits in front of external borrowing of government were removed which had lasting consequences[26] until the JDP managed to reverse. It revealed that Turkey has structural problems in banking and financial sectors in which government chose financial liberalization before fiscal discipline (Akyüz and Boratav, 2003).

By the time 2002 elections were held, this was the context of Turkish economy and domestic politics. In economy, fiscal discipline was skipped in exchange for short-term results of government policies and, thus, the negative impact of deregulation was felt more vividly. Linked to the changes in economic policies, domestic politics was unstable as certain, and highly effective, non-state actors in business were pressuring the government now that the tide has turned against them. Overall, the 2001 Crisis was the last straw of the uncertainty the country could held in terms of political economy. Hence, post-2001 crisis is marked by regulating role of state rather than deregulation. In this era, independent regulatory agencies (IRAs) gained true functionality, although they were established much earlier. Also, from 2001 to present, ideational factors, especially political Islam started to gather and settle around the established institutions. Further liberalization and political instabilities increased the budget deficit and damaged the state economic enterprises (SEEs) to a great extent. Yet SMEs (KOBİ) continued to grow as in the post-1980s era. In the post-2001 crisis era, it was accepted that unregulated market was prone to disastrous

[26] Due to high interest rates, the external debt reached a point where people lost trust on Turkish lira and turned to currency substitution.

price mechanisms and, thus, "division of labor between market and the state redefined in abstract terms" (Pamuk, 2012, p. 286).

Now that the state's role is highlighted as crucial in implementing neoliberal reforms, the government becomes even greater of an actor for restructuring of Turkish economy and political culture in general.[27] Considering that state's economic functions are articulated in its repressive and ideological apparatuses, in JDP era, the party (being the ruling fraction of the elite bloc) solidifies that the implemented policies benefit every class in the society through institutionalization of religion via rhetoric and media.[28] JDP has consolidated power and the state authority via creating a Muslim-Turkish bourgeois which was also in favor of the European Union (EU) and export-led growth in general. Thanks to this class creation, JDP deepened its political power within the other class fractions and; until that was achieved, the distribution of income was in favor of private sector. Yet, after that, JDP started to choose the winners and the losers in the economy. Especially after 2016, the party's outlook and its decisive role in political economy has turned into something even more extreme which all will be detailed below.

2.2. Turkey under Justice and Development Party: Trajectory of the Political Economy

The electoral victory of the JDP in 2002 was unexpected and certainly marked a new era in Turkish politics. Even though right-wing parties were dominant in politics especially in the last decade of 20th century[29], they were not able to consolidate as

[27] Institutional change in Turkey's political and economic development is done through the actors (state, business, workers, international actors); the relations among them determines the course of change or continuity both at international and national level.
[28] The strengthened class of workers in ISI era was dispersed via the repressive apparatus of state in 1980s while the business class in post-2001 was subordinated through ideological apparatus.
[29] Because that in ISI era, the aim was to create non-ideological and stateless society; 1980 coup has swept the socialist movements and the left was under significant pressure. In following years, conservative right-wing ideas became dominant within the bureaucracy and institutions. For the dominance of right-wing parties, *see.* Figure 1: Characteristics of Political Parties in 1990s in Appendix II.

wide electorate base as JDP did.[30] To this day, JDP has won elections consecutively and is still the dominant and ruling party in Turkey. Within seventeen years of JDP ruling, Turkish politics, political and economic structure, and the party itself have transformed: The government became an above-the-law authority via distributing the state resources to the partisan businesspeople in exchange for electoral victories; and the party became secondary to the President Erdoğan, who gathered all the resources and connections in him and gave himself and his family a neopatrimonial power. Finally, through TWF, the economic pillar of the absolute political dominance of Erdoğan would be completed as the fund enables full discretion to Erdoğan over any economic activity. To understand the transition into competitive authoritarianism and the proposed incorporation of TWF within the neopatrimonial setting of Erdoğan; in this section, these metamorphoses will be portrayed through the change in the party under four phases during its incumbency.

2.2.1. 2002-2007: A Center Right Party without the "National View Shirt"

Prior to 2002 parliamentary elections, Turkey was suffering from the aftermath of two devastating earthquakes in 1999, recurrent financial crises of 1994, 2000 and the famous 2001 being "the deepest economic crisis Turkey ever faced" (Çarkoğlu, 2012, p. 519), along with the inadequate economic policies and "rent-seeking behaviour" (Uğur, 2008, p. 3). "By the end of 2001, about 2.3 million people had lost their jobs and the economy had contracted in real terms as much as 8.5 per cent" (Çarkoğlu, 2002, p. 131). People blamed and punished the parties in the coalition government[31] in 2002 elections, "clearly attributing the responsibility for gross mismanagement of the economy" (Öniş, 2012, p. 139). JDP benefitted from the conjuncture more than any other factor that the economy and the question of economic prosperity for citizens surpassed the other issues such as political ideology or rivalry between parties at the ends of the spectrum. After the election, JDP not

[30] The JDP, which was formed in 2001, achieved not only to pass the electoral threshold but also to form single party government after a decade of coalitional governments.
[31] The Democratic Left Party (DSP, Demokratik Sol Parti), the Motherland Party (ANAP, Anavatan Partisi) and the Nationalist Action Party (MHP, Milliyetci Hareket Partisi)

only protected but also enhanced its conservative party image. Maintaining IMF economic program and pursuing the accession on European Union was crucial for these enhancements via creating a divergence from traditional pro-Islamist parties since JDP's predecessors were opposed to privatization and Western values of the "Christian Club."[32] In fact, as Özbudun (2006) argues, JDP diverted from Welfare Party (WP, Refah Partisi) and Virtue Party (VP, Fazilet Partisi) because having anti-secular rhetoric carries the risk of being closed[33] or facing military[34] opposition.[35]

In terms of economy, JDP supports open market economy which is realized by committing to the IMF Programme and keeping the regulatory agencies intact that, in exchange, started the recovery process and enabled Turkey to reestablish market confidence to some extent. Both for the economic stability and prevention of crony capitalism that ensued until 2001 crisis, JDP proliferated IRAs. The success in the economic realm, which led SMEs to vote for the JDP in the first place, enabled the party to re-structure both the domestic economy in further alignment with neoliberal reformation and its constituency to be based on an economic class. Indeed, the middle class was expanded through the socio-economic policies targeted the low income and less advantaged parts of the society. The "convergence of living standards between the more advanced West [Western part of Turkey]" and the so-called 'Anatolian Tiger' cities" (Acemoğlu and Ucer, 2015, p. 6) is an example of JDP's policies on closing the gap between the two ends of income spectrum and shaping the business class. World Bank's report on Turkey's Economic Progress states the JDP's sustainability as follows:

[32] Welfare Party leader Necmettin Erbakan's phrase for European Union. WP is the original predecessor of JDP which is openly anti-American and anti-European and followed Islamist discourse. After WP is closed down by Constitutional court, it was replaced by Virtue Party which was also closed in 2001. Then, JDP and Felicity Party (FP, Saadet Partisi) were established as two split branches of VP.

[33] Especially the "February 28 Process" showed that parties with anti-secular policies are bound to be closed down.

[34] Military is a weighted veto player in Turkey's politics. Yet, its influence was significantly undermined by the second JDP government.

[35] As Dağı (2008) points out, JDP rather defended the values of its predecessors under more universal notions such as human rights or democracy than promoting them under political Islam.

> "The 2000s not only saw the first extended period of uninterrupted one-party government since the 1950s, it also witnessed a declining role for the military in parallel with the growing political voice of the conservative Anatolian lower and middle classes – the main constituency for the ruling [JDP]. The increasingly internationally active Anatolian SMEs furnished support for pro-market economic policies, while the rise of an urban middle class both demanded and rewarded the government for the increased attention to public services. This explains how reforms were sustained and is at the core of the fascination with Turkey's mix of conservative social values and pragmatic, service-oriented economic management" (2014, p. 41).

Overall, the economy was the biggest anchor in JDP's sustained outlook as party. Successful management of the economic recovery and creation of a better fiscal discipline allowed for a room for government spending to be enjoyed by the JDP's policy agenda of choosing -something which Ecevit did not have. The core party members' previous experiences gained on municipal positions proved to be useful in managing the budget division and shifting "government policy towards greater emphasis on access to public services" (World Bank, 2014, p. 39). "Looking back to the economic performance of the JDP during the first two years in government, one could detect an interesting mix of commitment and pragmatism" (Öniş, 2006, p. 219). The party kept its promises on economy which enabled the incorporation of deeply fragmented society into one or two economic classes - rendering the ethnic, ideological and social differences secondary.[36] Sarıbay (cited in Özbudun, 2006), beautifully summarizes JDP's outlook in its first years as being "Islamic in name, liberal in practice, democrat in attitude, and westernist in direction" (p. 550).

2.2.2. 2007-2010: Conservative Democracy with a Reversal

Even though the JDP was a more liberal party in its first term who extended the economic reforms under fiscal discipline; from its second administration, some of the

[36] On the other hand, it refrained introducing some of its original policies regarding religious practices in political and social context, such as revoking the ban on headscarf (Özbudun, 2006), due to the risk of fragmentation and potential discontent of military and other proponents of secularism.

notions that defined the party was abandoned;[37] and the government started to extend its exertion of power over the rule of law and override the autonomy of economic institutions that were supposed to be independent or have a balancing effect.

Several major events in domestic politics[38] hardened the party's political position regarding ideology and populism. Linked to it, the credibility of military is challenged as the power relations has changed in the JDP's favor and the party became more established in domestic politics. Arose from the domestic support it had, the JDP followed a more autonomous line in foreign policy. Especially the relationship with EU shows the increased confidence of the JDP that the priority in foreign relations was shifted from EU to neighboring countries.[39] EU was a strong hook for the JDP's electoral base and also a vehicle in limiting the military's effect on politics[40] yet "as the party became more powerful and well-entrenched it had less need for support and legitimacy derived from the EU" (Patterson, 2008, p. 137). This explanation also bolsters that JDP was pragmatic more than Islamist or a conservative party. Accordingly, the same confidence and pragmatism were also seen in domestic economy and foreign economic relations that the increased domestic support enabled the party to veer its relations with the IMF to another

[37] First, negotiations with EU on accession process, which was a critical appeal factor for JDP and accelerated during the first period, slowed down due to Cyprus problem. Linked to it, the foreign policy priorities are diverted to the immediate-proximity regions rather than the West.

[38] First, the "e-memorandum" in 2007 regarding JDP's candidate Abdullah Gül for the presidential elections created a space for JDP to use the notion of democracy against military tutelage and call for a more democratic Turkey. In short term, it has resonated with the public, resulting an extended support for the party and Gül was elected for president. Later, in 2008, a closure case for JDP was opened on the premise of the party's violation of secular principles. It was critical for JDP as its predecessors shared the same fate and there was the high possibility of banishment from politics for every member of the party. This case clearly reflected the tension between JDP and secular powers (military and judiciary) yet just like e-memorandum, it favored JDP at the end. Although JDP came to the brink of closure, it got away with a decreased financial appropriation from state budget and, more importantly, the trial and the verdict led to more popular support.

[39] In JDP's 2007 election manifesto, EU membership process is mentioned in few places (and usually in retrospect) while the importance of having a multifaceted foreign policy and reaching out to Islamic regions was emphasized and the priority became the neighboring countries under "zero problems with neighbors" (p. 119) policy. For details, see AKP, 2007.

[40] For discussions on the JDP's EU leverage against military's power in politics, see. Duran, 2004, 2006. For a conceptual explanation on JDP being a policy opportunist and EU being a legitimacy-enhancer for JDP, see Uğur and Yankaya, 2008. Also see, for other instances of the use of EU as leverage over political power positions in general, Haverland, 2000.

direction. “The changing nature of Turkey–IMF relations also pointed toward shifting power relations in Turkey’s domestic political economy” (Öniş, 2012, p. 144) especially after the 2008 financial crisis as it had quite negative effects on economy.[41]

In economy, the GDP growth rate has lost its post-crisis momentum which means the government revenues that were acquired in recovery process was no longer to continue. 2008 Financial Crisis certainly affected Turkish economy along with politics.[42] The expectations on government’s solution and response to the crisis were divergent depending on the size and operation of businesses: Big companies that were operating on international financial level were affected more severely than the smaller ones and they wanted a solution that involves international institutions such as IMF. However, JDP decided not to cooperate with IMF and contrasted with TÜSİAD. The main reason under this move was, again, based on a pragmatic outcome that would give JDP “the ‘flexibility’ to deal with the crisis in line with the demands of the capital groups that formed its own support basis” (Oğuz, 2009, p. 2). Indeed, even before the crisis, JDP highlighted SMEs as the main target group for planned economic improvement programs in its 2007 Election Manifesto as they are the main constituent group of JDP in domestic economy. As expected, these events and policy changes impacted the party’s rhetoric and led to new ways to appeal to the constituencies. In this period, the pro-market constituency of JDP started to turn into specific, interest-based classes via the increased emphasis on nationalism and Muslim identity in rhetoric. In line with the argument, Öniş also points out that JDP’s economic course in these years was much more responsive to the “demands of its core constituencies represented by institutions like Independent Industrialists and

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[41]But in terms of public electoral support, the aftermath of 2001 crisis was not repeated as JDP managed to separate its own administration from the crisis and make it clear that the situation was beyond the country’s (and the government’s) capabilities. *Also see* Figure 2: Inflation and Growth in Turkey in Appendix II.

[42] Changing power dynamics in international financial markets towards rising powers (such as BRICS) also influenced Turkey to take bolder steps in foreign policy.

Businessmen's Association [MÜSİAD], which have traditionally maintained a more critical stance toward the IMF" (2012, p. 144).

With the increased electoral rate, JDP started to apply its reversal strategy by building a business class from its electoral base and utilizing government tools for resource allocation. Benefiting from the justification the crisis created, JDP capitalized on *restructuring* the economy via new policies. SMEs started to gain advantageous position while effects of other actors such as big businesses and business associations were decreased. But the real impact of the years of restructuring which would extend the government's authority over economy starts in the next period with the emphasis on the jurisdiction of certain IRAs and the media.

2.2.3. 2010-2016: Towards Full Scale Competitive Authoritarianism

In its third phase, the JDP has virtually removed all the major actors that were critical of JDP's jurisdiction via restructuring the institutions and their authorities through legal amendments.[43] Since the balancing and regulatory institutions were weakened along with the erosion of the rule of law, the government's distribution of resources to its loyal business class has become more visible, systematized and on a larger scale. In other words, the means that have been utilized so far via JDP became even more integrated to the party as the "impediments" in front of JDP's total capture were eliminated one by one. In addition, Erdoğan started to appear as the sole figure/controller behind the government and the party in this period.

The first major example of the weakening of the checks and balance institutions against the government's extended authority is the 2010 referendum even though it

[43] Although the state-restructuring was initiated as early as 2003 via amendments on certain laws covering economic regulations, the impacts of all the modifications done to law, raising a loyal business class and capital accumulation are felt strongly after the 2010 referendum.

was portrayed as modernization and democratization reforms by the JDP.[44] The proposed changes make the Constitutional Court and the Supreme Board of Judges and Prosecutors (HSYK) susceptible to heavy influence of the government and enable the placement of "cronies as judges" (Kalaycıoğlu, 2012, p. 6) since; the court was an impediment in front of arbitrary privatization which JDP uses as a mean for capital accumulation.[45] In addition, during the referendum campaign, the JDP's use of authoritative means such as discriminatory language,[46] pressuring NGOs to support the yes vote[47] and punishing some media corporation with tax penalty due to their critical stance against the JDP and the referendum showed "the government's determination to eradicate the judiciary's power to interfere in the privatization process" (Buğra and Savaşkan, 2014, p. 82). To briefly mention, another reason of the JDP's insist on weakening the power nodes was several political developments[48] that resulted in credibility loss of the party in public eyes with the raising criticism on the business connections of the government. As the amendments have passed and later the JDP won the 2011 parliamentary elections, both the military and judiciary were significantly weakened in a way that they would not constitute a challenge in front of the JDP (Özbudun, 2014).[49] Based on these events, Freedom House issued a

[44] The referendum was on constitutional amendments in which the ones proposing changes to the composition of the Constitutional Court, the Supreme Board of Judges and Prosecutors (*Hakimler Savcılar Yüksek Kurulu,* HSYK) and the structure of Higher Military Council held critical importance because they "were designed to reshape the structure of higher administrative courts and reduce the role of the military in Turkish politics" (Cizre, 2011, p. 57).

[45] In the past, the Constitutional Court overruled the Council of Ministers decision regarding the proceedings of the five privatization tenders which was critical for the JDP. For more information, *see* Buğra and Savaşkan, 2014.

[46] Erdoğan declared RPP, NAP and some media corporations a "coalition of evil" along with terrorist groups due to their objection to constitutional amendments. For his speech, see Şenyüz, 1 August 2010.

[47] Erdoğan asked TÜSİAD to state their position in referendum, he also asked TOBB and KAMUSEN to publicly support the yes vote. For more details on JDP's populist and authoritative rise, see Dinçşahin, 2012.

[48] The 2013 corruption and money laundering scandal; the Gezi Park protests which turned into a democracy fight against government due to police's use of force, tear gas and water cannon on protesters (see Moudouros, 2014; Özbudun, 2014; Yardımcı-Geyikçi, 2014) and the conflict between the JDP and National Intelligence Organization of Turkey (MIT) (see Çakır, 2015; Freedom House, 2014). Consequently, the criticism which exacerbated with the corruption scandal is enhanced to mass awareness and nationwide opposition to JDP in Gezi Park protests –resulting even harsher oppression and punishment by the government such as intimidation, mass firings and, even, imprisonment.

[49] Likewise, the system of HSYK is changed again in 2014 (Official Gazette no. 28926) and the council became *de facto* subsidiary to the Ministry of Justice.

special report for the democracy crisis in Turkey and stated that “the government is threatening the separation of powers by putting the judiciary, including criminal investigations, under direct control of the Ministry of Justice” (2014, p. 1). Finally, the economic deterioration on top of the political intensity affected the June 2015 general elections that the JDP has lost 60 seats in the parliament – an indicator of public dissatisfaction.[50] The worsening economy yielded more authoritarian measures in order for the government to appeal to the constituency by hiding the situation.

In the economic sphere, the institutions that have certain degree of independence from the government were neutralized via incremental adjustments on the related legislations throughout the JDP’s incumbency. One of the vivid examples of these invalidations was the IRAs which had administrative and financial autonomy,[51] and were previously revived by the first JDP government.[52] Yet, major limitations over IRAs’ autonomy was implemented via formal (circulars, decree laws and laws)[53] and informal (such as interference on the appointments to IRA boards) means because “resources created and controlled by the IRAs [were] too important as political tools to be handed to independent agencies beyond the control of politicians” (Özel, 2012, p. 123). Since the resource distribution to the cronies were done through some of the IRAs,[54] their capture was critical for the JDP. That is why after 2010, the IRAs are

[50] While in the general elections of 2011 JDP managed to win the majority of the parliament seats; in 2015 elections, its seats fell from 311 to 258 and the coalition government could not be formed. Although JDP has regained the parliamentary majority after Erdoğan’s call for re-election; the June election showed a dissatisfaction in public due to above-mentioned issues along with the economic stagnation. After 2011, GDP growth fell sharply from 11 percent to 4 percent in 2012 (World Bank Databank) and it did not raise to double digits again. Unemployment was also high as 10 percent in 2013. For further details, *see* Kemahlıoğlu, 2015.

[51] IRAs are established as a part of economic re-structuring. In order to increase the credibility on delegation and decrease the influence of politics. they are given financial and administrative autonomy. Hence, the decisions taken by the IRAs cannot be changed by the ministries (except judicial review). For details, see Sezen 2007.

[52] The IRAs were established before the JDP’s term, yet they were highlighted to solve the country’s credibility problem within the economic recovery program of JDP. For details, *see* Atiyas, 2012.

[53] Such as Circular on Economizing Expenses (2002), Law No. 5018, on the Management and Control of Public Finances (2005), Decree-law No. 643. And 649 (2011). *See* Özel, 2012.

[54] Among all, Public Procurement Agency (*Kamu İhale Kurumu*, KİK) and Privatization Agency are the critical IRAs for JDP’s privatization purposes and for the incorporation of the emerging economic entrepreneurs.

transformed into “extensions of various ministries” (Esen and Gümüşçü, 2018, p. 353). Via amendments on the legislation of KİK, for example, the JDP contracted the most of the tenders to politically-connected business owners[55] and “finally, a 2011 governmental decree practically ended the autonomy of KİK, along with all other IRAs, by placing them under the authority of the ministries” (Buğra and Savaşkan, 2014, p. 80). Just like the IRAs, the institutions such as Central Bank and Court of Accounts (*Sayıştay*) are also digested with political pressure and legal amendments, leaving the floor for resource distribution at Erdoğan’s discretion which will be discussed below.

2.2.4. 2016-Present: Erdoğan’s Neopatrimonialism and Capital Accumulation

After the coup attempt[56] in July 2016, the authoritarianization has reached its peak; and with the declaration of the state of emergency, the rule of law virtually became secondary to the JDP. More importantly, Erdoğan became the epitome of the JDP and the government as the coup attempt provided further legitimization. Finally, in the 2017 referendum, the *de facto* and informal political supremacy of the Erdoğan became formalized by the presidential system. Within this new setting, the TWF provides the perfect cover and convenience for Erdoğan’s capital accumulation as discussed below.

During July 15, Erdoğan managed to mobilize people to resist the military which was not seen before in Turkish history of military interventions.[57] Later, the generated feelings of solidarity and unity were turned into support for Erdoğan in particular.

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[55] For statistical data, see Gürakar, 2016.

[56] For information on events and developments during the coup attempt, see AlJazeera, 15 July 2017.

[57] Erdoğan rallied imams to make constant reminder of Turkish resilience and religion through mosques and encouraged people to go out on streets through media. *See*, TRT World, 18 July 2016;

Tremblay, 25 July 2016. *Also*, JDP used not only media tools but also Diyanet (Presidency of Religious Affairs, an official state institution) to denounce the coup attempt which showed that the state institution was co-opted to the party thanks to its competitive authoritarian feature. For details on cooptation and capture of state institutions, *see* Esen and Gümüşçü, 2017.

The JDP was already in control of most of the media through partisan TV channels and newspaper owners; and the access to media during this critical time made Erdoğan even stronger and legitimate on its authoritarian actions. Failure of the coup could have been an opportunity to carry Turkey to more democratic grounds since all parties, including opposition, took a stand against the coup and stood by the JDP in defending democracy. However, instead, the regime became completely in line of CA as democracy further retrograded.

> “While the coup in itself was indeed a blow to Turkey’s democratic credentials, Erdogan’s response also unequivocally failed the democracy test. Saluting the coup as a ‘gift from God’ and dusting off the spirit of the Ergenekon witch hunt, the crackdown on coup plotters has rapidly grown from the roughly 3,000 military officers detained in the immediate aftermath of the coup, to an all-out purge of any element of Turkish society that Erdogan might perceive as pro-Gulen” (Milan, 2016, p. 28).

As Gülenists and Fethullah Gülen[58] himself was accused of being behind the coup attempt by official resources, the rhetoric on cleansing the country from them became the major legitimization on almost every executive decision the government made.[59] Prosecutions were started against approximately half a billion people in total with the same allegations (“2 yıl süren OHAL'in bilançosu”, 2018). As such, the circumstances were incredibly favorable for Erdoğan to further his power consolidation since the “potential” or the “possibility” of having links to Gulen was enough for investigations to begin. In Özpek and Yaşar’s words, the state of emergency which declared after the coup attempt “has given free hand to [Erdoğan] to stigmatize opposition groups, journalists, academics and civil society organizations that are critical toward the government” (2018, p. 206).

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[58] Fethullah Gülen is a Muslim cleric who created a Muslim network that operated through schools, media channels and businesspeople over the years. Gulenist, the followers of Gülen, were closely connected to JDP which was not a secret until a conflict over power has occurred around 2013. After July 15, JDP started to target them to eliminate threat via profiling, mass firings and prosecutions.

[59] Immediately after the coup attempt, thousands of judges were detained due to alleged links to Gülen. During the state of emergency, several decree-laws were issued to lay-off and discharge hundreds of thousands of government employees on all sorts of branches. Lists of collective dismissals were published under a range of decree-laws (KHK) (no: 667-701) until the end of 2018. For the contents of the KHKs, see GazeteDuvar, 20 July 2017.

Within the local level, as well, some changes have been made on the executive level which created a *de facto* hierarchy of central governments over the local authorities. With the KHK no 674, Law on Municipalities (Belediyeler Kanunu) was changed in a way that if a mayor is suspended from duty due to a terror crime, the Minister of Internal Affairs[60] is given the authority to *appoint* trustee rather than selection made by the members of the provincial councils.[61] Also, under the same law, the authority and the resources of the Directorate of Investment Monitoring and Coordination (*Yatırım izleme ve Koordinasyon Başkanlığı*, YİKOB) which adheres to the governorate were greatly extended. In line with the governor, YİKOB has the authority and financial resources to make an investment or a public service to its registered city without the approval of the local governments or the related public institution (Keleş and Özgül, 2017). By accumulating the power under central authority, JDP tried to prevent possible objections that would come from the municipality regarding the dismissal of the mayor and created a hierarchical order in which the municipalities were placed under the Ministry's discretion. This is a serious alteration in the executive level that signals more disruptions on democracy.

The critical event that placed Erdoğan above the law is the 2017 Constitutional referendum, an important decision made "under state of emergency conditions, after the failed coup attempt and in an authoritarian political atmosphere that has been gradually increasing for more than half a decade" (Öztürk and Gözaydın, 2017, p. 210). The proposed change in the amendment package was the switch from parliamentary to presidential system which would vest more powers in the hands of Erdoğan.[62] The Constitution Article 104, for example, was changed in a way that

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[60] This authority is the minister of internal affairs in metropolitan municipalities and governors in other municipalities.

[61] KHK No: 674 is later enacted as the Law No: 6758 in 10 November 2016 by the parliament.

[62] Although the system itself does not automatically translate into increased authoritarianism, the already deeply polarized state of the country and recent government crackdowns with captured state apparatuses makes the president Erdoğan the only authority with immense power in the country.

would give the president neopatrimonial power in this authoritarian setting such as "to appoint and dismiss vice president/s, judges, ministers and senior public executives" (Quamar, 2017, p. 321). The increased pressure and the use of an incriminating language towards the opposition parties during the March 2019 local elections; and the unlawful decision on the renewal of Istanbul election was a result of the establishment of Erdoğan as the neopatrimonial power as the checks and balance mechanisms were removed.[63]

The neopatrimonialism of Erdoğan becomes relevant and convenient as the next step in the capital accumulation pattern of the JDP. Since the neopatrimonial systems "rely on the fiscal resources of a modern state to provide the resources that are distributed following a clientelist logic" (Van de Walle, 2007, p.2), Erdoğan must preserve the informal clientelist relations that are created under the JDP. Yet, the deterioration of the economy did not make the resource transfer possible to continue at its current rate and scale. The disagreements and divergence within the party also contributed to the gradual shrinkage of the resource distribution network into a concise group of Erdoğan loyalists and the consolidation of it in a single hand. That is why, a new tool which would be outside of checks and balances was needed under Erdoğan's discretion. The TWF was founded and transformed to meet this need. In other words, TWF was a part of the resource distribution mechanism which is ultimately designed to handle the economic pillar of the new neopatrimonial setting of Erdoğan within the already politicized and authoritarian rule. The next part discusses the resource distribution and accumulation methods that used before and the updates brought by the 2017 referendum within a pattern.

2.3. The Pattern of Resource Distribution and Accumulation

As Esen and Gümüşçü (2018) explains, the JDP government uses privatization and government spending "to assist loyal businesses capture a larger portion of public

[63] A short elaboration on the politics of the local election can be found in Appendix II; and titled as: A Brief Analysis of March 2019 Local Elections Within the Framework of Authoritarianism.

rent and to transfer private capital from dissident groups to pro-JDP businessmen" via taxation, debt collection, and trusteeship appointments (p. 354). Parallel with the authoritarianization, the used methods on resource distribution constitutes a pattern towards neopatrimonialism of Erdoğan.

First, the public procurement is used in order to consolidate a business class: many large companies known today (such as Çalık Holding and Sancak Group) became influential thanks to the partisan distribution of procurement tenders. As mentioned earlier, KİK (the critical tool in public procurement) became a handler for the JDP-business clientelist network as its autonomy was removed.[64] The famous pro-JDP companies, Makyol, Cengiz, Kalyon and Kolin conglomerates, took the first place in the World Bank's list of companies that received the most tenders from the state between 1990 and 2017 in which the Limak, Cengiz and Kolin's tenders from the state totaled $150 billion (Bildircin, 2018). Secondly, privatization is used extensively that the JDP governments privatized the SOEs worth of $54 billion in the first ten years (Sönmez, 2013). To ease the process of capital transfer and privileges to the loyalists from privatizations, the bureaucracy and any other monitoring institutions were sidelined, such as Constitutional Court previously discussed. Also, not only the partisan businesspeople but also the JDP officials benefitted from the changes made in the laws and regulations over the years. For example, in 2012, the mining license permits were given to the Prime Ministry during which the Erdoğan was the Prime Minister (Official Gazette no. 28325) and; the 36 out of 56 mines that are established until 2014 proved to belong to the JDP deputies, ministers or party leaders (Özay, 2014).

Just like KİK in government spending, the Housing Development Administration (TOKİ) operates as an important tool in privatization via creating and sustaining

[64] For details on the favored businesses in tender bidding processes, see Buğra and Savaşkan, 2014; Gürakar, 2016.

clientelist network for the JDP both in terms of capturing the job market[65] and the businesses (partisan constructions companies). Also, TOKİ is excluded from Sayıştay audit and reports only to Prime Ministry. Combined with the impact radius of all the construction projects, TOKİ becomes “the supreme government apparatus building and procuring numerous construction projects” (Gürakar, 2016, p. 95) to the loyalists and the JDP in order to secure the patronage relations and electoral basis. The way TOKİ was deployed in capital accumulation especially until 2010, carries similar resemblances to the proposed use of TWF (which will be discussed below); the only major differences are that the TWF is designed for Erdoğan family to enjoy in extended discretion; and today’s stricter economic conditions pose an obstacle to a TOKİ-like system that feeds every partisan businesses within the party framework.

Following the pattern of capital accumulation, the government’s resource distribution to partisan businesspeople became easier as the major actors were disabled. The figure below shows The Economist’s Crony Capitalism Index in 2014 and 2016. Ranked by the crony-sector wealth, the upwards change in Turkey’s ranking is clearly seen that in two years, the wealth of cronies is increased from approximately 3% to 4% of GDP in Turkey. In terms of world rankings, Turkey moved up from twelfth row to eighth and has even passed China in 2016. The increase in cronies can also be used as an indicator of the increased corruption under the ever-more authoritarian regime of JDP.

[65] Under the JDP, over 90% of the construction of housing is done by TOKİ which created an enormous labor employment. Also, TOKİ’s autonomy is extended when it is moved under the Prime Ministry in 2004. Thus, TOKİ by itself became a big sustainer for the capture and provision of partisan business; and for the distribution of resource and jobs. For TOKİ’s effect in the JDP’s electoral durability, see Marschall, Aydogan, and Bulut, 2016.

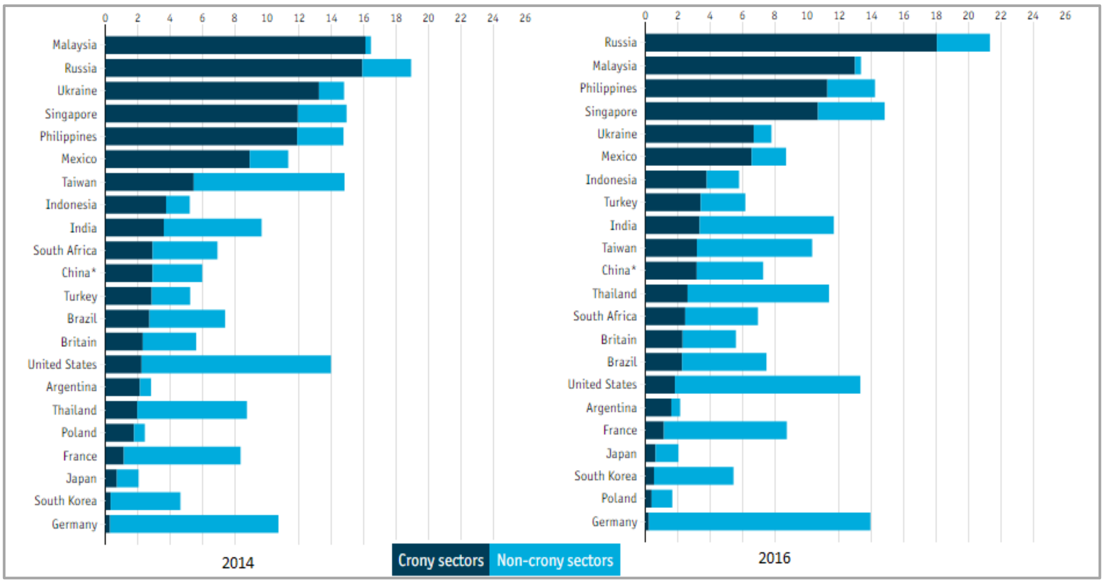

Figure 4: Crony Capitalism Index. Billionaire wealth as % of GDP. Ranked by crony-sector wealth. Source: The Economist, 2016.

Two other important tools within the pattern of capital accumulation and clientelist resource distribution before TWF are Saving Deposit Insurance Fund of Turkey (TMSF)[66] and trusteeships. During JDP incumbency, the TMSF is used a way to collect and sell the confiscated properties to the partisan businesspeople with privileges such as below market prices. For example, 158 million TL worth of land in Istanbul were given by TMSF without tender to the Aksüs Construction whose owner is a friend of Erdoğan family (Arı, 2019). By appointing the partisan people to the companies that are not subjugated by the JDP, the trusteeship is used as a way of punishing the critics of the government in almost all sectors such as banking, construction, mining, education and media.[67] In addition to punishment, the government used this situation as a mean of acquiring new resources. "Scores of companies with alleged ties to the Gülen movement were placed under bankruptcy

[66] The official institution which is responsible for the protection of the rights and interests of savings owners in Turkish banking system. It became increasingly relevant in the transfer of the properties of the banks went bankrupt to the Treasury in 2001 crisis. Even though it was only collecting the properties (companies) that were related and affiliated with the bankrupt banks, after the coup attempt, TMSF is also authorized to sell or liquidate the confiscated companies which immensely increased the discretion, of the institution and, hence, the JDP.

[67] For details and examples, see Esen and Gümüşçü, 2018.

trusteeship after the failed coup attempt" (Esen and Gümüşçü, 2018, p. 360) along with real-estates such as schools, hospitals and charitable foundations which, then, transferred either to TMSF[68], to Directorate General of Foundations (Vakıflar Müdürlüğü) or to the treasury. The trustee appointments by the government, on the one hand, became a threat of punishment in private sector especially to the government critics; on the other hand, it was a rewarding tool in public sector for the partisans and loyalists as they kept their stand with JDP and provided electoral support. According to a mayor candidate of PDP[69], Necati Pirinççioğlu, the trustees appointed to Diyarbakır transferred the state's real estate and properties worth of hundreds of millions Turkish lira to the partisan foundations and institutions, notably to TÜRGEV ("Kayyum Talanı," 2019). In addition, the JDP who used tax penalty as a pressuring mechanism to the anti-JDP media also used tax amnesty for the partisan media in order to create a mainstream media of JDP.[70] As these newly emerging media bosses kept a close line with JDP, their tax penalties were secretly pardoned or reduced.[71] With all the instruments above, the government increased its accumulation of resources and decreased the voiced criticism.

2.3.1. The Neopatrimonial Regime

From the beginning, the JDP's economic policy was based on "boost[ing] the consumption without increasing production" (Subaşat, 2017, p. 16) which was made possible by capital inflows[72], privatizations and "unofficial external resources" (p. 17). Under the JDP, the economy's seeming recovery and growth was based on the boom of construction sector with heavy reliance to external financing. Construction, although it met the housing needs of the country, is a tricky sector in its impact on

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[68] As mentioned earlier, the companies and banks under TMSF are liquidated and sold to loyal businesspeople in favorable terms in exchange for the provision of electoral support.

[69] People's Democratic Party (*Halkların Demokratik Partisi*).

[70] In fact, the reshaping of media started much earlier with the loyal businesspeople's purchase of the tenders of the media and news channels which previously were bankrupt and put under TMSF.

[71] The tax penalties (608 million Turkish Lira) of pro-JDP newspaper Yeni Şafak and channel Kanal A were erased as it is alleged. See Erkuş, 2014.

[72] See Figure 3: Official and Unofficial Sources of Turkey in Appendix II.

growth because it is unproductive as it does not have export value. After JDP came to power, “The share of investment in GDP, export growth rates and domestic savings declined considerably [while] the share of consumption increased” (Subaşat, 2018, p. 14) which means the consumption was not backed by the investment and value the country produces, but via external borrowing. Outsourcing and external financing can only sustain the economy so far and the signals of the deterioration were seen after the sharp decline of GDP growth rate in 2013. The government’s answer to dangerous deficits was more privatization of the state resources since the ulterior motive is to keep the system of resource distribution intact for electoral guarantee. In 2017, the opposition MP Sezgin Tanrıkulu’s parliamentary question regarding the sales of SOEs were answered that between 2002 and 2017, $60 billion worth of income is generated from the privatization of SOEs which included 10 ports, 81 power plants 36 mining site and so forth (Parliamentary Questions, 2017a). In 2017 alone, the total value of the 324 tenders was 2.434 million TL (Parliamentary Questions, 2017b). As the economy keeps getting worse, the income generated by all the means listed above was exhausted to a great extent. Finally, the establishment of TWF in the late 2016 fits into the scene as a final attempt on sustaining the created state-business relation in the current economic system, where the remaining SOEs would be placed.

The Turkiye Wealth Fund Management Company[73] was established in 2016 to safeguard $200 billion worth of assets under the Law No. 6741 (Amendment of the Law on the Establishment of the Turkish Wealth Fund Management Joint Stock Co.) “with the aim of furthering development and increasing economic stability in Turkey by the efficient and productive management of public funds, increasing the value of existing public funds to build a stronger Turkey for future generations” (TWF, 2018). Its main sources, as indicated in the official website, are 1) assets which were transferred to TWF by the High Board of Privatization (Özelleştirme Yüksek

[73] Technically the company is separate from the fund. The established entity is the TWF Management Company which has been given the authority to establish the fund. Yet, since there has not been any action or issue that requires the distinction, both the fund and the company is referred to as TWF.

Kurulu) and Turkish Treasury; 2) surpluses of income and assets of public entities within public sector which the Council of Ministers decides to transfer to the Fund; 3) funding and sources which are provided from national and international money and capital markets; and 4) other resources. In terms of management, TWF is directly linked to the prime minister, as well as the appointment of the administrative board.[74]

So far, everything in terms of the fund's ambitious aims, domain and determined activities seems fine as this is what other countries do especially after the 2008 crisis. Yet, TWF has some fundamental structural challenges for its viability and functionality. The major complication is that Turkey does not have current account surplus. It is an important issue since the surpluses of income and assets has been listed as the second major resources of the fund. Turkey does not have, for example, oil to create a surplus in revenues which can be channeled to the wealth fund. Nor Turkey has trade surplus; its net export is always in negative values. Just the opposite, Turkey is facing a constant current account and budget deficits.

This fundamental gap within the TWF logic asserts that the reason for the establishment is something else. As previously mentioned, it is argued here that TWF is a part of the pattern of resource distribution and it was deemed necessary for the economic pillar of the neopatrimonialism of the President Erdoğan. Just like TOKİ, the TWF is a non-transparent big initiative which has Turkey's biggest SOEs in its portfolio. Other than the board of directors, there is not any information regarding the location and organizational structure of the fund. The key problem is that the fund is excluded from the Sayıştay auditing. Instead, a private audit was listed which was not revealed to the public when the first report came in. In order to prove the point that TWF has a political motivation behind its foundation, some of

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[74] The inscriptions "prime minister" and "cabinet council" in the legislation regarding the foundation of TWF have been changed to "President" with KHK No:703 in 2 June 2018. Also, the implications of this change will be discussed in detail in the section "Legal Framework" under Chapter Three: Turkey Wealth Fund and Competitive Authoritarianism.

the issues are briefly discussed below. The detailed examination and analysis on the above-the-law status of the fund is presented in the next chapter.

Transparency is one of the biggest issues as the fund has regulatory exemptions such as taxes and fees. The fund and its subsidiary organizations are exempt from income tax (Resmi Gazete, 2016, p. 12423). Moreover, certain important laws in finance do not apply to TWF. For example, it is exempt from the regulations of Privatization Law no. 4046 which means that TWF can “directly dispose of its stake in various companies through bilateral negotiations without following the privatization and bidding process” (Altan, Başgöz and Gülüm, 2017, p. 5). It is also exempt from Capital Markets Law no. 6362 which means TWF can bypass important procurement processes such as mandatory public tenders. KİK was already turned into an affiliate to the government, yet the selective public tender distribution would be reinforced once more via TWF. For the same issue, the fund is also not subjected to Public Procurement Law no. 4734 and State Procurement Law no. 2886. Finally, it is exempt from Competition Law no. 4054 so that it can acquire enterprises without prior Competition Board Approval. There is not any institution like TWF which has this level of immunities and exemptions. Even the Treasury of the state is subjected to the Sayıştay audit. Also, the stated resources for the fund does not account to an exact resource. The third clause, in particular, indirectly indicates foreign borrowing which is problematic as follows: The Treasury is the official institution that carries out the foreign borrowing through bonds and bills. By giving the same authority to TWF, a competitive environment is inevitable. Consequently, the amount of foreign investment would not increase; they would be divided between the treasury and TWF – resulting in no benefit from TWF. More importantly, this clause shows that in order to finance the government projects, the TWF will operate mainly for the search of external borrowing which became more difficult due to the wrong economic policies followed by the JDP governments. As such, since its resources mainly comes from non-liquid assets, in the long run, the fund will have to sell some of its assets or use them as collateral to be able to fund its mega projects such as infrastructure building or construction of the biggest airport in İstanbul (Altan, Başgöz and Gülüm, 2017). Also, to note, its function of external borrowing by showing collateral completely separates TWF from other SWFs in the world.

The fund has similar (and even more) powers as Treasury and it has the same jurisdiction in financial markets and domestic economy. With this regard, the Economist Mahfi Eğilmez points out the past practices that are similar to TWF. He reminds the “Irad-ı Cedit” fund and shipyard treasury that was established under Selim III. and states that the separate funds did not help Ottoman finance but accelerated the collapse of it (Washington Hattı US, 2017). Similarly, the public resource pool experiment of Erbakan coalitional government also proved to be non-functional and required other funding to support it. Looking at the given parameters, SWF undertaking of Turkey also have the same structural weaknesses which strengthens the argument that TWF is not built for the economic recovery but to finance and sustain the patronage relationship under the neopatrimonialism of Erdoğan.

Another issue is the vagueness of the legislation that officiates TWF. In the Official Gazette Bill there is no clear indication of legal and budgetary monitoring process. It only announces that there will be three bodies (Independent audit, expert review and parliamentary review) which will write annual reports on TWF’s activities. Also, there is no information on how exactly these processes of monitoring will be governed. Without a proper framework, it can be quite misleading since the administrative board of TWF is appointed by the prime minister himself and the (vaguely) indicated monitoring agencies are also governmental bodies. Thus, the fund is almost immune to any public supervision or prospect. It already has immunities against some articles of the Public, Private and Commercial Law, as presented above. Its board members are all known affiliates of Erdoğan. In fact, TWF had its first conflict within the networks that the chief executive of the fund, Mehmet Bostan, has lost its job in September 2016 and Himmet Karadağ, head of the Borsa Istanbul stock exchange, became the temporary acting chairman. Also, Yiğit Bulut, the advisor of Erdoğan, was one of the 3 board members of TWF between 2016-2018. These non-transparent behaviors signal the pattern of capital accumulation that the fund operates like a blocker of budgetary supervision as it was the case in TOKİ example. Turkey’s important public assets and, thus, key revenues are already transferred from budget to the fund; and “this will only lead to new financing opportunities for some pro-government businesses… mainly in big infrastructure projects” according to Turgay Bozoğlu the economic adviser of Kılıçdaroğlu (Intellinews, 2017).

Looking at it from the viewpoint of neopatrimonialism, the current situation in Turkish politics checks out in becoming more authoritarian under the President. As it is the case in both traditional and modern patrimonial systems, the systematic clientelism and creation of a loyal business class have already been achieved in the previous JDP governments. Following that, the presidential system is accepted in Turkey which is an important contributor to the neopatrimonial tendencies of Erdoğan: Because, the president who has already established his informal patron-client relations when he was prime minister, guarantees the formal linkages for the same aim without the same degree of accountability that the “democratic executives face in mature democracies” (Van de Walle, 2007, p. 2). Accordingly, until now, Erdoğan had both the legimization that comes from presidential system; and the system for the stability for the status quo that comes from resource distribution mechanism. What is updated with the establishment of the TWF is that now, Erdoğan utilizes the fund as the fiscal pillar of his new status as the neopatrimonial and accumulates the resources under his discretion through the fund.

Overall, then, TWF fills a certain point in the process of capital accumulation in the hands of the neopatrimonial. Being an above-the-law fund, the process of the collection of the state resources under the TWF automatically puts them under the discretion of Erdoğan who has little-to-zero accountability considering the current state of the government and the JDP. Until now, the selective distribution of the resources was the main driving force behind the creation and maintaining of the loyal business class of the JDP. However, with the presidential system and the economic downturn combined, the resource accumulation rather than the distribution is accelerated via the president. Although the distribution is a vital part of the mechanism that ensures the sustainability of the incumbency of the JDP, the accumulation of resources under the Erdoğan Family is prioritized ever since the

Erdoğan became the embodiment of the party and, even, the government. That is why the fund becomes a critical and a sensitive issue for the government and for Erdoğan.

2.4. Conclusion

The detailed trajectory of the JDP regime shows that as the government highlighted the redistribution of resources among the partisan businesspeople over production of goods, the economy worsened. The more the economic situation soured, the more the government turned authoritarian because, the economic indicators are vital for the sustainability of the JDP governments. Indeed, in retrospect, JDP has come to power at the time of an economic crisis (Çarkoğlu, 2002; Insel, 2003; Öniş, 2006; Öniş and Keyman, 2003). By the same token, when the economy stagnated after 2013, it was reflected on the June 2015 elections although JDP managed to recover from that by calling for a snap election in November. After that election, exponential increase on the authoritarian features of JDP is observed as explained above.

The major step for the JDP's power consolidation is the erosion of the rule of law via weakening the authorized bodies and competent institutions through restrictions and appointments. As explained above, through referendums that each are targeting an influential actor in domestic politics, the JDP eliminated the balance mechanisms over the jurisdiction of the government, enabling further arbitrariness and authoritarian tendencies for the incumbent party. As the autonomy of IRAs, for example, were sidelined by the amendments and *de facto* regulations, the possibility of reversals of those implementations were eliminated by decreasing the judiciary's impact on economic governance.

Thanks to this political and economic context, the JDP has found the basis for the creation of a loyal business class which would reinforce the incumbency of the party in exchange for resource distribution. Finally, adding the country's economic performance and its correlation with the ballot box into the equation, the regime becomes ever more authoritarian, i.e. accumulation of power in the hands of Erdoğan rather than the party. Accordingly, the urgent need for denser authoritarianism resulted in neopatrimonialism of Erdoğan and new mechanisms of capital accumulation rather than the resource distribution – like TWF. The TWF is an above-the-law institution which has the most critical state assets and it is bound to the full discretion of Erdoğan under no economic oversight. The detailed analysis on the incorporation of TWF into the capital accumulation and resource distribution patterns is presented in the next chapter.

CHAPTER IV
TURKEY WEALTH FUND WITHIN COMPETITIVE AUTHORITARIANISM

TWF is one of the latest attempts of the JDP to accommodate and sustain CA in Turkey. Moreover, it is the personal instrument of the president to be used in capital accumulation. The establishment of a wealth fund was deemed necessary as the worsening of economy became apparent even to its loyal business class in a way that the harm cannot be prevented. As Esen and Gümüşçü states, “the pie [which once was big enough to benefit the party, the loyal business and the voters of JDP] is shrinking” (2019, unpublished). Since the system of JDP’s authoritarianism is established on the economic interdependence between the party and the created new economic class, the economic downturn undermines all segments of the society, including the incumbent authoritarian party. Considering the impact and the use of the economic voting by electors as a mean to reward or punish the governments in Turkey, any disruption to the system’s economic function would be fatal for JDP and the president Erdoğan in particular. That is why the establishment of TWF can be considered as an attempt to install another mechanism to salvage the remaining riches of the country via an unmonitored “parallel treasury” to keep the CA intact without going further along the line of complete authoritarianism. This aim of JDP can be extracted via the uncharted position of the fund. From the drafting law of its establishment to its portfolio and board of directors, the fund has a special status which was not given to any institution or even to prime minister. In this chapter, the singularity and oddness of the fund in its status and function will be presented with relation to neopatrimonialism and the President Erdoğan; first in the given autonomy to the fund and second via its functions and activities.

4.1. The Organizational Structure

TWF's unprecedented autonomy is the main basis for the argument of the thesis. It is because of the status of the fund that the power can be accumulated under one source which is designed in such a legally protected fashion that it can avoid from any supervision without facing prosecution and can conduct business on its own without seeking approval from related ministries and authorities. In addition to its legal privileges, the people who run the fund are not subjected to legal obligations which the other officials in similar institutions/funds do. Thus, the management of the fund has equal impact on the economy of Turkey and on state-business relations via inclusion/exclusion technique (such as which business groups will take part in mega projects and bidding process). This part explores the autonomy of TWF under two subheadings: The Legal Framework and The Board of Directors.

4.1.1. The Legal Framework

The problems of the TWF start even before it was established, in the bill drafting process. The legislation process began after the failed coup attempt in 2016, under the state of emergency. The first draft law about TWF came under the omnibus bill called "The Draft Law Regarding the Amendment of Certain Laws and Decree Laws and on the Establishment of Türkiye Wealth Fund (*Türkiye Varlık Fonu Kurulması ile Bazı Kanun ve Kanun Hükmünde Kararnamelerde Değişiklik Yapılmasına Dair Kanun Tasarısı 1/750*). The establishment of such a big entity which would harbor Turkey's most important assets was drafted under an omnibus bill (*torba yasa*)[75], along with other issues such as labor unions and individual pension system. The omnibus bill, especially in the context of legislation on economic regulations becomes critical which would make more sense after a brief explanation on the legislative body of the Turkish public finance and the practice under JDP administration.

[75] Bills which are presented as a package under one draft law which requires only one-time voting process. There is no limitation on the number of drafts in one omnibus bill. It can go up to 70-80 draft laws.

4.1.1.1 Brief Explanation on Public Finance and Legislation under JDP

According to the Public Financial Management and Control Law Public Financial Management and Control Law No.5018, the control and audit of the Turkish public finance is done by the Parliament and the Sayıştay. The PBC is the main authorized body in the Parliament who discusses and legislates the bills regarding any fiscal drafts. According to Constitution Articles No.162 and 164, the main duty of the commission is to negotiate and deliver the annual appropriation act. In accordance with the legislated budget, Sayıştay later audits all public administrations based on the legality; makes cost-benefit analysis and creates audit reports to be submitted to the PBC. Due to its extensive job description and jurisdiction, PBC is the commission with the most workload in the parliament and adopts most of the draft laws in total. Accordingly, Sayıştay and the PBC are central for legislation and financial supervision in Turkey. This fact is highlighted as their authority is challenged or ignored with the establishment of TWF which will be discussed in next section.

Although the omnibus bills are not new[76], there are not many examples of them in Turkish history. Yet, after JDP came to power, the practice on legislation has changed in a way that the use of omnibus bills is increased for the sake of accelerating the process of legalization.[77] The problem with omnibus bills is that the articles and issues in the package do not get to be voted on its own;[78] and they are not category sensitive.[79] Considering at least one draft would be related to budgetary

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[76] The first omnibus law in Turkey is made in 1970, under the name of financial law (Finansman Kanunu) which regulates multiple amendments to whole range of taxation procedure.
[77] The connoisseurs of law and scholars presented concerns on the transformation of the art of legislation into a law-making factory or just a notary. *See* Ekşi, 2013; İba, 2011; Sav, 2014.
[78] Though the articles are discussed and voted whether to be in the draft or not; at the end, only the draft law is voted to be legalized. This leads to an impasse and confusion within the MPs as they vote the package as whole instead of declining the articles which they do not see fit or accepting them.
[79] Every draft related to any subject field can be included in one bag law.

or fiscal issues; almost half of all the law drafts come to PBC. That is why PBC becomes critical in legislation.[80] As seen in the Figure 1, the ratio of passed laws as omnibus to the all passed laws is increased to 43% since 2002 which means every second law is passed under a package law in 2017.[81]

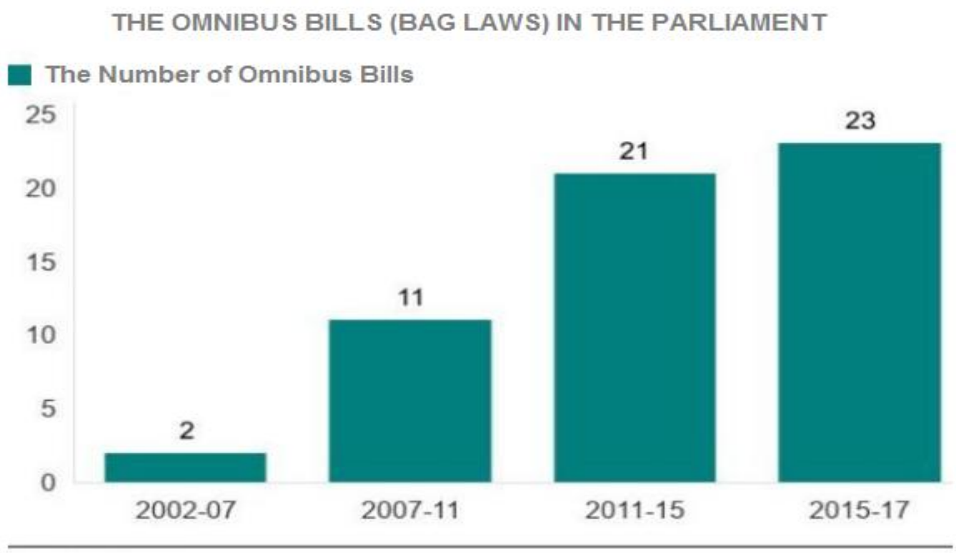

Figure 5: The Number of Omnibus Bills in the Parliament. Source: Erem, 2017.

Note: The last period covers from November 2015 to November 2017.

Overall, the law-making under JDP ruling became the omnibus law era where the legislation makes hundreds of amendments, abrogations or additions under one law. Recalling that JDP has achieved its political economic goals via altering and modifying the laws rather than breaking them; by implementation, the PBC holds a great deal of importance to JDP and this legislation process. Before it was changed in 2018, PBC had 40 members in which 25 of them must be from the incumbent party; and the rest 15 from the opposition parties. The structure of the commission

[80] Because, the commission has so much to do in so little time on a diverse field/range of laws even though its responsibilities are limited to budget and finance.
[81] See Figure 1: Omnibus Bills to Total Passed Laws Ratio in Appendix III.

enables the political influence especially for the incumbent as the decisions made with the absolute majority vote of the members present.[82]

Even though the commission is structured to be in favor of the incumbent party, the establishment of TWF was not brought to the parliament on its own; it came to PBC under the omnibus draft law 1/750 to be discussed and decided less than 45 days.[83] Considering the given setting of the legislation and the composition of PBC, the fact that the fund's establishment law came under the omnibus bill still doesn't make sense; as the government has the power to easily pass the establishment of TWF. This shows that even before it was established, the government did not want TWF to draw public attention and media.

4.1.1.2 The Establishment Process

The first issue with the draft is that the meeting started within 24 hours of the call and submission of the draft to the members which is against the Parliament Bylaws Article 26 and 36.[84] The draft law 1/750 contains 75 Articles in which the 8 of them is related to TWF and the rest covers all range of amendments and introductions such as revoking Hakkari and Cizre's city statute due to security reasons; decreasing the minimum investment condition to be exempt from VAT[85] in construction sector; and repealing some part of the verdict of the Constitutional Court's decision and delaying the invoke date. Despite the extensiveness of the omnibus bill, the commission was asked to deliberate the day after the referral of the bill to the members. If these

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[82] The one third of the total members is the quorum for the commission meeting. In that, the vote of absolute majority is enough to pass the bills and draft laws. Exception is made to the draft laws on development plans.

[83] Deliberation period for commissions is set to 45 days in GNAT Bylaws Article 37.

[84]ARTICLE 36- Committees may start debating the matters referred to them only forty-eight hours after the date of referral.

ARTICLE 26- Committees are called for meetings by their chairpersons. The call is announced at least two days before the meeting, unless otherwise is necessary.

[85] Value added tax (KDV in Turkish).

articles were to be independent government bills instead, all of them would have 45 days to be discussed and deliberated. Judging by the content and rush on passing 73 articles show that the priorities of the government is not in line with proper and necessary law-making in a quality legislation process; but with legalizing whatever seems to be in benefit of the administration.

When the negotiations started, several members of the commission objected the discussion of the establishment of the TWF under this draft together with other issues. The motion tabled by the opposition MPs to omit the TWF from the draft to be deliberated on a separate bill was accepted by the commission, though the remaining clauses were passed even though there were suggested amendments that are not compatible with the constitution. Later, a new bill named Draft Law on Establishment of the Türkiye Wealth Fund and on the Amendment of the Value Added Tax Law (*Türkiye Varlık Fonu Kurulması ile Katma Değer Vergisi Kanununda Değişiklik Yapılmasına Dair Kanun Teklifi 2/1319*) was submitted to the committee and the PBC meeting was held in 15 August 2016.

The first and foremost, regarding the rules of procedure, the given draft on TWF violates the Constitution; and according to the Parliament Bylaws Article 38, it is the responsibility of the commission members to check "the compatibility of the government bill or private members' bill with the letter and spirit of the Constitution *in the first place*[86]" and in the case of incompatibility; the commission "rejects them without holding the debate of the articles." Because of the absence of a clause stating the monitoring agency for the fund, the bill is not compatible with the Constitution in terms of procedure. Accordingly, the bill had to be rejected yet, the members' objection to the procedure was ignored. Likewise, there is no written opinion of the Central Bank on a subject that greatly concerns the public. The absence of opinions from relevant institutions, organizations and professionals shows the lack of due

[86] [emphasis added].

diligence regarding the fund even during the preparation phase. The board member from RPP, Bülent Kuşoğlu, presents these concerns by saying “the fact that this fund, which should be in compliance with the law and the right, is not made properly in the beginning, is a huge deficiency and a mistake” (PBC Minutes, 15 Aug 2016, p.3) and asks for a re-evaluation of the compatibility with the constitution. Yet, like all other similar requests, Kuşoğlu’s motion was rejected by majority of votes and the discussion moved forward with the content of the articles.

In the discussion of the overall content as well, the members, especially the opposition MPs, repeated their concerns once again by asking the commission to reconsider the draft.[87] Within the 40 members in the commission, 14 of them asked for a motion for disqualification due to various reasons such as the vagueness of the stated macroeconomic objectives, the status of the fund, clauses against certain laws and improper wording of the document. The rest of the members, though approving the document in voting process, did not state any reasons why the fund should be established.[88] Moreover, the then Minister of Economy Nihat Zeybekçi’s presentation on behalf of government not only did not resonate well within the commission, but also the insistence on the legalization of the draft *as it is* created even more suspicion towards the government’s motives. Some most simple and main questions such as the exact role and status of the fund were left unanswered by the minister. Still, the general content was approved by the majority and the discussion moved to the clauses. After series of intensive deliberation, most of the clauses were passed with redaction. Yet, the fundamental problems both in the letter and the content which were repeatedly stated by the opposition members were not solved since the voting process does not require consensus. None of the written or verbal motions of the MPs from opposition parties were accepted while all of the motions

[87] For the motions tabled by members of the opposition parties such as Bihlun Tamylıgil, Erhan Usta Musa Çam etc., *see* PBC Minutes, 15 Aug 2016; PBC Minutes, 16 Aug 2016.
[88] Except, two members from JDP. Cemal Öztürk and Şahap Kavcıoğlu stated their positive expectations from such a fund yet, could not respond to the stated concerns of the opposition.

from JDP MPs were agreed by the Ministers and accepted in the commission.[89] Finally, the law draft 2/1319 is approved by the commission and submitted to plenary with 12 pages of the commission's report and 20 pages of the dissenting opinion of the three opposition parties. The parties stated similar dissents such as the lack of justification for the establishment, unconstitutionality, unrealistic objectives and creation of an above-the-law status for the fund:

> "As a result, although not opposed to the establishment of a national asset fund, we declare that we are against the Law Proposal because; a) there is currently no surplus of funds for our country to evaluate, b) the law proposal carries elements contrary to the public financial management reforms carried out in our country, c) the internal consistency of the law proposal cannot be ensured in spite of all efforts in the Commission, d) the proposal has the potential to neutralize fiscal and monetary policy, and e) it contains the flexibility to drive our country into an economic adventure" (PBC Commission Report no. 413, p. 39).

Likewise, the stated objectives were not evaluated in the plenary either. The 18 motions that submitted by RPP and PDP were all rejected in the plenary discussion and the draft is legalized as the law no. 6741.[90]

4.1.1.3 The Powers and Duties

TWF is referred to as a corporation which is subjected to private law. However, it is affiliated with the Presidency, and the regulations regarding the fund are published in the official gazette. As it will be presented in the next section, the fund is not monitored or audited by Sayıştay; but it consists of the biggest public assets of Turkey. Thus, from the beginning, the status of such as big fund before law is

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[89] In the PBC Minutes related to TWF, (10, 11, 15, 16 August 2016), there are total of 23 motions from JDP all of which are accepted. There are 11 motions from RPP and PAP all of which are disagreed by the ministers and rejected in the commission. For the transcripts, see the minutes in the official website: pbk.tbmm.gov.tr.

[90] The Law Regarding the Amendments on Certain Laws with the Establishment of Türkiye Wealth Fund Management Joint-Stock Company (*Türkiye Varlık Fonu Yönetimi Anonim Şirketinin Kurulması İle Bazı Kanunlarda Değişiklik Yapılmasına Dair Kanun)*.

confusing which is problematic as it creates a loophole in the accountability of the state assets management.

The sources of the fund are defined in the establishment law as follows:

> a) The institutions and assets which fall within the scope and program of privatization and decided by the High Board of Privatization to be transferred to the Turkish Wealth Fund and cash surplus decided by the High Board of Privatization Fund to the Turkish Wealth Fund,
>
> b) The surplus income, resources and assets which are in the possession of public entities and institutions within the public sectors and which are decided by the President to be transferred to the Turkish Wealth Fund or managed by the Company,
>
> c) The funding and sources which are provided from national and international money and capital markets by the Turkish Wealth Fund without seeking for the permissions and approvals stated in the related legislations,
>
> d) The funding and sources provided through other resources in addition to the money and capital markets (Law No. 6741, Art. 4).

The first unclear point is that the assets that will be transferred from High Privatization Board are already under the privatization program which is JDP's one of the favorite programs. Why those assets must be in TWF? There is no clear answer for that. Secondly, the surplus income of state assets does not specify any sourcing. There is not any limit/quota nor there a regulation that delineates how to collect these surpluses. Moreover, the cash surpluses of public institutions are already counted under the budget income of the state since the surpluses go to the Treasury. By relocating them, the income that comes from the High Privatization Board will decrease. In other words, TWF will not contribute to the budget; just the opposite, it will be increasing the deficit. The clauses c and d written above not only do not specify anything but also, they create a gray area for the fund to operate in. The phases “without seeking permissions” and “other resources” are open for interpretations. For example, they could be interpreted as extended authority over other related institutions and in case of a corruption allegation, they can be used as legal excuses.

Related to resources, one major missing point in the fund's establishment law is the spending of the acclaimed resources. Where all these resources are going to be channeled and spent? There is not any stated planning for the source management. It seems to be deliberately left out. Because, if a planning was stated, then, there had to be a detailed audit mechanism delineated as well. Thanks to not stating where to spend and how to evaluate the sources, taking TWF outside of Sayıştay audit became much easier.

In terms of audit, the fund is only subjected to independent audit. The defined audit mechanism is called triple control mechanism. According to law, an auditor from public institutions is going to check and file reports on the activities of the fund. These reports will be "audited by at least three central auditors in accordance with independent audit standards *who will be appointed by President*" (Law no. 6741, Art. 6/2). The final annual reports will be sent to the PBC to be discussed.[91] Leaving the legal aspect of the exemption from Sayıştay aside to be discussed later, exclusion of the fund from the authorized auditing body seriously hurts the accountability. On top of that, the central auditors in the proposed system are chosen by the President which is a critical obstacle in front of financial transparency. The fund, which has the public sources worth billions of dollars, is to be audited by such an unclearly defined and seemingly rigged system of independent audit. Considering the JDP MPs' insist on leaving TWF out of Sayıştay audit during legislation process, the fund is aimed to be function as something else rather than a wealth fund.

The first audit report of the fund for the 2017 financial year[92] has come to the parliament in October 2018. However, the report was stamped as top-secret which means the content was not shared with the public. In a closed session without the

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[91] On audit, there has been heated discussions on parliament during legislation process. In the first draft, there was not any proposed audit mechanism. The only mention of audit was a clause stating that the fund shall not be audited by Sayıştay.

[92] The given report only covers 2017. However, the fund is established on August 2016. Thus, there is a 4 months of time period which is left unaudited.

record of parliamentary minutes, the PBC has discussed the reports. According to the PBC member Abdullatif Şener, there were serious problems with the report. The first round of inspection is done by an inspector of the Prime Ministry and a treasury controller. As Şener explains, these people do not have the qualifications enumerated by the law. There is only a week between the date which the auditors were tasked and the date of the report; which is less than inadequate to audit TWF and create a report. For the low quality of the report, Şener states:

> "I have been involved in months-long investigations of even a private company as a tax inspector. A report written in two days for TWF is unacceptable. What was the financial status of the assets before brought to TWF? Are they creating surplus or deficit? The fund was going to take loans by showing collateral on these assets; how much credit has been taken? If taken, where the credits are spent? There is not any information. As I understand from the report, an incredible amount of effort has been made in order to hide the operations of TWF from the parliament and from the law." (Karabağlı, 2018).

The most recently, in March 2019, Capital Market Boards of Turkey (SPK, Sermaye Piyasası Kurulu) made an amendment in the Communique of Investments Funds Principles (III-52.1) which regulates the limits and process of investments made by the investment funds. The section "Restrictions on Assets and Issuers to Be Included in the Fund Portfolio" (Article 17/d) is changed as follows:

> "The limitations contained in this paragraph do not apply to the capital and money market instruments issued by the Central Bank, Ministry of Finance, Treasury, mortgage finance institutions *and Turkey Wealth Fund*[93]. However, investment in a single entity within the scope of this clause, shall not exceed 35 percent of the total value of the fund" (Official Gazette no.30712).

As this communique regulates, the investment funds can only use up to 10% of the fund's capital resources to a single investment when buying bonds. This limit is set by the law in order to protect the funds from risky investments. The only exceptions were the stated trusted institutions such as Central Bank. With the amendment, TWF is added to the exceptional category. In other words, mutual funds will be able to purchase as many of the money and capital instruments to be issued by TVF as they

[93] The amended part is emphasized.

wish. This means that TWF is “preparing for serious borrowing” (Pamukoğlu, 2019). As it will be presented in next sections, the fund was trying to find loans overseas for a while. So far, the search did not yield any noticeable results. This amendment, which the officials insisted on being “just a technical update” (“Varlık Fonu’ndan Açıklama”, 2019), paves the way for TWF to release debt instruments to be bought by big entities such as the Unemployment Fund. When TWF starts selling these instruments, the public assets in the portfolio will be shown as collateral since, the fund does not have any other assets.

There are at least two problems with the amendment: First, the planning for the income to be generated via debt instruments is not announced. How TWF will spend the money from the sales of market instruments? Besides, so far, none of the events or updates is disclosed with public via the official website. The second problem lies within the need for this amendment. The Treasury already undertakes the public borrowing via stated methods. Why TWF is given the same authority and liberty on the issue? Economist Yalçın Karatepe explains that the real reason is to make it look like that the deepening economic crisis is being prevented by the government as the worsening situation hurts JDP the most.

> “The only way out from the economic downturn is public spending. The recent changes enable TWF to do public borrowing, but the debt will not be counted under the public debt stock. Budget discipline will seem to continue to be implemented. While the figures look good, they will borrow from the parallel Treasury and use that money. In other words, they have invented a way to raise the debt of the state without increasing the debt of the state” (Aktan, 2019).

4.1.1.4 The Exemptions, Privileges and Immunities

The law of establishment, five pages long document, gives a detailed list of the laws which TWF would not be subjected for two pages. As listed under the title of Exemptions and Exceptions (Art. 8), there are 23 laws and statutory decrees in which

TWF is exempt along with many other exceptions.[94] Among them, the most critical one is the audit clause. According to the Constitution Article 165, "the principles governing the scrutiny of the accounts of public institutions and partnerships where *more than half of the capital directly or indirectly belongs to the State*, by the Grand National Assembly of Turkey, shall be regulated by law [emphasis added]" and the authorized body on behalf of the parliament is the Sayıştay.[95] Yet, the founding law of TWF states that:

> "The Company and the Turkish Wealth Fund and the companies and sub funds to be incorporated by the Company are not subject to the legislations, implementations and restrictions applied for public institutions and establishments which hold more than half of the capital or which are incorporated with a private law, including state economic enterprises" (Law no. 6741, Article 2/2).

By stating that the fund is not subject to Sayıştay supervision, TWF law is unconstitutional. On this issue of illegality, all the opposition parties were in agreement which is a rare occasion in Turkish Parliament. Nevertheless, the fund is established on August 2016. Due to non-addressed audit issue, 125 MPs from RPP appealed to constitutional court demanding the cancellation and suspension of the provisions of certain articles of the TWF law on the grounds of contradiction with the constitution. In 2018, the Constitutional Court has rejected the appeal by majority vote. The explanation of the rejection is far from a legal justification as it states normative explanations such as: "It is no doubt that the jurisdiction on behalf of TWF is given to the Council of Ministers to finance and resource the economy in a swift fashion which does not mean illegality" (AYM, 2018). With this decision, the Constitutional Court contradicts with its prior duties which, then, proves the dominating effect of Erdoğan's increasing authoritarianism once again. For a fund which harbors the most valuable assets of Turkey, independent audit is accepted as adequate to replace the officially authorized body.

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[94] For the full list of laws, *see* Table 1: The List of Exempted Laws in Appendix III. *Also see*, Table 2: Some of the Exemptions of TWF and Related Laws in Appendix III.
[95] According to Constitution Article 160.

Another exemption is the tax liabilities and the costs. The fund is exempt from corporate tax, income tax, real estate tax, insurance transaction tax, contribution rates, and even from the smallest costs such as stamp costs, registry fees of any sort and all proceedings fees. Combined with the lack of Sayıştay audit, the tax exemptions turn the fund into an exclusive economic club. Also, the state's income, in which the considerable amount is constituted from taxes collected from the assets[96], would be in loss since the biggest public assets are now owned by TWF. In 2017, then-Finance Minister Naci Ağbal stated that the exemption only applies to the TWF Company and the sub-funds to be incorporated and does not apply to the transferred assets as they were still subject to related tax laws ("Naci Ağbaldan Varlık Fonu Açıklamaları", 2017). Yet, the real estates are not mentioned in the statement. In the law, it is clearly stated that "TWF (…) [is] exempted from (…) the real estate tax for the real estate *owned*, land registry and cadastre revolving fund costs regarding the *real estates purchased and sold* (…)" (Law no. 6741, Art. 8/2).

To elaborate further, the issue regarding the tax exemptions signals even more critical problems from a political perspective. Being more than just a tax exemption, the total of 2.3 million m^2 land under TWF portfolio are completely removed from any sorts of monitoring system with the stated article. Prior to transfer, the 46 lands were leased to private sector (for 49 years) for the construction of tourism facilities (Alp, 2017). The mentioned lands are mostly super-luxurious resorts from the touristic landmarks of Turkey such as Bodrum or Kuşadası and the owners of the resorts are subsidiaries of the partisan businessmen such as Limak Group, Rixos, Özkaymak Hotels and Göçay Tourism.[97] These companies became extremely rich thanks to JDP's loyal business class building; winning almost all biddings of the big

[96] According to 2017 state taxation data, %12 of the corporate tax comes from the top 100 public institutions. In 2017, Ziraat Bankası was the second record holder with 773 million Turkish Lira paid as corporate tax (Revenue Administration, 2018).
[97] Göçay Tourism's super-luxurious holiday resort is transferred to TWF. This company is one of the partners of the Otoyol Yatırım İşletme A.Ş. along with Nurol Holding, Özaltın, Astaldi S.p.A. and Makyol Construction. Each of these companies own %27 share from the Osmangazi Bridge Project which is a controversial mega project due to provided Treasury guarantee for the contracting companies. Like other companies mentioned above, these also generated their wealth via JDP's favoritism and corruption in tender bidding processes.

public projects. The transfer to TWF means that these companies no longer pay their rents to state. Instead, they are going to pay it to TWF which is not regulated nor announced even in the official website. As can be seen, the extensive authority given to TWF is not related to its economic function; it aims to pave the way for increased corruption and authoritarianization under Erdoğan.

Overall, the fund incorporates many contrasts and suspicions within its given powers and the structure. The authority of the fund, which provided by the exceptional legislative processes, makes the fund almost above the law and independent from any institutions or authorities. The only group of people who decide the limits of the operations and resource management are the board of directors. As it will be seen in the next chapter, the board is far from being an operating group of experts who works for the development of the overall economic conditions via TWF.

4.1.2. The Board of Directors

The composition of the board members, as well, reflects the pattern of the incumbent party's competitive authoritarian behavior in dominating the economy via partisan placements. According to the Law no. 6741 Article 2/7, the board members of the fund are appointed by the prime minister and the only requirement for board members is having at least 5 years of experience in one of these sectors: economy, finance, law and banking. The absence of a specified selection process creates a room for suspicion of favoritism and politicization of the fund. Accordingly, in TWF case, all the appointed directors are either directly linked to JDP and Erdoğan or later gained various positions and titles in exchange for siding with Erdoğan in defending the success of economy and rule of law under JDP.

The first appointees as board of directors were announced as Mehmet Bostan, Himmet Karadağ, Yiğit Bulut, Kerem Alkin and Oral Erdoğan in November 2016. Mehmet Bostan, the chairman of TWF, worked in the banking sector and came to be known for his studies regarding the development of Islamic banking while working in Vakıfbank. Later, he rose in ranks within different sectors but the critical jump in his career is his appointment to the Directorate of Privatization Administration (DPA, *Özelleştirme İdaresi Başkanlığı*) as Chairman with a surprise enactment[98] published in Official Gazette in February 2016.[99] Bostan being the Chair and ruling the DPA portfolio seems convenient because JDP was looking alternative ways for capital provision to its mega projects and privatization was being highlighted once again (Süzer, 2016). In November, the same person is appointed as the new chair to the TWF while continuing his job at DPA. Considering that the assets of TWF are transferred from DPA,[100] the appointment of Bostan to both positions with only eight months apart seems rather deliberate. A year later, however, the chairman Bostan was removed from duty without a proper explanation.[101] Although the sudden termination of his duty is claimed to be caused by the conflict between the President Erdoğan and then Prime minister Yıldırım (Ant, Harvey and Karakaya, 2017; "Erdoğan ve Yıldırım Arasında Varlık Fonu Savaşı," 2017), Erdoğan mentioned the poor performance of the fund as the reason by stating that TWF could not deliver the expectations and reorganization was imminent ("Cumhurbaşkanı Erdoğan'dan Açıklama," 2017). Regardless, the assignment and dismissal of Bostan (and all other board members) happened overnight as a result of party politics of JDP; rather than a decision of economic rationale.

Replacing Mehmet Bostan, Himmet Karadağ was appointed as acting chairman to TWF in September 2017. Since 1998, he has worked in different positions in Ministry of Finance and affiliated institutions such as Revenue Administration. In 2012, he became councilor in SPK. Later, he came to be known with his statements and supports on Islamic finance and banking.[102] In January 2016, he became the

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[98] Signed by the President Erdoğan, then Minister of Finance Ağbal and then Prime Minister Davutoğlu.

[99] The Government Order no 2016/131 in Official Gazette no. 29636.

[100] The share owner of the assets that are under TWF portfolio is still PDA.

[101] The decision is published under the Trade Registry Gazette. Because, the fund is technically a joint-stock company and the decisions regarding these companies are not listed under the Official Gazette.

[102] *See* "İslami Finans sektörünü destekliyoruz", 2016.

deputy chairman in SPK and three months later he was appointed to Istanbul Stock Exchange Corp. (BİST) as the chairman of the executive board. He strengthened his approach towards Islamic finance via BİST and took several initiatives to create a framework for Muslim financiers such as "Islamic finance products" ("Tüm Bankalara İslami Finans Ürünü", 2016). In January 2017, Karadağ was appointed to TWF as a board member; at the same time, the shares of BİST in treasury were transferred to TWF per the cabinet decree (Official Gazette No. 29970). Thanks to his accomplishments regarding Islamic banking during 2017[103]; Karadağ replaced Bostan and became the acting chairman of TWF in September. Since TWF did not announce any active investment or projects in its first year, the promotion of Karadağ was not performance related. Instead, his active efforts on praising Erdoğan on social media[104] and defending the economy models under JDP in various partisan media channels[105] earned him the position in TWF.

The President Erdoğan's same arbitrary decision applies for other members. Yiğit Bulut is the chief advisor and one of the closest people to the President Erdoğan. Even though he wrote serious criticisms about Erdoğan before,[106] he changed his political stance in favor of JDP when he became the chief editor in Habertürk TV in 2010 and became a true partisan of Erdoğan in particular. He even earned himself reputation of "the bouncer of Erdoğan" ("Son Fedai: Yiğit Bulut", 2015) with his sensational statements and conspiracy theories.[107] In 2016, he was appointed to board of directors of TWF even though he did not have 5 years of experience in the above mentioned sectors. Kerem Alkin is an economy professor who is notorious for his correspondence with Berat Albayrak which contains compliments and allegiance

[103] For his initiatives on Islamic Development Bank, *see* "BİST'e islami ortak geliyor", 2017. *Also see*, for BISTcoin, Şengül, 2017.

[104] *See* his personal Twitter account, *e.g.* his tweet regarding Islam and Erdoğan, Karadağ, 2018.

[105] *See* "Borsa'dan 100 FETÖ'cü attım", 2016; "Dolarda 4 TL'den korkan VİOP'a gelsin", 2016.

[106] For his column in Vatan Newspaper in 2008, *see* Bulut, 2008. *Also See* "Bulut'un Görmek İstemediği Yazısı", 2016.

[107] *See* Gibbons, 2013; "Erdoğan'ı telekinezi yöntemiyle öldürmeye çalışıyorlar", 2013; "Bulut: Dünyada 2,5 Lider Var", 2013.

letters[108] to Erdoğan family. In addition, there are mails that refer to opposition journalists and columnists with condemnation and request to take necessary measures against their “vitriolic and poisoned statements” (K. Alkin, Personal Communication with Berat Albayrak, 26 May 2016). Alkin’s appointment to TWF after the emails were leaked created reaction as it seemed as a reward for “loyalty to Erdoğan” (“İtaat Et Rahat Et”, 2017). Like Alkin, Dr. Oral Erdoğan is an economy and finance professor who is, currently, the rector of Piri Reis University. Before he was appointed as vice-chancellor to the university in 2013, he worked as an advisor in Ministry of Transport, Maritime Affairs and Communication. DR. Erdoğan also worked as board members of BİST and ASELSAN (Military Electronics Industries). He attended Bulut’s TV programme in TRT as guest speaker in the past and frequently attends Bloomberg TV as financial analyst. Based on his praises and statements regarding the President Erdoğan and Albayrak, he is known to be close to government and a partisan of the Erdoğan.[109]

When the board of directors above is replaced in September 2018 with a presidential decree (Official Gazette No. 30533) none of the existing members were on the list of the new board. What is more, some of the members, in time, have quit their other positions[110] as well while others were appointed to higher positions in different sectors. Mehmet Bostan has resigned from PETKİM[111] in November 2018 in which he worked as a board member. A month later, he was appointed as the independent board member to the same board of directors. Himmet Karadağ resigned from his executive director position in BİST in August 2018. Allegedly, his resignation was forced by Berat Albayrak as he desired to appoint one of his close friends from when he was the minister of energy and natural resources (“Borsa İstanbul’da Sürpriz

[108] The letters were leaked by Wikilieaks as a part of Berat Albayrak’s mailbox on 5 December 2016.

[109] Note that with the deepening inner-party conflicts within JDP, it is important to make separate notes on the partisans of JDP as a party and fans of Erdoğan family. Because, it makes a difference on rewarding and promotions that are given to the people within government cadres.

[110] As it is claimed, some members were forced to resign.

[111] Holding company which works in petrochemical industry.

İstifa", 2016). As it will be presented later, the person who was appointed as the new director to BİST (Prof. Erişah Arıcan) is also included in the new board of directors of TWF in September 2018. After being replaced, other three board members of the TWF were "promoted" to more prestigious positions. Three months after the termination of his job at TWF, Kerem Alkin was appointed as the new secretary general to Turkish Exporters Assembly[112] (TİM, n.d.) which is an institution known to be close to the government. Oral Erdoğan became the board member of Turkish Shipbuilders' Association (GİSBİR) and provides consultancy to ASELSAN, İstanbul Chamber of Shipping, and various other chambers of industry. In addition to his job as the chief advisor of the president, in October 2018, Yiğit Bulut is appointed to Economic Policies Board[113] which is one of the nine newly established Policy Commissions of Presidency (Official Gazette no. 30560).

With the presidential decree no. 163, the board of directors is changed as shown in Table 1. Not only the members are replaced but also the composition of board of directors is renewed as new positions are added. The previous presidential decree (no. 162) has changed the structure of the TWF as such that the fund is now affiliated with the presidency whereas it was affiliated with the prime minister before. Immediately after this structural change, the president has appointed himself as the new chairman to the fund. As strange as it sounds, now, Erdoğan (as the chairman) will answer to himself (as the President) regarding TWF. The situation in TWF strengthens the argument that the president Erdoğan shows further neopatrimonial tendencies along with authoritarianism as he specifically increases his family's hand and not the JDP's per se. Another supporting instance is the appointment of his son-in-law Berat Albayrak as the deputy chairman while one of the most famous loyalists of Erdoğan, Yiğit Bulut, is removed from the list. This shows that TWF is now turned into a family company. Accordingly, the key to

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[112] TİM, Türkiye İhracatçılar Meclisi in Turkish.

[113] For the full list, see Table 3: The Policy Commissions in Appendix III.

inclusion lies within the family and not in the party affiliation even though it started as such during previous JDP governments.

Table 3: The Old and New Board of Directors of TWF.

The Previous Board		The New Board	
Title	**Name**	**Title**	**Name**
Acting Chairman	Himmet Karadağ	Chariman	President Recep Tayyip ERDOĞAN
Board Member	Yiğit Bulut	Deputy Chairman	Minister of Treasury and Finance Berat ALBAYRAK
Board Member	Oral Erdoğan	Managing Director	Zafer SÖNMEZ
Board Member	Kerem Alkin	Board Member	Salim Arda ERMUT
		Board Member	Hüseyin AYDIN
		Board Member	M. Rifat HİSARCIKLIOĞLU
		Board Member	Prof. Dr. Erişah ARICAN
		Board Member	Fuat TOSYALI

Erdoğan was not happy with the performance of the fund as it could not make any investment in its first two years. This is shown as one of the reasons of Erdoğan's selection of some of the new members from the industry-leading figures. Even though there are people who have a proven track record in their field, all appointees either served the Erdoğan family in the past or have a strong connection both with the party and the loyal businessmen which would be useful in managing the mega projects. Also, these appointees are already located in high ranks in various public institutions and associations. Instead of adding new names, circling around the same people during almost all JDP administration shows that authoritarianization reached an even further point from pure authoritarianism to capital accumulation under Erdoğan family. The new board of directors supports the argument: To briefly mention the affiliations of other members to Erdoğan Family, Salim Arda Ermut is Bilal Erdoğan's close friend from high school. In 2015, he was appointed as the chairman of the Presidency Investment Office of Turkey which is an office established by Erdoğan in 2007 and became famous with the nepotism.[114] In the past, Ermut was one of the advisors of Erdoğan when he was the mayor of Istanbul.

Hüseyin Aydın is a close name to Erdoğan himself. His career in banking sector rose in line with the JDP governments. He worked in different positions in Halkbank until 2011 in which he was promoted as the CEO of Ziraat Bank and the chairman of Bank Association of Turkey (TBB, Türkiye Bankalar Birliği). Being a loyalist to Erdoğan, Aydın faced criticism about the allegations of channeling money to JDP via Ziraat Bank (Çölaşan, 2013).

Rifat Hisarcıklıoğlu is the chairman of TOBB since 2001. In a politically complex country like Turkey, a person on the same position for almost 20 years is either rare or he/she is politically protected. Hisarcıklıoğlu is a rather opportunist who stands beside JDP government for now. Just like Bulut, he was a critic of Erdoğan when he was prime minister yet, later, became a supporter.[115] Even though he does not release statements of loyalty as Bulut does, Hisarcıklıoğlu provides his support and services to the government via TOBB in order to keep his chairman position in it. TOBB, the umbrella organization for the businesspeople in Turkey, acts as a proxy of the government[116] such that, it is called as the "backyard of JDP" by the media (Yıldırım, 2014; Ardıç 2019). His speech in 75. ordinary annual meeting of TOBB clearly reflects his partisan behavior as the majority of the speech consists of praising Erdoğan and explaining JDP's success.[117] Most recently, his company[118] is given customs duty exemption, VAT privilege and 55% tax reduction as the

[114] About Ermut, *see* "Gazeteciye Rüşvet Tweeti Soruşturması", 2015; "Yatırım Ajansı'nın Yeni Başkanı", 2015. For more information on the nepotism in Investment Office and the full list of favored, *see* Erboz, 2014.
[115] For the change in his behavior towards the government and Erdoğan, *see* Toker 2016. *Also see,* his opportunist approach, Ardıç 2019.
[116] See "TOBB, AKP'ye verdiği desteği kendi emeklisine vermiyor", 2018; "AKP'nin arka bahçesi TOBB da IMF dedi", 2019.
[117] For the full speech, see TOBB, 2019.
[118] He is the partner in the company called Nuh'un Ankara Makarnası.

company entered the May 2019 investment incentive list[119] of the Ministry of Industry and Technology (Şimşek, 2019).

Prof. Erişah Arıcan is a partisan academician in Marmara University who is notoriously known for her e-mail correspondence with Berat Albayrak regarding his dissertation. In the leaked e-mails dated September 2010, it is seen that Arıcan and her assistants were writing Berat Albayrak's doctorate thesis and asking him to "review the thesis on general and let [her] know of the missing parts" ("Another Scandal from Berat's Box", 2016). She was also doing secret profiling on academic staff based on their political and religious affiliations to report to Albayrak as it was revealed in e-mails as well (E. Arıcan, Personal Communication with Berat Albayrak, 19 April 2016). As expected, Arıcan is selected as board member in BİST in May 2016. In September 2018, she was appointed to TWF board of directors. A week later, she is elected as the chairman of BİST which became vacant after Himmet Karadağ's sudden resignation.

Fuat Tosyalı is a businessman who is one of the movers and shakers in iron and steel industry. He only started to be known in politics-wise after he was appointed to TWF in 2018. Even though there is not much information, he and Tosyalı Group in general are known to be close to the government and have weight in MÜSİAD. In the last local elections, Tosyalı's brother was JDP's candidate in Iskenderun who won the mayor seat. Tosyalı Group is one of the businesses which became incredibly wealthy during the last JDP governments. Comparing the Forbes 100 Richest People Lists, in 2012 Fuat Tosyalı was not on the list whereas in 2019 he is the 20th richest person in Turkey with the worth of $1.2 billion (Forbes, 2019). He is a member of the executive board of Foreign Economic Relations Board (DEİK) in which Hisarcıklıoğlu is the vice chairman.

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[119] In the list, there are several other partisan companies such as Albayraklar Group, İhlas Holding and Doğuş Food which are subsidized with up to 80% tax reduction, total VAT privilege etc. for the full list, see Official Gazette no. 30803.

Zafer Sönmez works in banking sector who has worked in credible foreign banks such as Royal Bank of Scotland. There is not enough information regarding his affiliation with the government before his appointment to TWF. Yet, after that, he drew considerable attention with his statements on the wealth fund and government. In Uludağ Economy Summit, he stated that they were doing something that they do not even know and defined TWF as “the most exciting thing happened to Turkey in finance after 1923” (“Varlık Fonu Genel Müdürü”, 2019). Two months after the renewal of the board, a directive published in Trade Registry Gazette which gives Zafer Sönmez and Berat Albayrak unlimited signature authorization[120] with permanent representation (Toker, 2018). This means that Albayrak and Sönmez will choose and determine the directors and executive board of the big public-financed institutions which are under TWF portfolio – such as Ziraat Bank, BİST and Turkish Airlines (THY). Another note on Sönmez is that he also works for the Khazanah Nasional Berhad[121] and whether it creates a conflict of interest is not elaborated.

The changes made in the structure and composition of the board of directors shows that Erdoğan turns TWF into his personal company which is full of Turkey’s biggest public assets and cannot be monitored. The people appointed are the previous key names in economy who either gain wealth or promised reward by proving their loyalty in the process of authoritarianization of Turkey. In Erdoğan’s Turkey where the partisans who are not elected as MPs are made deputy ministers (Şimşek, 2018); the appointees to TWF are not different. Indeed, none of the board members are new

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[120] According to the directive, the signature authorization is divided into four different degrees as A, B, C and D. The one that is given to Albayrak and Sönmez is the A group.

[121] Malaysia’s Sovereign Wealth Fund. In 2018, along with the other national SWF, Khazanah Nasional was the subject of a national and global corruption scandal in which the then prime minister was the perpetrator. It affected the result of the elections and the ex-prime minister’s trial is currently in progress. For more information, *see* “Najib’s Government Tapped Funds” 2019.

names, they are part of the "super bureaucrats"[122] who were closely related to JDP before; and sided with Erdoğan family as the inner-party conflict is growing.

4.2. The Activities

So far, the legal issues and the authority given to TWF shows that the fund has a unique place within the domestic political economy. The written objectives and the visions of the fund look promising in theory. Yet; everything about the functioning of the fund is problematic and conflicts with almost every core practices and regulations stated in related laws. Likewise, the application of these exceptional laws is not different. The fund is active since 2016 yet, it has not initiated any projects or investment. For three years, there has been series of regulations, sudden changes which do not amount to any activity in the financial or capital markets. The next sections present the portfolio of the fund and an elaboration on what has the fund done for three years of its existence.

4.2.1 The Portfolio

The entire portfolio of the TWF consists of the transferred public assets since there has not been any initiated project or investment by the fund. The first decision on asset transfer to TWF has sparked public debate because the Council of Minister's decision is published in the repetitive numbered Official Gazette in the middle of the night. According to legislation, the Official Gazette publishes new issue every day with a distinct number. Only in emergency situations there can be another publication with the same number. However, on 5 February 2017, the repetitive issue is published specifically for the decisions regarding TWF which are about several SOEs and real estates to be transferred to TWF. Since TWF decisions are not classified as emergent, the effort shown to publish them swiftly indicates the government's wish to minimize the public attention on TWF.

[122] As it is stated as such, super bureaucrats are the winners of the JDP's competitive authoritarianism. They are given critical positions and are benefitted from government resources one way or another almost in all JDP governments. For other names in super bureaucrats, *see* Şimşek, 2018.

The assets transferred from the High Privatization Agency and Treasury based on the Council of Ministers Decisions no. 9756 and 9758; and the values of the assets are listed as follows:

Table 4: Turkey Wealth Fund's Portfolio.

Name of the Asset	Percentage Owned by TWF*	The Active Size of the Assets in 2017 (TL)
Ziraat Bank (Ziraat Bankası A.Ş.)	100%	302.8 Billion
HalkBank (Halk Bankası A.Ş.)	51.11%	187.7 Billion
Turkish Airlines (Türk Hava Yolları)	49.12%	47.6 Billion
Türk Telekom	6.68%	25.7 Billion
Turkish Petroleum (Türkiye Petrolleri A.O.)	100%	23.1 Billion
Petroleum Pipeline Company (BOTAŞ)	100%	11.3 Billion
Borsa Istanbul (A.Ş.)	100%	7.8 Billion
Post and Telegraph Organization (PTT)	100%	3.9 Billion
ÇAYKUR	100%	3.2 Billion
Kayseri Sugar Factory (Kayseri Şeker Fabrikası A.Ş.)	10%	2.5 Billion
Eti Mining General Directorate (Eti Maden)	100%	2.5 Billion
National Lottery (Milli Piyango) and Turkey Jockey Club (Türkiye Jokey Kulübü) **	100%	1.1 Billion
Turkish Maritime Enterprises (Türkiye Denizcilik İşletmeleri)	49%	220 Million
TURKSAT Satellite and Communication Company	100%	175 Million
46 real estates that belonged to the Treasury***	100%	n/a
TOTAL ACTIVE SIZE OF TWF	617.406 Billion	

Source*:* (Sayıştay, 2018; TWF, 2019; Taşar, 2017).

*The 100% refers to the all shares that were in possession of the Treasury. The public shares of the assets are not included.

** The licenses of the Lottery and Jockey Club are transferred to TWF for 49 years.

***The real estates in Antalya, Aydın, İstanbul, Isparta, İzmir, Kayseri and Muğla.

4.2.2 What Has Turkey Wealth Fund Done So Far?

According to its legislation, TWF is established as a mean to contribute to the economic stability and manage Turkey's assets. Yet, the fund has not initiated any projects or investment since it was established. During three years of time, the inactive state of the fund versus the sudden alterations in the executive and organizational structure is an indication that the priority of the fund is not economic but political. As presented before, the establishment of the fund was rushed and legislated against of all the concerning issues stated by the opposition parties in the parliament. However, the strategic plan, which is *sine qua non* for public institutions[123], was not prepared until 2018 even though it was mentioned in TWF's law of establishment.[124] Thus, for 18 months without the strategic planning, the fund was legally refrained from any activity.

Within Turkey, the fund did not initiate any projects. Only operations related to TWF was the transfer of public assets from treasury to the fund. Other than that, 3 billion Turkish Lira was decided to be transferred from Defense Industry Support Fund to TWF by council of ministers in the repetitive numbered Official Gazette (no. 29970 – *Mükerrer*). The official gazette was published in the middle of the night and no explanations have been made regarding the transfer and the repayment plan other than 3 months maturity. The decision sparked public discussions as it was prior to 2017 referendum. Because, the time and the need for the resource transfer was not stated in the government decision or in any other official sites. After the three

[123] According to Public Finance Management and Control Law no 5018 (*Kamu Mali Yönetimi ve Kontrol Kanunu*), strategic planning is a legal obligation for public finance institutions which has to include planning, budget management, implementation and evaluation.
[124] Law no. 6741 Article 3/2.

months has passed, TWF board did not announce any updates on the necessity or the repayment of the money. Finally, an MP from RPP asked a parliamentary question[125] on the issue; yet, it was left unanswered. Currently, there is still not any information on it.

Another operation of the fund is the sales of Turkish airplanes. 4 airplanes from Prime Ministry and Ministry of National Defense were previously transferred to TWF in July 2017. It later appeared in the media that TWF has sold these planes to the Turkish Airlines for $4.6 million (Boyacıoğlu and Karanfil, 2017). Both the decision of transfer and the sale of airplanes were not disclosed to the public and they were not published in the Official Gazette. The information regarding the sale was extracted from the top-secret audit report as the sales were noted as the only significant income. Together with the VAT, total money paid by Turkish Airlines to TWF is 21 million Turkish Lira. There has not been any explanation on the reason for the secrecy of the sales by TWF or the government.

Even when the legal problems are ignored, TWF could not attract any investment due to not having a clear set of plans and financing mechanism. In 2017, then-chairman Bostan made frequent statements on the considerable attention TWF was getting from foreign companies and countries on Islamic banking and investment planning ("Varlık Fonu İlgiden Memnun", 2017). Plans on partnership with other wealth funds such as Qatar, Singapore and Malaysia had wide media coverage in Turkey.[126] Yet; these partnerships which were presented as the expected stimuli to economic development faded away. The deal with Singapore's Temasek has failed and resulted in the dismissal of Mehmet Bostan.

[125] For the full script of the question, see Parliamentary Question, 2017b.
[126] For the news about TWF partnerships, see Ateş, 2017; "Türkiye Varlık Fonu ile Katar Devlet Fonu Ortak Oluyor!", 2017.

The Turkey-Russia joint investment fund project which has been announced as the first national project of TWF was initiated by Erdoğan's visit to Russia in 2017. Even though these projects also had wide media coverage as the government's initiative on economic development, the main agreement has only been signed very recently, in April 2019. The delayed agreement shows that it is not the wealth fund but Erdoğan who closed the agreement. Because, the final decision on the initiative which dated back to 2017 could only be reached after Erdoğan became the head of the fund. Moreover, the finalization of the agreement is reflected as it was based on the Erdoğan-Putin negotiations; not the CEOs of the SWFs (Erdoğan – Dmitriyev[127]).

The reason for the delay on above project is TWF; because it could not deliver the agreed upon initial capital of $500 million. TWF cannot generate capital and the biggest indicator of that is the loan asked from Citigroup and Industrial Commercial Bank of China (ICBC) in 2019. In addition to proving TWF's structural problems, it represents an incompatible behavior for a SWF as foreign loan for SWFs is highly unusual.[128] In the plenary session of the parliament, MP from RPP Bekaroğlu stated that for the syndicated loan of €1 billion which has 2 years maturity, Ziraat Bank has been mortgaged (Parliamentary Minutes, 21 Feb 2019). Moreover, it was not the first attempt on borrowing. In 2017, TWF's request for $5 billion loan from ICBC did not yield any results (Karakaya, Ersoy and Kandemir, 2019).

The most recently, the managing director of TWF Sönmez announced the decision on the transfer of operating rights of Turkey's National Lottery in May 2019. As of July 2019, TWF gave the authority for the privatization of National Lottery to Ernst and Young Consulting Company (EY). Sönmez stated that after the Lottery, "Turkey Jockey Club will be next" ("Milli Piyango, İddaa modeliyle ihaleye çıkıyor", 2019). As expected, there are not any announcements or documents regarding the details of

[127] Kirill Dmitriyev is the CEO of Russia Direct Investment Fund (Russia's SWF).
[128] Another case of SWF borrowing is Saudi Arabia's fund who took $11 billion loan from various global banks in 2018.

the privatization on TWF's official website or in any other official sources. For now, the return or any other details of the agreement is unknown. However, combined with the sudden change in the law on the investment limitation of funds, the increased and out-of-sight activities in TWF shows that there will be series of sales or privatizations soon.

In sum, TWF has not realized any of the stated objectives for economic development and did not undertake any initiative. When it comes to the loan, no document or plan is published regarding the need and the use for the loan or the terms of the borrowing such as interest rates and collaterals. As the few project attempts show, TWF cannot even raise enough money to fund its own improvement and partnership projects – let alone "develop[ing] and increase[ing] the value of Turkey's strategic assets" (TWF, 2019). After its rushed establishment, the fund only came to public agenda with its political repercussions and problematic structure rather than its economic operations.

4.3. Turkey Wealth Fund Revisited

All the issues discussed above indicate that the main objective of TWF is not what it is delineated in the law or announced to be. The establishment process itself reflects conflict with the main pillar of the law. The provided exemptions signal an institution which can defy the rule of law with impunity. As a supporting example of all these inconsistencies, the board of directors was subjected to frequent change while the fund officially has not done any noticeable investment since it was established. Likewise, the authority given to the fund has occasionally been expanded with overnight or sudden decisions and without informing the public. Most of the updates that are known about the fund have come to the surface no thanks to the official figures but to the efforts of several journalists and MPs who wanted to show the peculiarity of the fund and incompatibility with its objectives. Then, what is the genuine reason for all these inconveniences?

As this paper argues, TWF is established as a new mechanism to incorporate the domestic economic sphere to the authoritarian regime that Erdoğan has built via

JDP. Before TWF, the state-business relations were already rigged in such a way that the partisan businesspeople were being rewarded in exchange for the loyalty whereas anyone outside of the partisan circle was being punished. Even though the nepotism and favoritism are not unique to JDP; during 15 years of its administrations, the partisan system of state-business relations has become systematized and spread through the widest segments of the society which resulted in politicization at its finest. While the resource distribution of the government to businesspeople continues, the worsening economy (that resulted in investments made on barren sectors with outsourcing) has forced JDP to downsize the favoritism to a smaller amount of people. As economy has worsened, the number of winners has decreased, and the authoritarian tendencies of the government are increased accordingly. Adding the inner-party conflict to the equation, the President Erdoğan is the authoritarian who holds the power and the Erdoğan Family along with its loyalist are the winners of the current domestic politics and economy.

4.4. Conclusion

Like a last resort, TWF is seen as a legitimate cover for the deepening partisan resource distribution under the authoritarian regime of Erdoğan. This became especially apparent when Erdoğan first affiliated the fund to himself and later when he appointed himself as the chairman of the fund. In fact, the entire activity regarding the board of directors revealed that no one outside of the circle of Erdoğan Family was put in charge. All the people who worked in TWF have benefitted the family in one way or another. The critical point is that the fund was established when the government was having hard time finding capital for their promised mega-projects such as Kanal İstanbul and the 3rd Airport. Indeed, looking closer at the main objectives of the fund, "participating in large scale investments" (TWF, 2019) seems to be the prominent item in the agenda as other given objectives are vague and do not imply any solid planning other than wishful thinking. The mentioned large-scale investments, so far, was to finance the mega projects which the government has given as tender to the partisan companies.

As the projects came to a halt due to difficulties on financing, TWF come into play as an outside-of-law institution which can quickly find money and save the government's image even at the expense of selling public assets and increasing the external debt. Moreover, the fund can do it in such a fashion that the debt would not be seen in the public debt stock and it would not be held accountable, as it was designed. The most recent exemption of the fund from the investment limitations proved that the fund is nothing but a political tool used in economy to make it seem like Erdoğan alleviates the economic hardship by flowing money into the system at short intervals; all the while it sustains the state-business relations of votes and loyalty in exchange for tenders. Hence, the fund is a parallel treasury which Erdoğan has established as a convenient mean for his competitive authoritarian regime.

CHAPTER V:
CONCLUSION

In 21st century, the SWFs became the center of the attention after the 2008 Financial Crisis stimulated the countries for the search of an "alternative" to protect their economies from the volatilities of international financial markets. As their numbers and assets sizes have risen quickly over the last 15 years, curiosity as well as suspicion is emerged towards the SWFs. The fact that the countries who established SWFs within this century are known to be authoritarian and less transparent, the potential for SWFs to be used as an extension of the state for political agendas became an apparent concern both in the global economy and for the academia. These concerns not only revived the old concepts such as economic nationalism and state capitalism; they also draw the attention on the deficiency in the literature regarding the common practices, utilization and the role of SWFs within global political economy and domestic politics.

Contributing to the SWFs literature with a case study, this research explores the global phenomenon of SWFs and contemporary Turkish politics to find an answer to why Turkey has established the TWF even though the country does not have budget or trade surplus. To that end, a descriptive analysis on the SWFs within the context of international political economy is carried out. Thus, with the objective to find the departure point of the TWF, the recently created and narrow literature on SWFs is analyzed. It is found out that TWF, indeed, is a unique example of wealth funds which technically does not have the fundamental structure and the utility, considering the economic performance of Turkey after 2008. Adding the inactive state of the fund to the equation, the reason for its establishment is searched within the domestic politics and economy. It is argued that the TWF is established as an instrument of the President Erdoğan's capital accumulation through neopatrimonial setting in which the state resources are distributed to a group of partisan business class in exchange for electoral ballots to consolidate his incumbency and sustain the political dominance. Due to the economic deterioration, there was a need for a new instrument which would not stumble upon the "legal barriers" within its jurisdiction and without the regulatory "obstructions" caused by the need for accountability and supervision in domestic economy. That is why the establishment of TWF can be considered as an attempt to install another mechanism to salvage the remaining riches of the country via an unmonitored "parallel treasury" to keep the CA intact without going further along the line of complete authoritarianism.

As detailly explained, the Turkish politics after the JDP came to power has gradually transformed into a basis for clientelist network and patronage system which operates in every part of the bureaucratic institutions in favor of the government. Structured and built by the systematized resource distribution mechanism, the competitive authoritarianism replaced the existing few democratic features of the country. In this setting, the government distributes the state's fiscal resources to create and maintain a partisan business class who would, in turn, provide electoral support for the government within their jurisdiction. In order for the government to achieve such a cycle, the legal supervision along with the formal institutions of the state had to be weakened. Thus, throughout the JDP ruling, it is observed that the checks and balance mechanisms in the country such as judiciary and military were incrementally sidelined through the use of populist instruments and religious rhetoric. Along with the decreased legal and bureaucratic oversight, especially after 2010, the political pressure of the party has captured every major influential actor within politics and economy. Thanks to these efforts, the state-business relations as a concept became an instrument for the continuity of incumbency of the JPD.

Even though the created system of resource distribution through rewards and punishment seems ideally sustainable, the deterioration of the economy undermined the system's viability since the resources which the JDP loyalist have enjoyed so far, started to shrink. As an attempt to solve this problem, the president Erdoğan who became the embodiment of the party and the government, positioned himself and his family at the center of the resource distribution and state-business relations for capital accumulation. Thanks to the switch to presidential system, the de facto political dominance of Erdoğan became legalized. Finally, the TWF is enabled as the handler of the economic pillar of the sustainability of the neopatrimonial rule.

The argument is reinforced by the features of the TWF which defy the regulations in finance and threatens the rule of law in Turkey. As presented and analyzed in Chapter IV, the fund is exempt from many laws which are deemed the cornerstones in the procedure of domestic economy. The board of directors of the fund, which is the only thing known about the organizational structure of the TWF, is appointed by Erdoğan, even though he is also the chairman of the fund. When examined, all of the board members have close ties with the Erdoğan family. The absurdity doubles with the fact that the fund is legally affiliated to the President which can be translated as: Erdoğan virtually owns the TWF. Since it is not audited by the Sayıştay, there is no way to know what has been done and will be done with TWF, other than the fact that it will not positively affect the economy.

So far, the TWF has just been used as a warehouse for the SOEs to be stored. While it is quietly searching for loans abroad, the fund is not active in domestic sphere. This can be interpreted that the accumulation process is still ongoing as the President Erdoğan keeps extending his reach within economy. Even though the use of the accumulated resources is not yet clear, there are several possibilities. The first potential use of TWF is to re-allocate the resources among the business in order to design a new class of loyalists of Erdoğan. Since Erdoğan outshines the party and becomes the prominent figure, the rankings within the JDP and business circle may need to be re-defined. Highlighting unison instead of rivalry, another use would be investments for the JDP as a whole in order to restore its credentials that took hits in the last three years. The last local elections reflected the poor performance of not only the party but also the government in executing a convincing propaganda. Due to these problems, the accumulated sources may be used for new outlooks of the party or for Erdoğan such as nationalism and religious rhetoric.

For the same reasons listed above, one of the expected operations of TWF is to find resources from outside to finance the mega projects of the government. Some of the landmark projects (such as 3-Storey Bosphorus Crossing Tunnel, city hospitals and 3rd Airport in Istanbul) are advertised as the economic stimulators, once realized. Considering that economy does not seem to be recovering anytime soon, the TWF will have difficulty in finding external loan even with all its privileges. As a further implication, though open to counterfactual, this research suggests that the SOEs in the portfolio of TWF will be either sold as collateral resulted from the outstanding loans; or distributed to the foreign companies of the affiliates of Erdoğan. This can be interpreted as a step towards the self-destruction of the system of resource distribution that the JDP has created. Because, if the company starts to privatize the resources, in the long run, the government will end up in the same situation which caused the drop in the electoral votes in June 2015 elections. As the JDP, and Erdoğan, would be losing their advantageous position in the state-business relations due to the lack of resources to distribute, the viability of the system will be, once again, threatened. TWF, being the stimulator and handler of the economy pillar of the resource distribution under Erdoğan's neopatrimonialism, was already an attempt to revive and reorganize the system around Erdoğan family; and, ultimately, it will lead this revised system to failure, if Erdoğan cannot provide other ways to finance the TWF and the mega projects.

There are few shortcomings of this research that results from various disadvantages. First issue is the recentness of the subject matter. Though established three years ago, due to its inactiveness, there is not enough information about the fund which prevents the study from generating and testing hypothesis on the ways in which the fund is utilized in resource distribution. Secondly, the existing information is not accessible. Since the TWF is a sensitive issue for the government and Erdoğan, the related information is, currently, being prevented to be accessed by the public. The partisan media and think-tanks rarely mention the fund. When they do, it is to provide positive reinforcements to Erdoğan such as by stating the fund's unrealistic macroeconomic purposes as national victories and as achievements of the government. In addition, throughout the data collection and analysis processes, there have been several radical changes in the structure and the status of the fund. Even though the changes were supportive of the argument, they played a role in elongating the finalization of the study. Also, the few existing resources such as parliamentary minutes are only in Turkish which makes it challenging for tracing the research back to test or repeat it by a non-Turkish.

Considering the stated issues above, the further research can be made in pinpointing the exact use of TWF, if the information and more resources become available. More specifically, there are only two-to-three academic researches which evaluate the feasibility of a wealth fund in Turkey and analyze the TWF as an entity in economy. Other than those preliminary researches, there is not any exploratory research in any aspect of the TWF. Even though this research concludes that the position of the fund is aligned with the government's political agenda rather than the state's economic purposes, an intrinsic research can be conducted on the TWF and its exact position within Turkish economy or its reinforcing effect on neopatrimonialism with detailed parameters and use of process tracing if applicable.

In the international level as well, some cases of SWF use for personal uses of the domestic politics actors have come across. In Malaysia, the Prime Minister has been involved in a nationwide corruption scandal due to embezzlement from the Malaysian SWF portfolio; and illegal capital transfer to foreign companies through the Malaysia's SWF. Also, Hugo Chavez's use of the Venezuela's SWF as his personal fund is discussed to be the major contributor the ensuing economic crisis. Based on these examples and Turkey's, a framework on the connection between the use of SWF and the increase in selective resource distribution in less democratic regimes can be established. In that, this research can provide a preliminary basis for a future research or an exemplary study in theorizing the suggested framework.

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APPENDICES

APPENDIX I

The Definitions

Sovereign wealth funds (SWFs) are: “government-owned investment entities, set up for a variety of macroeconomic purposes. They commonly take the form of long-term investments of foreign exchange assets in overseas holdings” (Bahgat, 2008, p. 1189); “government investment vehicles that acquire international financial assets to earn a higher-than-risk-free rate of return” (Drezner, 2008, p. 5); “government-owned investment vehicles” (Arreaza, Castilla and Fernández, 2009, p. 26); “pools of assets owned and managed directly or indirectly by governments to achieve national objectives” (Blundell-Wignall, Hu and Yermo, 2008, p. 4); “the medium through which the governments made investments and were mainly financed by foreign exchange reserves” (Ping and Chao, 2009, p. 3); “new name for something that's been around for quite a while: assets held by governments in another country's currency” (Johnson, 2007, p. 1) and et cetera. There are many definitions in which every one of them highlights a different aspect of the SWFs while excluding the other.

Table 1: The List of SWFs. Source: Sovereign Wealth Fund Institute (SWFI)

Country	Sovereign Wealth Fund Name	Assets	Inception	Origin
Norway	Government Pension Fund – Global	1074.60	1990	Oil
China	China Investment Corporation	941.4	2007	Non-Com modity
UAE – Abu Dhabi	Abu Dhabi Investment Authority	683	1976	Oil
Kuwait	Kuwait Investment Authority	592	1953	Oil
China – Hong Kong	Hong Kong Monetary Authority Investment Portfolio	522.6	1993	Non-Com modity
Saudi Arabia	SAMA Foreign Holdings	515.6	1952	Oil
China	SAFE Investment Company	441**	1997	Non-Com modity
Singapore	Government of Singapore Investment Corporation	390	1981	Non-Com modity
Singapore	Temasek Holdings	375**	1974	Non-Com modity
Saudi Arabia	Public Investment Fund	360	2008	Oil
Qatar	Qatar Investment Authority	320	2005	Oil & Gas
China	National Social Security Fund	295	2000	Non-Com modity
UAE – Dubai	Investment Corporation of Dubai	233.8	2006	Non-Com modity
UAE – Abu Dhabi	Mubadala Investment Company	226	2002	Oil
South Korea	Korea Investment Corporation	134.1	2005	Non-Com modity
Australia	Australian Future Fund	107.7	2006	Non-Com modity
Iran	National Development Fund of Iran	91	2011	Oil & Gas
Russia	National Welfare Fund	77.2	2008	Oil
Libya	Libyan Investment Authority	66	2006	Oil
US – Alaska	Alaska Permanent Fund	65.7	1976	Oil
Kazakhstan	Samruk-Kazyna JSC	60.9	2008	Non-Com

				modity
Brunei	Brunei Investment Agency	60	1983	Oil
Kazakhstan	Kazakhstan National Fund	57.9	2000	Oil
Turkey	Turkey Wealth Fund	40	2016	Non-commodity
Malaysia	Khazanah Nasional	38.7	1993	Non-Commodity
US – Texas	Texas Permanent School Fund	37.7	1854	Oil & Other
UAE – Federal	Emirates Investment Authority	34	2007	Oil
Azerbaijan	State Oil Fund	33.1	1999	Oil
New Zealand	New Zealand Superannuation Fund	28.5	2003	Non-Commodity
US – New Mexico	New Mexico State Investment Council	20.2	1958	Oil & Gas
Oman	State General Reserve Fund	18	1980	Oil & Gas
US – Texas	Permanent University Fund	17.3	1876	Oil & Gas
East Timor	Timor-Leste Petroleum Fund	16.6	2005	Oil & Gas
Chile	Social and Economic Stabilization Fund	14.7	2007	Copper
Canada	Alberta's Heritage Fund	13.4	1976	Oil
Russia	Russian Direct Investment Fund	13	2011	Non-Commodity
Bahrain	Mumtalakat Holding Company	10.6	2006	Non-Commodity
Chile	Pension Reserve Fund	9.4	2006	Copper
Ireland	Ireland Strategic Investment Fund	8.5	2001*	Non-Commodity
US – Wyoming	Permanent Wyoming Mineral Trust Fund	8.0	1974	Minerals
Peru	Fiscal Stabilization Fund	7.9	1999	Non-Commodity
Algeria	Revenue Regulation Fund	7.6	2000	Oil & Gas
Mexico	Oil Revenues Stabilization Fund of Mexico	6.0	2000	Oil
Oman	Oman Investment Fund	6.0	2006	Oil
Botswana	Pula Fund	5.5	1994	Diamonds & Minerals
Trinidad &	Heritage and Stabilization Fund	5.5	2000	Oil

Tobago				
China	China-Africa Development Fund	5.0	2007	Non-Com modity
Angola	Fundo Soberano de Angola	4.6	2012	Oil
US – North	North Dakota Legacy Fund	4.3	2011	Oil & Gas
Dakota				
Colombia	Colombia Savings and Stabilization Fund	3.5	2011	Oil and Mining
US –	Alabama Trust Fund	2.7	1985	Oil & Gas
Alabama				
Kazakhstan	National Investment Corporation	2	2012	Oil
US – Utah	Utah – SITFO	2	1896	Land and Mineral Royalties
US – Idaho	Idaho Endowment Fund Investment Board	2	1969	Land and Mineral Royalties
Nigeria – Bayelsa	Bayelsa Development and Investment Corporation	1.5	2012	Non-Com modity
Nigeria	Nigerian Sovereign Investment Authority	1.4	2012	Oil
US –	Louisiana Education Quality Trust Fund	1.3	1986	Oil & Gas
Louisiana				
Panama	Fondo de Ahorro de Panamá	1.2	2012	Non-Com modity
Bolivia	FINPRO	1.2	2012	Non-Com modity
Senegal	Senegal FONSIS	1	2012	Non-Com modity
Iraq	Development Fund for Iraq	0.9	2003	Oil
Palestine	Palestine Investment Fund	0.8	2003	Non-Com modity
Venezuela	FEM	0.8	1998	Oil
Kiribati	Revenue Equalization Reserve Fund	0.6	1956	Phosphates
Vietnam	State Capital Investment Corporation	0.5	2006	Non-Com modity
Gabon	Gabon Sovereign Wealth Fund	0.4	1998	Oil
Ghana	Ghana Petroleum Funds	0.45	2011	Oil

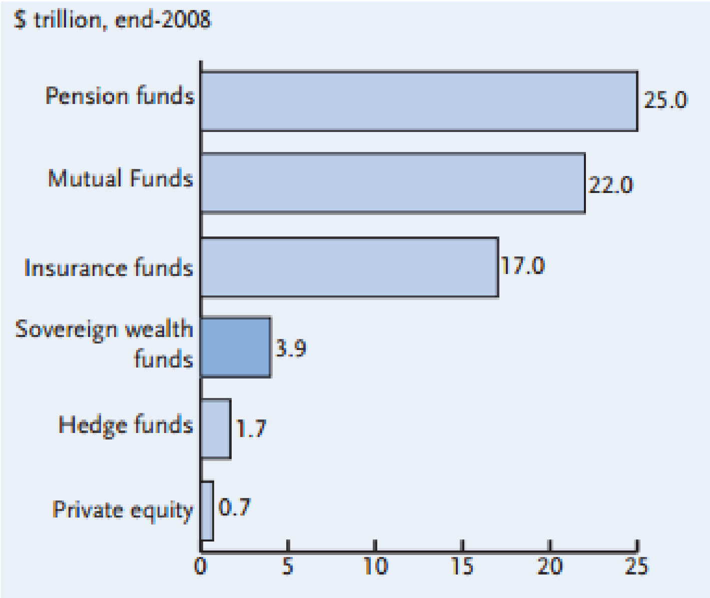
Mauritania	National Fund for Hydrocarbon Reserves	0.3	2006	Oil & Gas
Australia	Western Australian Future Fund	0.3	2012	Minerals
Mongolia	Fiscal Stability Fund	0.3	2011	Minerals
Equatorial Guinea	Fund for Future Generations	0.08	2002	Oil
Papua New Guinea	Papua New Guinea Sovereign Wealth Fund	n/a	2011	Gas
Turkmenistan	Turkmenistan Stabilization Fund	n/a	2008	Oil & Gas
US – West Virginia	West Virginia Future Fund	n/a	2014	Oil & Gas
Mexico	Fondo Mexicano del Petroleo	n/a	2014	Oil & Gas
UAE – Sharjah	Sharjah Asset Management	n/a	2008	Non-commodity
Luxembourg	Luxembourg Intergenerational Sovereign Fund	0	2015	Non-Commodity
Russia	Reserve Fund	0	2008	Oil
	Total Oil & Gas Related	$4,427.13		
	Total Other	$3,702.88		
	TOTAL	$8,130.01		

**This number is a best guess estimation.

***All figures quoted are from official sources, or, where the institutions concerned do not issue statistics of their assets, from other publicly available sources. Some of these figures are best estimates as market values change day to day are rounded to the nearest tenth. SWFI aims to use total assets versus other measures of weighting assets to keep data consistent.

Temasek – **This is total assets. Historically (pre-2018), SWFI used net portfolio value, but to compare all e using total assets for this chart.

Figure 2: The Global Assets Under Management by Type*



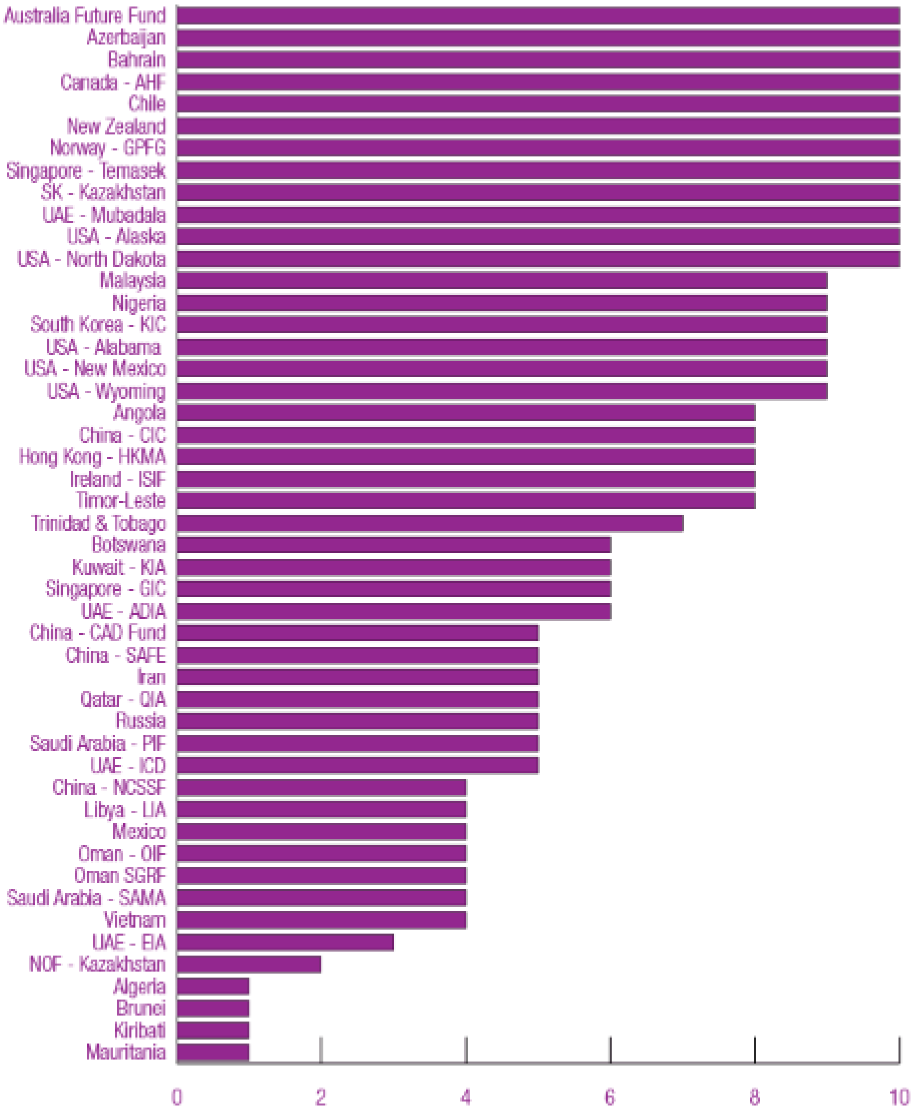
Source: International Financial Services London (IFSL), 2009.

*Note that the available data is from 2009. By this time SWFs' total asset under management has reached to $ 7 trillion. The data is used in this paper to show the other investment vehicles and their market share.

Figure 3: Linaburg-Maudell Index Principles. Source: Extracted from SWFI, 2018, https://www.swfinstitute.org/statistics-research/linaburg-maduell-transparency-index/

Point	Principles of the Linaburg-Maduell Transparency Index
+1	Fund provides history including reason for creation, origins of wealth, and government ownership structure
+1	Fund provides up-to-date independently audited annual reports
+1	Fund provides ownership percentage of company holdings, and geographic locations of holdings
+1	Fund provides total portfolio market value, returns, and management compensation
+1	Fund provides guidelines in reference to ethical standards, investment policies, and enforcer of guidelines
+1	Fund provides clear strategies and objectives
+1	If applicable, the fund clearly identifies subsidiaries and contact information
+1	If applicable, the fund identifies external managers
+1	Fund manages its own web site
+1	Fund provides main office location address and contact information such as telephone and fax

Figure 4: The Latest SWF Transparency Ratings.* Source: SWFI



* First Quarter of 2018 Linaburg-Maudell Transparency Index. Notice that Turkey Wealth Fund is still not included.

APPENDIX II

Figure 1: Characteristics of Political Parties in 1990s. Source: Çarkoğlu, 2002.

	Centre-Left (CL)	Centre-Right (CR)	Extreme-Right
rty *tisi* –	Republican People's Party (*Cumhuriyet Halk Partisi* – CHP)	Motherland Party (*Anavatan Partisi* – ANAP)	**Pro-Islamist**
rty *si* –	Democratic Left Party (*Demokratik Sol Parti* – DSP)	True Path Party (*Doğru Yol Partisi* – DYP)	Felicity Party (*Saadet Partisi*
	New Turkey Party (*Yeni Türkiye Partisi* – YTP)	Young Party (*Genç Parti* – GP)	Justice and De (*Adalet ve Kal* **Nationalist** Nationalist Ac (*Milliyetçi Ha* Grand Unity P (*Büyük Birlik* I
	Programmatic/Policy Platforms		
list	Strictly secularist	Secularist on policy matters but courting the brotherhoods	**Pro-Islamist** Pro-Islamist
	Pro-EU	Pro-EU	Relatively mor
dia	Relatively more state interventionist	Market oriented economic policy	Relatively mor
	Relatively more urban	Opportunistic populism in economic policy	Populist in eco
	Alevi support (CHP)	Support from relatively more developed rural segments	Sunni support
	Charismatic leader (DSP)		Close relation
	Support base is western and coastal provinces	Support base is western and coastal provinces	Support base i
			Nationalist Ethnic Turkish Anti-European Sunni support Populist in eco Relatively mo Support base i

Figure 2: Inflation and Growth in Turkey. Source: Öniş, 2012

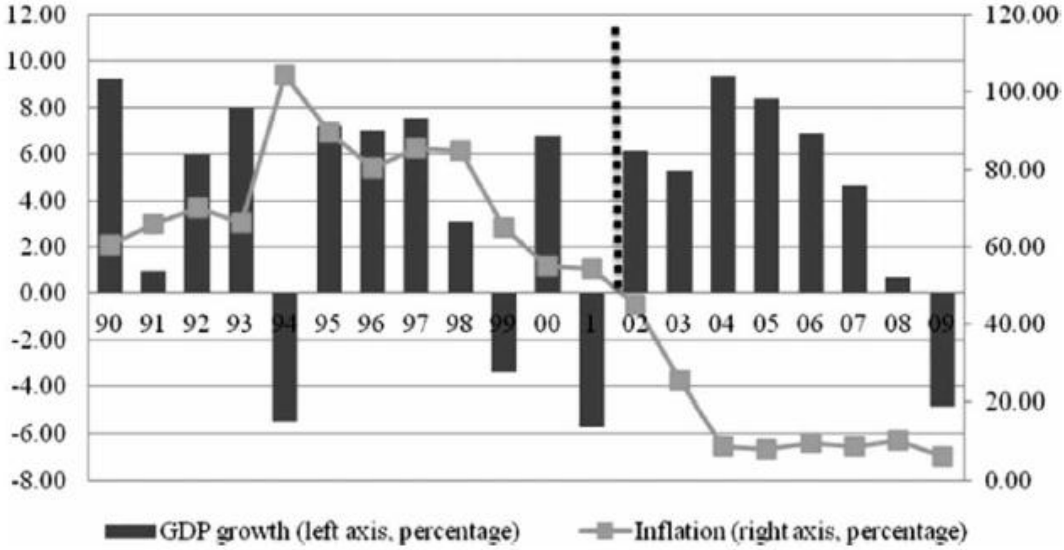
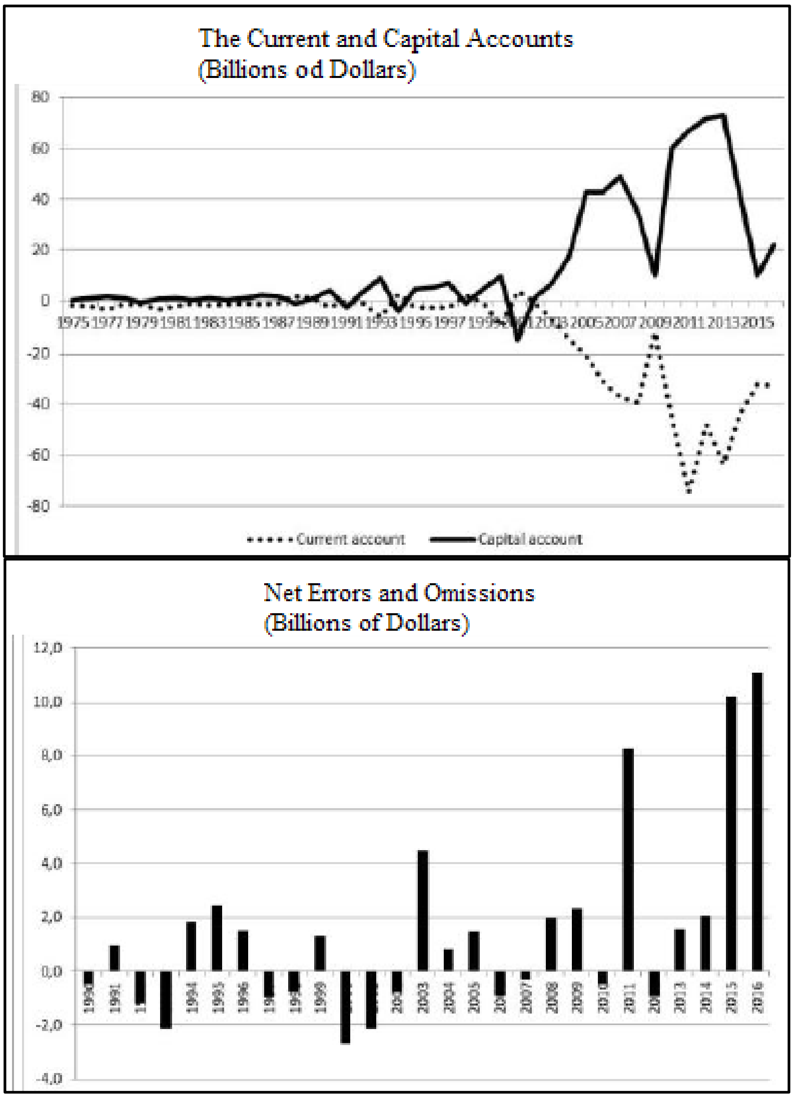


Figure 3: Official and Unofficial Sources of Turkey. Resource: Subaşat, 2017



A Brief Analysis of March 2019 Local Elections Within the Framework of Authoritarianism

March 2019 local elections was the event that competitive authoritarianism moved further towards the full-scale authoritarianism in Turkey under the JDP. During the campaign process, the President Erdoğan arranged meetings for JDP (since he can be both the head of the state and the party as a result of 2017 referendum) and accused the Nation's Alliance[129] for collaborating with terrorists, being corrupt and against the unity of the society and even being traitors in many occasions and also on social media ("Erdoğan'dan Tehlikeli İttifak Karşılaştırması", 2019; Öğreten, 2019). As expected, the playing field during campaigning was highly uneven; TV channels refused to run PDP's election advertisement,[130] Demirören Media censored and changed the co-chair of PDP's statements in its channels[131] and CNN interrupted the interview with RPP's candidate İmamoğlu in order to broadcast Erdoğan's speech (Kalafat, 2019). Although it was a local election, JDP and NAP increased pressure by calling the elections "a matter of national survival" (Cengiz, 2019) and fragmented the society by presenting the Nation's Alliance as the threat to this survival. In terms of government reign over state institutions, the most apparent example for JDP's increased CA became the High Election Council (*Yüksek Seçim Kurulu*, YSK) after the electoral defeat in Istanbul and Ankara to RPP.[132] The institution which was notorious for its decision in 2017 referendum on the approval of the ballots without official stamps; proved its inferior and co-opted position to JDP once again by cancelling and calling for re-election of the Mayor in İstanbul based on JDP's non-transparent accusations.[133] There are allegations that YSK

[129] For the local elections, RPP, PDP, IYI Party (Good Party), FP and DP (Democrat Party) nominated joint candidates in some provinces under the name of Nation's Alliance (Millet İttifakı). JDP and NAP did the same under People's Alliance (Cumhur İttifakı).

[130] See, "TV Channels Don't Run HDP's Election Advert" 15 March 2019.

[131] See. "Demirören Media Outlets Distort HDP Co-Chair Temelli's Words" 18 March 2019. Also, for details, see Kuşçuoğlu, 2019.

[132] For a summary of the events, see Erdoğan, 2019.

[133] See YSK Decree No. 4379.

judges were threatened with imprisonment if they voted against the re-run of elections (Chulov, 2019). What is more, immediately after the decision of YSK was announced, the Turkish Lira crashed against dollar. In order to prevent it from falling further, “state-run lenders sold more than $400 million of foreign currency after the lira breached the 6-per-dollar mark on May 6” (Sönmez, 2019). Being blocked and heavily pressured by Erdoğan; the Central Bank cannot increase the interest rates to protect exchange rates and the depreciation of lira still continues. Tracing the events so far, Bremmer (2019) argues that there will be “more populist measures from Erdogan that will boost his party’s political chances in the short-term but will seriously harm the country’s economic prospects over the long-term” which signals even more authoritarian tendencies along with neopatrimonialism in the days to come.

APPENDIX III

Figure 1: Omnibus Bills to Total Passed Laws Ratio. Source: Erem, 2017.

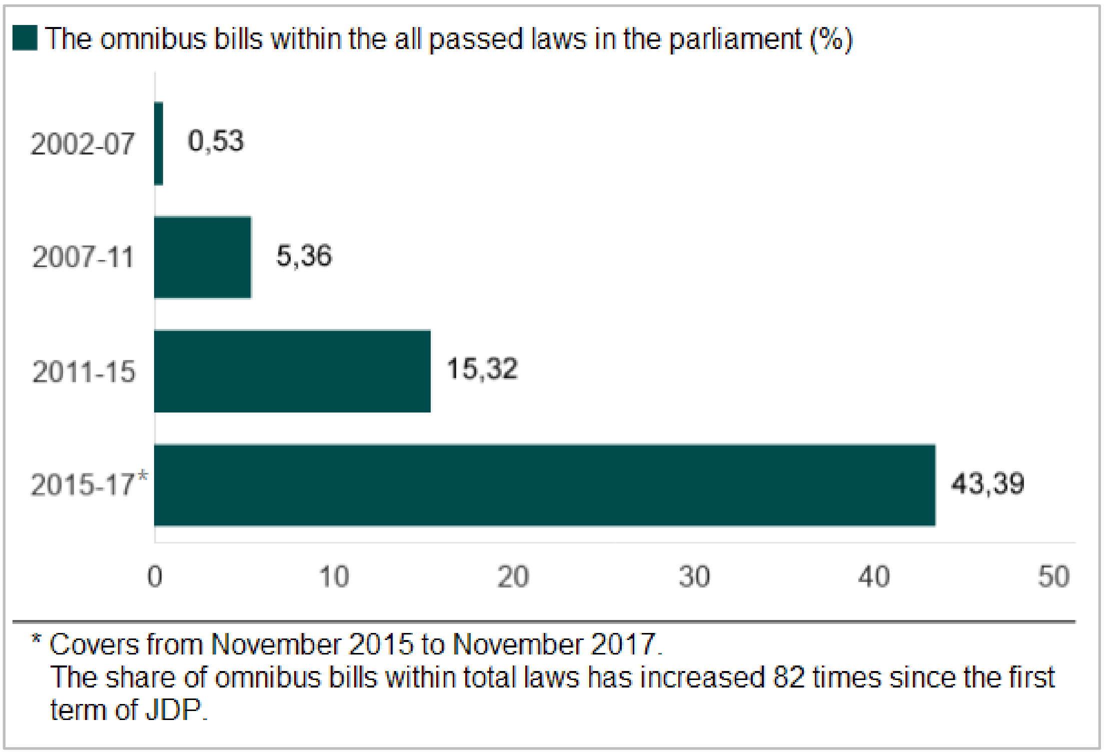


Table 1: The List of Exempted Laws.

The Laws that are stated under the Exemption Clause of TWF Establishment Law
Law on the Courts of Account dated 3/12/2010 and numbered 6085
Law numbered 6362 and its secondary legislation entered into force with this Law
Statutory Decree on State Economic Enterprises dated 8/6/1984 and numbered 233
Statutory Decree dated 22/1/1990 and numbered 399 regarding Adjustment of State Economic Enterprises
Personnel Regime and Abolishing of Some Provisions of the Statutory Decree numbered 233
State Personnel Law dated 14/7/1965 and numbered 657
Statutory Decree dated 4/7/2001 and numbered 631 regarding Regulations on Financial and Social Rights of Civil Servants and Other Public Officials and Making Amendments on Some Laws and Statutory Decrees
Statutory Decree dated 13/12/1983 and numbered 190 regarding General Personnel and its Procedure
Statutory Decree dated 18/5/1994 and numbered 527 regarding Making Amendments on some Laws and Statutory Decrees about Civil Servants and Other Public Officials
Travelling Expense Law dated 10/2/1954 and numbered 6245
Law dated 2/4/1987 and numbered 3346 regarding Auditing of State Economic Enterprises and Funds by the Turkish Grand National Assembly
Public Tender Act dated 4/1/2002 and numbered 4734
Public Tender Contracts Law dated 5/1/2002 and numbered 4735
Public Tender Act dated 8/9/1983 and numbered 2886
Transportation Law dated 5/1/1961 and numbered 237
Public Housings Law dated 9/11/1983 and numbered 2946
Law on Formation of Press-Announcement Association dated 2/1/1961 and numbered 195
Law on the Protection of Competition dated 7/12/1994 and numbered 4054
Privatization Applications Law dated 24/11/1994 and numbered 4046
Relevant provisions of laws regarding recruiting of personnel to public institutions and establishments

Table 2: Some of the Exemptions of TWF and Related Laws.

Related Clause (Brief Explanation)	Is TWF Subjected to it?	Features of TWF and
The principles governing the scrutiny of the accounts of public institutions and partnerships where more than half of the capital directly or indirectly belongs to the State, by the Grand National Assembly of Turkey, shall be regulated by law.	No	All of TWF's capital direc is not subject to the legisla restrictions applied for pul establishments which hold capital or which are incorp including state economic e
The incomes of cooperatives (…) and joint-stock companies are subjected to the corporate tax law.	No	TWF is a joint-stock corp income and corporate tax tax cuts to be realized ove revenues" (Art. 8/1).
For trade registry; a petition (…) and the main company agreement which is approved by the Ministry of Industry and Trade is needed.	No	TWF is established withou and "is directly registered effective date of the law w 2/2).
This law applies to civil servants working in provincial special administrations (…)and funds which are established by law.	No	"Relevant provisions of lav personnel to public institut apply to the personnel wh Company" (Art. 8/5).
Capital market instruments, issuers of these instruments, capital market activities and institutions, stock exchanges (…) and other organized markets are subject to the provisions of this law.	No	"[TWF] may realize the sa domestic and foreign com kinds of money market tra commercial and financial a secondary national and int

Table 3: The Policy Commissions. Source: Official Gazette no. 30560.

The Name of the Policy Commission	Name - Surname of the Appointed
Science, Technology and Innovation Policies Board	Prof. Dr. Hasan MANDAL
	Prof. Dr. Mehmet ÇELİK
	Mehmet Ali YALÇINDAĞ
	Dr. Osman COŞKUN
	Prof. Dr. Şaban Teoman DURALI
Education and Training Policies Board	Prof. Dr. Abdullah ATALAR
	Prof. Dr. Ahmet Cevat ACAR
	Ahmet GÜNDOĞDU
	Kemal ŞAMLIOĞLU
	Prof. Dr. Öktem VARDAR
	Selçuk PEHLİVANOĞLU
	Prof. Dr. Tuncay DÖĞEROĞLU
	Prof. Dr. Umran S. İNAN
	Prof. Dr. Yavuz ATAR
Economic Policy Board	Dr. Cemil Ragıp ERTEM
	Gülsüm AZERİ
	Hakan YURDAKUL
	Doç. Dr. Hatice KARAHAN
	Korkmaz KARACA
	Mehmet Ali AKBEN
	Meltem TAYLAN AYDIN
	Nihat ZEYBEKCİ
	Prof. Dr. Servet BAYINDIR
	Yiğit BULUT
Security and Foreign Policy Board	Adnan TANRIVERDİ
	Prof. Dr. Burhanettin DURAN
	Prof. Dr. Çağrı ERHAN
	Prof. Dr. Gülnur AYBET
	Prof. Dr. H. Beril DEDEOĞLU
	Doç. Dr. İbrahim KALIN
	İlnur ÇEVİK
	Dr. İsmail SAFİ
	Doç. Dr. Mehmet Akif KİREÇCİ
	Prof. Dr. Mesut Hakkı CAŞIN
	Prof. Dr. Nurşin ATEŞOĞLU GÜNEY
	Prof. Dr. Seyit SERTÇELİK
Legal Policy Board	Ayşe Nur BAHÇEKAPILI
	Ayşe TÜRKMENOĞLU
	Prof. Dr. Burhan KUZU
	Prof. Dr. Hasan Nuri YAŞAR
	Mehmet UÇUM
	Mustafa AKIŞ
	Uğur KIZILCA

Culture and Art Policies Board	Alev ALATLI
	Havva Hümeyra ŞAHİN
	Hülya SOYDAN
	Prof. Dr. İskender PALA
	Mehmed ÖZÇAY
	Murat BARDAKÇI
	Orhan GENCEBAY
	Rasim ÖZDENÖREN
	Prof. Dr. Ümit MERİÇ
Health and Food Policies Board	Prof. Dr. İbrahim Adnan SARAÇOĞLU
	Prof. Dr. Necdet ÜNÜVAR
	Dr. Sema RAMAZANOĞLU
	Prof. Dr. Serkan TOPALOĞLU
	Dr. Ümmü Gülşen ÖZTÜRK
	Zülfiye Füsun KÜMET
	Prof. Dr. Zümrüt Begüm ÖGEL
Social Policies Board	Prof. Dr. Edibe SÖZEN
	Dr. İbrahim ALTAN
	Prof. Dr. Lütfihak ALPKAN
	Dr. Mehmet GÜLLÜOĞLU
	Dr. Murat YILMAZ
	Prof. Dr. Vedat BİLGİN
	Prof. Dr. Vedat IŞIKHAN
Local Government Policies Board	Asım AYKAN
	Hayrettin GÜNGÖR
	Dr. Hayri BARAÇLI
	Prof. Dr. Lütfi AKÇA
	Dr. Mehmet KARABAY
	Oktay SARAL
	Refik TUZCUOĞLU
	Prof. Dr. Şükrü KARATEPE
	Prof. Dr. Tarkan OKTAY
	Tuna KOÇ