A POLITICAL ECONOMY ANALYSIS OF THE TURKISH MILITARY’S SPLIT PERSONALITY: THE PATRIARCHAL MASTER OR CRONY CAPITALIST?

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“The nationalist not only does not disapprove of atrocities committed by his own side but he has a remarkable capacity for not even hearing about them” (George Orwell).

“Considered from this aspect then, OYAK represents a unique model, the likes of which are not to be found elsewhere in the world and one whose successful results have a proven track record” (OYAK Annual Report, 2007:1).

“It is out of question to cancel the OYAK membership at will” (OYAK Holding, Membership Regulations, http://www.oyak.tr).

“There are only two families in the world, as my grandmother used to say: the haves and the have-nots” Sancho Panza in Don Quixote de la Mancha, Miguel de Cervantes.

“Big industry created a class, which in all nations has the same interest and with which nationality is already dead” (Marx and Engels, 1964: 76).

ABSTRACT

The Turkish economy has gone through a radical transformation since the early 1980s and has been pointed out both as the poster child and the scare crow of IMF and World Bank sponsored liberalization programs. Among the failures of the neoliberal experiment, persistence of corruption, crony capitalism and wide spread fraud stand out. What this chapter attempts to do is to provide a discussion of the fault lines that created and fed rent-seeking coalitions among several actors in the economy, including the military, state bureaucracy, labor and private businesses. In particular, the chapter explores the market distortions created by the Turkish military as it plays the role of a neo-mercantilist capitalist entrepreneur. The chapter also analyzes the mechanisms through which the military managed to adapt to the liberalized market system of the post 1980s without facing any significant objections from other political or economic actors.

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1. INTRODUCTION

The Turkish economic and its political/institutional infrastructure went through a series of changes following a military coup in 1980. The new economic paradigm under the guidance of neoclassical economic theory and the flagship of neoliberalism required a complete liberalization and deregulation of both goods and capital markets based on the assumption that free markets inevitably generate the most optimal allocation of resources. The economic coup engineered by the International Monetary Fund (IMF) and World Bank (WB) and wholeheartedly embraced by the military dictators was believed to bring about macro and micro-economic stability, higher investment, capital accumulation and employment, and faster growth. On the political side, the new economic model also claimed that as people became free to choose in the market place without the interventions and restrictions of the state, they would also demand a more democratic and less bureaucratic (a.k.a. smaller) government. Ironically, however, the liberalization, deregulation, and privatization plans and the required limits on labor’s bargaining power proved difficult under a democratic regime. Therefore (as elsewhere such as in Chile) a military coup made it easier for the pro-free market (but apparently not pro-democracy) policy makers. Thus, the structural shift from the Import Substituting Industrialization (ISI) regime to free market model took place under a military dictatorship that, seeing organized labor and civil society as an obstacle for free-market reforms, imposed strict restrictions over labor union rights and shredded labor’s bargaining power during 1980-1983 (including severe restrictions on union activities and collective bargaining rights, closing the second largest labor union, DISK, etc.). Furthermore, changes under military dictatorship became institutionalized through the 1982 constitution and the accompanying changes in labor law, tax codes, etc. As a result, even after the partial re-transition to democracy in November 1983 considerable restrictions over labor’s bargaining power persisted together with a continuing ban on the political parties established before the coup. Although, the return to the multi-party democracy took place with the elections of 1987, the political background (that of being implemented under the military rule) of the policy shift led to a strong commitment to the non-reversibility of the course of the reform program (Cizre-Sakallioglu and Yeldan, 2000:494-497; Öniş and Webb, 1994:128-184).

In retrospect, after three decades of failed policies (in both economic and political terms\(^1\)), what is surprising in the Turkish context is the reluctance of policy makers to question the validity of the assumptions built in the economic (and political) programs Turkey adopted since 1980s. Few analysts have noticed the limitations posed by the institutional characteristics, and the political environment of the country in determining both the nature of the adjustment process and the following economic performance.\(^3\) In this chapter, I will focus on the role of the military-business relationship in creating a fertile environment nurturing rent-seeking and corruption leading to an un-transparent and crony-capitalist market system. The paper also argues that in semi-democracies like Turkey where there exists a strong state hegemony over the society with its military and bureaucratic institutions, lack of democratic accountability and transparency in economic and political affairs further deteriorated the already fragile democratic infrastructure in the country.

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2 For a discussion of the economic failures, see Demir (2004 and 2009a).
3 For an analysis of the relationship between politics and the economic liberalization programs of the 1980s, see e.g. Boratav (1993), Cizre-Sakallioglu and Yeldan (2000), Öniş (1998).
2. THE MILITARY, THE BUSINESS AND THE FREE MARKET TALE

The role of military in semi-democracies like Turkey has been a popular field of research for political scientists. In this respect, the Turkish military as a political actor has long been a focus of attention. Yet, as I wrote back in 2004 “its role in the country’s civilian economy is left almost completely unexplored” (Demir, 2005: 676). Unfortunately, nothing much has changed since then. The lack of academic research is also not limited with the military’s direct involvement in the market through its semi-private corporations and business dealings (which we discuss next) but also extend to the allocation of military expenditures from the central budget.

Despite the ups and downs in the economy and shrinking public spending on basic accounts like health and education, the military expenditures continued to have a dominant share in the central budget (Günlük-Şenesen, 1995, 2002, 2004, 2009). In this respect, as an indicator of its political power and autonomy, the military is almost completely free from any civilian control over its budget. Although any spending from the central budget is subject to parliamentary approval, in practice defense budget is the only item that passes without any discussion or criticism in the parliament despite the fact that it accounted for at least 14% of the budgetary (non-interest) expenditures during 1998–2008 (Günlük-Şenesen, 2009:173). In fact, up until 2003, based on an article put into the constitution under the military government in 1971 and further extended in coverage in 1985, the military expenditures and military owned public assets were not subject to the auditing of Turkish Court of Accounts (Sayistay). This article was removed and all military spending was finally opened to the auditing of Sayistay in 2003 as a part of constitutional changes in accordance with the EU legislation despite strong resistance from the military (see e.g. Akyesilmen, 2009:15; Alpay, 2004; Altan, 2004; Cemal, 2003; Karakaş, 2009). As a last step, in 2008, an extra-budgetary fund, National Defense Industries Support Fund (that was established in 1986 and with its $2.5 billion annual revenue was bigger than the aggregate total budget of ten ministries in 2007) was also opened to Sayistay’s inspection (Onaran, 2008). In addition to the direct budgetary allocations, looking at some other economic benefits it enjoys, the military, among 50 other public offices (including the parliament, ministries, courts, police force, etc.), controlled 28% of the total 209,663 public housing units and 20% of total 2,099 other accommodation units (such as holiday resorts and guest houses) in 2009. Compared to the number of personnel, this means that there are 0.8 public housing units available for each military personnel (given a total of 57,220 public housing units available for 73,657 personnel including the ministry of defense, gendarmerie and coast guard) while there is only 0.14 and 0.05 for each personnel of the ministry of justice (with 13,114 public housing units for 94,651 members) and

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4 This section is partly based on Demir (2005).
5 Another sign of its political power is that the Chief of Staff is appointed directly by the president and is subordinated to the prime minister instead of the ministry of defence. Likewise, up until July 2009, the military courts could prosecute civilians and were fully responsible for prosecuting military personnel who commit any crime including ordinary ones as well as the military related. In one controversial example of the effects of this dual judicial system was during the Şemdinli trial in 2006 when the civilian courts sentenced two non-commissioned officers (Ali Kaya and Özcan İldeniz who were caught red-handed in November 2005 in a bookstore bombing in Şemdinli, Hakkari) to 39 years in prison, only before the military court released them all (BBC, 2006, 2007; Today’s Zaman, 2009a). For an in-depth discussion of the sources of the Turkish military’s autonomy, see Bayramoğlu (2004), Cizre-Şakallioğlu (1997); Kardaş (2004, 2009) and the collection of articles in İnsel and Bayramoğlu (2004) and Bayramoğlu and İnsel (2009).
6 Policy makers in Turkey increasingly referred to extra-budgetary means to finance government expenditures, which are free from the supervision and control of the parliament (while there were 47 EBFs in 2001, their number dropped to five by 2007. Yet, their total revenues amounted to more than $16 billion in 2007 when the general budget revenues were $142 billion). The scale of rent distribution among various groups is hidden by the use of these funds.
the ministry of education (with 44,096 public housing units for 852,052 members), respectively (Akay, 2009: 159).

However, despite constitutional changes, there is still no sign of increased scrutiny over the size and allocation of the military budget, as also admitted by the minister of defense (Gönül, 2007). For example, it took only 20 minutes to pass the military budget in the parliament in 2007 with no discussion or deliberation (Akyeşilmen, 2009:15). Furthermore, there is evidence that the military continues to restrict any attempts of civilian control and supervision over its budget. In fact, there is no public disclosure of even the exact salary levels of the military personnel (Akay, 2009: 128). Therefore, given this lack of transparency surrounding the military, the total amount of military spending is controversial and the official figure is a true understatement of its actual size (Günlük-Şenesen, 1995, 2002, 2004, 2009).

On the other hand, apart from direct military spending channels through budgetary means, there exist two unique channels through which the military is directly involved in market activities. These are the Armed Forces Trust and Pension Fund (or OYAK with its Turkish abbreviation), and the Foundation for Strengthening the Turkish Armed Forces (TSKGV), which are not included in the computation of defense budget.

OYAK, as a pension fund, was established by the Parliament in 1961, after the first military coup, to provide economic benefits for military officers. The article one of law of OYAK (law number: 205) stated that: ‘The Armed Forces Mutual Assistance Foundation was founded to be bound to the Ministry of National Defense, and to provide members of Turkish Armed Forces with social assistance set out herein… The Foundation shall be subject to provisions of private law under this Law, and shall become a corporate body with financial and administrative autonomy.’ However, the Board of Representatives of this private corporate body, according to the same law, is presided by the Minister of National Defense, or in his (her) absence by the Chief of General Staff. The general assembly, on the other hand includes the Minister of National Defense, the Minister of Finance, the Chief of The General Staff, Commanders of Land Forces, Naval Forces and Air Forces, General Commander of the Gendarmerie, etc. As of 2008, six of the nine members of the board of directors (of this private pension fund) were military affiliated (four active and two retired generals).

In contrast to its initial mission statement (to be only a pension fund), OYAK is currently a conglomerate consisting of vast holdings with activities including insurance, investment banking, automotive, petroleum, iron-steel, and cement industries, tourism, food marketing, etc. For almost a decade OYAK has been ranking in the top-three conglomerates in the country, and despite its persistent denials (see for instance its Annual Report, 2008:3, where it claims to “have never received any aid from the state or any other organization) continues to enjoy several unique and generous sets of subsidies from the state including tax exemptions, and legal protections.

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7 For a discussion on this point, see Insel (2004:51).

8 It is reported that in an incidence in 2003 the military prevented Sayistay inspectors’ access to military barracks using an internal legislation dated 1969 (Saribrahimoğlu, 2008). For a discussion, see Akay (2009), Akyeşilmen (2009), Hür, (2009a), and Karakaş (2009).

9 TSKGV is a sister corporation established in 1987 that has major shares in 18 defense related companies, whose range of production is diversified from aircraft artillery to missiles and telecommunication systems. In 2006, its total revenues amounted to $37 million and total assets to $350 million in current dollars (Tercuman, 2007). The total sales of its firms, on the other hand, exceeded $600 million in 2005. Similar to OYAK, TSKGV enjoys certain legal privileges such as exemptions from foundations tax, income and inheritance tax (on donations) and stamp duty. For a discussion of TSKGV, see Akça (2004, 2006), Bayramoğlu and Insel (2009), Günlük-Şenesen (2002, 2009).

10 For a detailed list of OYAK affiliated companies see OYAK web page: http://www.oyak.org.tr.

11 According to Article 35 (of OYAK Law), the exemptions of the Foundation include foundations tax, income and inheritance tax (on donations made to the Foundation and the assistance provided to its
that are enjoyed only by public offices. In addition, the military members (army regulars, defense ministry employees, etc.) pay compulsory fees from their monthly salaries. Specifically, a 10% compulsory levy is directly cut from the net salary of around 202,000 serving military personnel.

As of end of 2008, OYAK had shares in fifty companies (forty-six of which were majority stakes). Many of these subsidiary companies of OYAK are affiliated (or jointly-owned) with domestic and international corporations including (ownership shares in parenthesis) French car giant Renault (49%), tire company Goodyear (till 2005), AXA (50% till 2007), DuPont, Mobil, Shell, Koç, Sabancı, etc. In addition, OYAK enjoys regional and national monopolistic and oligopolistic market power in many of its businesses such as in cement and car industries where its total market shares reach 11% (making it the second largest cement producer after the Sabancı group) and 15% (making it the market leader). In addition, till recently it owned a major bank (Oyak Bank), and as of end of 2008 its portfolio management company was ranked 2nd in net sales (and 8th in total assets and number of active accounts) among all brokerage firms. In this respect, the business performance of OYAK with annual real profits growing more than 100% at times during the 1980s and 90s poses serious questions regarding the involvement of the military in the market.

The presence of such a large hybrid military-business holding helps shield the military from the negative effects of economic downturns while the rest of the society has no such safety net. This also correlates with the continuous resistance by the military against civilian attempts to reduce the size of the military spending in the face of a growing debt burden and ensuing austerity measures (Günlük-Şensesen, 2004). The reduced public spending on basic accounts such as education and health did not have any direct impact on the military thanks to its relative autonomy in determining its own budget and spending decisions without any effective supervision by the government. This absolute autonomy, combined with the benefits provided by OYAK prevented the military from directly experiencing the negative effects of the structural adjustment programs and successive economic crises.

Another example of the moral hazard problem created by the special status of OYAK is the privatization experience of Turkey during the 1990s and 2000s. Despite its quasi-public status and its claim to be only a pension fund, OYAK has been a frequent bidder in privatization auctions and acquired majority shares in several cement companies (Niğde, İskeleyer, and

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12 According to the article 37 (of OYAK Law), “the entire property as well as the revenues of and credits to the Foundation shall enjoy the same rights and privileges as State property. Offences against them shall be subject to the same legal action as offences against State property.”

13 Despite the fact that these mandatory fees are a major source of cash flow for OYAK, these “share holders” have little saying in the management or auditing of this private holding, given that the board of directors are appointed and not elected (Talu, 2009: 135). TEMAD (Turkish Retired Non-Commissioned Officers Organization) publicly complained and filed a court suit against the OYAK management for excluding them from the board of directors and auditors. TEMAD president is reported saying that there is no non-commissioned officer in the boards of directors of any of the OYAK firms, instead it is secretly decided which general will serve in which company’s board of directors prior to their retirement (Milliyet, 2005). Moreover, reserve officers, who are admitted as temporary members during their draft service, face a mandatory 5% cut in their salaries for OYAK without enjoying the same benefits full time army officer have (they receive only a limited life insurance benefit).

14 As a recent example of the military’s ability to increase its economic benefits at the expense of the rest of the society, in 2007 there has been a change in the military personnel law that extended the publicly provided economic benefits (including health insurance) to the military families raising the age limit to 25 (from 19) for male children while eliminating the age limit for the female children up until marriage (Akyeşilmen, 2009:15; Haber 7, 2006). The age limit of children for non-military families, however, is 18, and can only be extended up to 25 in case of university attendance for both genders.
Elazığ Çimento), a major bank (Sümerbank), a paper processing firm (SEKA Çaycuma) and the largest iron and steel plant of the country (Erdemir). In addition to questions regarding the objectivity of the privatization agency in choosing among the bidders one of which is directly affiliated with the military, there have been several other issues with the privatization process that need to be addressed.

One such questionable case is the sale of Sümerbank, which then included five other failed banks (Egebank, Yurtbank, Yasarbank, Bank Kapital, and Ulusal Bank that were merged into Sümerbank in 2001 under the directorship of Banking Regulation and Supervision Agency (BRSA)). Sümerbank was sold to the OYAK group to be merged into Oyak Bank in August 2001 and had 135 branches with 3,198 employees at the time of its transfer. Despite its $1.6 billion asset size that put it in the top 6 among private banks, Sümerbank was sold without an auction at a “cherry pick price” of $38,000 (52,000 YTL). Making the deal even more controversial was the fact that for the transaction BRSA lent a one year loan of $488.2 million to OYAK (as a part of transferred deposits for capital adequacy requirements) at a 15% interest rate for the first 5 months. This was at a time when the interbank interest rates were over 80% and deposit rates were above 60%, and the consumer inflation was 70% (for those last 5 months of 2001). Besides, the Turkish lira depreciated by around 8% during this period which would correspond to around $39 million loss for the public. The acquisition of Sümerbank made OYAK Bank, which at the time was a small size bank with a size 13 times smaller than Sümerbank, an important market player (Oyak Bank had only 11 branches and 488 employees just before the acquisition in 2001).

In less than six years, that is between the sale of Sümerbank in August 2001 to Oyak Bank and the sale of Oyak Bank to ING in March 2007, the Oyak Bank grew from 11 branches to 360 with the number of employees reaching 5,581. At the time of its sale in 2007, Oyak Bank ranked 5th among all private banks in total number of branches, 7th in total assets (reaching $8.3 billion), and 8th in total credits (reaching $5.2 billion). Back in March of 2001, on the other hand, among all private banks it ranked 33rd in total assets (totaling only $395 million) and 30th in total credits (totaling $107 million) (Turkish Banking Association online database). Its share in the total assets of the banking sector was then a bare 0.3%. As such, it is clear that Oyak Bank became a leading market player thanks to its acquisition of Sümerbank (as correctly predicted by the head of BRSA at the time of the sale\textsuperscript{15}). At the end, the OYAK group sold Oyak Bank to the Dutch banking and insurance group ING for $2.7 billion in March 2007. According to OYAK Group’s CEO, “The sale of Oyak Bank is important both as a strategic success and in terms of the liquid financial potential that it generated for OYAK. Expressed in US dollars, the earnings from the Oyak Bank sale correspond to nearly all of the gains secured by OYAK during the years of 1961 – 1999. We purchased Oyak Bank for USD 36,000. In just five years’ time we transformed it into an asset worth USD 2.7 billion. By selling it, we increased our members’ assets by more than 50% in a single stroke” (Ulusoy, 2007a: 17). In addition, according to the sale agreement, the BRSA required that the new joint bank (of Oyak Bank and Sümerbank) would not be re-sold [to another party] for a minimum of five years. In case it was, BRSA would receive 25% of the sale price, which itself suggested that Sümerbank was highly underpriced. The five year probation period was expired in August 2006, and as admitted by its chairman, the OYAK group started looking for a potential buyer right after that date (Türker, 2008).\textsuperscript{16}

\textsuperscript{15} Head of BRSA, Engin Akçakoca, in his speech during the transfer ceremony stated that “I believe that the sale of Sümerbank is a correct step for the OYAK group to reach the size it has long deserved” (Sabah, 2001).

\textsuperscript{16} Given the fraud allegations in the sale of Sümerbank, it is reported that inspectors under the orders of the Prime Minister (PM) started an investigation in 2005. According to the classified inspection report that was submitted to the PM Erdogan, the inspectors failed to obtain a complete record of all the assets that were transferred from Sümerbank to Oyak Bank. It is also reported that the investigators could not verify whether the sale price was valued correctly since there were no other offers to be compared (Özay, 2007).
In addition to the special privileges provided at the expense of the public and private sector that helped secure such gains, OYAK frequently used its special status as a military owned company to gather public support for its participation in some privatization programs. For example, in 2005, OYAK purchased the majority stake (46%) of the privatized (world’s 13th largest) iron-steel company, Erdemir, for $2.9 billion. Prior to its privatization, the public was bombarded with a PR campaign by the ultra-nationalist groups calling for a Turkish firm to buy such a strategically important company.\(^{17}\) Some nationalist NGOs, newspapers, labor unions and chambers of occupations such as the Union of Chambers and Stock Exchanges of Turkey (TOBB) and Ankara Chamber of Trade (ATO) were even calling for public protests against its possible sale to a foreign firm.\(^{18}\) Moreover, during a meeting (prior to the sale of Erdemir) with OYAK dealers in Antalya in 2005 the CEO of OYAK (Çokşun Ulusoy) (wearing a t-shirt with the colors of Turkish flag) is reported saying that “strategical organizations [such as Erdemir, Turk Telecom and Tupras] should not be privatized… Foreign firms that buy [Turkish] firms and banks have connections to foreign governments. In other words, our state is selling and foreign states are buying. This makes me sad as a Turk. If they needed to be privatized, it should be the Turkish firms that are buying” (Bulut, 2007).\(^{19}\)

However, according to press reports, it took only a few months for the OYAK Group to start negotiations for a partnership with the multinational steel giant Arcelor-Mittal that later acquired 25% of firm in the stock market.\(^{20}\) Likewise, the same OYAK had no problem selling its Oyak Bank (that dealt with all financial transactions of the Turkish army including all personnel payments and private financial transactions of its personnel and enlisted army conscripts) to ING.\(^{21}\) From 2005 up until its sale, no other bank or financial institution were allowed to open branches or have ATM machines within the military barracks. In response to growing public criticism against the sale of Oyak Bank and increasing share of foreign ownership in the banking sector, especially after such nationalist statements, OYAK Group responded claiming that the sale of Oyak Bank would not have any significant effect on the market given its limited market share (around 3%). More interestingly, in view of the resistance by the military to the legislative changes for the European Union (EU) membership of Turkey, the chairman of OYAK, (retired lieutenant general) Y. Türker, defending their sale decision, argued the following: “Isn’t entering

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\(^{17}\) Interestingly, despite the nationalist rhetoric, it is revealed that OYAK-Renault is possibly the only car manufacturer that does not buy its iron and steel supplies from Erdemir but chooses to import them from a French company located in France despite the obvious cost disadvantage (Çiftçi, 2005).

\(^{18}\) The fact that labor union (Turkish Metal) opposition to the privatization of Erdemir stopped overnight after its sale to the OYAK group raised questions about the union’s motivations. That is, whether it was because of their interest in worker rights, class struggle, or plain nationalist reaction? (Karakaş, 2006). Likewise, the very same Turkish Metal Union silently accepted a 35% wage cut for its 13,000 members working in Erdemir in 2009 (Kuçük, 2009; Radikal, 2009). While this was claimed to be because of the global economic crisis, only recently CEO of Oyak, C. Ulusoy, had claimed that the crisis had not affected Oyak group.

\(^{19}\) Up on wide-spread criticism of C. Ulusoy and OYAK management for the sale of OYAK Bank to ING despite such earlier nationalist statements during the privatization of Erdemir, C. Ulusoy put out a statement in OYAK web page in June 2007 with the following similar (allegedly the original) text of that 2005 speech: “I certainly didn’t want strategical organizations such as Turk Telecom, Tupras, and Erdemir to be privatized. Friends, these are strategical organizations…These are founded by sweat, tears… and lives … and now we are selling them. If needed to be sold, they must be in our hands… It is as if the Turkish government is saying that I don’t want [them], is there any other country that wants? Come and take. Either foreign state institutions or disguised special institutions [controlled by other countries] are entering the auctions. These points sadden [me] as a Turk” (Ulusoy, 2007).


\(^{21}\) The examples of sale of OYAK firms to foreign companies can be multiplied. See for example, the sale of cement firm, Elazig Altinova, to Cementir in 2006.
EU one of our goals as a country? Isn’t one of four main items that will have free mobility in EU finance, capital, [and] resources?” (OYAK Dergisi, 2008:5).

Moreover, some of the criticisms against the sale to ING regarding the sensitive information held by the bank (i.e. on the transactions involving the military) were rebuffed, calling the critics “un-informed, ignorant people”. Accordingly, “the claim that secrets of the army will be available to the foreigners is not correct. If the claimants could think of this possibility, it is not possible for the OYAK management including high ranking military commanders not to think of the same” (Türker, 2008:6). As clearly implied by this statement of its chairman, OYAK is NOT a private company.22 Besides, the manner in which the OYAK management responds to its critics also fits more of a military organization then a private pension firm. In 2007, OYAK sued five journalists and economists (Prof. Aydın Ayaydın, Prof. Güngör Uras, İbrahim Haselci, Metin Münir, and Yiğit Bulut) for $2 - 4 million each for criticizing its purchase of Erdemir by the OYAK group claiming that the journalists in question “damaged the reputation and economic interests and relations of the holding”. It also sent a warning letter to an economist, Prof. Deniz Gökçede, threatening to sue if he continued to write negative comments about the holding. In the complaint, one of the journalists, Metin Münir, is even implicitly accused of being a “spy”23 (Referans, 2006).

3. THE TURKISH MILITARY-BUSINESS EMPIRE: A TERRESTRIAL OR A CELESTIAL ONE?

Figures 1 and 2 show the growth of OYAK Holding during the 1990s. They suggest that the increasing power of quasi-private military owned corporations in the economy not only generated a distorted market structure but also led to the legitimization of unfair competition against other market players who do not have the same privileges OYAK and its affiliates enjoy. Looking at the profitability figures, we see that net profits of OYAK steadily increased from around $76 million in 1988 to as high as $1.9 billion in 2007. In comparison, its average balance-sheet profits in constant 2005 dollars increased by a product of 1.8 from 1960s to 1970s and 1.03 from 1970s to 1980s. In contrast, its real profits increased by 7.2 times from 1980s to 1990s. Even during 2000-2008 that includes two major crisis periods of 2001 and 2007-8, average real profits jumped up by 2.4 times compared to the 1990s. In fact, between 1990 and 2007 when the average annual real GDP growth was 4%, the average real growth rate of OYAK Holding’s profits in dollars (liras) was 17% (16%) (during the 1990s, it was 15%). Thus, it is not far-fetched to argue that OYAK has been one of the main benefactors of the economic liberalization programs. Such figures may also hint one of the unexplored dynamics behind the strong commitment of successive governments (and military generals) to the non-reversibility of economic liberalization programs.

Even without the special privileges provided to OYAK, the system creates a suitable environment for serious moral hazard problems. To list a few, there is no public disclosure regarding the military’s access to classified economic decisions (directly through National Security Council or indirectly through its own institutional means) that may have direct effects on OYAK’s operations in the market. For example, was the military informed of the devaluation decision on February 23, 2001 that ended the crawling peg exchange rate regime under the IMF

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22 This probably explains the insistence of OYAK to claim that “OYAK is not a part of Turkish military forces”, or that OYAK “has never received any aid either from the state or any public institution (OYAK Annual Report, 2008).

23 In 2007, the court rejected the complaint and dropped all charges.
sponsored anti-inflation program? The devaluation led to the depreciation of the currency by 40% overnight and was preceded by a sharp fall in the stock market together with skyrocketing interest rates as high as 5,000% in the interbank money market. Given that OYAK owned a major bank and a brokerage firm at the time, the extent to which such a move would lead in terms of profit margins is undeniable. Likewise, whether in practice the market rules and regulations (such as insider-trading laws, anti-trust laws, etc.) are equally applied by the BRSA, Capital Markets Board, and the Competition board, among others, to those firms and financial institutions that are owned by OYAK?

Given the lack of detailed data (that are not available except for those OYAK firms that are publicly traded), it is very difficult (if not impossible) to have definite answers to these questions. However, looking at the available income statement data, we can see that financial revenues (that include revenues from deposits, stocks, bonds, portfolio transaction profits, investment fund interest earnings, and foreign exchange transactions) on average accounted for 33% of total revenues of OYAK during 2000-2008. Focusing on 2001, we see that more than 31% of financial revenues (that accounted for 40% of total revenues that year) came from one single account that was the foreign exchange transactions.

In figure 3 we compare the median net financial profits from non-operational activities (including foreign exchange transactions, interest earnings and dividends from participations) to sales ratio of eight OYAK owned publicly traded real sector companies with other non-financial firms traded in the Istanbul stock exchange market (ISE) using semi-annual data between 1993 and 2003. The figure shows the importance of financial profits and can be used as an indicator of the degree to which real sector firms are involved in the financial sector investments.

Accordingly, between 1993 and 2003 on average the median net financial profits to net sales ratio of these eight firms was 274% higher than the median among 152 publicly traded firms. In fact, the median (mean) financial profits/net sales (fpns) ratio for OYAK firms reached as high as 20% (19%) and 25% (36%) in the first half of 1994 and 2001, which are also the dates for the two of the most serious economic crises when the domestic currency was devalued by 39% and 40% overnight on April 6, 1994 and February 23, 2001 respectively. Accordingly, the OYAK firms exceeded market median in fpns ratio by a 5.24 times in 1994:1 and 3.32 times in 2001:1. Furthermore, OYAK holding’s performance also surpassed its rivals such as Koç and Sabanci holdings during the 2001 crisis and its aftermath in 2002. According to figure 4, which shows the growth rate of real net profits (in Turkish Lira) of OYAK in comparison with Koç and Sabanci holdings (before taxes) in 2001 and 2002, OYAK performed significantly better than the other two with a miraculous 55% growth rate in 2001. Looking at the revenue and expense accounts of TSKGV, similar to OYAK, we also see that on average 71% of all revenues of the foundation came from three sources: the stock market earnings, foreign exchange transactions, and interest earnings between 1987 and 2000 (Günlük-Şenesen, 2002:55).

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24 It is reported that the portfolio manager of OYAK Holding admitted that, thanks to her “gut-feeling”, she moved to the dollar from Turkish lira right before the devaluation (Hür, 2009a).
25 OYAK Holding did not disclose its financial statements prior to 2000, and even after that the details of its annual statements and their aggregates are not publicly available.
26 For this, we use annual income statement data acquired from OYAK holding rather than the annual reports from its web page.
27 For an in-depth discussion on this point, see Demir (2009b).
28 When we exclude Aselsan from the dataset, the median (mean) becomes 19% (18%) for 1994:1 and 31% (42%) for 2001:1.
Another sign of the economic (and political) importance of the military in the market is that it is a common practice to hire retired high ranking military officers with no past business experience (or economics knowledge) as advisors or members of boards of directors of private firms.\(^{29}\) In a widely publicized case during the banking crisis of 1999 (when six banks failed due to high level of fraud) it was revealed that most of the failed banks had several high ranking military officers in their boards of directors.\(^{30}\) Accordingly, General Muhittin Fisunoglu (former commander, Land Forces, 1990-93), General Teoman Koman (former commander, Gendarmerie, 1995-97), General Vural Beyazit (former commander, Naval Forces, 1992-1995)\(^{31}\) entered the board of directors of Sümerbank, Interbank, Etibank, respectively, upon retirement. Likewise, General Guven Erkaya (former commander, Naval Forces, 1995-97) served as an advisor to the owner of (failed) Bank Ekspress and Kanal 6.\(^{32}\) However, when these banks failed, only their civilian managers were prosecuted for fraud and the former generals were left completely untouched (Yeni Aktuel, 2007). Ironically, to clear their names, the former generals started playing the ignorance and incompetence card. For example, after the bank failures, M. Fisunoglu responded to a question (regarding his expertise to be able to serve in the board of directors of Sümerbank) saying that “one doesn’t need to have the technical knowledge [on banking] to serve in a board of directors”. He further admitted that when he was first offered the job his initial response to the owner of the bank (Hayyam Garipoglu) was: ‘I am not a banker’, to which he received the reply that “…then you will act as an elder brother to us’. He apparently had no problem with such a vague answer from a businessman since he stated that: “I then found the offer attractive” (Milliyet, 1999). Likewise, trying to prove his innocence during his interrogation at the State Security Court for the Etibank fraud, General Vural Beyazit also claimed that “I don’t understand banking” (NTV, 2001).\(^{33}\) Yet, Hayyam Garipoglu, who was given a 27 years prison sentence for his role in the Sümerbank fraud, complained publicly that “he found it strange that the generals who served with him on the board of directors were not prosecuted”. Accordingly, he stated that “even though we had the signatures of each of the members of board of directors on every credit decision that I am accused of [fraud], there was no court case against him [M. Fisunoglu]” (Zaman, 2006).

Regarding the corruption scandals involving the military, a retired Lieutenant General claimed in an interview that the reason he was retired instead of being promoted to Chief General position was his involvement in the disclosure of a recent corruption scandal in the army. Accordingly, upon his disclosure of the production flaws in the military ambulances purchased from a private company, the company sent one of their representatives who turned out to be one of the retired lieutenant’s former commanders in the army. The former commander, current businessman, in return threatened the Lieutenant with early retirement instead of promotion,

\(^{29}\) For a list of former military officers and their new jobs at prestigious private firms, see Atsiz (2005), and http://www.arastirlim.net/batik-isadami-generallerin-listesi.html.

\(^{30}\) During 1997-2004, 22 banks failed in Turkey with a cost of $46 billion to the public (Saving Deposit Insurance Fund, 2004).

\(^{31}\) It was reported that up on his departure from Etibank, V. Beyazit went on to the payroll of CNR Fuarcilik firm (Yeni Safak, 2001).

\(^{32}\) Both firms belonged to Korkmaz Yigit, who was jailed for theft for 3 years.

\(^{33}\) In another controversial example of the business interests of retired soldiers, retired General Staff Chief of Operations Lt. Gen. Koksal Karabay (who was in charge of the Turkish Special Forces when some of his soldiers were detained by the US forces in Iraqi Kurdistan) is reported to be a major partner in an affiliate of the private security firm, Black Hawk, to be set up in Eastern Turkey close to the Iraqi border in 2007. According to the news reports, the partners of the firm also included provincial governor and a retired ambassador (Çölgeçen, 2006).
which then came out to be the case (Süsoy, 2004). Likewise, in 2006 two Lieutenant Colonels and 23 soldiers were prosecuted for fraud involving $454 thousand in a military construction project (Radikal, 2006). In a more publicized case, the former general of Naval Forces (1999-2001), İlhami Erdil, was sentenced to two and a half years in jail (that was the lowest permissible sentence) in 2006 by the military court for corruption and bribery involving millions of dollars (Akiner, 2007; Yenişafak, 2006). The examples of corruption and bribery scandals involving high level active and retired officers can be multiplied (Çetin, 1999; Radikal, 2001, 2008; Özfatura, 2004, Sabah, 2008; NTV, 2007; Taraf, 2009a, b; Baransu, 2009). Therefore, it was no coincidence that there were popular calls by former generals to the military to make it a rule for soldiers to disclose their wealth upon promotion and retirement (Düzel, 2001). In fact, even the chief of staff, General Huseyin Kivrıkoğlu, issued a statement in 1999, which was widely ignored, calling retired generals not to work in private companies (Sabah, 1999; Yeni Aktuel, 2007).

Last but not the least, since 2008, there have been a series of high-profile detentions under the investigation into an ultra-nationalist group called Ergenekon (a secret criminal network whose members are accused of having planned and staged coup-attacks and assassinations) including three retired generals, colonels, captains, former police chiefs, head of Ankara Chamber of Commerce, former chairman of the Higher Education Board, university professors, journalists, businessmen and mafia bosses “on charges of forming and leading a terrorist group and seeking to overthrow the government”. Furthermore, according to recently disclosed conversation transcripts (in the Ergenekon trial) involving businessmen and high ranking military officers, there is evidence that the military-business partnerships go beyond those that are publicly visible. For example, the owner of one of the three largest business groups in Turkey, M. E. Karamehmet of Çukurova holding, was recorded in 2003 asking a high-ranking military officer for favors regarding his firms and business dealings (Baransu, 2009). M.E. Karamehmet was also recorded asking Gendarmerie Intelligence Head L. Ersoz for help in his dealings with the BRSA regarding his bank, Pamukbank (Taraf, 2009a, b; also see Today’s Zaman, 2008).

Furthermore, as revealed during the Ergenekon trial, rent seeking coalitions also extend to the labor unions and chambers of trade as well. The former (and current honorary) head of Turkish Metal Union (that discreetly accepted the sale of Erdemir to OYAK - despite its initial objections and protests against the privatization plan - and the subsequent 35% pay cut for its workers in 2009), Mustafa Ozbek, for example, is recently reported to be involved in the Ergenekon plot offering 8 trillion liras ($6 million) from the union budget as a funding source to the coup-plotters. Besides, Mr. Ozbek himself is discovered to have millions of dollars of personal wealth (including two 5-star hotels, a TV station and more than 60 real estates in Turkey and abroad), despite the fact that he had no prior occupation other than being the head of the union for 33 years (Bianet, 2009; Haber7, 2009). Likewise, during the arrests over the Ergenekon plot, the police found unaccounted 2.5 million Euros in the home of the head of Ankara Chamber of Trade (Sinan Aygün).

In this picture, the inability of domestic pressure groups to prevent the military involvement in politics and economy resonates with the lack of external pressure from international financial organizations such as IMF or WB. Despite repeated IMF agreements and multiple Structural Adjustment Programs with the WB, there has been no publicly disclosed criticism by these twin institutions of the military budget, its un-transparent nature, or the unfair competition and market distortion created by OYAK. What is equally surprising is the lack of any systematic research in academics on this issue.34 Similar questions apply to the corruption scandals involving active and retired military officers. Although a quick search in Google revealed over 1.3 million web sites (in July, 2009) involving the word ‘OYAK’, the academic

34 Günlük-Şenesen (1995) raised a similar issue regarding a general lack of interest among economists on economic impacts of Turkish military spending.
work done on it is limited with only few studies (e.g. Akça, 2004, 2006, 2009; Demir, 2005; Karavelias, 1998, 2008; Parla, 1998; Yüksel, 1999).

Turning to the private businesses that have to compete with OYAK on uneven grounds, there have been only some minor criticisms, none of which were raised loud. One such case came shortly after the military’s decision in 2005 to ban all banks from military barracks and direct all salary and wage transactions to Oyak Bank. As such, Oyak Bank (up until its sale) became the only banking service provider within military bases. There has been some press reports suggesting that private banks were highly critical of this yet had to remain silent because of fears from the military (Zaman, 2005a). Similarly, when Coskun Ulusoy, the CEO of OYAK Group, claimed in 2005 to have surpassed Koç and Sabanci holdings (that are the larges two holdings in the country) in profitability and productivity, Bülend Özyüdünü, the CEO of Koç holding reportedly replied back saying that ‘apple and pear’ cannot be compared equally.35

One exception appears to be the European Parliament (EP). According to the EP provisional report on Turkish accession, “… the [Turkish] army has much more power than is acceptable for a constitutional state. The National Security Council epitomises the political power of the military. The defence budget is separate from the national budget and is completely outside parliamentary control. The army has an unparalleled power over business, education and the media” (EP, 2003). In 2009, the EP again stated it “regrets that no progress has been made on establishing full systematic civilian supervisory functions over the military and on strengthening the parliamentary oversight of military and defence policy.” It also “regrets that the Turkish government has not presented any comprehensive anti-corruption strategy; underlines the need to strengthen parliamentary oversight over public expenditure and the need for new legislation in respect of the Court of Auditors (EP, 2009).

Although part of the explanation on the Turkish side lies in the institutional and historical setting of the country, the silence of researchers and international organizations on the subject deserves further discussion. To mention a few of the domestic reasons for this general lack of interest, we can list the following: Turkish military has staged three coups with only ten year intervals in 1960, 1971, 1980, and a semi-coup in 1997, and routinely issued ultimatums to the democratically elected governments.36 As the founding institution of the republic in 1923, the military sees itself as the guarantor and supervisor of the national interests with changing emphasis on the so called national threats, namely the fundamentalist threat, communist challenge and the ethnic Kurdish separatism.37 It is a very common practice among high ranked military officers to make political statements and warnings (or even threats to the media and politicians) in press conferences (see, for example, Taraf, 2008, and for a discussion see Bayramoğlu, 2004; Balancar and Elmas, 2009). So much so that the subject matters of the official public statements of military officers range from philosophy and political science to economics and sociology and includes topics as far as labeling “post-modernism” as a danger to the existence of Turkish state.38 A most recent example of this was during a special press conference by the military involving 36 generals in June 2009 where the Chief of General Staff criticized and denied the legitimacy of

35 Economist Ege Cansen was among few journalists that criticized OYAK and its involvement in the market through its majority owned firms as well as its participation in privatization auctions (Cansen, 2005).
36 For a discussion, see Balancar and Elmas (2009).
37 For an in-depth analysis of the Turkish military as a separate class and the historical, institutional, political and economic sources of its autonomy and hegemony, see Insel (2004), Insel and Bayramoğlu (2004), Laçiner (2004a), Bayramoğlu and Insel (2009), and Karavelias (2008).
38 İşik Koşaner, the current commander of land forces (and likely future Chief of Staff), in a recent speech criticized and demonized post-modernism. For a discussion, see Berktya (2009). Also, for an example of the chiefs of military staff’s references to politics, philosophy, constitutional rights, etc., see Başbuğ (2009). Other examples can easily be found from the Turkish Military Forces web site (www.tsk.org) including the transcripts of the speeches (and press declarations) made by the chiefs of staff.
newly released reports showing detailed military plans for a coup (Milliyet, 2009). These, together with the existence of repressive political, bureaucratic and legal mechanisms against independent research and analysis created a suitable environment for self-censorship and kept the researchers away from such sensitive subjects. To this self-censorship, we also need to add the unquestioned loyalty to Kemalism and the military, which are seen by the state bureaucracy and certain segments of the academia as the only modernizing forces in the Turkish development experience (Bayramoğlu, 2004; İnsel, 2004; Laçiner, 2004a). As a result, most social scientists claiming to be on the left or right side of the spectrum share a common consensus in never questioning the role of the military in economy or politics.

To give a concrete example, despite the presence of a strong anti-globalization (and anti-EU), anti-neoliberalism and anti-corruption camp (theoretically speaking, an interesting combination) in the Turkish academia, only few academicians ever raised questions regarding the corruption scandals involving the army, military budget, or the business interests of the military and the crony-capitalist environment its business organizations create (not to mention the military’s frequent interventions in the political system and repeated human rights violations). In one widely circulated news report, the details of persistent military interventions in political system became public. According to the transcripts of a briefing in 2004 given to the PM R.T. Erdoğan (RTE) by the Deputy Chief of General Staff Commander İ. Başıbü (IB) (current Chief of Staff), the following conversation took place (Kılıçgedik, 2009):

IB: You said you took lessons from your experiences, but your actions don’t confirm that.
RTE: I changed by improving myself. The media distorts. Black turns to white. We are respectful of the definition of secularism.

IB: It is very dangerous that you emphasize [in your speeches] the concept of “being from Turkey” instead of Turkishness.
RTE: We have no problem with the central tenets of Turkey. We are sad to hear that you are concerned on this.

IB: We are curious whether you see democracy as a tool to transform Turkey into a liberal Islamic country.
RTE: We don’t accept the danger of fundamentalism. Islam is my own person reference point not that of the party.

RTE: We are not against warnings or demands. We followed your opinions on the Public Management legislation.

IB: Encouraging separatism should be avoided. [Changes in legislations for accession to] the European Union membership can be slowed down.
RTE: If we cannot become a member in 2004, we will have the B-plan in place. In case it doesn’t happen, we are having talks with Russia.

As a recent display of military’s power and influence, in 2006 a state prosecutor (Ferhat Sarkaya) who, after the Şemdinli incidence in Van, implicated in his indictment the Chief of General Staff (Yaşar Büyükkanıt) for terrorism, abuse of power and fraud was immediately disbarred (by the Supreme Board of Judges and Prosecutors-HSYK) from all his legal powers and rights as a lawyer and prosecutor (Keskın, 2006). It was later claimed that Ferhat Sarkaya was disbarred following an order from the General Staff (Today’s Zaman, 2009b, also see Balancar an Elmas, 2009: 189-190). In fact, the military is so much immune from political control that in 2004 it could rename a military headquarter in eastern Turkey after General Mustafa Müğlalı, who was tried and sentenced first to capital punishment that was later reduced to 20-year in prison for the murder of 33 Kurdish peasants in 1950. The military headquarter is located in the very same region where the 33 peasants were ordered to be shot dead by the general (for a recent discussion, see Hür, 2009b).

It is very common for the Turkish military to sue anybody who criticizes its involvement in politics or economy using different articles of the Turkish penal code (TCK). For example, in 2005 General İlker Başıbü sued journalist Rahmi Yıldırım (who wrote that “the pashas who are the unyielding defenders of Atatürk principles and revolutions are in fact the defenders, actors and soldiers of the capitalist order”)
Instead, those who claim to be on the left (including academicians, labor unions, newspapers, etc.) have become defenders of a national capitalist class and the military, reminding the corporatist ideology with an alliance of the military, capitalists, labor and state bureaucracy (Laçiner, 2004b). As a result, even a pro-military, pro-dictatorship and ultra-nationalist newspaper (Cumhuriyet) could be portrayed by the same groups as a torch against the imperialist centers defending the independence and enlightenment ideals of the republic. Thanks to all these factors, it is no surprise that the academic research on the military’s economic and political interventions attracted only limited attention.

CONCLUSION

The failure of the free market-oriented reforms under the flagship of neoliberalism in uprooting rent-seeking coalitions and crony-capitalism in Turkey should not catch us by surprise. As discussed more than half a century ago by Polanyi, “there was nothing natural about laissez-faire; free markets could never have come into being merely by allowing things to take their course. … laissez-faire itself was enforced by the state” and that “laissez-faire was not a method to achieve a thing, it was the thing to be achieved.” (p. 139). Yet, like its predecessor, the neoliberal liberal creed ignored this basic rule and fantasized that if we just “let them do” and “let them pass” the markets would self-regulate. Instead, in the Turkish context, the pre-existing rent-seeking coalitions with their class relations survived the transition by adapting to the new set of conditions. The military, in particular, managed to adapt to the liberalized market system without any loss of political power while managing to increase its economic muscle using the special privileges it inherited (and skillfully created). In this regard, looking at its business dealings, there is nothing celestial about the objectives or the functioning of the Turkish military. What is surprising is that even though “researchers often refer to the Turkish officer corps as a ruling elite, they avoid treating the military as a socio-economic class” (Karabelias, 2008:1; also see İnsel, 2004 and Laçiner, 2004a). Given its active participation in the market through its (protected) direct and indirect business dealings, and given its use of political muscle to increase its members economic well-being at the expense of the rest of the society, and given its willingness to link to the domestic and international capital without any regard to the political or strategic sensitivities or nationalistic rhetoric it often raises in the domestic political arena, the Turkish military has become a part of the capitalist class (albeit a neo-mercantilist one) and it should be treated as such.

While in a democracy, the military cannot play the role of an opposition party, or claim to be the final arbiter on subjects ranging from philosophy to constitutional law; it is equally true for it not to play the role of a capitalist entrepreneur. Otherwise, the inevitable result is the blurring of “the lines between the private and public economy, and between the economic and the political” (Parla, 1998: 49). As of 2009, it yet remains to be seen whether the ripening private domestic capitalist class and bourgeoisie will continue to tolerate this blurring of the lines and accept different forms of bribery through business partnerships or challenge the political and economic hegemony of the military and its coalitions with the antediluvian fossils.42

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42. Engels, referring to the conflicts and struggles among the military, government and the bourgeoisie wrote that: “in an atmosphere of daily modernisation, and amongst thoroughly modern capitalists and workers, we find the most wonderful antediluvian fossils alive and active: feudal lords, seignorial courts; country squires, birching, central government officials, local government officials, craft corporations, conflicts of...
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authority, bureaucracy with penal powers, etc. And we find that in the struggle for political power all these living fossils are banding themselves together against the bourgeoisie, whose property makes it the most powerful class of the new epoch and who is demanding that the former should surrender political power to it in the name of the new epoch” (Engels, 1865).


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Figure 1: OYAK Holding Net (Actuarial) Profits

Source: OYAK Holding Annual Financial Statements.
Notes: The figures 1 and 2 are in constant US dollars deflated by the US Wholesale Price Index (2005 =100).
Figure 2: OYAK Holding Total Assets

Source: OYAK Holding Balance Sheets, Various Years.
Figure 3: Median Financial Profits/Net Sales Ratio of OYAK Owned firms vs. Istanbul Stock Exchange

Source: Istanbul Stock Exchange online data dissemination system. Available at: http://www.imkb.gov.tr

Notes: OYAK refers to the median of eight OYAK owned firms including Adana Cimento, Aselsan, Bolu Cimento, Hektas, Mardin Cimento, Nigde Cimento, Tukas, and Unye Cimento. ISE refers to the median of non-financial publicly traded firms at Istanbul Stock Exchange. The financial profits are net of losses and expenses from other operations and include all non-operational profits excluding interest expenses. Sales are on a net basis.
Figure 4: Real Annual Growth Rate of Net Profits in 2001 and 2002 (in TL, 2005=100)

Source: OYAK holding balance sheets and Istanbul Stock Exchange online data dissemination system. Available at: http://www.imkb.gov.tr