THE POLITICAL ECONOMY OF TURKEY WEALTH FUND: THE INTERPLAY BETWEEN FISCAL POLICY AND ECONOMIC GOVERNANCE

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DECLARATION OF ORIGINALITY

I, Berkay Örmeci certify that

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ABSTRACT

The Political Economy of Turkey Wealth Fund:

The Interplay Between Fiscal Policy and Economic Governance

The studies on the political economy of Sovereign Wealth Funds (SWFs) in recent years revealed many aspects of international economic relations, economic policymaking, and domestic political relations. Although the role of SWFs in international economic relations is widely recognized, one of the most complex and arguably understudied topic is the role of SWFs in the evolution of political regimes. The studies demonstrate that SWF behavior differ depending on the varieties of political regimes.

Turkey Wealth Fund (TWF) is established in 2016 when the policymaking practices in Turkey were going through significant changes toward a centralized decision-making structure. Although the discussions on TWF revolved around its potential effects on fiscal discipline however, the changing nature of economic governance and political regime in terms of institutions and policymaking were overlooked. This thesis tries to answer three questions that can be fruitful for general audience and scientific research. What is the political economic rationale behind the establishment of TWF? What are the institutional changes that TWF brought into the economic governance of Turkey? What is the relationship between the ongoing political economic transformation in Turkey and the establishment of TWF? By doing so this thesis tries to go beyond the explanations of daily political agenda on TWF and challenge the existing conceptualizations on SWFs.

ÖZET

Türkiye Varlık Fonu'nun Ekonomi Politiği:

Mali Politika ve Ekonomi Yönetişimi Arasındaki Etkileşim

Ulusal Varlık Fonları'nın (UVF) ekonomi politiği üzerine son yıllarda yapılan çalışmalar uluslararası ekonomik ilişkilerin, ekonomik politika yapımının ve iç politik ilişkilerin birçok yönünü ortaya çıkarmıştır. UVF'lerin uluslararası ekonomik ilişkilerdeki rolü geniş çapta kabul edilse de, en karmaşık ve tartışılır biçimde az çalışılmış konulardan biri, UVF'lerin siyasi rejimlerin dönüşümündeki rolüdür. Çalışmalar, UVF davranışının siyasi rejimlerin çeşitlerine bağlı olarak farklılık gösterdiğini göstermektedir.

Türkiye Varlık Fonu (TVF), Türkiye'deki politika yapım süreçlerinin merkezileşme doğrultusunda önemli değişimler geçirdiği 2016 yılında kuruldu. TVF ile ilgili tartışmalar mali disiplin üzerindeki potansiyel etkileri etrafında dönse de, ekonomik yönetişimin ve siyasi rejimin kurumlar ve politika oluşturma açısından değişen doğaları gözden kaçırıldı. Bu tez, genel okuyucu ve akademik çalışmalar için verimli olabilecek üç soruyu yanıtlamaya çalışır. TVF'nin kurulmasının arkasındaki politik ekonomik mantık nedir? TVF'nin Türkiye'nin ekonomik yönetimine getirdiği kurumsal değişiklikler nelerdir? Türkiye'de devam eden siyasi ekonomik dönüşüm ile TVF'nin kuruluşu arasındaki ilişki nedir? Tez bu yolla TVF üzerine günlük siyasi gündemce getirilen açıklamaların ötesine geçmeyi amaçlar ve UVF'lere ilişkin mevcut kavramsallaştırmaları sorgular.

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ABBREVIATIONS

ADIA: Abu Dhabi Investment Authority

AUM: Asset Under Management

BIST: Istanbul Stock Exchange

CBRT: Central Bank of the Republic of Turkey

CEO: Chief Executive Officer

CMB: Capital Markets Board

EBRD: European Bank for Reconstruction and Development

EME: Emerging Market Economies

EU: European Union

FDI: Foreign Direct Investment

FED: Federal Reserve

FX: Foreign Exchange

GDP: Gross Domestic Product

GIC: Government Investment Corporation

IFSWF: International Forum of Sovereign Wealth Funds

IMF: International Monetary Fund

IRA: Independent Regulatory Authorities

JDP: Justice and Development Party

KIA: Kuwait Investment Authority

MP: Member of Parliament

NEP: New Economic Policy

OECD: Organisation for Economic Co-operation and Development

OPEC: Organization of the Petroleum Exporting Countries

PPP: Public-Private Partnership

QIA: Qatar Investment Authority

SME: Small and medium enterprises

SOE: State-Owned companies

SWF: Sovereign Wealth Fund

SWFI: Sovereign Wealth Fund Institute

TWF: Turkey Wealth Fund

UAE: United Arab Emirates

UK: United Kingdom

US: United States

WB: World Bank

CHAPTER 1

INTRODUCTION

When Turkey Wealth Fund was established in August 2016 it became a heavily discussed topic in public. The often-mentioned issues about the fund were first, its accountability mechanisms which held no checks and balances from any branches of the parliament and ministries but only to the president. An accountability-free fund that acquired the biggest state-owned companies and controlled around $40 billion meant a potential macroeconomic mismanagement crisis in future for many critics. The second concern about the fund was its vaguely explained purpose and its function. Most of the SWFs are established in the countries that are running current account surplus (China, Singapore, Korea) or possess natural resource wealth (Gulf States, Norway, Russia). These countries simply establish the funds to recycle the excess reserves either to prevent the inflationary pressures and to put their resources in good use.

In the Turkish experience, Turkey Wealth Fund is not built on neither excess reserves nor natural resource wealth, additionally, Turkish economy is struggling with liquidity and solvency issues for a long period. Allegedly, critics saw the fund as a way to cover the ongoing nepotism and crony capitalism of JDP government, a way to distribute the resources for political purposes. The prolonged establishment of the fund in its first years and increasing liabilities of the companies that were acquired at the beginning helped raise these concerns more. However, 2020 started with major acquisitions such as the merger of all public insurance companies under TWF, 20 mining fields and the national telecommunications giant Turkcell. Also, TWF CEO announced that they would buyout major Turkish companies in case of bankruptcy due to the pandemic crisis.

As an intriguing case among SWFs, it is still hard to explain why TWF was established in the first place and what political economic implications it brought about. The explanations are mostly unsatisfactory, and the issue is under-studied in the academia. Since 2016, only 45 studies mention TWF and very little directly analyze it however, from very limited scopes. In order to clarify the equivocalness and to provide a more thorough explanation on the merits of TWF I try to answer three questions. What is the political economic rationale behind the establishment of TWF? What are the institutional changes that TWF brought into the economic governance of Turkey? What is the relationship between the ongoing political economic transformation in Turkey and the establishment of TWF?

Ultimately, Turkish case among other SWFs is an example of a political keystone of an ongoing regime transformation. TWF has not only become a consequence of authoritarian transformation but also served as a tool of the transformation. The establishment and management of TWF reveals the ideas, interests and institutions at interplay during the hypercentralization of policymaking in Turkey. First, it reflects the ideational change that JDP policymakers has gone through since 2002. Changing structure of global political economy after the 2008 financial crisis which is marked by the emergence of new key players such as Russia and China, and their mix of capitalist rationality, developmentalist vision and centralized policymaking structures created multiple policymaking opportunities for semi-peripheral and peripheral countries other than ideas, institutions and practices that Washington Consensus proposed (Öniş, 2019). This multipolarity presented new policy models that EU anchor and Derviş reforms envisioned (Öniş & Kutlay, 2020).

TWF is one of the results of this new policy model that could diffuse easily after 2008. The model was borrowed from Malaysian and Singaporean SWFs that intertwine the interests of the government and the state through putting the state resources directly under the government's control and economically play a directive role in the name of national development goals and national interests (Carney, 2018). TWF plays an important role in the latest economic policy initiatives that increase the role of state participation in investment activities. Unlike the role that JDP government played in its first three terms which is marked by promoting privatizations and PPPs TWF is directly investing in capital intensive infrastructure projects and inject capital to financial institutions during turbulent periods. Also, it retains large stakes in crucial sectors such as energy, finance and telecommunications which also help the government to steer the economic activity quickly.

Second, JDP as a political party strived for political survival through eliminating checks and balances on policymaking. Through the process, the party also aligned the interests of the government with national interests. First, IRAs were brought under control of ministries through administrative and budgetary reorganization. Second, processes of overseeing and auditing public expenditures were trivialized through transforming judiciary and parliamentary authorities. Third, both monetary and fiscal policymaking were redesigned around the President's discretion by the new Presidential System and by further retrenchment of the powers of veto players. Lastly, the President started to actively use the unchecked powers to determine the scope and direction of fiscal and monetary policy and hence, embracing a more interventionist and patrimonial type of policymaking.

TWF gives the President a liquid tool to pursue an economic agenda without any oversight from parliament and judiciary, moreover, this tool is not included in the annual budget. Also, TWF is capable to steer crucial sectors and even has oligopolistic status in some sectors such as banking and insurance. Although these sectors are historically highly regulated and state ownership is high, direct involvement of the government is a novelty. As a result, TWF became an economic power of the Presidential System which is currently institutionalizing patrimonialism and interventionism in economic policymaking.

Although some aspects of TWF are novelties, it is possible to problematize and discuss some merits of TWF at a theoretical level that relate to the nature of capitalism and authoritarian reproduction. The first point of discussion is whether we witnessing a paradigm shift towards a new type of interventionism or yet another manifestation of privatizing public assets? It is true that the government engineered a new way to steer the economic activity by pooling public assets under a single and direct management. This tool has been effectively used through large-scale direct investments and capital injections. However, TWF is also organized by private sector logic that prioritize efficiency and shareholder activism. Although the state ownership is apparent, the choice to do so through having ownership of a private company instead of organizing the direct management under the Ministry of Finance can be seen as a sign of the continuation of the economic logic of JDP that is marked by privatizations. The second point of discussion is the role of TWF as an instrument that enables authoritarian reproduction. Perhaps the establishment of TWF is a way to manage challenges that could undermine authoritarian reproduction by consolidating the economic power and consequently maintaining the pro-regime coalition during periods of increasing instability. As we can see clearly after 2008 crisis the larger macroeconomic risks about low growth at the face of the end of quantitative easing and lack of funds going into emerging markets are impeding authoritarian regimes' ability to thrive among its democratic counterparts. By exploiting the benefits of the free market capitalism authoritarian regimes could maintain their legitimacy. Therefore, a SWF can also provide resources and agility to the regime to maintain and steer economic growth when the global economy and capital flows are no longer in favor of it.

From the institutional theory standpoint, the thesis touches upon the debates that revolve around institutional change through critical junctures and gradual change. Indeed, politics in Turkey had several break points during JDP rule which increased the intensity of contestation between the government and opposition and also incentivized the government to choose its political role through centralizing policymaking processes and undermining the legitimacy of its various counterparts. However, the establishment of TWF also relates to an incremental change that started its course in early 2000s with the amendments on privatization law.

Sovereign Wealth Funds are relatively new to the political science literature. Most of the studies on the political features of SWFs are published in 2010's. The conceptual frameworks and distinct typologies that pertain to SWFs are still developing. However, one of the most important finding that the literature can provide is the difference of SWF behavior according to the home countries's regime type. SWFs are highly effective tools in authoritarian regimes for power consolidation. The incorporation of large economic resources into the pursuit of authoritarian practices ultimately serves authoritarian government's autarkic position against its contenders. Turkish experience provides us a similar narrative with the examples from previous research.

1.1 Methodology

This thesis is an exploratory and an informative attempt on the political economy of TWF. My two priorities on this research were to understand the SWFs literature which has been a long-time curiosity for myself and to understand the political economic implications of TWF. To fulfill them I designed the thesis that starts with the broadest concepts and analyses on SWFs and gradually narrowed the scope down to the experience of TWF. The first step of my research was to summarize and analyze the extant literature on SWFs. Since SWFs still are conceptually and empirically much-debated I chose to deconstruct the literature based on the sub-fields that relate to my research.

In Chapter 2 I discussed the conceptual challenges that the literature tried to tackle and tried to put a framework that finds a middle ground between policymaking perspective and social science perspective. Then I provide previous economic research on SWFs to amplify the conceptual framework and relink the economic behavior of SWFs to the conceptual framework I discussed. By economic behavior I mean investment decision processes, organizational structure and target sectors of SWFs. This helped me to analyze nuances between SWFs in same categories. Also, I demonstrated that the existing categories may ignore some important similarities between different types of SWFs that may impede mutual exclusiveness. After having laid out the economic factors, I present the evolution of the politics of SWFs. To understand the political factors that shape activities and governance of SWFs at domestic and international scale, I divided the analysis in two. First, I drew out the international politics of SWFs after 2008 that resulted in the institutionalization process of common practices and governance. By doing so, I extended the grounds of analysis to behaviors of SWFs in international political settings. As a result, I proposed a framework where economic relations and political relations intersect for this new sovereignty-related issue. I could reveal the situation that the existing value distinctions between democratic and authoritarian countries may become blurred when economic and political relations intersect. Lastly, I discussed the patrimonial nature of SWFs in authoritarian regimes that serve the purpose of capital accumulation through patrimonial investment strategies oriented to increase the autonomy and authority of specific factions in power (Schwartz, 2012).

I continued to narrow the scope of the thesis in Chapter 3. First, I presented the defining factors of SWFs that relate to regime type and I argue that SWFs in authoritarian regimes have more idiosyncratic features than their counterparts in democracies by drawing out the previous research. These idiosyncratic features I pointed out helped me to regeneralize the attributes of politics of SWFs in authoritarian countries and I could propose a meaningful framework to analyze TWF's typology among others.

Chapter 4 is where I introduced the political economic environment in Turkey with a focus on the regime change that has occurred. I deconstructed the regime change dynamics into its economic policy-related components and constructed a framework that shows a behavioral pattern of government that shows tendency to centralize decision making processes to consolidate the autocratic power.

When I was constructing my research design my initial plan was to interview officials from CBRT, Ministry of Treasury of Turkey and TWF. Through the interviews I would have the empirical grounds to make a meaningful analysis regarding my research questions. However, I either could not reach out to the officials that I wanted to interview, or I could not get the permission to use the information that I was given through the meetings with potential interviewees. As a result, I chose to use public resources to make my research. The main materials that I resorted throughout the research on TWF are official gazette issues, newspaper articles, public statements on TWF that are made by politicians and TWF executives, and TWF website. In Chapter 5, I presented the establishment process of TWF starting from 2016. Since the process was a poorly planned one and abrupt changes in the organization and responsibilities of TWF went hand-in-hand with daily political debates among the political parties, I chose to analyze the process step by step and present how TWF actively responded to the changing regime dynamics. Lastly, I demonstrated the portfolio and strategy of TWF to explain the material tools and the vision that TWF holds to respond to the dynamics through economic activity in Chapter 6 and underlined the capacities of TWF.

One of the disadvantages I had during my research was the data collection process from newspapers. As the main data of the research, newspaper articles were the most crucial element of my efforts. However, I realized that the news that mention the political debates on TWF were categorized as local news in mainstream newspapers. The dilemma was that the most detailed news were published by the mainstream newspapers however, they were hard to find due to their misleading placement in websites of newspapers. The second disadvantage that I had during my research was the new life conditions that COVID-19 pandemic has introduced since 2020. The urge to maintain the health of physical and mental state during the prolonged lockdown has become a major difficulty from time to time combined with deteriorating work-life balance. Therefore, the process had many setbacks during the lockdown in terms of maintaining an effective mind to prepare this intellectual endeavor.

1.2 Structure of the thesis

This thesis presents seven chapters. In Chapter 1, I justify my thesis topic and research question. I explain the reasons of my curiosity on TWF and SWFs in general. Then, I present the research questions that I will try to answer and explain how can answering them be useful for the political science literature. Lastly, I address the methodology that I used during my research.

Chapter. 2 is where I provide a detailed survey on SWFs literature. First, I present the definitional discussions on SWFs that emerged due to the different reference points of intergovernmental institutions, policymakers and scholars. Next, I discuss the typologies of SWFs that gained importance after 2008 crisis due to the increased role of SWFs in global financial markets and in international relations. I analyze the commonalities and differing features of SWFs to make a better understanding of the previous categories and concepts. Then, I analyze how SWFs operate at the domain of economics and politics. The economics side of the analysis provides information about the global economic environment that shaped the funding practices of SWFs and their investment preferences. Additionally, the evolution of the importance of SWFs in economic policies are elaborated. On the politics side of the analysis, I chronologically give the political and academic debate on SWFs that started after US Treasury started to evaluate foreign SWFs as a matter of national security. Lastly, I analyze how at international and domestic level SWFs have developed governance mechanisms to date.

Chapter 3 is where I narrow my scope further and comparatively analyze the domestic political sources of SWFs. As to find institutional and behavioral reference points for the analysis of TWF I focus on SWFs in authoritarian regimes. I analyze the political nature of SWFs in authoritarian regimes and their role in authoritarian practices. Chapter 4 is the introductory chapter to the analysis of TWF through the political economic transformation under JDP rule. I analyze the institutional change that Turkish economic policymaking structure has been going through since early 2000's. I relate the institutional changes to the regime change and build an analytical framework that enable us to position TWF within the political economy of Turkey.

Chapter 5 and Chapter 6 are the analyses of TWF. Chapter 5 provides the history of TWF in a chronological manner. I analyze how TWF is established and how the establishment process had political implications. Then I move to the legal and institutional changes that TWF has undergone in a short period aligned with the objectives of the government. In Chapter 6, I go deeper in the analysis and elaborate on the portfolio and the strategy of TWF. I analyze its day-to-day activities and try to understand its strategy from concrete evidence. Lastly, in Chapter 7, I summarize my research and present my discussion on my findings.

CHAPTER 2

LITERATURE REVIEW

In this chapter, I summarize the debates within the literature on the political economy of the SWFs to provide an understanding about what is a SWF, how does it operate in the world economy, what is its importance concerning the international political economy and from which aspects it has been analyzed. Through the survey I determine the major actors, institutions and interactions between them to understand the current situation of the politics of SWFs. Following that, I explain the limits of the studies on the SWFs to underline the current sui-generis conditions of Turkey Wealth Fund and underline the reason for the necessity to rethink the objectives and institutional settings of SWFs in the Turkish context. The concerns that have been raised about governance and accountability of SWFs have to be reformulated with the rise of SWFs in autocratic polities due to the fact that many of those countries prefer not to disclose their motivations of investment strategies and there is still a non-binding regulation on SWFs at international level that may foster accountability (Truman, 2009a).

2.1 Definition of SWFs

There is not an agreed upon definition of SWFs neither among academics nor among economic policymakers. The term itself was named first by Andrew Rozanov in 2005 who was a portfolio manager (Rozanov, 2009). He coined the term for a new type of national investment fund that was different from public-pension funds and reserve assets (Rozanov, 2009). He pointed out that SWFs were aiming to protect the economy from price volatility, help central banks recycle excess liquidity, increase funds for future generations, or use the cash for economic development and they were at a "particularly rapid pace of asset accumulation" and growing resources were making some SWFs leveled with some of the largest pension funds and central bank reserves (2005, p. 2).

The differentiating factor of a SWF then seemingly was the vast amount of AUM. The confusion becomes apparent when other institutions' definitions are compared. Some definitions include every government-owned investment fund that are not pension funds or central bank reserves and some of them make the definition on the basis of existence of a foreign exchange reserve (IMF, 2008).

Definitions mostly focus on ownership, type of assets and investment strategies however, the only common feature of definitions is the mentioning of government ownership. In early 2008 International Monetary Fund (IMF) defined SWFs as "government-owned investment funds that are set up for a variety of macroeconomic purposes" along with primary goals to categorize them which are (i) stabilization funds which operates to balance price volatility, (ii) savings funds for future generations (iii) reserve investment corporations which are designed to foster the return rates of reserves, (iv) development funds which make strategic investments according to the development policy of a government (2008, p. 5).

However, the document does not clearly distinguish SWFs from other government-owned investment funds and reserves instead it implies that their growing resources and ownership structure are enough to see them as a distinct category. While IMF leaves out the type of assets that SWFs have, US Treasury categorizes SWFs according to reserves and commodity diversification (US Department of Treasury, 2008). According to the definition SWFs are funded only by foreign exchange assets and based on the source of foreign exchange assets which falls into two categories (US Department of Treasury, 2008). These are “commodity SWFs that are funded by revenues from commodity exports and non-commodity SWFs that are funded by transfers of assets from official foreign exchange reserves” (2008, p. 1)

From the scholar perspective defining SWFs has been a matter of debate and we have a more comprehensive and systematic approach to the matter lately. Similar to the policy perspective earlier works focused on several aspects such as “having foreign exchange assets invested in overseas” (Chen, 2011b, p. 3) and “making lower-risk investments” (Drezner, 2008, p. 5) or being simply the “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). Clark, Dixon and Monk (2013) surveyed the literature to reveal the commonalities and concluded that there are three features to distinguish SWFs from other funds. In addition to the “government ownership” (Arreaza, Castilla, & Fernández, 2009, p. 26), beneficiaries of SWFs are “governments and citizenry in general” (Bahgat, 2008, p. 1189). They have no “outside liabilities” but only to public bodies and they “invest in long and short term assets in line with the interests of the sovereign beneficiary” (Clark, Dixon, & Monk, 2013, p. 16). In conclusion, due to the heterogeneous nature of sources of capital and several legal statuses those features have to be left out to reach a general definition.

International Forum of Sovereign Wealth Funds (IFSWF), an international working group of 26 SWF-owning countries was initiated by IMF in 2008 to regulate and help the coordination of SWF investments (IFSWF, 2020). Despite having no obligations and sanctions, the signed document that lay out generally accepted principles and practices of SWFs is called Santiago Principles (IFSWF, 2020).

It constitutes the basic qualities of SWFs and their role in international economic relations. IFSWF defines SWFs as:

> Special-purpose investment funds or arrangements that are owned by the general government. Created by the general government for macro-economic 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. (IFSWF, 2008, p. 3)

Overall, SWFs are government-owned investment funds that have several sources of capital and act strategically to realize the macro-economic goals of the sponsor government (Johnson, 2007). They operate in overseas markets and they hold large amounts of AUM. They distinguish among themselves through their resources, capabilities and purposes. Since its only stakeholder is state, to whom it is accountable and to whom it should be accountable are critical questions in defining them. Because they are both economic and political actors with solid economic power.

2.2 Policy debates on the economics of SWFs

The establishment of the first SWF dates back to 1953 by Kuwait which is called Kuwait Investment Authority (Bahgat, 2010a). The aim of the fund was to use the surplus oil revenues in order to make investments that may diversify economic resources of Kuwait and gradually eliminate the oil revenue dependency of Kuwait economy. KIA was followed by budget surplus and oil-revenue surplus countries in following years. Especially, oil crises that occurred periodically until early 2000s that caused "rapid increase in oil prices led oil-exporting countries to establish SWFs to manage inflationary pressures" (IMF, 2008, p. 3). As of today, there are 91 SWFs operate in global markets 67% of which were established after 2000 (see Appendix A).

The gradual increase in the number of SWFs can be explained by global economic imbalances that are caused by increasing current account balance gap between emerging and advanced economies. First of all, since the end of WW2 Suez Crisis of 1956-57, the OPEC oil embargo of 1973-1974, the Iranian revolution of 1978-1979, the Iran-Iraq War initiated in 1980, the first Persian Gulf War in 1990-91, and the oil price spike of 2007-2008 were major political events that "caused oil shocks and sudden decrease of oil supply throughout the world" (Hamilton, 2011, p.1). These shocks increased oil prices abruptly and until the political conflicts were settled, oil-exporting countries accumulated excessive amounts of revenue through the trade (Hamilton, 2011). This meant a vast amount of money being transferred from advanced industrial countries to oil-exporting countries (Hamilton, 2011).

As mentioned above, expanding petrodollar income resulted in the accumulation of wealth of oil-exporting countries after WW2 (Higgins & Klitgaard, 2009). Since oil-exporting countries generally have limited capacity to make profitable investments in domestic economy, they prefer to channel their revenue into the international financial markets to use them more efficiently. Moreover, the inclusion of governments in oil-exporting countries into the management of the revenues is not extraordinary, most of the refineries are state-owned (Bahgat, 2010a). Also, fiscal revenues are mostly generated through taxes on oil production and trade.

Alongside the oligopolistic structure of the oil market and price shocks another factor that leads to global economic imbalances is the growing trade surplus of export-oriented South East Asian countries vis-à-vis advanced industrialized countries (Alberola & Serena, 2008; Betbèze, 2009; Drezner, 2008; Gieve, 2009; IMF, 2008; Kern, 2008; Truman, 2007b). Having started with the integration of South East Asian countries to the world economy as exporter of manufactured goods with the help of their cheap workforce and low currency rates, they became an attractive destination for foreign direct investment and for purchasing manufactured goods (Lee, 2010; A. Monk, 2009). For example, over the past several decades, Chinese has become the export leader of the World (Kern, 2008). By 2018, its total export in goods had jumped to $2.49 trillion or 13.45 percent of global exports ("China's Exports Unexpectedly Rise in July", 2019).

This means a shift of economic power from advanced industrial countries to periphery countries (Santiso, 2008). However, the classification of international economic actors within the framework of center/periphery becomes more and more difficult since the nature of the relationship between center and periphery has been changing (Santiso, 2009). We can mention a new split between two poles in terms of competitive advantages and roles (Kimmitt, 2008). In fact, the advanced industrialized countries are losing their position as center as sole value creators and capital exporters while industries in emerging economies now become more capital and technology intensive and financially abundant. Economic reality reveals that global wealth is shifting(Balding, 2009; Yi-Chong, 2010; Yi-Chong, 2009).

When we look at the economic growth rates throughout the word it is apparent that emerging economies are the new drivers of the growth. OECD PPP Benchmark Results show that OECD countries has lost 25% of their share in global GDP by going down from 75% to 50% in last fifty years whereas total GDP of emerging economies has risen to 30% (OECD, 2018a). In 2018, advanced industrialized countries scored 50% of global FDI share by falling from 85% (OECD, 2018b).

According to IMF World Economic Outlook current account deficit is going to increase in West whereas in Eastern countries are going to be on surplus (IMF, 2019). As a result of this movement foreign exchange reserves of exporter countries have risen significantly. In oil exporting regions and South East Asia foreign exchange reserve surpluses were mostly channeled to governments instead, which explains the rise of global foreign exchange reserves (Higgins & Klitgaard, 2009; Wu & Seah, 2008).

Regarding the movement of capital, in 2007, inflow of capital to EMEs reached to the maximum value ever of $954 billion, whereas only $1.5 billion were the amount of capital outflows (Santiso, 2008). Having accumulated a colossal surplus, national champions and recent multinational companies of EMEs started to invest in M&A activity in advanced economies (Beck & Fidora, 2008a; Butt, Shivdasani, Stendevad, & Wyman, 2008; Kotter & Lel, 2008). Moreover, this calculation is just a part of the bigger picture since portfolio investments of oil-exporting countries are not involved in the metric.

This illustrates EMEs' notable change from debtors to creditors (Alberola & Serena, 2008). Since the 1997 crisis, the accumulated current-account surpluses have gradually risen to $750 billion in 2007 which equaled to 1.5 % of global GDP (Aizenman & Glick, 2009; Aizenman & Marion, 2003; Jeanne, 2007). On the contrary, not only US but other developed nations ran significantly larger current account deficits (Bahgat, 2008). Nevertheless, there are also outlier cases from both developing and developed economies such as major creditors like Germany and Japan, and economies in huge deficits such as in Central and Eastern Europe and Africa (Gieve, 2009).

The rationale behind building up foreign exchange reserves is ensuring price stability, to have financial resources that will be useful to intervene market volatility (Beck & Fidora, 2008b). During financial turmoil, asset-owners buy foreign exchange to protect the value of their money. The endeavor to fulfill this interest by supplying reserves to the market can strongly decrease the amount of reserves, increasing the motivation to purchase more foreign exchange (Chen, 2011a, 2011b) . Therefore, holding large foreign exchange reserves in central banks may help building confidence in the market and have the power to intervene in the market volatility appropriately.

The urge for a safeguard presumably demonstrates the increase in official reserves in South East Asia since the late 1990s. Basically, only few South East Asian countries could endure the currency crisis of 1998 (Aizenman & Marion, 2003). Nonetheless, the current amount of foreign exchange reserves in central banks of South East Asia have exceeded the amount that is needed to counteract a currency crisis. Guidotti-Greenspan rule is a widely accepted metric to project an economy's capacity to stabilize markets during a currency crisis (Kern, 2008). It is calculated by taking the ratio of reserves to short-term foreign currency debt. An economy that maintains the ratio of 1.0 or above is categorized as capable to manage the crisis (Griffith Jones & Antonio Ocampo, 2009). However, according to the metric central bank reserves in South East Asia exceed the ratio of 1.5 which exceeds any needs a central bank may have to pursue a market-stabilizing policy (Santiso, 2009).

When the first discussions about qualities and risks of SWFs sparked among politicians and scholars in 2007 there were 40 SWFs managing around $3 trillion (Butt et al., 2008). Value of SWFs reached a maximum of 500 million dollars in 1990 (Johnson, 2007, p. 1). The IMF reports that in 2008 the total was between $2-3 trillion and it also went up 18 percent in 2007 alone (IMF, 2008). Estimations about their future size and importance in 2007 predicted that the size of SWFs would "grow to nearly $10 trillion by 2015 and could exceed the total size of the world's official reserves in the coming six or seven years.” (S. L. Jen, 2009, p. 195) Today, by 2020 the asset under management by SWFs is totaled to around $8.2 trillion (SWFI, 2020).

However, neither global imbalances between the center and the periphery nor the gradual rise of oil prices directly explain the need for a new kind of fund which is established by governments besides the central bank reserves (Santiso, 2008). What makes SWFs different, preferred and what makes them more problematic than central banks which are the locus of modern economic policies? The reasons that lead governments to establish SWFs not only depend on the position of their economy in the world economy but also national factors such as political, cultural and ethical reasons which we will elaborate in the next chapter. Nevertheless, it is possible to point out some common behavioral patterns and structural features that makes SWFs different from central banks and other major financial actors in international political economy.

First and foremost, the investment vehicles that SWFs use with the reserve money are extremely diverse than the instruments that central banks generally prefer (Balding, 2008). In sharp contrast to central banks' reserve management, conventionally restricting their investment plans to precious metals such as gold and sovereign debt securities, commonly US Treasury Bills, SWF 's asset classes are substantially broader, including public or private debt securities and equity, private equity, real estate and more riskier assets such as derivative instruments (Balding, 2008; Chhaochharia & Laeven, 2008). This difference of investment portfolio can be seen as a consequence of different motives of investment strategies. In other words, central banks make their investments to control the liquidity and currency ratio therefore, investments are focused on those which can provide opportunities to recycle the excess reserves with precious metals and sovereign debt securities and therefore, these assets can be closed out in time of liquidity shortage (Kern, 2007). SWFs on the other hand, do not explicitly seek to resolve liquidity issues but aim to finance profitable ventures to manage their assets more efficiently in terms of returns (Kotter & Lel, 2008).

Secondly, since central banks do not operate mainly for profitability but managing macroeconomic risks, the investment portfolio is a composition of low-risk assets that do not put the macroeconomic management at danger (Braunstein, 2011; Gieve, 2009). On the contrary, SWFs have more risk tolerance and even some SWFs such as ADIA, KIA and QIA are actively trading in derivatives market and also engaging in private equity investments which seek high rates of returns in financing companies for 3 to 5 years (Kern, 2007). What also makes different portfolio of SWFs than management of central bank assets is the maturity of investments (Bertoni & Lugo, 2015; Rozanov, 2009). SWFs have no mandate to participate in monetary policy therefore, they are able to pursue long-term investments if the decision is profitable or strategically important for the interests of the national economic welfare (Beck & Fidora, 2008a).

Third and last important feature is the operational and institutional setting of SWFs that make them more flexible in their asset management than central banks. Simply put, modern economics see central banks as the locus of maintaining financial stability which leads to the consensus on highly regulated procedures of central banking and openness to the public (Cohen, 2009). As a consequence, accountability, transparency and independency of central banks are shared norms among scholars and policymakers even they are not perfectly fulfilled by every country (Stone & Truman, 2016; Truman, 2007b; Tsani, Ahmadov, & Aslanli, 2010).

However, SWFs are not in an institutional setting yet where they necessarily will have to disclose information about their investment strategy and financial statements (Ainina & Mohan, 2010; Aizenman & Glick, 2009; Ram Mohan, 2008). This makes SWFs a better option to manage the excess reserve money within a more flexible institutional setting.

Even though SWFs are legally public institutions their activities share common characteristics with the one's of institutional investors. Asset managers that work in SWFs are mostly experienced private sector professionals with backgrounds of investment banking, private equity management or management consulting (Clark & Monk, 2011). The survey conducted among staff of SWFs reveals that SWFs are using the human capital of private sector to make better investment strategies and decisions (Clark & Monk, 2011). Additionally, the portfolio comparison made between institutional investors and SWFs indicate that SWFs are acting as rational as institutional investors by diversifying their portfolio and risks by asset class and geographic region (Balding, 2008; Wu & Seah, 2008).

Among many investment options the most noticeable ones that SWFs are using increasingly actively since 2008 global financial crisis is cross-border M&A transactions and more generally, direct investments (Preqin, 2018). These investments help SWFs to become sole owner of a company or have shares to the extent that may enable SWFs to become the most dominant decision-maker in the board of a company. SWFs accounted for 35% of all global M&A activity in 2008 (Drezner, 2008). In fact, this activity can be seen as transforming reserves into real sector assets and becoming active managers instead of only being beneficiaries (Dewenter, Han, & Malatesta, 2010). Since SWFs are ever more strategic and pragmatic, they seek joint organization/co-investment collaborations and direct investment instead of delegating wealth management only to fund managers (Alhashel, 2015). In addition, SWFs are becoming more collaborative to their potential partners and skilled investors, mostly to private equity companies (Arthuis & Marini, 2009; Johan, Knill, & Mauck, 2013).

When we look at the sectoral distribution of the investments, SWFs, in collaboration with a broad variety of institutions, have diversified direct investment schemes from conventional sectors and dispersed their resources on a large scale to innovations and companies willing to “stimulate pioneering innovation” through industries like “biotechnology, software, fintech, internet, automation, e-commerce and healthcare” (Preqin, 2018, p. 18). It allows them to mitigate the risks of portfolio management while improving their own capacity to recognize the factors that propel macro and microeconomic transition.

After all, how big and significant are SWFs for the world economy? When compared to other investment vehicles, size of SWFs are large hand hold a significant proportion. They value more than the sum of global hedge funds and private equity industry, additionally, the value is near to the value of global reserves (see Appendix B). It is important to note that one of the most crucial issues revolving around the discussion on SWFs is that their potential economic impact in case of non-rational decisions and mismanagement (Bahgat, 2008; Drezner, 2008; Møller, 2010; Ram Mohan, 2008; Truman, 2007b, 2007a, 2008, 2009b). In 2008 crisis the mismanagement of hedge funds was one of the major factors that triggered the housing market bubble (Badian & Harrington, 2009). Hedge funds alone had an impact on the crisis despite being the smallest among the other investment vehicles (A. Monk, 2009). Contrary to the considerations, the empirical studies show that SWFs improve the asset allocation (Gieve, 2009) without any long-term destabilization (Sun & Hesse, 2011) by providing increased liquidity and decreased cost of capital (Baker, 2011; Balin, 2009).

There is no case until today where SWFs had a major negative impact on an economy and on the contrary, there is an ongoing consensus in the literature that SWFs are beneficial to investment recipient countries by being a long-term investor and providing liquidity, the research reveals that in long term SWFs activity help countries score better economic growth rates (Baker & Boatright, 2010; Betbèze, 2009; Butt et al., 2008; Das, 2009; Keller, 2008; Makhlouf, 2010). Also, their function in 2008 crisis was a stabilizing one (Beck & Fidora, 2008a, 2009; Gieve, 2009; Gilson & Milhaupt, 2009; In, Park, Ji, & Lee, 2013). When the subprime mortgage crisis broke out, world's leading investment banks either went bankrupt or lost huge amounts of assets and faced serious allegations of fraud (Moshirian, 2011). During the financial crisis SWFs bought significant number of shares from these banks while the banks were run out of cash and seeking bail-out packages from the government (Raymond, 2008). Citigroup, UBS, Morgan Stanley, Merrill Lynch and Crédit Suisse were the ones that took the attention of Chinese and Gulf SWFs that resulted in a total of $59 billion capital injection with acquisition of shares ranging from 5% to 10% of each bank (Drezner, 2008). This contributed to the slowing down of the increased stock market volatility for a period (Raymond, 2008). A research shows that the banks that welcomed the SWFs investments during the crises performed better capital adequacy ratios after the crisis, compared to the other banks (Anderloni & Vandone, 2012). As a result, SWFs became an explicit stakeholder in global financial system for the first time (Baker, 2011; Fernandes, 2011; Fotak, Bartolotti, & Megginson, 2008; Pistor, 2009) and this raised concerns for both policymakers in recipient countries and in academia on national security, transparency and accountability. These concerns significantly enlarged the scope of SWFs literature.

2.3 Policy debates on the politics and governance of SWFs

While the literature on the economics of SWFs is mostly descriptive, disperse and mostly finance-based, focusing on the market performance and reserve management, politics of SWFs has been subject to a more systematic and vibrant debate. Four interrelated main topics can be mentioned to draw an outline of the debate: national security concerns, governance of SWFs, rising role of state intervention in global economy and the regime type of the home countries.

National security concerns focus on two questions that whether SWFs investments have political motivation to acquire power in strategic sectors and whether they threaten the financial stability of recipient countries (Ram Mohan, 2008). When SWFs from EMEs started to make significantly big acquisitions in US and EU in early 2000s, it sparked a panic among Western policymakers and a debate among academics (Bahgat, 2010b; Cohen, 2009; Drezner, 2008; Truman, 2007b). The perceived risks such as industrial espionage (Kern, 2009), intentional market distortion through abrupt sales of assets and exerting financial leverage for political ends were never realized. However, the fears were strong enough to force governments to take action. In 2007, both EU countries and US started to take steps to regulate the SWFs investments. Since the 2007 amendment after the Chinese high-tech investments, if an acquisition deal puts the public order or national security at risk the "German government may block a non-EU company acquiring more than 25% of a German company" (Truman, 2007b, p. 1). The legislation covers defense companies and IT companies. With a more nationalist impetus, Nicolas Sarkozy proposed to reframe the trade policy of France and EU and have a protectionist stance against SWFs (Caner & Grennes, 2009). Following that, The EU Commission conducted an investigation to examine the asset price risks posed and suspicious acts such as buying at a much higher prices than the market prices by SWFs from Russia, China, and the Middle East (Truman, 2007a). In US, the 2007 Foreign Investment and National Security Act, expanded regulatory supervision over the acquisitions of US companies by foreign state-owned funds (Truman, 2007b).

During the political agenda, the initial academic discussion was based on how the policymaking should have been. While some authors were in defense of strict regulation of SWFs activities due to the potential risks that are mentioned above (Kimmitt, 2008), the counterargument was that the threats were not empirically evident and any discrimination against SWFs would result in financial protectionism against a productive force in global economy (Kern, 2009). Therefore, commentators repeatedly advised Western governments not to exaggerate the anxiety and frame the policymaking of tax and regulation within the equal treatment principle (Balding, 2009; Das, 2008). Moreover, the national security-based arguments that were posed by some scholars were heavily criticized for not having focused on the actual investment behavior to present an empirical analysis but on allegedly malignant motives (Jen, 2007). Additionally, it was argued that it was crucial "to agree on the meaning of such critical terms such as public order, strategic industry or economic security"(Cohen, 2009, p.729).

After having defined the critical terms, it was suggested that it was also crucial to formalize the criteria of risks to make a healthy evaluation of investments within the framework of national security (Cohen, 2009). About the reasons of the reaction of the Western states there are multiple explanations. First, the ambiguity of the perceived benefits and dangers of state ownership, which, on the theoretical level, leads us to the tension between two ideologies, state capitalism and market capitalism (Braunstein, 2017a). Market capitalism is most broadly described as minimal economic involvement by government. In contrast, state capitalism aims to maximize the value of a nation's entire economy and is marked by a government that plays an important role in economic development (A. Monk, 2009; A. H. B. Monk, 2011). SWFs are seen as fairly simple components of state capitalism (Dixon & Monk, 2012; Schwartz, 2012). The economic drive that was built on the assumption that private sector is the most efficient in allocating resources was aligned with privatizations for long decades (Yi-chong, 2010b). While the private economic activity's benefits have become generally recognized, acquisitions of assets by SWFs counteract the logic of market capitalism, which sees them as the undoing of the long-established economic system and ultimately losing crucial sectors to the state control.

Second, given the economic benefits of SWFs that are frequently mentioned, namely long-term investment outlook, high tolerance for risk and their past performance during the financial crisis, it is too simplistic to explain the situation with the apparent distrust (A. Monk, 2009). The distrust and legitimacy should be conceptually differentiated to make a better understanding (A. Monk, 2009). When actors execute their behavior according to shared rules, trust will have ground to develop. However, the case with SWFs is not based on non-compliant activities therefore, the situation cannot be defined as distrust since non-compliance empirically and juridically not true. On the contrary, "labeling the problem 'legitimacy' suggests that the principles and practices that underpin these SWFs should be the focus of concern… In this conceptualization, the expectations of the target environment for the norms of operation are crucial to establish first legitimacy and then trust."(A. Monk, 2009, p.459). Framing the situation within the concept of legitimacy, therefore, problematizes SWFs not only according to the interests and biases of the actors but to a wider framework in which different institutional settings interact.

The institutional settings that characterize the relationship between home and recipient countries are embedded in the governance structures of SWFs. It was not easy to define SWFs within the existing regulatory environment since recipient countries had no experience with foreign states investing billions of dollars through open markets but not through bilateral agreements (Cohen, 2009). Regulations for open markets are based on the assumption that the private entities are seeking profit maximization and the rules are designed to level the playfield (Braunstein, 2017a). Although SWFs are organized as private companies and making rational investment decisions, they are also a part of their countries' political establishment and government (Beck & Fidora, 2008b).

Very similar to the national security concerns that are mentioned above, two questions arise that concerns the political nature of SWFs. Can SWFs legally and practically be isolated from the changing dynamics of foreign affairs? How can recipient countries manage the financial risks of their economies given the fact that SWFs have significant amount of AUM while providing limited public disclosure? As Kern (2009) and Bremmer (2009) highlight, SWFs are not subject to investment rules with respect to certain asset classes or currency exposures as they are known for private pension or investment funds. With the limited public accountability and the perception of potential political leverages through the market combined, their opaque position may increase the systemic risks (Yi-chong, 2010a). Demands for greater transparency, predictability and accountability were articulated by G-7 finance ministers and central bank governors through a joint statement after a meeting in October 2007, calling IMF and OECD to coordinate the cooperation. The statement aimed to build trust at both sides and find a middle ground for the integration of SWFs into the market. This meant drawing blueprint for principles and best practices by recipient and home countries (Truman, 2009a). During the process, the practice standards of SWFs would be negotiated with support and coordination of IMF whereas OECD would work with recipient countries to ensure the equal treatment policy (Balding, 2009). Also, policymaking literature contributed to the discussions by underlying the importance of openness on the disclosure of asset profiles, investment strategy, decision processes and governance structures (Bahgat, 2010b; Balding, 2009; Hawley, Kamath, & Williams, 2009; Truman, 2007b).

In 2008, IMF initiated a forum to determine the general rules and practices with the participation of 23 countries in Santiago, Chile (IFSWF, 2008). As the conclusion of the forum, the agreement called Santiago Principles was jointly announced in October 2008 (IFSWF, 2008). The agreement was based on a voluntary compliance thus not on mandatory acts. The agreed-on principles were "helping maintain a stable global financial system and free flow of capital and investment", "complying with all applicable regulatory and disclosure requirements in the countries in which SWFs invest", "ensuring that SWFs invest on the basis of economic and financial risk and return-related considerations", and "ensure that SWFs have in place a transparent and sound governance structure that provides adequate operational controls, risk management, and accountability." (IFSWF, 2008, p. 1). According to the agreement, member SWFs would present their annual report to the forum to communicate the practical issues and find ways for improvement

(Hammer, Kunzel, & Petrova, 2008). Through this way international goverernance of SWFs would be established in time.

The urge for accountability and transparency is not indigenous to SWFs but rather a part of the developing transnational governance (Mehrpouya, 2015). As the liberal global economy expanded rapidly in late 90's through deregulation and privatization the economy has acquired a transnational form within which economic affairs have become legally and practically interrelated to every stakeholder and the discretion of nation states have lost its coercively decisive position (Mehrpouya, 2015). In this environment, trust and compliance have emerged as the most crucial requirements and have been realized through accountability mechanisms (Arnold, 2012). Therefore, accountability and transparency have become keys to the sustainable integration of economic actors in this transnational space (Mehrpouya, 2015).

Indeed, this should not make us think that the case is a total rolling back of state or depoliticization of the economic activity. On the contrary, the establishment of accountability and transparency mechanisms rely on power disparities and political action. It is political, because defining what is accountable and determining who has to provide its account are subject to the interplay among multiple states and other agents with vested interests (Pekkanen & Tsai, 2011). The formulation of the case as a relationship of an account-giving which requires verifying itself according to the frame drawn by a gatekeeping and surveilling actor obviously demonstrates that the case is a matter of institution-building, diffusion and contention (Mehrpouya, 2015). According to Arnold (2012) accountability and transparency regimes gained importance since Asian Crisis as the international organizations such as IMF and WB made commitments towards setting the shared norms and practices of economic policymaking and corporate environment through the implementation of audit, governance standards and risk management in post-crisis countries. The labelling of the problem in the Asian Crisis as nepotism and mismanagement issue was the primary factor of this move (Arnold, 2012). Labelling the problem, is the inception point of the politics of accountability and transparency because it sets an ideal type of behavior, its non-compliant agents and the struggle to find a solution (Carruthers & Halliday, 2009). To hold an entity accountable the first step is to determine the unaccountable, in other words, unintelligible, unconvincing or corrupt qualities that does not comply with an idealized type of affairs (Carruthers & Halliday, 2009). During the identification, the potential or assumed beneficiaries of the compliance among the public and private bodies are also determined or observed (Carruthers & Halliday, 2009). Once the boundaries and stakeholders of the accountability problem is set, making pressure to request a compliance act becomes possible and easier. As the parties start to discuss the terms of compliance the same steps of identification are reevaluated through contention and negotiation.

When we apply this behavioral model to the SWFs case, the process until the declaration of Santiago Principles becomes more comprehensible. Mehrpouya (2015), breaks down the process according to the accountability problem framework by using the media coverage, public statements made by government officials, interviews with SWFs managers and the records of the negotiation process. What he finds is that bringing forward the national security concerns and the political economic differences of the home countries in the first place led to a diagnosis based on opaqueness and secretiveness rather than being a financial risk factor (Mehrpouya, 2015). Therefore, the accountability framework that was drawn during the negotiations aimed to ensure that SWFs would stay as purely market-oriented actors and would be more transparent about their assets and investment objectives with the recipient countries (Megginson, You, & Han, 2013). During the negotiations the objections from Singapore, China and US Treasury were against a mandatory code of conduct proposed by European states that would force SWFs to be accountable to public and would encourage more political debates about their position in the political landscape (Mehrpouya, 2015; Yi-chong, 2010b). The argument was that the degree of transparency should have been satisfactory for market actors and the regulatory agencies but too much disclosure would make SWFs vulnerable to face political pressures from their local publics, which would also undo in long-term the state of affairs that recipient countries wanted (Mehrpouya, 2015). Indeed, this was not the case for Australian, French or Norwegian funds that had set transparency to the public long before but was for Chinese, Russian, Singaporean and other funds that are managed by the authoritarian elite of their home countries. In fact, this has revealed that the lack of transparency had little to do with any geopolitical strategy but with the regime type and internal accountability mechanisms of the home countries that shaped the governance structure of SWFs.

In conclusion, the literature on SWFs have developed over years from a general and descriptive point to a more sophisticated and case-specific point by incorporating extant analytical frameworks from economics and political science. Due to the lack of knowledge about them, the initial discussion was mostly speculative and held many biases until the empirical studies were published. Today, with the establishment of Santiago Principles and increased transparency, the differences between SWFs have become visible and each one of them has to be analyzed within the context of the domestic political economy. The comparative behavioral aspects of SWFs in democratic and authoritarian countries, therefore, is a starting point for more sophisticated research questions and new conceptual frameworks in future research. As we encounter new conceptual puzzles the scope of research on SWFs broadens.

2.4 Conceptualizing SWFs

The need for conceptualizing SWFs rose from the earlier discussions on the nature of global capitalism after 2008 crisis (Braunstein, 2017b). With the financial crisis, governments from both developed and developing economies took action in forms of bailouts, saving packages and substitutions (Helleiner & Lundblad, 2008). SWFs injected huge amounts of capital into financial markets that helped smoothening of the crisis (Drezner, 2008). The active role of states during and after the financial crisis raised questions on the future of the free market ideal (Ram Mohan, 2008). Some views pointed out that this would be a significant change in the setting of the global economy towards the end of liberal market economies (Drezner, 2008; Slawotsy, 2009) and re-emergence of state capitalism (Bremmer, 2009; Truman, 2007b). The common question was that how the long period of policy advocacy that "promoted liberalization, limited government and free trade ended up with states being the most active economic actors?" (Halliday, 2008, p. 1).

To make a sense of what is the role of SWFs in the future of free market, a need for a conceptualization emerged. In the literature, the categorization of SWFs is twofold; according to economic features or political features and economics-based categories are often criticized by political scientists for excluding the political nature of a state-owned entity (Schwartz, 2012). In terms of economic features, resources of SWFs are common denominators. In other words, whether it is a commodity fund or a non-commodity fund. This distinction is first used by London-based finance professionals (Rozanov, 2011) and US-originated policymakers (Truman, 2007a) then borrowed by academic studies Early works on SWFs in political science literature also relied on this distinction (Bahgat, 2008; Kimmitt, 2008; Lavelle, 2008). Commodity funds are based on surplus earnings of natural resources that are exported by the owner country (Aizenman & Glick, 2009). Through the export of oil, natural gas and mining extracts countries accumulate large amounts of wealth (Higgins & Klitgaard, 2009). Some countries use their surplus earnings to build SWFs such as Gulf states, Russia and Norway (Yi-chong, 2010b). The common view is that such funds are a means of using the resource money in a controlled manner and to be invested for the wealth of future generations (Aizenman & Glick, 2009). However, this categorization is too broad and not useful to determine the most basic and important features of SWFs in terms of their place in international political economy. Since also non-commodity funds have similar objectives with those of the commodity funds that are mentioned above, the source of the funds does not explicitly differentiate any significant feature of SWFs. To approach to a more ideal distinction that can avoid concept stretching and provide mutual exclusiveness, more features have to be addressed.

A second economics-based categorization, and also widely accepted one is the one that IMF makes. According to IMF, there are five main categories that distinguish SWFs with respect to their founding objectives. These are "i) stabilization funds, ii) savings funds, iii) development funds, iv) pension reserve funds and v) reserve investment corporations" (IMF, 2008, p. 1). The first one, namely stabilization funds, regardless their main source of finance, have the mandate to contribute to the "price stability in case of excessive inflationary pressure or extreme price volatility of a certain good that is vital for the economy" (IMF, 2008, p. 2). For example, Russia's stabilization fund has the mandate to use its liquid assets and help for the price shock recovery "if the price of a barrel of oil drops below $20" (Shunmugam, 2012, p. 5). Saving funds are sometimes called as moralist funds (Dixon & Monk, 2012). These funds have also the objective of providing protection against inflationary pressures however, the main objective is to guarantee the intergenerational national wealth in the long-term (Arreaza et al., 2009). Such funds, Norwegian fund for example, have lower risk appetite and use their money on fixed-income assets, due to their founding principles (Hammer et al., 2008). Development funds is a broad category in itself, since many funds invest in developmental projects such as large infrastructure projects and technology (Santiso, 2009). However, the funds that clearly state that the main purpose of the fund is the domestic economic improvement and support to crucial and strategic sectors fall into this category. Pension reserve funds are basically savings accounts of states to be ready in future any sudden financial burden or liability (Kern, 2007). Their primary objective is to preserve the value of their assets. Reserve investment corporations are founded on the excess reserves in central banks and the primary goal of the funds is to reduce the risks of holding unnecessary but excessive reserves in central bank accounts by using them in different purposes (Hammer et al., 2008). China Investment Corporation (CIC) is an example of this kind of SWFs.

Contrary to these mainstream categories, political science literature attempted to reconceptualize SWFs by providing a comprehensive analysis of their political features. Clark et al's (2013) typology resting on state sovereignty is the most important attempt. Sovereignty is the result of states' engagements and can entail a wide variety of policies and power asymmetries that can eventually alter over time. It comprises a state’s recognition as a member of international community, its autonomy from external actors and capacity to control the flows across its borders (Krasner, 1999). Since the capacity to exercise the sovereignty is not equal among the states, their interactions will also be influenced by these disparities (Krasner, 1999). Simply, states enhance or give up some of their rights to regulate activities within their territories when they engage with other states. The most apparent example is the expansion of free trade which compels states to reduce their domestic autonomy for the sake of the benefits of global market (Lavelle, 2008). Through this, states become more sensitive to the actions of other states and international actors, like when interest rates decisions of FED affect other countries’ economic policies. The underlying assumption on SWFs is that they are not an automatic consequence of economic conditions per se but also consequence of a political decision of a political authority (Schwartz, 2012). Therefore, the difference between objectives, goals and preferences of SWFs must be framed within the domestic political structures of sovereigns. Furthermore, necessities for a state's sovereignty in the global system influence these interests (Clark et al., 2013). From a sovereignty-based perspective, SWFs are seen as a tool to protect and enhance the sovereignty of a state in the global system (Dixon & Monk, 2012). As a consequence, the type of SWFs are differentiated according to the owner state’s sovereignty structure.

According to this, there are five ideal types namely, postcolonial SWFs, rentier SWFs, productivist SWFs, territorialist SWFs and moralist SWFs. The first of these, postcolonial SWFs, are SWFs that countries whose capital and power are relatively weak compared to other countries, use it as a tool to “increase state capacity and partially cover the country's sovereignty gap” (Clark et al., 2013, p. 38). Through the investments of these SWFs, there is a goal to interact with both major countries and transnational companies that have a strong presence in global capitalism (Clark et al., 2013). The second type of SWFs are rentier SWFs. This type of SWFs, which are in resource-rich countries, are established for a long-term safe environment in the development of national sovereignty. Countries whose internal structure is generally formed by the "distribution of income obtained from natural sources through patronage" enters this class (Clark et al., 2013, p. 39). The Kuwait Investment Authority also sets an example for this type of SWFs (Clark et al., 2013). The third type, productivist SWFs invest in sectors that are important "in a strategic context" and are used in a "neo-mercantilist logic", which is attributed to the role of SWFs of EMEs (Clark & Monk, 2011, p. 41). In this context, the authors, as the best example, give the fund of China's CIC, which is one of the most important pioneers of the modern state capitalism. The investments of this company in domestic economy are mostly in line with the requirements of national development (Clark et al., 2013). The fourth type of categorization in the context of state sovereignty is territorial SWFs. Such SWFs carry out activities to "support national companies to gain competitiveness" both in the country and in the global economy (Clark et al., 2013, p. 43). Similar to the productivist SWFs, territorial SWFs act to increase the ownership of national companies in global production processes, R&D activities and global distribution. An example is the French FSI, established in accordance with France's statist industrialization policy characteristic (Clark et al., 2013). The fifth of such categorization is moral SWFs. Moral SWFs work mostly to transfer prosperity to future generations, such as Australian Future Fund and the Norwegian Pension Fund (Yi-chong, 2010b). As can be seen, it is possible to classify SWFs in various ways. SWFs can be evaluated both for their macroeconomic purposes and their qualifications in a political context (Clark et al., 2013). Moreover, the mix of these aspects during analysis can present various categories. Therefore, there may be various analytical frameworks.

Although resource-based and sovereignty-based categories are useful, they are inadequate in grasping the patrimonial political logic for which SWFs may be constructed and mobilized in especially less-than-fully democratic settings. In this regard, Schwartz's (2012) discussion of SFW as tools for distributing property rights in a context of "political capitalism," is informative. Accordingly, while SWFs may serve 'rational capitalist' purposes by resolving economic problems that especially commodity exporter countries face, and serve to "construct a counterpart bourgeoisie—a civil society— that is intertwined with the state, complicit in nation-building efforts" (2012, p. 523), these are not their only functions. They may additionally serve the purpose of capital accumulation through patrimonial investment strategies oriented to increase the autonomy and authority of specific factions in power (Schwartz, 2012). This may be especially important in authoritarian settings. Since democratic backsliding and increasing personalization of economic policy-making has been issues of concern in the Turkish context lately, this discussion is relevant to the current case. Therefore, the next chapter explores the logic and use of SWFs in authoritarian settings in greater detail. The authoritarian settings may be more detailed and confusing than democratic settings. Moreover, SWFs play a more central role in authoritarian politics than they play in democratic politics.

CHAPTER 3

SWFs IN AUTHORITARIAN REGIMES

Studies on SWFs started to focus on individual cases after the international dispute has been resolved. Aside from the geopolitical aspects, the importance of domestic political dynamics was emphasized to understand the variance between SWFs behavior and governance. Unlike most democratic countries which had well-established rules for accountable and transparent SWFs governance for their local publics and had committed themselves for public wealth creation under the supervision of a parliament, SWFs of authoritarian regimes are more ambiguous and politically sophisticated therefore, reflecting the politics of their home country.

In democratic regimes, it is easy to observe institutionalized SWFs due to the qualities of the regime type that are rule of law, voting-based political competition and public accountability. According to the cross-country research, the primary factor that determines SWFs institutionalization in a country is “the number of veto players that play active role in the home country’s domestic politics” (Wang & Li, 2016, p. 3). The assumption is that the institutionalization is rooted in resolving the conflicts between the veto players, in line with the rational-choice institutionalism approach. A small number of veto players makes institutionalization less possible not explicitly due to the lack of democratic qualities but simply because institutionalization becomes too rigid and costly for small number of veto players (Wang & Li, 2016). However, when the number increases the conflict of interest between the players become a problem to solve therefore, institutionalization becomes a solution and decision-making rules and procedures of funds are defined more clearly (Wang & Li, 2016).

In authoritarian regimes SWFs remain as a locus of contentious relations between the ruling elite and its rivals (Grigoryan, 2016). According to Shih SWFs are tools for political survival in authoritarian regimes because

> "…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" (2009, p. 330).

Indeed, there is a redistributional role that SWFs have in authoritarian countries where the managerial and administrative aspects of SWFs are designed according to the political survival ambitions of the leadership. However, Shih does not provide a singular explanation and elaborates the formation of SWFs according to the inner dynamics of the regime. He points out that the SWFs of highly unified autocratic regimes may act differently than the SWFs of more fragmented autocratic regimes therefore, the balance of power between the leadership, its rivals and societal groups may affect the structure and behavior of SWFs (Shih, 2009). Therefore, there should be an analytical framework to distinguish SWFs of regimes ruled by a ruling-family (UAE), by competitive authoritarianism (Singapore, Russia), and one-party governments (China) (Braunstein, 2017a; Shih, 2009).

Grigoryan theorize this argument into a framework called "autonomy-maximization" and conduct case studies among authoritarian SWFs sponsoring regimes (Grigoryan, 2016, p. 3). Autonomy-maximization basically is the process through which the ruling elite expand their domestic autonomy through SWFs. The underlying assumption is that the boundary between the interests of the ruling-elite and the government is ambiguous in authoritarian regimes therefore the personal interests of the ruling-elite may easily evolve into government interests (Grigoryan, 2016). By creating large-pools of resources the ruling-elite becomes the gatekeeper to the resources through which it consolidates its alliances with other tribes by aligning their interests with its own interests and also by impeding its rivals from making new allies (Grigoryan, 2016).

In the case of UAE, the ruler Al Nayah placed members of different tribes into the board of directors of ADIA as a reward for loyalty and obedience (Grigoryan, 2016). In the cases of Russia and Singapore SWFs are tools for making alliances with business groups (Chevrier, 2009; Pekkanen & Tsai, 2011). However, the difference is that the ruling-elite in these cases do not use a reward/punishment mechanism but actually tries to meet the needs of business groups through SWFs investments to buy their loyalty. Russian Minister of Finance Kudrin directed the resources of Russian Stabilization Fund accordingly with the demands of industrial lobbyists that demanded domestic investments rather than foreign investments despite the fact that the fund had to recycle the money in international markets to prevent the rising inflation at time (Chevrier, 2009; Fortescue, 2010). Similarly, Singaporean government launched several welfare and credit packages for both businesses and families through GIC funds in 2009 to outperform the rising opposition party (Braunstein, 2017a; Shih, 2009). The Chinese case, however, is not built on the autonomy-maximization motive of a single ruling elite but motives of multiple ruling factions. The bureaucratic competition between the ministry of finance and the central bank to have the most influence on financial sector resulted in a dispute on the excess reserves management that eventually ended with Ministry of Finance becoming the controller of the funds and unifying them under CIC (Behrendt, 2011; Yi-chong, 2010b). These experiences reveal the fact that authoritarian regimes have similar motivational patterns for the usage of SWFs in domestic political economy therefore, they hint us that the Turkish experience may also share a similar framework. Against the arguments on TWF that we encounter in media the framework on political regimes in the literature is more helpful.

Turkish experience was considered as an outlier case among other SWFs since its inception. Opposition parties and several commentators argued that SWFs are established as a consequence of excess reserves in natural resources and cash however, Turkey did not have such reserves to set up a SWF ("CHP'den Varlık Fonu Eleştirisi, Hükümetten Yanıt", 2017). This argument was substantiated on the examples of SWFs from developed countries such as Norwegian SWF and from oil-rich countries of Gulf. This point of view primarily questioned the necessity of a SWF within this context and functionality of this move was consequently problematized since the explanation by the government was unclear ("Varlık Fonu Değil Paralel Hazine", 2016). Turkey has a chronic current account deficit which is primarily due to commodity import therefore, as far as SWFs to date fall into a single category of reserves-backed SWFs the argument is a rational one.

However, as the literature suggests, there is no single type of SWF and different political economic settings lead to different types of SWFs. Among extant SWFs we can point out two examples of SWFs that were established without excess reserves and that reflect other political economic similarities. Singaporean and Malaysian SWFs reflect similar features of the Turkish experience albeit not completely. Both countries lacked natural resources and trade surpluses to establish a SWF to manage excess reserves (Carney, 2015; Samphantharak, 2019). On the contrary, both countries primarily needed to invest in industrialization, to attract foreign investment, and ultimately pursue higher rates of economic growth (Carney, 2015; Samphantharak, 2019). To realize these development-related goals Khazanah and Temasek were built on existing SOE's and pursued a strategy to stimulate the economic activity in their respective regions.

Khazanah is the first SWF of Malaysia that was established in 1993. The asset pool at its inception were comprised of SOEs and endowments from the treasury (Samphantharak, 2019). It is directly controlled by the government of Malaysia and the shareholder structure has not changed since the establishment (Khazanah, 2020). Until late 1990's Khazanah acquired shares from companies that can generate high-revenue in long term and focused on improving managements SOEs (Khazanah, 2020). After 1997 crisis Khazanah started to engage in investments that are believed to boost economic growth and to ensure financial stability (Pekkanen & Tsai, 2011; Samphantharak, 2019). The most important activities to date were the acquisitions of financially distressed companies and injecting capital to public banks during economic slowdowns (Samphantharak, 2019). Today the fund is engaging in foreign acquisitions of companies in emerging markets and financially support Malaysian national champions to grow them into regional champions (Butt et al., 2008; Khazanah, 2020).

Temasek was established in 1974 by similarly owned by the Ministry of Finance of Singapore (Schwartz, 2012). However, it was formed as a private company and it is financially separate from the central government's budget (Carney, 2015, 2018). The reason behind this design was maximizing the efficiency of budgeting of government through outsourcing non-core elements. Temasek played a crucial role in industrialization and reconstruction of Singaporean economy after colonial businesses left the country following the national independence in 1965 (Carney, 2015, 2018). Today it is one of the most active SWFs in global markets and in regional M&A activity (Preqin, 2018).

Malaysian and Singaporean political regimes are also relatable to their respective SWFs. According to Carney, Malaysia and Singapore politically fall into same analytical category called “dominant-party regimes” that “permit the opposition to compete in elections but rarely result in a handover of political power” (2015, p. 839). These regimes are prone to consolidate the political and economic power through increasing their control over state resources (Carney, 2015). The common feature is the lack of veto points due to the dominance of a single party throughout the political system (Grigoryan, 2016). The lack of veto points facilitated governments’ active involvement in the control of state’s resources therefore, three parallel outcomes occurred.

First, the increasing control resulted in the allocation of SOEs under the direct control of the government or in other words the government manage “to successfully integrate large enterprises into the regime’s governance structure” and augment the main components of the regime (Carney, 2015, p. 840). Second, the increasing control over SOE’s enhanced the stability and the survival of the regime (Carney, 2015). This actually means the continuation of the incumbency of ruling party since it controls the decision-making process of purchasing new businesses and liquidating the portfolio. Third, during times of economic downturn the government easily and rapidly channeled the public resources to acquired SOE’s (Carney, 2015). Through this move government provided a quick fix for the shielding against the economy from ongoing downturn.

In conclusion, SWFs are highly effective tools in authoritarian regimes for power consolidation. The incorporation of large economic resources into the pursuit of authoritarian practices evidently serves authoritarian government’s autarkic position against its contenders. For the case of TWF it is a useful framework to analyze the Turkish experience from outside of a purely economics-related point of view and recognize the broader picture that reflects the ongoing fundamental transformation in Turkey. This transformation includes a long-term development of policymaking structure in Turkey.

CHAPTER 4

CHANGING ECONOMIC GOVERNANCE IN TURKEY

Political regime and economic policymaking structure in Turkey has undergone fundamental changes in JDP era. During 2010's JDP weakened the EU anchor (Acemoglu & Ucer, 2018; Atiyas, 2012; Öniş, 2019; Ozel, 2012; Özel, 2015), weaponized national security policy against its political rivals and opposition (Caliskan, 2018), and de-institutionalized the checks-and-balances among judiciary, legislation and executive power (Esen & Gumuscu, 2018). The authoritarian turn escalated with the state of emergency period in the aftermath of 15th of July coup attempt organized by the Gulenist movement and an official change from parliamentary regime to a presidential regime that extended executive power vastly and minimized the role of parliament took place after the constitutional referendum of 2017 (Caliskan, 2018).

Economic policymaking structure has been affected by the authoritarian turn. To generalize, economic policymaking structure has changed crucially in favor of the discretion of the executive power (Esen & Gumuscu, 2020). While still promoting a free market economy, the state started to take an active role in large-scale infrastructure and industry investments, direct interventions become preferable over regulatory setting, institutions become more open to political intervention, and the government started to promote a developmentalist agenda (Öniş & Kutlay, 2020). The previous institutional setting that enabled the interplay among various economic actors and institutions during the formulation of policies were redesigned toward an overly-centralized setting within which the government eventually single-handedly managed every aspect of economic policy and president's discretion became almost the only determinant of policymaking (Esen & Gumuscu, 2020). TWF is established during the institutional change and also served as a part of this change. Therefore, analyzing the institutional change is a necessity to understand the context within which TWF is present.

4.1 Monetary policy

Independence was given to Central Bank of Turkey (CBRT) as a part of the post-2001 crisis recovery program. Central Bank Law (no:1211) was amended in 2001 to isolate the monetary policy of Turkey from political intervention after a decade of mismanagement of CBRT by governments that consequently led to hyperinflation in late 1990's (Atiyas, 2012). To stabilize the prices and address to the chronic current account deficit and high levels of foreign debt, CBRT took an approach of high interest rate policy after the crisis (Öniş, 2009). The policy meant to create enough time and space to implement structural economic reforms and send positive signals to global markets. Inflation and interest rate came down gradually (Öniş, 2009). However, the aftermath of 2008 global financial crisis created a worldwide liquidity problem where cost of borrowing rose and CBRT adjusted interest rates in a macroprudential manner to stabilize the currency depreciation in 2010's (Bakır & Çoban, 2019; Yağcı, 2018).

After Erdogan became President in 2014, he started to increase the pressure on CBRT by political speeches through which Erdogan openly blamed governor of CBRT Erdem Basci for not acting aligned with national interests of Turkey (Beki, 2015). Monetary policy became a matter of strong disagreement not only between the CBRT and Erdogan but also within the government (Öniş, 2019; Yağcı, 2018).

Erdogan and Berat Albayrak supported rapid decrease of interest rate to boost economic growth whereas Erdem Basci, Mehmet Simsek and Ali Babacan supported prioritizing financial stability in long-term over stimulating the economy in short-term (Öniş, 2019; Öniş & Kutlay, 2020).

The next governor Murat Çetinkaya became the first CBRT governor who was sacked by a presidential decree (Baklr & Çoban, 2019). Growing current account deficit, rising indebtedness of private sector, political instability and worsening relations with US triggered a currency and debt crisis in 2018 ("How Turkey Created a Debt Crisis", 2018). CBRT raised interest rate up to 24% to slow down the foreign exchange demand (Karanfil, 2018). However, the rates were unacceptable for Erdogan and by circumventing the Central Bank Law with a decree that enables deposing public officers if they underperform, Murat Cetinkaya was replaced with Murat Uysal in July 2019 ("Merkez Bankası Başkanı Murat Çetinkaya, Cumhurbaşkanlığı Kararnamesiyle Görevden Alındı", 2019).The decision was disputed heavily since its legality was not clear and central bank independence was violated ("Merkez Bankası Operasyonuna CHP ve İYİ Parti'den tepki", 2019). Murat Uysal decreased interest rate by 1000 basis points in 4 months and 1575 basis points in total during his duty term (Demiralp, 2019).Erdogan stated that removal of Murat Cetinkaya from duty was the result of his inobedience ("Merkez Bankası Başkanı Laf Dinlemiyordu", 2019). Until 2021, two more CBRT governors were replaced by Erdogan before the governors' duty term ended due to increasing interest rates ("Merkez Bankası Başkanı Naci Ağbal Görevden Alındı", 2021; "Merkez Bankası Başkanı Neden Görevden Alındı?", 2020). As a consequence, the government centralized the monetary policy by violating the political independence of CBRT.

4.2 Government spending

The institutional setting that oversaw government spending included active involvement of regulatory and judicial bodies besides the parliament during the first years of JDP rule (Buğra & Savaşkan, 2014). Some key highlights demonstrate the changes from 2002 to 2020. IRA's lost their political independence through law amendments and decrees over years (Ozel, 2012). IRA's in Turkey were established during 1990's when Turkish economy struggled with high inflation, unstable currency, and frequent policy changes (Öniş & Bakir, 2007). Inability to stabilize the market within this environment revealed the importance of regulatory mechanisms. (Öniş, 2009) By following the IMF and World Bank guidance 9 IRA's were established until 2002 (Ozel, 2012). Since the constitution prohibited establishment of economic regulatory bodies outside of the administrative hierarchy, these agencies were defined as affiliated institutions of respective ministries (Ozel, 2012). IRA's were granted political independence in their activities and played a pioneer role in post-2001 crisis reforms which were aligned with regulatory governance perspectives of IMF and World Bank (Öniş, 2009).

JDP rule implemented a gradual reversal of the regulatory mechanisms by reincorporating the IRAs under government's control (Özel, 2015). In its first term the government passed three amendments regarding the financial independence of IRA's (Buğra & Savaşkan, 2014). As of 2007, IRA's financial activities were directly audited by Court of Accounts and decisions were made subject to affiliated ministries' approval (Esen & Gumuscu, 2020). And finally in 2011 two decree-laws put IRAs fully under ministries' control (Ozel, 2012). The reversal of short-lived independence of IRA's was first move of JDP for centralization.

The second highlight was the government's increasing discretion over use of public resources. Shortly, JDP used public procurement as a gatekeep to public resources through which a loyal business class was formed and disloyals were sidelined (Buğra & Savaşkan, 2014; Esen & Gumuscu, 2018). Public procurement law was amended 191 times until 2020 (Kaya, 2020). The amendments granted power to invite the potential suppliers rather than using open auctions (Buğra & Savaşkan, 2014). According to Gurakar until 2014, contracts that were made through invitations increased nearly by 100% whereas open auctions fell by nearly 50% (Gürakar, 2016). Additionally, exemptions-related to some ministerial bodies' procurement processes were increased and also strengthened by annulling the mandate of Court of Accounts to auditing the use of public resources in 2010 (Ozel, 2012; Özel, 2015). The most apparent example is the case of housing administration TOKI (Buğra & Savaşkan, 2014). Although TOKI was given the use of all public lands to engage in partnerships with construction sector, the audit of financials by were lifted from parliamentary oversight and Court of Accounts (Buğra & Savaşkan, 2014; Esen & Gumuscu, 2018; Gürakar, 2016). Although active engagement of TOKI in construction sector which was main driver of Turkish economy during JDP rule, it lost its accountability significantly (Acemoglu & Ucer, 2018).
These changes severely damaged the checks on how government spending was overseen and helped continuation of clientelism and populism by JDP (Aytaç & Öniş, 2014).

Lastly, the hyper-centralization that rose within the de-institutionalisation process has extended to budgeting process with the Presidential system. The new constitution states that if the central budget proposed by the President does not pass from the parliamentary vote, revalued version of last year's budget will be allowed to

President’s budget (TBMM, 1982). Therefore, the veto power of the parliament at the budget making process is taken away and the government has little accountability obligations to acquire the budget they propose. Additionally, this means that public finance is solely controlled by government and other political parties in the parliament cannot effectively represent their constituencies through the process. After Erdogan became President in 2014, the budget of Presidency of Turkey has risen 550% until 2019 ("Erdoğan’ın Seçildiği 2014 Yılından Bu Yana Cumhurbaşkanlığı Harcamaları Yüzde 550 Arttı", 2019). The result of the de-institutionalization and hyper-centralization of economic policymaking process is the concentration of economic power at hands of the President with little accountability(Özel, 2015). Combined with the populist and developmentalist approach that the government took (Öniş, 2019), economic management of Turkey has become a discretionary mechanism of political power. Additionally, the President himself became the gatekeeper to the economic resources.

CHAPTER 5

THE HISTORY OF TURKEY WEALTH FUND

The establishment of TWF is one of the most eccentric developments in Turkish political economy due to its outlier position among other SWFs that shared the same logic of recycling excess reserves, trade surplus or natural resources into efficient use (Chen, 2011b). Turkey is not an exporter of significant natural resources such as oil and natural gas in fact, Turkey is historically net importer of mineral fuels, mineral oils and products of their distillation (Rodrik, 2005). In terms of excess reserves and trade surplus, Turkey also historically has a problematic situation which is marked by periodic currency crises and the country's structural dependence on commodity import (Acemoglu & Ucer, 2018; Rodrik, 2005).

A second reason that makes TWF unique is its ambiguous and discontinuous establishment process that is still not comprehensively explained by any journalist, politician or scholar. The extant analyses on TWF can be grouped in two categories. The first analyzes TWF within the framework of realist international relations theory which takes SWF as tools to strengthen the sovereignty of states among other agents (Dixon & Monk, 2012). These accounts analyze the potential role of TWF in economic security (Kavcıoğlu, 2018; Kayıran, 2016; Saygın & Yamak, 2019). The potentiality of the designated roles makes the analyses not empirically grounded social science research but policy-related commentaries. The second group sees TWF as a part of authoritarianism in Turkey where authoritarian practices and neoliberal economic policies go hand in hand (Akçay, 2017; Gürses, 2017; Kahveci, 2020). The common argument is that Turkish government is single-handedly pooling resources of SOEs to support the political environment where their patronage prevails (Gürses, 2017). Although this may be a solid argument, none of them explains the reasons of the establishment of TWF but the implications.

Thirdly, Turkish government had difficulties to communicate the reasons to establish a SWF with the public therefore it faced a lot of meaningful criticism from the opposition. Until the latest CEO of TWF disclosed the strategy of the fund last year in a more comprehensive way most of Turkish citizens had no clear picture of TWF's potential role in Turkish economy. During the establishment process the exemptions that are granted to the fund and the incomplete strategy were communicated vaguely by the president and ministers for a long time therefore, the opposition arguments that saw TWF as a new tool to perpetuate JDP's patronage network found a broad audience in media. Additionally, the development of TWF portfolio indicates no specific investment plan but a variety of assets ranging from treasury-owned lands to telecommunication companies. Therefore, the establishment of TWF as an experience needs a detailed analysis that relates actors, ideas and institutions that evolve before, during and after the establishment.

The structure of this chapter is designed to deliver the timeline of events and description of TWF as a legal entity and an organization beginning from the proposal of the establishment law to the present. This chapter is to provide a comprehensive information about the fund. It will start from mid-2016 and continue to first quarter of 2021. Since the organization structure and the envisioned strategy evolved in this 5-year period in a rapid fashion it is more appropriate to present them in a timeline format then going into specific subjects. I chose to periodize the process into the management of three CEOs of the fund to easily characterize each period differently relating to different practices which the fund adopted. Therefore, this chapter will present itself as follows: First, the establishment process will be explained with legislation process and presidential acts that took place in 2016. Then, the timeline of periods that Mehmet Bostan, Hikmet Karadag and Zafer Sonmez held CEO position will be delivered separately and sequently. Then I will move to its legal status, organizational structure and the change in its portfolio over time. Lastly, I will summarize the political debate on the fund that has found significant place in media over 5 years. After providing enough information systematically about TWF I will have grounds to make a political economic analysis of TWF in terms of ideas, interests and institutions interact in political economy of Turkey.

5.1 Establishment process of TWF

The law proposal to establish a SWF was sent to the parliament in August 2016 by JDP MPs. Presidency of the parliament directed the proposal to the Commission of Planning and Budget to work on a draft where opposition and government MPs discussed the necessity and legal compliance of the proposal (TBMM, 2016a). The reasoning of the proposal overall relied on hedging risks that Turkish economy could encounter during turbulent periods in global economy and on supporting public investments for structural economic improvements that needed government initiative due to the capital intensiveness of the investments ("Varlık Fonu'nda Hedef 200 Milyar Dolar", 2016; TBMM, 2016a). However, it is a very broad framework and may not easily explain why the government thinks that they need a new tool for economic policymaking that differentiates from existing tools. When we go into detail it is possible to comprehend an initial plan but also, we read many aspects that are not necessarily interrelated but through the proposal, packed into an omnibus-alike document by the government.

According to the proposal increasing risks in domestic and international financial markets lead to economic fluctuations, outflow of foreign portfolio investments that puts Turkish economy open to deficiencies in managing the potential shocks ("Varlık Fonu'yla Hiçbir Şey Eskisi Gibi Olmayacak", 2017; TBMM, 2016a). Additionally, the domestic demand for speculative foreign exchange trading lead to decrease in liquidity and financial stability both in long and short-term (TBMM, 2016a). Since liquidity and financial stability were prerequisites to direct resources and effort from short-term policies to long-term investments for economic development, the improvement of the efficiency of managing economic resources became a priority for Turkey ("Türkiye Varlık Fonu Böyle Çalışacak, 2016; TBMM, 2016a).

The proposal argues that Turkish public sector has a big and diversified asset portfolio (TBMM, 2016a). Besides, there is a growing market of mutual funds due to the rising and incentivized demand on pension funds and it is a common practice of fiscal policy to direct public revenues and mutual fund surpluses to various investment vehicles that may generate further revenue or development projects (TBMM, 2016a). These revenues and surpluses can be put in use by pooling them to an upper fund that will provide long-term financing for real sector activities (TBMM, 2016a). Therefore, as a potential solution, a SWF of which the founding capital can be provided by treasury -mainly the companies under the management of Privatization Board- until it becomes a corporation that funds itself and generate profit may play a role of a stabilizer (TBMM, 2016a). The resources of the TWF would consist of the surplus income, resources and assets at the disposal of public institutions among the assets that are under the scope and program of privatization and the cash surplus that is decided to be transferred from the Privatization Fund to

TWF (TBMM, 2016a). Through this, a SWF which manages public resources by coordinating them according to the macroeconomic needs also can increase the credibility and risk management capability of Turkish economy thus, contributing to a healthier economic growth (TBMM, 2016a). Lastly, SWFs are proliferated among G20 countries among which Turkey is the only country that does not have a SWF therefore, missing the potential benefits of a such practice (TBMM, 2016a).

As a summary, the proposal finalizes the reasoning by listing the main goals of the fund. The SWF will contribute economic growth through direct investments that will create jobs and generate revenue, promote financial markets and non-banking finance including Islamic financial instruments to mitigate the risks that relate to foreign exchange volatility, finance mega-projects without increasing indebtedness by attracting foreign investment and other possible practices, champion local companies that invest in strategic sectors such as defense, aviation and software technology, and lastly, investing in commodities such as oil and gas internationally of which the supply is critical for Turkey.

The proposal came with certain controversial articles regarding the legal status of the fund of which the most important was the exemption from taxation and Court of Accounts audit ("Savunamıyorlar Karalıyorlar", 2017; TBMM, 2016b). The proposal argued that such strategic move would be a tool to alleviate structural problems of Turkish economy and needed some degree of freedom and exemption from bureaucratic and legal supervision to be an agile actor in markets (TBMM, 2016a).

The initial arguments against the proposal at the parliamentary commission meeting came from opposition parties CHP, MHP and HDP. The arguments relied on two points: the alleged unconstitutionality of some articles and the unconvincing reasoning due to the allegedly unrealistic expectations that are built around addressing structural problems (TBMM, 2016a, 2016b). In terms of unconstitutionality, the articles of the constitution 164 and 165 that envision SOE's of which state has minimum 51% of shares are subject to audit by the parliament and Court of Accounts, pose an inconvenience since the proposal envision audit by independent auditors and a ministerial audit committee (TBMM, 1982, 2016a). Additionally, the right to budget, which is a constitutional right at article 87 that mandates legislators and other public servants to plan the revenue and spending of projects or organizations is violated since there are no upper and lower limits to the transferable assets from the treasury to the fund (TBMM, 1982, 2016a). Another objection in terms of unconstitutionality is that since the proposal grants many attributes and responsibilities that are not necessarily related, the operation plan and the role of the fund among other economic institutions should have been more elaborate to avoid future inconsistencies with other public institutions and constitution (TBMM, 2016a).

The opposition had more to say over its necessity and practicality. The first objection was that by moving a large amount of assets out of the treasury and public audit, the fiscal discipline could be deteriorated since the financial statements of the fund would rely on public assets but would be subject to private law and not integrated to treasury accounts ("Varlık Fonu Değil Paralel Hazine", 2016). Moreover, granting authority to borrow freely from markets could have severe impact on private companies' capacity to borrow from domestic markets since the fund would have power to borrow large amounts and possibly put the supply of borrowing instruments at risk for private companies ("SPK'nın Varlık Fonu Düzenlemesiyle Borçlanmak İçin Paralel Hazine Kuruluyor", 2019). Last but not least, the financial needs of strategic investments and mega-projects would probably exceed the amounts that the fund would receive from treasury therefore, the fund would need amounts of debt that could put the fiscal discipline at risk which is also neither regulated nor audited (Sağlam, 2016). This was a serious problem in terms of accountability and fiscal management.

Second objection was based on the argument that a SWF with such goals would be unnecessary and unrealistic. The problems that the proposal addressed were so major that a SWF would be insufficient to contribute solving them therefore, putting expectations on a SWF would be unrealistic (TBMM, 2016a). Also, the strategic investments and mega-projects could be financed through conventional borrowing instruments without creating new risks to fiscal discipline. Overall, an unelaborate proposal with many problematic points to discuss should not be promulgated or it would be a wasteful venture by the government. This meant that the only solid action that the proposal demonstrates is the removal of public assets from public and legal oversight which arouses suspicion about purely political motives.

Against these complaints and critiques the government MPs responded that the fund would be sufficiently transparent and compliant to international governance standards of SWFs that are set by IMF ("CHP'li Basmacı'dan Şirketlerin Varlık Fonu'na Devredilmesine Tepki", 2017). Although the fund would be exempt from Court of Accounts audit, it would be under the supervision of Capital Markets Board (CMB) and the audit process would be realized according to the. Board's standards (TBMM, 2016a). This explanation based on the fact that the fund would not be a SOE which are regulated by Article 165 of the constitution but a special-purpose investment vehicle that would be out of the scope of that article but under CMB regulations (TBMM, 1982, 2016a). The fund would also do informative presentations regularly to the parliament with audit reports attached. Although not convincing, the proposal was changed and edited according to only minor matters such as wording and logically conflicting articles and was finalized to be sent to voting session in 17.08.2016 ("TBMM'de Kabul Edildi, Varlık Fonu Kuruluyor", 2016). Two days later, the Law Regarding the Amendments on Certain Laws with the Establishment of Turkey Wealth Fund Management Joint-Stock Company (Türkiye Varlık Fonu Yönetimi Anonim Şirketinin Kurulması İle Bazı Kanunlarda Değişiklik Yapılmasına Dair Kanun) was accepted by the majority vote in general session of parliament and a week later the law was promulgated which meant the official establishment of the TWF with 50.000.000 liras paid-in-capital ("Türkiye Varlık Fonu Şirketi Kuruldu", 2016; TWF, 2016b). Additionally, Finance Minister Naci Ağbal announced that the government will enlarge the privatization portfolio and implement a more aggressive privatization policy in order to enlarge TWF's portfolio ("Agresif Özelleştirme", 2016).

This also was the beginning of an ever-continuing political debate on the merits of the fund since the distrust by the opposition on potential mismanagement of national assets were not alleviated. Three months later in November 2016 the decree of the council of ministers appointed the chairman of TWF and determined the principles and structure of the functioning ("Türkiye Varlık Fonu Genel Müdürlüğüne Mehmet Bostan Atandı", 2016). According to the decree Mehmet Bostan, president of Privatization Administration was appointed as the chairman and CEO of TWF along with other board members Himmet Karadağ, Yiğit Bulut, Kerem Alkin and Oral Erdoğan, a team of bureaucrats and economists known for their extreme loyalty to president Erdogan ("Türkiye Varlık Fonu Yönetim Kurulu

Atamaları Yapıldı", 2017). This marked the inception of the operations of TWF.

5.1.1 Mehmet Bostan leadership (2016-2017)

Management of TWF until late 2017 is vague in terms of strategy and disclosure. Although the establishment law and following bylaws drew a scope of operational and discretional framework, what TWF achieved in terms of development or financial improvement during the period is questionable. Considering the activities which mostly included capital injections and transfer of SOE shares it is apparent that Mehmet Bostan leadership gravitated towards the establishment process. Disclosure about TWF's activities were mostly done by deputy ministers and ministers however, most of them were about potential benefits of TWF for Turkish economy rather than clarifying the strategy and which public assets would be subject to more efficient use, to public opinion ("Agresif Özelleştirme", 2016, "Devletin Sahip Olduğu Çeşitli Kurumların Kimisi Uykuda", 2017).

Transfer of assets started in the first quarter of 2017. The first asset that was transferred to the fund was the authority to rent and sell the licenses of horse race betting, football betting, and lottery games by the Presidential Decree No: 680 ("Üç Yeni KHK Yayımlandı", 2017). Soon after the transfer the Presidential Decree No:684 expanded TWF's resources from Privatization Board's assets to the assets and shares of SOEs which was not included in the original law promulgated ("Türkiye Varlık Fonu'nun Kaynakları Genişletildi", 2017). This change led to a series of transfers that drastically increased AUM and intensified the political debate. From February 2017 to the end of March 2017 TWF sequently acquired shares of Ziraat Bankasi (Banking), BOTAŞ (Oil), Türkiye Petrolleri (Oil), PTT (Posting), Borsa İstanbul (Stock Exchange), Turksat (Telecommunications), Türk Telekom

(Telecommunications), Eti Maden (Mining), Çaykur (Tea production), Turkish Airlines (Aviation), and Halkbank (Banking), belonging to the treasury. ("Kamu Kurumlarının Hisseleri Varlık Fonu'nda", 2017). By these activities TWF's worth soared to 31 billon liras ("Değeri Şimdiden 31 Milyarı Aştı", 2017).

The explanation to these activities by the government officials were simultaneously parallel and conflicting but ultimately discontinuous. Instead of providing a comprehensive action plan beforehand giving updates, the government chose to answer opposition's concerns that were raised time to time. First, to alleviate the concerns of the opposition on potential collateralization of TWF portfolio to acquire debt from international markets, deputy minister expressed that the sole aim of the fund was coordinating and optimizing the works of dormant resources to channel them to development plans and making investment environment of Turkey more credible ("Petrol Bulmayı Mı Bekleyecektik", 2017; "Varlık Fonu İlgiyi Türkiye'ye Çekecek", 2017). The minister of finance Naci Ağbal explained the logic of the activities as an effort to catch up with Turkey's resource-rich and current account surplus having peers with extant tools to create value-generating projects and attract institutional investors to partner with ("Bakan Ağbal'dan Çok Önemli Açıklamalar", 2017). Also, TWF would help providing financing for mega-projects, autoroutes and other infrastructure projects ("Büyük Projelere Kaynak Aranacak", 2017). However, less than a month later, the minister of transportation Ahmet Arslan made a statement that TWF would not work for those projects ("Bakan Arslan İzmir Projelerini Açıkladı", 2017). The confusion elevated with statements of President Erdogan and deputy minister Mehmet Simsek on TWF's desired role in PPPs for infrastructure at several public appearances ("Yeni Yönetim Sisteminin Temel Mantığı, Güven ve İstikrardır", 2017). The lack of a solid plan in fact led to the misunderstanding of TWF’s role and until a plan was announced the problem of miscommunication continued however, not corrected by the government.

Mehmet Bostan, on the other hand, preferred to appear on panel discussions on economics and finance where mostly professionals and finance journalists attended. When he was asked about the strategy by a Reuters correspondent he explained that it was still under preparation but the general framework is to guide the portfolio companies towards investments and joint operations according to the long-term development plan of the government ("Finansta İslami Atak", 2017). Also he highlighted this framework as a differentiating feature from other SWFs which either chose to focus on financial performance or direct management of the companies ("Bize Bir Zararı Yok", 2017). Additionally, Bostan announced at 12th Turkish Arab Economic Forum that TWF aimed to increase Islamic financial instruments in the portfolio by investing in Sukuk’s, non-interest bonds which are most common instruments in Islamic finance ("Finansta İslami Atak", 2017). This can be seen as a parallel development to the endeavors of JDP government that promoted Islamic finance in banking sector.

Some developments also took place aside the acquisitions. Until late 2017, TWF signed a cooperation agreement with Russian SWF, Russian Direct Investment Fund to create a joint fund in future and invest in energy sector, another cooperation agreement with Islamic Corporation for Development to create a joint mortgage company based on Islamic finance ("Ortak Fon Kurulacak", 2017). In terms of corporate governance, TWF became a member of IFSWF and committed to Santiago Principles ("Varlık Fonu, IFSWF Üyeliğine Kabul Edildi", 2017). Lastly, TWF has established 4 sub-funds within itself. These were "Market Stability and Balance Fund", "SME Financing Fund", "License and Concession Fund" and "Mining Sub-

Fund". SME Financing Fund was dismissed in 2019 and replaced by “Istanbul Finance Center Real Estate Fund” and a new fund called “BIST Venture Capital Fund” was created (TWF, 2016a).

However, these developments were considered insufficient by the president Erdogan who claimed that TWF was far from the planned process of development and a reorganization was necessary ("Türkiye Varlık Fonu Başkanı Mehmet Bostan Görevden Alındı", 2017). In September 2017, Mehmet Bostan was dismissed from the CEO position and the role was assigned by proxy to another board member Himmet Karadag, who was also the CEO of the stock exchange Borsa Istanbul. This period, which lasted only a year was a prolonged establishment phase during which the chair and the board were proxy, and any long-time expected breakthroughs did not take place on the contrary, this was the less visible period of the fund on media and on political scene. The only development of the period was the CHP’s admission to the constitutional court to annul the 8th article of the establishment law which exempted TWF from Court of Accounts audit. However, the court rejected the admission and ruled that the law had no compliance issues in terms of constitutionality ("Anayasa Mahkemesi’nden CHP’li Vekillere Ret", 2018). Also the independent audit reports started to be presented at the parliament in 2018 ("Varlık Fonu’na İlk Denetim", 2018).

5.1.2 Zafer Sonmez leadership (2018-2021)

Prior to the assignment of Zafer Sonmez as the new CEO in September 2018, TWF’s mandate was transferred to the presidency in July 2018 by the first Presidential Decree after the inauguration of president Erdogan as the first president of the new presidential system of Turkey which significantly increased the executive power of the president against the parliament (Esen & Gumuscu, 2020; "Cumhurbaşkanlığı'na Bağlı Kurum ve Kuruluşlar Belirlendi", 2018). Two months later, the new management of TWF was announced. The new organizational structure separated the roles CEO and the chairman where president Erdogan became the chairman, minister of finance Berat Albayrak became the vice-chairman and Zafer Sonmez became the CEO ("Varlık Fonu'nun Yeni Yönetimi Belirlendi", 2018). Unlike the previous CEOs Sonmez was not a bureaucrat but a seasoned finance professional who had working experience with development funds in South-East Asia especially with Malaysian SWF Khazanah, where he worked for six years ("Varlık Fonuna Atanan Zafer Sönmez Kimdir?", 2018). He also did not have any publicly known political ties with the government. With the new CEO at the role, TWF accelerated and increased its activities and also started to provide more disclosure and update about its state-of-affairs through press conferences and announcements on its website (TWF, 2016d). Moreover, from 2019 to 2021 TWF's strategy and role in economic policy became more apparent than ever due to the change in format of statements made by government officials from abstract and precatory words to more precise and elaborate assessments on the nature of investments. The economic management plans announced by the government started to commission TWF as an active player in the execution process. These plans are namely New Economic Program for 2019-2021 and 11th Development Plan. TWF would finance a list of priority sectors, mainly through large-scale investments or by being partners to the investments (Hazine ve Maliye Bakanlığı, 2019; Strateji ve Bütçe Başkanlığı, 2019). In terms of transparency, TWF provided detailed audit reports three times, and Sonmez made two presentations at the parliament to give status update and to answer the questions of MPs. Also, he frequently organized press conferences to explain the logic of new investments. At international scale, TWF started to work with globally known credit agencies such as Fitch to find and evaluate the fund’s credit and risk scores (TWF, 2016d).

After the presentation of detailed audit reports in the general assembly in a closed session, the Ministry of Treasury announced that to strengthen the capital structures of the public banks TWF would play the role of intermediary at the issuing of government debt securities. The plan which was included in the New Economic Program envisioned acquisition of the income by the government worth nearly 4 billion euros and injection to the public banks ("Kamu Bankaları İçin 3.7 Milyar Euroluk DİBS İhraç Edilecek", 2019). The mentioned bonds would be exported to the Market Stability and Balance Fund of TWF. The fund would generate cash by selling bonds issued by the Ministry to public banks, and then would use the said cash to purchase subordinated bonds to be issued by public banks. By the end of the May 2020, capital injection worth 24 billion liras were completed ("Kamu Bankaları Sermaye Artırma Süreci Tamamlandı", 2020).

Following this move, TWF started to invest in large-scale projects. The first was the 1.67 billion liras worth investment in Istanbul Finance Center, which was a financially distressed construction project to prior contractors and the project nearly halted due to lack of funds ("En Geç Kasım’da Vinçler Çalışacak", 2019). However, the government was determined to finalize the project and it found an important place in the economic plans (Hazine ve Maliye Bakanlığı, 2019; Strateji ve Bütçe Başkanlığı, 2019). Another important development was an investment of nearly $10 billion worth refinery to be established in Adana's Ceyhan district and the construction of a petrochemical complex, which was explained as a strategic investment parallel with the plans that prioritized energy sector ("Varlık Fonu’ndan

Rafineri Yatırımı", 2019). Lastly, TWF introduced the merger of all public insurance companies under a single insurance holding named Türkiye Sigorta. The insurance holding was to be established through purchasing and merging all public insurance companies. While the weight of the public sector in the insurance market increased after the merger, the insurance strategy of the companies started to be executed from a single administration ("Kamu Sigorta Şirketlerinin Birleşmesinde Son Süreç Tamamlandı", 2020). Sonmez explained that this move was to increase the role of non-banking financial sector in the Turkish economy and disperse the systemic risk that were posed by banks, since the share of banks in financial sector equaled to 95% ("Genel Müdür Sönmez ile A'dan Z'ye Varlık Fonu", 2020; "Varlık Fonu'ndan Sigorta Holdingi, 2019). Also Sonmez argued that insurance sector would be a valuable source to engage in large-scale financial activity in neighbor countries and to make Turkey as an insurance services exporter ("Varlık Fonu'ndan Sigorta Holdingi", 2019).

At the international investment activity side, TWF and China Export & Credit Insurance Corporation (Sinosure) signed a $5 billion agreement ("TVF ile Sinosure Arasında 5 Milyar Dolarlık İş Birliği Mutabakatı", 2020). The agreement mandated Sinosure to find Chinese investors to participate in energy sector projects and would recommend contractors and financial institutions. Moreover, TWF bought 10% shares of BIST in 2019 from EBRD and sold it to QIA in 2020 ("Borsa İstanbul'un Yüzde 10'luk Payının QIA'ya Devri Tamamlandı", 2020). Also to solve the shareholder majority problem that haunted Turkcell board for a long time, the largest private telecommunications company of Turkey, TWF bought majority shares from foreign shareholders and became the biggest investor to the company ("Turkcell Artık TVF Portföyünde", 2020). This also meant the increased control of the government on the management of Turkcell since the TMSF intervention to Çukuova Holding.

5.2 Legal status of TWF

TWF is a corporation that is owned by the state but unlike the other SOEs it is not subject to various public law articles and also not subject to some private law articles. To have a better understanding of its unique legal status, it is crucial to look at the exemptions and accorded advantages. First of all, TWF is exempt from any income, insurance, corporate, stamp, property and banking tax (TWF, 2016b). This means that TWF pays no taxes for their operations and investing activities. In terms of public law, TWF is also exempt from any law that regulates the operations, staffing and audit of SOEs (TWF, 2016b). Moreover, public procurement law, privatization law and competition law also does not cover TWF (TWF, 2016b). It is apparent that the fund is extralegal from many aspects and it is possible to say that TWF is a private corporation that is owned by state and exempt from any law that regulates taxation, public-private interactions and shareholder activity. This is a very powerful tool of state to intervene or engage in any economic activity. TWF board is chaired by the President of the Republic of Turkey. Among the committees under the board of directors, the Executive and Human Resources Committee, the Audit Committee, the Early Detection of Risk Committee and the Corporate Governance Committees were established (TWF, 2016a). The structure of the fund is comprised of Investment and Operations departments under the board that conduct the day-to-day operations (TWF, 2016a). Unlike many bureaucratic bodies in Turkey, TWF is a small organization.

CHAPTER 6

PORTFOLIO AND STRATEGY OF TWF

The actual positioning of TWF within the political economy of Turkey can be understood through its strategy and daily operations. TWF has invested in economically steering projects and was mandated by the government for several policy initiatives. These initiatives create scales large to affect strategic sectors and to boost economic activity. These activities also reflect the new stance of the government in the economic management and the role of the state resources in the realization of the related policy goals.

6.1 Portfolio of TWF

TWF is currently based on 7 sectors namely financial services, energy, logistics and transportation, mining, telecommunications, agriculture, and real estate (see Appendix C. Except Turk Telekom and Kayseri Şeker Fabrikası, TWF holds the majority shares of the portfolio companies. There are companies that need to be introduced and highlighted to understand the scope of TWF.

Ziraat Bankası, Halkbank and Vakıfbank are Turkey's biggest banks in terms of size of assets of which the sum is nearly equal to 2.5 billion liras and in terms of branch network employing 60 thousand people (TBB, 2020). Turkiye Sigorta, the conglomerate of subsidiary insurance companies of Ziraat Bankası, Halkbank and Vakıfbank is now the biggest insurance company in the country and nearly three times bigger than its closest competitor Anadolu Sigorta in terms of market capitalization by 7.6 billion liras (KPMG, 2020). Similarly, Türkiye Hayat Emeklilik is the conglomerate of subsidiary pension funds of the banks and is the largest pension fund of Turkey in terms of participants (1.8 million) and second in terms of total net asset value (22.8 billion liras) (KPMG, 2020). BIST is the only stock exchange in Turkey hosting a market for 491 publicly traded companies (TWF, 2016c). Lastly, Platform Ortak Kartlı Sistemler is a joint-venture fintech company founded by Ziraat Bankası, Halkbank and Vakıfbank that provides services on payment systems ("TVF Ortak Kartlı Sistemler AŞ'ye Yüzde 20 Oranında Ortak Olacak", 2020).

In energy sector, the portfolio focuses on petrochemicals and refineries. BOTAŞ is a crude oil and natural gas provider that works on pipeline infrastructure, petroleum extraction and trading (TWF, 2016c). Its operations mostly involve trade and infrastructure projects with resource-rich neighbor countries and is one of the biggest energy companies in Turkey (TWF, 2016d). Türkiye Petrolleri is a gasoline retailer which also lately engaged in petroleum and gas discovery through deep sea drilling in Black Sea and Mediterranean Sea (TWF, 2016d). It is also known for its joint projects with international pipeline construction companies and lately its exploration activity around Cyrus that led way to diplomatic dispute with Greece and Southern Cyprus ("Kıbrıs Açıklarında Doğalgaz Arama Krizi Nasıl Başladı, Hangi Ülke Ne İstiyor?", 2019). TVF Rafineri ve Petrokimya is the latest energy venture of TWF alongside BOTAŞ and it dedicated to build petroleum extraction by currently managing the construction of $10 billion worth refinery in Adana (TWF, 2016d). TVF Enerji is an electricity production company that is still under establishment and R&D process (TWF, 2016c). TVF Maden is another conglomerate founded for the purpose of merging all mining activity in Turkey under single management focusing on the exploration, extraction, and processing of gold, coal, zinc, iron, copper, aluminum, lignite, boron (TWF, 2016c). TWF owns two most important SOE's in logistics and transportation sector. Turkish Airlines is the national airline company that is ranked first in the world for number of passenger destinations with a market capitalization worth $19.03 billion (TWF, 2016c). And at the land transportation and at posting services PTT is the national service provider which includes cargo, posting, wiring, and e-commerce nationwide (TWF, 2016c).

Lastly, TWF has invested in telecommunication giants of Turkey. Turksat is the sole communications satellite operator in Turkey. It now operates four satellites that are currently in the orbit (TWF, 2016d). In addition to direct TV broadcasts via satellites, rural telephone communication, emergency communication, international telephone communication and corporate network services, Turksat provides digital cable TV and internet services to its domestic subscribers through its cable platform (TWF, 2016d). Although in the same sector, Turkcell and Turk Telekom are companies that are more oriented to mobile phone operating services and internet services. Turk Telekom was a SOE until its privatization in 2005 that is the owner and renter of GSM and internet licenses in Turkey (Buğra & Savaşkan, 2014; "Sekiz Adımda Türk Telekom Soygunu", 2018). The acquiring Oger Telekom owned by Lebanese Hariri family –one of the politically most influential families in Lebanon- drove the company near to bankruptcy due to billions of dollars' worth unpaid debt and a consortium of creditor banks have acquired the company from Oger Telekom in 2018 ("Sekiz Adımda Türk Telekom Soygunu", 2018). Although being the biggest mobile phone services provider of Turkey, Turkcell had a shareholder majority problem that impeded important decisions to be taken at the board for a long time, TWF bought majority shares and became the biggest investor to the company

("Turkcell Artık TVF Portföyünde", 2020). The portfolio apparently consists of companies that are at strategic importance in terms of energy, infrastructure, national and economic security and economic stability. As the owner of these companies TWF has enormous financial and technological assets to manage therefore by status, it is one of the most important entities in Turkish economy.

6.2 Strategy of TWF

TWF's operating strategy has established over time rather than at its inception. As mentioned earlier, until the announcement of NEP and 11th Development Plan TWF's announced strategy had a broad scope and explained vaguely by the government. The establishment law envisioned that "TWF was established in order to contribute to the diversity and depth of investment vehicles in capital markets, to bring domestic assets owned by the public into the efficient use, to provide external resources, and to participate in strategic and large-scale investments." (TBMM, 2016b, p.1). As also mentioned earlier the detailed explanation to this clause was not specified by the government until late 2018. The law also envisioned that TWF had to prepare a strategy plan every three years and send it to the approval of the president. Mehmet Bostan from time to time stated that a plan was under preparation however, the unfulfilled requirement of the law was noticed by the opposition and in 2017 CHP MPs delivered two parliamentary questions asking the status of the plan ("CHP'den Varlık Fonu'na İlişkin Soru Önergesi", 2017). Mehmet Simsek answered the question by confirming that a plan was prepared and sent to the president's approval in April 2017 ("Varlık Fonu Herhangi Bir Harcama Yapmadı", 2017). Although not confirmed it is apparent that the plan was not accepted since Mehmet Bostan was dismissed in September 2017 and after that in February 2018 president

Erdogan explained that the fund did not provide desired outputs in its first years and needed a new management ("Türkiye Varlık Fonu Başkanı Mehmet Bostan Görevden Alındı", 2017). By the end of the proxy leadership of Himmet Karadag in September 2018, the new board was appointed under the chairmanship of Erdogan. The first action was the remake of the strategy plan which was proposed and accepted at the board meeting on 24 October 2018. The plan was published on TWF website and announced four main goals:

> "TWF aims to enhance the value of its assets through monitoring and evaluating financial performance indicators, and value creation programs. TWF invests in visionary projects, high value-added and high technology industries that will reduce current account deficit and increase the savings base of the country. TWF is the primary point of contact for large-scale foreign direct investors and their investments in Turkey. The Fund aims to make investments in the priority regions that are aligned with Turkey's international economic strategy and investments that will transform Turkish companies into regional and global champions. TWF takes equity-based actions to expand the depth and diversity of financial markets in the country." (TWF, 2016a)

Although the strategic goals were directly relatable to the establishment law, the plan was a more clarified and concrete version that explicitly remarked that TWF would pursue investment projects that would help reduce current account deficit and promote national innovative activities which implicitly means that TWF is a tool to decrease Turkey's dependence on foreign technology, energy and currency through value creation (TWF, 2016d). The reports that were released through TWF website stated that value creation could be achieved through supporting existing sectoral activities or coming-up with new ideas to be put in operation (TWF, 2016d). It is a statement that is opposite with the concerns of opposition on TWFs potential mismanagement and leading way to excessive unchecked borrowing activities. Although mismanagement argument was strong and justifiable since TWF showed no tangible development until 2019 except pooling public assets, the fund explicitly aimed to decrease the current account deficit and not increasing indebtedness.

In 2019, two economic policy plans were promulgated. The first one was NEP 2019-2022, pioneered by minister of finance Berat Albayrak. The frequently mentioned emphasis of the plan was to stabilize and promote financial system, promote healthy economic growth and decrease current account deficit through increasing the productive capacity of the economy (Hazine ve Maliye Bakanlığı, 2019). These goals also mandated TWF to take actions and the fund announced that the establishments of mining conglomerate and petrochemical refineries, capital injections to public banks, merging of public insurance companies and pension funds were steps taken towards the realization of goals set by NEP ("Türkiye Varlık Fonu’ndan Enerji Sektörüne Yatırım Planı", 2019). The mining and petrochemicals investing activities were explained as support for value generation projects from domestic sources with direct investments based on mostly private sector cooperation. The projects would be implemented with private sector players under the leadership of TWF to decrease the energy import and material demand ("Türkiye Varlık Fonu’ndan Enerji Sektörüne Yatırım Planı", 2019). Also, the 11th Development Plan which was promulgated same year mandated TWF to support industrial sectors in long-term (Strateji ve Bütçe Başkanlığı, 2019).

Zafer Sonmez made several appearances on TV interviews and business association seminars to express the logic and strategy of the fund. According to him, comparison of TWF with resource based and trade surplus based SWFs was not a rational one since TWF had a different composition of portfolio and different set of goals ("Türkiye Varlık Fonu TBMM’de Kendini Anlattı", 2020). He argued that the model of Malaysia’s Khazanah and Singapore’s Temasek are better reference points since both SWFs were founded at the times of where current account deficit was a significant problem for both countries, and natural resources were lacking ("İyi Anlatmamız Gerekiyor Deyip 8 Maddede Açıkladı", 2019). Sonmez defined the fund as " an asset-backed development fund" which maximizes the profit and value of the portfolio companies to support economic development ("Genel Müdür Sönmez ile A'dan Z'ye Varlık Fonu", 2020). He explained at a seminar of Turkish Investor Relations Society that both mining and petrochemicals investments aimed to reduce the annual import of $30 billion since the imported petrochemicals were not produced at resource rich countries and the barrier of capital-intensiveness could be cleared by TWF initiative (TUYID, 2020). Therefore, same products could be produced at home for a lower cost. Also, minerals in Turkey needed to be processed at home to lower the import of minerals therefore, a mining conglomerate could plan and coordinate value-added investments to reduce the $21 billion yearly mineral imports (TUYID, 2020). Alongside the energy and mining sectors, Sonmez argued that with the falling rates of FDI and savings, Turkey needed a development perspective and a SWF to attract FDI and maximize the savings of the country through promoting insurance sector (TUYID, 2020). Lastly he added that state always needed to play an entrepreneurial role to create new markets and incentivize private sector of which the capital is not enough for large-scale and capital-intensive investments (TUYID, 2020).

From the evolution of TWF over years it is possible to say that this is a huge effort to concentrate the control of public assets under a centrally administered executive arm directly answering to the president in a way that is exempt from most forms of legal accountability and audit. It seems to aim to develop a liquidity tool that draws on the assets of various public companies, big enough to enable momentum-creating actions to steer the economy through discretionary and rapid-action capital injection. The introduction of the fund has a corollary in the growing insulation of presidential budgetary powers from parliamentary control and in the wider institutional transformation that is embodied in the emergence of an autarkic presidency.

CHAPTER 7

DISCUSSIONS AND CONCLUSION

SWF's provide scholars a new research area of political economy that includes various agents and institutions at domestic and international level. The extant literature has evolved and diversified over years and started to create its own concepts and empirical observations. There are three promising features of SWF research. First one is its ability to challenge the premises and notions of orthodox approach that refine economic activity from politics, which fails to acknowledge the role of social structures and institutions in making and transforming the economic activity. Second, its ability to highlight the link between the domestic and international political economy. Third, its ability to explain how authoritarian politics evolve around significantly large pools of financial assets.

In the case of authoritarian regimes, the literature tells us that there is no single political pattern of SWF creation and administration. Depending on the structure of the authoritarian hierarchy and the capacity of political actors to access to the policy formulation processes, different outcomes occur. However, as a general category the motives of authoritarian regimes diverge from the motives of democratic regimes (Grigoryan, 2016). Democratic regimes mostly base their rationale of SWFs on macroprudential policy and effective financial management of public assets through openness and accountability (Grigoryan, 2016). Although same rationale is officially embraced by authoritarian regimes, SWFs in authoritarian regimes directly or indirectly answer to power consolidation within the regime (Braunstein, 2017b). The ability to use the resources or the power to gatekeep the resources of SWFs grants the powerholder to leverage its position to influence the political outcomes (Shih, 2009). Therefore, the powerholder uses SWFs either to outperform other political actors or buy their loyalties.

Story of TWF not only has features that fits this narrative but also has diverging parts. Unlike the examples that are grouped under authoritarian regimes, the economic situation of Turkey was unconventional regarding the commodity and reserve accumulation. Access to commodity revenues was historically a source of political competition in Qatar, Russia, UAE and arguably in other resource-rich countries. One can argue that creation of SWFs are parts of the evolving politics of commodity revenues and the scope of politics of SWFs are delimited by the legacy of it. However, as mentioned earlier Turkey is not a commodity exporter. On the contrary, commodity import is an important expense item among its top imports and overall, Turkish economy has a structural problem of current account deficit. Therefore, drawing the analytical framework primarily based on economic factors and rent distribution is a misleading approach for the experience of TWF.

On the other hand, the experience of TWF is understood better through the lens of authoritarian politics. The literature helps us to understand that power consolidation is essential for authoritarianism. Examples from Gulf states, Russia and Singapore reveal that SWFs are not only economic tools but also political tools to form coalitions, to form clientelist relations and to block opposition from gathering public support. The differentiating factor of the Turkish experience from previous studies is that the previous experiences were established authoritarian regimes and SWFs' studied role was how they served the continuation of the regime. Whereas in Turkish experience TWF has not only become a consequence of authoritarian transformation but also served as a tool of the transformation. This means that studying TWF's role is novel when we compare TWF to its counterparts.

Decreasing veto players in policymaking, hyper-centralization of decision-making processes and de-institutionalization of existing regulatory practices are three crucial capacities of ongoing authoritarian transformation in Turkish politics (Atiyas, 2012; Özel, 2015). JDP rule has reversed the achievements towards a functioning regulatory governance that were encouraged by EU, IMF and WB. The state of affairs since 1990's to early 2000's was an effort to delegate regulatory practices to independent institutions and to promote mechanisms of oversight (Ozel, 2012). However, 2010's saw the reversal of the efforts combined with significant deterioration of vertical and horizontal accountability at the broader political structure (Esen & Gumuscu, 2020).

The economic policy structure of Turkey has become more centralized than ever through four phases. First, IRAs were brought under control of ministries through administrative and budgetary reorganization. Second, processes of overseeing and auditing public expenditures were trivialized through transforming judiciary and parliamentary authorities. Third, both monetary and fiscal policymaking were redesigned around the President's discretion by the new Presidential System and by further retrenchment of the powers of veto players. Lastly, the President started to actively use the unchecked powers to determine the scope and direction of fiscal and monetary policy and hence, embracing a more interventionist type of policymaking.

The establishment of TWF is a consequence of the centralization of economic policymaking that is a part of ongoing authoritarian transformation in Turkey. TWF is a pool of public assets at the discretion of the President. The conglomeration of these assets under a new ownership structure gives the President the authority to directly intervene in the operations of the portfolio companies without encountering any oversight and supervision. The role of the Parliament and the Court of Accounts in auditing SOEs and other public assets are cut off by creating a new layer of administration in the form of a private company that is exempt from public audit practice. In terms of accountability, the President is immune to being held accountable for any influence on companies' decision-making processes and operations.

Alongside being a consequence of changing political dynamics, TWF has rapidly became an active part of the political economic transformation in Turkey. TWF gives the President a liquid tool to pursue an economic agenda without any oversight from parliament and judiciary, moreover, this tool is not included in the annual budget. As can be noticed from the qualities of portfolio companies clearly, TWF is capable to steer crucial sectors and even has oligopolistic status in some sectors such as banking and insurance. Although these sectors are historically highly regulated and state ownership is high, direct involvement of the government is a novelty. TWF bought and merged public insurance companies into a sector leader in terms of size of assets. As a result, TWF injected capital to public banks through acquisition of 5 billion liras worth shares of the insurance companies that were paid through treasury bonds issued for this transaction. Secondly, TWF played a key role at the management of economic slowdown during 2020 by directly injecting capital worth 21 billion liras to public banks. These are not regular and routine corporate practices but apparently consequences of decisions that are taken by the President. Ultimately, Turkish experience among other SWFs is an example of a political keystone of an ongoing regime transformation. The role of TWF had been unclear and mostly speculated for a long period and still there is much to observe.

APPENDIX A

LARGEST 20 SWFS BY ASSET SIZE

Table A1. Largest 20 SWFs by Asset Size

Name	Assets in Billions (USD)	Country	Inception
Government Pension Fund Global	$1058.05	Norway	1990
China Investment Corporation	$941.40	China	2007
Abu Dhabi Investment Authority	$683.00	UAE	1976
Kuwait Investment Authority	$592.00	Kuwait	1953
Hong Kong Monetary Authority Investment Portfolio	$522.60	China - Hong Kong	1993
SAMA Foreign Holdings	$515.60	Saudi Arabia	1952
SAFE Investment Company	$441.00	China	1997
Government of Singapore Investment Corporation	$390.00	Singapore	1981
Temasek Holdings	$375.00	Singapore	1974
Public Investment Fund	$360.00	Saudi Arabia	2008
Qatar Investment Authority	$320.00	Qatar	2005
National Social Security Fund	$295.00	China	2000
Investment Corporation of Dubai	$229.80	UAE	2006
Mubadala Investment Company	$226.00	UAE	2002
Korea Investment Corporation	$134.10	South Korea	2005
Australian Future Fund	$107.70	Australia	2006
National Development Fund of Iran	$91.00	Iran	2011
National Welfare Fund	$77.20	Russia	2008
Libyan Investment Authority	$66.00	Libya	2006
Alaska Permanent Fund	$65.70	US	1976

Source: (Reuters, 2020)

APPENDIX B

VALUE OF GLOBAL FINANCIAL INDUSTRY

Table B1. Value of global financial industry

Investment Vehicles	Value (US$ trillion)
Global Bond Market	$100.13
Asset Management Industry	$84.9
Global Equity Market	$68.65
Pension Funds	$33
Global FX Reserves	$11.8
SWFs	$8.2
Private Equity	$4.5
Hedge Funds	$3.2

Source: (Preqin, 2018)

APPENDIX C

PORTFOLIO OF TWF

Table C1. Portfolio of TWF

Sector	Company	Shares
Financial Services	Ziraat Bankası	100,00%
	Halkbank	51,11%
	Vakıfbank	36,00%
	Türkiye Sigorta	81,10%
	Türkiye Hayat Emeklilik	100,00%
	Platform Ortak Kartlı Sistemler	20,00%
	BIST	80,60%
Energy	BOTAŞ	100,00%
	TVF Enerji	100,00%
	TVF Rafineri ve Petrokimya	100,00%
	Türkiye Petrolleri	100,00%
Logistics and Transportation	Turkish Airlines	49,12%
	PTT	100,00%
	İzmir Alsancak Limanı	100,00%
	Türkiye Denizcilik İşletmeleri	49,00%
Mining	Eti Maden	100,00%
	TVF Maden	100,00%
Telecommunications	Turkcell	26,20%
	Türk Telekom	6,68%
	Türksat	100,00%
Agriculture	Çaykur	100,00%
	Kayseri Şeker Fabrikası	11,07%
Real Estate	46 Properties	2.218.520,57 m2
	İstanbul Finans Merkezi	1,300000 m2

Source: (TWF, 2020)

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