IN SEARCH OF NEW STATE CAPITALISM:

Reflections on New Paths of SOE Management in China, Brazil, and Turkey

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Abstract:

There is an evolving consensus in today's world indicating that economic markets need greater state presence and tighter regulation. Such sentiments have naturally followed the implosion of financial markets in the late 2000s. For most of the 20th century, national economies had "ideological blueprints" to sustain economic growth and development. However, the evolving consensus on state presence in national economies does not have an identifiable blueprint. Without a directive format, novel forms of state capitalism emerge, not similar to the state capitalism of the past, where states had full ownership of numerous major state-owned enterprises (SOEs) operating nearly in all sectors of the domestic economy, and regulated the economy with its "visible hand". In these new forms, states do not regulate the economy through full ownership of these SOEs. Instead, they either hold majority shares of SOEs following a partial privatization, or they hold minority (but still significant) shares of certain firms.

This paper seeks to probe the practices of recently rising new state capitalism through new forms of state ownership in SOEs in three distinct developing nations. It will examine the forms and the concentration of state assets in the SOE shares in the aftermath of the neoliberal transformation with a focus on China, the champion of state capitalism in the 21st century, along with the two emerging markets: Brazil and Turkey. It will claim that, starting from the late 1990s, the role of the state in the economy has evolved into a new kind of state capitalism concentrating on majority shareholding in firms operating in the upstream sectors with strategic importance.

I. Introduction: In search of New State Capitalism

When communism collapsed, neo-conservative and neo-liberal circles proclaimed that it was the end of history, liberal democracy is the "final form of human government" (Fukuyama, 1989, 4) and capitalism prevailed over other forms of economic order. It is ironic that after the 2008 financial crisis, scholars from the same intellectual vein posit that the current rise of state capitalism is an open threat to liberal capitalism, and that bells toll for the free market economy (Bremmer, 2010). Nonetheless, there is an evolving consensus in today's world indicating that state presence and tighter regulation of the markets is severely needed, following the implosion of financial markets in the second half of the previous decade. Implications of this emerging consensus are also reflected in government policies for major bank bailouts and liquidity injection amounting to billions of dollars to financial and car manufacturing sectors, which are “too big to fail,” even in countries deemed to be the “avatars” of state capitalism (Acemoglu & Robinson, 2012). Following this trend, major questions are related to how extensive, for how long and in what form should state regulation and intervention be enacted.

For most of the 20th century, national economies had “ideological blueprints” to sustain economic growth and development. Following the financial crisis of the 1930s and the simultaneous success of the Soviet economy, Western economies were attracted to the basic tenets of planned economy in order to sustain economic growth under dire crisis conditions. Following WWII, newly emerging independent countries of the third world were allured by the economic performance of developing countries that were implementing policies of planned economy and asserting a certain level of dirigisme. Planned economy and dirigisme were appealing for poor newly independent nations to attain high levels of modernization without going through the painful process that the economically developed Western countries went through in most of 18th and 19th century. The blueprint for developmentalism and developmental states was generally influenced by the communist central command economies, and the variations of this model were implemented in different parts of the developing and developed world. Following this, there came a neo-liberal wave with the economic crisis of 1970s. Nearly every national economy rushed to deregulate, privatize, and shrink the size of the state in order to be more efficient. Predominantly, international monetary institutions like the IMF and the World Bank provided blueprints for these policies. And yet, rising state capitalism does not have a blueprint today. As capitalism garnered certain doubts after the crisis and as command economies have been stigmatized as unfeasible (Przeworski, 1991: 133), there is an urgent need for an alternative in managing national economies and locating the status of the state in this new picture. Apparently, governments aiming to increase some degree of state presence in the management of their national economies do not have a guide to follow. In this regard, the rise of new state capitalism through varied state shareholding and privatization schemes in SOE management comes as an alternative answer to the current impasse.

Without a guiding blueprint, state capitalism comes in novel forms, unlike the state capitalism of the past in which states had full ownership of numerous major SOEs operating nearly in all sectors of the domestic economy, and regulated the economy with its “visible hand." In these new forms, states do not regulate the economy through full ownership of these SOEs. Instead, they either hold majority shares of SOEs following a partial privatization or they hold minority (but still significant) shares of certain firms.

This paper will examine the forms and the concentration of these state assets in the SOE shares in the aftermath of the neoliberal transformation with a focus on China, the champion of state capitalism in the 21st century, along with the two emerging markets: Brazil and Turkey. It will claim that, starting from the late 1990s, the role of the state in the economy has evolved into a new kind of state capitalism concentrating on majority shareholding in firms operating in the upstream sectors with strategic importance. The cases of China and Brazil show that resource-based sectors demonstrate a trend towards sustaining bigger asset concentrations in state-owned enterprises (SOEs). The second strand of my investigation, minority shareholding, demonstrates varied outcomes in different contexts, which demonstrates the necessity of further research in the area.[1]

II. Brief Introduction on State Capitalism in the Past and Today

State capitalism is neither a recent phenomenon nor a concept confined to explain developmentalist goals solely of the late-comers in the 1960s and 70s. Beginning in the 1930s, and increasing through the post-WWII years, the blueprint provided by command economies and influence of Keynesianism induced many Western economies to nationalize companies in their utilities sector and also to invest in major manufacturing sectors as an entrepreneur (Toninelli, 2000). Though criticized by scholars such as von Mises as a simple relabeling of socialist command economies (Von Mises, 1981: 257), state capitalism became the hype in the post-crisis years. *Dirigiste* economic planning in France, creation of SOEs in the coal sector in Britain, and large nationalizations in Italy and Spain are some examples of this trend among many others (Hall, 1986; Schmidt, 2003).

The idea of state capitalism as a variation between socialist command economies and capitalist free market economies came under intense intellectual scrutiny with the rise of East Asian economies in the 1970s and 1980s, also known as "Asian Tiger miracle." However, it must not be dismissed that previously some of Max Weber's work focused on various bureaucratic institutions necessary for complementing free markets at the end of 19th century (Weber, 1978). In the post World War II years, works by Hirschman and Gerschenkron emphasized the role of state presence in the economy as a factor of industrial expansion (Gerschenkron, 1962; Hirschman, 1958). However, state capitalism with a development focus, or "capitalist developmental state," is

[1] It must be noted that this inquiry may suffer from selection bias and the highly descriptive character of the work may gloss over several aspects of the current situation on the ground. Nonetheless, the objective of this paper is a descriptive inference, rather than a causal one and it can help to derive useful conclusions for future research.

thoroughly explored initially in Chalmer Johnson's work on the effect of Ministry of International Trade and Industry (MITI) for enabling domestic coordinated economy of Japan in the post World War II period. He explains the Japanese state capitalism model as neither a socialist command economy nor a capitalist mixed economy, but rather a model based on "plan-rational" acts of the state, allowing the existence of private property with state guidance (Johnson, 1982).

Amsden and Wade further elaborated developmental state capitalism, as they emphasize the cooperation and joint ventures between the state and the private sector (Amsden, 2001; Woo-Cumings, 1999). Both scholars give prominence to the Japanese *keiretsu* and South Korean *chaebol* systems, exemplifying co-optation between bureaucracy, SOEs and large industry groups for industrial development. In a similar vein, Evans' contribution came with the introduction of "embedded autonomy." For Evans, what Johnson described in the case of MITI epitomized embedded autonomy where a state institution is structured as a "combination of Weberian bureaucratic insulation with intense connection to the surrounding social structure" (Evans, 1995: 47).

Connection between private and public bodies, and the ensuing co-optation (which is also described as *crony capitalism*) are being labeled as inefficient practices following the onset of the oil and financial crises of the 1970s and 1980s. Consequently, the rise of state capitalism and emphasis on creating and investing in SOEs were halted in the 1980s. Higher inflation levels both in developing and developed countries pulled SOE profitability to lower levels, and governments began to subsidize losses of these firms through their respective national budgets. Increased budget deficits caused subsidization of these low performing firms and were politically and economically costly for governments. Moreover, IMF and World Bank lending initiated privatization of SOEs as a part of their conditional structural adjustment policies in the 80s. Privatization of SOEs started with Britain and France in the 1980s in the developed world, and then spread into the developing economies in the 1990s, as it became the common practice with the coupling of fiscal constraints of governments and ideological blueprint of neo-liberalism.

As the need for transforming corporate governance of SOEs in the 1980s became pertinent, neoliberal economic restructuring efforts underscored the necessity of full privatization of SOEs. Critics of state capitalism gathered their arguments against SOEs on three main grounds. Primarily, poor monitoring is believed to engender principle-agent problems between governments and SOE managers or administrative boards. Inadequate inclusion of meritocratic evaluation criteria to the selection processes of SOE managers and board members exacerbated this problem.

Second, it is contended that SOEs may not be particularly structured to attain high profits; instead, they may have been organized to pursue a "double-bottom line" and promote certain social aims of the governments. As seen in the examples of Japanese and South Korean cases, these social aims can be diverted, and SOEs can be used by governments to strengthen ties between the political elite and politically connected firms (Krueger, 1990). This criticism is also reflected in the crony capitalism explanations of the East Asian economic crisis of the 1990s (Haggard, 2004). Related with the second one, a third criticism for SOEs is the soft budget constraint, indicating the low performance of state-owned firms due to secured financial assistance provided by the state as these firms are "too big and too important to lose." State assurance and possibility for bailing-out in times of crisis is pointed out as a reason for irresponsible acts of SOE managers and boards, and lagging SOE performance.

These criticisms posed by the "efficiency view" are generally responded to with a view positing the benevolent role of the state investments in promoting development as articulated above. This contrasting view asserts that the "helping hand" of the state is needed in order to coordinate resources and assist firms to gain competitive capabilities (Chang, 2007). Moreover, state investments are needed for the provision of public goods and to attain social objectives that cannot be possible under the profit maximization of private firms. Nonetheless, beyond the efficiency distinction between private firms and SOEs, some defenders of the helping hand view considered that problems faced in SOE management may also be encountered in the management of private firms. In terms of principle-agent issues, minority shareholders (as "principles") investing in large private firms with dispersed shares may not have the collective action abilities to monitor the managers effectively, and managers may shirk away from the optimal level of effort (Chang, 2007: 14). Concerning the soft budget constraints, it must be underscored that private companies are also susceptible to soft budget constraints. Though SOEs are more prone to be effected by this, ownership status of a firm is not the sole determinant for being "too big/too important to fail." Large private firms with strategic importance can also be bailed out with the same pretext (Chang, 2007: 17).

Taking into account the views of both the efficiency and the helping hand, the course and pace of privatizations were being altered with the adoption of novel practices as privatization process of SOEs in the world reached its zenith in the 1990s. Privatization during 80s in developed countries, and the 1990s in developing countries were characterized by the disposal of public shares of the non-performing SOEs from public sector to the private sector. Privatizations at the turn of the 21st century gave priority to the sale of minority shares on stock markets in order to retain a significant portion of the firms' shares in the public sector. These second wave privatizations gave prime importance to receiving high revenues in stock market launches (or initial public offerings - IPOs) of SOEs while simultaneously holding on to the significant portion of the public shares in SOEs.

Three salient ways of retaining significant public share in SOEs became noticeable in second wave privatizations. The first is where the public has the majority share in SOE ownership and shares of these firms are listed on national or international stock markets for public offerings. Private sector and individual investors invest in these stocks with the confidence of the majority public shareholding due to state backing over the SOE. Major privatizations with significantly high revenues in the last decade came with this strategy. Recent examples are the stock market launches of Rosneft in Moscow SE, and Bank of China and PetroChina in Hong Kong SE. Secondly, majority shares are transferred to the private sector through a mixture of block sales and IPOs, but at the same time public shares make up a significant portion of the total shares, giving an opportunity for the state to participate into the governing of these firms as minority shareholder. Thirdly, states actively invest in certain firms as minority shareholder through national development banks, commercial banks and sovereign wealth funds (OECD, 2005).

All of these state share-retaining methods aim to reduce economically harmful effects of principle-agent problems and soft budget constraints in handling state presence in firms, and simultaneously hold on to the social and political purposes of economic activities of states. Nonetheless, both majority and minority shareholding of the state in firms can stimulate more indirect and nuanced forms of state influence on firms and crony capitalism. This can also be explained through a path dependence interpretation. Since new state capitalism is established through rules or ties and ideologies that are already existed, these social institutions tend to persist in new forms of governance as well. Privatizations for retaining majority and minority shares by the state may also be intended for maintaining existing connections between the state and the productive sectors, while reducing some inefficient practices hurting the general outlook of the national economy.

Before moving into the country specific cases, it must be underlined that the purpose of this paper is not to lend support to these views undergirding positive effects of state presence in enterprises; rather, this paper will try to see whether there are specific strategic aims and motivations for concentrating state presence in certain sectors/firms.

III. China

China is regarded as the epitome of today's state capitalism. An economy that has a sustained annual growth level well above 7 percent, SOEs cover 80 percent of the stock market capitalization value in China. Both the size and profitability levels of these SOEs are quite impressive. Among top 500 Chinese firms, 82 percent of the profits come from SOEs (Du & Wang, 2013: 2). More importantly, average profitability of an SOE is more than that of a privately owned firm or a non-SOE in today's China (Li et al., 2012). In the 1990s, the picture was the reverse and private sector firms were out-performing the SOEs even though growth rates were almost at the same level (Laffont & Qian, 1999). In order to better grasp this significant change in SOE efficiency, it may be useful to understand the nature of economic reform in China. It carries distinct characteristics, such as interregional competition, extensive local autonomy and coexistence of reforming and non-reforming regions, which are not present in other developing countries.

Though various definitions exist, China can be defined as a regionally decentralized autocratic regime (Xu, 2011:1078) where political centralization is coupled with economic decentralization. Although central planning coordinates the main processes of the economy, decentralized sub national governments are primarily responsible for initiating and coordinating economic reforms. From the onset of the Great Leap Forward, the power of the central government in the management of productive sectors was transferred to the sub national governments, and regional competition gradually replaced central economic planning. Consequently, two phases of economic reforms started: one in 1978 and the other in the 1993, and were both initiated by subnational governments. The autonomy of local governments is enhanced with the motivation caused by inter-regional competition on economic performance (Lawrence J. Lau et al., 2000). Region administrators with higher economic performance are generally rewarded with promotion and other benefits. This incentive is the key factor behind regional leaders' urge for initiating and implementing economic reforms in the past three decades. Also, an important aspect of the economic reform incentives for sub-national governments is the structuring of non-specialized sub-units in China, which is denoted as the "M-form model" (Eric Maskin et al., 2000). Contrary to the system where sub-government units are specialized (defined as U-form model), units in the M-form model are politically connected to the central government, but is both self-contained and partially autonomous in its functions (Xu, 2011: 1086)(Qian & Xu, 1993). Horizontal specialization of ministries in a U-form model needs the coordination of a central government for reforms to be implemented at the local level whereas M-form model does not need it *per se*.

Although role of central planning is significant, a central authority does not inherently plan Chinese economic reforms. Rather, certain reform initiatives were allowed to be conducted by the sub-government units, and if successful are transferred to other regions. Defined as "dual-track system," coexistence of reforming and non-reforming regions is the core of the reforms in China. Incentivizing sub-government administrators for reform is sustained by converting them into entrepreneur officials striving for promotion. Concomitantly, possible negative effects of economic reform are contained while possible opposition for reform is reduced (Xu, 2011: 1115). Privatization of SOEs in the 1990s is a stark example of this trial-and-error system and the utilization of dual-track system as a way of local experiment based reformation (Xu, 2011: 1092).

SOE privatization was preceded with increasing autonomy of SOE managers in China. As increased autonomy enhanced productivity and efficiency of SOEs in the 1990s, it was not enough to overcome the underperformance of SOEs that were heavily subsidized by the central government and state banks. One solution that was experimented at the local level was to harden the budgets of SOEs through bankruptcy reform, which had a positive but limited effect on the performance of SOEs (Xu, 2011: 1123). The second local experimentation was privatization. Though privatization was officially banned, under the policy of "grasp the large, let go the small," reforming the governance of large and strategically important SOEs, and privatizing the local and small scale SOEs predominantly active in the manufacturing sector became a priority in the 1990s. Small scale, local SOEs started to be privatized as de facto in the early 1990s through the transfer of full shares to local managers or employees of these SOEs. Thirdly, Plena of the 14th and 15th CPC Congress allowed diversified forms of ownership of SOEs including private and local ownership. Consequently, exiting from non-profiting SOEs operating in downstream manufacturing sectors such as textiles, food processing, and furniture became the main mode of privatization at the end of 1990s in China.

Contrary to the case in other command economies, subnational governments owned most of the SOEs in China, and the privatization process reflected the close informal ties between the owners and the subnational governments, a prevalent characteristic of the town-village enterprises. [2] Following the implicit privatization decision of the CPC Congress, the wave of privatization surged and the pace of privatization at the sub-national level increased after 1997. Though data is quite limited concerning these privatizations, Gan et al. found that

2 While large scale SOEs operating in various economic sectors were already in place, role of township-village enterprises (TVEs) as non-state actors grew substantially in the 80s. TVEs were collectively owned firms at the local level and inter-regional competition was the main force for their high performance in 80s and into 90s. Even though the productivity of TVEs diminished in mid 90s with the introduction of property rights and factor mobility, close informal ties between the subnational governments and managers, a main tenet of TVE management, prevailed in the privatization era of 90s (Xu, 2011: 1119).

management buyouts (MBOs) were the most prevalent way of privatization, more effective than share issue privatization and joint venture privatizations (Gan et al., 2010: 4). MBOs correspond to full privatization while the latter corresponds to majority and minority shareholding. It can be asserted that privatization of those Chinese SOEs, which were already inefficient and vulnerable under soft budget constraints, were fully privatized rather than being ameliorated by significant state presence as a shareholder.

Following the gradual but impactful privatization of Chinese SOEs in the downstream sectors, remaining SOEs dominated the upstream sectors. These remaining SOEs are clustered in energy (oil and natural gas extraction and transportation), communication and transportation sectors and have almost absolute monopoly in the sectors they operate (Du & Wang, 2013). These sectors are deemed to be "strategic" sectors by CPC, and only partial privatization through stock exchange listing is conducted in the previous years. Consequently, the economy is divided into two complementary segments with contrasting management designs: A non-state sector dominant in the downstream manufacturing sectors operating under competition in domestic and international markets; and a state sector dominant in upstream sectors facing almost zero competition in the domestic market, providing input for the basic services, utilities and raw materials for downstream sectors. As Li et al. asserts, the impressive performance of the Chinese SOEs is a consequence of this duality in the economy (Li et al., 2012). Demand for goods produced by the downstream sectors that utilized abundant low wage low skilled labor in the domestic market followed after China's accession to the WTO in 2001. Monopolized upstream sector's supply of raw materials and basic services resulted in unprecedented profits and IPO revenues. However, given the rapid increase in unskilled labor wages in the last decade and intensifying international competition from countries with geographic proximity to China such as Vietnam (Fan et al. 2013), position as a majority shareholder in SOEs operating in the upstream sectors may not be a sustainable one. Thus, SOE reform seems to be a top agenda item for China in the years to come. The recently gathered Third Plenum of 18th CCPCC signaled for substantive reforms in the management of the economy and a particular provision of the 60-points resolution of the Plenum is the restructuring of SOE management structures (Yongding, 2013). As the recent World Bank reports on planning China's future indicate, international organizations prioritize SOEs reform in China. (World Bank, 2013: 36).

Future SOE reform will surely not oblige overnight changes in the SOE ownership, and monopoly of upstream SOEs will not be dismantled in a short instance. Trial and error will also be the way for reformation of state capitalism and Chinese SOEs in the upcoming years and the reformers will "cross the river by feeling every stone" since there is no blueprint for reform. A probable solution for future reform may be gradually reducing state presence in upstream SOEs and moving the Chinese state to a more minority investor position where remnants of TVE based cronyism can be reduced, and rent-seeking acts of managers and bureaucrats can be curtailed. However, as Przeworski asserts, it is not clear how the Communist Party, SOE management boards and SOE supervisory body (SASAC) interact in the current operations of monopolistic SOEs (Przeworski, 2013:12). Thus, switching from majority to minority investor in these SOEs can have unexpected results but at the same time can be suitable candidate for local experimentation and trial-and-error type reform.

IV. Brazil

The course of state capitalism in 20th century Brazil resembled that of many other developing countries around the world as the Brazilian state had an active developmentalist role in coordinating productive factors utilizing SOEs. Specifically, after World War II, the role of SOEs in the Brazilian economy was enhanced with the introduction of import substitution industrialization (ISI) policies. The distinct character of Brazilian SOEs formed after 50s were their pyramidal structure, where numerous SOEs in different sectors were linked to a holding company at the top (Trebat, 1983). Major holdings of the era were operating in mining, energy and utilities sectors but at the same time as part of the ISI strategy, SOEs in these holdings were active in manufacturing sectors, providing input for economic activities in other sector. Significant breakthroughs for the creation of SOEs came with the support provided by the National Bank of Economic Development (BNDES) in the 60s. BNDES started financing the establishment of SOE holdings as a minority shareholder, and eventually became majority shareholder in many of the SOE holdings as the level of liquidity injection to these holdings in the form of equity purchases increased overtime due to low profit levels. The pace of these purchases and SOEs increased significantly during the military regime in the 1964-1985 period, and consequently SOEs activities in 1970s made up 40 percent of Brazil's GDP (Kohli, 2004: 213).

As ideological neo-liberal wave surged, increasing inflation together with rising current account deficits hit the ISI economies of the developing world at the beginning of 80s. Brazil had nearly 500 federal SOEs and around 1000 SOEs run by the regional governments. Most of these SOEs were under-performing, even bankrupt and heavily dependent on government aid or on BNDES credits to clear their balance sheets. When Brazilian government sought help from the IMF for getting out of the balance of payment crisis in the 80s, part of IMF conditionality was related with curtailing the losses incurred from the operations of SOEs, and also privatizing heavily indebted and non-performing SOEs. Moreover, returning to democracy and the adoption of the Constitution in the latter part of the 80s (Limongi, 2007), Brazilian federal government had to transfer more funds to local governments and social spending (Baer, 2008: 121). These obligatory transfers deteriorated the economic conditions even more, and Brazilian governments were forced to implement stabilization packages at the beginning of 90s. Some of these packages failed to cure the ills of the Brazilian economy but nonetheless, they all had privatization as a top priority. Eventually, SOE privatization became an indispensable agenda item in the restructuring of the Brazilian economy.

Pinheiro, and Musacchio and Lazzarini divide privatization of Brazilian SOEs into three periods (Musacchio & Lazzarini, Forthcoming; Pinheiro, 2002). The first period is characterized with the dismantling of small and less impactful SOEs before transition to democracy in the 1980s. As privatization meant de-nationalization for the general public and in some enclaves of the militarist state bureaucracy, comprehensive privatization of SOEs was not possible during this era. Nonetheless, with the onset of the financial crisis, surge of neo-liberal approach to economic management and the adoption of democratic constitution, a more extensive privatization program started to be implemented under the title National Privatization Program (PND). In this second period between 1990 and 1994, with the purpose of overcoming balance-of-payments crisis and liquidity deficiencies, relatively productive and profiting SOEs in strategic sectors such as steel and petrochemicals started to be privatized under the oversight of the BNDES. This second period paved the path for more sweeping privatizations between 1994-2002 under President Cardoso, which can be named as the third period. In the third period, Brazil went through its most comprehensive de-nationalization process in history. The Cardoso governments either completely sold or transferred the control of public utilities and firms in strategic sectors like electricity and telecommunications. Also operation of airports, seaports, highways and sanitation services was transferred to private sector, and monopoly of the public sector in infrastructure was reduced. Moreover, highly strategic firms like Vale in the mining sector and Telebras in the telecommunication sector was partially privatized through block sales. This period is characterized with the highest privatization revenues collected, with more than $75 billion in cash.

In this rapid and substantive privatization period, BNDES acted both as a mediator in the privatization process for attracting investors and as a minority shareholding investor (Anuatti-Neto et al., 2003: 21). BNDES either owned some shares of the privatized firm or had stakes indirectly in these firms through acquiring shares of other firms in the same holding group of the privatized firm. Pyramidal structure of the Brazilian SOEs enabled this way of minority shareholding. Privatization of the mining giant Vale is an example of this where shares of the state is sold to a consortium including investors carrying shares of Banco de Brasil and state oil firm Petrobras governed by BNDES (Musacchio & Lazzarini, forthcoming: 151).

Along with prevalent minority shareholding positions of BNDES, the federal state still held its majority shares in flagship SOEs following the privatization period. There are two main reasons behind the majority shareholding: the first is to create "national champions" in strategic sectors such as Petrobras in oil and energy distribution and Eletrobras in electricity generation; the second is to control credit availability and liquidity flows by holding almost all shares in state banks such as Banco de Brasil (Baer, 2008). Nonetheless, it must be underlined that these national champions are listed in national and international stock markets, making their boards responsible to minority investors and reducing the possibility of direct political influence. Also, as in the case of Chinese SOE IPOs, due to state presence in these firms, revenue generation in public offerings was massive. However, the urge to protect some of these strategically important SOEs is reflected in the stock exchange listing decisions in general. Only 5 percent of the federal SOEs in Brazil are listed in the domestic or international stock markets. Moreover, external checks and auditing practices for federal SOEs are not ingrained, making them vulnerable to crony practices and at the same time increasing the flexibility of the political agents for utilizing SOEs in attaining political and social aims.

It can be asserted that the main characteristic of Brazilian state capitalism is the prevalent minority investor positions of BNDES in formerly privatized SOEs, along with the mix of majority shareholding positions in "national champions" and full ownership in great number of SOEs at federal and regional level. There is evidence on enhanced performance of partially privatized SOEs with state as the majority shareholder (Gupta, 2005), though this must be acknowledged with reference to the presence of these SOEs in highly lucrative sectors of energy, telecommunications and finance, similar to the case in China. The salient practice of state capitalism in Brazil, and the minority shareholding position of the state in privatized SOEs, is not a thoroughly researched area and the results are mixed concerning its effectiveness.

V. Turkey[3]

[3] As Lin and Milhaupt (2013) indicates, "SOEs are surprisingly understudied in terms of political economy". However during this research it was still startling for me to find out that academic studies concerning SOEs in Turkey are almost non-existent, except the literature covering the recent trends of

Similar to the case in Brazil, from 30s into the post-World War II period, the Turkish economy was structured in a statist fashion with high emphasis on the central role of SOEs in the national economy. Starting from its inception, the Turkish Republic gave prime importance to the establishment of SOEs nearly in all productive sectors with industrialist and developmentalist aims. By the year 1960, SOEs in Turkey had 60 percent of the manufacturing sector output (Okten, 2006: 232). In the 1960s, with the introduction of planned economy and ISI policies, the importance of SOEs expanded. However, contrary to the case in Brazil, Turkey did not experience a favorable economic growth in 1960s and 70s due to political turmoil in these decades, and the performance of SOEs deteriorated even before the current-account deficits of the liberalization era of the 80s.

As the country moved into the 1980s following the brutal 1980 military coup, liberalization and privatization have been given precedence by democratically elected governments as part of the economic restructuring programs. First tangible efforts for privatization started in 1985 with Prime Minister Ozal's economic restructuring program and the formation of Privatization Authority (PA). The Turkish case of privatization is similar to the case of Brazil in terms of its inception, as it aimed to privatize highly indebted and almost bankrupt SOEs in the manufacturing sector along with SOEs holding high revenue generating prospect in heavy industries and energy sector. However, privatization in Turkey did not live up to its expectations in the 80s and 90s. Between the period from 1985 to 2000, the Turkish state could raise less than $5 billion (less than $500 million annually) from privatization of SOEs, and privatization was confined to SOEs in the manufacturing sector with very low profit margins and low privatization revenues with the exception of partial privatization of Isbank through public offering. In this sense, Turkey can be identified as one of the latest comers to the SOE privatizations process due to extremely negative perception of privatization in the general public opinion, inadequate legal framework, and wavering political interest in privatization due to strong opposition from enclaves of bureaucracy and workers' unions.

Following the lost decade of 90s, the 1999 IMF stand-by agreements signaled major privatizations with the establishment of a robust legal framework that was necessary to overcome vague privatization practices and possible Constitutional Court or Council of State decisions against privatization tenders. Two major privatizations in 2000 were the block sales of national energy distribution company POAS and biggest oil refinery in Turkey, TUPRAS. Both of these SOEs were closing their book balances with high profits and had absolute

privatization. Due to the lack of academic studies in this area, the focus of this chapter will be more on privatization of SOEs in the last three decades in Turkey.

monopoly status in the sectors they were operating. The block sale of the majority shares of these two SOEs were driven with the urge of the coalition government of the time to raise high revenues and cover the budget deficits as a part of the IMF restructuring program (Ercan & Onis, 2001; Okten, 2006).

The pace of privatization increased after the economic crisis in 2000 and 2001. Following the crisis, AKP (Justice and Development Party) won a landslide victory in the general elections of 2002 and formed the first single party government after more than a decade of coalition governments. As an extension of privatization aims of the previous coalition government, AKP government continued the campaign of mass privatization of SOEs with high profits, operating in lucrative sectors, even though those SOEs had strategic importance (Onis, 2011). AKP governments also had a clear preference of block sales for SOE privatizations. In the post-2002 era, 53 percent of the SOE privatizations were conducted in the form of block sales and 24 percent in the form of public offering (Privatization Authority of Turkey, 2012). The preference for block sale privatization of SOEs with high profits clearly shows that AKP governments aimed revenue maximization and rapid results to be derived from these privatizations. Moreover, traces of crony capitalism may be observed in the block share sales of SOEs in this era. As government wanted to raise high revenues, it also desired strategic investors to be present with secured control rights, without dispersion of control among minority investors.

In terms of state shareholding patterns, ten-year-long privatization practices of AKP governments can be divided into two distinct periods. In the first half of this period (that is until 2007), the aim was to dismantle almost all state shares in SOEs that are listed in the portfolio of the Privatization Authority. Through this practice, by the year 2007, the Turkish state had completely withdrawn from major manufacturing (textiles, forest products, cement), agriculture and food processing sectors and had very small shares in oil refining, energy distribution and petrochemicals. In the second period starting from 2007, the Turkish state conducted privatizations of three giant SOEs, namely Turkish Airlines in the transportation sector, Turk Telekom in the telecommunications sector and Halkbank in the commercial banking sector. Block sale was not the common practice in these privatizations; instead, a mix of public offerings and block sales was conducted. However, a common feature of all three privatizations was that the Turkish state retained a significant portion of the shares in all three SOEs. Despite negative effects of the global financial crisis on the public budget and on GDP levels, holding a portion of the privatized SOE share by the state became a salient practice and deviance from the former practice of transferring total control and ownership of the privatized firms became evident.

An important enabling feature of this period was the relaxing of extreme Washington Consensus oriented conditionality of the IMF programs. As a late-comer to privatization process, Turkey had more flexibility in retaining considerable shares in major SOE privatizations conducted in the second part of 2000s.

Aside from partially privatized SOEs, fully state-owned SOEs also seem to perform better when compared with the SOE performance of the previous decades in Turkey (Treasury of the Republic of Turkey, 2013). Stark examples of the case are Turkish Petroleum Corporation (TPC) and Turkish State Railways (TCDD). Even though Turkey privatized its own oil refining and energy distribution SOEs in the first half of 2000s, after the completion of Baku-Tblisi-Ceyhan pipeline in 2005, TPC started to become a major actor in the energy market in Turkey. In 2013, TPC's legal status was restructured and initiating an IPO for the firm entered into the agenda of the Turkish Parliament (Dunya Newspaper, 2013). Along with Turkish Airlines, PA also holds TCDD, the giant transportation SOE, in its privatization portfolio. Notwithstanding this fact, the company now seems to be concentrated on the high-speed railway projects, financially managed much better than previous periods and eventually became a showcase for the AKP government's populist aims. Emphasis of the AKP government on improving the infrastructure and transportation facilities can provide an explanation to the diversion from previous privatization practices.

The case of Turkish state capitalism and SOEs is a matter of mixed practices, especially due to post-2007 privatizations. New state capitalism is not clearly observable as in the cases of China and Brazil, but given the developmentalist state capitalism practices of the previous decades, links between the government, state bureaucracy and the new private shareholders of the privatized firms are evident. It must be emphasized that in majority of the privatizations in Turkey, the winning consortium is either composed of a mix of foreign and Turkish capital or solely Turkish private firms. [4] When this is coupled with recently appearing minority shareholding positions of the state in strategic firms, it can be inferred that state capitalism persists in novel forms in Turkey.

VI. Conclusion

This paper sought to probe the practices of recently rising new state capitalism through new forms of state ownership in SOEs in three distinct developing nations. However, it must be admitted that due to inadequacy of the literature on SOEs, the focus tilted at

[4] An interesting incident is the privatization of steel manufacturing SOE, Erdemir. The privatization of the company became an issue of national pride in the first half of 2000s and consequently majority shares are being sold to the consortium led by a holding named OYAK, which is essentially established on the pension funds of officers in Turkish Armed Forces.

times on the privatization processes of the last three decades and the situation in the post-privatization period. Nonetheless, it can be concluded that there are clear similarities in practices related with privatizing and managing SOEs in the recent period following rapid privatizations of 1980s and 90s.

All of the three developing countries had distinct characteristics: China as a transition economy, having high emphasis of centrally and locally owned SOEs in its high economic development; Brazil as a resources rich country with an emphasis on holding its shares in oil and energy distribution companies; and Turkey as a developing country caught up with rapid privatization at a rather late period, during the turn of the 21st century, and aiming to hold minority and majority shareholdings in remaining strategic sectors. Despite their distinct political and historical backgrounds, these countries experienced or intended to conduct sweeping privatizations in the 90s, and they all experienced a halt or a gradual decrease in their SOE privatization to a certain degree in the first decade of the 21st century. Parallel to the decrease in SOE privatization, these countries devised novel yet similar ways to utilize their presence in the management of SOEs in order to improve their level of economic development and protect themselves from the fluctuations of the further global economic crisis. New state capitalism is crystallized in these converging practices of SOE management in developing countries.

Among the three cases compared, state as a majority investor in SOEs is best practiced in China where "national champions" that are listed in national and international stock markets are climbing to higher ranks in Fortune 500 lists and reaching high profit levels. However, monopoly rents of SOEs that are highly clustered in upstream sectors may not be sustainable. New state capitalism as a minority investor is much better pulled out in the Brazilian case. As the Brazilian development bank BNDES was holding minority shares in partially privatized SOEs and indirectly controlling the policies of these firms, the state abstained from bearing full operation costs of the SOEs. Turkey as a late-comer to the privatization period was not rushed by IMF conditionality in the 80s and 90s, not as a result of the good performance of the SOEs but as a result of setbacks in domestic political and legal structure. Consequently, following a fast liberalization in the first part of 2000s, Turkey succeeded in creating a mix of minority and majority shareholding in SOEs, especially after 2007.

New state capitalism through novel ways of SOE management has common features in the three countries examined. First, in all three cases, majority of the SOEs in downstream sectors are dismantled at the initial phases of the privatization period. Second, oil exploration, energy, telecommunication and commercial banking are deemed as “strategic sectors” and SOEs operating in these sectors are perceived as “national champions”. Third, a new trend in the management of these “national champions” is the process of conducting partial privatization through public offerings in national and international stock exchanges. Through these IPOs, states aim to raise higher revenues from privatizations without transferring full ownership or control rights, and simultaneously overcome prevalent SOEs problems related with political manipulation and principle-agent problems.

As a final note, it must be emphasized that there is a need for a new body of research on the performance of SOEs under different shareholding patterns. New studies in this area must go beyond previous studies on privatization and explore patterns of state ownership in SOEs in developing countries, and also in developed countries following the 2008 crisis. Effects of states’ majority and minority shareholdings, IPOs, and domestic and international stock exchange listings on the management of SOEs can be covered under this new body of research.

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