GLOBALIZATION AND PRIVATIZATION OF PORTS IN TURKEY

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The purpose of this study is to better understand the impact of globalization on privatization and within the context of Turkey with special reference to the privatization of ports.

1. The Impact of Globalization on Privatization:

Privatization can be broadly defined as the shifting of economic function from public sector to private sector, mostly refering to the transfer of the ownership from state to private sector, which involves the increased reliance on private actors and market forces to take over the functions that have been previously regarded as properly functioning within the governmental sphere. In general, the public sphere is assumed to be the realm of the state and collective institutions, whereas the private sphere is to include individuals, firms, groups and personal responsibility. However, it seems that the relation between public and private seems to be much more complex, and the modern institutions seem to enter in both of the spheres in a rather complex way. The state has a dual relationship between socioeconomic structures and an international system of states, which emphasizes the interdependency within the conception of the history. The scope of economic activities have expanded by the effect of globalization, and increasing the networks between people across borders have been changing the economic history considering time, space and boundaries. Globalization, accordingly, has reduced the territorial significances as economic liberalization has enhanced, while the political environment favors the liberal economic policies including privatization in most of the countries since late 1970’s, which was initiated by the Thatcher Government in the UK and spread all over the world afterwards.

Globalization involves in the emergence of some new patterns of governance, which is the case for infrastructure sectors. Ports within the transportation sector have been recognized for their significance to the growth and development of the economies. As globalization promotes the interdependency of nations, the volume of the trade passing through the ports has had significant effects on the wealth of nations. Though ports have been mostly considered as "public goods", thus assumed to be owned and operated by the state, as the new patterns of governance concepts in port operations and services develop, privatization has emerged along with liberalization, commercialization and introduction of competition to the sector.

Regarding the globalization process, in theory it is discussed that the nation state has been becoming rather problematic and being subject to questioning due to the social/cultural, economic and political changes, and it would be possible to

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1Harvey Feigenbaum, Jeffrey Henig and Chris Hamnett, Shrinking The State: The Political Underpinnings of Privatization (Cambridge, 1999), 1.
2Ibid., 9.
observe that a global society would emerge. In other words, the nation state is being challenged by the globalization of the civil society. The scope of economic activity has expanded by the effect of globalization, as well as the ways of how the increasing networks between the people across the borders change the people’s views considering the social space and the boundaries. Since the international trade has become volatile across the territorial boundaries of the states, it has become rather difficult to manage the economic activities. Globalization refers to a transformation within a space and time dimension. Globalization challenges the effectiveness of the territorial state as guarantor of the economic well-being and national identity of its society. Much of the challenge of the port operations arises from the globalization of the capitalist economy. In its various forms of transferring ownership of the state enterprises to the private individuals or companies, privatization primarily reflects the key political objective of downsizing the state, while, likewise globalization, privatization challenges the effectiveness of the state as a guarantor of the economic well-being of the society, in turn, requires the society in their public sphere to participate in corporate governance and also decentralizes the corporate governance. Decentralization and shifting power to the regions or peripheries, dismantling certain services is also a result of privatization. Globalization hypothetically involves in the emergence of some new patterns of governance. Since the issue of power becomes diffused in a multilayer form by global interaction of the systems, governance becomes problematic in maintaining territorial boundaries and determining the preferential collective goods. A new balance between the nation state and the private sector shall be established after the privatization of the ports, as well as the public institutions which mostly function with the principle of subsidies.

The paradox of privatization lies in the fact that the state itself has to abolish part of itself when privatizing. In case of full privatization the state has to restrict itself and has been redefined. However, privatization does not imply that giving an end to the role of the state. On the contrary, privatization provides the state to reformulate its functions for the ports without involving in commercial activities and focusing more on strategic and core responsibilities related to the ports like regulations, security, safety, order, education, training and taxation. National security and regional economic development are some arguments against port privatization, particularly asset sales including mainly land.

Privatization can be viewed in narrow terms as a reflection of the internationalization of the economies. International trade brings division of labor among states which could result in vertical or horizontal interlockings among such economies. Historically, the industrial capitalist system increased the importance of local trade and made the international trade economical, considering the comparative

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5 Ibid., 233.  
7 Ibid., 190.  
9 Ibid., 4.  
advantages of some economies.\textsuperscript{11} However, it has also created global inequalities based on uneven deployment of industrial technologies. Some core states have been becoming in a rather dominating position in terms of the highly advanced technologies over which they maintain the control and promote the norms of free trade. As such globalization has been made possible by the improvements in communication and transportation. According to neorealism, international trade is assumed to be the main area in the international political economy as explained here.\textsuperscript{12} Also the world system theory considers international trade as an exchange process of the production in capitalism.\textsuperscript{13} These approaches assume globalization as a process of universalization, in other words, the integration of the national societies to the world economy through trade and exchange of goods and services, where ports integrate several economies through their distribution systems. The global utilization of containers and electronic communication for trade have also encouraged the standardization of ports and the carrier services. Thus, the main function of a port is defined as to act as an interface between ocean and inland transport and to provide complementary services to loading and dispatch operations, such as storage, processing and distribution globally.

Yet, globalization can be explained as the widening and deepening of social relations and institutions across space and time, in which activities are influenced by other happenings at different places, and decisions or practices of some local communities have global effects at different time intervals.\textsuperscript{14} As Giddens refers, globalization can be conceived as “action at distance”, meaning that wide relations across the borders of nation-states with a growing density.\textsuperscript{15} Therefore, the ability to represent the state as territorial sovereign has become problematic. The expansion of global corporations, organizations, institutions, unions and the increased global economic relations as well as social relations has effected the privatization of the managerial and bureaucratic control as in the port operations and services very significantly. Ports are important links between global and national systems.

In an analysis of the state in relation to society without reducing to only one of them, the spacial and temporal specificity and its identity is constructed by various activities that constitute the reality of the state.\textsuperscript{16} Such a conception of state suggests that “modern society is a capitalist society with a nation state”.\textsuperscript{17} The realist paradigm constructs a state-centric model where the political sphere is autonomous in the sense that it has decision-making power. However, criticizing the realists, the functionalist paradigm is based on the idea that the role of the state has been decreasing due to the prevailing nonstate actors, international governmental or nongovernmental organizations. As proposed by some social theorists like Giddens and Skocpol, in the analysis of the historical development, roles and functions of the state, the international dimensions of the state, namely, behavior, power and action have to be considered.\textsuperscript{18} Accordingly, Skocpol asserts that state has a dual

\begin{footnotesize}
\begin{enumerate}
\item Fuat Keyman, Globalization, State, Identity/Difference: Toward a Critical Social Theory in International Relations (New Jersey, 1997), 18.
\item Ibid., 18.
\item David Held, Democracy and The Global Order: From the Modern State to Cosmopolitan Governance (UK, 1997), 20-21.
\item Ibid., 21.
\item Ibid., 55.
\item Ibid., 55.
\item Ibid., 55.
\end{enumerate}
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relationship between socioeconomic structures and an international system of states, emphasizing the interdependency in the conception of the history. In this context, Skocpol analyses how the capacity of the state organizations create power, how the state policies are formulated in relation to the social and political group interests and the global circumstances, and how the bureaucrats set policies for internal security and external relations.  

Transferring various assets and public goods and services to private owners is a multifaceted process affecting various groups in the society in different ways. When we ask the question “who benefits from privatization of the ports?” or in reverse “who pays the cost of port privatization?”, then we can better understand the multilayered effects on the individuals or groups in the society as well as the economic implications of port privatization. What types of goods would be subject to privatization? Within the framework of the classical definition of the goods, Olson makes the distinction between “public goods” and “private goods”, which does not refer to whom the goods belong but to the specific structural features of the goods themselves. Public goods are those that are nondivisible in crucial ways and from the use of which specific people can not be easily excluded such as the port facilities; whereas private goods are both divisible and excludable such as consumer goods or commercial goods. According to Olson, public goods can not be provided in optimal amounts, since some portion of the society will be able to pay for it. In this sense, post World War developmental policies mostly included state investments and procurement of such public goods like port infrastructure and services through the state. However, a fundamental transformation has taken place in the structure of the public goods in today’s global environment, making the pursuit and provision of the public goods problematic. The scale of the public goods, their technological and institutional context has been changing by the impact of globalization.

When we look at the close history, at the end of the World War II in 1945, the majority of the economists, specifically John M. Keynes, had firmly believed that the governments could play an increasingly active role in providing public goods like social security, in correcting the income distribution, and in guiding markets towards growth, development and full employment. The function of the welfare state was to hedge the risks and inequities inherent in the market economies, especially when open to foreign trade. Therefore, it is no surprise that the role of the governments expanded very much while the public or state ownership as the means of production and services was thought to be useful or even indispensable. The state had also assumed the responsibility of the welfare of the citizens with a network of income support and safety nets. Political practices followed these ideas, and the political and economic policies of many nation-states including the maritime economics were dependent on the ability of the government activities through state enterprises for developmental purposes.

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19Ibid., 55.
After the economic crisis that took place in the late 1970’s, the conviction developed that too much state influence through the public sector could lead to distortions in the whole economy. A countermovement has started by economists such as Friedrich Hayek. The 1970s and 1980s have seen widespread attempts by the policymakers to curtail the state’s economic role. Trade liberalization, followed by capital mobility shifted the emphasis on supply side while Keynes was emphasizing the demand side. The policies were turned to free markets and globalization, going away from mercantilism and nationalism. As Hayek thinks, state action has to be kept at a minimum level with the assumption that politics as a governmental decision making system will always cause an imperfection in comparison to the market behavior. The policies are based on the belief that the free market system is a mechanism that determines the collective choice on an individual basis, and the free market will flourish the development of a complex economy without an elite that claims to know how all the mechanisms work. Thus, the state has to confine its roles to some public goods and services which the market cannot supply. Hayek is against the national market system and the related national state system in his thoughts about markets not limiting themselves with the national boundaries and operating most efficiently without the state interventions. Following liberalization policies as such, in 1970s the deregulation of the US markets, in 1980s the structural reforms including a series of deregulation, liberalization and privatization measures in the UK were followed by other states with a trend towards freer markets and privatization. The divesture and privatization of state enterprises has featured prominently in the attempts of the policymakers starting from 1980s.

There was a change in the development policies of several countries. The World Bank has also emphasized the importance of the privatization measures in the economic structural adjustment programs prescribed to the countries starting from the early 1980s. With the collapse of the Eastern Economic systems in 1989, which is again as a result of both economic and political crises, privatization has become the guideline for the transformation of the former centrally planned economies into market economies. However, the privatization phenomenon has not been confined to countries with a liberal ideology. Major privatization programs have been carried out by countries with a long capitalist tradition, mostly for achieving the goal of “efficiency” in the country. It is argued that private control of ports will allow port services to be provided more efficiently. Regarding the experiences of privatization in developing countries, privatization has been spurred by widespread dissatisfaction with the performance of public enterprises and the need for the government expenditures. As N. Van De Walle indicates in his study, "The experiences show that unless it is accompanied by liberalization measures, privatization of state enterprises
is unlikely to result in significant gains in the economic efficiency.\(^{31}\) The sequencing of privatization and liberalization reforms will often determine the impact on efficiency, but the correct order of implementation is not clear. In general, the general privatization objectives have been to improve the competition within the sector, country and globally, to increase efficiency, to improve the management and governance, and to mobilize the private investments while cutting the public expenditures and decreasing the burden of the state enterprises on the budget.

Most recently globalization has been accepted by several institutions as a process that could improve the world welfare. The creation of the World Trade Organization (WTO) in 1995 built on the General Agreement on Tariffs and Trade (GATT) is the latest multilateral step toward creating an environment conducive to the exchange of goods and services.\(^{32}\) The emphasis has been given to the liberalization of the of the world trade based on competitive market forces. Within the framework of the liberalization and globalization strategies of the WTO, privatization has also further gained acceptance worldwide.\(^{33}\)

Another issue could be raised is about a fundamental dilemma of the world economy where the markets are becoming global but the related legal, social and political institutions remain mostly at national level.\(^{34}\) The state enterprises functioning as an agent of the state largely remain to be in legal, social and political terms at national levels. The private sector has a tendency to adapt itself to the global world in a rather flexible manner, however, the laws, rules and regulations are to be established by the state. Thus, even partial privatizations could raise the global understanding of the legal environment and initiate the institutional adaptation. The international institutions like WTO, United Nations(UN), International Maritime Organization (IMO), International Labor Organisation (ILO) and several others play an important role in the global functioning of the transportation sector. The international institutions provide rules, regulations and standards concerning operations and service quality, security, safety, training, and other related subjects which would provide the ports to serve the international trade in an efficient and effective way.\(^{35}\)

The institutions are especially important in setting the role of the government as regulator rather than as operator.\(^{36}\) In the absence of adequate competition and if private monopoly is inevitable as in many ports with respect to their regions, regulation has to be used to keep the private monopolies within control and prevent them to exploit their monopolistic power. Therefore, considering the public goods nature of some port services, the ports need a suitable institutional or regulatory framework that uses market mechanisms to make sociopolitical requirements compatible with commercial goals. Thus, port administration gains importance in institutional and regulatory sense. The privatization implementations should follow


\(^{33}\) Metin Ercan and Ziya Onis, "Politics Within The State: Institutions and Dilemmas of Turkish Privatization in Comparative Perspective" (Bogazici University, September 2000).

\(^{34}\) Dani Rodrik, “Four Simple Principle for Democratic Governance of Globalization” Friedrich Ebert Foundation (Bonn, 2001), 1-2.

\(^{35}\) Ibid, 3.

such regulations avoiding any unequal treatment not only domestically but also internationally. For example, economic entities after privatization could not strive for profit maximization at the expense of the workers’ health, wages, unemployment or environmental pollution.

Within the trend of globalization and economic liberalization, the privatization of ports around the world have been considered seriously. The globalization process has led the integration of production, international trade and transportation into a single global system. The economic activities of the ports are directly effected by the expansion of the world trade, as the international trade diversifies but the production is internationalized. Kumar, in fact, describes the meaning of globalization in terms of maritime economics in that trade growth has been more than the world’s GDP, while the international trade does not only cover the finished goods, but also the intermediate products and services, meaning that the production has become a globalized process.\(^{37}\)

The governments have been implementing privatization policies directed towards the effective and productive operation of ports in line with market conditions, and to mobilize the private resources to invest in the modernization and capacity increase of the ports. EU’s 90 percent of the foreign trade transportation is actualized by the maritime transportation, which requires efficient and effective operations and services of the ports. The total world international seaborne trade volume was 4,008 million tons in 1990, which increased to 5,595 million tons in 2000, and 6,168 million tons in 2003, while it is expected to reach 7,138 million tons in 2006.\(^{38}\) World container port traffic continued to expand at an average rate of 10.6 between 1994 and 2004, reaching 359.7 million TEUs in 2004.\(^{39}\)

Also, the increase in the number and size of the vessels and their specialization in the transportation of the goods effect the port infrastructure and operations, which has led to an increasing interest of the private sector involvement in the sector. Thus, ports have more roles than loading and unloading of the vessels, such as providing logistics and other services. According to the definition of the UNCTAD, "Seaports are interfaces between several modes of transport, and thus they are centers for combined transport… An efficient seaport requires infrastructure, superstructure and equipment, adequate connections to the transport modes, a motivated management, and sufficiently qualified employees."\(^{40}\) Furthermore, seaborne traffic depends on seaports for all its operations, since ports act as interfaces between maritime and inland modes of transport (railways, road and inland navigation).\(^{41}\) Therefore, in order to have an efficient maritime transport system, seaports must be operating with principles of cost minimization and maximization of operation and service quality along with the rapid increase in transport of goods, developments in integrated logistics systems. Moreover, the containerization and intermodal transport systems has increased the competition between ports.\(^{42}\)


\(^{38}\) UN, Review of Maritime Transport 2004, United Nations Conference on Trade and Development (Geneva, 2004), XI.

\(^{39}\) Ibid, XI.

\(^{40}\) Deniz Ticaret Odası (Maritime Chamber of Commerce), Deniz Sektoru Raporu (İstanbul, 2005), 18.


with extended hinterlands with developed road or rail transportation system are supposed to have comparative advantage among the regional competitors.

These developments in the seaborne transportation raise the need for ports to invest in larger cranes, berths, storage yards, improved information technology systems, and additional dredging in order to be competitive among others faced with the change of the freight flows in the region. Thus, ports have become more capital intensive than labor intensive along with the technological developments. Large amount of investments in ports could provide cost savings in the operations like economies of containerization or intermodal systems. Yet, such infrastructure investments cost in large values, which could not be afforded by many governments, especially those who suffer budget deficits as is the case in several developing countries. Private sector participation could provide the necessary funds for modernisation and capacity increase investments of the ports. In addition, suffering from lack of efficiency, several governments aim at utilizing the management and technological expertise of the private sector, and providing their contribution to the efficient operation and servicing of the ports within a competitive environment.

All these changes along with the more competitive environment have also changed the concept of the monopolistic public ownership of the ports. The role of the public sector in ports has not been sufficiently fulfilled in terms of economic globalization, competition, efficiency, heavy infrastructure investments, management skills and governance. Thus, the importance of privatization of ports have come into discussion.

During 1980s and 1990s, privatization of ports has expanded globally. Support for greater private sector involvement can be found in the trend in both developed and developing countries to privatize port operations, and sometimes even port assets. During these two decades, over 36 governments worldwide were in the process of privatizing some or all of their major shipping ports. In 1983, The United Kingdom privatized her 19 ports that formed the Associated British Ports by asset-sale method with the purpose of increasing the efficiency, diversifying the assets, and promoting the capital investments. Malaysia began its privatization trend by transferring the operations of the Kelang Container Terminal at Port Llang to a consortium in 1986, and continued to privatize in 1992 by transferring the second part of the Kelang Container Terminal for US$ 361. Among others are Argentina (1992), Brazil (1991), Hong Kong, Mexico (1993-95), Pakistan (1993-95), New Zealand, Singapore and Venezuela (1991). In recent years privatization has expanded almost globally. According to the UN records, the privatization projects consisted of 25% of the total 325 global investment opportunities in 2004. The

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48Ibid, 5-8.
private sector involvement in ports has been continuing, even though there have been some problems about concessions, labors, port authorities, and others.\textsuperscript{51}

The intensity of competition inherent in the global economy, along with the shift from single-activity optimization to optimization of integrated service systems, and large investments in modern technologies and facilities aimed at increasing efficiency and decreasing costs are leading many governments to consider that ports could benefit from private participation and commercially based operations, service and labor systems.\textsuperscript{52} Within this framework, the main objectives of port privatization can be summarized as follows: \textsuperscript{53} \textsuperscript{54}

- To downsize the role of the state in the public sector and bureaucracy.
- To eliminate the financial burden of the state enterprises.
- To mobilize the private sector funds for port infrastructure investments and operations.
- To enhance the efficiency and effectiveness of port operations and services.
- To ensure a competitive market within the globalized environment.
- To enhance governance, including the stakeholders within the decision and operation processes, and raising the social responsibility.
- To increase the managerial and entrepreneurship capacity in the port sector.
- To ensure compliance with the international rules, regulations, conventions and implementations.

Who owns the ports and who provides the facilities and the services is much concern within the framework of the privatization modes.\textsuperscript{55} Port administration has the main duty of organizing the flow of traffic through the port in an order and efficient way. According to Trujillo, the main organizational modes for seaports regarding the role of the port authorities within the framework of their infrastructure and superstructure could be grouped as follows: \textsuperscript{56}

(i) \textbf{Landlord Port}: Port infrastructure is owned by the port authority, which is also responsible for the management. The port services are rendered by the private sector, which owns the assets or superstructure such as the cranes, forklifts, etc. This is the most common type of private participation.

(ii) \textbf{Tool Port}: The port authority owns both the infrastructure and the assets, which is rented by private sector to undertake services through concessions or licenses.

(iii) \textbf{Services Port}: Port authority owns the port as a whole, the infrastructure and all of the assets, port authority provides these services.

Ports have been prime candidates for unbundling functionally and being competitive.\textsuperscript{57} The "port function matrix" developed by Baird is based on three distinctive functions of a port, namely, (i) the regulatory function, (ii) the landowner function, and (iii) the operation or utility function.\textsuperscript{58} Privatization is analyzed and classified with respect to the coverage of these functions of ports. (i) Port regulatory

\textsuperscript{51}Ibid, 79-80.
\textsuperscript{52}UN, Port Modernization: A Pyramid of Interrelated Challenges" Transport Unit of the International Trade, Transport and Financing Division (ECLAC) (3 April 1999), 21.
\textsuperscript{55}Kevin Cullinane, and Dono-Wook Song, "Port Privatization Policy and Practice", Transport Review, XXII, No.1 (UK, 2002), 60.
\textsuperscript{58}Alfred Baird, "Privatization Defined: Is it the Universal Panacea?" (Napier Uni., 27 June 1999), 1.
activities include the duties and responsibilities of ports as defined by the laws, regulations and the statues of the ports. This subject concerns the local and national government bodies as well as the whole society. These activities are mostly undertaken by "Port Authorities" in several countries. Some of the main duties and responsibilities are: 59 (a) the implementation of the laws, rules and regulations related to maritime activities, (b) issuing license for port works, (c) maintaining the conservancy, (d) managing the traffic, (e) ensuring fair competition rules. As such, port regulation has a public good nature as Olson describes. 60 Thus, as Baird states, port regulation is the least expected function that could be transferred to the private sector, yet argues that it could increase the efficiency of ports. 61

(ii) Port land is usually an important part of an urban place, with its economic, social, environmental and security dimensions. Some of the activities related to the port land include port estate management, municipal and road facility development, maintenance of the piers, locks, berths, etc for port operations.

(iii) Port operator refers to the physical transfer of the goods and passengers between the sea and the land, including stevedoring services. There may also be some facilities like warehousing, storage, packaging, etc. Baird defines a matrix for privatization of the ports with respect to the coverage of these port functions, providing the classifications of private participation. 62

<table>
<thead>
<tr>
<th>Port Models</th>
<th>Number of Ports</th>
<th>Port Elements or Activities</th>
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<tbody>
<tr>
<td>PUBLIC</td>
<td>7</td>
<td>public</td>
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<tr>
<td>PRIVATE I</td>
<td>88</td>
<td>public, public</td>
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<td>PRIVATE II</td>
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<td>PRIVATE III</td>
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<td>private, private</td>
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Source: Baird (1999)

Out of top 100 ports in the world that Baird analyzed, only seven ports, which are at South Africa, Israel and Singapore, are totally owned by the state, and only three ports, which are in UK, are fully privatized. 64 Three ports in the UK, namely, Southampton, Liverpool, and Thames port belong to private firms. 65 As the most common privatization model, 88 of the top 100 ports have adopted the Private I model, meaning that while port regulator and landowner belong to the state, the port operations are transferred to the private sector, which is a mixture of public and private sectors. Private I model also includes Built Own Transfer (BOT), lease, and joint venture schemes, where the state retains the authority over the ports as a regulator. Malaysia, for example, started its privatization by transferring the


62 Ibid, 3.

63 Ibid, 3.

64 Ibid, 1-3.

operations of the Kelang Container Terminal at Port Klang to a consortium in 1986.\textsuperscript{66} 97 out of top 100 ports have public authorities after privatization. As Matons discusses about the necessity of the public authority after privatization since port authorities are "public" in character, the concept stemming from the Roman Law, and public control of the port operating for the common interest would be also a guarantee for the protection of the private interest.\textsuperscript{67}

2. Port Privatization in Turkey:

a) Privatization in Turkey

From her establishment in 1923 after the collapse of the Ottoman Empire, the Republic of Turkey has had a long experience relying on its State Economic Enterprises (SEE). Starting from 1930s up to early 1970s, the state had heavy investment programs, leading to an enormous growth of the SEE. Turkey had a mixed-economy up to early 1980s with a policy of protection and import-substitution, which resulted in rapid development in 1960s. However, the oil crisis in 1970s and problems of financing the balance of payment deficits caused high inflation and economic recession thereafter.

Parallel to the globalization process in the world economy and the liberalization movements in several countries, economic liberalization has also been the focus of the Turkish governments starting from early 1980s. The stabilization and structural reform program decisions taken on 24 January 1980 had been supported by the international financial institutions like International Monetary Fund (IMF) and the World Bank. The main objective of this program was liberalization of the economy, which included mainly the foreign trade liberalization, fiscal liberalization, liberalization of the international capital movements, and decreasing the role of the public sector in the economic activities by privatizing the state economic enterprises. The fundamental transformation of the Turkish economy had experienced a movement from inward oriented import substitution policies to export-led and industrial policies. As a result the trade had had a rapid increase; the ratio of the average exports and imports to GDP had increased from 0.09 in 1980 to 0.30 in 2004 and the GDP reached to US$ 302.8 billion the same year.\textsuperscript{68}

During 1980s, the leader, Turgut Ozal, was very much influenced by Margaret Thatcher's policies that promoted reducing the state's role in the economy. Within this context, privatization has started in the Turkish economy as a part of the economic reforms starting from 1984, with the primary goal of minimizing the involvement of the state in the industrial and commercial activities and developing the economy within a competitive environment in a free market economy.

The privatization program in Turkey primarily targets: (i) the minimization of the state involvement in the economy for developing a free market economy and improving the competitive position of the private enterprises, (ii) improving the efficiency and the management of the enterprises and the economy, (iii) the relief of the burden of the SEE on the national budget, and (iv) development of capital markets and mobilization of the private investments.\textsuperscript{69} Privatization is thought to

\textsuperscript{66}Ibid, 5-6.
\textsuperscript{67}Jean Grosdidier De Matons, "Is Public Authority Still Necessary Following Privatization?" Speech (27 June 1999), 3.
\textsuperscript{69}Privatization Administration (www.oib.gov.tr)
improve the "critical success factors" such as efficiency, technology, management, quality, as well as competitiveness needed in global economy. The objective has become the integration of the economy with the rest of the world. Consequently, privatization, including the ports has been an important issue in the Turkish economy from legal, economic, political and social points of view.

Since 1984, the total value of all the transactions have reached to US$ 25.6 billion, US$ 17.4 billion of which has been realized in 2004 up to the mid 2006, including the privatization of six ports. The IMF Program started in 2000, and the following stand-by agreements had ambitious privatization targets, which resulted in large scale SEE privatizations, including the ones maintaining monopolistic conditions in the market. Privatization of ports has started in 1995 by transferring of operation rights of some of the ports.

b) Port Operations in Turkey and Maritime Sector:

(i) International Trade of Turkey

The international trade volume of Turkey has increased by more than 100 times in the period between 1970 and 2004. The foreign trade volume which was about US$ 1.5 billion in 1970 reached to US$ 160.4 billion in 2004, and foreign trade amount reached to 219.5 million tons in 2004. (Table 1) Within the same period along with the expansion, Turkey diversified its international trade.

Turkey has been a member of the GATT since 1950 and signed the Uruguay Round Treaties in 1994. Turkey has also been a member of the WTO since 1995. In conclusion, Turkey has removed most of quantity rationing and import tariff level.

Turkey's foreign trade regime has aligned with the EU, following the Customs Union (CU) with the EU in 1996, covering the industrial and processed agricultural products. In this context, Turkey imposes no quotas or tariffs on imports of these goods from the EU, which has increased the trade volume between the EU member countries and Turkey thereafter.

Customs Union has also played an important role in the institutional transformation of the Turkish economy and accomplishing regulatory reforms. Following the Helsinki decision of the European Council in 1999 about the recognition of Turkey as a candidate for accession, EU and its institutions have become an important actor in Turkey's foreign trade and transportation sector.

(ii) Maritime Transport Sector in Turkey:

Commercial and industrial services including passenger and goods transport, vessel construction, port services, auxiliary services and yacht tourism are the main areas of the maritime sector. The development of ports is in response to the foreign trade and its effects on maritime transports which accounts for the transportation of about 87% of the total foreign trade of Turkey. (Table 2)
Turkey has a merchant fleet having the capacity of more than 8.7 million DTW with about 576 ships over 100 GRT and is 20th rank in the world fleet as of the end of 2003.\textsuperscript{75} Turkish flagged ships recently make nearly one fourth of total Turkish maritime transportation in both import and export while the rest is made by foreign flagged vessels, which was 42% of imports and 39% of exports in 1995 and decreased to 25% of imports and 18% of exports in 2004.

Maritime transport in Turkey has the share of 87.4% of the county's international cargo flows, whereas transport by roads has a share of 10.32% share, railroad, air and other transportation facilities as a total have only 1.32% share as of 2004. The maritime transport accounts for the 91% of the country's imports and 80.4% of the exports. The EU countries are the biggest foreign trade partners of Turkey with a share of 54% in the total exports and 47% in the total imports. (Table 3)

Turkey's maritime transport has been effected by the international and global developments and has had fluctuations along with the changes in the world and the changes in the foreign trade volume of the country accordingly. Still, the amount of international cargoes that are loaded and unloaded in Turkey's seaports has increased with an average of approximately 8% annually between the years 1994 and 2004. The quantity of the international cargoes transported in 1994 was 78.5 million tons, which reached to 151.7 million tons in 2004, of which 70% was composed of import cargoes of 105 million tons. The amount of export cargoes was 47 million tons in 2004. (Table 4)

The domestic transportation is mainly realized through land (93%), while the maritime domestic transport has only a share of 4.1% of the overall transportation with 14.7 million tons in the year 2004, which is very low in comparison to the rather long coast of the country.\textsuperscript{76} In accordance with the Cabotage Law with number 815, all commercial shipping and related activities between the ports of Turkey are granted to Turkish citizens, which brings some restrictions to foreigners.

(iii) Turkey's Seaports and Their Cargo Handling Activities:

Turkey, which is a peninsula, has coast line of 8333 kilometers. The land is geographically advantageous with its coast structure. It is located in between Europe, Asia, Mediterranean and Middle East countries, where a substantial amount of potential traffic intersects at this position. The coast is facing four different seas and two straits connecting and providing passage, thus having a junctional role.\textsuperscript{77} The Marmara Sea, which is located completely within the national borders, connects to the Black Sea via Istanbul (Bosphorous) Strait and to the Aegean Sea and the Mediterranean Sea via the Canakkale (Dardanelles) Strait. Ports in Turkey comprise an important component of the potential multimodal transportation system, and railway connected ports present a gateway position not only to Middle East countries but also to the Caucasian landlocked Asian countries. Turkey has a role as a transit country and as an origin and destination of freight. Since for Europe-Far East

\textsuperscript{76}Ibid, 18.
\textsuperscript{77}Ulker Yetgin, "An Outview of Existing and Future Turkish Port Infrastructure System Within The International Combined Transport", Conference Paper (Antalya, 2002), 2.
Mediterranean Sea route large vessels are deployed, Turkish ports play an important role as feeder ports, rendering services to the delivery of the containers. In Turkey there are approximately 290 shore facilities including ports, fisher harbors, docks and yacht harbors, and the total length of these facilities is more than 33,000 meters, mostly with small scale and for specific purposes. 118 of them are seaports and quays to which ships over 500 GRT can be docked and which are used in cargo transport.

There are three categories of ports regarding their ownership and operations in Turkey: (i) Public ports: State owned and operated ports, which belong to Turkish Republic State Railways (TCDD) and Turkish Maritime Administration (TDI), (ii) Public/Private Ports: State owned but operated by private enterprises after their privatization by the transfer of operations rights strategy (which are mostly owned by TCDD and TDI), and (ii) Private Ports: owned and operated by private enterprises. (Table 5)

A total of 20 ports on the Turkish coastal line are owned by TDI. TCDD owns 7 railway connected ports, which are Samsun, Haydarpasa, Derince, Bandırma, İzmir, Mersin, and Iskenderun Ports. Both TDI and TCDD are state economic enterprises, operating over a long period of time. The overall capacity of the existing Public Ports which belong to TCDD and TDI is approximately 50 million tons per year. The overall capacity reaches to approximately 200 million tons/year when the semi-private and private port facilities are included.

Container transport is available at all of the public TCDD ports (Table 6), and two private ports located in Ambarlı and Izmit Gulf in the Marmara region. 54% of the maritime containers were handled at TCDD ports and 45% at Ambarlı in 2004. The TCDD ports have about 90% share within the total cargo handled among the state owned ports in Turkey. İzmir port is the leading port in Turkey, especially due to the high amount of exports and imports cargo handling. Haydarpasa Port is mainly utilized for import cargo, while İzmir Port and Mersin Port are mainly utilized for export purposes. Mersin Port is the leading port at the Mediterranean region. Yet, the container throughput is negligible at the Black Sea ports. Also, Marmara Sea ports achieve high amounts of throughput. The ports of Istanbul, İzmir, Mersin and İzmit have vital importance in foreign trade, since they are outlets for large industrial regions. According to the Nationwide Port Development Master Plan (2000), there will be a growing demand for the movement of containers in the new feature and that the container traffic will reach 6 million TEU by the year 2020.

Public ports are "service ports" where the port directorate provides all commercial services to ship and cargo by its own labor and equipment. After the operational rights are transferred they become "landlord ports". The state owned ports provide a full range of services such as pilotage and towage, stevedoring services, quay occupation, mooring, demurrage, fresh water supply, solid and liquid waste removal, handling services, storage, commodity weighing and rental of

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78 A. Deveci, G. Cerit, and O. Tuna, "Determinants of Intermodal Transport and Turkey's Transport Infrastructure" (Antalya, 2003), 2.
79 Ulker Yetgin, "An Outview of Existing and Future Turkish Port Infrastructure System Within The International Combined Transport" (Antalya, 2002), 1-5.
80 Ibid, 1-5.
Main income generating services of TCDD are stevedoring and storage. The tariffs applied to the services are determined by TCDD headquarters. The tariffs for cargo handling are the same in all the TCDD ports, while there are slight difference among ports for services rendered by mechanical tools and equipments. At some TCDD ports, some services like pilotage and towage services are provided by TDI.

The first private ports have been established early 1990s after the amendment in 1989 in the legislation for allowing the private company's small ports limited to only their own operations to provide service to third parties as well. For the purpose of this study, only the state owned TDI and TCDD ports will be included within the analysis relevant to the port privatization implementations in Turkey.

The present condition of the state owned ports involve several disadvantages like obsolete technology, low modernization and expansion investments, thus, investment requirements but state budget restrictions, lack of finance, inefficient and ineffective management, insufficient depth of the ports, need for rail and road connections for intermodal transportation, etc. As De Matons explains the inefficiencies of monopolistic port sectors in developing countries, privatization of Turkish ports has emerged as a new form of governance along with liberalization policies and free markets.

In 2004, within the total cargo handling of 210.6 million tons; the share of exports was 26.1% with 54.9 million tons, imports was 57.1% with 120.2 million tons, cabotage was 14.2% with 29.9 million tons, and transit was only 2.6% with 5.5 million tons. The development by years show that the changes in the share of the cargo regimes has stemmed from the expansion of the foreign trade and the decline in the amount of domestic and transit maritime transport. (Table 7)

c) Legislation Related to Port Privatization in Turkey:

In Turkey, the institutional development of the port infrastructure and port services is the concern of the early republican governments. The first law was the Law of Ports with the number 618 and date 14 April 1925, which is still applicable. Since the ports are assumed to be "public goods", article 1 of Law of Ports state that "The Government is responsible for the administration, cleaning, deepening and widening of ports, for the placing of buoys and their maintenance in good shape, and all the other activities related to ports." Article 8 of the said Law enables the government to establish a joint-stock company for each port for its operations.

Article 43 of the Turkish Constitution is devoted to the shores, which states: "Shores are under the juristictions of the State. In benefiting the sea, lake and river shores, and from shore strips bordering sea and lakeshores, benefit to the public is primarily sought...."

Another principle legal text on port regulation is the Seashore Law with the number 3621 and date 4 April 1990. As per Article 4, ports are defined as follows: "Port means the coastal structures with sufficient water depth for the vessels to board and leave passengers, load and unload goods, moor and wait, that have technical and engineering facilities as well as the necessary facilities for the loading and unloading of cargo, and for the storage and handling of cargo."

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83 Shashi Kumar and Mahir Akarsu, "Turkish Container Ports: An Analysis of Problems and Potential Opportunities", Dokuz Eylül University (İzmir, 2004), 6.
84 Jean Grosdidier De Matons, "Is Public Authority Still Necessary Following Privatization?" Speech (27 June 1999).
85 Undersecretary of Maritime Affairs (www.denizcilik.gov.tr).
social infrastructure facilities protected from the wind and sea effects naturally or artificially."

The law dated 29 April 1926 with the number 815 concerns about the coastal shipping (cabotage) along Turkish shores and performance of Turkish trade and business in Turkish ports and territorial waters, restricting to the foreigners. Local Administration Authorities are responsible for the Security and the Safety of the ports according to the Law with number 2677.

The legislation about ports is being updated with requirements of the modern port activities and services, and the international institutions, as is the case for adaptation to the EU norms and compliance with the *acquis communautaire* of the EU.

Turkey does not have an institution named Port Authority, but the Prime Minister's Office, Undersecretary of Maritime Affairs (UMA), which was established in 1993, is responsible for the regulation of the ports. Marine activities are administered by the UMA as the main authority in the fields of maritime issues at the national and international level with the main objective of determining and coordinating the national maritime policy and other studies related to the maritime issues. UMA has seven regional directorates and sixty eight Harbor Master Offices for the implementation of the rules and regulations at the coasts of Turkey. Some regulation functions have also been implemented by state owned TCDD and TDI that owned and managed the main ports in Turkey. As privatization progresses, the need for an independent Port Authority may arise for the regulation of the ports, transferring the regulatory power of other institutions to this new institution.

The Competition Law 4054 implemented by the Independent Competition Board of Turkey regulates the competition conditions of the privatization implementations regarding the rules of the fair competition within the free market conditions.  

The current Privatization Law (4046) ratified in 1994 forms the institutional basis for privatization. Furthermore, the Constitutional Amendment in 1999 (Articles 47 and 125), included the concept of privatization in the Constitution, and has allowed for international arbitration assuming equal footing in international competition and stimulating direct foreign investments and formation of alliances with foreign partners. The privatization decisions are taken by the Privatization Higher Council headed by the Prime Minister and composed of five ministers, and implementations are carried out by the Privatization Administration (PA). Within the framework of the Constitution and Privatization Law and considering the nature of the business, the monopolistic condition of the sector, and the concept of public goods, the privatization of the ports can be implemented by transfer of ownership, lease or similar privatization strategies, restricting the transfer of the port asset ownership to the private sector. As per Article 15/a and b of the said Law; ports are assumed as public service organizations, therefore, it is required that ports "... shall be privatized under the provisions of this Law through the transfer of operations rights, leases or similar methods." Therefore, the privatization of ports in Turkey is a partial privatization, which could be called as Private I type as Baird describes or landlord port model, where the operation right is transferred to the private sector, or

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86 Privatization Administration (www.oib.gov.tr).
87 İlhan Baytan, *Özelleştirme* (Ankara, 1999), 95.
88 Privatization Administration (www.oib.gov.tr).
89 Ibid.
methods like Build-Operate-Transfer (BOT) and leasing are utilized, while the ownership and regulation is kept by the state as also stipulated by the Constitution. A bidding process takes place for selecting the private enterprise to overtake the operation rights, the result of which is submitted to the Privatization Higher Council for approval. The decision is announced at the Official Gazette regarding the accountability principle. Then, a contract for transfer of operational rights is signed among the PA and the selected enterprise. The operation period for the private company could be at most 49 years regarding the conditions of the port.

d) Port Privatization Implementations in Turkey:

i. Privatization of Turkish Maritime Administration (TDI) Ports:

TDI owns 20 ports, 13 of them have been privatized by transferring the operation rights to private enterprises, while Gulluk, Gokceada, Canakkale, Lapseki, Istanbul and Kabatepe Ports are further operated by TDI. (Table 8) The objective for privatizing these ports has been to mobilize the private sector funds for new investments, to increase the operational and managerial efficiency of the ports, to develop competition, and to integrate the world economy.

In 1997, Tekirdag, Hopa, Giresun, Ordu, Sinop and Rize Ports, in 1998 Antalya Port, in 2000 Alanya and Marmaris Ports, and in 2003 Cesme, Kusadasi, Trabzon and Dikili Ports were privatized by transfer of operation rights to private sector for a period of 30 years, and ownership of the registered inventories such as machinery and equipments, vehicles and others were transferred by sale method. Among these ports, Trabzon, Antalya and Tekirdag Ports are the largest ones with cargo handling capacity of 3.9, 3.3 and 2.9 million tons per year respectively. Alanya, Marmaris, Cesme and Sinop Ports do not have container cargo handling facilities, some play important roles in the tourism sector.

According to the privatization valuation methods, TDI ports have been evaluated and the bid offers are ranked or cancelled with respect to the evaluation procedure of PA. Payment to PA has had two parts: a lump sum payment plus equal installments and profit share during the 30 year period. A total of US$ 276 million privatization income has been generated as a result of the privatization of the 13 ports together with the sale of a TDI ship. Among the privatization conditions stipulated in the contracts, labor and personnel, investment, asset utilization, the international rules and regulations, tariff cap for 5 years and maximum idle period are the striking ones.

The post privatization analysis of the TDI ports show that (i) new, modernization or capacity increase investments have been realized, amounting US$ 30.6 million as a total, (ii) there has not been a significant change in cargo handling of the ports, (iii) the number of personnel decreased in all of the ports except in Hopa, Ordu and Rize Ports, and (iv) the volume of business increased significantly in most of the ports.  

Salipazari Port of TDI (also called Galataport) in Istanbul has been included within the privatization programme, and the method of privatization was decided to be Built-Own-Transfer (BOT) method. The privatization concept has differed from the previous ones not only in the method chosen, but also the coverage of an investment plan for a complex of marina port for big ships, five star hotels, shopping centers, fair and congress center, museum and other commercial and touristic

91Privatization Administration (www.oib.gov.tr) (June 2006).
constructions. The project amount is about US$ 4.3 billion. The tender procedure was completed by PA, which was later on 2 February 2006 cancelled due to some legal issues.

ii. Privatization of Turkish Republic State Railways (TCDD) Ports:

The TCDD ports, namely, Izmir, Mersin, Iskenderun, Derince, Bandirma and Samsun Ports have been included in the privatization portfolio by the decision of the Privatization Higher Council in 30 December 2004.\(^{92}\) Haydarpasa Port is not included in the portfolio since it will be part of a tourism complex project. These six ports within the portfolio are the most important ports in Turkey considering their location, size of investments, infrastructure and superstructure, connection to railways and highways, and hinterland. The main reason for privatizing TCDD ports is that the container traffic at these ports increases about 20% per year, and to meet the demand infrastructure and superstructure investments are necessary.

The privatization strategy has been decided as transfer of operational rights, in which the ownership of the ports and the port assets and land will remain to be public property. The operational rights will be transferred to the private sector for a period of 49 years for Izmir Port and 36 years for the other ports. TCDD will be further responsible for the post-privatization performance monitoring of the private sector performance of the port operations.\(^{93}\)

The highest bid offers were given by the same private company, namely, US$ 755 million to Mersin Port, and US$ 80 million to Iskenderun Ports. The transfer of Mersin Port has been concluded. The research of the Competition Board for the Mersin Port has been analyzing this transaction. Recently, the preparation of Izmir Port for privatization has been concluded and the private investors are called for bid.

Beside TDI and TCDD, some other small ports serving specifically to SEEs are also being privatized. One of them is Tasucu Port, for which the bidding process is carried. Among others, there are yacht ports that belonged to an SEE in the tourism sector.

3. Conclusion and Lessons from the Experience:

Privatization should not be recognized as the full withdrawal of the state, on the contrary, it can be assumed as a governance policy as an extension of the ideology of neoliberalism for a democratic nation state within the globalizing world economy. The expansion of global corporations, organisations, institutions, unions and the increased global economic trade relations as well as social relations has also effected the privatization of ports and their managerial control. However, having different and unique social, political and economic conditions, every state has its own specific and changing conditions within time and space. Therefore, an approach to privatization of ports would be to allow each government to experiment with its own model and adopt its own version of free market economy in line with the collective preferences in a global economic context. Along with liberalization in the economy, privatization of ports has to consider the international trade developments, standards, rules and regulations, and also include interest groups beyond the entrepreneurs, labors, environmental groups, and other stakeholders globally. Port privatization in Turkey has been implemented with transfer of operations rights.

\(^{93}\)Ibid, Privatization Outlook (Ankara, 2006).
strategy, which is Private I type of privatization as Baird defines, which is the most common trend globally.

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