Whither Turkish capitalism?

Recent years have seen investor confidence in Turkey improve, after the financial crisis of 2001, with the US and EU contributing tens of billions of FDI in Turkey every year. However, many of the largest conglomerates and holding companies in Turkey remain family-run affairs. The status quo looks set to change, however, with family members likely to cede their controlling interests in Turkey’s dominant holding companies in the coming decades.

Turkey’s dominant holding companies in the coming decades with family members likely to cede their controlling interests in oligopolistic labours. A greater share of developing world profits and the coming decades as foreign investors clamour for interests in Turkey’s dominant holding companies in Turkish families will likely cede their controlling.

Koç Holding has incorporated subsidiaries in over 25 companies alone control $15.5 billion in foreign assets. These three holding companies reciprocated with $5.4 billion of investment of their own in the lowlands.

One cannot understand Turkish investment abroad (or vice versa) without understanding the conglomerates that have been pushing the Turkish economy forward. Turkey’s conglomerate-dominated economy has parallels in many other countries. Thoses conglomerates called “karimins” and typified by names like Mitsibishi or Sumitomo, crushed the Japanese economy forward (and outward) in the 1980s. Their South Korean cousins (“chaebol”), representing names like Samsung and LG, did the same thing for the Korean economy in the 1990s. The Russians (never to be outdone) have, in their way toward coping the East Asians since the 1990s. A recent study by Kadir Has University showed that Turkey’s largest 20 holding companies follow this broad economic trend, managing about $250 billion in assets.

Sabancı, Dogus and Koç represent the three largest of the “Golden Twenty” among the roughly 100 or more holding companies that dominate Turkish commerce and industry; they are probably also the best known (at least in Turkey). These three holding companies alone control $18.5 billion in foreign assets.

Koc Holding has incorporated subsidiaries in over 25 countries, with Beko (its consumer electronics division) registered in 10 countries and Yapı Kredi bank incorporated in five. Sabancı - the most international of the Golden Twenty - has economic relationships reaching into over 20 countries (see Figure 2).

Academics might suggest that Turkish business expansion abroad represents the third and final step of the typical pattern of economic development. The story goes that foreigners (like Americans and Europeans) invest in an economy (like Turkey’s) to bring know-how and much-needed capital. Domestic companies take over, and in the third evolutionary stage expand in turn into foreign markets. The data seem to bear out this story - at least in part. FDI in the Turkish economy has risen steadily over the past 20 years in absolute terms, representing today about 15 percent of Turkey’s $735 billion of domestically produced goods and services. According to Turkey’s Capital Markets Board (SPK), foreign participation in the Turkish economy has remained relatively stable over recent years. Foreign participation in Turkish securities has increased during the last decade -- hovering around 66 percent of all securities held in custody in 2010. Both figures point to a know-how which foreign investors bring to Turkish companies (and particularly their conglomerates).

Yet academics still debate whether foreign investment in Turkish companies has helped the Golden Twenty learn, adapt and grow to profit from Turkish and foreign business opportunities. In a recent article in the Eurasian Journal of Business and Economics, Prof. Yasar Vural and Assoc. Prof. Mahmut Zorluk found that foreign investment in Turkish companies since 1982 has resulted in the transfer of know-how and skills which helped Turkish companies like Sabancı and Koc export abroad (despite a hostile macroeconomic environment and appreciating Turkish lira). Anyone shopping in a CarrefourSA can appreciate the commercial fusion of French technical and organisational prowess and Sabancı local know-how. However, recent studies suggest that such foreign investment may not have been much help in Turkey’s becoming the 17th largest economy in the world. Prof. Erol
In a recent study, found (again using complex statistical analysis of Turkish productivity data) that FDI had only a nominal impact on Turkish productivity. The effect of foreign investment in the Golden Twenty’s foreign expansion remains (somewhat) uncertain.

The growth prospects of these conglomerates (and thus the Turkish economy) seem far more certain. The Istanbul Stock Exchange (ISTANBUL Stock Exchange) (ISTANBUL Stock Exchange) is the largest stock exchange in Turkey, with a market capitalization of over $200 billion. It is the 18th largest stock exchange in the world, and the 3rd largest in Europe. The Borsa İstanbul Stock Exchange is the 10th largest stock exchange in the world, with a market capitalization of over $200 billion. It is the 3rd largest stock exchange in Europe, and the 7th largest in the world. It is the 3rd largest stock exchange in Europe, and the 7th largest in the world.

The major obstacle for investors is the relatively small size of the Turkish economy. According to the World Bank, Turkey’s GDP was $2.6 trillion in 2015, making it the 16th largest economy in the world. This is a significant improvement from 2001, when Turkey’s GDP was $410 billion, making it the 101st largest economy in the world.

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Foreign investors are interested in the investment opportunities in Turkey. In 2015, foreign direct investment (FDI) in Turkey reached $12.2 billion, marking a significant increase from 2014’s $9.7 billion. This growth is driven by the Turkish government’s efforts to attract foreign investment and improve the country’s infrastructure. The government has implemented policies to encourage foreign investment, including tax incentives and regulatory reforms.

For example, the Turkish government has introduced a tax break for companies that invest in green energy projects. This has attracted significant interest from foreign investors, including renewable energy companies from the US and Europe. In addition, the government has implemented a number of reforms to improve the country’s business environment, including simplifying the regulatory process and reducing bureaucracy.

Despite these efforts, foreign investors are still facing some challenges in Turkey. The political instability and economic uncertainty have made some foreign investors hesitant to invest in Turkey. Additionally, the country’s reliance on exports and the volatility of the currency have made it a challenging market for foreign investors.

In the future, Turkey’s investment opportunities are expected to increase due to the country’s growing economy and improving infrastructure. The government’s efforts to attract foreign investment and improve the business environment are expected to continue to drive growth in the country's foreign investment.

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Closely held family-owned Turkish conglomerates raise shareholder value, so domestic and foreign investors should not go meddling with a good thing. Prof. Kader Sahin and his colleagues at the Karadeniz Technical University are less sanguine about the role of family dominance in some of the Golden Twenty conglomerates. They find (again using statistical analysis) that insider arrangements lead not only to worse financial performance, but also worse corporate social responsibility. If their view is right, releasing more shares to the public could increase these companies’ financial performance – and make Turkey better off overall.

All of these perspectives miss the point. First, the investors placing $109 billion in FDI and roughly $70 billion in Turkish equity and debt will not carry on allowing the business patriarchs of Turkey to run multinationals like their personal fiefdoms. Second, investors placing roughly $500 million in the two funds previously mentioned will seek more placements (particularly if the Turkish market continues to outperform other world markets in the long run). The profits arising from Turkish companies’ foreign and domestic investments will be too good to “keep in the family,” at least in the long run. Third, as $22 billion in Turkish direct investment abroad turns into $222 billion in the coming years, the boards and shareholder patterns of Turkish conglomerates will increasingly look like those of Coca-Cola and Unilever. These global companies have board-level directors and investors that match the diversity of the markets Koç and Sabancı invest in.

Conclusion: return of the foreigners

What will the future hold for Turkish conglomerates (and their kin listed on the IMKB)? These conglomerates will probably provide a target for investor and high-street capital to access to investment opportunities in places like Kazakhstan, Albania, and Macedonia. They will also provide a more effective funnel for the savings of Turkey’s 50-million strong middle class. On average, these conglomerates’ largest shareholders hold about 50 percent of the conglomerate’s shares. Such a pie will be too tasty to pass up. The Sabancı and Koç families could profit by selling their shares (generating an estimated $125 billion for the families who hold these shares). The buyers of these shares profit by exposure to $22 billion in foreign investments (outside of Turkey). In short, family-run holdings probably do not represent the future of the Turkish conglomerate.