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Liberalization, Post-Crisis Restructuring and Internationalization in Turkish Banking

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ABSTRACT *This study provides a historical review of the transformation of the Turkish banking sector since the initiation of the financial liberalization program in 1980. It demonstrates the roles of macroeconomic, institutional and firm-level factors in the evolution of market and ownership structures as well as the performance of the sector. It focuses on the penetration of foreign banks in the Turkish market and the more recently observed entries of Turkish banks into neighboring countries. It contributes to the literature by illustrating how the domestic macroeconomic and institutional environment together with international banking circumstances affect the processes and outcomes of internationalization in emerging banking markets.*

Introduction

Foreign banks' presence has expanded significantly in several developing countries since the 1990s. This has been facilitated by domestic financial sector deregulations, technological improvements and increased international trade and investment. While there was a steady increase in foreign penetration in several emerging banking markets prior to the onset of the recent global financial crisis, factors driving foreign entry and foreign banks' activities and their impacts on domestic banking systems have varied across host markets.[1] The objective of this study is to analyze the transformation and performance in Turkish banking since the start of the financial liberalization process in 1980 with a focus on foreign bank penetration and the emergent internationalization of Turkish banks in the aftermath of the country's 2000–01 financial crisis.

The study discusses determinants and impacts of foreign bank entry and presence over time on the Turkish banking sector's performance and the emerging internationalization of Turkish banks. The Turkish experience contributes to the literature by

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illustrating how the domestic macroeconomic and institutional environment, together with international banking circumstances, has affected the processes and outcomes of internationalization in banking by covering two distinct periods of pre- and post-2000–01 crisis: the first characterized by elevated macroeconomic instability, and the latter by an improved macroeconomic and institutional environment.

The paper is organized as follows. In the next section, bank internationalization and foreign banking in emerging markets (EMs) are discussed to provide a context to the study. A historical overview of the transformation of Turkish banking is provided next. Following that, foreign bank penetration in the sector is analyzed, with a focus on the changes observed in the geographical origins of the foreign entrants due to the changes in international banking in the post global financial crisis period. Subsequently, Turkish banks' international presence is documented and the sector's recent aspirations to become a regional player are discussed. The main conclusions of the study, together with the implications of the current transformations in the sector, and the emerging international banking scene for the sector's future viability are discussed in the last section.

Literature Review: Multinational Banking and Foreign Banking in EMs

This study draws on two interrelated streams of research: multinational banking and foreign banking in EMs.

Multinational Banking

Banks can undertake international operations in two major ways: by setting up overseas branches or subsidiaries or by operating directly from home. The former involves control over assets overseas and represents foreign direct investment (FDI) while the latter involves relatively limited exposure to foreign markets and is similar to exporting activities of non-financial firms. Different theoretical frameworks have been developed and applied to explain international growth in the banking sector. According to international trade theory approach, banks with comparative advantages in producing bank products demanded in foreign markets are most likely to serve these markets.[2] Industrial organization theory approach, instead, emphasizes relative efficiency of banks based in different countries and contends that high margins achieved by banks in concentrated banking markets allow these banks to satisfy capital expansion needs for internationalization.[3] While the former approach cannot explain the fact that comparative advantages can be exploited without establishing a physical presence in foreign markets, the latter fails to recognize that banks can also raise funds in external markets and internal funds may not be less costly.[4] Three separate functions of multinational banking are distinguished.[5] Multinational retail banking involves employment of management technology and know-how developed at home being utilized abroad at very low marginal cost, whereas multinational wholesale banking emerges in response to imperfections in international capital markets. Multinational service banking, alternatively,

encompasses banks following their customers abroad in order to provide banking services to foreign subsidiaries of home country firms since banks' foreign branches would have a comparative advantage over local banks. This is known as the defensive expansion approach to multinational banking since banks are motivated to ensure continued business with the domestic parents of the foreign subsidiaries.[6]

Internalization theory provides a unifying framework to these disparate approaches, explaining multinational banking as a response to various market failures. The theory argues that there exist externalities, especially transaction costs, resulting in imperfect markets, and the multinational firm organizes an internal market and internalizes these externalities. The internalization model of foreign expansion suggests that internationalization results when internalization occurs across borders. Banking is an industry envisaged by internalization theory to be dominated by multinationals since the industry is skill-, knowledge- and communication-intensive, which leads to high transaction costs.[7] Its eclectic paradigm version, which has been the dominant framework to study multinational enterprises (MNEs) and international expansion, has also been applied to international banking.[8] According to this model, three kinds of advantages lead to FDI: ownership, internalization and location advantages. Ownership advantages usually comprise intangible assets, such as access to skilled human resources and experience in multinational operations, and are central in the eclectic framework since these are the advantages that enable foreign banks to overcome the advantages of domestic banks due to incumbency. Internalization advantages refer to benefits accruing to a firm when it forms internal markets to internalize the ownership specific advantages rather than using markets which are imperfect. Location advantages relate to both home country of the firm and host country for its investments and include features such as ease of entry into growing markets and control of raw materials. As an alternative approach, the Uppsala Internationalization Process Model, which argues that firms follow an incremental process of building foreign operations, can be applied to multinational banking as well.[9] This model considers internationalization as a function of learning and commitment and argues that firms start with low resource commitments in culturally closer countries to reduce the liability of foreignness and then expand their commitments and geographic scope.

The characteristics of the home country of a foreign bank and the host country, the level of economic ties between the home country and the host country, as well as specific factors about the parent bank as potential determinants of the ability of foreign banks to enter profitably into foreign markets, have been extensively investigated in the empirical literature. Larger banks are found to be more likely to have foreign branches and subsidiaries.[10] Similarly, size and efficiency of home country banking markets are reported to positively affect the internationalization activities of banks.[11] Growth prospects and local banking opportunities in host countries are noted as factors affecting location choices of foreign banks. It is demonstrated that foreign banks are more likely to be present in host markets where they can achieve higher profits through better use of resources and the domestically owned banking sector is smaller and inefficient.[12] Furthermore, foreign banking is documented to

be more prevalent in countries that are more open to foreign ownership in banking, allow banks to undertake a wider range of financial activities and are more open to international trade.[13] Regarding "follow the customer" effects, most studies report that trade and investment intensity between the host and home countries affects positively the entry probability of foreign banks and their activity levels.[14] Geographical and cultural proximity is also found to be instrumental in the banks' choices of target markets as it reduces informational problems and hence, the cost of internationalization.[15] For instance, Spanish banks' penetration in Latin American countries was facilitated by, among other factors, commonality of language and cultural ties.[16]

Foreign Banking in EMs

Although international banks traditionally focused on the provision of services to their corporate clients internationally, the character of foreign banking involvement in EMs has changed considerably since the 1990s. Liberalization and deregulation of financial markets in developed countries, increased economic and financial integration, especially within Europe, and technological advances all helped to increase competition in the traditional markets of international banks. Falling profit margins and limited growth opportunities in developed country markets led international banks to expand into EMs and also broaden the range of activities to include retail banking.[17] In search of greater size and efficiency, several European banks developed strategies to become "global and universal."[18]

At the same time, extensive financial liberalization exercises undertaken in several developing countries presented new growth areas for global banks and newly internationalizing banks. Opening-up of the sector to foreign penetration as part of the financial reform process was seen as a means of improving efficiency and competition in the sector due to the expected transfer of knowledge and technology by foreign banks. In various instances, however, increased foreign presence followed severe financial crises since policy-makers resorted to encouraging foreign entry as a means of recapitalizing the weakened banking sectors. Foreign participation in Latin America and emerging Asia followed banking crises, while in Central and Eastern Europe, most of the foreign entry resulted from the privatization of state-owned banks.[19] In the aftermath of the financial crises that followed liberalization episodes in several developing countries, the World Bank and the International Monetary Fund (IMF) promoted foreign bank penetration and considered foreign banks as a source of stabilization.[20]

A wide literature has emerged, focusing on the consequences of cross-border bank acquisitions and foreign bank involvement for efficiency and competitiveness as well as stability in host markets. It is generally maintained that the increased presence of foreign banks is associated with better efficiency and competitive performance in the domestic banking systems.[21] The empirical evidence on foreign bank performance and the impact of foreign penetration on the competitiveness of home markets, however, remains inconclusive due to the heterogeneity among foreign banks regarding their country of origins and the (target) countries which they enter, the business

models adopted as well as the mode of entry (*de novo* vs. mergers and acquisitions).[22] On the implications of foreign banking for financial stability, it is argued that foreign banks follow a long-term strategy and contribute to credit market stabilization in host markets.[23] However, it has also been demonstrated that international networks of banking groups introduce the risk that the problems in one bank belonging to the network and macroeconomic problems in the home countries or any of the host countries may be transmitted across borders, as amply validated during the recent global financial crisis.[24]

Internationalization of Emerging Country Banks

MNEs from EMs[25] have evolved into important players on the FDI stage in the last two decades as these countries advanced the development of their market-supporting institutions as well as infrastructure and factor markets.[26] Similarly, there has been an upward trend in the international expansion of banks from EMs which has gained momentum in the aftermath of the global financial crisis. The crisis brought in important ownership transformations in global banking as some banks retrenched from foreign activities due to regulatory requirements and deleveraging needs, others expanded their presence in foreign markets. In particular, foreign banks owned by high-income countries declined significantly, whereas the number of foreign banks from EMs continued to grow: Banks from the latter group of countries accounted for 8 percent of all foreign assets globally at the end of 2012 up from only 4 percent at the end of 2007.[27] Moreover, foreign banking has become more regionally oriented. The recent expansion strategies of banks from EMs display a clear regional orientation as they acquire assets from developed country multinational banks (MNBs) and expand in new markets in their regions by following their customers and changing trade patterns.[28]

International expansion strategies and experiences of banks from emerging and developing countries are likely to be different from that of their counterparts from developed countries. However, existing literature on banks' internationalization processes almost exclusively focuses on MNBs from developed countries.[29] In a rare comparative study, it is documented that while MNBs from developing countries are motivated to exploit ownership and internalization advantages similar to developed country MNBs, they are smaller and present in a limited number of countries relative to developed country MNBs, suggesting that they are capability constrained. This, in turn, affects their location motivations and choices: As they have fewer capabilities, the "follow the customer" motive affects their location choices to a greater extent.[30] More recent observations on the international activities of EM banks are also in agreement with these findings. "Follow the customer" effects and new growth opportunities with better profit margins as well as diversification benefits are reported to be the main drivers of international expansion of EM banks. However compared to developed country MNBs, the role of cultural and geographical proximity is reported to be stronger in location choices of EM banks. In addition,

EM bank foreign presence is found to still be small in general with respect to parent bank size as well as host country market size.[31]

The recent literature analyzing emerging country MNEs (EMNEs) provides valuable insights into the increasing international growth of banks from EMs. It suggests that what makes EMNEs a different phenomenon is their home country contexts, which affect their internationalization processes. EMNEs may have limited firm-specific assets that offset additional costs of international operations and low development level of both institutions and factor markets in their home countries may create additional constraints on their internationalization decisions.[32] Hence, they might be drawn into countries in their respective regions because of their limited competencies and home country contexts as well as their cultural and institutional familiarity in these locations, which reduces the liability of foreignness. Moreover, the co-evolutionary relationship between competitiveness and internationalization, meaning that an initial capability base facilitates outward FDI (OFDI) while OFDI feeds back to enhance the competitiveness of firms, is a particularly relevant factor for emerging multinationals. Accordingly, EMNEs undertake foreign activities to not only exploit their existing competitive advantages but also access new markets, assets and knowledge.[33] The recent transformations in emerging country banking markets due to financial reforms, which reduced the institutional imperfections and increased exposure to international competition through foreign bank entry, might have both allowed and forced EM banks to enhance their capabilities and competitiveness further by competing not only in their home markets but also internationally.[34]

Liberalization, Crisis and Restructuring in Turkish Banking

Prior to the founding of the Republic of Turkey, the Turkish banking system was dominated by foreign banks. When the Republic was established in 1923, there were 35 banks operating in Turkey, 13 of which were foreign-owned. Accounting for about 50 percent of total deposits, foreign banks dealt mainly with foreign trade and foreign firms. The fact that the credit market was underdeveloped and dominated by foreign banks was considered a major economic problem. Therefore, the development of national banking was regarded as necessary to promote industry and trade. The planned industrialization strategy was effective in the emergence of a protected private sector and an increase in the number of banks controlled by these groups while also reducing the number of foreign banks operating in the country.[35]

Following a devastating balance of payments crisis in 1978–79, the Stabilization and Structural Adjustment Program was initiated on January 24, 1980, in order to move the country toward a market economy. Financial liberalization was an integral part of the program and measures were taken to restructure and deregulate the highly repressed financial sector.[36] However, domestic and external liberalization processes had begun before the public sector's financing needs were solved and an effective supervisory and regulatory infrastructure was established. This, in turn, led to

macroeconomic imbalances and financial sector fragilities which intensified from the late 1980s onward.

The banking sector responded to the liberalization measures initially by growing and improving its technological and human capital. Establishment of new commercial banks was permitted and the number of foreign banks started to increase: the total number of banks increased from 43 in 1980 to 62 in 1989, while that of foreign-owned banks increased from 4 to 21 over the same period.[37] The encouragement of the entry of foreign banks and foreign capital and growing foreign trade were the main effective factors.[38] Within the overall attempts to facilitate the entry of foreign banks, the establishment of Islamic banks under the name of Special Finance Houses (SFHs) was allowed in 1983. To attract private Arab capital as well as funds which could not be mobilized by conventional banks were the key economic reasons. In addition, domestic politics as well as the desire of the government to improve relations with Arab countries were considerations in the move to allow Islamic banking.[39] The first SFH was Albaraka-Turk, established in 1985, and was followed by Faisal Finans in the same year. Arab Gulf investors were the controlling owners of both banks, and in the following years, SFHs under Turkish ownership were founded as well.[40]

Financial deepening, which commenced with the implementation of the liberalization program, came to a halt in the late 1980s as banks engaged in limited traditional banking while preferring to invest in public debt securities due to increased macroeconomic instability. The sector maintained its oligopolistic and concentrated structure and profit margins increased in the post-liberalization period.[41] Moreover, efficiency gains achieved in the system by the introduction of the liberalization measures turned out to be unsustainable.[42] Yet, the authorities moved forward with capital account liberalization measures starting in 1989, ultimately leading to the convertibility of the Turkish lira in April 1990. Domestic borrowing became the dominant method of financing public deficits while efforts to limit monetary growth in the face of lax-fiscal policies resulted in high real interest rates, thereby stimulating capital inflows and appreciation of the lira. Public deficits were effectively financed by capital inflows intermediated through the banking sector, which willingly assumed foreign exchange risks thanks to the substantial arbitrage profits available in the process. Unsustainably high real interest rates on government borrowing instruments led the country to a foreign exchange crisis in 1994 and a deep recession followed with inflation and interest rates reaching three-digit levels.[43] The sector's growth rate slowed down and became increasingly volatile in the 1990s due to the banks' increasing exposure to interest rate and foreign exchange risks. The sector ended up suffering from low asset quality and insufficient capital bases: Capital adequacy dropped to 8.2 percent while the non-performing loans to gross loans ratio increased steadily, reaching 11.1 percent in 1999.[44]

In addition to the growing macroeconomic instability and high public deficits, the absence of a prudent regulatory framework encouraged the emergence of an extremely fragile banking sector. A high degree of politicization of bank lending and regulation characterized the sector.[45] Large state-owned banks continued to dominate the

sector. They became "a proxy treasury," lending to the government and the state-owned enterprises, and an apparatus for rent distribution. They started to threaten the banking sector's stability due to the governments' failure to compensate these banks for their so-called "duty losses," arising from their quasi-fiscal operations. The Treasury, the Central Bank and the Capital Markets Board were jointly authorized to carry out the supervision and the regulation of the banking system, and this allowed for conflicts of interest between them and for political interference in their activities. Lax and arbitrary regulations and political interventions not only allowed for an easy entry into the system but also rendered the subsequent monitoring and interventions difficult. People with questionable creditworthiness entered into the market either by acquiring new licenses or existing banks. The owners in many cases abused the banks subsequently by building up exposures to connected companies in excess of prudential regulations as well as by carrying excessive interest and foreign exchange risks.[46] With privately owned banks holding substantial amounts of government debt securities and state-owned banks providing quasi-fiscal functions, in the face of continuously increasing public sector borrowing requirements, regulatory forbearance prevailed.[47]

Slowing capital inflows toward the end of the 1990s pushed the economy into a deep recession and achieving fiscal sustainability necessitated the lowering of inflation and interest rates.[48] In December 1999, an exchange rate-based stabilization program, backed by the IMF, was introduced. Prior to the initiation of the program, a new banking law was introduced with a view to improving the regulatory and supervisory standards. The Banking Regulation and Supervision Agency (BRSA), and the Savings Deposit Insurance Fund (the Fund) were created. Yet, the country suffered a liquidity crisis in November 2000 and a major attack on the Turkish lira in February 2001. The economy contracted by 9.4 percent in real terms while annual inflation jumped to 69 percent in 2001.[49] The financial capital of the banking sector was effectively destroyed with total losses reaching 77 percent of equity.[50]

In response, a new economic program, the Program for Transition to a Strong Economy, was initiated in May 2001 and offered a framework for improving the public finances and restructuring the economy. As one of its integral components, the Banking Sector Restructuring Program included resolution of banks under the Fund; restructuring of state-owned banks; recapitalization of privately owned banks; and legal and institutional reforms to improve the regulatory and supervisory framework as well as efficiency and competition in the sector. A new standby agreement with the IMF signed in February 2002 entailed the restructuring of the banking sector, improving public sector finances, and legal changes to support structural reforms. New independent regulatory agencies were established, and the Central Bank and the BRSA acquired independence under the pressure and conditionality of multiple international organizations, in particular, the IMF and the European Union (EU).[51] In addition to external pressures emanating from the external actors, policy entrepreneurship and mediation were argued to be effective in the overall reform of the governance arrangements in the financial system.[52] A new Banking Act, prepared by the BRSA, was enacted by the parliament in November

2005 and banking regulations were aligned with EU directives and international standards.

An operational restructuring plan for publicly owned banks was introduced through which the number of both branches and employees was reduced substantially. Banks received capital support, and interest and foreign exchange risks were reduced. State-owned banks were given the status of a joint stock company, which enabled them to operate on a commercial basis without any legal exceptions and responsibilities.[53] Initial Public Offerings were undertaken in two of the three remaining state-owned banks which reduced the share of government ownership in the sector. To benefit from scale and scope economies and improve capital bases, some business groups merged the smaller banks they owned into their largest, taking advantage of regulations and tax advantages introduced to encourage mergers and acquisitions. The number of banks, branches and employees decreased, and concentration levels increased: From 1999 to 2003, the total number of banks decreased from 81 to 50 while the asset share of the top 10 banks reached 82.3 percent from 67.5 percent.[54]

Recovery from the crisis was followed by a considerable growth performance in the sector. Strong economic growth and the availability of international funds helped banks to recover quickly and expand both their branch networks and array of products. In response to decreasing margins as inflation and interest rates on government debt instruments declined, banks reoriented themselves toward traditional intermediation activities. Loans' share in total assets started to increase in response to strong demand for consumer loans and mortgages: Domestic credit to the private sector by banks, as a percent of GDP, increased from 15.4 percent in 2001 to 29.5 percent in 2007.[55] Over the same period, asset quality and capitalization levels improved: bank non-performing loans to total gross loans ratio dropped from 29.3 percent to 3.3 percent while bank capital to assets ratio increased from 7.9 percent to 12.8 percent.[56] During the global financial crisis, the sector exhibited remarkable resilience thanks to its extensive restructuring and the financial reforms introduced in the aftermath of the 2000–01 crisis as well as the fact that it was not exposed to toxic assets and domestic deposits constituted the main source of funds, unlike the banking sectors in many other EMs.[57] The sector's total assets to GDP increased from 54.9 percent in 2003 to 104.7 percent in 2013.[58] By international standards, Turkish banks have continued to achieve high profit levels which improved capital levels: As of the end of 2012, average return on assets (equity) was 2.4 percent (19.6 percent) in the sector compared to 1.1 percent (10.9 percent) in Central and Eastern European countries and 0.5 percent (9.4 percent) in western European countries' banking sectors.[59]

In more recent years, Turkish banks increasingly utilized non-deposit liabilities and international debt markets to fund a rapid increase in lending, taking advantage of their robust performance during the global financial crisis.[60] Borrowings from banks abroad increased vigorously and reached $138.2 billion at the end of 2013 accounting for 17 percent of banks' total liabilities, up from 11 percent at the end of 2009.[61] Total syndication and securitization loans, in particular, increased from $18.1 billion at the end of 2009 to $27.4 billion at the end of 2013, accounting for

19.8 percent of the banks' total liabilities to foreign banks.[62] Moreover, the volume of securities issued by Turkish banks has risen strongly since 2010: the share of securities issued in total liabilities increased from 2.8 percent at the end of 2012 to 3.5 percent at the end of 2013. Thanks to credit rating upgrades of the banks as well as of Turkey's sovereign debt of recent years and global investors seeking higher yields, issues of bonds denominated in foreign currencies reached a record high of $15.4 billion in 2013, up from $9.1 billion in 2012, almost all to foreign investors.[63] While this could be considered a vote of confidence in Turkey's economy and the banking system by global investors, the increasing short-term component of banks' external foreign currency liabilities has started to raise concerns recently.[64]

Foreign Bank Penetration in Turkish Banking

The unpromising macroeconomic and institutional environment in the 1980s and 1990s limited foreign penetration in the sector despite the extensive liberalization measures that were undertaken: The average foreign ownership of the depository banking sector's total assets between 1980 and 1998 was only 3.8 percent.[65] The entrants focused on foreign trade-related activities and failed to exert any competitive pressure on the traditional banking segments.[66] While foreign banks were attracted to the growing corporate and retail banking business potential in the country, only the retail segment required a physical presence under Turkey's fully liberalized financial regulations. Entry into this segment, however, was limited because of the inflated valuations of Turkish banks reflecting the profitable but risky operations of banks in a highly volatile macroeconomic environment.[67] Nonetheless, foreign entry was influential in the modernization of the sector as foreign banks introduced new services, advanced technology and market-oriented management techniques.[68]

The restructuring program introduced in the aftermath of the 2000–01 crisis marked a new episode in the internationalization of the sector. Initially, foreign investors acquired banks from the Fund as part of the resolution process, while in the later periods, market-driven acquisitions intensified. The entrants were attracted by the improving macroeconomic and institutional environment as well as the market's growth potential.[69] The new economic program and the associated reforms succeeded in improving the macroeconomic and institutional environment to a large extent and produced a strong growth performance: Average annual growth of real GDP for 2002 to 2007 was 6.8 percent.[70] The measures taken to attract FDI helped to improve Turkey's overall attractiveness as a target country.[71] Net FDI inflows as a percent of GDP peaked at 3.8 at the end of 2006, while it had only been 0.31 at the end of 1999.[72] Accounting for a significant share of the FDI inflows, foreign banks entering the Turkish market were largely from European countries.[73] The origins of the entrants reflected current levels and future prospects of economic integration between Turkey and European countries. Most of the acquisitions took place between 2005 and 2007, and non-residents' share in the sector's capital grew to 41.1 percent at the end of 2007.[74] Taking advantage of the favorable conditions in domestic and international markets, foreign banks began aggressively expanding

their branch networks across the country. During the same period, the regulative and operational framework of SFHs went through an extensive transformation. They were incorporated into the new Banking Act of 2005 becoming fully fledged banks, brought under the BRSA and their denomination was changed to Participation Banks (PBs).[75] Besides institutional reforms, rising global demand and the government's focus on Islamic finance have contributed to a robust growth performance in the PBs: their share in the sector's total assets went up from 1.83 percent in 2002 to 5.55 percent in 2013. As of the end of 2013, there were four PBs, three of which had controlling owners from the Middle East and North Africa (MENA) region.[76] Indicating the government's commitment to the development of this sector, plans to establish Islamic banking operations by the two state-owned banks were announced in 2013.

In the aftermath of the global financial crisis, however, Turkey's changing foreign trade and investment trends as well as the new international banking scene affected the ongoing internationalization of the sector. The geographical composition of Turkey's overall trade in recent years has been changing with an increasing focus on neighboring areas, and the debt crisis in European countries has intensified this process.[77] Moreover, faced with regulatory requirements and pressures to deleverage, MNBs started to revise their strategies and limit the number of markets they concentrate on. Although Turkey remained an attractive target country, some MNBs, such as Banco Comercial Portugues, Eurobank EFG, Dexia Participation Belgique, GE Capital Corporation and Citi, retreated from the country. Banks originating from the Middle East and Asia, on the other hand, started to take advantage of these openings in the market. The new entrants such as Burgan Bank of Kuwait, which acquired Eurobank Tekfen from Eurobank EFG, and Russia's Sberbank, which acquired Denizbank, the Turkish arm of Dexia SA, reflect the increasing importance of the economic links between these countries and Turkey. The current government's commitment to attracting cash-rich Middle East investors to the country and the increasing attraction of Turkey for these investors were also influential in the BRSA's granting of the first new banking license in the post-2000–01 crisis period to Bank Audi of Lebanon in 2011. Out of the 21 cross-border acquisitions completed between 2001 and 2014 in which the target was a Turkish financial firm, in about 61.9 percent of the cases, the acquirers were from the EU countries, about 23.8 percent from the MENA countries, and the remainder from the USA and the Central Asia and the Caucasus (CAC) regions.[78] Disregarding the float, largely controlled by non-residents, non-resident investors account for 24.8 percent of total assets of the sector while residents account for 51.6 percent as of end-2013.[79]

Internationalization of Turkish Banks

Operating in an adverse macroeconomic environment which also allowed for easy profit opportunities for almost two decades, Turkish banks had not been under any pressure to expand the scope of products and services offered and become efficient and competitive. Yet, in the aftermath of the 2000–01 crisis and the restructuring

process, they have had to become more efficient and develop capabilities by collaborating and competing with foreign entrants.[80] A number of Turkish banks made strategic partnership agreements with foreign banks to upgrade their capabilities and competencies and it is argued by industry observers that foreign banks helped their Turkish partners to introduce new products and services while also intensifying overall competition in the sector. Against this potentially competitive and tough regulatory background, larger and more successful Turkish banks which managed to develop capabilities and skills have been motivated to expand internationally. Foreign partners or stakeholders, in particular, might have been instrumental in Turkish banks' emergent internationalization activities.[81]

Noting that foreign market penetration reflects firm-level as well as international and domestic macroeconomic factors, Turkish banks' internationalization patterns should be analyzed with respect to several dimensions including bank size, ownership type and geographical distribution over time. Table 1 presents Turkish banks' internationalization patterns along with bank size and ownership type as of the end of 2013. Out of the 25 commercial banks with a Turkish banking license, only 12 (11) had subsidiaries (branches) in foreign countries, excluding the Turkish Republic of Northern Cyprus (TRNC). While banks with foreign branches and/or subsidiaries are considerably larger, there is size heterogeneity. The top three largest banks account for about 44 percent (58 percent) of the countries represented via subsidiaries (branches).

Since each market entry represents the outcome of different factors at play, geographical distribution of Turkish banks' international presence over time is considered next. Table 2 presents the countries where Turkish banks had a presence via subsidiaries, branches and representative offices in 2013 and 2002. At the end of 2002, Turkish banks had a presence in 27 countries in total, the majority of which were in Europe (16). Two factors account for the predominance of banks in European countries: First, primarily interested in ethnic banking, in other words, providing banking services to Turkish communities, Turkish banks entered countries such as Germany and the Netherlands after Turkish workers began arriving in European countries in the 1960s.[82] Second, they established subsidiaries in international financial centers and tax havens, such as the UK, Ireland, the British Isles and Channel Islands, in response to financial repression, in particular heavy taxation. The second most important region is CAC where the presence of state-owned banks, in particular, is noteworthy. At the end of 2013, Turkish banks had a presence in 29 countries in total. While Europe was still the most important target region, the penetration of Turkish banks in the CAC and the MENA regions was higher than that in 2002. The increased presence of privately owned banks in CAC countries, especially Russia, and the recent entries into Iraq are notable. Within Europe, the number of Balkan countries acting as host markets increased.

While the above discussion provides an overview of the evolution of Turkish banks' international presence, it underestimates the real penetration of Turkey's banks as it is based solely on the subsidiaries, branches and representative offices of the main banks and as such disregards the branches of banks' subsidiaries.

Table 1. International Presence of Turkish Banks: 2013

	Market share (%)	Ownership	Subsidiaries		Branches		Rep. offices
			No. of countries	No. of units	No. of countries	No. of units	No. of countries
Türkiye İş Bankası A.Ş.	12.87	P	2(2)	2(2)	6(5)	21(7)	2
Türkiye Cumhuriyeti Ziraat Bankası A.Ş.	12.69	S	7(7)	7(7)	8(7)	25(15)	1
Türkiye Garanti Bankası A.Ş.	12.04	PwF	3(3)	8(8)	3(2)	8(2)	3
Akbank T.A.Ş.	11.24	PwF	2(2)	2(2)	1(1)	1(1)	
Yapı ve Kredi Bankası A.Ş.	9.10	PwF	4(4)	7(7)	1(1)	1(1)	
Türkiye Halk Bankası A.Ş.	8.56	S	2(2)	2(2)	2(1)	5(1)	2
Türkiye Vakıflar Bankası T.A.O.	8.29	S	2(1)	3(1)	3(3)	3(3)	
Finans Bank A.Ş.	4.04	F			1(1)	1(1)	
Denizbank A.Ş.	3.63	F	3(2)	3(2)	1(1)	1(1)	
Türk Ekonomi Bankası A.Ş.	3.27	PwF	1(1)	1(1)	2(1)	5(1)	
HSBC Bank A.Ş.	2.22	F			1	4	
ING Bank A.Ş.	2.04	F	1(1)	1(1)	2(1)	5(1)	
Şekerbank T.A.Ş.	1.15	PwF	2(1)	3(1)			
Odea Bank A.Ş.	0.99	F					
Alternatifbank A.Ş.	0.63	F					
Anadolubank A.Ş.	0.46	P	2(1)	2(1)			
Burgan Bank A.Ş.	0.42	F					
Fibabanka A.Ş.	0.41	P					
Citibank A.Ş.	0.40	F					
Turkland Bank A.Ş.	0.25	F					

(*Continued*)

Table 1. (Continued)

	Market share (%)	Ownership	Subsidiaries: No. of countries	Subsidiaries: No. of units	Branches: No. of countries	Branches: No. of units	Rep. offices: No. of countries
Tekstil Bankası A.Ş.	0.24	P					1
Arap Türk Bankası A.Ş.	0.20	F					
Deutsche Bank A.Ş.	0.14	F					
Turkish Bank A.Ş.	0.07	P					
Bank of Tokyo-Mitsubishi UFJ Turkey A.Ş.	0.04	F					
Average			1.24(1.08)	1.64(1.4)	1.24 (.96)	3.2(1.36)	0.35

Notes: Numbers in parentheses exclude the TRNC. P, S and PwF stand for privately owned, state-owned and privately owned with foreign stake, respectively.
Source: Author's compilation, based on Banks in Turkey 2013, The Banks Association of Turkey, http://en.tbb.org.tr/eng/.

Table 2. Geographical Presence of Turkish Banks: 2013 vs. 2002 (2002 in Parentheses)

	Subsidiaries			Branches			Representative offices			
Location	**State-owned banks**	**Privately owned banks**	**Total**	**State-owned banks**	**Privately owned banks**	**Total**	**State-owned banks**	**Privately owned banks**	**Total**	**Total no. of countries**
Europe			*29(47)*			*61(2)*			*4(19)*	*15(16)*
Austria	1(1)	1(1)	2(2)				(1)		(1)	
Bosnia and Herzegovina	1(1)		1(1)							
Bulgaria				4(1)		4(1)				
Channel Islands		(1)	(1)							
France	(2)		(2)					(1)	(1)	
Germany	1(1)	3(3)	4(4)		(7)	(7)		2(14)	2(14)	
Greece				4		4				
Hungary	(1)		(1)							
Ireland		1(7)	1(7)							
Kosovo					1	1				
Luxembourg		(1)	(1)		1(1)	1(1)				
Macedonia	1		1	(1)		(1)				
Malta		(3)	(3)		2(2)	2(2)				
Romania		4(2)	4(2)							
Switzerland		1(2)	1(2)					(1)	(1)	
The Netherlands	1(1)	8(10)	9(11)				(1)		(1)	
UK		(1)	(1)	1(1)	1(1)	2(2)	1	1(1)	2(1)	
TRNC	2(2)	4(7)	6(9)	14(6)	34(8)	48(14)				

(*Continued*)

Table 2. (Continued)

Location	Subsidiaries			Branches			Representative offices			Total no. of countries
	State-owned banks	**Privately owned banks**	**Total**	**State-owned banks**	**Privately owned banks**	**Total**	**State-owned banks**	**Privately owned banks**	**Total**	
Central Asia and Caucasus			*11(8)*			*3(1)*			*0(2)*	*6(6)*
Azerbaijan	1(1)	2	3(1)							
Georgia				2(1)	1	3(1)				
Kazakhstan	1(2)		1(2)							
Russia	1(1)	4(2)	5(3)					(2)	(2)	
Turkmenistan	1(1)		1(1)							
Uzbekistan	1(1)		1(1)							
MENA			*1(0)*			*14(1)*			*3(1)*	*6(2)*
Bahrain				2	6(10)	8(10)				
Egypt								1	1	
Iran							2	(1)	2(1)	
Iraq				3	2	5				
Saudi Arabia				1		1				
United Arab Emirates		1	1							
Other regions			*0(1)*			*2(2)*			*2(2)*	*2(3)*
USA				2(2)		2(2)		(1)	(1)	
China								2(1)	2(1)	
Cayman Islands		(1)	(1)							
Total presence			*41(56)*			*80(41)*			*8(24)*	*29(27)*

Note: Only commercial banks founded in Turkey.
Source: Author's compilation, based on Banks in Turkey, 2002 and Banks in Turkey 2013, The Banks Association of Turkey, http://en.tbb.org.tr/eng.

Accordingly, the previous analysis is complemented by documenting (i) branches and (ii) branches of the subsidiaries of the three largest banks: privately owned Türkiye İş Bankası A.Ş., state-owned Türkiye Cumhuriyeti Ziraat Bankası A.Ş. and Türkiye Garanti Bankası A.Ş. which is jointly controlled by Turkish Doğuş Group (24.2 percent) and BBVA-Banco Bilbao Vizcaya Argentaria (25 percent). Table 3 presents data on the cross-border branches of these banks and their subsidiaries for 2013 which were collected from their consolidated annual reports and company websites.

Turkish banks' recent internationalization efforts seem to be underpinned by the concurrent expansion in the share of international trade in the Turkish economy and the country's growing economic links with neighboring countries. Economic links with the Balkans and the MENA region since the late 1990s have intensified, benefiting from the Turkish state's encouragement of trade and investment in neighboring regions. At the same time, there has been a noticeable increase in outward non-financial Turkish direct investment stocks in neighboring markets, in particular, in the Turkic republics in Central Asia, which have increasingly attracted Turkish investors since achieving independence.[83] While the foreign affiliates of Turkish companies continue to concentrate on Europe, in more recent years, the importance of Africa, the Middle East and the Balkans has increased along with Turkey's broader aspiration to become a regional power.[84]

For example, Ziraat Bank's strong presence in Central Asian countries in the early 1990s mirrors the previous governments' policy of increasing cultural and economic links with Turkic-speaking countries in the region. The bank's recent internationalization activities in the Balkans and other geographically close markets such as Northern Iraq, on the other hand, signal the current government's intentions to improve trade and investment links with these markets. Similarly, İş Bank's international expansion activities also seem to be motivated by the recent developments in Turkey's international trade and investment flows. Its recent acquisition of the Moscow-based CJSC Sofia Bank, for instance, is related to not only increasing bilateral economic relations between the two countries but also the informational advantages the bank has due to the presence of its glass subsidiary in the country, Şişecam, a major regional player. Specifically, in the case of the Central Asian Turkic republics and some of the MENA countries, cultural proximity also seems to be instrumental in the banks' choices of target markets.

Therefore, the evidence of Turkish banks' penetration in a number of key neighboring markets with increasing trade and investment links supports the "follow the customer" hypothesis. The evidence is also consistent with previous findings that MNBs from developing countries are more likely to be drawn to culturally and geographically closer markets along the lines of the "follow the customer" argument as they are capability constrained. It is possible to identify two different groups of target markets based on their financial sector development, banking penetration and banking sector soundness indicators, and the associated entry motivations of Turkish banks: The first group includes target markets in the Balkans and Eastern Europe with financial development indicators similar to or better than that of

Table 3. International Representation of the Three Largest Banks: 2013

	Percent stake	Branches
Türkiye İş Bankası Group		
Türkiye İş Bankası A.Ş.		UK (1), TRNC (15), Iraq (1), Georgia (1), Kosovo (1)
İşbank AG (Germany)	100	Germany (13), Holland (1), France (1), Switzerland (1), Bulgaria (1)
CJSC İşbank (Russia)	100	Russia (4)
İs Investments Gulf Ltd (UAE)	67.6	
Maxis Investments Ltd (UK)	67.6	
Garanti Bankası Group		
Garanti Bankası A.Ş.		Luxembourg (1), Malta (1), TRNC (6)
Garanti Bank International NV (Netherlands)	100	Netherlands (1), Germany (1)
Garanti Bank Moscow	99.9	Russia (1)
Garanti Bank SA (Romania)	100	Romania (78)
Garanti Holding BV (Netherlands)	100	
G Netherlands BV (Netherlands)	100	
Motoractive IFN SA (Romania)	100	
Ralfi IFN SA (Romania)	100	
Domenia Credit IFN SA (Romania)	100	
Ziraat Bankasi Group		
Ziraat Bankasi A.Ş.		USA (1), UK (1), Bulgaria (4), Georgia (2), Iraq (2), Greece (4), Saudi Arabia (1), TRNC (10)
Ziraat Bank International A.G. (Germany)	100	
Turkish Ziraat Bank Bosnia Herzegovina dd (Bosnia and Herzegovina)	100	
Ziraat Bank (Moscow) CJSC	99.9	
Kazakhstan Ziraat Int. Bank (Kazakhstan)	99.6	
Azer Türk Bank ASC (Azerbaijan)	50	
Turkmen Turkish Joint Stock Commercial Bank (Turkmenistan)	50	
Uzbekistan-Turkish Bank (Uzbekistan)	50	

Note: Number of branches is given in parentheses.
Source: Author's compilation based on financial statements disclosed to the public, as of end of 2013 available at The Banks Association of Turkey, http://www.tbb.org.tr/tr/Banka_ve_Sektor_Bilgileri/Tum_Raporlar.aspx.

Turkey, while the second group involves those markets with a relatively lower level of financial development and low bank penetration.[85] While in the first group of target markets, the search for markets and new capabilities would dominate as entry motivations, the second group of markets would offer Turkish banks the opportunity for learning-by-doing in a somewhat less challenging environment.[86]

Previously, Turkish banks were unable to enter the first group of markets due to strong competition from mainly European banks. However, in the wake of the global crisis, there are entry opportunities in the face of ongoing deleveraging at MNBs due to regulatory changes. Garanti Bank's increasing penetration in Romania in recent years illustrates such a strategy. In the second group, on the other hand, especially in MENA and CAC regions, Turkish banks may have first mover advantages due to cultural and geographical proximity. While these countries represent future growth potential, they also pose substantial political and economic risks. Nevertheless, Turkish banks with their long history of and experience in operating in an unstable macroeconomic and deficient regulatory and supervisory environment may have an advantage over potential rivals from developed countries.[87]

Conclusions

As an early adopter of financial liberalization policies in the 1980s, Turkey managed initially to attract some foreign banks. However, foreign banks' share in the sector remained limited mainly as a result of the macroeconomic instability and the institutional deficiencies in the country. The mounting instability resulted finally in the financial crisis of 2000–01, in the aftermath of which the banking sector has been transformed dramatically. The two interrelated outcomes of the restructuring process have been the strong growth of the sector together with the rapid increase in foreign penetration. The new macroeconomic and regulatory environment have both allowed and forced Turkish banks to improve their efficiency and develop capabilities by collaborating and competing with foreign entrants. Larger and more successful Turkish banks have been motivated to expand internationally and to become regional players. Their internationalization efforts, in turn, are underpinned by the coincident expansion in the share of international trade in the Turkish economy and the country's growing economic links with neighboring countries.

Turkish banks are at a stage which can be described as exploratory as they have only made small-scale entries to learn about host markets and they have focused on neighboring countries to moderate the liability of foreignness. Given that Turkey has a low savings rate and that banking penetration is still low by international standards, Turkish banks' drive to internationalize may be seen as counterintuitive unless the coevolution of the competitiveness of the banks and their internationalization activities are taken into account. Hence, although the benefits from Turkish banks' internationalization may not be immediately obvious, they can further upgrade their capabilities and evolve into global players in the long run.

The recent competitive state of the sector along with the macroeconomic and regulatory environment which started to deteriorate in more recent years should be noted

as newly emerging push factors. While Turkish banks continue to report high profit levels by international standards, the measures taken by policy-makers to curb credit growth in response to a widening current account deficit in recent years have put the sector's profitability under pressure. Furthermore, the ongoing process of limiting the independence of financial regulatory agencies raises concerns about the quality of future supervision and regulation in the sector.[88] The recent ownership changes and foreign bank entries have implications not only for the sector's ability to remain competitive by developing and consolidating capabilities but also for the effective regulation and governance practices in the sector. Future research is necessary to assess how effectively Turkish banks will be able to deploy their newly acquired capabilities in international markets, which not only offer growth prospects but also expose them to significant political and financial risks.

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Notes

1. Domanski, "Foreign Banks"; Claessens and van Horen, *Foreign Banks*.
2. Aliber, "Towards a Theory of International Banking."
3. Ibid.
4. Cho, "Determinants of Multinational Banks."
5. Grubel, "A Theory of Multinational Banking."
6. Williams, "The Defensive Expansion Approach."
7. Williams, "Positive Theories of Multinational Banking."
8. Dunning, "Trade, Location of Economic Activity"; Gray and Gray, "The Multinational Bank"; Cho, "Determinants of Multinational Banks."
9. Johanson and Wiedersheim-Paul, "The Internationalization of the Firm"; Johanson and Vahlne, "The Internationalization Process of the Firm"; Lee et al., "Internationalization of Korean Banks"; Khan et al., "The Internationalization of an Arab Bank."
10. Tschoegl, "Entry and Survival"; Focarelli and Pozzolo, "Where Do Banks Expand Abroad?"
11. Grosse and Goldberg, "Foreign Bank Activity in the United States"; Magri et al., "The Entry and the Activity Level of Foreign Banks"; Focarelli and Pozzolo, "Where Do Banks Expand Abroad?"
12. Dopico and Wilcox, "Openness, Profit Opportunities and Foreign Banking"; Focarelli and Pozzolo, "Where Do Banks Expand Abroad?"
13. Dopico and Wilcox, "Openness, Profit Opportunities and Foreign Banking."
14. Sabi, "An Application of the Theory of Foreign Direct Investment"; Seth et al., "Do Banks Follow Their Customers Abroad?"; Focarelli and Pozzolo, "Where Do Banks Expand Abroad?"; Magri et al., "The Entry and the Activity Level of Foreign Banks."

15. Focarelli and Pozzolo, “Where Do Banks Expand Abroad?”; Magri et al., “The Entry and the Activity Level of Foreign Banks”; Buch, “Information or Regulation.”
16. Guillén and Tschoegl, “The Internationalization of Retail Banking”; Parada et al., “The Internationalisation of Retail Banking.”
17. Domanski, “Foreign Banks in Emerging Market Economies.”
18. Larson et al., “Strategic Responses to Global Challenges,” 59.
19. Domanski, “Foreign Banks in Emerging Market Economies.”
20. Stein, “Financial Liberalisation, Institutional Transformation.”
21. See, among others, Claessens et al., “How Does Foreign Entry Affect Domestic Banking Markets?; Clarke et al., “Foreign Bank Entry.”
22. See, among others, Hasan and Marton, “Development and Efficiency of the Banking Sector”; Lensink and Hermes, “The Short-Term Effects of Foreign Bank Entry”; Berger et al., “Corporate Governance and Bank Performance”; Havrylchyk, “Efficiency of the Polish Banking Industry”; Jeon et al., “Do Foreign Banks Increase Competition?”; Claessens and Van Horen, “Being a Foreigner among Domestic Banks.”
23. Haselmann, “Strategies of Foreign Banks”; De Haas and Van Lelyveld “Foreign Banks and Credit Stability.”
24. De Haas and Van Lelyveld, *Multinational Banks*; Jeon et al., “Multinational Banking.”
25. The term “emerging markets” is used hereafter to include also developing countries and transition economies.
26. Ramamurti, “Impact of the Crisis on New FDI Players”; Hoskisson et al., “Emerging Multinationals from Mid-Range Economies.”
27. Claessens, and Van Horen, *The Impact of the Global Financial Crisis*, 11.
28. Bank of International Settlements, *EME Banking Systems*.
29. See, for instance, Guillén and Tschoegl, “The Internationalization of Retail Banking”; Merret, “The Internationalization of Australian Banks”; Parada et al., “The Internationalisation of Retail Banking.”
30. Petrou, “Multinational Banks from Developing versus Developed Countries.”
31. Bank of International Settlements, *EME Banking Systems*.
32. Hoskisson et al., “Emerging Multinationals from Mid-Range Economies”; Cuervo-Cazurra, “Extending Theory.”
33. Cantwell and Barnard, “Do Firms from Emerging Markets Have to Invest Abroad?”; Mariotti and Piscitello, “International Growth of Banks.”
34. Dau, “Pro-Market Reforms”; Ahmad, “The Slow Growth or Rapid Internationalization”; Khan et al., “The Internationalization of an Arab bank”; Lee et al., “Internationalization of Korean Banks.”
35. Akgüç, *100 Soruda Türkiye’de Bankacılık*.
36. Akyuz, “Financial System and Policies in Turkey”; Atiyas, “The Private Sector’s Response to Financial Liberalization.”
37. Pehlivan and Kirkpatrick, “The Impact of Transnational Banks.”
38. Akgüç, *100 Soruda Türkiye’de Bankacılık*.
39. Ibid.; Moore, “Banks and Competitive Politics.”
40. Asutay, “The Development of Islamic Banking in Turkey.”
41. Akgüç, *100 Soruda Türkiye’de Bankacılık*.
42. Isik and Hassan, “Technical, Scale and Allocative Efficiencies”; Yildirim, “Evolution of Banking Efficiency.”
43. Akyüz and Boratav, “The Making of the Turkish Financial Crisis,” 1552.
44. Bankacılık Düzenleme ve Denetleme Kurumu, *Krizden İstikrara Türkiye Tecrübesi*, 14.
45. Bakir and Öniş. “The Regulatory State and Turkish Banking Reforms.”
46. Ibid; Akcay, “The Turkish Banking Sector.”
47. Ozkan, “Currency and Financial Crises in Turkey.”
48. Akyüz and Boratav, “The Making of the Turkish Financial Crisis,” 1552.
49. Türkiye Bankalar Birliği, *50. Yılında Türkiye Bankalar Birliği*, 35.
50. Ibid, 19.

51. Ozel, "The Politics of De-Delegation"; Bakir, "Governance by Supranational Interdependence"; Bakir and Öniş. "The Regulatory State and Turkish Banking Reforms."
52. Bakir, "Policy Entrepreneurship and Institutional change."
53. International Monetary Fund, *Turkey*.
54. Bankacılık Düzenleme ve Denetleme Kurumu, *Krizden İstikrara Türkiye Tecrübesi*, 76.
55. World Bank, *World Development Indicators*.
56. Ibid.
57. Bakir, "Wobbling but Still on its Feet."
58. Türkiye Bankalar Birliği, *Türkiye'de Bankacılık Sistemi*.
59. International Monetary Fund, *Financial Soundness Indicators*.
60. The growth in loans was unmatched by deposit growth: total loans to deposits ratio reached to 107.7 percent in 2013 up from 43.5 percent in 2003. Author's calculation, based on Türkiye Bankalar Birliği, *Türkiye'de Bankacılık Sistemi*.
61. Bankacılık Düzenleme ve Denetleme Kurumu, *Türk Bankacılık Sektörü Genel Görünümü-Aralık 2013*, 45–7.
62. Ibid, 46; Bankacılık Düzenleme ve Denetleme Kurumu, *Türk Bankacılık Sektörü Genel Görünümü-Aralık 2009, 20*.
63. Bankacılık Düzenleme ve Denetleme Kurumu, *Türk Bankacılık Sektörü Genel Görünümü-Aralık 2013*, 15; Bankacılık Düzenleme ve Denetleme Kurumu, *Türk Bankacılık Sektörü Genel Görünümü-Aralık 2012*, 15.
64. See, for example, Fitch: Turkish Banks Face Tougher 2015; Outlook Is Stable, December 18, 2014, FitchRatings https://www.fitchratings.com.
65. Author's calculation, based on Türkiye Bankalar Birliği, *Türkiye'de Bankacılık Sistemi*.
66. Akgüç, *100 Soruda Türkiye'de Bankacılık*; Atiyas and Ersel, "The Impact of Financial Reform"; Pehlivan and Kirkpatrick, "The Impact of Transnational Banks."
67. Tükel et al., "The Turkish Banking Sector."
68. Pehlivan, "Financial Liberalization and Bank Lending Behavior in Turkey."
69. Domestic credit to private sector provided by banking sector as a percent of GDP in 2012 in Turkey was only 54.4 while in the upper income OECD countries, it was 125.5. World Bank, *World Development Indicators*.
70. World Bank, *World Development Indicators*.
71. Erdilek, "A Comparative Analysis of Inward and Outward FDI in Turkey."
72. World Bank, *World Development Indicators*.
73. The entrants were HSBC and Novabank in 2001; Unicredit in 2002; BNP Paribas, Fortis Bank, and GE Capital in 2005; the National Bank of Greece and Dexia Participation Belgique in 2006; Eurobank EFG Holding, BTA Bank, Arab Bank, BankMed, Citibank, and ING Bank in 2007.
74. Bankacılık Düzenleme ve Denetleme Kurumu, *Finansal Piyasalar Raporu*.
75. SFHs had been operating independently of the banking law and they were granted more privileges in comparison to conventional banks as noted by Asutay, "The Development of Islamic Banking in Turkey" and Moore, "Banks and Competitive Politics." Despite their rapid growth in the initial years, the market shares of SFHs had remained low in the 1990s, and in 1999, Ihlas Finans, a Turkish-owned SFH, collapsed causing a substantial void in the country's Islamic banking sector as argued by Asutay "The Development of Islamic Banking in Turkey."
76. Participation Banks Association of Turkey, *Participation Banks 2013*.
77. The share of neighboring areas in the country's overall foreign trade more than doubled from 10.8 percent to 23.6 percent between 1991 and 2008, as reported by Kirişci, "Turkey's Engagement with Its Neighborhood," 321.
78. Author's calculation, as of end-December 2014 and based on Zephyr, a comprehensive database of deal information, of Bureau Van Dyke.
79. Türkiye Bankalar Birliği, The Banking System in Turkey Capital Structure by Groups December 2013, http://www.tbb.org.tr/en/home.

80. The restructuring was found to be effective in improving the efficiency of the sector by Gunay, "Risk Incorporation and Efficiency."
81. There is supporting anecdotal evidence as reported by The Banker, December 23, 2010: Ferit Şahenk, Chairman of the Doğuş Group, which jointly controls Garanti Bank with Banco Bilbao Vizcaya Argentaria (BBVA), noted that BBVA's expertise in international banking together with the bank's technological capabilities and knowledge of consumer lending and credit cards will help achieve the bank's regional ambitions. He added that "Eastern Europe, Russia, the Turkic Republics, the Caucasus, the Middle East and north Africa are just the right areas where Garanti Bankasi can expand with its new partner."
82. Yavan, "Türkiye'nin Yurt Dışındaki Doğrudan Yatırımları."
83. Ibid; Erdilek, "Outward Foreign Direct Investment by Enterprises from Turkey."
84. Vale Columbia Center, *Turkish MNEs Steady on their Course Despite Crisis*.
85. Based on comparative statistics for Turkey and selected target markets compiled by the author from World Bank, *World Development Indicators*. Statistics are not reported here but available on request.
86. Cantwell and Barnard, "Do Firms from Emerging Markets Have to Invest Abroad?"
87. Cuervo-Cazurra and Genc, "Transforming Disadvantages into Advantages."
88. Ozel, "The Politics of De-Delegation."

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