TURKISH CONSTRUCTION FIRMS IN THE RUSSIAN FEDERATION

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I hereby declare that all the information in this document has been obtained and presented in accordance with academic rules and ethical conduct. I also declare that, as required by these rules and conduct, I have fully cited and referred all material and results that are not original to this work.

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ABSTRACT

TURKISH CONSTRUCTION FIRMS IN THE RUSSIAN FEDERATION

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This thesis analyzes the penetration process of Turkish construction firms into the Russian market, in the frame of developing relations between Turkey and Russian Federation. Starting from the demise of Soviet Union, Turkish construction firms have played an important role on the convergence of these two countries both in economical and political relations. The dominance of the politics on the bilateral relations between Turkey and Soviet Union has started to weaken since from the liberalization attempts in both of the countries starting from the first half of 1980s. By the demise of Soviet Union, including Turkish construction activities in the Russian Federation, commercial relations have become the dominant factor that determines direction of the bilateral relations between these two countries. Within this context, this thesis seeks to explore the nature of overseas construction works in a particular geographical area, namely in the Russian Federation. In this study, I applied the semi-structured in-depth interview technique. The target group was selected from the administrative personnel and the field workers of Turkish overseas construction companies that have worked in the Russian construction market. In this frame, I carried out interviews with 10 top level managers of the Turkish overseas construction firms and 10 construction workers who have been worked in the Russian Federation.

Keywords: Turkish Russian Relations, Overseas Construction Works

ÖZ

RUSYA FEDERASYONU'NDAKİ TÜRK İNŞAAT FİRMALARI

Şavlı, Devrim

Yüksek Lisans, Avrasya Çalışmaları Bölümü

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Bu çalışmada, Türk inşaat firmalarının, gelişen Türk-Rus ilişkileri çerçevesinde, Rusya pazarına giriş süreçleri incelenmiştir. Sovyetler Birliği'nin dağılmasından bu yana, Türk inşaat firmaları iki ülke arasındaki iktisadi ve siyasi ilişkilerin gelişmesinde önemli bir rol oynamışlardır. Türkiye ve Sovyetler Birliği arasındaki ikili ilişkilerde gözlenen siyasetin belirleyici rolü her iki ülkede de 1980'lerin ilk yarısında uygulamaya konulan liberal politikalar sonucunda zayıflamaya başlamıştır. Sovyetler Birliği'nin parçalanmasıyla beraber, Türk inşaat firmalarının Rusya Federasyonu'ndaki faaliyetleri de dahil olmak üzere, ticari ilişkiler iki ülke arasındaki ikili ilişkilerin yönünü belirleyen en etkili etmen olarak ortaya çıkmıştır. Bu bağlamda, bu çalışmada Rusya Federasyonu gibi özel bir coğrafyada yurtdışı inşaat faaliyetlerinin kendine özgü doğası anlaşılmaya çalışılmıştır. Bu çalışmada, yarı-yapılandırılmış derinlemesine mülakat tekniği kullanılmıştır. Hedef grup, yurtdışında da faaliyet gösteren Türk inşaat firmalarının idari personeli ve Rusya Federasyonu'nda çalışmış inşaat işçileri olarak belirlenmiştir. Bu

çerçevede, Türk inşaat firmalarının 10 üst düzey yöneticisi ve 10 inşaat işçisi ile mülakat yapılmıştır.

Anahtar Kelimeler: Türk-Rus İlişkileri, Yurtdışı İnşaat İşleri

To My Father

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CHAPTER 1

INTRODUCTION

During the years of ‘Cold War’ the image of Russia has been constructed in the minds of Turkish people successfully as a near threat. The most famous argument that has been reproduced again and again was the Russian dream of reaching the *warm waters* of the Mediterranean through Turkey. Thus, the perception of international strategy of the Turkish people has been squeezed into this axiom that has never been realized. Within the Gorbachev period, Turkish entrepreneurs have started to penetrate into this vast area. Turkish constructors have constituted an important part of this group of entrepreneurs. In other words, since approximately twenty years, Turkish constructors have been working on the *cold land* of Russian Federation. Under the pressure of increasing commercial relations between these two countries, mutual perceptions on the level of international politics have started to shift through a relatively positive dimension.

In my thesis, I will try to investigate the penetration process of Turkish constructors into the Russian market. In the frame of developing relations between Turkey and Russian Federation after the demise of Soviet Union, it is possible to argue that Turkish construction firms have played an important role on the convergence of these two countries both in economical and political relations.

Turkish overseas constructors have urged the Turkish government to broaden both the volume and the range of economic activities with Russian Federation by their strong lobbying activities. For instance, Blue Stream Project that was signed in 1997 between the Russian Federation and the Republic of Turkey for the delivery of Russian natural gas to Turkey through the Black Sea might be seen as a result of lobbying activities of some Turkish construction firms which are operating in Russia. The development of the bilateral relations between Turkey and Russia has affected Turkish construction sector in the Russian Federation. Because of this, the construction works in Russia have been influenced by any political opposition between the countries. The basic reason of the vulnerability of the construction sector against any fluctuations in the arena of politics is the dominance of personal relations during the process of undertaking a construction work in Russia.

In my research, I applied the semi-structured in-depth interview technique. The target group was selected from the administrative personnel and the field workers of Turkish construction companies that have worked in the Russian construction market. During my research, I carried out interviews with 10 top level managers of the Turkish overseas construction firms and 10 workers who have been worked in the Russian Federation. Interviews were carried out in Turkey between January 2003 and April 2004. In my research, I tried to understand basic operative mechanisms of the Turkish construction activities in Russian Federation. During the interviews, I have tried to focus on the individual experiences of the Turkish managers and workers. I aimed at analyzing the penetration process of Turkish firms into the Russian market. I also focused on the basic peculiarities of the Russian construction market and tried to understand the expectations of the Turkish constructors from the Russian construction market in the future.

In the first chapter, I will try to construct a general view on the bilateral relations between Turkey and Russian Federation from a historical perspective. The effects of economic relations on the political convergence constitute my basic concern in this chapter. I argue that until mid-1980s, the international world politics has immerged as a factor determining the bilateral relations between Turkey and Soviet Union. After a short period of transition, by the establishment of Russian Federation, commercial relations have become the dominant factor in the bilateral relations between these two countries. Despite of the some controversies that occurred on the level of politics, the bilateral relations have steadily improved between Turkey and Russian Federation.

Construction sector in terms of its nature differs from the other sectors of the economy. Before exploring Turkish construction services in the Russian Federation, in the second chapter I will discuss the basic peculiarities of the construction sector in general and than try to explore this sector in particular to Turkey and Russian Federation. Considering the construction sector of Russian Federation that was inherited from Soviet Union, the destruction of national construction sector in the Russian Federation can not be understood without determining the basic peculiarities of the construction sector in a planned economy. In short, this chapter will constitute a base to understand the process of penetration of Turkish construction firms into the Russian market.

In the third chapter, I will explore the process of constructing in the Russian federation in terms of both the penetration and the constructing process of Turkish constructors. In terms of its nature, every single construction activity has some specific problems that should be solved in the field of construction. Constructing in a distinct geographical region adds some additional problems to the process of building. Geographic, climatic and cultural differences could be considered as threats that challenge the feasibility of construction works at abroad. Thus, in addition to the desire of discovering the underlying factors of the penetration process of Turkish construction firms into the Russian market, in my thesis I will try to analyze the nature of construction activities in the Russian Federation that has been done by the Turkish constructors. The overseas construction activities of the Turkish constructors in the Russian Federation began in 1986. Since than Turkish constructors have undertaken several construction works in this region.

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CHAPTER 2

THE POLITICAL AND ECONOMIC ASPECTS OF TURKISH-RUSSIAN RELATIONS

Construction activities which have been undertaken by Turkish firms in USSR and after the collapse of Soviet Union in the newly established Russian Federation should be perceived as an economic activity that have directly influenced the bilateral relations between Turkey and Russian Federation. It could be said that the process of construction in Russia is also very vulnerable against the fluctuations in the bilateral political relations between these two countries. The mutual interaction between the bilateral political and economic relations of two countries might not be seen and/or separated easily from each other in terms of their capacity of influence the other. In this chapter, I will introduce the bilateral relations of these two countries to understand the process of penetration of Turkish construction firms into the former Soviet Union and Russian Federation.

It is hard to analyze both bilateral and multilateral international relations of a country which is trying to reconstruct its foreign policy during a ‘chaotic’ period of uncertainty. The policies of Russian Federation in the international arena during the transition period might be described as unstable, polyphonic and even bewildered. What are the possible reasons such an unstable foreign policy? According to my point of view, there are three reasons that designate the foreign policy of Russian Federation. The first and may be the strongest reason is the problems that have been occurred from transition itself. It is obvious that under the continuous structural reforms and reconstruction process of ex-Soviet institutions, building a stable and logical foreign policy, as a successor of a global power, in a short period of time was not an easy task for Russian Federation. The second reason of the Russian unstable foreign policy arises from the difficulty of optimization of the relations with the West. It means that while there is an absolute need of financial assistance of western countries during the transition process to the market economy, great interests of both Western countries (especially the US) and Russian Federation on the Newly Independent States (NIS) have created a sharp conflict between them. By the integration process of the ex-Soviet areas to the world market, the regulation of energy resources has become the principal issue in the international capitalist accumulation system. In that sense, Russian Federation is trying to be more dignified while constructing relations with the West. The last but not least, by the disintegration of Soviet Union, well-balanced bipolar international political order that was established after the World War II was also abolished. During the creation phase of a new world system –or more realistically during the last phase of US hegemony- into the dust and smoke Russian Federation is trying to preserve its position at least as a regional power in Eurasia.

At this point, before starting to analyze the bilateral relations between Turkey and Russian Federation, I would like to introduce the Turkish foreign policy roughly. Turkey as a *middle power*[1] is trying to build her existence on two fundamental principles: carrying on its existence by watching carefully the balance of power and not attending the wars between the other countries if there is no threat of occupation (Oran 2003, 19). These fundamental principles of the Turkish foreign policy show us the impossibility of analyzing the bilateral relation between Turkey and any other countries without taking into consideration the international conjuncture. In here an important

[1] According to the size category, in the international system countries are generally categorized as “big” or “small”. However, all the countries can not be distributed between these two categories and it is possible to define an additional category: middle (or medium) power. The potential of influencing the international system of middle power is marginal. On the other hand, it can influence the regional policies (especially the small neighbors) and more importantly it can resist to the pressures of big countries at some point. In that sense, these countries have some limited bargaining power against the big countries and they can even effect some decisions of big countries until the certain point. For more information about this topic see Oran (2003), 29-33.

question arises: how do we define the international political order in the 21st century? The word of *chaotic* would be the best possible answer to this question. According to Henry Kissinger (1994), there are three versions of the world order: chaos, a balance of forces and a pyramid of supremacy of a single power. After the Soviet Union and the Warsaw Pact disappeared, the balance of forces vanished. However, the demise of Soviet Union was not resulted with a 'pyramid of supremacy of a single power' namely United States of America.

The development phases of historical capitalism demonstrate the rise and decline of hegemonic powers and today the world is witnessing the final crisis of the US as a hegemonic power. The scholars who have specialized in different fields of social sciences have agreed on that the US hegemony has entered into a phase of decline since "The First Petroleum Crisis" (1973) and "The First Gulf War" (1991) was the last war that US entered as a hegemonic power (Wallerstein 1998; Arrighi 2000; Krugman 2001). Well then, what makes it important for our topic? First, in a transition period of international political order the countries that can be defined as middle power have caught an opportunity to act in a more broad area to influence the international political order and so they have been trying to diversify their foreign policies through the different choices. Secondly, this chaotic environment pushed some middle powers into the restlessness while the others started to behave more aggressive – the occupation of Kuwait by Iraq might be an example of this insolence[2].

So far, I was trying to constitute a frame of the Turkish and Russian foreign policies and from this point it is possible to discuss the bilateral relations between Turkey and Russian Federation. First of all, although it is inevitable to analyze the relations between Turkey and Russia without realizing the conflicts that have arisen from the desires of both countries being a regional power in Eurasia, the domination of grand issues on the evaluation of bilateral relations may prevent to realize the complete puzzle of relations. Most of the narratives on the Turkish-Russian relations have emphasized the regional

[2] According to Wallerstein (1998) Saddam Huseyin has realized that the weakness of US interference power on regional problems and decided to the time of behaving insolent has become. He occupied Kuwait and he was possibly going to further through the south.

struggles on the energy resources, political disagreements and some historical disputes between these two countries and on a large scale, inevitably these evaluations have magnified the conflicts while disregarding the cooperation grounds.

The transition efforts in both countries that have commenced from the first quarter of 1980s have exposed new opportunities to throw off the mutual restlessness and mistrust between these two countries. The execution of neo-liberal economic policies in Turkey has resulted with a most dramatic change in economic and social spheres that have faced in the history of the Republic of Turkey. However, compared with the transition process of Soviet Union, the social, economic and cultural impacts of Turkish transformation could be seen as a mere trifle. The reform attempts to reorganize the Soviet system under the rule of Gorbachev was resulted with the demise of Soviet Union.

The weight of economics in the bilateral relations between Turkey and Russia has risen since the collapse of Soviet Union and economic relations have become the dominant factor in the last decade. The augmentation of the economic relations has influenced positively not only the political relations but also, and may be more than that, the mutual perceptions between people of both countries. The intensive lobby activities of private actors, who have benefited from bilateral trade, have assisted to soften the agnostic political relations that have strong historical roots. Gülten Kazgan has summarized the evolution of the Turkish-Russian relation with a strong expression.

> Historical legacy, geographic location, and non-democratic state traditions deeply engrained in their sociopolitical have all been conducive to ascribing a secondary role to economic benefits. The pressure as well as the opportunity to reverse this trend, on the advent to power of Mikhail Gorbachev and his ideology in the mid-1980s, seemingly did achieve the aim of improving economic relations for some time. Improvement in economic relations conferred benefits on both parties accompanied by the amelioration of sociopolitical tensions at all levels (1998: 137).

The mutually inclusive character of economic and political relations has created thoroughly interdependence between these two countries. In other words, the developing economic relations have feed the political relations while the increase in governmental relations has enlarged the trade volume. Although, the relations between Soviet Union and Turkey had floated within the range of cooperation and conflict, the dominance of economic factors on the political agenda has never become as apparent as in the last decade. The destructive effects on the Turkish economy of the Russian August 1998 financial crisis might be seen as an evidence of the strength of economic ties.

Briefly, the level of perception between two nations, bilateral governmental relations, the ties between private entrepreneurs and the alterations in international political order dominate the political economy between two countries. In that sense, any aspiration that is willing to analyze one of these components should comprehend the mutual relation between them.

2.1 The Mutual Perceptions: The Roots of Mistrust between Neighbours

In the very beginning of this chapter, I will introduce the mutual perceptions between these two neighbor countries from a historical perspective. This chapter will allow us to understand the roots of mistrust on the level of politics and how it has been reflected constructing the image of Turks and Russians on the level of people of these countries. As almost in all interviews the participants stressed, the bilateral personal relations have played a significant role in the process of undertaking the construction works in both former Soviet Union and Russian Federation. Thus, understanding the mutual perceptions between the people of these countries would show us, the role of construction works in the Russian Federation that has undertaken by Turkish construction firms in the reconstruction process of the image of Turks on the eyes of Russians and visa versa.

Throughout long years, the enemy image has been dominated the mutual perceptions between Russia and Turkey. The historical roots of this image are very strong and deep for both countries. The Tsarist Russia and Ottoman Empire were both located on the east edge of Europe and the military and economic organizations had forced them to expand their territories as long as possible. Therefore they were obliged to collide several times in their history. Since 16th Century, the two great powers of Eurasia have struggled to establish dominion on this vast geography.

The balance of power between these two empires has started to change in favor of Tsarist Russia from the beginning of 18th Century (Mangıtlı, 2001). The wind of change that had blown from the West has infected deeply the Ottoman Empire. The wave of nationalism that has spread from French Revolution and the superiority of capitalist way of accumulation that has become the principle component in the production processes of the West, on the feudal accumulation have broken down the balance of Ottoman system. Ottoman Empire needed a miracle to survive with its underdeveloped economic and social system. The struggle of great powers on the land of Ottoman Empire to get bigger portion, while "sick man" has been dying, gave time to the empire nearly two centuries. During these two centuries Ottoman Empire has managed to survive by sacrificing from her lands. Since 18th century the foreign policy of Ottoman Empire has based on watching the power balance carefully and abstaining from any war as long as possible. As I have mentioned before such behavior may be seen as the fundamental characteristic of foreign policy of a *middle power*. After a long period of peace, as a result of Russian interference to the Poland's internal affairs in 1768, Ottoman Empire and Russia have started a quarrel that has gone on two years and ended by the defeat of Ottoman army. This war obliged the Ottoman Empire to reform its institutions especially the army according to Western standards and from this point the two countries have began to see each other as the primary enemy. The role of Russia during the demolition processes of Ottoman Empire by acting as the patron-liberator of Balkan peoples, Greeks and Serbs has deteriorated the relations between two Empires (Sezer 2001: 62). During the following centuries after this historical breaking point, the defensive position of Ottoman Empire against the Russian expansion to the south continued until the Russian and Turkish revolutions.

The wave of migration of Muslims and Turks from the lands that Tsarist Russia had conquered such as Caucasus, the Balkans and the Crimea; and the Turkish war veterans who could survive from the battles between Ottoman Empire and Tsarist Russia have deeply influenced the Russian image in Turkey. The term of “The Infidel of Moscow” (*Moskof Gavuru)* (Mangıtlı 2001; Tezkan 2001:18) has penetrated to colloquial language during this period and this negative Russian image that has blended with fear and hate, has never wiped exactly from minds of Turkish people. The arousing hatred of Russian image has been reproduced again and again by Turkish political authorities during all political crises between Russia and Turkey. The content of the settled Russian image has been broaden through ideological sphere to feed anti-communism during the cold war period and has played an important role in the struggle against communism in Turkey.

On the other hand, the reflection of Turkish image in the minds of Russian people has built on a negative perception either. In colloquial language in Russia, the words of *turok* and *turka* those mean Turk used to describe “unintelligent and vulgar person.” Although these words used to define Turks in Turkey, the negative perception of Russian people against Turks has been originated during the period that is named by Russians as *tatarskoye igo* (Tatarian yoke) to describe the dominance of Golden Horde Empire throughout two and a half centuries (Mangıtlı 2001). It can be said that the people of Ottoman Empire and the Turks in Turkey have little influence on the creation of the negative Turkish image.

During the Cold War period, the combination of the national security concerns of Turkey and the fear of red hazard have positively affected Russia’s enemy image. Even the people who have positioned at the left of centre in the political sphere have accused as to be an agent of Soviet Union and called as “Servant of Moscow” (Moskof Uşağı). The enemy image of Russians in Turkey had successfully used as an important tool in the psychological war against the threat of socialism, until the collapse of Soviet Union.

From the beginning of 1980s, the political and economic relations between Turkey and Soviet Union have started to normalize and the enemy image of Russia has greatly receded. The domination of preoccupation of national security in the Turkish foreign policy has substituted for a policy that based on mutual self-interests.

> This is not purely because of Russia's weakened position economically and militarily - a great country like Russia is likely to recover in due time. The more meaningful reason is the new image of Russia as a power no longer driven by territorial and ideological expansion, as in former times. Mikhail Gorbachev put this in the following words to a Turkish audience in Ankara during one of his visits in the mid-1990s: "Russia still wants to reach the warm waters of the Mediterranean through Turkey. But with Russian tourists (Sezer 2001:1).

The demise of Soviet Union has accelerated the process of normalizing in relations and mutual perceptions. The priority in relations had shifted from political to the economic sphere. The private actors who engaged with trade between these two countries have played a considerable role in covering the negative perceptions. The increasing volume of informal trade and the construction activities of Turkish firms in Russia have helped to destruct the negative images that have been weaved in the minds of both people since several centuries.

2.2 A Road from Conflict to Cooperation

By the collapse of Soviet Union, the relations between Turkey and Russian Federation have entered into a new sphere. As emphasized before, the domination of ideological diversities on relations has been substituted with the economic priorities and the bilateral relations between these countries that have been constructed on the principle of interdependency. It is interesting that although some crucial political conflicts have emerged during this period, the convergence between Russian Federation and Turkey had never interrupted. The economic relations have developed steadily even in the periods of political turmoil. The dominance of economics on politics could be seen as the basic determinants of the relations.

In this part of the study, I will introduce the basic political controversies and disagreements that have occurred after the collapse of Soviet Union. First of all, as a reflex after the demise of Soviet Union, Turkey has tried to establish strong ties with the Turkic states in Central Asia without recognizing the influence of the Russian Federation on this vast area. The first interferences has resulted with disappointment and caused to sour the bilateral relation with the Russian Federation. After realizing Russian dominance on this region, the bilateral relations have started to become soft. During this transition period of bilateral relations both countries have tried to play on the ethnic rebellions that both countries have suffered. The increasing political tension has deeply affected the bilateral economic relations especially the Turkish construction sector in the Russian Federation. As we have mentioned before the process of undertaking construction works in Russia has highly based on the personal relations. Because of this, this process is very vulnerable to the fluctuations in the political arena. Thus, analyzing the basic controversies between Turkey and Russian Federation will help us to understand the position of Turkish construction sector in the Russian Federation. In this point, the construction activities of Turkish firms in the Russian Federation should be realized as an economic activity that might influence the bilateral relations rather than a dependent variable of the political relations.

2.2.1 The Basic Political Controversies and Disagreements

It is an undeniable fact that the collapse of Soviet Union has created some opportunities for Turkey both in political and economic arena. However, the political and economic aspirations of Turkey on the Central Asian Turkic Republics and Azerbaijan have soured the relations between Turkey and Russian Federation. In addition to this, the historically constructed mutual lack of confidence has prevented to establish a good neighborhood relation. Although in our analysis, we pointed out that the economic rationality of private actors have forced to normalize the political relations, it will be useful to understand the foundations of political mistrust in the construction efforts of better relations.

The emergence of newly independent Turkic states in Central Asia induced revival of an old dream in Turkey: Turan. The dream of Enver Pasha's inheritors was the formation of a common economic and political space and even the establishment of some common parliamentary body under the leadership of Turkey (Sezer 2001: 62). According to this policy, Turkey obtained the honor of being the first country that recognized the independence of the former Soviet Turkic republics. However, after the first visit of to the new countries by Turkish President Süleyman Demirel, Turkey awakened and realized that the Russian influence on the region was still strong. The regimes of the newly independent Central Asian states are very week and because of this they are vulnerable against Russian pressure. The most important reason of this vulnerability comes from the economic dependency to Russia. Especially in the energy sector the economies of Newly Independent States (NIS) are closely linked to the Russian economy. Due to the main energy pipelines run through Russia, they are dependent on Russia for the transport of their energy resources to the outside world. Another source of Russian dominance in Central Asia, especially in Kazakhstan – according to 1994 census %36.4 of the whole population is Russian, is the Russian minorities. In that sense, Russia declared that if the rights of Russians living in the 'near abroad' were violated, it would be considered not only an internal matter for their country of residence, but also a Russian state matter. Russia also opposed any NATO expansion through the Central Asian States before the membership of Russia. In the long run, Russian Federation is trying to oppress any separatist movement inside its borders while searching "to turn the Commonwealth of Independent States (CIS) into a genuine vehicle for reintegration among the former Soviet republics (Sezer 2001: 63)."

Turkish attempts in Central Asia have been made, both at the governmental and non-governmental organization (NGO) levels is occurring in two ways. The first one is occurred as strengthening the cultural ties. Turkish government maintains an opportunity to the students from Central Asia to study in the universities of Turkey. According to this program about 10,000 students are studying in Turkey. Turks are building primary and secondary schools and a university in each of the Turkic countries. In these schools, students will be taught the same dialect that Turks speak in Turkey.

The broadcasts of Turkish radio and television programs into Central Asia are also promoting the spread of Istanbul Turkish in these countries. The second way of Turkish expansion into Central Asia is economical. Turkish private actors have entered to the Central Asian market through small business ventures and large construction contracts. In some degree Russia seems to support the Turkish policies to strengthen the cultural, social and economic ties with Central Asian Republics. For instance, Andrei Kozirev Russian Federation's Minister of Foreign Affairs said that the Turkish model of political and economic development would be the most suitable for the new Islam republics (Danilov 2002: 1).

There are several reasons for Turkey's failure in expanding its influence in Central Asia at an adequate level in the 1990s. The inefficient economic power of Turkey to play a substantial economic and political role in the region could be seen as the most important reason. The economic benefits from her involvement in Central Asia are overemphasized. Although Central Asia is one of the few areas that Turkey has a trade surplus, the benefits are far from being a cure for the economic and financial problems of Turkey as expected. Secondly, the democratic and secular state structure with a viable market economy of Turkey has found little enthusiasm among the rulers of Central Asia. The autocrats in power in the Central Asian States interested in maintaining their own personal power rather than expanding political democracy. The periodical financial crises, injustice in income distribution and the inconsistent political and economic environment in Turkey have caused to a hesitation in Central Asia whether they would be better of by adopting the Turkish model and opening up their economies. Thirdly, Turkey has tried to act as a "big brother" in bilateral relations with the Central Asian Sates (Chechelashvili 2002: 100-102). The patronizing approaches to relations of Turkish officials have crated a hesitation in the bilateral relations with Turkey in the Central Asian States who have just gained their independency. Finally, as we have mentioned before, the Russian influence in the region is still the dominant factor both economically and politically.

The USSR was a federal state made up of fifteen national republics. In addition there were other territorial units, such as autonomous republics, autonomous provinces, and national districts. There were also national groups without their own territory, such as Germans, Jews, Poles, and Crimean Tatars (Zaslavsky 1937: 96). The ideological integrity and the feeling of being a "Soviet people" had maintained integration between these groups of people under the Soviet rule. Since beginning of 1980s the ideological glue that keeps the society together had started to loose its peculiarity and this process ended with the demise of Soviet Union. Russian Federation inherited the *identity crisis* and replaced the policy of ideological togetherness with the policy of compulsory integration. In 1994, the independence demand of Chechnya was responded by the military operations against Djovkhar Dudaev's troops. The first declaration of Turkish Ministry of Foreign Affairs that the bombing of Groznyy has caused serious concern that has been soured the relations between Turkey and Russia. Having a similar problem with Kurdish separatists in Turkey had forced the Turkish government to change its official position. In December 1994, the new of the Ministry stated that Chechnya must be considered an integral part of the Russian Federation (Danilov 2002: 2). The declaration of Turkish Ministry of Foreign Affairs had not satisfied Russia and it had voiced strong indictments against the Turkish government of involvement in Chechen uprising. During this period, Russia has started to use the Kurdish card against Turkey. In 1999, separatist leaders tried to enlarge the territory under their control but this second war ended with the victory of Russian troops. Moscow's refusal to asylum demand of PKK leader Abdullah Öcalan in the same year had been appreciated by the Turkish government and in November during the Prime Minister of Ecevit's visit to Moscow both parties stressed on the importance of the territorial integrity of both countries. So, the mutual recriminations of support ethnic separatism had turned to a mutual agreement on the struggle against the terrorist actions.

The competition over the Main Energy Pipeline (MEP) to deliver oil from Caspian Sea basin to the West could be seen as the most visible example of geopolitical competition between Russia and Turkey (Sezer 2000: 72). The potential transfer route of Caspian oil to the world market has become the subject of intense diplomatic struggle between

Russia and Turkey. Both countries presented alternative routes for the pipeline and defended them as the most feasible way to transport the Caspian oil. The strongest argument of Russia is that the cost of Baku-Novorossiysk pipeline would be much less than the Turkish proposal of Baku-Ceyhan. The quickest and the cheapest way to transport the oil from Novorossiysk is by sea through Bosporus and Dardanelles. Turkey claims that the Straits could not carry the intense traffic of oil transport and it might cause an ecological disaster. Despite Russian Federation persuaded the companies that constitute the consortium, the pound avoirdupois had been turned to Baku-Ceyhan route by the pressure of United States. The increasing dependency of Europe to the Russian energy might be seen as an important factor for this decision. The concerns of potential investors on the cost of the project have been reduced by the completion of the engineering study in May 2001 that estimates the cost of project between $2.8 billion and $2.9 billion. In the light of these developments, Russian opposition to the Baku-Ceyhan pipeline has also began to soften and in May 2002 signed an agreement to transport some of its oil through a pipeline that will connect Novorossiysk to Baku-Ceyhan. In September 2002, Baku-Ceyhan pipeline construction began (Larrabee 2003: 108-109).

Although the bilateral relations between Russia and Turkey have converged through a stabilization, it is an inevitable fact that we will be witnessed the occurrence of some controversies and disagreements in bilateral relations. It is the very natural way of development. Conflicts make way for improvement of relations by its solutions. The controversies that have been mentioned above gave rise to the foundations of stronger neighborhood relations between Turkey and Russia.

2.3 The Economic Relations

Most of scholars emphasize the collapse of Soviet Union is a turning point in terms of the economic relations between Russia and Turkey. The sharp boost in trade volume since the last days of Soviet Union is the basic determinant of this inference. Although, at first sight this interpretation is apprehended as a fact, the underlying assumption of continuity between these two periods might cause some troubles while studying the bilateral relations. The underestimation of economic relations during the period of Soviet Union might be seen as an outcome of continuity assumption. In that sense, Russian Federation could not be seen as an inheritor of Soviet Union at least in the field of economics. Taking into the consideration the liberalization efforts in the foreign trade regime, roughly the last decade of Soviet Union will be considered as a transition period in our analysis. In terms of bilateral trade relations this period will be considered more close to the era of Russian Federation, although "centrally planned surplus appropriation system" was still in use as relations of production.

I will analyze the bilateral economic relations into the three periods. The periods were constituted according to the shifts in the mode of economic organizations in both of the countries. In Russia, transition occurs as a shift from the planned economy to the market one. Although Turkey is a capitalist country, it might be pointed out that until 1980s the model of import substitution was the sovereign development strategy for Turkey. Since 1980s, by the efforts of liberalization, development strategy of Turkey has evolved through an export oriented model. The first period 1919 – 1980 symbolized the reign of socialist organization model in the Soviet Union. The fluctuations in the political arena in both of the countries during this period were disregarding while constituting the periods. The second period that covers between the years 1980 – 1991 considered as a 'transition period' in the bilateral economic relations between these countries. Naturally, the attempts of liberalizing the economic structures in both of the countries reflected to the bilateral economic relations. During this period, although the name of the country was still USSR, the model of socialist organization has started to transform through a more liberal system. Starting from 1991, the bilateral economic relations between Turkey and the newly established Russian Federation are based on the needs of global market. The most designative factor of this period is the increasing weight of the private actors in the economic relations. In this respect, Turkish overseas construction companies have played a significant in the development of economic relations between Turkey and Russian Federation.

2.3.1 1919 – 1980: One Step Forward One Step Back

The emergence of Anatolian resistance in 1919 against the occupation of victorious nations of World War I could be seen as the starting point of relations between Soviet Union and Turkey. Bolsheviks have been watched closely the Anatolian resistance since the beginning and a Soviet committee met Mustafa Kemal in Havza where it is supposed to be that the resistance against the occupation started. During the Liberation War of Turkey between the years 1919-1923, Soviet government has obtained both military equipment and money. The amount of money that has been lent by Soviet government has never exceeded 10 percent of the defense budget (Tellal 2001a: 162). However, considering the economic condition of Soviet Union during this period, the impotency of Soviet aid to the Turkish Liberation War would be realized easily and it should be stressed that the military aid of Soviet Union was more important in the war time. Besides, the moral support of Soviet Union to the Anatolian fighters should not be underestimated.

As we have mentioned before, the economic relations from 1923 to the first quarter of the 1980s between USSR and Turkey has a totally different characteristic from the relations of last two decades. It is apparent that any comparison between the trade volumes of these two periods while studying the economic relations between these two countries will show us mistakenly that there was no worthwhile economic interaction between these neighbor countries during the first period. However, the crucial role of USSR in the industrialization process of Turkey until 1980s has proven the importance of economic relations in this period. Especially, during the periods of divergence of Turkey from her Western allies, USSR was always ready to cut in as a “second best” partner of Turkey. However, the pressure that has been created by public opinion and historically rooted negative perceptions against the Soviet Union has prevented economic and political convergence. Consequently, Soviet Union remained as a balance component against the West in the foreign affairs of Turkey.

The young Republic of Turkey implemented a development project that was based on private sector to achieve a rapid development between the years 1923 and 1929. During this period, Turkey could not attain the desired speed of development. From the beginning of 1930s, under the strong pressure of world economic depression Turkey shifted her economic development policies through "protective-statist industrialization" model. The implementation of statism has brought about a conversion between Turkey and USSR. Under assistance of Soviet experts Turkey has prepared the First Five Year Industrial Development Plan. Soviet Union also promised to provide 8 million dollars worth credit and technological assistance to establish Nazilli and Kayseri textile factories with a protocol that was signed in January 1934. This protocol has been executed in 1935 (Tellal 2001b: 320).

During the World War II, the economic relations between USSR and Turkey have entered a new period of stagnation. Just immediately seven weeks before the end of World War II, Soviet Foreign Minister Molotov declared that the 1925 Amity and Neutrality Agreement between Soviet Union and Turkey would not be prolonged anymore. The 1925 Agreement was prolonged three times in 1929, 1931 and 1935 respectively. Soviet authorities strongly emphasized that the agreement could not meet the needs of post-war conditions. In 1945 Molotov notified the conditions of Soviet government for a new agreement to the Turkish government. According to these conditions, the status of the Straits should be reconsidered and demanded the Kars and Ardahan that was given to Turkey by the 1921 Turkish-Soviet Agreement. These demands of Soviet government were strictly refused by Turkey (Gürün 1991). However, the destructive effects of the event have remained the primary obstacle in front of the development of Turkish-Russian relations.

After a stagnation period during and after the World War II, from 1957 the economic relations between USSR and Turkey have started to stay on the rails. After the military coup of 1960 the restlessness of military authorities to accept credit offers of USSR has prevented to develop the economic relations. However, at the end of the decade Western aids to the economic development project of Turkey have remained under the expected level and as result of this the restlessness of Turkish government to the Soviet aids has turned to a 'compulsory cooperation'.

From the beginning of 1960s the commercial relations have been regulated according to bilateral agreements by the method of "clearing".[3] However, the other dimension of economic sphere namely the economic aids and credits that were received by USSR constituted the main characteristic of 1960s rather than trade relations. During this period Soviet firms have attended some investments in Turkey. For instances, a Soviet firm engaged with the renovation and extension project of Sümerbank's Beykoz Shoe and Leather Objects Factory and in 1961 Çayırova Glass Factory that was constructed by Soviet financial and technical support was opened. According to the agreement that was signed in 1957 between İş Bank and Soviet enterprises, Turkey has received 3,400,000 rubles with an interest rate of 2.5 for three years. In addition to these, USSR guaranteed to buy the products of these factories for three and a half years. Çayırova Glass Factory was the first fruit of this agreement. During a high tension of relations between USSR and Turkey, this investment proved that there is an extreme potential of cooperation between these neighbor countries. Another important point that should be emphasized is, strengthening relations between USSR and Turkey, has created great opportunities for using wider spectrum of foreign policy tools in the relations with the Western countries. Starting from 1967, Turkey has started to accept the credits and aids that come from USSR. By Economic-Technological Cooperation Treaty the economic relations between Turkey and USSR have made a peak. This treaty obtained a source for the establishment of 7 industrial complexes such as Aliağa Oil Refinery, Seydişehir Aluminium Factory, Bandırma Sulphuric Acid Factory, Artvin Timber Plant and İskenderun Iron-Steel Factory (Tellal 2001d: 782). Thus, Turkey has become one of the less developed countries that has benefit from the aids and credits of USSR.

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[3] Simply, clearing is a trading method between two countries that is based on barter. The clearing agreements are usually signed for a short period and at the end of the period the export and import balance between two countries are calculated and if there are an imbalance in foreign trade, the indebted country pays the remainder by gold or convertible currency (Tellal 2001e: 781).

The development of Turkish and Soviet economic relations has continued during 1970s. By the economic crisis and the stretched effect of Cyprus interference of Turkish army on the relations with the western countries that has faced during 1970s, the economic relations between USSR and Turkey has become more important than ever. The ongoing cooperation has been getting stronger by the Second Economic and Technical Cooperation Treaty that was signed in 1975. This treaty has anticipated 700 million dollars worth industrial investments in a period of five years. Following this treaty, Soviet credits have started flow with increasing proportions until 1980.[4]

During the period 1919 – 1980 the economic relations between Soviet Russia and Turkey might be described as inconsistent. The fluctuations in economic relations might have several reasons but the basic cause of them is hidden under the characteristic of Turkish foreign policy. As I have mentioned before the main aim of Turkey as a *middle power* is to preserve its natural borders. During the Cold War period considering its geographical position Turkey has always tried to observe the power balances between Soviet Union and United States. In some points, the foreign policy of Turkey has created an opportunity to bargain both of the super powers. According to this policy, as a NATO member, Turkey has become the biggest credit receiver country from the USSR. These credits have played an important role in the industrialization process of Turkey. Comparing with the Western credits, Soviet credits had three important advantages for Turkey: first, these credits had lower interest rates comparing with Western ones; second Soviet credits were focused on the industrial development of Turkey and lastly they had not put forward political conditionality like the Western credits.

2.3.2 1980 – 1991: The Transition Period

During the post-war era there was general agreement that governments should play a central role in regulating both national and international economic system. The

[4] 1.3 billion dollars in 1977; 3.8 billion dollars in 1978; 8 billion dollars in 1979. The last credit aggreement that has anticipated to establish “Construction of Heavy Electrical Complex” in Diyarbakır. Unfortunately, the last credit has never been executed because of the 1980 Military Coup in Turkey.

ideological root of the agreement was provided from the beliefs of John Maynard Keynes. Keynesian approach is fundamentally focused on the demand side of the economy. The Keynesian policies might be seen as successful in the industrialized countries in terms of delivering sustained output growth, high employment and creating "welfare state." However, the success of Keynesian approach ended around 1970s. From this point the need of transformation of international economic system through a more liberal one has caused to a rise of new ideological values: "New World Order." Basically, this process anticipates a supply side economic system in more elastic relations of production. The promises of globalization for the developing countries were technological improvement, wealth and welfare on the basis of "high values of democracy." Of course, developing countries have to integrate their economies to the international market to reach this promised future. The prescription was prepared by the international financial institutions for them: "Washington Consensus."

> In broad terms, [Washington Consensus] recommends that governments should reform their policies, and in particular: a) pursue macroeconomic stability by controlling inflation and reducing fiscal deficits; b) open their economies to the rest of the world through trade and capital account liberalization; and c) liberalize domestic product and factor markets through privatization and deregulation (Gore 2000: 789-790).

The January 24th 1980 Decisions and September 12th 1980 Military Coup was economic and political preparation process for Turkey respectively to become united whole with the international financial capital. During this period, Turkey has implemented two basic strategies to apply the aim of opening up its economy. First of all, internal demand was suppressed by increasing the price of the goods that was produced by public and devaluating Turkish Liras. Secondly, import-substituting industrialization model has been abandoned and in stead of this export oriented development strategies has been started to implement. The radical transition of Turkish economy towards the integration with the international financial capital has been executed nearly without any serious opposition because the focal point of potential resistance - namely worker's class and the leftist intelligentsia - had already been dispersed by the September 12th Military Coup. The first and may be the most important step of liberalization process was completed in 1989 by liberalizing capital account. Thus, all the obstacles in front of the speculative capital movements abolished and it will be the most designative factor of 1994 and 2001 financial crises. After the capital account liberalization the average growth rate of Turkish economy has been only about half its long run trend (around 5.5-6% per year).[5]

On the other hand, comparing with Turkey, during this period Soviet Union has been the scene for more dramatic changes. The first important development in 1980s in the Soviet Union was the closure of Leonid Brejnev period that ruled for 18 years. The inheritors of Brejnev, Yuri Andropov (11.12.1982 – 02.10.1984) and Constantine Chernenko (02.13.1984 – 03.10.1985) could not be effective because of their short period of power. While Gorbachev came to power in 1985, the economic and political system of USSR was already in a deep crisis. Gorbachev should reconstruct the old structure to cope with these crises. First of all he has tried to transform of relations of production and change the socio-economic organization of the late Soviet system that was called perestroika (restructuring). However, Gorbachev has not got a public support to execute these radical economic policies. The required public support might be obtained by political restructuring through a more democratic system under the socialism: glasnost (openness). The liberalizing attempts of Soviet system have been reflected to the traditional Soviet foreign policy. Novoye mışleniye (new thinking) policy that was started to implement from 1986, brought about important changes in the international system. According to this policy, Soviet army withdrew from both Africa and Afghanistan; disarmament became the central issue in the bilateral relation with US; ideological priorities was abolished in bilateral relations and the traditional foreign policy of Soviet Union that has anticipated two camps in the economic and political relations was abandoned (Tellal 2001e: 161).

During the first quarter of 1980s the economic relations between Russia and Turkey was still affected by the political relations between them. The intervention of Soviet army to

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[5] The statistical data on the macroeconomic position of Turkey are taken from the web site of State Planning Organization; www.die.gov.tr.

Afghanistan and the ideological character of September 12th Military Coup were the basic events that determined the political relations. However, it should be stressed that during this period the dominance of political on the economic relations has started to weaken. Although, there was an observed stagnation in the political relations, the developing economic relations during the earlier periods have not been interrupted. Both parties have seemed to realize the importance of economic relations between them. In 1981 an agreement was signed relating to the expansion of Seydişehir Aluminum Factory. Pursuing this agreement, the protocol of increasing the trade volume at a rate of 30% was signed in 1982. Into the same year, the *clearing* agreement that has been the most important obstacle in front of the bilateral trade was abolished and from 1983 onward the payment regime was liberalized. The immediate effect was destructive for the export of Turkey (from $193.7 million in 1981 to $88.7 million in 1983). On the other hand, the imports from Russia rose from $151.1 million to $219.9 million respectively (Kazgan 1998: 138).

The Natural Gas Agreement that was signed in 1984 between the two countries might be seen as a turning point in bilateral economic relations. According to the agreement after the negotiations that has continued two years, Turkey accepted to buy 120 billion meter cube natural gas starting from 1987 throughout 25 years. According to this agreement, 70 percent of the income of USSR that has arisen from this sale would be used to buy goods from Turkey and 35 percent of it would be assigned to the construction services. The remainder 30 percent would be used in repayment of the trade and consumption credits that was given to USSR. The results of this agreement could not be squeezed into the narrow boundaries of a trade contract albeit it has obtained enormous benefits for both sides. The economic results of this agreement might be arranged in an order as follows: i) opened Russian market for the Turkish construction firms for the first time; ii) encouraged to increase the variety of Turkish export; iii) encouraged foreign direct investments from third countries since the agreement allows to the USSR according to its responsibilities to buy the products of companies that was established with a foreign partner; iv) incited to establish Turkish-Soviet foundations; v) rise the variety of Turkish energy inputs on the ground of both suppliers and assortments (Tellal 2001e: 164). Maybe, the political convergence of these two countries could be seen more important than the economic benefits that the agreement allows. However, according to our thesis from this point the political dominance on bilateral relations is starting to transform through the dominance of economic factors.

The Border and Coast Trade Agreement which was signed in 1989 was another important approach that would determine the future of trade relations. This agreement laid the foundations of the "shuttle trade" that would be an important determiner during 1990s on the development of trade relations between the two countries. Another considerable factor that has helped the development of trade relations was the Eximbank credits. Between the years 1989 and 1991 Turkey has given Eximbank credits to USSR that was worth 1 billion and 150 million dollars. Until the dispersal, Soviet Union has used 555.300.000 dollars of this credit. This credit has allowed to Turkey to expand the bundle and quantity of its tradable goods that was exported to USSR (Tellal 2001e: 164).

As a result, the developing trade relations during this period have been expanded through more reliable relations both for the future in economic and political area. During this period, the process of transformation through a market economy has resulted by the demise of Soviet Union in 1991. Thus, by the removal of ideological contradictions, the intensity of relations between these countries has risen in 1990s.

2.3.3 Since 1991: The Domination of Economic Factors

Afterwards the collapse of Soviet Union, the economic relations with the newly established Russian Federation have been carrying on without an interruption. However, the character of economic relations has transformed through a more trade oriented manner. The importance of private actors and market rules has become the dominant factor in the economic relations during this period unlike the Soviet era. The growing trade volume - both in official and unofficial manner -, the tourist rush from Russian

Federation and the success of Turkish construction companies in Russia might be seen as an example of it.

Table 2.1 Export/Import Statistics of Turkey to Russian Federation (Million US Dollars)

Years	Export	Import	Export/Import	Trade Balance	Trade Volume
1992	441.9	1040.8	0.42	-598.5	1482.7
1993	504.7	1542.3	0.33	-1037.6	2047.0
1994	820.2	1046.0	0.78	-225.8	1866.2
1995	1238.1	2082.4	0.60	-844.3	3320.5
1996	1482.0	1846.0	0.80	-364.0	3328.0
1997	2049.3	2048.4	1.00	0.9	4097.7
1998	1347.5	2154.9	0.63	-807.5	3502.4
1999	586.6	2371.9	0.25	-1785.3	2958.5
2000	643.9	3886.0	0.16	-3242.1	4529.9
2001	924.1	3435.6	0.26	-2511.5	4359.7
2002	1163.0	3855.0	0.30	-2692.0	5018.0

Source: State Planning Organization

The boost in trade volume between Turkey and Russian Federation immediately after the collapse of Soviet Union could be seen easily from the table above. The steady increase between the era 1992 and 1998 export of Turkey to the Russia has lead to an equation in the balance of payment between these two countries. The August 1998 financial crash that was occurred in Russian Federation occasioned a sudden decline in the export of Turkey. At the first sight, it seems to be interesting that although Turkey has confronted three financial crises by the years 1994, 2000 and 2001 during this period, there could not be seen a sharp unrecoverable decline in the export of Russian. The mystery in this situation might be solved by gazing the bundle of goods that is subject to trade between these two countries. The biggest three group of products are Iron-steel objects, fruits and furs that has 23, 7 and 6 percent shares in the total export of Turkey to the Russian Federation respectively. On the other hand, mineral fuels constitute the biggest proportion of Russian exports to the Turkey with a share of 69 percent. As we can see, the weight of consumption goods in the export of Turkey which demand is more vulnerable against the economic crises, are great; so, this could explain the radical decrease in the export of Turkey after the Russian crisis. Conversely, the demand of mineral fuels that Turkey buys from Russia is less elastic against any kind of economic shocks than the consumption goods. However, as a result, since the sharp decline until 1999, the export of Turkey to Russian Federation has grown steadily although it could not reach the level of 1997 yet.

In addition to formal trade relations, there has been an informal trade relation between Turkey and Russian Federation which has become an important phenomenon during 1990s. In here, I have to stress upon that the informal trade should not be confused with the illegal trade, since informal trade in other words *shuttle trade* has a legal infrastructure. According to legal arrangement on shuttle trade in Russian Federation, the weights of goods that not exceed 50 kilograms or the value of goods that not exceed $1000 are not subject to any customs duty. For the goods between 50 and 200 kilograms or its value that not exceed $10000 customs duty is 30 percent for the exceeding part of 50 kilograms or $1000 (Yükseker 2003: 126-127). Although nobody knows the exact volume of shuttle trade the official estimates could be seen from the table below.

Table 2 .2 The Volume of Shuttle Trade (Billion US Dollars)

Years	The Income of Turkey from Shuttle Trade	Total shuttle trade import of Russia
1996	8.8	21.5
1997	5.8	18.3
1998	3.6	13.3
1999	2.2	8.5
2000	2.9	11.1
2001	3.0	12.1

Sources: Goskomstat; State Planning Organization; Central Bank of the Republic of Turkey

Considering the significant amount of shuttle trade, the importance of Russian Federation as a trade partner has a vital value for Turkey. On the other hand, shuttle trade has a great importance for the development of Turkish construction services in the market of Russian Federation.[6] Besides its great amount, shuttle trade has affected the mutual perceptions between the people of both countries in a positive manner.[7] The development in mutual relations has lead to a Russian tourist boom in Turkey (Şen 2003). Although, Russian tourists have a great importance for the Turkish tourism sector, I will be contented with stating that around 1 million Russian tourists come to Turkey in every year.

As a result, since 1990s there has been a considerable convergence between Turkey and Russia. Significant rise in both formal and informal trade volumes, the achievements of Turkish constructors in the Russian market, increasing volume of Russian tourists and growing interdependence on the supply and transportation of energy resources might be seen as a proof of economic convergence. According to mutually inclusive character of economic and political relations, the political atmosphere has been also developed strongly. In short, the developing relations in 1990s could be seen as a first step of strategic partnership on both economic and political arena in the 21st century.

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[6] In the following chapters that while analyzing the Turkish construction service in Russia, we will return to this subject.

[7] Due to the pre-capitalist nature of transnational informal trade, "shuttle trade" has based on mutual trust between two parties. According to Braudel, the emergence and spread of capitalism is strongly tied with the state power. In that sense, market is an absolute contrary of capitalism. In her work "Laleli-Moscow Shuttle", Yükseker claims that the shuttle trade could be seen as an example of Braudel's market. Additionally, she stressed upon the emerging transnational character of the market that has been materialised by "shuttle trade" between Laleli-Moscow. The interaction between the people of both sides has exposed the similarities rather than differences of both nations. The ability of getting round the law of both parties has eased mutual understanding. In other words, the "shuttle trade" has materialised out of the dominance area of state and the importance of mutual trust relations in this market has become more designative. For more information see Yükseker (2003).

CHAPTER 3

THE CONSTRUCTION SECTOR

Almost all sources about the construction industry albeit there are a few, begin with praises about the sector. For instance, the Catalog of 40 Years that was published by the Turkish Employers Association of Construction Industries begins with those sentences: “In every country construction sector has an important and separate role within the economical structure. Contribution of the sector to socio-economic welfare level and using labour force intensively and its direct connection with hundreds of goods and service production is stressing the importance of it.”

In this chapter, I tried to ‘write’ on the construction industry and finally I have also understood why there are no significant studies on the construction sector itself. The difficulties occur at the very beginning of the writing process: choosing a suitable title. Construction: is it an industry, or a sector or an activity. How should we label construction? In here a definition problem occurs. In the part of II.I.I namely ‘Defining Construction Sector’ after a short introduction on the definition of construction sector, I have decided to omit the problem of what kind of an activity that construction is. In the next part, I will give a short literature review on the organizational structure of construction in terms of labour processes.

In the last three parts of this chapter, I will try to sketch the construction industry on the scale of world, Turkey and Russian Federation respectively. In this chapter, I have attempted to save my narrator position as far as possible.

3.1 Basic Peculiarities of the Construction Sector

The construction industry is an unusual sector of a national economy that includes work of buildings as well as the civil engineering that is responsible for the engineering and infrastructure development. Unlike the usual nature of production process, which generally involves fabrication and assembly of specially designed products at a special location determined by the customer, is much different in construction (Mills 1972: 3). Its importance is based on the type of output it creates, the number of people it involves and the span of industries it covers. The construction sector produces a wide range of products, from individual houses to major infrastructure such as roads, power plants and petrochemical complexes. In an economy, construction sector has an impulsive effect both for production and service sectors and because of this; it is usually called as ‘locomotive sector’.

Basically in this part of the study, I will introduce the nature of construction sector and its peculiarities that make different the sector from the others in the economic structure. In the first part, I will try to conceptualize the construction sector according to the needs of this study and constitute a basement for the following parts. In the second part, I will analyze the construction sector in terms of labour processes which composes the heart of the difference of the sector from the others. This part of the study might be realized as a literature review that focuses on the discussions on the process of work in the construction sector.

3.1.1 Defining the Construction Sector

Before starting to summarize the characteristics of construction industry, we would ask the question how appropriate defining the construction activity as an industry. Narrowly defined, the industry comprises only those enterprises 'adding value' through production or assembly operations on the construction site. On the other hand, a broader definition would include firms and individuals involved in planning, design, the supply of building materials, plant, equipment, transport and other services. Some definitions also include the customer, particularly the professional client or 'property developer'[8]. Although it is probably better to regard construction not as an industry, but as a loose agglomeration of agents and activities which can be unpackaged and packaged in different ways, in our study we will use all the possible terms without imputing different meanings to the words.

In that sense, construction industry is also a sort of service-industry that forms real things like residential building, industrial facilities, infrastructure facilities and national land development. So, construction may be defined as a group of interrelated production activities. The products made by construction industry have characteristics of both things putted on constructing for the following phases and capital goods rather than consumption goods. And value effects on construction industry are higher than the other industries on aspect of products, hiring and added value.

3.1.2 Analyzing the Construction Activities in terms of Labour Process

Another distinguishing characteristic of construction industry might be found in its organizational structure. However, there has been an intense discussion between scholars on whether the industrial relations in construction industry are only a reflection of classical organizational form of capitalist industries or is structured on the completely different base which enables the workers a relatively big area of freedom in the production process. What makes construction industry special? According to Mills:

> Two aspects in particular of the construction industry are the source of its influence on industrial relations in other sectors of the economy. The first is the geographic dispersion of the industry. Virtually every community in the nation has firms and labor organizations active in construction, unlike many industries that are concentrated in one or a few geographic areas. The second aspect is the

[8] The definitions could be find in the web site of the International Labour Organization (ILO); www.ilo.org/public/english/dialogue/sector/sectors/constr.htm.

> employment in construction of workers whose skills are widely used in other industries. Building and construction tradesman are employed in large numbers by non-construction firms and government agencies on new construction work… Through the process of mobility and comparison of wages and conditions, industrial relations in construction and other industries interact continually with each other (1972: 3-4).

The interaction amongst construction industry and other industries is mainly resulted from the problem of seasonality in construction. Intermittency of employment in construction is unavoidable because of the non-repetitive nature of projects and the continual shifting of the work site. In construction, the labor force bears a very large part of the cost of uncertainty and fluctuations in demand. So, when the construction season ends the workers should find themselves another job in a different sector; otherwise they should bear the burden of unemployment. It should be stressed that,

> underemployment (that is, less than full-time employment of the work force) remained relatively high in construction at all times. Not only did workers experience considerable unemployment by the standards of other industries, but many construction workers were forced to find work outside the industry at intervals throughout the year. In consequence, the underutilization of the industry's work force in construction itself was larger than unemployment statistics alone suggest (Mills 1972: 119).

The reason that the individual firm is not able to ensure the job security for most of its construction employees is that for the most part its jobs are short-term, vary as to location, and demand somewhat different compositions of the work force. It is obvious that the situation of underemployment in the construction industry is the basic problem for the construction workers.

What is the role of management in the construction industry? Or, how could we define the position of a construction worker in an organization and may be more crucially, could we easily separate the construction industry from the others in terms of organization of work? These questions are asked and then answered again and again by the scholars. I found difficult to choose one of them as a base to explain the concept. Because of this, I am contended with giving a short literature review on the role of management in the construction industry.

According to the general belief, construction industry should be defined by the terms of "professionalized work force" and "craft administration" (Stinchcombe, 1959; Applebaum, 1981). These terms are used to emphasize that formal managerial positions play a relatively small role in construction industry, unlike the other industries in the capitalist form of production process.[9] "A few special characteristics of construction work encourage this perception," says Marc. L. Silver and continues:

> First of all, the construction site bears little resemblance to the more accessible sequential logic of the factory assembly line where functions were usually performed one after the other, or in distinct and separate facilities. In construction many production activities occur simultaneously rather than sequentially. Different tasks and operation are being taking care of not only at the same time, but also at different locations of the same site (1986: 39).

The second reason could be the impression that conditions of work are constantly changing in the construction site. The source of this view comes from the obvious comparison with the factory setting of the construction site of production which undergoes structural transformation as the production process progressed. It is apparent that the flux in working conditions in construction site contrasts with the stability of the factory. Third, the established analogy between object and site of production means. In the site of production means the location of production constantly changes. It means that when one project is completed, workers move on to a different building. The movement from the completed work to the another site is thought as corresponding to a move on to an entirely different design and therefore distinct new problems to solve by the creative activities of craftsmen (Rothman 1987). According to this view, it creates an opportunity to implement creative methods on this new site. It should be clearly emphasized that in the organization of work, foremen are responsible both for pre-project planning and handling on-site matters. Similar to first-line supervisors in factory production, in a construction site foremen have direct contact with the workforce and

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[9] In here, we have to explain some concepts on the production process itself. The system of mass production goes back to Henry Ford, who invented mass production and perfected the assembly line method of manufacturing early in the 20th century. This type of production process is called as Fordism and the term of Taylorism is used to describe as a certain type of production organization in which managerial positions play an absolute role in the production process. Fordism, incorporating Taylorism, resulted in a greater division of labour and the de-skilling of manual labour. While discussing the production and labour process in construction industry the term of "craft production" is used for the antonym of "mass production."

assume responsibility for technical problems. However, it is not always the case. In some situation, foremen do not always have opportunities for regular administrative consultation. The acquired working knowledge of the production process by the workers through direct experiences on the job has created them an opportunity of consultation to the employer. During the production process, workers gain an understanding of the raw materials they transform, the limitations of equipments and a commonsense appreciation the interrelated facets of the production system.

It is argued that the rate of unionization in the construction industry is an important designation on the labour process. The participation in the craft trade union is the major factor determining work experiences and employment. Unionized craft production has been considered by some to be distinct from other manual labor process because craft work practices are "occupationally controlled." occupational difference of construction industry from the other sector of economy strongly tied with the unionization. The implication of this perspective is that large advantages should accrue to those craftspeople with strong union affiliation. Construction workers are not dependent upon a single employer with many potential contractors, and with hiring in the hands of the union. "It is within this context that craft unions became powerful enough to retain occupational control over the work process (Rothman 1987:144)." In here, we should emphasize that high employment rates and the absence of strong unions in a country, the construction workers have not an opportunity to control the production process. In such countries, Turkey would be a good example of this, most of the construction workers have not an opportunity to benefit from social security. When we add the problems of seasonality and flexible working hours to the high unemployment, the view is getting darker for the construction workers.

According to the opposite view that is represented by the scholars such as Bob Reckman, Erik Olin Wright and Marc Silver, the existence of craft controlled work organization within capitalism is something a myth. According to this perspective, the employment opportunities that are created by the construction firms are used to control the labour process. In that sense, managers play an active role in capitalist labour process by using their pivotal location between labour and capital. It obtains a set of class interest and advantages to the managers in the labour process relative to non-managerial working class position. The process of monopolization[10] in the construction industry has led to an eroding of the craft skills and the control of work process has been shifting through the managers and contractors (Silver 1990: 246). The strategic location in the production process of workers could not be under estimated. However, their experience and the abilities to solve the technical problems on the work side play a preventive role to access to those higher in the organization structure.

3.2 A Global Outlook to the Construction Sector

The construction industry represents a large segment of the total economy. Over a million companies ranging in size and specialty make the construction industry one of the largest of all industries. Businesses in the construction industry interact with businesses in related industries that supply materials, equipment, financing, and bonding to the construction contractor. Each business is dependent on one another for their survival.

Table 3.1 shows the global distribution of construction output and employment in 1998. The data are based on output and employment figures for individual countries, which have been compounded by region and level of per capita income. High-income countries are defined as having GNP per capita above US$9,266 in 1999, which is the criterion used in the *World Development Report* of 2000-01. Low-income countries are all those with per capita income below this level. Both sets of figures are only rough estimates, and this is particularly the case for developing countries. Furthermore, countries have only been included if estimates for both employment and output were available, which ruled out most countries in sub-Saharan Africa. The data therefore seriously underestimate construction activity in Africa.

[10] It should be admitted that the term of “monopolization” is not reflected the situation of industry. This term is used to describe the process of intensifying of the control of the industry into bigger and fewer hands.

Table 3.1 Global distribution of construction employment and output, 1998

No.of countries	Region	Output ($ m.)			Employment ('000s)		
		High-income Countries	***Low-income Countries***	***Total***	***High-income Countries***	***Low-income Countries***	***Total***
9	Africa	-	20 962		-	1 867	
23	America	723 569	243 247		9 275	10 917	
22	Asia	665 556	387 831		7 258	60 727	
2	Oceania	46 433	-		685	-	
34	Europe	876 546	123 345		11 820	8 978	
90	Total	2 312 104	701 755	3 013 859	29 038	82 489	111 527
	% of total	77	23		26	74	

Sources: Employment data is from the ILO *Yearbook of labour statistics*, 2000, except for India where local estimates of total employment have been used. In the vast majority of cases the employment figure is total employment in construction. In those cases where total employment is not available, paid employment is taken as a proxy: this applies to the six countries of sub-Saharan Africa, Bahrain and France. Output figures are taken from a special survey for the *Engineering News Record* (*ENR*, 1998), which uses the best available national data for output, which is measured gross (the value of the completed construction project).

It can be seen from the table above that total construction output worldwide was estimated at just over $3,000 billion in 1998. Output is heavily concentrated (77 per cent) in the high-income countries (Western Europe, North America, Japan and Australasia). The high-income countries of Europe alone are responsible for 30 per cent of total world output. The United States and Japan constitute the largest national construction markets with 22 and 21 per cent of total world output respectively. China, despite its huge size and rapid economic growth in recent years, lags a long way behind with only 6 per cent of total output; India has 1.7 per cent.

3.3 The Turkish Construction Sector

The roots of Turkish engineering tradition might be extended towards the Seljuk Empire that we have found the first examples of military and civil buildings. However, there is a wide consensus that Sinan the Architect with his tremendous architectural intelligence is the most important character in the Turkish engineering history. His achievements could not be squeezed in the architecture. The new building organization that has been developed by him has created a base to the art of constructing for the future generations.

As we have complained before there are not enough sources on the construction services not only in Turkey but also in the world literature of economic studies. Even in the governmental sources the statistics and the analyses on the construction industry are inadequate. In this part of the study, I will try to analyze the construction sector in Turkey. Because of the wide range of economic activities that the construction services cover, I have tried to designate the position of the construction sector in the Turkish economy by making some inference from the macroeconomic data on the Turkish economy. In the second subtitle, I have endeavored to analyze the history of the construction sector in the Turkish Republic. The Five Years Development Plans are the only reliable sources that give important clues on the strategic approaches of the state to the construction sector. Due to in the second subtitle, I will try to show the development of construction sector in the Turkish economy and the shifts in the governmental policies towards the sector. In the third subtitle of this part, I will introduce the process of internationalization of the sector. This part of the study was considered as an introduction of overseas construction works of Turkish firms.

3.3.1 The Position of the Construction Sector in the Turkish Economy

Like in many other countries, construction industry has a special position and a great importance in the economic structure of Turkey. The direct ties with hundreds of goods and services, intensive usage of labour power and its contribution to the socioeconomic welfare level construction sector could be seen as the one of the leading sector in a national economy. According to the data of State Planning Institute the indirect share of the sector reach to 33 percent of GNP and the contribution of the construction sector to the employment is around 15 percent. That is why construction sector is called as the locomotive sector of an economy.

The share of construction sector in an economy is highly dependent upon the public investments especially where private actors have not got enough power to mobilize the economy through a development path. During the period of crises, state intervention to the economy by the realization of productive projects has a great importance especially for the construction sector. Table 3.2 shows the consolidated budget expenditure realizations between the years 1993 and 2003 in Turkey[11]. Although our primary interest is the row of investment expenditures in this table, first of all analyzing other items in the consolidated budget expenditure realizations to understand the reasons of the volatility in the investment expenditures could be more suitable. The first item in the consolidated budget expenditures is the current expenditures. Current expenditures are divided into two categories, namely, personnel expenditures and the other current expenditures.

During the period 1993 – 2003, the share of current expenditures is sharply decreased. If we gaze to the Table 3.2, we see that the share of current expenditures in the consolidated budget expenditures decreased from 41.89 percent in 1993 to 27.43 in 2003. The efforts of decreasing the share of current expenditures in the consolidated budget expenditures to finance the transfer payments has been one of the primary objectives in the Stand-By Agreements that was signed with the IMF by the Turkish Governments. There are two basic items that constitute the transfer payments; namely interest payment and social security.

[11] In the table of “The Consolidated Budget Expenditure Realization 1993-2003” the details of consolidated budget expenditures items are disregarded. Only the items of *transfer expenditures* are separated into two different subtitles which are *interest payments* and *social security.* The subtitles under the interest payments such as domestic and external dept interests and social security are also disregarded because according to our topic these details have not got an importance.

Table 3.2 1993 -2003 Consolidated Budget Expenditure Realizations

(Billion TL)	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Total Expenditures	**490.438**	**902.454**	**1.724.194**	**3.961.308**	**8.050.252**	**15.614.441**	**28.084.685**	**46.705.028**	**80.579.065**	**115.682.350**	**140.053.981**
Current	205.448	347.262	645.945	1.286.240	2.788.298	5.187.840	9.172.790	13.613.937	20.448.022	31.107.959	38.418.666
Share of Current	41,89%	38,48%	37,46%	32,47%	34,64%	33,22%	32,66%	29,15%	25,38%	26,89%	27,43%
Investment	57.565	77.016	102.989	255.356	640.134	999.320	1.544.427	2.475.116	4.149.580	6.891.836	7.165.121
Share of Investment	11,74%	8,53%	5,97%	6,45%	7,95%	6,40%	5,50%	5,30%	5,15%	5,96%	5,12%
Transfer	227.425	478.176	975.260	2.419.712	4.621.820	9.427.281	17.367.468	30.615.975	55.981.463	77.682.555	94.470.194
Share of Transfer	46,37%	52,99%	56,56%	61,08%	57,41%	60,38%	61,84%	65,55%	69,47%	67,15%	67,45%
Interest Payments	116.470	298.284	576.116	1.497.401	2.277.917	6.176.595	10.720.840	20.439.862	41.062.226	51.870.659	58.609.163
Share of Interest Payments	23,75%	33,05%	33,41%	37,80%	28,30%	39,56%	38,17%	43,76%	50,96%	44,84%	41,85%
Social Security	11.000	34.480	108.205	335.300	760.000	1.400.000	2.750.000	3.321.098	5.112.000	11.205.000	15.922.000
Share of Social Security	2,24%	3,82%	6,28%	8,46%	9,44%	8,97%	9,79%	7,11%	6,34%	9,69%	11,37%

Source: State Planning Organization

According to the statistics, the share of interest payments in the consolidated budget expenditures rose from 23.75 percent in 1993 to 41.85 in 2003[12] and during the same period the share of social security expenditures increased from 2.24 to 11.37. The rapid rise in each item is compelled the decision makers to reduce the share of other items in the consolidated budget expenditures.

Under the high pressure of domestic and external dept, the share of investment expenditures in the consolidated budget is sharply increased. According to the figures of Table 3.2, the share of investment expenditures in the consolidated budget falls to 6.40 percent in 1998 that was 11.74 percent in 1993. Starting from 1999, the share of investment has been floating around 5 percent and in 2003 it was exactly 5.12 percent of the total expenditures. Even after the great earthquake disaster in 1999, we could not see any slight move in the investment expenditures. These deductions in the investment expenditures have affected Turkish construction sector and related sub-sectors deeply. Because of the insufficient appropriations, the construction investments that have been started before could not be completed and Turkey became a heaven of idle investment.
The position of construction industry in the Turkish economy could be seen more clearly from the Table 3.3. This table represents the construction expenditures on the GDP between the years 1993 and 2003 by distinguishing the private sector from the public sector. Public sector construction expenditures are also separated as building construction and other. Although, private sector construction expenditures are divided into two parts as residential and non-residential buildings by the State Planning Organization until 1997, from this year to now on nonresidential building construction are added to residential construction, possibly for the reason that the value of nonresidential construction decreased under the level of recognition. The sharp decrease of the total construction expenditures on the GDP from the year 1993 to 2003 attracts attention at first sight.

[12] According to December 2003 figures, total domestic dept of Turkey is 139.3 billion dollars and total external debt is 63.4 billion dollars in the consolidated budget. Source: http://www.hazine.gov.tr.

Table 3.3 Construction Expenditures on the GDP (At 1987 Prices) - 1993 – 2003

	Public Sector				Private Sector				Total	
	Building Construction		Other Construction		Nonresidential Buildings*		Residential Buildings			
	Value	Growth Rate	Value	Growth Rate	Value	Growth Rate	Value	Growth Rate	Value	Share in GDP
1993	1.496.156	26,7	3.069.542	-8,2	1.812.868	5,1	7.841.980	15,9	14.220.546	14,75
1994	880.295	-41,2	2.974.997	-3,1	1.838.068	1,4	8.701.908	11,0	14.395.268	15,72
1995	935.132	6,2	2.123.359	-28,6	1.926.851	4,8	9.059.750	4,1	14.045.092	14,37
1996	1.217.996	30,2	2.745.881	29,3	1.979.386	2,7	8.825.466	-2,6	14.768.729	14,07
1997	1.495.767	22,8	3.481.440	26,8	2.058.029	4,0	8.707.602	-1,3	15.742.837	13,95
1998	1.870.122	25,0	3.699.045	6,3	-	-	10.569.415	-1,8	16.138.582	13,85
1999	1.839.849	-1,6	3.144.352	-15,0	-	-	9.640.591	-8,8	14.624.792	13,17
2000	2.421.670	31,6	3.526.839	12,2	-	-	8.704.844	-9,7	14.653.353	12,30
2001	1.936.176	-20,0	3.162.328	-10,3	-	-	8.005.386	-8,0	13.103.890	11,88
2002	2.316.983	19,7	3.174.044	0,4	-	-	6.809.211	-14,9	12.300.238	10,34
2003	1.698.702	-26,7	3.300.817	4,0	-	-	6.031.847	-11,4	11.031.366	8,77

Source: State Planning Organization

* The statistics of nonresidential buildings are not counted since 1998 by the S.P.O. and from the year 1998 the section of the value of nonresidential building is added to the value of residential building. So, since 1998 the section of residential buildings should be realized as the whole private sector building construction.

** The growth rate of residential building in 1998 is calculated on the overall private sector building construction in 1997.

If we investigate the source of this sharp decrease, we could see that the whole decrease in the construction expenditures is resulted from the diminishing private construction expenditures, whereas the public construction expenditures are almost stay at the same level - and even has performed a slight rise in 2003 when compared with the value of 1993. It could be easily seen from the table that the share of private construction in the total construction decreased roughly to the level of 55 percent in 2003 while it is around 70 percent in 1993. So we could easily conclude that the whole decrease in the total construction expenditures from the year 1993 to 2003 – the share of total construction expenditures is diminished from 14.75 percent to 8.77 is resulted from the shocking reduction in the private construction expenditures.

3.3.2 The History of Construction Sector in the Frame of Development Plans until 1980s

Since its foundation in 1923, after the collapse of Ottoman Empire the Turkish Republic has exerted every effort to turn the economically underdeveloped country, with a largely non-existent infrastructure, into a modern nation-state. In this process, schools, hospitals, roads, railroads, power plants, irrigation networks and factories were built with state funds since private capital was practically non-existent. Consequently, because of the inadequacy of educated work force, foreign firms have dominated the construction market of Turkey in a period of time. However, during this period the native-foreign partnerships in the construction investments have helped the development of national construction firms. The new techniques that have been adapted from the foreign companies by the Turkish construction firms have constituted the basis of national construction sector.

Stagnation and socioeconomic transition period after the Second World War has effected the technical organization character in the construction sector. By the establishment of State Hydraulic Works and General Directorate of Highways in 1950s that has inspired from the successful foreign models in terms of organizational and working principles, has provide an important acceleration for the construction sector.

However, the history of both hydraulic and road works in Turkey could be extended through the reign of Ottomans.

The development process of Turkish construction firms has also continued in 1960s. In the First Five Years Development Plan (1963-1967) the weight of public investments in construction is at perceived level. In this plan it has been stressed that during this period for an average growth rate of 7%, the production should be increased every year in cement %10-15, lumber %10-13, brick %5-13, iron %8-15, and excavation %5-10. In the frame of Five Years Development Plan, it was recommended possession precautions in the construction of public sector. The Second Five Years Development Plan (1968-1972) has almost same comprehension in terms of its perceptions and suggestions on the problems with the previous plan. The suggestions in the plan should be summarized as follows: standardization for an increase in the productivity, using labour intensive techniques in the infrastructure investment and decreasing the excess administrative personnel on the other hand increasing the technique personnel to solve the lack of white-collars. The importance of this plan is concealed in a sentence that states the state construction companies which are operating without rationality will be purified and not established again. This sentence has a great importance for the future of the sector and it might be realized as the first privation attempt in Turkey (Güneş 1990: 3-5).

Between the years 1968 and 1970 the reel construction investments has risen, square meter construction and number of building has increased. In the early 1970s the construction of İskenderun Iron Steel Factory has been the greatest investment in the history of Turkish Republic that was completely built by Turkish construction firms albeit this project was completed under the guidance of Soviet technical aid. In the history of Turkish construction firms this project constituted an important phase. Considering the scale of this investment, by this project Turkish construction firms have gained a great experience in the construction of large industrial buildings.

During the period of 1973 – 1977 the construction industry has shown a slight increase. The deficit of building in the cities and the increasing shanty construction were the basic concepts of the Third Plan. It was stressed that although the building license which has been taken from 1962 to 1970 has amplified around three fold; the deficit of housing has increased proportionally. In this context, according to the needs of obtaining finance and decreasing costs, cooperatives have been encouraged.

In the Fourth Plan (1979-1983) the construction sector analyzed in terms of its big share especially in the investments rather than the need of housing. In this plan the most important determination might be seen as the external dependency of sector. In addition to these, it has been stressed that the insufficiency in the level of specialization of Turkish construction firms. The problems of construction sector were determined as follows: the low productivity level of traditional construction techniques and the work force and the idle capacity of the machine parks (Güneş 1990: 9). It was recommended in this plan that the prefabrication systems should be become widespread in order to decrease the time of construction and increase the level of mechanization. The insufficiency of technique personnel was again stressed in this plan. In spite of all these recommended precautions, a sharp decrease is observed in the number of buildings during the period of 1979-1982. Against all these negativities that we have observed, some construction firms have become massive companies. They have found some possibilities to strengthen the organizational structure of their companies and become the pioneers of the internationalization process of the Turkish construction firms.

3.3.3 Early Periods of International Construction: The First Wave

The first construction activity outside the national borders that was undertaken by a Turkish construction firm is the Tripoli Seaport construction in Libya in 1974. However, Turkish construction firms could not take an important part during the period 1973-1977 from the first phase of the attack to the international market. On the other hand, during the second phase – since 1978, Turkish constructors manage to enter into the competition with the other countries in the international markets and comparing with other developing countries Turkey has taken a serious part from the international construction services. During this period Turkish constructors have turned the advantage of the geographic location to profit especially in Libya and the Gulf countries. It could be said that the experience of contracting in Libya constitutes the foundation level of learning to build outside of the country for the Turkish constructors. During the process of entering to this markets the recklessness and bravery of the Turkish constructors has played an important role. In one of my interviews a general director of a Turkish construction company defines the attitude of the pioneer constructors as “the courage of crazy” and he adds:

> This process could not be explained with any logical inference. A contractor took its portfolio and flied to a country to make connection that he has never been there before. He doesn’t know the native language of this country; he doesn’t know anyone from this country and the only thing that he knows is that there are a huge amount of construction works in there. There is something more than bravery.

In this point an important question arises: what are the underlying factors that affected the process of opening up Turkish construction sector to abroad? The first one could be the technologic ripeness that some of the construction firms could achieve. As we have mentioned before during this process the big adjudication that was taken from public sector has played an important role in the growth of some construction firms. However, it should be admitted that this construction firms have been utilized this advantage by investing to the new construction technologies and organizing their companies according to the needs of the developments in the production process. The second and may be more important factor is the recession in the internal demand. Starting from 1978 the construction investments in Turkey has started to diminish and until the end of the 1985 it could not reach the level of 1978 (Güneş 1990: 8-11).

The volume of construction works of the Turkish constructors in Libya still constitutes the biggest portion in the whole the international construction works ever although starting from 1990s the importance of this market has been getting diminished and today there are no construction activities of Turkish firms in Libya. The construction industry in Libya got its start as a result of foreign oil company investment during the 1960s, but since 1969 it has grown in accordance with the government construction projects called for in the successive five-year plans. In 1975 the government began to reorganize the construction industry to make it more efficient. The many government-sponsored construction projects of the 1970s created a booming industry, so much so that by the end of the decade Libya had become the world's leading per capita consumer of cement.[13]

Between the years 1974 and 1979 the total volume of Turkish construction works in abroad is US$ 1,467,903,086. In this period the share of Libya is around 76 percent and its value is US$ 1,113,816,405.[14] The share of other countries in the period 1974 -1979 is at very low levels and it might be underestimated.

Starting from early 1980s Turkey has entered a transition period both in the social and economic arena. The integration efforts with the global economy according to neo-liberal project have strongly affected Turkish construction sector. After the adaptation phase in 1970s most of the larger firms quickly progressed to the direct handling of major projects starting from 1980s. The Turkish construction industry, after first capturing the domestic market, took its trained manpower, experienced management teams and broad range of equipment and machinery into the foreign markets.

The period of 1980-1989 is the golden age of Libyan construction market for the Turkish firms. In this period the amount of construction work that has been undertaken by Turkish firms was US$ 6,583,008,120.

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[13] The general information on the construction activities in Libya was taken from the web adres http://countrystudies.us/libya/61.htm. This website contains the on-line versions of books previously published in hard copy by the Federal Research Division of the Library of Congress as part of the Country Studies/Area Handbook Series sponsored by the U.S. Department of the Army between 1986 and 1998.

[14] The volume of international construction works is counted by Turkish Constructors Associations/International Constructors Association by asking to their members the amount of construction works that was undertaken by them. Thus, these amounts are not statistically reliable for several reasons. First of all, all the construction firms that are constructing in abroad are not the member of International Constructors Association. This association is called as “the club giants.” Secondly, due to there is no authority of sanction of this association, the possibility of manipulation on the amounts of construction works is very high. The manipulation has occurred both as over-valuation and under-valuation. Because of this it is hard to say even whether the reel amount is under or over the counted amount.

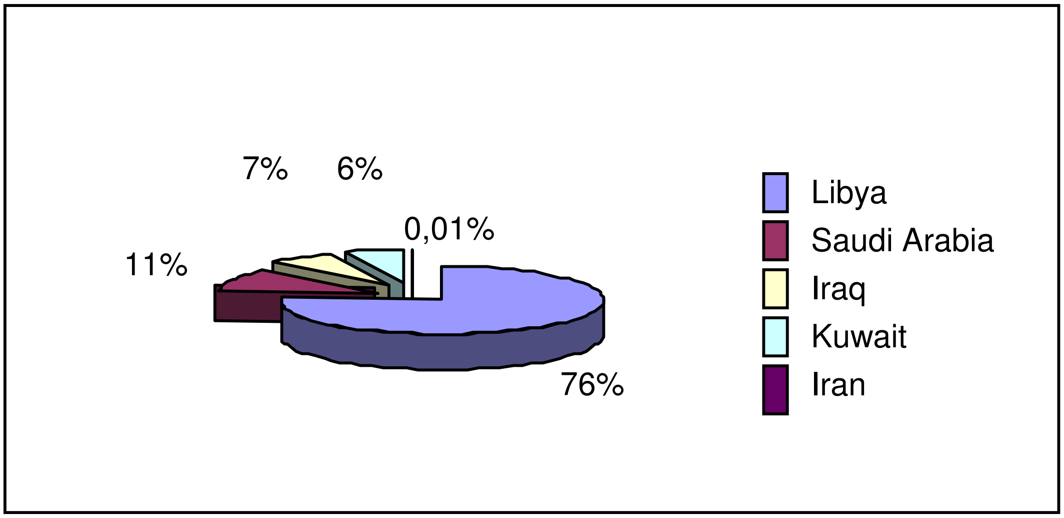

Figure 3.1 The Distribution of Turkish Construction Services according to Countries (1972 – 1979)

Source: Turkish Constructors Associations/International Constructors Association

However against the impressive increase the share of Libya decreased to the level of 57 percent. During 1980s both the bundle of countries that Turkish construction services could penetrate and the volume of contracts were sharply increased. Comparing with the previous decade, the number of foreign markets that Turkish contractors could enter was tripled and reached the number of 15. The increase in the total amount of work is more striking: US$ 11,470,360,931. It means that the volume of contracts raised nearly 8 fold. Similarly 1970s, Libya maintains its position as the most important construction market for the Turkish firms. The amount of total contracts that was undertaken by Turkish firms during 1980s in Libya is US$ 6,583,008,120. Saudi Arabia (US$ 2,747,851,516) and Iraq (US$ 1,205,946,423) has followed Libya in the list of most important foreign construction markets for Turkey. Although, Turkish constructors has managed to enter the markets of Iraq and Saudi Arabia during 1970s, considering the volume of work in these markets of Turkish construction sector, there could be seen a considerable improvement in 1980s.

The construction market of Libya is not a bed of roses for the Turkish constructors. Seasonal economic crises in Libya have deeply affected Turkish construction firms. The level of world petroleum prices is the basic determiner of the economic situation of Libya. The unpaid merits of Turkish constructors are the basic effect of the crises in Libya. Until 1994 the claims of Turkish constructors from the previous years, have been paid in small pieces the Treasury of Libya. Starting from this year, the payments were stopped without giving any reasonable explanation.

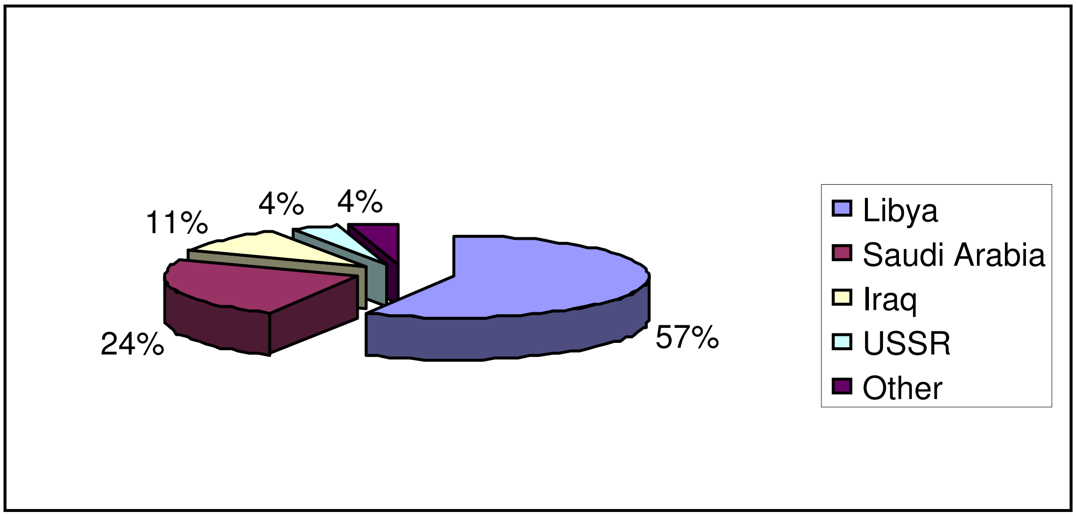

Figure 3.2 The Distribution of Turkish Construction Services according to Countries (1980 – 1989)

Source: Turkish Constructors Associations/International Constructors Association

*** Other:** Jordan, Yemen, Iran, U.S.A., Tunisia, U.A.E., Kuwait, North Cyprus Turkish Republic

In December 1994, in Turkey-Libya Mixed Economic Commission Assembly, it was decided that all the payments will be completed by the Libyan Treasury in the first three mounts of 1995. However, the merits of Turkish constructors have not paid until today.

3.4 From Soviet Union to Russian Federation: Understanding Construction Activities

One of the most significant processes that have been affected Soviet society in the period between 1917 and the end of the 1980s was rapid urbanization. Soviet power witnessed the transformation of what had previously been a largely rural and peasant country into a highly urbanized and industrialized one. Soviet leaders saw the development of urban areas as a crucial way to turn the peasantry into a worker class. Economic priority was placed on heavy industrialization and 'catching up with the west' that required a large urban workforce.

In this part of the study, I will introduce the construction sector in the Russian Federation. I will analyze this topic under three headings. Under the first heading, I will introduce the Soviet housing policy. Under the centrally planed economic structure, comparing with other industries in the coordination of construction industry Soviet Union has faced some important troubles. For instance, the chronic shortage of housing in the city centers has never solved under the reign of Soviet Union. In addition to this, the productivity of construction workers has always stayed under the average productivity of Soviet workers. In the second part, I will focus on the efforts of establishing a productive construction industry in the Soviet Union. In the third part, the construction industry will be analyzed during the transition period. The immediate results of the massive privatization of the construction industry in the Russian Federation will be the basic concern of this part.

3.4.1 The Soviet Housing Policy

Residential construction in Soviet Union was carried out under a system of centralized housing control and planning. Public capital investments in residential construction were distributed among the various regions, Ministries and departments calculated their requirements, on the basis of standards for living place.

The data on Table 3.4 that shows the urbanization level in the Soviet Union could be seen as the accomplishment of this aim. However, during this high-speed urbanization Soviet Union has faced with a great accommodation problem. The problem of insufficient housing in the Soviet Union could not be completely solved during the reign of Soviet system. By the end of 1990, the Russian housing stock amounted to 2425 million square meters of overall living space or more than 34 million flats, of which urban living space accounted for 1720 million square meters and rural living space for 1460 million square meters. However, the size of living space for each inhabitant stays much more under the western countries. On average in 1990, each Russian inhabitant had 16.4 square meters of total living space, with each urban inhabitant having 18.2 square meters of total living space (Barinova 1992: 327).

Table 3.4 Urbanization Process in the Soviet Union

Year	Number of Urban Settlements	Urban Population	
		Millions	% of total population
1926	709	26.3	17.9
1939	923	56.1	33.0
1959	1679	99.8	47.9

Source: Internet source – Round, John. Urban Development Under Socialism

The insufficient housing especially in the big city centers is trying to be solved by communal flats. These flats were designed to accommodate each family into a single room with a shared kitchen and bathroom. These communal houses were considered as the most suitable accommodation places to foster social unity. However, it is an undeniable fact that this type of housing has created many social problems including theft, lack of privacy and drunkenness.

The need of high-speed urbanization in the context of industrialization has maintained excess demand of residential building. As we have mentioned before this demand has never been satisfied by the Soviet authorities and Soviet Union engaged with an insufficient resident problem in the cities. Under the excess demand of resident, Soviet Union organized a strict control system on housing. First of all, every people should have a permit issued by the authorities that registers the bearer's place of residence. This license was called as *propiska*. In addition to this, at 16 Soviets were issued an internal passport, with a propiska, or residency permit, stamped inside. No change in residence could be made without official permission and failure to register was subject to fines or imprisonment. A valid propiska was required in order to work, get married or gain access to education or social services. Individuals were required to present their passports and *propiski* for internal travel or on demand by authorities or employers (Barrinova 1992: 334).

The system of *Microrayoni* has a great importance in the Soviet city plan. The *Mikrorayoni* is a local section of a region. The soviet planners tried to ensure that services, such as schools, health care, open spaces and shops were available within a short distance of apartment buildings – often shops are on the ground floor of apartment buildings. The *Mikrorayoni* is the focus point for the community that every need of the residents is obtained in this complex. So, the city plan ensured to disperse the crowd from the focal points of the city (Round, J.[15]).

3.4.2 The Soviet Construction Industry

During the Soviet period the organization of construction industry has created more problems than the other sectors in the planned economic structure. The problems of organizing the production process in the construction industry were stressed even in the early periods of Soviet Union. For instance, according to a report that was prepared in 1928, the lack of coordination in the all mechanization operations of the construction investments is still the main problem in the Soviet construction industry. It is also reported that catching the capital investment targets in the construction industry is more difficult than in the other sectors (Küçük 1972: 138). The physical muscle power in the

[15] There are no publication year and page number – since the document is prepared in the style of slide. This document could be found at http://www.geog.le.ac.uk/staff/jpr15/Housing_in_Soviet_Russia.pdf.

construction industry remained relatively more important than the capital because the materials that are used in building are turned to the finished product on the field –or the usage place. Due to this reason, there is no possibility of using energy in the field, increasing the organic composition of capital and consequently ascending the labor productivity like in the other industries. In accordance with a statistic in 1934, energy usage per worker was calculated as 0.75 HP (Horse Power) in construction while 18.35 HP in petroleum industry and between 1.5 and 3.21 HP in the coal industry. The average of energy usage per worker in the foreign countries was calculated as between 1.5 and 2.5 HP during the same period. The contribution of Machine Park to the construction value was calculated in the same year as between 3 and 4 percent in the Soviet Union while the average of foreign countries was between 8 and 15 percent.[16]

It is an undeniable fact that the excess labour and low productivity problems in the construction industry caused great trouble for the Soviet planners. Due to this reason the 17. Congress of Communist Party stressed that the mechanization of basic processes in the construction industry should be increased to the level 80 percent. According to this directive, Soviet planners have developed a new technique to augment both the mechanization level and productivity of construction workers. This technique in construction process is called as *skorostnoy method stroitelstva*.[17] This new level in construction is based on a different division of labour comprehension. On the first leg of this method, the works that have been doing on the field of construction beforehand is transported to the construction material production plants as far as possible. Another side of this method is extending the usage of both small and big machines in the field of construction such as excavator, turret winch and electrical equipments. The first one necessitates increasing standardization and production of construction materials while second one requires enhancing equipment production because in the high-speed construction method the level of mechanization is higher than the traditional one. In practice the new method of construction obtains thrift and speed while the usage of equipment increases about two times. However, this new method has extended more

[16] Ginzburg, S. (1935) Mehanizatsiya Stroitel'stva, Bolshevik pp. 61-62. Quted from Küçük, Yalçın (1972).
[17] It could be translated into English as "high-speed construction method".

slowly in the Soviet construction works than it was expected. For instance, in 1939 the share of this type of construction in the whole capital investments was around 28 percent. The great importance of complex mechanization in this new method could be an explanation of the difficulties that have faced in application (Küçük 1972: 141-142).

Table 3.5 compares the construction expenditures with the whole industry between the years 1923 and 1926 and shows that the construction expenditures are above the average of other industries. It could be seen from the table easily that Soviet Union manage to reduce the average expenditures in the industry radically in 1924. Due to the victory of Bolsheviks in the Civil War became definite after the year 1923 albeit the Civil War will have been continued a few years more, the radical reduction in the industry expenditures could be realized as normal. However, the expenditures in the construction industry first slightly decrease and than exceed the level of 1923. How could we explain this excess expenditure relative to the other industry group? According to Tumanov (1936/4) the general belief that explains the excess expenditures on the capital investments (construction) with the low mechanization level in the construction industry relative to other industries should be evaluated with suspicion. He stressed that the high costs in the construction activities should be explained with the faulty usage of the construction equipment in the field (Quted from Küçük 1972: 166). However, mechanization in the process of work should be as indispensable for any reduction in the cost of production.

Table 3.5 Work Force and Mechanization: Industry and Construction Expenditure Indexes

Years	Whole Industry	Construction	Relation
1923	2.27	2.42	1.07
1924	1.99	2.26	1.06
1925	1.98	2.66	1.33
1926	1.99	2.65	1.33

Source: Trctskiy, I. "Puti Snijenija Stoymosti Kapital'nogo Stroitel'stva" Ekonomiçeskie Obozrenie, 1927 Nob. p.84. quoted from Küçük 1972: 166.

Starting from mid sixties, large-panel prefabricated industrial housing built with block and on-site casting construction methods were developing in the Soviet Union. This method has enabled high level of mechanization since on a large scale the buildings were finished in the industrial construction complexes. Industrial-scale construction techniques based on replacing traditional brick wall with walls of prefabricated reinforced concrete was supposed to speed up the solution of high costs and productivity problems. In a short period time, this technique of construction spread across the country and during the last years of the Soviet Union the share of the new method reached 95% of total state and cooperative housing output (Barinova 1992: 330). As a result of high level mechanization in this typical projects with large-panel, large block and three-dimensional module construction, Soviet construction industry has gained a significant speed and thrift.

3.4.3 The Condition of Construction Industry in the Russian Federation during the Process of Transition to the Market Economy

By the collapse of Soviet Union, the newly founded Russian Federation has entered into a chaotic period of uncertainty. During this financial, economic and social turmoil, the inherited industries from the Soviet Union lose their functional peculiarities since their organizational structures were organized according to the centrally planned economy. In that sense, the building was the most affected industry among the others from the adaptation process of the integration to the market economy. Under the chaotic economic structure the sharp decline in the investments has led to a reduction in industrial and residential construction and in civil engineering projects along with an increase in unfinished construction.

Under the economic crisis in Russian Federation in 1990, the structure of capital investments has undergone significant changes. In this respect, the share of new construction has dropped to 28% as against 42% in 1986, and the share of reconstruction and technical modernization has increased to 53% as against 41% in 1986. The rise in the share of technical modernization and reconstruction could be explained by the new economic independence for enterprises and organizations. Consistent with the permission of self-financing, enterprises searched for the ways to adapt their production process into the new conditions. The share of capital investments financed by enterprises and organizations themselves amounted to 82% of total capital investments in reconstruction and technical modernization (Barinova 1992: 324). This situation was a reflection of the shift in the social orientation of the investment process through the famous concepts of capitalism: ratability and productivity. However, after the liberalization of prices in 1991 the public enterprises faced against the problem of insufficient means for carrying out their investment programs. The liberalization of prices has caused an unprecedented devaluation of the enterprises' depreciation allowances and savings.[18] As a result of rises in interest rates and increases in prices for building materials, a drop in housing completions was observed not only for construction financed by the public sector, but also in housing finance by the households themselves and through state loans. As the natural result of the slow-down in construction activities, the number of workers employed in construction estimated to have fallen from 7.4 million persons in 1990 to 6.9 million in 1991. The redundancies were occurring in the first half of the current year (Barrinova 1992: 324).

Table 3.6 shows the total number of construction organizations by types operating in Russia as of June 1, 1992 and their share in the total volume of work contracted. The dominance of state construction organizations on the total number of constructions attracts attention. The volume of bids for projects gave an advantage to the state sector. The industry is depended on state financing for capital construction projects.

The dominance of the state owned companies in the construction sector was seen as the primary obstacle on the building process of free market. Like in other sectors a massive privatization attack was executed under the guidance of international financial actors.

[18] The reform of wholesale prices caused a radical decline in the share of depreciation among sources of investment financing to 20-22% in 1991 as against the stable 40% at the end of the 80s (Barinova 1992: 325).

Table 3.6 Number of Construction Organizations by Types Operation in Russia in 1992

Type of enterprise	*Number of units*	*Share of total output*
Leased companies and state construction organizations, of which:	1700	70% ≤
leased companies	500	21%
Housing construction cooperatives	76.000	19%
Joint-Stock companies	-	≈ 9%

Source: Barinova 1992: 326

However, the results showed that the optimistic expectations of specialists were not realistic. The process of privatization in the construction industry of Russia and its immediate effects is explained by Larisa Barinova, in that way:

> The dividing up of production facilities is the main problem in privatization. It arises generally in the absence of stable and sufficient orders. Moreover, the construction industry is a huge industrial and technological complex. It includes building material plants, needed equipment enterprise, mechanization shops, etc. According to Privatization Act all these enterprises can become independent and change their main activity to go after big profits. But this process leads to a break in technological linkage and a break-up of the construction industry itself (1992: 323).

Like in the other sectors in the economy, the organizational structure of the construction industry that has been designed under the centrally planned administrative structure has broken up in the privatization process. The broken supply side of construction market could not answer the growing needs of state and private actors. Thus, the black in the supply side of the construction was filled by the international construction firms.

CHAPTER 4

TURKISH CONSTRUCTION FIRMS IN THE RUSSIAN MARKET

The penetration of Turkish construction firms in the international markets began in the mid 1970s in Libya. Since then Turkish firms have able to broaden both the overseas markets that they could penetrate in and the volume of works. The overseas construction works should be realized as in terms of with its social and economic dimensions. In this context, I will try to evaluate the overseas construction works as a process. In the overseas construction process the geographical dimension designates the nature of work and renders the work specific. In this context, I will make an evaluation on the specific area of Russian Federation to understand the process of work in this area.

4.1 The Penetration Process of Turkish Constructors into the International Markets

As we have mentioned before starting from 1980s some construction firms have started to grow in a short period of time in the proportion of their share of which they have received the big construction adjudications of the public sector. This process should not be squeezed into the narrow borders of the science of management. In the macro level, this process could be read in terms of alteration in the system of capital accumulation. Although the process of liberalization aims a minimal state structure to open a broader area to the market, this process needs to create or more accurately reorganize its own social class structure that it leans against. Thus, it has been investigated the ways of capital transfer to the potential disciples for the new capital accumulation regime.

Construction sector is the most suitable sector for the transfer of the public sources. First of all, public adjudication system has created a vast area for the manipulation especially during the periods of reorganization. Secondly, the first capital stock for an ‘entrepreneur’ to enter the construction sector is very low comparing with other sectors.

The increase in the capital stock of the construction firms in 1980s has created some significant opportunities. First of all, these big companies have able to transform their production process from labour intensive to capital intensive. They used more technical personnel and bigger machine park in the production process. Thus, with these technical equipments they have gained an ability to use prefabricated panel systems. Second, they have passed through horizontal integration in their organization model. It means that they have enough technical personnel to materialize all the levels to complete a building. In other words, they have constituted specialized departments from architectural level to painting. It has created a significant cost reduction in their construction works. The last but not least, they have extended activities of their companies through the outside of the construction and have started to operate in different industries. It might be concluded that the development of the construction companies in terms of their organizational structure has accelerated the process penetration to the international market.

International construction works might be defined roughly as the construction activities that are executed outside the borders of national economy. In other words, the concept of international construction services is used for the activities such as building, installation, assembling, engineering, consultancy, management, restoration and renovation that are materialized in the foreign countries (YDMHB Başmüşavirliği 1996: 1). The characteristics of working outside the national borders might be arranged in order as follows:

1. The individuals, who take part in the organization of construction, have to work with the institutions that operate in a different system both morally and socially.

2. The geographic distance is very important for an entrepreneur who is willing to operate into a foreign country.

3. The obligation of working in the different legal systems and cultures.

4. The level of competition is higher than the national market.[19]

5. The phase of execution into the foreign country where the structure of production process is more different than the native country might be more complex.

4.1.1 Legal Dimension of Overseas Constructing

In this part of the study I will try to introduce the legal arrangements in both Turkey and Russian Federation that constitute a legal base for overseas construction works. Before starting to explore the nature construction works in the Russian Federation that has been undertaken by the Turkish firms, introducing the judicial arrangements in both countries will help the reader to see the whole picture. Thus, this part of the study might be considered as an introduction for the following parts of the study in which the super-structural arrangements on overseas construction activities will be introduced. Considering the legal arrangements that systematize the commercial activities have been constituted according to the needs of economic relations, the arrangements on overseas construction activities in both countries will assist us to understand the nature of this special type of commercial relation. In addition to this, on the political level the legal arrangements show us how both of these states have perceived overseas construction activities.

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[19] Though it might not be true for the Turkish construction services that are operating into the foreign countries. Turkish constructors have penetrated into the foreign markets where the level of competition is lower than the other countries.

4.1.1.1 Administrative Arrangements in Turkey on Overseas Construction[20]

As I have mentioned before Turkish construction services have expanded their activities outside the national borders since mid 1970s. Starting from the beginning, Turkish governments have tried to constitute a legal and administrative infrastructure for this newly occurred commercial activity. In the beginning, the operations on the overseas construction services of Turkish firms have been executed by the General Secretariat of the International Economic Cooperation Organization that was organized under the Ministry of Finance. Later in the year 1980, the inter-ministerial Overseas Construction Services Support and Development Committee was established under the chairmanship of Undersecretary of Ministry of Public Works the general directors related ministries. In 1983, the arrangement authority on the overseas construction works was given to the Undersecretariat of Treasury and Foreign Trade and until today these activities have been executed by the Department of Overseas Construction Services.

Turkish government with its various institutions gave incitements to the overseas Turkish construction services. First of all, there is no obligation to get the profits that have been gained from the overseas construction activities to Turkey. The opportunity of utilizing the profit in any country has given to the firms to invest the added value that has been gained from the construction activities. The other incitements could be enumerated as follows:

1. In regular export operations the gained foreign currency should be returned to the country in 180 days but in the export operations in the range of overseas construction activities this duration extended to the one year.

[20] All the information about the administrative arrangements on the overseas construction in Turkey that was presented in this subtitle could be found under the web site of Yurtdışı Müteahhitlik Hizmetleri Dairesi Başkanlığı, http://ydmh.foreigntrade.gov.tr/

2. Turkish contractors could transfer to the foreign countries up to the amount of 5 million US dollars without taking any pre-permission.

3. The credits that are taken by the overseas construction firms have an exception from the tax, due and fees.

4. There is an exception on the corporation tax of the gains from the overseas construction activities under the conditions that minimum 10 percent of the earnings are returned to the native country.

In addition to these incentives, until the year 2000 the amount of Eximbank credits that has been used by the Turkish overseas constructors is worth roughly 32 million dollars. Additionally, in the range of country export credits the total amount of loans that was used by the Turkish contractors is about 1.1 billion US dollars. Although, the incentives that have been provided by the Turkish government have helped to opening up of the Turkish contractors into the international markets, there are still some problems in the legal coordination of the overseas construction sector. In a recent assembly of Overseas Contracting, Engineering and Consultancy Services Coordination Committee, the problems of the sector were discussed with the private sector representatives and the urgent precautions that should be taken by the government were decided. According to the legislative structure on the overseas construction firms, the decision of gathering all the body of current laws under a single Overseas Construction and Consultancy Services Regime might be a solution for the bureaucratic handicaps on the sector. With another important decision, the construction firms who are operating in the international arena will be classified according to objective criteria and the incentives will be canalized to these connoisseur firms. This decision shows us the influence capacity of the big construction firms of the administrative decisions. It is clear that the small and medium sized overseas companies will be tried to disqualify from the overseas construction markets by the big firms.

4.1.1.2 Legislative Arrangements in the Russian Federation on the Overseas Construction Works

Turkish construction firms operating in the Russian Federation have constructed their organization under to different legal structure. The first way to construct in the Russian Federation is to establish incorporated or limited firms according to the Russian legislative obligations. The new generation of Turkish construction firms has preferred to establish a Russian company with hundred percent Turkish capital to operate their construction activities. Working in Russian Federation as a Russian firm has some advantages especially on the level of undertaking a construction work. On the other hand, most of the Turkish construction firms have operated in the Russian Federation without establishing a company. This type of firms has formed a continuous-permanent agent in the Russian Federation of their company. The reasons why most of the Turkish company has preferred to establish a continuous permanent agent of their company in the Russian Federation might be found in the legislative and administrative advantages of operating under this institutional structure. First of all, the term of "continuous-permanent agent" is used for the determination of the tax status of a foreign firm. Thus, "continuous-permanent agents" have no judicial form and capital. Because of this, they are not subject to the legal profit distribution procedures and when the construction activity completes they are not subject to the purification procedures (Tezelman 2003: 16).

The Russian incorporated or limited firms have an opportunity to convert the rubles to the US dollars only under the circumstances of having a treaty that bears dept outside of the Russian Federation or after all the required taxes have paid "the real transferable profits" could be transferred as a profit to the partner firms. On the other hand, for the "continuous-permanent agents" there are no restrictions while converting the rubles to US dollars. The profits that are converted to the US dollars could be transferred outside of the Russia without any restrictions.

The Russian firms have some restrictions in terms of foreign exchange regime. For instance, opening an account in a foreign country is subject to the permission of the Central Bank of Russian Federation and it requires many bureaucratic transactions. Conversely, the "continuous-permanent agents" due to they have not a judicial structure in the Russian Federation could easily operate their foreign exchange transactions. Finally, the "continuous-permanent agents" can be benefited from the treaties of 'Preventing Double Taxing' while a Russian company is not subject to these agreements (Tezelman 2003: 17).

According to the legislative structure of Russian Federation, both native and foreign companies have to take license to operate in the Russian Federation. Licenses are given from the institutions that the Russian governments authorize namely Mosstroylitsenziya ve Rosslitsenziya. Construction licenses are given by the Federal License Center and these licenses are valid all over the country. However, the firms that will operate into the borders of Moscow should take a license from the Mosstroylitsenziya (Tezelman 2003: 17).

Employing the native and foreign workers is subject to different legislative rules in the Russian Federation. The taxing principles for the native workers are as follows. First of all, there is a 13 percent income tax for each workers and it is cut from the nominal wage of the workers. Secondly, the firms which are employed native workers should paid 35.6 percent of the workers' wage as social security tax. On the other hand, the firms which employ foreign worker in their construction activities should take work permit for each of the worker from the Federal Immigrant Bureau. The work permits are given for a period of one year and in a limited number according to the occupations. After the work permits are taken, it should be taken to residence permit from the Directorate of Passport and Visa. The income tax rate for the foreign workers is same with the native ones if the worker will work in the Russian Federation more than 180 days (Tezelman 2003: 21).

According to the treaty of "Preventing Double Taxing" that was signed between Russian Federation and Turkish governments, the companies could pay the tax of the construction works in Turkey or Russian Federation unless the period of work will exceed 18 months. There are several tax rates in the Russian Federation in different categories. It is unnecessary to enumerate all of the tax rates that are taken from the Russian Government. For instance, the rate of Value Added Tax (VAT) is 20 percent. On the other hand, the rate of VAT on average in Turkey is 18 percent (Tezelman 2003: 23).

4.1.2 Attacking to Construction in the Russian Federation

In this part of the study, I will try to introduce the process of entering to the market of Russian Federation of the Turkish construction firms. In addition to the numerical data, the qualitative data which have been collected from the interviews that I have done with the top level managers of the Turkish construction firms. The basic aim of this chapter is to explore the underlying factors that push the Turkish constructors into the Russian market.

In mid-1980s Turkish construction firms have gained great experience to construct in the international markets. The market of Libya have exhausted for the international constructors. First, the decreasing world petroleum prices have caused economic recession in Libya. Secondly, the infrastructure of Libya was already constructed in a great proportion. "This point is very important…" said a top-level administrator of a Turkish construction company and continues: "if the construction works have been continued in the Gulf countries in same speed, I think that the Turkish constructors will have not entered the uncertain Soviet market at the same proportion." Therefore, in this point there might be added a particular reason to enter the Soviet market: the shrinkage in the other international markets. Of course, the penetration of Turkish constructors to the Soviet market should not be perceived as a coincidence.

As a consequence of attempts to find out alternative energy sources, an Intergovernmental Agreement was signed on September 18, 1984 for the supply of natural gas between the Governments of the Republic of Turkey and the Former Soviet Union. The "Russian-Turkish Natural Gas Pipeline" construction commenced on October 26, 1986 within the framework of the contract dated 1984 reached Ankara in August, 1988. This agreement between two countries has been an essential driving force for trade relations as well as for Turkish construction firms to enter the Russian market. Turkish constructors have been undertaking major construction projects, with an increasing degree, in the Russian market since 1987. However, in 1987 Turkish constructors were already contracting in Russia since end of 1986.[21] Thus, although the natural gas agreement was the designative factor for the penetration process of Turkish constructors to the Russian market, the first construction works were not undertaken under the financial guarantee of the agreement. On the other hand, it could not be denied that this agreement has constituted confidence for the Turkish constructors. The natural gas account between Turkey and Russian Federation has been available until 1994 and the amount of total construction works in Russian Federation that was financed from this account is 609 million dollars. On the other, the amount of total construction works in Russian Federation until 1994 that was undertaken by Turkish constructors is US$ 5,211,000,000.[22] The great difference between these amounts might be interpreted that even though the natural gas agreement has opened a way for the Turkish contracting services to break through the Russian construction market, Turkish contractors have shown a great performance in taking an immense portion from the Russian market. In this point, we have to comprehend the underlying physical and psychological factors that have possibly affected the process of rushing into Russian Federation before the gigantic world engineering companies. The penetration process of

[21] The first construction work that was undertaken by a Turkish firm was the resident construction for the Soviet soldiers who came from German Democratic Republic and the finance of this work was taken on by Germany.

[22] The numbers are taken from Trade Consultancy of Moscow Embassy. According to the data of the Turkish Constructors Associations/International Constructors Association the total volume of construction works in Russian Federation and the former Soviet Union during the same period is around 4 million dollars. Since this amount covers only the members of International Constructors Association. Thus, we might conclude that the relatively small companies have undertaken construction works in Russia until 1994 around at the amount of 1 million US dollars.

Turkish construction firms should not be realized as a natural result of natural gas agreement that was signed between the two countries, since resembling agreements have been signed previously with Soviet Union by the developed countries. Therefore, according to my view the success of Turkish constructors into the Russian market should be investigated under the characteristics in the organizational structure of Turkish firms.

A civil engineer of a big construction company who has been accommodating in the different parts of Russian Federation for several years stressed on the relation between the risk and competition are inversely proportional. In this respect, the comparative disadvantage of the Turkish construction firms against the bigger companies of the developed countries has been reversed in the countries that the level of risk is very high by the 'risk lover character' of the Turkish construction firms. Comparing the previous markets that Turkish contractors could enter such as Libya and Gulf countries, the construction market of Soviet Union and Russian Federation have seemed them as a garden of roses. Thus, we could pointed out that the lack of competition in the market of Russian Federation due to the perception of high risk of the developed and other developing countries' construction sector, has offered an important advantage to the Turkish constructors especially during the reign Soviet Union and the intense transition period of Russian Federation.

In addition to these, there are some psychological factors under the triumphant operation of the Turkish constructors in the Russian Federation. In keeping with the same person, we continue trying to appreciate the underlying factors of this successful penetration process in his words.

> Sometimes tiny details could be very important. According to me, these details have played a crucial role in the success of Turkish constructors. The psychological factors could be separated into two groups. First of all, I believe that there is still something from the nomadic life style into the Turkish people. The nomadic behaviors are important both in leaving and arriving points. That is to say the preparation process before leaving somewhere is very short. In that sense, a man prepares its portfolio and can go… in here the point of arrival is not

> important. And in the target geography the adaptation process is very short for the Turkish person. Secondly and may be more important for the Russian market, Turkish people are very successful in bilateral personal relations and we are alike with Russians in terms of our cultural background.

Therefore the cooled down nomadic habits and the success in interpersonal relations of Turkish people might be the underlying factors of the success of Turkish constructors in the Russian market. In here, the expression of 'alike cultural background' attracts attention. This explanation of this expression might be found in his speech. He stressed upon the importance of interpersonal relations in the process of contracting several times during the speech. In a particular part of his speech he pointed out that western people has a superiority complex against Russians and also Turks. And continued: "Russians like Turkish people because they find us cordial and there is a correspondence in our feelings against Russians."

According to an attention-grabbing interpretation in one of my interviews, the *multiplier effect of gossips* has played an important role in the high level of aggressiveness of Turkish contractors. With his own words:

> Gossips that have resulted from insufficient knowledge [about the process of undertaking a construction work in Russia] have become a characteristic feature of the sector. Immediately after the natural gas agreement with the Soviet Union, people have started to talk on the massive amounts of construction works in the Soviet Union and than in Russian Federation that will be financed from the natural gas account. Nobody asked the exact volume of this account and may be this disproportion between the natural gas account and the volume of construction in Russia comes from the insufficient knowledge; namely gossips.

The dispersed information on the grapevine in the sector might be motivated the non-institutionalized construction firms to enter the Russian market. However, it is hard to say that the big firms have entered to the Russian market as a result of the gossips. Although, the factor of imperfect information could not explain the whole process, these kind of small pieces have helped us to see the complete puzzle.

4.2 The Constructing Process in the Russian Federation: Intermediate Level of Overseas Construction

Considering the great success of Soviet Union in the planned economic structure on the big construction works, the penetration process of the Turkish firms into the Soviet market since the last years of the socialism becomes a more interesting issue. In this section, I will try to find an answer to the success of the Turkish firms into Russian market. It is a two sided question. First of all, how the Soviet Union enters into a period that even very easy construction activities could not be operated by the native firms. Secondly, what are the underlying factors of the success of Turkish firms into the Russian market?

In the first division of this part I will give some numerical data on the Turkish overseas construction firms in 1990s. This part is important to see the whole picture of overseas construction activities undertaking by the Turkish firms and the place of Russian Federation in the overseas construction works. In the second division, I will try to analyze the inversion in the organizational structure of Turkish construction firms during the process of maturating on the overseas construction activities. The third part is separated to the relations on site. In this part of the chapter, the organizational structure of the Turkish firms on site and the position of labour in the process of work will be analyzed. It will be the last part of this chapter.

In terms of its nature, every single construction activity especially in the international area requires different perception during the process of work. It might be pointed out that every construction work might be realized as diverse tasks that must be completed. In other words, each experiment of construction is a part of learning process that will never end. In that sense, Turkish construction services have completed a hard training period in the international arena successfully in Libya and the Gulf countries. In the construction market of Libya and the Gulf countries Turkish contractors have gained ability to work in the extreme climatic conditions. Turkish construction firms could combine the technologic maturity with the ability of working in the extreme climatic conditions in the Russian market. However, it is a fact that the peculiar conditions of Russian market are very different from the other countries and from this perspective Russian market should be seen as another learning area for the Turkish contractors. Thus, Russian construction market might be seen as an intermediate training level of overseas construction works for the Turkish constructors.

The construction markets of former Soviet Republics and Russian Federation that was established immediately following her collapse are dissimilar in terms of their organizational structure and development level from the previous countries that Turkish constructors have worked in. Former Soviet Union was a super power in the bipolar world system in terms of her technological capability. As I mentioned before, although all the problems that Soviet Union have faced in the organization of construction works, Soviet civil engineers have built monuments all over the country. In here, a vital question arises: What are the underlying factors of the incapability of Soviet construction industry in building even simple structures that has occurred during the last years of Soviet Union? In this point, I will dwell upon the factors that have occasioned to surrender of the construction works to the international capital.

First of all, the organizational structure of the Soviet enterprises is very different from an enterprise which is operating in a market system. A Soviet enterprise produces to the plan not to the market. Unlike a Western enterprise "it is not simply a unit of production, but also plays a direct role in securing the reproduction of the labour force through the large number of social and welfare function attached to it. (Clark 1993: 13)" By the collapse of administrative command system, starting from the last period of Soviet Union and the urgent privatization program that was executed immediate after the collapse of Soviet Union that aims to maintain 'economic rationality' in the process of production was resulted with the bankruptcy of the whole system. It is legitimate to assume, during this process like all other industrial complexes that has been built according to the needs of plan, construction industry of the Russian Federation has entered a deep crisis. In the planned economic structure, Soviet Union has faced some constitutional difficulties in the organization of construction industry. However, except chronicle deficiency of housing, Soviet system has managed to constitute a stabilized construction industry. The mode of production of the construction industry has been structured on the system of Fordism. In other words, most of the works that have been done in the field of construction, transported to the factories which were structured on the Fordist mode of production. The only work that should be done in the field of construction is to montage the parts of the building. This process needs a high-level of coordination. The Soviet construction industry has organized according to the needs of all the former Soviet Republics. The dilution of the centrally planned production process starting from 1980s has resulted with the structural defects in the construction industry of Soviet Union. Therefore, in a transition period that the central administration system has started to demise, the industries such as construction have become not to operate their functional tasks as beforehand. After the demise of Soviet Union, Soviet construction industry has faced with a problem of scale. Due to the industry has been planned according to operate in the vast geographical area, after the demise, the Soviet construction firms have become awkward institutions to operate with smaller scales. If we combine this process with the fact of urgent demand of housing in Soviet Union, we find the basic factor of the attack of foreign constructors to the Soviet Union and afterwards to Russian Federation.

Soviet housing system has been based on according to the basic needs of the city dwellers. An executive manager of a Turkish construction firms said: “We have transformed the concept of luxury in the minds of Russian people.” I believe that this expression reflects a basic reality. For instance, in the Soviet Union residing in a separate flat rather than in a communal flat might be seen as luxurious. In the second chapter I have mentioned that on average in 1990 each urban inhabitant in Russia having 18.2 square meters of total living space (Barinova 1992: 327). A Russian family consisting of 4 people had on average 73 square meters of living space in 1990. Although there are no statistics on this subject for Turkey, 100 square meters of total living space cannot be realized as luxurious. Actually, the concept of luxurious building cannot be squeezed into the living space. This concept comprises a great space from architectural design to material quality. In here a manager said: “today, there is a great demand in Russian Federation for the villas that look like the Greek temples. They prefer especially Italian construction materials on their buildings." This expression tells us that the newly constituting capitalists of Russian Federation have exceeded the borders of luxury.

However, building residence constitutes only a part of the construction market of Russia that Turkish constructors could enter. Turkish constructors have been operating in the field of all *hoch-bau* works. For instance, in the construction of a factory rationality should be more important than good looking. So what is the main reason that obtains Turkish constructors superiority in the competition with the native constructors? The word of 'speed' might be the best possible answer of this question.

Turkish constructors were able to differentiate themselves not only from the native constructors but also from other foreign construction firms in terms of relatively short completing time of their works. If we consider that the other foreign construction firms are also operating with high-technological equipments, the actual difference of the Turkish construction firms come from the construction workers that they have employed. The productivity and the ability of working in hard conditions of the Turkish construction workers have provided to the Turkish construction firms an important advantage of competition.

4.2.1 The Volume of Construction Works in the International Arena and Russian Federation in 1990s

As we have mentioned before Turkish constructors entered to the market of Soviet Union at the end of the 1986. According to the data that have been collected by International Constructors Association the volume of construction works in Russia which were undertaken by the Turkish construction firms is US$ 304,221,381. Figure 4.1 shows the distribution of Turkish overseas construction services between the countries during the period of 1990-1999. Due to the width of the bundle of countries, the countries that have a proportion under the 5 percent are neglected. Between the years 1990 and 1999 Turkish overseas construction services have dispersed to 46 countries. Comparing with the previous periods the extension in the bundle of countries that Turkish contractors have dispersed, is impressive. In this period the amount of construction works in Russia reached to US$ 6,321,058,034 and the share of Russian federation in the whole Turkish overseas construction is 34 percent. Nevertheless, in this period the amount of total overseas constructions that has been undertaken by the Turkish contractors is US$ 18,233,061,092.

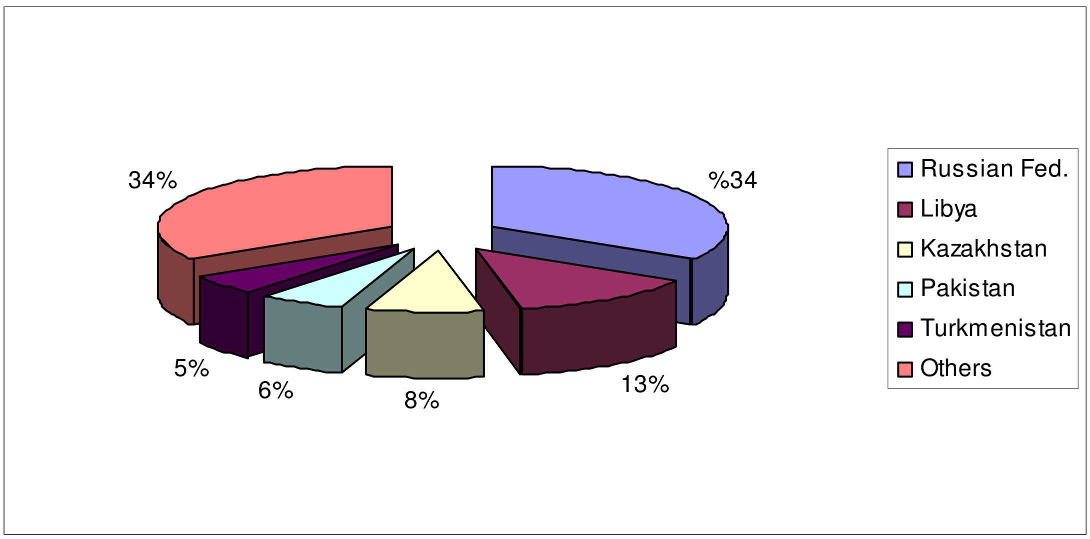

Figure 4.1 The Distribution of Turkish Construction Services according to Countries (1990 – 1999)

Source: Turkish Constructors Associations/International Constructors Association

***Others:** Saudi Arabia, Uzbekistan, Bulgaria, USA, Azerbaijan, Kuwait, Croatia, Germany, Belarus, Ukraine, Israel, Kyrgyzstan, Jordan, etc.

According to the Turkish construction Association, works in Russian Federation reached its peek point in 1995. In this year Turkish constructors undertook construction works in Russia at the amount of US$ 1,159,442,875. From 1995 to the year 2000 we have seen a steady decrease in the volume of construction works in Russia. The economic crisis of August 1998 in Russian Federation has deeply affected the construction activities. The amount of total construction works in 1998 that was undertaken by Turkish firms is US$ 394,816,191. In 1999 the amount of works decreased radically to US$ 53,247,901 and by the year 2000 the volume of all Turkish construction activities dropped out to the level of US$ 15,839,165.

In this point, we have to evaluate the process of contracting in Russian Federation to realize the underlying factors of the decrease in the volume of construction works. The year 1992 could be determined as the first landmark for the construction industry of Russian Federation. After the demise of Soviet Union the newly founded Russian Federation has executed a series of reforms to convert the centrally planned economic structure to a market economy. The privatization process has constituted the basic leg of the reform process. Therefore, while before the year 1992 the public sector was the only employer, since 1992 private sector has also entered to the market of construction as employer. The immediate effect of this process to the construction market was the decrease in prices of the construction works. Most of the interviewees pointed out that until 1992 the unit of square meter prices has been fluctuating between US$ 1,500 and US$ 2,000. With the entrance of the private sector to the construction market the unit of square meter prices fell to the level of US$ 1,000. Another important consequence of privatization might be the increase in risk factor in the finance of construction works. In addition to the fall of profit rates after the process of privatization, the possibility of any falter in the flow of financing to complete the construction works has also increased. After the August 1998 crisis in Russia, there has been occurred a second cut in the revenues of the constructors. The unit of square meter prices has fallen to the levels of US$ 350 – 500. Considering that there is also a profit rate in this amount, it could be easily said that especially before 1992 Turkish constructors have make enormous profits from the construction market of Russian Federation. However, the pioneer Turkish firms have started to recede from the market of Russian Federation after the massive decrease in the rate of profits because they have used to operate in the field of big profits. The remaining large construction firms have started to transform their organizational structure to adapt changing conditions in the construction market of Russia.

4.2.2 Inversion in the Organizational Structure of Turkish Construction Firms

According to data of State Registration Office of Russian Federation the total number of Turkish firms that has been contracted in the Russian Federation is 28. The number of Turkish construction firms in Russian Federation in the year 1994 was 41. The increase in the number of Turkish constructors in Russia attracts attention since although the number of 28 covers the whole period of 1986 – 1992, the number of Turkish constructors in Russia in 1994 belongs only to this year. The number of Turkish construction firms in Russia increased to 66 in 1995 and started to decrease steadily to 42 in 1996; to 36 in 1997; to 32 in 1998 and finally to 18 in 1999. It might be said that there two basic reasons of this steady decrease in the number of Turkish construction firms in the Russian Federation.

According to a top level manager of a Turkish construction company, the foremost reason of the two gradated decrease in the unit of square meter prices first in 1992 and the second in 1998 is the increase in the level of competition in the Russian construction market. First of all, during the transition period the newly established private native construction firms in Russian Federation could adapt their knowledge and abilities consistent with the needs of market and have started to take a share from the construction market. During an interview, a project coordination manager of a Turkish construction firm told an event about the learning process of native construction firms in the Russian Federation.

> Our company took a hotel construction job from a Russian company. After we have completed the construction, they offered us consultancy for a new hotel construction. We accepted their offer and teach them basic processes of the construction work. In the third hotel construction, they have gained the ability to construct a hotel without any assistance. Is there any difference between us? Yes; quality.

In addition to competing with national companies, Turkish construction firms had to compete with other foreign construction firms; and may be more important then this, they have started to compete in each other since the signals of recovery of Russian macroeconomic position has led to reduce the perception of risk. We have mentioned that the pioneer Turkish construction firms have started to leave the Russian construction market since their institutionalized organizational structure has prevented to undertake the construction works in the new environment of Russian Federation. The institutionalized companies should bear to operate with relatively high fixed costs and the reduction in the unit prices have figured out the Russian construction market as being a profitable market. However, some Turkish construction firms from this group such as ENKA and ALARKO was able to be permanent in the market by re-scrutinizing their position in the market. For instance, ENKA managed to be permanent in the market of Russian Federation since they have transformed their role through being a direct investor in the Russian market. As well as construction, ENKA has some direct investments in the Russian Federation such as RAMSTORE market chains that are operating in the retail food market. ENKA has also altered its perception to the construction works in Russia. They have started to build their own buildings and become an important actor in the real estate business especially in Moscow.

Since 1998 there have been three types of Turkish construction firms that were able to work in the Russian market. On the top of the categories of Turkish construction companies in the Russian Federation there are the firms that could broaden their activity area through the outside of the construction. As we have mentioned before ENKA has been able to succeed being a part of the Russian market. ALARKO have also some successful attempts on this way. The firms that have benefited from the Eximbank credits such as URBAN, ENTES, NETAŞ, BAYTUR could be categorized in the second type. These firms have entered to the Russian market later than the first group. Since the finance of their construction works has covered by Turkey, they have not affected from the fluctuations in the Russian economy.

The third group that has been able to work in the Russian Federation since 1998 might be called as the *new generation* of Turkish construction firms. These are small and medium size enterprises that could operate under the low profit rates. Most of the new generations of firms have transport their executive bodies to Russian Federation. It creates some opportunities to these firms in the Russian construction market. Due to the personal relations have played an important role during the process of contracting, the high level of social interaction with the Russian people have created some additional opportunities in the field of commercial relations. A Deputy of General Director of a ‘new generation company’ summarized the process with his own words:

> This type of companies is operating like a Russian firm. For instance, the owners of our company are living in Russia. They have married with Russian girls. So, they could observe the construction market healthier than the traditional Turkish companies. That is to say, unfortunately for the companies whose centers are located in Turkey, …established work sites when they take a construction work and closed these sites when the work was completed, the market of Russian Federation have closed.

This type of firms in general has been established by the staff of the big companies. The emergence of the new companies that have been divided from the big construction firms might be leaned to the structure of Russian construction market. In the construction market of Russia personal relations have played an important role. The civil engineers of the big firms who have an excellent knowledge the construction market of Russia have preferred to establish their own companies. In this point, I want to discuss the consequences of the division of Turkish construction firms.

There are two basic points of views on the consequences of the division of Turkish construction firms. A group of people claim that the division of construction firms has damage the image of the Turkish construction firms. According to this view, although there is small and medium size companies that have done excellent jobs in the Russian Federation, the buildings of poor quality that have constructed by some of this kind of firms has defiled the name of all Turkish companies. A project coordination manager of a Turkish construction firm said: “The name of firms is not very important in the Russian market. When you sit to the desk, there are Turks and Russians. The bad jobs that have done by the Turkish constructors injured the image of all the Turkish construction companies.” It is also stressed that the competition between the Turkish firms has led to decrease the profit rates of the companies. “It should be prevented.”

said an area manager of a company and goes on: "For example, in one of the adjudication there are only two Turkish construction firms. The difference between the proposals is 5 million dollars. This amount is the loss of Turkey."

On the other hand, some of the people in the construction sector think that the division of Turkish construction firms should be seen as a natural process which the provisions of construction market have caused to lean. Consistent with this point of view, if there are no spaces that the big firms could penetrate in, we could not talk about the divisions of construction firms. However, there is a demand for the relatively small construction works in Russian market that the big firms are unwilling to penetrate because of their scale. A deputy of general manager abstracted this situation in that way: "The institutional firms, such as our company, could be seen as a mass of big rock that could not cover the whole ground. The separated small pieces from this rock could fill the blanks that could not be reached by mass of rocks."

In brief, basically there are three types of Turkish construction firms in the Russian market. The first group of firms is the firms that could adapt the Russian market by expanding their fields of activities. The second group of firms has been operating in Russia by the credits of Eximbank. The new generation of Turkish firms categorized into the third group. At the bottom of this hierarchical structure there are subcontractors that have used specialized workforce in a particular part of construction. Most of the subcontractors have worked previously in the construction firms as craftsman or foreman. If we return to the abstraction of the deputy of general manager, in this context the subcontractors could be seen as sand particles.

4.2.3 Work on Site

Working in the construction industry is ultimately related to the social organization of work. Unlike the factory worker, a building craftsman's job is neither narrowly defined nor performed under close supervision. As the works of construction has not a continual character, unfortunately especially in Turkey construction workers are trying to save the day because of the intermittent period of works. In the overseas construction works the payments are higher than the construction jobs in Turkey and just because of this they have ventured to go a distinct geographical area that they have never been there before. The suggested wage by İŞKUR for the overseas construction workers is US$ 400 per month. With the insurance premium the cost of a worker increases to around US$ 600, except the transportation costs.

Why do Turkish construction firms prefer to employ Turkish workers in their overseas construction works even in the places that the cost of native construction workers is relatively at low levels? The high productivity of the Turkish construction workers could be the best possible answer. In here, we have to determine the possible reasons of the relatively high productivity of Turkish construction workers comparing with Russian construction workers.

Reversing the question, I want to evaluate the low productivity of Russian construction workers. Most of the interviewees stressed that the basic reason that reduces the productivity of Russian workers is the problem of alcoholism. Almost all the male Russian workers have a great consumption of alcohol. This situation reduces their productivity in the field of construction. In addition to low productivity, the problem of alcoholism has caused undisciplined behaviors. In other words, according to almost all of the people that I have found an opportunity to interview, stated that Russian workers have a tendency to slack. An area manager of a Turkish construction company pointed out that they have postponed the payments of Russian workers to impede not to buy alcohol in the working days. In addition to the problem of alcoholism, “it should be impossible,” said a manager, “to persuade the Russian workers to work overtime.”

In here, we have to stress that the process of work in a Soviet factory is different from a capitalist production process. In the Soviet production process workers had a high degree of control over the way in which they produced. However, it does not mean that they have power to reproduce the whole process of production. Although, Soviet managers have no interest in controlling how workers produced, they are dealing with how much they produce. Workers could try escape from their oppression in individual ways, in the form of alcoholism and poor discipline. On the other hand, in the capitalist system, capitalist penetrate the process of production more deeply in order to minimize the labour time expended (Clarke 1993: 16-17). Naturally, a Soviet worker who is working in a capitalist enterprise could not adapt easily the process of production.

As we have mentioned before that the power of competitiveness of the Turkish construction firms in the overseas construction markets comes from the self-sacrificing works of Turkish construction workers. The high productivity level of Turkish workers in the overseas construction works might be explained by the divergence from their social environment. The occupational socialization is more important in the overseas works. It is a process through which the recruit becomes a regular member of the group (Applebaum 1981: 23). They are working in an environment that is isolated from the everyday activities. Most of the Turkish construction workers aim to earn money as much as possible. An unskilled construction worker who has worked in Russia defines the construction field as "working camp." He said: "I have worked in Russia, as much as I can to get my overwork payment." Most of the workers perceive working in an overseas construction as an opportunity to save money.

CHAPTER 5

CONCLUSION

In my thesis, I examined the construction activities of Turkish firms in the Russian Federation in the frame of developing relations between both countries. The research has indicated that the bilateral economic relations between Turkey and the USSR have developed under the high pressure of the political atmosphere of ‘Cold War’. During this period, the bilateral economic relations were squeezed into the narrow borders of Soviet technical and economic aids to the heavy industrialization attempts of Turkey. The quantity of these aids was highly dependent on the fluctuations in the international political order. Starting from the 1980s, as an immediate effect of the liberalization process in both countries, the dominance of political concerns over the economic relations has begun to weaken. This period can be considered as a ‘transition period’ in terms of bilateral economic and political relations between these two countries.

After the collapse of Soviet Union, bilateral political relations were strongly influenced by the developing economic relations between Turkey and Russia. The increasing volume of shuttle trade and the commercial activities between these two countries, including the construction activities of Turkish constructors in the Russian Federation, have deeply influenced the bilateral relations. In that sense, it is argued that the penetration process of Turkish constructors into the Russian market has contributed to the development of relations between Russian Federation and Turkey, and entailed the emergence of a new period in the bilateral relations of both countries.

In addition to the positive effects of the overseas construction firms on the bilateral relations, the overseas construction activities have had a significant importance on the Turkish economy. Although there are no reliable statistical data on the impact of the economic activities of the Turkish overseas construction firms on Turkish economy, it is possible to argue that an important portion of the profits gained from the overseas construction activities has returned to Turkey as foreign currency. In addition to this, the employment creation capacity of the sector could not be underestimated. In that sense, it could be pointed out that the activities of the overseas construction firms in the Soviet Union and then in the Russian Federation have created multiple opportunities both in political and economical arena. Despite of the importance of the overseas activities of the Turkish firms for the Turkish economy, the institutional arrangements have failed to follow the changing conditions in the overseas construction works. The delayed arrangements on the level of legislative structure have directly influenced the construction works in the Russian Federation both during contracting and constructing processes.

Since 1995, the number of Turkish construction firms which were operating in the Russian Federation diminished steadily. During my qualitative research, I have found that the increasing level of competition in the Russian Federation on the construction activities is the primary reason of this decrease in the number of Turkish construction firms in the Russian Federation. The interviewees stressed that the increasing level of competition on the construction activities in the Russian Federation has lead to a decrease in the unit of square meter prices. Especially, after the 1998 economic crisis in the Russian Federation, the constructors have faced with a second wave of decrease in the unit of square meter prices. Thus, some of the Turkish companies which have been accustomed to operate with high level of profits have started to leave the Russian Federation. Most of the administrative managers have pointed out that since 1998 there have been three types of Turkish construction firms that were able to work in the Russian market. The first group of construction firms is the firms that could broaden their activity area through the outside of the construction. The construction companies which have been benefited from the Eximbank credits could be considered as the second group. The third group that has started to enter the construction market of the Russian Federation since 1998 might be named as the ‘new generation’ of Turkish construction firms. These firms are small and medium sized firms which could operate under the low profit rates. The executive bodies of most of the new generation of Turkish construction firms are located in Russian Federation.

The most of the interviewees have agreed on that the Turkish firms which are willing to continue to operate in the Russian Federation, should either operate in the Russian Federation as a Russian firm or broaden the bundle of economic activities that they have engaged in the Russian Federation. During the process of adaptation of the Turkish firms to the market of Russian Federation, Turkey should reorganize the legislative arrangements, according to the needs of changing conditions on the overseas construction.

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