Sharing Sovereignty for a Good Purpose: The Benefits of Membership of a Global Standard-Setting Club

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Abstract

Globalisation, and internationalisation of public policies may sometimes be conceived as major constraints on States' policy space and policy capacity. This essay argues that globalisation may, under certain conditions, help countries build better capacities and develop the prevailing local institutional structures. Using Turkey's new membership to the Basel Committee as an illustrative case, the essay argues that membership to a 'club'-like international organisation can benefit the new member State by shedding light on the weaknesses in the policy capacity and the institutional structure in this country. The essay highlights that when the policymakers and the domestic constituencies share a common understanding, the two-level game gets facilitated for policy transfer, which in return triggers and/or prepares ground for investment in policy capacity and institutional development.

Keywords: membership, sharing sovereignty, international organisations, the Basel Committee, Turkey

I.Introduction

Does globalisation (and internationalisation of public policies) always constrain the nation-state's 'policy capacity'?[2] And, as the international organisations have emerged as influential actors in global governance, could internationalisation of public policies due to the involvement of international organisations in domestic policymaking processes sometimes

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[2] Following Wu et al (2015: 2), the essay defines 'policy capacity' as "set of skills and resources – or competences and capabilities – necessary to perform policy functions." The definition sounds incomplete and very abstract because it is very difficult to measure 'policy capacity' Peters (2015). Since the measurement is beyond the scope of this essay, the essay focuses on the technical knowledge and institutional development as two major sources of 'policy capacity'.

help countries, at least partially, build policy capacity and develop institutions? This essay argues that globalisation could, under some circumstances, be beneficial for a given nation-state. The essay highlights that although a State member of an international organisation may be obliged to comply with the rules of the international/intergovernmental organisation, the benefits accruing in terms of capacity-building and institutional development may trump compliance costs. Turkey's membership to the Basel Committee on Banking Regulation (hereafter "BCBS")[3] in March 2009 and the adoption of Basel III into the Turkish banking regulatory framework are used as an illustration to argue that membership to a global standard-setting club (i.e. an international organisation) may not necessarily reduce policy space of a given developing country. It can rather help capacity-building in that country.[4,5]

It is argued that with the globalisation of capital and international markets (Eichengreen 2008), countries with more or less open economies have lost some of the degree of sovereignty on steering domestic markets (Cerny 1994).[6] The loss of some degree of influence in the regulation of domestic markets due to the globalisation of capital flows and financial markets and the internationalisation of the banking sector has led to *sharing sovereignty* with "outsiders" in the formulation, implementation, and evaluation of domestic

[3] The distinction between an *international organisation* and a *standard-setting club* has yet to be made in a clear and systematic manner. This essay treats the BCBS as an international organisation, although it is generally referred as a "club" in the literature (see Drezner 2007, Tsingou 2015, Wood 2005). There are two reasons for that choice. First, the size of the BCBS has risen in 2009 with the inclusion of more members that should constitute more than half of the World's gross domestic product and host most of financial and banking transactions. Second, the BCBS produces policy externalities for almost every country at least through the Core Principles that are used as a template in the Financial Stability Assessment Program of the International Monetary Fund.

[4] The main argument does not deny the possibilities of negative consequences. The paradoxes of globalisation (Rodrik 2007; 2011) and their impact on domestic and international policymaking are out of the scope of this essay. The globalisation of banking and finance definitely has negative consequences for almost all countries around the globe. However, the essay is only concerned with exploring the positive sides of the globalisation banking sector, while noting some of the side effects on policymaking, especially in the domestic level.

[5] It should also be noted here that the essay does not evaluate effectiveness of policy interventions, or transfer and diffusion. It is only interested in demonstrating through an illustrative case that an international organisation, the BCBS, could be successful in instigating capacity-building and institutional development efforts when internal and external context enable actors for the success.

[6] As cogently explained by Rey (2013), the classic Mundell-Fleming model of the so-called "impossible trinity" does no longer hold today. Open economies can either manage capital flows or surrender some policy autonomy in monetary policy.

monetary and financial regulatory policies. *Sharing* (domestic) *sovereignty* with the external actors (i.e. international organisation) refers to the (partial) loss of full control on the domestic markets and the economy as policymakers continuously have to work with the two levels (i.e. the local and international) at the same time.[7] *Sharing sovereignty* in return brings about the somewhat irresistible impact of the international organisations.

In this context, the BCBS has arisen a (global) standard'setting 'club'-like international organisation in (global) banking regulation. It is called as the "bank of central banks" since its foundation in the 1930s. The literature on the formation of BCBS (Simmons 1993), politics within the bank on Basel standards (e.g. the Concordat, Basel I, Basel II, or Basel III) (Goldbach 2015, Kapstein 1989, 1992, 1994, Lall 2012, 2015, Oatley and Nabors 1998, Wood 2005), and the implications of these rules for the member and non-member countries (Claessens, Underhill, and Zhang 2008, Grynberg and Silva 2006) has so far made great contributions to our understanding of various political economy dimensions of policymaking in the BCBS. What seems to be missing is closely related to Helleiner and Pagliari's (2011: 183) call, which is to focus on the implications of the inclusion of new members to several international organisations. As this essay replies this call from another angle, it underlines that the literature on the political economy of policymaking at the BCBS needs insights not only about the implications of new members' socialising into the "old" organisations that have somewhat institutionalised practices, but also about the effect of the BCBS as an international organisation on new members. The essay aims to contribute to our understanding of the effect of international organisations on the member states and explore under what conditions an international organisation could be effective in bringing about policy reforms in member States. The Turkish case is used as an illustration to examine the potential positive spillovers of the BCBS in the form of capacity building and institutional development.

[7] Sharing sovereignty also leads to the loss of monetary sovereignty. Lastra (2006: 16) defines it as the capacity and power of a State to issue and regulate money. Since the regulation of money, for instance in the form of credit, could be regulated through the international standards such as on capital and/or liquidity adequacy, the domestic financial system might not be steered solely by the domestic monetary and regulatory authorities due to the limitations imposed by those standards.

Secondly, an "old" but an ongoing debate on the effectiveness and role of international organisations in shaping States' behaviours (Baccini and Urpelainen 2015, Grieco 1988, Jo and Simmons 2016, Haggard and Webb 1993, Keohane and Martin 1998, Mearsheimer 1994/95, Young 1992) could still benefit from an illustrative case that can demonstrate the effect of an international organisation on a member State. Rather than discussing whether international organisations are useful or ineffective in the functioning of the global system, we need positive or negative cases which could inform us about the potential effects of the interactions between a member State and the international organisation.

Based on an exploratory case study informed by 21 qualitative semi-structured in-depth interviews with policymakers (e.g. central bankers, banking regulators) and bankers, the essay highlights that membership to an international organisation may not necessarily result in limitation of the policy space despite sharing (domestic) sovereignty with the member State. It may rather push the member State to build capacity and develop institutions. The essay underlines that those benefits can be realised if the influence of an international organisation meets a somewhat low level of policy and institutional capacity and an overlap of preferences of policymakers and the domestic constituency (i.e. the Turkish banking sector), the international organisation (e.g. legitimacy, power) could be successful in capacity-building and institutional development in that country. The essay finds out the membership to the BCBS has shed light on the weaknesses in the domestic 'policy capacity' in the private and public sectors and the prevailing institutional structure.

The remainder of the essay is has five main sections. The first section reviews the (motivating) literature. The second discusses the methodology which informs the empirics in this essay. The third section briefly revisits the relationship between the BCBS and Turkey. The fourth section presents the main argument of the essay on the positive spillovers the BCBS membership brought about for Turkey. Finally, the essay ends with the concluding remarks which draw some lessons from the case for further research and greater literature.

II.Literature Review

Policymaking at the International Level

Many of the pressing issues such as global warming, regulation of the financial system, among many other policy areas are known to necessitate international policy coordination and collaboration among many stakeholders. The negotiations on the agreement on a global commitment to cut carbon emissions, or the design of global standards on financial regulation in the BCBS, G-20, and the Financial Stability Board (FSB) are examples of attempts to address common problems with intensified international efforts.

The classical treatment of public policymaking emphasises the role of the State as the major actor in the policy process (Howlett, Ramesh, and Perl 2009). However, "governance without government" argument informed us about the polyarchic nature of policymaking both at the national and international levels (Rosenau and Czempiel 1992). With polyarchy, it is understood that non-State actors (e.g. international institutions, individuals, networks) may have a greater influence affecting processes across borders.

Focusing on the polyarchy and disjointed nature of policy processes, global public policy aims to study "multilevel polycentric forms of public policy" (Stone 2008: 24). The literature has yet to agree on what "global public policy" means (Miller 2014, Stone and Ladi 2015), however, it is understood as "a plethora of institutions and networks negotiate within and between international agreements and private regimes have emerged as pragmatic responses in the absence of formal global governance" (Stone 2008: 24). Soroos (1990) claims that global public policy, a more flexible form of policymaking at the international level, trans-boundary problems, conflicts over global common goods, or problems common to many stakeholders could be addressed by a more global policymaking orientation.

From a structural realist and neoliberal international relations theory perspective, one could argue that anarchy in the global political structure impedes the development of formal global governance. While the argument might be valid, we might also observe that States can indeed coordinate policies and achieve collaboration through alternative arrangements. Transnational advocacy networks (Keck and Sikkink 1998), networks of national technocrats (Slaughter 2004), international organisations (Barnett and Finnemore 2004), or the activities

of the private sector (Büthe and Mattli 2011, Ozgercin 2012), for instance, could lead processes that bring about or block international agreements in international negotiations. Consequently, the supremacy of the State in (global) policymaking has eroded due to the emergence of non-State actors and/or policy activism of certain groups.

The globalisation of policymaking processes and the involvement of various actors such as networks of policy activists, or those of technocrats, or even non-governmental organisations (NGOs)[8] have begun challenging the sovereignty of a given State, in particular, the control over the domestic policy process, and whereby regulating the behaviours of domestic actors on its own. As these structural changes have occurred, policymaking has gained a more international dimension, which in return brought about *sharing sovereignty* with "outsiders".

The Internationalisation of Policymaking and *Sharing Sovereignty*

The transfer of policy formulation and even implementation and/or evaluation to supra- or trans-national entities challenge the notion of sovereignty. Sovereignty is a notion that has legal, ideational, and institutional sources. Mutual recognition of States being independent of external intervention into domestic affairs was the ideational and legal background for the Westphalian sovereign State system. As independence has achieved an ideal and well-preserved practice, it got so institutionalised that the global system can hardly consider an alternative (Krasner 1988).

The notion of sovereignty refers to international legal mutual recognition of the capacity of a given State to regulate domestic affairs, or being de facto or de jure isolated from external sources of authority imposed within the national borders (Krasner 2001: 20-21). While States are very jealous of preserving sovereignty, the transfer of policymaking processes to fora that are operating beyond the national borders, political sovereignty could be foregone despite maintaining (international) legal sovereignty (Krasner 2001). With the

[8] For an example of the engagement of non-governmental organisations in international policymaking processes, Kastner (2014) points out the transnational consumer groups putting pressure on national governments at the G-20 summits to take action on financial regulation and consumer protection. Although the consumer groups were somewhat effective in pushing governments toward better consumer protection in finance and banking, it would be very difficult to ignore the activities of non-State actors due to their implications for domestic and international policymaking.

internationalisation of the public policymaking processes, sovereignty faces challenges, although mutual recognition of independence from external intervention (i.e. international legal sovereignty) still persists.

As we take note of this observation, the transfer of the policymaking processes to supra-national levels leads to the rise of the influence of external sources of domestic authority, in other words, *sharing sovereignty*. Krasner (2004: 89) defines *sharing sovereignty* as "arrangements under which individuals chosen by international organisations, powerful states, or ad hoc entities would share authority with nationals over some aspects of domestic sovereignty…" Although Krasner offers sharing sovereignty for areas with limited statehood, one can argue that the internationalisation of public policies, indeed, change the structure of interactions among States that are enjoying the requirements of statehood.

Here, even if a given State achieves statehood by all means, 'policy capacity' is an important asset to design, implement, and evaluate policies (Besley and Persson 2009, Pritchett, Woolcock, and Andrews 2013, Wu et al 2015). It is argued that policy capacity is "[t]he set off skills and resources – or competencies and capabilities – necessary to perform policy functions" (ibid: 166). By sharing sovereignty, in other words, allowing other stakeholders participating in the domestic policy process (i.e. from design to evaluation), States, under certain conditions, might benefit from knowledge and policy transfer from the "outsiders". Although domestic sovereignty could be challenged due to "outsiders" influence limiting the monopoly the State enjoys in the regulation of domestic actors' behaviours (Martin and Simmons 1998: 747-749), capacity-building and institutional development may emerge due to their intensive participation in the policy process. And, this process could be facilitated with the engagement of international institutions in domestic policy processes which are affected by the processes at the global level.

Sharing Sovereignty and International Organisations

Among many actors and organisations that are involved in the global policymaking processes, international organisations have arisen as one of the most strategic actors in achieving a far greater influence. When we consider the role of international organisations, the "old debate" in the international relations theory had discussed their impact on

international and domestic policymaking, and if these organisations are effective or are even necessary for the functioning of the global system (Grieco 1988, Keohane and Martin 1995, Mearsheimer 1994/95, Young 1992).

The realist account of international organisations claims that these organisations cannot succeed influencing the behaviour of a State at least they serve the ends favoured by the State (Grieco 1988, Mearsheimer 1994/95). Since the realist theory assumes that the State is the primary actor in international relations, international organisations can hardly force States to act in a certain manner. The realists also believe that international organisations exist merely as an instrument to achieve policy goals. In contrast, the institutionalist (neoliberal) approach claims that international organisations could be effective actors for several reasons (Keohane and Martin 1995). Even if we assume that the States are the primary actors in global affairs, their behaviours could be altered by international organisations (Caporaso 1992, Weber 1997) at least for four reasons. First, international organisations empower, and thus, enable members to make claims (Caporaso 1992). Second, since countries generally lack information about others' interests, these organisations can provide information for all members. Third, international organisations can reduce transactions costs because if all States use bilateral modes of negotiations, the cost (e.g. time, financial expenses) could immensely rise. Although the realist account would emphasise that international organisations are formed to serve the interests of the hegemon or great powers, they can serve certain ends. Fourth, as "teachers of norms" (Finnemore 1993), international organisations could induce changes in the political and/or institutional structures.

Leaving international security, democratisation, human rights and some other policy areas aside as they are out of the scope of this essay, one can argue that international organisations such as the International Monetary Fund (IMF), the World Bank, or the World Trade Organization (WTO) are legitimate and influential partners in global public policymaking. The experience with the so-called "Washington Consensus" policies of many developing countries indicates that policies transferred from the IMF and the World Bank did have a crucial impact on the domestic policies with positive, negative, or even null effects. For instance, the Latin American experience with the opening of the economies to

international trade and finance had led to a debacle (see Diaz-Alejandro 1985). Other regions, from Asia to Africa, had similar experiences (Andrews 2013, Stiglitz 2002, Rodrik 2006, 2007, Woods 2006). The policies, which had been designed and transferred to the member State regardless of the motivation (i.e. coercion through the conditionality, a somewhat rational process calling an external actor for help), could have been home-grown. However, with the involvement of international organisations, the States that had compiled with the requests of those organisations forewent policy autonomy, while they had put policy space in risk (Kentikelenic, Stubbs, and King 2016, Wade 2003). Thus, by sharing sovereignty, the countries were able to import policies to confront pressing shortcomings in the domestic economic and institutional structures despite several unforeseen (negative) consequences in the future.

Although the literature documents mixed results on the effectiveness of implemented structural and institutional reforms (see Andrews 2013a, 2013b, Arezki, Quintyn, and Toscani 2012, Mumssen et al 2013), one could argue that international organisations could instigate dynamism for reforms. To give an example, a country may be stuck in a trap impeding reforms for several reasons such as uncertainty over policy reforms (Fernandez and Rodrik 1991). Or, collusion between the policymakers and the domestic constituency (Baccini and Urpelainen 2015) may be observed. Policy reforms induced by the intervention of international organisations could, by sharing the recipient country's (domestic) sovereignty on designing public policies for the recipient, start a process of reform, a movement for capacity-building, and institutional development.

While international organisations emerge as actors influencing both global and domestic policymaking processes, they achieve their status through several channels. Similar to the channels in policy transfer and diffusion literature (see Dobbin, Simmons, and Garrett 2007, Simmons and Elkins 2004), the international organisations could be influential partners in global and domestic policy processes through coercion, provision of information about others' intentions, a platform for socialisation, and "teaching" norms and crafting policies for the general audience. IMF conditionality or that of the European Union (EU) could be listed as most commonly known instruments for coercing member States when they are engaging agreements (e.g. financial assistance, membership) with the two organisations (Dreher and

Vaubel 2004, Lavenex 2008).[9] To receive financial assistance from the IMF, or to become a member of the EU, member States might be obliged to agree to the terms imposed by the organisations. In doing so, the international organisations emerge as actors sharing sovereignty of the member States as the member must comply with the terms unless it does not deny compliance on its own.

As to the provision of information and an environment for learning and socialisation, the United Nations (UN), the G-20, the BCBS, and many other "club"-like or international and regional organisations fit that dimension well. During regular meetings, leaders and policymakers find opportunities to discuss common challenges. They socialise, learn from each other, and gather information on the policy problems and solutions.[10] Besides these roles, international organisations may also be "teachers" of norms, while they are designing or even evaluating policies around the world. For instance, the peer review system of the BCBS and that of the Financial Stability Board (FSB) are good examples of policy evaluation. Another example could be the Article IV consultations of the IMF, which assesses implemented policies in member States and provide policy feedback to address areas that need interventions.

Moreover, as in the case of BCBS where national policymakers form "transgovernmental coalitions" (Keohane and Nye 1974) and/or transnational executive networks (Slaughter 2004) with the participation of the private sector (Lall 2012), coalitions and networks could play an instrumental role in socialisation for policy learning and "teaching" international practices. For a club-like international organisation founded on the premises of exchange of information and policy coordination (Goodhart 2011), the summits establish a discussion forum for national policymakers to learn from policies in other jurisdictions. After the latest global financial crisis, the socialisation channel has recently been strengthened with the formation of a peer review system (Regulatory Consistency Assessment Programme – RCAP)

[9] If we were to treat an international organisation as an ultimate supra-national political entity as a hegemon, member States could follow the organisation by internalising the norms and a particular international order prescribed by the organisation (Ikenberry and Kupchan 1990).

[10] The rise of the macroprudential regulations after the latest global financial crisis is a case of socialisation and learning from others (Baker 2013a, 2013b).

whose aim is to ensure compliance with the agreed international standards.[11] The RCAP process brings regulators from selected member jurisdictions to form an auditing group. The group visits the reviewed jurisdiction. During these visits, regulators meet and discuss the Basel framework and the practices in their home jurisdictions, which in other words mean a socialisation process for all regulators to learn from each other.

In sum, international organisations through various channels and instruments can take part in the domestic policy processes. Globalisation and internationalisation of public policymaking in an interdependent world could limit domestic sovereignty in regulating the behaviours of domestic actors (Cerny 1994, Hobson and Ramesh 2002, Howlett and Ramesh 2002, Lastra 2006, Ramesh 1995). In this context, international organisations have emerged as significant, indispensable, and influential actors in both international and local levels of policy processes. They tend to alter the dynamics of policymaking by changing the two-level game (Putnam 1988) policymakers play. Policymakers have to interact with the peers in the international negotiations, while assuring domestic constituency's interests and preferences are reflected in the international scene. Thus, the internationalisation of policymaking complicates the national policymakers' task in both steering the domestic economy and regulating domestic actors, as they are also trying to maintain their positions as legitimate peers, and preserving national interests.

Capacity Building, Institutional Development, and the Basel Committee

For any State to function properly, a certain level of policy capacity is required. As the literature on the so-called "failing" or "failed" States appears to demonstrate (Andrews 2013b, Krasner 2004, Krasner and Risse 2014), the capability of a State to perform what a State is expected at the minimum level, which could be defined as establishing order and security, and providing public goods. Among many policy sectors such as electricity, water, the maintenance of financial stability is a public good particularly in an open economy (Wyplosz 1999). Since we can conceive of the provision of financial stability being one of the

[11] See http://www.bis.org/bcbs/implementation/l2.htm, for further details of the RCAP process, accessed on September 1, 2016.

public goods,[12] a State must be capable of providing and maintaining stability in financial markets. The acquisition of skills and resources is crucial to maintain and sustain stability in financial markets in a more interdependent and fragile environment with a very high likelihood of frequent "financial cycles" (Borio 2012). This is because the history of financial crises has demonstrated that the lack or negligence of those skills and resources may have disastrous consequences (Reinhart and Rogoff 2009).

States in the contemporary world with more or less open economies must be able to regulate the domestic actors (e.g. banks, financiers, etc.), and manage spillovers from other jurisdictions. To do so, knowledge is an important asset for a 'capable State' throughout the whole policy process (i.e. from design to evaluation) (MacRae 1991, Radaelli 2005). The knowledge of designing the regulatory policies, implementation, and evaluation are of the critical essence in financial and banking regulation. When a State lacks a sufficient level of knowledge and institutional development, transferring, acquiring, and probably learning from others could be viable options.

Here, we should note that despite a lack of attention in the burgeoning policy capacity literature (Howlett 2015, Pal and Clark 2015, Wu et al 2015) due to the State-centric orientation in the general public policy field, one could expect the private sector, namely the banking and financial sectors, being capable enough to pursue international regulations. The private sector should be able to produce knowledge, process that knowledge, and keep up with the domestic and international regulations. These are indispensable requirements for capability in the private sector at least for better self-regulation to minimise risks (e.g. operational, credit, market, etc.) in its operations.[13] Consequently, a higher level of 'policy capacity' is not only desirable for the public sector, but also for the private sector, which we

[12] Financial stability could be defined as a public good because consumers could neither be excluded from its 'consumption' nor does its consumption seems to reduce it to prevent others to consume it (see Coban 2016).

[13] If one considers a prudential self-regulatory stance in the financial sector would be the desirable case, a somewhat "darker" side of capacity of knowledge production, for instance higher than that of the regulators, could be regulatory capture. As a result, it may sound paradoxical to incentivise the financial sector to produce knowledge and process it better, if this capacity is merely used to influence the policy process.

may call as the capability of a given society (i.e. the sum of private and public sectors) to manage markets and regulate them.[14]

For a society to develop capacity and its institutions, international organisations could play a vital role in the production of knowledge, provision of a forum for learning and socialisation, and finally transfer of knowledge and policies. The BCBS is an illustrative case in this sense. The origins of the BCBS could be traced to the foundation of the Bank for International Settlements (BIS) in 1930. BIS had been mandated to oversee the German reparation payments in the interwar period. Then, its role has changed as the international economy evolved over time. The BCBS is a product of that evolution process. With greater openness, and internationalisation of the banking sector since the 1970s, the regulators of the G-10 countries, who were meeting at the BIS, formed the BCBS as an informal transnational executive network whose primary objective was information exchange and policy coordination (Goldbach 2015, Goodhart 2011, Kapstein 1992, 1994). The failures of the Hersttat and Franklin National Bank in 1974 forced the BIS to establish a forum for regulators to resolve solvency issues. The BCBS was founded on the basis of 'soft law' (Abbott and Snidal 2000) without a formal legal status with sanctioning powers. The Concordat created an international resolution framework that assigned roles for each jurisdiction in regulating the international banking sector. The BCBS has turned its attention from solely being a discussion forum with 'soft law' arrangements to crafting international standards for member States and other nations around the world in the 1980s (Grynberg and Silva 2006, Kobrak and Troege 2015). The Basel I framework emerged after the Latin American sovereign debt crises revealed the interlinkages when many United States banks had been exposed to debt in this region. As a consequence, the United States announced a bilateral risk-weighted regulatory instrument to regulate capital adequacy in international banks to alter the bail-in expectations (Wood 2005). In the meantime, the United States and the United Kingdom agreed for a unilateral movement to restrict competition of the German and Japanese banks. The unilateral movement of the Anglo-Saxon alliance led to policy

[14] I am grateful to M Ramesh for insightful exchanges on policy capacity, and the futile distinction between capacity in the private and public sectors. A society, as a whole, must acquire certain resources and skills, and this shall not be limited to capacity for the State to solve problems (see Lodge and Wegrich 2014) because the private sector has a stake in the stability and development of a given economy.

convergence, namely Basel I in 1988. Following Basel I, the BCBS agreed on the Core Principles for Effective Banking Regulation, Basel II, and recently Basel III.

While the BCBS has been coming up with amendments to the overall Basel regulatory framework, mostly as a reaction to crises, the 'club' has evolved from a mere 'soft law' orientation to a hybrid system that involves a peer review system called RCAP in the early 2000s (Goldbach 2015). Besides the hybridisation of the compliance and enforcement mechanism, the BCBS continued to provide a forum for regulators to exchange information for better policy coordination and collaboration. The continuity of its role in the facilitation of information exchange alongside its review system appears to demonstrate a stable function of the BCBS for enabling socialisation and policy transfer and diffusion. Although the power-based accounts of policy transfer in international banking regulatory standards emphasise the structural power of the United States (and the United Kingdom), read it as coercion or 'obligated transfer' (Dolowitz and Marsh 2000), pushed many others to follow the 'hegemon's steps for policy convergence (Drezner 2005, 2007, Mattli and Woods 2009, Oatley and Nabors 1998, Singer 2004, 2007, Wood 2005), one cannot still underestimate the roles of socialisation and learning mechanisms in accomplishing policy convergence.

As to the capacity-building and institutional development aspects of agreements the BCBS has designed and implemented, regardless of the policy transfer and diffusion mechanism of the BCBS, it is argued that all parties had to react with dynamism to better adapt themselves to the changing international regulatory structure. The convergence of the Japanese and German positions to the unilateral attempts of the United States (and the United Kingdom) in the 1980s to sign on to Basel I is an example of 'coercion'. After their acquiescence, Germans and Japanese had to work with the BCBS to comprehend the international standards in the Accord. The two-level game, national regulators used to play, has evolved with the changes in the mode of operation. The transformation of the "information changing" role, which was marked by the aversion of regulators signing in on to a mandatory agreement, compelled national policymakers to adjust their roles as peers in the BCBS and representatives of national interest. Currently, BCBS is getting more institutionalised from a mere 'soft law' approach to international banking regulation. Here, the peer review system is a great step to a more institutionalised 'club' that aims compliance, convergence, and

coordinated implementation. Achieving that target requires a level of (technical) knowledge to influence the policy process, and participating in the process also necessitates build up capacity and institutional development.

Another example of the capacity-building impact of the BCBS would be the capacities, institutional development, and even investments in lobbying capacity the international banks have acquired since the formation of the BCBS. To 'ride the tide', the international banks, what are today called the globally systemically important banks (G-SIBs), were motivated to invest in lobbying (Pagliari and Young 2014, Young 2012). For instance, Lall (2012, 2015) argues that Basel II and Basel III were the product of international banks' arrival at the negotiation table with a superior knowledge of the international standards. Young (2013) argues that after the latest global financial crisis, the financial sector has shifted its focus from bypassing the agreed regulations to modify the proposed regulations from the agenda-setting stage. The shift in the private sector's strategy in engaging in the policy process demonstrates, for instance, that the international banks are learning from experiences in the past. Moreover, they appear to build their capacities to alter the policy process.

Finally, as to the impact of the membership to the BCBS on the new members, Walter (2013) finds out that emerging countries are not very active in the policy process at the BCBS. Walter claims that the lack of resources (e.g. human, financial) and (technical and procedural) knowledge constrain those countries. Not only is this impeding the national policymakers' involvement, but also, a low level of engagement is observable in the private sector's participation. This low level of engagement is clear from the feedback given to consultation documents (Walter 2013: Figure 4) compared to those of the 'old members'.

Bandeira (2015) notes the dialogue between Brazil and policymakers from other selected member States during the RCAP process in 2012. The author mentions the "learning" process while noting that emerging countries, as new members, need policy space due to differences in the structure of the financial and banking sectors between the developed States (i.e. 'old members') and emerging countries ('new members'). The inclusion of 'new members' since 2009 seems to facilitate policy transfer and diffusion of the transnational

executive network. This appears to go through socialisation, assessment of policy consistency and learning. In the end, it seems that the 'new members' are undergoing a "learning process" with participating in the meetings in Basel, and being assessed by their peers. And, this "learning process" shall not be limited to the national policymakers because as bankers from the 'new members' might be learning how to cater their own regulatory stance and practices as their jurisdictions have begun complying with the international standards.

To sum up, this essay argues that an international organisation might be beneficial for a member State regarding capacity building and institutional development. Thus, internationalisation of public policymaking may not restrain the policy space of a member. The impact of the organisation could go through 'coercion', learning, and socialisation. The remainder of the essay first discusses the methodology used to gather the underlying empirics in this essay and then examines the relationship between BCBS and Turkey and the transfer of Basel III to the Turkish context, and how Turkey benefits from its membership to the BCBS.

III.Methodology

This essay uses an exploratory case study method to discuss the impact of Turkey's new membership to the BCBS, and more importantly, to shed light on the conditions of an international organisation creating positive externalities for capacity-building and institutional development in a new member jurisdiction.

The essay is a product of a field research.[15] It is informed by in-depth interviews (e.g. focus group or individual) (Kapiszewski, Maclean, and Lead 2015, Ch. 1) with policymakers involved in representing the country in Basel, adopting and implementing the regulatory framework. Also, the essay is informed by those with the bankers from public, domestic private and foreign banks. The bankers recruited for this study are working for the Risk Management, Internal Systems and Compliance, or similar departments whose main task is to oversee risk management and regulatory compliance. The goal of the inclusion of bankers

[15] See Appendix 1, the Interview Method Table.

is to look at the issue at hand from their perspective, which added another layer in the analysis of this essay.

The field research was conducted between early January and late March in 2016. 21 interviews which, on average, lasted around 45 minutes. Interviews with bankers were conducted in Istanbul at banks' headquarters. Interviews with bank regulators, the officials at the Undersecretary of Treasury, and two central bankers took place in Ankara. Those with a central banker and two former bank regulators were conducted in Istanbul. The field research ended after the "saturation point" was reached (Guest, Bunce, and Johnson 2006; O'Reilly and Parker 2013).

As to the interview sample, the study used purposive and snowball sampling strategies. The sample frame was purposive in the sense that the study targeted regulators working on the Basel framework in the regulatory agency. Second, the study also benefitted from interviews with other policymakers from the Central Bank and the Treasury who are (indirectly) involved in the policymaking process. Third, the study interviewed bankers working in the risk management- and compliance-related departments. The study used snowball sampling as well because some of the policymakers were contacted with the help of other policymakers.

As to data analysis, concurrent note-taking was "strategically" used in the public sector because the interview guide involved questions about the dynamics within the public agencies (regulatory agency, Central bank, and the Treasury), and negotiations at the BCBS. The policymakers were not able to discuss negotiations at the BCBS because all meetings are confidential. Secondly, the researcher is aware of local political conditions when the field research is conducted. The public officials might be wary of interviews with voice recorders. In the private sector, some interviewees declined to record the interview, while some were comfortable with it. Even if the recorder was on, concurrent note-taking was used because of consistency concerns. After collecting the interview data, all interviews and interview notes were transcribed the same day. NVivo 11 Pro is used for the analysis *viz.* coding and finding out emerging themes in the interview data.

IV.The Basel Committee and Turkey

The relationship between the BCBS and Turkey is an underresearched area let alone a substantial interest on the potential impact of convergence in the regulatory framework for the Turkish banking sector or SMEs except for several studies (see Bayraktar 2015, Hassan, Unsal, and Tamer 2016, Karacal, Can, and Arslan 2013)[16]. As a result, it is somewhat difficult to track the relationship between the BCBS and Turkey. Yet, it is a trackable relationship.

Külahi, Türyaki, and Yılmaz (2013) point out that Turkish regulators, the Treasury – the banking regulator before the institutional reforms in the early 2000s – adopted the Basel I into the Turkish regulatory framework in the early 1990s. So, we can claim that the 'formal' exchanges with the BCBS began in the 1990s. After the local crisis in 2000-01, the country underwent critical reform process during which the regulatory system was redesigned. Independent banking regulator, the Banking Regulation and Supervision Agency (hereafter "BRSA") replaced the Treasury to supervise and regulate the banking sector and non-bank financial institutions (Atiyas 2012). The Central Bank of Turkey (hereafter "CBRT") obtained de jure independence status in 2001 (Bakir 2009, Bakir and Öniş 2010). The crisis also was a critical juncture for the Turkish banking to undergo a major consolidation process. Many banks were nationalised and/or closed down. The restructuring of the banking sector and the regulatory system in the country was accompanied by the transfer of Basel II with the new Banking Law in 2006.[17]

The new law imposed the eight percent capital adequacy ratio, improved corporate governance and accountability, and more importantly aimed to make the banking sector internalise the logic of risk management and a robust internal auditing system (ibid: 190-191). The main missing dimension in the adherence to Basel II was the introduction of the internal-based risk assessment models – known as the (advanced) IRA models. Except for the advanced risk management models, the standard approach was used by the BRSA and the

[16] The Banking Regulation and Supervision Agency in Turkey publishes an academic journal, *Journal of BRSA and Financial Markets*. A quick search of "Basel" as a keyword reveals that even the studies published in this journal are not directly related to the BCBS and the policy convergence process except a few studies interested in stress tests, risk management, credit risk and other Basel-related areas. The latest and previous issues of the journal are accessible online at, http://www.bddk.org.tr/WebSitesi/english/Reports/BRSA_Journal/BRSA_Journal.aspx, accessed on August 31, 2016.

[17] Banking Law No 5411, published in the *Official Gazette* on November 19, 2005.

sector until very recently. Although the full adoption of the Basel II framework was late compared to the first changes in the legal background introducing the framework, the last survey on the update of the Basel II implementation, the sector and the BRSA appear to be working according to the framework (BRSA 2013). The sector reports, in the report, that it has been investing in the technological infrastructure and human resources, while applying some of the regulations in the overall Basel II framework.

With respect to the Basel III framework, it emerged after the latest global financial crisis. The regulators in the BCBS, first, addressed the missing dimension in the framework by introducing the so-called Basel 2.5 to regulate securitisation, derivatives, and market risk. Then, the BCBS finalised the Basel III framework which added more dimensions to the international banking regulations. Those dimensions involve regulation of the G-SIBs and domestically systemically important banks (D-SIBs), a leverage ratio, net stable funding ratio (NTSF), liquidity coverage ratio, among others. The BCBS is currently working on the framework because the NTSF has yet to be defined leaving its measurement aside for the moment. Next to the 'final touches', the BCBS has begun working on a new capital adequacy framework, which is called as "Basel IV" (Taniguchi, Flynn, and Brush 2016). In the recently published RCAP report,[18] Turkey is assessed as fully compliant with the Basel III framework. The Tenth Progress Report shows that the country made new attempts to bring its regulatory framework in line with Basel III in 2015 and 2016.[19] The attempts made as the RCAP assessment was taking place highlight that the country followed the requirements of membership, which is compliance with the overall framework.

Before ending this section, one may wonder why Turkey joined the BCBS and is adopting the Basel framework. There are at least two main and simple reasons. The first is related to the current global governance structure. Being a member of G-20, and signing in on to the agreements all members are committed, locks a member into the path built and pursued by all. When a government signs an agreement in such intergovernmental summits, the State

[18] See the RCAP report online at http://www.bis.org/bcbs/publ/d359.pdf, accessed on September 2, 2016.

[19] See the Tenth Progress Report on the Adoption of the Basel Regulatory Framework online at http://www.bis.org/bcbs/publ/d366.pdf, accessed on September 2, 2016.

promises to undertake necessary measures. Although shirking might be expected various reasons (e.g. national interests, collective action problems, etc.) might be expected, at least due to complex interdependencies among nations (Keohane and Nye 1977), it is less pronounced in the adoption of Basel framework when one analyses the latest Progress Report.[20] Consequently, being a member of a primary intergovernmental forum for global economic cooperation[21] is accompanied with additional commitments to convergence in policies.

The second reason is rational self-selection motivation. Almost all interviewed subjects, both policymakers and bankers, mention that Turkey, a country so dependent on foreign capital (IMF 2016), must attract foreign savings through signalling the quality of and stability in the financial and banking sectors. For example, a banker mentions that "for Turkey membership was needed to gain and maintain credibility… The country is vulnerable to external [and internal] factors… The membership and adoption of the framework improve credibility and strengthens the banking sector."[22] The concern for the banking sector is also about the borrowing costs. Since the sector borrows from abroad, costs could have been higher if the country was assessed as non-compliant. Moreover, the bankers and the policymakers frequently point out that if the country wants to remain an open economy in a globalised era, then membership and adoption of the framework emerge as prerequisites for an open economy. As a result, the overlap between the preferences of the public and private sector officials is motivated by a (rational) self-interest reasoning to remain an attractive outlet for foreign investments.[23]

[20] See fn. 18.

[21] The G-20 leaders announced their commitment to qualify G-20 as the main economic cooperation forum at the Pittsburgh Summit in 2009. The communiqué is available at: https://www.treasury.gov/resource-center/international/g7-g20/Documents/pittsburgh_summit_leaders_statement_250909.pdf, accessed on September 2 , 2016.

[22] Interview, Senior Official, TEB, Istanbul, March 1, 2016.

[23] A critical interpretation of that sort of 'rational' motivation would have claimed that the current structure of global economy dictates relatively less powerful nations to follow the standards imposed by the organisations that are more or less controlled by the leading economies. The literature lacks analyses about power-based relations and their implications for the potential channels of the impact of membership to international organisations on the new members.

In brief, since the early 1990s, Turkey has had 'formal', yet indirect and voluntary relations based on the voluntary (self-selecting rational) adoption of the international standards. The nature of the interactions changed in 2009 after the country gained membership at the BCBS. Let us now discuss the implications of the change in the nature of interactions the country.

IV.Sharing Sovereignty and the Positive Externalities of Membership to an International Organisation

Capacity-Building in Public and Private Sectors

Turkey's membership to the BCBS in 2009 has altered the two-level game. The direct involvement of the BCBS due to the membership into the local regulatory policymaking processes has occurred in a way that the BCBS is sharing sovereignty with the Turkish policymakers. Since the output of the local policymaking processes must abide the international standards, the policymakers do no longer have full policy autonomy or at least the comfort for 'cherry-picking' to adopting some of the pillars of the Basel framework.

Would that cause a substantial limit to the country's policy space? On the one hand, it surely does. One could not neglect the transfer of the international standards even if the country joined the organisation on its own will. The limited policy space, for instance, faced resistance from the (interviewed) senior-level officials at the BRSA who consider that the 'strait-jacket' logic is not suitable for all countries due to differences in market and economic structures in the organisation. Because the country may not always get what it wants during the negotiations – probably due to a lower degree of influential capacity compared to other emerging market economies and the leading developed countries – the regulators try to obtain national discretion if granted by the BCBS.

On the other hand, as this essay tries to emphasise, the transfer of the international standards could be beneficial for the recipient. As the membership sheds light on the 'missing' or weak parts in the institutional and policy capacity, the members may better understand those parts after gaining the membership. So, there might be several benefits. To start with what all interview subjects agreed on is "learning the process." As Walter (2015) has noted, new members lack information about the policy process at the BCBS.

More importantly, they do not have sufficient experience to be influential actors in a relatively institutionalised 'old' organisation where the modes of international policymaking practices have been evolving since the 1970s. New members, as in the Turkish case, socialise into a new environment where they have begun learning how to negotiate international regulatory standards, influence policy processes in a 'club'-like organisation. The "learning process" may not necessarily secure transferring their national interests on the finalised regulatory texts. They can nevertheless achieve a certain level of influential capacity by "learning by doing."

Even for a new member that lacks an adequate historical record of experience in participating in the processes at the BCBS, a senior official mentions that "institutional capacity, human capital, and knowledge"[24] are essential assets. The policymakers were aware of those missing or weak areas because the majority of them underline the importance of human resources, knowledge production, and institutional development. The membership to the BCBS has acted as a test for the country to evaluate its capacity to understand, translate, adopt, and implement the international standards. As a senior official in a foreign bank strikingly states "financial literacy is very low in Turkey. I do not think everyone can understand what a CoCo is. I think our reach to the BCBS to realise our preferences is very low due to the low financial literacy level."[25]

With membership, the Turkish case indicates that investment in human capital has intensified. First of all, the agency is recruiting banking regulation specialists who have formal training in economics and/or finance. The employees can also receive on-job training, and are encouraged to obtain financial risk management certificates. Second, the agency appears to work with more advanced models for risk management and implementation of the adopted regulations. Those investments are observable at least from the Turkish banks' transition to internal-based risk assessment in capital adequacy regulations. Since the agency was not able to work with the 'black-box' internal risk assessment models, standards

[24] Interview, Senior Official, Banking Regulation and Supervision Agency, Ankara, January 22, 2016.

[25] Interview, Senior Official, Denizbank, Istanbul, March 9, 2016.

approach was used in the past.[26] In the aftermath of the membership, the momentum in those investments appears to have speeded up.

In the private sector, there are a few concerns frequently pronounced by the interviewed subjects. First is the low level of financial literacy in the Turkish banking sector. According to the statistics from the Turkish Banks' Association, as of June 30, 2016, there are around 200,000 bankers in the Turkish banking sector. Around 14,000 of them are holding a postgraduate degree.[27] A senior banker notes there are around only 200 bankers who have obtained a risk management certificate (e.g. CFA, FRM, etc.).[28] The number of bankers holding a post-graduate degree and specialised professional degrees give us some background idea to interpret the current level of financial literacy in the Turkish banking sector. As it is pointed out by another banker, the lack of interest in improvements in financial literacy is due partially to the domestic orientation of the leading Turkish banks.[29]

Besides the domestic orientation, the bankers point out that the daily concerns trump concerns about the global developments. As a result, they may not easily follow international regulatory issues promptly, which impedes access to BCBS and actively participating in the policy process as the G-SIBs are more capable of (Lall 2012, 2015, Young 2012, 2013). A banker notes that "when we receive a consultative document, we do not look into the details. We rather assess its methodology and coherence." [30]Also, It is stated once that "the bankers and managers found themselves in a new 'game' in the town. The 'old generation' is surprised by the adoption and the new regime. However, the younger generation has different risk management logic."[31] Consequently, as the 'younger

[26] Interview, Senior Official, ING, Istanbul, February 16, 2016.

[27] The statistics are available online at https://www.tbb.org.tr/en/banks-and-banking-sector-information/statistical-reports/20, accessed on September 4, 2016.

[28] "CFA" refers to Certified Financial Analyst, and "FRM" is Financial Risk Manager.

[29] See ft. 24.

[30] Interview, Senior Officials, Akbank, Istanbul, March 4, 2016.

[31] Interview, Senior Officials, Ziraat Bank, Istanbul, February 25, 2016.

generation' replaces the 'older generation', and technically more capable personnel, the Turkish banking sector could be more active in the policy processes at the BCBS.

Here, on the overlap of the preferences, we should note that the efforts to build better capacities could go through two mechanisms. The first is 'coercion' with a 'softer' instrument, which are the necessities of the membership to an international organisation. The member, especially in a 'club'-like organisation, has to remain as a legitimate peer in the 'club'.[32] As a result, non-compliance could be penalised. Moreover, as the bankers and regulators in Turkey notice, the signalling effect of compliance is crucial at least for the international markets. The financiers may treat the RCAP reports of regulatory consistency as an item in a checklist when making investment decisions. Consequently, so as not to be penalised by the markets, compliance is indispensable particularly for a country in need of attracting foreign savings.

The second mechanism appears that both bankers and regulators are aware of building up capacities through investments in human capital. This sounds like a rational, self-selecting motivation. The interviewed bankers persistently touch upon strengthening the banking sector with the adoption of the Basel framework. For instance, a banker notes that "the adoption of certain accounting and disclosure standards are local needs as well"; [33] and this goes through a higher level of human capital. Also, the sector knows that to be an active partner in the policy processes at the international level, they have to "learn the new game in town". As to the regulators, almost all policymakers (e.g. regulators, central bankers) are aware of the importance of human resources and institutional development to have a more say at the BCBS.

In sum, as the preferences of the private sector and the public sector overlaps, the society, as a whole, is investing in better capacities. The efforts to build better capacities in the private and public sectors indicate that membership to an international organisation could at

[32] Interview, Senior Official, Banking Regulation and Supervision Agency, Ankara, January 20, 2016.

[33] Interview, Senior Official, T. Is Bank, Istanbul, March 1, 2016.

least partially induce capacity-building. To manage the altered two-level game following the membership, which came along with an ultimate influence of the BCBS granting the organisation the capacity to share sovereignty by imposing the international standards, the society as a whole is undertaking necessary steps.

Institutional Development

The definition of an institution in this essay follow North's (1990) definition which conceives of them as rules enabling or constraining actors, despite the reductionism and practicalism of this definition of *institutions* (Hodgson 2006, 2015). As certain practices become so ingrained in a context as a template for particular behaviours, those practices get institutionalised. To give an example, regulatory capture (Carpenter and Moss 2014) is an *institution* that enables the regulated divert the path the policy process towards its benefits while constraining the regulator to realise necessary measures to alter the incentives of the regulated. Depending on the same *institution*, we may define *institutional development* as changes in the relationship between the regulated and the regulator in a way that the regulated is less powerful vis-à-vis the regulator so that enactment and/or enforcement of rules and regulations would be ensured.

The membership to an international organisation would be impactful at least partially in getting the local actors to develop institutions that facilitate enforcement of rules and regulations. Whether the involvement of the membership comes along with an 'obligated' or rational learning, or socialisation mechanisms of policy transfer and diffusion, the international organisation may emerge as an actor igniting a process of institutional change and development. In this sense, the transformation of the two-level game for the Turkish policymakers has transformed their relationship with the local banking sector. Suppose that the regulators, or read it as the State, had a 'symbiotic' relationship which might be identified with persistent regulatory capture in the given jurisdiction. To give an example from the Turkish case, the State used to allocate banking licences on political bases and provide favourable conditions for lending and borrowing for the local banking sector (Gültekin-Karakaş 2009).

After the local crisis in 2000-01, the relationship had changed, however, until membership the relationship seemed to be moving in the more or less similar vein.[34] This has changed with the membership because the regulator can no longer act on its own to alter the regulations such as capital adequacy ratios, or the D-SIB capital surcharge.[35] This has led to a fundamental change in their relationship as the regulatory agency has become bounded by the requirements of the BCBS membership. The fundamental change has been more pronounced during the RCAP process that took place from late 2015 and early 2016. In order to be assessed as a jurisdiction "fully compliant" with the Basel III framework, the regulators passed several regulations, and the local banking sector could not resist. As a banker points out, "the regulator said, whatever the BCBS agrees on, the sector has to assume that the agency will follow the standards. So, the sector should begin working individually to be compliant to the standards even before we introduce the same regulation."[36] Even this statement demonstrates that the local banking sector can no longer easily influence the regulator especially in policy areas that must be compliant with the international standards. [37] In brief, the regulator can gain leverage in the local policy process due to the pressure to remain as a legitimate partner at the BCBS.

Moreover, access to the BCBS process, which goes through submitting feedbacks to the consultative documents on the proposed regulations, is also limited due to the prevailing institutional structure besides the lack of adequate human resources. A banker mentions a centralised policymaking style in the country as an impeding factor in the reach of the sector to the BCBS.[38] The feedback system in the system reflects the centralised policymaking style. The system works as follows; the regulatory agency receives the consultative documents, sends out to the Banks' Association, and the Association distributes the documents in the sector. After individual banks study the documents, the Association consolidates the

[34] Interview, Former Senior Official, Banking Supervision and Regulation Agency, February 19, 2016, Istanbul.

[35] Interview, Senior Official, Banking Regulation and Supervision Agency, Ankara, January 11, 2016.

[36] Interview, Senior Official, ING, Istanbul, February 16, 2016.

[37] Policy areas outside the Basel framework would be managed locally. Those regulatory policy areas would still be argued to be subject to the sector's discretionary space in the policy process.

[38] Interview, Senior Official, T. Is Bank, Istanbul, March 1, 2016.

feedback. Finally, the regulatory agency makes its judgment on the given feedback and replies the BCBS. Within this feedback system, the banks cannot reach the BCBS, and be more active players in the international policymaking process. Although, the field research was not able to observe a direct effect of membership on potential modification to the feedback system originating from the centralised policymaking style in the country, with more investment in human resources, technology, and know-how, while 'learning the new game in the town', we may expect that the sector resisting the regulator's powerful position provided they have to absorb large losses with the adoption of the international standards.

Concluding Remarks

The BCBS has expanded its membership to the remaining G-20 countries and inviting Singapore and Hong Kong in 2009. This critical juncture means a lot for global regulatory cooperation despite a lack of attention until recently (Helleiner and Pagliari 2011). One of the impacts of the expansion of membership is about the two-level game the regulators of the previously non-member jurisdictions used to play with the BCBS. Membership to a 'club' transforms the mode of interaction as the international organisation begins sharing sovereignty on the regulation of the domestic actors' behaviours, which the core policy objective of a given regulatory policy.

In the past, today's new members of the BCBS were not 'obliged' to comply with the standards at least two simple reasons. First, membership requires compliance, since membership comes along with participation in the policy process. Participation in the policy process carries a normative dimension. A member, which naturally takes place in the process, could be questioned for non-compliance. This might not be the case for a non-member. Second, the 'soft law' nature of the Basel standards are not imposed on the non-members. However, after obtaining the member status, membership brings about obligation for compliance. Since new members are now part of the policy process, to remain legitimate peers in the 'club', they have to comply with the rules and standards, which are also assessed in the RCAP reports.

Based on these observations, this essay tried to shed light on the positive externalities of membership to an international organisation. When the levels of institutional development

were not in line with the underlying basis for effective participation in the international policy processes and that of the 'policy capacity' a new member would be aware of those weaknesses, which in return can trigger dynamism for institutional reforms and investments in 'policy capacity'. The Turkish is used in this essay as an illustrative case to show that new membership to an international organisation would be beneficial to the new member under certain conditions.

One of the most crucial of those conditions appears to be the overlap of the preferences of the policymakers and the domestic constituency. Since the two actors know that there are missing or malfunctioning dimensions to make better use of the membership, both of them have begun investing in capacities and the underlying institutional structure. Second, although it is an implicit analysis in this essay, the 'obligated transfer' of the international standards due probably to being a new member and/or 'hierarchies' among the members during the BCBS negotiations, this particular mode of policy transfer constrains the policy space of the new member.

However, the essay argues that even if the new member, in this case, Turkey, faces constraints on the domestic banking regulatory policy space, when the preferences overlap the two-level game becomes facilitated for the policymakers because all stakeholders have a rational motivation to self-select for compliance. Moreover, although the limited policy space empowers the BCBS as an actor sharing (domestic) sovereignty of the country, the member State may react with reforms and investments in the institutional structure and the 'policy capacity'. The case also reveals that 'problem-solving capacity' may not solely be limited to the State because capacity-related issues resonate in the society.

In sum, the impact of the new membership might differ. Opting for an open economy may harm developing countries. The downside risks of being a new member of an international organisation (or a party to an international agreement) could be offset by the benefits of membership, for instance, having access to foreign markets, and probably moving up in the technology ladder due to foreign competition. Since we may expect a nuanced understanding of an impact of new membership, one may look at the positive externalities of new membership. Consequently, we need more research on the linkages between local

and international policy processes and their implications for the domestic political economy dynamics, and levels of institutional development and 'policy capacity'. Finally, although the States are jealous of sovereignty, *sharing sovereignty*, may be beneficial especially in countries that do not lack a higher level of institutional development. Further research would benefit our understanding of the conditions how shared sovereignty might benefit the society as a whole in regions where the State is still functioning, yet not as in desired ways.

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Appendix 1: Interview Method Table

Category/Code	Affiliation	Status	Source	Saturation	When	Format	Length	Recording	Transcript
Bankers				Y					
B1	Ziraat Bank – Senior Official	Focus group (Four Senior Officials)	Sample frame		February 25, 2016	Semi-structured	65m	Concurrent notes	Confidentiality requested. Notes are transcribed
B2	T. Is Bank – Senior Official	Conducted in person	Sample frame		March 1, 2016	Semi-structured	30m	Concurrent notes & Voice recording	Confidentiality requested. Notes and the interview are transcribed
B3	T. Is Bank – Senior Official	Conducted in person	Sample frame		March 1, 2016	Semi-structured	50m	Concurrent notes & Voice recording	Confidentiality requested. Notes and the interview are transcribed
B4	Akbank	Focus group (Two Senior Officials)	Sample frame		March 4, 2016	Semi-structured	55m	Concurrent notes & Voice recording	Confidentiality requested. Notes and the interview are transcribed
B5	HSBC	Conducted in person	Sample frame		March 7, 2016	Semi-structured	60	Concurrent notes	Confidentiality requested. Notes are transcribed
B6	Yapi Kredi	Conducted in person	Sample frame		February 9, 2016	Semi-structured	30m	Concurrent notes	Confidentiality requested. Notes are transcribed
B7	Finansbank – Senior Official	Conducted in person	Sample frame		March 8, 2016	Semi-structured	50m	Concurrent notes	Confidentiality requested. Notes are transcribed
B8	ING Bank – Senior Official	Conducted in person	Referred by a Senior Official from the same bank		February 16, 2016	Semi-structured	75m	Concurrent notes & Voice recording	Confidentiality requested. Notes and the interview are transcribed
B9	TEB – Senior Official	Conducted in person	Sample frame		March 1, 2016	Semi-structured	30m	Concurrent notes	Confidentiality requested. Notes are transcribed
B10	Denizbank – Senior Official	Conducted in person	Sample frame		February 29, 2016	Semi-structured	60m	Concurrent notes & Voice recording	Confidentiality requested. Notes and the interview are transcribed
B11	Banks' Association of Turkey	Focus group (Two Senior Officials)	Sample frame & Referred by R4		March 2, 2016	Semi-structured	30m	Concurrent notes	Confidentiality requested. Notes are transcribed
Regulators				Y					
R1	BRSA – Former Senior Official	Conducted in person	Referred by R2		March 4, 2016	Semi-structured	40m	Concurrent notes	Confidentiality requested. Notes are transcribed
R2	BRSA – Former Senior Official	Conducted in person	Referred by a Senior Official in BRSA		February 19, 2016	Semi-structured	35m	Concurrent notes & Voice recording	Notes and the interview are transcribed
R3	BRSA – Senior Official	Conducted in person	Sample frame		January 11, 2016	Semi-structured	30m	Concurrent notes	Confidentiality requested. Notes are transcribed
R4	BRSA – Senior Official	Conducted in person	Referred by R3		January 11, 2016	Semi-structured	40m	Concurrent notes	Confidentiality requested. Notes are transcribed
R5	BRSA – Senior Official	Conducted in person	Referred by R4		January 20, 2016	Semi-structured	65m	Concurrent notes	Confidentiality requested. Notes are transcribed
R6	BRSA – Senior Official	Conducted in person	Referred by R4		January 22, 2016	Semi-structured	35m	Concurrent notes	Confidentiality requested. Notes are transcribed
R7	BRSA – Senior Official	Conducted in person	Referred by R4		March 29, 2016	Semi-structured	60m	Concurrent notes	Confidentiality requested. Notes are transcribed
R8	BRSA – Senior Official	Conducted in person	Referred by R4		February 11, 2016	Semi-structured	30m	Concurrent notes	Confidentiality requested. Notes are transcribed

The Central Bank				Y					
CB1	The Central Bank of Republic of Turkey – Three Senior Officials	Focus group	Sample frame		January 12, 2016	Semi-structured	35m	Concurrent notes	Confidentiality requested. Notes are transcribed
CB2	The Central Bank of Republic of Turkey	Conducted in person	Referred by CB1		January 28, 2016	Semi-structured	40m	Concurrent notes	Confidentiality requested. Notes are transcribed