Turkey in the 1930s: Internal Reforms and External Orientation

The new Turkish state was declared a Republic on 29 October 1923. Following the proclamation of the Republic, the caliphate was abolished in 1924. This was in a sense a turning point in defining the superstructure of Turkey. Thereafter, the Kemalist regime initiated many reforms to make Turkey a modern nation-state. In 1926, the National Assembly abolished the Shari'a as a civil law and accepted the Swiss Civil Code. The European calendar replaced the Islamic one. The Kemalist regime declared that the state would be secularist by a change in the Constitution in 1928. Article 2 of the Constitution stating that “Islam was the religion of the state” was dropped. As a second step, secularism was introduced into the Constitution in 1937. Again in 1928, the Assembly adopted the Latin alphabet. Other reforms such as the attribution of the right of women to elect and to be elected followed.

The year 1929 was a critical year for Turkey because of internal and external reasons. First, the economic implications of Lausanne Treaty came to an end. Second, the World Economic Crisis began to show its repercussions also in Turkey as in other South-East European countries. When Turkey was declared a Republic, there were economic difficulties that the Turkish state confronted. The new Turkish Republic inherited a handicapped economy from the ruins of the Ottoman Empire. First of all, Turkey had an economy without a modern industrial basis. Industrial production was mainly of an artisanal character. In addition to this situa-
tion. Turkey had inherited the financial problems of the Ottoman Empire. The main issue was the Ottoman debt which made the new Republic dependent financially on foreign powers.  

In 1923, after the political independence, the financial situation of Turkey did not change much. In fact, the Lausanne Treaty was not really a success from the economic point of view. The treaty required Turkey to pay two-thirds of the Ottoman debt, which formed a heavy burden for the Turkish state. The Lausanne treaty included other constraints on the economy of the Republic which had to last until 1929. The most important among them was the customs tariffs imposed by the treaty. The treaty froze the Turkish tariffs at the adjusted specific Ottoman tariff scale of 1916. This meant that Turkey could not have control over its foreign commerce until 1929. Moreover, until 1929, the Turkish state had to eliminate the existing quantitative restrictions and not to introduce the new ones on foreign trade. We can say that the Turkish delegation was forced to make economic concessions at Lausanne in return for the abolition of the political and legal capitulations. 

As the Lausanne Conference was being convened, the Economic Congress was also held in Izmir (February 1923) by the new government. One purpose of the Izmir Congress was to show the Allies that the leadership was united to establish a national economy. The leadership wanted to give the message that national sovereignty should be national economic sovereignty. In his speech at Izmir, M. Kemal pointed out that military victories alone could not secure the future of the nation without simultaneous economic sovereignty. If the state ensured its economic sovereignty it would have such a solid basis that nobody could threaten its existence.  

In fact, the Economic Congress adopted resolutions which aimed at the development of a national economy. These were: protectionist tariff policy, nationalization of foreign trade, and the establishment of a national economy based on the principles of national economic sovereignty. 

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1 The Ottoman debt problem dated to the time of the Crimean war during which the Ottoman Empire had begun to borrow money. By the signing of the Sèvres treaty, the Allies asked Turkey to pay the debt as soon as possible. For more detailed information see: Emine Kray, Osmanlıda Ekonomik Yapı ve Düziipurul, Istanbul 1993, and Donald C. Blaisdell, European Financial Control in the Ottoman Empire, New York 1929.


bank. The Congress opposed concessions and monopoly rights to foreign capital. But this did not mean complete rejection of foreign capital. Foreign capital was welcome if it was beneficial for the economy of the nation. But the policies which were decided during the İzmir Congress were implemented only in the 1930s.

From the beginning the goal of the Turkish leadership was the industrialisation of the country. How to achieve this process was the main question. Some people define this period as a period of liberalism. On the one hand, it would be difficult to talk about the liberal economic policy in a country where there was no merchants and industrialists. On the other hand, we can talk about some state initiative in the economy during the period 1923–1929. The state initiative in the economy aimed at creating industrialists through state resources and support. The Kemalist elite viewed industry as a vital component in the modernization of Turkey.

According to the Kemalists, Turkey had to have a strong and independent industrial economy to reach the level of European countries. Thus industry was necessary to establish democracy in the Western style. In fact, the founding of İş Bankası in 1924 was a reflection of the state’s economic philosophy of the period. This private bank was established by the initiative and contribution of political leaders. The task of organizing İş Bankası was given to Celal Bayar who had the total confidence of the entire business community. A member of the Parliament from Sirt, Mahmut Bey, was appointed as the director of the board. In the following years, İş Bankası acted in favour of private interest groups as a mediator between business and government circles. The role of İş Bankası in the development of the national industry reflected very well the relationship between the state and business. İş Bankası had to contribute to the establishment of industries. It erected sugar factories in Uşak and Alpullu under the state monopoly.¹

Another step in this direction was the founding of Sanayii and Maadin Bankası in 1925. The purpose was to facilitate the supply of credits to private enterprises via this bank. In 1927, the law for the Encouragement of Industry was passed under the same economic climate. The state thus wanted to provide all necessary incentives for local capitalists. The law

made state lands available at low prices, reduced taxes and exempted many essential materials from import duties. All these measures could be defined as attempts to develop a national industry in the country. It was in the 1920s that private entrepreneurs were able to benefit from government support in the domain of sugar, tobacco, oil, explosives, alcohol, and matches industries.

In spite of these contributions, the national bourgeoisie could not become strong enough in order to be autonomous from the state. In fact, the weakness of the bourgeoisie was highlighted during the Crisis of 1929. The World Economic Crisis in 1929 hit brusquely the Turkish economy and the nascent bourgeoisie that was coming into existence. The first impact of the Crisis was a fall in prices of agricultural products. This situation affected badly the Turkish commerce and commercial class. As Turkey’s main exports were agricultural goods, the value of its exports declined significantly.

As a result, the balance of trade deteriorated and this led to the balance of payments deficits. The economic situation became worse by an exchange crisis which led to a fall in the value of Turkish lira. This whole situation increased the debt burden of the commercial class. Bankruptcies were widespread in the commercial sector. In 1930, more than one thousand firms in Istanbul and Izmir declared bankruptcy.

Under these conditions, the Turkish political leaders opted for etatism. In fact, as we will see that etatism was not only economic measures taken to improve the economic situation in Turkey. It was also defined by the Kemalists as a third way which was an alternative strategy to Socialism and Liberalism. The first economic initiative of the Turkish state was in the area of customs policy. Nominal protection rate for customs tariffs increased from 13% to 46%. The Turkish leaders passed a law and applied a quota system in foreign commerce. Their aim was to prohibit the importations of goods which could be produced at home.

However, an increase in exports was yet to be guaranteed. In order to achieve this goal, a barter arrangement began to be used in foreign commerce. This system provided an opportunity for Turkey to sell its goods

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abroad and to trade by the exchange of goods rather than by the use of currency exchange. The motto of the Turkish state was to purchase goods from countries which purchased Turkish goods. Moreover, Turkey was unable to place its agricultural products on the world market which offered prices below cost because of the crisis. It was also unable to make cash payments to buy products because of the scarcity of foreign exchange.

Turkish commercial measures against the World Economic Crisis coincided with the New Plan period in Germany. The New Plan was designated to shift German trade from a multilateral to a bilateral basis. The result was the establishment of a special bartering system: This plan directed Germany to buy as much as possible from states that did not ask for currency in return but accepted German products. As a result Germany turned to countries as Turkey which found it advantageous to enter into a bilateral trade agreement with Germany. Commerce between the two countries benefited Germany much more than Turkey. Since the German importer deposited marks to the Reichsbank account of Turkey, the latter could get this money out only if it purchased German goods. As a result of that, Turkey became economically dependent on Germany and it became almost impossible for Turkey to realize import-substitution industrialization.

The second domain for the implementation of etatism was the railways. At the opening of the first national railway, the Sivas railway, the Prime Minister İsmet İnönü mentioned etatism for the first time. There he defined Turks being moderate etatist. Then he explained the reasons why Turks were etatist. The construction of the railways was significant for Turkey's political and economic existence according to İnönü. The unity of the nation relied on the development of the railway network. The nation would reach the frontier when the development of the railway network would be complete. In fact, Turkey should count on its own resources instead of foreign ones for the railway construction.

The third domain in which etatism was applied was the industrial sector. Before the World Economic Crisis, Turkey tried different ways to develop its national industry. In the 1920s, industry failed to develop

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sufficiently because the Turkish industrial class was very weak. When the World Crisis occurred the weak private sector could not defend the economy against its repercussions. Some speculators in private sector made excessive profits just after the collapse of world markets.

In the 1930s, the state was to be the main investor and manager. Celal Bayar, founder of İş Bankası, became the Minister of Economy. Consequently, İş Bankası began to finance the industries organized by the state and also received shares from the capital of these industries. On the other hand, Sümerbank planned and established new enterprises with capital provided by the state, started to operate state owned factories and carry on banking transactions and credit activities.⁸

During these years, Turkey tried to develop its national industry according to the five years plans. The most important, the Soviet Union was an influential factor in the preparation and implementation of the first five-year plan. Unlike other countries, the Soviet Union was not affected by the crisis. Moreover, it had already successfully applied its first five-year plan. Consequently, the early 1930s were marked by the intensification of Turkish-Soviet relations which began in the 1920s. In 1929, the Soviet Vice-Foreign Minister Lev M. Karakhan had already come to Turkey to sign the protocol prolonging the 1925 Treaty. He advised Turkish officials to stop payment of their external debts in order to overcome their financial problems, to adopt a five-year economic plan, and to turn to the Soviet Union for help rather than elsewhere.⁹ Between 1930 and 1932, Turkish political leaders made official visits to Moscow and invited Soviet economists to Turkey. The Soviets did not only prepare reports for the Turkish five-year plan but also offered $8 million credit without interest.

In the 1930s, Turkish-Soviet relations continued also at the political level. During the Disarmament Conference, the Soviets argued that the definition of “aggression” was not sufficient to prevent aggression; the term “aggressor” was yet to be defined. Turkey supported this proposition and in 1933, it came to an agreement on the meaning of “aggress-

sor" on the one hand with the USSR, Iran, Afghanistan, Estonia, Latvia, Poland, and Romania and on the other hand with the USSR, Czechoslovakia, Romania, and Yugoslavia. In fact, Turkish-Soviet close relations continued until the beginning of WWII.

In this decade, other countries that Turkey developed close relations with were the Balkan countries. The main reason for Turkey's cooperation with other Balkan countries was the World Economic Crisis. Ankara had already suggested Balkan cooperation in the 1920s. Yet the World Economic Crisis was the stimulus for Balkan rapprochement. The crisis affected in the same way the Balkan societies, which were raw material producer countries. As a reaction to the repercussions of the Crisis on their economies, Balkan countries met in different Balkan capitals between 1930 and 1934. Finally they formed the Balkan Entente that was a pact of a defensive character. This was a defensive pact against negative economic and political effects of new developments in Europe during the interwar period.

On the one hand, the Balkan countries were concerned about their economic situation under the World Economic Crisis. On the other hand, they had common political concern: Italy's expansionist policies in the region. In the Balkans there was a common apprehension towards Italy since 1922 when Mussolini came to power. But this apprehension became even more accentuated under the World Economic Crisis which made the Balkan political systems even more unstable. As far as the relations between Turkey and Italy were concerned, they could be defined as amicable. In fact, the World Crisis presented Turkey with a dilemma vis-à-vis Italy. Even though Turkish leaders believed that Italian aggression in the Balkans would inevitably affect Turkey in the 1920s, Turkish-Italian relations entered the period of warmth in 1928 after the signing of the Treaty of Neutrality and Reconciliation between Ankara and Rome.

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11 For more details see Dilek Barlas, "Turkish Diplomacy in the Balkans and the Mediterranean: Opportunities and Limits for Middle Power Activism in the 1930s", Journal of Contemporary History, 40 (3), p. 441–64.
12 For more details see Dilek Barlas, "Friends or Foes: Diplomatic Relations between Italy and Turkey, 1923–1936", International Journal of Middle East Studies, 36 (May 2004), p. 231–52.
The warmth period in Italian-Turkish relations represented a clear case of alignment of convenience. Italy’s changing image of Turkey in a positive way was the direct result of balancing acts against other powers, namely France. Collective security did not have much appeal to Italy, and Turkey was excluded from the League of Nations. There were also economic factors leading to this rapprochement. In the early 1930s, Turkey asked for economic aid from Italy. First, Italy accepted to supply warships to Turkey. Second, Rome discussed the possibility to lend 300 million Italian lira loans to Turkey.

However, the limits of this pragmatic approach were evident by the mid-1930s. As an example, by 1932 Turkey decided to take the credit from the Soviet Union rather than Italy, which offered better conditions. Moreover, fundamental differences in the Italian and Turkish views of the international order set them apart on the eve of WWII. Turkey’s membership in the League in 1932 affirmed Turkey’s place among the society of equal and sovereign nations. The shift in Turkish-Italian relations from warmth to cooling off is marked mainly by two events. One was the opposition of Italy to Turkey’s membership of the League. Second and more general event was the dismiss of Dino Grandi by Mussolini from the Foreign Office to revitalize the tono fascista in foreign policy.

The frost period between the two countries started in 1934 when Mussolini accentuated its tono fascista by declaring that Italian interests lay in Asia and Africa. In addition to that, he proposed Four-Power Pact according to which four great powers of Europe — Italy, Germany, Britain and France — would guarantee peace in Europe. In fact, as a result of this proposition, the Balkan countries rushed into signing the Balkan Entente. In a year, Italy attacked Abyssinia which was also turning point in Italy’s relations with other countries.

For instance, after this event Turkey turned to Britain for the first time for cooperation. In 1935, Edward VIII came to Turkey. Economic relations started developing between Turkey and Britain after this visit. In fact, it was Britain, not the Soviet Union, who supported the second five-year

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plan organized in 1936. It was after the Montreux Convention, which put
the Straits under the control of Turkey, that Ankara changed the orientation
of its foreign policy. Until 1936, Turkey was distant to European powers,
namely Britain and France. But events such as the invasion of Abyssinia
and the increasing Italian threat in the Mediterranean led Turkey to develop
better relations with these powers. This even led to the signing of the Tripar-
rite Alliance Treaty between Turkey, Britain and France that contradicted
the non-alignment policy of Ankara in the first half of the 1930s.

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