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THE TURKS

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Expansionist Policy of Russia in Volga-Ural, Crimea and the Caucasus

A. Expansionist Policy of Russia in Volga-Ural and Crimea
DEMOCRATIC COMPOSITION OF TURKISH POPULATIONS LIVING IN THE EUROPEAN TERRITORIES OF THE RUSSIAN EMPIRE AND TSARIST RUSSIA’S POLICIES TOWARDS TURKISH POPULATIONS / Dr. Sezgi Serpil
KAZAN TATARS AFTER THE FALL OF THE KAZAN KHANATE: QUESTION OF NATIONAL LEADERSHIP / Raidil Bakhteri
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11.9% woollen, 8.3% leather, 6.1% paper, 2.2% chemistry, 10.8% wood and 0.3% soil industry. 11 75% of the total establishments in the existing industry and 84.8% of the workers were in the woollen, food and paper fields. 22 of these establishments belonged to the state, and the major part of the rest belonged to foreigners and non-Muslims under their protection. Except for operating thread factories in Adana and Tarsus, 249 of the 264 enterprises that were counted, used spinning force. It is known that those had a total of 20,977 horse-power. 12 In fact, 85 horse-power per enterprise when compared to counterparts in Europe proves that these were not counted even as small enterprises. 13

**CHAPTER 1**

**INDUSTRIAL POLICY IN TURKEY, IN THE YEARS OF ESTABLISHMENT OF NATIONAL ECONOMY (1923-1933)**

In an economic sense, the first decade of the Turkish Republic was the time for seeking policies to be implemented. Essentially, seeking policies in the Republic period was initiated in the national strife years. In his speech at the inauguration of the Turkish Grand National Assembly on 1 March 1922, Atatürk said this phrase related to the economic policy that would be implemented: “One of our most important aims of the political economy is the nationalization of enterprises and economic undertakings related to public interest concordant with our economic power and technological availability. Opening to public interest after processing the deserted mine treasures under certain of our lands quickly is only possible with this method.” 14 These words shed light on the policy that would be implemented after the promulgation of the republic. There was information about the industrial policy to be pursued in the minutes prepared by the Union of National Turkish Trade to be brought to the Izmir Economy Congress. In the minutes, the merchants of Istanbul were reported to prefer an industry-protective custom policy in free trade in principle. 15 From the following pages of the report, it was understood that merchant capitalists did not want an industry-protective customs system. 16 This view would be revealed more clearly in the Izmir Economy Congress.

**INDUSTRIALIZATION IDEA IN 1923
IZMIR ECONOMY CONGRESS**

In the period when the Lausanne Peace Talks were interrupted, to determine the policy that the Turkish Republic would pursue in the economy since its formation, between 17 February and 4 March, the “Turkey Economy Congress” convened in Izmir. More than one thousand delegates (1135) elected from among Turkish agriculture, industry and trade sectors and the worker class, attended the congress.

Mustafa Kemal Atatürk made the opening speech. Atatürk said to the participants, “The Turkish Economy Congress is a premier congress convening for the first time in history. And taking into consideration the necessity of this country, the necessity of this society, and the capability of the nation, in addition to this present strong economic organization in the world, you should exchange and determine clearly the measures that should be taken.” 17 However, Atatürk blamed the problems of the Turkish economy on the Lausanne talks as well. After he said “Our interlocutors in the talks brought us to account not for 3 or 4 years but for three or four hundred years”, he stated that he was not against foreign capital, contrary to the accusations in the Lausanne Conference, and “we are ready to give necessary security for foreign capital on the condition that it obeys our rules.” 18 Workshops followed the opening speeches. Decisions taken were submitted to the TBMM (Turkish Grand National Assembly) and the government. In the report submitted to the government on behalf of industry, the industrialization movement was described as a “move of individual initiative with the promotion and protection of the state.” 19

In the Congress, the decisions taken by the group can be classified under four main headings: 20

1. Protection of Industry:
   By imposing high customs duties on goods of national necessity that could be met through national production, to avoid the import of them; to avoid the import of raw materials that could be provided in the country; to provide duty-free import of raw materials necessary for developing industry and not provided in the country, to provide duty-free import of the machines and pieces to be used in industry, and to enable the import of the industrial products not present in the country duty-free or with low duty.

2. Encouraging Industry:
   Increasing tax exemptions, with preference given to national products, even if they are 20% more expensive than foreign ones, giving land free up to five acres to establish industrial enterprises and to enlarge them, and benefiting from the Law of Promoting Industry with only Turkish origins and Turkish industrial corporations 75% of the corporate capital of which was held by Turks.

3. Financing of Industry:
   Establishing a bank that would give credit to industrialists.

4. Education of Industrialists:
   Reinforcing industrial education; 21 educating industrial engineers, and establishing chambers of industry.
As understood from the decisions taken by the industry group, far from bringing solutions to the conditions in the country, the İzmir Economy Congress was featured as "wish and desire." Furthermore, a view that attached importance to the private sector, however interfering of the state with the economic life to establish big enterprises that seemed impossible to be established with private capital, dominated the Congress, this view was dominated in practice up to the 1930s. The reason for pretending there were state policies to adopt this view, was not a consequence of the confidence to the power of private initiative, but the absence of such a national initiative class, a desire to form this class, and insufficiency of economic resources of state to undertake some operation actually.

As a matter of fact, the suggested demand of effective protection of industry in the Congress, in spite of having abolished the capitulations on account of not clearing away the remains of this system, was highly impeded by having put an annexed trade contract in the Lausanne Agreement. With this trade agreement (dated September 1, 1916), Turkey agreed to carry out Ottoman Custom Tariffs on the countries among which were England, France, Italy, Japan, Greece, Romania, and Yugoslavia until August 24, 1929. With the same agreement, Turkey undertook to lift the bans on import and export goods with some exceptions, and not enter those into force again.

Furthermore, being a burden of having taken over around 2/3 of debts of Ottoman Empire and starting of repayment of those as from 1929 on the budget led to limitation of state purchasing and impeded to pursue effective foreign trade and industrialization policy until 1929. Therefore, instead of initiation of industrial investment, state used budget policy and state enterprise as a means of to realize industrialization. However, any article regarding industry and industrialization process was not taken part in the program of the 14 governments, established between 1920-1930. Hence, any custom policy regarding protection of industry was not mentioned either. In spite of this, state would pioneer to establish the enterprises that would invest in industry or favor the establishments to invest in this field.

For this aim, in 1924, by corporation of Anatolian merchants and some politicians, Business Bank (İş Bankası) was founded. The aim of the bank, which was a dominating factor in economic decisions and preference, and industrialization strives of Republic period, was accumulation of national savings in one bank, promotion and increasing of national savings, creating funds to finance national industry. In 1925, industry and mining bank was founded to administer the state enterprises, remained from the Ottoman period, until taking over to private enterprises, to operate in industry and mining fields jointly private sector and to provide credit to ones, working in this field as well. Another development was realized in sugar industry. To establish food industry, as a first target, sugar industry raw material of which was produced in Turkey was selected required by the law, entered into force on 5 April, 1925. Sugar which was imported until that date, henceforth started to produce-first in Alpıllı sugar Factory-through established factories in the country. In 1926, import of sugar was taken into state monopoly, and by another law, products of sugar factories were obliged to be bought by the state. In this period, the greatest development in industry was realized on 28 may, 1927 through 'Law of Promoting Industry' entered into force by 10545 numbered code. This law is very important either for indicating meaning of statism or being pioneer of national industrialization. As to the industrial counting, conducted in the same year, 43.59% of total 65,245 industrial enterprises was operating in agriculture, 22.61% in mining industry, and machine repair, 14.34% textile, 12.10% in wood industry, 4.41% construction, 1.07% chemistry, and 1.88% in other industrial branches. In the 23,316 enterprises which was 35.74% of existing enterprises, there was just one person, one person and the family members were working in 4,916 enterprises, two or three persons were working in 23,332 enterprises. And therefore, the purpose of Law of Promoting Industry was both to rise the private capital, operating in existing business branches, to sufficient level, and to enable the industry which was producing industrial goods, to operate in the strategic industry fields. Yet, supporting private sector through encouraging codes of state was necessary for realization of this. This support was arranged under the title 'permission and exemptions' in Law of Promoting Industry'.

- Free provision of necessary lands for industry within municipal boundaries, if belonged to public, after expropriation if belonged to an individual.

- Provision of lands outside the municipal boundaries on the condition that being paid its price in ten years.

- Establishment of necessary special telegram and telephone and energy transfer lines and provision of facilities in maintenance of those.

- Exemption of industrial establishments and their annexes and installations from various tax and duties, exemption of their shares from stamp tax, duty and similar taxes exemption in the import of necessary materials.
Making 30% discount in maritime lines for the necessary construction material and machines for these establishments; again, imposing reduced tariff on the raw and manufactured goods.

Facilities for cheap provision of some necessary goods.

Obligation of buying the products of national industry preferentially by the government, municipalities, and the enterprises belonged to them, privileged enterprises, provisional government, and the enterprises benefiting from this law, even they are 10% more expensive than the imported ones.

While encouraging national capital to the investment, the foreign capital was not ignored. It is said 'whom establish industry, not existed in the country, provide and undertake the necessity of a definite region through producing raw materials which are national or can not be produced nationally, can be given privileges. However, as the capital amount can not be less than 500 (five hundred) the privilege period can not be more than 25 years neither.' in the Article 20 of the law. As seen, the law, implementing important protection and promotion measures, consisted of foreign capital under some conditions. The foreign capital, came to the country until 1930, instead of changing undeveloped agricultural structure through entering in the main industry related fields as it was desired, directed to operations which would lead to continuation of foreign-dependent economy. Despite kindhearted support and promotions between 1923-1930, industrialization initiation pioneered by private enterprise did not give positive results that was desired. The 'National Industry's Samples exhibition' held by the strivies of National Economy and Saving Society indicated this situation exactly. Despite various promotions, the goods exhibited in the exhibition with one or two exceptions, were consisted of the products of the industry branches, inherited from Ottoman State to Republic. That is to say, exhibition was indicating that any serious industrial enterprise was not established except the industrial enterprises that were established by some banks with state support in Turkey. In one sense this fact pointed out necessity of a new development policy because of not contributing of private sector that was tried to be strengthened by state's support, to the development of country.

CHAPTER 2

INDUSTRIAL ATTEMPTS BETWEEN 1929-1932

In this period, there were two main problems regarding economic policy facing Turkey. The first was to protect the country from the negative effects of the 1929 economic crisis; the second was to initiate industrialization development that had been planned before. Essentially, both of these problems were parts of the same issue and related with attempts for economic self-sufficiency in the country. The first step in this issue was begun by the state's putting into practice a customs policy for the protection of national production with the lifting of the codes relating with custom tariffs of the Lausanne Treaty on 24 August 1928. Yet, many reasons led to the decrease in the external value of the Turkish lira in 1929; having continual deficit of balance of payment, starting of the repayment of debts of the Ottoman Empire, the stocking of excessive goods of importers that foresaw a rise in the customs tariffs.

Now, there were two main problems regarding economic policy before Turkey. First, to protect against negative effects of big crisis, second was to initiate industrialization advance that was planned before. In fact, both of these were parts of the same problem and establishment of self-sufficient national economy was seemed as the most radical solution. Here, in this point, National Chief and the defenders of statism decided to initiate industrialization advancement under the umbrella of protective measures of state. The decisions taken by the state for this purpose can be summarized as follows:

Custom duties were increased by 25% according to Code No. 1490, along with the termination of the 1916 customs tariffs that were kept in force as a consequence of Lausanne Treaty. In the minutes of the TGA Special Standing Committee, the principles of tariff were described as follows: 'It is certain that our customs policy can be nothing but protective in so far as the industry of our country is not developed enough and national capital is not accumulated enough.' In addition to this, codes protecting national production and products and some newly developing industrial branches, were entered into force with Law No. 22555. No. 1705 "Code on Ban of Adulterates in Trade and Inspection and Protection of Export" was passed on June 10, 1930. With this law the government was authorized to take measures to protect internal and external trade interests and to avoid the adulteration and tricks on trade goods, the ban of sales and export of raw materials that were not in accordance with the qualifications and conditions determined by the government. Furthermore, licensing of exports and close scrutiny of exporters was accepted. "When required, the government is authorized to license or limit or ban imports of some products to protect the economy of the country" was stated in No. 1837, dated January 27, 1931. The law is "on the pleasures from the states that does not make a modus vivendi
agreement or a trade contract or an application of limit or limits. In addition to legal arrangements, the state acted as a manager and monopolist during this period. The Industry and Mining Bank, established previously, was liquidated in 1932; and the duty of banking was given to the Industry Credit Bank by Law No. 2064, dated July 7, 1932; the duty of management was given to the State Industry Office by Law No. 2058, dated July 7, 1932. Yet, the operations of these establishments did not last long and instead of these establishments, Sumerbank was established by Law No. 2262, dated June 3, 1933. The main functions of Sumerbank, established to deal with industrial and banking duties, can be summarized as follows:  

- to manage the factories that were going to take over from the State Industry Office and to administer the state corporations in the private industry organizations,

- to draft, establish and administer the studies and projects of the industrial organizations belonging to the state except for the factories to be established according to the private laws,

- to assist and participate as much as possible in the industrial activities that are economically advantageous for its establishment and enlargement,

- to organize and assist activities related to technical education,

- to give loans to industrial organizations and to carry out their entire banking procedures,

- to do research for the development of the national industry and to give opinions to Ministry of Economy when requested.

The decrees in the Second Article of the Sumerbank Law reflect the understanding on the subject of industrialization. Therefore, the course of actions related to industry should be arranged in the following order:

- industries whose main raw materials are raised in the homeland and whose production does not cover the consumption,

- industries that increase the value and facilitate the demand of raw export goods by putting them in manufactured and semi-manufactured forms,

- industries that produce goods whose raw materials have not yet been grown, even though not consumed on a large scale, but possible to be raised nationally in the event that a relevant industry is established,

- industries that produce goods whose production will be advantageous for the country although raw materials have not been raised and are not possible to be raised nationally.

There were two principles adopted through this law: to decrease the degree of external dependency and to evaluate the products of the raw material producers, namely, the farmers. In this respect, the state tried to carry out industrialization, which was constantly kept on the agenda by top-level administrators, without damaging the advantages of the agricultural sector. It was envisaged that agricultural mechanization could be initiated and labor efficiency could be increased by means of the establishment of basic industries, especially the machine industry.

Secondly, it was thought to promote other independent industrial branches and to assure a wide internal market through the establishment of infrastructure investments and strategic industries. For example, vitality in the areas of iron ore and coal production would be achieved through the establishment of an iron and steel industry.

Since the state was the biggest consumer, the demand for goods produced by the private sector increased through the establishment of a wide web of factories. As a result, the industry producing consumer goods would inevitably have to buy machinery, equipment and energy from the strategic industries and thereby preventing the emergence of an internal market problem during the establishment stage of heavy industry.

In the industrialization policy, the decisions for attributing priority to agriculture and assuring the internal market for the strategic industries that would be established should not remain only as decisions taken. For the full implementation of these, an economic administration model was also needed. Therefore, the understanding of planning was, for the first time, begun to be developed in the light of this idea. However, in that period of time, in Turkey, there was neither an expert staff aware of the planning methods nor a history or tradition of planning that could be modeled. For this reason, in August 1932, a Soviet expert group headed by Professor Orlof prepared an "industrial program" upon the request of the government. However, the government was not satisfied with the reports of the Soviet experts and invited, by means of Ahmet Muhtar Bey, the ambassador of Washington, an expert group in which Edwin Kemmerer, one of the best-known economists of that time, took part. In May 1934, experts presented the Economy Proxy, a four-volume study which they had prepared about Turkey's economic conditions, natural resources, capital accumulation, transportation and industry structure, external and internal trade, finances, money and banking system, foundations, working conditions, health and education services and the administration. The state industry investment program of the government, which was in agreement, was also considered in this study and much detailed and high-level technical cost-benefit analysis was carried out for each of the projects under consideration. With the assistance of the Soviet and
American experts' studies, final shape was given to the industry investment program. Economy Proxy presented the reports related to "Industrial Installation and Management" to the government in December 1933. After budget negotiations, the implementation of the plan was announced to Sumerbank through the note of the Committee of Representatives.

CHAPTER 3

PERIOD OF PLANNING

A. FIRST FIVE-YEAR INDUSTRIAL PLAN

The "Principle of Etatism" that the government tried to put into practice in that period was carried out through the implementation of the "First Five-Year Industrial Plan" (F.F.I.P.) on April 17, 1934. F.F.I.P. apart from being a wide-range development plan, had the characteristics of a program that contained various economic calculations about which areas and what kind of investments would be implemented. This was because the F.F.I.P. was concerned only with the industrial sector. Agriculture and service sectors were left out of the context of F.F.I.P. Moreover, industry was not perceived as a whole but priority was given to products whose raw materials could be found in the country and to the sectors that would meet the emergent needs.

The principles and fundamentals of F.F.I.P. can be summarized as follows: 31

-the necessities of the country were brought up as essential in the organization of the program and for the future of industry. In other words, the exportation of our industrial production was left out of our purposes in the F.F.I.P. Copper and perhaps sulphur were exceptions in this case.

-the industrial branches whose raw materials exist in our country or ones that could be procured were considered.

-Our industry to be established was in terms of its production, proportional to the country's necessities and the consumption (apart from sulphur, rose oil and sponges).

- However, the main industry would grant extensive and beneficial industrial opportunities to the private entrepreneurs and capitalists.

- F.F.I.P., which was implemented between 1934 and 1937, was comprised of 5 industry branches: weaving, mining, cellulose, ceramic and chemicals. The industrial branches, mostly the state's industrial investments and the places they would be established, are as follows: 32

<table>
<thead>
<tr>
<th>Sectors</th>
<th>Place of Establishment</th>
<th>Time of Activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Weaving Industry</td>
<td>a) Hemp</td>
<td>Taşköprü (Kastamonu)</td>
</tr>
<tr>
<td></td>
<td>b) Kamgram (Merinos)</td>
<td>Merinos (Bursa)</td>
</tr>
<tr>
<td></td>
<td>c) Sponge</td>
<td>Bodrum</td>
</tr>
<tr>
<td></td>
<td>d) Weaving Industry</td>
<td>1)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>4)</td>
</tr>
<tr>
<td>Mining Industry</td>
<td>a) Iron-steel</td>
<td>Karabük</td>
</tr>
<tr>
<td></td>
<td>b) Copper</td>
<td>Ergani</td>
</tr>
<tr>
<td></td>
<td>c) Sulphur</td>
<td>Keçiören</td>
</tr>
<tr>
<td></td>
<td>d) Semi-coke</td>
<td>Zonguldak</td>
</tr>
<tr>
<td>Cellulose Industry</td>
<td>a) Paper and Cellulose</td>
<td>İzmit</td>
</tr>
<tr>
<td></td>
<td>b) Artificial Silk</td>
<td>Gemlik</td>
</tr>
<tr>
<td></td>
<td>c) Kaolin</td>
<td>İzmit</td>
</tr>
<tr>
<td>Ceramic Industry</td>
<td>a) Porcelain</td>
<td>Keşan</td>
</tr>
<tr>
<td></td>
<td>b) Glass and bottle</td>
<td>Beykoz (İstanbul)</td>
</tr>
<tr>
<td></td>
<td>c) Cement</td>
<td>Sivas</td>
</tr>
<tr>
<td>Chemical Industry</td>
<td>a) Chlorine and caustic soda</td>
<td>İzmit (İzmir)</td>
</tr>
<tr>
<td></td>
<td>b) Super phosphate</td>
<td>Karabük</td>
</tr>
<tr>
<td></td>
<td>c) Rose oil</td>
<td>Isparta</td>
</tr>
<tr>
<td></td>
<td>d) Hamza match</td>
<td>İzmit</td>
</tr>
<tr>
<td></td>
<td>e) Oil of vitriol (sulfuric acid)</td>
<td>Karabük</td>
</tr>
</tbody>
</table>

For the 20 factories that were thought to be established in the above-mentioned five sectors, it was envisaged to invest totally 43,935,000 TL (Turkish Liras), 39,978,000 of which would be carried out by Sumerbank. However, this amount was exceeded so greatly that the actual amount of investment in the F.F.I.P. period exceeded 100 million TL. 33

In the limited opportunities of the country, this source was provided mainly by the state monopolies that included sea and railway transport, postal services and goods of basic needs. In addition to these, 16 million TL interest-free credit from the Soviet Union for 20 years and 2.5 million sterling credit from England for the establishment of the Karabük Iron-Steel Factory was obtained in 1934. 34

The corporations, which were thought to be established in the framework of F.F.I.P. that was put into force mainly by Sumerbank but also by İş Bankası and Etibank through undertaking some duties, were completed up to the end of 1938 as can be seen from table above. However, some other projects were added to the program between 1934 and 1938. The most significant ones of these other projects were the cement factory opened in Sivas in 1934 and the second paper factory
and the kaolin factory opened in Izmit between 1941 and 1944.

B. SECOND FIVE-YEAR INDUSTRY PLAN

When it was quickly understood after implementation of the 1934 Industry Program that the plan would be successful, the government launched preparations for the Second Five-year Industry Plan depending on the necessity, "to provide opportunities for export in order to meet imports that increased as a result of industrialization and thus assure the external trade balance through supporting industries producing export goods."36 For that purpose, an industrial congress was organized in Ankara in 1936.

The reports of building contractors, selected in the congress in which technical personnel and managers mostly working in the public enterprises participated, were scrutinized by the Ministry of Economy and the project of Second Five-year Industry Plan (S.F.I.P.) was presented to the Prime Ministry by Celal Bey (Bayar), the Minister of Economy.

The main points of the Second Five-year Industry Plan can be summarized as follows:37

In comparison to the First Five-year Industry Plan, S.F.I.P. depended on much more detailed research of engineering, cost and marketing and contrary to the first plan rarely emphasized the development of production of consumer goods; in contrast to these the idea to rapidly increase the economic power due to the anxiety of the approaching Second World War was emphasized. As it was in the case of the F.F.I.P., the industry branches that needed big capital and technical power and whose raw materials completely existed in the country and appropriate for our economic structure were taken up also in the S.F.I.P. According to the plan, our mines whose demand was domestically low but high in foreign countries would be made available for export whether in the raw or semi-manufactured form. Also, water products and animal-breeding would be improved and activities would be carried out to increase the demand of our fruit both domestically and externally.

To satisfy the energy requirement of the country, electric powerhouses were established and in order to make a beginning for the machine industry, factories were established to process the semi-manufactured goods of the Karabük Iron-Steel Factory. Apart from those, with the S.F.I.P. the state on the one hand, was envisaging development of industry, on the other hand, million of which would require foreign currency expenditures. It was thought that in case the investment was carried out, the annual production value of the new establishments of manufacture and mining would be 100 million TL, 1/3 of which would be exported, and 35 thousand persons would be employed. Private initiative and capital in the industrial branches that were dependent on high technology and big capital were not taken part in neither of the plans. The operations of capital and private initiative in the fields that were not covered by the plan were completely free.

S.F.I.P. was put into force in 1938. Yet, due to the difficulties encountered upon the outbreak of the Second World War, most of the projects in the plan were either annulled or delayed until an indefinite date. In completion of the projects kept in force, difficulties were faced due to the specific conjecture of the Second World War vis-à-vis Turkey and the world.

CONCLUSION

To evaluate the industrialization movement in Atatürk’s period properly, control of the Ottoman industry, which was in ruins, by minorities, scarcity of national industrialists and low accumulation of capital, the world economy in crisis should be taken into consideration. Despite these negatives, Turkey, especially between 1933 and 1939, without depending on any significant foreign aid, was able to realize a successful industrial movement. Considering the economic data of the 1923-1938 period, while the world economy was experiencing one of the greatest crises of history, Turkey, through the F.F.I.P., recorded considerable economic development, and succeeded in raising the share of the industrial sector in GNP to 14.7% in the 1933-1939 period, which had been 11.3% in 1923-1928. Furthermore, this development was succeeded by its own capabilities in the period when Turkey was tackling the problems remaining from the Lausanne Treaty such as debts, the Straits and Hatay, and not able to open to outside world easily due to these problems. As a result of this development, the share of import in GNP declined from 14.9% in 1923-1928 to 6.6% in 1933-1939; in the same period the balance between import and export reached +12.4 plus from -49.2 negative.59 The external dependency of the Turkish economy was evidently diminished. The industrialization rate of Turkey in Atatürk’s period was much higher than the industrialization rate of most of the countries in the world. In other words, in the 1923-1939 period, the industrialization growth rate was much lower than the rate that Turkey had. While in this period, the industrialization growth rate in Turkey was 96%, this rate was 19.6% for the world.59 The industrialization movement should be perceived as a national industrialization struggle and in the final analysis, we can say that the outcomes should be evaluated as successful.