

## CHAPTER 2

### OTTOMAN EMPIRE ECONOMIC SYSTEM IN THE 19TH CENTURY

#### 2.1 History of Ottoman Empire

The Ottoman Empire or the Ottoman *Khilafah* came to the existence c. 1300 in western part of Asia Minor called Anatolia under the leadership of Osman Bey. The rapid expansion of the state over the European and Asian territories led Memet II to capture Constantinople in 1453. The official declaration of the birth of OE had been announced widely. The following 15<sup>th</sup> and 16<sup>th</sup> centuries, the state controlled a huge portion of lands and trade routes between Asia and Europe, which ultimately contributed to the economic prosperity of the new state (Mather, 2014).

It was perhaps the most populated and well organised state with more than 30 million stretching from the Balkans and the Black Sea region through Anatolia, Syria, Mesopotamia and the Gulf to Egypt and most of the North African coast (Pamuk, 2004). In European parlance, the Turk was a common epithet that describes the Muslim population in the whole Middle East. Precisely, the Turkish state came emerged as a new state that build upon the old version of Ottoman Empire, which collapsed in 1923 (Atabaki & Brockett, 2009). For historians, the OE was one of the longest lasting nations in human history. Close to seven centuries, the OE survived and managed to play a significant role in our current world.

Throughout the 17<sup>th</sup> century until 1760s, the OE was witnessing a relative peace and tranquillity, which enabled the state to enjoy an economic expansion with the Western Europe especially through the Mediterranean coast and red sea (Avramov & Pamuk, 2000). The first half of the 19<sup>th</sup> century, a number of major decisions were made

by Sultan constituting large-scale transformations associate with economic and military structure (Ozgur & Genc, 2011).

The state witnessed a military structure changes manifested in the abolition of the Janissary Corps by Sultan Mahmud II in 1826 in Auspicious Incident. Economically, the signed treaty of Balta Liman between OE and Britain in 1838 was an important step towards adopting a free trade policy that enabled the state to grant British merchants tax exemptions. Applying 3% custom duties on import and exports brought about a tremendous change in the level of international trades. The monetary system was also upgraded to be in line with the global trends. The *de facto* bimetallism system of both gold and silver was introduced in 1834, which brought an end to the previous monetary system that was based on debasements (Tuncer & Pamuk, 2014).

Undoubtedly, the changes in the both economic and political sectors created political turmoil led to the removal of Selim III who replaced by Mustafa IV. It was a beginning of an era with a series of political uprisings, nationalist evolutions and war abroad such as wars against Russia (1806 – 1812 and 1828 – 29), Iran (1820 – 28) and Egypt (1831 – 33 and 1838 – 39). These internal and external revolts and uncertainties devastated the finances of the state and led to a serious budget deficit. The last phase of this transformation reform known as (*Tanzimat*) was aimed to modernize the state by bringing in a new western spirit so the state would feel the westernisation occurred. The imperial declaration to engage in the reforms was provided by Inalcık (2006) who translated the original transcript into English:

The Empire had been declining for one hundred and fifty years because the religious law and imperial laws had been disregarded. In order to restore its prosperity and strength, new legislation was required which should be based on the principle of securing the life, honor, and property of all subjects.

The existing literatures on the Ottoman economy remained slow or almost unexplored with the exception of some endeavours that focus on the performance of economic institutions in the sense of its stagnation and partial recovery (Artunç, 2012). Much attention and analytical efforts have been devoted in recent decades to discuss the Ottoman economic failure by focusing on the post-1870 period since it was the period where the major structural changes occurred. However, careful analysis of the Ottoman economy during the 19<sup>th</sup> century would reveal considerable diversities and complexities that contributed to the dramatic economic collapse of the OE. Many commentators, including economists, have linked the poor economic performance to the trade treaties which disallowed the Ottomans to set protection polices (Pamuk, 1984). Earlier, by the first quarter of the nineteenth century, the industrial leaders built a strong platform for unprecedented expansion over the OE who remained stagnant (Arbatli, 2016). This has led to an acute increase in the rate of the inflow of foreign investment in the Ottoman markets, which prevented the birth of infant industries within the Ottoman territory (Akarli, 2001).

Related research has shown that the weak economic and military position of OE prevented the birth of infant industries within the Ottoman territory. Indeed, the state was forced to grant capitulatory rights to a number of European countries such as England in 1583, Holland in 1613, Austria in 1718, and Russia in 1784 (Ergil & Rhodes, 1975). With the absence of protective tariffs, the OE lost the chance to move forward with the industrialisation program and rather it led to the country's industrial backwardness (Geyikdagi & Geyikdagi, 2011). Blaisdell (1929) views the free trade agreement between the OE and Britain on 1838 as a key factor in weakening the economy through the creation of legal framework for the European entities to enjoy the tax haven.

One of the things that makes the Ottoman economy considerably attractive to the European powers was strategic location of OE as it stood at the crossroads of intercontinental trade, stretching from Balkans in Europe to Black Sea region and gulf in Asia and most of the North African coast countries exceeding a population of 30 million (Pamuk, 2004). This laid the foundation to argue that the Ottoman economy suffered from various problems and the most plausible explanation lies in the western domination or intervention (Jackson, 1979). In fact, this domination was intended to weaken the colonial or targeted economies as Frank (1967) has named this process as "the development of underdevelopment". According to Ibn Khaldun, the development or decline of a society is a complex dilemma that relies on the interaction of moral, socio-economic, political and historical factors (Sonn, 2010). Further, he argues that a civilization is more likely to witness a decline when it reaches its apex.

In fact, the question on "why Ottoman economy was not industrialized?" requires a closer look into the contributing factors to this failure. Over the years, numerous attempts to provide explanations to this fact. For instance, Issawi (2013) linked the absence of industrial policies to two factors: the political turmoil, and the European economic domination. Other researchers (Pamuk, 1988; Eldem, 2005; Birdal, 2006) suggest that the shift of the OE to finance the budget deficits over the external borrowing without undertaking a solid fiscal discipline contributed to the disastrous collapse of the OE economy.

Given the above background and focusing on the Ottoman case during the last quarter of 19<sup>th</sup> century, this study aims to show the importance of macroeconomic decisions that contributed to the financial collapse of the state. The next sections discuss the history of Ottoman economy.

## 2.2 Ottoman Economy

The industrial revolution marked a turning page to the production of goods as resulting from the factory system that adopted by the European powers. Under the financial pressure and the failure of Ottomans to industrialise their economy and the reliance on agriculture created an opportunity to foreign goods to be supplied to the local market. The historical literature offers limited insights on the Ottoman's foreign trade. However, it is generally accepted among experts that the total Ottoman exports and imports expanded rapidly during the nineteenth century which could be explained by the fiscal reforms and capitulation treaties. With the military defeats, the OE declared its financial bankruptcy in 1875, which in fact led to tighten the conditions by the European powers to obtain foreign capital (Morawitz, 1902).

Many experts (Morawitz, 1902; Pamuk, 2006 & Ahmad, 2000) hold the notion that the irresponsible policy of external borrowing led to the establishment of OPDA. This marked a dead end to the reforms of Tanzimat and started a new chapter in the ottoman economy where the OPDA had unprecedented intervention in the domestic affairs. Many historians such as Parvus (2005) contend that OPDA played an important role to strengthen the European grip. Birdal (2010) argues that OPDA supports the colonization through facilitating external lending and securing the payment of these debts under unfavourable terms.

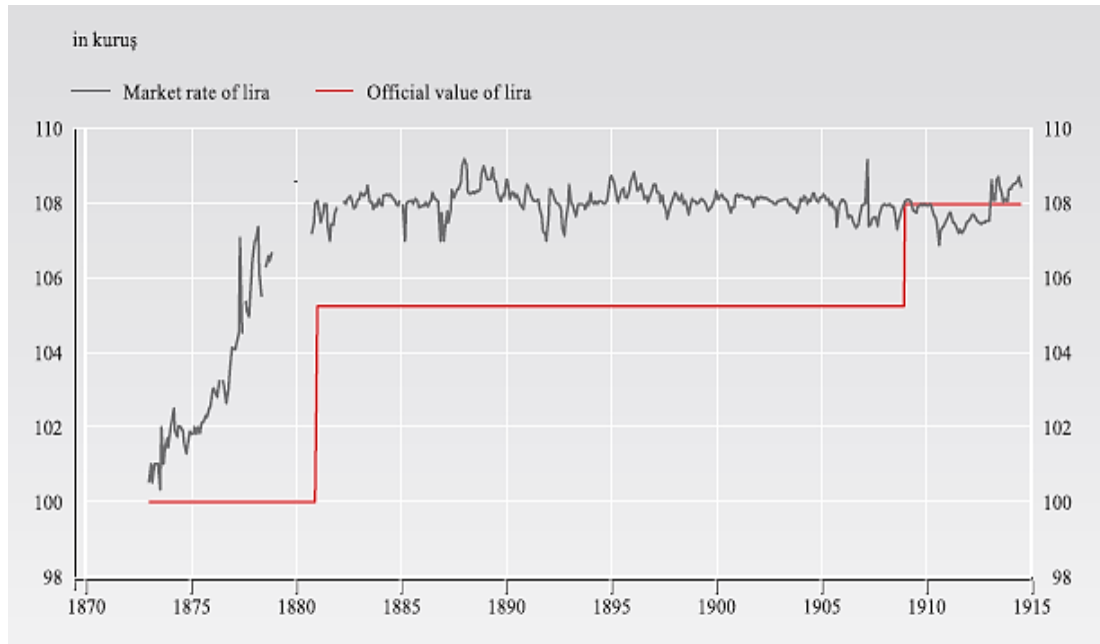
Hence, it is reasonable to postulate that the Ottoman economy during the last quarter of 19<sup>th</sup> century was facing a serious economic crisis that contributed to the entire collapse in 1924. Probing further into this assumption, the next sections discuss three main economic sectors namely; financial sector, governmental sector, and industrial sector.

### 2.2.1 Financial Sector

The 19<sup>th</sup> century was characterised by the attempts to establish a centralised monetary system. In 1934, the government initiated the first step towards adopting the de facto bimetallism system in which gold and silver became the legal tender for the state. To ensure a smooth circulation of money, the state minted a number of gold coins without indicating its value and it kept the market to determine the exchange rate against Kurush. In fact, the silver kuruş (or gurus or piaster) was the primary unit of account and a leading means of economic transactions in the 19<sup>th</sup> century.

The European silver such as the Dutch thaler and Spanish eight-real piece were used both in international trade and in domestic payments (Avramov & Pamuk, 2006). During the 1840s, the state engaged in issuing paper money in a form of state notes known as (kaime). The coinage adjustment reform “tashih-i sikke” of 1844 brought into the market three types of legal money; the gold lira, the silver kuruş and the copper para. The exchange rate was set to be “40 para for one kuruş and 100 kuruş for one gold lira”.

With the establishment of Imperial Ottoman Bank (IOB) in 1863, the paper money witnessed a turning point as the bank had the exclusive right to issue gold convertible banknotes. However, aftermath the wars with Russia 1877–78, the government suspended this privilege and started issuing its own notes to meet the increasing expenditures and budget deficits. Few years later, the IOB restored the exceptionality of issuing bank notes. In 1880, a new decree was signed addressing the monetary policy where the exchange rate was a gold lira is equivalent to 100 kuruş. The below Figure 2.1 present the official and market rates of one gold lira (in silver kuruş).



Source: Tuncer & Pamuk (2014)

**Figure 2.1:** The Official and Market Rates of One Gold Lira

Thus, the reforms of 1880 presented a new approach by adopting gold standard and minimising the reliance on silver coinage. While, the ottoman economy was continuing using the silver for the daily transactions, gold was the centre currency for international trades. Between 1880 and 1914, the price of gold was fluctuating due to the instability in international market, which in turn affected the kuruş in Istanbul. The fluctuation average was around 2.5% until 1909 when the monetary regulations had witnessed a radical change, which brought a new exchange rate of gold lira to 102.6 kuruş. As for the exchange rate of Ottoman lira against the main European currency was relatively stable from 1840 to 1914, The chronology of the major monetary reforms is summarized in the below table 2.1 from 1844 - 1914. With that in mind and given the below events, it is evident that the monetary policy has gone through tremendous changes aiming to align the economic system with world economy.

**Table 2.1:** Chronology of Monetary Standards 1844–1914

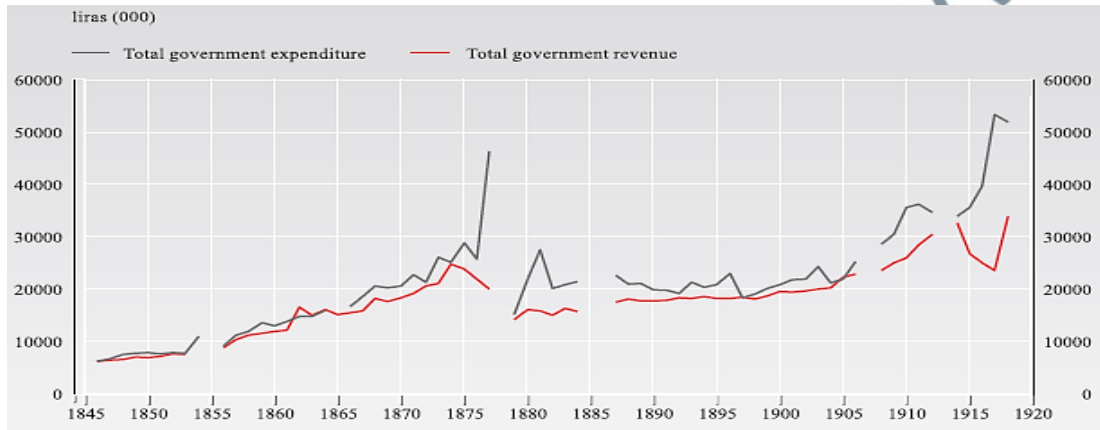
Year	Monetary event	Monetary standard	Currency in circulation
1834	Gold and silver declared to be legal tender	Silver standard/ Bimetallism	Gold coins Silver coins
1840	Issue of interest-bearing state notes ( <i>kaime</i> )	Silver standard/ Bimetallism/Silver convertible paper money	Gold coins Silver coins State notes
1844	Coinage reform ( <i>tashih-i sikke</i> ) and the end of debasements	Bimetallism/Silver convertible paper money	Gold coins Silver coin State notes
1852	Issue of non-interest bearing <i>kaime</i> notes	Bimetallism/ Non-convertible paper money	Gold coins Silver coins State notes
1863	Withdrawal of <i>kaime</i> notes and the foundation of the IOB	Bimetallism/ Gold convertible paper money	Gold coins Silver coins IOB notes
1876	Default on foreign debt and the issue of silver convertible <i>kaime</i> notes	Bimetallism/ Gold convertible paper money/ Silver convertible paper money	Gold coins Silver coins IOB notes State notes
1880	Monetary reform, withdrawal of <i>kaime</i> and the end of free-minting of silver	Limping standard	Gold coins Silver coins IOB notes
1914	World War I and issue of state notes	Fiat money standard	Gold coins Silver coins IOB notes State notes

Source: Tuncer & Pamuk (2014)

#### 2.2.1.4 Government Revenue and Expenditure

Much attention and analytical effort has been devoted in recent decades to the historical economic data of OE. For instance, Guran (2003) has provided a detailed Ottoman budget figures. The statistics are presented in Ottoman fiscal year, which used the traditional Rumi calendar that began on 1 March. Unlike the European countries, the OE was lagging behind in adopting accounting system. Only in 1878, the ministry of finance was established and the governmental budgets comprised the ordinary and

extraordinary expenditures with the inclusion of the interest service on external debts. The below figure show the trends of revenues and expenditures for Ottomans between 1844 – 1918.



Source: Guran (2003)

**Figure 2.2:** Total Government Revenue and Expenditure, 1844–1918

As shown in the above figure, until 1845 the state experienced large deficits, which were mainly, financed using domestic borrowing from Galata bankers or either via external borrowing during for seven decades. However, the actual choices for Ottoman government to deal with the deficits were reduced to two: inconvertible paper currency and external borrowing (Tuncer & Pamuk, 2014). In order to diversify the revenue, the state collected the taxes of Egypt and Bulgaria, the customs dues of Istanbul and Izmir, the surtax charges on tobacco, salt, stamps of provinces like Izmir and Syria, the sheep tax of Anatolia, the silk taxes of Bursa and Edirne, the copper from the Ergani copper mines. Until the mid of 19<sup>th</sup> century the revenues from agricultural tax declined sharply and bureaucrats in the capital were forced to share tax collections with the powerful groups in the provinces (Casson & Lopes, 2013). The consequences of the war 1768 – 1774 have created a pressure on the government to come up with a new system that enabled the state to seek internal loan via a system called “*esham*”. In

this system, the annual net revenue of tax source was divided into large shares to be sold to the public for the lifetime of the buyers. Clearly, this system was aimed to broaden the tax bases that enabled the state to diversify the source of income. However, the *esham* system did not help to overcome the financial shortage that the state was suffering from and as result; it proved that the fiscal system was costly and indeed difficult to be implemented. The below Table 2.2 presents the revenue of the state between 1872-1916. This indicates that state was having a wide tax base.

The Ottoman expenditure is shown in the Table 2.3. Three main categories are included covering administrative expenditures, which include the expenditures navy, arsenal, gendarmerie and civil and fiscal administration. It is not surprising to mention that 25% to 30% of the Ottoman expenditures were directed to pay back the interest of public loans and costly military campaigns.

**Table 2.2:** The Revenue of Ottoman Government Between 1883-1916 (%)

Revenues	1883-84	1896-79	1897-98	1900-02	1901-02	1909-10	1920-11	1911-12	1914-15	1915-16
Revenues collected from nomads and farmers	38.1	37.1	38.6	38.6	41	31.4	34	32.1	32.6	29
Revenues collected from both villagers & town dwellers	25.4	26.4	24.7	23.5	24	21.4	18.5	17.2	18.9	19.6
Military exemption tax	4.7	5.1	4.8	4.7	4.8	5.1	5	3.6	3.7	2.9
Other fees collected by government offices	5.2	4.7	5.3	4.7	4.3	3.2	3.7	3.3	4.4	4.7
State enterprises	8.9	9.5	9.3	9.5	9.9	19.7	19.2	19.8	17	17.9
Subtotal	82.3	82.8	82.7	81	84	80.8	80.4	76	76.6	74.1
Government employees' share in direct taxes										
(War surtax)									0.8	1
(Retirement fund)								4.4	4.2	5
Customs duties	11.7	11	11.1	13.3	10.2	15.7	16.2	16.5	15.6	16.6
Tributes	6	6.2	6.2	5.7	5.8	3.5	3.4	3.1	2.8	3.3
Total	100	100	100	100	100	100	100	100	100	100
Total (in 1000 Ottoman Lira)	18,928	18,291	18,511	19,946	19,634	25,079	26,015	28,477	31,890	26,836

Source: Akarli (1992)

**Table 2.3:** The Expenditure of Ottoman Government Between 1872-1897 (%)

Expenditure	1872-73	1874-75	1875-76	1879-80	1887-88	1888-89	1889-90	1892-95	1896-97
<b>Military expenditure</b>	22.1	24.1	19.1	32.2	47	44.3	42.7	39.2	45.3
<b>Civil Administration</b>	13.6	13.8	12.4	20.3	8.2	8.8	9.4	9.8	8.8
<b>Fiscal Administration</b>	4.6	5.7	6	5.8	4.6	5	5.3	4.9	4.4
<b>Retirement fund</b>	2.5	2.6	2.1	2.5	2.5	2.6	2.8	2.8	2.5
<b>Royal Family</b>	6.1	5.2	4.6	6.9	4.3	4.5	4.7	4.7	4.2
<b>Subtotal</b>	48.9	51.4	44.2	67.7	66.6	65.2	64.9	61.4	65.2
<b>Public welfare &amp; service</b>	6	5.6	4.3	4.4	5.5	5	5.9	4.7	4.6
<b>Others</b>	0.9	0.6	0.1	2.4	0.8	0.9	0.7	1.1	1.3
<b>Subtotal</b>	55.8	57.6	48.6	74.5	72.9	71.1	71.5	67.2	71.1
<b>Public debt service</b>	44.2	42.4	51.4	25.5	27.1	28.9	28.5	32.8	28.9
<b>Total</b>	100	100	100	100	100	100	100	100	100
<b>Total in 1000 Ottoman Lira</b>	21,405	25,134	28,929	15,814	20,474	19,824	18,733	19,796	22,448

Source: Akarli (1992)

### 2.2.1.5 Banks in OE

Modern banking is an essential financial institution for the growth of an economy according to the capitalist worldview. After the establishment of OPDA, the European creditors obtained more trust into the Ottoman economy, which resulted in a noticeable growing of financial sector. Between 1861- 76, the authorities legalised the activities of seven foreign banks. The importance of having banks inside the territory of OE was to facilitate trade and money transfer. Egypt was the first part of OE where the British established a bank named as Bank of Egypt in 1855. The main activity of this bank is lending money to governor of Egypt and his circle at high interest rate (Geyikdagi & Geyikdagi, 2011). Another important duty of this bank was to ensure the transfer of the Egyptian tribute mortgaged as collateral for the first Ottoman loan obtained from Britain in 1854.

The expansion of European trades with OE led other countries to join the club of banks and during the reign of Sultan Abdulaziz (1861 – 76) the banks were: Banque de Constantinople (British), Ottoman Financial Association (British), Crédit Général Ottoman (French), Société Générale de l'Empire Ottoman (British, French and local bankers), and Banque Austro-Turque (Austrian majority) and Banque Austro-Ottomane (Austrian majority). The below table 2.4 summarises the major foreign banks between 1863 to 1909. Those banks were forming the financial institution and functioned as source of capital for the foreign investors.

**Table 2.4:** Major Foreign Banks in the Ottoman Empire 1863-1909

Bank	Headquarters	Opening date	Nationality	No. of branches
<b>Ottoman Bank</b>	Istanbul	1863	British, French	66
<b>Banque de Salonique</b>	Salonica	1888	French, Austria, Hungarian, Ottoman	14
<b>The National Bank of Turkey</b>	Istanbul	1909	British	1
<b>Soc. Commerciale D'Oriente</b>	Istanbul	1911	Italian	1
<b>Banque de Mételin</b>	Mitilini	1891	Greek	
<b>Deutsche Bank</b>	Berlin	1888	German	2
<b>Deutsche Palästina Bank</b>	Berlin	1899	German	11
<b>Deutsche Orient Bank</b>	Berlin	1906	German	11
<b>Wiener Bank</b>	Vienna		Austria	1
<b>Anglo Palastina Co. Ltd.</b>	London	1902	British	4 or 5
<b>Anglo-Levantine Bank. Co.</b>	London	1908	British	1
<b>Banque d'Athènes (former Industrial Credit Bank)</b>	Athens	1905	Greek	13
<b>Banque d'Orient</b>	Athens	1904	Greek	9
<b>Crédit Lyonnais</b>	Lyon	1871	French	6
<b>Banque Russe pour le Commerce Etranger</b>	St. Petersburg	1909	Russian	1
<b>Banco di Roma</b>	Rome	1909	Italian	2

Source: Geyikdagi & Geyikdagi (2011)

#### **2.2.1.5.1 Commercial Bank of Smyrna**

It was the first bank that began its operations in the Ottoman Empire. This bank was founded in London in 1844 by a group of English merchants to meet with the growing financial needs of European and their counterpart in the Izmir region. The success story of this bank was very short with its closure during the financial crisis of 1847.

#### **2.2.1.5.2 Banque De Constantinople**

With the support of the government, two prominent financial figures Th. Baltazzi and J. Alleon a members of a French banking family that had settled in Turkey during the French Revolution, formed a new bank in 1847 with a total capital of 200,000 pounds. The bank was mainly trying to gather the Galata bankers who used to land money to the state during its economic crisis. With the expansion in the volume of paper currency, the bank was incapable to meet the deterioration of exchange rate which caused a tremendous monetary loses to the founders. Besides that, the support of the government was lifted due to the influence of European powers on the bank and its decisions and by 1852, the bank declared its official close as per the request from the state.

#### **2.2.1.5.3 Imperial Ottoman Bank**

The failures of the prior banks led the government to form a new bank that worked as an official central bank. In 1856, a British group in London with a capital of 500.000 pounds who was joined later by French financial group who took a 50 percent share in the new Imperial Ottoman Bank set the first pillar of Ottoman bank. Thus, in 1863 the bank was officially formed and managed by committees in London and Paris. These

committees directed the day-to-day administration in the capital of the OE “Istanbul”. An important characteristic of this bank was the fact that it functioned as Franco-British bank as well as a state bank at Istanbul.

Issuing gold-backed notes was a privilege given to this bank by the authority and this came in line with the monetary reforms of 1880 that enabled bank to seize a great portion of the market in terms of financial transaction with the government or any other external parties (Tuncer, 2009). According to the economic historians, the Imperial Ottoman Bank acted as quasi-central bank and it helped to maintain the position of European capital in the Ottoman financial markets (Pamuk, 2004). In 1908, the bank has reached to its limit of issuing banknotes but the state refused to extend the grant and asked the ministry of finance to be in charge of making the amount of 6,500,000 liras of paper money, under the name of *evrak-i nakdiye* (Tuncer, 2009).

### **2.2.2 Industrial Sector**

The expansion of international trade between the core and periphery was manifested in the export of substantial amount of capital from industrialized European countries (Pamuk, 1988). The political revolution in Europe led to a rapid exchange in the trade between Britain and the rest of the world and obviously the weak position of Ottoman economy prevented the passage of protective tariffs that could have bring about a change in the industrial sector (Ergil & Rhodes, 1975). By the second quarter of the 19<sup>th</sup> century, Britain started to sign free trade agreement with countries from Latin America to China to establish markets for its goods and made sure a continues flow of cheap and abundant sources of foodstuffs.

This created unprecedented expansion in the volume between centre and periphery (Pamuk, 1988). In fact, the OE had already been forced to grant numerous

commercial privileges to Russia as a result of the war defeat 1828-29. According to Frank Edgar Bailey, the absence of protective tariffs was one of the underlying reasons for the country's industrial backwardness (Geyikdagi & Geyikdagi, 2011). Pamuk (1987) added that British observers were fully aware on the destructive outcomes of such treaties on the Ottoman handicrafts. Indeed, the domination of industrialised economies over the Ottoman economy was mainly pertained to the series of 1838 Anglo-Ottoman trade treaties (Akarli, 2001) and as a result the Ottoman underdevelopment was perpetuated.

The most important article of the 1838 treaty was the abolition of the monopoly system imposed by the state on the foreign trades and applied special restrictions and additional customs duties on exports at a rate of 12% and 5% on imports.

In the long term, the European merchants secured an important advantage over domestic competition and with these industrial policies; the state backwardness was something unpreventable. In his book on political economy, Ahmed Midhat (Efendi) (1844 – 1912) criticized the government concerning the used approach to attract FDI. He viewed the policies as not protective in nature and rather they were serving the foreigners. To him, the best method was to make imports difficult for them [foreigners], by imposing heavy duties on foreign imports in order to protect the domestic industry. The below table 2.5 shows the FDI as per the home countries. Though the table shows only a benchmarking years (1888 and 1914), yet from the political economic perspective it is obvious France and Britain are the dominant contributors which could possibly associated with their expansion plan over the weaker states.

**Table 2.5:** Foreign Direct Investment by Home Countries 1888-1914

	1888		1914	
	'000 £	%	'000 £	%
<b>French</b>	5,020	31.7	37,383	45.3
<b>British</b>	8,895	56.2	11,516	14.0
<b>German</b>	166	1.1	28,007	34.0
<b>Others</b>	1,744	11.1	5,500	6.7
<b>Total</b>	15,825	100.0	82,406	100.0

Source: Geyikdagi (2011)

As stated in the above chapter, the railway was the main industrial sector that received the majority of FDI inflows. Sultan Abdulmecit (1839-61) wanted to build a network of railways as he had seen in Europe. However, due to the shortage of the capital and expertise, all the railways were undertaken by foreign investors. This came with a concession given to those companies to enjoy monopolies of the line that were built for a certain period. During the Tanzimat period (1839 – 1876), an economic council was established to further enhance the economic environment and support the attempts to become an industrial economy. Several Europeans were members of this council and they encouraged the state to move forward with external borrowing to finance the railways projects.

In terms of foreign companies, according Kurmuş (1974) reported that there were 166 British firms operating inside OE (1860 – 1913) with capital ranging from 10,000 to one million pounds. The sources also indicates that the tobacco company “Société de la Régie Cointéressée des Tabacs de l’Empire Ottoman”, was the most prominent company in the industrial sector. This company established as a response to the declaration of Muhareem Decree in 1883. It was stated clearly in the article 8 that the monopolies of tobacco and salt revenue were ceded to OPDA.

“The Government cedes in an absolute and irrevocable manner, as of 1/13 January 1882 and until the complete repayment of the above mentioned debt, the revenues from the tobacco and salt monopolies, produced or consumed in the provinces of the Empire”  
Muhareem Decree (1883)

The capital of Régie which was 100 million francs (4.4 Million Ottoman liras), was a joint venture between Ottoman bank, Kreditanstalt Vienna, M.S. Bleichröder Bank and the Ottoman government. The reliance on OPDA was necessary for the Régie's performance as the company shareholders were paid 8% dividend. In order to prevent the illegal tobacco cultivation, the company provided farmers with technical assistance and advance payment. It also expanded outside of Istanbul by opening new branches in multiple cities such as Samsun, Adana, İzmir and Manisa in Anatolia as well as Beirut, Damascus, Aleppo and Jaffa in Syria and Palestine. Overall, there is a consensus among historians that the Régie played a significant role in the Ottoman economy and even it maintained its importance even after the collapse of the OE in 1924. More importantly, the Régie was a leading organization for OPDA that generated revenues for the state and therefore, helped the repayment of external debts.

Unlike OPDA, the Régie was not on good terms with the Ottoman government. One of the main reasons of such conflict was the number of people who died every year (2000 people) in the fights between the Régie forces and the tobacco smugglers. Besides that, the government was not trusting the accounting figures in the financial reports. For instance, Parvus (2005) found a remarkable gap between the reported real capital, which was 1.7 million Ottoman lira, and the real capital. He added that, the difference was recorded in a secret account as a security fund. Other industrial sectors received the attention of European companies such as textiles, liquorice, and agricultural goods. Table 2.7 shows the major foreign companies in the industrial and commercial sectors.

Here we shall argue that the trade treaty between Ottoman and British provided a strong platform for the British entity to invest heavily in the main sectors as we can see below.

**Table 2.6:** Major Foreign Companies in the Industrial and Commercial Sectors

Industry	No. of Firms	Location	Home Country
<b>Cotton Ginning, Baling</b>	5	W Anatolia	Britain
<b>Thread (Cotton &amp; Silk)</b>	7	W Anatolia, Adana, Tarsus	Britain, Belgium
<b>Textile (Cotton &amp; Wool)</b>	5	W Anatolia, Istanbul	Britain, Belgium
<b>Carpet Weaving</b>	4	W Anatolia	Britain (2), Belgium (1), Austria (1)
<b>Foundry &amp; Machinery</b>	7	W Anatolia	Britain (6), Belgium (1)
<b>Electrical Machinery</b>	1	Istanbul	Switzerland
<b>Valonia</b>	2	W Anatolia	Britain
<b>Licorice</b>	3	W & E Anatolia	Britain, Germany, USA
<b>Oil &amp; Margarine</b>	25	W & S Anatolia, Istanbul	Britain (24), France (1)
<b>Soap</b>	1	Izmir	Britain
<b>Flour</b>	8	W Anatolia, Salonica	Britain (7), France (1)
<b>Wholesale &amp; Retail Trade</b>	8	Widely distributed	Britain (5), France (3)
<b>Bread Factory</b>	1	Istanbul	Britain
<b>Construction</b>	6	Istanbul & vicinity	Britain (1), France (3), Belgium (1), Switz.(1)
<b>Brewery</b>	3	Istanbul, Izmir	Switzerland (1), Britain (2)
<b>Consultancy</b>	3	Istanbul	France

Source: Geyikdagi & Geyikdagi, (2011)

### 2.2.3 Agricultural Sector

The economy of OE in the 19<sup>th</sup> century was manly characterised by the growing reliance on agricultural trade. The first agricultural census was undertaken between 1907–8 and it was showing that the total output, agricultural labour force, and total land under cultivation. The figure 2.6 shows the long-term trends in OE agriculture for s

benchmarking year since 1870. The official statistics suggest that the production of cereal was declining in late 19<sup>th</sup> century. Two main reason caused such deterioration, first, the political instability which enabled the producers to cultivate more land. Second, the tax evasion as the framers tended to hide their crops to avoid the application of agricultural taxes.

**Table 2.7:** Basic Indicators for Agriculture in Ottoman Empire

	Basic Indicators for Agriculture		Annual growth rate
	1870	1880	1880–1950
<b>Total Population, mill.</b>	11.4	13.0	0.68
<b>Rural Population, mill.</b>		9.6	0.71
<b>Ag'l Labor Force, mill.</b>	4.2	4.7	0.65
<b>Land in use, mill ha.</b>	7.5	8.4	0.95
<b>Land/Labor, ha/worker</b>		2.0	0.17

Source: Pamuk (2008)

The usage of agricultural techniques led the farmers to mix their products and introducing new enhanced corps. The expansion in potato production and other products such as sugar beets and tea was led the government to establish state farms. However, with the rapid utilization of machinery in the 1890s led to international trade between OE and European merchants to witness a high volume of agricultural exports from OE towards Europe. It has been estimated that the years between 1870 and 1913, the GDP per capita was increasing in average of 0.7% per year. This increase was pertained to the agricultural output and exports. Indeed, the statistics shows that 90% of the exports were agricultural goods namely Tobacco, wheat, barley, raisins, figs, raw silk, raw wool and opium were the leading export commodities. From the economic growth perspective, the agriculture contribute to economic development in five ways: 1) supply necessary food for population,, 2) reducing the budget deficit through exports 3)

absorbing labours and creating more reliable and persistent income; 4) savings and capital for industry; and 5) market for the output of the industrial sector.

### 2.3 Summary

The Ottoman economy was shaped by the economic treaties signed with a number of European countries in which the economy turned to be an exporter of raw materials and importer of the manufacturing goods. Under these circumstances, the Ottoman failed to establish a strong industrial foothold that can stand against the incoming products and it turned into 'backward country', both industrially and economically. With that in mind, the next chapter intends to discuss the prior literatures so the reader would have a clarity on the thoughts circulating among experts in this field.

