Inadequacy in Constitution of Turkish Commercial Diplomacy: Learning By Doing

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Abstract
According to economic growth models, learning-by-doing is an important social aspect and it is evident that European economic development has been achieved through the acquisition and accumulation of experience for commerce and diplomacy, especially after the 15th and 16th centuries. This know-how accumulation ensured the establishment of the European Concert, customs unions, free trade facilities, commercial and diplomatic governing bodies, financial system etc. through continental conflicts, colonial campaigns, trade wars, embargoes, commercial intelligence and such until the end of 19th century. Eventually, the economic system created by Europe has been dictated to the rest of the world.

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1. Introduction

Among classical models regarding economic growth; learning-by-doing became prominent by its social aspects in 1950’s with the contributions of Solow, Johansen and Arrow (Solow, 1957) (Johansen, 1959) (Arrow, 1962). It has been further developed by Robert E. Lucas. Simple summary for the utilization in this study would be; in closed economies, experience of manufacturing a specific product accumulates over time and by attempts. Therefore, as human capital is invested, the knowledge to produce better and cheaper products accumulates as well (Lucas, 1988).

Bo Södersen, evolves the model for growth which focuses on the accumulated knowledge in companies and adapts the model into the growth of countries through history. According to his adaptation; the main reason for the development of Europe after 15th and 16th centuries against a scientifically superior Islamic world and a technically superior China is the process of learning. This learning has started by maritime technology and trade. Through time, maritime technology endogenously developed while trade fostered the acquisition and need of knowledge that improved trading methods further. As a result, market size has grown and dependently, trade volume has multiplied. The acquisition of new knowledge triggered the establishment of new institutions, which in turn, made a catalyst effect on trade multiplication. This increase in the market and trade volume required a legal system for trade, which has been established by British after 200 years of trial and error. As a result, it can be claimed that economic development of Europe is achieved through international trade and the amount of knowledge that a nation possess is determinant in that nation’s per capita income (Södersen, 1993).

Lamoreaux, Raff & Temin refer to the importance of analyzing the history for understanding social and cultural environments of the day, to comprehend the experiences alongside with classical economic analyses (Lamoreaux, Raff, & Temin, 1999). And as Huub Ruël remarked, “Trade and diplomacy have helped turn civilizations into great economic powers” As greatest civilizations in the history have risen by trade but only if trade is supported by successful diplomacy, we can say that, interdependency of trade and diplomacy have proven itself historically (Huub, Lee, & Visser, 2013).

Since trade and diplomacy are inseparable for development goals, growth and prosperity of nations are the virtue of successful commercial diplomacy adaptation. Furthermore, according to learning-by-doing model, knowledge accumulation for trade is crucial in development of economies. Thus, this study attributes the current economic development of western world to the experience gained through centuries of commercial diplomacy practice. Accordingly, endeavor to indicate the crucial experience deficiency of Turkey on contemporary commercial diplomacy practice; which has been shaped by Europeans in their own experience and perception. Thus, analyzing the historical development of European commercial diplomacy becomes crucial.

Because of the Congress of Vienna, 1815 was the year when the foundations of international governance have been laid. Also by the virtues of mercantilism, trade wars,
industrialization, and fall of colonies, Europe has entered the era of free trade. Liberalization movements shaped the politic and diplomatic approaches of European countries, which accumulated into a diplomatic know-how. The goal was to gain political support in their homeland by the virtue of democracy, spread of imperialism and hegemony by the hand of free trade. However, Ottoman Empire was stranger to these concepts due to its approach to economy. Therefore there was no quest for political support among interest groups due to its political and economic vision alongside with its condition. Thus, the Republic of Turkey has never been able to reflect on such inclinations according to the lack of accumulated knowledge on commercial diplomacy. Hence, it is anticipated that, comprehension of the historical background of free trade facilities in Europe and its absence in Turkish experience would assist the adaptation of more successful and convenient commercial diplomacy to Turkish politics which would address Turkey’s drawback on this issue and can be an opportunity to build its economic policy based upon its own learning-by-doing practice.

2. Establishment of the European Concert
Congress of Vienna is a turning point for conventional approaches to international politics as reformist ideas started to come into the light. The shift from Balance of power theory to the concert system or system of equilibrium is the most important touchstone among them and 1815 could be registered as the expiration date for the balance of power theory in international politics. As a short note; balance of power theory aims the survival of states as independent entities by pursuing power in the anarchical global system. Existing anarchy before Congress of Vienna forced states to seek and maximize power in any means necessary to retain their autonomy, security and survival against their adversaries. Therefore power competition was the natural state of affairs in this system (Fortmann, Paul, & James J., 2004). Balance of power can also be defined as a system where “power of one state is balanced by the power of others” (Schroeder, 1992) and due to its nature, promotes the anarchy through the absence of a high authority to regulate the use of power by the states. This anarchical environment based on power struggle was conductive to continuous wars within Europe (Jervis, 1992) and Europeans fought wars against Charles V, Louis XIV, and Napoleon in the name of balance of power (Gulick, 1967).

Napoleonic wars triggered the opportunity to rearrange the international system with “interlocking spheres of influence” (Slantchev, 2005) and constituted a regulative body, which would provide a hegemonic distribution of power (Schroeder, 1992). Statesman gathered at Vienna had one shared goal, to avoid prolonged wars such as Napoleonic Wars and to regulate the power balancing between the states. Therefore the congress itself was the very foundations of a unified, higher body to regulate the relations between states. Three main problems rose at the Congress; ensuring the common security for all the powers in the continent; securing Europe from external threats; and securing the sovereignty of small states from the influence and desires of great powers (Schroeder, 1986). For the first time in the history, a regulative body has been established and a group of states leaned on “adjudication, mediation, and reconciliation more than weighing power” to ensure security (Schroeder, 1992). And most important consequence for the rest of the world was that this new European state system fenced itself off from the peripheral world (Schroeder, 1986).
Henry Kissinger remarks the difference, which Congress of Vienna brought to the world politics. Referring to the balance of power system, he claims that; in an international order where one power is totally satisfied, it is inevitable that all others would have to be totally dissatisfied, which eventually lead the system into revolution. However, “an international settlement, which is accepted and not imposed, will always, appear somewhat unjust to any one of its components. Paradoxically, the generality of this dissatisfaction is a condition of stability. The foundation of a stable orders is the relative security-and therefore the relative insecurity- of its members” (Kissinger, 1964). Robert Jervis extends Kissinger’s theory by stating that; the Congress of Vienna ensured a Prisoner’s Dilemma situation within European powers, the dilemma itself forced states to think more thoroughly and depend on others’ judgment while trying to control its own actions to not threaten others, in order not to be threatened. That created a system where great powers not only concern about their own interests, also considers others interests as well (Jervis, 1992).

3. Free Trade Facilities and Triggers in Europe

Unilateral Liberalization of Commerce: Repeal of the Corn Laws

Congress of Vienna marked the end of the dragged-on conflicts for European Continent. Economies adjusted to war, blockage and interruption of trade, challenged by the abrupt changes of economic dynamics in the continent. Import protection for agriculture arose – for Britain, in the name of Corn Laws in 1815- to protect the sector from dramatic decrease of agricultural prices, which took the control of economic policy from the merchants and gave it to the landowners once again (Irwin, 1993). These dramatic changes in economic circumstances were surely going to require wisely designed commercial diplomacy to cope with.

In 1815, British parliament enacted Corn Laws to compensate the loss of agricultural sector, which enjoyed the high prices during the Napoleonic wars. Corn Laws prohibited the import of corn when the price is lower than 80 shillings per quarter (Schonhardt-Bailey, 2006). Even though Corn Laws of 1815 was highly protectionist, Britain was conscious of the importance of foreign markets for its industrialized economy. Therefore, Britain displayed an endeavor –even though it was ineffective- to shape markets for its trade within Europe. In 1823, attempts of Board of Trade with the Reciprocity of Duties Act for concluding commercial treaties with foreign governments failed to remove the prohibitions or reduce the tariffs. In 1836 Britain proposed to lift the duties on timber for Prussia by the condition for reducing tariffs on British textiles, but this attempt has also failed when Prussia asked for the reduction of Corn Laws. Britain’s commercial diplomacy has failed during 1830’s and 1840’s since British policymakers were unwilling to tolerate the access of foreign countries to British market. This failure until 1840 eventually forced Britain to initiate unilateral tariff reforms, which ultimately lead her to the repeal of Corn Laws in 1846 (Irwin, 1993).

There is a strong literature suggesting that repeal of Corn Laws in 1846 is the point of origin for trade liberalization. But the question that arises here is; what made Britain’s administration to take such bold decision on switching into unilateral liberal economy while predominant commercial policy of the rest of the world was protection for the agriculture and industry by import prohibitions and tariff barriers.
Regardless, Corn Laws was seen as an obstacle before further industrialization. Therefore, the Anti-Corn Law League, which has been founded by a group of Manchester’s manufacturing elite, led by British politician Richard Cobden to abolish the Corn Laws has recognized as “the first modern pressure group to emerge in Britain” (Schonhardt-Bailey, 1991). Manchester was the center of export-oriented manufacturers who were stressed by the crisis in British trade and collapse of the industry in late 1830’s, therefore manufacturing elite have poured their wealth -brought by the industrial revolution- into the cause of repeal (Clark G. K., 1951). However, Reform Bill of 1832 stood at the junction for the commercial policy, which made the repeal possible. With the Reform Bill, power shifted from the landed aristocracy to the bourgeois, from the land and country to the factory and city (Kindleberger, 1975).

Circumstances of the country and economic conjecture were in favor of the Anti-Corn league, however, even though manufacturer bourgeois in cities was gaining numbers because of accelerating industrialization and initial phases of globalization, landed aristocracy was still the prominent group in Britain. This victory of textile manufacturers to achieve such dramatic change less than a decade may be explained with the interest groups theory.

Interest groups emerge because the relational balance between a group and other components of society is disturbed and requires stabilization. To simply put, interest groups develop as the diversification in society increases. Accordingly, related groups would organize in associations, which then would become political interest groups (Truman, 1951) (Berry, 1978). Interest groups require an organizer for the success of the organization (Salisbury, 1969). And finally, interest groups required to be smaller in order to achieve its goals since individuals in smaller groups would work collectively to achieve the common goal unlike larger groups. It is more likely that a smaller group would be able to gain political power since costs for lobbying are lower, compared to larger groups and, individuals benefit more in smaller groups where the act of an individual matters (Olson, 1965) (Poczta-Wajda, 2013).

So according to Truman’s theory of disturbance, there has to be a disturbance in the society, which was present in 1830’s Britain as proletariat was growing by the migration to cities due to the industrialization. Thus, political interest group of Anti-Corn Law League has emerged. The qualified organizer in Salisbury’s exchange theory who should convince the potential elements of the interest group was present; as Richard Cobden was in lead. The shape of the interest group required, according to Mancur Olson’s theory of groups, was also present; even though it was growing fast, industrialist bourgeois was still considered as a minority against landowners in Britain and while it outgrew, the coercive factor of political economy came from the government; the rivalry between Britain and the Zollverein.

Kindleberger claims that the repeal of Corn Laws was ammunition in the hands of state rather than a freedom case of manufacturing elite against the landowners’ reign over the economy. The main target of the repeal according to Kindleberger was Zollverein. Political economists in the Board of Trade aim at diverting Germany to invest more in agriculture and to retain the progress in manufacturing. He quotes from John Bowring’s
letter of August 28, 1839 to Lord Palmerston “It is obvious however that in the Zollverein the manufacturing interest is greatly strengthened and will become stronger from year to year unless counteracted by a system of concessions, conditional upon the gradual lowering of tariffs. The present state of things will not be tenable…” (Bowring, 1840) and also Bowring’s testimony before the in 1840 where he confesses that the export prohibitions and import duties applied by Britain “have created an unnecessary rivalry”, without these legislation, many of its current rival “countries never would have been dreamed of being manufacturers”. In the view of such information, Kindleberger asserts that; “the repeal of Corn Laws was motivated by “free trade imperialism,” the desire to gain a monopoly of trade with the world in manufactured goods” (Kindleberger, 1975). Considering the implementation of its economic policy and commercial diplomacy applications, Gallagher and Robinson calls the British Empire in 19th century¨, the informal empire¨ and bring the term ¨Imperialism of Free Trade¨ forth to explain ¨the interrelation of Britain’s economic and political arms; how political action aided the growth of commercial supremacy, and how this supremacy in turn strengthened political influence” (Gallagher & Robinson, 1953).

Cain and Hopkins potray more pessimistic framework of British Economy during and right after the Napoleonic Wars. They remark that British export trade has failed to act as an engine of growth, monopolist position in textile industry has been lost to Continental Europe and British industry suffered from excess capacity which pushed the prices down alongside with increased demand of import, in turn, trade gap widened. The failure of Britain to effectively prohibit the export of machinery and migration of skilled labor accelerated the loss of country’s advantageous position in the power of competition for manufacturing. They claim that the decision for the Corn Laws in 1815 was due to the administration’s reliance for the agricultural growth to be sufficient enough for compensating the increase in Britain’s population. Thus, the goal was to provide enough food for its workforce in industry depending on its self-sufficiency in the pursuit for its commercial imperialism. However, by 1820, British policymakers realized that pursuing agricultural self-sufficiency is a dream, considering rapid population growth, which would soon require exchanging wheat imports with non-industrial economies to increase the exports and industrial employment. Consequently, Tory government looked upon the modifications for import barriers, prohibitions and Navigation Laws for switching into free trade, which would cut the costs and increase the number of potential markets for British goods to deal with over-seas competition and domestic unrest. In Cain and Hopkins’ own words; ” the ultimate hope was that Britain's acceptance of free trade would persuade her competitors in Europe and the United States to shift factors back into agriculture by offering them the attractive bait of an open British market” (Cain & Hopkins, 1980).

Finally, James & Lake also asserted the claim that; definitive aim of British statesman was to overthrow the competitiveness of the economies of United States, Continental Europe and specifically German Zollverein under Prussian leadership. Moreover, British policymakers were well aware for the potential effects of the repeal upon its rivals and they intended to use these arguments in the call for political support (James & Lake, 1989).
**Reciprocal Liberalization of Commerce: The Cobden–Chevalier Treaty**

Britain could not achieve its goals by the repeal of the Corn Laws, tariffs on foodstuffs and some raw materials were generally low throughout Europe, but there were still solid import barriers against British products such as iron, steel and textiles for protecting the local industries (Lampe, 2009). However, British policymakers was not out of ammunition yet; free trade, embraced by the continent was waiting for another initiative, a reciprocal attempt rather than a unilateral one; The Cobden–Chevalier Treaty or the Anglo-French Commercial Treaty of 1860 (Irwin, 1993). The most important aspect of the treaty was the utilization of unconditional Most Favored Nation clause (MFN Clause) which guarantees that both sides would extend the concessions granted to any third party by either side. The Cobden–Chevalier Treaty meant replacement for all import prohibitions with duties for France; reduction of duties for fancy goods, admission of many French manufactures as duty free and abolition of export duty of coal for Britain. These MFN clauses were to be inserted into a great majority of treaties followed by Cobden-Chevalier, generalizing bilateral concessions for all (O'Rourke & Williamson, 2001). That “tailor-made liberalization” achieved by this treaty was something that Britain’s unilateral attempts couldn’t and wouldn’t achieve by its own (Lampe, 2009).

Why this initiative worked well while Britain’s former attempts to conclude commercial treaties with foreign governments failed? Political context of the period was definitive for this conclusion since France was having a political crisis with Austria-Hungary regarding the unification of Italy and in need of support in Europe. Britain was in need of ensuring political aspirations of Napoleon III. Moreover, an important French economist who was also a free trade supporter, Michael Chevalier lobbied for a trade agreement with Richard Cobden since he noticed British desire to establish close ties with Napoleon III. Together with Cobden’s strong ties in the government and Napoleon III’s notion, negotiations have begun (Rohlfing, 2008). France’s domestic equilibrium was another virtue for the conjecture, French policymakers “decided to push the liberalization agenda toward the diplomatic arena” (Accominotti & Flandreau, 2008). Whatever the triggers and risks was, both Britain and France approached the initiative “as a way of defusing tensions and improving diplomatic relations, and an agreement was quickly reached” (Irwin, 1993).

Chevalier’s agility to comprehend the political ambiguity and taking the advantage to achieve his liberal trade desires for France, perfectly corresponds to some features of commercial diplomacy, such as capitalizing international opportunities created by evolution in markets. Furthermore, Cobden’s advises to Napoleon III regarding required concessions to be demanded by France to counter the domestic opposition, also abides with commercial diplomacy features like, satisfying interests of the public and using diplomatic channels and processes. Besides, as a whole, backstage of Cobden-Chevalier treaty also accommodate itself with the multi-stakeholder feature of commercial diplomacy by shifting away from diplomats on negotiations. Finally, French experience here to benefit from Britain’s knowledge through Richard Cobden that is accumulated until the repeal of Corn Laws and beyond.

Anglo-French Treaty of 1860 has also an important role for European continent itself, since its position, as the kick-starter of institutionalization of commercial organizations is
a common view among economists (Bairoch, 1989). Cobden-Chevalier Treaty triggered a series of bilateral agreements among European countries, which would be called “the network of Cobden-Chevalier treaties” or simply the treaty network in the literature (Bairoch, 1989). It is suggested that the reason of European participation in bilateral trade agreements in haste was due to the “fear of trade diversion” and this process which later to be called as “free trade epidemic” can be seen from the Figure 1 (Accominotti & Flandreau, 2008).

The unconditional MFN Clause was the star of Cobden-Chevalier Treaty, with its inclusion to the treaties, MFN Clause made the participation of any third party to the concessions and access to each other’s markets without being subject to any further negotiation or discrimination (Irwin, 1993). By 1861 Belgium joined the network by signing a treaty with France and Prussia followed it in 1862, Italy came in 1863, followed by Switzerland the next year, Sweden, Norway, Hanseatic towns, Spain and then Netherlands joined the network in 1865, finally Austria-Hungary signed a treaty with France. Portugal and Denmark however, joined the network by their treaties with Britain. Thus, Most of the European countries joined the Cobden–Chevalier network until 1866 by signing treaties with France (Bairoch, 1989). Despite classical studies that regard the Cobden-Chevalier treaty as the initiator of free trade in Europe, modern studies shows that, trade liberalization was already in its way before the treaty (Tena-Junguito, Lampe, & Fernandes, 2012). As it can be seen from Figure 2, protection was already decreasing and openness was increasing in 1850’s, a decade before Cobden-Chevalier. In fact, this trend reversed around 1860 (Accominotti & Flandreau, 2008).

**Disowned Liberalization of Commerce: European Grain Invasion**

Period of unilateral trade liberalization and bilateral commercial treaties in early 19th century has reached a turning point in 1870’s. Spread of rail network throughout the world enabled American and Ukrainian grain to reach ports cheaper and in much larger quantities. Additionally, yet-advanced iron-ship making reduced overseas freight rates. Consequently, “availability of de-mobilized manpower, untitled land and wartime accumulations of money capital, coupled with the development of farm machinery for extensive cultivation, resulted in an expansion of the American supply” after the American Civil war and ended up as the grain invasion in European economies which undermined agricultural liberalization (Kindleberger, 1951) (O'Rourke, 2000). “Agricultural prosperity has ceased to flow” since 1862 and started rapid decrease arose after 1874, which has started “the great depression of agriculture” in Europe (Fletcher, 1961). Likewise, average volume of European trade has shrank from 5.6 percent between 1858 – 1872 to 2.3 percent between 1873-1894 (Bairoch, 1989).

Rising tendency towards agricultural protection provoked industrial protection as well in the continent. Germany’s famous ‘marriage of iron and rye’ of 1879 which provided protection for both agriculture and industry, France’s Mêline tariff of 1892, Italy’s severe tariffs of 1878 and 1887 and Sweden’s agricultural protection campaign of 1888 are some examples of European reversal of trade liberalization (O'Rourke, 2000). As cheap grain flow through the continent, Britain took the biggest hit as she decided to stand her ground of free trade once again. France and Sweden, but especially Germany had an uncompetitive economy with less industrialization and more dependence on agriculture.
than Britain. Moreover, landowners were a powerful political interest group in Germany and custom duties were important for the state as a source of revenue. Therefore, their rapid turn to protectionism is not confusing (Bairoch, 1989). Denmark, however, instead of raising tariff barriers to protect its agriculture, rapidly switched into animal husbandry, targeting expanding national incomes of industrializing markets of Britain and Germany for the export of its dairy products (Kindleberger, 1951).

Nineteenth century was indeed the century of changes and one considerable change was in the economic conditions, which caused rapid shifts of economic ideologies. No matter what kind of administration there is in charge, producer groups have always found a way to make their governments adopt the same policy; whether their government is republican and a weaker state like Germany or an authoritarian state with stronger leadership like France. The difference between Britain and the rest of protectionist Europe was “its national groups and their views; that is, sectors convinced that an open world economy operated to their advantage”. With the great depression of wheat, as first time in the history, international economy had so much power to shape domestic policy of countries. And it did so by utilizing domestic actors through shaping their policy preferences and their tendency to make them stand against or stand by each other (Gourevitch, 1986). Looking from where we stand today, domestic policies oriented by international economy does not sound unusual, however if domestic actors had that much power on 19th century’s administrations, commercial diplomacy of the era must have involved domestic policies as well.

Domestic political support model would illuminate the power of international commerce and its effects on domestic actors. Briefly, there are two economic interest groups in commercial policy-making. First group is exporters, who benefit from liberalization while the other group is import-competers, who suffer from the liberalization. Both groups would try to maximize their income through their influence on policymakers to manipulate their inclination toward their preferred trade policy. Policymakers however, would have to maximize their public support through balancing the interests of these groups, since the orientation in income redistribution by their preferences will be definitive for their political career (Rohlfing, 2008) (Hillman, 1982) (Pahre, 1998). Political support model takes an important place in 19th century practice of politics since it is assumed that politicians aim to balance the support from different interest groups, which means “that they balance the welfare of one group against the welfare of others” (Pahre, 1998).

4. Ottoman Mindset of Commerce
An Outline of Ottoman Economic Mindset
Wideness of imperial boundaries, needs of the army, technological restrictions of the age, and relatively high population and provision difficulties of major cities such as İstanbul forced Ottoman administration to use the sources in most reasonable way as possible, therefore complete control of state over economy was inevitable. That conjuncture and required state control shaped classical Ottoman approach to economics from 14th to 17th centuries (Cem, 2007).

According to Mehmet Genç, Ottoman economic comprehension consists of three key
principles which are; provisionism, traditionalism and fiscalism. It is crucial to comprehend the reasons and nature of those principles to understand the differences and deviation of Ottoman economic development from European powers especially starting with 17th century (Genç, 2000). Classical Ottoman framework of economic thought largely continued until the end of eighteenth century and modernization efforts of 19th century has also challenged by the remnants of that classical framework (Ermiş, 2014).

Provisionism is the foundation of Ottoman economic mindset, which, “requires that the supply of goods be as abundant as possible, so that everybody is able to buy the necessary goods at favorable prices” (Ermiş, 2014). Considering the low productivity, which is constantly threatened by internal and external factors alongside with costly and difficult nature of transportation of the age, state intervention, control of production and trade was essential to sustain the supply and affordability of goods in the market. Ottoman state owned the land and defined the supply objectives as well as price for the goods produced to keep the demand satisfied. However to sustain and increase the supply of goods according to internal needs, exports have restricted through special permissions and very liberal approach towards imports have been adopted (Genç, 2000). Ottoman Provisionism Policy is supported by mechanisms such as; artisan guilds, narh institute (price fixing), production and trade supervision, export bans, and import liberation (Kaya, 2017).

Provisionism was hanging on a delicate balance due to physical constraints in Ottoman Empire, therefore in order to keep this delicate economic balance, traditionalism employed state intervention to social lives of Ottoman subjects such as prohibited luxury goods and excess production. Demand for luxury goods if not banned, could have created shifts in Ottoman production and, excess production could turn the scale on capital and labor by exploiting such resources. Therefore traditionalism was a tool to organize socio-economic balance in Ottoman society. Considering the total control of Ottoman state over the economy and importance of earnings created by successful military campaigns, state revenues was the key resource to a functioning economy. Functioning bureaucracy, progressing market intervention, well maintained army, equipped with modern weapons, infrastructural investment and such, depended on state revenues, and therefore fiscalism ensured preservation and maximization of state revenues (Genç, 2000).

Land regime was another important illustrator of Ottoman economic perception. Being a major agrarian economy throughout its entire history despite reform efforts of its last decades (Quataert, The Ottoman Empire, 1700–1922, 2005), Ottoman Empire, owning the land and regulating every socio-economic aspect of the countryman. However, real masterwork of land regime was the Tımar system, which appointed public servants to pre-distributed land for collecting the tax, maintaining supply-chain, raising and sheltering an army for the Sultan for whenever he requires. As a predominant agrarian middle age economy without a proper monetization, tax farming was essential for Ottoman Empire, which has been handled by appointed Sipahi’s to Tımar land (Ermiş, 2014). Moreover, Tımar system ensured continuous cultivation for the land which binds population to the country, fed the people, created revenues for the state and paid for
army’s expenses, Timar system, which started to dissolve in 17th century remained partially intact until the end of 18th century (Hanioğlu, 2008). However, dissolution of Timar system did not eliminate the domination of agriculture in Ottoman Economy and its importance for the state, considering taxes on agricultural production was 32% percent of state revenues in 1893-94 fiscal year (Yazan, 2018) (Güran, 2003).

Guilds system (Lonca) is another important aspect of Ottoman economic system. Industrial production, which can be defined as craftsmanship, since mass production was never a concern of Ottoman economy, was trusted to guilds, under the strict control of state. Loncas were monopolistic guilds that acted like semi-official offices of state. Competition was strictly forbidden; continuity and volume of production, purchasing and selling prices, wages and quality of the goods and services etc. were determined by the state (Cem, 2007). According to Halil İnalcık, over and above, State’s attitude towards guilds is essential to understand the Ottoman economic mind. Guilds had the absolute control over any field of occupation. The government has issued licenses for masters under the instruction of guilds. Therefore ranging from the guilds itself was essential for the masters since licensing and working without a license was not tolerated. Any master supplying goods or services below or above the regulated price was therefore intervened with. Consequently, production of goods and services was in the monopoly of guilds (İnalcık, 1978). Ottoman production was “labor-intensive, small-scale, household-based, and rural” (Pamuk & Williamson, 2011). However, household production was the dominant application in 19th century, which left no significant percentage to mass production within the Empire (Quataert, 1994).

Regarding international commerce applications, Ottoman approach was completely different than European mercantilist practice. While European countries were trying to restrict imports and encouraging exports from 16th century to 20th century with short interruptions of liberal eras as mentioned earlier, Ottoman Empire encouraged imports and restricted, even prohibited exports until 1860’s (Genç, 2000). As provisionist practice defined the limits of economic reform within the Empire, provisionist approach had also become a culture and created social restrictions for Ottoman Muslims since international commerce as seen a lower class profession, commerce has been left to Europeans. This social restriction prevented Ottoman Muslims to become merchants even after Empire turned its face to economic reforms and therefore, Ottoman non-Muslim minorities eventually took the chance to become Ottoman commercial bourgeoisie with the help of capitulations in 19th century (Göçek, 1996). In Ottoman Empire, money did not accumulated and invested as capital, rather it used for the daily needs of the merchant and the trade. “Moreover, Ottoman merchants did not have widespread relations with each other, while European merchants established associations which ramified into every major field of activity and imbued them with a pragmatic mercantilist spirit” (Karpat, 2002). Sariyannis’s words can be referred to sum up the position of commerce in the Ottoman economic mind; “the high place peasants and agriculture occupy in the realm of Ottoman economy and taxation, as well as a general distrust of large-scale commerce” (Sariyannis, 2019).

**Decline of Ottoman Economic System**

Timar system started to lose its effectiveness due to changing military technology and
economical challenges of 17th century (Timur, 2001). As firearms become prevalent in wars, mounted units provided by Timars become inadequate and requirement of a standing army become an important necessity for Ottoman Empire (Aktan, 1991) (Kazici, 2005). However, standing army brought a heavy burden for the treasury, which never had to pay massive expenditures for an army thanks to the Timar system. Considering these substantial downfall in budged caused by extra expenses and financial problems in 17th and 18th centuries, started the decomposition of Timar system and a new taxing system for generating extra revenues became essential, Ottoman Empire appealed into different taxing systems such as leasing taxing rights to eventually direct taxation (Fekete, 1955) (Çağan, 1982) (Vefik, 1999). However, none of the introduced taxation methods for land could replace the Timar system, in fact those efforts only accelerated the weakening of central administration (Hanoiğlu, 2008).

As European mercantilism emerged and overseas markets have been discovered, international commerce increased sixty-four times in 19th century globally. However, this increase was relatively modest in Ottoman Empire with grow of around ten to sixteen times. Still had an important market for international commerce, Ottoman Empire, besides its inability to adopt new economic trends lost its marketing relationships and patterns (Quataert, The Ottoman Empire, 1700–1922, 2005) main reasons for this loss were; blocked investments on infrastructure due to trade deficits which hindered transportation of goods, inability of onversion to mass production due to the provisionist nature of the economy and nonstarter technology transfer, which hindered the competitiveness of local industry against efficient European mass production, capitulations ensured the occupation of Ottoman market by European goods, lost wars caused territory losses which crippled the domestic economy (Hanoiğlu, 2008).

Dramatic changes occurred in Ottoman balance of trade in 19th century. Throughout 18th century, Ottoman exports to Europe was consisted of semi-processed local goods, however by the 19th century, Ottoman exports mainly shifted to unprocessed goods while agricultural products remained unchanged. Most of these exports also suffered by the end of 19th century due to the flow of cheap colonial goods and luxuries to Ottoman Empire. Indian and European textiles also hindered the growth of Ottoman textile sector during 19th century (Quataert, The Ottoman Empire, 1700–1922, 2005). As competition with cheap European goods in international market become intensified, Ottoman market also greatly affected by this invasion, Ottoman imports increased nearly 3.3 per cent annually, from £5.2 million in 1840 to £39.4 million in 1913 (Pamuk, 2010). Ottoman economy also took a heavy toll from European economic depression in 1870’s. While European powers switched back into protectionist policies to protect their local markets from cheap American and Ukrainian grain, Ottoman Empire was unable to raise import barriers due to the binding capitulations. Asides from flooding grain to its economy, Ottoman agricultural exports, which have been accelerated after Anglo-Turkish Commercial Convention in 1838, also suffered greatly. Effects were devastating for an agrarian economy like Ottoman Empire, considering 77 per cent of Ottoman tax revenues generated by agricultural production in the fiscal year of 1872-1873 (Ahmad, 2005).

Provisionist Ottoman system has started to take damage by liberalization imposed to
the Empire by peace treaties from Austria and Russia in 18th century, which allowed them to buy agricultural goods from Ottoman Empire as they desire. Treaty of Adrianople in 1829 ended the Ottoman state-controlled collection and distribution system of agricultural goods as it permitted some states to sell those products to the Empire. Therefore, the economy and social order of especially İstanbul greatly tampered with (Karpat, 2002). However, Anglo-Turkish Commercial Convention of 1838 is discussed to be the event that triggered the collapse of Ottoman industry and commerce (Ahmad, 2005). All monopolies have been eliminated, customs tariffs for British merchants on importing Ottoman goods and all export prohibitions have lifted, tariffs are reduced in a vast scale (Kütükoğlu, 2013), therefore British merchants acquired the right to buy goods as they desire within the Empire while all foreign merchants were exempted from 8 per cent internal customs duty, which were diametrically opposed to Ottoman provisionist application. Export duties in the country have been raised from 3 to 12 per cent and import duties from 3 to 5 per cent. Even though there is not enough research to assess the impact of these changes on local industry, it is clear that it gave a great advantage to foreign goods against local Ottoman goods. In addition, fixed import duties imposed on the Empire prevent administration to apply any protection to local goods (Pamuk & Williamson, 2011). However, Mehmet Genç claims that, Ottoman Empire did not entirely saw Anglo-Turkish Commercial Convention as a disadvantage and used its limited negotiation power to restrict exports rather than imports due to its continuing provisionist approach despite Ottoman ability to restrict imports were already limited due to capitulations (Genç, 2000).

First target of European mercantilism was Ottoman protectionism over exports of local goods rather than exporting their goods to Ottoman market. As global demand increases for European goods and raw materials become scarce especially after the loss of colonies, raw material imports from Ottoman market became a priority. However, Ottoman economic system was not designed to cope with extra production on export of goods. In return, shortness occurred, price of local goods increased and Ottoman raw materials have been exported back to the Empire as finished goods and further damaged the economy (Peker, 2015) (Paylanbay, 2007). European mercantilist policies were successful since Ottoman exports between 1840 and 1913 have been fivefold and imports increased by almost 7 times (Ecchia, 2012).

The great depression of 1873 delivered a major blow to the Ottoman economy by decreased demand for agricultural commodities, which caused to the bankruptcy of the government in 1876 (Ecchia, 2012). Bankruptcy of Ottoman government followed by the establishment of Ottoman Public Debt Administration (OPDA) by foreign creditors in 1881 to observe and steer the payment of debts. However OPDA soon became an independent administration within the government that collected the taxes, seize the income of state companies and applied for more loans to extend infrastructural investments as well as expand the modernization effort (Quataert, The Ottoman Empire, 1700–1922, 2005). OPDA’s institutional reforms within the economy were causative for the dissolution of pre-capitalist subsistence production, boosting of external trade and construction of railways (Birdal, 2010). OPDA’s infrastructural investments through foreign creditors and contribution to modernization might be seen as an advantage for late Ottoman economic development, however, these efforts helped further penetration
of cheap and qualified European goods which already dominated port cities by the virtue of maritime trade. Hence, mutilation of Ottoman industry intensified besides the control of revenues and orientation towards modernization methods (Issawi, 1980).

Abuse of Capitulations was another overburden on Ottoman economy and modernization effort. Capitulations originally granted to European countries starting from 16th century with the intention of promoting trade with Europe while attracting merchants to ensure that there would be no shortage of any goods required within the Empire (Boogert, 2005). Revenues generated from transit commerce were also targeted by the Ottoman Empire to attract European merchants to Eastern Mediterranean, as trade routes has been changed by the foundation of cape colony (Acartürk & Kılıç, 2011). However, European abuse forced Ottomans to extend the privileges to more and more European countries as the Empire weakened, which ultimately spread to Ottoman non-Muslim minorities, giving them the opportunity to replace European traders (Owen, 2009) and risen them as privileged social group among the society. As they have accumulated resources and wealth through this association, they were to emerge as Ottoman commercial bourgeoisie (Göçek, 1996). These abuse of capitulations become a humpback for Ottoman Economy, which combined with OPDA, crippled any attempt of Ottoman Porte to effectively modernize the economy (Eldem, 2006).

Commercial treaties containing MFN clauses also used to exploit Ottoman market, as MFN clauses have been mentioned as a tool for commercial diplomacy, American-Ottoman Commercial Treaty of 1830 is another example for such case. Regardless of bilateral structure of the treaty in paper, since Ottoman Empire had no ships to cross the ocean, American vessels had been granted the rights, which European powers already had and this paved the way for flood of cheap American goods to the Empire (Kayapınar, 2017).

Modernization of Ottoman industry might be the most important attempt of resisting to European capitalism in the struggle for existence of 19th century. Initially Ottoman administration attempted to industrialize the economy by the state initiatives. European experts have been brought and iron casting factories, weaving mills, fabric mills, broadcloth factories, silk spinning mills, paper mills, crystal factories and some other small scale factories have been established between 1840 and 1860 (Clark E. C., 1974). However Crimean War came with first European loans and it brought influential control over Ottoman administration, moreover, lack of knowledge and experience, uncompetitive local production costs, State’s inability to provide sufficient indorsement, forced the Porte to abandon the industrialization program.

Another industrialization movement has started by 1860’s, but this time it was based on reforms for the legislative infrastructure. Increasing import duties, industrial fair organizations, establishment of industry schools and establishment of industrial reclamation commission were among the measures taken. State intervention to customs applications came 20 years after Anglo-Turkish Commercial Convention, increasing import duties to 8% from 5% and decreasing export duties of 12% to 1%, gradually reducing it 1% per year for 8 years. This customs initiative in 1861 is the first protectionist step from Ottoman administration towards commerce. It is remarkable that
initiatives taken after 1860 were aimed to create an infrastructure to encourage and protect local private enterprises (Önsoy, 1984). Idiosyncratic part of these private enterprises was admittedly their establishment; craftsman and artisans came together to form inclusive entities. These entities were given concession for 12 years, their products or imported machinery were exempt from taxes for 6 years, apprentices of artisans would be educated in industry schools and public institutions would be supplied with these local companies (Engin, 1995). Nevertheless, state lost its interest in time and by a virtue of global crisis these concessions were cut off in 1873 (Önsoy, 1984).

Pamuk and Williamson’s work point to the failure of industrialization effort since observable de-industrialization occurred between 1815 and 1860 for Ottoman Empire due to Britain’s exploitation of world markets with its productivity advantages and peacetime conditions after Napoleonic Wars. Pamuk and Williamson’s claim of Ottoman de-industrialization is supported by the liberalization move in Figure 3 where terms of trade improved between 1815 and 1850. Furthermore, decrease in the number of looms within different regions of the Empire based on the reports of state and some foreign ambassadors as seen in Figure 4 and slowdown in textile import penetration within 19th century around 1870’s as seen in Figure 5. Last but not least, collapse in spinning output within the empire occurred between 1840s and 1870s is bigger than the collapse between 1820s and 1840s as shown in Figure 6 (Pamuk & Williamson, 2011).

Finally, it should not be overlooked that Ottoman bureaucrats and economists were well aware of the developments occurring in Europe since 18th century. First ambassadors sent to European capitals with the mission of reporting the western formula of economic development presented their opinions and recommendations to Sultan himself for economic modernization such as raising protectionist barriers, banning of luxury imports, offering industrialist initiatives and subsidies (Ermiş, 2014). Furthermore, politicians and economists in 19th century proposed liberalist programs to promote and permit exports, private ownership, accumulation of capital, establishment of banks, entrepreneurship, private economic enterprises and objected widely favored public service, state owned factories, and state intervention to economy (Berber, 2011) (Çavdar, 2003) (Odabaşı, 2014).

5. Results and Discussion
It is clear that Britain’s quest for free trade was much more than the enlightenment of its policymakers and fellow citizens; the whole concept of liberal trade blow was a tool of commercial diplomacy, in search for spreading British hegemony and to pursue its mercantilist, imperialist policies, tailored in the shape of contemporary norms, brought by the Congress of Vienna in large. We can summarize Britain’s commercial diplomacy for the first half of 19th century by Cain & Hopkins’s own words; “Free trade was seen by spokesmen for industry as a means of bringing Britain's major rivals, as well as "backward" areas and newly settled countries” (Cain & Hopkins, 1980). However it should be remembered that European Concert has been established within European powers, and despite of severe commercial conflicts to interpenetrate or protect their markets and industries, accumulated experience has been shared under favor of series of armed conflicts and different versions of European Concerts. Eventually, European system externalized rest of the world with this new order.
On the other hand, Ottoman Empire as a consequence of its economic mindset, which is diametrically opposed to European perception since 15th century, has resisted to adopt this system until 18th century. However, Ottoman late in the day decision of change had to cope with non-flexible and delicate economic system of its own. Minor deteriorations and disintegration of land regime triggered the collapse of whole economic system. Even though a considerable industrialization process occurred within the empire until the 19th century, due to internal resistance and foreign interventions such as abused capitulations, imposed commercial treaties, political weaknesses, establishment of OPDA and such restrained the transformation process and Ottoman economy de-industrialized until 1860's. However, intensified European competition and reduced import tariffs had the biggest effect. Flow of cheap European goods to Middle East increased substantially after 1820's, largely due to the peaceful nature and security in the Mediterranean region and reduced fright costs regarding the maritime technology. Moreover, commercial treaties with European countries such as Treaty of Adrianople of 1829 and Anglo-Turkish Commercial Convention of 1838 almost eliminated all import tariffs, reduced Ottoman economy into helplessness to compete (Issawi, 1980). As impact of Ottoman production was intense, unemployment increased, sources of taxes diminished, and European control of Ottoman finances intensified. Edward C. Clark clarifies this phenomenon as “an economic invasion that was aided by the diplomacy of West European consuls and ambassadors, and sanctified by largely unquestioned European arguments in favour of laissez-faire” (Clark E. C., 1974) This expression also clearly indicates how European powers utilized commercial diplomacy by means of economic invasion of Ottoman Empire and Sublime Porte was unable to response this invasion with same materials, due to lack of such instruments.

Utilization of a systematical commercial diplomacy by the Europeans have started widely in 19th century. Commercial diplomacy was used to influence political interest groups for maximizing political support domestically, for softer continuation of mercantilism, for the spread of capitalism through commercial institutions and concessions, for spreading more cautious and deceptive version of colonialism through Africa and Asia. Commercial diplomacy has also been used by free traders who influenced governments into alliances, and even going further, commercial diplomacy made the establishment of major economies as Germany possible, by the establishment of Zollverein.

Economic policies had the power to start wars and establish systems to prevent wars, to give birth to major economies and to tear governments down, to improve the prosperity, to intervene with sovereignty and much more. Europeans managed to utilize the power of commercial diplomacy as a tool to achieve their political and economic goals throughout 19th century, and succeeded it. Their success was a consequence of long and painful process, which included tons of errors. However, their trials were more than their errors, they learned from others’ experiences through commerce, they wage wars on each other, gathered in conferences to prevent repetition of their mistakes and eventually established a systematic of commerce, which they able to govern through institutions. As innovators of this new commercial system and modern discipline of commercial diplomacy, Europeans had the opportunity to impose it upon the rest of the world, as they have rehearsed on each other in 19th century. Their journey to mature
their system, of course would be interrupted twice with world wars, however they were able to took their lessons from each one and strengthen their governance system after every interruption throughout stronger system and well-established institutions.

Developing countries today are eager to imitate the “European example” in their approach to development, commerce and international relations, but do they have the same painful experience and will for this endeavor? Do they have the same cultural background? Did they go through historical, economic and commercial developments such as trade wars, liberation of trade, institutionalization, international governance, and self-induced international systems of commerce and application of democracy that created European experience of commercial diplomacy? Are these developing countries prepared to compete European powers that came to where they are today, by the virtue of “learning-by-doing” through centuries, or do they just want to play the European game with non-European way?
6. Appendix

Figure 1: Number of European MFN Clause Treaties as % of Potential between 1855 and 1875

Source: (Accominotti & Flandreau, 2008)

Figure 2: Average Openness (%), Protection (%), and Number of Treaties (% of potential, right scale)

Source: (Accominotti & Flandreau, 2008)
Figure 3: Ottoman Net Barter Terms of Trade 1796-1913

Figure 4: Looms in Ottoman Empire

Source: (Williamson, 2008) (Pamuk & Williamson, 2011)

Figure 5: Comparative de-industrialization: textile import penetration, 19th century

Note: calculations apply to cotton textiles only and that they exclude Bulgaria. Source: (Pamuk & Williamson, 2011)

Figure 6: Domestic spinning output within the 1911 borders of the Empire

Source: (Pamuk & Williamson, Ottoman de-industrialization, 1800–1913: assessing the magnitude, impact, and response, 2011)
7. References


