A Comparative Study of Foreign Direct Investment: Ottoman and Russian Empires

V. Necla Geyikdağı[1] and M. Yaşar Geyikdağı[2]
[1]Yeditepe University, geyikdagi@superonline.com
[2]State University of New York, geyikdagi@gmail.com

Abstract

As yet, a comparative study of foreign investments directed towards the Russian and Ottoman Empires does not exist. They were part of the less developed periphery of Europe during the nineteenth century. The main goal of the capital exporting countries was to market their manufactured products and acquire raw materials. By following an independent policy of high tariffs, Russia partially overcame the problem through compelling foreigners to invest for manufacturing locally. However, in the Ottoman Empire, as foreigners did not face any protectionist obstacles to sell their manufactures, foreign direct investment inflows came only to the sectors that facilitated trade.

Keywords: Ottoman Empire, Russian Empire, foreign direct investment, trade policy, protectionism

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Osmanlı ve Rus İmparatorluklarında Doğrudan Yabancı Yatırımlar

Öz

Osmanlı ve Rus İmparatorluklarında yapılan yabancı yatırımların bir kıyaslaması bugüne kadar yapılmadı. Bu yazı Avrupa'nın az gelişmiş bir çevresi olarak görülen bu iki büyük imparatorluğun son yüzyılındaki doğrudan yabancı sermaye olgusunu ele almaktadır. Sermaye ihraç eden ülkelerin başlıca amacı, bu ülkelere sanayi ürünlerini pazarlamak ve onlardan ham madde temin etmekti. Ruslar bağımsız bir ticaret politikası uygulayarak gümrük tarifelerini istedikleri gibi yükseltebildiklerinden yabancı sermayeyi tercih ettikleri alanlara çekmeyi ve ülkelerinde yabancıların sanayi yatırımı yapmalarını sağladılar. Fakat Avrupa ülkeleriyle yapılan serbest ticaret anlaşmaları nedeniyle koruyucu gümrük engelleri koyamayan Osmanlı Devleti'nde, yabancılar sanayi üretimini gerçekleştirecek yatırımlara girişmeyerek, ancak ticareti kolaylaştıracak alt ve üst yapı yatırımlarını gerçekleştirmişlerdir.

Anahtar Kelimeler: Osmanlı İmparatorluğu, Rus İmparatorluğu, doğrudan yabancı sermaye, ticaret politikası, korumacılık

1. Introduction

Foreign investment comparisons for the Russian and Ottoman Empires have so far not been made. This paper makes an attempt to fill this gap by comparing foreign capital flows for direct investments to the Turkish and Russian Empires. To this end, the industries attracting foreign investors, the location advantages as well as the attitudes of governments are to be examined. Moreover, the opportunities sought by foreign investors in Turkey and Russia are also to be looked at. Finally, we try to see how the free trade policies followed by the Ottomans and the protectionist policies of Russia influenced their economic growth. In order to have a better understanding, we must examine the historical developments which influenced their economic policies.

The Ottoman and Russian Empires have long been considered as a part of the economically less developed periphery of Europe. Although Russia started her development policies at the end of the seventeenth century under the reign of the Peter the Great (1682-1726), she still could not acquire the potential to develop sufficiently until she secured safe ports on the Baltic and Black Sea coasts and seize resource-rich lands towards the west, east and south. Peter's enormous modernization efforts paved the way for industrialization and the creation of a market economy. Catherine II (1762-1796), in the last quarter of the eighteenth century, undertook the construction of the infrastructure (essentially building roads and canals), thus rendering the producing hinterland more accessible. However, the modernization of the country was still not significantly realized as the educational development lagged behind Peter's goals. The resistance to technical education by the nobility and the church, and even from the Academy of Sciences which preferred pure scientific research to the practical applications of theory, was a major reason for the failure of his efforts to open functional technical schools. However, in the late eighteenth and early nineteenth centuries, when Paul I tried to reverse his mother's economic policies by reemphasizing the direct intervention of the state in constructing public works and directing business, he established once again good engineering education with separate military and civil engineering training (Rieber, 1990). Yet, inefficient as they were, the factories of Peter I created a training ground for skills and managerial talent for the future (Crisp, 1976). Several authors consider the time of emancipation of the serfs in 1861 as opening a new way for industrial development. Still, according to Figes (1996, p. 120), the vast majority of the Russian peasants were extremely poor and devoid of modern agricultural techniques.

The Ottomans, after having undergone severe military defeats, felt the need for technological and economic development, mainly for military purposes about a century later than the Russians. Selim III (1789-1807) initiated new educational institutions aimed at improving military technology to prevent defeats in Europe. During the reign of Mahmut II (1808-1839), a number of factories were established to produce textiles, shoes, fezzes and paper. Steam power was used to manufacture cannons and projectiles (Clark, 1974). Such efforts were considered dangerous for the traditional interests and privileges of the Europeans trading with Turkey. They formed alliances with the most reactionary members of the bureaucracy in order to oppose these reforms and sabotage them (Owen, 1993, pp. 93–94; Stanford Jay Shaw, 1971, p. 179).

Tsar Nicholas I (1825-1855) maintained that the Ottoman Empire was the 'sick man of Europe' and was doomed to collapse. In that case, he wanted to make sure that Russia would get a large chunk of the spoils. He was instigating the Balkan principalities under the Ottoman rule to rebel and enter Russian influence. At the same time, he began to support the Orthodox priests against the Latins backed up by France in the Holy sites of Palestine. His initial agreement with Britain, for the division of the spoils, in case the Ottoman Empire broke up, was not realized, and when the Ottomans rejected his bold demands, the Crimean War could not be avoided (Shaw & Shaw, 1977, pp. 136–137). According to the British commentators of the period, 'the Protectorship of the Holy Places' involved something more than was implied in the mere name. If the Tsar obtained this post he would have been the real ruler of the land, and 'the Sultan only the feudal suzerain, over his own subjects' ("The Eastern Question," 1853, p. 334).

The Russian defeat in the Crimean War, made the heir of Nicholas I, Alexander II, realize that his country had to modernize in order to keep up with Western Powers (Von Laue, 1969, pp. 5–6). In fact, the cost of the Turkish-Russian wars, in the nineteenth century, was tremendously high for both nations and severely hindered their economic development. In the end, both Russia and Turkey became heavily indebted to Europe, their debt payments making up a large portion of their budgets. They were not able to accumulate enough capital to invest in industry, and hence, were in need of foreign capital for industrialization.

2. Motives for Investment

The main objective of any investor, of course, is to earn profits. However, other motives also guide investors to attractive locations. The British, being the forerunners of the Industrial Revolution, were looking for markets to sell their machine-made manufactured products and acquire raw materials for their factories. Trade between countries increased rapidly during the nineteenth century as the use of steam facilitated sea and rail transportation. The British also wanted to have free trade agreements with the poorer independent countries that were outside of their colonies (Gallagher & Robinson, 1953; Hobson, 1902; Puryear, 1935). British diplomats and politicians worked hard to promote British trade in the Ottoman Empire and reached an agreement with the Sultan to sign a free trade agreement in 1838. Accordingly, the tariff for the goods imported from Britain to the Ottoman Empire was agreed upon at five percent of their value. Merchants had to pay a 12 percent tax when they exported goods from the country (Geyikdağı, 2011, p. 23).

Although the external trade of the Ottoman Empire quintupled between 1840 and 1870, the trade volume failed to develop to its full potential because of the lack of infrastructure. Therefore, first the British, and later the French and the Germans wanted to build railroads and port facilities to make trading easier. Roads leading to the interiors of Asia Minor would foster the sales of machine-made products there, and speed up the acquisition of raw materials. Thus, the British investors were the first ones to build railroads in Ottoman Europe (Chernovoda-Constantza and Varna-Rustchuk lines) and in the Asian part (Izmir-Aydın and Izmir-Kasaba lines) in the 1860s (Geyikdağı, 2011, pp. 78, 85).

The Ottoman state recognized the necessity of railroads for military purposes. During a period of continual strife and unrest in the Balkans, it was vital to move troops speedily. As the government had no money to build these railroads itself, foreigners were given concessions to carry out the construction and operation of these facilities. However, the concession agreements provided kilometric guarantees to be paid by the government, in case the company could not achieve the expected volume of business. In the end, the foreign borrowing of the state increased in order to make these guarantee payments.

In the second half of the nineteenth century, foreigners also invested in the mining and agricultural sectors in order to acquire the coal, ores and agricultural products their industries needed. They even bought farms to increase efficiency and secure the safe delivery of the produce. But such investments, including various commercial activities, made up only about 10-14 percent of the total foreign direct investment (FDI) between 1888 and 1914 (Geyikdağı, 2011, p. 74). To facilitate trading activities, merchants and investors needed efficient banks and insurers. Thus, the entry of such service companies increased in the last quarter of the century.

At the turn of the century, the foreign powers believed that the Ottoman Empire would fall apart. As they wanted to get a share in the bounty, they brought in capital that would prove their presence and prepare grounds for territorial and economic gains (Feis, 1930, pp. 317–318).

One can detect a multiplicity of motivations of FDI in Russia. As in most cases, the crucial factor for foreign investors was the high rate of anticipated profit. When French promoters wanted to form a coal company and buy lands in 1881, they expected at least a 10 percent profit on total capital. Again in the 1880s, when Cockerill decided to invest in the Russian steel sector, the anticipated profits were 20-30 percent on invested capital (McKay, 1970, pp. 73, 303). However, the average interest rate paid by the Russian government on its gold loans, which were traded abroad was 5.08 percent in 1885, while the average interest rate paid by the French government on the nominal value of its debt was 4.5 percent in 1883, 4 percent in 1887, 3.5 percent in 1894 and 3 percent in 1902 (MacDonald, 2003, p. 359).

As early as 1780, Russia was able to attract foreign entrepreneurs in the machinery sector. In 1792, Charles Baird established the first private mechanical factory to produce steam engines in St. Petersburg. In 1786, he had accompanied another English-speaking man who was invited to Russia to modernize iron and cannon foundries. Until the 1840s, the British banned the exporting of certain types of machinery, such as the cotton spinning machinery. But in 1785, Catherine II had the first legislation enacted on FDI, permitting foreigners to establish and operate factories in Russia on the same basis as Russian subjects (Blackwell, 1968, p. 252). The last quarter of the eighteenth century was full of economic hardships in Britain when the living standards had downward trends between 1770 and 1820 (Braudel, 1984, p. 614). Since there was a deterioration in the well-being of the British masses, a decline in real wages for farm labourers as well as workers in factories and transport, it was not surprising to see qualified people migrating to foreign lands.

While in the Ottoman lands foreigners built railroads and ports in order to facilitate their specialized trade (acquiring raw materials and selling manufactured products), in Russia, it was the state that wanted to construct such facilities. Several authors believe that at the beginning of the nineteenth century, commercial conditions were primitive in Russia. Land and water transportation means were backward (Blackwell, 1968, pp. 7–8). Slow and costly transportation made the prices of many goods prohibitively expensive. When the Tsars' military and political preoccupations were added to these economic realities, the need for the development of roads became clear.

Before the 1850s, railway construction in Russia drew mainly upon internal resources. Only the equipment and materials were purchased from foreign countries. But in the 1860s, Russian railway construction began to draw largely on foreign capital by issuing and selling bonds (Bovykin & Anan'ich, 1991). In some cases, railroads were government built and owned, and at other times they were built and owned privately. In many cases, the private companies were owned by foreigners.

In the 1880s and especially during Finance Minister Witte's period, the imposition of high tariffs for imports protected the newly growing industries in Russia in addition to increasing budget revenues. In order to attract FDI, the government used the argument that Russia was a protected market against import competition (McKay, 1970, p. 7). The government, by improving the railroad system, increased the infrastructure quality which was critically important for trade and industry. The Russian government engaged in public relations campaigns abroad, and tried to convince foreigners that investment in Russia was a great opportunity. This campaign is considered to be the main contribution of the government to development after 1885 (McKay, 1970, p. 7).

3. Location Characteristics

In order to attract foreign investors, host countries must have certain location advantages, including natural or acquired resource endowments, investment incentives or disincentives presented by host governments, as well as physical and institutional infrastructure. Nonetheless, these seemingly clear-cut requirements may not aptly put forth long-standing historical, social and economic conditions which could be very different from those in developed countries which export FDI. The Economist (1908) explains this situation as:

> The history of such countries as Russia, Persia, and Turkey shows that in uncivilized or half-civilized communities cruelty, disorder, and injustice may long hold the field, without disturbing or really imperilling autocracy. The point to be watched by the cool student of conditions in such countries – and investors are usually supposed to be particularly cool and dispassionate – is whether finance is falling to pieces, and whether economic conditions are becoming intolerable ("Turkish Crisis," 1908, p. 150).

Despite these ominous and worrisome conditions and perceptions, foreigners went ahead and invested in these countries with expectations of high profits and other reasons as explained above.

In the nineteenth century, the Ottoman Empire was getting smaller in size and declining gradually. While the Russian land size was larger than that of the Ottoman territory, it had harsher climatic conditions. The Russian population increased from approximately 41,010,400 in 1811 to 74,262,750 in 1863 and 117,800,000 in 1890. In the 1850s, the Russian birth rate was the highest in Europe with a net population growth rate of 1.22 percent (Blackwell, 1968, p. 96). Russia's population fluctuated during those years because of wars, famine and epidemics, but the overall trend was increasing. While the Russian population grew by 142 percent between 1820 and 1890, the Ottoman population growth was 100 percent, and fluctuated more than that of Russia because of long-lasting wars (McCarthy, 1995). The population estimates of both countries are given in Table 1.[1]

Table 1. Population, GDP and Literacy Estimates for the Ottoman and Russian Empires.

POPULATION (million)	**1820**	**1870**	**1890**	**1900**	**1913**
Ottoman Empire					
(Issawi, Shaw)	15-19	-	18.4	19.5	18.5
(Eldem, SIS)	23.5	29.0	18.0	20.0	21.0
Russian Empire					
(Maddison, former USSR)	54.8	88.7	110.7	124.5	156.2
(Tacitus)	15.6	84.5	117.8	132.9	165.0
GDP per capita in 1990 dollars					
Ottoman Empire (Pamuk)	680	880	-	-	1200
Russian Empire (Maddison)	751	1023	-	1218	1488
LITERACY	**1800**	**1850**	**1913**		
Ottoman Empire	2-3	-	10		
Russian Empire	3-7	21-23	35-40	(European Russia)	
			1-3	(Central Asia)	

Note. Data for the Ottoman Empire from Issawi (1980), Shaw (1978), Eldem (1994), State Institute of Statistics (Behar, 1996), Pamuk (2006); for the Russian Empire from Maddison (1995), Tacitus.Nu ("Population of Eastern Europe," n.d.), Blackwell (1968), Meliantsev (2004).

1 Population estimates of the Ottoman Empire are from Shaw (1978), Issawi (1980) and Eldem (1994). Russian population estimates are from Maddison (1995), and Blackwell (1968).

Table 1 also shows the estimates of the per capita gross domestic product (GDP) in both countries. Because of the land losses, the estimation of the GDP for the Ottoman Empire was more problematic. Thus, it does not appear in Maddison's post-1820 per capita GDP estimates for the world until 1913. However, Pamuk, using the same methodology employed by Maddison, was able to construct backwards the per capita GDP from 1950 (1913) to 1820 for the individual countries of the Middle East. All the countries in his calculations, with the exception of Iran, were under Ottoman rule before World War I (Pamuk, 2006). In Table 1, the estimate shown for the Ottoman Empire belongs to 'Turkey' covering the land area of present day Turkey. One can consider these estimates as the Ottoman per capita GDP. In the Ottoman Empire, there were regions, such as Lebanon, Syria, a part of Greece and Bulgaria with somewhat higher incomes than Turkey's, and poorer parts, such as Iraq, Egypt, Jordan, Palestine, Arabia and Serbia with lower incomes. Thus, estimates for Turkey may be considered as a reasonable average approximation for the Empire.

According to Table 1, figures of per capita GDP in the Ottoman Empire were 10-20 percent lower than those of the Russian Empire throughout those years. Yet, in the *1-1800 Maddison Project*, the 1700 per capita GDP estimate for Anatolia was 700 (the 1800 estimate was 740) in 1990 international dollars, while the estimate for the former USSR was 610 in 1700 (688 in 1800). It appears that the Ottomans started to fall behind the Russians at the beginning of the nineteenth century.

The low literacy rates in Russia and Turkey were clear indicators of backwardness. The Russian literacy rate was somewhat higher in 1800, at 3-7 percent, than that of Turkey which was 2-3 percent (Quataert, 2000, p. 169). In 1913, this rate became 35-40 percent in European Russia while it was only 1-3 percent in Central Asia (Meliantsev, 2004). As shown in Table 1, in Turkey, this rate was only 10 percent. This situation led foreigners to complain about finding qualified workers for their establishments.

Russia was fortunate to have rivers suitable for navigation. Although the construction of roads presented technical problems during Peter's reign, building canals to connect river systems was less of a problem. With the help of foreign engineers, Peter was able to link the Caspian and Baltic Seas by a series of canals, lakes and rivers (Blackwell, 1968, p. 31). At the end of the eighteenth century and early nineteenth century, the modernization of waterways had significantly advanced.

The desire for transporting passengers and troops more rapidly led to the construction of proper roads which were also used for commercial purposes. During the first half of the nineteenth century, the length of macadamized and wooden plank roads increased in Russia. According to the government report of 1850, 100 cities had been united by about 3228 miles of highways (Blackwell, 1968, p. 269).

The Russian administration was aware of the importance of railroad development for military and commercial purposes. The movement of troops to war or the quelling of rebellions would be facilitated while linking markets and ports for transporting grain, ore, coal and cloth would improve the commercial and industrial activities. With the initiation of Tsar Nicholas I, Russian railroad building began in the 1840s. According to Blackwell, the locomotives, tracks, rolling stock and the embankment of the St. Petersburg-Moscow railroad could not have been put together without the help of American engineers (Blackwell, 1968, p. 263). French and German engineers were used in building and operating these first state-controlled railways. The Russians greatly debated the usefulness of the railroads, from the Tsar down to the high-level bureaucrats, scientists, merchants and industrialists. While the Tsar had his military reasons, merchants wanted railway links, not only between the two capitals (St. Petersburg and Moscow) but also from the interiors to the Black Sea. The finance minister was worried about the construction costs. Nobles and officials argued that railroads would increase the number of tourists and revolutionaries with their dangerous Western ideas. In the end, the line from St. Petersburg to Moscow was postponed. Instead a short (27 km) Tsarskoe Selo line, from St. Petersburg to the summer resorts of the tsars in the south, financed and built by an Austrian, Franz Anton Von Gerstner, was opened in 1837. In spite of this achievement, most of the ministers were against the construction of the St. Petersburg- Moscow line for various financial, political, technical and climatic reasons. In 1842, the Tsar used his authority and ordered the building of the most direct (the shortest) and cheapest line. From 1843 until the completion of the line in 1851 five hefty loans were obtained from foreign bankers. Foreign borrowing amounted to 76,300,096 rubles and domestic loans totalled 21,980,000 silver rubles (Blackwell, 1968, p. 286). After some delays because of mismanagement, corruption and financing problems, the line was finally completed in 1851. During the 1860s, railroad construction was accelerated. Between 1869 and 1873, the average yearly construction was 1884 kilometres. From 1866 to 1899, the length of the railroad network increased from 5000 kilometres to 53,200 (Ames, 1947).

As the rivers in the Ottoman Empire were not suitable for navigation (the Nile and the Danube being the only exceptions), they could not be used for transportation even with small vessels. This has also been considered as an important disadvantage on the development of trade and production (Issawi, 1995, p. 83). Building highways was difficult in the Russian Empire mostly for climatic and technical reasons, but in the Ottoman Empire the reasons were mostly pecuniary and technological. Even in the mid-nineteenth century, camel caravans were heavily used in land transportation. In 1869, forced labour was restored and used for road building and repairs until 1889. Then, the Ministry of Public Works financed road building by levying a tax on villages adjacent to roads. Still, in 1904, the total road network was only 23,675 kilometres (Shaw & Shaw, 1977, p. 228).

Sultan Abdulmecid (1839-1861) and the European educated Ottoman statesmen of the period wanted to have railroads, as they had seen in Europe, built in the Ottoman Empire. Neither the state nor the public had the capital and expertise required for this new transport system. Thus, the building and operation of railways were left almost entirely to foreigners. Concessions were given to foreign investors who were granted monopolies to operate lines for a certain concession period. Between 1860 and 1913, 9469 kilometres of railroads (2327 km. in Europe and 7142 km. in Asia) were built and became operational. The

Hedjaz railway (1464 km) was the only line constructed by domestic resources and employing soldiers as workers. The line was financed through donations from the Muslim community and treasury subsidies and constructed with German technical assistance between 1901 and 1908 (Geyikdağı, 2011, p. 165).

There was no legislation on foreign investment in the Ottoman Empire. Capitulations had been given to foreigners from the earlier times of the Ottoman State to commercial city-states such as Ragusa, Genoa and Venice, then to the French and other Europeans since the sixteenth century to carry out external and internal trade. These privileges also exempted foreigners and "protected" minorities from Ottoman taxation and jurisdiction, giving them a competitive advantage over the Turks (Issawi, 1980, p. 5). The reforms acts of 1839 and 1856 aimed at assuring the Western Powers that all Ottoman subjects would receive equal treatment under the law, guaranteeing the security of life, honour and property, public trials according to regulations, and an orderly tax system of fixed taxes to replace tax farming (Davison, 1973, p. 40). In 1850, the British Ambassador, Sir Stratford Canning, urged the Sultan to obtain external loans and carry out the reforms proposed years ago. The reform act of 1856 also granted foreigners the right to buy land. The entire coast of Asia Minor could be bought up by the Europeans without much cost and 'would eventually become the great outlet for English and German colonization, and without loss of nationality' (Jenks, 1927, pp. 297–298). To facilitate economic transactions, and to further assure foreigners, codes patterned on Western laws were enacted. The commercial code was promulgated in 1850 and the commercial procedures code for mixed courts followed in 1861. The maritime commerce code which was basically taken from the French law was legislated in 1863 (Davison, 1973, p. 40).

In Russia, there appears to be more legislations and restrictions on foreign traders and investors than those of the Ottoman Empire. Although, Catherine II legislated the urban statute of 1785 permitting foreigners to set up factories subject to the same rules as Russian citizens, under Nicholas I, imperial edicts made it increasingly difficult for foreigners to establish and operate factories in Russia. In 1807, a law was promulgated to restrict the activities of foreign merchants requiring them to register as 'foreign merchant' and delineating their trading activities as wholesalers, importers and exporters, and permitting them to solely operate in their registered areas. In 1824, there were more restrictions on the activities of foreign merchants and entrepreneurs who could not buy or rent any kind of factory without the permission from the Tsar himself (Blackwell, 1968, p. 247). The lack of a unified legal code was also a major problem for foreign businessmen even at the end of the nineteenth century. Different regions of the Empire (Finland, the Baltic Provinces, Poland etc.) practiced, at least in part, different legal norms. Even in European Russia, the legal code was not a systematically coherent one (Weeks, 2011, p. 120).

The reign of Nicholas I, notorious among foreigners for creating a highly restrictive system, had a bothersome police surveillance and bureaucratic harassment. According to economic historians, there was a remarkable contrast between the Russian system and 'the capitulations in Turkey, extraterritoriality of China, or the Mixed Courts of Egypt' (Blackwell, 1968, p. 248). This situation ended with the Russian *ukaz* (edict) of 1860 which gave permission to foreigners to enter to Russian merchant guilds on equal terms with Russians, and own and bequeath real and personal property. Then, in the 1860s and 1870s, there were important developments such as expanding internal markets and the railway system. Foreign capital played an important role in these developments. With more liberal policies and an encouraging legal environment, foreign entrepreneurs brought not only capital, but also technology and managerial expertise. Between 1880 and 1900, foreign capital in Russia increased 13 fold, from 48 million rubles to 628 million (McKay, 1970, p. 28).

Sergei Witte became the Minister of Finance in 1892. Coming from the people he had a more realistic knowledge of the country and was neither conservative nor liberal (Troyat, 1991, pp. 82–83). He established a state monopoly on liquor, successfully borrowed from the French financial markets and with a sudden devaluation of the ruble, was able to create new capital which not only saved the existing industries but also created new ones. The French and the Belgians established numerous enterprises. However, the 1905 defeat of Russia against Japan led to a severe economic crisis which eventually led to Witte's dismissal in 1906 (Troyat, 1991, p. 212). During his ministry, major changes in government bureaucracy were created. Witte brought the informality of modern business to the ministry. The establishment of new foreign enterprises was laid in the hands of the Committee of Ministers. In the absence of a comprehensive economic legislation, it was difficult to pass decisions, and "jurisdictional complications were aggravated by the vagaries of official nomenclature" (Von Laue, 1969, p. 75).

4. FDI Inflows by Nationality and Industry

Finding comparable estimates for Turkey and Russia have not been easy. Even the most careful estimates are not totally accurate. Major calculations in both countries are based on common stock capital. When shares are not registered in name, and in the anonymous bearer form, it was difficult to follow the movement of such shares. In some other cases shareholders kept their shares with custodians in another country or in different European financial centres if the principal market for the given security was there. One has to keep in mind that the figures are just estimates.

The estimation of FDI figures in the Ottoman Empire suffers from these general sources of errors, being generally based on the examinations of European researchers at the turn of the century. One of the most important works is *Manuel des Sociétés Anonymes Fonctionnant en Turquie* by E. Pech, a statistician who worked for the Ottoman Bank. The updated editions of this study came out between 1904 and 1911, as the number of firms increased, and mergers and liquidations took place over the years. *Manuel* still left out many companies that were not corporations. Only the publicly incorporated firms were included, giving the number and nominal prices of shares, their loans, and the details about the owners and operations (Pech, 1906). Other companies such as the limited liability firms and some small partnerships were not included. There were several such companies around Izmir and Istanbul. *La France à Constantinople* by Ernest Giraud, the head of the French Chamber of Commerce in Istanbul is another source that evaluates French investments (Giraud, 1907). There are also specialized studies that probe into a single enterprise in detail. Vedat Eldem, Orhan Kurmuş and Şevket Pamuk supplied further data to improve the FDI statistics in the Ottoman Empire.

Russian figures in Table 2 are taken from one of the tables of John P. McKay's book, *Pioneers for Profit* that was based on the computations of P.L. Ol' and additional work by L. Eventov (McKay, 1970, pp. 26–27). Eventov, later, added the yearly figures of the Ministry of Finance on the total capital of all corporations after 1888. Foreign capital was highly important for the Russian industry during the nineteenth century, and the Russian officials paid great attention to these inflows. Thus, the Russian estimates look somewhat better and more comprehensive than the Ottoman ones.

Since the eighteenth century, foreign investors were attracted to this large and growing Russian market and industry for profit and some other reasons such as a lack of entrepreneurial and employment opportunities in their native lands. As seen in Table 2, in 1888, the FDI stock in the Ottoman Empire was about 55 percent of that of Russia, and in 1914 it was 42 percent of the Russian FDI stock.

Table 2. FDI in the Ottoman and Russian Empires (in thousand £).

	1875	1888	1914
Ottoman Empire	-	15,825	82,406
Russian Empire	11,856	28,528	196,237

Note. Data from Geyikdağı (2011), and McKay (1970).

Although the FDI inflows to both countries were increasing before World War I, flows from the major capital exporting (home) countries were changing direction under the influence of political considerations.

In the Ottoman Empire, as the share of British investments declined from 56.2 percent in 1888 to 14 percent in 1914 (although the absolute numbers increased from £8,895,000 to £11,516,000), French investments increased from 31.7 percent in 1888 to 45.3 percent in 1914 (from £5,020,000 to £37,383,000 in absolute terms). Before the mid-nineteenth century, the British came to understand the importance of the Ottoman trade for their welfare. During his term, as the British ambassador in Istanbul (1842-1858), Sir Stratford Canning worked hard to promote trade and convince the Turks to borrow from the West in order to carry out reforms and survive as an independent state.

Since the acquisition of raw materials was very important for the British, they had to invest in agricultural production abroad. As they did not want to be entirely dependent on American cotton as raw material for their cloth industry, in the late 1840s, they started to promote cotton cultivation in India and the Ottoman Empire. In order to make cotton production more efficient, they formed a partnership called the Asia Minor Cotton Company in 1856 (Kurmuş, 1974, p. 20). They imported American cotton seeds, and fought against plant pest and diseases. They brought instructors and distributed publications issued by the British Cotton Supply Association. They even considered digging up canals from the Euphrates and Tigris rivers for both irrigating cotton fields and shipping the crop ("Cotton Growing in Turkey and Syria," 1861, p. 5). Representatives of the British cotton industry purchased large farms in western Anatolia and grew cotton themselves. According to one estimation, a third of the agricultural lands around Izmir, belonged to the Europeans. In 1878, 41 British merchants owned half of that land (Owen, 1993, p. 114). *The Manchester Guardian* ("The Turkish Cotton Crop," 1913) reported that an Englishman J.H. Hutchinson brought a steam cultivator from England to be used in his land 25 miles from Izmir. This was the first application of steam power to agriculture in Anatolia. The 1863-64 season was most favourable and encouraging for cotton producers in the region. British traders built plants that would clean and bale the cotton. In 1870, 34 plants were established in towns along the Izmir-Aydın Railroad which used more than 700 steam-powered cotton gins (Kurmuş, 1974, p. 86).

Table 3. FDI in the Ottoman and Russian Empires by Home Countries.

OTTOMAN EMPIRE				
	1888		1914	
HOME COUNTRY	(thousand £)	%	(thousand £)	%
France	5,020	31.7	37,383	45.3
Britain	8,895	56.2	11,516	14.0
Germany	166	1.1	28,007	34.0
Others	1,744	11.0	5,500	6.7
Total	15,825	100.0	82,406	100.0

RUSSIAN EMPIRE				
	1890		1915	
	(thousand £)	%	(thousand £)	%
France	9,698	33.0	62,833	30.7
Britain	4,707	16.0	51,955	25.3
Germany	10,867	36.9	42,177	20.6
Others	4,139	14.1	48,034	23.4
Total	29,41	100.0	204,998	100.0

Note. Data from Geyikdağı (2011) and McKay (1970).

The British also invested in some food processing facilities such as flour mills, and plants for extracting cooking oil from olives. Since liquorice had a wide and profitable market in Europe and America, a British company was established in 1880 to collect the roots of the liquorice plant in extensive leased lands in southeastern Anatolia, and established a processing facility in Iskenderun (Alexandretta) (Kurmuş, 1974, pp. 140–145). In the 1860s, the British also invested in carpet weaving. As other Europeans were also interested in carpet trade, the number of merchants who provided threads and other materials to the weavers kept on increasing. The British came ahead in the competition and had a virtual monopoly in the 1880s (Issawi, 1980, p. 307; Kurmuş, 1974, p. 129).

The trade and production companies around Izmir needed the support of service firms such as insurers. In the early 1860s, the London-based Sun Fire Office opened a branch in Izmir to insure especially against fires, and the British-owned Ottoman Financial Association was set up to extend credit to small producers. Although the British presence in the banking sector was limited, they were, nevertheless, influential by being one of the two partners of the Ottoman Bank. There were also some investments to provide urban services such as public transport and lighting systems in Izmir, and other trade and construction companies in other large cities (Pech, 1911, pp. 132, 150, 152).

Some researchers believed that the decisions of French investors were influenced and controlled by the French Government and large financial institutions. Therefore, they were under the influence of sentimental and political developments (Feis, 1930, p. 50). The interest of the French in the Ottoman lands had a longer history compared with that of other Europeans. A number of small French companies started in the 1840s and 1850s, but the majority was established after 1870. The oldest French company in the Ottoman Empire was l'Administration des Phares de l'Empire Ottoman, a lighthouse builder and operator. According to the agreement between the concession holder and the government, 40 lighthouses (36 on the Black Sea and the Dardanelles and four at the mouth of Danube) were to be built. However, between 1855 and 1914, the company constructed and maintained much more than this amount all over the Empire. In the early 1900s, there were 153 lighthouses that made the French Chamber of Commerce in Istanbul proud of the services rendered to navigation in this country (Giraud, 1907, pp. 176–177).

Table 4. FDI in the Ottoman and Russian Empires by Industry.

	Ottoman Empire (1914)		Russian Empire (1915)	
	(thousand £)	%	(thousand £)	%
Mining	2,700	3.27	80,667	39.35
Banking	14,788	17.94	28,471	14.02
Insurance	460	0.60	574	0.28
Commerce	5,000	6.07	1,701	0.83
Transport	-	-	943	0.46
Railways	48,373	58.70	-	-
Ports	4,025	4.88	-	-
Local Utilities	4,150	5.04	20,233	9.87
Industry	2,910	3.53	-	-
Machinery	-	-	33,497	16.34
Textiles	-	-	18,245	8.90
Chemicals	-	-	8,548	4.17
Food Processing	-	-	3,997	1.95
Others	-	-	7,831	3.82
TOTAL	82,406	100.00	204,998	100.00

Note. Data from Geyikdağı (2011), and McKay (1970).

Another French company, set up just before 1870, was Société des Quais de Smyrne, initiated by the British, but built and operated by the French. Compagnie des Eaux de Constantinople, with the goal of bringing water to the city, was established as a joint stock company in 1877 by several French enterprises operating in this county (Pech, 1911, p. 203; Thobie, 1977, pp. 148–149). In the 1890s, the French bought a British railway (Izmir-Kasaba) and intensified investments in Syria and Palestine. The reason behind this expansion was to prevent the rise of Germany in the Middle East and to create a French sphere of influence in Syria and the Holy Lands (Feis, 1930, pp. 208, 334). The French ambassador's main concern in Istanbul was to keep the Ottoman Bank under French control, to assist the French industrial investments, and to increase French exports to the Ottoman Empire (Fulton, 2000, p. 685). After 1888, French investments grew in banking, insurance, mining, and seaports and railway construction and operation.

When Germany became an empire after the 1871 Versailles Treaty, it began to direct its attention to economic development, like other Western powers. In 1879, Germany set up protective tariff barriers, and began to import industrial raw materials and export a variety of manufactured goods. With the country's rapidly growing population, Germans were looking for places in other lands to emigrate. Two economists, Friedrich List and Wilhelm Roscher influenced German economic thought and laid down the foundations of German emigration (Baglione, 1993). Roscher recommended the acquisition of colonies by the Germans, and settling Germans in those fertile lands, as the British did. In this way, the Germans remaining in the homeland would then have a 'living space', (*lebensraum)* (Roscher, 1878, p. 369).

Alois Sprenger wrote in his book, published in 1886, that Asia Minor was the only piece of land that had not yet been monopolized by a European power. It would make a superb colony and, before the Russian Cossacks grab it, Germany had to secure this 'best part in the division of the world' (Henderson, 1948, p. 56). Then, in the 1870s, the German traders were entering the Ottoman markets in a more organized manner. *The Times* evaluated the growth of German penetration into these lands, stating that ten years ago, finance and trade were the quasi-monopoly of Britain and France. A decade later, the Germans had become, by far, the most active group. German traders in large numbers travelled in the Ottoman Empire, inquiring about the people's needs and demands so as to make their orders accordingly. The paper also gave information about the activities of German firms in providing the Ottoman Army with weapons (Earle, 1923, pp. 36–37). Other British periodicals such as *The Economist* and *The Observer* published similar articles, and described how the German entrepreneurs, bankers, merchants, engineers, ship and railroad constructors had laid down the foundations of ever-growing German investments in the Ottoman dominions ("Germany and the Near East," 1900, p. 7; "Turkish Railways and the British Trade," 1899,

p. 385).The German government tried to have a political alliance with the Ottomans in order to facilitate the securing of concessions to exploit the country's resources. The Bagdad Railway would be the central part of this setup. 'To the more ambitious and aggressive elements in Germany this railway was undoubtedly regarded as marking out a field of empire, a penetrative agent in foreign regions that would fall under German domination' (Feis, 1930, p. 318). As shown in Table 3, the share of the FDI stock from Germany increased from barely more than one percent in 1888 to 27.5 percent in 1914.

Among the other investments, the Belgian contribution was the most prominent. The Ottomans had basically imported products like sugar, glass and textiles from Belgium. But in the second half of the nineteenth century, the bulk of the imports consisted of steel products and machinery. Rails for railroad construction, locomotives, coal and rifles were imported from that country. When a new fez factory was established in 1855, on an 8000-square-meter plot on the Golden Horn, the designers were Belgian experts. In 1890, the Cockerill Company obtained from the government a concession for building a railway from Samsun on the Black Sea to Sivas in central Anatolia. The political games played by the Russians, French and Germans made it impossible for the Belgians to put this project into effect despite their technical superiority (Thobie, 1993, p. 81). The years from 1890 to the First World War were very successful for Belgian firms in railroad construction as well as urban transportation. Belgian capital and technology were employed to build urban transportation facilities (streetcars and tramcars) in many countries including the Ottoman and Russian Empires (López, 2003).

The Italians did not have FDI of any importance in the Ottoman Empire. Yet in 1913, they were able to obtain a concession to construct a railway, between Antalya on the Mediterranean and Konya in the interiors, a feat that won the appreciation of even the Russian press ("Italy in Asia Minor – Valuable Turkish Concessions," 1913, p. 640). The Italian government, like other European governments, was trying to encourage entrepreneurs to invest in Turkey in ways that promoted the political ambitions of the Italian government, including territorial claims (Bosworth, 1996, p. 64).

Just as it was the case in the Ottoman Empire, Russian statistics on FDI in the early nineteenth century do not exist. Researchers try to gather information and evaluate the earlier investments by scrutinizing some individual concerns. Similar to the Ottoman situation, the majority of the foreign enterprises before 1860 were in trade (Blackwell, 1968, pp. 242–243). Although the foreigners nearly controlled Russia's external trade in the first half of the nineteenth century, Russian industry was dominated by the Russian private and state capital. Still, many important FDI activities took place early in the nineteenth century. However, the bulk of foreign enterprise, before 1860, was commercially oriented with investments to make trade easier. French, British and German entrepreneurs dominated trade and investments. The French businessmen in Russia were mostly in the production of consumer goods, the luxuries which the Russian upper classes demanded.[2] The British enterprises were engaged in importing and producing industrial machinery. The German capital owners put their money in banking to finance Russian industry.

Since 1818 Baring and Company was marketing Russian bond issues in England. This company maintained its good relationship with the Russians even during the Crimean War. Following the peace treaty, together with other European bankers from Amsterdam, Warsaw, Berlin and Paris, including Péreires and a contingent of French bankers, all connected with Crédit Mobilier, Baring undertook to finance a network of five great trunk railways, almost 1500 miles in European Russia (Blackwell, 1968, p. 244; "Russian Railways – Will They Float?," 1856, p. 1257). Forming one of the earliest joint stock companies to operate in Russia, and securing the support of the Russian government the Grande Société des Chemins de Fer Russe was established to complete the whole construction in ten years at the total cost of about

2 In the 1840s, two Parisians, Henri Armand and Joseph Frédéric Dutfoy, established a crystal shop in St. Petersburg. The son of the latter founded a chemical factory specialized in perfume production (Claeys, 2015).

£40,000,000.[3] *The Economist* article stated that the lines would connect all the important producing districts of Russia to the ports and frontiers and would bring benefits both to producers and consumers in this country. It also emphasized that in the event of another war the railroad would 'afford great facilities to Russia in moving troops and conveying food' ("Russian Railways – Will They Float?," 1856, p. 1257).

Because of the export prohibition of textile machinery from England, English-speaking foreigners had established factories for producing textile and other machinery since the last quarter of the eighteenth century. One of those establishments was Baird's machine factory which employed 1200 workers in the 1860s. In the large state factories producing locomotives and machinery, it was the foreigners who planned for the organization of production and the quality of equipment. The large machine factories bore foreign name plates such as Carr and MacPherson, Harrison and Winans, Wilkins, Berman, Ellis and Butts and Tate (Blackwell, 1968, pp. 62–64).

According to McKay (1970, p. 35), 71 percent of all English investment was in the extractive industry (73 percent of all foreign investment in the gold-mining industry being English). The author finds this orientation of the English investment toward the extractive industry and the export of raw materials to have a 'colonial' character. When, in 1908, the British bought the Lenskoie gold mines of which the Russians were very proud, it was thought that the mine had been handed over to English capitalists. The new Lena Goldfields Limited Company's financial report for the year stated that the company achieved 'not only the largest output of any individual gold mining company in Russia, but showed a result unparalleled in the annals of alluvial gold mining' ("Lena Goldfields, Limited," 1909, p. 1114).

Until the 1870s, the Baku oil wells were poorly operated by the Russian state. Baku's ancient petroleum extraction facilities were behind

3 *The Economist* ("Russian Railways," 1857, p. 195) gave the news of signing of the contract, stated that the capital was 275,000,000 rubles (about 45,000,000 pounds sterling).

America's industry which developed rapidly after Edwin Drake found oil in Pennsylvania in 1859. The Russian state allowed private enterprises to develop the oilfields and operate refineries. The Nobel Brothers Petroleum Company dominated the industry between 1877 and 1883 (McKay 1984, p. 607). The British investment had its largest surge in the Baku oil industry between 1896 and 1900. The heavy investment in the oilfields of Azerbaijan continued from 1908 to 1914 (McKay, 1970, p. 37). As seen in Table 3, while the share of the British investments in the total was only 16 percent in 1890, it rose to more than 25 percent at the beginning of World War I. Almost all of the investments in the twentieth century seem to be in the extractive industry.

The French had the highest share of FDI in Russia in 1915, about 31 percent of the total.[4] These investments were somewhat more diversified than the British investments. Still, one fifth of the total was in the extractive industries. The total value of the investments in the production of steel and machinery was six fold the British investments in these industries (McKay, 1970, p. 34).

Despite the success of the initial iron industry in the eighteenth century, Russia failed to adopt the methods of the industrial revolution. When iron production stagnated until the 1860s, the government encouraged new producers in both northern Russia and Poland to build modern steel producing facilities, and foreigners, seeing the potential for profit, began to establish a large steel industry in southern Russia. In 1877, La Société de Terrenoire, a leading French steel producer together with George Baird, founded the Alexandrovskii Steel Company to make steel rails for the expanding railroads. French engineers equipped with the latest technological knowledge installed highly efficient furnaces and rolling mills to convert English pig iron into high quality steel rails (McKay, 1970, pp. 114–116).

Another important French company was Hata-Bankova which entered the Russian steel market by purchasing a Polish ironworks com-

4 Valery Bovykin (1990) gives the distribution of foreign investment in Russia on the eve of World War I, by countries as 31.2 percent French, 24.3 percent British, 19.8 percent German and 14.4 percent Belgian.

pany in 1877. A third French enterprise in steel making was the Franco-Russian Ural Company, founded in 1879 (McKay, 1970, p. 116). This was one of the first attempts to make steel rails in the Urals where transportation proved to be difficult. Most producers preferred southern Russia for its more suitable transportation conveniences. In 1900, only four of the 17 successful iron foundries were owned and managed by native capitalists. In this part of the country, foreigners had 20 enterprises, working up iron in its many forms ("Foreign Mining Capital in Russia," 1900, p. 13). The Ural area was not able to attract foreign capital in spite of large deposits of minerals, because of the lack of suitable transportation methods between the iron and coal districts. Even in the 1880s, a member of the Russian Imperial Academy of Sciences complained that such transportation problems were the major obstacle for the development of the Russian industry (Besobrasof, 1886, p. 149).

Another sector in which the French had the highest share was banking. As interest rates declined in Europe at the end of the nineteenth century, foreigners continued to bring their cash to Russia. During the 1890s, most foreign banks were formed as joint ventures and raised their capital from both Russian and foreign sources. The foreigners' most significant contribution was the dynamic entrepreneurship that the host country lacked. French capitalists owned a large and increasing percentage of the capital stock of Russian banks after 1906. Just before the Bolshevik Revolution approximately 44 percent of the capital of Russian banks was in foreign hands, the French having 22 percent of the total, the Germans 16 percent, and the English 5 percent (McKay, 1970, p. 234). These foreign bank establishments were acting as investment bankers, commercial banks, and supporters of organizations. The French investors were putting their capital into the shares of Russian banks, which, in turn, were investing in the Russian industry (Crisp, 1976, pp. 149–150). Although the foreigners kept contributing to the Russian industry this way, it is often alleged that it was concentrated in the hands of foreigners.

The Belgian FDI inflows to Russia briskly increased during the 1890s, from 17.1 million rubles in 1890 to 220.1 million in 1900, and

230.4 million in 1915. The Belgian investment in steel production was second only to the French, and twice as much as the German investment, and 4.5 times that of the British (McKay, 1970, p. 36). As was the case in the Ottoman Empire, the Belgian investors were active in local utilities. Almost all streetcar companies were owned by the Belgians. In the electric lighting of cities, they also played an important role. Together with the Germans, the Belgians shared a prominent position in the electric equipment production used in electric utilities. One of the well-known companies of Belgium was the John Cockerill Company from Liége which established two major companies in Russia: The South Russian Dnieper Metallurgical Company (1888), and the Almaznaia Coal Company (1894). The former company was a very successful steel producer, often paying very high dividends (40 percent on par value between 1896 and 1900). The second one, which was a coal and coke producer, expanded into metallurgy. It could not survive the recession of the early 1900s, and went bankrupt in 1904 (McKay, 1970, p. 298).

German investments usually went to the neighbouring countries, thus being concentrated in Poland, the Baltic provinces, and around St. Petersburg. The Russian cotton industry depended on the industrial revolution in England. Without the cheap yarn and the machinery imported from Britain, the Russians would not have been able to produce the finished product for their mass market. It was through the efforts of foreigners, such as Ludwig Knoop, that the Russian factories received financing and equipment. Knoop was a pioneer businessman who, in 1852, founded his company, L. Knoop & Co. in Moscow and St. Petersburg, and created a network that led to the expansion of Russian cotton and wool textile production. He was a German born in Bremen, and arrived in Russia in 1839 before he was 20, then became a Russian citizen and a Baron, and remained in his adopted country until his death in 1894, but was considered a foreigner by most Russian historians (Blackwell, 1968, p. 242). He effectively helped to equip 122 textile mills in Russia including the largest mill in the country, and one of the largest in the world by the end of the nineteenth century (Thompstone, 1984, p. 45). His companies provided not only machinery from

England, but also managers and technicians as well as raw cotton for the Russian factories. Besides this best known entrepreneur, there were other German and Swiss textile mill owners who brought machinery from their home country. In the 1850s, textile factories in Latvia and Estonia were under German control, employing machinery and craftsmen from Germany (Blackwell, 1968, p. 69).

German investment in chemicals started in the 1880s, and gained strength afterwards. Germans had companies such as Badische Anilin und Sodafabrik, Friedrich Bayer und Kompagnie, A.G. Für Anilin Fabrikation Berlin-Treptow, Moskau Farbewerke, and Schering, while the French had Lubimov-Solvay, a subsidiary of a leading producer in heavy chemicals until 1914. The Russian Dynamite Company of the Nobel syndicate was the first company to produce dynamite in Russia. The Hartmann Machine Company founded in 1896, became one of the most efficient locomotive producers in Russia, and an exporter after 1907 (McKay, 1970, pp. 51–52, 171).

5. Concluding Remarks

Meliantsev (2004, p. 107), studying the Russian economic development in the long run, wonders why Russia, despite many efforts and a hecatomb of sacrifices since the reforms of Peter the Great has not been able to catch up with the West while even small Asian countries such as South Korea and Taiwan, were able to achieve it. One can also wonder how the Turks survived, albeit very poorly, despite the free-trade policies (devoid of tariff increases to protect infant industries) and antiquated capitulations used by the Europeans “to keep the Turk in his place” (Stanford Jay Shaw & Shaw, 1977, p. 236). It seems that the financially extenuating political and military conflicts between these two countries were a major reason behind their backwardness. To meet the heavy war expenses, the governments of both countries borrowed heavily from the West, and capital accumulation and industrial development were hampered despite a great desire for industrialization in both lands.

Since the end of the eighteenth century, the Ottoman Empire was at war either to defend herself against the steady encroachments of the

Great Powers or to thwart insurrections of the non-Turkish peoples of the Empire. During the peace negotiations after World War I, the French prime minister expressed his opinion to his Ottoman counterpart about the cost of these wars. He explained that since the Napoleonic Wars, the Ottomans were at war for 57 years. While the European average was only seven years, the Russians were at war for 13 years, 12 of which were with the Ottomans. Maintaining about one million soldiers, clothing, feeding, and equipping them with weapons, was very burdensome. These soldiers could instead have been active workers in production, thus contributing to the national product. In the French prime minister's opinion, the Ottoman people would have been much wealthier if they had fought only seven years like the rest of Europe (Kazgan, 1991, p. 33).

While the declining Turks were on the defensive, the Russians were bent on aggression and conquering new lands, spending huge amounts for warfare. When the reformer Sultan Mahmut II eliminated the ineffective Janissary corps of the Ottoman military forces in 1826, he found European allies actively helping the Greek rebels against the Ottomans. Joint navies of Britain, France and Russia attacked and destroyed the Ottoman fleet in 1827, upon which the Russians ended a war in Persia, this time to start a new war in 1828, against the Ottomans before they had time to create a new army. It was not difficult for the Russian Army to advance in the Balkans when the Allied naval blockade continued to block the supplies to the Turks. They also moved towards Eastern Anatolia with the assistance of the local Armenian populace (Stanford Jay Shaw & Shaw, 1977, p. 31). In the 1840s, the Russians were busy again with insurrections in Poland and the Caucasus. However, after the Turks, the Swedes and the Persians lost large and valuable territories, the Poles and the Hungarians were crushed, and revolts in the Caucasus were put down, the Russians erroneously believed that their huge war machine was invincible. In 1855, with their Crimean War defeat, the Russians realized the grim fact that a modern army could not be sustained without a modern industry. The Crimean War wrecked the Russian economy, costing well over a billion rubles (Blackwell, 1968, p. 185). When the Ottoman Empire adopted a constitutional regime in 1876, the Russians, expecting some positive reforms which were likely to strengthen the country, wasted no time in attacking again both from the Balkans and the Caucasus, creating a tremendous cost in life and material. Educated Russians obviously saw the consequences of such policies. A special correspondent (Russian) of *The Economist* complained, in 1898, that the previous year's harvest was very low, ruining a great part of the population under heavy taxes. To pay the high taxes on land as well as the excise and import duties, the peasants were selling their own corn and cattle. But, the government did not acknowledge the famine in Russia; "it did not relieve the millions of people that were near starvation in many districts…But instead spent 90 million roubles in new warships" ("Russian Iron Industry in 1897," 1898, pp. 764–765).

Almost all of the earlier FDI in the Ottoman Empire were for commercial purposes as the Europeans assigned a specialized production and trade activity for this country. The Ottomans had to produce raw materials for the European industries, and buy manufactured products of these industries as expedited by the 1838 Trade Agreement. The impoverished Ottoman people, who could not afford the high-quality but more expensive traditional textiles manufactured by the local craftsmen, bought instead the cheaper imported cloth. During the process, cotton, silk and other textile exports to Europe and the East declined while other local industries dwindled, and the country underwent de-industrialization as a consequence (Geyikdağı, 2011, p. 165; S. Pamuk & Williamson, 2009).

In order to increase the production of agricultural raw materials, foreign merchants bought land in the Ottoman Empire, established farms, imported machinery, and set up plants for the effective production of raw materials and finished goods. Then, it was necessary to build railroads and seaports to facilitate the transportation of goods to the markets. Such infrastructure building was done by foreigners for foreigners. In order to provide service to these foreign enterprises, banks and insurance companies also came from the capital exporting countries. In the major cities, there was a demand for urban services such as water, electricity, gas and tramways by both the ever-increasing foreign population and local administrators. Materials used in the construction of the infrastructure were imported from Europe. At the end of the nineteenth century, modern European stores and some consumer goods manufacturing facilities were established to meet the needs of the foreign and local elites in the major cities.

The Ottomans had not shown any concrete desire to attract more FDI to their country. When foreigners wanted to make investments, they simply allowed them by giving concessions. But, on 6 June 1880, the minister of public works Hasan Fehmi Pasha presented a report to the Sultan that emphasized the necessity for accepting foreign capital for building infrastructure. He thought that the government needed the help of foreign engineers and capitalists to exploit the huge untapped assets that were lying dormant in the rural areas, forests and mines of the Empire. After this date, some of the public works mentioned by the minister were realized. However, these works were carried out, almost always, under the influence of diplomatic pressures or financial needs, but never for the consideration of public utility or necessity (Morawitz, 1902, pp. 185–186).

The Russian government, on the other hand, played a very active role in industrial development after 1885. Witte, the finance minister, in the 1890s, planned and directed the Russian development policies that created a decisive change in governmental attitudes. Industrial development became a central goal of the state. Russian economic development was always directed by political authority for political goals (Gerschenkron, 1965, pp. 145–150). The government provided high tariff protection for its infant industries and also tried to convince foreigners that such high tariffs created a protected market with high profits, and without the competition of foreign imported goods. This left the foreigners no choice but to produce in Russia. Railroad building created employment for thousands of workers as well as enabling the exploitation of distant regions and connecting industrial facilities and markets. With new railroad constructions, the extent of Russian railroads increased from 18,600 miles in 1889 to 35,000 miles in 1901 (McKay, 1970, p. 7). The Russian government was also engaged in a vast public relations campaign to get the support of its own people as well as enlisting foreigners to invest in the 'attractive' Russian market.

Although the early FDI in Russia were mostly in textiles and machinery, after the 1860s foreigners showed an increasing interest in mining, and railroad construction and operation. As seen in Table 4, while in the Ottoman Empire the largest share of investments was in the railway companies, encompassing 58 percent of the total FDI stock in 1914, in the Russian Empire the major share was in mining, almost 40 percent of the FDI stock in 1915. Yet, more than 35 percent of the FDI in Russia was in the industrial sector. The share of investments in the industry made up only 3.5 percent of the total in the Ottoman Empire. This shows that in Russia foreigners were not simply extracting minerals but also producing industrial and consumer goods.

In his secret memorandum to the Tsar, on 22 March 1899, Count Witte expressed the need for foreign capital in implementing the economic policies he proposed. His recommendations on attracting FDI to the country were much stronger than the ones in the report of Hasan Fehmi Pasha to the Sultan. In the memorandum, Witte emphasized the need for a change in Russian exports from raw materials to industrial products. He wrote:

> Economic relations of Russia with Western Europe are fully comparable to the relations of colonial countries with their metropolises. The latter consider their colonies as advantageous markets in which they sell the products of their labor and of their industry and from which they can draw with a powerful hand the raw materials necessary for them…Russia is an independent and strong power. She has the right and the strength not to want to be the eternal handmaiden of states which are more developed economically (Von Laue, 1954, p. 66).

Then, relating industrialization to political power, he asked the 'firm support' of the Tsar to the economic system that he presented in his memorandum. At the end of this document, he again stressed the necessity of 'influx of foreign capital' in order to develop Russian domestic production. The Russian government enrolled foreign businessmen for the cultivation of a favourable investment image of Russia. Through this public relations campaign, the government tried to convince foreigners that Russia was a 'golden investment opportunity'. This was seen as the principal contribution of the government to the economy after 1885 (McKay, 1970, p. 78).

Since the motivations and the sectoral distribution of FDI flowing to both countries were so different, a naïve comparison of per capita FDI becomes irrelevant. The major contrast lies in the main sectors where the investments were made. In the case of Russia, investments in mining, machinery and textiles were conducive to technological progress whereas investments in agriculture and trade in Turkey took resources away from industrial activities. In Russia, it was possible to generate complementary domestic investment and achieve a much higher multiplier effect for the economy in addition to internal and external economies of scale. Turkey lacked such complementary additional investments as foreign investors essentially preferred to transfer their profits rather than reinvesting in the country, and since agricultural goods producing peasants spent their incomes on imported clothes and other imported products, the multiplier effect was probably very negligible. This situation, as an example of specialized export development, is very similar to what Hans Singer explained in 1950. 'The main secondary multiplier effects, which the textbooks tell us to expect from investment, took place not where the investment was physically or geographically located but (to the extent that the results of these investments returned directly home) they took place where the investment came from' (Singer, 1950, p. 475).

In the end, the Russian policy, closing the domestic market to foreign imports by high tariffs, and channelling FDI to sectors such as textiles and machinery, worked quite well. This could be considered as a nineteenth century version, if not a forerunner, of the import substitution industrialization policy which was recommended to developing nations after World War II. With the indefatigable efforts of Witte, and the catching up momentum, Russia achieved unprecedented high growth rates between 1890 and 1900. While the growth of industrial production was 7 percent in Russia during the last decade of the nineteenth century, this rate was 4.3 percent in Germany, and 3.8 percent in the United States (Fischer, 1994, p. 223). In the Ottoman Empire, foreigners were selling all kinds of goods produced in their countries without restrictions, and they were not interested in the production of such goods locally.

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