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POLITICAL ECONOMY of DEVELOPMENT BANKING AFTER WORLD WAR II: ANALYSIS of the INDUSTRIAL DEVELOPMENT BANK of TURKEY DURING THE 1950-1953 PERIOD

GÜLÇİN MANZAK

SEPTEMBER 2009

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A THESIS SUBMITTED TO
THE GRADUATE SCHOOL OF SOCIAL SCIENCES
OF
MIDDLE EAST TECHNICAL UNIVERSITY

BY

GÜLÇİN MANZAK

IN PARTIAL FULFILLMENT OF THE REQUIREMENTS
FOR
THE DEGREE OF MASTER OF SCIENCE IN THE DEPARTMENT OF
ECONOMICS

SEPTEMBER 2009

Approval of the Graduate School of Social Sciences

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I certify that this thesis satisfies all the requirements as a thesis for the degree of Master of Science.

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This is to certify that we have read this thesis and that in our opinion it is fully adequate, in scope and quality, as a thesis for the degree of Master of Science.

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ABSTRACT

POLITICAL ECONOMY of DEVELOPMENT BANKING AFTER WORLD WAR II: ANALYSIS of the INDUSTRIAL DEVELOPMENT BANK of TURKEY DURING THE 1950-53 PERIOD

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September 2009, 133 pages

Institutions are crucial in reflecting the economic and political conditions of their time. This thesis analyses the features of establishment process of the Industrial Development Bank of Turkey (TSKB) in close relation with the World Bank and the activities of the TSKB in its first four years between 1950 and 1953. The arguments of Development economics and the dependency theory are utilized in the discussion. The main objective of the study is to bring out the link between the establishment of a *privately* owned development bank in Turkey, aiming to promote *private* industry, and the economic environment at the time, including the Cold War atmosphere affecting internal and external politics of Turkey. Moreover, it is put forward that the sectors chosen for credit allocation are compatible with the international division of labor of the time. That is, the TSKB has channeled international funds in a way aiming at Turkey's integration to the world markets as a supplier of agro-industrial goods.

Keywords: Industrial Development, Development Banking, Industrial Development Bank of Turkey (TSKB), World Bank

ÖZ

II. DÜNYA SAVAŞI SONRASI KALKINMA BANKACILIĞININ POLİTİK İKTİSADİ ANALİZİ: 1950-1953 DÖNEMİNDE TÜRKİYE SINAİ KALKINMA BANKASI (TSKB)

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Tez Yöneticisi: Prof. Dr. Fikret Şenses

Eylül 2009, 133 sayfa

Kurumlar dönemlerinin politik iktisadi koşullarını yansıtmaları bakımından önemlidir. Bu tez, Türkiye Sınai Kalkınma Bankası'nın Dünya Bankası yakın temasında kuruluş sürecinin özelliklerini ve 1950-1953 yılları arasındaki ilk dört yıllık faaliyetlerini incelemektedir. Tartışmada Kalkınma iktisadı ve bağımlılık teorisinin savlarından faydalanılmaktadır. Çalışmanın ana amacı, Türkiye'de *özel* sanayiyi teşvik için, *özel* mülkiyette bir kalkınma bankası kurulması ve zamanın -Türkiye iç ve dış politikasını etkileyen Soğuk Savaş atmosferini de kapsayan- ekonomik ortamı arasındaki bağlantıyı açığa çıkarmaktır. Dahası, kredi tahsisi için seçilen sektörlerin zamanın uluslar arası işbölümü ile uyumu ortaya konmaktadır. Bir başka deyişle, TSKB, uluslararası fonları Türkiye'nin dünya piyasalarına tarıma dayalı sanayi malları üreticisi olarak eklemlenmesi fikrine uygun şekilde yönlendirmektedir.

Anahtar Kelimeler: Sınai Kalkınma, Kalkınma Bankacılığı, Türkiye Sınai Kalkınma Bankası (TSKB), Dünya Bankası

To My Family

ACKNOWLEDGMENTS

I wish to express my deepest gratitude to my supervisor Prof. Dr. Fikret Şenses not only for his excellent guidance and criticism but also his invaluable friendship, encouraging and tolerating me when I desperately needed. Thanks to him, I had always felt the luckiest thesis student during the work since I had the chance to know such a person and study with him.

I would like to thank Assoc. Prof. Dr. Serap Türüt Aşık for her endurance in elaborating the thesis point by point and for her valuable comments on the main arguments of the thesis. I would also like to thank Assist. Prof. Dr. Galip Yalman for his suggestions and insights on the theoretical chapters and his encouragement.

I gratefully acknowledge the contribution of Prof. Dr. Oktar Türel to the methodology of the thesis with his valuable advice and his broadening my views during my interview with him. I also gratefully acknowledge the contribution of Dr. Serdar Şahinkaya especially to my knowledge of development banking and of the current experience of development banks.

I also thank Güniz Bayraklı of the Industrial Development Bank of Turkey for her technical support.

I am thankful to my friends Gizem Altun, Pınar Kahraman and Elif Karaçimen with whom I have shared the “boredom of the times” of slow progress from the very beginning. Thanks to Gizem Altun, I have never felt alone until the last minutes of the demanding period of thesis writing.

Last but not the least; I am grateful to Murat Aydın for his moral support and understanding, which have always been with me during this tough period.

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CHAPTER I

INTRODUCTION

Banks have been the tools of transferring funds from where they are abundant to where they are necessitated (Akgüç, 1993: 31). This mechanism is vitally important since transfer of the usable funds to investors in the real sector in a short and direct way, and with minimum cost, becomes possible if the banking sector worked well (Şahinkaya, 2008: 622). Hence, financial sector had to foster parallel development with real sector of the economy for economic development and growth (ibid). The funds, which might be collected as the saving of individuals or as transfers from domestic and foreign governments or institutions, might be lent for short, medium and long term depending on the purpose. As a specialized example, development banks have directed their funds for the sake of developmental purposes that necessitate long-term lending.

First examples of development banks existing in Europe in the nineteenth century evolved from commercial banks at the time. The custom of long-term lending in the industrialized countries was progressed by infrastructural investments but it was after the Industrial Revolution when new lending institutions began to flourish. Indeed, the strong link between industrialization and development was discovered in this era since industry being the most productive area of production was regarded as the most reliable route to a more rapid increase in welfare. Like Kiely (1998: 3) has defined industrialization as "a particular way of organizing production and assumes there is a constant process of technical and social change which continually increases society's capacity to produce a wide range of goods".

Although industrialization is a broad concept since it includes the impact of this way of production on society, it is not as broad as development. Kiely pointed out that "the development theory in the 1950s and 1960s often implicitly defined development as an increase in Gross National Product, and assumed that the increase in wealth associated with industrialization would trickle down to the bulk of the population" (ibid). Nevertheless, the current definitions of development are much broader than those earlier definitions, including indicators as distribution of income, life expectancy, and levels of educational attainment[1]. Obviously, development is determined according to the level of distribution of the fruits of the increase in wealth through industrialization and the change this increase creates on peoples' lives. In short, although it does not embrace all aspects of it, industrialization is generally seen as a prerequisite for development. Above all; promoting industrialization has been vital for the development of underdeveloped countries.

After industrialization emerged as one of the key indicators of development, the world was divided into two groups comprising the "developed", and underdeveloped/"developing" countries. Not surprisingly, "developed" countries had the power to influence the organization of the world system. Thus, the fate of the underdeveloped countries has been usually shaped by the interaction between these countries and the developed world and of course by the class struggle within individual countries. The era after World War II was a period in which this interaction accelerated and became more apparent by the effect of the interaction and conflicts between the capitalist and socialist systems. Different from our age, this period until late 1980s witnessed a bipolar world. On the one hand, the socialist bloc led by the Soviet Union was shaped by the so-called command economy under which central planning was implemented by the state. On the other hand, a mixed economy framework within a broadly market-based system was adopted by the capitalist system led by the USA.

In this context, Bretton Woods institutions – International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD) in particular - gained prominence as international regulatory structures aiming to

[1] For a more recent attempt to define development on that basis, see the Human Development Index developed by the UNDP.

support capitalist bloc against the socialist bloc. It is well known that the main objectives of these institutions were to finance the rebuilding of Europe after the devastation of the World War II and to save the world from future economic depressions[2] (Stiglitz, 2003: 11). Actually, the IBRD was the international type of development bank, which was founded after World War II, played a major role in the establishment of development banks in underdeveloped countries to finance *private* industries. In short, these institutions were founded to help development in underdeveloped regions but how this was to be achieved implied a system choice, as well.

During this conflict and competition between the two systems, the number of supporters was taken as an indicator of the success of each system trying to obtain the allegiance of underdeveloped countries. As the tension between the two sides escalated, Development economics that aimed to analyze the problems of these countries on a theoretical and empirical basis became significant (Şenses, 1996: 104). Moreover, in favor of trade liberalization and removing the restrictions on capital movements, capitalist bloc emphasized foreign investment and foreign aid as critical instruments of development in underdeveloped world (Boratav, 2003: 96). For instance, in 1950s the belief summarized as 'it is impossible to develop without foreign aid' was generally accepted in Turkey (ibid). This approach constituted one of the fundamental arguments of Development economics.

On the other hand, severe criticisms directed to Development economics increased after the mid 1960s. One source of criticism was the defenders of dependency theory. According to the radical proponents of dependency theory, the type of industrialization recommended by Development economics paved the way to the coalition between multinational companies and domestic bourgeoisie which was a major factor behind the relationship between developed and underdeveloped countries based on dominance and exploitation; and to highly capital intensive

[2] The Great Depression that gathered steam in 1929 led to endeavors to find out the vulnerable parts of capitalism and the ways to tackle with them. The main solution was to "regulate" the world system so that the "market forces "could act in harmony.

industries harming employment and creating a new type of dependency, including unequal distribution of wealth as never seen before (Hirschman, 2003: 44). In our view, dependency theorists were right about the destructive effects of economic integration to the world markets without protection on underdeveloped countries. It is also true that this was not a one-way relationship since there were also domestic factors in support of these policies. As Öniş and Şenses (2008) have argued, main policy shifts in Turkey could be traced to a combination of factors arising from changes in the general world conjecture and domestic coalitions supporting these changes. It is for this reason that in our efforts to get a full account of main events, we emphasize the importance of both the international and domestic economic and political factors.

Soon after the Second World War, Turkey chose to be a member of the capitalist bloc and had close relations with the leader, the United States, and the key international institutions that were closely associated with it. During this period, Turkey experienced transformations in both political and economic spheres such as the transition to a multi-party regime following the establishment of the Democrat Party (DP) in 1946 and the strong intention to abandon the state-oriented industrialization policy. However, it should be noted that Republican People's Party (CHP, Turkish acronym), as the political party in office until 1950, had also given signals to implement more liberal policies before the Democrat Party's victory in the general elections that took place in 1950.

Tezel (2002: 333) accounted for this endeavor of change after the Second World War by the influence of the bourgeoisie strengthened during the war years. The new policy could be summarized as the integration of the domestic markets to the world economy by seeing the *private sector* as the main actor. The integration also took the form that the underdeveloped country would be specialized as importer of intermediate and investment goods and as exporter of agricultural and agro-industrial goods. This manner of industrialization is vital in understanding the existence of the Industrial Development Bank of Turkey (Türkiye Sınai Kalkınma

Bankası, TSKB) since it would serve this purpose by directing its available funds to agro-industrial production.

The idea of development banking began to be formulated in the domestic and international contexts, as highlighted above. Although “ownership, sources of finance, degree of dependence on government, objectives and methods of operation vary over a broad range of possibilities” for development banks since the nineteenth century, the area of investigation is narrowed down in this study by focusing on those founded in underdeveloped countries after World War II (Diamond, 1963: 1). In this relatively narrow sphere, the insistence on *private ownership,* away from the public authorities, was a significant feature. Actually, it is significant to notice that the acceptance of the important role of private institutions in industrial development made the difference clear between the economic development patterns of countries that have capitalist or communist regimes (Kongsiri, 1993:52).

Development banks have been generally expected to be public institutions since development is above all a social subject. That is why they are commonly defined as public entities. Indeed, in 1961 there were *at least eight* development banks around the world (out of a total of eighty) “in which the bulk of share capital and a good portion of loan capital was in private hands and in which management was responsible to private interests only, had come to the fore” (Franck, 1961:47). Although small in number, private industrial banks initiated by the World Bank just after the Second World War are essential for this study since they symbolize a certain point of view. These banks were located in Turkey, India, Ceylon, Iran, Pakistan, Lebanon, South Africa, Israel, Malaysia, Taiwan and Thailand (ibid).

Actually, development banks in underdeveloped countries were seen essential because of the belief that these countries were lacking necessary ingredients for development. Boskey (1961: 3-4) has listed these ingredients as capital, mechanism for channeling capital into productive areas (a capital market) and finally initiative on the part of the industrial community. As part of efforts to overcome these bottlenecks, development banks would guarantee long-run loans and even equity capital, and technical support for industrial enterprises, when necessary.

TSKB was established in June 1950 as a *privately-owned* institution. Parallel to the IBRD view, it was launched to guarantee long-term loans or share capital and technical assistance to the *private sector*. Obviously, this also symbolized the fact that Turkey had chosen the capitalist way of development directed by market forces instead of a planned economy directed by the state.

Last but not the least, like all other institutions, the activities of the TSKB followed a parallel path with the popular views of its time and gave hints of the general characteristics of the period (Coşar, 2004: 209). It has been transformed many times according to the main policy shifts throughout its 59 years of existence. Obviously, as an institution of development, the transformation of the TSKB was in harmony with the evolution of the development discourse. As development and especially industrialization were relegated very much to the background in the list of socioeconomic objectives since the early 1980s, development banks began to move away from their main focus and seemed to work as commercial banks[3].

The main purpose of this thesis is to analyze World Bank supported development banking after World War II, in general, and the experience of the Industrial Development Bank of Turkey, with special reference to its ownership structure and scope. The time period that this thesis focuses on includes the liberalization attempts aimed at Turkey's integration to the world markets during the period of 1945-1953. The study does not cover the period after 1953 since a pure transition from state industry to private one was not possible because of the post-1953 world conjecture (Boratav, 2004: 107-116). That is, decreasing foreign demand and thus,

[3] For an initial instance, while short term credits constituted 18.7 % of the total credits given by all development banks in Turkey in 1987, the share increased to 52% in 1992 (Akgüç, 1993: 38). In contrast, the share of medium term lending decreased from 81.3% to 48% during the same period (ibid).

the foreign exchange constraint created natural protection and an indirect incentive system for domestic industrialization efforts (Kepenek and Yentürk, 2000: 109).

The main objective of the study, more explicitly, is to bring out the link between the establishment of a *privately* owned development bank in Turkey, aiming to promote *private* industry, and the economic environment at the time, including the Cold War atmosphere affecting internal and external politics of Turkey. Furthermore, whereas Development economics provides the theoretical basis for development banking, dependency theory will be utilized while evaluating the sectors promoted by the TSKB. The type of the chosen sectors was especially significant regarding the fact that the World Bank funds could only be used after the World Bank had approved the loan. Since these sectors were expected to be compatible with the international division of labor of the time, this will take us to the argument that the World Bank had benefitted from the TSKB in channeling international funds in a certain direction. On the other hand, the TSKB, as an institution of domestic coalition, served to strengthen the capitalist relations between the developed world and Turkey.

The plan of the thesis is as follows. Chapter 2 after this introduction will be devoted to highlight certain aspects of Development economics and dependency theory to lay down the theoretical foundation for discussion in subsequent chapters.

Chapter 3, will include the story of how the idea of development banking emerged first in the “developed” countries and then in the underdeveloped ones considering two examples from the underdeveloped countries. For the latter, the shaping role of international institutions, especially the IBRD, in this process will be elaborated. The discussion will revolve around the point of differentiated features of development banks in different contexts with emphasis on their ownership structure and scope.

Chapter 4 will discuss the political and economic developments in Turkey after World War II in light of the international conjecture at the time, as dominated by the Cold War environment. The discussion will draw on the reports prepared by foreign committees and development plans of the time.

Against the background of previous chapters, Chapter 5 will examine the main features of TSKB, focusing on its ownership structure and scope. The sectors that borrowed from the TSKB will be examined within the framework of the international division of labor. Moreover, in order to shed light on the establishment process of the TSKB, we shall draw upon news coverage in the Turkish press and the speeches made in Turkish Parliament.

Chapter 6, by way of conclusion, will account for the evolution of the TSKB and will draw attention to the fact that its investment banking activities have overridden its development lending activities. Actually, this is connected with the fact that capital accumulation and industrialization by and large lost their important places in the economic policies of “developing” countries during the last three decades. Hence, in contrast to the thought that financial institutions are responsible for transferring funds to the real sector, the link between the TSKB and the private sector investments in the real economy has weakened further since the 1980s. Moreover, the changing role of the World Bank will also be assessed in this chapter. Finally, Chapter 7 will conclude the study.

CHAPTER II

THEORETICAL IMPLICATIONS

Although some studies concerning Third World societies had existed since the earliest European colonizations of Latin America, Asia and Africa; "methodologically conscious and generalized approaches to studies of societies emerged primarily in Europe in connection with studies of European societies, rather than their colonies" (Martinussen, 1997: 18). Depending on this tradition of discussing the problems of various countries with their socioeconomic structures, modern approaches like the Neo-classical paradigm, Development economics and Neo-Marxist approach attempted to handle these subjects in the twentieth century. In contrast to the Neo-Marxist approach, the first two have reflected the mono-disciplinary structure, focusing only on economic terms. This also represented a contrast with the main approach of economics in the nineteenth century.

Indeed, the theory and the strategies of these different approaches depended mainly on how development was conceptualized. Economic growth, increased welfare and human development, modernization, elimination of dependency and dialectical transformation were among various definitions of development[4]. Modernization concept utilized also by Development Economics and elimination of dependency concept utilized by Neo-Marxist approach are essential here since the opposite views represented by them have proven useful for this thesis. However, it should be kept in mind that our aim is not to discuss the relative merits of these theoretical constructs but to utilize their arguments in our treatment of the special area on which we focus in this thesis. Although there will be occasional reference to the developed-underdeveloped terminology, we shall on the whole adopt the centre-periphery framework.

[4] See Martinussen (1997), Chapter 3.

2.1. The Link between Development Economics and Development Banking

In general, Development economics can be introduced as "the post-war literature (predominantly in the English language) on the problems of *non-socialist poor countries in Asia, Africa, Middle East and Latin America*" (Şenses, 1984). This definition had significant implications about the discipline. First of all, development literature had grown upon the fact that, there emerged many independent countries that had been colonies or semi-colonies before World War II. Since economic independence is an integral part in this process, works concerning the growth and development problem of these economies showed an appreciable increase. Secondly, despite "the economic and military pre-eminence of the United States" after World War II, "an urgent strategy to revitalize the economies of Western nations" was required against Marxism choice experienced in the Soviet Union and China (Valenzuela and Valenzuela, 1979). In other words, under the Cold War conditions, capitalist bloc was reluctant to lose its alliances against the communist bloc. Hence, a development path had to be shown to *non-socialist poor countries* under capitalist relations in order to avoid sympathy for communism.

In fact, while theories were mainly built on practical solutions to development problems, they were also influenced by developments in the real world. Şenses (1984) has put forward the view that "the success of reconstruction efforts in Europe in the early post-war years showed that state direction and external resources could play an important role in economic development". Not surprisingly, state direction and external resources would become significant elements of development theory[5].

[5] The TSKB has reflected the second item since it was a bridge between the private industry in Turkey and the World Bank funds. The first item was eliminated in this case, since it was owned privately to fund the private sector.

Development economics theories can be categorized under two main headings, the structuralist theories and the modernization theories[6]. The former ideas flourished mostly in Latin America under the roof of the United Nations Commission for Latin America, ECLA, executed by Raul Prebisch between 1948 and 1962 (Martinussen, 1997: 51). Structuralist economists have claimed that economic structures could not be easily changed without capital accumulation and growth in production and consumption (ibid). On the other hand, "the North American and European growth and modernization theorists have paid more attention to internal factors as sources of and barriers to economic growth" (ibid). Accordingly, there existed traditional vs. modern societies both having immersed characteristics that determined their level of capitalist development. Hence, underdeveloped world should take the developed part as models and imitate what they had done in order to become developed. That is, "they[7] see the world converging to a uniform and standardized culture resembling that of the United States and Western Europe" (Valenzuela and Valenzuela, 1979). In other words, being developed or not was an issue of only endogenous factors instead of being an issue of international laws of capitalism and class dynamics and interaction in the capital accumulation process (Tören, 2007: 36).

Regarding external resources, Thirlwall (1984) has argued that dual gap analysis was one of the innovative contributions of Development economics. Based on the savings gap in the Harrod-Domar model, the two-gap analysis argued that foreign exchange is the other constraint on the development of underdeveloped countries. According to Thirlwall (1984), the significant part was that foreign borrowing was vital not only for supplementing domestic saving but also for supplementing foreign exchange if that is the dominant constraint on growth. Actually, there will be need for foreign exchange to finance imports of capital goods from the developed countries. Accordingly, obtaining foreign exchange, which could be

[6] Chenery has "generally adopted the structuralists' strong contention that development involves both accumulation and changes in the basic economic structures" (Martinussen, 1997: 52).

[7] See Rostow (1961), Lewis (1955), Rosenstein-Rodan (1943), Nurkse (1953) for details.

supplied either from export earnings or from capital flows, was vitally important for growth of the underdeveloped countries. As Kandemir (2002) has asserted, development banks could be seen as a solution to that problem. In short, funds provided for development under the Marshall Plan or by the World Bank could be rationalized under this assumption.

The above subject was also related to the discussion of whether the link between the developed and the underdeveloped countries was beneficial for the latter. This outcome was so crucial that development theories could be classified according to their implications for it. The question of whether there was mutual benefit from the interaction of the two groups of countries constituted one of the two fundamental arguments of Hirschman’s categorization (Hirschman, 2003: 25). As expected, Development economics was based on the argument that the relation between the two worlds would be beneficial for both sides. Hence, trade and capital flows could help the development process of the underdeveloped. Therefore, there exists mutual relationship based on self-interest between centre and periphery so that centre can contribute to the development of the periphery (Hirschman, 2003: 28).

The second argument was whether monoeconomics was accepted or rejected (Hirschman, 2003: 25). Monoeconomics means “there is a single economic discipline, applicable to all countries and at all times" (Streeten, 1984: 29). This has reflected the perception in the Modernization Theory which also included cultural and sociological terms besides economic terms. Although Hirschman (2003) and Martinussen (1997) have claimed that Development economics has rejected monoeconomics, it has still assumed that the world had a dual structure developed-less developed similar to traditional-modern in the Modernization Theory. Besides it also took the developed one as ideal and tried to find ways to make the less developed converge to the former. Nevertheless, there were some practitioners within the field of Development economics who emphasized that every country with its own characteristics follows its own path under capitalist relations.

It should also be noted that Development economics has criticized orthodox neo-classical economics on grounds that it was appropriate at best for developed countries and that it could not help solve the problems of underdeveloped countries (Hirschman, 2003: 29-36). Indeed, both the structuralists and the modernization theorists "expressly rejected central components of the neoclassical legacy, including the preoccupation with equilibrium analysis and the theory of comparative advantages" (Martinussen, 1997: 50).

In the light of the preceding discussion, supporting "development banking" in the underdeveloped countries was in line with the general development view hidden within Development economics. Accordingly, "developed" countries were considered as the ones which had achieved the development goal. On the other hand, underdeveloped countries were the unsuccessful ones that should be helped by the developed countries which had already accomplished the development task. As expected, institutions, which were experienced in the developed countries, would be exported to the underdeveloped ones through policy recommendations or strict policy conditionalities. Development banks were typical examples of this outlook since they were designed to transfer World Bank funds to underdeveloped countries, attempting to overcome the saving or foreign exchange constraints facing investment thereby serving as a solution to insufficient capital accumulation in these countries.

2.2. The Evaluation of Development Banking within the Dependency Theory Perspective

The early Neo-Marxist theories during 1950s and the 1960s were known as dependency theories. These theories emerged as an alternative to "modernization perspective" and presented radical viewpoint to the development problem. It has criticized most of the basic arguments of growth and modernization theories, which were prevalent within Development economics. As mentioned in the previous section, according to the modernization perspective, the recipe appropriate for development of underdeveloped countries was to follow the same path with "ideal" developed countries "with a massive transfer of capital and technology to spur economic growth" (ibid). Moreover, non-economic factors were seen as an obstacle in front of development (ibid). In other words, dependence perspective grew "in reaction to the trend within the mainstream economics to focus on indigenous factors as the reason for the failure of the least developed countries to develop, that is "blaming the poor"" (Wheeler and Beatley, 2004: 38).

On the other hand, dependency theories were fed by the earlier discussions on the impact of imperialism (Martinussen, 1997: 85). Moreover, they were influenced by "the Latin American structuralists and their analysis of the trade relations between the economically backward countries and the highly industrialized countries (ibid). In fact, the most distinguishing claim of dependency theories was that relations with the industrialized countries were harmful for the underdeveloped countries' industrialization efforts. That is to say, engaging in the global economic framework does not increase the wealth of underdeveloped countries; on the contrary it can lead to diminish it (Gülalp, 1997: 119).

Theories developed under the dependency perspective have claimed that the dualistic structure of the world economy stemmed from the nature of capitalism (Todaro, 2000: 89-94). In other words, the development of some countries has been closely associated with the underdevelopment of the others. Thus, the reason behind the underdevelopment of countries was not their characteristic features but limitations created by the policies dictated by the developed countries (ibid). It is clear that the assessments within this perspective were sharper and stricter than those in Development economics.

As the main source of inspiration of Neo-Marxist theories, Marx, in his early writings in 1850s, had asserted that besides its destructive effects, European colonization would help the economic transformation of South Asia towards capitalism (Martinussen, 1997: 85). However, this assessment[8] was hardly visited in his later works and the emphasis shifted to the destructive effects of European rule (ibid). Paul Baran was an important name in adapting Marx's extraction of

[8] The claim of constructive effects of imperialism was further supported by Warren (1980).

economic surplus from the working class by the capital owners to the extraction of economic surplus in all its forms[9]. The significant deduction here was that as well as the other propertied and economically dominant classes, the foreign and national capital owners were also against industrialization since "a more comprehensive industrialization process would undermine their monopoly position and force them into competition with new entrepreneurs, which could threaten their extraordinarily high profits" (Martinussen, 1997: 87).

Instead of an analysis based on social classes, Frank focused on trade as the crucial mechanism for extraction of the surplus. Actually, Frank has evaluated the perception, which considered development as a consequence of opening up the economy, as "inadequate and misleading" (Wheeler and Beatley, 2004: 39). Instead, he has developed an alternative model depending on "chains of metropolises and satellites to explain the world economy (Wheeler and Beatley, 2004: 40). Accordingly, each metropolis had monopoly power over its satellites, which would lead to misuse and misdirection of available resources and thus limiting the development of the satellite (ibid). As a result, the main point was "the expropriation and appropriation of a large part or even all of and more than the economic surplus of the satellite by its local, regional, national or international metropolis" (ibid). In other words, polarizing tendencies of capitalism would "generate the development of the metropolis and the underdevelopment of the satellite" (ibid). Thus, dependency theories have focused mainly on the "unequal terms of trade between exporters of raw materials and exporters of manufactured goods[10]" (Valenzuela and Valenzuela, 1979: 42). In more historical and explanatory terms,

[9] Land rent was extracted by the feudal aristocracy or big landowners, interest on credit by moneylenders, the profit from trade by the merchants, the surplus value from the capitalist production by largely foreign capitalists and to a certain extent by national industrialists (Matinussen, 1997: 87). It is important to note that this approach included the effect of the external forces on industrialization besides internal ones.

[10] Arghiri Emmanuel's theory of unequal exchange has further claimed that the workers in the periphery were over-exploited since they were paid so less that "the industrialized countries could

> The unequal development of the world goes back to sixteenth century with the formation of a capitalist world economy in which some countries in the centre come to specialize in industrial production of manufactured goods precisely because peripheral areas of the world were able to provide the necessary primary goods, agricultural and mineral, for consumption in the centre. The world system was clearly interdependent, but different units performed different functions. Contrary to some assumptions in economic theory the international division of labour did not lead to parallel development through comparative advantages. (ibid)

It should be remarked that the terminology has varied within the dependency framework. Instead of considering the development "level" of the countries, their structuring of production processes were taken as criteria. Therefore, the countries which were self-reliant were considered as centre, whereas the countries "heavily dependent on the world markets and the links to production and centers of capital accumulation in the centre countries" were called the periphery (Martinussen, 1997: 90). Centre has been "auto-centric in the sense that the intra-societal linkages between the main sectors predominate and shape the basic reproduction processes" (ibid). Indeed, Amin is referred for the centre-periphery terminology.

According to Amin, peripheral countries should break their asymmetrical relationship with centre economies and expand regional cooperation as a way out. Last but not the least; Amin (1984) has emphasized the comprehensive character of his theory. That is, he did not only suggest delinking from the world economy for an independent way of development, but also an egalitarian income distribution within the country[11]. This is compatible with the fact that there was a widespread agreement among dependency theories that the final objective was the introduction of socialism (Martinussen, 1997: 39). However, Amin (1984) has defined his ideal development environment within capitalist relations which was also appropriate to evolve to socialism.

buy goods from the peripheral countries at prices below the costs involved in producing the same goods in the industrialized countries" (Martinussen, 1997: 91).

[11] This view has been criticized since things like more egalitarian income distribution virtually excludes capitalist development by definition (Kiely, 1998: 66).

In this context, development banks, which were expected to be effective in directing domestic and foreign financial resources to some specific areas of industries, could be seen as institutions contributing to this process of reinforcing dependence of the periphery on the centre. For Turkey, the TSKB has contributed to the integration of the Turkish economy to the world economy as an exporter of agro-industrial goods and importer of intermediate and capital goods. Although this contribution may not be seen very effective regarding its magnitude and its overall impact, the set of relations encompassing the World Bank- TSKB- private sector in Turkey is significant in understanding the main trends of the functioning of the world economy.

In conclusion, it can safely be argued that in the immediate post-war years, Turkey had chosen a production pattern that was closely in line with the role given to periphery in the international division of labor. However, it should be noted that this pattern of specialization was interrupted by deterioration of the terms of trade for agricultural products following the end of the Korean War. This experience could be noted as an illustration of the effects of episodes of liberalization leaving an underdeveloped country like Turkey vulnerable to the fluctuations in international prices. As known, ironically, the government symbolizing laissez-faire policies in the earlier 1950s had to take protective measures after 1953, but this was by no means sufficient to remove the dependent path of development created after 1945 (Boratav, 2004: 107).

CHAPTER III

DEVELOPMENT BANKS: MAIN AREAS OF DISCUSSION

3.1. Development Banking in History

Although several studies are available on individual development banks separately, overall evaluations on the idea of development banking are rare in the literature. Actually, there existed many types of specialized institutions for promoting and regulating investment under the name of "development bank" since the nineteenth century. However, this thesis focuses mainly on those founded in the underdeveloped countries especially after World War II by the support[12] of the World Bank and aims to analyze their World Bank directed activities. It is essential to provide a brief historical background of development banks to achieve this main purpose[13].

The history of development banks is summarized in the next two subsections distinguishing the development banks in the developed countries from the ones in the underdeveloped countries. This categorization was based on the thought that development efforts of the developed and underdeveloped countries should be analyzed separately. This difference stemmed from the fact that being the first comers, developed countries were alone on their way to development. On the other hand, during their development effort, underdeveloped countries have been exposed to the rivalry of developed economies, which made things harder for them.

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12 The most familiar forms of support were providing loans in order to increase their resources and providing technical assistance in the initial stages of their operations.

13 For a broad elaboration, W. Diamond, *Development Banks,* The Economic Development Institute, IBRD, The John Hopkins Press, 1963, and S. Boskey, *Problems and Practices of Development Banks*, IBRD, The John Hopkins Press, 1961, and S. K. Basu, *Theory and Practice of Development Banking*: A Study in the Asian Context, Asia Publishing House, India, 1965.

In the first section of this chapter, development banks will be investigated in historical perspective. For this purpose, first an overview of development banks in the nineteenth and twentieth century will be presented. After a brief discussion on the IBRD, the international development bank taking an active role in the establishment of development banks in the post-war period, we focus on the experience of underdeveloped countries. These will be followed by an assessment of, different points of views on the two main discussion points, namely ownership and scope.

3.1.1. Development Banking in the Nineteenth Century

Like many other institutions of capitalism, development banks have first emerged in the developed countries in the nineteenth century. As expected, they had responded to the requirement of long term finance of the time. As stated by Diamond (1963: 20), the emergence of specialized institutions for investment was realized by the transformation of small, individual firms to large corporations after the Industrial Revolution. Thus, the experience with respect to development banking during this century was confined to industrialized countries.

Although the Industrial Revolution should be regarded as a process signaling the need for long term lending institutions, there was a variety of experience in this respect. For instance, in England, the motherland of the industrial revolution, capital accumulation of individuals had permitted them to invest for production for a long time. Explicitly, this arose from the fact that "There was a significant accumulation of capital, derived from the reinvestment of profits from agriculture, foreign trade and small-scale industry and from the profits of lending money both to the government and to private individuals" (Diamond, 1963: 19). Nevertheless, it should be recalled that state was always very effective through this process[14] (Şahinkaya, 1999: 43).

[14] For detailed information, see L. Weiss and M. J. Hobson (1995), *States and Economic Development, A Comparative Historical Analysis*, Polity Press, Cambridge.

Since the gradual nature of the industrial revolution enabled British investors to have adequate resources, they did not require banks for long term lending in the initial phases of this process. Instead, banks in England were established under enterprise bodies so that they originated from different business groups and specialized in short term lending (Şahinkaya, 1999: 41). In fact, in 1800s, there were almost 600 banks outside London while the Bank of England, founded in 1694, had been the single example until 1750s (ibid). However, providing funds for fixed investment became a problem also for the British economy in the latter part of the nineteenth century (Diamond, 1963: 20). This was because "the units of business became much larger and more and more individual firms were converted into corporations" (ibid).

Until that time, "issue houses, underwriters, company promoters, investment trusts dealt with the problem of providing funds for fixed investment not only in England but also in much of Latin America, Africa and Asia where Englishmen took the lead in the creation of banking institutions" (ibid). This could be taken as a rough illustration of the spreading character of institutions from the developed countries to the underdeveloped. It is rough since the rules of exploitation were valid throughout the nineteenth century and thus, the establishment of the institutions was achieved by direct intervention of developed countries that ruled the colonized country. Although mostly independent nation states were the actors of world economy after World War II, Özuğurlu (2005: 89) named the relationship as indirect colonization. By this type of relationship, the spread of institutions and the policies of the developed world to the underdeveloped would take a shape which was not as explicit as in the colonial period. Indeed, international institutions like the World Bank, rather than directly the developed countries, would play an important role in this process.

Since other countries of Europe were not in a position to benefit from the gradual process that England had experienced, they utterly needed specialized institutions that would carry them to front bench in the quest for industrialization. In other words, they had to catch up with the leader country, Britain, by sudden increases in the scale of production and investment (Diamond, 1963: 21). That could be the main reason why the ability of banks in providing long term credit for industry evolved more quickly within continental Europe than in England. Thus, as Gerschenkron asserted “industrial development and investment banking” in continental Europe should be acknowledged as specific instruments of industrialization like in countries which were beyond the certain limits of underdevelopment (cited in Şahinkaya, 1999: 46).

In fact, banks across Europe played a most important role first in railway and canal construction and then large-scale industrial and commercial enterprises by attracting savings from individuals and non-banking enterprises. Their activities were extended to investment in joint-stock companies as well as government securities (Diamond, 1963: 21-22). Likewise, in the United States, a financing institution was required first “with the growth of large-scale transport systems and utility enterprises after 1820” (Diamond, 1963: 27). These experiences of large investments in infrastructure must have developed the practice of banks, which would be utilized in financing industrial investment.

As expected, these experiences of “new methods of organization and investment” contributed to the idea of development banking. The most remarkable[15] example which was said to pioneer today’s development banks emerged in France as the “Crédit Mobilier[16]” in 1852 (Diamond, 1963: 23). Besides providing long term credit for industrial development, the Crédit Mobilier was novel with its “joint-

[15] Although there was an earlier institution, the “Société Generale de Belgique” founded in Belgium in 1822, in the literature the “Crédit Mobilier” was accepted as the pioneer. Nevertheless, it is worth mentioning that in four years, with the help of the bank under public authority, the “Banque de Belgique”, the Société Generale de Belgique financed 55 new enterprises with franc 150 million (Şahinkaya, 1999: 47). Moreover, the Société Generale de Belgique was founded by equity interests, which would be common among development banks afterwards.

16 It is an interesting coincidence that the Crédit Mobilier had a significant role in the economic history of the Ottoman Empire during the establishment process of a state bank under the name of “Osmanlı Bankası” in 1863. For detailed information, See K. Bayraktar (2002), “Osmanlı Bankası’nın Kuruluşu”, *C.Ü. İktisadi ve İdari Bilimler Dergisi*, Cilt 3, Sayı 2, p. 71-88. Indeed, the Crédit Mobilier was one of the main lending institutions after 1854 when the Ottoman Empire had begun to borrow from abroad. See O. Türel, “Trajik Monologlar veya Mali Sorumsuzluğun İki Yüzyılı” *Mülkiye Dergisi*, Cilt: XXV, Sayı: 226.

stock organization, power to mobilize resources through the issuance of bonds and promissory notes and vigorous promotional activity" (ibid). Moreover, the Crédit Mobilier was a deposit bank beside its development bank characteristic (Şahinkaya, 1999: 51).

According to Diamond (1963: 23), it is essential to consider that "this revolutionary institution appeared after the Revolution of 1848 and its founders were the followers of Saint Simonian movement believing that industrialization was a means of improving the welfare of the masses and that banking had a special missionary role to play in this process". Last but not the least, "although the Crédit Mobilier was a purely private enterprise concerned above all with its profits, it had close ties with government policy" (ibid).

The Crédit Mobilier[17] was not important only for being the first experience but also for being an example for other countries. "Before it died within 15 years, it had become a model for similar investment banks established in Germany, Austria, Belgium, Netherlands, Italy, Switzerland and Spain, many of which it sponsored and participated in." (Diamond, 1963: 24) These institutions were not only lending long-term but also "providing assistance in the form of underwriting and floating security" contributing to capital market formation, and providing assistance in technical and managerial aspects (Diamond, 1963: 25). Thus, it is significant to note that development banks, which were considered as an essential component of industrialization, spread from the developed part of the world since this process was parallel to industrial development.

In other words, the banking system throughout Europe and west of Russia played an important role in industrialization, imitating investment practices and methods of Crédit Mobilier (Diamond, 1963: 24). Before concluding our discussion on the nineteenth century experience, it is essential to emphasize the German experience. Diamond illustrated the significance of this experience as having a "banking system

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17 See E. Cameron (1953), "The Crédit Mobilier and the Economic Development of Europe", *The Journal of Political Economy*, Vol. LXI, No. 6.

closely associated with industry as both promoter and financier" (ibid). As will be discussed in the next section, this is one of the definitions of "industrial banks" and German experience is regarded as the forerunner of this type of banking.

On the contrary, Basu (1965: 4) has argued that although German banking tradition went through many different stages, German banks "were never *specifically* designed as long term industrial financing institutions" and were different from their counterparts that emerged after World War II[18]. Accordingly, German banks were like investment trust companies at the first stage; they were engaged in deposit business in the next and mixture of these in the following stages (ibid). Nevertheless, "the German banks cannot be characterized as industrial banks even remotely resembling the specialist institution set up for financing industry" in 1960s (Basu, 1965: 5). Despite the fact that the resemblance is a controversial issue, it is the fact that German banks had strong ties with firms for which they provided a loan or credit. That is, the representatives from the bank took part in the boards of the firms they supported whereas some industrialists took part in the boards of these banks (Şahinkaya, 1999: 55-56)[19].

Finally, relying on his own classification, Kandemir (2002) quoted that another characteristic of "industrial banks" in Germany was that they acted in line with the priorities that were determined by the governments[20]. That is, these banks were among the tools of national policies directed at national development. This type of banking would be utilized in Japanese development in the following century and these characteristics would be labeled as German-Japan model in the literature.

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[18] According to Basu, the first phase of developments achieving "industrial banking" was in the years that followed the end of World War I when Europe needed such institutions because of the task of economic reconstruction (1965: 5). Moreover, Basu evaluated the type of development banks founded after World War II as unique examples which had not existed before. Despite the fact that they were also affected from the previous experiences, this perception is significant since it emphasized the distinctive characteristics of the ones founded after World War II.

[19] For instance, the relations between Siemens & Halske and Deutschland Bank; AEG and Berliner Handelsgesellschaft; Gelsenkirchen Bergwerkgesellschaft and Diskontogesellschaft are cases in point.

[20] For detailed information, see Jequier, N. and H. Yao-Su (1989) "*Banking and the Promotion of Technological Developments*, International Labour Office and St. Martin's Press, New York.

3.1.2. Development Banking in the Twentieth Century

3.1.2.1. Development Banking in Developed Countries

The institutions of the twentieth century in the developed countries had different characteristics than those in the previous century because the twentieth witnessed two world wars and a worldwide depression. In line with the fact that the socioeconomic conditions influence the forms and structures of the institutions of a certain period, the categorization of Basu according to certain turning points will be taken as reference.

Accordingly, by the end of the World War I the industrial mortgage bank, “granting long-term amortization loans on first mortgages of property and issuing bonds to raise the necessary funds to finance these loans, had proved to be eminently successful for financing long-term operations in various spheres” (Basu, 1965:5). Industrial Mortgage Bank of Finland Ltd., the National Hungarian Industrial Mortgage Institute Ltd. and the provincial Mortgage Bank of Saxony were the most prominent examples of this era (Basu, 1965: 6).

As for the post-depression period, on the other hand, institutions were not restricted to mortgage lending but they had “generally combined long-term lending business with that of issue and underwriting and even of holding” (ibid). As an instance, activities of the Industrial Credit Company of Ireland included capital underwriting and issue house services; direct share investment; long-term and medium-term loans; special loans for re-equipment and expansion; and hire purchase finance for new industrial plant and machinery (Basu, 1965:7).

Above all, Basu separated those institutions founded after World War II from the previous ones since they combined “the business of mortgage lending with that of underwriting and participation in the equity capital of industrial companies” (ibid). It is argued that due to the destructive effects of World War II, support during the establishment process was needed at the time. Of course, institutions at that time also differed from one another but they were uniform with respect to their basic functions and underlying objectives. More explicitly,

> They provided financial assistance for industrial enterprises for which such assistance was not readily available through the channels of ordinary banking and the stock exchange, or was a type which no bank would furnish. Financial assistance provided by them assumed various forms so as to suit the particular needs of their industrial customers and in most cases they were authorized to furnish both loan and risk capital. (Basu, 1965: 8)

On the contrary, Diamond claimed that one of the distinctive features of the institutions in the twentieth century developed countries was that "they have generally played no more role as a source of equity capital and as promoters and organizers of new enterprises but have devoted themselves largely to the problems and reorganization of existing enterprises and to the provision of loan capital" (1963: 29). That is, self-financing remained more important than it was before the war (Diamond, 1963: 31).

These seemingly contradictory interpretations between Basu and Diamond could have arisen from the fact that the former analyzed the century by dividing it into parts and emphasized the equity capital support for the institutions founded after World War II. Nevertheless, it is essential to note that Diamond's claim would not be valid for the institutions in underdeveloped countries since these countries had not yet created adequate reservoir of industrial enterprises. Thus, funding the creation of new enterprises was a requirement for underdeveloped countries since industrialization was a new objective for them after becoming independent after World War II. Similarly, according to Basu (1965: 10), after World War II, the institutions of the developed countries should be separated from those of the underdeveloped countries since the former "were special machineries set up in countries already in an advanced stage of economic development with the objective of broadening the existing sources of finance for the development mainly of small and medium sized industries during the process of transition from a war-time to a peace-time economy". As an additional illustration, more than 41 out of 71 development banks, operating in 1965, were authorized to provide both loan and equity capital (Basu, 1965: 27).

As for the post-war institutions, the Industrial Development Bank of Canada (1944), the Finance Corporation for Industry Ltd. and the Industrial and Commercial Finance Corporation of Great Britain (1945), and the Industrial Finance Department of the Commonwealth Bank of Australia (1946) can be cited as the most prominent examples (ibid). According to Basu (1965: 9), the most familiar of these development banks to those founded in underdeveloped countries was the Australian IFD since it was envisaged "not only to provide finance for the establishment and development of industrial undertakings, but also to assist in the establishment and development of industrial undertakings".

On the other hand, the report of the Organization for European Economic Cooperation (OEEC) was even more pessimistic so that "For at the heart of the problem of the new and small firm is the uncertainty or the inadequacy of management; 'access to managerial, modern technique, and industrial contacts, is even more important to small and medium-sized concerns than access to outside capital; indeed advance along the one line may go far to remove difficulty along the other" (cited in Diamond, 1963: 33). Likewise, Diamond (1963: 33) argued that similar obstacles would create the need for "the specialized industrial financial institutions which are the European equivalent of "development banks" in underdeveloped countries".

With this comparison, Diamond referred to the lack of industrialization tradition in the underdeveloped world so that according to him enterprises in underdeveloped countries, like small enterprises in developed countries, required guidance more than external capital. However, it should not be forgotten that even if underdeveloped countries took the examples in the developed countries mentioned above as models, the socioeconomic conditions were totally different for the two sides. The most important difference was the fact that the developed world has influenced the establishment process of these institutions in the underdeveloped world.

Apart from the many examples in Europe and the United States, Japan had created its own model in 1902 taking Crédit Mobilier as a model. It should be remarked that Kandemir (2002) classified “The Industrial Bank of Japan” as an industrial development bank emphasizing its similarity with German type of banks. From a different point of view, Basu (1965: 2-3) claimed that the Industrial Bank of Japan should be distinguished from the modern concept of development banking which would emerge in underdeveloped countries after World War II. He has justified this view with the following argument: “A careful analysis of the nature and scope of activities of the Japanese institution will reveal that it was not a specialized institution designed to provide finance and enterprise for industrial development but a ‘hybrid’ institution combining in itself the functions of an issue house, a commercial bank and a mortgage institution.” (Basu, 1965: 3)

Furthermore, in the twentieth century, government sponsorship of the institutions became essential (Diamond, 1963: 29). Governments of all countries mentioned above played an important role in this period by becoming a shareholder directly or giving guarantee for borrowings from abroad (Diamond, 1963: 30). Likewise, although share capital of the Industrial Bank of Japan was subscribed entirely by private interests, it had close ties with the government. For instance, directors of the Bank were chosen by the government among the shareholders, its resources were enlarged by loans from Finance Ministry and also a five percent dividend was guaranteed by the government during the first five years (Diamond, 1963: 36-37).

3.1.2.2. Development Banking in General

Before elaborating on the development banks in the underdeveloped countries, it is appropriate to present the general classification of banks in the post war period. Today, around 550 development banks exist around the world (Dolun and Atik, 2006: 21). Apart from the international and regional ones, 520 of these, being national development banks, are operating in 185 different countries (ibid). Since development banks were mainly alleged to complement the saving or foreign exchange gap prevalent in the underdeveloped countries[21] which have at least three development banks while the developed countries have the tendency to have fewer in number (ibid). All development banks can be analyzed under three categories.

First of all, there emerged global development banks, such as the International Bank for Reconstruction and Development (IBRD), the International Finance Corporation (IFC) and the International Development Association (IDA). Summarizing the missions of these institutions, the IBRD was designed "as facilitator of post-war reconstruction and development" and was "established in 1944 as the original institution of the World Bank Group" (www.worldbank.org). Since it is the original institution, the name of this institution and the World Bank is used interchangeably in this study. Because of the significant role of this institution for the period under consideration (1950-1953), the next section will be devoted to a more detailed discussion of the IBRD.

The other "two organizational affiliates had been established to circumvent some of the limitations inherent in IBRD lending" (Babai, 1993: 962). For example, the IFC, "founded in 1956, was dedicated to the spread of *private enterprise* across the world and assists underdeveloped countries in attracting venture capital, both foreign and domestic, for that purpose" (ibid). The need for the establishment of a new organization to finance economic development in underdeveloped countries illustrated that this was taken very seriously by international decision makers. Actually, Şahinkaya (2008: 614) has evaluated the establishment of the IFC as the explicit endeavor to immerse the idea of private Development Finance Institution. However, it should be noted that this idea was present beforehand, for instance in the establishment process of the TSKB in 1950.

Basu (1965: 13) accounted for the need for a new affiliate institution in these words: "As the operations of the World Bank developed, the statutory provision requiring governmental guarantees for its loans coupled with its inability to finance

[21] Although the first examples of development banks have emerged in Latin America, it is hard to reach sources in English (Dağlı and Demir, 1994: 43). This is not of vital importance for this study since they were founded before World War II.

economic development through equity participation in industrial companies raised serious difficulties in the way of the fulfillment of its responsibilities."

It is clear that making equity investment distinguished the IFC from the IBRD. Moreover, we can safely argue that if the IFC had been established before 1950, it would have dealt with the establishment of the TSKB. This claim is justified by the fact that the IFC was prohibited from lending to state-owned development banks (Roberts, 1969: 2). Moreover, the IFC has preferred to make "direct investments in the companies in conjunction with the loans already made by the World Bank and/or the IDA" (Basu, 1965: 14). For instance, in 1963, "the IFC subscribed to 60 % of an issue of shares of the TSKB amounting to $ 916,663" [22] (ibid).

IDA, "was set up in 1960 in response to pressures from developing countries for a soft-loan (credits with longer maturities and no interest) agency under the control of the United Nations" (Babai, 1993; 962). Although the poorest countries were targeted by this institution, it was criticized because of its limited activities in most of South Asia and sub-Saharan Africa (ibid). Nevertheless, the IDA also tried to complement the activities started by the World Bank. For instance, "it also extended a loan of $ 5 million to the Turkish government for relending to the TSKB" (Basu, 1965: 14).

The second type of development banks are classified as regional development banks which are designed to complement the activities of the World Bank rather than replacing them (Kandemir, 2002: 10). Different from global development banks, their scope was restricted to regions, as their name implies. For instance, European Bank for Reconstruction and Development (EBRD), African Development Bank (AfDB), Asian Development Bank (ADB) may be cited as examples of such banks with a regional focus.. More specifically, there have

[22] Moreover, after 1963, the IFC played an important role in the establishment of C.A. Venezolana de Desarrolio, increased the financial resources of the Industrial Finance Corporation of Thailand, expanded the share capital of the Colombian Corporacion Financiera de Caldas, and was the shareholder in the Malaysian Industrial Development Finance Ltd., the Pakistan ICIC Ltd. and the National Bank of Development in Morocco in 1965 (Basu, 1965: 14-15).

emerged sub-regional development banks like the East African Development Bank (EADB) whose activities of which were restricted to sub-regions. The related institution for Turkey is the ADB regarding its region. However, since it was established in 1966, its activities are also beyond the scope of this thesis.

Finally, the third type of development banks are national development banks. Almost all developing economies have national development banks. Kandemir (2002) has defined national development banks as being controlled by national governments and, on the whole, owned totally by the public sector, generally. In Turkey, the State Investment Bank (Devlet Yatırım Bankası) (DYB), founded in 1964 in the context of central planning era, for example falls under this category. Its source of funds consisted of state subsidies, bonds sold to social security institutions and foreign credits (Kandemir, 2002: 39). Before it was converted to Export Credit Bank of Turkey (EXIMBANK) in 1987 in line with the macroeconomic policy of the time, it was instrumental in financing public investment (ibid).

According to Kandemir (2002) besides publicly owned development banks, there were also private development banks closely cooperating with public banks. Korean Development Finance Corporation, Indian Industrial Credit and Investment Corporation and Uganda Development Bank are some of the examples (ibid). This second category is more relevant for the case investigated in this thesis. Nevertheless, the general tendency of defining development banks as public institutions reveals the fact that the endeavor of the World Bank in the opposite direction, in favor of private ownership, has been also against the tradition.

Moreover, Kandemir (2002) mentioned “industrial banking” as a category apart from “development banking” since the former had close relations with firms. This kind of relation could be observed in the German-Japan model as stated before where the banks took the role of “active entrepreneurs”. For instance, in order to support industrial development, they provided working capital and medium to long-term credit and even participated in capital to share risk. Realizing the difference in their working manner, Murinde and Kariisa-Kasa (1997) also pointed out the distinction between development and industrial banks in terms of their scope. While the former was interested in financing development projects including industrial sector, the scope of the latter was restricted to industrial sector. They again referred to the German-Japan model as examples of industrial banks (ibid)[23]. Industrial banks in Germany and Japan showed similarities in terms of "firm relationships, extensive investment banking and strong government intervention and assistance" (ibid). Actually, the Industrial Bank of Japan cooperated closely with the government in Japan's development process.

Kandemir (2002) has asserted that the TSKB, before 1990, had common characteristics also with industrial banks. It is true that the TSKB was designed to provide medium and long term credit and also technical assistance to private industry in Turkey. That is, it is appropriate to the definition of "industrial bank" regarding its close relations with firms and its scope. Although the TSKB fulfilled the aforementioned responsibilities, it will be taken as a derivation of diverse forms of development banks. It should be noted that the important point for this thesis is not the similarity of the TSKB with industrial banks but the fact that it was an extension in the spirit of the group of development banks which were designed at the Bretton Woods conference.

3.1.2.2a. The International Bank of Reconstruction and Development (IBRD) as a Bretton Woods Institution

The United Nations Monetary and Financial Conference[24] took place to establish the new financial world order after the breakdown of the gold standard arrangements in the early 1930s. That is, the main objective of the conference was to establish the postwar global monetary regime. For this purpose, the establishment of two international institutions was envisaged by the forty-five

[23] For detailed information, see Y. S. Hu (1981), "The World Bank and Development Finance Companies", *Journal of General Management,* Volume 7, p. 46-57.

[24] Since the conference took place in Bretton Woods, it is generally known as the Bretton Woods conference.

member countries at the conference in July 1944. International Monetary Fund (IMF) was set up to promote exchange rate stability among member countries in order to facilitate trade[25].

Before focusing on the IBRD, it should be remarked that the main founder of the new international monetary system was generally perceived to be the IMF. The World Bank was set up on the foundations that were laid down by the IMF. This can be verified by the subscription conditions defined in Article II, section 2(a) of the Bretton Woods Agreement suggesting that the original members of the Bank should be chosen from among the members of the IMF. Although the IBRD was left under the shadow of the IMF at Bretton Woods, it was the single largest source of long-term lending for development and was also the principal intermediary between the advanced industrial countries and the less developed countries (Babai, 1993: 961).

Though multilateral in its formal design, the Bretton Woods system in practice quickly became synonymous with a hegemonic monetary regime centered on the dollar[26], much in the same manner as the classical gold standard of the nineteenth century had come to be centered on Britain's pound sterling (Cohen, 2002). Cohen (2002) accounted for this situation as follows:

> American hegemony was exercised principally in three ways. First, a relatively open market was maintained for imports of foreign goods. Second, a generous flow of long-term loans and grants was initiated, first through the Marshall Plan and other related aid programs, then through the reopened New York capital market. Third, a liberal lending policy was eventually established for provision of shorter term funds in time of crisis.

All these missions were granted at the conference in Bretton Woods. While the first mission was the objective of the future GATT Agreements, the IMF was

[25] In addition, draft of what would be called later as “GATT Agreements” was elaborated in order to remove barriers to free trade.

[26] Moreover, “a member’s quota determined its financial contribution, its voting power in the IMF and its access to the financial resources of the IMF (Dominguez, 1992: 14). That is, the United States having the highest quota has been the dominant power within the IMF.

responsible for the third. Lastly, the IBRD was the institutionalized body for the realization of the second mission. The purposes of the International Bank of Reconstruction and Development (IBRD) specified in Article I are as follows:

> (i) To assist in the reconstruction and development of territories of members by facilitating the investment of capital for productive purposes, including the restoration of economies destroyed or disrupted by war, the reconversion of productive facilities to peacetime needs and **the encouragement of the development of productive facilities and resources in less developed countries**.
>
> (ii) **To promote private foreign investment** by means of guarantees or participations in loans and other investments made by private investors; and when private capital is not available on reasonable terms, to supplement private investment by providing, on suitable conditions, finance for productive purposes out of its own capital, funds raised by it and its other resources.
>
> (iii) To promote the long-range **balanced growth of international trade** and the maintenance of **equilibrium in balances of payments** by encouraging international investment for the development of the productive resources of members, thereby assisting in raising productivity, the standard of living and conditions of labor in their territories.
>
> (iv) To arrange the loans made or guaranteed by it in relation to international loans through other channels so that the more useful and urgent projects, large and small alike, will be dealt with first.
>
> (v) To conduct its operations with due regard to the effect of international investment on business conditions in the territories of members and, in the immediate post-war years, to assist in bringing about a smooth transition from a wartime to a peacetime economy. (IBRD, 1944: 51-52)

Though the institution was decided to be established in 1944, the Executive Directors held their first meeting in May 1946 (IBRD, 1946: 1). Furthermore, there were only two loan applications to the IBRD in 1946 (IBRD, 1946: 4). This was explained by the inability to prepare long-term plans, which are said to be raw materials of the IBRD's business (IBRD, 1946: 5). That is, the requirements of the IBRD loan application and the post-war conditions of the member countries did not match and this led to delay in the first loan. Therefore, the World Bank's first loan was realized in 1947 when $250 million was granted to a semi-public French corporation "to assist in financing reconstruction and development of the French economy" (IBRD, 1947: 18).

Although these loans in Europe had continued in small amounts, after April 1948, the reconstruction of Europe was mainly left to the United States government within the European Recovery Program (ERP) which has been generally known as the Marshall Plan (IBRD, 1948: 8). Indeed, it was acknowledged in the Second Annual Report that the work of reconstruction was beyond the IBRD's financial capabilities[27] (IBRD, 1947: 7). Hence, the IBRD's operations in Europe would continue for the initial years "for specific productive purposes which seem clearly desirable irrespective of the ultimate form of the ERP" (IBRD, 1948: 8).

Thus, the other missions of the IBRD like "*the encouragement of the development of productive facilities and resources in less developed countries"* became prominent[28]. The dominant understanding about the subject was parallel with arguments of the development discourse of the time since it was asserted that the expansion of "less developed" countries had "always required the assistance of foreign private capital and technical skills" (IBRD, 1947: 13). Similarly, as Babai (1993) has pointed out, the World Bank has been the primary actor in the propagation and dissemination of ideas about development. Moreover, its active role would be related to the "use of its resources, its influence and the technical specialists on its staff" in order to remove "a number of deterrents to the free flow of private capital" (IBRD, 147: 13).

Turning to its main focus, this thesis has proposed that the IBRD has promoted the establishment of development banks in underdeveloped countries, based upon this mission. It is clear that the idea of development banking was not created after World War II. However, the practice of diffusing them to the "developing" countries was utilized as one of the tools aiming to provide capitalist development in the underdeveloped countries in accordance with the international division of labor. These efforts were accelerated by the rapid capital accumulation in the

[27] The World Bank's foundation capital was $ 10 billion.

[28] Beginning from the Second Annual Report, developing regions under the heading " Latin America, Asia, Africa and the Middle East" were given special importance. Moreover, it was emphasized that "it should not be very long before the financing of development projects in those areas will tend to become the primary concern of the Bank" (IBRD, 1947: 12).

United States during the war, the Cold War conditions and the lessons learnt from the Great Depression. These hints were also immersed in the IBRD Annual Reports. For instance, it was put forward that the United States, “with its immense productive mechanism intact” was the most important country that was able to supply goods and services that the others could not afford to produce or import (IBRD, 1947: 8). Hence, the rest of the world needed dollars to get their necessities, which was called as “dollar problem” in the Second Annual Report the IMF (ibid). These were also linked to the fact that the securities of the IBRD would be sold predominantly in the United States capital market[29] since “the demand was primarily for the United States dollars” (IBRD, 1947: 15).

3.1.2.3. Development Banks Founded by the World Bank Support in Underdeveloped Countries in the Post-War Era

As discussed above, the World Bank adopted a “technique of sponsoring and financing development banks for stimulating the growth and expansion of private industry in underdeveloped countries” after World War II (Basu, 1965: 11). From an optimistic point of view, Boskey (1961: 4) has accounted for the existence of these institutions as follows:

> A principal reason for the International Bank’s original interest in development banks was that they offered a practical solution to the difficulties the Bank encountered in financing small private industrial projects directly. (…) the Bank could not afford to undertake the detailed technical and creditworthiness appraisals (…) which called for a greater knowledge of local conditions and the business standing of the sponsors than the Bank possessed. More important, it was not feasible for most private enterprises to obtain the government guarantee required by the Bank’s charter when a loan is made to a non-governmental borrower.

However, these development banks had certain characteristics. First of all, they were designed to promote *private industry* and secondly they were belonging to the *private ownership* away from the effect of the government with incremental

[29] Çelimli has pointed out this would lead a conservative stance for the World Bank since it had to gain confidence of the major American financial houses (1999: 42). In other words, “the activities of the World Bank in this period were very much correlated with what the US was trying to accomplish” (ibid).

differences. These were the preconditions for having the opportunity of being funded by the IBRD. Furthermore, the IBRD determined the sectors to which these development banks would re-lend their funds. As an alternative to Boskey's view, it should be remarked that the insistence on the private ownership and the development of the private industry were in harmony with anti-state approach of the capitalist bloc against the communist bloc. Moreover, the sectors chosen for re-lending synchronized with the international division of labor of the time. Explicitly, underdeveloped countries would specialize in agricultural products and light industry whereas the production of the capital goods would be the job of developed countries according to the static comparative advantage theory.

Turkey was the first country that this approach was directly[30] adopted. Since 1951, the World Bank promoted a privately owned industrial development bank –the TSKB- and provided foreign currency loans in order to support private industrial enterprise in the country (Basu, 1965: 12). Then, it was extended to other countries such as Ethiopia, India, Pakistan, Iran, Israel and Malaysia (ibid).

As an illustration, the IBRD's total loans to development finance companies which amounted to \$ 83,6 million in 1960, rose to \$ 282,9 million in 1964 (cited in Basu, 1965: 12). Among them, most of the funds were allocated in Asia and the Middle East (ibid). The significance of these regions was that they were critical conflict areas of the two opposing blocks during the Cold War. Hence, the United States supported the capitalist regimes in these areas against the threat of communism.

As can be seen in Table 1 in the Appendix, the World Bank gave loans on the basis of several criteria about the loan such as its amount, interest rate, term and the time of loan agreement. Moreover, some loans were used during foundation while some others during operation. For instance, until 1959, the Development Bank of Ethiopia took \$ 2 million in 1950 with 4% interest, for 20 years, whereas Pakistan Industrial Credit and Investment Corporation took \$4,2 million with 5.75% interest,

30 In fact, the World Bank supplied credit to the Dutch Herstel Bank in 1949 and to a local consortium in Mexico (Basu, 1965: 11-12). However, contributing to the creation of an institution to direct World Bank loans in order to support private industry was first experienced in Turkey.

for 15 years in 1957, and $10 million with flexible interest for 10 years in 1959 (Boskey, 1961:35). As examples, two of these country experiences, India and Iran, will be analyzed in detail.

3.1.2.3a. The Industrial Credit and Investment Corporation of India (ICICI)

Although the Industrial Finance Corporation of India (IFCI) was the first development bank founded in India in 1948, the Industrial Credit and Investment Corporation of India (ICICI) founded in 1955 was the type which will be analyzed, here. The reason was that while the IFCI whose activities were limited to public limited companies and co-operative societies functioned as a public institution sponsored by the government, the ICICI was a "wholly privately owned institution as an instance of the technique recently adopted by the World Bank for the development and financing of private enterprises in underdeveloped countries" (Basu, 1965: 111). In other words, reasons to choose the ICICI as the case among other types of development banks in India were related to the fact that it was established by the support of the World Bank and being a privately owned institution, it aimed to promote private industry within the development framework of the World Bank. The ICICI is analyzed, here, in comparison with the IFCI in order to see the differences between two types of development banks.

According to Basu, being privately owned was an advantage for the ICICI. He declared his thoughts explicitly comparing the IFCI and the ICICI,

> Public accountability and the resulting uninformed and irrelevant criticisms in Parliament had considerably cramped the development of the IFCI as a true development bank and had been responsible for its much too conservative and hesitant policy in the earlier stages. As a private institution, the ICICI has been fortunately free from the incubus of responsibility to the legislature. (1965: 112-113)

In addition to the contributions from the Indian government and British and American institutional investors and Indian banks, $10 million credit from the World Bank was utilized when the ICICI started its operations in 1955 (Basu, 1965: 112). After its establishment, another $10 million loan was taken from the World

Bank in 1959 (Boskey, 1961: 35). This situation also indicated the fact that the ICICI, unlike the IFCI, had the opportunity to obtain not only loan capital but also equity capital from abroad (Basu, 1965: 112). Indeed, "it received five loans including the original one from the World Bank amounting to a total of $ 90 million"[31] (ibid). It means the ICICI was released from being limited regarding the size of the enterprises it would work with or size of investment it would undertake (ibid). According to Basu, the ICICI was superior to the IFCI with respect to the role played in the capital market (ibid). Moreover, Basu defined the ICICI as the reliable institution of difficult times.[32]Besides its financial support, the ICICI was also "prepared to advise and assist at all stages in the planning and the execution of an investment proposal" (Basu, 1965:113).

As for the scope of the ICICI, Basu (1965:113) emphasized the importance of its financing non-traditional metal-based and chemical industries. The average percentages of the years 1963 and 1964 in the total sanctioned assistance were 22.75 % for metal products, 10.2 % for machinery manufacture and 15.35 % for chemicals (Basu, 1965:117). On the other hand, traditional industries, such as the sugar industry and textiles, took 2.4 % and 4.8 % of the total, respectively (ibid). As Basu has asserted, "By and large, consumer goods industries as compared with capital goods industries occupy a relatively lower position here than in the IFCI." (ibid)

Since this thesis focuses on the funds that are distributed to light industries which would foster the dependence of the underdeveloped economies on the developed ones, the pattern of allocation of World Bank funds by the ICICI may seem confusing. However, it should be noted that the scope of this thesis, determined on the basis of policy shifts in Turkey, was confined to the period of 1950-1953. The pattern of allocation of World banks by the ICICI in India is therefore important in showing the differences from country to country and from one time period to

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31 It also took $ 5 million from the AID and DM 40 million from the Kreditanstalt.

32 For explanation, See S. K. Basu, *Theory and Practice of Development Banking: A Study in the Asian Context*, Asia Publishing House, India, 1965, p. 113.

another. In fact, the development path of India has been quite different from that of Turkey. For a more comprehensive explanation, the developments after the colonial era should be investigated separately from a political economy perspective- which is beyond the scope of the thesis. It seems, however, that the time period and the country context go a long way in explaining the peculiarities of the Indian case. First, 1960s was different with respect to the mainstream understanding of the solution to the development problem. In contrast to the liberalization episode in Turkey during 1950-53, import substitution (IS) was the dominant policy framework in the 1960s. Moreover, unlike Turkey, which began to produce consumer durables in the IS period, India chose to invest in capital goods. The pattern of allocation of the ICICI funds favoring capital goods does not contradict the main propositions of the thesis once the temporal and country-specific aspects are taken into consideration.

3.1.2.3b. Industrial and Mining Development Bank of Iran (IMDB)

It was March 1, 1959 when the representatives of the government and two leading banking houses[33] signed a Memorandum of Agreement forming the foundation of IMDBI (Ebrahimi, 1961: 65). The objectives of the IMDB of Iran were similar to those of other development banks established to promote private industry in underdeveloped countries. In general, it aimed to be active in:

> (i) assisting in the creation, expansion and modernization of private industrial, productive, mining and transportation enterprises in Iran[34];
>
> (ii) encouraging, sponsoring and facilitating participation of private capital, internal as well as external, in such enterprises;
>
> (iii) creating, expanding and stimulating public investment and security markets[35]. (Boskey, 1961: 173)

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[33] They were two foreign banks, namely, Lazard Fréres & Co. and Chase International Investment Corporation of New York.

[34] Furthermore, the IMDB of Iran considered that the provision of working capital was within the scope of development banks (Basu, 1965: 36).

35 Despite the fact that the last aim was related to the public sector, it should not be forgotten that the prior motive behind the establishment of IMDB of Iran was financing the private sector.

Like TSKB, the IMDB of Iran was among the development banks "maintaining an elaborate internal organization of expert staff including economists, accountants, engineers, lawyers and financial analysts" (Basu, 1965: 52-53). Furthermore, they had "the projects studied by their own Engineering, Economic Research, Financial Analysis and other departments to check their feasibility from different aspects (ibid). Indeed, it had some difficulties in finding the necessary staff but "utilized the services of foreign experts employed in the IMDBI to train up locally recruited personnel (Basu, 1965: 76). Indeed, importing its general manager as in the case of the TSKB, the foreign investor group in the IMDBI itself undertook the responsibility for management during the first five years (Boskey, 1961: 19). These similarities may have resulted from the fact that they were both promoted by the World Bank. In its establishment year, the IMDBI took a $ 5,200,000 loan with flexible interest for 15 years (Boskey, 1961: 35).

The share capital of the IMDB of Iran was divided into two classes[36] by which the bigger share –not less than 60% of the total capital of the corporation- was devoted to the nationals of Iran (Boskey, 1961: 176). It is obvious that the limitation on the share capital was not related to the issue of ownership, public or private. Instead, the nationality was taken as the point of reference. More explicitly, the Class A stock was held by over nineteen hundred Iranian private investors while the Class B stock was held by twenty private banking and industrial firms of the United States, the United Kingdom and Western Europe (Ebrahimi, 1961: 64).

Accepting private ownership at the beginning, the main issue revolved around the question of how the share capital was distributed between domestic and foreign persons. Again, the restrictions on the transfer of a share owned by an Iranian person to a non-Iranian one reflected the seriousness of the country about the subject. Moreover, at the time of share capital increase, people having one type of shares had priority in buying the type of shares they had (Boskey, 1961: 178). This would also preserve the division between the nationals and non-nationals within the

36 *Class A* would be subscribed by nationals of Iran whereas *Class B* would be by nationals of nations other than Iran.

shares of the IMDB of Iran. Although the bigger share was taken by nationals, "any Board action, to be valid, had to receive the affirmative vote of the majority of the Directors present, elected by the holders of Class B shares" (Boskey, 1961: 182). This item illustrated that foreign lender would ensure the safety of his funds by the help of his representatives on the Board. On the other hand, to prevent the provision of self interest from any transaction, directors were forbidden to vote for situations that created direct or indirect personal interest (Boskey, 1961: 183).

Although the IMDBI was charged to manage portfolios as an agent of the Government of Iran[37], the influence of the government was restricted. That is, an observer appointed by the Government of Iran was allowed to "attend all Board Meetings of the Directors as well as all assemblies of the corporation and all meetings of the Execute Committee, but he shall not be entitled to vote at any such meetings" (Boskey, 1961: 181). In fact, this practice was aimed to guarantee the repayment of the loan given by the government. Since the director was elected among shareholders "owning ten or more shares", it was guaranteed that the Government of Iran had no authority to appoint directors outside the Bank unlike the situation in government owned development banks (ibid).

Nevertheless, the Government of Iran demanded the IMDBI to determine its interest rate in consultation and agreement with the Monetary Authorities of Iran (Ebrahimi, 1961: 66). Meanwhile, the IMDBI was enjoying "tax concession on its profits up to a maximum of 6 % of its paid-up capital and interest-free loan from the government" (Basu, 1965: 140). In summary, while the harmony of the policies of different agents in the economy was granted, the activities of the IMDBI were promoted by the government.

[37] According to the bill passed on May 6, and 10, 1959, an interest free advance to the amount of Rls. 600 million from the government for a period of thirty years and Rls. 1,400,000,000 from the Industrial Credit Bank of the Plan Organization and Bank Melli Iran were put at the disposal of the IMDBI. For details, see M. B. Ebrahimi (1961), "Organizational Relationship Between the Industrial Development Bank and the Government Agencies in Iran", in Conference on Industrial Development Banking, CENTO, Pakistan, p. 64-70.

3.2. Main Areas of Discussion

As can be traced in history, there have been various types of institutions aimed at facilitating development by directing available resources for specific aims. These institutions differ in terms of ownership (private or public), their scope (sectoral, national or regional) and their functions (planning, lending, and technical assistance). There have been discussions about which combination among these possibilities is to be preferred for the best institutional outcome. Should it be privately or publicly owned, should it focus on a specific sector or all sectors of a country and what should be the degree of collaboration with the government? Of course, the answer to these questions depends on the special characteristics and conditions of the country in question but the discussion has clustered around certain points like ownership and scope.

Although there has been a perception that looked upon development banks as a "vital agency whose mission was to reconcile the conflicting claims of the public sector and the private sector"[38], the ownership and scope of the institution were considered to be of prime importance. Actually, the World Bank had defined its attitude towards the standard for development banks. First of all, development banks in underdeveloped countries were created to promote *private industry* instead of industrial activities in the public sector. This was an ideological choice viewing market economy and competition as the best solution to development problems. In addition, these banks were also expected to be established by *private capital* instead of state funds. This item was designed as a safeguard against the possibility of state intervention. Finally, the World Bank was effective in the sectors to which development banks would channel their credits. Thus, it would be pertinent to analyze these sectors with a view of establishing their link with the international division of labor aspirations after World War II. If so, this would support the main

[38] See, Om Prakash, Industrial Development Corporations in India and Pakistan, *The Economic Journal*, Vol. 67, No. 265 (Mar., 1957), p. 40-48

argument of this thesis arguing that the development banks had played a symbolic role in re-shaping the capitalist world system during the period.

Before starting to elaborate on these critical points, we briefly delve into the debate on the respective roles of the public and private sectors in investment financing as succinctly outlined in the following quotation “This by no means implies that the financing of investment needs to be barred altogether to private initiative; it does imply, however, that a central agency disposing of a substantial proportion of the total capital flow will be necessary to augment and complement the work of private investors.” (Nevin, 1961: 76) This statement points mainly to the important role of the state. According to the market-based capitalist development framework, state is responsible for filling the gaps in order to promote private sector investments. It can thus be claimed that development banking was offered as an alternative to direct state intervention in financial markets when private capital fails to perform adequately and successfully. Actually, Diamond (1963: 32) has explicitly asserted that “specialized institutions for long-term industrial finance were much more significant, particularly where private savings were inadequate and government participation, either from budgetary resources or from foreign aid, was required”.

Likewise, Kandemir (2002) has drawn attention to the willingness of “developing” countries to have development banks. The most important reason for this willingness was that, most “developing” countries did not have financial systems sufficiently developed to create alternative institutions providing long-term credit. This corresponded with the Anglo-Saxon ideology believing in the superiority of market forces but also emphasizing the inadequacy of capital markets in “developing” countries in terms of providing long term credit. Although the necessity of intervention to the market was admitted in return for immature capital market, the theory put forward development banks as a solution to this intervention problem. Therefore, development banks would diminish the need for the state in the financial markets of “developing” countries.

In addition, some have argued that a large state enterprise sector had a negative effect on the operations of industrial development banks (CENTO, 1962: 19). This view was another implication that evaluated the existence of state in economic sphere as obstacle in front of the operations of development banks. Attributing similar roles to development banks and the state, and arguing that these institutions should be owned privately can be regarded as part of efforts to reduce the role of the state in the development process. In other words, arguing that development banks should have private owners is in line with the belief that development can be achieved by market forces and state should not have a major role in economic life.

As an alternative point of view, Gerschenkron argued that both the "state" and the "industrial development and investment banks" were vital elements in accelerating industrialization in underdeveloped countries (cited in Şahinkaya, 1999: 23-24). Furthermore, looking at the development process in South East Asia, Şahinkaya (2008) has emphasized the vitally important role of the state in financial markets, especially through state banks. Accordingly; in addition to an efficient system of subsidies and successful import controls, the states of Japan, South Korea, Taiwan and China have intervened in financial markets by directing investible funds to serve developmental purposes (ibid). Moreover, it was emphasized that the tradition of publicly owned banks was not special to these countries but was also common in the German banking system and in countries like France, Italy and Spain (Şahinkaya, 2008: 615). In addition, 222nd article of the Rome Agreement required *objectivity towards public investment and ownership* (ibid). These were developments opposite to the understanding that deny any developmentalist role to publicly owned banks and support their privatization in underdeveloped countries.

3.2.1. Ownership

"Given the inadequate private provision of long-term finance many of the development banks were sponsored by national governments" (Aghion, 1999: 83). That is why Aghion defined development banks as "government-sponsored financial institutions concerned primarily with the provision of long-term capital to industry" (ibid). However, the World Bank wished that the development banks established in the underdeveloped countries after World War II should have private owners (Roberts, 1969: 425).

As we have already noted, the construction of railways and canals across continental Europe and in the United States during the industrial revolution had created the demand for institutions providing long-term loans. Diamond (1963: 28) has asserted that during this period, government subsidies became essential since financial return of some railway lines was not attractive enough to make private sector to invest in such ventures. Diamond has emphasized the implication of these historical developments for the underdeveloped countries, especially the critical importance of state participation in the expansion of public works (ibid). On the other hand, Diamond has argued that state investment should be to a limited area such as infrastructure, that is, he was not a supporter of state participation in industrial development (ibid). Diamond (1963: 3) has argued that 'These institutions sometimes reflected an ideological or dogmatic attitude towards the role of the state in economic activity generally or in particular fields, and sometimes reflected the pragmatic conclusions drawn from the circumstances of the country.' In other words, Diamond thought that the role of state, also for the development banks, was exaggerated due to traditional practice, and the absence of private capital accumulation in the country.

On the other hand, Cairncross (cited in Nevin, 1961) has stated that "In recent years, the IBRD has actually encouraged borrowing countries to establish development banks for the specific purpose of assisting industrialization – preferring, however, that they should not be government agencies"[39] (ibid). Contrary to the World Bank view, Nevin (1961: 78-79) proposed that the owner of specific lending institutions should be the government since the allocation of funds should be in a manner consistent with the long-run interests of development of the community. Moreover, he added that in some areas investments needed government

[39] See A. K. Cairncross, *The International Bank for Reconstruction and Development*, Essays in International Finance, No.33, Princeton University Press, New Jersey, March 1959, p. 22-23.

obligations and government guarantees to enhance the attraction of external capital (ibid).

As for advantages and disadvantages of development banks being in public or private ownership, private ones are expected to have the advantage of easier access to foreign capital. In his study on public and private development banks, Roberts (1969: 426) found that while the former were more efficient, the latter were more profitable. According to him, this difference stemmed from different inputs of the two institutions. That is, for public development banks, government was the main source of funds which were also in domestic currency. On the contrary, “private development banks, because of their favored position vis-á-vis the international institutions”, acquired a high proportion of their inputs in foreign exchange (ibid). Thus,

> If the private banks included in this analysis are more profitable but less efficient than the public development banks, then it is possible to presume that the difference in profits for the two types of banks would be substantially reduced if the public banks were able to loan in foreign exchange, at input costs comparable to those of the private banks. Therefore, part of the rationale, perhaps the most important part, for the loaning policy of the international financial institutions seems to be generated by the very policy it is supposed to justify. (ibid)

It is important to recall that these foreign exchange loans gave development banks the chance to overcome some of the foreign exchange bottleneck. This was expected to be significant[40] for underdeveloped countries since they were not able to produce capital goods and thus, had to import the necessary capital goods. This would require foreign exchange which could be supplied from their own export earnings or from foreign capital flows. This second choice made the IBRD support more precious so that it became more probable to accept its conditionality that insisted on privately owned structure of development banks.

[40] The level of their significance will be tested for Turkey by investigating their share in total foreign capital flows.

3.2.2. Scope

The scope of the development banks has been generally discussed within the framework that included their main activity areas like public or private and like industry, agriculture, and even services or the size of the firms they would finance. Similar to the ownership issue, scope of development banks showed variety in a broad range. “The size of the economy, the stage of its development, the socioeconomic framework of the country, its banking and financial infrastructure, the political outlook of the government and the credit policies pursued by it determine the variety and nature of the functions.” (Basu, 1965: 39) For instance, the TSKB and the Development Finance Corporation of Ceylon were focusing on industry, whereas the Industrial Development Bank of Canada and Pakistan did not restrict themselves in manufacturing, extending their facilities also to the service sector (Basu, 1965: 42-43).

The first critical point that this thesis emphasizes is that the development banks founded by the support of the World Bank have been designed to promote *private* industry. As mentioned before, this defines the economic world system the World Bank wished to construct as an integrated world market where liberal policies were dominant instead of state intervention.

The second critical point in the arguments about development banks is about the choice of sectors that benefit from their lending. We argue that the World Bank used its influence in the decision-making process of these institutions in order to shape the international division of labor. After World War II, underdeveloped countries were given the duty of producing agricultural products or specialize in light industry with strong links with the agricultural sector. The attitude of the World Bank was to make development banks direct their credits first to these priority areas. That is, World Bank supplied funds for development banks on condition that they lend to sectors determined by the Bank.

As mentioned, Özuğurlu (2005: 89) has claimed that the relations between the First World and the Third World can be named as indirect colonization. Accordingly, imperialism continued its economic sovereignty through international organizations like the IMF and the IBRD even if many of the ex-colonies had their political independence (ibid). These views are in line with the arguments of the dependency theory preferring the “center” and “periphery” perspective instead of the concepts “developed” and “developing”. Accordingly, international policies have been prepared emphasizing the interests of the centre, and the periphery were somehow obliged to follow these policies that fail to prioritize their own well-being.

3.3. Concluding Remarks

Our overview of the evolution of development banking since the nineteenth century has shown that the ones supported by the World Bank after World War II were different from previous examples. It is a general perception that all institutions are created according to the socioeconomic requirements of their time. This specific case was promoted by an international organization. That is, World Bank conditionality about development banks’ *private ownership* structure and *private industry* scope have had implications suggesting an integrated world market with diminished state intervention in the economy, in contrast with the Soviet regimes’ state dominant centrally planned economies.

Throughout the discussions about the ownership structure of development banks, it was generally emphasized that government intervention should be avoided for the sake of the independence of the institutions. Nonetheless, it is worth noting that international lenders’ conditionality was not taken as intervention threatening this independence. Actually, it was clear in the Second Annual Report of the IBRD that “all remedial measures (that the World Bank sees appropriate) must be completed before that country may qualify for a loan” (IBRD, 1947: 14). Moreover, since only private individuals could become the shareholders of development banks financed by the World Bank, there may also be problems related to the possible misuse of this power of shareholders for their own sake. Boskey (1961: 43) has discussed this possibility of abuse since the way is open to the shareholders of the bank that may consist of a few industrialists in the country. She suggested that some restrictions should be made to avoid such abuse (ibid).

The sectors emphasized by the World Bank for re-lending by these national development banks should also be investigated. Whereas development banks were quite similar with respect to certain characteristics such as being owned *privately* and targeting progress in *private* industry, they could differ in the chosen sectors. ICIC of India, for example, could somehow extend its activities into advanced industrial sectors like capital goods production or chemicals. This shows that domestic decision makers may not be as passive as it was thought to be and that they could influence the choice of sectors to be promoted if socioeconomic conditions of the country permitted.

CHAPTER IV

THE INTERNATIONAL AND DOMESTIC CONJECTURE AFTER WORLD WAR II

4.1. The Cold War Conditions

The end of World War II signaled the beginning of the Cold War under which world political and economic conditions were shaped by two opposite ideologies represented with the United States (US) and the Union of Soviet Socialist Republics (USSR) as the main protagonists. However, they never attacked each other. Instead they amassed nuclear weapons, supported the countries that would imitate their economic and political systems and developed their theoretical bases in order to strengthen their ideologies. The Cold War extended the conflict between the two protagonists in their territories to the conflicts between their respective supporters around the world. Sander (2001: 201) defines the era between World War II and the 1970s as the struggle of the US and the Soviet Union to affect the larger part of the world. Thus, the reason behind calling this era as two-polar world becomes obvious[41].

Accumulating nuclear weapons was an essential aspect of the era. The thing that prevented the two sides from encountering open war was greatly the fear of the possibility of the other's victory. In fact, the word that reflects the mood of the era is 'fear'. While the world was watching the dispute of the sides in all areas, they were also much more frightened from what might happen in case of an open war between the US and the Soviet Union. Each side rationalized this type of accumulation propagating that it was avoiding the biggest danger by doing this.

[41] The Cold War was seen so critical by some observers that Hobsbawn, exaggeratedly, argued that the collapse of the Soviet regime and the decisions about ending the Cold War in Reykjavik (1986) and Washington (1987) might be somewhat related (1994: 306).

As for political interventions, the two sides of the Cold War supported the groups, who were close to their ideology, by direct intervention – back-door or above-board operations– or by financial and technical assistance. They helped the political formations of these groups come to power or they supported these groups to prevent the groups of the opposite ideology come to power. The countries that were caught in the Cold War animosities were spread around the world, as far afield as Europe, Far East, and the Middle East.[42]. As Hobsbawn has asserted, the most evident feature of the Cold War was the polarization of the world to two separate camps governed by two superpowers (1994: 291). The capitalist bloc democracies excluded communists whereas the communist bloc discharged anti-communists from the political sphere. However, the latter also classified its regime clearly as proletarian dictatorships while the former was seen as proud of its democracy reflecting freedom against totalitarianism of the communist bloc. In other words, capitalist bloc associated laissez-faire policies with freedom as one of its cornerstones.

However, the Cold War period did not involve only military and political conflict between the two sides with economic considerations being at the center of conflicts. According to Sander, the USA, under the influence of the Great Depression, formed its policies on the basis of two main considerations after World War II (2001: 227). The first of these claimed that the reason behind the long lasting economic depression in the 1930s was that the world economy was not sufficiently liberalized (ibid). According to the US policymakers of the time, high tariff rates and regional trade blocs constituted the main obstacles to permanent world peace (ibid). The second consideration was that, unlike the other industrialized economies of the world participating in the war, the USA increased its production four times during war years (ibid). Actually, it was producing the two thirds of world industrial production (Hobsbawn, 1994: 316). Thus, it had the power to influence the economies around the world and it was determined to do this. On the other hand, the Soviet Union represented the command economy, putting the government

[42] Turkey can be taken as in the Europe as well as in the Middle East depending on the point of view.

control in the centre so that every segment of the economy was controlled and planned by the central government. It also had an inward looking economy closed by high barriers especially against the capitalist world.

US had the chance of accumulating capital and industrial production during war years since it did not take part in the war until a rather late stage. That is why the markets that would absorb its industrial commodities, a trade system that would minimize the cost of trading and mechanisms that would prevent interruption of production process were of vital importance for the US (Wallerstein, 1995: 171). In other words, to sustain its leadership US had an interest in other countries choosing the capitalist mode of production. Hence, mass production enabled the US utilize internationalization of productive capital as the main dynamic to reconstruct the capitalist world economy.

Having the power to invest wherever it wanted was another advantage that US had over other countries (Tören, 2007: 29). Thus, in addition to its efforts on the military and political fronts, it paid great attention to economic policies that would be implemented in other countries. Moreover, these requirements would be met by international institutions that would coordinate the relations between countries and provide stability for the capitalist system. These institutions guaranteed the safety of capital mobility at the international level. Being one of the Bretton Woods institutions, the International Monetary Fund (IMF) was designed to coordinate the international capital movements in support of the system. The other Bretton Woods institution on whose activities we focus on in this study was the International Bank of Reconstruction and Development (IBRD). It was designed especially to coordinate international investment activities to fill the gap in infrastructure investment in underdeveloped countries.

4.2. The Socio Economic Conditions in Turkey

Since the early days of the Republic, Turkey implemented a variety of economic policies. Indeed, the industrialization efforts have consisted of two alternative ways of doing things. That is, one way of development was to be achieved by the state that pioneered industrial investments within a planned economy. Furthermore, by its tools like trade protectionism, subsidies and tax exemptions, the state directed the economy. The other way, on the other hand, emphasized the role of the private sector under market-based conditions under which the role of the state was largely reduced. The market-based policies were accompanied by policies aimed at the integration of the economy to the world markets. This required low tariff rates and less control on international trade. In short, discussions on economic policy have inevitably clustered around the role of the public sector in economic life (Kepenek and Yentürk, 2000: 91).

Although there were periods during which the state dominated economic policy-making, the socialist alternative was never seriously considered. As Boratav has asserted, at the end of 1946 leftist political organizations and trade unions that had leftist perspectives were repressed and socialist movements would be pushed outside legal politics (2004: 94). This has meant that after World War II, Turkey chose the Western type multi-party democracy eliminating the radical left in political arena like most of the countries that were subject to similar anti-communist propaganda.

Against this background, with the relative strength of international and domestic forces determining the course of specific economic policies, Turkey has tried to industrialize within the capitalist mode of production since its independence[43]. Policies implemented in Turkey, as in other underdeveloped countries in the periphery, have been strongly influenced by developments in the world economy. In other words, policy shifts were shaped by the internal forces in the country as well as the world-wide conjecture effective at the time[44]. Kazgan has argued that

[43] İzmir Economy Congress in 1923 could be referred here where a "national economy" was planned to be integrated to the world economy by "mild protectionism focusing on development in general, promoting national and foreign capital, and relations between farmers and the market" (Boratav, 2004: 46).

[44] For a comprehensive discussion, See Öniş, Z. and Şenses F. (2007) "Global Dynamics, Domestic Coalitions and a Reactive State: Major Policy Shifts in Post-War Turkish Economic Development", METU Studies in Development, Vol. 34, No.2, p. 251-286.

Turkey’s links with the global economy were following the tendencies of the West since Tanzimat (1999: 92). This can be illustrated by two examples from Turkish economic history.

For instance, in spite of the fact that the dominant ideology in Turkey was favoring liberalization since independence, the 1930s saw the implementation of etatist and strongly protectionist policies under the influence of the Great Depression. The surplus created by protection was utilized to support state-led industrialization. This was one of the first attempts in the Third World to change the pattern of specialization away from primary production towards industrialization (Boratav, 2004: 64).

In the immediate post-war period, in contrast, the international conjecture favored an integrated world economy guaranteeing safe investment areas for abundant US capital (Kazgan, 1999: 93). This was aimed to facilitate control over the newly independent unindustrialized countries as well as the establishment of a strong capitalist bloc against the threat of Soviet dissemination under the Cold War conditions (ibid). Gülalp (1997) has defined the period between 1945 and 1970 as ‘golden age’ for industrialized centre and ‘national development period’ for unindustrialized periphery. Due to affluent economic conditions, United States supported the capitalist underdeveloped countries financially in an effort to avoid the weakening of its support base among these countries.

The significant point about US financial assistance was “the notion of “aid conditionality” meaning external resources will be available on the condition that policy changes required by the donor are made” (Öniş and Şenses, 2007: 13). Liberal economic policies were recommended to Turkey together with the rest of the periphery. These policies in a major part of the world pointed private sector as the main actor of development and were supported by external assistance made available to private sectors of underdeveloped countries.

Under this conjecture, both of the dominant political parties in Turkey (CHP and DP) chose to go along with the international mainstream. The change in CHP which was the party which had implemented the strongly etatist program after the early 1930s was remarkable. In its 1947 Conference, CHP reinterpreted statism to mean mainly supporting the private sector (Boratav, 2004: 98). The views of the two dominant political parties in the economic sphere were closely in line with each other also in the Economic Congress of Turkey organized by the İstanbul Tradesmen Association in 1948 (ibid). The only important difference between the two in economic matters was about the future of state economic enterprises. The İstanbul bourgeoisie and the DP agreed on the view that these enterprises should be transferred to the private sector whereas the CHP was against this view although it also did not support to increase the number of public enterprises (Boratav, 2004: 99).

As Kazgan (1999: 92) has emphasized, these changes in the domestic economy reflected changes on the international front shaped by the increased hegemony of the United States. The problems of underdeveloped countries began to be addressed to international organizations that were controlled by the US (ibid). Thus, Turkey applied for memberships of these international organizations in military, economic and political spheres in order to strengthen its position in the capitalist bloc. For instance, Turkey became a member of IBRD and IMF, and Organization for European Economic Cooperation (OEEC) in 1947; and North Atlantic Treaty Organization[45] (NATO) in 1952.

The relations between Turkey and the international institutions were also materialized in the committee visits to Turkey and reports prepared at the end of these visits. As it will be elaborated in detail in the following sections, most of the documents of the period supported the idea that Turkey would be incorporated in the international system as a supplier of agricultural products. That is, it would specialize in agriculture, mining and give priority to construction and investments in infrastructure (Boratav 2004: 94). As a result, there existed a policy shift in Turkey to "a new economic strategy which placed primary emphasis on

[45] This membership was approved after Turkey accepted to take an active part in the Korean War.

liberalization and a strategy of integration into the world market on the basis of agricultural exports" (Öniş and Şenses, 2007: 12).

However, the above discussion is incomplete since it has accounted mainly for the external factors affecting this policy shift. There were, however, also powerful internal factors at work. Wartime policies had an adverse effect on different segments (landowners, merchants and the masses) of society[46] (Kazgan, 1999: 94). Wartime speculation arising from inflation and shortage of goods had made capital accumulation possible for the commercial bourgeoisie in the country (Kazgan, 1999: 95). These developments also played a part in the reorientation of economic policies in favor of the private sector.

Keyder (2003: 166) has drawn attention to the collaboration between small producers, especially in villages, and the bourgeoisie in the attack against the state dominant economic model[47]. According to Keyder, the main factor behind this collaboration was the fact that while the cost of state-led industrialization in the previous period was laid upon the masses, the benefits had been shared among the privileged few (ibid). This reinforced the belief that market orientation was needed to cope with the problems confronting the economy and achieve a fair distribution of benefits. As Marshall Aid, stimulating road construction and tractors, enabled small producers to access to the market, production began to increase as a result of newly opened cultivation areas[48] (Keyder, 2003: 167). Recommendation by international organizations under strong American influence as an important

[46] In general, landowners were anxious due to Agricultural Product Tax, Law of Giving Land to Landless Farmers, Village Institutes; merchants due to Wealth tax and increasing state control on the economy and the masses due to decrease in the real welfare during war years (Kazgan, 1999: 94-95).

[47] Nevertheless, most of the population was unaware of the possible consequences of an uncontrolled market economy except the bourgeoisie that was sure of the benefits of its political and ideological dominance" (Keyder, 2003: 172-173).

[48] Marshall Aid enabled people buy their own tractors. In 1952, 93% of the farmers bought their tractors with credit which met 60% of the price. Moreover, according to United Nations index, agricultural production increased by 83% in 1953/54 according to its prewar value. See Keyder (2003) p. 180-184, for details.

external factor and the interests of bourgeoisie and small producers as powerful domestic factors were in close harmony in the immediate post war period.

Pamuk (2007: 13) has summarized the domestic forces combined to bring about major political and economic changes in Turkey after World War II as follows:

> Domestically, many social groups had become dissatisfied with the single party regime. The agricultural producers, especially poorer segments of the peasantry, had been hit hard by wartime taxation and government demands for the provisioning of the urban areas. In the urban areas, the bourgeoisie was no longer prepared to accept the position of a privileged but dependent class, even though many had benefited from the wartime conditions and policies. They now preferred greater emphasis on private enterprise and less government interventionism.

After the elections of 1950, Democrat Party which drew a major portion of its political support from two powerful segments of Turkish society (the peasantry and the bourgeoisie) came to power. It promised the former group immunity from the heavy taxes in agriculture and the second group laissez-faire policies in the economy as a whole. This also symbolized the victory of the free market ideology upon the interventionist state. Above all, it should be kept in mind that the winner of this struggle across the capitalist bloc after World War II was the market (Keyder, 2003: 173). As for Turkey, 1950 signaled an important turning point in the struggle between the bureaucracy and the bourgeoisie. Until then, the latter had been bounded to the former whereas after 1950, the state would follow the interests of the bourgeoisie (Keyder, 2003: 173). These interpretations should not lead us to think the state and the bourgeoisie had not been complementary in terms of economic policy. As discussed above, from the very beginning of the establishment of the nation-state, a market economy based on private sector was preferred to the economy dominated by the state[49]. What was changed in 1950 was the fact that before 1950 the bureaucracy had tried to give the floor to weak bourgeoisie, but after 1950 the bourgeoisie strengthened enough to represent itself and its own interests.

[49] Remember the speeches at İzmir Economy Congress in 1923 or the Law for Industrialization Incentive (Teşvik-i Sanayi Yasası) in 1927.

The 1950s were also important for witnessing the emergence of a new industrial class (Keyder, 2003.191). Some of these emerging industrialists increased their accumulated capital by the opening of agriculture as the major sector to the market[50] and mechanization paved the way to high yields. Among these big landowners, more successful ones became industrialists beginning their industrial activities from ginning and textiles[51] (ibid). Other big industries and financial institutions were mostly established by the urban capital that had accumulated capital in the statist era (ibid). It should not be forgotten that contractors and entrepreneurs having links with the government had attained big financial gains during this era.

In the following sections, various plans prepared by the Turkish authorities and reports prepared by committees of international institutions visiting Turkey will be discussed to have a fuller understanding of the state of domestic and external factors prior to the establishment of the Industrial Development Bank of Turkey.

4.2.1. Plans Prepared in Turkey

In Turkey, planning attempts can be traced to the First Industrialization Plan[52] put into force in 1934. High current account deficit in the 1920s were aggravated by the adverse impact of the Great depression on export revenues. Domestic private capital and foreign capital failing to provide a solution to the problem, state capitalism was chosen as the way out under these conditions (Tezel, 2002: 242). Statism found its place in the party program of the Republican People's Party in 1931 and 1935[53], and became a constitutional principle of Turkish State in 1937

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[50] Çukurova region became an obsolete instance due to encroachments, which was rare in Turkey.

[51] As will be seen below, the first credit application to the IDBT came from an entrepreneur in the Çukurova region, one of the main agricultural areas.

[52] Although Soviet advisors had made the main contribution during the preparation stage, American economist Edwin Kemmerer and his group were also consulted. According to American experts, expected industrialization was too rapid, an evolutionary way should be chosen instead. However, as Tezel (2002: 295) has asserted that the concerned projects had been evaluated as feasible and profitable in their report.

[53] See for details, Tezel (2002) p. 242-264.

(Tezel, 2002: 244). Nevertheless, the general expectation was that the private sector would follow and complete the industrialization efforts of the state.

In general, this plan was composed of and based on different industrial projects. Iron-steel and chemical industry in Karabük, big cotton textile and yarn enterprises in Konya Ereğlisi, Nazilli, Kayseri and Malatya were some of these projects (Tezel, 2002: 303). Contribution of Sümer and Eti Banks were important since they were supporting the state industrial enterprises financially (Kandemir, 2001: 34). While the former was responsible for promoting many industries like paper, cellulose, cement, cotton and woolen textile, the latter was responsible for the mining sector (ibid).

Although the second version of this first plan to start in 1938 could not be implemented because of the war conditions, state investments continued in this era[54] (Tezel, 2002: 244). The next plan prepared but not implemented was the 1945-1946 Development Plan after World War II.

4.2.1.1. 1945-1946 Development Plan

At the beginning of this process, "1945 Broad Plan Draft" was prepared by a commission led by Şevket Süreyya Aydemir. It consisted of the projects that could not be implemented under the 1938 Plan (Tezel, 2002: 316). Thus, emphasis on the state as the main motivator also remained unchanged (ibid). In short, the main aim was to be able to *domestically produce everything that was imported* (ibid)[55].

Based on this draft, 1945-1946 Development Plan (İvedili Plan) was drawn, which was composed of similar investment projects. In fact, the projects of Sümerbank were narrowed down, due to budget constraint, to areas where some progress had been achieved like textile, paper, machinery, and iron and steel (Tezel, 2002: 319).

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[54] Tezel (2002: 302) has criticized these plans on grounds that they were below the potential size of domestic market.

55 This was also criticized by Tezel since it lacked the foresight to invest in the sectors that could be appropriate for exporting in the future. In his view, some sectors, instead of all, should have been chosen for development (Tezel, 2002: 316).

Therefore, it was decided that 100 million TL -55 million TL of which being foreign exchange- would be met by Central Bank credits (ibid). Although this plan began to be implemented, due to the conjecture after World War II, it could not be completed. In other words, developments in internal and external politics lessened the probability of implementation of an economic program in which the state had a big and dominant role (Tezel, 2002: 322).

After World War II, as the private sector was given the leading role in development context, there were efforts in the direction of trade liberalization while the Turkish Lira was devalued to support this. Moreover, there were efforts also to increase foreign aid flows[56]. These developments illustrated the determination of the government for the integration of the economy to world markets (Boratav, 2004, 98). There was, as a result, a sharp turnaround in official attitude towards planning. Refusing the 1945-46 Plan, in 1947 the government gave authorization to a commission led by Kemal Süleyman Vaner to prepare a plan reflecting the private sector oriented development understanding. This was seen as a necessary move for Turkey to establish its position in the Western bloc under the Cold War conditions and more importantly to get military and financial support from the US government (Tezel, 2002: 323).

4.2.1.2. 1947 Vaner Plan[57]

The Vaner plan constituted a sharper contrast with the approach of previous plans. First, this plan envisaged giving priority to agricultural development and for this purpose the development of transportation possibilities (Tezel, 2002: 327). One of the main objectives of the plan[58] was to give a free hand to private enterprises in their choice of activity (ibid). Transportation was planned to receive 43%,

56 According to Boratav (2004: 99), it is hard to understand this willingness for foreign aid since Turkey had a trade surplus amounted to $100 million.

57 For details, see İ. Tekeli and S. İlkin (1974) *Savaş Sonrası Ortamında 1947 Türkiye İktisadi Kalkınma Planı*, Orta Doğu Teknik University Press, Ankara.

58 The new thing about this plan was the setting of national income growth rate targets at both aggregate and sectoral levels. These rates were set at 6.5 % for agriculture, 14.8 % for industry, 10.2 % for trade and 8 % for the entire economy (Tezel, 2002: 328).

agriculture 16%, energy 17%, and manufacturing 20% of the average of the total including the foreign exchange expenditures[59] (Tezel, 2002: 328). Moreover, as for the manufacturing industry, projects using agricultural inputs such as cotton, wool and hemp had been chosen (ibid).

When Turkey's application for Marshall Funds depending on a development plan including projects in both the "İvedili Plan" and the Vaner Plan[60] was rejected[61], Turkey had to prepare a simpler program for 1948-1952 and was entitled to benefit from the Marshall Plan (Tezel, 2002: 329). These developments took place during a time span which saw Turkey becoming a member of organizations of international capitalism after World War II and when Western –especially American- experts and advisors visited Turkey many times (Boratav, 2004: 100).

4.3. International Reports on Turkey

Following the military aid taken within the Truman Doctrine framework, many reports making similar recommendations were prepared on the Turkish economy. The very common characteristic of these reports was their diagnosis of the economy's underdeveloped state and its need of foreign aid and foreign advice. We shall confine our discussion to reports most relevant for the present study.

4.3.1. The Truman Doctrine

Sander has argued that the Truman Doctrine was one of the first explicit cues of the conflict between the two blocs and was impressive in forming the Containment

[59] Accordingly, the expenditure planned to be done by foreign exchange constituted nearly the half of the total.

[60] This would become a tradition later also for the World Bank funds. As Reutlinger stated the World Bank staff asserted that there should be a harmony between the projects presented to the World Bank and the economic development plan of the government in order to make the projects acceptable (Reutlinger, 1970, p. 6). Accordingly, to achieve this harmony, the government may have studied the entire economy while preparing an economic development plan and made the projects rest upon this study (ibid).

61 Despite the creation of a more liberal version, Thornburg, the head of a foreign mission which visited Turkey in the late 1940s, defined this plan as an "exaggerated definition of state socialism" (Tezel, 2002: 324).

Policy prepared by the capitalist bloc (2001: 258). This doctrine was set up against the probability of Greece and - as a second choice - Turkey to come under the influence of the Soviet Union. Thus, the USA decided to support Greece and Turkey with military aid so that they could protect themselves from the "threat" of communism and to close the Middle East to Soviet influence. There was civil war in Greece and the power was in the hand of a radical leftist government. That is why Greece received the greater portion of the military aid while Turkey took only 100 million dollars out of a total of 400 million dollars (ibid).

In his speech, Truman explicitly put forward the target of the doctrine named after him; Greece should be supported against the threat of communism and if Greece was lost, Turkey would be used as a buffer zone between the USSR and the Middle East (Tören, 2007:44). Despite these remarks officially declaring its real intentions, the view suggesting that this aid was to enable the governments decrease their military expenditure and devote this extra money to the development framework was popular in those years (Tören, 2007: 45).

In return for the foreign aid, there were some responsibilities of the governments of Turkey and Greece. First of all, American commissaries could have the right for inspection to follow how this aid is used and American press would be informed of the evolution of this process. The second of these conditions was crucial in explaining the situation to American people and, of course, was used as a part of the anti-communist propaganda. According to Tören, this was in line with the US habit of using "foreign aid" as a domestic political tool (2007:45).

4.3.2. The Thornburg Report

The visit of the committee, which was headed by Max Weston Thornburg, was realized after the Turkish government for the first time demanded $615 million within the Marshall Plan framework[62]. In the report, it was put forward that "the

[62] This was evaluated as *strange* by Tezel since Thornburg has not any formal relation but charged by a foundation called "20th Century Foundation" concerned with the future of American business in foreign countries (2002: 266).

first prerequisite for practical American help in the development of the Turkish economy is a *reassessment* of the economic objectives and the function of government in that development" (Thornburg, 1949: 205). This sentence had reflected discontent about the past development experiences of Turkey.

Likewise, there existed severe criticisms directed at the etatist era beginning in 1934 when the state had begun to direct the development efforts through five-year plans targeting "the rapid achievement of economic self sufficiency for the nation" (Thornburg, 1949: 26). This tendency was explained in the report partly by the Soviet influence which was materialized after 1933 in the loan equivalent to $18 million, without interest[63] (ibid). Besides financial support, the Soviet Union supplied technical assistance and training while setting up the establishments (ibid). However, it was noted that these relations should not be taken as an ideological agreement between Turkey and the Soviet Union[64] since Turkey had invited numerous engineers also from other countries (ibid). The reason behind the collaboration between Turkey and the Soviet Union was given as self-sufficiency objectives which "were thought to be almost identical with the leading objective of Soviet planning itself" instead of a sympathy towards Communism (Thornburg, 1949: 27). Indeed, Turkey was defined as a poorly managed capitalist economy in which most of the capital happened to be supplied by the government, rather than being a planned economy (Thornburg, 1949: 39).

Actually, according to the Thornburg Report, the most significant influence of the Soviet Union appeared in the preparation of five-year plans which were unable to "preserve a place for private enterprise[65] which did not fail but was deliberately

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[63] "It was agreed that the money was to be used for the purchase of Russian machinery and material needed in the program of industrialization." (Thornburg, 1949: 26)

[64] The expressions in the report about this subject were rather bitter and value loaded. "This did not mean that the Turks were converted to Bolshevism. Far from it. In Turkey it was not and is not safe to be known as a Communist. (…) To the Turks it did not seem that in order to operate that system successfully it would be necessary to take over as well the whole apparatus of Marxist philosophy, the Soviet type of state and the goals and slogans of a 'proletarian culture'. " (Thornburg, 1949: 26)

[65] The report also referred to the Program of the Republican People's Party (CHP). See Thornburg (1949), p. 37. Accordingly, the party in power in 1930s adhered to the statist policies. However, as it

discouraged[66]" (Thornburg, 1949: 34). In general, the report recommended that this situation should be reversed. Accordingly, role of the state should be restricted to areas such as education, public health, the postal system, police and fire protection, and public works; and should remove the obstacles imposed by laws and taxes (Thornburg, 1949: 206-207). Thus, the economic surplus would be directed by private enterprises instead of the state.

As for industrial opportunities, closer cooperation with American capital was recommended. The proposed best solution was companies jointly owned by Turkish and American interests, "the Turks contributing lira capital and national resources, the Americans dollar capital and skilled services" (Thornburg, 1949: 224). This would also allow American investment to be repaid out of future profits and thus enterprises would end up being wholly Turkish. Even if the enterprise was wholly American, "knowledge of its practices would be available to others, and Turkish enterprise might benefit accordingly" (ibid). Obviously, this report has also put great emphasis on foreign capital as well as foreign advice and experience in creating a competitive atmosphere. Moreover, regarding state enterprises, some legal regulations were suggested aiming to change their characters so that Turkish and American capital could participate in these enterprises[67].

Moreover, another criticism that the report leveled against the past experience of development in Turkey was that the businesses chosen for investment were determined not regarding the level of demand but whether its inputs were produced domestically or not (Thornburg, 1949: 28). For instance, it was found surprising

was discussed at the beginning of this section, the general tendency of dominant political parties in Turkey was in favor of private entrepreneurship. This claim also contradicts the fact that the increasing number of private enterprises, in close relation with the government, flourished during the etatist era. See Tezel (2002) and Keyder (2003) for details.

[66] "What is essential is that individuals or private establishments should not fear the impairment of their rights by arbitrary, capricious or discriminatory acts on the part of agents of the state" (1949: 205).

[67] Some industrial areas were analyzed in detail such as Zonguldak Coal Mining, Steel and Related Industries in Karabük, Petroleum Development, Shipbuilding and Ship Operation, Food Preservation, Manufacture of Simple Agricultural Implements, Cement Manufacture, Brick, Roofing Tile and Other Building Materials and National Power Network. See Thornburg (1949), p. 225-248.

“how Turkey could have gone on for so many years pursuing a program of ‘industrialization’ on the advanced level suggested by some of the state factories without adequate facilities for casting metals” (Thornburg, 1949: 242). Likewise, it was concluded that what Turkey needed at the time was neither “light industries aimed at satisfying consumer wants in general nor heavy industries which regularly provide the machinery or raw materials for industrial use, once industry has become established” (Thornburg, 1949: 246).

According to the report, before these stages of development, people in Turkey, *instead of state*, should have started to produce local surpluses for exchange within the country plus an overall surplus for export and thus new purchasing power would be created with which to satisfy new wants (Thornburg, 1949: 247). The report in effect was making the recommendation that instead of accelerating the industrialization process by state intervention, this should be left to the market forces so that everything would follow its natural pattern and sequence. Hence, the view expressed in the report that “other projects should be postponed until progress has been made in the elementary requirements for stimulating production” (Thornburg, 1949: 254).

Therefore, what Turkey needed was not mainly financial capital but the concentration on primary necessities instead of “ambitious but premature program of large-scale industrialization” (ibid). It means the urgent duty of the government was to provide public works and let small and light industries[68] develop within free market conditions, which would lay “a solid basis for an extension of manufacture and trade” (ibid). In conclusion, this report has declared that Turkey’s demand for financial assistance should be rejected since the appropriate way of helping Turkish development was not supplying financial capital.

It seems the authors of this report were aware of the fact that state enterprises like Sümer and Eti banks would be “part of the basis of any request for a foreign loan”

[68] Foundries, machine shops, factories for producing simple agricultural utensils, wagons and other elementary means of transportation, plants for the assembly and repair of agricultural, road-building and other essential machinery, the manufacture of building materials.

(1949:248). Obviously, they did not want to support the development process unless Turkey had accepted the direction that was recommended. Therefore, what the US should supply were confined to trained advisers, good managers, competent technicians, and industrial and commercial know-how. As explained earlier, opening up to foreign capital in general, and to American capital in particular, was the appropriate way of obtaining these.

4.3.3. Marshall Plan

This plan aimed to provide economic support for Europe at the time it tried to reconstruct its infrastructural and economic frame that was razed by the Second World War. Sander asserted that this plan's focus on the economic development of Europe through US financial support was related to the fact that Europe in ruin would have unfavorable effects on the US economy in the long run (2001: 260). Problems in Europe stemmed mainly from the shortage in food supply, and Europe was hardly in a position to import sufficient food with its limited foreign exchange and limited access to foreign loans.

According to Tören, this plan was part of the ideological struggle against communism and was aimed to facilitate the free movement of the US capital (2007:47). The designers of this plan tried to include the whole European continent but since East Europe and the Soviet Union refused this invitation, the word "Europe" implied only non-socialist parts. (Sander, 2001: 260). The role assigned to Turkey within this plan was in line with the Truman Doctrine. Clearly, Greece and Turkey were thought to act as 'walls in the East' against the Soviet Union (Tören, 2007:51).

At the time, this plan was officially criticized by the Soviet Union on grounds that it was aimed to prevent the spread of communism and the potential problem of capitalist overproduction. (Tören, 2007: 51). The Soviet Union claimed that through this plan the US would intervene into the internal affairs of the countries receiving this aid. In their view, such aid would hinder industrialization of the recipient countries which would be condemned to specialization in primary products.

Turkey demanded 615 million dollars depending on both the Development Plan prepared and improved during 1945-1946 and the subsequent Vaner Plan (Tezel, 2002: 328). Therefore, the previously started state industrial projects were included in the evaluation process. As expected, this demand was rejected when the committee headed by Thornburg came to Turkey and expressed strong criticism of Turkish government's support of state economic enterprises.

This decision to reject Turkey's claim of financial aid was based on the evaluation of Turkish economy which, according to the US authorities, was not in a bad situation. However, Turkey's need of "technical support" in economic area, especially in increasing the exportation of coal and cereals was recognized (ibid). Despite the fact that Turkey was not directly included in the Marshall Plan framework, it could not be totally excluded from it since it was considered as an actor that could contribute to the reconstruction of world capitalism. The main role given to it was the production of goods to meet external demand foremost from Europe, especially in spheres such as agriculture, transportation and mining. In other words, Turkey was, at least for the time being, assigned the role of specializing in agricultural products.

Although these developments created disappointments in Turkish political quarters, the government was persistent and began to prepare a new development program financed by the IBRD and more in line with the policy recommendations emanating from outside of Turkey and accepted the role of being a supplier of primary (mostly agricultural) goods for the external world[69]. As a result of this endeavor Turkey had been included as the 17th country within the Marshall Plan and the alliance had

[69] This agreement was satisfactory for both parties, the CHP and DP. CHP had proved its closeness with West and had succeeded one more stage in the way to modern civilization while DP had the chance to strengthen the capital accumulation of classes it officially represented, namely trade bourgeoisie and big landowners (Tören, 2007: 169).

been signed three months after the other countries which had been accepted in 4 July 1948 (Üyepazarcı, 1995: 12).

In the Article II of the Agreement, it was stated that state intervention in private sector activities should be limited. As Tören indicated one of the important targets of Marshall Plan was to accelerate capital accumulation of private sector with a view of deepening capitalist relations. After this process, the role of government was by and large confined to the provision of infrastructural facilities needed for private capital accumulation. The growing competition between the two blocs under the Cold War was instrumental in extending aid flows beyond 1951, the year aid flows were originally planned to end (Tören, 2007:260). Turkey had taken 352,710,000 $, of which 147,200,000 $ was unilateral, within the Marshall Plan framework between the years 1948 and 1952 (Üyepazarcı, 1995: 12).

4.3.4. Barker Report

This report was prepared against the background of the conferences between Turkish Government representatives and the International Bank for Reconstruction and Development in early 1949. Actually, the aim of the mission was "to make a broad survey of the Turkish economy, designed to enable the Bank (the IBRD) to make recommendations to the government primarily concerning long-term policies" (Barker, 1951: xii).

Similar to the Thornburg Report, the Barker Report was also highly critical of the development pattern in 1930s. It criticized the investment policies of the Sümerbank and the Etibank since they behave "on their own initiative without obtaining higher-level consideration of the merits of their proposed use of funds in relation to other investment needs of the economy" (Barker, 1951: 50). Accordingly, this led to piecemeal structure of the economy where institutions "had a vested interest in expanding the scope of their own operations" (ibid). This argument seems a little odd since the general perspective of the report was based on economic liberalism.

As for future prospects, the government was given special duties like, “better administration of governmental affairs, especially in the formulation and coordination of economic policies; a more favorable environment for the development of private enterprise; greater financial stability in the country; the removal of tax barriers which now retard economic growth and development; and better health and more adequate education” (Barker, 1951: xxii). Not surprisingly, the government was seen responsible for providing the necessary environment for the private sector so that it could find what it needed like well educated and healthy labor, be exempt from taxes and is endowed with the ability to foresee the returns of its investments.

Moreover, according to the report, “processing of agricultural products, especially food processing and cotton ginning; light machinery, tool and metalworking industries such as foundries and galvanizing plants, stove making, simple pumps, plows, hammers and saws; building materials such as cement, brick, tile and glass; leather working and shoes; woodworking industries to make furniture, veneer and plywood; light chemical industries to make the simple pharmaceuticals, vaccines and serum, soap, insecticides and the like; ceramics and pottery; village handicraft industries” should be given priority for industrial investment (Barker, 1951: 100).

The explanation for the selected sectors in the report was based on several factors such as; the urgent need at the present, domestic availability of raw materials, manpower and skill requirements, contribution to national income and to balance of payments, and interrelationship with other types of economic activity (Barker, 1951: 42). Nevertheless, textiles would be excluded from this list of activities since the industry had “for the time being already been expanded far enough, especially in cotton textiles” (Barker, 1951: 100). This resulted from the argument that “in any case, more attention should be given to the production of low-priced staple and basic materials, leaving the finer and luxury products to be imported” (ibid). Although the chosen sectors were reasonable according to the criteria above, it is obvious that this type of industrial planning would make Turkey dependent on the developed countries in terms of capital goods. In short, the report clearly limited itself with the international division of labor of the time, instead of taking a long-term view of industrial planning which would enable Turkey reach the level where it would be categorized as a developed country.

4.3.5. Turkish Investment and Economic Development (Chenery Report)

The report “Turkish Investment and Economic Development” was prepared by Foreign Operations Administration, the USA Operations Mission to Turkey in December, 1953. The first part of the study belongs to Hollis B. Chenery as Economic Consultant to the Mission. It consists of overall aspects of investment as it is related to Turkey’s balance of payments, internal stability and future. The second part, written by the Mission collaborators, includes a more detailed examination of the investment opportunities in agriculture and industry. To have a full understanding of its general perspective, we focus on the first part where priorities among sectors were assessed for the allocation of foreign exchange and investment funds.

The main emphasis of the study is on increasing productive investment under private sector leadership, the creation of the right environment for attracting foreign investment and the contribution of American assistance to this process. According to the report:

> In the past, aid has contributed to economic growth supplying imported equipment and raw materials, by the use of counterpart funds for public and private investment, and through the provision of technical assistance. In the future, we hope that Turkey’s program to encourage foreign investment will permit private investors to play an increasingly important role in the development process. (Chenery, 1953: i)

In its assessment of the recent Turkish economic performance, the report attributes the factors behind the 40% growth achieved in the five years between 1948- 1953 to expanding markets for Turkish exports with favorable prices, good weather conditions, and American aid under the Marshall Plan, which reached more than $420 million in grants and loans during the 1948-1953 period (Chenery, 1953: 47).

American aid was estimated by the report to account for at least one-third of this growth (Chenery, 1953: 49).

The report devotes much attention to the widening balance of payments deficit in the early 1950's as triggered by a growing trade deficit. It draws attention to the high import dependence of investment and poor performance of exports depending heavily on primary goods.

The report had some important differences from others drafted around the same time in terms of its recommendations to get out of the impasse as well as its diagnosis of the main problems. A key recommendation of the report was "further investment in types of production which will increase exports and reduce the dependence of the economy upon imports" (Chenery, 1953: xiv). In this context, the report pays a great deal of attention to inflation and mismanagement of import policy. The widening trade deficit did not have only structural reasons but it also resulted from excess importing because of inflationary pressures and speculations about trade restrictions (Chenery, 1953: 16). For this purpose, minimum import requirements were calculated for the upcoming years, 1954-1956, and it was suggested that "the control of credit and the elimination of inflation can reduce excess demand for imports and contribute to the proper direction of investment resources" (Chenery, 1953: xiv). There was also emphasis on an "efficient system" of import priorities. Acknowledging the connection between imports and investment, priority was given to raw materials and maintenance materials necessary to supply the existing capacity. Next priority was to be given to the most essential consumer goods which are not domestically produced. Lastly, all remaining foreign exchange was to be devoted to investment goods (Chenery, 1953:104).

The report's emphasis on investment should be appreciated since investment is a key factor for growth and development. However another important factor in the same context is the sectors chosen for investment. The report determines investment priorities on the basis of increasing foreign exchange supply. According to the report, Turkish economy should invest in areas which would promote exporting and diminish the demand for importing.

Because of the limited total volume of investment and balance of payments problems, there exists need for priorities for investment. For this purpose, private and social returns were estimated for different sectors including both private and public. By the help of quantitative estimates, sectors having returns higher than 20 percent were tried to be selected. For instance, investment in manufacturing like coal and steel was recommended since they would contribute to import substitution. Besides, cereals and cotton were seen as having good prospects for increasing exports and thereby improving the balance of payments (1953:29). As for infrastructure, highways, ports and power were to be promoted. Following a detailed analysis of the economy, the report identified the following priority areas for investment.

> In agriculture, the principal investments of this kind are cereals-handling facilities and certain types of farm machinery (tillage implements, grain drills, combines, etc.). In private industry, woolen textiles, metal goods, cement, certain chemicals and other smaller sectors would be included. In the state industrial sectors we have estimated a saving in foreign exchange of 40 per cent on the investment in coal and steel. This high rate of import saving offsets the somewhat longer time which these investments will require to complete. In the transportation field, port facilities and highways having a direct effect on increased exports of agricultural products come in this category. (Chenery, 1953:102)

The recommendations of the Chenery report were about changing the structure of the Turkish economy rather than being confined simply to financial and monetary measures. The emphasized point was the consistency between export-orientation and the import substitution as complements. Although there were occasional references to it, this view was rarely seen in later experiences of all-out export orientation after the early 1980s.

Obviously, the report is not against public investment in industry when it has higher social return than its private return and where the field needs large scale investment which is not attainable for private industry. However, fields where smaller capital would be sufficient and profitability is high enough to attract private industry should be left to private industry. Transportation investments are also left to state and highways are preferred to railroads. In addition, investment in "social overhead" is seen essential and among them "health and education were emphasized to have the highest priority since they produce long-run benefits of great importance" (1953: 100).

The report's emphasis on investment and less ideological stance on the relative roles of public and private sectors place it in a separate category than those prepared by other international organizations and foreign experts. Although the report took into account the sensitivity of the government on the devaluation issue, which was seldom mentioned, its emphasis on inflation was found so disturbing by the government that they refused the report totally.

CHAPTER V

INDUSTRIAL DEVELOPMENT BANK OF TURKEY (TSKB)

5.1. Its Establishment Process

In a general perspective, Kepenek and Yentürk defined the era between 1946 and 1960 as a transition from the belief that state intervention is needed in industrial production to the private sector-led industrial production (2000: 109). According to the authors, the fundamental characteristic of the period was that the process of the domestic production of non-durable consumption goods previously imported (ibid). While this endeavor was started by the state in the 1930s by the five-year industrial development plans, it was completed in the 1950s by the collaboration of public and private sectors (ibid). In this environment, the establishment of the TSKB was designed to contribute to the development of private industry (ibid).

One of the reasons that Turkey has required an institution such as the TSKB was the belief that underdeveloped countries like Turkey was in need for international financial and economic cooperation (TSKB, 1950: 6). In other words, they needed foreign financial aid for their development. After World War II, this need was partially met by the International Bank for Reconstruction and Development (IBRD) as the main international organization for development, (TSKB, 1950: 7).

Tezel has supported the idea that the establishment of the TSKB symbolized the shift in the industrial policy of the governments after World War II (2002: 333). Actually, it should be emphasized that he also did not distinguish between the CHP from DP as the two main political parties since both of them agreed upon the need for such a shift. Moreover, while evaluating the background of this attempt, he emphasized the pressure coming from the industrial bourgeoisie that began to flourish during the etatist era (ibid). In that way, he suggested that state investment programs enhanced the development of private industry instead of hindering it. He supported this view by showing that the number of private industries increased remarkably when the state industry had priority. While the number of private industry firms, which employed a minimum of 50 people, was 24 between 1921 and 1930 and; 57 between 1931 and 1940; the number increased to 149 between 1941 and 1950 (ibid).

Throughout the process of the establishment of the TSKB, the Turkish government had several contacts with the representatives of the IBRD. In 1948, Turkey demanded $ 240 million assistance from the IBRD to realize some projects (Coşar, 2004: 210). However, the IBRD refused this demand and listed its reasons as follows:

> -The amount of demanded credit was not compatible with Turkey's potential for payment in foreign exchange.
> -The amount of such a credit was beyond the resources of the IBRD.
> -The projects were not prepared well enough.
> -The IBRD would be able to investigate a $ 50 million credit at most from Turkey.
> At the end of several negotiations, agreement was reached ont some points:
> -The government of Turkey would prepare new projects for the IBRD credits amounting to $50 million.
> -The IBRD would send a committee[70] to investigate the general economic environment in Turkey and the sensibility of the prepared projects in this picture. (TSKB, 1951: 12-13)

These external developments, especially the report of this committee and the visit of the head of the Board of Directors of the World Bank, Mr. Garner, paved the way for the establishment of the TSKB. This committee was expected to meet the representatives of the government and to assist them regarding the projects within the framework of development plans (ibid). Thus, the projects were supported by the World Bank (ibid). However, the idea of a special financial institution flourished at a meeting between industrial businessmen and R. L. Garner (ibid).

[70] The information about the arrival of this committee was given in Cumhuriyet newspaper dated 21 January 1949. The committee was composed of members of the IBRD Lending Office who declared that their aim is to examine the economic environment in Turkey since it had applied for IBRD credits.

This created a dispute between the representatives of the private sector and the government, which can be read as the power struggle between the state bureaucracy and the bourgeoisie[71]. The Ministry of Industry, in particular was disturbed by this meeting that excluded the government representatives[72]. However, one should note that this by no means, meant that the government, represented by the CHP, did not agree upon the development plan based on the market economy. In fact, the law that envisaged the establishment of the TSKB was accepted before the elections in 1950 when the CHP was still in power (Tezel, 2002: 333). The situation can be summarized as the conflict stemmed from the fact that the idea of a financial institution was brought about by the representatives of the private sector against the Republican tradition (Üyepazarcı, 1995: 17).

Industrialists of the post war era were in need of a special institution that would provide long term credit for the private sector (Üyepazarcı, 1995: 13). They were organized within the "Industry Association" at the time and tried several times to establish such an institution themselves (ibid). However, it had not been possible until the first committee from the World Bank visited Turkey (ibid). Actually, it was the head of the İstanbul Industry Association who asked the World Bank representative for assistance for the establishment of a financial institution to provide long term credit for industry (Üyepazarcı, 1995: 15).

After several visits to Turkey, in October and November 1949, the committee, headed by Mr. Harold F. Johnson was authorized to guide the Turkish Government in the establishment process of the institution[73]. After several months of deliberations, the news about its establishment was given in the daily newspaper *Hürriyet* (14 March 1950), based on the declaration of the General Manager of the

[71] Üyepazarcı also read this as the conflict between the alternatives of public investment as opposed to private investment for development (1995: 18).

[72] Cumhuriyet and Hürriyet, dated 6 March 1949. Furthermore, the Minister of Industry declared that the ministry was unaware of such an initiative like establishing an industrial development bank.

[73] See "Report and Recommendations of the President to the Executive Directors on Industrial Development Bank of Turkey Loan Application guaranteed by the Republic of Turkey (1950), International Bank for Reconstruction and Development, Washington D. C.

Central Bank of the Republic of Turkey. The heading of the news item reflected the general expectation from the establishment of the TSKB, which was “The Bank would try to attract foreign investment to the country”.

Information about the process of the establishment of the TSKB included that its government guaranteed shares could be bought from the related commercial banks (ibid). This was meant to serve another mission of development banks which was to contribute to the formation of capital markets[74]. This could be achieved through the process of selling their own shares and bonds to the public, through underwriting the issue of new industrial securities, and finally through selling investments from their own portfolio (Basu, 1965: 83). Nevertheless, though the TSKB had initial attempts in this regard between 1950 and 1953, the main purpose has been promoting private industry through lending, as will be seen in our discussion on the Annual Reports of the TSKB, below.

Moreover, to be financed by a development bank was beneficial not only because of the fact that the borrowers would have the chance to get a long-term loan but also these loans in general had lower interest rates than the commercial banks. This was possible for two reasons (Franck, 1961: 61). First, “the proportion of low-cost government funds in development bank resources was usually much larger than that in commercial bank resources” (ibid). This would allow development banks to charge lower interest rate than commercial ones. Second, the profit rate would be higher in commerce than in industrial investment since “quick profits were made at relatively high risks” (ibid). Thus, the interest rate would proportionately be in harmony with the profit level of the activity. Furthermore, according to Franck, low interest rate would encourage borrowers to spend the loan on capital intensive equipment[75] instead of investing in industries in which the largest cost item was labor costs (ibid).

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[74] For the following years, Boskey (1961: 31) has emphasized the difficulty the TSKB had experienced in this field because of inflation.

[75] Franck argued further that this process was strengthened in Turkey, by the low prices of state owned industrial enterprises and low exchange rate for capital goods (ibid). However, this was before these

One of the main aims of development banks in general was to fill the gap that was created by the lack of organizations engaged in the preparation of investment projects[76]. That is why industrialists needed technical support in addition to financial support. Entrepreneurs coming from mercantile tradition were not capable of preparing a project, which was a precondition for taking a loan from the TSKB (Yahşioğlu, 1961: 90). The projects of the loan applicants were evaluated from technical, economic and financial aspects by the TSKB experts. In this regard, it was asserted that the TSKB had difficulty in "recruiting economists and financial analysts with enough experience in corporate finance" but not in finding engineers and lawyers (ibid). Basu (1965: 76) also supported this by claiming that the necessary staff was mostly trained within the institution from among young graduates, as the TSKB was the first institution in this sphere. Nevertheless, there existed some clues about the possibility of transferring the necessary staff from the State Economic Enterprises. For instance, Diamond (1963: 4) acknowledged the benefit of the institutions supported by the government in this context. He defined the contribution of institutions "devoted exclusively or chiefly to the creation or financing of state enterprises" as helping to create a reservoir of skilled labor and managerial experience which has been of immense value in the development of private industry (ibid). In this sense, Sümer and Eti Banks[77] were given as examples of the institutions providing some of the top personnel of the Industrial Development Bank of Turkey (ibid). Moreover, Boskey (1961: 123) has mentioned

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policies were changed with the economic stabilization programme in August 1958. The TSKB adopted an easier credit policy by changing its loan and equity ratio again in 1958 after the economic stabilization programme was launched. Beyond the necessity of equity financing in order to guarantee its profits by selling the shares at a higher price at a future date, the TSKB, with the collaboration of the Turkish and the United States governments, decided to set up of a special equity fund instead of relying on equity financing with borrowed funds (Yahşioğlu, 1961: 92).

[76] In 1958, the TSKB had "established a new department to develop investment projects, which were to be sold to investors or to be realized by the Bank with the purpose of selling its shares to the public at a future date" (Yahşioğlu, 1961: 92).

[77] These banks were typical outputs of the period when state was active in economic development between 1930s and mid 1940s. Beside the State Economic Enterprises (SEEs) working in the main industries of the economy, state banks supporting these enterprises were also established by the state.

the requirement that the TSKB had to offer salaries sufficiently high to attract technical personnel from government service.

Moreover, the TSKB utilized the World Bank in the case of lacking experienced staff. For instance, the first general manager who was working as the director of marketing in the World Bank was imported from the USA. After all, the IBRD had been enthusiastic about “the provision of personnel from its staff or otherwise” (IBRD, 1947: 13). From a different point, when the origins of the members of the Board of Directors of the TSKB were investigated, it would reveal that most of them were among private entrepreneurs. For instance, Hakkı Avunduk, Nuri Dağdelen and Vehbi Koç, as the business group, constituted the majority of the Board composing of 7 people. Among others, there were two general managers of different commercial banks serving as the Chairman and the Vice Chairman. One of the other members was an Agriculture Engineer and the other was an Economics Professor. Hence, the structure of the Board complied with the main purpose of the TSKB. Since it aimed to promote private industry in Turkey, not surprisingly, it would include representatives of the target sector as the main interest group. It is interesting that this would not create a discussion of intervention, which is prevalent for government, since the activity of the TSKB was directly linked to the personal interest of some of the members of the Board. This can be taken as an illustration of the fact that many discussions embodied ideological background.

In addition, technical and managerial support for the entrepreneurs, who had inadequate experience in industrial sphere, was one of the main elements of the statements of the IBRD (Üyepazarcı, 1995: 20). Therefore, it became one of the items under “Purposes of Formation” part in the “Statutes of the Industrial Development Bank of Turkey” [78]. The Purposes of Formation under Article-2 can be summarized as follows.

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[78] In order to attain the purposes mentioned heretofore sub A and B, the Bank will engage in the following:
a-To extend credit facilities without security and to grant medium or long term loans and, when necessary, short term loans against pledged security and mortgage
b-To participate in all types of private industrial enterprises.

A. To support and stimulate the establishment of new private enterprises and the expansion and modernization of existing private enterprises in Turkey.
B. To encourage and assist the participation of private capital, both domestic and foreign, in industry established in Turkey.
C. To encourage and promote the private ownership of securities pertaining to Turkish industry and to assist in the development of a securities market in Turkey.

Obviously, another responsibility of the TSKB was to manage the credits received from the US government within the Marshall Plan framework. The evolution of the acceptance process of Turkey in the Marshall Plan was discussed in the previous section. The important point worth emphasizing here again was that Turkey had fostered its "first and the largest effort to assist certain sectors of private industry through counterpart financing, by building a new and specialized institution" (Blaisdell, 1962: 116).

As Şahinkaya has asserted in his interview[79] with the author, it should be questioned why the IBRD had chosen the mechanism of lending through a privately owned development bank instead of the traditional way which was lending directly to the government. This obviously reflected the choice of excluding the state out of the industrial development context. Moreover, extending assistance to a specialized institution shaped through the recommendations of the IBRD would guarantee that the funds would be utilized for the designated purpose. Otherwise, if the US government extended assistance to governments, it would have to search for alternative mechanisms to "initiate and strengthen private enterprise efforts[80] within

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c-To establish, in certain exceptional cases, new enterprises with the funds of the Bank.
d-To provide technical and administrative aid to the clients of the Bank.
e-To engage in all types of activities with regard to movables and immovables, either on its own account or in cooperation with real persons or bodies cooperate; to accept and release mortgages taken as security for its claims; and to acquire real estate.
f- To affect the sale of its participations or ownership in industrial enterprises as rapidly as practicable in order to make re-available the resources of the Bank for the above purposes.

[79] 03 July 2009, Türkiye Kalkınma Bankası, Ankara.

[80] Regarding counterpart funds, these efforts could be observed as import programming or counterpart programming…etc. See William M. Blaisdell, "Factors Affecting Expansion of the Use of U.S. Counterpart Funds for the Financing of Private Industrial Enterprises", in Conference on Industrial Development Banking, CENTO, İstanbul, 1962, p. 105-123.

the host country" (Blaisdell, 1962: 108). Whereas development banks designed for this purpose would rescue the IBRD from this burden.

5.2. Ownership

As stated in the "Report and Recommendations of the President to the Executive Directors on Industrial Development Bank of Turkey Loan Application guaranteed by the Republic of Turkey" (1950), the result of the committee's visit:

> … was that both private interests and the Government agreed on the outline of a plan for the establishment of **a privately-owned and –operated (emphasis added)** medium and long term credit institution whose equity capital of TL 12,500,000 (about $ 4,500,000) would be supplemented by the same amount in local currency loans from the Central Bank of Turkey and by a foreign exchange loan from the International Bank.

Incorporated as a joint-stock company, the TSKB had various founders of which the common characteristic was not to be linked to the general public. Among them, there existed national and foreign commercial banks such as Türkiye İş Bankası A. Ş., Osmanlı Bankası, Banko Di Roma, Yapı ve Kredi Bankası, Holantse Bank Uni N. V., private firms and their associations such as Çukurova Sanayi İşletmeleri T. A. Ş., İstanbul Ticaret ve Sanayi Odası; İstanbul Ticaret Borsası and individuals such as Nuri Dağdelen and Vehbi Koç. The biggest share belonged to Türkiye İş Bankası having 30,000 shares bearing TL 100 each. It was followed by Osmanlı Bankası and Yapı ve Kredi Bankası having 20,000 and 15,000 shares, respectively. Then, there were İstanbul Ticaret Borsası and İstanbul Ticaret ve Sanayi Odası with 10,000 shares, each. The remaining partners were having shares fewer than 5,000 and lastly the least amount of shares of 25 belonged to the members of the first Board of Directors (IBRD, 1950, Section II, Article 5).

5.2.1. Relations with the Government

As mentioned above, the government of the time tried to manage the establishment process as the main actor. However, the thing that restricted these efforts the most was the conditionality of the World Bank. First of all, the interaction between the TSKB and the government was restricted by the proposed ownership structure of the former at the very beginning. More explicitly, it was put forward that the World Bank would support the establishment of an industrial development bank in Turkey if and only if it was owned by the private sector (IBRD, 1950: 2).

However, although the government did not have direct representation in the TSKB, it was represented indirectly. Actually, shares of the Central Bank of Turkey represented the public sector and as a result: “one of the directors of the TSKB was elected by the shareholders from among a list of candidates submitted by the Central Bank.” (Basu, 1965: 76)

Above all, the activities of development banks have been expected to be synchronized with the general macroeconomic policies[81]. However, in case of a conflict, the attitude of development banks under consideration was obviously in favor of independence. This could be deducted from the following declaration[82] of the Chairman of the Board of Turkey’s Industrial Development Bank (Franck, 1961: 48):

> The Board (of the Industrial Development Bank) should be completely independent in its policies and actions, but should not lose from sight the overall economic policies followed by the Government. If an important divergence of point of view on the overall economic policies exists between the Board and the Government, the Board as an elected body should stick to its own ideas.

It is obvious that the government was seen as the regulator of the economic environment so that the private sector and institutions would act freely. This understanding was not opposite to the government’s political view so they had made the regulation necessary for the establishment of the TSKB on 24 March

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[81] For the TSKB, Coşar put forward the historical harmony between the activities of the TSKB and general macroeconomic framework in Turkey. See N. Coşar, “Türkiye Sınai Kalkınma Bankası ve Sanayileşme”, in Gülten Kazgan’a Armağan Türkiye Ekonomisi, İstanbul Bilgi Üniversitesi Yayınları, İstanbul, 2004, p. 209-228.

[82] This speech made at the EPA Study Conference on Methods of Industrial Development in Madrid was quoted by Peter Franck. See P. Franck, “Development Bank and Government Monetary and Economic Policies”, in Conference on Industrial Development Banking, CENTO, Pakistan, p.46-63, 1961.

1950[83]. It was the Law No. 5660 about the Treasury Execution of TSKB's profit (Türkiye Sınai Kalkınma Bankasının dağıtacağı karın Hazinece ikmali hakkında Kanun). The Law with all its articles was accepted without any discussion at Grand National Assembly unanimously with 273 votes[84]. Accordingly, if net profits of the TSKB, which would be distributed to shareholders, could not satisfy an annual rate of 6 % of subscribed capital, the Finance Minister would be responsible for completing the required level for five years from the date of establishment of the bank (Article-1). This was designed to attract shareholders' contribution to an institution that would not be very profitable in its initial years (Budget Commission Report, 1950: 3). Moreover, these shortfalls in profits would be paid to the TSKB as initial payments by the Treasury and would be paid back when the Bank satisfied the required level of profits (Article-2). The third and the fourth articles guaranteed that the TSKB was free from the Banks Law No: 2999 unless it accepted deposits and from article 422 of the Trade Law which restricted the amount of bonds issued with the level of subscribed capital. The fourth article was necessary since the TSKB had to issue bonds to get the 9 million dollar credit, equal to 25.2 million lira, from the IBRD (Budget Commission Report, 1950: 3). In conclusion, the TSKB was "by special statute exempted from the general banking laws of Turkey and certain provision of the commercial code which would have unduly restricted its borrowing power" (Boskey, 1961: 13). Moreover, by the special statute, the government also guaranteed a minimum dividend (ibid). Hence, the TSKB was privileged against legal limitations that restricted the behavior of other private banks.

5.3. Scope

For our purposes, there were two factors effective in shaping the scope of the TSKB. First of all, private investment was promoted by the US against public investment that was supported by the Soviet Union under Cold War conditions. As

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[83] Before that, Budget Commission Report was prepared by 12 members on 21 March 1950.

[84] See Tutanak Dergisi, Term 8, Volume 25, Birleşim 72, p. 1037.

Köymen has asserted, the US as the leader of the capitalist bloc and the Soviet Union and China –after 1949- were in severe competition in affecting the rest of the world (2007: 106). The debate was mainly based on the market economy vs. central planning axis, respectively. Ideologically, the US declared itself as the symbol of freedom, accusing the communist bloc of totalitarianism (Köymen, 2007: 107). Turkey being one of the countries having common borders with the Soviet Union was especially important for the US since it was pursuing a policy of surrounding the communist bloc with reliable allies. Therefore, Turkey had to be supported to constitute a model for other underdeveloped countries as a successful case of market-based development. Funds given to Turkey through the channel of the Truman Doctrine and Marshall Plan should be interpreted in this perspective.

Secondly, parallel to the general role given to underdeveloped countries in the international division of labor at the time, Turkey was directed to light industry and the production of industrial goods depending mainly on agriculture. Like a number of commission reports analyzed in the previous section[85], this understanding was reflected in a press statement of R. L. Garner which suggested that Turkey should give priority to agriculture and also emphasize transportation facilities (Hürriyet, 03 March 1949)[86]. In the 1950s, the US and the World Bank held the view that underdeveloped countries would develop through modernizing the agricultural sector and would meet their foreign exchange requirements by exporting agricultural products (Köymen, 2007: 104-105). Moreover, they also claimed that

[85] Coşar (2004) put forward that the sectors that should have priority in Turkey according to the World Bank Report of 1951, generally known as the Barker Report, were the same as those the TSKB was planning to give assistance.

[86] However, he had to add industry when the journalists recalling the semi-colonized situation of the Ottoman Empire, reacted negatively,. This reaction was a good example of the influence of the conditions that threatened the independence of nation states, and the thought that saw industrialization as the main element of their independence. In this sense, he, as an American, had explained his suggestion by referring to the development path of the United States as an example. Accordingly, the US had first progressed in agricultural sector and then, **when the market conditions allowed**, (emphasize added) in industry. Moreover, Garner, against the general perception, had felt the need to emphasize that the IBRD was commonly owned by the member countries was not representing the US government.

these countries should liberalize their foreign trade regimes and allow foreign investment in the country (ibid).

The prevalence of this perspective can be confirmed by drawing upon Yahşioğlu's tables summarizing the investments financed by the TSKB since the establishment of the Bank up to December 31st, 1959. As a result of his rough value added calculations based on the data for that period, yearly contribution of these investments to the Gross National Product amounted to 580.8 million TL [87].

As for the branches of industry financed by the TSKB until the end of 1959, the sectors with the highest number of firms that took credit were repair and maintenance shops (96); food products (62); textiles (51); chemicals (42); stone, earthenware, glass, ceramics (40); machinery and mechanical products (24), and mining (22)[88]. If the total amount of TSKB loans was taken into consideration, the above order changes. That is, while textiles (70,970,271 TL) received the biggest share, this was followed by stone, earthenware, glass, ceramics (64,632,992 TL) and chemicals (53,645,127 TL)[89]. Although the metal ore smelting sector had 14 firms financed by the TSKB, it took 39,954,011 TL which is very close to the amount taken by food products (40,768,344 TL). Lastly, machinery and mechanical goods received 29,298,129 TL out of the total TSKB loans amounting to 344,107,404 TL. Not surprisingly, these sectors were inside the borders of the picture drawn by the international division of labor of the time. Obviously, emphasis was on primary industrial products; light ones instead of heavy industries or agro-industrial goods instead of capital goods. Nevertheless, chemicals and machinery and mechanical goods sectors should be analyzed in more detail to see if there were any outliers.

[87] A more concrete number for value added was TL 495 million calculated by multiplying the capital productivity with the total amount of investment. See Ş. Yahşioğlu, "*The Economic Significance of the Credits of the Industrial Development Bank of Turkey*", in Conference on Industrial Development Banking, CENTO, Pakistan, 1961, p. 83.

[88] Figures in brackets show the number of firms receiving credits.

[89] Figures in brackets show the amount of the credits.

5.3.1. The Annual Reports of the TSKB: 1950-1953

After its establishment year of 1950, TSKB produced annual reports which were composed of certain common features such as summarizing the financial situations of Turkey’s main trading partners like the USA, Great Britain, Belgium, France, West Germany, Italy, Switzerland and Sweden. Not surprisingly, all of these countries were in the capitalist bloc of which Turkey had chosen to be a part.

In 1951, military spending was still dominant worldwide due to the Korean War and the Cold War atmosphere. This allocation of resources for military purposes created scarcity in other commodities and thus inflationary pressures. These inflationary pressures lost their effectiveness in many countries in 1952 and 1953 that could be called more stable years with a steady rise in production. Moreover, due to expected budget deficit of the USA –almost 10 billion dollars- in 1952, interest rates began to rise, and thus, the cost of the US loans began to increase (TSKB, 1953: 7). However, since the expectation for the end of the year 1953, was below the level of 3 billion dollars, high interest policy had lost its significance and the interest rates began to fall (TSKB, 1954: 7).

As for Turkey, these years witnessed an affluent environment. It was estimated that the index of industrial production (1948=100) increased to 102 in 1949, 105 in 1950 and 117 in 1951 (TSKB, 1952: 12). Likewise, agricultural sector showed an even more rapid growth due to good weather conditions and mechanization in the sector. Figures given by Boratav (2004: 101) indicate that the average growth rate of agriculture was 13.2 % whereas the average growth rate of industry was 9.2% between the years 1946 and 1953. 66% of the increase in the national product between the years 1951 and 1952 was attributed to the agricultural sector as opposed to only 13% to the industrial sector (TSKB, 1954: 13). These figures were more balanced between 1952 and 1953 with the agricultural and industrial sectors accounting for 44% and 28% of the increase in national product, respectively. The increase in the share of the industry seemed appreciable, however, it should be noted that it included Construction and Mining, and moreover manufacturing activity was concentrated on nondurable consumer goods.

The production of agro-industrial goods was 1,900,000 tons in 1949; 2,102,860 tons in 1950; and 2,830,045 tons in 1951 (TSKB, 1952: 13). Among them, potatoes, sugar beet, cotton and cotton seeds constituted most of the increase (ibid). The respective numbers for cotton production[90] (in tons) were 58,200; 104,200; 122,300; 162,000; 170,000 and 140,000 in 1948, 1949, 1950, 1951, 1952 and 1953, respectively. These figures are significant in showing the intention of Turkey in taking the role of supplying agricultural products to the external world.

In addition to these increases in industrial and agricultural production, foreign trade volume of Turkey also increased in those years (TSKB, 1952: 17). Turkey had foreign trade deficits through 1951 to 1953[91]. Imports increased from 1,125.8 million TL, in 1951 to 1,556.6 million TL in 1952. The corresponding export values were 879.4 million TL and 1,016.2 million TL. As a result, foreign trade deficit widened from 246.4 million TL in 1951 to 540.4 million TL in 1952. According to the report, the rise in exports could be explained by the fact that the Korean War led to improvement in international prices in favor of exporters of primary goods (TSKB, 1952: 17). Since this effect disappeared in 1952 and 1953, Turkish terms of trade worsened over its level in 1951 but it was still above its level in 1948 and 1949 (TSKB, 1952: 17).

According to data for the 1950-1953 period as given by Singer (1977: 392) in dollar terms, trade deficit was 23 million dollars in 1950, 88 million dollars in 1951, 193 million dollars in 1952 and 137 million dollars in 1953[92]. Similarly, Boratav (2004: 95) has defined the era between 1946 and 1953 as the beginning of the chronic trade deficits making the Turkish economy dependent on foreign aid. According to some observers, this situation was created deliberately since Turkey's foreign exchange reserves in 1946 amounted to 250 million dollars, more than twice as

[90] The whole production may probably not be dedicated to the domestic industry since some were to be exported to meet the international demand.

[91] Since the values of 1953 given in the Annual Report of the TSKB were not coherent, they are not cited here.

[92] See Table 2 in the Appendix.

high as its level of imports in that year (see Boratav, 2004: 98). Moreover, Turkey had almost 100 million dollars trade surplus in 1946 (ibid). Although it was not in an urgent need of external resources, Turkey showed considerable enthusiasm to get foreign aid first within the Truman Doctrine and then the Marshall Plan framework (ibid).

The structure of exports and imports between 1950 and 1953, clearly confirmed Turkey’s position as an importer of capital and intermediate goods and an exporter of primary goods. The main exports of Turkey were cereals, tobacco, cotton, fruits, seeds and metals whereas main imports consisted of machinery, iron and steel, transaction vehicles, fuel products, textile, medicine and dyestuff (TSKB, 1952: 17). Thus, the gradual move towards a more liberal foreign trade regime after World War II was to strengthen the position of Turkey as a supplier of agricultural goods. In order to investigate the contribution of the TSKB to this pattern of specialization, the credits given to private enterprises should be investigated in more detail.

5.3.1.1. The Activities of the TSKB in 1950

In the first Annual Report, intensive efforts for the establishment of the TSKB, as an institution that would mediate between the IBRD and private industry in Turkey, were given extensive place (TSKB, 1951: 14). The requirement of such an institution was called upon by the IBRD following credit demands of Turkey on several occasions[93]. According to the IBRD, this institution should be established as an industrial credit institution (rather than as a holding company) that would also serve in technical and administrative fields (ibid). This was in line with the definition of underdevelopment given by Eugene Black, the General Manager of the International Bank for Reconstruction and Development:

[93] According to the report, the USA had channeled 500 million dollars to the Export-Import Bank of Washington D. C., in 1945, as a response to Turkey’s credit demand. However, the Bank was able to give 25 million dollars at most on condition it was satisfied with the projects and that American investors would also take part in their realization (TSKB, 1951: 10). Moreover, Turkey also received a credit amounting to 28 million dollars from the Export-Import Bank for military purposes (TSKB, 1951: 11). Next, the funds from Truman Doctrine and the Marshall Plan were to support Turkey in its struggle against communism (ibid).

> Economic backwardness can be defined as the lack of good formed private enterprises, low levels of and badly organized domestic capital and inadequate technical knowledge, plans and state administration. Why development promotion required external aids sourced from the existence of these circumstances. Again the existence of these circumstances very much hinders the economic credibility of the proposed projects, the realization of necessary technical investigation and plans and the implementation of them in an appreciable way. (ibid)

Therefore, the TSKB was established with 12.5 million Turkish lira capital that was borrowed from the Central Bank of Turkey (TSKB, 1951: 15). However, it needed more resources to function as a development bank. Hence the IBRD loan will allow the TSKB to support existing industrial activities and to lend for the establishment of new ones (ibid). Meanwhile, it was expected to invest in industrial enterprises on its own or in collaboration with other owners of capital also to provide administrative and technical assistance to the private sector (ibid).

Before the agreement for 9 million dollar loan was signed, the TSKB had applied for necessary expertise personnel on 21 July 1950 (TSKB, 1951: 16). In response, Norman M. Tucker[94] was appointed as the general manager of the TSKB on 31 July 1950 (ibid). Since the negotiation process[95] between the Turkish government and the TSKB ended on 7 February 1951, 9 million dollars credit was finally received on 28 February 1951 (TSKB, 1951: 17). Although the legal regulation was made on 21 December 1950 and the TSKB was authorized again to lend 13.8 million TL to private sector within the Marshall Plan framework, the death of the general manager of TSKB resulted in the postponement of its usage[96]. That is why the TSKB could not immediately begin to function as a medium of long term lending for the private sector. Thus, the TSKB completed 1950 with 106,557.39 TL loss (TSKB, 1951: 18). This loss during the passive year of 1950 was evaluated

[94] He could work in this position for only two months due to his illness and subsequent death.

[95] Negotiation processes took longer than expected since an agreement may have parties more than two, like Turkish Government, the Central Bank of Turkey, the IBRD and the TSKB.

[96] In the 1950 balance sheet of the TSKB, 7,063,000 TL was seen on the passive side under the name of Marshall Aid. It was planned that Aslan and Eskişehir Cement and Sukireci Firms Corporation would receive 4,110,000 lira and Turkish Cement and Lime Corporation would receive 2,953,000 lira (TSKB 1951: 20).

positively since it constituted only 0.85 % of the 12,500,000 lira capital (ibid). It was declared that it would be possible to compensate this loss with productive and satisfying results in the following years (TSKB, 1951: 19).

In conclusion, 1950 was a year of preparation for the TSKB but the annual report is still important since it had reflected the general understanding behind the establishment of such an institution.

5.3.1.2. The Activities of the TSKB in 1951

The TSKB took over the management of the funds received within the Marshall Plan framework in the last quarter of 1951 (TSKB, 1952: 18). From then on, the TSKB was responsible for Marshall Plan funds as well as its own funds. In addition, the TSKB was responsible for completing the credit process that had already been started by the government. That is, a 17,866,800 TL loan for eight projects, the owners of which had been previously determined by the government, was managed by the TSKB (TSKB, 1952: 24). In addition, 664 credit claims for all of these funds amounted to 230,284,995 TL in 1951 (TSKB, 1952: 19). 234 of these 664 credit claims, which amounted to 111,457,364 TL, were related to the TSKB's own resources[97] (ibid). Among them, the most important items were textiles, construction and food industry (ibid). Hence, the TSKB had approved 36 credit claims to the amount of 19,233,860 TL from its own resources[98] (ibid).

However, two of these projects, one submitted by an oil firm and the other by a textile firm, which amounted to 2,610,600 TL, was sent to the IBRD for investigation since they claimed foreign exchange (ibid). Generally, investigation of feasibility of the proposed projects requiring foreign exchange by the TSKB and the IBRD and the alignment process took a long time. That is why all of the credits approved could not materialize in the same year[99].

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[97] See Table 3: Credit Demands for the TSKB's Own Resources (TL) in the Appendix.

[98] See Table 4: Approved Credits according to their amount in the Appendix.

[99] See Table 5: Credit Demands contracted in 1951 in the Appendix.

By way of illustrating the problems involved in evaluating the projects, Üyepazarcı has cited the tales of two entrepreneurs, Abdülkadir Kocabaş and Nejat Ferit Eczacıbaşı. Abdülkadir Kocabaş was the first to apply[100] for a TSKB credit and wanted to establish a cotton ginning firm in İskenderun (Üyepazarcı, 1995: 40). However, Eva Moll, the only economist of the TSKB at the time, was worried about this project since it was known that a cotton ginning firm would be established in İskenderun by another firm with abundant capital and experience (ibid). Moreover, it was expected that cotton production would decrease due to expected decrease in cotton prices, which would create idle capacity in increasing numbers of ginning firms (ibid). Despite the various requirements[101] that he was asked to meet, Abdülkadir Kocabaş managed to receive a credit to the amount of 95,000 TL on 14 August 1951 (Üyepazarcı, 1995: 41).

Nejat Ferit Eczacıbaşı, on the other hand, was engaged in small scale production in the medical sector with limited variety (ibid). He wanted to establish a firm to produce medicine using TSKB credits. As rivals in the same sector, İbrahim Ethem and E. R. Squibb & Sons had also applied to the TSKB for credit (ibid). Medical sector was a field where confidence was especially important and the public at large were accustomed to foreign brand names (Üyepazarcı, 1995: 43). In spite of these worries of the TSKB administration, Eczacıbaşı succeeded to persuade them, accepted the strict conditions imposed [102] and received a credit to the amount of 820,000 TL necessary for construction and other facilities (ibid). Eczacıbaşı would in due course establish itself as a prestigious member of Turkish industry and acted as a member of the Administrative Board of the TSKB between 1955 and 1957 (Üyepazarcı, 1995: 45).

[100] However, the first entrepreneur who actually received a credit from the TSKB was Emin Giray who received a credit of 150,000 TL on 26 February 1951.

[101] Mr. Kocabaş had to set off real estate in the value of 300 % of the credit amount as remuneration in kind (Üyepazarcı, 1995: 40).

[102] See Erol Üyepazarcı, *TSKB'nin Öyküsü*, Türkiye Sınai Kalkınma Bankası A. Ş., 1995, p. 43.

As Keyder (2003:193) has shown, most of the industrial firms, which were established between 1950 and 1960, received credits from the TSKB in domestic as well as foreign currency. In 1951, for example, 5,585,600 TL of the total credits given from TSKB's own resources, representing more than a quarter of the total, were in foreign currency which was paid out from the 9 million dollars that the IBRD had agreed to provide to the TSKB. According to the agreement between the TSKB and the IBRD, the projects chosen for foreign credit allocation were required to obtain the approval of the IBRD[103] (TSKB, 1952: 26). This is a significant point illustrating the direct influence of the IBRD on the pattern of Turkish industrialization through the allocation of scarce foreign exchange resources.

Likewise, 430 credit demands aiming to get funds within the Marshall Plan framework accounted for 118,827,631 TL (TSKB, 1952: 21). These demands came from different areas like cotton yarn rowing, ginning, irrigation facilities, vegetable and fruit plotting, fishing, and timber disinfection and sawing (ibid). The most sophisticated ones involved agricultural tools and machinery production which were accompanied by lighter ones such as agricultural tools repair shop, automobile and tractor tire welding (ibid). However, the amount of credit demand for agricultural tools and machinery production with irrigation facilities constituted only 9 % of total demand (ibid). It was not surprising that these demands belonged to industrial sectors based on agriculture as Turkey could benefit from the Marshall Plan framework provided that it would supply agricultural goods for the reconstruction of Europe.

Although there were credit demands for capital goods such as agricultural tools and machinery production, credit allocations to such areas were not approved by the TSKB[104]. This can be taken as an illustration of the fact that the funds received under the Marshall Plan did not aim to construct forward linkages in Turkish industrial production. Again, credit agreements amounting to only 3,526,200 TL,

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[103] See Table 6 in the Appendix.

[104] See Table 7 in the Appendix.

belonging to 12 projects[105], could be materialized within 1951 due to same dilatory reasons[106] (TSKB, 1952: 27).

Furthermore, comparison by size of credit has revealed that the funds received under the Marshall Plan had attracted small to medium size investors while the resources of the TSKB itself were attractive for large size investments (TSKB, 1952: 23). For example, 49 % of the total number of credit demands was below the 50,000 TL level for the Marshall Plan funds whereas the corresponding share for the TSKB's own funds was only 28 percent (ibid). The fact that nearly half of the Marshall Plan funds were demanded by small producers was in line with the production structure in Turkey, dominated by small scale production mostly in agriculture.

At the other extreme, credit demands exceeding 500,000 TL level constituted 13% of the Marshall Plan Funds and 21% of the TSKB's own funds (ibid). As for the situation for the 100,000 TL - 500,000 TL range; while 23% of the Marshall Plan Funds were in this range, this figure reached 35% for the TSKB funds. These figures clearly indicate that TSKB credits were demanded by entrepreneurs planning relatively large investments. This supports the view that big business had expected and was in need of such an institution providing long term credit and was trying to benefit from it as much as possible.

303 out of 664 credit demands were investigated and 64 of those investigated were approved while 234 were denied or cancelled (TSKB, 1952: 32). As a reflection of the obligations of the recipients of these credits, 38,010,934 TL would be invested by the owners of the projects in return for 42,918,160 TL TSKB credit (ibid). Thus, total investment in the industrial field[107] would be almost 81 million TL which represented a big stimulus to industrial investment (ibid). Taking into account also their multiplier effects, the contribution of these investments to Gross National

[105] See Table 8 in the Appendix.

[106] See Footnote 26.

[107] See Table 9 in Appendix for their distribution among different sectors.

Product was estimated to reach nearly 92 million TL (ibid). These investments were expected to create employment for 5377 people.

As a result of these new investments, there would be capacity increases of 14,110 tons in cotton derivation, 1,217 tons in olive oil, 3,017 tons in refined cotton oil, 7,584 tons in pulp, 23,700,000 pieces in tiles, 25,300,000 pieces in brick, 25,800 square meters in marble plaque, 500,000 tons in cement, 6,000 tons in wire rod, 6,175 tons in cotton thread and 15 million meters in cotton textile (TSKB, 1952: 33). Furthermore, in cotton textiles, 51,984 spinners and 250 looms were added to the production process (ibid).

Although, profits of TSKB reached 107,378.05 TL in 1951, its net profits were only 820.66 TL due to 106,557.39 loss in the previous year (TSKB, 1952: 34). Hence, the TSKB was again in need of the help of the Ministry of Finance to be able to distribute dividends (TSKB, 1952: 42).

5.3.1.3. The Activities of the TSKB in 1952

Although tables that categorized credit demands in 1952 became more complicated due to their increasing number, it was remarkable that they were prepared in a more professional way reflecting the increase in experience. Moreover, it was asserted in the report for 1952 that the credit applications took the form appropriate to the requirements since the credit policy and lending process of the TSKB became clearer in time (TSKB, 1953: 19). Hence, although the number of cumulative credit demand reached 1091 in number and 375,801,368 TL in value at the end of 1952, the numbers of those cancelled and refused were only 409 and 184, respectively[108] (TSKB, 1953: 22). Thus, the percentage of inappropriate credit demands was almost 55% in 1952 as opposed to almost 77% in the previous year (TSKB, 1952: 32). However, this improvement was reversed in 1953. Among 1335 credit demands up to 1953, the percentage of inappropriate credit demands increased to

[108] This calculation is valid on condition that all credit demands were evaluated in terms of approvability.

60% as the numbers of those cancelled and rejected were as high as 524 and 279, respectively (TSKB, 1954: 23).

Since credit demands targeting TSKB's own capital or the Marshall Plan funds were not given separately, it is not possible to compare them in detail according to size of credits. However, it can be asserted that the number of credit demands which were below the 50,000 TL level constituted 45.2% of the total (TSKB, 1953: 22). Despite this big share in terms of the number of application, 57% of the total value of credit demands belonged to credits above the 1,000,000 TL level (ibid).

In 1952, there was no significant change in the sectoral distribution of credit demands over the previous year. As in the previous year, there was heavy concentration in fields like textiles; food; chemicals; stone, soil and glass industries and repair shops in terms of number of applications (TSKB, 1953: 21). As for the amount of credits, credit demands for textile industry constituted 37 % of the total credit demands up to 1952 (TSKB, 1953: 20). Moreover, food; stone, soil and glass; shipping industries and repair shops were other branches with relatively larger amount of credits demanded (TSKB, 1953: 21).

Of these credit demands, 80,713,505.34 TL were promised to be met by the TSKB from different sources. 19,189,750.37 TL of this total were to be met by Turkish Lira reserves of the TSKB, 25,025,954.97 TL by credits from the International Bank for Reconstruction and Development, and 36,497,800.00 TL by the Marshall Plan funds (TSKB, 1953: 23). However, the procedure concerning the IBRD credits was not completed until the end of 1952 so that a part of this credit valued at 15,157,153.10 TL could not be utilized in 1952 (ibid). Hence, the net amount that was planned to be allocated to industrial projects in 1952 was limited to 66,368,478.46 TL (TSKB, 1953: 37). Nevertheless, due to dilatory reasons including the approval process of the IBRD, projects with a total cost of 23,375,350.00 TL were left out of the activities in 1952 (TSKB, 1953 :27). This has meant that, 2,644,496.90 TL of Turkish Lira reserves of the TSKB, 17,852,003.10

TL of the credit from the IBRD and 2,878,850.00 TL from the Marshall funds could not be utilized in 1952 were carried over to 1953 (ibid).

However, 7,173,951.87 TL from the IBRD funds, 16,545,253.47 TL from the own resources of the TSKB, and 33,618,950 TL from Marshall Plan funds were allocated to various industries (TSKB, 1953: 25). Since the sectors to which these credits were allocated did not differ significantly according to the source of funds[109], their sectoral distribution is presented together in one table[110].

Different from 1951, repair and maintenance shops shared the top position with textiles in the sectoral distribution of the number of credit allocations which was, similar to the pattern in the previous year followed by the food; stone, soil, glass and chemical industries (TSKB, 1953: 30). As for the amount of credits taken by sectors, again textile industry had the biggest share with 40,954,516.25 TL which represented, more than half of the total credit allocations. It was followed by the stone, soil, and glass; the food; and chemical and shipping industries in that order (ibid).

As can be observed from Table 11 in the Appendix, credit allocations by the TSKB, valued at nearly 80,713,000 TL, were expected to create value added in private industrial sector to the amount of 135,000,000 TL in current prices if all enterprises worked at full capacity (TSKB, 1953: 34). Such an increase in value added was of great significance since the national product of mining, construction and the industrial sectors in 1951 was estimated as 1.262 billion TL (ibid).

In 1952, the TSKB also participated in the establishment of an enterprise, Fishery Industry Development Cooperation, of which paid up capital was 500,000 TL. 346,500 TL of it was paid by the TSKB to support fishing industry in the country (ibid).

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[109] For details see TSKB, *1952 Annual Report*, 1953, p. 24-27.

[110] See Table 10 in the appendix.

The net profits of the TSKB in 1952 reached 681,767.33 TL (TSKB, 1953: 35). This was the year that the TSKB began to distribute dividends amounting to 375,000 TL, representing 6 % of its paid up capital of 6,250,000 TL (TSKB, 1953: 41). After other obligations were met, 176,053.51 TL was left over which was used for repayment to the Treasury for previous year's borrowing (ibid). Thus, by the end of that year the TSKB had gained such strength financially that it no longer needed the support of the Ministry of Finance any more.

5.3.1.4. The Activities of the TSKB in 1953

The distinguishing characteristic of this year was efforts aimed at establishing a capital market. This process gained a new momentum in this year because with 80 % of its resources pledged in the previous year, the TSKB had to create new financial resources to continue its activities (TSKB, 1954: 20). For this purpose, a group including economics professors, bankers and brokers was given the task of investigating the current situation of the capital market in Turkey (ibid). According to their report, completed in February 1953, the capital market had the potential for development since people with savings or capital, had confidence in the Turkish banking system (ibid). Moreover, the report has suggested that corporations financed through the capital market rather than individual initiatives were required for accelerating Turkish industrialization (ibid).

It should be recalled that the establishment law of TSKB also authorized it to support the formation of the capital market. To this end, it increased its capital to 25 million TL by resorting to public subscription (ibid).

On the other hand, an agreement between the IBRD and the TSKB, signed on 10 September 1953, paved the way for another 9 million dollar credit for the Turkish private industry (TSKB, 1954: 21). The interest on this new credit was set at 4⅞ % with 15 years maturity (ibid). Here, the mission of the International Bank for Reconstruction and Development as a bridge between world capital markets and Turkey, and Turkish private industry, through the TSKB, was emphasized (ibid). Furthermore, it was not forgotten to thank to the government of the Republic of

Turkey for their show of confidence in the TSKB by being guarantor for the IBRD credit (ibid). This credit also signaled future cooperation between TSKB and the IBRD (ibid).

With an additional 244 credit claims amounting to 79,560,574 TL realized in the year 1953, the total number and amount of them reached 1335 and 455,361,942 TL, respectively (ibid). As it was expected from the balance of payments situation discussed in the previous chapter, most of these credit demands were targeting foreign exchange resources (ibid). Different from the previous year, repair and maintenance shops took the first place in terms of the number of credit demands. It was followed by food; textiles; chemicals; stone, soil, glass and ceramic industries in that order (TSKB, 1954: 23). In terms of the amount of credits, the sequence was as follows: textiles; food; stone, soil, glass and ceramic industries; shipping; repair and maintenance shops and chemical industry (ibid).

In 1953, an additional 19,895,528 TL was decided to be allocated to different sectors (TSKB, 1954: 24). Of this amount, 3,054,456 TL was supplied from Turkish Lira resources of the TSKB, 4,061,966 TL from IBRD credits and 12,779,106 TL from the Marshall Plan fund (ibid). Thus, by the end of 1953, a total of 100,625,315.14 TL was approved in order to be distributed to the Turkish private industry (ibid). Of this total amount, 19,315,583.97 TL belonged to Turkish Lira resources of the TSKB, 31,036,617.17 TL to IBRD credits and 50,273,114.40 TL to the Marshall Plan funds. However, the approval process of credits to the value of 8,928,567 TL as part of the IBRD credit was again not completed during the year (ibid). Due to such delays in general, the contracts of some projects amounting to 15,146,267 TL were left to be signed in 1954 (TSKB, 1954: 29). It should be emphasized that during this year the total funds in foreign exchange exceeded the Turkish Lira funds.

As can be observed in the Table 12 in the Appendix, sectors in which the credit recipients concentrated were similar to those of credit demanders (TSKB, 1954: 32). 55 allocations were made for repair and maintenance shops, 43 in food, 40 in textiles, 21 in stone, soil, glass and ceramic, and 16 in chemical industries. In terms of the amount of credits, however, textile industry again took the largest share with 42,104,931 TL, accounting for nearly one half of the total (ibid). It was followed by stone, soil, glass and ceramic with 21,650,091.89 TL, food with 17,855,534 TL, chemicals with 4.860.850 TL and lumber and wood with 4,166,733 TL (ibid).

As for credit allocations by size, although 74 out of 214 credit allocations representing 34.4% of the total belonged to credits below the 50,000 TL level which together accounted for only 1.5% of the total of 100,625,315.14 TL (ibid). 30 credit allocations to projects exceeding 1,000,000 TL each accounted for nearly two-thirds (65.1%) of the total credits given by the TSKB (ibid).

As for the expected contribution of investments done by the TSKB credits as given in Table 12[111], total planned investment was 241.848.996,54 TL initiated by the TSKB credits amounting to 100.625.315,14 TL. 89.425.553 TL of total investment was in fixed assets and 51.798.128 TL in working capital (TSKB, 1954: 36). When these enterprises work at full capacity, the increase in industrial production was estimated to be around 402 million TL in current prices (ibid). Subtracting the value of raw materials necessary for production, 198 million emerge as the value added created by the whole TSKB credits up to the end of 1953 (ibid).

Finally, the net profit of the TSKB for 1953 was 980.549,83 TL, representing a 43 % increase over the previous year (TSKB, 1954: 37). This level was adequate to complete the payment of 41.594,83 TL of debt owed to the Treasury.

5.4. Concluding Remarks

Between 1950 and 1953, the TSKB began to fulfill the responsibilities given to it during its establishment. Until 1953 it provided the Turkish private sector long term funds .amounting to 100,625,315.14 TL, including the foreign exchange funds coming from the IBRD and its own domestic resources, As Blaisdell (1962:117)

[111] This table was prepared by correcting the summation errors that are present in the original 1953 Annual Report.

has put forward, “this was considered to be an almost ideal combination for private industrial development: a bank for investment loans with both local currency and foreign exchange to lend to industrialists wishing to establish or expand production capacities requiring both domestic and foreign resources”. This trend was followed by numerous underdeveloped countries “which set up their own institutions to administer World Bank loans and to provide long-term finance to their newly created industrial enterprises” (Aghion, 1999: 87).

Parallel to the mediating mission of the TSKB between the IBRD and the private sector of Turkey, the foreign exchange funds were realized more than the domestic funds. Although lending in foreign exchange occupied a remarkable place in the TSKB’s operations, the importance of this amount in the country scale should be investigated. It is significant to check this since it would reveal the contribution of the TSKB one of the main objectives of which was “to encourage and assist the participation of domestic and foreign private capital in industry”.

One should bear in mind that the foreign exchange was seen essential for “underdeveloped” countries since they had to import necessary capital and intermediate goods for their industrial development. However, they were generally deprived of necessary foreign exchange due to inadequate export earnings This made foreign exchange transfers and borrowing from external agents essential. In this sense, one of the main arguments supporting development banks, especially private ones, was that they would contribute to the industrialization effort also by enhancing foreign exchange transfers.

It was asserted in previous sections that the proposed IBRD loan to the TSKB accounted for $18 million between the years 1950 and 1953. In order to calculate the contribution of the TSKB to the foreign exchange reserve of Turkey, the capital account of Turkey in the related time interval can be analyzed in Table 2[112]. In fact,

[112] The first thing that attracted attention in the third part of this table was that the capital transaction of public values had been greater than the private ones in the first two years while the situation was reversed in the last two years. This change can be interpreted as a reflection of the change in the tradition of lending to governments as a first choice.

a total of $644 million were flowed in the country between the concerning years. Obviously, the share of the loan from the IBRD had constituted a very small part on the whole.

More precisely, the size of the foreign credit provided by the TSKB seemed again very small compared to the $361,710,000 obtained from the Marshall Plan during a five year period, 1948-1952. Furthermore, the size of the export earnings in the years between 1950 and 1953 amounted to $1.336 billion, much higher in relative to the TSKB foreign resources. Therefore, in line with the foresight of Türel and Şahinkaya expressed in our interviews[113], the role of the TSKB in providing foreign exchange as the private development bank in Turkey could not be as impressive as emphasized by the supporters of private development banks.

Alternatively, the TSKB credits can be analyzed regarding the size of the enterprise it lent and the location of them if they gathered in the metropolis. In the former context, Üyepazarcı argued that although there were big firms among its customer portfolio in 1951 such as İzmir Textile and Çimentaş in İzmir, Aslan and Eskihisar Cement Firms and Textile Central in Darıca, most of its customers were small scale enterprises in Anatolia with average credit amount differing between 100,000 TL and 500,000 (ibid). However, in the subsequent years, especially[114] TSKB's own credits were given to big industrial enterprises or the ones which probably became strong in time[115] (ibid). This was in line with the fact that a small firm would hardly be able to sustain heavy requirements of the TSKB in order to receive loan. After all, the TSKB had avoided taking risk, which could be necessary in a country where there were not much people with capital.

[113] Türel, O., 25 June 2009, METU, Ankara and Şahinkaya, S., 03 July 2009.

[114] The size of credits allocated within the Marshall Fund framework was generally smaller than those allocated from the TSKB's own resources. See 5.3.1.2., especially p.82.

[115] Koruma Tarım İlaçları AŞ in 1951; Tatko, Anadolu Çimento TAŞ, Çukurova Sanayi İşletmeleri AŞ, Birlik Mensucat AŞ, Ekinciler Tekstil AŞ, Altınyıldız Mensucat, Bossa in 1952; Elka, Türkay, Aksu Tekstil, Bozkurt Tekstil in 1953; DYO Boya Fabrikaları, Komili, Kavel, Türk Demir Döküm, Uzel, Narin Mensucat in 1954 (Üyepazarcı 1995: 45).

Last but not the least; Keyder has asserted that industrial investments had intensified in İstanbul, İzmir and Adana as the new focuses of growth (2003:193). Şahinkaya in the interview[116] with him has also criticized the credit policy of the TSKB on grounds that it did not consider a balanced regional distribution of investments. One may say that this criterion was beyond the TSKB's mission since it was a private institution free from social interests. However, leaving the management and allocation of such funds to a private institution must have contributed to the unequal levels of industrialization of different regions in Turkey.

[116] 03 July 2009, Türkiye Kalkınma Bankası, Ankara.

CHAPTER VI

DEVELOPMENT BANKING TODAY

As mentioned before, the activities of the TSKB could be traced from the general dominant economic framework of Turkey over time (Coşar, 2004). Being a bank for development, the parallelism between its areas of interests with the shifting development discourse should not be surprising. Hence, in order to establish a link between the present and the past, we now turn to a brief discussion of the transformations that the TSKB had experienced through its long way.

Following the period analyzed in detail in this study, the TSKB maintained its significance between 1954 and 1960 mainly due to Turkey's foreign exchange shortage since it was the only institution that could provide foreign resources (ibid). However, when the credit sources became abundant in the 1960s –when the development plans were shaping the economy-, it lost its power of directing economic activities (ibid). Actually, it was expected that it should immediately adapt its credit policy to the requirements of macroeconomic development plans and support import substituting industries. However, it was a bit late in shifting its credits explicitly from consumer goods industry to intermediate and investment goods industries, in harmony with the import substitution model[117]. Nevertheless, 64.6% of the total credits between 1963 and 1967 amounting to 887 million TL was given to the intermediate and investment goods industry whereas the remaining were devoted to the consumer goods industry (ibid).

[117] It was not before 1967 that the Board of Directors declared that the credit policy of the TSKB would be compatible with the macroeconomic development plans. See, Üyepazarcı (1995: 130).

As the World Bank view on developmental issues changed in the 1970s[118], the TSKB was reorganized in order to undertake its activities on a regional basis (TSKB, 2008: 4). Thus, it established departments in İzmir, Adana, Elazığ and Samsun between 1970 and 1973 (Üyepazarcı, 1995: 134). This was compatible with the clause of the Agreement with the World Bank requiring widespread credit allocation across the country (Üyepazarcı, 1995: 145). As a result, the percentage of the credit allocations to the northwestern provinces decreased from 85% in 1970 to 55% in 1975 whereas it increased from 0.4% to 26% to the East Anatolian provinces (Coşar, 2004).

Neoclassical resurgence in economic thinking which was soon followed by the rise of neoliberal economic policies after 1980 in Turkey as well as a large number of other peripheral countries resulted in the loss of influence of state institutions promoting or directing economic activities[119]. Şenses and Taymaz (2003) have emphasized the importance of 1980 as a landmark of the evolution of Turkish economic policies, signaling the transition from inward looking policies under state direction to market-based outward orientation. Extensive trade liberalization in the 1980s was followed by capital account liberalization in 1989.[120].Unlike the industrialization strategy before 1980 which had been highly selective among predetermined sectors, one of the distinguishing features of the industrialization strategy after 1980s was being *neutral* about the choice of sectoral specialization as well ownership by public, private or foreign capital (Şenses and Taymaz, 2003: 2). This move towards neutrality would certainly influence the working principles of

[118] During this period the World Bank began to emphasize the unequal distribution of the beneifits of industrialization among regions, social groups and factors of production (Coşar, 2004). Accordingly, it was envisaged that social aspects of development should be taken into consideration besides profitability (ibid). In this wind of change, Hollis B. Chenery, was influential in particular (Üyepazarcı, 1995: 145).

[119] As Öniş and Şenses (2007) have asserted “the collective interests of major international institutions in Turkish restructuring process were compounded by the country’s geo-strategic significance for the United States and its Western allies in a period marked by the Soviet invasion of Afghanistan signaling the continuation of the Cold War contest”.

[120] TSKB would take the role of mediating between the foreign and domestic capital after 1980s.

development banks in a negative way, alienating them from the industrialization objective.

The TSKB has shown considerable resilience in adapting itself to changing economic conditions. Between 1980 and 1990, the TSKB contributed to the Privatization Master Plan, increased its investment banking facilities and supported export oriented industries (TSKB, 2008: 4). As the new set of policies adopted by Turkey at the beginning of the 1980s were prolonged, and industrialization was gradually pushed away from the development agenda, the TSKB intensified its activities in investment banking facilities.

In a detailed study on policy shifts of the Turkish economy, Öniş and Şenses (2007) have identified the policies implemented since the 2001 crisis as another break with the past. The distinguishing characteristic of the post-2001 era has been the addition of the regulatory state component to neo-liberal policies that have been the dominant force behind economic policies since the beginning of the 1980s. This change in the economic policy framework can be traced in the development discourse passing from the Washington Consensus –affirming wholesale financial and capital account liberalization- to the Post-Washington Consensus –shift of emphasis in the direction of strengthening institutions and the regulatory arm of the state (ibid).

Furthermore, this policy shift was supported by big business –which was also influential in the earlier stages of neoliberal transformation right from the outset "as well as small and medium sized interests" (Öniş and Şenses, 2007). Moreover, the private sector has expanded to include also a "much stronger foreign investor presence" while "autonomous regulatory institutions pointing to a significant shift of power within the internal organization of the state" (ibid). It is clear that this new policy prospect does not in any way imply state intervention as understood before 1980s. Instead, the state is kept out of the economic area. With its main economic function confined to a regulatory role, it is not in a position to organize or plan production even by providing sectoral incentives. This has meant that development banks are now deprived of a strategic road map showing national priorities in industry.

6.1. The World Bank Attitude

In this context, it is essential to consider the transformation in the main motives and objectives[121] of the World Bank in recent years as a key international institution in the field of development. For the World Bank, the early 1990s has constituted a breaking point signaling a shift in its main focus of attention from stabilization and structural adjustment to poverty reduction. As a reflection of this transformation the World Bank has begun to use the term "poor" for peripheral countries and "rich" for the central ones. Over the course of shifts in the development doctrine since the early 1950s, the World Bank has emphasized indicators like growth, income per capita, growth and income distribution, and more recently poverty (Goldin et al., 2002). However, "In recent years, the goals of development have come to embrace the elimination of poverty in all its dimensions—income poverty, illiteracy, poor health, insecurity of income, and powerlessness" (ibid). These developments were obviously instrumental in diverting the attention of the World Bank further away from industrialization as a key objective of development. We would therefore expect the role of the TSKB to change in line with these developments on the domestic and international fronts.

Meanwhile, Goldin (2002) and his colleagues attach a great deal of importance to World Bank's recognition of the complementarity between the respective roles of the state and markets in the process of development. In the words of these authors "experience shows that the private market economy must be the engine of growth; but it shows also that a vibrant private sector depends on well-functioning state institutions to build a good investment climate and deliver basic services competently" (ibid). In our view, however, this perspective is not much different from the market oriented perspective of the World Bank that was dominant in the 1950s. The only difference is the explicit emphasis now on the *limited* role of the

[121] See Çelimli (1999) for a comprehensive analysis.

state, whereas under the Cold War environment of the 1950s a more interventionist state was the accepted perspective. Although the present World Bank perspective is trying to find a middle ground between the state and market approaches, its contribution to sustained growth and development in the underdeveloped countries is highly questionable as it altogether misses the industrialization objective.

This evidence for the absence of an internationalization focus from the World Bank perspective can be observed from the type of projects approved by the World Bank in Turkey during 2006-2009. Information given in the website of the World Bank indicates that most of the projects (10 out of 18) have been related to energy, infrastructure and health, which comprised Electricity Generation Rehabilitation and Restructuring Project, Programmatic Electricity Development Policy Loan Program, Electricity Distribution Rehabilitation Project, Energy Community of South East Europe Program, Private Sector Renewable Energy and Energy Efficiency Project[122] and Gas Sector Development Project; İstanbul Municipal Infrastructure Project and The Cadastre Modernization Project; and The Avian Influenza and Human Pandemic Preparedness and Response Project, and Health Transformation and Social Security Reform and Second Phase Adaptable Program Loan Project.

Among the other projects, the TSKB took part in two more projects as borrower. One of them was the Access to Finance for Small and Medium Enterprises Project where the other participant was Halkbank, a public sector bank specializing in credits to small and medium sized enterprises. The other was the Fourth Export Finance Intermediation Loan Project, taken with the Türk Eximbank[123], where it

[122] The beneficiaries of this project, approved in 2009, are the Industrial Development Bank of Turkey (TSKB) and the Development Bank of Turkey (TKB, Turkish acronym). In our interview with Serdar Şahinkaya on 03 July 2009, he has stated that the attitude of the World Bank towards TKB during the project negotiations was not very sympathetic. The reason why TKB was allocated the smaller portion of the credit was adduced by him to the fact that the World Bank considered the TKB (with 99.08 percent public ownership) to be inefficient.

[123] After the 1980s, some publicly owned development banks were transformed reflecting the dominant market-based outward orientation of the Turkish economy. For instance, the State Investment Bank (DYB, Turkish acronym) of Turkey was converted to Eximbank, the Export-Import Bank of Turkey.

was aimed to provide medium and long-term capital to exporting firms and to "improve the ability of the financial sector to provide financial resources to firms through development of financial intermediaries"[124]. Though the credit amounts seemed to be satisfactory, the role of the TSKB did not go beyond its investment banking feature. In original expression, "TSKB will intermediate the funds through Participating Financial Intermediary, which in turn will on-lend to eligible private exporters"[125].

Last but not the least, a project approved by the World Bank, called Competitiveness and Employment Development Policy Loan, was planned to contribute to neoliberal restructuring of the Turkish economy. This objective was obvious in the original explanation of the project aim[126]:

> The development policy loan for Turkey supports legal, institutional, and structural reforms that promote growth and the creation of more and better jobs in Turkey by helping maintain the currently enabling macroeconomic framework; improve the investment climate - including a large program of privatization of state owned enterprises (SOEs), set the foundations for overhauling labor market regulations in the future, increase access to investment capital, and promote the generation of knowledge and innovation, the adoption of new technologies, and upgrading the skills of the labor force.

It is worth noting that the purpose of this project was parallel to the vision that saw the items above would enhance "growth and poverty reduction" through "building a good investment climate" and "empowerment and investment in poor people" (Goldin et al., 2002). The original text openly stated its main aims as the liberalization of the economy through measures such as privatization and deregulation in the labor market. The implicit argument in this view was to consider the society in the rich-poor axis instead of one composed of different social classes that are in struggle for taking bigger shares of the total production. Moreover, this perspective is by and large silent when it comes to explain how liberalization and

[124] http://web.worldbank.org/external/projects

[125] http://web.worldbank.org/external/projects

[126] http://web.worldbank.org/external/projects

privatization tendencies in the health and education sectors in "developing" countries would contribute to poverty alleviation.

6.2. The TSKB in Recent Years

Attitudes that are similar to the World Bank perspective are visible in the recent annual reports of the TSKB. As a reflection of the relegation of the industrialization objective very much to the background in the overall economy, in 2008 nearly 27% of the total credits extended by the TSKB were allocated to the financial sector[127] (TSKB, 2009: 24). Indeed, in the 2007 Annual Report, it was expressed clearly that "the institutional aim of the TSKB is to strengthen its position in *the investment banking* area constituting its *main interest* and to increase its *profitability*" (2008: 24). Likewise, in our interview with him on 03 July 2009, Şahinkaya has asserted that the TSKB has increased its investment banking activities at the expense of developmental activities after the mid 1980s. According to him, there existed two contradictions in this situation. First of all, profits should not be the primary goal of development banks which should be in a position to support even unprofitable projects in the short-term if they serve the long term development objectives. Secondly, even if investment banking activities were to increase their weight in the development banks' activities on grounds that these activities are more profitable, the choice of transferring these profits to development banking activities and utilizing these funds for the sake of development should not be overlooked. It seems that the TSKB no longer views its primary role to be the pursuit of development.

The fact that 21.42% of the total TSKB credits, in 2008, belongs to energy generation and distribution reflects the tendency that has characterized World Bank projects (TSKB, 2009: 24). In 2008, the sectors in which TSKB credit shares remained below the 10% mark were transportation and communications, construction, metals, tourism facilities, mines other than metals, chemicals, food,

[127] The recent annual reports are available at the website, http://www.tskb.com.tr/yatirimci_iliskileri/faaliyet_list

textiles (ibid). In fact, in 2008, the total amount of credits allocated to industry was actually below the amount allocated to the financial sector. This indicates that in that year the TSKB has shown more interest in the financial sector than in the industrial sector. Annual reports for the previous years indicate that although total credits allocated to the industrial sector exceeded those allocated to the financial sector, the latter has always maintained a big share.

From a broader perspective, Dağlı and Demir (1994) have presented the trends of the share of the TSKB's affiliates and total credits -medium to long-term- in its total assets and the share of foreign credits in its total liabilities. As a result of these calculations, it was seen that the share of the TSKB's affiliates in its total assets had shown an ascending trend until 1963 when the ratio had reached 14%. However, this percentage was below the 1% level at the end of 1992 (ibid). There was a similar picture in 2008 when this ratio was only around 2% (TSKB, 2009: 191). Some of the decrease in this ratio can be explained by the fact that the TSKB began to offer equities of some of its successful affiliates to the public after 1963, which had contributed to the formation of the capital market (ibid). However, giving up such a core function of development banks is hardly an appropriate step from a development perspective.

This trend was also prevalent regarding the number of affiliates of the TSKB. That is, while the number of TSKB affiliates was 82 in 1980, this number decreased to 26 in 1992 (ibid). More dramatically, looking at the 2008 Annual Report of TSKB, it was seen that the eight TSKB affiliates were functioning in fields such as capital markets, real estate investment trust and real estate value assessment (TSKB, 2008: 35).

Turning to the calculations made by Dağlı and Demir (1994), the share of total credits in the total assets of TSKB, after increasing from 49 % in 1951 to 82 % in 1968 remained more or less constant at that level until 1983. As a reflection of TSKB gradually losing its development bank character, this ratio decreased to 30 % in 1991-1992 (ibid). Although this ratio increased to more than 50 % during the

2006- 2008 period, it would be misleading to interpret this as a sign of the TSKB's increased lending for developmental purposes. The recent increase in this ratio cannot be linked to industrialization. As mentioned before, credit allocations by the TSKB was no longer confined to the industrial sector. Instead it was extended to the financial and energy sectors accounting for a big share of total credits.

In detail, credit allocations by the TSKB have a wide range comprising credits for the SMEs, credits for renewable energy and environment, credit for export finance mediating and credit for leasing. Although these credits could also serve industrial development, as emphasized before industrial sector did not constitute the major area of interest, any more. Actually, in TSKB's website, the project finance areas were shown as electricity generation plants, gas distribution projects, tourism-hotel investments, real estate and investment for shopping centers, communications, logistic and transportation projects, projects concerning the environment and energy productivity, and infrastructural projects[128].

As for the share of foreign credits in TSKB's total liabilities, this ratio declined from 77 % in 1978 to only 26% in 1989 before it began to rise again, from an average of 42 % during 1991- 1992 (Dağlı and Demir, 1994: 45) to almost 70 % in 2008[129]. At first sight it seems that the TSKB is successfully mediating between the credits supplied from abroad and the enterprises in Turkey. Nevertheless, for its success in development, it is still important to explore the sectoral composition of these credits that were re-lent.

Apart from its gradual move from emphasis on industrial activities towards investment banking activities, the TSKB also attracted attention when it began to mediate between foreign capital and State Economic Enterprises (SEEs) in the privatization of the latter during the in 1990s. As Şahinkaya has pointed out in the interview that was conducted with him on 03 July 2009, the shift in development discourse was so sharp that the TSKB could take part in the privatization of the

128 http://www.tskb.com.tr/kredilendirme_proje_finansman

129 See Table 13 in the Appendix.

SEEs that had been supported by the State Investment Bank during their establishment.

Again in its website, the privatization projects in which the TSKB took role were listed[130]. Its active role in privatization process had begun with its contribution to the preparation of the Master Plan of Privatization in 1985 (ibid). Then, it took active role in 25 privatization cases –many of them were cement firms adherent to Çitosan- and in addition to these; it had provided consultancy service to the Republic of Turkey Prime Ministry Privatization Administration in other various projects, for instance Karadeniz Copper Enterprises (ibid). Furthermore, the TSKB seems proud of having served as a consultant in the privatization process of Sümer Holding Affiliates, harbors attached to State Railways, and highways and bridges in Turkey, Nitromak-Makina Kimya Nitro Nobel Kimya San. A.Ş., İskenderun Harbor, and Boğaziçi and Fatih Sultan Mehmet Bridges have been a few cases in point (ibid).

Another example showing that the TSKB was engaged in the neoliberal framework was the fact that it has been selling its sectoral reports instead of releasing them for public use free of charge. As Şahinkaya (2008) has asserted one of the features of a successful development bank is to create a *signal effect*[131] for real sector enterprises and other financial institutions. In our view, besides their actions of establishing partnerships or lending credit, development banks can enlighten the way of entrepreneurs by their sectoral analysis. However, providing these analyses in return for money fails to comply with the social responsibility of development banks. This takes us back to the question of whether a development bank should compete with other banks and consider profitability as a motive. The answer that this thesis has provided for this question has all along been negative.

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[130] http://www.tskb.com.tr/kurumsal_finansman/ozellestirme

[131] If a development bank would credit an entrepreneurship or take part in its establishment, this would make the people believe its potential success. Signal effect can be summarized as the directive activities of development banks.

CHAPTER VII

CONCLUSION

Industrialization has emerged as the most important objective of the newly independent countries after World War II since it would determine their place in the world economy. However, industrialization efforts could not act independently from the centre economies' efforts of reshaping the new world order under the Cold War atmosphere. Actually, the United States, as the leader of the capitalist bloc, had begun to assert its superiority arising from the fact that it participated in the war at a rather late stage, which facilitated considerable capital accumulation. Then, using this advantage, the United States became increasingly influential in the postwar reconstruction efforts of Western Europe and in determining the development policies in the capitalist bloc. Not directly the United States but the international organizations of the post-war era, especially the International Bank for Reconstruction and Development, took on the second task.

According to the IBRD, "less developed" countries suffered from several obstacles, such as lack of capital, lack of technical skills, economic instability (mounting inflation and chaotic monetary conditions) and unskilled and uneducated labor (IBRD, 1947: 13). Hence, "the free flow of private capital, and with it of foreign technical, managerial and administrative skills to the underdeveloped nations" were offered as a solution (ibid). Obviously, external financial assistance was seen essential for investment in large scale development programs in an underdeveloped economy where national savings were inadequate (ibid). Accordingly, "inequitable and restrictive legislation" in front of foreign private capital were to be removed (IBRD, 1947: 14). Besides the fact that these recommendations would help excess capital of the United States to be easily diffused around the world, they would also contribute to the process of influencing the economic policies in the periphery.

Related to the ideas above, development banks have been judged as essential for the underdeveloped countries as the lack of a well organized capital market was regarded as another obstacle in the way of successful development. In other words, “developing” countries were distinguished from developed ones in terms of their requirement for a lending institution (Nevin, 1961: 74). The general understanding was that in developed countries markets were capable of promoting and regulating investments in productive areas whereas in “developing” ones markets were not advanced enough to direct capital or channel funds to these areas (ibid). Therefore, development banks were seen as essential institutions filling this gap as well as contributing the establishment of a capital market.

Against this background, the IBRD has made a big contribution in the establishment of development banks in the underdeveloped countries in the post-war era. In fact, many development banks were created following the model described in the meetings at Bretton Woods (Kandemir, 2002: 15). Accordingly, *private ownership* of development banks was a prerequisite to get a World Bank loan until 1968[132]. Moreover, the obligation that these development banks should have talented staff opened the way for existing state enterprises in Turkey, for example, to contribute to staff requirements of the Industrial Development Bank of Turkey (TSKB) established in 1950.

Another critical feature of these development banks was that they were not obliged to have their own sources of credit, which has meant that they could resort to sources such as the World Bank or other financial institutions. The opportunity to obtain critical development finance externally was, in line with the development discourse of the time, identifying the shortage of foreign exchange as an important bottleneck in the development process and suggesting foreign aid as a solution to this problem.

Actually, “less developed countries” had to prepare plans or programs proving that the projects demanding an IBRD loan were in harmony with the long-term plans of

[132] After 1968, these banks were restricted by the obligation to give credit only to the private sector.

the country. Indeed, the IBRD itself had appointed committees to explore the conditions in countries demanding such a loan. The Barker Report on the Turkish economy, for example, was prepared with similar motives. The main theme of that report corresponded closely with the views of the IBRD and suggested the removal of the barriers in front of free international trade and foreign private capital. Moreover, it was suggested that Turkey should specialize in agricultural products as part of efforts aimed at integration to the world markets. In general, the “underdeveloped” countries were to specialize in agriculture and light industry whereas they import the products of heavy industry from developed countries within the static comparative advantage framework. Against this general background, this study has focused on the role of the Industrial Development Bank of Turkey as a tool pushing for this type of international division of labor.

To assess the role of the TSKB against this general background, its annual reports for the period of 1950-1953, representing a period of fairly liberal economic policies, have been analyzed in detail. This analysis has revealed that the biggest share of the total credits given in the period 1950-1953 belonged to the textile industry with 42 %. It was followed by the stone, soil, glass and ceramic, and foodstuff industries with 21.5% and 18%, respectively. Therefore, it is obvious that the activities of the TSKB, between the years 1950 and 1953, fell short of contributing the development of a self sufficient economy. Instead its activities were guided by the pattern and requirements of world trade of the time. Hence, this type of lending policy by the TSKB placed Turkey firmly in the international division of labor as a supplier of agricultural and light industrial goods.

The harmony between the activities of the TSKB and the world conjecture has been still prevalent. As dedicated from several ratios –the share of its affiliates and of its total credit to its total assets, and the share of foreign credits in TSKB’s total liabilities- and scope of activities, the TSKB had deliberately left its development banking mission and concentrated on investment banking activities. Furthermore, the current real investment areas, in which the share of industry was very small, comply with the ones popular in the World Bank's perspective and thus in the development discourse that the World Bank is still influential on.

Therefore, the establishment process of the TSKB and the theoretical background behind such an institution have been discussed in the previous chapters. It is concluded that the TSKB, with its basic characteristics like being privately owned and aiming to promote private industry, has presented a symbol for the era during which it was established and an example for the development banks formulated by the World Bank within the framework of reconstruction of the world system after World War II. In spite of its limited contribution to the construction of the new world order considering the total amount of its credits and thus limited contribution to gross national production, it went a long way in illustrating the main perspective of the capitalist bloc in the post-war conjecture. That is, although far from being a key actor in this process, it should still be recognized as one of the important institutions shaped under international capitalist relations. In addition, its main activity, the production of agro-industrial goods between 1950 and 1953, was parallel to the needs of the system at that time.

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APPENDIX

Table 1: International Bank Loans to Development Banks[1]

	Date of Loan Agreement	**Amount (expressed in U.S. currency)**	**Interest Rate (including 1% commission)**	**Term (years)**	**ownershi p**
Investment Credit Corporation of Austria	1959	9,000,000	Flexible	15	
Development Bank of Ethiopia[2]	1950	2,000,000	4%	20	private
Industrial Credit and Investment Corporation of India	1955 1959	10,000,000 10,000,000	$4\frac{5}{8}$ % Flexible	15 10*	private
Industrial and Mining Development Bank of Iran	1959	5,200,000	Flexible	15	private
Pakistan Industrial Credit and Investment Corporation	1957 1959	4,200,000 10,000,000	$5\frac{3}{4}$ % Flexible	15 10*	private
Industrial Development Bank of Turkey	1950 1953	9,000,000 9,000,000	$3\frac{3}{4}$ % $4\frac{7}{8}$ %	15 15	private

Source: Prepared from tables in page 35 and in appendix A, in S. Boskey (1961), *Problems and Practices of Development Banks,* IBRD, Oxford University Press, London.

[1] Exclusive of Loans to development banks which are primarily agricultural, loans for agricultural development purposes, and loans made to a development bank as intermediary between the International Bank and pre-agreed ultimate borrowers.

[2] The government was the borrower, but the loan was made to provide foreign exchange for projects financed by the development bank, and its proceeds were used they became part of the equity capital of the DBE.

* may be extended to 14 by agreement

Table 2: Balance of Payments, 1950-1953 (millions of dollars)

	1950	1951	1952	1953
1. Current Account				
a.Trade in goods				
Imports	-286	-402	-556	-533
Exports	263	314	363	396
Trade Balance	-23	-88	-193	-137
b.Invisibles				
Interest Payments	-15	-10	-12	-18
Receipts from Tourism (net)	-6	-1	-7	-9
Worker's Remittances				
Profit Transfers				
Service Payments on Project Credits				
All Other	-6	5	14	
Balance	-27	-6	-5	-27
c. Off-shore Infrastructure				
Current Account Deficit	-50	-94	-198	-164
2. Foreign Debt Payments excluding refinancing	-15	-18	-22	-20
TOTAL (1+2)	-65	-112	-220	-184
3. Capital Transactions				
a. Private	2	28	95	113
Suppliers' credits		21	4	64
Foreign investment	2	7	10	8
Commercial credits			81	41
b. Public	105	116	93	92
Project credits	5	1	6	11
Program credits	100	115	77	61
Multilateral agencies			10	20
International Monetary Fund			10	20
TOTAL (3)	107	144	188	205
4.Overall Balance (1+2+3)	42	32	-32	21
a. Additions to Reserves	30	-21	-99	-69
b. Errors and Admissions	-72	-11	131	48

Source: Singer, M. (1977), *The Economic Advance of Turkey: 1938-1960*, Turkish Economic Society Publications, Ankara, p. 392.

Table 3: Credit Demands for the TSKB's Own Resources in 1951 (TL)

Industry	Number of Application	Sum
Textile	40	43,415,405
Construction Material	45	26,092,152
Medical Aid	16	5,035,043
Metal ware	28	4,349,624
Rice and gin	8	2,033,000
Food stuff	25	8,772,000
Flour Firms	31	11,681,840
Glass Industry	2	565,000
Hotel Business	4	1,595,000
Journalism and the Printing	10	2,694,500
Others	25	5,223,800
TOTAL	234	111,457,364

Source: TSKB 2nd Annual Report (1952), Türkiye Sinai Kalkinma Bankasi A.Ş., İstanbul.

Table 4: Approved Credits in 1951 -classified according to their amount-

Industrial Sector	0-50000 TL	50.000-100.000 TL	100.000-500.000 TL	500.000-1000.000TL	more than 1000000	Total	amount
Rice and gin	1	1	3	1		6	1,685,000
Construction Material		1	6	4		11	5,166,860
Medical Aid				1		1	800,000
Textile			2	2	3	7	8,815,000
Metal ware		3	3	1		7	1,482,000
Food stuff			3	1		4	1,285,000
TOTAL	1	5	17	10	3	36	19,233,860

Source: TSKB 2nd Annual Report (1952), Türkiye Sinai Kalkinma Bankasi A.Ş., İstanbul.

Table 5: Credit Demands contracted in 1951

Industrial Sector	number of contracted credit demand	amount (TL)
Rice and gin	5	1,029,025
Construction Material	8	2,756,860
Medical Aid	1	800,000
Textile	5	2,557,200
Metal ware	7	1,482,000
Food stuff	4	1,285,000
TOTAL	30	9,910,085

Source: TSKB 2nd Annual Report (1952), Türkiye Sinai Kalkinma Bankasi A.Ş., İstanbul.

Table 6: Projects that would be financed by foreign exchange in 1951

Type of Industry	Number of Projects	amount (TL)
vegetable oil firms	1	352,800
Construction Material Industry	3	4,257,800
Textile Industry	1	975,000
total	5	5,585,600

Source: TSKB 2nd Annual Report (1952), Türkiye Sinai Kalkinma Bankasi A.Ş., İstanbul.

Table 7: Credit Demands that would be financed from Marshall Plan funds in 1951

Industry	Number of Projects	amount (TL)
Vegetable and Fruit Plotting	1	125,000
Cold air storage	1	336,700
vegetable oil firms	4	464,000
Rowing cotton yarn	2	2,372,000
Ginning	4	746,000
Agricultural tools repairshop	13	158,800
Medical Aid firms	1	1,250,000
Agriculture Pesticides Firms	1	150,000
Irrigation facilities	1	215,000
TOTAL	28	5,817,500

Source: TSKB 2nd Annual Report (1952), Türkiye Sinai Kalkinma Bankasi A.Ş., İstanbul.

Table 8: Contracted Credit Demands that would be financed from Marshall Plan funds in 1951

Industry	Number of Projects	amount (TL)
Vegetable and Fruit Plotting	1	125,000
Cold air storage	1	336,700
vegetable oil firms	3	404,000
Rowing cotton yarn	1	800,000
Ginning firms	2	361,000
Agricultural tools repair shop	2	35,000
Medical Aid firms	1	1,250,000
Irrigation facilities	1	214,500
TOTAL	12	3,526,200

Source: TSKB 2nd Annual Report (1952), Türkiye Sinai Kalkinma Bankasi A.Ş., İstanbul.

Table 9: Total effects of the TSKB credit in 1951

Industry	Loan (TL)	Equity capital (TL)	Total investment (TL)	Annual production growth (TL)	Number of new employees	Number of new civil servants
medical aid	3,734,000	2,480,000	6,214,000	28,467,500	304	28
ginning, vegetable oil and soap	3,357,000	3,807,412	7,164,412	10,744,778	973	63
cold air storage	948,500	300,000	1,248,500		12	2
construction material	18,613,860	7,589,607	26,203,467	41,333,490	648	15
Foodstuff	1,410,000	1,126,200	2,536,200	12,389,450	108	15
Metal ware	1,482,000	1,769,380	3,251,380	5,929,450	223	9
Textile	12,999,000	20,929,335	33,928,335	52,844,141	2,782	200

Source: TSKB 2nd Annual Report (1952), Türkiye Sinai Kalkinma Bankasi A.Ş., İstanbul.

Table 10: Approved Credits Up to 1951

Industry	number of credit approvals						amount of credit approvals (TL)					
	0-50.000	**50.001-100.000**	**100.001-500.000**	**500.001-1.000.000**	**more than 1.000.000**	**TOTAL**	**0-50.000**	**50.001-100.000**	**100.001-500.000**	**500.001-1.000.000**	**more than 1.000.000**	**TOTAL**
foodstuff ind.	3	3	11	1	3	21	104,000	222,100	2,767,297	680,000	3,227,000.20	7,000,397.20
textile ind.	1	2	9	4	16	32	50,000	154,000	2,534,000	3,037,900	35,178,616.25	40,954,516.25
cellulose ind.			1			1			187,500			187,500.00
leather and leather products ind.		1				1		75,000				75,000.00
rubber ind.		1				1		60,000				60,000.00
chemical ind.	3	2	2	1	2	10	104,850	139,000	528,000	800,000	2,784,000	4,355,850.00
stone, soil, glass and ceramic ind.		3	8	1	5	17		258,000	1,909,600	784,000	17,110,491.89	20,062,091.89
Mine melting ind.			1			1			270,000			270,000.00
Metalwork ind.		2	2	1		5		142,000	302,000	725,000		1,169,000.00
Transaction Vehicles			5	2		7			1,961,000	1,750,000		3,711,000.00
Repair and Maintenance Shops	30		2			32	443,000		791,450			1,234,450.00
electricity power station	1					1	25,000					25,000.00
Mining		1				1		90,000				90,000.00
others	3	1	5			9	67,500	55,000	1,396,200			1,518,700.00
TOTAL	41	16	46	10	26	139	794,350	1,195,100	12,647,047	7,776,900	58,300,108.34	80,713,505.34

Source: TSKB 2nd Annual Report (1952), Türkiye Sinai Kalkinma Bankasi A.Ş., İstanbul.

Table 11: Investments of the TSKB up to 1952 and their effects on the whole economy

number of firms	industry	allocated credit from the TSKB (TL)	participation of the entrepreneur (TL)	working capital (TL)	total investment (TL)	annual raw material consumption (TL)	annual sale revenue (TL)
21	foodstuff ind.	7,000,397.20	5,021,097	4,300,000	16,321,494.20	32,034,800	42,417,585
32	textile ind.	40,954,516.25	43,680,468	23,072,528	107,707,512.25	88,384,097	162,521,342
1	cellulose ind.	187,500	367,400	189,400	744,300.00	320,400	960,000
1	leather and leather products ind.	75,000	54,260	75,000	204,260.00	175,140	330,000
1	rubber ind.	60,000	36,000	40,000	136,000.00	160,000	608,000
10	chemical ind.	4,355,850	2,382,620	2,577,500	9,315,970.00	13,785,000	29,242,200
17	stone, soil, glass and ceramic ind.	20,062,091.89	12,476,190	3,393,000	35,931,281.89	1,816,375	30,660,100
1	Mine melting ind.	270,000	409,000		679,000.00	60,000	500,000
5	Metalwork ind.	1,169,000	570,220	1,062,500	2,801,720.00	2,544,500	4,090,000
7	Transaction Vehicles	3,711,000			3,711,000.00		
32	Repair and Maintenance Shops	1,234,450	642,290	445,500	2,322,240.00	388,800	1,562,600
1	electricity power station	25,000	5,000	5,000	35,000.00	21,500	68,800
1	Mining Lignite Mine	90,000	7,850	10,000	107,850.00		166,200
9	others	1,518,700	533,550	546,000	2,598,250.00	470,575	1,932,075
139	TOTAL	80,713,505.34	66,185,945.00	35,716,428.00	182,615,878.34	140,161,187.00	275,058,902.00

Source: TSKB 3rd Annual Report (1953), Türkiye Sinai Kalkinma Bankasi A.Ş., İstanbul.

Table 12: Investments funded by the TSKB up to 1953 and their effects on the whole economy

Number of firms	industry	allocated credit from the TSKB (TL)	participation of the entrepreneur (TL)	working capital (TL)	total investment (TL)	annual raw material consumption (TL)	annual sale revenue (TL)
43	foodstuff ind.	17,871,816.37	12,450,553	9,520,800	39,843,169.37	74,310,963	105,073,528
1	beverage ind.	710,920.00	814,480	600,000	2,125,400.00	513,100	2,034,200
40	textile ind.	42,104,931.28	45,592,901	30,078,428	117,776,260.28	111,664,432	206,075,519
6	lumber and wood ind.	4,166,733.00	2,149,198	1,622,000	7,937,931.00	4,978,220	8,848,000
2	cellulose ind.	352,500.00	528,243	389,400	1,270,143.00	549,600	1,369,000
3	leather and leather products ind.	118,500.00	162,214	156,000	436,714.00	436,440	823,300
1	rubber ind.	60,000.00	36,000	40,000	136,000.00	160,000	608,000
16	chemical ind.	4,860,850.00	2,737,911	3,122,500	10,721,261.00	16,926,000	33,137,115
21	stone, soil, glass and ceramic ind.	21,650,091.89	20,951,753	3,685,500	46,287,344.89	1,337,095	32,373,520
1	Mine melting ind.	270,000.00	409,000	228,000	907,000.00	166,000	750,000
6	Metalwork ind.	1,349,000.00	644,140	1,162,500	3,155,640.00	2,767,040	4,558,000
1	machinery and tools	291,450.00	101,890	154,250	547,590.00	268,800	746,000
5	Transaction Vehicles	2,211,000.00			2,211,000.00		
55	Repair and Maintenance Shops	1,393,823.00	1,022,180	468,750	2,884,753.00	10,000	963,400
1	electricity power station	25,000.00	5,000,00	5,000,00	35,000.00	21,500	68,800,00
2	Mining	1,090,000.00	1,080,850	310,000	2,480,850.00		2,452,000
11	others	2,098,700.00	739,240	255,000	3,092,940.00	364,900	2,501,410
215	TOTAL	100,625,315.54	89,425,553.00	51,798,128.00	241,848,996.54	214,474,090.00	402,381,792.00

Source: TSKB 4th Annual Report (1954), Türkiye Sinai Kalkinma Bankasi A.Ş., İstanbul.

Table 13: Source of Credits (thousand YTL*)

	Current Term (2008)		Previous Term (2009)	
	Turkish Lira sources	Foreign Exchange sources	Turkish Lira sources	Foreign Exchange sources
Credits from the Central Bank of the Republic of Turkey	-	-	-	-
Credits from domestic banks or institutions	21,324	78,182	54,031	15,268
Credits from foreign banks, institutions or funds	60,878	4,290,856	4,155	3,052,720
TOTAL	82,202	4,369,038	58,186	3,067,988

Source: TSKB 2008 Annual Report (2009), p.258, www.tskb.com.tr
*Since 1 January 2005, the unit for Turkish Lira was changed to YTL, where 1 YTL= 1,000,000 TL. Thus, thousand YTL equals billion TL in the old currency.