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*The Eastern Mediterranean
during the First Wave of Globalisation,
1870-1914*

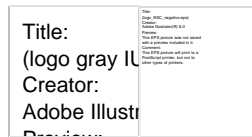
23 March 2001

IIIrd MEDITERRANEAN PROGRAMME LECTURE



European University Institute

Robert Schuman Centre for Advanced Studies



Third Mediterranean Programme Lecture

Badia Fiesolana

Friday March 23, 2001

Lecture by Roger Owen
Professor of Middle East History and
Director of the Center for Middle Eastern Studies
Harvard University

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Printed in Italy in March 2001
European University Institute
Badia Fiesolana
I - 50016 San Domenico di Fiesole (FI)
Italy

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LECTURE

by

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The Eastern Mediterranean during the First Wave of Globalisation, 1870-1914

Introduction

This paper has two aims. The first is to examine the impact of the first wave of modern globalisation on the territories at the eastern end of the Mediterranean, 1870-1914. The second is to look at this same subject from an early twenty-first century historical perspective by linking my remarks about the first wave of globalisation to the second wave which began just over a hundred years later. It has now become fairly commonplace to compare and contrast these two great waves in general terms.¹ It is also quite usual to try to demonstrate how parts of the south-eastern Mediterranean economy - consisting of those states defined as belonging to the MENA region - have become marginalised during the initial decades of the second wave.² Nevertheless, reference to the experience of the countries of the eastern Mediterranean during the first wave has been missing from most comparative historical analyses of world economic growth, for example the influential and widely-quoted works of Paul Bairoch³. Only very

¹ For example, Richard E. Baldwin and Philippe Martin, 'Two Waves of Globalization: Superficial Similarities, Fundamental Differences', NBER Working Paper No. 6904 (January 1999).

² Talk of 'marginalisation' is a common theme for both economic journalists and economists working for the IMF and the World Bank. See, for example, Mark Huband's comments on the Third Mediterranean Development Forum, Cairo, March 2000, 'Marginalisation of Mediterranean Region', *Financial Times*, 9 March 2000.

³ For example, P. Bairoch, 'The Main Trends in National Economic Disparities Since the Industrial Revolution' in P. Bairoch and M. Lévy-Leboyer, eds., *Disparities in Economic Development Since the Industrial Revolution* (London: Macmillan 1981).

occasionally have Egypt and Turkey been referred to in analyses of the relationship between the centre and the periphery in the late nineteenth century, rare examples being W. A. Lewis's edited volume on *Tropical Development* (1970) and Angus Maddison's *Monitoring the World Economy: 1820-1992* (1995).

The reasons for this general absence are not hard to find. To begin with, the Ottoman Empire is a difficult unit to deal with from an economic point of view, comprising as it did in the 1870s territories which were later to become over a dozen separate states from Serbia and Albania in the north to Jordan and Yemen in the south. Most economic historians have dealt with the problem by trying to base their findings exclusively on those regions which were incorporated in the Republic of Turkey in 1923. To my knowledge only my colleague, Sevket Pamuk of Bogazici University (Istanbul), has managed to find a way of analysing developments in a somewhat larger area, that is to say the lands of the Empire as they existed in 1911, and which then included not only Anatolia but also northern Greece and the provinces which were later to become Iraq, Syria, Lebanon, Israel/Palestine and Jordan.⁴

The second problem is that of reliable indices of economic performance. One good reason for this stems from the difficult problem of how to deal with the lack of continuity between the different components of the Ottoman Empire in the late nineteenth and their twentieth-century successors. Another is the absence of good economists with an interest in the onerous work of compiling the basic indices from the random information about wages, prices, agricultural and industrial output, etc. etc. to be found not just in the administrative records themselves but also in newspapers, commercial journals and the like. That we have anything at all to work with has depended very largely on the fact that Professor Bent Hansen was willing to spend his summers in Egypt working his way through the daily figures to be found in the *Egyptian Gazette* and the records of the Alexandria General Produce Association. This allowed him to build on previous work by A. E. Crouchley, Samir Radwan and others to produce the first convincing analysis of the performance of the Egyptian economy in the two decades before 1914.⁵ Turkey has been better served by a larger group of economic historians. A key work here is Pamuk's recently published five hundred year series for prices and wages in Istanbul and other Ottoman cities, including some from the Arab provinces.⁶ But Pamuk aside, it

⁴ *The Ottoman Empire and European Capitalism: 1820-1913* (Cambridge: Cambridge University Press, 1987), p. x.

⁵ Crouchley, *The Investment of Foreign Capital in Egyptian Companies and Public Debt* (Cairo: Ministry of Finance, 1936); Radwan, *Capital Formation in Egyptian Industry and Agriculture, 1882-1967* (London: Ithaca Press, 1974).

⁶ *Istanbul Ve Diger Kentlerde 500 Yillik Fiyatlar Ve Ucretler 1469-1998* (Ankara: State Institute of Statistics, Prime Ministry, 2000)

still rare to find figures for trade or investment for the whole empire, even as it as existed in its truncated, pre-World War I, form.

Nevertheless, as we begin to find a way through these difficulties, it does suggest that we can treat the eastern end of the Mediterranean - defined as the Ottoman Empire and Egypt - in the same way as economists have for some time treated the western end, that is as an object for analysis in terms of tracing its relationship to the European/North American core during each of the twin periods of global expansion, as well as during the long period of contraction beginning in the 1920s. This process received a great fillip from the conference organised by Jeffrey Williamson of Harvard University and Sevket Pamuk in Istanbul in June 1998.⁷ I will try to present some of its findings in what follows. In doing so I would also like to underline the two authors' own plea that they hope that their volume 'will serve as a beacon for more analytical and quantitative work about the economic history of the Mediterranean basin'.⁸

My own approach will be as follows. I will start by setting out some of the major features of the eastern Mediterranean economies during the first wave of globalisation and say something about the ways in which economic historians have tried to assess the relative economic performances of those decades. I will then look at the further development of the successor economies in the longer perspective provided by the inter-war and early post Second World War period leading on the second wave of globalisation which began to affect Turkey in the 1980s, but only made a serious impact on the rest of the eastern Mediterranean countries in the early 1990s.

One important issue which will not be covered is that of population. While there are essential links between globalisation and eastern Mediterranean demographic transition - with the first wave helping to reduce mortality and the second to reduce fertility - this subject has been so well analysed by Philippe Fargues as to make anything I might say redundant.⁹

⁷ Papers published as, *The Mediterranean Response to Globalization Before 1950* (London: Routledge, 2000).

⁸ *Ibid.*, p. 3.

⁹ *Génération Arabes: L'alchimie du nombre* (Paris: Fayard 2000).

The First Wave

Given its close proximity to an industrialising Europe, the eastern Mediterranean began to be affected by a powerful new demand for its raw materials as soon as commercial links were restored after the end of the Napoleonic Wars. Hence some of the features later associated with globalisation were already present in the 1830s and 1840s, for example the great reduction in the speed and cost of transport resulting from the appearance of the first steam ships. These consequences were then greatly amplified by the construction of the first railways in Egypt and western Anatolia beginning in the 1850s. The result was to provide a great stimulus to local agricultural production, as well as, more generally, to encourage a much greater exchange of people and ideas. To give only one example of this process of accelerated connection, it took weeks rather than months for the first daguerreotype cameras to appear in the Middle East after the formal announcement of the process's invention by the French government in the autumn of 1839.

Nevertheless, it is also true to say that the 1870s saw a qualitative change in the nature of this exchange. One index is the coming of telegraph lines to Salonika, Istanbul, Beirut and Alexandria which not only further increased the speed of communication, but also permitted the eastern Mediterranean to participate in the real time commodity markets for cotton, cereals and other primary products in Liverpool, Hamburg, London and New York. Another was the further reduction of commercial distance which followed the arrival of the first steel-hulled merchant ships in the 1870s. Hence, in spite of the problems for world commodity producers during the Great Depression which began at more or less the same time, Egyptian foreign trade increased in value by 200 percent, 1885/9 and 1913, while the trade of the Ottoman Empire grew by some 50 percent during this same period.¹⁰

Of equal significance was the almost simultaneous foreign bankruptcies of both the Ottoman Empire and Egypt in the mid-1870s, events which led to the imposition of similar types of international (or, more properly, European) financial regimes, set out in the Egyptian Law of Liquidation of 1880 and the Decree of Muharram which established the Ottoman Public Debt Commission (OPDA) in 1881. These were novel international instruments based on what was then the only available legal model, that of a private bankruptcy, in which the debtor signed an agreement with his creditors to pay back fixed instalments of the principal and interest until the debt was finally liquidated. However, they contained a considerable statist element as well. The representatives of the creditors usually had close official connections with their own national

¹⁰ Egypt, *Annuaire Statistique 1914*, p. 295; Pamuk, *Ottoman Empire and European Capitalism*, Table A1.1.

governments. And the policies they supported stemmed directly from the contemporary conventional wisdom about public finance which was so much a feature of late nineteenth century globalisation. This included the heightened importance attached to sound fiscal management, with its emphasis on balanced budgets, transparent accounting, limited public borrowing, and low taxes. There was also a more general emphasis on markets, the abolition of state monopolies, and the reduction of barriers to the free flow of internal and external commerce.

It is here that they seem most to share some significant features to be found in the stabilisation and structural adjustment regimes created by the World Bank and the International Monetary Fund over the last two decades. Not only was there great pressure to win good opinions from the international investing public by meeting the orthodox targets of the time, but this pressure was also generally exercised as a result of close direct interventions by representatives of the international community itself. As Evelyn Baring, the British Commissioner of the Debt in Cairo, 1879-80, was happy to point out, his office and that of his French colleague was immediately adjacent to that of the President of the Egyptian Council of Ministers, Riza Pasha, an arrangement that allowed them to discuss financial and budgetary issues with Riaz on an hour to hour basis while knowing more or less everything that was taking place in the Egyptian Ministry of Finance.¹¹ Just as significant was the frequent tension between the concerns of the creditors and their representatives and those of the local ministers responsible for the day to day management of the administration, and so more closely accountable to domestic opinion.

There were, however, importance differences between the two regions when it came to the implementation of some of these same principles. In Egypt, the Commissioners for the Public Debt, 1880-2 and, later, the British financial adviser, had almost complete control of the Egyptian budget, and so could insist that it was almost always in surplus. There was a possibility of similar pressure to cut taxes, to reduce the barriers to internal trade, and to sell off loss-making state enterprises. As a result, the Anglo-Khedivial financial administration was gradually able to marginalise the Caisse de la Dette Publique with its built-in French veto by assuring the bond-holders that their interests were well protected while working its way towards converting, and then paying off, everything but the Unified portion of the international debt.

In the Ottoman case, on the other hand, the members of the Ottoman Public Debt Council had only a marginal influence over the Ottoman state budget until after the Young Turk Revolution of 1908. Hence, although Pamuk may well be correct to assert that there were no significant deficits until after the turn of the century, there does not seem to be any way of demonstrating this

¹¹ 'Memorandum on the Present Situation of Affairs in Egypt', 30 April 1880, enclosed in Mallet to Salisbury, 5 May 1880, PRO FO 78/3142.

for sure given the absence of any printed budget between 1882 and 1909, with the exception of one highly 'suspect' set of figures published in 1897.¹² By the same token, the OPDA was not in a position to ensure the replacement of the almost empire-wide practice of tax-farming and may even have made its abolition more difficult by its opposition to any change which might reduce the revenues upon which it had first call.¹³ Lastly, it was the OPDA itself which itself sanctioned the imposition of a customs surcharge of three percent in 1907, thus raising the empire's external tariff from eight to eleven percent, while its members were also ready to oversee a return to heavy Ottoman public borrowing in the early 1900s provided it was tied to projects which benefited the citizens of the main creditor nations, France, Germany and the United Kingdom.

One thing both regimes did share, though, was an interest in promoting the type of development projects which would contribute to a general growth of revenues. In the Egyptian case such projects, notably the improvements in the system of irrigation which were responsible for the huge rise in agricultural output in the 1890s, had the double effect of increasing taxable income while building support for the British presence. In the Ottoman case, the projects were more closely tied only to the revenues controlled by the OPDA throughout the Empire - notably those from the production and export of salt and silk - both of which were subject to considerable growth during the two decades before World War I.¹⁴ As in Egypt, they could also be used to advertise the beneficial aspect of the Administration's presence.¹⁵ More controversial was the support given by the OPDA to the Ottoman government's desire to build different sections of a strategic railway across Anatolia towards the Syrian and Iraqi provinces, some of which were too uneconomic to attract investors without a costly government kilometric guarantee.¹⁶

¹² Pamuk, p. 62; V. C. (Vincent Caillard), 'Turkey', *Encyclopedia Britannica*, 11th Edition (Cambridge: Cambridge University Press, 1911), Vol. XXVII, pp. 432.

¹³ Donald C. Blaisdell, *European Financial Control in the Ottoman Empire: A Study of the Establishment, And Significance of the Administration of the Ottoman Public Debt*, first published 1929, reprint (New York: AMS Press Inc., 1966), pp. 139-42.

¹⁴ The one exception was the mutasarrifiya of Mount Lebanon which, much to its eventual disadvantage, resisted the overtures of the OPDA on the grounds of its autonomous status created under the Règlement Organique of 1861: Roger Owen, *The Middle East in the World Economy, 1800-1914* (London: Methuen, 1981), p. 252 and sources cited there.

¹⁵ For example, V.C., 'Turkey', p. 437. And, later, Blaisdell, *European Financial Control*, especially Chpt 6, 'The Ottoman Public Debt Council proves its worth'.

¹⁶ For an early criticism of the system, see V.C., 'Turkey', pp. 439-40.

It should not be supposed, however, that all the initiatives involving late nineteenth century liberal orthodoxy were simply impositions from outside. An examination of Egyptian economic history during the 1870s and 1880s has convinced me that many of its central principals found a ready welcome among a number of local politicians and administrators who saw them as useful barriers against the arbitrary government of rulers like the Khedive Ismail. The same is certainly true of many of the senior Ottoman officials, even if the same orthodoxies were more difficult to implement given the particular nature of Sultan Abdul-Hamid's role, as well as the fact that the Ottoman state had obligations to spend large sums of money on the defence of its empire. This last is certainly the major reason for the return to international public borrowing in the early 1900s, something that Egypt was able to avoid only because it was forcibly protected by the army and navy of Great Britain.

Nevertheless, given the sheer scale of foreign intervention, the lack of local accountability, the privileged position of Europeans and their local business protégés under the Capitulations and, in Egypt, under the Mixed Courts and the constant friction between the European controllers and their domestic counterparts was bound to produce a strong backlash over time. While the main goal of the incipient Egyptian and Ottoman-Turkish nationalism was simply to get rid of foreign control per se, they soon came to contain a substantial economic component as well. How much this was due to real grievance and how much due to the natural desire to counter exaggerated European claims that it was their representatives who were largely responsible for the economic boom of the late 1890s and early 1900s is difficult to say. But both factors certainly combined to produce the beginnings of a coherent programme of economic nationalism, the main outlines of which can be readily discerned in the years before 1914 with its characteristic stress on the need for a national bank, for the development of industry as an alternative to dependence solely on agricultural exports, for support for local business as against its foreign competitors and for greater protection from world economic forces as manifest in such events as the 1907 global economic crisis.¹⁷ Once again it is possible to see some obvious parallels with similar kinds of sentiment today.

¹⁷ For Egypt, see for example, the book by an early exponent of industrialisation and an Egyptian national bank, Muhammad Tal'at Harb, *'Ilaj misr al-iqtisadi was mashru' bank al-misriyin aw bank al-umma* (Cairo: Matbaat al-Jaidah, 1911 - but Introduction 1913); for Ottoman Turkey, see Niyazi Berkes, *The Development of Secularism in Turkey* (Montreal: McGill University Press, 1964), pp. 335-7, 393-400, 423-7.

The Economic Performance of the Eastern Mediterranean Economies during the First Wave

I will examine the question of economic performance under three heads: indices of growing integration with the world economy, indices of economic growth and, finally, the vexed question of whether the eastern Mediterranean economies were catching up with those of the industrialising core or falling behind. Where possible I will try to place my comments in a comparative, global perspective.

To begin with integration: it is now generally accepted that the global economy was more closely integrated in 1914 than it is today. A quote from something written by J. M. Keynes in 1919 provides a graphic illustration of this:

'What an extraordinary episode in the progress of man that age was which came to an end in August 1914....The inhabitants of London could order by telephone, sipping his morning tea in bed, the various products of the whole earth....he could at the same time and by the same means adventure his wealth in the natural resources and new enterprises of any quarter of the world...he could secure forthwith, if he wished it, cheap and comfortable means of transport to any country or climate without passport or other formality'.¹⁸

Nevertheless, it is also recognised that individual countries and regions varied enormously in the degree of their integration before 1914 as measured by the ratio of the total value of trade to GDP. Figures in Table 1 illustrate not only the range of difference but also the way in which some of the challengers to Britain and France intensified their commercial involvement in the global economy between c1870 and c 1910. Pamuk's admittedly very rough calculations show the Ottoman Empire to have been a significant participant in this process with an increase in the exports/GNP ratio from 6-8 percent in 1880 to some 14 percent c1911, and with a total trade/GNP ratio of some 32/34 percent at this latter date. There are no similar figures for Egypt, but if Hansen's guess that the value added in agriculture constituted some two-thirds of GDP in the early 1900s, then a foreign trade ratio of the order of 50 percent c1914 seems quite likely.¹⁹

Another way of illustrating this same relationship in comparative perspective is to look at the figures for per capita exports on the eve of World War One. These show that Egypt had a figure of £2.63 per head of population, twice that of the Ottoman Empire with £1.33.²⁰ However, both were higher, and

¹⁸ Quoted in Baldwin and Martin, 'Two Waves of Globalization', p. 1.

¹⁹ Trade figures from Egypt, *Annuaire Statistique 1914*, p. 295.

²⁰ Pamuk, *Ottoman Empire and European Capital*, Table 7.1.

in the Egyptian case considerably higher, than those for a list of Asian countries (the Philippines, Thailand, French Indonesia, Korea, etc.). The Egyptian figure was also higher than that for Mexico and Peru, but just below that of Brazil.

Hansen and Pamuk also explore a second index of integration: the rise in the level of direct foreign investment (now FDI). As far as the Ottoman Empire was concerned there were two period during the first wave of globalisation when such investments grew at a particularly rapid rate: a huge spike, 1888-1896, associated mainly with the construction of German and French-financed railway lines in Anatolia and the Syrian provinces, and then another, smaller one, from about 1900 onwards. Much of this was due to the fact that the Empire became the focus for increasing Great Power rivalry, with the Germans, the French and, to a lesser extent, the British beginning to carve out spheres of economic interest for themselves. Egypt, too, was the recipient of a surge of FDI during the decade before the financial crisis of 1907, much of it placed in the burgeoning land and mortgage companies of the period. In Hansen's argument this was partly the fact that Egyptian-based enterprises were able to benefit from a sharp decline in the real interest rates charged by foreign capital due to investor confidence in the policy of the British occupation authorities.²¹ Finally, to place this process in a global context once again, Egypt had received £8.92 FDI/capita by 1914 as opposed to the Ottoman Empire's £3.52. Once again, this ratio was higher in both cases than the list of Asian countries but behind Brazil (£12.13), Peru (£10.70) and a long way behind Mexico (£25.72).²²

A third and final index is that of migration. As far as permanent immigrants were concerned, Egypt's European population more or less doubled between 1882 and 1914 to reach some 250,000. Pamuk's figures show an almost equivalent number of newcomer to the Ottoman Empire from Russia, the Balkans and, in the case of the Jewish settlers in Palestine, Eastern Europe up to 1913, followed by the huge flood of Muslim refugees from the Balkan wars.²³ Many of the immigrants brought some capital with them as well as various technical skills. But in terms of economic integration, the waves of seasonal or temporary labour migrants from Italy, Greece and elsewhere, were probably of greater importance because of their immediate impact on local wage rates in both agriculture (Anatolia) and construction and related trades (Egypt).

I will now turn to the admittedly very tentative estimates concerning economic growth. The foundation for Ottoman National Income statistics was

²¹ 'Interest rates and foreign capital in Egypt under British Occupation', *Economic History Journal*, XLIII/4 (December 1983), pp. 867-884.

²² Pamuk, *Ottoman Empire and European Capital*, Table 7.3.

²³ *Ibid.*, Table A6.1.

laid by Vedat Eldem in a work first published in 1970. His calculations, based mainly on estimates of the value of agricultural production, indicate growth of 1.7 percent between 1890 and 1910 (at constant 1913 prices), giving a per capita increase of 0.8 percent, with the highest rate in the decade after 1900.²⁴ Inevitably these calculations have also given rise to a certain amount of criticism and suggested revision. As for Egypt, Hansen sees a considerable rise in income in the 1890s, followed by a slower rate of growth to 1907 and then a leveling off.²⁵ In each case it seems clear that the basic motor force was rising agricultural output, increasing amounts of which were exported at higher real prices due to a period of a decade and a half of improving terms of trade. This conclusion applies to the Syrian provinces just as much as Anatolia. The value of exports from the seven principle ports on the Mediterranean coast, from Iskanderun in the north to Gaza in the south, increased by a half, 1883-7 to 1913, and imports by almost three-quarters.²⁶

To what extent these same calculations can be used to say anything about whether the period also saw the eastern Mediterranean catch up with the European core remains a matter of controversy. As Ahmet Akarli suggests, they can be used to give either an optimistic or a pessimistic answer to the same question.²⁷ It is for reasons like this that Williamson prefers to look at movements in comparative wage rates instead. They are, he argues, of better quality than GDP data. They also throw some light on the difficult question of income distribution, and they help us to understand the causes of either the convergence or divergence of living standards between the core and the rest of the world.²⁸ Employing wage data from Egypt and Turkey, he goes on to argue two things. First, that there were two decades of catching up, 1870-90, when real wages grew at least double the rate in France, Germany and the United States, and faster than in Great Britain. But, second, that if you take the longer period, 1867-1913, there was neither catching up nor falling behind, mainly due

²⁴ Quoted in Ahmet O. Akarli, 'Growth and retardation in Ottoman Macedonia, 1880-1914', Pamuk and Williamson, *Mediterranean Response*, pp. 110-114.

²⁵ *Political Economy of Poverty, Equity and Growth: Egypt and Turkey* (Oxford: Oxford University Press for the World Bank, 1991), pp. 44-6. Hansen also has an interesting argument concerning the reasons for the levelling off of Egyptian economic growth after 19097 which he blames on the saturation of the market for modern housing as well as a slower rate of growth in the price of cotton. 'Factor prices in Egypt from 1900 to World War II with international comparisons', UC Berkeley, Department of Economics, Working Paper No. 89-113, pp. 32-4.

²⁶ Owen, *Middle East in the World Economy*, Table 61.

²⁷ 'Growth and retardation', pp. 110-11.

²⁸ 'Real wages and factor prices around the Mediterranean, 1500-1940' in Pamuk and Williamson, *Mediterranean Response*, pp. 47-8.

to a collapse of Turkish and Egyptian real wages in the two decades before 1914.²⁹

This is an interesting, indeed arresting, suggestion. However, it depends very heavily on Williamson's use of an index based on the wages of unskilled rural workers which were considerably lower than those in the urban sector.³⁰ Pamuk's use of real wages from Istanbul raises some of the same questions as to how representative of the national average they really are. As he himself points out, while his figures for real wages in Istanbul show them to be only some 2.7 times lower than those for unskilled workers in London just before 1914, Angus Maddison's estimate of Turkish and British per capita GDP (adjusted for purchasing power parity) at this same period reveal a much larger gap of the order 1:5.³¹ If there is comfort to be found in this rather confused situation, it is that many European countries were doing little better than Turkey and Egypt at catching up the front-runners, Britain, France and Germany, during these same pre-World War One decades.

World War One, Protectionism and the Rise of Economic Nationalism

Whether the outbreak of World War One can be attributed specifically to global causes remains an open question. But, for the peoples of the Eastern Mediterranean it was certainly an unfortunate and unpleasant reminder of the strength of their international connections and the intensity of Europe's commercial and strategic interests in their region. As a result of the Ottoman alliance with the Central Powers their homelands become a major theatre of war, not just from 1914 to 1918 but for some regions, Anatolia in particular, for another four years after that. The Ottoman/Anatolian element in all this is quite well known. As far as the military aspect was concerned, Turkey's World War One casualties - perhaps 800,000 killed and 400,000 wounded - were some of the highest in terms of their relation to total population among all the combatants. If we take the numbers killed as a proportion of the male population aged between 15 and 49, the Turkish ratio is 14.8 percent as opposed to France's 13.3 with only Serbia (22.7) suffering a significantly higher amount. And as a proportion of total population, the military dead were 3.7 percent as opposed to 3.4 percent for France and 5.7 percent for Serbia.³² Looked at in the longer perspective, 1914-1922, Turkish casualties are said to have included two million Muslims dead, to which should be added a large proportion of the 1.5

²⁹ Ibid., p. 61.

³⁰ Jeffrey G. Williamson, 'Real wages and relative factor prices in the Third World, 1820-1940: The Mediterranean Basin', Harvard Institute of Economic Research Discussion Paper No. 1842 (Cambridge, MA: July 1998), Appendix 1-2.

³¹ *Istanbul Ve Diger Kentlerde*, pp. xiv - xv.

³² Niall Ferguson, *The Pity of War: Explaining World War I* (New York: Basic Books, 1999), Table 32.

million Armenians forced out of their homes from 1915 onwards and a smaller proportion of perhaps a similar number of Greeks. All in all, the population of the areas which became Republican Turkey is said to have dropped by 25 percent during these terrible years.³³

What is certainly less well known is the extent of the casualties in the Arab provinces to the south. Taking the numbers of men killed fighting in the Ottoman armies, together with the much larger number of civilians who died of disease and starvation, most of them in the last years of the war and just after, some estimates come to 500,000, or perhaps a seventh of the pre-war population.³⁴

If this was not enough, the post-war division of the Ottoman Empire in Asia created a set of little Arab states in its place, each with its own external tariff and, over time, its own legal system and other barriers to the free flow of goods, capital and people as well. Hence, instead of one large market, there was now the new Republic of Turkey with a population of 13-14 million increasingly cut off from several smaller ones to its south and east, mandatory Syria/Lebanon with a reduced population of some 3 million, mandatory Palestine/Transjordan with around 1 million and mandatory Iraq with another 2.5. Furthermore, the new situation provided much more scope for policies of economic nationalism, exhibited in Turkey, for example, by a systematic attempt to purchase foreign-owned enterprises like the railways and in Egypt by the establishment of the Bank Misr.

A further retreat from openness took place in the 1930s when both Turkey and Egypt made use of the fact that they could now set their own tariffs (the last of the commercial treaties preventing this having lapsed in 1929) to limit imports as well as to protect local industry. Meanwhile, the French Mandatory authorities were also responding to the crisis in much the same way with tariff rises of their own. As a result, integration with the global economy was greatly reduced and, in the case of the mandated territories, largely mediated by a single state, either Britain or France. All that was left of the period of internal openness at the end of the 1930s was a small semi-free trade area consisting of Syria/Lebanon and Palestine/Transjordan.

The process of active decolonisation promoted by World War Two provided more reasons, as well as more opportunities, for economic self-protection. Industry was now seen as the key to rapid economic development. And for most newly independent Arab regimes that meant import substitution industrialisation (ISI) behind high tariff barriers. Then, as the regimes

³³ Roger Owen and Sevket Pamuk, *A History of the Middle East Economies in the Twentieth Century* (London: I. B. Tauris, 1999), 11.

³⁴ *Ibid.*, p. 5 and source cited there.

themselves became more authoritarian, they discovered even greater advantages in protecting themselves politically, as well as economically, by ever more stringent obstacles to the movement not only of goods but also of capital, people and ideas. The only exception was Lebanon which stumbled into a system of exporting its manufactured goods to Gulf and other markets more congruent with the outward-looking orientation of its political and business elite. Statist policies and the jealous preservation of new-won national sovereignty also put paid to the attempts, first to create an Arab Free Trade Area, then an Arab Common Market. Later, the spread of oil money allowed all non-oil regimes to postpone any change in the basic structure of the system of economic management until well into the 1980s or, in Syria's case, to put it off almost entirely.

Turkey and Israel were drawn in much the same direction, although for somewhat different reasons. Turkey's successful promotion of ISI in the 1960s and early 1970s is well known. As for Israel, its position as an embattled state facing huge problems of immigrant absorption made it natural to use the system of rationing and resource allocation put in place by the British mandatory authorities during World War Two to run a control economy behind well-guarded borders. Hence, when Turkey and Israel found themselves in economic difficulties in the 1970s and Egypt in the 1980s, they all faced formidable vested interests committed not just to the maintenance of statist controls but also to their highly protected exploitation of local markets.

The Experience of the First Wave when Viewed from the Second

How does the impact of the first wave of globalisation on the eastern Mediterranean look from the vantage point of the second? And what lessons, if any, are there to be learned from a comparison between the two?

One starting point is to ask whether the apparent similarities are as obvious as they might first seem. It is true that the waves themselves have many common features. It is also true that their impact was mediated by the foreign exchange crises of the 1870s and the 1970s when debt reduction and further loans were on offer in exchange for a promise of better financial housekeeping. As always there seems to have to be some mechanism by which globalisation and economic liberalisation could be made to go hand in hand. In the nineteenth century it was Britain, and to some extent France, which took the lead in pressuring non-European countries to open up. In the twentieth century this role has been played by the United States with assistance from international bodies like the GATT (and later the World Trade Organization), the IMF and the World Bank.

Nevertheless, the ways in which the process of creating stronger links with the global economy vary widely. In the late nineteenth century eastern Mediterranean it was only in Egypt that the policies actually pursued look anything like a rehearsal of the modern notion of stabilisation, for example, the insistence on balancing the budget. And this only happened because of direct foreign political involvement in the form of placing Europeans in charge of monitoring the budget process. In the Ottoman case, creditor interests were preserved by, in effect, two separate budgets each with its own assigned revenues, one run by the OPDA, one, which was rarely in surplus, by the Ottoman Treasury.

Something of the same point can be made about those policies which would now suggest early forms of structural adjustment. In so far as there was any form of state shrinkage in the form of privatisation or of the removal of internal barriers to commerce this took place mainly in an Egypt under foreign control, even if it also had the enthusiastic support of some of the leading local politicians. In the Ottoman domains the state still desired to play a dominant role both in the management of economic, and in the - necessarily associated - military, affairs. What both administrations did share, however, is a, sometimes reluctant, commitment to external openness, embodied in the international commercial treaties as well as a number of (sometimes institutionalised) commitments not to discriminate against foreigners and foreign business.

Where these parallels become more significant is via the argument that it was probably just because of these foreign-imposed liberal measures that both Egypt and the Ottoman dominions were able to take advantage of commercial links with the growing European economies to make considerable economic progress themselves. This can be seen in the increase in their trade, their success in attracting FDI and, very probably, in the subsequent increase in GDP and average per capita income. There may even have been a period, *pace* Williamson, when they were actually catching up with Europe as far as living standards were concerned.

Whether such progress would have continued but for the First World War is less clear. What does seem certain is that, at some stage, local resentment at foreign financial control would have produced a nationalist backlash, as it was beginning to do in the Empire even before 1914. And that increasing independence, perhaps allied to an international financial crisis roughly equivalent to that of 1929, would have created its own incentive to undertake protective measures designed specifically to reduce the impact of world economic forces. This, after all, is what happened anyway once Egyptian, Syrian and Turkish, not to say Israeli, politicians became convinced of the supreme virtues of ISI. To make the same point somewhat more brutally, the

'open' economic policies practised in the eastern Mediterranean in the three decades before 1914 were unsustainable in the longer term, war or no war.

Here perhaps is one lesson from a long-term comparison of the two waves: that economic *nostra*, however compelling, cannot simply be imposed on a debtor country just because outside experts are convinced that this is necessary for its own good. By the same token, the creation of a 'reform coalition' of local politicians and officials is also fraught with some of the same problems, in that it is often relatively easy to tar these people as 'foreign' and anti-national, using the usual nationalist brush. Perhaps only the parity offered by an equal partnership with the EU, rather than the unequal relationship offered by the Barcelona Agreement, would be enough to persuade eastern Mediterranean political regimes and their business supporters that it is safe to open up?

A second lesson concerns the comparison between contemporary structural adjustment and its nineteenth century predecessor. In the case of the latter, much of the early work towards the creation of markets and the legal structures they required to support them was quite well-advanced even before the first wave began. What the Anglo-Khedivial regime in Egypt and the Ottoman government in Istanbul then did was to reinforce, and so make more effective, processes which were already in train. One might also want to say that, in such a situation, the aims of the whole process - in terms of the creation of a market economy - were quite close within reach. Although this does beg the further question, posed directly by the experience of Lord Cromer and others in Egypt, of whether the boundaries then established between the public and the private could be regarded as final or whether they would need constant re-negotiation as commercial and infrastructural development continued and economic processes became more complex.

Now, at the beginning of the twenty-first century, the whole notion of Structural Adjustment appears much more problematic. In the case of Turkey it has been going on for twenty years and is obviously still far from complete, at least as far as progress on the Washington and EU check-lists are concerned. And in Egypt, it has left the government with a rather embarrassing list of promises which, for the most part, it seems unwilling to keep. Perhaps the time has come to go back to first principles and to ask the question: What type of national structures make most sense if a particular country wants to capture the rewards of being part of the global economy without paying too great a political price?

A third lesson concerns timing. Given the fact that there was such a long hiatus between the first and second global wave, it also matters greatly what happened to each economy during the interval. Here the Turkish case would

suggest the great advantage of beginning the process of creating a Muslim entrepreneurial class to replace the vanished Christian minorities in the 1920s and then of embarking on an ISI process in the 1930s. This not only added several decades of extra experience as far as getting state/private sector relations organised was concerned, but it also made it less likely that the state itself would go in for the root and branch nationalisations of private industry that took place in Egypt and Syria in the 1960s which produced a public sector larger than anything outside the Soviet bloc. The problems of reforming such an entity, with all its protected monopolies, vested interests and bad debts, thus becomes a great deal more difficult.

Finally, it is difficult not to see the relationship between Europe and its nearest non-European neighbours as possessing a particular historical intensity which continues to resonate until the present day. What the EU faces when it comes to consider its relations with the states at the eastern end of the Mediterranean is not just a set of contemporary political problems and economic disparities but also the legacy of many centuries of European-induced dislocations, interferences and transformations, for both good and ill. Clearly the questions raised by the two waves of modern globalisation and the difficulties of 'catching-up' are still very much with us.

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TABLE 1: Total Trade to GDP During First and Second Waves of Globalisation (%)

	c1870	c1910	c1950	1995
UK	41	44	30	57
France	33	35	23	43
Germany	37	38	27	46
Italy	21	28	21	49
USA	14	11	9	24
Ottoman Empire		32-34		

Source: Baldwin and Martin, *Two Waves of Globalisation*, Table 11; Pamuk, *Ottoman Empire*, pp. 17, 26.

Socio-political Research
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