

Soviet-Turkish Rapprochement in the 1960s: Trade, Aid and Transfer of Technology

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Abstract

“Soviet-Turkish Rapprochement in the 1960s: Trade, Aid and Transfer of Technology”

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for Modern Turkish History at Boğaziçi University, 2019

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After World War II, the Union of Soviet Socialist Republics and the Republic of Turkey entered a period of political estrangement. This thesis focuses on the reestablishment of relations between these two countries in the form of trade and economic cooperation in the 1960s. Drawing upon the Cold War context, the thesis initially provides the political background to the rapprochement, and continues to focus on the particular reasons for the types of economic transactions. In the 1960s, the Soviet Government agreed to assist Turkey’s industrialization efforts by agreeing to export technology, machinery, equipment for the construction of several industrial plants. This study aims to evaluate the reasons for this unique cooperation between Turkey, a NATO member, and the Eastern Bloc superpower, the Soviet Union with references to primary sources from the Russian State Archive of the Economy.

The main hypothesis of this thesis is that the rapprochement between the Soviet Union and Turkey in the 1960s coincides with a period of a rise in multilateralism in international politics within the context of the Cold War. Both the Soviet Union and Turkey were willing to cooperate with members of the opposing block in favor of their own economic interests. Turkey’s industrialization efforts in the 1960s required foreign assistance, which was partially met by the Soviet Union’s financial and technical assistance. Regardless, Soviet influence over Turkey, along with the scope of Soviet-Turkish economic relations, remained limited due to various reasons.

37,000 words

Özet

“1960’lı Yıllarda Sovyetler Birliği ve Türkiye Yakınlaşması: Ticaret, Yardım ve Teknoloji Transferi”

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2. Dünya Savaşı’ndan sonra, Sovyet Sosyalist Cumhuriyetler Birliği ve Türkiye Cumhuriyeti diplomatik ve politik olarak ayrışmışlardır. Bu çalışma ise iki ülke arasındaki ilişkilerin 1960’larda ticaret ve ekonomik işbirliği üzerinden yeniden kurulmasını ele almaktadır. Tez, Soğuk Savaş bağlamında iki devlet arasındaki yakınlaşmaya politik bir arka plan sunmakta ve ekonomik iş birliğinin nedenlerine yoğunlaşmaktadır. Belirtilen zaman içinde Sovyet Hükümeti Türkiye’nin sanayileşme çabalarına teknoloji, makine ve donanım ihraç ederek katkıda bulunmuştur. Bu çalışma, Türkiye gibi Batı Blok’una bağlı bir NATO ülkesinin, Doğu Blok’unun süpergücü Sovyetler Birliği’yle giriştiği işbirliğinin sebeplerini Rus Devleti Ekonomi Arşivi’nden elde edilen birincil kaynakların da yardımıyla açıklamaktadır.

Bu tez, 1960’lardaki Sovyetler Birliği ve Türkiye arasındaki yakınlaşmanın Soğuk Savaş’ta ülkelerin çok yönlü dış politikaya yöneldiği bir döneme tekabül ettiğini savunmaktadır. Sovyetler Birliği ve Türkiye, kendi ekonomik çıkarları uğruna birbiriyle olan ilişkilerini geliştirmiştir. Bu dönemde Türkiye’nin sanayileşme çabalarına yönelik dış destek ihtiyacı kısmen Sovyetler Birliği tarafından karşılanmıştır. Sovyetler Birliği ise 1967 Teknoloji Transferi Anlaşmasıyla Türkiye’yle olan ticaret hacmini genişletmeyi amaçlamıştır. 1967 Anlaşması, iki ülkenin ekonomik ilişkilerine olumlu katkılarda bulunmuş olmakla beraber iki ülke arasındaki ticaret tezde açıklanan sebeplerden dolayı kısıtlı kalmıştır.

37.000 kelime

To my mother and father,

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Abbreviations and Acronyms

USSR	Union of Soviet Socialist Republics
NATO	North Atlantic Treaty Organization
ISI	Import substitution industrialization
RGAE	Russian State Archive of the Economy
RSFSR	Russian Soviet Federative Socialist Republic
CBRT	Central Bank of the Republic of Turkey

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Introduction

In his article *Some Reflections on the Historiography of the Cold War*, Edward Crapol lists three different interpretations of “the Cold War”, an era that was characterized by the persistent possibility of an open military conflict between the capitalist Western Bloc and the socialist Eastern Bloc. The orthodox view sees it as a clash that emerged as a result of “the aggressive and expansionist actions of Stalin and the Soviet Union.”¹ This narrative attributes the characteristics of a “savior” to the United States, by describing the Cold War as “the brave and essential response of free men to communist aggression.”²

The second interpretation of the Cold War is the revisionist school, which dismisses the orthodox view as “court history... the work of former government officials who now serve as chroniclers for the ruling elite.”³ Instead of blaming the Soviets, the revisionists claim that the United States’ imperial mandate based on Open Door expansionism was the main instigating factor of the Cold War. Revisionist Cold War historiography tries to create a narrative of historical continuity by referring to the United States’ earlier emergence

1 Crapol, “Some Reflections on the Historiography of the Cold War,” *Society for History Education*, 253.

2 Ibid.

3 Ibid., p. 254.

as a world power that sought “to secure markets abroad for America’s surplus agricultural products and manufactured goods.”⁴ For the revisionists, the Cold War was the response of this expansionistic and imperial power against a rivaling faction that advocated an opposing ideology.

Crapol refers to the third interpretation of the Cold War as post-revisionism. Similar to revisionism, post-revisionist historiography of the Cold War acknowledges the presence of an American Empire, but argues that it is a “defensive empire, erected by invitation and not through coercion.”⁵ Post-revisionists draw attention to how the United States used “economic instruments to secure political ends”⁶ in its intentions to widen influence. They also portray Stalin to be more of a pragmatist and an opportunist, rather than a follower of a communist world revolution ideology, who “exploited any opening to advance Russian national influence.”⁷

Crapol’s article was published in 1987, when the Cold War had lost its heat, but was still relevant. Since then, historians started to think of the Cold War through a looser definition, simply accepting it as “a convenient label for more than four decades of international history.”⁸ By accepting such a description, historians avoided “exaggerating the importance of the superpower confrontation”⁹ and restructured Cold War historiography, so that its purpose would go beyond assigning blame for its inception. Thus, Cold War historiography became more inclusive as it avoided narratives of hegemony, shifting agency from the superpowers to other countries.

Particularly after the Soviet archives in Moscow were declassified in 1990, historians started to adopt a more multilateral perspective on the Cold War.¹⁰ The documents from these archives “revealed opposition to Soviet policies

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- 4 Crapol, “Some Reflections on the Historiography of the Cold War,” *Society for History Education*, 254.
 - 5 Ibid., p. 259.
 - 6 Ibid.
 - 7 Ibid.
 - 8 Freedman, “Frostbitten: Decoding the Cold War, 20 Years Later,” *Foreign Affairs*, 137.
 - 9 Ibid.
 - 10 Engerman, “The Second World’s Third World,” *Kritika: Explorations in Russian and Eurasian History*, 184.

both within and beyond the Soviet leadership,”¹¹ indicating that the superpowers were “constantly responding not just to each other but to their allies and adversaries in the Third World.”¹² Thus, the view that the Cold War period revolved around two superpowers or even two blocs became no longer sustainable. The fact that there were contentions and even outright armed conflicts among each of the two blocs supports the idea that the Cold War was a multilateral conflict rather than a bilateral one.

In this multilateral conflict, the Republic of Turkey holds a unique position. After the Soviet Union’s territorial claims and insistence for control over the Straits of the Dardanelles and Bosphorus, the Turkish state abandoned its 2-decade-long balanced foreign policy and officially sided with the Western Bloc. Shortly after the end of the Second World War, Turkey took steps to integrate its economy to the Western world. It accepted American aid under the European Recovery Program in 1947, starting a period of economic growth fueled by Western assistance and credit.

Its political allegiances with the Western First World aside, Turkey resembled Third World countries economically. In the 1950s and 60s, Turkey’s GDP per capita was much lower than European averages, and closer to Latin American and Middle Eastern averages.¹³ Similar to many Third World countries, Turkey remained an agriculture-based and unindustrialized economy in the post-war era. Benefiting from American aid, the Menderes Government of the 50s intended to use Turkey’s comparative advantage in the agricultural sector by promoting higher productivity through investing in the use of agricultural machines. While initially showing success, Turkey’s growth model based on agriculture started to show signs of distress as the world prices of agricultural products started to fall.¹⁴ This led to trade deficits and foreign exchange bottlenecks towards the end of the decade. Unable to acquire additional finances from the United States, Turkey devalued its currency, leading

11 Engerman, “The Second World’s Third World,” *Kritika: Explorations in Russian and Eurasian History*, 184.

12 Ibid., p. 185.

13 “Maddison Project Database,” last modified January, 2013.

14 Pamuk, *Türkiye’nin 200 Yıllık İktisadi Tarihi*, 229.

to the economic crisis of 1958. It was during these dire economic conditions that we see the reestablishment of closer diplomatic contact between Turkey and the Soviet Union.¹⁵

Concurrently with Turkey's disillusionment with the Western dictated and financed economic growth model, the Soviet leadership under Nikita Khrushchev rejected the aggressive foreign policy of the Stalin era, and decided that the Soviet Union should "take its place in the "international division of labor... in the world system."¹⁶ The new Soviet regime deemphasized ideological divisions between the Western and the Eastern Blocs in favor of fomenting mutual relations with members of the opposite camp, and also with the unaligned Third World countries. This shift in Soviet ideology resulted in increasing bilateral relations between the members of the two camps.

It was in this period when the Soviet Union launched an "economic offensive" to improve its image and influence in Turkey. While the Soviet initiatives were initially received with skepticism and distrust, Turkey was increasingly marginalized by the United States that it revised its foreign policy to favor a more independent path in foreign affairs. Towards the end of the 50s, Turkish firms and state-owned enterprises started to contact Soviet representatives to explore possibilities for cooperation. Also, the Menderes Government was in talks with the Soviets to acquire funds for projects, which the United States refused to finance. The relations were brought to a sudden halt, however, on 27 May 1960, when army officers overthrew the Menderes Government.

After the 1960 coup, Turkey revised its economic growth model to favor industrialization. Similar to many of the post-colonial states of the time, Turkey took a path of a planned economy and utilized import substitution industrialization (ISI) policies in the hopes that it would deliver industrial growth. Turkey implemented strict import limitations to encourage domestic production of consumer goods in accordance with the ISI program. Lacking capital and technology, however, Turkey depended on foreign investment and technical assistance to pursue a path of industrialization. The Soviet Union

15 Altan, *Süperler ve Türkiye*, 98.

16 Brun and Hersh, *Soviet-Third World Relations in a Capitalist World: The Political Economy of Broken Promises*, 45.

emerged as an alternative to the United States as an economic partner in this period.

Starting from 1955, the USSR showed willingness to help finance and construct industrial projects in the public sector of developing countries at prices and terms competitive in comparison with bids from Western companies.¹⁷ In 1963, the Turkish Government conveyed its interest to benefit from similar Soviet aid, and in 1967, the Soviet Government agreed to provide technology and credit for the construction of seven different industrial projects. The 60s also saw an increase in trade between the two countries.

Political scientists and historians from Turkey and the former Soviet Union have studied the relations between the Soviet Union and Turkey in the 60s very much within the confines of their own disciplines. As opposed to the previous literature on the matter, this study will aim to examine Turkish-Soviet rapprochement in the 1960s by paying attention to the economic and political relations. It will especially concentrate on the transfer of technology from the Soviet Union to Turkey, which is an example of economic cooperation that was unprecedented in Turkey's economic history.

In the second chapter, we will attempt to examine the political and diplomatic relations between the Soviet Union and the Republic of Turkey from a historical and a Cold War perspective. The chapter will briefly refer to the centuries-long enmity and distrust between the Ottoman and the Russian Empires, and how such sentiments were carried over to the relations between their successor states. Then, we will explain the reason to the amiable relations during the 20s, when the Bolsheviks assisted the Ankara Government in its struggle against the occupying Allied Powers. The chapter will then demonstrate how the Turkish State positioned itself between the "socialist East" and the "capitalist West" after its foundation, and stuck to its principles of strict neutrality for two decades, very similar to the members of the Non-Aligned Movement of the Cold War. The chapter will then show how Turkey shifted from being an unaffiliated and a neutral country to one which would be a frontier of the clash between the Soviet Union and the United States.

17 Rubinstein, *Moscow's Third World Strategy*, 239.

The second chapter will also devote specific attention to how the Soviet Union's self-perception and the perception of other states radically shifted after the end of the Stalinist period. The thesis will show how Khrushchev's "Secret Speech" in 1956, policies of de-Stalinization and the idea of peaceful co-existence mark a significant shift in Soviet economic relations with developing countries. The chapter will show how the Soviet Union's decision to "take its place in the international division of labor" is inextricably linked to the rapprochement between Ankara and Moscow. At the end of this chapter, we will refer to specific events and issues that pushed Turkey further apart from its NATO allies. Soviet stance on the issue of Cyprus was one of the preconditions Turkey presented to the Soviet Union for amiable relations. We will draw attention to the weakening of bloc solidarity in Cold War participants, and how a multilateral and pragmatic understanding of international relations became prominent for both parties. In this chapter, we will use secondary sources about Soviet-Turkish relations and the Cold War.

The third chapter will concentrate on the economic relations between the Soviet Union and Turkey between the years 1930 and 1960. We will refer to the economic cooperation between the two countries during Turkey's planned industrialization period in the 1930s. Then we will explain the mode of trade between the Soviet Union and Turkey set by the 1937 Trade and Payment Agreement. The chapter will refer to the incorporation of the Turkish economy to the West after the Second World War and the economic model that developed as a result of Western guidance and assistance. Then we will pay special attention to the 1958 economic crisis in Turkey, which was the most important factor in Turkey's search for economic partners elsewhere than the West. We will take a look at the early Soviet-Turkish partnership in the establishment of the Çayırova Glass Factory in 1959, and how this project served as a point of reference in the further advancement of relations.

The fourth chapter will be about the economic relations between Eastern Bloc countries, with an emphasis on the Soviet Union, and Turkey between 1960 and 1967, the latter being the year when Turkey signed a comprehensive technology transfer agreement with the Soviet Union. We will analyze the effects of Turkey's incorporation of planned development policies in 1963 on Soviet-Turkish economic relations. We will refer to the increase in the levels

of trade between the Soviet Union and Turkey during this period, and also to the economic cooperation between Turkey's public and private sectors with Soviet firms. The chapter will also analyze the obstacles for the Soviet-Turkish economic relations and how they made the 1967 Agreement a necessity. The fourth chapter will also briefly discuss Turkey's relations with other Eastern Bloc countries during this period. In this chapter, we will use primary sources from the Russian State Archive of the Economy (RGAE) and the Turkish State Republican Archives along with secondary literature about Soviet foreign economic policy and Turkish economic history.

The fifth chapter will focus on the 1967 Technology Transfer Agreement between the Soviet Union and Turkey. We will explain the economic reasons to why the Turkish Government commissioned Soviet firms to help Turkey establish various industrial plants. We will attempt to show the importance of this cooperation in Turkey's industrialization aspirations, and how Soviet and other foreign technical assistance were required along this path. The chapter will explore the financial and technical difficulties during the establishment of these plants, and how Turkish and Soviet representatives overcame these obstacles. The fifth chapter will also refer to what happened to these project after they were completed. We will use primary sources from the Russian State Archive of the Economy (RGAE) and also secondary literature about the industrial projects of the 1967 Agreement.

In the sixth, concluding chapter, we will provide a brief summary of the thesis. The chapter will state the political and economic reasons for the Soviet-Turkish economic rapprochement in the 1960s. It will emphasize that the 1967 Technology Transfer Agreement was the hallmark of this new era. The chapter will also mention the results of the 1967 Agreement and how they affected the future of Soviet-Turkish economic relations. By briefly discussing Russo-Turkish relations since the 1960s, the conclusion chapter of this thesis will show that the 1967 Agreement was the first major breakthrough in the close economic partnership between the Republic of Turkey and the Union of Soviet Socialist Republics and its main successor state, the Russian Federation.

Soviet and Turkish Diplomatic Relations Until 1960s

Soviet Union and the Republic of Turkey inherited feelings of distrust and skepticism towards each other from the hostile relations of their predecessors, the Russian Empire and the Ottoman Empire. While there was a period of mutually beneficial diplomatic cooperation in the 1920s, drawing from a broader context from the previous century, one can demonstrate that it was not the norm, but the exception.

§ 2.1 Russo-Turkish Relations Prior to the Foundation of the Soviet Union

The series of military engagements between the Russian and the Ottoman Empires constitute one of the longest lasting periods of conflict between any two states in history. Starting from the Russo-Turkish War in the 16th Century, the two powers frequently clashed with each other for dominance over the Black Sea, the Balkans and the Caucasus. In most of these wars, the Ottoman Empire submitted to the Russian expansionistic campaign and ceded most of its territory and control in the North to the Russian Tsardom/Empire. Subsequent defeats and the Russian onslaught reached a level that the Ottoman Empire developed its diplomatic relations with the United Kingdom, Germany, France, Austria and Hungary to capitalize on their intentions to maintain an

equilibrium in Europe. Wary of a powerful Russia, the Western Powers supported the Ottoman Empire diplomatically, economically and militarily. In exchange, they levered economic and political concessions from the Ottoman Empire. In the Crimean War, the Ottomans forged an alliance with the Western Powers against its “big neighbor to the North”.¹ The Ottoman Empire allowed the British and French Warships to sail past the Straits of Dardanelles and Bosphorus to enter the Black Sea and launch a full offensive against the Russian port cities in Crimea.² The Ottoman tactics in the Crimean War (1853-1856) demonstrated the vital importance of the straits to the Russians, leaving its mark on Soviet policy making towards the Turkish Republic.

Two decades after the Crimean War, the Russian Empire made an attempt to regain its losses and inflicted a tremendous blow against the Ottoman Empire in the War of 1877-78.³ Russian forces advanced against the Ottoman forces in the Caucasus and the Balkans, reaching the outpost of San Stefano, at a distance of 11 kilometers from the capital city of İstanbul. Unwelcoming towards an unchecked Russian influence in the Balkans and over the Ottoman Empire, Western Powers interfered and arbitered the Treaty of Berlin between the two empires. As a result of this treaty, the Ottoman Empire ceded its Eastern provinces of Kars, Batumi and Ardahan to the Russian Empire.⁴

Vying to recoup its losses from the 1877-78 War, the Ottoman Government entered the First World War (1914-1918) on the side of Germany and the Central Powers. Once again, the Ottomans utilized the strategic importance of its geographical position and allowed two German ships to pass through the Straits of Dardanelles and Bosphorus to bombard the Russian port city of Sevastopol on the shore of the Black Sea. Unlike the case in the Crimean War, this was a surprise attack that caught the Russian forces off-guard.⁵

The last conflict between the “centuries-old enemies” came to an end when the Bolsheviks, led by Vladimir Lenin, addressed the anti-war sentiment

1 Girgin, *Ruslarla Kavgadan Derin Ortaklığa (Son Yüz Senemiz: 1914-2014)*, 2.

2 Ibid.

3 Ibid., p.2-3.

4 Ibid.

5 Girgin, *Ruslarla Kavgadan Derin Ortaklığa (Son Yüz Senemiz: 1914-2014)*, 16-17.

of the Russian public by deeming it an imperialist war that subverted the working class.⁶ Thus, the Bolsheviks garnered public support for their faction after the February Revolution of 1917 and managed to usurp power in November of the same year. On 3 March 1918, the Bolshevik Russian Soviet Federative Socialist Republic (RSFSR) signed the Treaty of Brest-Litovsk with the Central Powers, agreeing to withdraw from the conflict. The treaty stipulated the withdrawal of Russia from the First World War by ceding the Russian Empire's territory in Eastern Europe and in the Caucasus to the Central Powers. The Ottoman Empire regained its territorial losses in the Russo-Turkish War (1877-1878) in the Caucasus.⁷

The Treaty of Brest-Litovsk practically became obsolete in November, when the Central Powers conceded defeat. Nevertheless, the Bolshevik leaders of the RSFSR maintained the policy of cordial relations with neighboring countries, as they were waging a war against the anti-communist White Movement in the Russian Civil War. The Brest-Litovsk Treaty was a mark of the end of the centuries-old hostility and fighting between the Russian and the Ottoman sides that lasted for more than three centuries. The relations between the two nations evolved from one that was based on military conflict to one that was based on diplomatic and economic relations, especially after the foundation of the Turkish Republic.

The Russian Empire's successor state RSFSR (and later the Soviet Union) seemingly had contradictory foreign policy tenets. In the Decree of Peace, adopted by the Second Congress of Soviets in 1917, the Bolshevik leader Vladimir Lenin put forth a dual mandate for Soviet foreign policy. The first mandate was proletarian internationalism, which refers to the Soviet Union's interest in strengthening the workers' class against the bourgeoisie in other countries.⁸ The other mandate was peaceful coexistence, the intentions to carry out intergovernmental cooperation regardless of ideological difference. In different periods of its history, the Soviet Union emphasized one mandate over the other when conducting foreign policy.

6 Ibid., p. 55-56.

7 Ibid., p. 57.

8 "A Country Study: Soviet Union," The Library of Congress, accessed April 16, 2014, <http://lcweb2.loc.gov/frd/cs/sutoc.html>

Initial Soviet perception of foreign policy was optimistic, in that it espoused proletarian internationalism. The Bolshevik leader Vladimir Lenin expected that socialist revolutions, similar to the October Revolution, would erupt in the Western countries, leading to a communist victory in Europe. While the German Revolution of 1918-19 was a sign of this prophecy coming true, any leftist movement after the First World War was suppressed by anti-communist forces. After this failure, Lenin upheld a more hands-off approach, declaring that "peaceful coexistence does not rule out but presupposes determined opposition to imperialist aggression and support for peoples defending their revolutionary gains or fighting foreign oppression."⁹

It was the Soviet Union's willingness to prevent a Western-friendly regime to take hold across the Black Sea that led to the initial cooperation between Turkey and the USSR.¹⁰ After the Ottoman Empire's defeat in the First World War, the Allied Powers occupied and partitioned the Ottoman Empire's remaining territory according to the Treaty of Sevres (10 August 1920). A group of officers of the Ottoman Army, headed by Mustafa Kemal, organized a resistance against the occupying forces in Anatolia. According to the intelligence officer of the General Staff of the Nationalist Forces, Mustafa Kemal had met a Soviet delegation in the town of Havza in May-June 1919, early on in the organizational period of the national resistance. The Soviet delegate was promising arms, ammunition and financial support to the Turkish nationalists against what they saw as common enemies, the Allied Forces.¹¹ The Bolsheviks were wary of the possibility of a British offensive in assistance of the White Movement from the Caucasus; hence, they strived to hamper British encroachment at its Southern flank by establishing buffer zones. The Turkish Nationalist Movement based in Ankara seized this common interest to acquire assistance. Three days after its foundation on 23 April 1920, the Grand National Assembly of Turkey requested assistance from the Bolsheviks "for their struggle against imperialism."¹²

9 Ibid.

10 Girgin, *Ruslarla Kavga dan Derin Ortaklığa (Son Yüz Senemiz: 1914-2014)*, 76-77.

11 Gürün, *Türk Sovyet İlişkileri (1920-1953)*, 8.

12 Yüceer, *Atatürk Dönemi Türk-Rus İlişkilerinin Siyasi Boyutu*, 65.

A month after the foundation of the Turkish Parliament, the Bolsheviks sent a letter to Ankara, notifying their intentions to invade the buffer zone of Georgia, for which it would allow a Turkish offensive against Armenia.¹³ The commander of the nationalist forces in the East, Kazım Karabekir, agreed to the Soviet conditions and launched an offensive against the First Republic of Armenia. The offensive ended with the Treaty of Alexandrapol in December 1920, resulting in the Ankara Government annexing Kars and Ardahan.

Due to successful cooperation with regards to its war against the Armenian State, Ankara wanted to deepen its relations with the Bolsheviks. To demand assistance against the British-backed Greek Forces in the West, the first Ankara Government decided to send a delegation to Moscow to discuss terms. Before the delegation set out for Moscow, Mustafa Kemal gave a secret speech to delegation's members, reminding them that they are "not interested in becoming Bolsheviks, but they are simply allying themselves with Bolsheviks, using the resources of the East... when fighting the forces of the West."¹⁴ This speech demonstrated Ankara's principle of national sovereignty and the pragmatic approach in its foreign policy.

The RSFSR was the second state to formally recognize the Ankara Government in the March of 1921. Wary of United Kingdom's initiatives in establishing a Caucasian Federation at its Southern borders, the RSFSR decided to prioritize its relations with Ankara; and both governments signed the Treaty of Moscow on 16 March 1921, when the Ottoman Sultan was no longer recognized as the legitimate ruler.¹⁵ The Russian government agreed to respect Turkey's territorial integrity and gave up on its previous claims on the cities of Kars and Ardahan, whereas Turkey ceded Batumi to Georgia. According to the Fifth Article of the treaty; however, the determination of the status of the Black Sea and the Straits were left for future deliberation between the two parties.¹⁶ This issue would be one of the sources of crisis between the RSFSR, what later became the largest soviet republic within the Soviet Union, and Turkey.

13 Ibid. p. 65.

14 Ibid., p.67.

15 Altan, *Süperler ve Türkiye*, 43.

16 Yüceer, *Atatürk Dönemi Türk-Rus İlişkilerinin Siyasi Boyutu*, 72.

The most important aspect of the agreement was that it marked the beginning of the economic relations between the Ankara Government, what later became the Republic of Turkey, and RSFSR, which later became the Soviet Union. After the treaty of 16 March 1921, Ankara emissary to Moscow, Halil (Kut) Paşa, went to Russia to inquire about the extent to which the RSFSR could aid the war effort in Anatolia. The Bolsheviks agreed to supply Ankara with 10 million golden roubles and weaponry for 2 divisions of the Turkish forces. At the end of the Turkish War of Independence, a quarter of the weaponry of the Turkish National Movement had been supplied by the RSFSR.¹⁷

It is important to note that the Bolsheviks did not deem the Kemalist movement as one that could evolve in to a workers' movement, but as a national liberation movement.¹⁸ For this reason, the Soviets maintained a neutral attitude towards the newly founded Republic of Turkey, while also closely monitoring its relations with Western powers. The Turkish Government, on the other hand, saw its relations with the Soviet Union as a bargaining chip in its relations with the West.

§ 2.2 Soviet-Turkish Relations (1922-1945)

In 1922, the RSFSR had joined with 14 other socialist republics to form the Union of Soviet Socialist Republics (USSR), thereby becoming Turkey's neighbor in the Caucasus region. Moscow's amicable relations with Ankara continued on in to this period. After settling its conflicts with European powers with the Treaty of Lausanne in 1923, the Ankara Government distanced itself from Moscow for a brief period of time.¹⁹ When Turkey's territorial dispute with Britain regarding Mosul led to a diplomatic crisis in 1925, Ankara chose to reinitiate its relations with the Soviet Union. With the Turkish President Mustafa Kemal's initiative, Turkey signed a non-aggression pact with the USSR on 17 December 1925. The newspaper of the Soviet Government, *Izvestia*, had declared that this Pact was an answer to the West's attempts to provoke the Soviet

17 Altan, *Süperler ve Türkiye*, 44.

18 Gürün, *Türk Sovyet İlişkileri (1920-1953)*, 13-15.

19 Gürün, *Türk Sovyet İlişkileri (1920-1953)*, 100.

Union and Turkey against each other.²⁰ Soviet-Turkish relations remained amicable for the rest of the 20s.

According to the Soviet defector Georges Agabekov, a senior Joint State Political Directorate (OGPU) official, the Soviet secret police and espionage agencies started to consider Turkey as a potential threat in 1930.²¹ This shift of policy is not only related to Turkey's rapprochement with Western Powers such as Britain and France, but also due to a shift in Soviet Union's internal politics and its new foreign policy. Joseph Stalin, having been elected the General Secretary of the Central Committee of the Communist Party of the Soviet Union in April of 1922, had pushed for increased collectivization and industrialization by abandoning Lenin's New Economic Policy, which was a more decentralized and agriculture-oriented policy.²²

To pursue his economic policies, Stalin started to marginalize his dissenters in the Politburo. The likes of Nikolai Bukharin and Alexei Rykov, who were appalled by the forced collectivization in agriculture, were branded "rightists" and "deviants from the tenants of Marxism-Leninism". By 1930, dissent to Stalin was virtually nonexistent in the Politburo and Stalin pushed for his vision to be implemented in state policy in the internal and external affairs of the Soviet Union. Stalin's Soviet Union abandoned its hopes of "exporting communist revolutions" to other countries and pursued Bukharin's policy of Socialism in One Country. According to this theory, the Soviet Union was to strengthen itself economically and militarily to be a beacon of power of the socialist system.²³ Soviet Union's policy shift brought with it an inclination to pursue an aggressive foreign policy towards its neighbors. According to Musa Gasimli, Stalin considered the Russian Empire's territorial status at the end of

20 Yüceer, *Atatürk Dönemi Türk-Rus İlişkilerinin Siyasi Boyutu*, 85.

21 Gasımlı, *USSR-Turkey. From Normalization of Relations to the New Cold War*, 17.

22 "A Country Study: Soviet Union," The Library of Congress, accessed April 16, 2014, <http://lcweb2.loc.gov/frd/cs/sutoc.html>

23 "A Country Study: Soviet Union," The Library of Congress, accessed April 16, 2014, <http://lcweb2.loc.gov/frd/cs/sutoc.html>

the 19th Century as the safest strategic setup for the Soviet state.²⁴ These territories included the Turkish provinces of Kars and Ardahan. Such a view was at odds with the newly founded Turkish Republic, whose principals were built on intransigence on territorial matters.

In 1932, Turkey joined the League of Nations, which the Soviet Union deemed as an imperialist organization. This, along with the Turkish efforts to organize the Balkan Pact deeply shook the trust of the Soviet Union.²⁵ Despite this estrangement between Turkey and the Soviet Union, İnönü made a trip to Moscow in 1932 to defuse the tensions, and also to discuss areas of possible economic cooperation. It is important to note that prior to the Second World War, the Soviet Union lent credit only to Turkey, Iran and Afghanistan, in an attempt to counter the British influence, and to secure its southern borders.²⁶

Relations between the Soviet Union and the Republic of Turkey changed according to the balance of powers in Europe. When Mussolini's Italy signed the Four-Power Pact with Britain, France and Germany on 7 June 1933, the Turkish and Soviet Governments defined it as an imperialist strategy of the signatory nations.²⁷

The first crisis between the Soviet Union and the Republic of Turkey was regarding the status of the straits of Bosphorus and Dardanelles. On 20 July 1936, Turkey signed the Montreux Convention Regarding the Regime of the Straits, which guaranteed safe passage to foreign civilian vessels, but gave Turkey full control over transits of naval warships. This convention had made the Soviet Government uncomfortable as it suspected Turkey to organize an attack on Soviet ports on the Black Sea. The Soviet Union accused Turkey of having a hidden agenda.²⁸

The crisis of confidence between the USSR and Turkey was during a period when the European continent was moving towards another major conflict. The Spanish Civil War that began in 1936 started to create ideological rifts be-

24 Gasımlı, *USSR-Turkey. From Normalization of Relations to the New Cold War*, 18.

25 Gürün, *Türk Sovyet İlişkileri (1920-1953)*, 127-129.

26 Gu Guan-Fu, *Soviet Aid to the Third World: An Analysis of Its Strategy*, 77.

27 Yüceer, *Atatürk Dönemi Türk-Rus İlişkilerinin Siyasi Boyutu*, 93.

28 Gasımlı, *USSR-Turkey. From Normalization of Relations to the New Cold War*, 20.

tween European countries. The nascent nationalist movements in Europe supported the nationalist faction led by General Francisco Franco, whereas the Soviet Union supported the Republicans. The nationalist movements in Europe, and also the World, considered socialism and communism as the biggest threats to their ideologies. On 25 November 1936, Empire of Japan and Nazi Germany signed the Anti-Comintern Pact that declared the Soviet led Communist International “as a menace to world peace”.²⁹ Fascist Italy and Francoist Spain joined the pact in 1937.

The Molotov-Ribbentrop Pact signed between the Soviet Union and Nazi Germany on 23 August 1939, however, was a development that worried Turkey to a degree that it immediately mobilized its troops at its borders with Greece, Bulgaria and the Soviet Union.³⁰ With this pact, Germany and the USSR divided Eastern Europe among themselves, and promised a period of non-aggression against each other for 10 years. During the negotiations for the pact, the Soviet Union brought up the issue of Turkey and the straits, but the Nazi Germany was distant towards any Soviet proposals regarding Turkey.³¹ Following this agreement, the two countries invaded Poland, initiating the Second World War. Distrustful of Turkey’s “big neighbor to the North”, the Turkish Government pursued a policy of diplomatic balance between Nazi Germany, the Soviet Union, United Kingdom, France and Italy before and during the Second World War.

On 25 September 1939, a delegation headed by the Minister of Foreign Affairs, Şükrü Saraçoğlu, traveled to Moscow to negotiate an alliance. When the Soviet delegation listed a number of clauses, demanding that the Turkish Republic cede more control in the straits to the Soviet Union, Saraçoğlu rejected these demands and showed the initiative to establish alternative alliances when he returned to Turkey. Anglo-French-Turkish mutual assistance pact was signed two days later, on 19 October 1939.³² The three countries agreed to defend each other against acts of aggression, especially in the Mediterranean

29 Girgin, *Ruslarla Kavga dan Derin Ortaklığa (Son Yüz Senemiz: 1914-2014)*, 289.

30 Gasımlı, *USSR-Turkey. From Normalization of Relations to the New Cold War*, 21.

31 Girgin, *Ruslarla Kavga dan Derin Ortaklığa (Son Yüz Senemiz: 1914-2014)*, 299.

32 Erdem, “Stalin Dönemi Türk-Sovyet İlişkileri,” *Stalin ve Türk Dünyası*, 81.

arena. The pact was mostly directed against Italian and German aggression, and gave an exemption to any aggression from the USSR due to Turkish requests.³³ This exemption was a result of Turkey's unwillingness to antagonize the Soviet Union. In 1940, the chief Soviet diplomat Vyascheslav Molotov requested the permission from German statesmen to allow Soviet Union to exert its influence on Turkey by forcing it to cede Kars and Ardahan, along with the allotment of bases on the straits. Having a neutral Turkey in his plans, Nazi Germany's leader Adolf Hitler rejected Molotov's request.³⁴

Distrustful of the Soviet Union, the Turkish President İsmet İnönü advised the Prime Minister Şükrü Saraçoğlu to consider joining the Anti-Comintern Pact of the Axis Powers as an observer. Judging the Soviet Union to be a greater threat to Turkish sovereignty, the Saraçoğlu Government signed the German-Turkish Non-Aggression Pact on 18 June 1941.³⁵ 4 days later, Germany launched Operation Barbarossa against the Soviet Union, violating the Molotov-Ribbentrop Pact. Nazi Germany's invasion of the Soviet Union significantly decreased the possibility of Turkey facing a simultaneous invasion of these two superpowers. After this period, Turkey followed a policy of strict neutrality, despite engaging in significant economic relations with Nazi Germany.³⁶

In March of 1941, the United States ratified the Lend-Lease Act that stipulated the sale, exchange or lease of food, oil and materiel to the Allied Forces in Europe and Asia.³⁷ Towards the end of the year, the United States started its supplies to the Soviet Union from the Arctic port cities of Murmansk and Archangelsk. After the Japanese attack on Pearl Harbor on 7 December 1941, the United States formally entered the Second World War on the British and the Soviet side.³⁸

33 Ibid., p. 295-6.

34 Gasımlı, *USSR-Turkey. From Normalization of Relations to the New Cold War*, 22.

35 Erdem, "Stalin Dönemi Türk-Sovyet İlişkileri," *Stalin ve Türk Dünyası*, 85.

36 Altan, *Süperler ve Türkiye*, 69.

37 Girgin, *Ruslarla Kavga dan Derin Ortaklığa (Son Yüz Senemiz: 1914-2014)*, 301.

38 Ibid.

After the United States' entrance to the war on the British and the Soviet side, the Turkish officials were disturbed by the prospects of the balance being tilted towards the Allies.³⁹ The Allied Powers were pressuring the Turkish Government to enter the war against Germany. In January 1943, British Prime Minister Winston Churchill met with the Turkish President İsmet İnönü. Churchill advised Turkey to open a third front against the Germans, thereby guaranteeing its place in the post-war world order. İnönü, on the other hand, expressed Turkey's reluctance, and demanded a substantial amount of military aid to join the war. He also expressed his reservations on entering the war with the Soviet Union that was emerging as a dominant power.⁴⁰

In the Tehran Conference of November 1943, Joseph Stalin demanded from the American President Franklin Roosevelt and Winston Churchill to put pressure on Turkey to enter the war. Hesitant of an expansion of Turkish influence in the Balkans, Stalin requested from the United States and Britain that they do not to supply Turkey with arms in its potential campaign against Germany.⁴¹ In the Yalta Conference of February 1945, Stalin notified Roosevelt and Churchill that he "would not allow Turkey to grasp the Soviet Union by the throat through its control over the straits."⁴²

On 19 March 1945, the Soviet Minister of Foreign Affairs Vyacheslav Molotov notified Selim Sarper, the Turkish ambassador in Moscow, the Soviet withdrawal from the 1925 Non-Aggression pact "due to the deep political changes that had occurred especially during the Second World War".⁴³ When Turkey inquired on how to renew the pact, Molotov responded with requests that were greatly disturbing for Turkey. The Soviet Foreign Minister stated that for the pact to be renewed, the status of the straits had to be renegotiated with more favorable conditions to the Soviet Union and that Turkey should consider ceding its Eastern provinces of Kars, Artvin and Ardahan to the Soviet

39 Erdem, "Stalin Dönemi Türk-Sovyet İlişkileri," *Stalin ve Türk Dünyası*, 86.

40 Ibid.

41 Erdem, "Stalin Dönemi Türk-Sovyet İlişkileri," *Stalin ve Türk Dünyası*, 88.

42 Ibid., p. 89.

43 Girgin, *Ruslarla Kavgadan Derin Ortaklığa (Son Yüz Senemiz: 1914-2014)*, 314.

Union.⁴⁴ In his congratulatory message to Stalin for the Allied victory in Europe on 16 May 1945, Turkey's Prime Minister Şükrü Saraçoğlu called Stalin "the famous leader to whom I am personally committed". He received a one-line response with a terse acknowledgement.⁴⁵

Far from finding solace in the cessation of the conflict in Europe, the Turkish Republic found itself in one of the biggest diplomatic crises in its history, once again facing the threat of its "big neighbor to the North". Frustrated by Turkey's attempts to play both sides in the Second World War, Stalin ordered the annulment of the 1925 Non-Aggression Pact between the Soviet Union and Turkey.⁴⁶ A month later, Turkey received a second memorandum, whose contents were far more shocking than the first. According to the 7 June 1945 memorandum, the Soviet Union demanded the provinces of Kars, Ardahan, Artvin; Soviet bases in the Straits of the Dardanelles and Bosphorus; the transfer of Turkey's land in Thrace to Bulgaria and Greece; and the alteration of the 1936 Montreux Treaty in favor of the Soviet demands.⁴⁷ In 1946, the Soviet Union sent three more memorandums, asserting that Turkey misused its responsibilities by allowing Axis (German or Italian) battleships in to the Black Sea.⁴⁸

These requests and accusations were not received well by "the Hero of the Eastern Front" General Kazım Karabekir, who had explained the importance of the Eastern provinces to Turkey in the following way: "Controlling the Kars Plateau means waiting in ambush to invade Anatolia...It is our national backbone. If the Russians keep insisting on demanding it, then we will have no other option, but to fight for it."⁴⁹

44 Ibid., p. 314-5.

45 Gasımlı, *USSR-Turkey. From Normalization of Relations to the New Cold War*, 23.

46 Saray, *II. Dünya Savaşı Döneminde Türk-Sovyet İlişkileri*, 252.

47 Ibid., p. 254.

48 Saray, *II. Dünya Savaşı Döneminde Türk-Sovyet İlişkileri*, 256.

49 Ibid., p. 255.

§ 2.3 Soviet-Turkish Relations: The Cold War

After the Second World War, the United States initiated its policy of containing Soviet influence within the determined boundaries. Aware of Turkey's diplomatic troubles with the Soviet Union, the United States' ambassador in Ankara, Edwin C. Wilson, sent a report to the US State Department in September of 1945, asserting that the Soviets had a hidden agenda of establishing a communist regime in Turkey in accordance with its strategic setup.⁵⁰ The United States was aware of the possibility of a Soviet aggression against Turkey, but did not act immediately to show support for the Ankara Government. Instead, they waited for the Turkish government to open the way for a multiparty system as the president İsmet İnönü had given signals in his speech on 19 May 1945. With the foundation of the Demokrat Parti on 7 January 1946, Turkey gave a strong signal that it wanted to implement a Western democracy, and hoped that the United States and the United Kingdom would support Turkey against the Soviet threat.⁵¹ As a result of this action, the United States showed its first act of support by sending the body of the recently deceased Turkish Ambassador to Washington with the battleship USS Missouri in April. This gesture made "a psychological impact that exceeded the Americans' hopes."⁵²

Until March 1947, it was the United Kingdom that had granted Turkey and Greece with military and economic aid. Before cutting this aid, Britain sent a memorandum to the US President Harry S Truman, drawing attention to the strategic importance of these two countries.⁵³ Realizing that the United States and the Soviet Union were the two superpowers that would shape Europe's future, the Truman administration declared its commitment to contain Soviet influence. In March of 1947, the US Congress authorized an aid amounting to 100 million dollars to Turkey and training of Turkish military personnel.⁵⁴ The Turkish Prime Minister Recep Peker contended that reception of such an aid

50 Aktaş, *1950-1960 Demokrat Parti Dönemi Türk-Sovyet İlişkilerinde Amerikan Faktörü*, 27.

51 Ibid., p. 30-31.

52 Aktaş, *1950-1960 Demokrat Parti Dönemi Türk-Sovyet İlişkilerinde Amerikan Faktörü*, 28.

53 Ibid., p. 34-35

54 Ibid.

did not taint Turkey's unaligned position between the West and the East. The Soviet Government did not agree with this declaration, and voiced its disapproval several times. The Soviet newspaper Pravda made the harshest statements, declaring that "Turkey had lost its military independence...opened itself to the influence of foreign capital."⁵⁵

The "combatant" sides of the Cold War were further entrenched with the declaration of the Marshall Plan by the United States to reconstruct Europe in 1948, and the Council for Mutual Economic Assistance (COMECON) by the Soviet Union in 1949 for the same purpose. These economic assistance programs officially divided Europe in to two political spheres of influence, with Turkey falling under the influence of the United States, as it became a recipient of the Marshall funds. Thus, the Cold War became more than a matter of mere military alignments. The Marshall Plan and COMECON signaled that economic aid was going to be an important tool with which the Cold War was going to be waged.

Militarily, the Cold War was instituted with intergovernmental alliances. On 4 April 1949, North Atlantic Treaty Organization (NATO) was instituted between the United State, Canada and 10 European countries including France and the United Kingdom.⁵⁶ The alliance was founded with an implicit intention to counter Soviet expansion in Europe. While Turkey was willing to join such an alliance, it wasn't invited by the driving forces of the alliance, the United States and the United Kingdom. In a memorandum sent to the Turkish Ministry of Foreign Affairs in May of 1948, the two countries stated that Turkey's membership could provoke the Soviet Union.⁵⁷

It was with the Korean War (1950-53) that the Cold War became more than a European conflict. As the Soviet and Chinese backed North Korea was about to overtake the Korean Peninsula, the United States led United Nation forces protected South Korea. Turkey sent a brigade to these forces.⁵⁸ As a result of this action, the United States and the United Kingdom shifted its policy on

55 Ibid., p. 36.

56 Aktaş, *1950-1960 Demokrat Parti Dönemi Türk-Sovyet İlişkilerinde Amerikan Faktörü*, 46.

57 Ibid., p. 47.

58 Girgin, *Ruslarla Kavgadan Derin Ortaklığa (Son Yüz Senemiz: 1914-2014)*, 314-5.

NATO membership.⁵⁹ Soviet Union's first test of a nuclear bomb in 1949 also made it imperative for NATO to expand, and set up bases closer to the Soviet Union. On 17 October 1951, Turkey and Greece were accepted in to NATO.⁶⁰ Another military alliance Turkey was a member of was the Central Treaty Organization (CENTO) founded on 24 February 1955. The United States backed alliance consisted of the United Kingdom, Turkey, Iraq, Iran and Pakistan.⁶¹

2.3.1 *Peaceful Coexistence and the Search for Multilateralism*

Stalin's death in 1953 was received with joy in Turkey. The Zaman newspaper ran with the headline "The World in joy with Stalin's death."⁶² The word "dictator" was frequently used in relation with Stalin and the word "dictatorship" with the Soviet regime. The newspaper Hürriyet ran the headline "Eisenhower to meet the new Soviet dictator" in relation to the American President's expression of his readiness to discuss peaceful solutions in Europe.⁶³ Two months after Stalin's death, the Soviet Government sent a memorandum to the Turkish Government, notifying that it had relinquished its territorial claims.⁶⁴ The strict expansionistic foreign policy of the Soviet Union was very rapidly replaced by initiatives to improve diplomatic and economic relations with the West and the Third World in the hopes of "peaceful coexistence" with different political ideologies.

The era of "peaceful coexistence" was a period when the Cold War lost its connotation of two monolithic blocs clashing militarily and an era of multilateral politics that featured economic competition and also cooperation. Under Stalin, the Soviet Government adhered to the idea of "two parallel world markets...confronting one another."⁶⁵ Stalin predicted that with Soviet eco-

59 Aktaş, *1950-1960 Demokrat Parti Dönemi Türk-Sovyet İlişkilerinde Amerikan Faktörü*, 56-57.

60 Ibid., p.57.

61 Girgin, *Ruslarla Kavga dan Derin Ortaklığa (Son Yüz Senemiz: 1914-2014)*, 333-334.

62 Herkmen, "Türk Basınında Stalin'in Ölümü," *Stalin ve Türk Dünyası*, 320.

63 Ibid., p. 331

64 Erdem, "Stalin Dönemi Türk-Sovyet İlişkileri," *Stalin ve Türk Dünyası*, 97.

65 Pubantz, *Marxism-Leninism and Soviet-American Economic Relations Since Stalin*, 539.

conomic growth and the integration of the economies of the COMECON countries, the socialist bloc would no longer require Western imports, and would sustain an autarkic economy. This policy, however, had a number of negative consequences for the Soviet Union. It not only ended “a necessary stream of Western industrial products, but it closed off a possible market for the developing Soviet productive capacity.”⁶⁶ Under Khrushchev, the Soviet Union recognized the need for inter-bloc trade. The historic Twentieth Party Congress in 1956 marked the abandonment of the Stalinist idea of “two world markets” and the embracement of the Leninist view of a single world market with two separate systems.⁶⁷ Towards the end of 1950s, high ranking Soviet politicians and economists openly lambasted Soviet Union’s economic isolationism under Stalin to rid the ideological shackles of bureaucratic cadres.⁶⁸

Stalin’s views on the Third World were also a part of his rigid view of the “two world markets”. He considered developing countries as “vassals of the imperialists”, and such a view prevented a large scale development of trade with these countries.⁶⁹ In the Stalinist post-war period, the Soviet Union established trade ties with only a few developing countries, namely: Iran, Afghanistan, India, Malaysia, Ghana, and Brazil.⁷⁰ On 5 August 1953, a trade agreement with Argentina had included some Soviet supplies on credit, but the USSR seriously entered the aid business after Khrushchev and Bulganin’s visit to India in 1955.⁷¹ Starting from 1955, the Soviet Union rapidly increased its economic interactions with the Western and the Third Worlds. In three years, “Soviet trade with the United States increased more than eight-fold.”⁷² This enabled the Soviet Union to import Western machinery and technology.

The Soviet initiative to break through the rigid boundaries of bloc politics in in the first decade of the Cold War made its intra-bloc relations tenser.

66 Ibid.

67 Pubantz, *Marxism-Leninism and Soviet-American Economic Relations Since Stalin*, 540.

68 Ibid.

69 Gu Guan-Fu, *Soviet Aid to the Third World: An Analysis of Its Strategy*, 77.

70 Ibid.

71 Nove, *An Economic History of the USSR: 1917-1991*, 189.

72 Ibid.

Khrushchev's denouncement of Stalinism in his 1956 speech made People's Republic of China (PRC), a country which was ruled under a similar system to Stalinism, Maoism, very uncomfortable. PRC's leader, Mao Zedong, accused Khrushchev of Marxist revisionism, deemed the Soviet Union as a country on the path of implementing capitalism. The ideological split between the Soviet Union and the PRC led to national interests to be prioritized over bloc interests.⁷³ Such a twist in these countries' policies towards each other even led to border conflicts in the 1960s, and real possibilities of an all-out war. This Sino-Soviet split also acted as a catalyst for inter-bloc relations to improve.

2.3.2 *Loosening of NATO Ties & The Problem of Cyprus*

After the Korean War ended in the month of July of 1953, tensions between the United States and the Soviet Union eased, resulting in the development of inter-bloc relations. The fact that both countries had developed nuclear weapons and possessed arsenals that could wreck catastrophic damage on each other meant a need to reexamine priorities for each sovereign. The American president John F. Kennedy adopted a policy of flexible response to what the US Government saw as Soviet aggression. This meant that the American nuclear umbrella would no longer protect each NATO ally to the same degree.⁷⁴

The greatest application of this doctrine was during the Cuban Missile Crisis in 1962. After the failed American backed Bay of Pigs invasion of communist Cuba in 1961, the Soviet Union deployed nuclear missiles on the island. This resulted in a bargain between the United States and the Soviet Union. As a result of this negotiation, the USA withdrew its nuclear arsenal in Turkey and Italy. The Turkish public did not know about the secret agreement their government had regarding the presence of American nuclear missiles in their country, hence, the Turkish Government felt degraded after the global revelation of these missiles. The one-sided withdrawal of these missiles was a major

73 Gasımlı, *USSR-Turkey. From Normalization of Relations to the New Cold War*, 57-59.

74 Altan, *Süperler ve Türkiye*, 124.

milestone in Turkish-American relations as it shook the trust between the two allies.⁷⁵

A more consistent and strategic mismatch between Turkey and the United States was in the issue of Cyprus. Cyprus was one of the top foreign policy concerns of Turkey, starting from the events of the Cyprus Emergency between 1955 and 1960. The United Kingdom encountered an insurgency in its Crown Colony of Cyprus by the Greek Cypriot militant group National Organization of Cypriot Fighters (EOKA). EOKA's stated goal was enosis, the idea of Cypriot independence from the United Kingdom, so that it could join Greece. Enosis was not met well by the Turkish population of the island, and with Turkey's support, Cypriot Turks founded the militant group Türk Mukavemet Teşkilatı (TMT) to protect their own interests.⁷⁶

The conflicting interests of two NATO countries, Turkey and Greece, over Cyprus drew the Soviet Union's attention to the island. After Cyprus became independent in 1960, the Soviet Union supported the united Cypriot Government under Makarios III. Soviet analysts saw a united and independent Cyprus as the best scenario, which would minimize NATO influence on the island. In its diplomatic efforts with the involved nations, it adhered to this principle.⁷⁷

A conflagration of Turkish-Greek hostilities on the island in 1964 pushed the Turkish Government to propose an intervention to Cyprus. Turkey's threats of an invasion was met with a very harsh letter from the American President Lyndon B. Johnson, who did not show any sign of support towards Turkish plans to divide the island between Turkish and Greek Cypriots. This resulted in the surge of anti-American sentiments in Turkey, which in turn put pressure on the İnönü Government to find support elsewhere. While the Soviets did not favor the division of the island, Soviet strategists did not want to miss the opportunity to weaken NATO's Southeastern flank. Through improving its diplomatic and economic relations with a major NATO member, the

75 Girgin, *Ruslarla Kavgadan Derin Ortaklığa (Son Yüz Senemiz: 1914-2014)*, 350-52.

76 Girgin, *Ruslarla Kavgadan Derin Ortaklığa (Son Yüz Senemiz: 1914-2014)*, 354-57.

77 Gasımlı, *USSR-Turkey. From Normalization of Relations to the New Cold War*, 57.

Soviet Union aimed at driving a wedge in between the Western alliance.⁷⁸ Different from the American and Western position for the island, the Soviet Union contended that Cyprus should be independent and free of NATO forces. Whereas the Western position regarded the Turkish population on the island as a minority, the Soviet Union regarded Cyprus to be consisting of two separate and equal ethnicities.⁷⁹

After learning of the opposition to Turkish claims by the Western Bloc on the issue of Cyprus, the Soviet Ambassador to Ankara, N. Rijov, notified the Turkish Foreign Minister Erkin that the Soviet Union was interested in assisting Turkey's economic development.⁸⁰ Such an opportunistic diplomatic initiative by the Soviets brought about the economic and diplomatic rapprochement of the 1960s.

2.3.3 *The 1960 Coup and Turkey's New Foreign Policy*

On 27 May 1960, Turkish Armed Forces toppled the Menderes Government, and ended Celal Bayar's presidency. The initial statement from the army declared the new administration's commitments to NATO, and the United States became the first state to recognize Turkey's new government. On 28 June 1960, the leader of the Soviet Union, Nikita Khrushchev released a statement congratulating the new administration, and declared that the Soviet Union was willing to establish "extremely sincere" relations with the new government, if Turkey chooses to follow a more independent path than its NATO allies.⁸¹ On the 8th of July, the leader of the Turkish junta, Cemal Gürsel replied to the Soviet declaration, and declared that the new Turkish Government was also willing to develop better relations with the Soviet Union, as long as it did not endanger Turkey's place within the collective security agreements such as NATO and CENTO.⁸²

78 Girgin, *Ruslarla Kavga dan Derin Ortaklığa (Son Yüz Senemiz: 1914-2014)*, 354.

79 Ibid., p. 357.

80 Gasımlı, *USSR-Turkey. From Normalization of Relations to the New Cold War*, 73.

81 Girgin, *Ruslarla Kavga dan Derin Ortaklığa (Son Yüz Senemiz: 1914-2014)*, 346-47.

82 Altan, *Süperler ve Türkiye*, 121.

On 21 December 1963, when violence in Cyprus escalated, Ankara, arguing that the Turkish population of the island were being persecuted, requested Western backing. After receiving no positive reply, the Turkish Government decided to militarily intervene with an aerial bombardment campaign. After this intervention, President of the United States of America, Lyndon B. Johnson, wrote a harsh letter to the Turkish Prime Minister İsmet İnönü, marking one of the lowest points of Turkish-American relations.⁸³ The United States, concerned about a potential war between its two NATO allies over Cyprus, chose to refrain Turkey from taking any further action on the island. Johnson's letter deemed any Turkish military intervention illegal, declared that the United States would not back Turkey in any confrontation it would have with the Soviets, and forbade the use of weapons supplied to the Turkish Army by the United States.⁸⁴

The "Johnson letter" was instrumental in giving a reason for Turkey to diversify its foreign policy options. The first rebalancing act came in Turkey's withdrawal from NATO's Multilateral Force project for nuclear weapons. Even though Turkey gave "technical reasons" for not taking place in this project, it was evident that Turkey was attempting to get Soviet backing in the Cyprus Crisis.⁸⁵ In February of 1965, Turkey declined the American military ship Savannah to dock in the İstanbul Harbor and made its displeasure known that it would be sailing for the Black Sea. In September of the same year, Turkey declined to send troops to aid the American war effort in Vietnam.⁸⁶

Another factor that led to Turkey distancing itself from the United States was the decrease of American purchases of chromium from Turkey. In 1963, the Soviet Union lowered the prices of minerals and metals, including chromium. This resulted in the United States shifting its purchases of chromium from Turkey to the Soviet Union. This decision negatively affected the Turkish economy, and also led to Ankara to question its notions of bloc solidarity.⁸⁷

83 Girgin, *Ruslarla Kavgadan Derin Ortaklığa (Son Yüz Senemiz: 1914-2014)*, 355.

84 Girgin, *Ruslarla Kavgadan Derin Ortaklığa (Son Yüz Senemiz: 1914-2014)*, 355.

85 Altan, *Süperler ve Türkiye*, 121.

86 Ibid., p. 128.

87 Tellal, "Relations with the USSR," 465.

Indeed, the world had become more multipolar since the 1950s, and trade between blocs had accelerated. Ideology became less emphasized in international trade, as participants in the Cold War were able to differentiate economics from the political sphere. This period of transformation in Cold War politics, had positive effects in Soviet-Turkish relations as Turkey started to see the Soviet Union as a viable economic partner.

Soviet-Turkish Economic Relations (1930-1970)

Despite having different economic systems, the Republic of Turkey and the Soviet Union engaged in economic activity from the inception. The economic relations between the two countries accelerated in periods when Turkey's economic model showed signs of trouble. In such times, the Turkish Government attempted to incorporate aspects of a planned economy in to its system.

§ 3.1 The Etatist Period (1930-1945)

The first President of the Republic of Turkey, Mustafa Kemal Atatürk, frequently commented on the importance of economic development, referring to it as “the backbone of the ideal for a free, independent, strong and prosperous Turkey.”¹ To guarantee the legitimacy of the regime, the fledgling Turkish state depended on delivering growth and employment to its public. The founding cadres of the republic envisioned a “mixed economy” to be the most suitable model for the new state. This is apparent in Mustafa Kemal's opening speech in the 1923 İzmir Economic Congress, where he declared that the

1 Avcıoğlu, *Türkiye'nin Düzeni*, 525.

“Turkish economy was to find its own system”², in which “everything was built on economic planning”³ with “full respect for property...and foreign investments.”⁴ This speech was a signal to the Soviet Union and to the West that the Republic of Turkey was to implement economic policies of both capitalist and socialist ideologies. According to Perihan Ünlü Soylu, however, Turkey’s economic system cannot be thought of as a “Third Way” outside of capitalism or socialism, but rather as a capitalist system that was a historical necessity due to the limits of capital accumulation.⁵

Indeed, the Turkish Government chose to allow private enterprise, even though the public sector played a heavy hand in the development of the economy. The problem, however, was that the government’s long term aspirations were conflicting with the bourgeoisies’ short-term interests. Aware of the fact that the Lausanne Treaty granted the Turkish Government the right to control tariffs starting in the year 1929, the Turkish capitalists chose to withdraw from investing in the economy and hoarded up on imported consumer goods.⁶ This created the problem of foreign trade deficits and foreign exchange bottlenecks. Towards the end of the 1920s, the regime gave up on the private sector as the primary agent of economic development.

The declining economic conditions in the late 20s presented an opportunity to make a transition to an economic system, in which the public sector played the heavy hand. Similar to many other governments of the time, the Ankara Government responded to the Great Depression by restricting trade policies and imposing high tariff rates. The outcome was a severe drop in imports and exports. Thus, Turkey reverted to a policy aimed at self-sufficiency and industrialization under the meticulous guidance of “etatist” economics.⁷

2 “İzmir İktisat Kongresi Açılış Konuşması,” accessed April 16, 2014,

3 Ibid.

4 Ibid.

5 Soylu and Yaktı, “Devletçiliğe Yönelmede Bir Köşe Taşı: Birinci Beş Yıllık Sanayi Planı,” *International Journal of History*, accessed April 16, 2014, 369.

6 Ibid., p. 368.

7 Bayati, *Appraisal of Developmental Planning and Industrialization in Turkey*, 111.

The Turkish Prime Minister, İsmet İnönü, defined etatism as “moderate statism...state socialism,”⁸ which he argued was not to be confused with Soviet socialism that was based on social classes. In response to criticisms, İnönü said that the present capitalist countries had all implemented etatist policies to promote industrialization and he declared that Turkey would pursue similar policies.⁹ İnönü also drew attention to the success of state planning in the industrialization of the Soviet Union. The Soviets had declared its First Five-Year Plan in 1928, which stipulated massive collectivization in the agricultural sector to accumulate capital for the funding of ambitious industrial projects.¹⁰ Despite the inefficiencies, systemic coercion and shortages, the Soviet Union managed to rapidly expand its industrial output in this period.¹¹

Impressed by the success of state planning in the rapid industrialization of the Soviet Union, the Turkish Government contacted Soviet representatives in 1930, and requested permission to conduct research on the Soviet experience of economic planning. The Turkish Minister of Foreign Affairs, Tevfik Rüştü Aras, and the influential Member of Parliament, Falih Rıfkı Atay, were a part of the delegation that travelled to Moscow for this purpose. In his writings, Atay exalted the achievements of economic planning in the Soviet Union, and he suggested its implementation in Turkey by asserting that “an economic plan was not a tool exclusive to the Soviet Union.”¹² In 1932, a Turkish delegation headed by the Prime Minister İsmet İnönü travelled to Moscow to propose economic cooperation between Turkey and the Soviet Union.

In the official meetings, the Soviet Union agreed to contribute to the preparation of a Turkish Five-Year Plan. Also, the sides signed an economic cooperation treaty that guaranteed a Soviet loan to Turkey in a total amount of 8 million dollars, free of interest, which would be spent on various industrial

8 Avcıoğlu, *Türkiye'nin Düzeni*, 214.

9 Ibid.

10 Altan, *Süperler ve Türkiye*, 53.

11 Nove, *An Economic History of the USSR: 1917-1991*, 189.

12 Soylu and Yaktı, “Devletçiliğe Yönelmede Bir Köşe Taşı: Birinci Beş Yıllık Sanayi Planı,” *International Journal of History*, 371.

projects that were to be included in the First Industrial Plan.¹³ After this visit, Soviet experts visited Turkey to investigate Turkey's natural resources and prepared a development plan accordingly. The 1932 Soviet report suggested that the Turkish Government prohibit the imports of cotton, linen, steel, chemical and other industrial products, and provided the feasibility reports for the production of these items within Turkey.¹⁴ These reports heavily influenced Turkey's 1933 First Five-Year Industrialization Plan. It should be noted, however, that the economic development in the Etatist Period in Turkey was not entirely influenced by the Soviet Government. Turkish officials also called American experts to evaluate Turkey's planned projects. In May of 1934, the American experts presented their report on the Turkish economy, but this report did not have an effect on the already published First Five-Year Plan on Industrial Development.¹⁵

The 1933 Plan prioritized the foundation of industries which would make use of the raw materials within Turkey. Projects requiring big capital and technology were especially left for the government-sponsored enterprises (GSEs). In 1933, the state-owned bank, Sümerbank was established to undertake the responsibility of financing industrial projects and to manage enterprises ranging from the production of textiles, iron, and steel to construction materials.¹⁶ In 1935, the Turkish Government founded "Etibank" to develop and control the mineral resources and sources of energy in Turkey.¹⁷ Both of these financial enterprises played important roles in Turkish Government's economic cooperation with the Soviet Union. Sümerbank imported Soviet machinery in the 1930s for its textile and thread industries in Nazilli, Kayseri and Malatya. All of these factories were modeled after Soviet textile and thread factories.

While Turkey's cooperation with the Soviet Union could be interpreted as Turkey's willingness to incorporate etatism in to its economic development plan, it was also a result of the West's unwillingness to lend Turkey in a period

13 Soylu and Yaktı, "Devletçiliğe Yönelmede Bir Köşe Taşı: Birinci Beş Yıllık Sanayi Planı," *International Journal of History*, 371.

14 Ibid., p.372.

15 Ibid.

16 Bayati, *Appraisal of Developmental Planning and Industrialization in Turkey*, 111.

17 Ibid.

of global shortage of credit. In 1931, Turkey's Minister of Trade, Şükrü Saraçoğlu, had travelled to the United States to request financial assistance for the abovementioned enterprises. The United States turned the Turkish representative down due to the negotiations between France, United Kingdom and Turkey regarding Turkey's debts from the Ottoman era being unresolved. Even though the Ottoman Empire did not have debts to American financial institutions, this rejection showed that the Western nations followed similar policies when loaning to countries such as Turkey.¹⁸

In 1935, the Turkish Minister of Finance, Celal Bayar made a trip to Moscow where he deemed the Soviet-Turkish partnership in the period of the First Five-Year Industrialization Plan a success. Bayar expressed his wishes to renew this partnership for the period of the ambitious Second Five-Year Industrialization Plan.¹⁹ To finance these projects, the government started to implement policies that would tighten its control over the current account through the regulation of foreign trade. Following Germany and the Soviet Union's footsteps in dirigist industrialization, the Turkish Government started to sign bilateral trade agreements with its economic partners.

The Soviet and Turkish Governments signed a Trade and Payment Agreement on 3 October 1937.²⁰ This treaty contained the entire protocol for the exchange of goods and services between the two countries until the 1980s, when trade on clearing lost its popularity. The 1937 treaty stipulated the foundation of an office for the Trade Representative of the Soviet Union in Ankara and İstanbul. These trade representatives were authorized to negotiate bilateral trade agreements on behalf of the Soviet Government with the representatives of the Turkish Government to decide on lists of tradable goods for a year. The protocol determined that all trade would be based on the principles of Cost, Insurance and Freight (CIF). Both of these principles were aimed at lowering transaction costs, as clearing ensures that the involved parties do not need to resort to international credit markets for trade. The mode of CIF, on the other hand, required the seller to arrange for the carriage of goods by sea to a port

18 Altan, *Süperler ve Türkiye*, 62.

19 Avcıoğlu, *Türkiye'nin Düzeni* (Ankara: Bilgi Yayınevi, 1968), 256.

20 Resmi Gazete: 3906 -13.05.1938

of destination and provided a minimal degree of insurance to the trade without resorting to third party insurance agencies. In most of the contracts, the seller made it sure that it “was not responsible for failure to maintain the time of delivery by reasons of fire, flood, and acts of God.”²¹ Both governments expressed their intentions to balance their lists of imports and exports to leave as little room for the use of free currency in their trades with each other. According to the treaty, the Soviet Gosbank (State Bank of the USSR) and the Vneshtorgbank (Foreign Trade Bank) were to open clearing accounts at the Central Bank of the Republic of Turkey (CBRT). In the same year of 1937, the Soviet Union and Turkey signed the first bilateral trade agreement based upon clearing principles.²²

§ 3.2 Western Influence on the Turkish Economy

The results of the Etatist Period were limited. Only a fraction of the industrial projects in the first and the second Five-Year Industrialization Plans were completed, as the government found it difficult to find foreign resources in a period when the Western powers were preparing for war. Also, the “lack of comprehensiveness and a sound basis of economic analysis in the industrialization and development plan ... resulted in inefficiency in the allocation of investment capital.”²³ This became apparent in the years following World War II, when the Turkish economy started to integrate into the Western economic system, becoming “more subject to the influences of the international market in terms of costs, prices, and quality standards.”²⁴

The diplomatic crisis between the Soviet Union and Turkey that emerged after the end of the Second World War brought the economic relations between the two countries in to a halt. While politically allying itself with the Western Bloc, Turkey also increasingly entered the economic influence of Western countries and especially of the United States. In 1948, Turkey signed an Economic Partnership Treaty with the United States to be included in to

21 RGAE: 365-6-572/1-3

22 Resmi Gazete: 3906 -13.05.1938

23 Bayati, *Appraisal of Developmental Planning and Industrialization in Turkey*, 113.

24 Bayati, *Appraisal of Developmental Planning and Industrialization in Turkey*, 113.

the recipients of the American European Recovery Program (Marshall Plan), but more importantly, the development of the Turkish economy was dictated by a number of reports that disfavored etatist policies.

The most important of these reports were prepared by American experts in 1947 and 1950, which shaped the economic model for the next decade. The 1947 Thornburg Report especially criticized the etatist policies of the past and the industrial projects of this period. The factories built with Soviet partnership and the Karabük Iron and Steel Factory were criticized for their inefficiencies. The report even advised the closure of the Karabük Iron and Steel Factory and a locomotive factory, and stated that Turkey should be satisfied with the production of simple agricultural tools, not going further that carrying out their assembly.²⁵

When the Demokrat Parti was elected, Turkey was already on a path of economic development dependent on foreign aid and savings. The new government had three major goals: The new administration wanted “to assist the national bourgeoisie and landowners, liberalize foreign trade, and establish an economic development model that depended on foreign aid and investments.” The Menderes Government also had the aim of politically, ideologically and militarily integrating Turkey with the United States.”²⁶

In the first few years of the Menderes Government, there was increase in Turkey’s national income. With World Bank credits, the farmers were supplied with tractors and other farming equipment. The good weather conditions and high value of agricultural products due to the Korean War, contributed greatly to this economic revitalization in Turkey. The liberalization in foreign trade also led to foreign imports in Turkish stores.²⁷

The liberalization in foreign trade was not entirely beneficial for Turkey. Due to an increasing foreign trade deficit, Turkey’s foreign exchange and gold reserves were quickly depleted, which led to mounting debt. The foreign trade deficit in 1950 was 62 million Turkish Liras, and this figure rose to 246 million Liras in a year and to 540 million Liras in 2 years.²⁸

25 Gerger, *Türk Dış Politikasının Ekonomi Politigi*, 68.

26 Ibid., p. 71-72.

27 Gerger, *Türk Dış Politikasının Ekonomi Politigi*, 81.

28 Ibid., p. 82.

As Turkey's current account deficit continued to grow in the mid-1950s, Turkey required a debt package to overcome a balance of payments crisis. The Turkish President Celal Bayar travelled to the United States in 1954 to demand an additional 300 million dollar worth aid (Melih Aktaş claims that utterance of a specific amount indicates that the US had given an unwritten promise to Turkey that it would send additional packages of aid).²⁹ The United States turned the Turkish requests down, as it asked for the inflationist policies to be stopped and the agricultural subsidies to be cut.³⁰ The Turkish Government turned these requests down, as it risked a decline of its popularity.

Rejection of Turkey's financial request was also due to the decreased tensions between the United States and the Soviet Union after the end of the Korean War. Right after its end and Stalin's death in 1953, the Soviet Government newspaper Pravda ran an article arguing for the Soviet Union to develop its economic ties with Turkey.³¹ Indeed, Turkey's imports from the Eastern Bloc rose from 82 million TL to 225 million TL and its exports rose from 80 million TL to 192 million TL in 3 years thereafter.³²

§ 3.3 Rapprochement between Turkey and the USSR in the 50s

The Soviet Union's relations with all categories of countries radically improved after Joseph Stalin's death. The USSR initially started economic exchanges with other communist-ruled states, with which it had fallen apart during the Stalin Era; and then started to pursue economic opportunities in its relations with developing countries. On 5 August 1953, a trade agreement with Argentina had included some Soviet supplies on credit, but the USSR seriously entered the aid business after Khrushchev and Bulganin's visit to India in 1955.³³ The Soviets' volume of foreign trade expanded, since Soviet aid

29 Aktaş, *1950-1960 Demokrat Parti Dönemi Türk-Sovyet İlişkilerinde Amerikan Faktörü*, 90.

30 Altan, *Süperler ve Türkiye*, 95.

31 Ibid.

32 Altan, *Süperler ve Türkiye*, 95.

33 Nove, *An Economic History of the USSR: 1917-1991*, 189.

took the form of supplying goods on credit, to be paid for in the goods normally exported by the recipient country.³⁴ Trade with Western countries also increased, as relations unfroze.

After the Soviet Union retracted its territorial claims, its relations with Turkey normalized. In 1957, the Soviet Union used economic means to defrost its relations with Turkey. In May, The Soviet Ambassador in Ankara proposed economic and technical assistance to Emlak Bankası and Petrol Ofisi, and in June, İş Bankası sent a delegation to Moscow to explore possibilities of cooperation.³⁵ On 23 July 1957, after two decades since the commissioning of a Soviet firm for the construction of an industrial complex in Turkey, the Turkish Government invited the Soviet firms for assistance in the construction of a glass factory. A reason why they chose to do so, instead of Western firms, was that Western glass trusts were unwilling to lend to such enterprises as they feared it would cut in to their market shares.³⁶

In 1957, the Soviet firm Technoexport signed a contract with Türkiye İş Bankası and its fully owned subsidiary, Türkiye Şişe ve Cam Fabrikaları A.Ş. CAMİŞ. Mustafa Kemal Atatürk's long serving Minister of Foreign Affairs, Tefik Rüşti Aras, who already had credibility within the Soviet Union, was the chairman of İş Bankası.³⁷ The Soviet firm agreed to render the buyer with the "technical assistance in establishing a complete modern Glass Works of annual capacity of 7 500 000 sq.m. of window glass of 2 mm nominal thickness" at a cost of 1 050 000 pound sterling. Technoexport was contractually obliged to find an appropriate location for the project, supply the equipment and provide technical supervision and technical assistance during construction. The workers on site would be commissioned by the customer and be trained in the Soviet Union with special permits.

According to this treaty, Türkiye İş Bankası was obliged to remit to the account of Technoexport at the Gosbank account at the CBRT 20% of the project value within 2 months from the date of the treaty. The treaty also stipulated

34 Ibid.

35 Aktaş, *1950-1960 Demokrat Parti Dönemi Türk-Sovyet İlişkilerinde Amerikan Faktörü*, 81.

36 Altan, *Süperler ve Türkiye*, 96.

37 Ibid.

that “the remaining 80% of the project value to be paid by the buyer by equal installments at 20% each within 2, 12, 24 and 36 months from the date last working drawings were forwarded to the buyer.” It was also determined that the buyer would pay to the seller 2.5% annual interest for the credit granted.³⁸

In 1958, other state owned enterprises and private businesses started to meet with the Soviet trade representatives in Ankara and İstanbul to discuss possible projects. Mehmet Kovalı, a Turkish businessman, expressed his intentions to build a television factory, for which he requested Soviet credit and technical assistance, but his request was denied. The Turkish General Directorate of Highways also expressed their intentions to build a bridge over the Bosphorus, and mentioned that they were only restricted in capital to accomplish such a feat. The Soviet side found this project too costly and rejected it.³⁹

Another partnership that reemerged in the late 50s was the cooperation between the Turkish state-owned Sümerbank and the Soviet firms. On 8 September 1958, the Soviet firm Technoexport signed a contract with Sümerbank’s main office in Ankara to buy machinery and materials “ranging from sewing machines, to engines to wirings to pipes to luminaries spinning, weaving and finishing machinery, heating, ventilation and air conditioning units, electric power and lightning equipment”, worth of 3 692 640 pounds for three cotton textile factories that were built to the Soviet firm’s design in Adıyaman, Karaman and Nevşehir two decades ago. The Soviet firm agreed to provide credit to Sümerbank for the project. The terms of payment were more lax in comparison with the protocol for Çayirova, as the Soviets expected the last payment in 48 month rather than 36, but the annual interest rate was raised to 3.75% from the previous 2.5%.⁴⁰

The Soviet Ambassador Nikita Rijov met with the Turkish diplomat Zeki Kunalalp on 18 March 1960, notifying that the USSR was ready to assist the Turkish Government in economic matters.⁴¹ The Turkish Minister of Foreign Affairs, Fatin Rüştü Zorlu met with the Soviet ambassador multiple times in

38 RGAE: 365-6-570/13

39 RGAE: 365-2-1935/70

40 RGAE: 365-6-572/1-3

41 Aktaş, 1950-1960 *Demokrat Parti Dönemi Türk-Sovyet İlişkilerinde Amerikan Faktörü*, 93.

April of 1960 and declared that there would be mutual visits at the top level. The sides informally agreed that the Turkish Prime Minister Adnan Menderes would visit Moscow in July of the year 1960.⁴² This visit did not actualize due to the military coup on 27 May 1960. Adnan Menderes's government was deposed and after the Yassıada Trials, the deposed Prime Minister Menderes was hanged along with his Minister of Foreign Affairs Zorlu and the Minister of Finance Hasan Polatkan.

Menderes and Zorlu's planned visit to the Soviet Union was not realized because of the coup. As some of the diplomats in service that time commented later on: "Turkey had only wanted what other NATO allies were already doing at that time; but Turkey's place in the United States' eyes were different than the others: Different and inferior."⁴³

§ 3.4 Turkey's Economic Policies after the 1960 Coup

By 1958, Turkey was facing serious economic hardships. The economic model that depended on agriculture had failed due to overinvestment and a slump in the global food prices. The Menderes Government found no other option but to subsidize farmers, which in turn created a public debt problem.

In 1958, the total foreign debt rose to nearly 2 billion dollars, "a truly alarming figure when balanced against an annual gross national product estimated between \$6 billion and \$7 billion."⁴⁴ The foreign exchange bottlenecks in the country pushed the Menderes Government to implement capital controls and a tighter control over the country's trade regime. After the stabilization program of 1958, Turkey's balance of payments improved and inflation was lowered, but Turkey entered a recession. The recession continued on to the period after the military coup in 1960, until 1961.⁴⁵

42 Ibid., p. 94.

43 Altan, *Süperler ve Türkiye*, 101.

44 Fry, "Turkey's First Five-Year Development Plan: An Assessment," *The Economic Journal*, 308.

45 Pamuk, *Türkiye'nin 200 Yıllık İktisadi Tarihi*, 232-233.

On 27 May 1960, officers of the Turkish Armed Forces overthrew the Menderes Government and set up the National Unity Committee that took on executive and legislative powers. The “National Unity Committee authorized a State Planning Organization (SPO) in the Prime Ministry,”⁴⁶ which was approved with legislation on 30 September 1960. The SPO was to “recruit experts for its administration and staffs of economists, political scientists, and sociologists.”⁴⁷ The army officers of the National Unity Committee upheld central planning as a cardinal principle of economic management.⁴⁸ The 1961 constitution of the Republic of Turkey declared that the state had a duty to ensure that “economic and social life is based on the objectives of justice, full employment, and living standards compatible with human dignity, for all,” signaling a period of greater state involvement in the economy. According to Yalçın Küçük, the aims of the state planning were to “increase the national income, to create employment opportunities for the increasing population, reducing economic dependence on foreign capital imports and inflows, establishing a fair income distribution.”⁴⁹

The 1950s experiment showed to the Turkish Government the importance of domestic industrialization to reduce dependence on imported consumer goods. This led to the SPO to uphold import substitution industrialization (ISI), a policy of restricting imports to incentivize domestic production. This strategy was tiered, in that the final consumer goods were targeted first, with raw material being the final stage of industrialization. To encourage domestic production, entrepreneurs were given cheap credit, tax immunity, and cheap foreign currency. The SPO determined the sectors that were most in need of investment and prepared plans accordingly. Turkey’s limited economic resources derived from agriculture, traditional export goods and remittances from expatriates were funneled to prioritized sectors. Initially export was not a major concern for the industrialists.⁵⁰

46 Lowe, *Technical and financial assistance for Turkish civil service reform*, 13.

47 Ibid.

48 Lowe, *Technical and financial assistance for Turkish civil service reform*, 13.

49 Küçük, *Planlama, Kalkınma ve Türkiye*, 275-276.

50 Pamuk, *Türkiye’nin 200 Yıllık İktisadi Tarihi*, 237.

The protectionist policies of ISI did not challenge the Western capitalist system, but rather supported it. The Organization of Economic Co-operation and Development (OECD) suggested the Dutch economist, Jan Tinbergen, as a consultant. The First Five-Year Plan (1963-1967) was prepared in accordance with the method of “planning in stages” developed by Tinbergen, who held the position of the Chief Advisor to the SPO. The planners subscribed to the principle of “equal treatment” of private and public sectors. They also advocated a redirection of private capital from less productive activities, such as real estate purchases, to productive investments.⁵¹ The High Planning Council set a target growth rate for the First Five-Year Plan at an annual rate of 7%, through an annual investment of 18% of GNP (with an estimated capital output ratio of 2.7), 14% of which was assumed to come from the domestic savings and the rest from external sources.⁵²

The first 5 year plan in 1963 emphasized industrialization in favor of domestic markets. The plans were binding for the public sector and advisory for the private sector. The agricultural sector was mostly deemphasized.⁵³ There were different ideas for planning. Some of the people were arguing for a more compulsory attitude towards the private sector, so that these parts of the economy were not left to the whims of market forces but to the planners in Ankara. The private sector in İstanbul on the other hand was in favor of subsidies and protectionism for its own businesses. The final decision was to be made by the government, as the SPO held more of an advisory role. The SPO was “empowered to monitor the actions of other government agencies” and was also “responsible for the implementation of policy except for matters coming under the purview of the Investment and Export Promotion Department.”⁵⁴

The import programs introduced during the stabilization program of 1958 became an important tool for the SPO to apply its ISI based policies. Towards the end of the decade, “applications for licenses for capital goods imports had

51 Bayati, *Appraisal of Developmental Planning and Industrialization in Turkey*, 60-64.

52 Kalkınma Planı (Birinci Beş Yıl 1963-1967) 525.

53 Pamuk, *Türkiye'nin 200 Yıllık İktisadi Tarihi*, 235.

54 Krueger, *Foreign Trade Regimes and Economic Development: Turkey*, 120.

to be checked by the SPO to ensure that the proposed investments were consistent with the Plan before the license was approved.”⁵⁵ Each import program determined “the commodities eligible for importation under each of two lists: the Liberalized List and the Quota List; commodities not enumerated on either list were not legally importable”.⁵⁶ From 1961, import programs were issued early in January and July of each year.⁵⁷

According to this trade regime, potential importers had to notify their needs for import licenses to their local Chamber of Commerce or Industry. The local Chamber representatives then would meet under the auspices of the Union of Chambers. At this stage, the conflict between importers and industrialists were resolved. Then, The Union of Chambers represented the private sector’s interests in the negotiations for the determination of import quotas. Once the government published the quota list, firms applied through their Chamber for allocations. If a firm was allocated a quota, it applied for an import license and the Central Bank issued licenses fairly automatically.⁵⁸

Due to this strict trading regime, the private sector found it difficult to invest in large scale industrial projects. Besides the requirements for import certificates, the private entrepreneurs needed funding, and also technical and managerial know-how” to make investments in industrial projects. The fact that Turkey “lacked the necessary technical and managerial know-how,”⁵⁹ and the necessary internal savings made it very difficult for the Turkish Government to support these projects without external assistance. This led the Turkish Government to search for economic partners. The Soviet Government responded positively to some of these demands.

55 Ibid., p. 121.

56 Krueger, *Foreign Trade Regimes and Economic Development: Turkey*, 137.

57 Ibid.

58 Ibid., p.150.

59 Bayati, *Appraisal of Developmental Planning and Industrialization in Turkey* (Ann Arbor: Xerox University Microfilms, 1975), 75.

§ 3.5 Soviet-Turkish Economic Relations after the 1960 Coup

After the 1960 Coup in Turkey, there was a short interlude to the meetings between Turkish and Soviet diplomats. Regardless, the first bilateral trade agreement was signed on 8 August 1960, which allowed the necessary raw materials and machinery to be imported for the construction of Çayırova Glass Factory and the renovation of Sümerbank's textile factories in Adıyaman, Karaman and Nevşehir, in exchange for food products and textile fibers to cover the costs.⁶⁰ After the trade agreement in 1960, the Soviet and Turkish Governments signed 2 more annual trade agreements, where the lists for Turkish imports mostly included raw materials and consumer goods rather than capital goods. When the State Planning Organization of Turkey declared the First Five-year Plan of Economic Development in 1963, relations once again developed to the degree to involve Soviet assistance in Turkish industrial development.

Right after the declaration of the plan, the Vice-chairman of the Department of Foreign Trade of the Turkish Ministry of Trade, Turgut Çarıklı, met with the Soviet trade representative in Turkey, A. K. Kurmazenko and the Chief Specialist on Turkey, B.A. Zaytsev. In this meeting, Çarıklı expressed the Turkish Government's wish to receive technical assistance from the Soviet Union as they had done in the 1930s. Çarıklı said that the recently installed glass factory in Çayırova was producing glass of good quality. He mentioned that Turkey no longer needed to import glass as it had to (partly from the USSR), and that the output of the factory not only satisfied Turkey's needs in a network of domestic production, but also enabled the firm to export glass to the countries of the Near East and the USA. Based upon this project's success, the Turkish Government decided to further extend economic cooperation between the two countries to include other industrial projects.⁶¹

Çarıklı mentioned that Poland and Czechoslovakia already offered Turkey technical assistance and that the Turkish Government was knowledgeable of the Soviet assistance and investment of capital in the economies of other countries. The Soviet representatives, however, corrected Çarıklı on the fact that

60 Resmi Gazete, 10582, 19 Ağustos 1960

61 RGAE: 365-2-397/101- 104

the USSR had not invested its own capital in other countries. They clarified that the Soviet Union's policy was to respond, positively or negatively, to appeals for technical assistance in the construction of specific facilities. Kurmazenko mentioned that the Soviet technical assistance consisted of design, equipment supply, seconding of specialists and the montage of the start-up equipment. He clarified that the customer was responsible for the provision of construction material, labor, vehicles, electricity and etc. In these discussions, the Soviet representatives also underlined the fact that the Soviet Union did not have the policy to participate in the equity of the company to enter a revenue-sharing scheme. Kurmazenko asserted that the Soviet Government was assisting the industrialization efforts of the developing world, even if it resulted in the loss of markets for Soviet goods, as it had been in the case of the construction of the glass factory in Çayırova.⁶² This was substantiated by The Moscow Institute's study notes from 1969: "From the mid-1950s to the mid-1960s most projects built with the assistance of the Socialist countries of East Europe were designed to meet domestic needs and to replace imports. However, a new tendency has emerged to set up export-oriented enterprises in the developing countries with raw materials. These exports help the developing countries pay for the credits and technical assistance they receive from the Socialist countries. These undertakings supply raw materials which are presently in short supply, but more particularly those expected to be in short supply in the Socialist countries in the future."⁶³

Kurmazenko clarified to Çarıklı that the USSR provided credit for the expenses of the Soviet organizations, concerned with technical assistance for the design, supply of equipment and other costs. The provided equipment were priced at world market prices, and the reimbursement of the services of Soviet specialists were cheaper than the Western countries'. Loans were provided for an average of 12 years, with interest rates ranging from 2.5 to 4 percent or more per year, repayment starting after a year the use of the relevant part of the loan. Çarıklı informed the Soviet representatives that the First Five-Year Plan of

62 RGAE: 365-2-397/101- 104

63 Mehrotra, *India and the Soviet Union: Trade and Technology Transfer*, 50.

Economic Development prioritized the development of metal and chemical industries in Turkey.⁶⁴

Right after the declaration of the plan, the chief advisor to the Turkish Finance Minister Nahit İmre and Soviet Trade Representative Kurmazenko met on 3 May 1963. İmre informed Kurmazenko regarding the details of the five-year plan and mentioned that in the next annual trade agreement, Turkey planned to devote 3.5 million dollars' worth of contingency to capital goods. According to İmre, half of these imports were going to be used in public investments and the other half in private investments.⁶⁵ The Turkish imports from the Soviet Union were to be purely decided based upon the five-year plan of economic development. To decide on the parts and machineries to be bought, İmre mentioned that the Turkish side would send a committee to explore potential imports. When Kurmazenko was asked whether representatives of the Turkish private sector could be members of such delegations, the Soviet representative responded by saying that "they actively encourage it, and that they do not even regard them as members of the private sector, but as members of organizations sanctioned by the government for the economic development of the country."⁶⁶ This notification lit a green light to the Turkish private sector's cooperation with Soviet firms, granted that any exchange had the approval of the Turkish state planning authorities.

After these early negotiations, a Turkish committee headed by the Leader of the Senate, Suat Hayri Ürgüplü visited the Soviet Union between 29 May and 14 June 1963.⁶⁷ In a series of meetings, the Soviet representatives conveyed the message that they were willing to assist Turkey in industrial projects with better terms than what the Western firms would offer. After this business trip, the volume of trade between the Soviet Union and Turkey expanded and many Soviet firms cooperated with Turkish private and public sectors. This period of economic rapprochement reached its pinnacle with the 1967 Agreement which this thesis will address in Chapter 5.

64 RGAE: 365-2-397/101

65 RGAE: 365-2-2483/1

66 RGAE: 413-31-113/114

67 Altan, *Süperler ve Türkiye*, 101.

3.5.1 *Turkish Private Sector's Cooperation with Soviet Firms*

With the suggestion of Turkish bureaucrats, Turkish capitalists showed great interest to the possibilities of partnership with the Soviet Union. Representatives of the chambers of commerce in the three big cities of İstanbul, İzmir and Ankara set up meetings with Soviet trade representatives. The Turkish businessmen were generally interested in acquiring construction material, equipment or technical assistance for their industrial projects that were sanctioned by the five-year plan.

In one of the meetings, Soviet trade representatives and İzmir Chamber of Commerce representatives exchanged catalogues of goods available to each other. The Turkish businessmen expressed their interest in the construction of a plant producing asbestos cement pipes and they requested Soviet technical knowledge on how to establish it. They offered to sell knitwear in exchange. The Soviet representatives mentioned that they could also provide materials such as strip steel, but the Turkish businessmen mentioned the import restrictions on materials that were available on the domestic market such as strip steel. The Soviet representative reported that the meeting with these Turkish businessmen was fruitful, as it was apparent that there was great demand for foreign capital goods for which Soviets could supply with long-term loans. The only limiting factor he saw was the government's constraints on import for the private sector enterprises.⁶⁸

Entrepreneurs, who wanted to profit from the new trade regime, wrote to the Soviet trade representatives in order to request Soviet financial or technical assistance in their investments. A certain Dr. Topal, for example, mentioned that "he had heard the Soviet Union was generous to help underdeveloped countries" and asked whether the Soviets could finance his project for the foundation of an antibiotics factory.⁶⁹ He was rejected on the basis that he lacked the required funding. On the other hand, Turkish entrepreneurs who could finance their projects with loans from national banks were more successful in acquiring Soviet technical and material assistance. One capitalist who was eager to cooperate with the Soviet Union was Ragıp

68 RGAE: 413-31-113/121

69 RGAE: 365-2-2484/105

Sarımahmutoğlu. In December of the year 1963, he expressed his wishes to Kurmazenko to establish an automobile assembly plant. Kurmazenko asked for a report on the Turkish automotive sector, which Sarımahmutoğlu delivered in a short period of time. The Soviet side required a reliable Turkish bank to fund the project and also be the guarantor of the businessman's debt to the Soviet firm. Sarımahmutoğlu mentioned that he could use his influence in the state circles to fund the project, and also encourage bureaucrats to devote a greater section of the annual import contingents for his enterprises.⁷⁰ The Soviet report assessed the quantity of automobiles and tractors in the country and drew attention to the increasing demand within Turkey. It mentioned that domestic production of car parts was not sufficient for an assembly plant for automobiles or tractors. Considering the tight import regime of Turkey and the foreign exchange bottlenecks, the Soviet experts saw this investment to be a risky one, but feasible if a national bank acted as a guarantor on the businessman's debt to the Soviet firm.⁷¹

Competition between Turkish businesses to earn the attention and trust of Soviet representatives is also evident in the reports. A Turkish businessman named Süha Keymen, attempted to gain the Soviet trade representative in Ankara, A.A. Trusov's attention by saying that newspapers were publishing "Western propaganda" by slandering the quality of Soviet products and machinery. He proposed to give consultation services to the Soviet specialists by informing them on the "financial and moral positions" of the Turkish firms, with which the Soviet firms could conduct business. He asserted that the USSR could not attain this information from the Turkish trade mission or any bank.⁷² Another entrepreneur by the name of Muzaffer Gürsel, who had conducted business with the Soviet firm Technoexport, requested to be assigned as the Turkish representative of the Soviet firms Tyajpromexport (Heavy industry export) and Neftkhimpromexport (Petro-chemical industry export), citing his wide range of influence and business acumen.⁷³

70 RGAE: 365-2-2483/3-4

71 RGAE: 365-2-2484/16-17

72 RGAE: 413-31-628

73 RGAE: 365-2-2805/30

The founder of the wine distillery Kavaklıdere, Cenap And also approached Soviet representative Trusov suggesting a partnership in the foundation of a cognac factory. And required financial backing for this project, and suggested a partnership between his company and Soviet firms. Trusov explained that due to USSR's policies regarding economic and technical assistance, the Soviet involvement could only be limited to the construction of the plant and putting the enterprise in to exploitation. Aware of the fact that the Soviet Government had the policy not to lend to private companies, Cenap And suggested that the Soviet firm lend credit of 15-25 years of maturity to a charity foundation under his wife's name, so that it could be transferred to And's firm to finance the cognac factory project. Trusov refused the proposal and recommended And to find a domestic financial source for his project, which the Soviet firms would be willing to provide technical assistance for.⁷⁴

Overall, the cooperation between the Turkish private sector and the Soviet firms was limited in scope, compared to the one between state enterprises. The main reason was that it was forbidden for Soviet firms to extend credit to foreign private companies. The fact that Turkish private companies lacked the necessary financial means reduced their chances of closing contracts with Soviet firms. Another source of difficulty was Turkey's strict foreign trade regime. The Turkish businessmen who made contracts with Soviet firms were responsible to obtain import licenses from the Central Bank of the Republic of Turkey. Otherwise, the agreed upon project would not proceed. The fact that the Turkish public firms had more success in obtaining loans with favorable conditions and the necessary contingents for imports made their cooperation with Soviet firms more extensive than their private counterparts.

3.5.2 *Turkish Public Sector's Cooperation with Soviet Firms*

The public investment projects presented to the Soviet representatives were much more ambitious than the private ones. The Soviet Union and Turkey signed an agreement that allowed the establishment of direct railway links between the USSR and Turkey on 27 April 1961. The two countries also signed

74 RGAE: 413-31-1154/126-129

the Agreement on the Establishment of the Cable Telephone Service that extended Turkey's telephone connection with Bulgaria, Romania and the Soviet Union on 9 June 1962. The first major industrial project of the 1960s was the joint irrigation dam on the Arpaçay River, which formed the border between the two countries. The protocol for this project was signed on 25 April 1963.⁷⁵

The mayor of İstanbul of the period, Haşim İşcan, presented numerous projects to the Soviet representatives in İstanbul. The Soviet bureaucrats took specific notice of İşcan's anti-American sentiments, as he was reported to say that "Americans are manipulative when conducting business," and that they "reap off extravagant profits from their investments."⁷⁶ Mentioning that he once made a trip to Moscow and found the Moscow subway to be the best in the world, İşcan proposed a joint investment for a similar subway line in İstanbul. He drew attention to the increasing car traffic and said that it was "absolutely necessary to build a subway line connecting Mecidiyeköy, Taksim, Galatasaray, Tophane, Karaköy, Eminönü, Sirkeci, Beyazıt, Aksaray and Yenikapı."⁷⁷ He also mentioned that such a project would employ thousands of workers, trying to address the Soviet representatives' sympathies for the working class.

After consulting the geological engineers of the Soviet Geological Sciences Institute, the Soviet firms decided that the operation would be too costly and that the Soviet financial firms would not finance a project on such a grand scale. In a later meeting, the Soviet representative informed İşcan on the Soviet firms' decision, but he responded by making additional proposals of partnership in the constructions of hotels, night clubs (gazino), bureaus, theaters, market places and a recycling plant.⁷⁸ Towards the end of the 60s, the İstanbul Mayor Fahri Atabey mentioned that the plan to construct a bridge over the

75 Tellal, "Relations with the USSR", 466.

76 RGAE: 365-6-572/250

77 RGAE: 365-2-2484/48

78 RGAE: 365-2-2484/68

Bosporus was going to proceed and asked whether the Soviets would be interested in cooperating technically and financially. The Soviet side once again refused this proposal as they had done a decade ago.⁷⁹

In Ankara, the Soviet firms assisted the Public Utilities Administration (Elektrik Gaz Otobüs Genelmüdürlüğü) in the construction of natural gas heating systems.⁸⁰ The Mayor of Ankara, Ekrem Barlas also suggested that the Soviets finance the construction of a subway in the Turkish capital with a long term loan with a repayment term of 20 to 25 years. The Soviet representative found the credit conditions too lax and politely declined the offer.⁸¹

With the exception of the few cases of cooperation in public utility projects between the Soviet firms and the Turkish public sector, Turkish bureaucrats preferred Soviet investments for projects that would stimulate industrial growth. Such cooperation started between Soviet firms and Turkish public firms, such as Sümerbank, which was already using Soviet technology from the 1930s. These meetings between Sümerbank and Soviet representatives, however, did not start on a high note. In a meeting held in 1964, Sümerbank's General Director Rahmi Tuncagil complained to the trade representative of the USSR, Kurmazenko regarding the defective Soviet machinery in Nazilli and Kayseri textile factories from the 1930s. Tuncagil mentioned that the Soviet machinery was of inferior quality in comparison with their Western counterparts. The offended Soviet delegation pointed out that the Turkish Government had approached the Soviet Union to demand assistance for the construction of 8 factories, and that it was absurd to question the quality of Soviet machinery when the Turkish Government was engaging in business with the Soviets on such grand scale. Kurmazenko also pointed out that most of the Soviet machinery in Kayseri, Denizli and Nazilli, installed between 1934 and 1937, still served their purposes. He pointed out that Sümerbank had not approached the Soviet firm Technoexport to provide maintenance to these

79 RGAE: 365-9-209/21

80 RGAE: 365-2-2805/38

81 RGAE: 365-2-2805/41

machines for almost three decades. Accusing the Turkish specialists of mishandling the upkeep process, Kurmazenko offered the assistance of Soviet experts at a price.⁸²

In a later meeting, Tuncagil admitted that the comparative figures for Soviet textile machines and similar machines from other countries indicated that Soviet machinery was more efficient in terms of output considering their cheaper price, and he said that Sümerbank was genuinely concerned regarding their lack of durability. The Soviet representatives suggested that they could modernize the machines, especially the ones in Nazilli and Kayseri.⁸³ After a lengthy bargaining process, the Soviet representatives agreed to supply Sümerbank with the necessary parts for the machines at a 30% discount, excluding the fees for the Soviet experts' assistance in the assembly. The Turkish side demanded a warranty period for the renovated machines, but the Soviet side declined on the basis that Sümerbank did not have any legal rights to demand a warranty. Instead, they offered to train Turkish specialists in the correct maintenance processes of these machines.⁸⁴ The Sümerbank representatives expressed their pleasure for the outcome of the bargains. Tuncagil referred to the friendship between Lenin's Soviet Union and Mustafa Kemal's Turkey, and expressed his hopes of further cooperation between Sümerbank and the Soviet firms. Before the meeting was wrapped up, Sümerbank's board member Şevket Turgut warned the Soviet delegation not to pay attention to the negative publicity of Soviet machinery in the Turkish press, and asserted that such coverage is the result of American propaganda.⁸⁵

Another Turkish state-owned enterprise that received assistance from the Soviets for its operations was the Türkiye Petrolleri Anonim Ortaklığı (Turkish Petroleum Corporation -TPAO). From the early 1960s, TPAO started "to buy a significant amount of various drilling equipment from the Soviet firm

82 RGAE: 365-2-2484/107

83 RGAE: 413-31-113/79

84 RGAE: 365-2-2484/111

85 Ibid.

Neftechexport (petroleum technology export firm) in exchange of hard currency.”⁸⁶ In 1966, TPAO General Director İhsan Topaloğlu approached the Soviet trade representative Kurmazenko, expressing TPAO’s interest in Soviet assistance for hydrocarbon exploration operations. Kurmazenko conducted this request to Technoexport, which in turn consulted with the Soviet Hydrocarbon Research and Exploration Institute. After this consultation, Technoexport decided to depute two geologists of various expertise and a micro paleontologist, for a period of six months to explore potential oil deposits on the territory of the Turkish Republic.⁸⁷ TPAO, also requested from the Soviet firm Neftechexport to provide technical assistance in increasing oil production in Batı Raman (Batman) oil wells.⁸⁸

The cooperation between the Soviet firms and TPAO was unique, in that it was the only case where Turkey used free foreign currency as a method of payment for Soviet goods and services. This showed the level of importance the Turkish Government placed on the hydrocarbon extraction sector. In other sectors of cooperation, Turkey and the Soviet Union preferred to conduct business through clearing agreements. Such a mode of transaction encouraged and also hampered Soviet-Turkish economic cooperation in various ways.

3.5.3 *Acceleration in Soviet-Turkish Trade*

As a centrally planned economy, the Soviet Union exclusively conducted its foreign trade using clearing agreements in order to have full control over its current account and balance of payments. While one might expect that such terms of trade would be favorable for developing economies such as Turkey, the reality was very different. The Deputy General Director of the Economic Affairs of the Ministry of Foreign Affairs, Kamuran Gürün, candidly defined to the Soviet delegation Turkey’s preferred mode of trade as such:

“The possibility of trade between the USSR and Turkey is not limitless. Turkey’s five-year plan stipulates that exports to countries accepting clearing

86 RGAE: 413-31-113/77

87 Ibid.

88 RGAE: 365-9-535/13

transactions may not be more than 20% of the country's total exports (80 million dollars). This is because Turkey has a huge foreign debt for which it has to allocate foreign currencies. While Turkey still runs a trade deficit, we would not be able to cover it without foreign aid and our exports. At the end of the five-year plan's duration, Turkey expects to reach a position at which exports and imports are balanced, freed from having to resort to new loans. Then Turkey will be free to buy imported goods from the Soviet Union."⁸⁹

Gürün politely asked the Soviet Union not to insist upon selling goods which Turkey could not buy because of economic difficulties. The head of the Soviet delegation, Inyutin, pointed out that Turkey was buying equipment from the West with hard currency. Inyutin responded to Gürün, saying that Turkey could buy the same equipment from the Soviet Union on a clearing agreement, if it were not for the 20% quota. Inyutin voiced the Soviet Union's suspicion that this quota was established to discriminate against the Eastern Bloc countries, which exclusively traded on clearing agreements. Not wanting to further upset the Turkish delegation, Inyutin ended the meeting on a high note: "I don't believe that trade between the USSR and Turkey could be limited."⁹⁰ The Soviet delegations suspicions that the Turkish Government was discriminating against Eastern Bloc countries was also a complaint from the trade delegations of the Hungarian People's Republic, German Democratic Republic and the Polish People's Republic.⁹¹

The complaints of the Soviet Union, and also the other Eastern Bloc countries had merit: The Soviet Union and Turkey agreed to conduct trade on the principles of net balance between imports and exports.⁹² The sides had agreed to sign annual bilateral trade agreements to find the balance in trade. A Soviet delegate mentioned that Turkey imported road building, mining and drilling equipment from the USA with long-term loans of 40 years with an annual 2% interest rate, and instead suggested that they import the same materials from

89 RGAE: 413-31-113/84

90 Ibid.

91 RGAE: 365-9-531/2-4

92 RGAE: 413-31-113/88

the Soviet Union with long term bilateral trade agreements. The Turkish representative responded by saying that this would be contrary to Turkey's foreign trade regime.⁹³ He went on to clarify that Turkey's contemporary economic policy depended on a tight control on imports, for which Turkey would like to keep the opportunity to shift preference over what it could import.

This was a typical case of how Turkey's import substitution industrialization policy induced strict control on imported goods, and curtailed the Soviet-Turkish trade. It was difficult for the Turkish and the Soviet governments to coordinate their trades with bilateral trade agreements, when the Turkish authorities published import programs only twice a year.⁹⁴ Such a strict restriction of imports created mismatches between the annually signed bilateral-trade agreements and the trade that actually took place between the Soviet Union and Turkey. While such agreements were not binding and were declarations of intent to buy and sell the listed goods, the Turkish side often did not import what it declared to do. This created increasing tension between the Soviet and Turkish trade representatives who had to meet each year to decide on the contents of the following year's bilateral trade agreement.

In most of these meetings, it was the Soviet side that voiced its grievances against the Turkish side not fulfilling its commitments from the previous agreement. It was also the Soviet delegation that pushed to expand the trade volume between the two countries, guaranteeing to buy as much Turkish agricultural products, equal to the value of machinery and equipment Turkey would buy from the Soviet Union. This dynamic could be explained by the fact that the Soviet economy produced excess amount of industrial goods, which the Soviet Government was willing to export to developing countries. Turkey, on the other hand, was willing to engage in trade with the Soviet Union as long as it suited its industrialization aspirations. In many of these meetings, the Turkish delegation candidly expressed Turkey's need to export its excess agricultural output to countries that trade with hard currency.⁹⁵

The problems first surfaced in 1964, when the Turkish representative notified his Soviet counterpart that Turkey would not be able to buy 50% of the

93 Ibid.

94 RGAE: 413-31-1154/92

95 RGAE: 413-31-1154/92

cement and timber agreed upon in the previous annual trade agreement. He asserted that Turkey agreed to such terms because they were pressured by the Soviet trade representative to do so.⁹⁶ In order to eliminate the negative balances of the Soviet clearing account, the Soviet delegation proposed to establish lists of trade so that the value of the total of Soviet goods exceeded the sum of the value of Turkish goods.⁹⁷ The Turkish side did not accept the proposal and the annual bilateral trade agreements continued to be signed on the principles of net balance of imports and exports; however, in years after 1964, the Turkish side continued not to fully import what it agreed to in the annual trade agreements. This resulted in the accumulation of Soviet “debt” to Turkey in the clearing account.

The Soviet Trade Representative A.A. Trusov met with Cahit Aydoğan, the Chairman of Ankara Chamber of Commerce to discuss why Turkish public and private companies failed to import what the Turkish Government agreed to. Aydoğan mentioned that the Turkish firms were having difficulty in trading with the Soviet Union because of:

- 1 Violation of the terms of delivery of goods
- 2 Low quality of the goods
- 3 Use of intermediaries in imports and exports
- 4 Interruptions in the supply of spare parts⁹⁸

Trusov, on the other hand found the fault in the Turkish Republic’s strict external trade regime, which he found to be incompatible with the standard norms of foreign trade. According to Trusov, the Soviet shipping firms delivered the goods to Turkish ports as agreed upon, but the bureaucratic procedure at the ports took an unnecessary amount of time. The reason why deliveries were delayed was due to the fact that Turkish firm representatives visited Moscow to close contracts with Soviet firms before they received the necessary import licenses from Turkish authorities.⁹⁹ This was a genuine problem for the

96 RGAE: 413-31-113/88

97 RGAE: 413-31-113/12

98 RGAE: 413-31-1154/92

99 RGAE: 413-31-1154/94

Soviet side, since the supplier Soviet firms incurred losses under the CIF conditions when goods were kept waiting at Turkish ports. At one point, the Soviet delegation threatened the Turkish side of cancelling the deliveries of all Soviet goods to Turkish ports.¹⁰⁰

Trusov also vehemently refused the accusation that Soviet goods were of low quality and asserted that the trade attaché at the USSR embassy had not received a single complaint from the recipients. While he admitted that there were minor problems with machinery and equipment, Trusov stood by the quality of the Soviet products, especially commodity goods. He turned the accusation around, saying that the same was not the case with the products the Soviet Union imported from Turkey. Trusov said that after signing a contract for 150 tons of laurel leafs with an İstanbul firm called “Tarımeks,” they were supplied with 112 tons, half of which were “moldy and unfit for consumption.”¹⁰¹

As for the case of intermediaries, Trusov blamed the Turkish trade regime once again, saying that their use was necessary. For the question of spare parts, Trusov claimed that Soviet experts did their best to teach local staff how to carry out routine repairs.¹⁰²

The mutual accusations that arose from the question of trade was also evident in higher diplomatic channels. Deputy General Secretary of Economic Affairs of the Ministry of Foreign Affairs of Turkey, Tevfik Saraçoğlu complained to the Soviet Ambassador A.A. Smirnov that the negotiations Trusov held with the Turkish Ministry of Foreign Affairs about the contingent of goods carried a very nervous character. Saraçoğlu demanded that Trusov should be warned not to be too zealous in these negotiations.¹⁰³

The Soviet Ambassador Smirnov took note of this complaint, but also mentioned that Trusov was frustrated since the Turkish Ministry of Commerce denied the delivery of premium cotton to the Soviet Union, something to which the two sides had agreed in the bilateral trade agreement. After

100 RGAE: 413-31-1154/84

101 RGAE: 413-31-1154/95

102 Ibid.

103 RGAE: 365-9-534/47

Smirnov's notification, the Turkish side contacted the Ministry of Commerce and notified them to permit the high quality cotton to be delivered to the Soviet Union, as per the agreement.¹⁰⁴

Due to all these mutual accusations of mismanagement and bureaucratic incompetency, the Soviet-Turkish trade did not rise to the levels desired by the Soviet side. Both sides were eager to dump its surplus in specific items to the other. In most of the yearly discussions, the Turkish officials would ask persistently the Soviet side to buy more grapes, hazelnuts, peanuts, tobacco and other food products and consumer goods, while the Soviet delegates would draw attention to the fact that Turkey was willing to import raw materials rather than capital goods, which the Soviet Union wished to export to Turkey.¹⁰⁵

The Soviet Union and Turkey's contradictory economic policies bore unexpected results. The bilateral trade, which was supposed to be built upon the principles of net balance between imports and exports, did not correspond with Turkey's strict import regime and its preference of trade with hard currency. Despite the policy of trading on net balance, the Soviet Union imported from Turkey more than it exported, resulting in a negative payment balance for the Soviet side. The Soviet "debt" to Turkey was one of the factors that eased the Turkish Government's hand in the payment for the Soviet goods and services that were to be provided for the industrial projects stipulated by the 1967 Technology Transfer Agreement.

§ 3.6 Turkish Economic Relations with other Eastern Bloc countries after the 1960 Coup

The 1960s also saw an improvement of Turkey's economic relations with other Eastern Bloc countries. In March 1967, the government of Hungarian People's Republic offered Turkey a loan of 10 million dollars for a period of 10 years with a yearly interest of 3.5% for the production of televisions, optic lenses and electronics. Hungary, on the other hand imported Turkish agricultural goods,

104 Ibid.

105 RGAE: 413-31-113/91

and according to Soviet documents, re-exported 2/3 of these imports to Western Europe. Similar to the trade negotiations between the USSR and Turkey, Hungary was willing to import as much as it could export to Turkey.¹⁰⁶

Turkey also conducted trade with the German Democratic Republic (GDR) on a clearing principle, but there wasn't any technical partnership due to poor diplomatic relations. According to the Soviet documents, the Polish People's Republic (PPR) sold equipment to Turkey for the Pendik docks in İstanbul on credit. Both the GDR and PPR rejected Turkey's requests for state credit.¹⁰⁷

Turkey signed an agreement with the People's Republic of Bulgaria for the construction of a railway between the two countries and also a 200 km long road between İstanbul and Burgas. Despite the resistance of the General Staff of Turkey, the two countries also signed an agreement for a mutual supply of electricity. Bulgaria made a proposal for economic cooperation with Turkey with the provision of credit, but the Turkish side refused.¹⁰⁸

Before dispatching diplomatic missions to each other, Turkey and the People's Republic of China (PRC) signed an economic relations agreement in 1966 and a clearing agreement in 1967. From the PRC, Turkey hoped to procure metals, chemical products, ferrous products, dyes and various kinds of industrial raw materials as well as coffee, which Turkey had purchased from other countries using free currency.¹⁰⁹

According to a Soviet report from 1970, Turkey's trade with Eastern Bloc countries was 8.1% of the total trade turnover in 1963. This figure rose to 14.9% in 1968 and 15.2% in 1969. 5% of Turkey's trade turnover in 1969 was with the Soviet Union.¹¹⁰ Despite the apparent rise in Turkey's trade with the Eastern Bloc countries, Turkey's strict trade regime and unwillingness to trade with clearing principles put obstacles to both trade and economic cooperation.

Turkey's closest economic partner in the Eastern Bloc, the Soviet Union wished to overcome these obstacles with a comprehensive agreement that

106 RGAE: 365-9-531/2-4

107 Ibid.

108 Ibid.

109 RGAE: 365-9-210/16-17

110 Ibid.

would serve the industrialization interests of Turkey. This agreement would provide Turkey with the necessary incentive to further expand its trade with the USSR.

1967 Technology Transfer Treaty

In 1964, The Turkish Foreign Minister, Feridun Cemal Erkin, and the Turkish Ambassador to Moscow, Hasan Esat Işık, met with the representatives of the Soviet Trade Ministry to discuss the problems in trade between the two countries. The Soviet delegate S.T. Inyutin expressed the Soviet Government's wishes to increase its trade volume with Turkey, as it had done with nations such as France, Italy, Finland, United Arab Republic, India and Iran. The Soviet Union suggested a cooperation based on clearing principles. The Turkish Foreign Minister Erkin responded that the Soviet Union chose "a form of trade that they did not consider as the best," referring to clearing principles of Soviet Union. Erkin underlined that Turkey is interested in an economic partnership that would serve the industrialization purposes of the Turkish Government. He suggested that Turkish experts travel to the Soviet Union to explore the possible areas of cooperation in Turkey.¹

In the following months, a committee of representatives travelled to the Soviet Union to decide on the types of industrial plants to be built in Turkey. The representatives of two governments decided that the Soviet and the Turkish sides could cooperate in the construction of an iron and steel mill, an aluminium plant, along with a petroleum refinery, a sulfuric acid factory, and a wood fiberboard factory. By the end of 1965, the Turkish Government assigned

1 RGAE: 413-31-113/104

state owned enterprises to each project, with which Soviet delegates closed separate contracts.

On 25 September 1965, the Turkish Foreign Ministry informed the Soviet Embassy that Turkish experts on the following sectors were to meet with the representatives of the Soviet Government Office for Technology Export (Technoexport):²

- Metallurgical experts were to meet the Karabük Metallurgical Industry Company (Kardemir) for the construction of a steel plant
- Aluminium factory with Etibank
- Sulfuric acid factory with Etibank
- Fiberboard factory was to be discussed with representatives of the Turkish Ministry of Forestry and Agriculture
- The oil refinery was to be discussed with the Turkish Ministry of Industry representatives
- Glass experts were to meet with representatives of Sümerbank
- For a possible construction of vodka factory, Soviet representatives were to meet with Turkish public monopoly for alcoholic drinks, Tekel

Between November 12th and 18th of the year 1965, the Soviet representatives and their Turkish counterparts closed contracts on the construction of the following plants: A steel and an aluminium factory, an oil refinery, an acid factory and a fiberboard factory. These contracts included the technical details regarding the commissioning of Soviet experts to these projects. It was stipulated that the “supplier shall work out the project reports on all installations and systems inside the shop such as ventilation, heating, power installations (including lighting), utility, firefighting and drinking water systems, sewerage systems, fuel, steam and compressed air pipings.”³

In 1965, the Soviet representative I.V. Arhipov visited the İzmit oil refinery and met with the governor of Kocaeli, Suphi Aktan. Aktan, remarked that Turkey wanted to improve its relations with the Soviet Union to the degree that it

2 RGAE: 365-2-2483/8-9

3 RGAE: 365-2-2483/8-9

was in the time of Lenin and Atatürk. Aktan conveyed his complaints regarding the Soviet reclamations of land after the Second World War. Arhipov in his written report, remarked that Aktan's "bourgeois opinions" and grievances of the past did not show an unwillingness on Aktan's part to let them establish a mutually beneficial relationship. Aktan said that Turkey was experimenting with socialism, but ran in to problems, and informed Arhipov that Turkey tried to make land reform but failed, and that he wished to see how the Soviets managed it in their kolkhoz and sovkhoz systems. The Kocaeli Governor commented that the Soviets were moving towards liberalism from Stalinism, while Turkey was moving from liberalism to statism. Arhipov found these comments somewhat insulting, but interpreted them as an expression of a willingness to cooperate. Arhipov noted that the Americans were not mentioned in the conversation.⁴

§ 4.1 The Agreement

After the USSR established an office for the State Committee on Foreign Economic Relations on 14 March 1967⁵, the Turkish Ambassador to Moscow, Hasan Esat Işık and the Soviet trade representative, K.N. Selinov signed the economic cooperation agreement to guarantee each other's initiatives to: "benefit from an increase in the level of their trade for the national economies of the two countries" and to provide:⁶

- 1 An integrated iron and steel mill (1 million tons per year)
- 2 An aluminium plant together with a hydroelectric power station (200 thousand of alumina, 60 thousand of aluminium, 25 thousand tons of rolled aluminium products)
- 3 A petroleum refinery (processes 3 million tons of petroleum per year)
- 4 A sulfuric acid plant (120 thousand tons of acid per year)
- 5 A wood fiberboard factory (28 thousand per year)

4 RGAE: 365-2-2483/10-14

5 RGAE: 365-2-2718/22

6 RGAE: 365-2-1103/12-19

- 6 Extension to the Çayırova Glass Factory by establishing a unit to produce rolled glass (reinforced and imprime glass)
- 7 Extension of vodka producing unit at the alcohol plant (2 million liters of Russian vodka)

The payment for the agreement were to be done under the Trade and Payments Agreement signed between the Turkish Republic and the Soviet Union on 8 October 1957. The agreement's total cost was 200 million US dollars; however, in case the total cost of the said equipment, materials, and technologic services furnished exceeded 200 million dollars, repayment of such an excess was agreed to be made by installments with 2.5 per cent interest per annum within a period to be agreed upon between the two governments. The Turkish Government also agreed to the repayment of the cost in 15 years by equal installments and with 2.5 per cent interest per annum starting from the year when the equipment and technical services were furnished. Payments were to be made in the first 3 months of each year. Payments of installments and interest were agreed to be made by crediting to a special account with the Central Bank of the Republic of Turkey (CBRT) entitled the "Special Account of the USSR Bank for Foreign Trade".⁷

In the agreement, the Soviet Union accepted payment through bilateral trade according to the trade agreement signed on 8 October 1937. The goods the Soviet Union accepted were: tobacco, hazelnuts, raisins, citrus fruits, fresh fruits and vegetables, olives, olive oil, livestock, skins, cotton, wool, woolen and cotton textile. The Soviet Union also stated that they would accept knitted fabric, footwear, metal ores and other goods Soviet organizations might be interested in. The agreement specified that 60% of the amounts credited each year were to be tobacco, hazelnuts, raisins, olives, citrus fruits, fresh fruits and 15% of the 60% would be used on tobacco. After 7 months, the unutilized balance were to be deposited to the clearing account of the USSR Bank for Foreign Trade at the CBRT.

Despite having agreed to the abovelisted projects, in 1969, Director General of the Department of Economic Relations of the Turkish Ministry of Foreign Affairs, Mehmet Baydar and the Soviet Deputy General Director of the

7 RGAE: 365-2-1103/12-19

Department of Economic Relations, G. Pyasetsky determined to cancel the workshop for the patterned and wired glass and the workshop for the Russian vodka projects due to a lack of negotiations between the corresponding firms.⁸ Instead of these 2 projects originally included in the 1967 agreement, a hydro-electric dam project on the Turkish-Soviet border in Turkey's Kars Province was incorporated to the rest of the projects, becoming an item of the overall industrial projects done with Turkish-Soviet partnership. The original protocol for the construction of the Arpaçay Dam was signed on 25 April 1963 with a 300 million cubic meters water basin. The implementation of the project was delayed and with an additional protocol signed in 1968, was reevaluated with an expansion of the water basin to a volume of 525 cubic meters.⁹ The 1967 agreement, and the resulting bureaucratic efficiencies and the increased cooperation between the two countries resulted in this project to be fast tracked.

In the negotiations between Pyasetsky and Baydar, the issue of finance was also raised. The two sides agreed that if the total cost of the projects were to exceed the loan of 200 million dollars provided by the Soviet Union, Pyasetsky would have the authority to sign new loan agreements with any person authorized by the Turkish Government. Pyasetsky also agreed that Soviet experts were to be paid with 50% of which will be paid with credit provided on 25 March 1967 and the rest with local currency.¹⁰ Pyasetsky asked whether, a Committee on Foreign Relations was going to be organized in Turkey, as it was written in the newspaper "Ticaret".¹¹ Baydar responded by saying that the parliament was working on a law for the centralization of foreign economic and commercial relations.¹²

For better coordination between the two governments during the implementation of these projects, Soviet Ambassador to Turkey, Andrey Smirnov

8 RGAE: 365-9-209/3-8

9 RGAE: 365-2-1134/9-12

10 RGAE: 365-9-209/33-36

11 RGAE: 365-9-209/15-19

12 Ibid.

and the Turkish Prime Minister Süleyman Demirel agreed to set up a coordination center for decisions at the government level.¹³ In 1969, it was determined that this coordination center would be instituted at the Turkish Ministry of Foreign Affairs. The Soviet Deputy General Director of the Department of Economic Relations, G. Pyasetsky, would be the USSR representative in these series of meetings between the two sides.¹⁴

In 1970, the General Director of Economic Relations of the Turkish Foreign Ministry answered to inadequate conditions of the supply contract under the conditions of Cost, Insurance, and Freight (CIF). The Turkish representative mentioned that the imported goods should only be imported according to the Turkish law. In his report to Moscow, Pyasetsky mentioned that Turkey persistently defended the introduction of the conditions of CIF whereas the Soviet side was more favorable to the terms of a Free on Board (FOB) contract.¹⁵ After agreeing to the mode of trade to be with CIF, on 12 February 1970, the Turkish and the Soviet Governments signed an agreement to accelerate the establishment of the industrial projects of the 1967 Agreement.¹⁶

4.1.1 *The Economics of Soviet Technology Transfer*

The five projects of the 1967 Agreement were built in the 1970s. After the plants were built, the Turkish Prime Minister of the time, Süleyman Demirel, explained the agreement his government signed with the Soviet Union to the *Hürriyet* Newspaper in 1978 with the following words: “The United States’ policy towards Cyprus was surprising, if not shocking for Turkey. That is why Turkey had to look for new horizons in foreign policy. When we entered these fruitful relations with the Soviet Union in 1964, our allies, especially the United States were resentful. When I was the deputy prime minister in 1965, we had planned to give a new impetus to Turkey’s development efforts. For this, we identified that we had to solve the problem of iron and steel supply, and also aluminium. The issue of petroleum was also putting strain on our

13 RGAE: 365-9-209/10-11

14 RGAE: 365-9-209/23-29

15 RGAE: 365-9-530/22-23

16 RGAE: 365-9-530/11-12

foreign exchange reserves. The Ataş and İpraş refineries were established with foreign capital. We needed a fully national refinery. We asked for financial and technical support from the United States, but they were not interested. Then we asked if the Soviet Union would be interested. They replied positively.”¹⁷

India also had a similar experience with the West, when the Indian Government wanted to establish a series of industrial projects according to its five-year plans. The American administration and multinational companies were disinclined to extend aid to Indian industrial projects because they were primarily set up in the public sector.¹⁸ The Soviet Union granted aid to India as the country implemented planned development in the 1950s, as Turkey did after 1960. According to Santosh Mehrotra, “the significance of Soviet aid had been qualitative rather than quantitative” as the aid favored industry in general and heavy industry in the public sector in particular. This was aimed at “strengthening India’s bargaining position in relation to Western donors and firms,” as the US had shown an extreme reluctance to finance heavy industry projects.¹⁹

India was also going through economic hardships in the period of Indo-Soviet economic rapprochement. Soviet and east European developmental and defense credits were repaid in the form of Indian exports. This reduced the burden of repayment, as Soviet loans were serviced in Indian rupees according to the clearing agreement between these two countries. Similar to the agreement between Turkey and the Soviet Union, Soviet aid was tied to trade, and this “automatic conversion of aid repayment into trade flows reduced the burden of debt servicing, as long as India’s export prices to east Europe remained comparable to prices obtained from the rest of the world.”²⁰ This shows that Soviet aid to developing countries was integral for the Soviet Union to continue trading with those countries.

Mehrotra claims that Soviet aid was beneficial for India as long as India exported its goods at the prices obtained elsewhere, and also as long as export

17 Altan, *Süperler ve Türkiye*, 132-133.

18 Mehrotra, *India and the Soviet Union: Trade and Technology Transfer*, 14.

19 Ibid., p. 13.

20 Mehrotra, *India and the Soviet Union: Trade and Technology Transfer*, 14.

to the USSR did not divert trade from hard currency markets. The Soviet documents about Turkey also did show a Turkish aversion to export to the Soviet Union and other Eastern Bloc countries that traded with clearing principles.²¹

In the case of India, Mehrotra claims that the burden of servicing Soviet loans was lower than Western firms. He compares three iron and steel factories that were built with the aid of different countries. He found that the Bhilai Iron and Steel Plant, built with Soviet assistance had more favorable financial terms than the Durgapur and Rourkela plants, built by British and West German assistance respectively. The Soviet Union met a slightly higher proportion of the foreign exchange component of the cost of the Bhilai Iron and Steel Plant, and “the Russian loans were also more favorable: 2.5. per cent interest and repayable over twelve years, to begin one year after the delivery of the equipment, as compared to 5.75 to 6.3 per cent interest.”²² It should be noted that the Soviet Union granted extended loans to Turkey for the 1967 Agreement at the same interest rate and similar terms.

A big difference between Soviet and Western technology transfer methods was that Soviet Union signed contracts on turnkey basis. Once the factories were built, Soviet firms were not responsible to upgrade the machinery and to install new products to raise the productivity of the plant. Mehrotra found “strong evidence for the suggestion in the literature on technology transfer that turnkey contracts involve a high price for the recipient...in the case of the first generation steel plants as well as the oil refineries, which were executed on a turnkey or a new-turnkey basis, it was observed that the capital and foreign exchange cost of the projects was high relative to late plants/refineries.”²³ This was the case whether the contractor was a Soviet or a Western firm.

Overall, one can say that Soviet technology transfers were provided with cheaper loans with possible high cost in the long term due to a lack of technology licensing agreements that ensured a continual transfer of technology from the contractor to the recipient. Despite this, both in the cases of Turkey

21 Ibid., p. 129.

22 Ibid., p. 108.

23 Mehrotra, *India and the Soviet Union: Trade and Technology Transfer*, 135.

and India, Soviet technology transfers were a valuable option when the Western companies were unwilling to accomplish the desired tasks. According to Mehrotra, Soviet aid enabled “to break the monopoly of transnational companies in the Indian market and improve the bargaining position of the government vis-à-vis the transnationals.”²⁴ Turkey had a similar way of thinking.

The fact that the 1967 projects were public endeavors and were decided on through the planning of the SPO made the Soviet Union the best available partner to accomplish the task. The Soviet Union offered the most favorable loan conditions as aid was being tied to trade. Also, the fact that Turkey had aspects of a planned economy in its system made it possible for the Soviet Union to commit to this project. Political will of both sides was important for financial difficulties to be overcome, as will be seen later on in this chapter.

§ 4.2 Technology Transfer and Know-How

The Soviet technical assistance to the Turkish firms was on a turnkey basis. The fact that Turkish engineers, mechanics and assembly workers were going to be responsible after the projects’ completion meant that they had to learn about operating and maintaining Soviet machinery during their cooperation with the Soviet experts. From his analysis of Soviet technical aid to India, Santosh Mehrotra concluded that the “USSR had been a willing transferrer of know-how, the transfer of know-why had been rather limited.”²⁵ His analysis showed that Indian personnel at Soviet-assisted plants had successfully absorbed “machine-operating skills and even manufacturing technology, partly on account of training imparted both in India and in the USSR.”²⁶ Despite this, the Soviet Union had made little attempt “to transfer design methodology with the objective of developing an independent product design capacity in the plants.”²⁷ This might have also been the case in Turkey because Turkish firms did not proceed to build more industrial plants based on Soviet technology.

24 Ibid., p. 129.

25 Mehrotra, *India and the Soviet Union: Trade and Technology Transfer*, 101.

26 Ibid.

27 Ibid.

The Soviet technical assistance also encouraged indigenization of the projects as much as possible. Besides providing training for the recipients' personnel, the Soviets "encouraged a significant use of local inputs, in terms of construction equipment and services and plant and machinery, wherever technically feasible."²⁸ In the case of Soviet aid to India, Mehrotra "found strong evidence of progressive indigenization of equipment in the two sectors – steel and oil refining – which have been recipients of Soviet technology on more than one occasion and over a period of time."²⁹

Soviet technology sale was on a turnkey basis with a "one-off sale of design and documentation,"³⁰ Soviet firms were not responsible for transferring improved machinery or new products after the industrial plant was complete.³¹ The Western firms, on the other hand, offered longer-lasting technology transfers. In comparison with the West, however, the Soviet Union provided excellent maintenance services. While the Americans or Germans would supply a minimum number of personnel to execute maintenance, Soviet services was "characterized by heavy staffing and narrow specialization."³² The heavy staffing also had its drawbacks as it created a parallel management for the factories. Even after the factory was completed, the recipient of Soviet technical aid would somewhat be dependent on Soviet maintenance. The proliferation of Soviet specialists on site resulted in extra payments on the technical assistance account.³³ Despite this, the Soviet Union attempted to train local personnel as much as possible.

In the Soviet documents about the 1967 projects, one can see the lack of Turkish engineering expertise. This technical knowledge deficit made Turkey dependent on foreign assistance in the feasibility studies, design of the factories and installation works. Each Turkish firm had different strategies of negotiating with the Soviet firms. In some projects, the Soviet firms were responsible from the design elements to the installation process, and in some, the

28 Ibid., p. 130.

29 Ibid.

30 Ibid., p. 99.

31 Mehrotra, *India and the Soviet Union: Trade and Technology Transfer*, 99.

32 Ibid., p. 112.

33 Ibid., p. 134-135.

Turkish firms utilized the services of contractors from third party countries to have a leverage against the Soviet firms.

4.2.1 *Feasibility Studies and Design*

Turkish firms involved in the 1967 Agreement projects had to conduct feasibility studies to investigate whether the projects were financially profitable and technically doable. Since Turkish expertise in industrial appraisal was limited, Turkey had to call upon foreign firms to do this job. Due to a potential conflict of interest with Soviet firms, some of the feasibility studies were given to Western firms.

In June 1968, the Turkish Ambassador to the Soviet Union, Hasan Esat Işık, notified the Soviet representatives that Soviet organizations should not carry out feasibility studies for the construction of the factories. He drew attention to the fact that the economic aspects of the project were not included in the scope of the work to be carried out by the Soviet side.³⁴ This provision was recorded in the technical protocol signed at the level of experts in November 1965. The Turkish side considered the question of the responsibility for the technical and economic feasibility studies at a higher level, and the Turkish firms decided on who would conduct such studies with as little influence from the Soviet firms as possible.

For the iron and steel factory, Turkish authorities used the services of consultants from the English firm John Miles. This firm appraised the total cost of the construction to be 3.5 billion Turkish Liras in total (around 400 million dollars), of which the 2 billion would be financed locally, and 1.5 billion liras (160-170 million dollars) financed from abroad.³⁵

The firm John Miles was also responsible for choosing an appropriate place for the factory. The English firm had a list of twelve places in Turkey as possible sites for the plant. The most promising on the list, Sivas-Divriği was eventually eliminated, due to its poor logistical infrastructure. John Miles Company started to concentrate on locations on the sea shore such as Samsun, Mersin

34 RGAE: 365-2-2805/17

35 RGAE: 365-9-209/23-29

and İskenderun. İskenderun, somewhat distant from iron and coal mine sites, had a logistical potential due to its railway connections and proximity to functional ports.³⁶

Despite John Miles Company's important input in the early stages of planning, the technology that was to be used in the factory was almost entirely of Soviet design. Due to this fact, Pyasetsky asked the factory's general director H. Erten to be immediately notified of the English firm's assessments for the location. The Soviet firms, in accordance with the volume of the assumption of liabilities of the Soviet side, had developed technical design and working drawings which, of course, were to be used on-site.³⁷ Even when the Turkish firms were cooperating with foreign firms, the Soviet side deemed the permanent presence of representatives from Soviet industrial firms absolutely necessary, as they wished to have an input in key decision making processes.

The Turkish experts hurried to begin to work on the plans. The Turkish firms readied the foundations for the dispatch warehouses according to the general plan of the factory received from the USSR. The Soviet experts advised the Turks to coordinate the construction there with the warehouse, where it was actually being erected. The Turkish firms agreed to transfer the warehouse as advised by their Soviet counterparts. It was necessary to make precise the copy of the master plan with indication of deviations. The copy would be taken to Moscow, so that the Soviet construction firms would be informed of the blueprints of the factory. The issues that required special attention were to be considered by the design organization in Moscow. The Turkish firms would be informed of any Soviet decision to alter the general plan.³⁸

In the projects besides the iron and steel factory, the Soviet firms made it known to their Turkish counterparts that the efficiency of the factories was directly correlated with accurate geological and hydrogeological data from the actual sites. Soviet project operators warned their Turkish counterparts that a poor decision making without the required data could result in the decrease

36 Polatoğlu, "Türkiye Ağır Sanayisinin Öncü Kuruluşlarından İskenderun Demir-Çelik Fabrikası," *Atatürk Üniversitesi Sosyal Bilimler Enstitüsü Dergisi*, 632.

37 RGAE: 365-2-2805/17

38 RGAE: 365-9-210/9-13

of the overall productivity of the industrial projects and also reduce their safety.³⁹

Geological and hydrogeological data were most fundamental to the construction of the aluminium plant, as its productivity depended on the quality and the quantity of aluminium's raw ore, bauxite; and also to the energy input from the planned Oymapınar Dam. The director of the aluminum factory in Seydişehir, A. Aydın, asked for guidance from the Soviet committee in relation to the economic feasibility of the aluminium plant. Aydın inquired about the possibility of delivery of metal from the USSR with clearing for the construction of the aluminium plant. The Soviet and Turkish sides in this transaction aimed to lower costs of the supply of equipment for the construction of the aluminium plant before working on the technical project.⁴⁰

The design process of the oil refinery was the most complicated. Turkey had experience in cooperating with the American firm Caltex in the construction of the İzmit Oil Refinery. For this reason, the commissioned Turkish state firm TPAO delegated some of the design works to foreign firms. On 4 January 1969, TPAO regional manager Sermet Alpargun informed his Soviet counterpart that the unit producing machine oil would be designed by the firm "Foster Wheeler" and that TPAO might be willing to conduct its installation with that firm.⁴¹

In the meeting, General Director of TPAO, Korkut Özal, informed Pyasetsky that two British firms and an Italian subsidiary of the American firm "Foster Wheeler" would also be involved in the project. The Soviet side objected to the involvement of firms of other countries, but Özal retorted and asserted that TPAO's working with these firms did not contradict the contract TPAO signed with the Soviet firm, V/O "Nefiteximpromexport".⁴²

In a Soviet report regarding the sulfuric acid factory, it was mentioned that specialists from Ankara and Etibank had not visited the Soviet Union to discuss the details of the project till then. The Soviet side complained about the

39 RGAE: 365-2-2807/28-30

40 RGAE: 365-2-2807/19

41 RGAE: 365-9-213/4-7

42 RGAE: 365-9-213/9-10

incompetence of the chief Turkish engineer and other Turkish specialists that were assigned to this project. When the Soviet experts demanded the project design to start the metal-construction preparation, Etibank answered that the Turkish experts didn't have the required expertise to design the factory and requested assistance from Soviet industrial designers.⁴³

Due to the request from Etibank, the Soviet firm "Tyajpromexport" started working on the design project for the sulfuric acid factory. The Tyajpromexport experts notified the Etibank representatives that the Soviet firm would be using firms of the Socialist Republic of Romania in the construction of the acid factories. For this reason, they requested input from Romanian experts during this project. The Romanians utilized a precise copy of the master plan and suggested alterations to it. Tyajpromexport considered these suggestions and notified Etibank representatives of their decisions.⁴⁴

Besides the Romanian input in to the sulfuric acid factory in Bandırma, there were other Eastern Bloc countries that were involved in the design processes of the 1967 projects. Polish firms drew the designs for the fiberboard factory in Artvin, as the Soviet firm planned to use Polish equipment in the establishment of this project. Industrial firms of the German Democratic Republic provided plans for parts of the İskenderun Iron and Steel Factory and the firms from Czechoslovak Socialist Republic had input for the oil refinery in İzmir.⁴⁵

In July 1969, Saraçoğlu requested from the Soviet organizations to concentrate all drawings and specifications of metal construction in a single folder and present it to Turkey, so that the Turkish firms could in the shortest time order the required metal from the Karabük metallurgical factory. Pyasetsky answered that drawings of metal construction can be prepared when the projects for every industrial plant were ready and presented to the Soviet firms. He offered assistance from Soviet experts, if Turkish experts might have difficulties.⁴⁶

43 RGAE: 365-2-2807/41

44 RGAE: 365-9-531/4

45 RGAE: 365-2-2807/41

46 RGAE: 365-9-210/9-13

4.2.2 *Foreign Assistance in Assembly*

According to the 1967 Agreement, the Turkish firms were responsible for the installation of the industrial projects. This was beneficial for both sides as it decreased the amount of Soviet labor required, and also because Turkish manual labor was cheaper. Despite these apparent benefits, the Turkish labor was not adequately skilled for the assembly of heavy industry projects. Turkish firms commissioned for the 1967 projects had to request foreign expertise to oversee the assembly processes of the plants.

In May 1968, the İskenderun Iron and Steel Factory's general director H. Erten commented that Soviet or Western firms could be used as subcontractors, as he explained that Turkey did not have the assembly organizations, which could complete the work at the site.⁴⁷ Seyfi Sivacı, the managing director of the construction of the plant in İskenderun examined the issue and considered it unnecessary to have a single contractor working on the plant. Management decided that with Soviet technical assistance, multiple Turkish contractors could undertake the task at the plant.⁴⁸

According to the 1967 Agreement, Soviet advisors and experts that were going to lead the assembly process were to be housed by the Turkish firms. The Soviet crew were staying in outhouses built by the Turkish firms at the construction sites. In one of the Soviet reports, it was mentioned that the Soviet crew assigned to the construction of the aluminium plant in Seydişehir were happy with their lives. They could watch movies, read newspapers, and make trips to Konya to watch Turkish national dances. Only 7 families stayed in hotels. Four of them had children.⁴⁹ The report remarked that the Soviet crew and the Turkish assembly firms were outperforming the projections, and that Etibank was extremely satisfied with the works continuing for the construction of the Seydişehir Aluminium Factory.⁵⁰

47 RGAE: 365-9-212/1

48 RGAE: 365-9-534/5

49 RGAE: 365-2-2807

50 Ibid.

The construction of the oil refinery in İzmir was the most collaborative project of the 1967 Agreement. On 4 January 1969, Sermet Alpargun, the regional manager of TPAO in İzmir, informed Pyasetsky that the application and bidding process for the construction and assembly jobs for the İzmir Oil Refinery had started. Alpargun mentioned that the applicants were mostly Turkish firms with mixed capital, but also notified Pyasetsky that the TPAO needed foreign involvement in the installation as Turkish firms did not have the adequate experience.⁵¹

On 7 January 1969, Alpargun made it clear to Pyasetsky that the Turkish side hired the English construction firm Badger, a firm TPAO had worked with before, to accelerate the construction process. Alpargun tried to convince the Soviet side that hiring of a foreign firm would free up Soviet labor that could be used elsewhere. Pyasetsky was unsatisfied with the explanation and replied that it would have been better if the contractor would be responsible for the whole installation task. Alpargun said that the firm Badger would provide 40 foreign specialists and the rest of the workers would be Turks. Pyasetsky resentfully asked why the Turkish side was putting obstacles for additional 27 specialists from the Soviet Union when 40 specialists of a third country were allowed to work on the project without any problems. Alpargun explained the situation, saying that the Badger workers would not bring over their families, thereby cutting from TPAO's expenses for housing. He also said that Turkish specialists that have to work with Soviet experts would have to go to the USSR to learn Russian for a year.⁵²

When Pyasetsky pressed for exclusive Soviet involvement in the construction process, the TPAO General Manager Korkut Özal refused, citing the need to prevent "trustification" of the contractors. Pyasetsky brought up a clause within the agreement regarding restrictions on foreign involvement in the project, and said that until then they had not received a satisfactory answer on how the customer interpreted the jurisdictional essence of the relationship between the provider, customer and the foreign subcontractor "Badger". Özal replied that one could not judge the obligations of parties to a contract on the

51 RGAE: 365-9-213/9-10

52 RGAE: 365-9-213/4-7

basis of the exchanged letters, and the parties should always remember the goal of the contract and not the details.⁵³ Pyasetsky asked whether any Turkish company or capital was involved with the firm “Badger”, to which Özal replied negatively.⁵⁴ Özal confirmed that TPAO had worked with this firm in the acquisition of pumps. He said that TPAO preferred Badger’s equipment, as it had more favorable payment terms than the offered Romanian vertical pumps, produced with less stringent standards.⁵⁵

The Soviet Deputy General Director of the Department of Economic Relations G. Pyasetsky brought the issue of foreign contractors to the Director General of the Department of Economic Relations of the Turkish Foreign Ministry, Mehmet Baydar. Baydar said that it became clear to TPAO that it was necessary to attract foreign firms to carry out installation of reservoirs (tanks) with the help of Turkish contractors. Pyasetsky raised the point that it would have been logical for the Turkish side to carry out the work on its own, or to invite a firm of the equipment supplier country, which was the USSR, for assistance and not a firm of a third country. He said that TPAO’s motives for an invitation of a firm from a third country was not clear to the Soviet Union, when these reservoirs were designed in the USSR and were made in Soviet factories. Baydar said that he had asked about this situation to the general director of TPAO, whose reasoning he could not fully understand.⁵⁶

On 31 January 1969, Pyasetsky complained to the Turkish Minister of Energy, Refet Sezgin, that the Turkish side was causing the delays in the installation process. Due to this complaint, Turkish engineers were sent to Moscow for training.⁵⁷ Sezgin answered that he heard that TPAO encouraged foreign firms to work on the construction of the İzmir refinery. He promised to meet with consultants for the discussion of the problems, and regarded acts which contradict the contract as unacceptable, but that he would study the contract once more. Pyasetsky repeated the proposal to use the services of the Soviet organizations with extensive experience in the construction and installation

53 RGAE: 365-9-213/21

54 RGAE: 365-9-213/9-10

55 RGAE: 365-9-213/21

56 RGAE: 365-9-209/15-19

57 RGAE: 365-9-209/10-11

of industrial enterprises, in particular for the installation of reservoirs and for the construction and installation of the whole complex. He commented that for the installation of Soviet equipment, reservoirs needed special tools, instruments, operators, which only the Soviet firms could handle. Pyasetsky said that TPAO was using free foreign currency, which the Soviet Union knew that Turkey was of in dire need. Pyasetsky reminded the Turkish minister that the Soviet firms would be willing to be paid with the regular clearing account and with the loan of the 1967 Agreement.⁵⁸

Sezgin informed Pyasetsky that TPAO had already signed contracts with the British firm Badger regarding its responsibilities as the general contractor on the construction of the refinery. Pyasetsky raised Article 2 of the contract TPAO signed, which said that the customer will use its own strength and means to carry out construction works at the site, with the technical supervision and instructions of Soviet specialists. He emphasized that the phrase “own strength” implied that all of the work would be performed by Turkish organizations and not of a third country.⁵⁹ Also, the Soviet firms had included a clause in the agreement stipulating that “the customer should not transfer to a third party any technical documentation/drawings, calculations and instructions received from the supplier.” This was to protect Soviet technology from third parties. Sezgin responded that Badger had already started to work on construction, and that it would be a huge inconvenience for TPAO to cancel their contract.⁶⁰

In late 1969, the Soviet side was fulfilling its construction obligations at the İzmir Oil Refinery. Equipment and materials were ready to be shipped out from Illichivsk, a port city close to Odessa on the shore of the Black Sea in the Ukranian SSR. The Soviet experts complained that the American firm “Badger” clearly could not cope with their tasks, and they expected this to cause delays in the construction process. Pyasetsky said that the Soviet side was willing to consider the proposals of the Turkish side if they would decide to replace the services of the firm Badger with Soviet company contractors.⁶¹

58 RGAE: 365-9-209//33-36

59 RGAE: 365-9-209/10-11

60 Ibid.

61 RGAE: 365-9-213/12

In the end, TPAO and the Soviet firms agreed to separate oil block work which would be given to Badger, and the rest of the plant to the Soviet firms.

For the work at the oil refinery that fell under the purview of the Soviet contractor, the Soviet Union paid TPAO and TPAO paid the workers. In the meeting between Pyasetsky and Özal in 1970, Pyasetsky mentioned that two Turkish firms, Kazanoğlu and Çavuşoğlu, were hired as subcontractors for the installation process and that these firms paid very low wages. These companies were recommended to the Soviet firm by TPAO, and they were reimbursed by TPAO directly. Pyasetsky requested from Özal that these companies improve the wages of their workers, warning that such immoderate wages led to a sharp deterioration in the quality of work and delays in the construction process.⁶²

In September 1969, Pyasetsky also said that the Turkish side could buy the materials and equipment from the USSR, which may be delivered on a commercial basis, i.e. out of state credit, as it would be within the competence of the two governments. The Turkish side believed that taking responsibility for the performance of the equipment was necessary; and deemed it indispensable for the Soviet organizations to directly supervise and be responsible for assembly at the same time, so that subsequently there was no reference to the poor performance of the installation. The Soviet side expressed that they found it inappropriate for the invitation of foreign firms, in particular assembly companies of third countries.⁶³

During the assembly process of the 1967 projects, Turkish firms were also dependent on Soviet firms in the procurement of basic industrial materials. The Turkish domestic production of electrical materials, fixtures, fittings, plumbing fixtures and other materials was not sufficient for the needs of the factories under construction. The Soviet firms agreed to supply such materials to the Turkish side.⁶⁴

The Turkish Deputy Minister of Industry, A. Çimen also expressed to his Soviet counterparts that metal and metalwork for the use in the construction of the factories were of short supply. The Turkish side was unable to fulfill its

62 RGAE: 365-9-535

63 RGAE: 365-9-212/3

64 RGAE: 365-2-2805/12

commitments for two reasons: firstly, because of the lack of metal and secondly, due to the lack of necessary manufacturing capacities. The Karabük Metal Factory's output was to be made available to the construction needs of the aluminium factory.⁶⁵ In 1969, when the supply of equipment, materials and cable from the Soviet Union started, the additional costs exercised a bit of strain on credit terms.

At the Artvin Fiberboard Factory, the Turkish experts predominantly used the services of Soviet advisors for the construction. On 24 May 1969, it was reported that the Turkish Government strongly supported the completion of construction, as it was receiving reports from the site that the electrical parts of the main building of the Artvin plant were completed by Turkish workers with the assistance of Soviet advisors.⁶⁶

§ 4.3 Problems in Implementation

4.3.1 *Inefficiency due to Turkey's Trade Regime*

One of the biggest obstacles to the implementation of the 1967 projects was Turkey's strict trade regime. The capital goods that were to be imported for the construction of the factories needed to have been included in the annual import lists. This created a bureaucratic process that delayed the import of required machinery and equipment.

When constructions of the 1967 projects started, Turkey had trouble in finding the required amount of metal. The Soviet side was to compensate the Turkish firms for this deficit in metal, but there were troubles due to Turkey's tight control over imports. Since Turkey published the import lists at the beginning and the middle of the year, there was a time mismatch. For example in 1969, Pyasetsky mentioned that the technical project for the oil refinery in İzmir was already approved and that the Soviet organizations began to develop working drawings. He informed Saraçoğlu that 2.5 thousand tons of equipment was waiting at the Soviet port of Illichivsk for Turkish approval. Since

65 RGAE: 365-2-2805/12

66 RGAE: 365-9-209/23-29

the import list did not include the material waiting at the port, Turkey did not import them until the end of the year.⁶⁷ Such delays had a negative effect on the construction.

The import of machinery, equipment and raw materials to Turkey from the Soviet Union was inextricably linked to the regular meetings between Turkish and Soviet trade representatives. Trade representative of the USSR in Turkey A.A. Trusov had to coordinate with his Turkish counterpart, to include the necessary equipment for that year. Since the Turkish Government published import protocols only twice a year, there were delays. For example, in 1970, Trusov notified the Turkish trade representative that the Soviet Union could not deliver the metal to the İskenderun construction site because it was not included in Turkey's 11th Import Protocol, and was resentful that April and May of that year were lost for trade. The Turkish state-owned enterprise Kardemir could not sign a contract with the Soviet firm without a license contract for the procurement, and the Ministry of Commerce could not give license before the publication of the protocol. When the Turkish side heard of this, they tried to publish the upcoming protocol in advance.⁶⁸

In November of 1969, General Director of Economic ties of the Turkish Ministry of Foreign Affairs, Mehmet Baydar said that he was deprived of the opportunity to continue his discussion on the supply of 100 thousand tons of metal from the USSR, since until that day, Turkish firms had not prepared a list of possible exports to the Soviet Union.⁶⁹ Baydar said that the Soviet firm V/O Vostkintorg needed a letter of credit for the metal to be imported. This delayed the process for the Soviet firm, since it took 20 to 25 days for the Central Bank of the Republic of Turkey to issue the letter to the foreign trade bank of the USSR. Pyasetsky notified Baydar that the Soviet firms could not ship the metal before the letter process was concluded and said that barely 15 thousand tons of metal could be shipped by early May.⁷⁰

Turkish Deputy Minister of Industry Ali Çimen raised the question of the difficulties due to calculations by the trade agreement. Çimen said that he

67 RGAE: 365-9-209/3-8

68 RGAE: 365-9-209/17

69 RGAE: 365-9-212/19

70 RGAE: 365-9-209/17

feared the volume of the import limit would turn out to be lower than the actual quantity of the metal that needed to be delivered for the construction of the 1967 plants. He reminded Çimen that the trade turnover for each year was determined by the relevant protocol. To this end, Pyasetsky asked that the commission be informed of the schedule for the deliveries of metals. Çimen took note of this request and said that the schedule would be included in the relevant sections of the next protocol.⁷¹

In 1969, Pyasetsky and Saraçoğlu discussed in Ankara the overall speed of the construction processes. Pyasetsky mentioned that the construction of the aluminium factory in Seydişehir was going extremely slowly for reasons beyond the control of the Soviet organization. Saraçoğlu assured Pyasetsky that there was already a decree of the Turkish Council of Ministers regarding giving Ministry of Trade the necessary powers to oversee imports required for the construction processes. He said that the Soviet trade representative could directly come into contact with the director of Etibank and conclude contracts. This committee was to ensure that the required capital goods were going to be prioritized and the exports that were used to pay for these goods were going to be efficiently decided. For example, in this meeting, Saraçoğlu had mentioned that he was afraid that the Soviet Union might be facing a tightening of clearing purchases of bauxite, as Etibank was not given the necessary permits by the relevant Ministry. He acknowledged that the fault for possible disruption of supplies of bauxite to the Soviet Union was a result of Turkey's trade regime.⁷²

The Soviet Ambassador to Turkey A.A. Smirnov and the Turkish Prime Minister Süleyman Demirel addressed the incoordination problem between the trading and the industrial organizations in a meeting they had on 31 January 1969. Smirnov requested that the Turkish Government organize a coordination center at the government level.⁷³ Several months later, the Deputy General Director of the Department of Economic Relations of the Ministry of Foreign Affairs, M. Karaca notified Pyasetsky that the parliament agreed to

71 RGAE: 365-9-212/14

72 RGAE: 365-9-209/3-8

73 RGAE: 365-9-209 / 10-11

concentrate all decision-making powers for foreign political and economic relations under the control and coordination of the Turkish Ministry of Foreign Affairs.⁷⁴

In a meeting between Pyasetsky and Mehmet Baydar, Pyasetsky was informed that the Etibank General Director in charge of the Seydişehir Aluminium Factory returned from the Soviet Union. They were in agreement for the organization of construction and installation process of the plant. Baydar said that he was still waiting for the coordination groups of the State Planning Organization.⁷⁵ The top-down bureaucracy of the Turkish public sector was causing such delays.

The Soviet Union consistently hounded the Turkish side to expand its export lists, so that they could buy more goods from Turkey. Pyasetsky added that they were still in the process of negotiating the annual trade agreement between USSR and Turkey for the year 1970. There were still negotiations for the contingent of goods which would be used to repay the delivery of ferrous metals for the needs of the İskenderun Plant in 1970.⁷⁶

Mehmet Baydar, in relation to the letters exchanged on 10 October 1969, said that the payment for the metal supplied for the needs of the construction of the 1967 projects should be concluded in the framework of the trade protocol that was concurrently being negotiated between the Soviet Union and Turkey for the year 1970. Baydar added that the Turkish delegation participating in the negotiations on the conclusion of the agreement, could not offer the Soviet side a nomenclature of Turkish goods, which should be supplied to repay the cost of the metal supply of the USSR.⁷⁷ Pyasetsky also requested that Turkey should expand its export list, so that the USSR could buy more goods. He pointed out that the negotiations for the trade protocol between the USSR and Turkey for the year 1970 had not been determined up onto that point; hence, the Soviet Union was still uninformed of the contingent of goods which

74 RGAE: 365-9-209 / 23-29

75 RGAE: 365-9-209 / 15-19

76 RGAE: 365-9-209/6

77 RGAE: 365-9-209/6

would be used as payment for the delivery of ferrous metals for the needs of İskenderun plant in 1970.⁷⁸

Pyasetsky drew attention to the difficulties, experienced by the trade mission of the USSR in Turkey when trying to pursue contracts in relation with the agreement reached between the sides regarding the supply of Turkish goods to the USSR. He asked for the preparation of a separate list that constituted a higher volume of goods that could be exported to the Soviet Union as payment for the metal deliveries from the USSR for the construction of the aluminium factory. Pyasetsky expressed his wish that the trade organizations would meet early in March, so that advisors on industrial issues and the Soviet trade representation could have an input in these meetings.⁷⁹

On 20 January 1970, due to the difficult nature of Turkey's trading regime, Deputy Advisor on Industrial Affairs of the Embassy of the Soviet Union in Turkey, F.I. Shatalov, agreed with Mehmet Baydar to establish a representative office for the supplier Soviet firms in Ankara. This office would coordinate with the necessary Turkish offices to supply them lists of goods that were to be supplied by the USSR.⁸⁰ Baydar supported the idea of interagency meetings, however explained that the delay in the registration of trade missions for Soviet contracts may be associated with the lack of a resolution from the Turkish Council of Ministers on that particular issue.

Saraçoğlu promised to consider, with the concerned ministries, the list of Turkish goods available for export. He said that when Turkish parties made an offer of payment for the supply of ferrous metals for the İskenderun Iron and Steel Factory in 1970 for the total of 5.4 million US dollars, it was meant, that this sum of 5.4 million dollars would grow with each new party of deliveries. The growing number would be calculated within the framework of the trade turnover between Turkey and the USSR in comparison with the previous year.⁸¹ The difficulty of foreseeing the amount of metal that would be required

78 RGAE: 365-9-530/6

79 Ibid.

80 RGAE: 365-9-534/5

81 RGAE: 365-9-530/8

from the Soviet Union eventually created problems for the Turkish organizations that prepared lists of available exports to the Soviet Union. For the growing cost of metals imported from the Soviet Union, Turkey put items on the export list that the Soviet Union did not demand. Saraçoğlu politely asked from the Soviet representative not to object to the inclusion of agricultural products in the nomenclature of Turkish exports.⁸²

On 10 August 1970, trade representative of the USSR in Turkey A.A. Trusov met Saraçoğlu. Trusov, conveyed the Soviet Union's resentment that Turkey has very restricted export lists. Saraçoğlu explained that Turkey needed hard currency, and therefore focused on its trade with free exchange zone countries, leaving the countries that traded on clearing in a lower level of priority.⁸³ The problems of trading on clearing once again became apparent in the transactions for the 1967 agreement. The Soviet Union was pressured by the Turkish side to import goods that it did not demand as payments for deliveries of goods, raw materials and also for the services provided by the Soviet organizations.

There was also the issue of the payment for the materials that were procured from other Eastern Bloc countries for the construction of the 1967 plants. Saraçoğlu, on his own initiative, said that the Ministry of Commerce categorically objected to crediting the payment for the deliveries from Hungary to the account of Hungarian National Bank at the Central Bank of the Republic of Turkey. Saraçoğlu explained to the Soviet representative that such payments could result in irregularities in Turkey's capital account. Pyasetsky and Saraçoğlu agreed that the payment for the Hungarian deliveries would be made to the USSR with the right to purchase goods according to the nomenclature agreed between Turkey and the USSR.⁸⁴ The Soviet Union would then pay for the material to the Hungarian People's Republic.

In the March of 1971, there was a brief interruption to the construction processes of the 1967 project due to the fall of the Demirel Government. Süleyman Demirel's government, the signatory and the main benefactor of the 1967 Agreement, was toppled. Despite this, the subsequent government continued

82 Ibid.

83 RGAE: 365-9-530/28-29

84 RGAE: 413-31-1154/7

to support the project. The 12 March 1971 military intervention did cause a short delay in the publishing of the trade protocols, thereby affecting the construction processes.

4.3.2 *Inefficiency due to Collaboration*

There were also inefficiencies due to Turkey's willingness to involve third party contractors for the design and assembly processes of the factories. According to Soviet reports, Turkish firms were aiming to prevent "monopolization" of these projects by the Soviet Union. While the involvement of firms from third party countries may have contributed to the Turkish firms' goals, it did cause delays due to poor coordination. Since Soviet technology required Soviet expertise, this process was stretched out more than it needed to be, resulting in a delay for the initiation of the construction process.

The chief of the aluminium department of Etibank complained about the differences of the technical design and working drawings for the aluminium factory in Seydişehir. Due to the differences of the design, he expressed the need to replace the equipment and change the scope of work in the direction of increasing the capacity. He insisted that a Soviet delegation should arrive in Turkey as soon as possible so that the necessary coordination could be established.⁸⁵

The Arpaçay Dam was one of the projects that required very close collaboration between the Soviet and the Turkish firms. The Arpaçay River constituted the border between the Armenian Soviet Socialist Republic within the USSR and Turkey. Therefore, the dam was physically under joint jurisdiction of the two countries. It is reported that the architectural plans were not received by the Soviet Union. One of the biggest problems for the construction of the Arpaçay Dam was that there was no border crossing between the Soviet Union and Turkey.⁸⁶ Also, Turkey refused to give geological data for 4 months.⁸⁷

85 RGAE: 365-9-536/7

86 RGAE: 365-9-209/3-8

87 RGAE: 365-9-209/33-36

In a meeting between Pyasetsky and Saraçoğlu in 1969, the technical project was approved for the aluminium factory. However, there was a delay due to the fact that Turkey had not decided on the questions regarding the energy supply of the plant. The construction of a hydroelectric power plant in Oymapınar was closely related with this. The Soviet firms accused the Turkish side of delaying the implementation of its commitments for this project. The Turkish authorities, on the other hand, pointed out that the foreign contractor firm had not handed over the required data for this project on time. Etibank was forced to revise the scheme of the power plant to avoid interruptions in the supply of energy, as the technical experts found working with only one power source dangerous.

The Oymapınar Dam project had still not been completed after the Seydişehir Aluminium Factory became operational.⁸⁸ While the Soviet Union and Turkey had agreed that the credit extended by the 1967 Agreement included the project for a dam on the Oymapınar River, it had become apparent that the contingent for this specific project was lower than required.⁸⁹ For this reason, the Turkish side gave up working on this project.

The Turkish General Directorate of State Hydraulic Works (Devlet Su İşleri) commissioned the French firm Coyne et Bellier and the Turkish firm Aknil to prepare the technical plan for the Oymapınar Dam in 1975. Its construction started in 1977 with the involvement of a West German construction consortium, Bilfinger/Berger. The dam was completed in 1984.⁹⁰ The delay in this project resulted in the Seydişehir Aluminium Plant to be powered mostly by coal until the Oymapınar Dam became operational.

4.3.3 *Logistical and Visa Problems*

There were occasional logistical problems that delayed the exchange of goods between the two countries. While most of the factories were in close proximity to ports, easing the transportation of capital goods from the Soviet Union, the

88 RGAE: 365-9-209/3-8

89 RGAE: 365-9-209/15-19

90 Öziş and Yanar, *Oymapınar Barajı ve Hidroelektrik Santrali*, 24.

Artvin Fiberboard Factory had poor logistical infrastructure. The lack of a liberal visa agreement between the two countries also put obstacles for the Soviet advisors and workers coming in to Turkey; and also, for the Turkish engineers to travel to the Soviet Union to receive training.

This Artvin Fiberboard Factory was to be the only modern industrial enterprise in the district of Artvin, which had a poor logistical infrastructure. The road between Artvin and the port city of Trabzon was in terrible condition and prevented the transfer of goods from there. The other big port in the region was in the city of Batumi in the Georgian Soviet Socialist Republic, a member of the USSR. The Soviet and the Turkish sides involved in the project surmised whether they could use the Batumi port to transfer the machinery to the project location in Artvin, but the border crossings between the USSR and Turkey could create bureaucratic problems.⁹¹ The sides came to an agreement to use the Turkish town of Hopa, which was less than ideal due to its lack of a developed port.⁹²

Artvin Fiberboard Factory's logistical infrastructure was important, since the factory's output was going to be exported to the Soviet Union. Artvin's significant forest resources, availability of cheap labor, and experienced skill force in the production of modern furniture made Artvin a place of interest for the Soviet Union.⁹³ Soviet firms declared their intentions to import the products of the fiberboard factory. Soviet experts recommended to the Turkish side that they improve the port in Hopa, so that Artvin could export its wood based products to the USSR by sea.⁹⁴

There was also issues with visa procurement for Soviet and Turkish experts that were required to travel between the two countries. There was a delay in the issuance of visas to the Soviet specialists. The Soviet organizations had to get visas for their experts at the Turkish Embassy in Moscow, providing information about their specialists. According to Pyasetsky the Turkish Embassy and Ankara made unnecessary objections to some of the specialists, due to

91 RGAE: 365-2-2805/28-29

92 Ibid.

93 Ibid.

94 RGAE: 365-2-2805/28-29

“imprecise or inadequate information”. He was asserting that Soviet organizations were following protocol and were feeding information on their specialists according to the established order, but the Turkish authorities were asking about the Soviet experts’ ethnicity and religion. Pyasetsky claimed that such extra bureaucratic procedures were causing delays in the visa procurement process.⁹⁵

In Pyasetsky’s report from 6-9 July 1969, he mentioned that one of the shipments to the sulfuric acid factory in Bandırma was delayed due to Etibank not being prepared to fulfill its commitments at the port. Pyasetsky reminded the Etibank representatives that the Soviet contractor was not required to unload the equipment at the port of destination. Etibank was expected to organize the unloading of the equipment weighing up to 10 tons to the port of Bandırma, and more than 10 tons to İzmir.⁹⁶

4.3.4 *Project Budget Expansion*

It was soon understood that the original loan of 200 million dollars was not enough to finance the construction of the 1967 projects. For each project, the Turkish firm was authorized to negotiate a solution to finance the project, in coordination with the Soviet Government. For the Seydişehir Aluminium Plant, Etibank used the bauxite reserves to overcome the financial obstacles. The biggest financial problem occurred in the İskenderun Iron and Steel Factory, which saw lengthy processes of negotiations for additional credit.

4.3.4.1 *Payment by Produce*

Some of the Turkish firms agreed to make payments to Soviet firms with other modes of finance. In a meeting between representatives of the Soviet firm “Mashinoexport” and the Head of Etibank’s Mining Office, Rahmi Altınok, Altınok asked about the possibility of buying equipment for the future output of the factory and aluminium’s raw ore, bauxite that was extracted from mines

95 RGAE: 365-9-534/46

96 RGAE: 365-9-210/9-13

nearby Seydişehir.⁹⁷ The Soviet side acknowledged that Turkey had enough bauxite reserves that would be available for the production of aluminium and for export. Thus, Etibank and Mashinoexport agreed for some of the payment to be in the raw material of bauxite.⁹⁸

In a meeting between the authorized representative of the Soviet firm Mashinoexport, A.N. Amirova, and the Head of the Mining Administration of Etibank, Rahmi Altınok, the question was raised on how Etibank intended to provide aluminium factory raw materials, like bauxite. Amirova inquired whether Etibank possessed equipment for the extraction and transportation of bauxite. Altınok answered that, this question, could be resolved with the arrival of Soviet specialists. Considering that some of the bauxite and the aluminium was to be exported to the Soviet Union, Etibank requested that the factory should be designed so that its potential output would be 200 thousand tons of alumina instead of 60 thousand tons as previously agreed upon. 100 thousand tons of alumina were going to satisfy the domestic demand within Turkey and the remaining alumina was to be exported to other countries, including the USSR.⁹⁹ It was decided that the Seydişehir aluminium factory would produce 200 thousand tons of alumina, as it was determined that Turkey had sufficient amount of bauxite reserves.¹⁰⁰

Regarding the supply of bauxite as Turkish payment for Soviet steel that was to be supplied for the construction of the plant, Soviet trade mission was ready in early 1970 to discuss the draft contract and expected the Turkish side to be ready to begin negotiations.¹⁰¹ The Director of the Seydişehir Aluminium Plant, A. Aydın asked from the vice-chairman of the Soviet government committee guidance on a few issues. He wanted to make sure that the aluminium plant would be profitable in the long term, Aydın asked for a discount for the

97 RGAE: 413-31-1154/113

98 RGAE: 365-2-2805/7

99 RGAE: 413-31-1154/113

100 RGAE: 365-2-2805/7

101 RGAE: 365-9-536/5

metal that was to be imported from the Soviet Union. The Soviet side responded that negotiations on the price of metal offered for the construction of the aluminium plant could not be held without the technical project.¹⁰²

The Soviet trade representative to Ankara, A.A. Trusov, acknowledged that the Soviet Union would probably import the products of the plants under construction. During construction, he conveyed that the Soviet Union would be willing to buy bauxite that was already being extracted close to the site of the aluminium factory. The Turkish side also offered future payment for the cost of equipment provided by the USSR with the products of the aluminium plant. Trusov inquired about the potential date for the initiation of production and was notified that production could begin as early as the following year, in 1971. Etibank and the Soviet firm Technoexport agreed that the Soviet Union could buy alumina as soon as production began.¹⁰³

A meeting between Pyasetsky and the Deputy General Director of the Department of Economic Relations of the Turkish Ministry of Foreign Affairs, M. Karaca was about the delivery of 100 thousand tons of metal from the Soviet Union to Turkey for the construction of the plants. Pyasetsky demanded that Etibank should reserve the appropriate amount of bauxite and alumina for the payment of the metals. Pyasetsky explained that the alumina could be shipped to the USSR after 1971, after the completion of the plant, provided that the energy problem of the plant would be solved.¹⁰⁴

Despite Soviet eagerness to purchase bauxite, it was soon apparent to the Turkish side that the Soviet Union was not buying the stated amount of bauxite for the year 1971. The Turkish representative G. Yaşar, expressed Turkey's dissatisfaction with the fact that the Soviet Union did not carry out these purchases, leading to an unbalanced account of mutual settlements. Pyasetsky answered that, the Turkish side was trying to export bauxite of unsatisfactory quality and high silicic content to the USSR. He also raised concerns about the continuation of the delivery of metals, as it was agreed that the value of the bauxite exchanged for the metal delivered to Seydişehir should balance out. If

102 RGAE: 365-2-2807/19

103 RGAE: 413-31-1154/113

104 RGAE: 365-9-209/23-29

Turkey, did not put bauxite of higher quality and quantity, the Soviet firm was to reduce its deliveries of metals to Seydişehir.¹⁰⁵

The Turkish administrators of the 1967 projects as well as the Turkish statesmen pressured the Soviet representatives, to make the exchange profitable for Turkey. Pyasetsky explained to the Director of the Seydişehir Aluminium Plant that the construction costs were turning out to be higher than expected due to the need to import expensive oil and caustic soda. Aydın said that his firm was buying the cheapest steel from the German Federal Republic and Belgium, and they expected the Soviet Union to provide a better offer for the price of steel they were delivering. Aydın warned the Soviet side that if the factory turned out to be unprofitable, it would look negatively on the popularity of Soviet aid both within the government and also among the public. Pyasetsky agreed with this point and said that Turkish and Soviet experts should conduct meetings to discuss how to make Seydişehir Aluminium Plant project more profitable. Aydın and Pyasetsky agreed that a Turkish national construction firm had to be founded to cut from labor costs.¹⁰⁶

4.3.4.2 Financial Mismatch at the İskenderun Factory

Of the 1967 projects, the İskenderun Iron and Steel Plant was the most expensive project, and its construction ran in to many financial difficulties as Turkey once again struggled with budgetary bottlenecks and foreign debt payments. In July 1969, Pyasetsky reported that the Turkish Prime Minister Süleyman Demirel considered the metallurgical factory to be the most important project of the 1967 Agreement, and that he wished it would be completed in a short period of time. In a meeting between Pyasetsky and the Deputy General Director of the Economic Relations of the Turkish Ministry of Foreign Affairs, M. Karaca, the two sides agreed that the iron and steel factory is the most important of the 1967 projects.¹⁰⁷

In May of 1969, Pyasetsky said to Mehmet Baydar that the Soviet organizations determined that in some cases, the calculations would be according to the loan provided in the agreement of 25 March 1969, as it would occur during

105 RGAE: 365-9-530/35-36

106 RGAE: 365-2-2807/19

107 RGAE: 365-9-209/23-29

the supply of equipment and some materials. In other cases, payments would be made on the terms of Soviet-Turkish Trade and Payment Agreement of 1937. It was determined that the services of the Soviet experts would be paid 50% with credit of the 25 March 1967 Agreement and the rest with local currency.¹⁰⁸ The two sides questioned whether the need for financing might exceed 200 million dollars. Pyasetsky answered that if services, which was paid with Soviet credit, exceeded the unobligated balance of the loan, he had the authority to sign agreements for new loans according to the instructions given to him, with a person authorized by the Turkish party.¹⁰⁹ On the basis of the 1967 Agreement, the additional loans to the original loan of 200 million dollars, would be repayable at a rate of 2.5% yearly interest, and its maturity was to be determined by the governments of both parties no later than 1 January 1970.

The final contract for the İskenderun Iron and Steel Plant was signed on 10 October 1969 by the relevant Turkish and Soviet organizations. It was constructed within the framework of the Technology Transfer Agreement of 25 March 1967. Turkey used the services of consultants from the English firm John Miles. The firm John Miles appraised the total cost of the construction to be 3.5 billion liras in total (around 400 million dollars), of which the 2 billion would be financed locally, 1.5 billion liras (160-170 million dollars) financed from abroad.¹¹⁰ The chief engineer of the İskenderun plant, E. Balkan determined that the total capital expenditure of the plant to be approximately of 400 million dollars.¹¹¹ According to the final feasibility reports, the total cost of the factory was to be 4 692 419 000 Turkish Liras. 2 242 503 000 Turkish Liras of this expenditure would be financed with domestic means and 2 449 916 000 Liras through external payments.¹¹²

It was determined that 97.6 million dollars of the original loan of 200 million dollars from the 1967 Agreement would be allocated for the construction

108 RGAE: 365-9-209/33-36

109 Ibid.

110 RGAE: 365-9-209/23-29

111 RGAE: 365-9-212/28

112 Polatoğlu, "Türkiye Ağır Sanayisinin Öncü Kuruluşlarından İskenderun Demir-Çelik Fabrikası," *Atatürk Üniversitesi Sosyal Bilimler Enstitüsü Dergisi*, 633.

of the İskederun Iron and Steel Plant. The rest of the 1967 credit, which amounted to 102.3 million dollars would be used in other 1967 projects. It was quickly understood by both sides that the iron and steel plant had attained a scope much larger than was originally anticipated, and the 97.6 million dollars would be insufficient to finance the project. The Turkish Government did not envisage any change in the terms of payment of the supplies of equipment, materials and technical services that were stated in the 1967 Agreement, but it demanded an offer from the Soviet Union, so that the financing for the iron and steel mill would be more viable.¹¹³

It was determined in 1969 that 113.7 million dollars would be financed with an additional credit extension from the Soviet Union and 51.3 million dollars would be paid through the special clearing agreement. In total, the Soviet Union agreed to provide a loan amounting to 263 million dollars for the construction of the iron and steel plant.¹¹⁴ The Soviet Union sent its proposal for the additional loan of 113.7 million dollars for the payment of Soviet equipment and machinery with a letter to the Deputy General Secretary of Economic Affairs of the Ministry of Foreign Affairs of Turkey, Tevfik Saraçoğlu on 10 October 1969. The credit was ratified by the Turkish Council of Ministers on 11 April 1970.¹¹⁵ The Turkish Government agreed to the financing plan; however, there were still negotiations between the two sides on the terms of the additional loan.¹¹⁶ As Article 2 of the 1967 Agreement stated, the additional loan would have 2.5% yearly interest, but its loan's payment calendar was open for debate.¹¹⁷

On 20 January 1970, Deputy Advisor on Industrial Affairs of the Embassy of Soviet Union in Turkey, F. I. Shatalov, and the General Director of the Department of Economic Relations of the Turkish Ministry of Foreign Affairs,

113 RGAE: 365-O-212/25-27

114 Polatoğlu, "Türkiye Ağır Sanayisinin Öncü Kuruluşlarından İskenderun Demir-Çelik Fabrikası," *Atatürk Üniversitesi Sosyal Bilimler Enstitüsü Dergisi*, 633.

115 Ibid., p.634.

116 RGAE: 365-O-212/25-27

117 Ibid.

Mehmet Baydar, agreed to establish a representative office for the supplier Soviet firm. This office would coordinate with the necessary Turkish offices to supply them lists of goods that were to be supplied by the USSR.¹¹⁸ This office was also to consider the Soviet proposals regarding the terms of installments of the additional loan of 113.7 million dollars over the previously granted loan of 200 million dollars.¹¹⁹

In this meeting, Baydar also stated the Turkish proposal for the terms of payment for the total credit of 211.3 million US Dollars, which comprised of the original 97.6 million and the 113.7 million dollars. The Turkish proposal was the payment of an interest rate of 2.5% annually for the supplies of equipment, materials and some technical services, starting from a year after they were supplied completely. Baydar said that the Turkish side could make payments of equal annual installments, including interest, for twelve years beginning from the year when the plant comes in to operation.¹²⁰ The USSR took the decision to meet the Turkish terms, and granted an extension of the period of payment to four years so that the repayment of 113.7 million dollars would be launched a year after the full completion of deliveries of materials and equipment for the construction of the İskenderun Plant.¹²¹

Saraçoğlu said that he heard from the Soviet ambassador that the sides came to the conclusion that the Turkish side would be given deferment, but after receiving an explanation from Pyasetsky, the Turkish side was in doubt whether the credits of the 1967 Agreement and the 1969 letters, 97.6 million and 113.7 million dollars respectively, would be used sequentially or in parallel. Saraçoğlu was curious whether the initial payment for the 113.7 million dollars could be extended beyond the year 1974.¹²² He informed the Soviet representative that the Turkish budget was in a difficult position and an absence of a deferral for the payment could force the Turkish Government to abandon the construction of the plant. Indeed, in 1970, the Turkish economy was once

118 RGAE: 365-9-534/5

119 RGAE: 365-9-534/1

120 RGAE: 365-9-534/1

121 RGAE: 365-9-534/13

122 RGAE: 365-9-534/15

again facing hardships. On 10 August 1970, the Turkish Government was forced to devalue the Turkish Lira. The price of 1 US dollar was raised from 9 Turkish Liras to 15 Turkish Liras. In 5 years, Turkey was projected to make payments of 1.3 billion dollars for its debts.¹²³ For this reason, Turkey was pressuring the Soviet side to grant more favorable payment terms.

The Soviet firm V/O “Tyajpromexport” did not start deliveries of equipment and materials to İskenderun until Turkey submitted a letter of credit to the special clearing account of the USSR at the CBRT.¹²⁴ It was important that Turkish and Soviet officials agreed on the terms of the loans the Soviet Union was to provide to Turkey.

In May of 1970, Saraçoğlu said that the Turkish Government was still carefully considering the proposal of the Soviet side, which was to extend the amount of credit totaling 113.7 million dollars with the maturity of 10 years without the right to use this amount in parallel with the 97.6 million dollars. Saraçoğlu was curious whether the Soviet side would fully deliver the materials and goods in 46 months. The Soviet side requested that Turkey start repayment of the 113.7 million dollar debt as of 1 January 1974. This was not acceptable for the Turkish side. Pyasetsky said that the Soviet side deemed it necessary to begin payment of the 113.7 million dollars from 1 January 1974, a condition which the Turkish side did not object to, but required that all the goods and materials to be delivered by that date.¹²⁵

Eventually, the Soviet side declared that they could ensure the supply of materials needed for the construction and installation of the İskenderun Iron and Steel Plan in 46 months. The Soviet representative, Pyasetsky, however, wanted a guarantee from the Turkish side that any delay to the delivery due to the Turkish side would not affect the agreed upon time period and delay the repayment of the 113.7 million dollars.

Saraçoğlu answered that it was only the Soviet firms’ actions that would trigger that clause. If the Turkish side extended the delivery of the materials and goods beyond a period of 46 month, the payment of the debt would still start in January 1974. If the Soviet side wished an extension for the delivery,

123 Altan, *Süperler ve Türkiye*, 137-139.

124 RGAE: 365-9-534/18

125 RGAE: 365-9-534/19-20

repayment would begin from the year following the completion of deliveries of equipment and materials under the contract.

Pyasetsky mentioned that, for supplies of this kind, installments of credit by the Soviet side were not more than 5 years. The Soviet side was already generous by matching the Turkish request to extend it to 10 years. Saraçoğlu said that it was his duty to inform Pyasetsky that the Turkish side could not agree to Soviet conditions for the additional debt. This brought the actualization of the İskenderun Iron and Steel Plant project in to question.¹²⁶

The issue of the terms of the repayment of the debt was further discussed in Moscow. The Turkish Ambassador, Fuat Bayramoğlu instructed his Soviet contacts to bring the issue to the attention of the Chairman of the Council of Ministers of the Soviet Union, A. N. Kosygin. He was to be asked if the Soviet Union would allow the simultaneous use of the original debt from the 1967 agreement and the additional debt granted in 1969. Turkey requested to pay the installments of these debts over 10 years starting from the year following the completion of all deliveries of materials and equipment envisaged by the contract.¹²⁷

The Soviet Council of Ministers appointed G. Yakupov to discuss the terms of the repayment of the debt with Turkish representatives in Moscow. Yakupov said to the First Secretary of the Turkish Embassy in Moscow, Hüseyin Çelem, that at the beginning of the negotiations, the Soviet representatives had already made a generous offer by providing the Turkish side a 4-year grace period to start a 10 year-long repayment of the 113.7 million dollars. He pointed out that the Turkish side first agreed and then moved away from this position, requesting the repayment of the said amount to start after the completion of deliveries but no later than 1974. Yakupov said that the terms could not be flexed further.¹²⁸

The two sides also discussed the issue of the payment of the separate debts from 1967 and 1969. Yakupov said that Turkey's request to use the additional credit of 113.7 million dollars before the principal debt from 1967 contradicted

126 RGAE: 365-9-534/24

127 RGAE: 365-9-534/24

128 RGAE: 365-9-534/29

the 25 March 1967 Agreement which stated that “in case the cost of the materials and services increase, the increased cost will be used.” According to the Soviet side, this implied that Turkey must first use the principal amount (97.6 million) and then the additional amount (113.7). Çeşem said that under such conditions, Turkey would request more leeway in either the installments or the grace period. Yakupov answered that the 10 year-long repayment plan could not be renegotiated. He pointed out that the Soviet Government was about to carry out economic reforms, which was agreed in the December Plenum and declared to the public in the press.¹²⁹

The Soviet Government did not agree to extend the repayment period, but in Ankara, Pyasetsky notified the Turkish representative Saraçoğlu that the Soviet Union could extend the grace period. The USSR would require the first payment to arrive no later than 31 December 1974 and the second after 3 months from this period. Saraçoğlu stated that Turkey would not be able to make a payment more than 11 million dollars in a term of three months.¹³⁰ He drew Pyasetsky’s attention to the difficulties the Turkish public finances were going through and said that it was not realistic to expect the Turkish side to make the stated payments according to the new Soviet proposal.¹³¹

In a later meeting, Saraçoğlu made the proposal to Pyasetsky to start the date of repayment of the loan from the launch date of the factory. Saraçoğlu said that the Soviet Union granted these terms to India for the construction of an iron and steel factory in Bokaro. The Soviet representative said that he was not aware of this. He said that the terms the Soviet Union granted to India was irrelevant to the ongoing negotiations with Turkey, as the two sides had already agreed on a grace period based on the delivery of the equipment and material and not the date of exploitation of the plant.¹³²

Saraçoğlu declared that it was inadmissible for the Turkish side to make the second payment earlier than 1975, as the Soviet side proposed. He said that

129 RGAE: 365-9-534/30

130 RGAE: 365-9-534/47

131 RGAE: 365-9-534/54

132 Ibid.

even if the Minister of Foreign Affairs and the Prime Minister of Turkey accepted the Soviet proposal, he would use all the power available to him under the Turkish law to refuse to sign the document under such conditions.¹³³ He warned Pyasetsky that if Turkey could not receive the additional credit, the factory would not be built.¹³⁴

In June of 1970, the two sides reached a consensus on the terms of the repayment of the loan. Turkey agreed to make the first payment no later than 31 December 1974. All subsequent payments would be made in equal installments with a 2.5% interest rate, by December 31st of the following 10 years. Thus, Turkey was given a grace period of more than 4 years, and payments were planned so that Turkey was not obligated to make two payments in a year.¹³⁵ The Soviet Union agreed to complete the supply of equipment and materials within 46 months, and if it could not, Turkey's initial payment would be delayed accordingly.¹³⁶ Pyasetsky stated that Soviet Government once again went to great lengths to meet the Turkish wishes.¹³⁷ The agreement for the terms of the 113.7 million dollars was signed between the First Secretary of the Turkish Embassy in Moscow Hüseyin Çelem and the representative of the Soviet Council of Ministers, G. Yakupov in late June of 1970. The conditions for the additional credit received from the USSR were ratified by the Turkish Council of Ministers on 2 October 1970.¹³⁸ With this agreement, the İskenderun Iron and Steel Mill's construction would begin in the same year.

133 RGAE: 365-9-534/67

134 Ibid.

135 RGAE: 365-9-534/71

136 RGAE: 365-9-534/76-79

137 Ibid.

138 Polatoğlu, "Türkiye Ağır Sanayisinin Öncü Kuruluşlarından İskenderun Demir-Çelik Fabrikası," *Atatürk Üniversitesi Sosyal Bilimler Enstitüsü Dergisi*, 635.

§ 4.4 The 1967 Projects in Later Years

As the projects declared in the March 1967 Agreement were gradually completed, Soviet Union and Turkey attempted to expand the economic cooperation in the second half of the 1970s. The second Economic and Technical Cooperation Agreement was signed on 9 June 1975. This agreement declared a Soviet investment of 700 million dollars to Turkish industrial projects over a period of five years. The capacity of the İskenderun steelworks would be raised from 1 million tons per annum to 4 million tons by 1980. The aluminium plant at Seydişehir would be expanded and the coal-fired power plants would be constructed at Çan and Orhaneli.¹³⁹ This agreement did not come in to fruition, however, as Turkey became politically and economically unstable towards the end of the decade. After the 12 September 1980 coup, Turkey entered a period of liberalization of its economy. Over the next decades, most of the state-owned enterprises, including the 1967 projects were privatized.

The İskenderun Iron and Steel Factory's construction started in 1970. The steel meltshop became operational in 1977, and the wire rod mill in 1978. In 1977, additional works to raise the factory's output from 1 million ton to 2.2 million tons started. The port connected to the factory was also enlarged. The factory's second and third furnaces became functional in 1979 and in 1985 respectively, raising the factory's output from 1 million ton to 2.2 million tons. On 31 January 2002, the Directorate of Privatization gave the state owned enterprise İsdemir's entire shares to the Ordu Yardımlaşma Kurumu (OYAK) controlled Erdemir. After the privatization, the new ownership made new investments to increase the capacity of the factory and added other plants.¹⁴⁰

The Seydişehir Aluminium Plant's construction started in 1967. The plant started to produce alumina by 1973 and aluminium by 1974. In 1986, Morgan Bank prepared a report in response to a request from the Turkish Government regarding the privatization of the plant with a long term lease. The Prime Minister of the time, Turgut Özal, said that the plant should be closed down be-

139 Tellal, "Relations with the USSR," *Turkish Foreign Policy*, 472.

140 Polatoğlu, "Türkiye Ağır Sanayisinin Öncü Kuruluşlarından İskenderun Demir-Çelik Fabrikası," *Atatürk Üniversitesi Sosyal Bilimler Enstitüsü Dergisi*, 644.

cause it was losing money. Due to the uncertainty during this term, the required maintenance and investment to the plant had not been made. In 1998, Etibank was finally broken up into Eti Holding A.Ş. and its subsidiaries of Eti Bor A.Ş., Eti Alüminyum A.Ş., etc. The Seydişehir Aluminium Factory was put under the control of Eti Alüminyum A.Ş., which was later privatized in 2005, and sold to Cengiz Holding.¹⁴¹ The new owners made 580 million dollars of investment to the plant and according to the statistics, the Seydişehir plant currently meets 10% of Turkey's domestic aluminium demand.¹⁴²

Bandırma Sulfuric Acid Factory became operational in 1972 under Etibank's mining branch Eti Maden. After Etibank was broken up in 1998, the Sulfuric Acid Factory was put under Eti Bor A.Ş. control. Eti Holding A.Ş. was restructured in 2004 into Eti Maden İşletmeleri Genel Müdürlüğü. Bandırma Boron and Acid factories and a few other boron plants in Turkey were put under this administration. In 2017, Eti Maden was put into the control of Türkiye Wealth Fund that is tied to the office of the President of the Republic of Turkey.¹⁴³

The Aliğa Petroleum Refinery's construction started in 1967 and it became operational in 1972. It had the capacity of processing 3 million tons of raw petroleum per year. In 1983, the İzmir, İzmit and Batman refineries were put under the control of the state controlled enterprise, Tüpraş. In 1987, the oil processing capacity of the İzmir refinery was raised to 10 million tons per year. In 1990, Tüpraş was transferred to the Directorate of Privatization. In 2005, Koç-Shell bought 51% of Tüpraş's shares in a public offering. İzmir Petroleum Refinery continues to be functional.¹⁴⁴

The Artvin Fiberboard Plant's construction started in 1967 and it partly became operational in 1971, and fully operational in 1975. It was ran by the General Directorate of Forestry of the Ministry of Agriculture. In 1994, there

141 "Seydişehir Alüminyum Tesisleri Önemi ve Geleceği," accessed April 23, 2019, https://www.metalurji.org.tr/dergi/dergi133/d133_3033.pdf

142 "Türkiye'nin Tek Birincil Alüminyum Üreticisi," accessed April 23, 2019. <http://www.etialuminyum.com/hakkimizda/>

143 "Etibank'tan Eti Maden'e," accessed April 23, 2019. <http://www.etimaden.gov.tr/tarihce>

144 "Tüpraş'ın Tarihsel Gelişimi," accessed April 23, 2019. <https://www.tupras.com.tr/tarihce>

was a fire in the plant, after which the plant became dysfunctional. The Polish engineer who was involved in the design of the plant, Jozef Andrzej Baran had prepared a technical report to the Governorate of Artvin, proposing the ways how it could be made operational again. This project was declined. The factory was sold in 1998 to the Artvin Yöresel Kalkınma Hizmet Vakfı and was deconstructed in 1999. The equipment and its stock of fiberboards were sold off. Artvin Çoruh University's campus was built on the demolished plant's site.¹⁴⁵

145 Çağal, *Lif Levha Fabrikasının Hikayesi*, accessed April 23, 2019.
<https://www.serhadartvin.com/?page=makale&file=makaleGoster&id=1793>

Conclusion

The economic rapprochement between Turkey and the Soviet Union in the 1960s was a result of a mixture of economic and political convenience. From its foundation, the Republic of Turkey rejected socialism in favor of a market oriented economy. Turkey also joined Western security apparatuses militarily tying its future to NATO's de facto leader, the United States. As a Middle Eastern and Muslim-majority country, Turkey was also culturally different from other NATO members. Turkey's foundation as an under-industrialized and debt-ridden country; however, placed it at a unique position during the Cold War, as most of NATO countries were prosperous, and if not, were on the way to prosperity due to the economic integration within Europe.

Despite Turkey choosing capitalism as an economic model from its inception, the Turkish state played an important role in the economy due to a lack of private capital accumulation. In the 1930s, the Turkish Government made important industrial investments, and was influenced by Soviet planning. The Turkish Government owned Sümerbank founded textile and thread factories with Soviet technical assistance.

In 1937, the Soviet Union and the Republic of Turkey signed a Trade and Payment Agreement that set the mode of economic transactions between the two countries for the following decades. The two countries agreed to trade on clearing principles that was based on a balanced trade account.

The Second World War (1939-1945) and the ensuing Soviet hostility towards Turkey brought a period of shallow economic relations between these two countries. Trade was minimal up until the second half 1950s. After Stalin's death, Soviet leaders showed willingness to be involved in world trade, regardless of the ideology of their trade partners. The Soviet Government radically deemphasized its aspirations to export its economic and political system; and acted like a profit maximizing capitalist enterprise. This radical shift in Soviet foreign policy formed the groundwork for the Turkish-Soviet rapprochement in the 1960s.

Turkey responded to this shift in Soviet policy and also showed intentions to redevelop its economic cooperation with the Soviet Union in the second half of 1950s. After a period of agriculture based economic growth in the early years of the decade, Turkey once again faced rising foreign debt, foreign exchange bottlenecks, budgetary constraints and a lack of investment that curtailed economic growth. In this conjuncture, the Turkish Prime Minister Adnan Menderes's government was willing to negotiate with the USSR for trade agreements and loans.

Menderes's government attempted to deliver growth through state owned enterprises. Since Turkey's Western partners were unwilling to finance public endeavors, the Soviet Union emerged as a natural partner. Due to the Soviet economy's overproduction of capital goods, the USSR chose to export the excess to developing countries, often to the Third World. The Soviet Union exported machinery and provided technical services to countries such as Iran, Afghanistan, India, Malaysia, Ghana, and Brazil for the establishment of factories. Turkey, as a member of NATO, was an odd target of these endeavors.

The first industrial partnership after the 1930s was also reestablished during this period. In 1957, the Soviet firm Technoexport signed a contract with the state-owned bank İş Bankası and its fully owned subsidiary, Türkiye Şişe ve Cam Fabrikaları A.Ş. for an establishment of a complete modern glass factory. With the project, there was an expansion in the volume of trade between these two countries.

To overcome the foreign exchange bottlenecks, Menderes requested a government loan from the Soviet Union, but was toppled on 27 May 1960, with a

coup d'état. The coup resulted in a short-term regression in the economic relations between Turkey and the Soviet Union, but the new military regime and the subsequent civilian governments of İsmet İnönü and Süleyman Demirel declared that they were willing to develop economic relations with the Soviet Union. The governments after the 1960 coup were also disappointed by the American Government due to what they perceived as American injustices towards Turkey during the Cuban Missile Crisis and the Cyprus issue.

The Cyprus issue played an instrumental role in Turkish divergence from the United States and rapprochement with the Soviet Union. Baskın Oran asserts that the USA's rejection of Turkish theses regarding Cyprus in 1964 was the primary impetus for the Turkish-Soviet rapprochement.¹ Turkish-Soviet relations developed very slowly and shyly until 1964, and gained momentum after this year. Despite this, there wasn't a foundational shift in Turkish foreign policy due to the remaining economic and social order of Turkey. Turkey's change in foreign policy was entirely pragmatic as Turkey sought Soviet backing in the issue of Cyprus and these relations evolved in to economic and political relations.² While the findings of this thesis confirms that political concerns played an important role in this rapprochement, it also shows that the economic conjuncture both within Turkey and the Soviet Union made the rapprochement between the two countries a matter of convenience.

After the coup in Turkey, on 30 September 1960, the State Planning Organization (SPO) was founded to oversee both the private and public sectors to push for Turkey's industrialization. Since the Turkish public debt had grown, Turkish trade was going to be tightly managed by the government to protect and encourage domestic industrial entrepreneurship. In 1963, the SPO, prepared the First Five-Year Development Plan that emphasized production of industrial goods within Turkey. It was during this time that the Soviet Union and Turkey began to cooperate on industrial projects. Soviet-Turkish trade picked up its pace, with the Soviet Union exporting machinery for small scale public and private enterprises in Turkey and importing agricultural products in exchange.

1 Altan, *Süperler ve Türkiye*, 134.

2 Ibid.

Despite being a socialist country, the Soviet Union did not refrain from cooperating with the Turkish private sector. Since credit was of short supply in Turkey during this term, and for the fact that the Soviet Union had a policy of not lending to private businesses, the cooperation between the Turkish private sector and the Soviet firms was limited. Turkey's strict trading regime was also a major obstacle to this type of partnership because the Turkish businessmen had to have their projects approved by the Turkish state to allow Soviet machinery and goods to be imported in to Turkey. Many of these projects depended on the Turkish entrepreneurs' lobby power within their chambers of commerce and the state bureaucracy.

Soviet firms' partnership with Turkish public organizations was more fruitful compared to their endeavors with the Turkish private sector. The municipalities of Ankara and İstanbul cooperated with Soviet firms in public utility projects. Sümerbank also agreed to buy new textile machinery and equipment for their factories in Nazilli and Kayseri from Soviet firms. The government owned petroleum company, Türkiye Petrolleri Anonim Ortaklığı (TPAO) bought drilling equipment from the Soviet firm Nefttelexport and cooperated with Technoexport to explore for oil deposits on Turkish soil.

During this period, trade between Turkey and the Soviet Union remained limited due to various reasons. A major reason was that the Soviet Union, as a country which tightly managed its capital account, was trading with other countries predominantly on clearing principles. Turkey, on the other hand, had accumulated debts to Western financial institutions and prioritized exports that earned hard currency to pay off its debts. While Turkey did not require as much foreign currency when trading with the Soviet Union, trade on clearing principles helped for the expansion of Soviet-Turkish trade; however, Turkey chose to limit its most precious agricultural products for export to non-Socialist countries. The Soviet trade authorities were constantly disgruntled for the fact that the Turkish authorities presented export lists that were limited both in terms of quantity and quality. In the Soviet documents, it is reported that not only Soviet, but also other socialist countries were resentful that Turkey was being discriminatory in its trade practices with those countries.

Turkey's willingness to tightly manage its trade regime and limit its imports from the Soviet Union resulted in a trade balance in favor of Turkey. This resulted in a decrease in Soviet exports to Turkey, contracting the overall volume of Soviet-Turkish trade. To overcome these obstacles, both governments acknowledged that the two countries had to carry their economic partnership to the next level.

Turkey, willing to industrialize with import substitution industrialization principles, had the intent to establish heavy industry projects for which it could not find funding from Western institutions. Soviet firms became natural partners in these endeavors. On 14 March 1967, the Turkish and Soviet governments signed a technology transfer agreement. The Soviet Union agreed to provide machinery and technical service for the foundation of the following projects: An iron and steel mill, an aluminium plant, a petroleum refinery, a sulfuric acid plant, a wood fiber board factory, a unit to produce rolled glass for the Çayırova glass factory, and a vodka producing unit at the alcohol plant. The Turkish Government assigned various state-owned enterprises to these projects. The 1967 Agreement granted the Turkish Government a loan amounting to 200 million dollars, with a 15 year term of payment at a 2.5% interest rate. The Turkish Government pledged to make its payment through bilateral trade with agricultural goods. After 7 months of each year, the Turkish Government was obliged to credit the unutilized balance to the clearing account of the USSR. This gave an incentive for the Turkish Government to expand its export lists to the Soviet Union, thereby establishing an impetus for the two countries to improve their bilateral trade.

It was quickly understood by the two sides that the 200 million dollar loan would not be sufficient to finance all the projects. The Turkish and Soviet Governments agreed to cancel the unit for the glass factory and the alcohol plant. The other projects went according to plan, as all Turkish state-owned enterprises were able to close contracts with their Soviet counterparts by 1970.

Each Turkish firm had a different approach to the projects. At the İskenderun Iron and Steel Plant, the Turkish Government commissioned a foreign firm to conduct a feasibility report. This report showed that the cost of the plant exceeded the amount of credit supplied by the Soviet Union, making it

the most expensive of the 1967 projects. The Turkish Government had to acquire additional loans from the Soviet Government for this project to be commissioned. The Soviet documents show that there were relentless negotiations, at the end of which the Soviet Union extended an additional loan to Turkey with favorable terms.

The Seydişehir Aluminium Plant was questionable for its potential profitability. For this project, the commissioned Turkish firm Etibank and the Soviet firms negotiated a deal that ensured that the Soviet Union would be buying aluminium's raw ore, bauxite, from mines close to the plant site. In exchange, the Soviet Union was to supply cheap metal for the construction. The Soviet Union also agreed to buy the products of the plant as soon as it was completed. The sides agreed that the aluminium plant would be profitable with energy supply from the projected Oymapınar Dam. Unfortunately, the dam was not built until 1984.

The oil refinery in İzmir was one of the most complicated projects as the commissioned state-owned enterprise Turkish Petroleum Company, TPAO, chose to incorporate foreign firms both for the planning and also for the installation of the refinery. There were heated debates on the legality of TPAO commissioning firms of a third country to complete this project. While the Soviet documents did not show the reasons why TPAO made such a choice, they indicate that TPAO's aim was to use subcontractors to cut from labor costs.

The Artvin fiber board factory had logistical problems due to poor infrastructure of the project site. The development of the Hopa port became integral to this project. There were also logistical problems for the Arpaçay Dam, which was to be built on a river that delineated the border between Turkey and the Soviet Union. The fact that there were no border crossings between the two countries created problems for both of these projects.

There were also bureaucratic inefficiencies due to Turkey's strict trade regime. The fact that Turkey was publishing import protocols twice a year made coordination between trade representatives and organizations responsible for the 1967 projects difficult. The bureaucratic procedures caused delays in the importation of Soviet machinery and equipment for the construction of the

plants. Despite these problems, the 1967 projects were constructed over the 70s and most of them became operational by the end of the decade.

The 1967 projects marked an important point in Soviet-Turkish relations, as it was of an unprecedented magnitude. One has to question the Soviet motives for providing machinery, technical assistance and loans to a NATO country. While the Soviet documents do not show any hidden agenda, it would not be too far-fetched to state that the USSR aimed at gaining influence with a NATO member, and put a wedge between Turkey and its other NATO allies, chiefly the USA. Turkey was also important for the Soviet Union for its strategic position. One should not overstate the geopolitical importance of these projects; however, as it had become Soviet policy to export capital goods on credit to developing countries in the 1950s. In exchange, the Soviet Union was able to import agricultural goods that were not produced within its borders in great amounts.

Another reason for Soviet technology transfers to other countries was the slow economic growth within the Soviet Union. "By the mid-1950s the sources of extensive growth had been considerably reduced in the USSR and domestic growth had slowed down."³ The Soviet Union attempted to revitalize its economy by tying technical aid to developing countries with trade, thereby stabilizing economic growth. The existence of the Cold War, however, prevented a substantial increase in East-West trade until the 1970s. Following the fall of Khrushchev, the East-West trade expanded as the Brezhnev programme accentuated consumer goods and imports. The international political environment also improved through détente.⁴ The increased incorporation of the USSR in the global economy resulted in the USSR to decrease its technology exports, as it was a means to sustain trade with the rest of the world. As the Soviet Union increased its trade with the West and the global South, it started to sign more trade agreements based on free exchange of currency. At the be-

3 Mehrotra, *India and the Soviet Union: Trade and Technology Transfer*, 17.

4 *Ibid.*, p. 33.

ginning of the 1970s, about 40 percent of all trade agreements required bilateral clearing, whereas by the mid-seventies their share had fallen to about 20 percent.⁵

The USSR authorized very little new aid in the seventies.⁶ Despite this, the Soviet Union continued to sign extensive economic and technology transfer deals with Turkey. In 1976, a Joint Commission was set up to oversee the co-operation. In 1977, a ten-year economic aid agreement was signed in the amount of 1.3 billion dollars.⁷ The USSR and Turkey signed a frame agreement for a credit of 700 million dollars in 1975 and a further loan of 400 million dollars in June 1979. By the end of the decade, there were talks between the two sides to establish 20 large projects in Turkey, worth a total of 8 billion dollars. These projects included the construction of a nuclear-powered plant, and the expansion of existing refineries, steel works, and aluminium plants.⁸ Had these projects been realized, the USSR would have overtook the western powers as Turkey's major source of aid.⁹ These projects did not reach the advanced stages of the 1967 Agreement; however, and were abandoned after the coup in Turkey in 1980.

After 1980, Turkish-Soviet relations became mostly about energy. The Soviet Union and Turkey signed an agreement on 20 May 1982 to make trade on free currency possible, as the two countries had been trading on clearing principles up until that point. After the military regime gave way to a civilian rule, Turkish Prime Minister Turgut Özal's government signed a natural gas agreement on 18 September 1984, and Turkey started to import gas in 1987 from the USSR. According to this agreement, Turkey agreed to pay 70% of the gas imports in exchange of goods and services. In 1986 the two public natural gas companies Soyuzgazexport and Botaş signed an agreement that regulated the mode of trade. Once again, clearing became an important mode of trade between the two countries. Turkey promised to pay for natural gas imported

5 Mehrotra, *India and the Soviet Union: Trade and Technology Transfer*, 39.

6 Ibid., p. 17.

7 Tellal, "Relations with the USSR," *Turkish Foreign Policy*, 472.

8 Ibid.

9 Hale, *The Political and Economic Development of Modern Turkey*, 240.

from the Soviet Union with Turkish industrial and consumer goods. Due to a decline in the Russian Federation's economy in the 90s, this agreement was annulled.¹⁰

In the second half of the same decade, the Soviet Union started perestroika that accelerated economic liberalization, which had a positive effect on Turkish-Soviet economic relations.¹¹ Perestroika opened the Soviet Union for foreign goods, becoming an important market. Instead of agricultural products, Turkey started to export watches, medicine and medical equipment, cleaning products ranging from detergents to soaps and cigarettes. Whereas trade volume between the two countries was 518 million dollars in 1987, this number rose to 700 million dollars in 1988, 1.2 billion dollars in 1989 and 1.7 billion dollars in 1990.¹²

Construction became an important element in Turkish-Soviet relations after 1990. After the economic relations developed with the natural gas agreement, Turkish contractors became interested in the liberalizing Soviet market. Turkish companies such as ENKA, Baytur, Tekser, MİR and Alarko constructed hospitals, cultural centers, hotels, factories and even military barracks in the USSR.¹³

There were also problems in the economic relations. Each year, the countries produced a "gas list" which determined the goods that were to be exported from Turkey to the USSR. The natural gas money was paid in advance, but the gas list was delayed putting the Turkish exporters in a tough spot. Once again, trade on clearing became an obstacle in the expansion of the trade volume between the two countries, despite the positive effects of perestroika in the USSR.¹⁴

10 Zengin, "Türkiye ve Rusya Federasyonu Ticari İlişkileri," *Avrasya İncelemeleri Dergisi*, 80.

11 Gür, *Cumhuriyet Arşivi*, accessed April 27, 2019. <https://www.cumhuriyetarsivi.com/katalog/192/sayfa/1991/3/9/10.xhtml>

12 Ibid.

13 Ibid.

14 Gür, *Cumhuriyet Arşivi*, accessed April 27, 2019. <https://www.cumhuriyetarsivi.com/katalog/192/sayfa/1991/3/9/10.xhtml>

Towards the dissolution of the Soviet Union, the economic relations somewhat deteriorated due to political and economic troubles in the USSR. Turkish investors were hesitant to invest in the Soviet Union. Turkey became increasingly interested in separate socialist republics within the USSR, especially the Turkish republics of Azerbaijan, Kazakhstan and the neighboring Georgia.¹⁵

After the dissolution of the Soviet Union, Turkish-Russian economic relations deteriorated due to economic problems in the Russian Federation until the year 2000. After 2000s, trade between the two countries accelerated as Turkey started to import substantial amounts of mineral fuels and natural gas from the Russian Federation. Turkey's exports to the Russian Federation remained unsatisfactory, leading to a persistent trade account deficit for Turkey. Volume of trade between the Russian Federation and Turkey reached 400 billion dollars in 2013.¹⁶

The two countries agreed to cooperate on large scale project similar to the 1967 projects. The most important projects were gas pipelines from the Russian Federation to Turkey. The Blue Stream Pipeline was completed in 2003. After South Stream Pipeline project was cancelled, the Russian Federation and the Republic of Turkey agreed on the construction of the TurkStream Pipeline. Gas flow is expected to start in December 2019.¹⁷

Turkish businessmen made investments in Russia in food, domestic appliances and furniture sectors. In a twist of events, Turkish glass company İş Cam, which the Soviet Union assisted in the 1950s, established glass factories in the Russian Federation. The Russian company, Magnitogorsk Iron and Steel Works (MMK) established an iron and steel factory in Dörtyol, very close to the İskenderun plant. MMK made the investment decision in 2007 and the factory was fully operational in 2011, becoming the largest industrial establishment that was built by a private firm from start to finish.¹⁸ Another important project that is reminiscent of the 1967 projects is the Akkuyu Nuclear Plant.

15 Ibid.

16 Zengin, "Türkiye ve Rusya Federasyonu Ticari İlişkileri," *Avrasya İncelemeleri Dergisi*, 65-66.

17 Ibid., p. 78.

18 "Şirket Profili," accessed April 23, 2019. <http://mmkturkey.com.tr/sirket-profil/>

Due to American and European sanctions, the Russian Federation is not expected to forgo the project, from which it expects 20 billion dollars.¹⁹

The recent improvement of Russo-Turkish economic relations has taken place in a period of heightened political tensions between the Russian Federation and NATO. The Russian military interventions in Georgia, Ukraine and Syria has aroused the Cold War fears of Russian aggression among NATO allies. Turkey; however, was on relatively positive terms with Russia, except for a brief period of crisis following Turkey's downing of a Russian jet on the Turkish-Syrian border in late 2015. In December of 2017, Turkey agreed to buy air defense systems from the Russian Federation. According to reports, the Russian company Almaz-Antey agreed to transfer technology to the Turkish side. In response to this agreement, the United States accused the Russian Federation of trying to create rifts in the NATO alliance and threatened Turkey with economic sanctions. The Turkish Government, on the other hand, questioned the faithfulness of the United States as ally and frequently objected to unilateral American decisions in the crises plaguing Turkey's neighboring regions.

Such recent developments should be a material of study by Cold War scholars, for they have much to reveal about the essence of Cold War organizations, such as NATO, and also about the continuing struggle for hegemony by the United States and the Russian Federation. Similarly, the study of the Cold War is also imperative to make sense of what is phrased as the "New Cold War" between the two countries. The post-revisionist historiography of the Cold War could have an explanatory power towards what is currently viewed as a chaotic and an ideologically ill-defined struggle for dominance. Deemphasizing the Cold War's ideological side and highlighting the multilateralism of the period could put much of what is happening in our current day in to perspective. Examining inter-bloc relations and taking notice of intra-bloc conflicts would strip the Cold War of its ideological cloak and help historians create a narrative of continuity.

For this purpose, this thesis examined the economic rapprochement between Turkey, a NATO ally, and the Soviet Union. The development of Russo-

19 Zengin, "Türkiye ve Rusya Federasyonu Ticari İlişkileri," *Avrasya İncelemeleri Dergisi*, 83.

Turkish economic relations of the current era could be traced all the way back to the late 1950s, and the 1960s. By looking at this relationship, this thesis aimed to show the political realism of Cold War actors such as Turkey and the Soviet Union. Taking notice of such positive inter-bloc relations during the Cold War could include valuable explanatory power to the current struggle for hegemony that goes beyond ideologies and military alliances.

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