

SHORT ARTICLES AND MEMORANDA

THE ORIGINS OF BRITISH BANKING EXPANSION IN THE NEAR EAST.

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THE essential functions of the British overseas banks in financing British foreign trade and in facilitating British capital exports have long been recognised, and the vital position which these institutions now occupy in the British banking system and in the London money-market is now generally acknowledged. Of their origins, relatively little is known in comparison with the full and detailed accounts available of the history of the domestic banks, though the overseas banks have developed along very different lines and have concentrated on quite special activities. The object of this article is to discuss the early history of one of the most important groups of these British banks operating abroad in the nineteenth century—the Turkish group.

The history of these banks throws into sharp relief one of the main functions of overseas banks in general, that is, the direction of capital exports. Most members of the group, in the early years, did something of a “commercial” business, chiefly the opening of acceptance credits, and the buying and selling of home and outward bills drawn in the course of international trade; but undoubtedly their chief function was to introduce British capital into the countries of the Near East by way of loans to the existing governments. In the years 1850-1870, the tide of British capital export was flowing strongly, and at the same time, the extravagant and financially hard-pressed governments of the Turkish Empire were being made aware of what seemingly inexhaustible wealth could be had from the capitalist states of western Europe merely for the asking. As a rule, the governments of the lending states themselves viewed the mounting indebtedness of the economically subordinate countries of the Turkish Empire without excessive alarm. By waiting until the greed of their investors and the extravagance of the borrowers had produced the inevitable bankruptcies, they were able to apply liens and stake out economic claims against the long-awaited day of complete political disintegration of the Empire.

The Treaty of Paris of 1856 admitted Turkey to the Concert of Europe on the basis of reaffirmed Turkish promises of long-overdue administrative reforms. The ostensible reason for the influx

of foreign capital into Turkey which then began, and continued with various interruptions up to 1914, was the fact that Turkey had to call upon her late allies in the War for the finance of these reforms. For the large loans then in contemplation, it was clearly desirable that there should be strong banking agencies at Constantinople, and possibly in other subordinate parts of the Empire, recognized by the State though not too closely connected with it, and of unimpeachable standing at the chief European monetary centres, whence they would have to draw their support. Thus the Charter of Reforms of 1856 promised, with characteristic optimism, that "Banks and similar institutions shall be created as a means to reform the monetary and financial systems of the Empire and to create capital and wealth."

The role of the new European bank in this situation was thus tolerably clear. Its function would be first of all to dispose of Turkish securities on the European markets, either by subscribing for large blocks itself and reselling to the public later, or by floating the whole loan in London or Paris for a commission. It might also be called upon for short-period loans to the ruling personages of the Empire, on the understanding that such loans would be repaid out of the proceeds of long-term public issues later, with perhaps the added advantage of some kind of preferential privileges for the bank when the public loan came to be floated. Further, it would expect to be entrusted with the service of the public debt, and perhaps the receipt and transmission through its branches of revenue from the provinces. In anticipation of the seasonal inflow of taxes, it would also make short-term advances to the Government. At Constantinople, if not in most of the Turkish dependencies as well, part of its special task would be the retirement of debased and redundant coins and notes, with which the governments had hitherto financed themselves; while throughout the Empire there was urgent need for cheap commercial banking facilities for agriculture and commerce, so as to render these independent of the notorious exactions of the "fifty or sixty bankers and userers" for whose benefit Turkey was said to exist.¹ The fact that attempts were made at first to combine in one bank the organisation necessary for carrying out all these duties, explains to some extent the outstanding importance of some of these institutions, notably the Ottoman Bank, and the ups and downs of their varied careers, such as that of the Anglo-Egyptian Bank, which was reconstructed twice in twenty years. It certainly indicates that a British bank in Turkey would find Lombard Street experience of little value in its daily business.

¹ Nassau Senior, *Journal Kept in Turkey and Greece*, 1859, p. 84.

The first banks of the group were formed by royal charter, a method which would now be accounted unusual, but in those days conferred valuable privileges, of which limited liability was the most important. To secure the confidence of investors (both in the bank and in the Turkish loans) these banks had to be incorporated in London and managed therefrom, and the risks of imperfect control over branches working at a distance were much too great for banks of unlimited liability. The privilege of limited liability was not granted unconditionally, however; in return the State exacted submission to an important code of banking regulations, made to ensure that the bank would conduct a safe business, and would not bring discredit upon its charter. These fixed the time in which the bank might call up its capital, the amount of its note issue, the kind of advances it might make, the form of its periodical statements and other relevant matters;¹ and provision was made for an indefinite kind of general supervision of the bank's affairs by the Treasury.

The discussion of the early careers of the banks eventually started may be conveniently grouped around some obvious questions suggested by the facts given above. On whose initiative were these banks founded? What was the official attitude towards them at home and in Turkey? What kinds of business did they do at first, and what practical difficulties did they meet? To what extent was the course of their business affected by political considerations? What sort of results did they produce for their shareholders?

Although a number of general conclusions are possible, the answers to these and allied questions naturally vary somewhat with the geographical area considered. In point of time, Egypt was the first part of the Turkish dominions to obtain direct British banking connections, and the Bank of Egypt was, in fact, the first British joint-stock bank to commence business in any foreign country. It was founded in 1855, by a Greek merchant from Smyrna,² who by means of his London business connections had been able to get the support of an influential group of London capitalists, including directors of the East India Company, the London and Westminster Bank, and the Oriental Banking Corporation, this last then the most powerful English banking corporation in the Far East. As this was the first Anglo-foreign bank to be chartered, the most careful enquiries were made by the home Government before the charter was granted, though the

¹ For full list of these regulations, see Baster, *The Imperial Banks*, c. 2.

² The charter, granted Jan. 25, 1856, appears in Patent Rolls, Chancery, 19 Vict., part iii, no. 23.

Treasury early committed itself to the principle that it was "desirable to encourage the investment of British capital in an undertaking which is founded for the purpose of extending to a country with which the mercantile community of this country is closely connected, the benefits of the banking system."¹ Diligent enquiries by the Foreign Office² revealed some of the difficulties the bank would have to meet. There was no certain title obtainable to real property in any part of the Turkish Empire, the land taxes were arbitrary, and proper Courts of Justice were lacking. It is noteworthy that the Foreign Office, in making its enquiries, warned the local British representative³ "not to give any grounds for the supposition that the British Government seeks to obtain any political object by the establishment of the bank" or was in any way connected with it. In Egypt the Viceroy was reported to be definitely in favour of the bank, and was even stated (by one of the promoters)⁴ to have suggested its formation originally. There seemed no objection, therefore, from the official point of view, to the formation of the bank, and the charter was accordingly granted.⁵

The bank's business was quite typical of that of the banks in Egypt at that period, and consisted mostly of lending money to the Viceroy and members of his family at usurious rates,⁶ and of making advances upon land. The bank was also responsible for the transfer to England of the Egyptian tribute mortgaged as security for the first Turkish loan of 1854, and out of the profits on these activities it managed to pay in the early years an average annual dividend of 7 per cent. This, through years of fluctuating exchanges (a range of 20 per cent. of par in a week was not unusual), of increasing competition, of economic and political instability, and of reckless and inefficient management at the branches, was no mean feat.

Competition was at first confined to the large numbers of small French private bankers in Alexandria, who protested energetically to the French Consul when the Bank of Egypt was first established,⁷ on the ground of the implication of official support in its title.

¹ Letter of Treasury to F.O. 8 Aug., 1855, F.O. 141/27.

² Letter of Consul-General Bruce to F.O. 31 Aug., 1855, F.O. 78/1123; and letter of Acting Consul at Alexandria, 5 Nov., 1855, F.O. 78/1123.

³ Letter from F.O. to Acting Consul at Alexandria, 19 Oct., 1855, F.O. 141/27.

⁴ Letter from Stephen Sleigh (a promoter) to F.O. 17 Oct., 1855, F.O. 141/27.

⁵ With the concurrence of the Board of Trade. Letter from Board to bank promoters, 18 Sep. 1855, F.O. 141/29.

⁶ In 1861, the Egyptian managers lent nearly three-quarters of the bank's capital to El Hami Pasha at 12 per cent.

⁷ Report of British Consul to F.O. 21 Feb., 1856, F.O. 78/1222.

In order to allay "the feelings of jealousy and suspicion with which they evidently regard the establishment of a British bank in Egypt,"¹ authoritative denials had to be issued,² and the Bank of Egypt had to send a special peace-making commissioner from London. No more severe competition than this had to be met until the founding of the Anglo-Egyptian Bank in 1864, when the development of cotton-growing during the American Civil War, the undertaking of the Suez Canal, and the growing extravagance of Said Pasha, combined to make banking in Egypt an attractive venture. The Anglo-Egyptian Bank (to-day a member of the Barclay group) and several similar institutions were projected in 1864, during the period of the so-called "banking mania" before the Overend Gurney crash. Its sponsors were the Agra and Mastermans Bank, a powerful Anglo-Indian concern allied with London private bankers, and the General Credit and Finance Company, which was one of the best known *crédits mobiliers* of the time, promoted by Samuel Laing, the celebrated "infant Samuel" of the railway world. The Agra Bank wanted an agency at the halfway house, Egypt, and the General Credit and Finance Company served to introduce French capital, which for a long time predominated over English in this bank,³ and in fact turned it into something of a recognised channel for French deposits invested in Egypt.

The new bank was formed as a limited company under the Companies Acts, started with £500,000, more than twice the capital of the Bank of Egypt, and secured a ready-made footing in Egypt by buying out a firm of Greek private bankers then concerned in the money-lending business carried on for the benefit of the Viceroy. Nevertheless, it was no more fortunate than its competitor in overcoming the difficulties of the business. It managed to pay a first dividend of 16 per cent., but barely two years after its foundation it incurred a loss of £205,000 through a syndicate participation in the Egyptian Loan of 1866, which was a complete failure owing to the crisis. The Viceroy, with what now seems perhaps quixotic generosity, pulled the bank out of the fire by taking up half of the loan himself at the contract price, and giving the directors £50,000 to recompense them for part of their loss on the remainder. In less than a year, £153,000 was available to meet this loss out of the bank's ordinary net profits.

¹ Explanatory letter from Bank of Egypt to F.O., 4 June, 1856, F.O., 141/29.

² Copy of official circular to the consuls in Alexandria, dated 1 May, 1856, appears in F.O. 141/30.

³ G. Antonini, *Le Crédit et la Banque en Egypte*, 1927, p. 29.

In less than two years, a dividend of $12\frac{1}{2}$ per cent. was declared, and by 1872 there was a reserve fund of £100,000 and a dividend of 20 per cent. In 1876 the bankruptcy of the Khedive cost the bank its entire reserve fund; but two years later it again figured at £100,000. These sudden changes of fortune, the characteristic experience of all the original foreign banks in Egypt, are explained by the nature of the bank's business. The bulk of its profits came from discounting Egyptian Treasury Bills and from syndicate participations in long-term loans¹; and profits thus tended to fluctuate with the international credit standing of the Egyptian Government.²

This somewhat precarious situation lasted until the early eighties,³ and throughout the period no considerable British competitors of the Bank of Egypt and the Anglo-Egyptian Bank appeared.⁴ Amongst the several good reasons for this may be mentioned the strongly entrenched position of the existing banks in a difficult market; the necessity for getting powerful support and influential connections for any new venture in either London or Paris, if not both; the need for a large capital to support possible heavy losses due to violent exchange fluctuations in the early years; the uncertainties of the Egyptian Government's credit standing in the European money markets; and lastly, the need for expert and trustworthy local managers, familiar with the numerous tongues and the somewhat peculiar financial practices of the courts and marts of the Levant. Lacking some or all of these advantages, the smaller British banks in Egypt failed to take root, and a profitable if adventurous field was left to the two original enterprises.

At Constantinople, important differences in the business and political situation were reflected in the early history of British banking projects for this part of the Empire. The history of the Constantinople group is practically the story of the Ottoman

¹ Jenks (*Migration of British Capital*, p. 317) suggests that the short-term bills were sometimes manipulated with a view to compel their funding upon favourable terms later. This would explain some of the profits of the good years.

² "Some people are rather unreasonable," complained the Chairman in 1883, with some show of justice. "They expect that a bank of this kind, which carries on its business with a country which is the land of miracles, surprises and perpetual vicissitudes, should exhibit the same regularity in its operations as one of those stately banks in Lombard Street."

³ In 1885, the Annual Report announced that the bank was "gradually but surely emancipating itself from anything like a system of hanging on or being dependent on the doings of the Egyptian Government. We are laying the foundations of a bona-fide commercial business."

⁴ The Eastern Exchange Bank of 1864, and the Bank of Alexandria of 1872 are not exceptions; they were both short-lived concerns.

Bank, incorporated by Royal Charter in 1856. For political reasons this bank was intended to be, and in fact became, something more than a mere money-lending institution for the convenience of the Sultan; its predecessors, on the other hand, showed little sign of this development, and were operated mostly on the basis already made familiar in Egypt. During 1845 a somewhat novel and significant attempt at this kind of development had been made when the Government contracted with two private bankers to keep the Turkish exchange pegged¹; but the Banque de Constantinople, which emerged in 1847 out of this arrangement, failed to survive the Government's reckless inflationist policy, and the question of erecting a more substantial substitute became a pressing one just before the Crimean War. The concession-hunters from the European capitals immediately began to show interest, and private bankers of Paris and London produced projects for a bank to peg the exchange and reform the circulation,² which were at once met by counter-proposals from the promoters of the now defunct Banque de Constantinople to do the same thing cheaper.³ It is significant that each of the contending parties invoked the support of the British Ambassador (then an acknowledged and forceful power at Constantinople) to influence the Sultan on their behalf.

The result of the War stirred up much English interest in the commercial and financial prospects of a regenerated Turkey, and increased the English bidding for the bank concession. Mindful of generous English subscriptions to the recent Turkish war loans, the Turkish Government was disposed to favour English pretensions, especially since a new London financial group, which had just been formed in this connection, included A. H. Layard, the famous Turcophil, afterwards Under-Secretary at the Foreign Office and British Ambassador at Constantinople, George Glyn and Arthur Hankey, two of the principal private bankers in London, and, in addition, the Chairman and Deputy Chairman of the Union Bank of Australia, then one of the most important of the British overseas banks. The group adopted an extremely circumspect procedure. Negotiations were set on foot for the incorporation of an "Ottoman Bank," the royal charter being in all essential provisions exactly similar to that of the Bank of Egypt. The capital was not unduly large (£500,000), no special powers to be sought by the bank were mentioned in the prospectus,

¹ Du Velay, *Histoire Financière de la Turquie*, 1903, p. 126.

² Letter from Trouvé Chauvet to Lord Stratford de Redcliffe, 4 Mar., 1853, F.O. 195/460.

³ Letter of Th. Baltazzi to Lord Stratford, 8 April, 1853, F.O. 195/460.

and it was incorporated in general terms "for the purpose of carrying on . . . the business of banking in Constantinople with Branch Banks in any other part of the Turkish Dominions except in Egypt."¹ Even before the Treaty of Paris was signed, Layard, Glyn and Hankey proceeded to a conference in Paris (at which Lord Clarendon, British Foreign Secretary, and Lord Cowley, British Ambassador, were present) with emissaries of the Turkish Government, to ask for official Turkish approval for their project;² and Layard wrote a personal letter of explanation to Lord Stratford de Redcliffe,³ justifying this modest and tentative approach to the larger plan which the syndicate clearly had in mind. "We have preferred taking this course," he wrote, "to embarking at once in engagements the results of which might be doubtful in the present state of public affairs and of Turkish finance, and through which we could not, without much local knowledge and experience, see our way."

This was no doubt intended as a slighting reference to the much more definite plans of another financial group, whose prospectus announcing the proposed formation of an "Imperial National Bank of Turkey" with a nominal capital of £5,000,000 had just appeared. Although this second syndicate lacked strong banking representation, it included some substantial names famous in other fields. At its head was Sir Joseph Paxton (a protégé of George Hudson), whose lowly origin from "a decent and intelligent family occupying one of the Woburn cottages of the Duke of Bedford"⁴ and subsequent rise to fortune were characteristic of the early railway age. With him were associated Samuel Laing, Chairman of the London and Brighton line, Hunter, Chairman of the Commercial Bank, Uzielli, a partner in Devaux and Co., the finance company, Thomas Brassey the contractor, and Abraham Darby, of the ironworks at Ebbw Vale. This group was clearly angling for public works (and particularly railway) contracts in Turkey.

In the negotiations which followed, the Paxton group proved most conciliatory, and a concession in their favour was finally ratified by the Sultan in 1857, providing for a "Banque de Turquie" organised somewhat on the lines of the Bank of France, with a capital of £7,000,000.⁵ But the bank was given the hopeless

¹ Patent Rolls, Chancery, 19 Vict., part v, no. 6.

² "Memorandum of the Proposed Application to the Turkish Govt. Authorities for Use of the Chairman and Committee Proceeding to Paris," dated 23 Feb., 1856, T.I., 1856-1873, consulted by special permission.

³ Dated 22 Feb., 1856, F.O. 195/460.

⁴ T. H. S. Escott, *City Characters*.

⁵ The essential details of the concession appear in *The Times*, 19 Mar., 1857.

task of redeeming at par a proportion of the depreciated Turkish currency whilst fresh issues were being made, the only important privilege it received in exchange being the somewhat doubtful one of issuing its own notes in substitution. And affairs were to be managed from Constantinople, not from London. Faced with the practical impossibility of obtaining the capital needed under these conditions, the Paxton group was reorganised, and secured a more modest concession, free from the obligation to redeem the depreciated paper money. Business was to start in earnest on the withdrawal of the paper money by the Turkish Government itself, out of the proceeds of a London loan. But the promoters were again baulked, this time by the ineffectiveness of the Turkish proclamations ordering the withdrawal of the paper money; and they were finally hopelessly compromised, as agents of the notorious Mirès, by the failure of the Mirès Turkish loan and the arrest of its contractor.

The situation now played into the hands of the Ottoman Bank. Due to the very free criticisms made by the groups of one another's schemes, investors in general had by this time become highly critical of Turkish bank proposals in any form, whether sponsored by the Ottoman Bank, Rothschilds, Paxton, the Crédit Mobilier, the Galata bankers, or any of the other competing syndicates. But the Ottoman Bank had by now a very substantial claim to favour. Since its formation it had acquired a useful private connection in Constantinople, in spite of opposition "marked by an amount of unscrupulousness, intrigue and mystification, which was altogether unknown in England."¹ It had gathered a reliable staff with the necessary language and local business qualifications, and had opened several branches. Its agents were instructed to keep in constant touch with the British Ambassador, its name was now well known in the City of London, and its indefatigable Chairman had bombarded the Turkish Government with searching criticisms of rival projects and skilful presentations of his own.²

Finally, the Ottoman Bank syndicate had been enlarged to include French interests,³ which were now represented by the Crédit Mobilier, the Comptoir d'Escompte, Hottinguer, Stern, and several other well-known Parisian private bankers.⁴ Lord

¹ Report of the Directors, *Bankers' Magazine*, 1861, p. 820.

² Letters of Layard to Rechid Pasha, 13 Dec., 1856, and to Etham Pasha, 18 Dec., 1856, F.O. 195/460.

³ Against the wish of Layard, who wanted the bank to be entirely British. Letter to F.O. 3 April, 1856, F.O. 195/460.

⁴ Formed 15 Nov., 1862. Details in G. Young, *Corps de Droit Ottoman*, vol. v, 1906.

Hobart, of the official British Financial Mission to Turkey, considered the establishment of a National Bank to keep the Government accounts "an improvement of very urgent importance",¹ and urged that "the continued influence of the British and French Governments"² should be used to exclude rivals from the negotiations in favour of the Ottoman Bank. After protracted negotiations, with the Turks stubborn on several vital points, and amidst angry protests from the promoters of the moribund Banque de Turquie,³ the final definitive concession to the Imperial Ottoman Bank was signed in 1863.⁴ The bank's capital was fixed at £2,700,000, of which the English group took 80,000 shares, the French 50,000, and the Turkish Government 5,000.⁵ In addition to full powers of doing an ordinary commercial business, the bank received the exclusive power of legal tender note issue, and became the banker and financial agent of the Government. The bank's previous experience, and its substantial international support, united with the full and exclusive powers granted by the concession, gave it at once a position of great influence and prestige at Constantinople, which was subsequently turned to very full account.

It is worth noting that the kind of international financial co-operation exemplified by the foundation of the Imperial Ottoman Bank did not always proceed so smoothly. In Tunis, an undeveloped and primitive part of the Sultan's dominions, efforts were made as early as 1856 to found an "Anglo-Tunisian Bank" to look after the currency, act as banker to the Bey, and carry on a commercial loaning business as well. But the local French diplomatic representatives in Tunis were reported distinctly hostile to the plan on account of its English origin,⁶ and it was abandoned in 1861. Twelve years later the Imperial Ottoman Bank itself, strongly supported by London banking circles, founded a local subsidiary called the London Bank of Tunis; and this (in spite of French participation in the parent concern) called forth a strong protest from practically the whole consular body, and an even stronger one from the International Financial Commission, which had been set up in the interests of the bond-

¹ Letter to Earl Russell, 27 Nov., 1862, B.P.P. 1863, vol 44.

² Letter to F.O. 6 Oct., 1862, F.O. 78/1790.

³ See correspondence between the various promoters in *The Times*, Nov., 1862, and Feb., 1863, with editorial comment thereon.

⁴ Text in G. Young, *op. cit.*

⁵ G. Poulgi-Bey, "La Banque Imperiale Ottomane," *Annales des Sciences Politiques*, May, 1910.

⁶ Letter of Consul Wood to F.O. 3 Feb., 1857, F.O. 102/67. Letter of promoters to F.O. 17 Oct., 1861, published in *Banker's Magazine*, 1861, p. 873.

holders of the now bankrupt Bey. The London promoters reported the "intrigues and hostile attacks"¹ of the French Minister in Tunis, Lord Lytton in Paris protested vigorously to the French Government, and by the time the matter was referred to Gladstone in November, 1873, it had assumed the form of an acrimonious international dispute over the cession of special politico-economic rights to one national group of creditors of a bankrupt country.² Fortunately, the bank appeased the French by submitting to a watering-down of its concession. But the reflection of acute international rivalries in the financial sphere was unmistakably plain.

From the main body of historical fact connected with the early adventures of these banks (of which only the general drift could be revealed above), certain general conclusions emerge:—

(1) Not a single bank in the Anglo-Turkish group was directly supported by a London joint-stock deposit bank, though occasionally directors of the latter figured as directors or promoters of banks for the Near East. It is clear that the grave risks attaching to foreign banking operations in Turkey were an effective deterrent.

(2) The purely commercial activities of the banks grew rapidly in importance, after somewhat small beginnings. They were helped by the cheap and broad discount market existing in London, and by the facility with which the banks could provide sterling acceptance credits through their London offices. They were hindered by the debasement and depreciation of the local money, and by the rapid fluctuations in London exchange rates.

(3) Without going so far as the recent claim³ that "the founding of banks in the Near East was always a diplomatic affair," one may yet assert definitely of the British banks that there were very intimate connections between the bankers and the diplomats, of a kind which makes it practically impossible to separate the commercial motive from the political. Nationalist considerations apart, it is probable that the creation of British banks in Turkey would have proceeded along very different lines. As it was, the usefulness of such institutions as the Imperial Ottoman Bank as a weapon for the economic penetration of a backward country provided nineteenth century diplomacy with a striking object lesson. The great capital-exporting nations of western Europe certainly were not slow to profit by it.

¹ Letter of London Bank of Tunis to F.O., 26 Sept., 1873, F.O. 102/122.

² Gladstone thought certain parts of the concession were "quite indefensible" and the case generally "full of doubtful points and to require much caution." (Letter to Lord Granville, 7 Nov., 1873, F.O. 102/122.).

³ Feis, *Europe—The World's Banker*, 1930, p. 321.