University of Reading

Cotton, Finance and Business Networks in a globalised World: The Case of Egypt during the First Half of the Twentieth Century

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Declaration

I confirm that this is my own work and the use of all material from other sources has been properly and fully acknowledged.

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Abstract

Firms and entrepreneurs were key drivers of the globalisation of the late nineteenth and early twentieth centuries. This thesis investigates commodity networks, foreign banking and business networks, as three manifestations of the first global economy, in Egypt. The country was integrated into the world economy by exporting cotton, importing foreign capital, and hosting a large foreign community.

The thesis shows that the Egyptian cotton network was sophisticated as market participants were spatially dispersed. The network was instrumentally coordinated by foreign banks that provided the crucial functions of intermediating the flows of cotton, finance, and information. Departing from the literature that portrays foreign banks in developing countries as manifestations of imperialism and exploitation of host countries, the thesis demonstrates that the history of these banks in Egypt does not conform to this rhetoric. The case of the Ionian Bank reveals that foreign banks in Egypt were businesses that sought profits and faced many risks and challenges. Some risks were uncontrollable and negatively affected banks' performance, which was shaped by trade-off between opportunity and risk appetite. The analysis of the interlocking directorates of the Egyptian corporate and elite networks demonstrates that these networks, predominantly controlled by local foreigners, served as a basis for coordinating and maintaining collective interests. The structure of the elite network presumably fostered entrepreneurial activities that were funded by foreign capital. The analysis documents the gradual rise of indigenous entrepreneurs at the expense of local foreigners.

The study demonstrates how Egypt's integration into the first modern globalisation was facilitated by foreign firms and entrepreneurs. It points out the need to revise the historiography of foreign capital and foreigners in Egypt during this period. In addition, the thesis contributes to the limited business history scholarship on the Middle East and furthers our understanding of the complex nature of globalisation.

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Akram Beniamin
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List of Abbreviations & Measures

Barclays DCO	Barclays Dominion, Colonial and Overseas
BoE	Bank of England
Cantar	100 ib (pounds)
Feddan	1.038 English acres
FO	Foreign Office
International Federation of Master Cotton Spinners' and Manufacturers' Association	International Cotton Federation
IB	Ionian Bank
LBG	Lloyds Banking Group
TNA	The National Archives
UK	United Kingdom
USA	United States of America
£	Sterling Pound
£E	Egyptian Pound
£E 0.975 =	£1

Note on Sources, Citations and Transliterations

A composite system for citing sources is used in this thesis. Primary sources of archival materials are cited in full in the footnotes, as is the common practice of historical scholarship. All other primary sources, such as newspapers and rare sources, along with the secondary sources follow Harvard style of in-text citation i.e. author’s surname and the date of publication in brackets. Full details are only listed in the Reference List, being the format mostly used in the social sciences. For ease of reading, Arabic sources and names are kept simple by transliterating with the omission of diacritics such as hamza (’) and ayn (‘).

Chapter 1 Introduction

1.1 Scope of the study

Between the second half of the nineteenth century and the Great Depression of the twentieth century, the world experienced its first modern globalisation. This was manifested in growing global trade, international capital flows and investments, and movements of people, technology and ideas across national borders. The growth of these factors led to economic interdependence and integration among the world economy. National markets for commodities, capital and labour, across different regions of the world became highly integrated.

This thesis seeks to investigate some aspects of the first wave of globalisation from a new perspective and from a developing country lens. Development economists often refer to the international division of labour where countries of Africa, Asia and Latin America were unfairly linked to the world economy through means of imperialism and trade (Nayyar, 2006, 2019). Capital export has often been linked in the literature on developing countries to the question of imperialism (Cassis and Cottrell, 1994, pp. 17-18). The main body of literature on economic development of the formerly colonised countries has been built around the question of whether foreign economic dominance had negative consequences on these countries. For instance, radical development and dependency theorists have often argued that foreign capital exploited these countries. On the other hand, economic nationalism that happened immediately after independence in many formerly colonised countries has often been perceived as a response to underdeveloped economies that had been controlled by foreign interests (Jones, 1996, p. 293).

For a number of reasons, Egypt, as a developing country, offers an interesting case study for a business history account of globalisation. Between the second half of the nineteenth century and the first half of the twentieth century, the country epitomised the manifestations of the first global economy in almost every aspect as described by economic and business historians. This includes an upsurge in international trade, investments and migration.

First, by the mid of the nineteenth century, the Ottoman Empire was well connected to the world economy (Owen, 1981; Pamuk, 1987; Kasaba, 1988; Inalcik and Quataert, 1994; Pamuk, 2004b). Egypt, a dependency of the Ottoman Empire at that time, exemplified this integration. The Egyptian economy was firmly integrated into the world economy through exporting cotton and importing foreign capital. Between the 1860s and the 1920s, Egypt was a typical single cash crop export economy. On the other hand, foreign capital was a prominent feature in the Egyptian economy and had a profound influence on the political and economic conditions in Egypt up to the 1950s. According to Wilkins's estimates (1994), Egypt was amongst the largest ten host countries receiving foreign investments in modern history. In the African continent, Egypt came only second after South Africa in terms of the volume of European investments (Tignor, 1987a, p. 479).

Second, Egypt was an incomparable case to the classic dependency relations between the lagging behind peripheral regions, for example Latin America, and the core in Europe. By the end of the nineteenth century, Egypt enjoyed a moderately advanced infrastructure system. For example, a developed transportation system to move the Egyptian long staple cotton and a modern telegraph service were in place, along with a modernised elite class (Kalkas, 1979, pp. 3-4). In addition, Egypt was never settled by any contemporary imperial power. However, the entire economy was almost completely dominated by foreigners. Although the country was not practically independent while it was under the British occupation between 1882 and 1956, Egypt welcomed incomers from many countries. This is in contrast to the case of the typical colonies where foreigners from other nations, rather than the citizens of the colonising country, were not always free to move in. Therefore, the historiography of Egypt offers a narrative that goes beyond these lines of arguments about dependency and imperialism.

Third, the Egyptian economy operated under a laissez-faire policy. The country enjoyed a dynamic private sector that was far developed compared with many countries across both the African continent and the Ottoman Empire during the period between the second half of the nineteenth century and the 1950s. When the free officers overthrew the monarchy in the 1952 revolution, the private sector in Egypt had been leading the entire economy. Mabro (1974, pp. 124-126) estimated that the private sector was responsible for 87% of value added and 95% of total employment at that time.

This thesis mainly covers the first half of the twentieth century. The time span of the thesis, therefore, does not identically correspond to the first wave of globalisation (1870-1914) or any well-established periodisation in the historiography of Egypt. Periodisation creates artificial boundaries, and for that reason, this study takes the freedom to deviate from any well-grounded periodisation in order to construct a robust narrative on foreigners and foreign capital that intensified at the beginning of the twentieth century and remained powerful in the Egyptian economy until the Suez Crisis in 1956. Egypt was firmly connected to Europe through many channels. Nevertheless, only three aspects of the first global economy are investigated in this thesis. They are namely, commodity networks, foreign banking, and foreigners and business networks. The three aspects are discussed in greater details later.

This introductory chapter contains six sections and proceeds as follows. The first section discusses the scope of the study. The general contributions this study makes, along with its limitations, are presented in the second section. The third section provides a very brief account of the first wave of globalisation and the three specific aspects of globalisation that constitute the subject of this thesis. Egypt is both an African and Middle Eastern country. Therefore, the fourth section briefly reviews the state of business history research in Africa and the Middle East. Section five describes the structure of the thesis. The chapter concludes with the sources used in the thesis and the methodology that underpins the study.

1.2 Contributions & limitations

This thesis offers new evidence and suggests new dimensions on the first modern globalisation of the late nineteenth and early twentieth centuries. On the other hand, it brings Egypt into the historical account of globalisation. The research holds potentiality to add new insights on firms and entrepreneurs in a developing country context, and on globalisation through the use of hitherto unemployed frameworks, methodologies and techniques of analysis. A business history account of Egypt could add to those interested in a variety of topics in business history and comparative studies. Given the diverse range of issues considered in this study, it makes original contributions to various strands of literature on business, economic and banking history, and international business. The specific contributions of each empirical chapter are discussed later within the respective chapter. Yet, the thesis makes a number of general contributions, and are summarised below.

First, the study demonstrates the value of business history in understanding the dynamics of globalisation and the actors involved. The thesis illustrates that studying the first global economy, through a developing country lens, reveals the complex nature and rich context of globalisation. Scholars on the first wave of globalisation have mainly focused on the surge of foreign trade driven by the development of transport and communication technologies and on economic convergence. As Jones and Lluch (2015, p. 1) noted in their study on globalisation and its impact on Latin America, the role of firms and entrepreneurs has not been sufficiently studied. Therefore, the main interest of this thesis is in firms and entrepreneurs as key actors, rather than focusing on macroeconomic indicators as a source of evidence on globalisation.

Second, the study responds to calls for drawing on the historical experiences of the understudied regions within the business history domain. This has the potential of making conceptual advances in business history as a field (Friedman and Jones, 2011). Business history literature has been dominated by empirical evidence and issues related to the developed Western countries (Austin et al., 2017, p. 538). It has, to a large extent, been American and European centric. Scranton and Fridenson admit that business history is "too American or too Western" (2013, p. 240). Thus, the historiography of the developing world of Asia, Africa and Latin America has not been well incorporated into the mainstream debates of business history (Friedman and Jones, 2011). On the other hand, business history research in many developing countries often lacks a sound theoretical framework that allows integrating this research with the broader theoretical debates. For example, (Barbero, 2008) argued that business history in Latin America has been descriptive with little theoretical foundations and analysis.

Consequently, one of the motivations of this thesis is to enlarge the limited literature on business history in Africa and the Middle East. To achieve this end, well-established theories are borrowed from other social sciences disciplines and employed to back the analysis. As suggested by Coleman (1987, p. 154), narrative remains important to understand business history; however, it should be combined with sound analysis. Therefore, certain themes to structure the narrative are adopted in this thesis, rather than telling a chronological story based on events happening. The use of certain theories in the thesis is not meant to prove such theories; instead, the theories are employed and adopted to provide better understanding of historical facts (Cipolla, 1991, p. 17). Arguably, this has the potential to engage business history with the larger conversations on many issues in history.

Third, this research contributes to the rich historiography of Egypt. In essence, the study covers a geographic area that has never been historically scrutinised using frameworks and theories emanating from economics, international business, management and sociology that have not been applied to study this region and its businesses. The history of modern Egypt has largely been written by numerous studies from a political economy perspective.[1] In a border sense, the existing body of literature on Egypt, and more generally on Africa and the

[1] This is elaborated in greater details in Chapter Two.

Middle East, has been limited to the impact of colonisation and foreign capital on local political, economic and social development. The thesis tries to rebalance the political narrative of foreign exploitation by offering an alternative narrative and complementing the account of the nineteenth and early twentieth centuries' globalisation. The study endeavours to move towards research of empirical nature on the firm, being the distinctive type among the economic units dedicated only to business, and on the entrepreneur behind it. The contention here is that the history of business in developing countries has been lost between two camps: one driven by imperialism and dependency theories, while the other praises foreign-imported capitalism.

This research is not mainly about the political economy of colonisation and underdevelopment. Although foreign capital was the leading force in the economic history of modern Egypt, the thesis is not concerned with the debate on the impact of foreign capital on developing host countries. It therefore departs from the overriding political research agendas by keeping distance from the imperial paradigm and the commonly utilised frameworks of the European power's domination and exploitation. Nevertheless, when the data and the evidence provide ample pointers to the implications of what happened on Egypt's quest for development, reference will be made to that. On the other hand, multinational enterprises, which have been one of the main concerns of business history research on globalisation, are not the main focus of this thesis.[2]

1.3 General background

When did globalisation begin has been a debatable issue in the literature (Held et al., 1999). There is some evidence that globalisation was in place during the fourteenth century with the development of European trade networks (Wallerstein, 1974; Braudel, 1992; Hopkins, 2002). Osterhammel and Petersson (2005) traced the history of globalisation over the last five centuries. They argue that there has been no golden age for globalisation. Rather, they refer to periods of expansions and contractions. However, economic and business historians largely agree that there were two well-documented episodes of globalisation in modern history. The first modern globalisation, the subject of this thesis, started in the second half of the nineteenth century and collapsed with the two world wars and the Great Depression of the 1930s. The second wave lasted between the post-World War II and the global financial crisis of 2008. Kobrin (1997, pp. 147–148) made the distinction between the two waves of

[2] See Wilkins (2009, 2015) for a thorough review of the history of multinational enterprises.

globalisation. In the first global economy, trade and investment linkages were the prominent features. On the other hand, internationalisation and information ties marked the second wave of globalisation of the late twentieth century.

Economic historians often refer to the turn of the twentieth century as the peak point in international trade and investment, and argue that the first modern globalisation collapsed with the outbreak of World War I (Williamson, 1996; O'Rourke and Williamson, 1999). Other historians refer to the Great Depression of 1929 as the endpoint of the first global economy (e.g. Bordo et al., 2003; Jones, 2002, 2005). According to Jones' periodisation, the first global economy slowed down with the outbreak of World War I. The level of integration of capital and commodity markets dramatically decreased to those levels of the mid-nineteenth century (Jones, 2013, p. 33). Furthermore, globalisation was negatively affected by the consequences of the Great Depression with tighter exchange and tariff controls that reduced volumes of international trade and investments. In addition, the rise of nationalist, anti-foreign, governments posed political risks and contributed to the demise of the first global economy during the 1930s.

The first global economy was manifested in several aspects. National markets for commodities, capital and labour, across different regions of the world, became highly integrated (Williamson, 1996; O'Rourke and Williamson, 1999; Bordo et al., 2003). Commodity markets, for example, became far more integrated than the level of the eighteenth century (Findlay and O'Rourke, 2003, p. 42). Western firms crossed borders and founded operations in foreign countries.

International trade expanded rapidly and by 1913, global trade had a higher share of world output. One of the main characteristics of global trade during this wave of globalisation was the exchange of manufactured goods from the developed Western countries for staple commodities and raw materials from the comparatively underdeveloped countries in Africa, Asia and Latin America (Foreman-Peck, 1983). International trade rested largely on comparative advantage of natural resources that the countries in the developing part of the world enjoyed. On the other hand, domestic consumers' demand in the industrial world was less than the potential supply following the application of power and machinery to industry. Therefore, industrialisation and the subsequent economic growth in the Western economies necessitated finding markets for their products as well as sources of supplies of raw materials and commodities (Jones, 2008, p. 144).

Capital exports and international investments rose remarkably during this period (Dunning, 1983). A high degree of financial openness and macroeconomic stability were brought by the gold standard. Capital flowed from the industrialised Western countries to the developing world seeking for attractive investment opportunities. For instance, British entrepreneurs moved their investments abroad driven by the industry maturity and low rates of return on investments in their home country (Hannah, 1980; Cain and Hopkins, 1993; Jones, 1994). Furthermore, international financial markets became highly integrated. In 1910, for example, more than half of the securities traded in London and Paris were foreign securities (Nayyar, 2019, p. 668).

Many factors intensified the expansion of the world economy and the high trade and investments volumes during the first global economy. The nineteenth century witnessed major improvements in transport and communications. Although transport costs had historically been declining for a long time, the largest drop in transport costs, according to economic historians, occurred during the nineteenth century (O'Rourke and Williamson, 1999, p. 29). Transport and communication costs were reduced by the introduction and developments of railroads, steamships, telegraph, transatlantic cable, and shipping. These technological advances contributed to the rapid rise in international trade volumes where distances across the globe shrank. Political scientists and institutional economists often refer to the centrality of national policies and institutions in explaining globalisation (e.g. James, 2001; Frieden, 2006). Free trade theories of Adam Smith and David Ricardo became popular at that time, and some writers attribute globalisation to liberal changes in trade policies and tariffs (Jack, 2006). Barriers to international investments vanished as the degree of state intervention in the economy became less intense. On the other hand, the first global economy was coincided with European imperialism, mainly the British and French expansions, and this amplified globalisation further (Hobsbawm, 1987).

Different academic disciplines have contributed to the enormous literature on globalisation, and the phenomenon has been perceived differently. Globalisation is defined by Mauro Guillén, in a widely cited article, as "a process leading to greater interdependence and mutual awareness….among economic, political and social units in the world" (2001, p. 236). A sociological definition by Anthony Giddens suggests that globalisation is "the intensification of worldwide social relations which link distant localities in such a way that local happenings are shaped by events occurring many miles away and vice versa" (1990, p. 64). In essence, sociologists have often been interested in convergence of societies and cultures (Gervais and McWatters, 2017, p. 317). Economists, on the other hand, have been concerned with economic interdependence and convergence among nations. Yet, the meaning, historical causes, determinants, timing, patterns and consequences of globalisation have been controversial issues (Jones, 2008, p. 141). Therefore, globalisation remains one of the most contested subjects in social sciences.

Historians have made remarkable contributions to the debate on the first global economy. Historians of capitalism have investigated movements of commodities, people and ideas (e.g. Beckert, 2014; Topik and Wells, 2014; Conrad, 2016). Historians of imperialism have written the history of European empires from a globalisation perspective (e.g. Cain and Hopkins, 2001). Financial historians have been interested in the integration of capital markets (e.g. Flandreau and Zumer, 2004).

Economic historians have focused on the macroeconomic indicators of the integration of markets for commodities and global trade, capital and labour movement and relative factor prices (O'Rourke and Williamson, 1999; Bordo et al., 2003). They have offered quantitative evidence on the integration of these markets. For example, globalisation for O'Rourke and Williamson (2002, p. 25) is "integration of international commodity markets". Therefore, they measured the intensity of globalisation by the decline of international dispersion of commodity prices. Findlay and O'Rourke (2003) traced commodity trade and export across five hundred years arguing that the nineteenth century and the first global economy witnessed the largest increase in world trade and price convergence. The focus has been on Atlantic economy i.e. the integration of markets between Western Europe and North America.

Consequently, the economic history literature on the first global economy, in terms of its drivers and evidence, has paid insufficient attention to the role of actors involved in globalisation. Dejung and Petersson (2013, p. 1) noted that the economic actors below the nation-state level who were involved in global trade and investments have received less attention. In essence, the firm and the entrepreneur behind it have been mostly absent in this literature (Jones, 2002, p. 587). Yet, Dejung (2018) approached globalisation of the nineteenth and twentieth centuries from a different perspective. Rather than focusing on supply and demand and macroeconomic indicators, he investigated the role of global trading firms as an important facet of globalisation.

Business historians, on the other hand, have often made the case that firms and entrepreneurs were the most important actors in history (Jones et al., 2012, p. 232). Business history is concerned with firms, industries, entrepreneurs, and business systems and their relationships with the political, economic and social environment from a historical perspective (Jones and Zeitlin, 2008, p. 1). Jones (2008, p. 141) argued that globalisation is the central issue in business history for its impact on firms and entrepreneurs. Business history scholarship has shown, therefore, that firms were historical drivers, and at the centre, of globalisation (e.g. jones, 2005, 2013). Firms' activities ranged from banking that facilitated foreign trade and movement of goods to firms that built infrastructure and transportation systems. Yet, the majority of business history literature on globalisation has been skewed towards the history of multinational enterprises (Jones, 2008, p. 142). In addition, the focus has been on multinationals from economically developed nations. Notable studies include Wilkins (1970, 2015) and Jones (2000, 2002, 2005, 2013).

1.3.1 Cotton commodity networks

An integral part of the world economic integration during the first global economy was commodities and their chains (Topik et al., 2006).[3] Of particular importance was cotton. From a historical perspective, cotton, both as a raw material and as a manufactured product, occupied a unique position in global history. Associated with the Industrial Revolution in Britain, cotton was a key commodity in international trade (Farnie and Jeremy, 2004, p. 3). As argued by Beckert (2004, p. 1408), cotton was “"the core input of the world's most important manufacturing industry, in terms of amount of labour employed, value of output, and profitability". The cotton industry, therefore, has attracted a considerable scholarly attention from economic and business historians for its prominent position as a key commodity at the centre of the Industrial Revolution and later during the first global economy (Farnie, 1979; Beckert, 2014).

There is a vast amount of literature on the cotton industry as a manufactured good, especially the British and American cotton industries on both sides of the Atlantic. Several aspects such as technological change, organisational structure, state policies and the competitiveness of the industry have been covered in the literature (e.g. Sandberg, 1974; Farnie, 1979; Rose, 1996, 2000; Jenkins, 2003; Farnie and Jeremy, 2004). A more recent comprehensive work on the cotton industry is Beckert (2014) who traced the history of the cotton industry from

[3] Topik et al. (2006) extensively covered commodity chains in Latin America between 1500 and 2000.

the Industrial Revolution to 1963 when British cotton mercantilism came to an end with the demise of the Liverpool Cotton Exchange. Prat (2009) studied the ways in which cotton fabrics were commercialised in several Western countries during the nineteenth century and the first third of the twentieth century.

The operation of the cotton commodity network has also received attention in the extant literature. For most of the nineteenth century and the first half of the twentieth century, the United States, India and Egypt were the main raw cotton suppliers to Britain, being one of the largest cotton importers across the world at that time. Both southern American cotton and Indian cotton, as sources of raw cotton, have been extensively covered in the literature. For example, Arnold (1911), Wyse (1920) and Woodman (1990) studied financing and marketing American cotton. Reidy (1992) analysed American slavery and agrarian capitalism. Beckert (2004) investigated cotton production during the American Civil War. Boodry (2014) analysed the Atlantic credit networks that supported the cultivation of cotton during the antebellum South. Beckert (2014) and Baptist (2014) offered fresh perspectives on American slavery and cotton production in the southern states. Indian cotton has been analysed by Harnetty (1972) and Dejung (2015). In addition, cotton commodity trade in Liverpool has also attracted a number of studies. For instance, Hyde et al. (1955) and Hall (2004, 2017) studied Liverpool cotton brokers and importers. Hall (2000) and Haggerty (2019) analysed Liverpool futures market.

In contrast, much less has been written about cotton production in Egypt. With the cotton famine in Europe following the American Civil War in the early 1860s, Egypt largely replaced southern American cotton in the market for long staple cotton, the finest quality. Egyptian cotton gained a worldwide reputation and was a crucial source of raw cotton to the world economy at that time. Roger Owen (1969) remains the most comprehensive monograph on the development of the cotton sector in Egypt for almost a century between 1820 and 1914. Although Owen tried to draw economic conclusions, his work was largely descriptive, lacked a clear theoretical framework, and ended in 1914. Moreover, Owen's main line of narrative was around dependency theory and whether the British placed Egypt as a peripheral country specialised in cotton export. Other studies on Egyptian cotton and its place in the first global economy have adopted a quantitative approach to derive evidence on price convergence and the integration of the cotton market in Egypt into the global economy during the second half of the nineteenth century (Yousef, 2000; Panza, 2013, 2014). Yet, little has been written on the actors involved in the Egyptian cotton sector and the financing of this activity. Therefore, Egyptian cotton and its trade network merits further study, and this is the subject of Chapter Three in the thesis.

1.3.2 Foreign banking

The flourishing global trade in commodities during the first wave of globalisation raises the question of who financed this boom. In essence, a key requisite for moving commodities was the availability of finance. Before the nineteenth century, overseas trade was mainly undertaken and financed by trading companies and merchant banks (Jones, 2000). With the growth of international trade in the second part of the nineteenth century, larger volumes of capital were needed. Trading companies and merchant banks were mostly family firms that were short of abundant financial resources. On the other hand, this boom offered lucrative financing opportunities. Foreign banks emerged and expanded overseas as a response to bourgeoning global trade volumes and capital movements across the globe (Cameron, 1991, pp. 12–14). Therefore, international banking and international trade were closely connected to each other (Kindleberger, 1983, p. 583).

European joint-stock banks, which expanded overseas, were central actors in the first global economy. The foreign branches of these banks increased from 525 in 1880 to more than 1,610 by the outbreak of World War I (Battilossi, 2006, p. 361). These foreign banks provided credit to various participants in the sophisticated international commodity networks. They played, at least, two pivotal roles in developing countries. The first is straightforward and was financing the export of commodities and import of manufactured goods. The second role, which has received less attention in the literature, was financing domestic cultivation, a prerequisite for commodity export. Foreign banks financed the time lag between planting seed, harvesting the commodity, transporting it for export, and receiving the proceeds.

British overseas banks were a pertinent force contributing to world integration during the first modern globalisation through financing commodity trade. Britain was the leader in introducing multinational banking, and British overseas banks in the nineteenth century occupied a special position that was not comparable to multinational banks following from other countries such as France and Germany (Battilossi, 2006, p. 363). Yet, in many parts of the developing world, the functions performed by British overseas banks have been negatively viewed. For instance, the political economy literature on the history of foreign banks in the developing countries of Africa, Asia and Latin America has often criticised these banks on the ground that they were imperial agents, and that they exploited host countries. In addition, these banks have been largely discussed within a larger context of imperialism and colonisation. Detailed consideration of their activities at an institutional level is limited.[4] Therefore, and given the centrality of foreign banks to the first global economy through financing commodity trades, detailed studies on foreign banks in developing countries, as typical business enterprises are needed.

Studying foreign banks in Egypt is rewarding in this regard. The country hosted a large number of foreign banks from different nationalities during the nineteenth and early twentieth centuries, and across the Ottoman Empire Egypt was the most important financial centre at that time. Therefore, a case study of one of these British overseas banks in Egypt is the subject of Chapter Four of this thesis.

1.3.3 Foreigners & business networks

Along with commodity networks and their financiers, individuals moved across national borders from one country to another with minimal restrictions on mobility up to 1914. Consequently, migration recorded unprecedented levels during the nineteenth and early twentieth centuries (Nayyar, 2019). Some of those migrants were entrepreneurs or would-be entrepreneurs. Jones and Wadhwani (2007) argue that an entrepreneurial perspective is very useful for business historians in order to understand the history of global capitalism. Furthermore, entrepreneurs occupied an important position in the history of globalisation, and especially the dynamism of the first global economy. Foreign entrepreneurs in many developing countries opened new markets, exploited new sources of supply, and innovated new organisational forms to match the institutional contexts in these countries. Therefore, they exemplified some types of Schumpeterian innovations, not necessarily in innovating new products and new methods of production.[5]

From the perspective of developing countries, the first modern globalisation had major impacts on entrepreneurship in these countries. Commercial networks of diaspora communities provided sources of entrepreneurship (Jones, 2008, p. 146). For instance, entrepreneurship in Latin America during the late nineteenth and early twentieth centuries was closely associated with ethnic and diaspora waves of immigration from countries such

[4] An exception is Jones' two studies on the Imperial Bank of Persia and its successor the British Bank of the Middle East in Iran (1986, 1987).
[5] This was especially true in regions such as Latin America. On the business history of Latin America, see Barbero (2008), Dávila (2013) and Miller (2017).

as Italy, Germany, Britain and France (Austin et al., 2017, pp. 548-549). Foreign entrepreneurs contributed to domestic factor endowment by bringing or, at least, developing entrepreneurial talents in the host countries. In addition, they often maintained close connections to foreign capital, either from their home countries or from other European countries. Therefore, they facilitated capital transfer to developing countries. These foreign residents acted as local entrepreneurs who were familiar with both home and host countries (Lopes et al., 2019, p. 1343). Foreign entrepreneurs who resided in countries with large expatriate communities often created networks of interlocking directorates (Landes et al., 2010).

Another source of entrepreneurship in Africa, Asia and Latin America, which could be linked to the first global economy, was the indigenous entrepreneurs from wealthy families who had been educated and had lived for a while in foreign Western countries and then returned to work at home. Their foreign contacts with these Western countries facilitated access to finance and resources from the source country (McCabe et al., 2005; Jones, 2013).

In Egypt, in less than thirty years between 1878 and 1907, the number of foreigners living in the country jumped from 68,000 to about 221,000 (Issawi, 1963, p. 29). The upper strata of the local foreigners, who resided in the country, occupied an integral part, and perhaps the leading part, of the corporate network in the country up to the 1950s. In addition, they maintained unbroken access to European capital and, as a consequence, helped integrating Egypt into the world economy. By time, these foreigners as central nodes in the Egyptian corporate network were replaced by indigenous entrepreneurs who were, in the majority of cases, had been educated abroad and returned to Egypt, but remained well connected to Europe. Therefore, Egypt offers an interesting sphere to study foreign entrepreneurs, their positions in business networks and their interaction with the indigenous counterparts, as a manifestation of the first global economy. This is covered in Chapter Five in the thesis.

1.4 Business history in Africa & the Middle East

Business history research has spread in recent decades beyond Western Europe and the US to include studies on the southern Mediterranean, Latin America and some Asian countries such as Japan, China, South Korea and India (Friedman and Jones, 2011). This geographical spread, nevertheless, has not included important areas such as the Middle East where scholarly works on business history in the region have been lacking (Godley, 2005, p. 16; Godley and Shechter, 2008, p. 632). This is evidenced, for example, by the absence of any chapter on the Middle East in *Business History around the World* edited by Amatori and Jones (2003) and the *Routledge companion to Business History* edited by Wilson et al. (2016). Likewise, albeit to a lesser extent, business history of the African continent, except for South Africa, remains an immature field (Austin et al., 2017, p. 538). However, the body of scholarship on the histories of individual firms in Africa has been mounting in the last few decades and is considered relatively larger than that of the Middle East.[6]

Most of the African countries were under colonial rules, either formal or informal, during the first global economy. The African history, therefore, has been written under the shadow of an overarching imperial paradigm that has dominated almost every historical scholarship on the region. On the other hand, dependency theory, which was born in Latin America, has been extended into Africa by Samir Amin (1976) and Walter Rodney (1982). Consequently, African economic and business history literature has largely been written from political economy, dependency theory and Marxist perspectives (Hopkins, 1987; Verhoef, 2017, p.14).

Foreign firms were key players in many African countries during colonisation. Economists often refer to the favourable impact of foreign firms in terms of capital supply, technology transfer and spillovers, to name a few theoretical benefits. In contrast, advocates of dependency theory maintain that the capitalist metropolitan countries benefited at the expense of the periphery where foreign firms were the chief drivers of this unhealthy relationship between the metropole and the periphery. Cain and Hopkins (2001) positioned foreign business at the centre of their history on British imperialism. However, Hopkins was sceptical of many studies that had been conducted on foreign firms in Africa. He argued that "speculation has run far ahead of evidence" (1976, p. 289). For Hopkins, many of the studies on foreign firms operating in Africa during the colonisation era were based on generally accepted beliefs and generalisations, rather than proper evidence.

A special issue in *Business History* in 2007 was devoted to business in Africa. In his review article on the state of scholarship on business in Africa, Robert Tignor, an established authority in the African History and especially Egypt, noted the dearth of business history studies that have been concerned with discovering the history of business in the region. Tignor found that the articles written on Africa and published in the three main business history journals (Business History Review, Business History and Enterprise & Society), that

[6] For the latest surveys on business history in Africa, see Tignor (2007), Verhoef (2014) and Austin (2017).

based their inquiries on primary sources, have been extremely limited. The majority of articles on business in Africa have been published in general history journals and, in limited cases, in economic history journals, rather than journals dedicated to business history. The political economy of dependency theory, as Tignor noted, has had a great influence on African business history where the main focus has been on imperialism and exploitation by foreign firms.

Research on individual firms has mostly focused on firms with an exploitive nature such as the mining companies and on European banks, mainly British and French. Examples include Newbury (1987) on De Beers Mining Company in South Africa, Uche (1996, 1999) on British overseas banks, mainly Barclays DCO in Nigeria, and Austin and Uche (2007) on British banking in West Africa. A favourite area of investigation has been the political economy of the relationship between the state and colonial rule on the one hand, and business on the other hand, both under colony and during decolonisation. The literature on the period of decolonisation has been accumulating since the opening of the British National Archives to scholars in the 1980s and 1990s. This literature has largely been on the reaction of British businesses to the end of Empire, political pressures imposed on foreign firms and on the relationship between the colonial authorities and business. Tignor (1998) studied the relationship between decolonisation and business in Egypt, Nigeria, and Kenya. Decker (2005, 2008) explored the history of Barclays DCO during decolonisation in Nigeria and the response of British firms to economic nationalism in Ghana and Nigeria respectively.

As for the Middle East, there is still a limited number of business history studies, predominantly on foreign banks. Jones (1986, 1987) covered the history of the Imperial Bank of Persia and its successor the British Bank of the Middle East in Iran. Wilson (1983) briefly investigated the emergence of modern banking in the Arab Middle East. In another study (1987), he traced the history of the Eastern Bank in the Arab Gulf from 1917 to 1950. Thobie (1991) analysed European banks in the Middle East during the late nineteenth century. Clay (1990, 2000) wrote about the history of the Imperial Ottoman Bank. Pamuk (2004a) examined the evolution and long-term changes of banks in the Ottoman Empire between the seventeenth century and World War I. Geyikdagi and Geyikdagi (2011) analysed foreign direct investment in the Ottoman Empire during the late nineteenth and early twentieth centuries. Andrew Godley and Relli Shechter edited a special section on the Middle East in *Enterprise & Society* (2008) that included two articles on Iran, one on the Ottoman Empire, and one article on Egypt. The common theme across these articles was how firms strategically responded to changing political context. As the editors noted, the lack of business history scholarship on the Middle East could be understood given the scarcity of sources. Finally, there are numerous studies on the general economic history of the Middle East (e.g. Owen and Pamuk, 1999; Kuran, 2004).

1.5 Thesis structure

The thesis is organised in six chapters. After this introductory chapter, Chapter Two serves as a background for the subsequent chapters. It provides a historical overview of the economic history of modern Egypt between the second half of the nineteenth century up to 1956. The major developments during this period are highlighted. These included the cotton boom and the accumulation of large foreign debts in the 1860s and 1870s, the British occupation and the following influx of foreign capital, the financial crisis of 1907 and its consequences on the corporate sector, the growth of foreign elites, the state measures to support industrialisation from the 1920s. The chapter ends by summarising the contested history of Egypt as narrated by foreign and local scholars.

Chapters three, four and five are the core of this study. Each of them is organised around a particular theme, has a specific research question, and is informed by particular theories. The three chapters, collectively, contribute to a better understanding of the first modern globalisation. Each chapter begins with some context about the theme, and then it presents the main findings and discussion, followed by a summary.

Chapter Three analyses the Egyptian cotton network. The network encompassed various participants such as producers, intermediaries, exporters and financiers. The latter included foreign banks in Egypt that financed cotton cultivation and domestic banks in Europe that financed the export of Egyptian cotton. Relevant knowledge, organisation and abundance of financial capital were necessary for an efficient network, and these elements are discussed. Theories of economic coordination (Hayek, 1937; Richardson, 1960) and the economy as an information system (Casson, 1997a, 1997b) are employed in order to inform the analysis of how coordination was maintained by the various actors involved in the network. The analysis of the Egyptian cotton network has the potential to add new dimensions to discussions on the first global economy and the mechanism through which actors managed their businesses within this globalised sphere. The first research question posed in this thesis is:

How was coordination maintained within the Egyptian cotton network?

The chapter begins with the historical events that led to the emergence of Egyptian cotton as a commodity of a world-reputation in Europe. Then it discusses the possible theoretical approaches to study commodity chains and networks. The chapter flows to investigate the function performed by each participant in the network that stretched from the Egyptian villages to the textile mills in Europe. These participants were co-located in various hubs in the Egyptian villages, Alexandria, London, and Liverpool. After identifying the precise role of each participant in the network, a framework of coordination is employed in order to understand how the entire network operated and who the most instrumental actors in the network were.

Chapter Four offers a representative case of the activities of foreign banks in Egypt. Banking history is a very good exemplar of business history. Financial institutions have constantly been ranked in the top list of big firms in most countries (Cassis, 2016, p. 19). This chapter is a detailed case study of the experience of the Ionian Bank, a British overseas banks, in Egypt. A range of theories informs this chapter. Internalisation theory is used to analyse the Ionian Bank's decision to expand into Egypt. The principal-agent framework and Penrose's resource-based view of firm (1959) are employed to understand some features of the Bank's business and growth in Egypt. The chapter seeks to address the following question:

How did foreign banks in Egypt maintain their operations and manage risks, and what was the impact on their financial performance?

The chapter begins with an overview of how foreign banks in developing countries have been perceived in the history literature. It then explores the theoretical and historical lenses to study foreign banking and, more specifically, British overseas banks. The chapter then introduces the Ionian Bank and traces its years in operation in Egypt between 1907 and 1956. The main body of the chapter discusses several aspects such as the Bank's entry into Egypt, its organisational structure, lending activities, the risks and challenges the Bank faced in Egypt, and the impact of these factors on the financial performance of the Bank.

Chapter Five is concerned with another level of analysis in order to complement the discussion of the first global economy. It discusses foreigners in Egypt, their roles in the business network of the host country and how the network changed over time as a response to a changing institutional environment. The chapter analyses the interlocking directorates of the Egyptian joint-stock companies. Those interlocks generated two types of networks: a network of firms connected by directors and a network of directors connected by firms. Both networks are investigated in the chapter. The analysis covers the period between 1924 and 1948, when the influence of foreign communities started to decline and an emerging local capitalism was underway. In many Western countries, corporate networks were organised around banks and this facilitated the access of industry to financial resources. The corporate network in Egypt was organised for other purposes. In other words, finance was not the main concern of the network's members. On the other hand, the network structure certainly had an impact on interlocking directors. The concern here is whether the structure of the network offered entrepreneurial opportunities to the business elites in Egypt. Social network analysis and theories of entrepreneurship are employed. The third and final research question this thesis addresses is:

What were the driving forces behind the specific structure of the corporate network in Egypt, and how were entrepreneurial activities linked to the corporate elite network?

The chapter begins by introducing business networks and foreigners in Egypt. It then reviews the literature on the common theories that explain interlocking directorates. Afterwards, the chapter describes the main terminologies of social network analysis and how they can characterise a network and its members. The corporate network of firms and the interpersonal network of directors are then investigated, and the findings are discussed. Finally, the chapter compares the main findings on Egypt to those of other selective countries.

Chapter Six draws upon the entire thesis and concludes it by returning to the research questions and exploring what insights the answers to the questions may contribute to the larger literature on the first global economy and to the historiography of Egypt. In addition, the chapter offers suggestions for future research based on the implications of the findings.

1.6 Sources

A recurrent issue in business history has been the limited attention given by business history scholars to sources and methodology. Historians are often reluctant to discuss their methods and sources in details (Kobrak and Schneider, 2011; Decker, 2013; Kipping et al., 2014; de Jong et al., 2015). Kipping et al. (2014, p. 307) noted that most books on research methods in social sciences do not include any discussion on historical methodology. Hidy (1970) called for borrowing analytical concepts and techniques from other social sciences disciplines. Jones et al. (2012, p. 232) urged business historians to open themselves to learn from other social scientists, be critical in their use of archival materials, and develop new methodologies to deal with small samples. The following section discusses the sources used for this thesis, and the research methodology that underpins the study.

Writing a thesis on business history in the Middle East has encountered many difficulties. The most serious was the scarcity of sources. The National Archive of Egypt was founded in 1828 and is considered among the oldest archives in the World. It holds many invaluable materials on joint- companies and their activities in Egypt in the late nineteenth and early twentieth centuries. Yet, for some reasons, a request to access the Archive was denied. Corporate archives do not exist in Egypt. Archival materials on some British firms that operated in Egypt, such as Imperial Chemical Industries, are available. However, materials on their operations in Egypt did not survive. The sources used in this thesis are discussed below.

The sources of evidence for the three core chapters of this thesis are based on a mixture of primary materials supplemented by a wide range of secondary materials. The primary sources used in chapters three and four are archival records of the Ionian Bank held by the British Library of Political and Economic Science. The materials consulted include reports of proceedings of the annual general meetings, periodical reports by the Egyptian branch sent to the head office and correspondences between the management in London and the top management in Egypt. In addition, limited materials from the Archive of Lloyds Banking Group were consulted. Other primary sources are the records of the Foreign Office maintained by the British National Archives and the Bank of England Archive.

The use of these archival materials adds to the originality of the current study. As mentioned earlier, the key study on Egyptian cotton and its development between 1820 and 1914 is Owen (1969). However, bank archives were not available to him at the time of his writing. Accordingly, he did not consult any corporate archive of the banks that were involved in financing Egyptian cotton. Therefore, viewing Egyptian cotton and its financing from the perspective of the banks involved offers new dimensions to the discussion on how the network of Egyptian cotton operated. Moreover, Chapter Four on the Ionian Bank is the first study, up to my knowledge, that thoroughly scrutinises the business of one of the foreign commercial banks in Egypt, relying on the corporate archive of the respective institution.

In Chapter Five, the corporate network in Egypt is investigated in three benchmark years: 1924, 1937 and 1948. This was the most critical period of Egyptian capitalism in modern history, which ended with the 1952 military coup. A dataset of the firms listed in the Egyptian Stock Exchange and their directors in the three years was constructed from two sources. For the first benchmark year, data were constructed from "*L'Egypte Economique et Financière*". This book contains information on the major limited-liability companies operating in Egypt in 1924. The book, written in French, was edited by Ed. Papasian, the secretary of the Egyptian Society of Political Economy, Statistics and Legislation. This society was one of the earliest think tanks established in Egypt in 1909 as a non-government association. For the next two benchmark years, data were extracted from the Stock Exchange Year-Book of Egypt for the years 1937 and 1948. The yearbook was published almost annually between 1937 and 1948. These yearbooks were compiled and edited by Clement Levy, a Jewish entrepreneur residing in Egypt who had previously worked for the New York Stock Exchange. The yearbooks contain complete information on the limited-liability companies that were listed in the Egyptian Stock Exchange. Levy compiled his data from official documents and from information furnished by the companies themselves. The two yearbooks along with *L'Egypte Economique et Financière* include the following information about each company: purpose, place of incorporation, legal status, location of headquarters, a brief history, the composition of the board of directors, and a summary of financial data.

The data provide an opportunity to study the evolution of the corporate network in Egypt in a systematic way. These sources have been consulted by some political and cultural historians, in order to determine the extent of foreign versus domestic capital's dominance on these companies and indigenous versus foreign participation in terms of directors' nationalities. Names of directors have been used to determine nationality. For instance, Deeb (1978) investigated the socioeconomic role of local foreign minorities in Egypt from the nineteenth century up to 1961. Tignor (1980b) explored the economic activities of foreigners in Egypt between 1920 and 1950. Other studies have used these sources to illustrate the role of single ethnic minorities, such as the Greek and Jewish communities, in the economic life in Egypt. Krämer (1989) and Beinin (1998a) referred to these sources in their studies on the Jewish community in Egypt. Kitroeff (1989) and Karanasou (1999) were interested in the Greek diaspora in Egypt and focused on the Greek directors in the corporate network. However, these sources have never been used to analyse the entire network through rigorous techniques such as social network analysis.

Each of the three core chapters of this thesis has a different research design and method. Chapter Three analyses the Egyptian cotton network through a narrative that builds on theories of coordination that help explaining the functionality of the network. Chapter Five on interlocking directorates, on the other hand, has a longitudinal design as it traces the changes of the corporate and elite networks over time. The chapter uses formal application of social network analysis that inherently builds on graph theory, a mathematical language that handles relational data in order to identify the position of each node within the network in terms of centrality.

Chapter Four on the Ionian Bank is a typical case study with a longitudinal element, and is mainly based on archival research. Stake (1995) differentiates between three types of case study research. An intrinsic case study is undertaken primarily to gain insights into particularities of a situation where the case under investigation is critical, unique and an object in its own right. In an instrumental case study the focus is on using the case as a means of understanding broader issues or allowing generalisation. Therefore, the case is often chosen as a representative case to exemplify a phenomenon. The third type is collective case studies that are undertaken jointly to explore general phenomena. The Ionian Bank, as will be argued in Chapter Four, has elements of both uniqueness and representativeness. The chapter uses the case of the Ionian Bank, at an individual firm level, to better understand the business of foreign banks in Egypt. On the other hand, the experience of these banks in Egypt had many distinctive features compared to European foreign banks in other developing countries.

Chapter 2 The Economic History of Modern Egypt

2.1 Introduction

This chapter sets the ground for the next chapters by providing a brief contextual overview of Egypt's modern economic history from the second half of the nineteenth century up to 1956. Section 2.2 documents the major development in the Egyptian economy ordered chronologically. It begins with the cotton boom and the growing public debt between 1860 and 1882. Then it reviews the period between 1882 when the British forces occupied Egypt and 1922 when the country was unilaterally declared independent by the British. The review highlights the rapid agricultural expansion, the financial crisis of 1907 and its impact on business in Egypt, and the foundation of Banque Misr as the first national bank in Egypt. This section ends with the epoch between 1922 and 1956. During the period, a fledging industrial sector emerged and many measures were enacted by the Egyptian government to diversity the Egyptian economy beyond exporting raw cotton. Section 2.3 discusses the influx of foreign capital into the Egyptian corporate sector and explores the sectoral distribution and direction of foreign capital. Section 2.4 briefly highlights the changing role of the state across the Ottoman and British periods. Section 2.5 provides an overview of foreign communities and business elites in Egypt. Up to this point, these sections present uncontested facts about the economic history of modern Egypt. Section 2.6 summarises the contested historical aspects about the role of local foreigners and foreign capital in the Egyptian economy as investigated by Western and Egyptian scholars.

2.2 Major development, 1860-1956

2.2.1 The cotton boom & public debt, 1860-1882

Between 1517 and 1914, Egypt was part of the Ottoman Empire. The first modernisation plan in Egypt's modern economic history was undertaken by Mohamed Ali Pasha who was appointed as the ruler of Egypt by the Ottoman Empire in 1805 and remained in power until 1848. Ali sought to develop Egypt's subsistence economy into a diversified one through industrialising the country, relying on monopolies extended to state-owned enterprises. The monopolistic system enabled the state to appropriate profits necessary to fund large investments.[7] Ali had aspirations to independence from the Ottoman Empire; yet, his military campaigns across the Empire were not welcomed by the European powers that supported the unity of the Ottoman Empire. During this time, Egypt was often perceived as

[7] On Mohamed Ali's industrialisation, see Panza and Williamson (2015).

a separate state of the Ottoman Empire as it had its own government and enjoyed administrative, political and economic autonomy. Nevertheless, Egypt had to adhere to the agreements signed by the Ottoman Empire in some aspects such as trade and tariff systems and taxation of foreigners.

After Mohamed Ali's attempt to modernise the Egyptian economy had been aborted and his rule had come to an end in 1848, a new era in the Egyptian history began in the early 1860s. The entire landscape of the country completely changed with the cut of American cotton supplies to Europe during the American Civil War (1861-1865) as Egypt became the main cotton supplier to Europe in the market for long staple cotton.

Finance was needed on all levels following the cotton boom in the 1860s. The boom drove a considerable number of peasants to switch to cotton. Before the flourishing cotton exports, the financial requirements of small cultivators were limited and were mainly satisfied by moneylenders. Now these cultivators needed financial support for many purposes and in greater quantities. They needed loans to buy seeds and equipment and to tide one growing season to another (Tignor, 1981, pp. 105-106). In addition, financial support was necessary in order to accommodate for possible fluctuations in cotton quality and quantity from a season to another. Capital was required to buy the crop from cultivators and move it to Alexandria. Export firms needed funds to move the crop from Alexandria to the cotton mills in Europe. More importantly, the government needed financial resources in order to undertake large infrastructure projects such as constructing barrages, hydraulic works, perennial irrigation, railways and ports to further advance the cotton cultivation. While investments to modernise Egypt's agricultural system were necessary, the state lacked the sources of capital to undertake these investments.

Many foreign banks penetrated Egypt during this period. Their business in the county was exclusively lending to the rulers either directly or through financial syndicates. This offered good and liquid investment opportunities for foreign capitalists. In 1862, Egypt borrowed its first foreign loan in modern history; the loan was priced at 7% to be repaid in thirty years (National Bank of Egypt, 1948, p. 10). Foreign banks in Egypt engaged in discounting treasury bills, buying government debts, and participating in long-term loan syndications that offered exceptional interest rates. Borrowing from abroad continued on a massive scale to repay old debts and to finance new infrastructure projects. On the other hand, extravagant expenses of the then Egyptian rulers, Said and Ismail, grew rapidly and loans were used to meet their innumerable financial needs (Crouchley, 1936, p. 29). Egypt was then hit by a huge accumulated foreign debt burden in the 1870s.[8]

The growing foreign debts in Egypt was not dissimilar to what was happening elsewhere in the Ottoman Empire. The main job of the foreign banks that were active in the Ottoman Empire during the second half of the nineteenth century was to lend to governments. Neither the governments receiving the money nor the governments of the lending countries were alarmed about the mounting indebtedness of the borrowing countries (Baster, 1935, p. 59). Greed of investors and extravagance of borrowers led eventually to inevitable bankruptcies across the Empire, symbolised by Egypt's bankruptcy in the 1870s.

Foreign creditors to Egypt, driven by the deteriorating solvency of the country, founded the Caisse de la Dette Publique in 1876 to act as an exchequer office for the government. It included representatives from Britain, France, Italy, and Austria-Hungary, the major lenders to Egypt. The main objectives of the new institution were to oversee the country's fiscal affairs, collect public revenues and to ensure that public debt was serviced before any other disbursement from the fund. The Caisse de la Dette Publique supported a law reform in 1885 where the currency was defined in terms of gold only. In addition, the British sovereign became the main instrument of circulation.

2.2.2 British occupation, 1882-1922

Major imperial powers, mainly Britain and France, had been expanding during the nineteenth century. Egypt, with its cotton potential and its strategic location was an attractive country for these expansions. The British forces occupied Egypt in 1882, and the stated motivations for the military invasion were to restore political stability in the country amid Islamic and nationalist movements against the ruler and to ensure the repayment of foreign debts.[9]

The British Administration in Egypt undertook administrative and fiscal reforms. It held the view that enlarging the cotton cultivated areas through investing in infrastructure projects could provide ample levels of foreign exchange in order to service the large external debts (el-Gritly, 1947, p. 8). Therefore, infrastructure projects such as perennial irrigation, drainage and transportation links of railways and shipping were further developed to serve

[8] See Landes (1958) on banking in Egypt during this period. He focused on the crucial years between 1860 and 1866 when public borrowing reached unprecedented levels.
[9] See Hopkins (1986) on the British occupation of Egypt.

the cotton market. The measures taken by the British Administration in the post-1882 years until 1900 had the effects of extending the cotton-cultivated areas and intensifying the commercialisation of land. No further expansions in the agricultural cultivated area took place after 1900 (Hansen, 1991, p. 91). Nevertheless, continuous improvements in infrastructure led to an increase in the crop yield. The value of Egyptian exported cotton increased significantly driven by a surge in cotton production and a strong international demand. It was estimated that cotton exports and foreign imports soared by 350% between 1880 and 1910 (Egyptian Ministry of Finance, 1910, p. 234). On the other hand, once the economic downturn of the 1880s, the immediate years following the British occupation, had vanished, prices of both urban and rural lands went up. During that period, cotton export and land ownership were the main sources of capital accumulation.

Land companies focused on rural land reclamation and urban land development. Rural land companies purchased large areas of waste or uncultivated lands for reclamation and improvement. They prepared these lands for cultivation by levelling the ground, cleansing the soil, digging canals, and providing irrigation systems in anticipation of future sale or rent (Saul, 2015, p. 135). Other rural land companies purchased large tracts of land for future resale in smaller lots. The demand was high in the early years of the twentieth century given the continuous increase in the value and volume of cotton export and, subsequently, the price of rural lands. Urban land companies, on the other hand, focused on building modern European-style housing and business premises for the rapidly growing foreign population and for the wealthy Egyptians. Many of these companies were concerned, however, with acquiring real estate urban sites and then reselling them as soon as they could. Both investments of urban and rural land development companies provided quick returns in the form of increasing prices i.e. unearned income.

A massive economic boom, driven by an agricultural expansion and a rush of foreign capital into Egypt, took place in the early years of the twentieth century. Between 1900 and 1907, 160 new joint-stock companies were founded (Crouchley, 1936, p. 53). The total capitalisation of joint-stock companies in 1907 amounted to £92.6 million. Between 1902 and 1907, no less than 84% of the total increase in paid-up capital went to mortgage lending and land companies (Crouchley, 1936, p. 53). The remaining 16% was left for other commercial, industrial, transportation and utilities companies.

Land value was skyrocketing and credit from abroad was at the heart of this speculative boom. Large French, Greek and German banks flowed to the country along with numerous smaller French banks (Baster, 1935, p. 71).[10] The growing supply of foreign capital and the increasingly available finance drove interest rates down (Hansen, 1983). The new banks in Egypt, along with the older counterparts, extensively borrowed from Europe and extended loans in Egypt with relaxed collateral requirements. These banks sought higher returns on speculative investments and engaged in risky practices. For example, the Bank of Egypt, the first British joint-stock bank to operate abroad, borrowed on a short-term basis from London and offered long-term loans backed by agricultural and urban properties (National Bank of Egypt, 1948, p. 34). Even some of the British life insurance companies operating in Egypt, such as the Gresham Life Insurance company of London, also extended mortgage finance against lands.[11] Mortgage banks conformably issued debentures given the fact that their credit portfolios were secured by mortgages on prosperous lands and buildings (el-Gritly, 1947, p. 38). Other risky banking practices involved lending against stock certificates of newly established land reclamation and mortgage lending companies. This in turn led to high concentration risks in banks' lending portfolios.

Some companies were floated with no defined purpose. Subscriptions were covered 40 to 50 times, and a common practice in this feverish market was to promote new land companies only to unload new shares at a very high premium (Crouchley, 1936. P. 62). Large profits were made as land prices continued to increase. Investors and speculators bought quantities of shares and lands that were beyond their own resources. Sir Evelyn Baring (Lord Cromer), the British Consul-General in Egypt between 1883 and 1907, warned the public in 1905 against the "undue confidence" in placing their investments in speculative and ill-founded companies (Colvin, 1906, p.350).

The bubble burst in 1907 as the collapse of the American stock market extended into Europe. European creditors, in turn, cut their facilities to the financial institutions working in Egypt and called their loans back. The Egyptian branches of the European banks tried to tighten up their credit facilities. To make it worse, however, banks and mortgage companies in Egypt witnessed high rates of default on loans extended to large landowners who utilised these

[10] Foreign banks are explored in greater details in section 2.3.1.
[11] War Trade Department (1917). [Report on the Policy Adopted in Restraint and Liquidation of Enemy Trade]. The National Archives (hereafter TNA), Foreign Office (hereafter FO) 386/1720.

loans to buy new lands. Consequently, stock prices as well as the value of agricultural and building lands plummeted.

The financial crisis of 1907 had a severe impact on the business sector in Egypt. The consequences of the crash were that 31 companies were liquidated. Out of them, 21 had been recently founded during the speculative boom between 1904 and 1907 (Egyptian Ministry of Finance, 1910, pp. 30-33). The crisis was a real test for foreign banks in Egypt, and a number of the new entrants did not survive the crisis (Baster, 1935, pp. 71-72). Many banks closed in 1907, and later the Bank of Egypt was forced to liquidation in 1911. The surviving banks reduced their credit exposure in the country accordingly. Along with banks, eight of the companies liquidated were in the urban and rural land reclamation business (Davis, 1983, p. 50). Following the crisis and up to 1914, 46 companies with paid-up capital of £8.2 million were liquidated (Crouchley, 1936, p. 66).

The growing popularity and soaring investments in joint-stock companies during the early years of the twentieth century was a remarkable development in the Egyptian economy. In 1907, for example, 328 companies were registered in the Egyptian Stock Exchange. Many of the stocks and bonds of these companies were traded in London and, to a lesser extent, Paris (Egyptian Ministry of Finance, 1912, pp. 526-527). In addition, they were traded in the stock exchanges of Alexandria and Cairo.

The Egyptian securities market and the stock exchange activities in Egypt date back to 1883 when the Alexandria Stock Exchange was established. This makes it one of the oldest in the world. The Cairo Stock Exchange followed in 1903. Both exchanges were very active since their inception. The initial objective behind their establishment was to deal in the deeds of the Egyptian government's debts. However, the market was further developed by establishing a league of market dealers in securities in 1903 with the aim of setting rules for stock trading and resolving any arising problems (Central Bank of Egypt, 1987, p. 252). Within a few years, and as private investments thrived considerably, many new firms raised their funds from the Egyptian Stock Exchange (Mabro, 1974, pp. 142-143). The Egyptian government intervened in the stock exchange and regulated its activities following the liquidation of many companies in 1907 (el-Gritly, 1947, p.74). The secondary market was officially regulated in 1909 by the first stock exchange law. During this period, the Cairo Stock Exchange was ranked the fifth most active exchange across the world (Ali el-Din, 2002, p. 38).

The First World War revealed major structural weaknesses in the Egyptian economy. The cut of European supplies during the war years and the shortage of many goods were manifestations of an economy that was heavily reliant on foreign imports. A commission was formed by the Egyptian government to study the effects of the war on Egypt's commerce and industry and to set out the future directions of the country's economy. The members of the commission were some of the most prominent businessmen, both native-born and foreigners living in Egypt. The final report, published in 1918, portrayed the optimal way forward for the Egyptian economy and called for some serious measures to support industrialisation. The commission suggested several industries to focus upon such as textiles, building materials, paper manufacturing, leatherworks, and food processing. Indeed, certain industries flourished in this period to compensate for the shortage of foreign supplies. However, once imports from Europe were restored again after the war had come to an end, the progress in the domestic industry was quickly lost (Crouchley, 1936, p.101).

Egypt remained a typical single cash crop export economy between the second half of the nineteenth century and the 1920s. Export of raw cotton and cotton seed represented around 90% of total exports up to World War I (Tignor, 1980a, p. 102). At the conclusion of the war, industrial undertakings represented 6% only of the total capitalisation of joint-stock companies, and the industrial sector confined to preparing cotton for export (Egyptian Ministry of Finance, 1928). Up to the early 1920s, furthermore, private investments remained largely directed to land and real estate. The prominent Egyptian historian Charles Issawi summarised the period between the second half of the nineteenth century and 1920 as follows: "The attempted leap from a subsistence to a complex economy had failed and instead the country had landed on the road leading to an export-orientated economy. Egypt could now be integrated, as an agricultural unit, in the worldwide economic system" (1961, pp. 7-8).

For the Egyptian intellectuals and elites, the aspiration of a more dynamic and diversified economy goes back at least to the financial crisis of 1907. In the aftermath of the crisis, foreign funds and money supply from Europe drained. The Egyptians realised the extent of their dependency on foreign capital and how their fates were in the hands of foreign credit and mortgage banks. On the other hand, nationalists and some large landowners thought that a healthy economy should be less dependent on cotton export and that an Egyptian bank could balance the monopoly enjoyed by European foreign banks in Egypt.

A key turning point in the Egyptian economy was in 1920 when Banque Misr (Bank of Egypt) was established as the first national bank. The Bank was founded and led by Talaat Harb Pasha, one of the most energetic indigenous entrepreneurs in the country at that time. Harb had been concerned with the dominance of foreign banks on the Egyptian economy. He hoped that his Egyptian bank would be capable of mobilising capital for supplying industrial credit, promoting economic diversification and import substitution policies through setting up industrial and commercial companies. Talaat Harb was fascinated by the role played by the German universal banks that were believed to be one of the main drivers of German industrialisation and catch up in the nineteenth century (Tignor, 2011, p. 245). Banque Misr drew its capital from wealthy indigenous landowners and tried to establish its niche position by stressing its Egyptian origins (Davis. 1983, pp. 108-109).

Political and economic nationalist movements emerged after World War I. By the early 1920s, the British rule in Egypt was facing momentous opposition. Politicians were seeking complete political independence from Britain. Economic nationalists, on the other hand, sought to gain economic independence. The Egyptian revolution against the British occupation in 1919 intensified a national anti-colonial spirit. Three years later, Egypt was granted a nominal unilateral independence from Britain.

2.2.3 Industrialisation and the capitalist experiment, 1922-1956

In the interwar period, the Egyptian government, driven by a nationalist sentiment, tried to diversify the economy away from the export of cotton and to promote import-substitution industrialisation. The government was keen to mobilise domestic savings in order to reduce the reliance on foreign capital. In addition, it supported a nascent industrialisation by the private sector through many ways such as offering subsidies and loans and favouring locally made products at the expense of foreign manufactured goods (Hansen and Nashashibi, 1975; Tignor, 1977b, p. 187). These kind of policies would become standard packages in large parts of the developing world during decolonisation.

Many factors fuelled the state’s move towards industrialisation in the interwar period. As mentioned earlier, European supplies and foreign imports were cut during World War I. The decline in consumption, in turn, led to increased forced savings among the wealthy Egyptians. Imports for feeding the rapidly growing population increased after the conclusion of the First World War. The value of cotton exports almost stagnated between 1914 and 1930, and cotton prices, furthermore, dropped significantly at the time of the Great

Depression in the 1930s. Traditional investments in agricultural lands and real estate became less attractive. Return on investments in land went down as a result of the fall in cotton prices. A ceiling on rent, imposed by the government, put pressure on urban real estate investments (Mabro and Radwan, 1976). All of these factors led to the emergence of industrial development as more domestic capital was directed to manufacturing.

In an agrarian country, the top of the social hierarchy of the indigenous population was occupied by large landowners. The wealthy Egyptian landowners directed their savings to the safest investment of acquiring more lands. Occasionally, they satisfied their speculative desires through participating in the cotton futures market in Alexandria (el-Gritly, 1947, p. 8). On the other hand, entrepreneurs were not eager to invest in industries where there was competition from European manufactured goods. Powerful wholesalers in Egypt were able to convince the public that goods not bearing a European distinctive mark were of low quality (Department of Overseas Trade, 1919, p. 15). With the depression of agricultural prices in the 1920s, the affluent Egyptian landowners moved into investments in the emerging industrial sector that was protected by the state. One of the long-lasting impacts Banque Misr made was introducing industrial investments to the class of landowners who had confined their investments in the past to land (el-Gritly, 1947, p. 23).

Between 1920, when Banque Misr was established, and the outbreak of World War II, the Bank founded a group of 18 companies operating in the textile industry, airline, insurance, and many others with a total paid-up capital estimated in 1939 to be approximately £E2 million (Tignor, 2011, p. 246). Misr group of companies contributed to around 45% of the growth in paid-up capital among all Egyptian joint-stock firms between 1922 and 1938. Through direct participation in ownership, the Bank established its companies and supplied them with working capital and long term credits on a commercial basis. Banque Misr also provided managerial and technical advice to its companies. The group focused principally on the textile industry; the group’s textile manufacturing companies produced the largest share of Egypt’s textile outputs and employed 53% of the Egyptian labour in organised textile production (O'Brien, 1966, p. 92; Girgis, 1977, p. 11). Furthermore, Banque Misr was involved in financing cotton cultivation, putting itself in a direct competition with the foreign banks operating in Egypt. The Bank performed satisfactorily in its early years. However, a bank run took place in 1939 and many depositors withdrew their funds. Talaat Harb asked the government to bail out the Bank; the government made its approval conditional on

Harb's resignation.[12] Hafiz Afifi Pasha was appointed by the government to replace Talaat Harb. The new chairman had the view that founding new industrial enterprises had to cease and that the Bank should be a credit bank only (Deeb, 1976, p. 80).

Another important institution that was established in 1922 was Association des Industries en Egypte, which was later, renamed the Federation of Egyptian Industries. The founders included prominent entrepreneurs from the local foreign community along with some powerful indigenous businessmen. The Federation was concerned with promoting policies that would aid and nurture the infant industries through, for example, tax holidays (Deeb, 1978, pp. 19-21). In addition, the Federation was at the forefront of promoting tariff reforms and revisions of the customs system in order to protect the local industry. In essence, industrialists, both local foreigners and indigenous, lobbied in order to promote government policies to favour local businesses.

While Egypt was a dependency of the Ottoman Empire, its customs regime and commercial conventions were bound by those of the Empire. The almost completely free trade regime that governed all the dependencies of the Ottoman Empire ensured that imported machinery and finished goods were taxed at the same rates (el-Gritly, 1947, p. 10). Such free trade in Egypt was backed by the influence of the British and European powers over the country since the late nineteenth century. Egyptian manufacturing, though still limited, had been negatively affected by keeping tariffs down. Egypt restored its tariff autonomy in 1930, and tariff reforms in a protectionist direction were enacted by the Egyptian government in the same year. Raw materials were now taxed at lower rates than before. Duties on finished manufactured goods such as textiles and footwear increased significantly to range from 15% to 30% (Hansen and Nashashibi, 1975, p. 31). The measures taken by the Egyptian government and the depression of the early years of the 1930s brought many entrepreneurial opportunities in the country, and industrialists certainly benefited.

As was the case with World War I, the Second World War provided a new life to the Egyptian industry. As foreign supplies from Europe were cut again after Italy's entry into the war, local production expanded and firms worked to full capacity (el-Gritly, 1947, p. 13). Demand from the allied forces in Egypt was high and, in some cases, they supplied local producers with technical assistance to overcome bottlenecks (el-Gritly, 1947, p. 13). In essence, the two world wars and the inflationary rise in prices driven by the expenditure and

[12] The controversies surrounding Banque Misr's failure are discussed in section 2.5.

consumption demand of the foreign troops in Egypt had favourable effects on the domestic industrial sector (Hansen and Nashashibi, 1975). By the mid-1940s, the Egyptian economy was further diversified with a relatively larger industrial base. The Egyptian industry was concentrated in textiles, building materials, and consumer goods (Board of Trade, 1948). The country relied less on cotton exporting compared with the beginning of the twentieth century.

The military coup in 1952 had no immediate negative impacts on the private sector, and no major changes in the orientation of economic policy happened. Although some worrying signs, such as the land reform law that sequestrated the estates owned by large landowners, private enterprises maintained their liveliness between 1952 and 1956. However, the Suez Crisis and the following Israeli-British-French invasion of Egypt in late 1956 initiated a complete policy shift. Egyptianisation laws in 1957 paved the way for nationalising the British, French, and Jewish properties in Egypt, followed by the sequestration of the large private indigenous businesses.

2.3 Foreign capital

2.3.1 Sectoral distribution of foreign capital

As mentioned earlier, a primitive economy anxious to financial resources in the 1860s provided good investment outlays for surplus capital in Europe. On the other hand, Egypt enjoyed sources of raw materials and staple commodities, mainly cotton, which was needed for the thriving textile industry in Europe. Therefore, Egypt had the potential to offer a foreign market for both surplus capital and surplus production of the industrial states, and a source for securing raw materials for industry in Europe.[13] Additionally, the opening of the Suez Canal in 1869 revealed the unique strategic location of Egypt at the centre of international trade movement. All of these reasons contributed to the appeal of Egypt as a soon-to-be lucrative field for foreign capital and its financiers. The first Western firms investing in Egypt were banks that lent to the Egyptian rulers in the 1860s and 1870s. This signalled the beginning of integrating the country firmly into the world capitalist system.

Within a few years, Egypt witnessed an inflow of foreign capital at a massive scale driven by the financial stability promoted by the Caisse de la Dette Publique, the British occupation of Egypt and the growing cotton exports. This European capital played the colossal part in

[13] This is generalised to other parts of the world in Asia, Africa, and Lain America that were ideal destinations to foreign capital during the first modern globalisation.

the formation of joint-stock companies in Egypt. At the end of the nineteenth century, 78 major companies were operating in the country. The total paid-up capital and debentures of these companies recorded £21.1 million. Out of these, 45 companies with £19.1 paid-up capital and debentures were wholly or predominantly dominated by foreign capital (Crouchley, 1936, p. 44).

The foreign investments concentrated on firms operating in mortgage and land, and on the banking activities related to cotton cultivation and export. Saul (2015) noted that the foreign investments in Egypt matched identically the structure of the country's economy. The three activities of mortgage lending, commercial banking, and land reclamation and rural-urban development had the largest share of foreign investments. At the end of the First World War, for example, they constituted almost 54% of total capitalisation of joint-stock companies: 45% for mortgage lending, 5% for land companies, and 4% for commercial banking (Egyptian Ministry of Finance, 1928, pp. 318-319). Other foreign investments were directed to utilities, transportation, and industrial and commercial undertakings ancillary to the cotton industry (Deeb, 1978, p. 17).

The entire economy was almost completely dominated by foreigners. The cotton industry is a case in point. The various stages of cotton production, processing, marketing, and exporting were all dependent on Europeans. Cultivation was financed by foreign banks that lent to large landowners and merchants, and by foreign moneylenders who lent to small landholders and peasants. Cotton would then by transported by railways and rivers through foreign transport firms. Finally, it was exported by foreign trading firms. To sum up, the complete process were in foreign hands. The only two indigenous elements were the cheap labour needed for cultivation, the least paid, and the land itself. Even the land, the country's most valuable asset owned by Egyptians, were mortgaged to foreign banks.

The inflow of foreign investments that began in the second half of the nineteenth century peaked at the outbreak of World War I. Table 2.1 demonstrates the growth and dominance of foreign capital. The total paid-up capital of joint-stock companies registered and operating in Egypt in 1914 stood at £E100.1 million. Capital held abroad totalled £E71.2 million up from £E6.1 million in 1892. Therefore, foreign capital represented more than 70% of the total capital and debentures of joint-stock companies. Crouchley measured whether capital was foreign by the country from which capital was subscribed. Hence, the figures of investments held in Egypt in Table 2.1 refer to money originated inside Egypt and invested by people living in Egypt, whether or not they were Egyptian citizens. In fact, much of this money was essentially provided by local foreigners living in the country.

Table 2.1 Paid-up capital and debentures of Egyptian joint-stock companies in 1914

£E 000

Sector	Held aboard	Held in Egypt	Total
Mortgage	48,369	6,200	54,569
Banking & financial institutions	3,229	2,498	5,727
Agricultural and urban land	7,261	11,312	18,573
Transport	3,988	2,088	6,076
Industrial, mining, commercial	8,406	6,801	15,207
Total	**71,253**	**28,899**	**100,152**

Source: Crouchley (1936, p. 155)

Furthermore, for a number of reasons, the figures in Table 2.1 underestimate the dominance of foreign capital in the Egyptian economy. First, the figures excluded the Suez Canal Company and consequently the large foreign investments in it. Second, a large number of branches and agencies of European companies operating in Egypt, such as the Egyptian branches of some of the most important European banks, were not included. As will be discussed later, these foreign banks represented almost the entire banking sector in Egypt at that time. Third, the figures did not include the smaller businesses established by the foreign community residing in Egypt and were not in the form of joint-stock companies. Fourth, Crouchley estimated additional £E85.6 million Egyptian public debts held in Europe and were not included in his calculations.

Foreign capital invested in joint-stock companies remained a key player in the Egyptian economy; however, it gradually declined (Tignor, 1987a, p. 480). Several reasons contributed to this. A Capitulations system, under which the foreigners in Egypt paid no taxes, was abolished in 1937 making investment in Egypt less attractive to foreigners. Banque Misr and its affiliated enterprises entered into the scene aggressively. More importantly was the Egyptianisation measures taken by the government. Foreign capital, in turn, found the new conditions less appealing to do business in the country. For example, the participation of British firms in industrial expansion was hampered by the difficulties encountered in connection with the Egyptianisation of staff, directors, and capital laws enacted by the Egyptian government in 1923 and 1947 (Board of Trade, 1948).[14]

[14] These are discussed in more details in Chapter Five.

The latest data available on foreign capital in Egypt during this period are for the year 1933. Table 2.2 reports the paid-up capital of foreign investments in Egyptian joint-stock companies in that year. The figures show changes in the sectoral composition of foreign capital. For instance, the largest reduction of foreign capital, in absolute figures, was in mortgage companies while the largest increase was in the industrial and commercial category. This reflected gradual structural changes in the Egyptian economy as explained earlier.

Table 2.2 Paid-up capital of foreign investments in joint-stock companies in 1933

£E 000

Sector	Total
Mortgage	44,310
Banking & financial institutions	5,085
Agricultural and urban land	6,457
Transport	4,445
Industrial, mining, commercial	20,780
Total	**81,365**

Source: Crouchley (1936, p. 95)

As the table above suggests, foreign capital was not completely reluctant to participate in the emerging industrial sector. In essence, the Egyptian efforts to push the embryonic industrialisation forward, especially with projects beyond national capabilities, were in collaboration with foreign capital and foreign technical assistance (Tignor, 1977b, pp. 188-189). A report by the Foreign Office in 1931 referred to the activities of French, Belgian and German financial groups in the commercial and industrial development in Egypt, and urged for British investments to consider the new fruitful fields of business in the country.[15]

2.3.2 Nationality of foreign capital

The British and French investors were the first to show interests in the prospects of Egypt during the second half of the nineteenth century. Later, Belgian, German and Italian capital found its way into lucrative investment opportunities in Egypt. However, the supremacy of the British and French interests was never challenged, as they remained the lead investors in Egypt. By and large, foreign investors concentrated on what they had been familiar with. The French in Egypt specialised in mortgage lending; the British were involved in construction works, commercial banking and commerce; the Belgian supplied light railways and tramways.

[15] Foreign Office. (18 May 1931). [Letter to Percy Loranine]. TNA, FO 141/766/1.

Britain maintained its position as the world leader in capital export until the onset of the First World War (Dunning, 1983; Corley, 1994, 1997). Likewise, the British held the largest volume of foreign capital in Egypt compared to the other European countries investing there. The interest of British investments in Egypt was reflected in establishing the British Chamber of Commerce in Alexandria in 1897. The portfolio of the British investments in Egypt was diversified. British contracting firms did the major construction projects, such as hydraulic constructions on the Nile. Many banks and trading firms were British. The British were the main suppliers of equipment to various state departments (Tignor, 1980b, p. 424). In addition, they had limited investments in mortgage companies. According to Paish's estimates (1911, p. 185), the British investments in joint-stock companies in Egypt at the time of his writing recorded £20 million out of total British investments in the country of £43.7 million.[16] The number of the British firms in Egypt rose considerably between the last years of the nineteenth century and the first few decades of the twentieth century. According to a list published by the British Chamber of Commerce in Alexandria in 1899, there were 37 British companies operating in Egypt (Crouchley, 1936, p. 43). This number jumped to more than 500 in the early 1950s. It was estimated that the sequestrated assets of 500 British firm in Egypt, following the British-French-Israeli invasion of Egypt in 1956, amounted to £195.5 million (*The Times*, 4 September 1957; House of Commons, 1961).

Compared to the British investments in Egypt, French investments had less diversified portfolio. The French concentrated on a few heavily capitalised firms such as the Suez Canal Company and a large sugar production company. In addition, they invested in activities associated with land, either in the form of mortgage lending such as the Crédit Foncier Egyptien or enterprises concerned with land reclamation. Yet, it should be noted that French interests in Egypt should not be understated.

The French enjoyed long-standing cultural and economic interests in Egypt. These ties were established following the French invasion of Egypt between 1798 and 1801 led by Napoleon Bonaparte. The French investors were amongst the largest holders of Egyptian debts in the nineteenth century.[17] The Caisse de la Dette Publique, founded in 1876, was headed by two controllers, one British and one French. Therefore, for the following twenty years Egypt was informally under dual control from Britain and France. France used its position on the Caisse

[16] The remainder were loans to the Egyptian government and the nominal value of the Suez Canal shares held by the British government.
[17] See Landes (1958) on the French lenders to Egypt and their role in the mounting foreign debt.

de la Dette Publique to balance the increasing political influence enjoyed by the British following their invasion of Egypt in 1882. Both countries reached an agreement in 1904 where in exchange for British support of France in morocco, France abandoned its political interference in Egypt and stopped opposing the increasing British control of Egyptian affairs. Yet, Saul (1997) showed that the French continued to be the largest foreign investor in Egypt through holding Egyptian public debt and their participation in the largest undertakings in the country, such the Suez Canal Company. Consequently, Saul argued that the volume and value of French economic interests continued to exceed those of Britain, the occupying power of Egypt, even after 1882.[18]

On the other hand, the French maintained influence in Egypt through their control of the Mixed Courts. These Courts were concerned with any commercial or civil legal cases involving citizens of different jurisdictions, and they had operated in Egypt from 1876 until they were abolished in 1949. The French law was applied in the Mixed Courts, which were led by foreign judges, many of them were French. While French formal political participation in controlling the country, along with the British, came to an end with the Anglo-French agreement of 1904, French influence remained in place, informally, through the Mixed Courts. In essence, these Courts were used by the French to intervene in Egyptian politics (Brown, 1993).

The Belgian investments in Egypt were neither numerous such as the British investments nor heavily capitalised like the French. They confined their activities to public utilities such as electricity, the development of railways and tramways, and on land development companies. Table 2.3 reports the paid-up capital of foreign companies operating in Egypt in 1914 broken down by the nationality of capital.

Table 2.3 Paid-up capital of joint-stock companies from major foreign countries investing in Egypt in 1914

£E000

Sector	British	French	Belgian	Others	Total
Mortgage	13,493	39,102	1,974	--	54,569
Banks and financial institutions	3,788	1,485	386	341	6,000
Agricultural and urban land	2,765	1,237	8,330	--	12,322
Transport and canals	2,724	--	2,495	514	5,733
Manufacturing, commerce and mining	7,480	4,443	1,109	373	13,405
Total	**30,250**	**46,267**	**14,294**	**1,228**	**92,039**

Source: Crouchley (1936, p. 72)

[18] Saul (1997) offered a rich account of French economic and financial interests in Egypt between 1882 and 1914.

Table 2.4 illustrates the number of companies and paid-up capital of foreign investments in Egypt in 1933 broken down by nationality and the number of companies. The British capital was the only one among the three largest investing countries in Egypt that showed a net increase between 1914 and 1933. The French investments remained concentrated in the Crédit Foncier Egyptien and the sugar company. Excluding the Suez Canal Company, these two undertakings represented almost 85% of total French investments in Egypt during this period (Crouchley, 1936, p. 96). It should be noted, however, that other important French investments were foreign branches of parent companies in France; therefore, they were omitted from the figures. These included firms such as Lebon & Company that supplied Cairo, Alexandria and other Egyptian towns with gas and electricity, and banks such as Crédit Lyonnais and Comptoir National d'Escompte de Paris. The Belgian capital dropped sharply by more than 50% between 1914 and 1933. However, it remained concentrating on urban land companies and the tramways of Cairo and Alexandria.

Table 2.4 Paid-up capital and number of joint-stock companies from major foreign countries investing in Egypt in 1933

Sector	**British**		**French**		**Belgian**		**Others**		**Total**	
	#	**£E 000**	**#**	**£E 000**	**#**	**£E 000**	**#**	**£E 000**	**#**	**£E 000**
Mortgage	2	9,724	3	34,346	-	-	1	240	6	44,310
Banks and financial	1	2,925	2	245	2	580	3	1,355	8	5,085
Agricultural and urban land	10	2,431	-	-	7	4,280	2	34	19	6,457
Transport and canals	4	2,734	-	-	4	1,133	2	678	10	4,445
Manufacturing, commerce and mining	28	14,086	11	4,172	5	658	22	1864	66	20,780
Total	**45**	**31,900**	**16**	**38,763**	**18**	**6,651**	**30**	**4051**	**109**	**81,365**

Source: Crouchley (1936, p. 95)

Although the Greeks were the largest foreign community in Egypt, the Greek investments did not feature in the table. According to Crouchley (1936, p. 97), there were mainly two reasons behind that. First, the Greek did not often invest capital in Egypt that was acquired in Greece. Rather, they immigrated to Egypt to make money. Second, joint-stock companies were not popular among the Greek, and their enterprises were mostly partnerships or private concerns. Therefore, the above figures should not lead to an underestimate of the Greek capital in Egypt.

As shown above, Crouchley (1936) sought to quantify the share of foreign capital and its dominance on the Egyptian corporate sector. Tignor (1980b), in his study on the economic activities of foreign minorities in Egypt, investigated the nationality of directors of joint-stock companies. However, these studies provided indicative figures only and carried an element of arbitration as nationality and direction of control, whether from overseas or locally, were in many cases difficult to determine. For instance, some information about the location of headquarters and the firm's board of directors provided an idea on the origins of capital (Saul, 2015, p. 129). Nationality of the firm was approximated by the country whose law governed the firm's operations. Nonetheless, the place of registration was not necessarily indicative of the nationality of the firm's founders and directors. In several cases, firms were incorporated in countries where laws were beneficial to their business.

2.3.3 Foreign capital in banking

Egypt lacked an organised financial sector, at least until the end of the 1850s. The Islamic ban on usury made banking business undesirable in the country. Poor per capita income negatively affected volumes of personal savings, and thus no domestic funds were available to be channelled into a formal banking sector. Financing trade, and more generally the functions performed by banks, were handled by foreign residents, notably Greeks, Jewish and Levantine, acting as merchants and moneylenders. John Bowring, a British politician and diplomat, noted during his visit to Egypt in 1839 that moneylenders charged high interest rates of 2% per month on their loans where diamonds were the common security for these loans (Bowring, 1840, p. 82). He also pointed out the scarcity of money in the country. On the other hand, no uniform currency had been in circulation. Gold and silver were mediums of circulation along with several European currencies such as the British pound, the French franc, and the ottoman currency. In the absence of a formal financial system, moneylending became a profitable business following the cotton boom (Owen, 1981, p. 138).

British overseas banks were the first to realise the latent opportunities offered in Egypt in the mid nineteenth century. The first ever British joint-stock bank to commence operations in a foreign country was the Bank of Egypt that was established in 1855. The founders included a Greek merchant and some of the most influential London capitalists including directors of the East India Company and of the London and Westminster Bank (Baster, 1934, p. 78). The founders drew an appealing prospectus for business in Egypt, given its abundant natural resources and its great geographical location as a mid-point between Europe and Asia (Baster, 1935, pp. 61-62). The Bank engaged in purchasing the treasury bonds issued frequently by the Egyptian government and in financing foreign trade. With the exception of a small circle of French private bankers, the Bank of Egypt remained for some years the only large foreign bank in the country.

Within a few years later, many other foreign banks were established and commenced operations in Egypt. The most prominent banks that were established in the 1860s were the Imperial Ottoman Bank and the Anglo-Egyptian Bank. The former was founded in 1863 with roughly equal contributions of French and British capital to serve as the state bank of the Ottoman Empire. The Bank opened its first branch in Egypt in 1867 (Baster, 1935, p. 70). Two committees administered the Bank, one in London and the other in Paris. The London Committee focused primarily on the activities of the Egyptian branches, and the Paris Committee on those in Turkey. A third large British bank was the Anglo-Egyptian Bank that was established in 1864.

After founding the Caisse de la Dette in 1876, two important foreign financial institutions were established in Egypt. The Crédit Foncier Egyptien was founded in 1880 by some large financial houses in France and soon became the largest mortgage lender in Egypt. In 1898 the National Bank of Egypt, through a British initiative, was founded as a commercial bank with some central banking responsibilities. Both institutions are covered in greater details in Chapter Five. Numerous smaller banks were also established; however, most of them were short lived, as they could not stand the strict control put on the country by the foreign creditors, especially given that the Caisse de la Dette Publique restricted further public borrowing (National Bank of Egypt, 1948, p. 13).

When government borrowing ceased in the last two decades of the nineteenth century, foreign banks found themselves deprived from what used to be their principal activity. Yet, the new economic realities of the cotton export boom provided foreign banks with new business opportunities. The predominant activities of foreign banks in Egypt centred on the cotton business. Mortgage banks offered long and medium-term loans to landowners against mortgage on agricultural lands and buildings. Commercial banks, on the other hand, financed the cultivation and movement of cotton, and its export to a lesser extent.

Table 2.5 Major banks and mortgage companies operating in Egypt before 1952

Foundation year in Egypt	Bank	Ownership	Activities
1856	Bank of Egypt	British	Commercial
1864	Anglo-Egyptian Bank (later Barclays DCO)	British	Foreign trade
1867	Imperial Ottoman Bank	Anglo-French	Agricultural
1874	Crédit Lyonnais	French	Commercial
1880	Crédit Foncier Egyptien	French	Land mortgage
1887	Cassa di Sconto e di Risparmio (later Banco Italo-Egiziano)	Italian	Commercial
1896	Banque d'Athenes	Greek	Commercial
1898	National Bank of Egypt	British	Commercial & quasi central bank
1902	Agricultural Bank of Egypt	British	Agricultural
1904	Banque d'Orient	Greek	Commercial
1905	Comptoir National d'Escompte de Paris	French	Commercial
1906	Deutsche Orient Bank (later Dresdner Bank)	German	Commercial
1907	Ionian Bank	British	Commercial
1912	Banque Belge pour l'Etranger (later Banque Belge et Internationale en Égypte)	Belgian	Commercial
1920	Banque Misr	Egyptian	Universal
1922	Banco di Roma (later Banco Italo-Egiziano)	Italian	Commercial
1924	Banca Commerciale Italiana per l'Egitto	Italian	Commercial
1931	Credit Agricole d'Egypte	Egyptian & Foreign	Agricultural

Source: compiled from National Bank of Egypt (1948)

European capital was unmistakeably manifested in the presence of the major European banks' branches in Cairo and Alexandria. Across the Ottoman Empire Egypt, and in particular Alexandria, was the most important financial centre in the Middle East, hosting the largest number of foreign banks during the nineteenth century. Table 2.5 lists the main banks established in Egypt between the second half of the nineteenth century and 1952. This list, however, is by no means exhaustive as it only includes the major banks established during the period. The table illustrates that the Egyptian banking system, with the exception of Banque Misr, was fully dominated by foreign banks. The largest European countries either investing in Egypt or having a sizeable base of residents: Britain, France, Belgium, Greece and Italy had their own banks to look after their nationals' affairs in Egypt. The main British banks were Barclays DCO and the Ionian Bank. The French were presented by many banks, and the major French commercial bank was Crédit Lyonnais. It was the bank to the Caisse de la Dette Publique and to a number of Egyptian notables. Banque Belge pour l'Etranger (later Banque Belge et Internationale en Égypte) was the main Belgian bank. The Greeks were represented by Banque d'Athenes and Banque d'Orient. Banco Italo-Egiziano took care of the Italians and their institutions in Egypt.

2.4 The role of the state

In the early nineteenth century, Mohamed Ali Pasha built his plan to modernise the country on establishing an industrial base fully controlled by the state. Therefore, he tried to strengthen the role of the state through extending monopolies to state-owned enterprises. In addition, he enlarged state bureaucracy. His successors had the same aspirations to modernise the country. For instance, his grandson Khedive Ismail (1863-1879) sought to modernise the country's infrastructure. He invested heavily in constructing the Suez Canal, new roads, railways and modern irrigation system. His ambitious plans were largely financed by foreign capital. With the accumulating foreign debt burden and the increasing foreign control, Egypt lost its political and economic independence. Although the viceroy enjoyed, on the surface, an absolute authority, European powers and bondholders gradually destroyed the autocratic power of the viceroy (Hunter, 1998, p. 180).

Egypt had historically been part of Ottoman Empire. This position continued to exist between 1882 when the British occupied Egypt and 1914. Therefore, there was no British colonial governor in Egypt. During this period, however, the British Consul-General was the virtual ruler of the county (Tignor, 2011, Ch. 10). In addition, most British officials in Egypt were powerful advisers to the various state departments. The British administration in Egypt was concerned mainly with administrative and fiscal reforms. In addition, the British were interested in public works and enlarging the cotton-cultivated areas. However, in other prospects, such as developing industry in the country, the British administration in the Egypt was less interested and did not make any significant interventions.

With the outbreak of the First World War, Egypt was declared a British Protectorate governed by an indirect British rule. In a British protectorate, the status of the country's local ruler would be acknowledged and the nationals of the protectorate would remain subject to this ruler rather than the British monarch. Later in 1922, the British high commissioner in Egypt, Lord Allenby, unilaterally proclaimed the independence of Egypt. Consequently, Egypt enjoyed some control over its internal affairs.

As mentioned earlier, the Egyptian government in the interwar period took several measures with the aim of increasing the indigenous control of the Egyptian economy. Yet, the Egyptian government's role in the country's economic life remained relatively insignificant and the state autonomy was limited. This could be attributed to two main reasons. First, politicians were averse to a state-run economy and were unwilling to involve the state again in foreign borrowings (Tignor, 1977b). Second, the efforts were exhausted within the political sphere where Egyptians continued negotiating complete independence from Britain. The common theme during the interwar years was a struggle between three different powers: the palace that was headed by the successive khedives and kings, the British embassy in Egypt, and the powerful political party, the Wafd (Tignor, 2011, Ch. 10). As put by O'Brien (1966, p. 66)

> *"Successive Egyptian governments from 1923 to 1952 displayed no strong disposition to force the pace of economic advance. Those years are certainly not marked by large and imaginative public projects, or by very positive governmental attempts to take the lead in the promotion of economic development. But in defence of the old regime it should be said that much of the energies of politicians came sadly to be diverted into a protracted struggle with the king and British embassy over sovereignty. Men struggling to establish a viable political system have little time for anything else".*

In summary, the role and the nature of the state and its autonomy changed between the second half of the nineteenth century and the first half of the twentieth century. The role of the Egyptian state gradually declined and was replaced by foreign control until the interwar years when the Egyptian government gained some power to enact nationalist measures in favour of the local economy. Yet, this power remained limited.

2.5 Business elites

Lord Cromer was convinced that the strategic location of Egypt at the junction of Africa and Asia and the existence of the Suez Canal would always make Egypt an important destination for foreign powers and foreign population (Tignor 1980b, p. 416). Along with foreign capital, Egypt hosted a large number of foreigners. Their presence there can be traced back to the nineteenth century and perhaps before that. These foreigners came from different nations. Many Levantines, most notably Syrians and Armenians, Greeks, and Jewish with different nationalities made Egypt their home country and place of residence. Therefore, they could be labelled as *local foreigners*.[19] Furthermore, a large community of British, French, Italian, and to a lesser extent Belgian, citizens resided in Egypt.

Several factors made Egypt attractive to foreigners. The policy of the successive rulers in the nineteenth century granted substantial privileges and immunities to them. Legally, foreigners were covered by the Mixed Courts. Foreign firms and foreigners residing in Egypt were mostly exempted from personal and corporate tax. A Capitulations system, which Egypt inherited from the Ottoman Empire, stipulated a prior approval from their respective governments before taxing them. In addition, the Capitulations system provided the foreigners with legal protection of their properties. The Egyptian economy was booming and it offered excellent earnings prospects. Finally, the British occupation of Egypt provided means of political and financial stability.

Up to the First World War, local foreigners dominated the major economic activities in Egypt (Deeb, 1978). While their position began to decline from the early 1920s onwards, their economic importance during the course of the twentieth century until 1956 was, nevertheless, out of all proportion to their numbers. The number of foreigners residing in Egypt was estimated by McCoan (1877) to be 91,000. According to the population censuses of Egypt of 1907, 1927, 1937, and 1947, number of foreigners living in Egypt recorded 147,063, 225,600, I86,515 and 145,912 respectively (Egyptian Ministry of Finance, 1909, 1931, 1942, 1954). Deeb (1978, p. 21) argued that the number of local foreigners did not decrease at all as documented in the censuses. Rather, it reflected the fact that some of them acquired an Egyptian nationality, later on, to adapt to the new political realities from the 1920s onwards.

Members of local foreign communities, along with indigenous large landowners, represented the two wings of the composition of business elites in Egypt. These two powerful classes, according to Tignor (1984, p. 6), had different sources of capital accumulation. The upper echelon of the foreign minorities started their careers in Egypt as merchants, agents and compradors of large European financial and trading firms; they maintained close links with metropolitan capital. On the other hand, the wealthy indigenous large landowners were akin to the barons of Medieval Europe. They made their fortunes mainly from land and agricultural profits. Local foreign elites have to be distinguished from foreign investors who

[19] This is the same definition used by Tignor (1980b) in his study on the economic activities of foreigners in Egypt between 1920 and 1950.

had an international horizon. A prime example was Sir Ernest Cassel who had several investments in Egypt without living there and without being committed to investing in this country in particular. His investments spanned the Ottoman Empire and other countries in North and South America.[20]

2.6 The Historiography of Egypt

Studies on Egypt's modern economic history have not been of short supply. As Egypt had one of the earliest endeavours to develop in the early twentieth century among the third-world, its modern history has been fertile to test political, sociological and development theories. Therefore, the country's history has been appealing to scholars from different disciplines, most notably, political, cultural and Middle Eastern historians, sociologists and anthropologists.

The literature on the economic history of modern Egypt chiefly clusters into four categories. The first is pure economic studies (e.g. Crouchley, 1936, 1938; Issawi, 1947, 1954, 1963; Mead, 1967; Hansen and Nashashibi, 1975; Mabro and Radwan, 1976). Studies on specific ethnic socio-cultural groups such as the Jewish and Greek communities and their role in the economic development of Egypt fall under the second category (e.g. Kitroeff, 1989; Krämer, 1989; Beinin, 1998a; Karanaso, 1999; Abdulhaq, 2015). The third cluster of studies has covered the socio-political aspects of Egypt's modern economic history. For instance, Berque (1967) offered the richest socio-political narrative on Egypt's history. Other key studies include Richards (1982) on agricultural development, Beinin and Lockman (1987) on the Egyptian working class, Shechter (2006) on the tobacco market in Egypt and its interaction with the culture of the society, and Abbas and el-Dessouky (1998) on the large landowning class. The fourth category, which is highly relevant to this thesis, encompasses studies on the political economy of business and colonisation (e.g. Davis, 1983; Tignor, 1984; Vitalis, 1995).

A constant theme within the body of research on the political economy of business and colonisation in Egypt has been dependency theory and whether it can explain Egypt's underdevelopment. The central argument found in dependency theory is that the economic backwardness of Asia, Africa and Latin America is a result of the way these regions were integrated into the capitalist world economy by colonialism. The colonised countries produced and exported the staple commodities and raw materials needed by the metropolitan

[20] Sir Ernest Cassel's business in Egypt is discussed in greater details in Chapter Five.

economies, and consumed the developed world's manufactured goods. Countries of these regions were not short of entrepreneurial spirit; however, artificial obstacles were placed by the colonial powers to prevent any industrialisation efforts (Brett, 1973; Amin, 1976; Rodney, 1982; Fieldhouse, 1988; Phillips, 1989; Havinden and Meredith, 1993). Within the domain of the political economy of exploitation and underdevelopment, writers influenced by the dependency argument often make two enquiries. They are namely whether Western capitalism should be blamed for the backwardness of the third world and whether the elite class that was created in the colonial period, compradors for Western capitalism, tried to maintain the status quo for their own benefits.

Robert Tignor (1984) wrote about the relationship between private enterprises and the state, and the role of the private sector in the modernisation plan that was carried out in Egypt between 1918 and 1952. He traced the activities of local industrial bourgeoisie and evaluated the role played by the foreign communities in Egypt. Tignor referred to both indigenous businessmen and foreigners living in the country as "local". He investigated whether foreign firms, capitalising on their connections with the British officials serving in Egypt and the Egyptian politicians, advanced their interest and acted as a hurdle against the aspirations of local businesses. Tignor argued against dependency theory and showed that it was not the case that decisions were made in Britain. Rather, he advocated that entrepreneurs and businesspersons residing in Egypt, both Egyptians and foreigners, controlled the decision making in the country. His overall conclusion was that the small circle of the local foreign communities was the real actor behind effecting structural economic change, diversifying the local economy and industrialising the country to a satisfactory extent. They achieved that without disruption from foreign firms.

In another study, Tignor (1989) offered a business history account of the investment behaviour of two British textile firms that had direct investments in Egypt between 1930 and 1956. Based on internal documents of Bradford Dyers and Calico Printers Associations, Tignor investigated the strategies adopted by the two firms in Egypt and argued that both suffered from scarce information about the local context.

Robert Vitalis (1995) challenged the conventional narrative of a single national bourgeoisie class that dominated the writing on Egypt's economic history of the first half of the twentieth century. He argued that the political economy of decolonisation should not be viewed as a conflict between nationalism and colonialism. Instead, Vitalis offered a new vision based on his analysis of the politics, conflicts and struggle to secure resources, contracts and monopoly concessions among business groups in the interwar period. More specifically, Vitalis focused on the politics surrounding the concessions to build and operate a large hydroelectric power station along with a nitrate fertiliser plant. He offered a narrative of a conflict / cooperation between business groups and coalitions headed by both foreigners and indigenous elites who disregarded nationalist and ideological commitment for the sake of profits. Through investigating the interlocking nature of these business groups and their short-term alliances, Vitalis showed the swinging relationship between local and foreign investors who forged complex ties at times, and collided other times according to pure economic interests.

The establishment of Banque Misr and its development attracted a body of Western literature (e.g. Deeb, 1976; Tignor, 1977a). Yet, the most comprehensive work on it is Erik Davis (1983) who explored the origins, rise and fall of the Bank from its foundation in 1920 to its crisis in 1939. Framed within a Marxist tradition of political economy, Davis examined the social classes, mostly the indigenous agricultural bourgeoisie of rural notables, which backed Talaat Harb Pasha, the founder, in his endeavour to establish the Bank and his hopes for industrialising and modernising his country. Davis regarded the rise of the Bank and its subsequent crisis as a case study of failure of industrialisation in developing countries. He concluded that the failure of the Bank was not a result of Western imperialism trying to retain Egypt as an agricultural country. Rather, Davis argued that the failure was a consequent result of the structural conditions of the country and its well-founded linkages to the world economic system, factors that were stronger in effect than the ability of the Talaat Harb group to change.

Some commentators, mainly Egyptians, blamed the British and the influential Egyptian businessmen for being the engineers of the Bank's crisis. Yet, Deeb (1976, p. 80) argued that one of the reasons behind the Bank's failure was the generous loans extended by the Bank to large landowners. Tignor (1984) referred to the Bank's own practices of crony capitalism, along with an aggressive financial support to its industrial affiliates. In Tignor's words (2011, p. 246), "The sad lesson that Talaat Harb learned in 1939 was that a normal commercial bank, with a multitude of depositors, who could demand their funds at any moment, could not be a development bank that lent large sums on long-term investments". Thus, he concluded that the Bank's crisis was not mainly caused by European interests.

The relationship between businesses and the state during the final years of the decolonisation has also received attention in the political economy literature on Egypt's modern history. Tignor (1998) contributed to the growing literature on African decolonisation focusing on three African countries, Egypt, Nigeria, and Kenya. He examined the role of official governmental policies towards private enterprises and their influence on the business sector during decolonisation. In Egypt, he argued that foreign capital, although objecting British foreign policy, was not able to shape the outcomes of decolonisation. He referred to the crisis that followed the nationalisation of the Suez Canal Company. The response of the Egyptian government was to sequestrate all the assets of the British and French investments in the country. Therefore, he backed his argument by the British foreign policy towards Egypt in the post Suez Crisis that did not consider the interests of the British investments in Egypt.

Three observations about the political economy literature, to which the above studies belong, are made. First, the period of decolonisation has been the favourite time span. This period was between the early years of the 1920s when Egypt was unilaterally declared independent by the British and ending with the 1952 military coup or in other studies 1957 with the sequestration of the foreign assets by the then Egyptian regime. Second, a diversified range of sources have been used, such as the Egyptian National Archives, the British National Archives, a range of local and foreign newspapers, and chambers of commerce journals. However, the use of corporate archives has been extremely limited.

Third, the narrative has always been on the politics of business and the state and the question of imperialism. In addition, a narrative has been built around a struggle and social class conflict between an emerging national bourgeoisie class endeavouring to diversify the economy through industrialisation and metropolitan capital trying to maintain the status quo of a primitive country that easily absorbed foreign finance and exported cotton. A dichotomy of social classes has been portrayed in these studies. These include, for example, foreign investors versus indigenous entrepreneurs, local foreigners versus metropolitan firms, and business elites versus nationalists and so on. Although the writing has been on an economic topic, the discussion and analysis have often been done through a political lens. The dominant theoretical underpinnings have been framed within political, cultural, and developmental accounts of the Marxian realm of political economy, theories of imperialism and dependency, and social class analysis, typically found in the left-wing nationalist perspectives.

A controversial issue within this literature that has received remarkable attention is local foreign communities, foreign capital and its relationship to the indigenous business. Authors such as Deeb (1978) and Vitalis (1995) argued that the interests of both the indigenous and foreign groups intertwined. Vitalis, (1995, p. 14) postulated that many families of local foreign minorities, with various nationalities, cultures and religions, lived in Egypt for several generations and had their entrepreneurial success relying on the future of the country. In contrast, Tignor (1984, p. 5) maintained that the privileges granted to foreigners served as an entry barrier for indigenous entrepreneurs. He suggested that the interests of the local Egyptian bourgeoisie were not often aligned with the foreign interests represented by local foreigners.

Most of the Western scholars writing on Egypt have criticised the left-nationalist argument of dependency theory and postulated that the simple dependency model fails the test. They have advocated that the reasons behind Egypt's economic backwardness should be sought elsewhere, a conclusion in contrary to Egyptian writings that have had a very different narrative. The main conclusion reached by the Egyptian scholars, predominantly written in Arabic, as per dependency, has been that Egypt was integrated into the world capitalist system under terms that were unfavourable to its economic development. For instance, Fouad Morsy, who wrote extensively on banking and money in Egypt, argued that the problem with foreign banks in the country was that they fledged out of imperial economic needs rather than emerging out of the needs of the Egyptian economy (1971). Consequently, they were a vehicle to advance imperialism and, in the British case, to advance the interests of Lancashire industrialists. Morsy underlined that the foreign commercial banks which financed the cotton cultivation took over the crop for the lowest possible prices and, therefore, large surpluses were transferred to industrialists in Britain. Most of the Egyptian literature on this issue has had the same line of argument. Examples include Roshdy (1972) on foreign banks, Ahmed (1982) and Haridi (2002) on foreign capitalism and its impact on Egypt.

Locally, writing the history of Egypt in the post 1952 era has been driven by official mythology that has rarely been challenged by Egyptian scholars. Goldberg (2006) attributed the existing local narrative on the political economy of Egypt to the needs of the military government of 1952. In order to justify their presence in power, a bizarre attack on all businesses operating in the country before 1952 was established in the Egyptian historiography. An example comes from a speech by the Egyptian President Anwar el-Sadat during a special occasion in the memorial of the 1952 Egyptian revolution. He referred to the gloomy past of foreign dominance of economic activities in Egypt which meant that huge profits were realised by foreign firms. These profits were transferred abroad in a wave in which Egypt lost significant amounts of its fortune, not to say the corrupted indigenous private sector (*Al-Akhbar Newspaper*, 25 July 1972). Although some aspects of this narrative have been challenged, it remains dominant in the local literature. Furthermore, indigenous businesspersons have mostly been portrayed as agents and compradors whose only job was to take care of foreign capital in Egypt. Although this view was disputed by Vitalis (1995), as discussed earlier, the question has remained, by and large, whether or not they were notorious compradors.

It is uncommon to find any scholarship within the discussed political economy literature on the modern history of Egypt that does not refer to business firms in a way or another. This body of research has offered excellent insights on the political economy of colonisation and development and the activities of the private sector in the country. However, business has been part of the story. Reference to firms has been employed to support the entire narrative, advance the argument, and as a tool either to prove or to refute theories on imperialism and development. Therefore, the firm itself, as a business enterprise, was an actor among several actors, and a transmitting mechanism for political and economic development / underdevelopment. Understandably, this literature developed a passing interest in the firm itself. Although a business history account can illuminate some missing pieces to understand what happened in the past, this scholarly body has neither borrowed nor overlapped with the issues, theoretical underpinnings and areas of inquiry commonly found in business history, international business, and management research.[21]

This thesis places firms themselves at the centre of analysis and it uses many useful theories that have been little used in the previous literature. For example, the notion of economic coordination, which is the conceptual model of Chapter Three on the Egyptian cotton network, proposes a new perspective to understand commodity networks. Theories of international business, such as internalisation theory, and theories of strategy, such as the resource-based view of the firm, could explain the entry decision of foreign banks and their growth paths, as discussed in Chapter Four on the Ionian Bank. Theories of entrepreneurship

[21] For example, Tignor himself (2007, p. 90) noted that the notion of free-standing company (Wilkins, 1988), although its ideal applicability to the activities of many foreign firms conducting business in Egypt, has never been discussed by historians on Egypt, and the same applies to the history writing on Africa.

and social network analysis, as used in Chapter Five, further our understanding of business networks.

Chapter 3 The Egyptian Cotton Network

3.1 Introduction

The growing tensions between North America and the Southern American states and the following Civil War in the early 1860 revealed the entire reliance of the British cotton industry on the raw cotton supplied by the United States. During the cotton famine, industrialists in Britain, led by the Manchester Chamber of Commerce and the Cotton Supply Association, looked for different substitutions to American cotton in order to keep the textile mills in Lancashire operating. The natural orientation was towards India, being one of the largest British colonies (Harnetty, 1972, pp. 36-40). Indeed, Indian cotton exports to Britain rose after 1860 (Panza, 2013, p. 850).

For a number of reasons, problems became evident. Infrastructure to transport Indian cotton was lacking (Harnetty, 1972, p. 39). The quality of Indian cotton, given its short-staple feature, was inferior to Southern American cotton. The British tried to introduce long staple cotton to India; nevertheless, this kind of cotton did not find its way in the country (Dejung, 2015, p. 199). Furthermore, Indian cultivators were not interested in quality. They had to deliver a certain quantity of cotton to the moneylenders from whom they had received an advance, and they were neither rewarded nor penalised for the quality of their cotton (Dejung, 2015, p. 202). Cotton trade was fragmented and cotton cultivation took place at a very small scale, and this in turn made control more difficult (Dejung, 2015, pp. 201-202). An organised system for quality control, similar to what happened in the USA after complaints from European merchants about adulteration and contamination by cotton intermediaries, was not developed in India (Dejung (2015, p. 204).

Egypt seemed to be a more feasible option than India to supply Britain with cotton. It was Napoleon during his invasion of Egypt between 1798 and 1801 that noted the potentiality of Egypt to grow fine cotton. His agricultural experts suggested that the climate conditions in the country were favourable for producing fine cotton, comparable to the American quality (Earle, 1926, p. 522). The quality of Egyptian long staple cotton was believed to be the next to the sea-island American cotton, the finest quality in the world that was used for the finest textiles of Lancashire. The dry climate in Egypt ensured no damage to the crop. Furthermore, the Egyptian government in the second half of the nineteenth century, as explained in Chapter Two, was willing to invest in large infrastructure projects such as modern irrigation systems in order to advance cotton cultivation. Consequently, Egyptian cotton was the answer to British industrialists, and the Egyptian cotton exports largely replaced American cotton in Europe from the 1860s.

Up to the nineteenth century, Egyptian cotton was almost entirely consumed domestically, apart from very limited quantities of surplus cotton that were exported to North Africa and France (Earle, 1926, p. 522). Egyptian cotton exports before the American Civil War was very modest compared with the American cotton exports. For instance, the volume of Egyptian cotton export represented less than 5% of the United Kingdom's cotton imports in 1860 (Earle, 1926, p. 523).

Following the American Civil War, the area of cultivated cotton in Egypt was significantly expanded and peasants subordinated other crops to cotton. Between 1860 and 1865, Egyptian cotton exports rose by 500% and the share of cotton exports in total Egyptian exports rose from 36% to 92% (Earle, 1926, p. 535). After the American Civil War came to an end, exports of Egyptian cotton never declined to the pre-1860 levels. In essence, the superior quality and reputation of Egyptian cotton was already established in Europe (Earle, 1926, p. 539).

For the following decades, cotton remained the main source of export to Egypt, leading the Egyptian economy to be characterised as a single cash crop export economy. Owen (1969) argued that the economic history of the country during the nineteenth and early twentieth centuries was shaped by cotton. Despite some internal problems on the supply side and external problems on the demand side arising from the world economic and political circumstances i.e. two world wars and a prolonged great depression, cotton maintained its position in the Egyptian economy (Mabro, 1974, pp. 12-17). The production of Egyptian cotton was much smaller than that of the American South or India; nevertheless, the supremacy of Egypt as one of the largest suppliers of long staple cotton remained unchallenged. For instance, in 1914 Egypt produced 75% of total world production of long staple cotton, the finest produce (Yousef, 2000, p. 303). Goldberg (2006) argued that the collective actions of the Egyptian cotton elites, cultivators, traders and the state itself promoted the reputation of quality of Egyptian cotton.

Although there was an unprecedented surge in the Egyptian cotton exports to Europe during the first global economy, it is not clear how the Egyptian cotton network functioned in order to support this export boom. In other words, less is known about the microeconomic dimensions i.e. the various participants in the Egyptian cotton network and their precise roles in the network. The product was sown, grown, harvested, processed and sent to Alexandria. The final phase was loading the produce on ships traveling to Europe and exporting it to the cotton mills in Britain and elsewhere. The network was comprised of growers, middlemen, financiers and exporters. Market participants were dispersed in different geographic locations: Egyptian villages, Alexandria, London, Liverpool, and the textile mills in Lancashire. Therefore, the network stretched from the cotton fields in the Egyptian villages to the textile mills in Europe.

In general terms, the market for global commodities required special coordinating arrangements. Exchanging information was crucial (Beckert, 2014, p. 228). Information on production quality, supply and demand were all important (Aldous, 2017). Disparate knowledge of the market participants had to be combined (Duguid, 2005, p. 496). Improvements in transport and communications such as the introduction and development of the telegraph had a positive impact on the speed by which information flowed (McCusker, 2005). However, the role of market participants in handling information cannot be ignored.

Questions arise on how Egyptian cotton was financed both domestically for cultivation and movement, and internationally for export. How was it marketed, what essential knowledge and organisation had to be in place in order for the network to operate effectively, how were gaps in information and financial capital bridged? In essence, market participants had to coordinate flows of cotton, finance, information, and expertise.[22] For instance, the manufacturers in Europe needed regular supplies of special types of cotton; how was this provided? This in turn required exporters that were knowledgeable with raw material supplies and familiar with the specific technical requirements of cotton mills in Europe. Who were these exporters?

The central research question posed in this chapter is how coordination was maintained within the Egyptian cotton network. In order to answer this question, the chapter analyses the complex network of the Egyptian cotton trade by investigating the activities of each participant in the network from producers, intermediaries, financiers to exporters. Market participants were linked together, and to understand the entire network, relationships between the various actors are decomposed and analysed. This chapter is mainly concerned

[22] For a similar discussion, see Aldous (2019) on the role of trading firms in the Anglo-Indian trade during the nineteenth century.

with the key private actors, beyond the state, that were behind globalisation and expansion of world trade.

Given the importance of Egyptian cotton to the world economy at that time, the analysis of the Egyptian cotton network could illuminate many aspects of the nature, historical paths and mechanisms of the first global economy. This chapter offers an evidence on how a commodity of a worldwide reputation was financed and marketed. It provides general insights into commodity networks' evolution and dynamism. Therefore, it reinforces some of the theoretical and conceptual issues that have been typically studied by scholars of contemporary international business on networks and supply chains.

The chapter offers new perspectives on an old topic and on an important commodity market that has not systematically been studied using theories of economic coordination (Hayek, 1937; Richardson, 1960) and the economy as an information system (Casson, 1997a; 1997b). The interest is not in identifying where the surplus from the trade was accumulated across the chain. Rather, the notion of coordination is employed in order to explain how the Egyptian cotton network functioned, how it was organised and what role was played by each market participant.

The following discussion on the Egyptian cotton network applies to the period up to the 1950s where the mechanism of the network was, by and large, stable. This is with the exception of some limited periods of government intervention in the market through, for example, buying the produce from the cultivators directly or intervening in the marketing process through nominating a limited number of exporters who were allowed to buy Egyptian cotton and sell it abroad.

The remainder of this chapter is divided into seven substantive sections. Section 3.2 provides an overview of the theoretical approaches to study commodity chains and networks. Section 3.3 describes the domestic cotton business in the Egyptian villages and the market participants involved. These included cotton producers, middlemen, ginning factories, and bank branches. Cotton exporters in Alexandria and cotton spot and futures markets are investigated in Section 3.4. Egyptian cotton beyond Alexandria is presented in Section 3.5. The discussion highlights the various destinations of Egyptian cotton, the branches of Alexandria exporters abroad, and how these exporters were financed by their banks in Europe. To complete the account of the Egyptian cotton network, section 3.6 explains the mechanism by which foreign banks in Egypt financed their operations in the country. Section

3.7 links all the participants in the network together through discussing the coordination of the entire cotton network. Section 3.8 concludes the chapter.

3.2 Approaches to study commodity chains / networks

A variety of constructs has been employed in the literature on commodities and their market participants. Concepts of chains and networks have been extensively used. This has led to confusions when terminologies are not clearly defined (Sturgeon, 2001). Some approaches of analysing commodity chains such as global commodity chains and global value chains have been concerned with economic development (e.g. Gereffi, 1995, 2005). Other approaches take a managerial perspective and stem mainly from business and management literature (e.g. Porter, 1985, 1990). Within commodity chains there are three widely employed frameworks: global commodity chains, global value chains, and Filière. These frameworks analyse the processes and transactions from primary processing to consumption; however, they differ in their theoretical groundings (Raikes et al., 2000). Each is briefly explained below.

World systems theory, the basis for global commodity chains, was developed by Wallerstein (1974), and is based on the idea of a hierarchal world system of core and peripheral countries. The commodity chain concept was then developed by Hopkins and Wallerstein in the late 1970s. They suggested that commodity chains are linked sets of processes where "take an ultimate consumable item and trace back the set of inputs that culminated in this item, including prior transformations, the raw materials, the transportation mechanisms, the labour input into each of the material processes" (1977, p. 128). Hopkins and Wallerstein defined commodity chains as "a network of labour and production processes whose end result is a finished commodity" (1986, p. 159). They used this definition to discuss various international chains of agricultural products, trade and capital flows in the world economy in the early modern era before the nineteenth century. Hopkins and Wallerstein perceived firms and processes as either producers or users of inputs of other actors within the chain. By analysing these processes, one could get insight into the global economy and its determinants. Commodity chain as a construct has been employed in studies of international trade and production networks in several fields such as history, sociology and geography (Bair and Werner, 2011, p. 988).

Building on world systems theory, global commodity chains was pioneered by Gary Gereffi and other scholars. This approach has produced the largest body of research on commodity chains, and has been the most useful framework for conceptualising the phenomenon (Gereffi and Korzeniewicz, 1994; Gereffi, 1995, 1999). Global commodity chains, as an approach, is concerned with the connections between the various economic actors and their activities. The main concern is on the dynamics of global production and how industrial upgrading in developing countries could be facilitated by participation in commodity chains. Therefore, it focuses on industrial commodity chains, and it has largely been employed in industrial production of Asia and Latin America. Industrial upgrading, according to this approach, narrowly focuses on firm-level competitiveness within a particular industry (Bair, 2005, p. 154). Global commodity chains consist of interconnected groups of households, enterprises and the state, which are centred around one commodity of production (Henderson et al., 2002, p. 440). In addition, the approach perceives the chain as inter-firm connections of raw materials suppliers, processors, manufactures, subcontractors, traders, wholesalers, and retailers. Therefore, global commodity chains analyses the entire length of the global chain.

Framed within a political economy of development perspective, global commodity chains explains the chain in terms of four key structures: input-output, geographic, governance, and institutional. However, the governance dimension of the chain, in terms of power and coordination between the different actors dispersed in different geographical locations, has received the most attention. Some trade economists such as Rauch (1999) contributed to global commodity chains analysis through investigating networks of international trade. However, commodity chains analysis focuses on a new global manufacturing system where economic integration is not confined to international trade of raw materials. Rather, it pays special attention to the organisational aspects of international trade, the activities from primary production to final consumption, linkages and the flow of products within the chain (Raikes et al., 2000). Therefore, it could help analysing economic globalisation.

Later on, Gereffi developed his approach further by shifting the analysis into global value chains, which could be seen as an extension of global commodity chain (Gereffi et al, 2005; Gibbon and Ponte, 2005). The two approaches differ in an important aspect. Global commodity chains builds on world systems theory and adopts a sociological orientation (Bair, 2005, p. 154). Global value chains, on the other hand, is more influenced by international business literature and has its emphasis on industry and firm-centred models of organisational analysis (Bair and Werner, 2011, p. 988). Therefore, it has more focus on policy implications.

The third approach is Filière. This concept was pioneered by French economists in the 1970s, and has mainly been employed to analyse agricultural commodities from developing countries, especially in Africa, through following a given product along the chain from the production to end customer. This approach maps commodity flows and the activities of each agent within the chain (Raikes et al., 2000, pp. 404-405). Consequently, it could be defined as “a system of agents producing and distributing goods and services for the satisfaction of a final demand” (Henderson et al., 2002, p. 439). Filière relies on empirical traditions. In contrast to global commodity chains and global value chains, the Filière approach is not associated with any theoretical groundings or frameworks. For instance, it employs industrial organisation, institutional economics, and management theories. This approach could be viewed, therefore, as an approach that encompasses various schools of thoughts with each having its theoretical underpinnings rather than a unified body of scholarship reinforced by certain theories (Raikes et al., 2000, p. 403). However, Filière has its own drawbacks. It mostly focuses on the national levels of the chain, and pays special attention to large firms and national institutions and how technological constraints impact on their activities (Henderson et al., 2002, p. 439). Therefore, other smaller agents and their role in the chain are often dropped from the analysis.

The chain approach, as discussed above, does not seem a suitable framework for the purpose of this chapter on the Egyptian cotton commodity. A key problem with the chain approach as explained by Henderson et al. (2002) is that it conceptualises the process of production as vertical and linear. Supply chain, as a metaphor, often refers to a linear process that ends with a final product as the outcome of linked processes. In economic terms, a supply chain is a form of multistage production where intermediate products serve to link successive stages (Carlson, 1939). In the case of Egypt, the notion of commodity network, rather than commodity chains, is more applicable and is therefore employed in this chapter. The Egyptian cotton network, as the chapter illustrates, included several types of flows such as the physical commodity itself, its financing and marketing services that were organised through complex configurations of multi-dimensional relations. Therefore, cotton commodity as a network is better suited to model the interconnection of the various agents. In addition, although business history literature on networks is large, networks of commodities have received little attention (Duguid, 2005, pp. 494-495). Consequently, employing a network perspective on Egyptian cotton adds new dimensions to the large history literature on networks.

It is important to define what kind of network is discussed. Two definitions from the literature are loosely used in this chapter to define networks. Podolny and Page (1998, p. 59) define a network organisation as "any collection of actors (N>2) that pursue repeated, enduring exchange relations with one another and, at the same time, lack a legitimate organizational authority to arbitrate and resolve disputes that may arise during the exchange". Following Powell (1990), a network is a web of individuals or firms where each actor gains from and is dependent upon the other member for resources. For economists, networks are often perceived as an alternative mode for transactions and are positioned between market and hierarchy. A network is a very essential form for transactions when information is uncodified and diffused (Godley and Ross, 1996). This point is relevant to the Egyptian network as knowledge, in most cases, was uncodified and geographically dispersed within the network. In the following sections, the actors involved in the Egyptian cotton network are examined in detail, starting with cotton producers.

3.3 Cotton in the interior

3.3.1 Cotton producers

There were different options in the process during the cotton season. Cotton was sown and harvested by both small cultivators and large landowners in the Egyptian provinces / villages. Cultivators required finance during the growing period between September and February.[23] The harvest was sold between February and May. A common practice for buyers was to advance loans to the cultivators at the beginning of the season (Owen, 1969, pp. 207-208).

Small cultivators largely resorted to merchants and middlemen in the provinces for financing and selling their crops. The majority of purchases were done against a payment in advance to the small producer against growing crops and through a pledge by the producer to provide a certain quantity of cotton in the future (Owen, 1969, p. 208). This method was the most common across small cultivators, and purchases against cash payment upon cotton delivery was very limited given the scarce financial resources of small producers.

Another alternative for small cultivators was to resort to local moneylenders. Borrowing from a moneylender ensured that these cultivators were not indebted to a certain buyer and that they were not obliged to deliver their cotton to this buyer. In this case, they offered their

[23] Lloyds Bank Egypt. (19 February 1923). [Memorandum on Egyptian Branches]. Lloyds Banking Group Archives [hereafter LBG], A/S6/C/155 (7/10).

cotton in various local cotton markets organised by the government in the provinces. The majority of buyers in these markets were, again, middlemen (Schanz, 1913, p. 86). Market prices prevailing in Alexandria were published in these markets in order to protect the small cultivators from the fraudulent practices of some unscrupulous middlemen (Schanz, 1913, p. 87). However, with the penetration of banks into the Egyptian provinces, in the early years of the twentieth century, that were willing to lend to middlemen who in turn lent to small cultivators, borrowing from moneylenders became less favourable among small cultivators.

The reliance of small cultivators on government support was very limited. For instance, the National Bank of Egypt established an affiliate agricultural bank in 1902 to advance small agricultural loans. It was the only bank that lent directly to small growers. However, after some years of flourishing business, a law was enacted in 1912 immunising small landowners with less than five feddans from foreclosure of assets to repay debts.[24] This meant that these growers became unqualified borrowers for their inability to offer adequate collateral for their loans. The Bank's business slowed down and eventually it was liquidated in the interwar years (National Bank of Egypt, 1948, p. 27).

Large cultivators and landowners secured their financial needs directly from banks that were willing to lend to large landowners and merchants only. In some cases, large export houses in Alexandria bought directly from the owners of large and medium-sized estates in the provinces. These exporters employed commissioned agents in the provinces to buy the crop on their behalf and to make early contracts for the growing crop (Schanz 1913, p. 83). Contracts were often made ahead of the harvest, and the large cultivators received advances from the exporter's agent against a pledge to deliver a certain quantity of cotton during the cotton season (Owen, 1969, p. 207). Loans were made primarily based on the reputation of borrowers. Large exporters, furthermore, employed agricultural experts who travelled all over the country in order to report on the state of the crop, and to keep close contacts with the cultivators who had received advances (Schanz 1913, p. 84). It was estimated that only one third of the Egyptian cotton crop was bought directly by exporters from large cultivators in the provinces (Schanz, 1913, p. 84). The majority of cotton purchases by exporters, therefore, were effected through the market in Alexandria, as will be explained later.

[24] A feddan is equal to 1.038 English acres.

3.3.2 Middlemen

Middlemen and merchants were Greeks and natives who were living in the cotton-growing provinces. Middlemen employed their own capital, along with re-lending any credit facilities obtained from banks, in the form of bills discounted or blank credit, in making advances to small cultivators against the growing crop or cotton actually delivered to them.[25] Therefore, they could be viewed as second-tier financial intermediaries.[26] For the cotton they received, they often offered low prices, leaving a profit of about 25% (Schanz, 1913, p. 85). However, the function performed by middlemen was crucial, given the reluctance of banks to lend to small borrowers.

Information as a signalling mechanism is very important for credit markets, and a crucial requirement for a financial intermediary (Lamoreaux, 1991). Contrary to banks, a middleman could use informal tacit information to determine the credit worthiness of potential borrowers (Godley and Ross, 1996). This is an advantage that is not always available to banks.

In the Egyptian provinces, lending arrangements between banks and middlemen on the one hand, and middlemen and small cultivators on the other hand, was certainly influenced by information cost. Middlemen in the Egyptian cotton network certainly had information cost advantage compared with banks when dealing with small borrowers. They enjoyed considerable knowledge about cotton cultivation through their direct relationships with small cultivators. Middlemen overcame the problems of information by maintaining close contacts with their borrowers, and therefore effectively handled the fluctuations and uncertainty surrounding the seasonality of cotton cultivation.

3.3.3 Ginning factories

After harvest, cotton had to be ginned in specialised factories. The main job of these factories was to separate the seed from the cotton and press it into bales before transporting it to Alexandria. For technical reasons, ginning had to be carried out separately for each class of cotton and, therefore, cotton had to be classified in the factory. Ginning factories were owned by wealthy individuals, large export houses, banks, and by some limited-liability companies (Schanz, 1913, p. 88). The Greeks were the pioneer in opening the first mechanised factories for cotton ginning in Egypt in the 1860s and maintained large investments in this business

[25] Lloyds Bank Egypt. (19 February 1923). [Memorandum on Egyptian Branches]. LBG, A/S6/C/155 (7/10).
[26] See Ville (1996) and Ville and Fleming (2000a, 2000b) for a similar discussion on banks and pastoral agents in Australia during the nineteenth and early twentieth centuries.

(Politis, 1928, pp. 77-78, cited in Karanasou, 1999). The ginning factories themselves sometimes bought the harvest from small cultivators, ginned it, and then sold it in Alexandria for their own account. This extra business for the ginning factories was, however, limited.

3.3.4 Bank agencies in the provinces

Commercial banks in Egypt lent exclusively to large and medium-sized landowners, along with middlemen and merchants in the provinces.[27] Almost all commercial banks in the country, except for the Agricultural Bank of Egypt, refrained from lending to small cultivators. Those borrowers were seen as risky undertakings by banks due to the lack of a satisfactory collateral and the high administrative costs associated with lending to a large number of small borrowers, a business that required great efforts and resources to run. Furthermore, the five feddans law that was enacted by the government in 1912, although in small cultivators' favour, meant that banks would not lend to them given the absence of an acceptable collateral.

Banks followed two methods of financing the crop, and in most cases, adequate personal guarantees or mortgages on land had to be offered to the bank. The first method was lending against actual cotton as a security. For instance, middlemen who had bought various lots from small cultivators, would often hand the cotton over in a ginning factory against a certificate of deposit, go to a bank, and obtain a loan (International Federation of Master Cotton Spinners' and Manufacturers' Association, hereafter International Cotton Federation, 1913, p. 165). The second method was lending in the form of advances on cotton still in the field. Advances made to merchants always had the condition that a certain quantity of cotton was to be delivered to the lending bank and a pledge to sell the harvest through the bank.[28] Contracts were made with an agreed percentage of margin in the form of actual cotton deposited with the bank's warehouse in the province or with an approved ginning factory in the name of the bank.[29] In both cases, banks were not often interested in the relationship between middlemen and small cultivators.

The harvest was sold between February and May, during which, the majority of bank profits were earned. The profits consisted of interest rates on loans and advances, and commissions earned on effecting the sale of the produce in Alexandria for clients' accounts. In the majority

[27] A medium-sized landowner possessed 5 to 50 feddans; a large landowner owned above 50 feddans (Owen, 1969, p. 222).
[28] Ionian Bank. (19 March 1912). [Report of Proceedings of the Annual General Meetings]. The Ionian Bank Archives [hereafter IB], 2/6.
[29] Lloyds Bank Egypt. (19 February 1923). [Memorandum on Egyptian Branches]. LBG, A/S6/C/155 (7/10).

of cases, banks were entrusted with the sale of clients' cotton. In limited cases, banks engaged in buying and selling cotton without any lending activities. This involved purchasing cotton, processing it, transporting it to Alexandria, and storing it in their warehouses there.[30]

3.4 Cotton in Alexandria

3.4.1 Cotton spot market

Alexandria was the largest exporting city in Egypt, and the cotton marketplace in Minet-el-Bassal, a district in West Alexandria, was the market for cotton trade. Banks, large landowners and large merchants transported their ginned cotton from the interior to the cotton market. This marketplace hosted a trading floor along with warehouses owned by banks and large landowners where the ginned cotton was stored. Sellers, mainly banks, and buyers, mainly export firms, had offices in the marketplace.

During the daily opening hours of the market, all kinds of people were seen, many languages, notably French, Italian, German, and English were spoken (International Cotton Federation, 1913, p. 166). Every morning during the cotton season, export firms would place the qualities and quantities they needed. Each exporter had a preference to a certain quality of cotton which corresponded to the type sold by this exporter abroad. Salesmen who were clever enough to recognise these preferences, knew the likes and dislikes of each exporter, and were able to collect this information as easily as possible usually had an advantage over competitors.[31] Sellers prepared their samples and sent them to the potential buyers. Speed and experience were essential. The first sample submitted would get attention, and each buyer would inspect a never falling flow of samples received from banks' representatives, large landowners and merchants.[32] In general, a good salesman had to know where to obtain the highest possible price with quick sale.

Exporters were represented by the owners and partners of these exporting firms inspecting samples and making bids.[33] In addition, samples were sometimes examined by experts employed by the large export firms. The price was fixed based on the sample. After the market daily closure, the buyer, or the expert employed by him, would visit the warehouse to examine further samples. Packing cotton in the warehouses was done under the

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[30] Ionian Bank. (20 April 1910). [Report of Proceedings of the Annual General Meetings]. IB, 2/6.
[31] Caridia, P.N. (15 October 1922). [Report from the General Manager for London on Alexandria]. IB, 6/100.
[32] Ibid.
[33] Ibid

supervision of a classifier employed by the buyer (International Cotton Federation, 1913, p. 12). Bales of cotton were composed of fibre that was most difficult to judge.[34] Therefore, expert cotton classifiers were very highly paid people. The buyer had to take possession of the cotton within two days (Schanz, 1913, p. 103).

The regulation of the market was the responsibility of the Alexandria General Produce Association. This private organisation was founded in 1883 by the largest export firms and brokers in Alexandria. Out of the 24 founding members, 15 were Greek, including the president and the vice president (Kitroeff, 1989, p. 79). The Association oversaw cotton trade, fixed a system for grading cotton of various kinds, supervised market prices and acted as a court of arbitration (Owen, 1969, p. 225). In addition, it approved a list of cotton experts who were entitled to evaluate cotton samples according to the type and grade of cotton (Schanz, 1913, p. 102). On Fridays, it published the official prices and the actual cotton transactions that took place during the week (Schanz 1913, p. 105). The Association was run by a committee of 16 members elected every year from the leading buyers and sellers i.e. large export houses, bankers, and large merchants. Therefore, the Association could be seen as an intermediator between the numerous actors involved in the Egyptian cotton business.

The Association maintained close relations with the International Federation of Master Cotton Spinners' and Manufactures' Associations. The latter was founded in 1904 in response to cotton shortage in Lancashire and expanded later to include cotton manufacturers of 16 different countries. Its main objective was to facilitate cooperation between cotton growers and cotton industrialists. Members of this association visited Egypt regularly. For instance, 49 delegates of this federation, headed by the Lancashire manufacturer Sir Charles Macara, visited Egypt in 1912 and spent two weeks there (International Cotton Federation, 1913, p. 166).

Lord Cromer's economic vision for Egypt was that the area of cultivated cotton, and accordingly its exported quantities, had to be maximised in order to improve the Egyptian government's ability to repay its foreign debts (Issawi, 1980, p. 473). This meant, in turn, that the quality of Egyptian cotton had to meet the requirements of Lancashire mills. In order to achieve this goal, contacts with regulatory and research bodies and with the international cotton institutions that facilitated the exchange of information between the different actors in the international cotton market had to be maintained (Goldberg, 2004, pp. 36-37).

[34] Carver, H. (1 November 1923). [Letter to Scott: Buying Cotton in Samples]. TNA, FO 141/636/6.

Consequently, the Alexandria General Produce Association was the body in charge of fostering coordination with the external world through its control of the Egyptian cotton market. This was in line with what other trade associations historically tended to do in terms of developing the institutional framework for maintaining coordination, setting the rules for standardisation and enforcing contracts (Galambos, 1966, pp. 3-9; Lipartito, 1983).

Along with the Alexandria General Produce Association, other institutional arrangements were in place to ensure providing the cotton growers in Egypt with technical support. For example, the Khedivial Agricultural Society was founded in Egypt in 1898 with the purpose of undertaking agricultural experiments backed by agricultural scientists from Britain (Goldberg, 2004, p. 45). These institutions facilitated acquainting the Egyptian growers with the technical requirements of the British spinners.

3.4.2 Cotton futures bourse

The Alexandria Futures Bourse, where futures contracts were exchanged, commenced its operations in 1861 as a private business owned and run by brokers.[35] This bourse was one of oldest organised cotton futures markets in the world. Other markets in New York, Liverpool and New Orleans followed shortly in 1870, 1873 and 1880 respectively, benefiting from the technological development of the transatlantic cabling system (Caliskan, 2010, p. 107). The Alexandria Bourse maintained constant contacts with these cotton exchanges (Primel, 2016). The opening, closing, and fluctuations of these markets were cabled to each other via the Liverpool Cotton Association (International Cotton Federation, 1927, p. 135).

Buying and selling contracts in the Alexandria Futures Bourse had to be transacted through an official broker in the market (Klat, 1927, p. 131). Under the Bourse's regulations, those brokers were liable as principals for the payment of differences in contracts. When a broker failed to encash the difference from his client, the client's position had to be liquidated by an auction. This market remained free of government supervision until 1909 when it was officially legalised and the Egyptian government passed specific regulations to govern the operations of the market.

[35] A cotton futures contract involved exchanging promises to buy or sell cotton at a pre-determined price in the future. The norm for a cotton futures contract was to settle the difference between the cotton spot price, at the time of contract expiration, and the price of the contract itself without any physical exchange of the underlying asset. No literature on the history of futures trading in Egypt exists expect for a PhD thesis by Primel (2016).

3.4.3 Exporters in Alexandria

Table 3.1 lists the major cotton exporters in Alexandria and their export destinations during the cotton season 1911-1912. As the table shows, the exporters were of different nationalities. The market was dominated by the first four export firms listed in the table. During this year, for example, these firms exported almost half of the Egyptian cotton. Although the number of exporters in Alexandria was limited, competition between them was fierce. For example, R. and O. Lindemann, the German firm, managed in 1913 to purchase the best of Egyptian cotton from the Egyptian ruler's estates. In the past this business had often been acquired by one of the other two rivals, Carver Brothers or Choremi & Benachi.[36] The increasing competition between exporters led many of them to secure their needs of definite quantities, ordered from Europe, directly from native large cultivators in the Egyptian provinces and not to wait for cotton to arrive at the marketplace in Alexandria.[37]

Table 3.1 Largest cotton exporters in Alexandria and export destinations, 1911-1912

Exporter	Nationality	Main Destinations
Choremi, Benachi & Co.	Greek	Britain, Russia, Germany, France, Japan
Carver Brothers & Co. Ltd.	British	Mostly Britain
R. & O. Lindemann	German	Britain, Russia, Germany, Austria
Peel & Co. Ltd.	British	Mostly Britain, followed by France
J. Planta & Co.	Swiss	Britain, Italy
G. Frauger & Co.	French	Britain, France, Germany
F. Andres & Co.	German	Britain, Germany, France
Mohr & Fenderl	Austrian	Britain, Russia, France
Pilavachi & Co. Ltd.	British	Mostly Britain
Reinhart & Co. Ltd.	Swiss	Mostly Britain, followed by France

Source: International Cotton Federation (1913. p. 185).

Exporters bought cotton in Egypt based on orders placed by spinners aboard. To take the case of Carver Brothers, this firm received orders of certain types of cotton from spinners in Lancashire. The orders were then transmitted to its agents in the provinces. The agents, in turn, often had to make a large number of individual purchases to fill the order. In some other cases, Carver Brothers fulfilled the orders from cotton sold in the Alexandria cotton market. The most important factor was the confidence of Lancashire spinners on Carver Brothers' ability to secure their particular needs.[38] Only a very small percentage of Carver Brothers' export, not exceeding 3%, were sent to Britain against no particular order (Owen, 1969, p. 210).

36 War Trade Department. (15 July 1917). [Report on Policy Adopted in Restraint and Liquidation of Enemy Trade]. TNA, BT 8/100.
37 Bell, H. (24 March 1924). [Letter to G. Johns]. LBG, A/S6/C/155 (8/10).
38 Owen (1969) provided this information based on a direct contact with one of the Carver's family members.

3.5 Egyptian cotton beyond Alexandria

3.5.1 Cotton destinations

Exporters delivered cotton to many countries beyond their native countries. They were often specialised in certain cotton grades that might have been of little demand in their respective countries. As shown in Table 3.1, R. and O. Lindemann, the largest German exporter in Alexandria, exported more cotton in 1912 to Britain and Russia than to Germany. In the same vein, British exporters in Alexandria traded with many countries.[39] Their major destination remained, however, Britain, as it was the largest importer of Egyptian cotton. Therefore, destinations of cotton export was likely a pure business issue without political considerations. Table 3.2 shows the percentages of Egyptian cotton exported to the main destinations in 1921 and 1937. Up to the outset of the First World War, almost half of Egyptian cotton was exported to Britain. The proportion, nevertheless, went down gradually after World War I. Other main destinations included USA, France, Germany and Switzerland.

Table 3.2 Destinations of Egyptian exports of raw cotton, 1921 and 1937

Country	**1921**	**1937**
United Kingdom	46%	29.4%
USA	22.9%	3.4%
France	8.7%	13.7%
Germany	5%	10.2%
Switzerland	4.6%	4.5%
Japan	3.9%	7.6%
Italy	3.3%	7.5%
Total principal buyers	94.4%	76.3%

Source: Egyptian Ministry of Finance (1922, 1939). The remaining cotton went to countries of the Eastern bloc and the Third world.

3.5.2 Exporters in Europe

Spinning mills in Europe did not have their own agents or buyers in Alexandria (Schanz, 1913, p. 102). Rather, exporters in Alexandria had their own houses or agents in the cotton districts in Europe, or at least had connections with European merchant houses (Todd, 1934, p. 186). For instance, Pilavachi & Co. Ltd was an English limited liability company whose registered office was in Liverpool; the greater part of its capital was subscribed by British subjects resident in Britain.[40] Carver Brothers & Co. Ltd., the largest British exporter in

[39] War Trade Department. (15 July 1917). [Report on Policy Adopted in Restraint and Liquidation of Enemy Trade]. TNA, BT 8/100.

[40] Pilavachi & Co Ltd. (7 August 1914). [Letter to Milne Cheetham, Acting Agent and Consul General in Egypt]. TNA. FO 141/636/6.

Alexandria, had its head office in London (*The Times*, 29 March 1909). Peel & Co., a British firm, and Planta & Co., a Swiss firm, had their offices in Manchester and Liverpool.[41]

The Greek exporters in Alexandria were also well connected to Britain. Choremi, Benachi & Co. is a case in point. It was the largest cotton exporter in Egypt and one of the largest exporters across the world (Haag, 2004, p. 132). This firm was registered in Britain and maintained an office in Liverpool (*The London Gazette*, 6 September 1892; *The Financial Times*, 30 November 1908). Ioannis Choremis, one of the founders and of Greek origins, spent some years working for a Greek firm in Liverpool, before travelling to Egypt and founding his own firm. His son, Konstantinos Choremis, was born in Liverpool and received the British citizenship. Konstantinos Choremis, the new director of the firm after his father's death, served as the president of the Alexandria General Produce Association between 1913 and 1930 (Glavanis, 1989, p. 163). Choremi, Benachi and Co., sponsored the introduction of *Sakel*, a new cotton seed discovered in Egypt by John Sakellarides, a Greek cotton agriculturist living in Egypt.[42] The firm used its connection in Britain to persuade Lancashire mills to try this new cotton (Livanos, 1939, p.71).

Egyptian cotton was exported by a special blend, and this was contrary to the American bulk cotton trade (Todd, 1934, p. 163). Quality varied significantly, and sale was based on several factors such as length of staple, fitness, colour, strength, lustre and lack of dead cotton (Schanz, 1913, p. 103). Therefore, cotton mills in Europe opted to secure their needs from one particular exporter, on whom they could rely that this exporter would send them the same type of cotton every year (Livanos, 1939, pp. 60-61). On the other hand, a high degree of specialisation in cotton was needed; therefore, the large exporters such as Carver Brothers & Co. Ltd. transacted only in Cotton (Hall, 2017, p.90).

3.5.3 Financing exporters

Cotton sold in the Alexandria market passed into the hands of cotton exporters who required finance until the cotton was shipped and they received their proceeds abroad either through a bill drawn on a spinner or a bank in Europe. A report prepared by the British War Trade Department on the British sequestration of assets owned by the German firms in Egypt during the First World War sheds light on the activities of cotton export houses in Alexandria

[41] Bell, H. (24 March 1924). [Letter to G. Johns]. LBG, A/S6/C/155 (8/10).

[42] This new variety of cotton, which was named after its discoverer, was superior to all other cotton types and led to an increase in the Egyptian cotton exports.

and their sources of finance.[43] For cotton exporters, availability of credit was the most crucial factor to conduct their business, in order to cover the gap between purchasing the domestic cotton, exporting it, and receiving the proceeds. Credit was obtained with ease given the good organisation of the international cotton market and the saleability of Egyptian cotton, which was often used as a security against loans. However, an adequate amount of their own capital had to be in place. For example, capital levels maintained by the German exporters in Egypt ranged from £E 300,000 in the case of R. and O. Lindemann, the largest German exporter in Alexandria, down to £E 15,000 for the smallest exporters.

The report referred anonymously to the methods of running a business adopted by one of the largest British exporters in Alexandria. This firm maintained capital and reserves of £E300,000. Up to September i.e. the commencement of the cotton season, the capital would be in Britain in the form of cash at bank, bills from spinners, and actual cotton from the previous season in Liverpool. In September, the firm would draw its funds back from Britain to Egypt in order to purchase the new cotton. This was in the form of cheques on its cash balances in Britain and three months' bills on the firm's banks in Britain. The firm was financed by two banks in Britain. One of them extended credit facilities up to £1,250,000, out of which £150,000 was blank credit. The security for the remaining portion would be the cotton landed in Liverpool and the bills of lading in respect of cotton shipments from Alexandria. With the conclusion of the Egyptian cotton season in May, the financial situations would turn around again: due dates would fall in and the cover would rise until funds, in the form of cotton, would gradually flow back to Britain. Less frequently, some exporters enjoyed credit facilities granted to them by banks in Egypt. The amounts of these credits were proportionate to their capital and moral standing in the trade.

British banks in Liverpool and Manchester played the most important role in financing the export of Egyptian cotton to Britain.[44] These banks extended advances to the merchant houses owned by exporters in Alexandria on cotton already in their hands i.e. collateral security, or against hedging the exposure in Alexandria.[45] In this case, advances were made on a certain quantity of cotton subject that the borrower was to show either that this cotton was hedged by forward sales to spinners or the sale of futures contracts in either Alexandria

[43] War Trade Department. (15 July 1917). [Report on Policy Adopted in Restraint and Liquidation of Enemy Trade]. TNA, BT 8/100.
[44] Carver Brothers used to borrow extensively from a local bank in Liverpool against cotton as a security (Owen, 1969, p. 222).
[45] Higgs. (25 August 1914). [Letter to Edward Cecil]. TNA, FO 141/636/6.

or Liverpool.[46] In case the borrower had sold a futures contract and the value of the cotton dropped, this borrower would gain a monetary amount equivalent to the appreciation in the contract value. Profits of such a transaction would be deposited with the bank. Had the value of the actual cotton increased, the borrower would have to bring in more cover to the bank.[47]

The German exporters in Egypt followed similar routes to secure their financial needs. To take the case of R. and O. Lindemann, this firm enjoyed credit facilities from many banks in Germany for the sum of £500,000. Part of these facilities were blank and the other portion was against documents of cotton shipped to spinners, or unsold cotton stored in its warehouse. In Egypt, R. and O. Lindemann had strong backing from the Deutsche Orient Bank. During the season 1913-1914, the firm's aggregate credit facilities from foreign banks in Egypt, mainly the Deutsche Orient Bank, amounted to £E1.5 million.[48]

The majority of commercial banks in Egypt confined their activities to lending to merchants and middlemen; their business with Alexandria exporters was limited. However, two large banks, the National Bank of Egypt and the Anglo-Egyptian Bank, lent to exporters. Loans were normally advanced against sold cotton awaiting for shipment. Upon shipping cotton to Europe, bank loans were thereafter augmented by first class bills. Interest rates were usually ½ to 1% above Bank of England rate, but practically no business was done under 5%.[49]

3.5.4 Use of futures contracts by exporters

Futures contracts mainly served three purposes: hedging, speculation and price discovery.[50] For the latter, such contracts were a mechanism for revealing expectations of the cotton harvest during the year and the buying and selling prices merchants were willing to pay or receive for the crop. Futures contracts were extensively used by exporters in Alexandria. As futures buyers, exporters hedged their cotton sales abroad i.e. to cover their forward sales to spinners in Europe. Futures contracts were also sold by these exporters to satisfy their banks in Europe. At some point in time, an exporter in Alexandria would hold some of the

[46] War Trade Department. (15 July 1917). [Report on Policy Adopted in Restraint and Liquidation of Enemy Trade]. TNA, BT 8/100.
[47] Higgs. (25 August 1914). [Letter to Edward Cecil]. TNA, FO 141/636/6.
[48] The method of carrying on business in Alexandria adopted by this firm, according to the report, was quite different from its main rival Carver Brothers. The firm used to buy large stocks of cotton against no particular orders from clients.
[49] Lloyds Bank Egypt. (19 February 1923). [Memorandum on Egyptian Branches]. LBG, A/S6/C/155 (7/10).
[50] One of the functions served by the futures market was price discovery where information about supply shocks was disseminated by the market (Carter, 2003, p. 19).

following: actual cotton both in Alexandria and Liverpool, futures contracts sold as hedge against actual cotton held and futures contracts bought to cover forward sales to spinners.[51]

Hedging borrowers' positions was crucial to the banks in Liverpool that financed exporters in Egypt. For instance, following a rise in speculative positions in the Alexandria Futures Bourses, the management of the Bourse passed a resolution in 1914 to cancel all open futures contracts and to shut down the Bourse until closing these positions. Officials from the Office of the British Financial Adviser to Egypt went to Liverpool and met with the committee of directors of the Cotton Exchange in Liverpool along with the manager of the Bank of Liverpool. The Latter made a strong protest against the decision on the ground that his bank's cover disappeared and that their loans to exporters were not hedged anymore.[52] However, the situation was soon solved.

At times, exporters who had not hedged their sales aboard suffered from price fluctuations. For instance, in 1934, Mohamed Farghaly Pasha, an Egyptian exporter who enjoyed a good market share at that time, incurred great losses. The prices of Egyptian cotton rose rapidly in that year following an increase in the American cotton market. Farghaly had been contracted to deliver a large quantity of cotton abroad. When cotton prices increased, and as he had not hedged his position, he had to buy the now more expensive cotton, only to sell it at significantly lower price as per the binding contract (Farghaly, 1984).[53]

In addition to using futures contracts for hedging purposes, exporters often used these contracts for speculative purposes. The complex network of cabling and telegraph stations that backed the markets of futures contracts in Alexandria, Liverpool and the USA allowed cotton exporters to engage in offsetting cotton purchases in one market with sales in another market (Engel, 2015). It was common for exporters in Egypt to engage in speculative transactions such as buying futures on American cotton and selling futures on Egyptian cotton in Alexandria. In essence, they were gambling in two different markets. For example, Pilavachi & Co Ltd. used to buy futures contracts on Egyptian cotton in Liverpool, and simultaneously sell futures contracts in Alexandria for the same quantity.[54]

[51] British Consulate Alexandria. (27 August 1914). [Letter to M. Cheetham]. TNA, FO 141/636/6.
[52] Higgs. (25 August 1914). [Letter to Edward Cecil]. TNA, FO 141/636/6.
[53] Farghaly was the first native to penetrate the cotton export business in 1920s. In 1938, he was the largest cotton exporter in Alexandria. His business is covered in greater details in Chapter Five.
[54] Pilavachi & Co Ltd. (7 August 1914). [Letter to M. Cheetham, Acting Agent and Consul General in Egypt]. TNA, FO 141/636/6.

Large cotton producers in Egypt rarely sold futures, as they preferred either to wait until the crop arrived or to make contracts for delivery to the merchant / exporter at a price that was to be fixed in the contract, or left to be fixed later on. Egyptian producers often opted to wait as long as possible before closing the deal, in the hope that prices would increase at the end of the season. As a result, exporters who wished to hedge a sale of cotton to a spinner in Europe, had to find a party with a speculative interest to enter the transaction. In essence, a speculative element was essential for these transactions to be carried out.[55] Along with exporters, the futures market in Alexandria was also used by banks in Egypt to sell futures contracts in order to hedge clients' positions whose margins were running down.[56]

Speculative practices were common in Alexandria and elsewhere. By the end of the nineteenth century, dealers in the Liverpool futures market included cotton importers, brokers and spinners. The market in Liverpool was large so that some cotton brokers profited from these futures contracts more than profits from the actual cotton itself (Hall, 2000, p. 100). In 1917, the Liverpool cotton exchange suffered from the speculative activities by non-experts. Therefore a decision by Liverpool Cotton Association, which was approved by the British government, was enacted so that trading in futures would be confined to buying contracts by spinners to cover sales of yarn; buying contracts by importers in Liverpool to cover sales of cotton to spinners; or selling of hedges by importers against actual cotton purchased overseas for shipment to Britain.[57]

3.6 How foreign banks financed their operations in Egypt

Up to 1914, money supply in Egypt was expanded through importing gold. The movement of the cotton crop was financed by a seasonal import of gold by foreign banks in Egypt from Europe (el-Gritly, 1947, p.95). The imported gold supplemented bank supply of notes during the cotton harvest season. The demand for gold shipment to Egypt generally commenced in September and finished in January.[58] After selling cotton and shipping it to Europe, gold would be exported again (Tignor, 1981, p. 112).

With the outbreak of the First World War, the question of how to finance the crop movement critically arose, especially with the cut of gold imports from Britain to Egypt. The purchase of cotton in the countryside was interrupted by the lack of gold. The government had to

[55] Roussin, L.G. (5 July 1917). [Letter to Foreign Office]. TNA, FO 141/636/6.
[56] Caridia, P.N. (15 October 1922). [Report from the General Manager for London on Alexandria]. IB, 6/100.
[57] Foreign Office. (27 June 1917). [Letter to R. Wingate]. TNA, FO 141/636/6.
[58] Ionian Bank. (25 March 1913). [Report of Proceedings of the Annual General Meetings]. IB, 2/6.

provide a medium of exchange and to provide means of holding at least for 12 months.[59] Therefore, the banknotes of the National Bank of Egypt were made legal tender. Egyptian government's treasury bills of £E5 million were issued and guaranteed by the British Treasury.[60] Up to 1914, the National Bank of Egypt was authorised to issue notes against deposit of security under the joint control of the Bank and the Egyptian government. The security had to be maintained as to half in gold and half in approved government securities. Amid World War I, the Egyptian government decided that the note issuing of the National Bank of Egypt should hereafter be covered by British Treasury bonds with the Bank of England instead of gold.

The National Bank was authorised, out of its extended circulation, to cooperate with other banks in Egypt in order to facilitate funds transfer from and to London. Between 1914 and 1947, and in order to move funds from their headquarters in Europe, foreign banks in Egypt were allowed to withdraw local currency from the National Bank of Egypt at par in order to extend loans. This was against depositing funds in Sterling with the National Bank of Egypt in London. The latter, in turn, would use these funds to purchase British Treasury notes. In this way, Egypt became part of the sterling exchange area. At the end of the season, foreign banks in Egypt would reverse operations by depositing Egyptian notes in Cairo and withdrawing Sterling in London.

These arrangements had the effect of restricting the fluctuation of exchange. The rate of exchange between the Egyptian pound and the Sterling pound was almost pegged at Egyptian Pound (£E) 0.975 = £1. Therefore, there was practically no exchange risk in transferring funds between London and Egypt. Furthermore, the bondage of the Sterling pound and the Egyptian pound had a positive impact on facilitating foreign trade and on maintaining foreign investors' confidence in Egypt (Tignor, 1984, p.197).

The bondage between the British and Egyptian currencies that was formed during World War I was advantageous to the foreign banks operating in Egypt. The banks were provided with constant access to the London money market and funds could be converted into Egyptian currency at par at any time. This made it unnecessary to keep large cash balances against deposits and current accounts as funds could always be obtained from the National Bank of Egypt in an emergency against Sterling bonds. In addition, there was no need for a

[59] Ionian Bank. (13 April 1915). [Report of Proceedings of the Annual General Meetings]. IB, 2/6.
[60] Cheetham, M. (24 October 1914). [Telegram to Edward Grey No. 63063]. TNA, FO 371/1969.

rediscount market. The National Bank of Egypt did not rediscount bills in order to control money and credit supply. The foreign banks, in fact, expanded or limited their credit facilities in Egypt driven by the needs and circumstances of their parent banks in Europe.

The departure of Egypt from the Sterling area in 1947 created exchange problems to foreign banks in Egypt. For the British banks, the problem was solved by special arrangements with the National Bank of Egypt. The latter undertook to make advances in local currency to these banks in Egypt against the deposit of securities with the National Bank of Egypt's branch in London. This arrangement, which was approved by the Bank of England and the Egyptian exchange control, enabled the British banks to maintain its cotton financing operations without incurring exchange risk.[61]

3.7 Cotton network

The previous sections have discussed each market participant in the Egyptian cotton network. This section synthesises the relationships between the various actors in the network. Theoretical considerations could help explain the functionality of the network. Friedrich Hayek (1937) and George Richardson (1953, 1960) were concerned with what they perceived as a fundamental economic problem: the coordination of economic activities. Hayek (1945) went further by arguing that the key problem in economics is coordination. Both Hayek and Richardson studied coordination in different settings and had different emphases. Hayek stressed the centrality of knowledge in coordinating economic activities. He was interested in coordinating the decisions among economic agents based on the private information available to each one of them. Therefore, price quotations and market systems serve to coordinate economic activities in the presence of a knowledge problem. Richardson was mainly concerned with industrial organisation and coordinating individual investment plans within the firm. Both Hayek and Richardson argued that coordination facilities knowledge flows and reduces information cost. In addition, they maintained that existing market arrangements and institutions are not necessarily manifestations of monopolistic exploitation. Rather, these arrangements rationally correspond to information cost minimisation behaviour.

Efficient markets are essentially coordinated through the flow of information. Mark Casson (1997a, 1997b) argued that the economy could be viewed as a system that encompasses

[61] Ionian Bank. (1953). [Ionian Bank Limited: A History]. IB, 9/9. No information is available on the arrangements made by foreign banks from other countries.

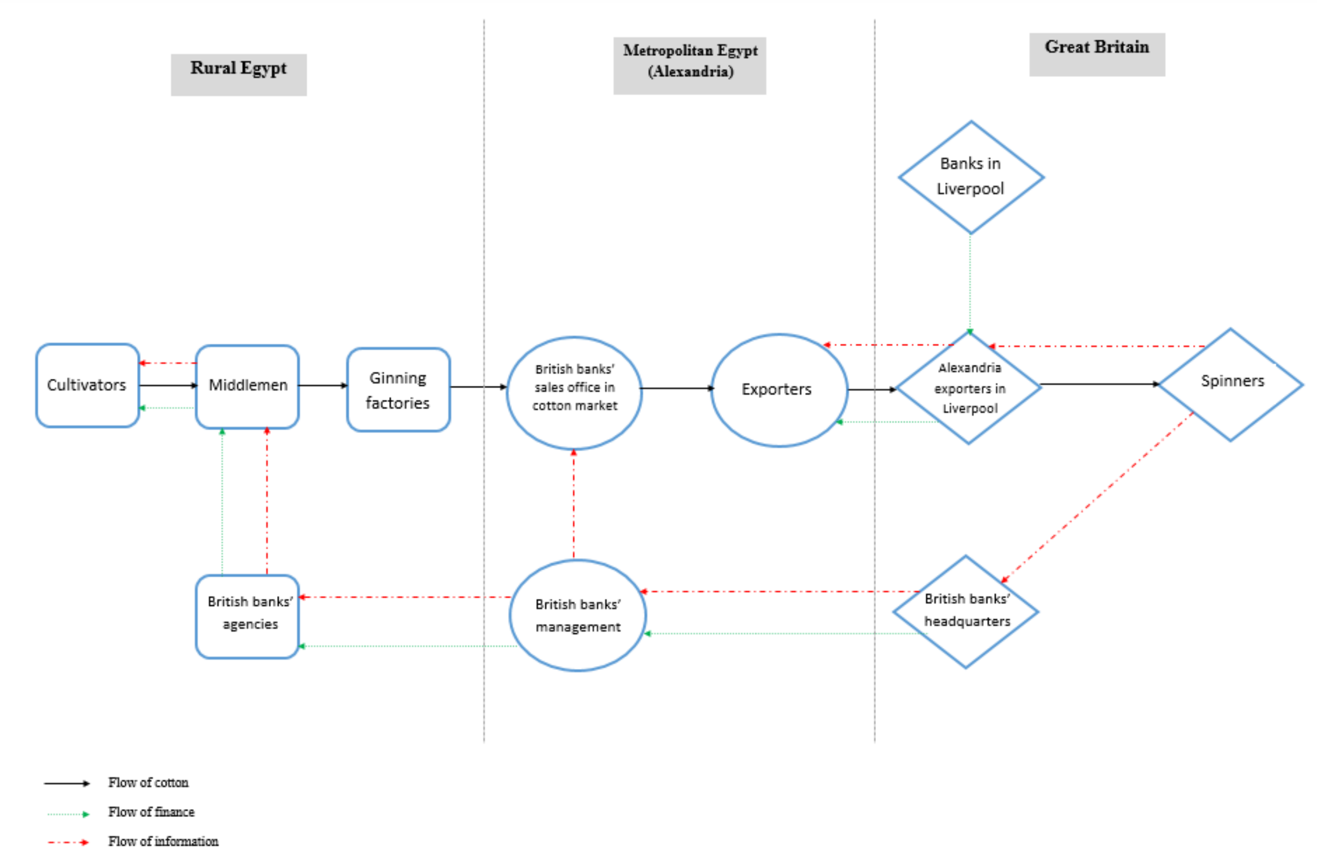
flows of information on goods and services, rather than a system of the goods and services themselves. According to Casson (1997a, p.157), intermediaries, through handling information flow, are crucial actors for coordinating economic activities. Information is not a free good, and intermediaries incur costs to gather information. This includes, for example, the cost of face-to-face meetings in order to get access to tacit information. Therefore, the value added by intermediaries tend to be an opportunity cost of scarce resources rather than a monopolistic rent.

Figure 3.1 rationalises the complex system of the Egyptian cotton movement and finance. In order to simplify the analysis, the figure focuses on exports to Britain only and on the position of the British banks within the cotton network. In addition, the figure depicts the main relationships and dimensions only; therefore, the less common relationships are not included. For instance, some banks lent to cotton exporters in Alexandria; large cotton cultivators received credit directly from exporters in Alexandria. However, as these relationships were less common, they are ignored.

The diagram has two features: co-location and coordination. First, the various actors that were involved in the Egyptian cotton network were co-located in three regions. Cultivators, middlemen, banks' agencies and ginning factories were co-located in rural Egypt. Exporters, banks' sales offices in the cotton marketplace and bank head offices in Egypt were co-located in a metropolitan hub in Alexandria. Alexandria export houses abroad, banks in Liverpool, spinners and the headquarters of the British banks in Egypt were co-located in Britain. Secondly, the diagram underlies the notion of coordination by including three types of flows within the network. The first and second are the flows of cotton and finance respectively. The third is the flow of information about demand and supply.

The first two types of flows are straightforward. The flow of physical cotton started from the Egyptian provinces and ended in the spinning mills in Lancashire. This was in reverse direction to the flow of finance. The role of banks, both in Egypt and in Britain, was crucial within the network. For instance, had the banks in Britain stopped financing exporters in Alexandria, selling the Egyptian cotton would have been more difficult. Likewise, if foreign banks in Egypt had cut their domestic lending to cotton cultivation, producing cotton in Egypt would have suffered. The third type is the flow of information itself. Applying the ideas developed by Hayek, Richardson and Casson, the Egyptian cotton network could be viewed as a cybernetic system of the economy through which information, as a commodity, flowed. Information flowed from the demand side i.e. the cotton spinners in Britain to the supply side i.e. the cotton growers in Egypt.

Figure 3.1 The Egyptian cotton network



To take the case of the Ionian Bank, a British overseas bank that financed domestic cotton cultivation in Egypt, the Bank's headquarters in London was in constant contact with merchant houses in Liverpool, meanwhile, the requirements of Lancashire spinners were communicated to these merchants. The Bank had its own sources of private information. For instance, it received a weekly private report from Reynolds & Gibson, a prominent cotton merchant in Liverpool, on spinners and their needs.[62] In addition, the Bank's managers in London visited Manchester and Liverpool regularly to meet with bankers there, the financiers of Alexandria export houses, in order to exchange information on the prospects of Egyptian cotton, both in Egypt and Britain.[63] Furthermore, the management of the Bank in Alexandria obtained private information on cotton demand in Liverpool from the brokers of

[62] Luard, J. (22 January 1925). [Letter to C. Marshal]. IB, 24/1/17.
[63] The Ionian Bank Manager, London. (1 January 1923). [Letter to P.N. Caridia]. IB, 24/1/9.

futures contracts in Alexandria. These brokers were employed by the Ionian Bank in Egypt to execute contracts on the Bank's behalf in the Alexandria Futures Bourse.[64]

In Alexandria, British banks acquired information from the Alexandria General Produce Association whose membership included bankers. For instance, Barclays DCO's General Manager in Egypt, A.W. Jessop, was the Doyen of the Alexandria cotton bankers and served for some time as the Vice-President of the Alexandria General Produce Association (Crossley and Blandford, 1975, p. 184). As discussed earlier, the Association maintained close contacts with the different actors in the international cotton market, most notably the International Federation of Master Cotton Spinners' and Manufactures' Associations. Therefore, these banks were well-informed about the grading and price differentials of the various types of cotton.

There were various intermediaries in the network, such as the middlemen in the Egyptian provinces and the export firms in Alexandria. To better evaluate the role of intermediaries in the network, a theoretical background is needed. An intermediary in trade channels is akin to a middleman. The role of middlemen could be determined by the function they serve and the value they add (van Driel, 2003, p. 77). First, a middleman could supply buyers and sellers with information (Casson, 1997b). Second, middlemen absorb some of the risks faced by buyers and sellers. A middleman screens the quality of the product and thus mitigates the problems of asymmetric information between buyers and sellers (Fingleton, 1997). A third function that could be served by middlemen is maintaining economies of scale that could not be attainable by buyers and sellers. This is especially true when the number of sellers or buyers is large and the amount of their transactions is small (van Driel, 2003, p. 79). However, intermediaries are often perceived negatively by transaction cost economics for unnecessarily inflating the transaction costs of market exchange. Thus, driving intermediaries out of the market has a favourable impact on market efficiency and, consequently, economic development (Williamson, 1985). Nevertheless, historical evidence on brokers and middlemen, as intermediaries, suggests a positive role for them.[65]

In the past, global commodity markets were chiefly coordinated by intermediaries such as global trading companies (e.g. Jones, 1998b; Jones, 2000; Roy, 2014; Aldous, 2019), brokers

[64] Luard, J. (4 September 1924). [Letter to C. Marshal]. IB, 24/1/17.

[65] For instance, Van Driel (2003) argued that middlemen added significant value to the coffee trade of the late nineteenth and early twentieth centuries. Aldous (2017) found a positive impact of brokers, in terms of better market coordination, on the Anglo-Indian trade in the first half of the nineteenth century. Both studies referred to improved flows of information as a direct consequence of the existence of intermediaries.

and auctioneers who served as middlemen and facilitated trade (e.g. van Driel, 2003; Aldous, 2017). However, the concept and functions served by middlemen, although previously discussed in the literature in a different context, are applied here to foreign banking in Egypt. Cotton middlemen in the Egyptian provinces and exporters in Alexandria were not the only intermediaries in the network. Foreign banks in Egypt were, it could be argued, the major intermediaries in the network; they did not only serve the credit.

These banks, in essence, fulfilled the typical functions provided by a middleman. First, they absorbed some of the risks faced by buyers. They screened the quality of cotton in the provinces before arrival into Alexandria. Second, the banks absorbed potential risks faced by sellers. With entrusting them with selling cotton for clients' accounts in Alexandria, they ensured a quick sale of borrowers' cotton. The banks had the capacity, capability and economies of scale to ensure a quick process and an acceptable price for the seller.[66] Therefore, it was in the favour of small cultivators and cotton middlemen to sell their cotton through their creditor, rather than trying to sell their produce themselves in the Alexandria marketplace. Had the latter case happened, the large number of sellers would have had negative impact on the functionality of the market and the prices obtained. For example, the sales office of the Ionian Bank in the Alexandria marketplace noted that when clients came to the market trying to sell their cotton, rather than authorising the Bank to sell their cotton through "sell at best" orders, they would shout for their samples, wasting the time of the Bank's staff and causing serious delays in selling the produce.[67] On the other hand, foreign banks in Egypt did not have title to cotton, and as such they could be considered brokers, rather than traders (see Hackett, 1992).

To sum up, foreign banks in Egypt were the only actors within the network that maintained presence in the three hubs of the Egyptian cotton business. They were at the centre of the coordination process given their ability to synthesise information from different sources. These banks intermediated the trade flow from the Egyptian provinces to Europe. In a reverse order, they intermediated the flow of finance. More importantly, they intermediated the flow of information about demand and supply. In this sense, participants in the network gained. Egyptian cultivators acquired information and advice about the technical requirements of European buyers and information about the market. Cotton spinners acquired information about the conditions of the cotton season in Egypt and the expected

[66] This is elaborated in greater details in Chapter Four on the Ionian Bank.
[67] Atkinson, H. (13 October1922). [Letter to P.N. Caridia]. IB, 28/2/1.

yield. Furthermore, foreign banks, provided, in an indirect way, valuable intermediation services to both buyers and sellers, in line with what Casson (1997b) theorised in relation to intermediaries.

3.8 Conclusions

The idea of a direct intervention in the cotton market, driving intermediaries out of the market and putting cultivators in direct contact with cotton spinners were raised in Egypt on several occasions.[68] For instance, a Greek resident in Egypt, involved in the cotton business, wrote two letters in 1912 to Lord Kitchener, the then Consul-General in Egypt, with a proposal to establish a permanent commission to regulate cotton trade.[69] The proposal was that the cotton mills in Lancashire were to send commercial agents to Egypt to purchase cotton directly from cultivators, rather than relying on a sophisticated network of middlemen, cotton merchants and exporters to move the cotton from the Egyptian provinces to Lancashire. However, the proposal was disregarded for its impracticality.

The same idea became popular again with the growing national sentiment in Egypt from the 1920s onwards. Many large landowners and political figures often accused cotton brokers, exporters and foreign banks of accumulating substantial profits at the expense of cotton cultivators, and postulated that cotton profits were not fairly distributed (Rashad, 1927, pp. 199-200). They often called for new arrangements to organise the cotton trade in Egypt. The main idea was that cultivators in Egypt should be put in direct contact, and direct business transactions, with the textile industrialists in Europe. In theory, this could have been done only by getting rid of intermediaries such as cotton merchants and export houses. It was proposed that spinners in Britain were to send their agents to the Egyptian villages to buy cotton directly from the growers (*Al-Muqattam*, 25 May 1916).

The General Egyptian Agricultural Syndicate was founded in 1921 by large landowners following a substantial drop in cotton prices. The Syndicate was aiming to increase the influence of Egyptian cultivators over the arrangement of cotton marketing. One of its goals was to bypass the Alexandria General Produce Association through connecting the domestic cultivators with European industrialists. In fact, however, the Syndicate was dominated by large cotton landowners and large merchants who were trying to encounter the dominance

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[68] Eventually, the entire Egyptian cotton marker was altered by the state in the late 1950s when the new Egyptian regime controlled every aspect of cotton trade.
[69] Xenophon, X. (20 July 1912). [Letter to Lord Kitchener]. TNA, PRO 30/57.

of foreign intermediaries.[70] Some opinions within the Syndicate accused the Alexandria General Produce Association of using it superior knowledge of market conditions around the world to manipulate the prices of Egyptian cotton (Tignor, 1984, p.59). Furthermore, the Syndicate heavily criticised the Association for favouring export houses in Alexandria and foreign banks at the expense of cultivators.

A senior member of the Egyptian Senate travelled to Lancashire in 1928 trying to persuade the British spinners to transact directly with an Egyptian cooperative association. He argued that a direct relationship between the growers in Egypt and the manufacturers in Europe would ensure better gains for both sides.[71] The Egyptian senator suggested the formation of a bureau with representatives of the cotton sellers in Egypt and the buyers in Britain so that both parties could negotiate and transact directly with no intermediation at all (*The Financial Times*, 5 September 1928). He claimed that spinners in Lancashire were paying unduly extra costs to buy Egyptian cotton and that cotton cultivators in Egypt often sold their produce at very low prices. The main target was, again, to mainly exclude the large export houses in Alexandria, foreign banks and the Alexandria General Produce Association (Goldberg, 2004, p. 82).

However, there was no guarantee that side-lining intermediaries would be more profitable to cultivators. Constructing a counter-factual scenario is difficult. Nonetheless, it is not clear how indigenous institutions would have done if these foreign banks and other intermediaries within the network had not existed, how the cotton network could have been organised and how it could have functioned in alternative ways. For instance, each side of the market was not familiar with the other side. Uncertainties were high. Therefore, an intermediary with a coordinating role was central for the network to hold together.

The cotton business in Egypt was a sophisticated business with an international character. It required a special kind of coordination between the various actors involved in this business. By carefully analysing the role played by each participant in the market, this chapter has showed the indispensable and instrumental role of foreign banks in sustaining the operation of the Egyptian cotton network. Flows of cotton, finance and information were mainly coordinated by these banks. Another important function provided by foreign banks was

[70] Allenby, E. (25 April 1921). [Letter to Curzon]. TNA, FO 407/189.
[71] Foreign Office. (5 June 1928). TNA, FO 141/480. Owen (1969) argued that no evidence was clear on how cotton income was distributed among the various market participants. He could not establish whether cotton cultivators were underpaid.

acting as intermediaries within the network and providing valuable services for both sellers and buyers. On the other hand, Egypt enjoyed the advantage of constant supply of funds to finance cotton movements.

A comparison between the Egyptian cotton network and the networks of Southern American and Indian cotton networks reveals that they shared some similarities, and were different in other aspects. The role played by foreign finance and middlemen was similar in the cotton networks of both Egypt and the USA. Foreign banks played the major role in financing the cultivation and export of Egyptian cotton. Likewise, the expansion of southern American cotton was made possible with the abundance of credit from the London money market where loans were extended against mortgages on slaves (Beckert, 2014, pp. 221-223). Furthermore, in the southern American states, slaves, former slaves, and white farmers had to borrow from middlemen and merchants. In addition, prominent actors in the network were the cotton commissioned agents who delivered cotton to Europe (Reidy, 1992, pp. 222-247). This was similar to the role of middlemen in Egypt who borrowed from banks and lent to the small cultivators.

Compared with India, the extent to which the European actors were dominant and the position of middlemen were different in the Egyptian case. Following the Egyptian cotton boom in the 1860s, European dominance of the cotton network was evident during the entire period until the 1950s. On the other hand, middlemen remained key players in the Egyptian cotton network. This is in contrast to what happened in India. As elaborated by Dejung (2015), European control of the Indian cotton trade during the colonial period was limited. Indian intermediaries and merchants had a dominant position within the trade and used their capacity to raise agricultural credits. It was only with the construction of the Indian railway network that European trading firms and exporters managed to bypass the indigenous merchants (Tomlinson, 1993, pp. 55-56).

Finally, this chapter has not engaged with the contentious debate of whether the developments made in producing, financing and marketing the Egyptian cotton was in the country’s favour. In other words, was the exclusive dependence on cotton cultivation a symptom of an underdeveloped country that was affected by colonial extraction? Rather, the chapter has had a different objective. It has laid out how the cotton industry and its trade operated in Egypt through identifying and analysing, in a clear way, the private actors involved in the Egyptian cotton industry and identified the precise role played by them in the cotton network. Given the centrality of banks for the Egyptian cotton industry, the next chapter is a case study that looks closely at one of these banks.

Chapter 4 The Case of the Ionian Bank in Egypt, 1907-1956

4.1 Introduction

The function and performance of foreign banks as central actors in a globalised world remain contested issues within the literature. The political economy literature on the history of foreign banks in the developing countries of Africa, Asia and Latin America has, to a large extent, held a stereotyped view on the policies and behaviour of these banks (Bostock, 1991, p. 157). Research by development and dependency theorists has often charged these banks of being collusive and imperial agents that exploited the underdeveloped host countries through extracting substantial profits out of their operations in these countries (Odle, 1981; Austin and Uche, 2007).

To take the case of foreign banks in Africa, the history of these banks has been covered as part of the imperial history paradigm (Verhoef, 2017, p. 13). They have been perceived as actors within a larger context of imperialism and colonisation. The Egyptian literature on the history of foreign banks is not an exception. Reference to foreign banks has had the same line of argument. As highlighted in Chapter Two, Egyptian scholars and intellectuals who wrote on the history of foreign banks in Egypt often made generalisations on the harmful impact of foreign banks on the Egyptian economy.

On the other extreme have been writings on the corporate histories of foreign banks commissioned by the firms concerned in order to celebrate their success and longevity. Examples include Crossley and Blandford (1975) on Barclays DCO and Fry (1976) on the Bank of British West Africa. Although these works conveyed plentiful basic information about their companies, they lacked rigorous theoretical framing and avoided any controversial areas (Hopkins, 1976, p. 268).[72]

There are essentially two problems with the historiography of foreign banks in development countries. First, the evidence on the claims of an exploitive nature and large profits remains in many cases unsound. Some conclusions have been derived without analysing the actual function of these banks in host countries through, for example, detailed case studies. Furthermore, bank profitability has been a contentious area at the centre of the debate on

[72] Probably an exception is Ackrill and Hannah (2001) who traced the history of Barclays DCO relying on a well-defined analytical framework of ownership, control, management and performance, supported by a subtle narrative.

colonisation. However, objective criteria for evaluating performance has not been clear (Hopkins, 1976, p. 285).

Second, a clear focus on banks, as business enterprises, has often been missing. For instance, we know little about how the entry decisions of these banks were justified, how these banks operated, how the relationship between the headquarters and the branches overseas was maintained. More importantly to our discussion on globalisation, what exact function did these banks serve? What role did foreign banks play in financing the flourishing global trade, and more precisely commodity trade, and how did they contribute to the first global economy? Financing foreign trade was not the only function provided by foreign banks. A second role that has received less attention in the literature was financing domestic cultivation, a prerequisite for commodity export.

Chapter Three has demonstrated the crucial functions foreign banks in Egypt provided to the cotton network. The main research question of this chapter is how did foreign banks in Egypt, as business enterprises, maintain their operations and manage risks, and what was the impact on their financial performance? Given the lack of aggregate data on these banks, a case study method is applied in order to answer the research question. Through the prism of the Ionian Bank, a British overseas bank that operated in Egypt between 1907 and 1956, this chapter closely scrutinises the business and performance of foreign commercial banks in Egypt in relation to the cotton industry during the first half of the twentieth century. The business of the Ionian Bank in Egypt was identical to that of the other foreign commercial banks operating in the country. Therefore, the Bank could be viewed as a representative case study that has the potential to allow for better understanding of broader issues.

This chapter does not cover the entire history of the Ionian Bank in Egypt. Business history research is not meant to say everything about the institution it discusses. Rather, specific themes and issues are selected for the sake of the entire narrative and purpose. Some aspects that are covered in this chapter include motivations to expand into Egypt, what actually went on inside the Bank as a business enterprise, how the Bank strategically maintained its operations and managed risks, and where the bank raised its funds from. Did the bank enjoy any specific advantage such as abundance of capital, managerial skills, or access to the British influential circle? In addition, competitiveness, financial performance and organisational structure are discussed.

The choice of the Ionian Bank as a case study of foreign commercial banks in Egypt is for a number of reasons. The Bank was one of the leading foreign financial institutions in financing the Egyptian cotton cultivation. Archives of some French and Italian banks might exist. However, the materials, obviously, are not written in English and therefore are difficult to analyse. The three major British banks operating in Egypt at that time were the National Bank of Egypt, Barclays DCO, and the Ionian Bank. The National Bank of Egypt does not retain archival materials. The materials on the Egyptian business of Barclays DCO, maintained by Barclays Group Archives, are not as rich as the materials found in the Ionian Bank archives. In addition, the general history of Barclays DCO has been extensively covered by Crossley and Blandford (1975) and Ackrill and Hannah (2001). In contrast, historical scholarship on the Ionian Bank has been of short supply.

Business history research has been skewed towards the study of large firms. It could be argued that most of our knowledge on the history of multinationals are shaped by the history of gigantic firms such as Barclays Bank, Unilever, and Shell. One should remember that there were many other smaller multinational firms that neither enjoyed massive financial resources nor were able to exercise power on host countries. Nevertheless, some of these firms, regardless of their size, played important roles in host economies. The Ionian Bank was not a very large bank in terms of assets and geographical concentration; nevertheless, its place in the history of Egyptian cotton cannot be overlooked. The Bank can be classified as a medium-sized bank. During its years of operations, it was ranked among the small British overseas banks in terms of assets and branch networks (Jones, 1993, pp. 396-401). This is attributed to the Bank's presence in a very limited number of countries and its exclusive focus on the Eastern Mediterranean. However, its size compared to other large British overseas banks is not indicative of the key role played by the Bank in the countries it operated in.

Through the case of the Ionian Bank, this chapter contributes to various bodies of literature. First, it contributes to the historiography of British banking overseas. British foreign banking, and more generally British investments, were a pertinent force contributing to the world integration during the first global economy. On the other hand, British overseas banks have occupied a special position at the centre of the debate on colonisation and underdevelopment. In development literature, the policies of British overseas banks were severely criticised (Jones, 1987, p. 72). They have been charged with serving the colonial administration, restricting their activities to other expatriate firms at the expense of the indigenous economy, and repatriating large profits to their headquarters in London (Hopkins, 1970; Uche, 1996; Austin and Uche, 2007).

As mentioned in Chapter One, detailed case studies on the history of British overseas banks in the Middle East have been limited. One of the few attempts is Jones (1986, 1987) who evaluated the impact of the Imperial Bank of Persia and its successor, the British Bank of the Middle East, on the Iranian economy. He postulated that the outcomes were a mixture of costs and benefits. The Bank was successful in mobilising domestic savings and provided a source of employment and training for indigenous staff. Yet, Jones referred to some practices that led the Bank to be described, in some instances, as an agent of British imperialism. However, Jones' works along with Wilson's study (1987) on the Eastern Bank largely centred on the monopolistic positions these banks enjoyed in Iran and the Arab Gulf respectively. More generally, a common concern of many studies on British overseas banks has been to explain why these banks in the twentieth century lost their monopolistic positions they had established in the nineteenth century. For instance, Jones (1986) showed that the changing political context with the rising of nationalism along with the conservative management of the Imperial Bank of Persia were the main reasons for the loss of market share to indigenous banks. As will be explained later, the history of the Ionian Bank in Egypt was fundamentally different in many aspects from the majority of British overseas banks. As a result, writing on the Ionian Bank will offer new dimensions to the historiography of British overseas banks.

Second, the chapter extends the limited literature on the Ionian Bank. Cottrell (2007) thoroughly covered the history of the Bank since its inception in the Ionian Islands in 1839 until 1864 when the Ionian Islands were united with Greece. Phylaktis (1988) traced the developments in the banking sector in Cyprus, where the Ionian Bank was one of the main players, between the late nineteenth century and 1959.[73] A chapter by Apostolides and Gekas (2012), in an edited book on banking and finance in the Mediterranean, discussed the relationship between the Ionian Bank and the British authorities until the 1920s. The focus of these studies was on the Bank's operations in Greece and Cyprus where it maintained a monopolistic or at least very dominant position. Unfortunately, the position the Ionian Bank

[73] Phylaktis examined how local banks successfully challenged the position of foreign banks. She argued for the entrepreneurial failure hypothesis by postulating that the Ionian Bank maintained a very conservative policy in Cyprus, missing lucrative business opportunities there. Local banks such as the Bank of Cyprus, with its local knowledge, lent to profitable sectors and invested its funds locally. Foreign banks, on the other hand, did not find these sectors appealing and invested their surplus funds in the London money market.

occupied amongst the top financiers of Egyptian cotton has not been matched with any scholarship on it.

Third, the study contributes to the economic and financial history of Egypt on foreign banks. Although foreign banks were eminent in Egypt's modern economic history, histories of these banks remain under researched. The only financial institution that has been studied relying on the firm's corporate archives is Crédit Foncier Egyptien, the largest mortgage lender in Egypt's modern history. Cannon (2001) examined its mortgage lending between 1880 and 1914. Saul referred to the same institution as part of a larger discussion on French investments in Egypt and land distribution (1997, 2015). However, Crédit Foncier Egyptien was a mortgage, rather than a commercial, bank. A study in Arabic by Kotb (2013) traced the history of the National Bank of Egypt between 1898 and 1960. The primary sources obtained from the National Bank of Egypt were, however, very limited as they covered the period from 1956 to 1960 only. Therefore, detailed case studies and robust evidence on individual foreign commercial banks in Egypt have been absent.

The remainder of this chapter is composed of eight sections. The next section briefly surveys the literature on multinational banking where a special attention is given to British overseas banks. This section serves as the basis for understanding in what aspects the Ionian Bank was different to British overseas banks in other host countries. A brief background on the origins of the Ionian Bank in the Eastern Mediterranean is then provided in section 4.3. The concern of section 4.4 is the expansion of the Bank into Egypt along with understanding the entry decision. Section 4.5 provides an overview of the organisational structure of the Ionian Bank in Egypt and its lending activities for cotton cultivation. Section 4.6 discusses the challenges the Bank encountered in Egypt. Section 4.7 analyses the Bank's financial performance. The Bank's last years in Egypt are referred to in section 4.8. The final section concludes with a discussion based on the evidence presented in the previous sections.

4.2 Foreign banking

4.2.1 Multinational banking

A multinational bank is defined by Casson (1990, p. 14) as a bank that "owns and controls banking activities in two or more countries". The literature on theorising multinational banking emerged in 1977 with the work of Herbert Grubel who sought to develop a general theory to explain multinational banking. He classified multinational banks into three different categories. The first is multinational retail banking where banks serve local customers and compete against domestic banks in a host country. The second category is for service banks that follow their corporate customers from home country into foreign markets. Multinational wholesale banks are under the third category, where these banks lend to governments and large corporations.

Different approaches were developed thereafter. Gray and Gray (1981), employing John Dunning’s “eclectic paradigm” of international production and multinational operations (1981), explained the sources of advantages that foreign banks maintain in host economies. They sought to establish how the three pillars of ownership-specific advantage, location-specific advantage and internalisation advantage could be used to explain multinational banking. Differences in cost of capital across countries was another explanatory factor for the pattern of multinational banking (Aliber, 1984).

Banking has idiosyncratic factors compared to other firms in manufacturing or service sectors. This complicates the transferability of theoretical models developed mainly to explain multinational activities in other sectors to multinational banking. Nevertheless, Casson (1990), taking a historical perspective, argued for the usability of internalisation and transaction cost theories to explain why foreign banks, as a type of institutional arrangement, were preferred to other contractual alternatives such as correspondences banking. Trade finance banks were left with two alternative forms of foreign operations: either to transact through market arrangements such as correspondent relations, or through foreign direct investment. The former was not always feasible given the lack of reliable and trustworthy indigenous correspondents in many host countries. The latter alternative entailed higher costs and required a large volume of trade to cover these costs. Accordingly, a bank had to enjoy experience in the underlying trade, which was often staple commodities, in order to be able to maintain operations. In addition, trade banks concentrated around export and import centres; they did not need to maintain branch networks of high density compared with deposits banks that often located their branches close to their customers.

Multinational banking, according to Jones (1990), thrived in two historical waves. The first was part of the first global economy, beginning in the second half of the nineteenth century. Foreign banks represented the most prominent form of multinational activities during that period (Jones, 1992, Ch. 9). What distinguished this wave was that these banks, mainly European, followed the imperial expansion in the underdeveloped parts of the world. Weak indigenous banking in host countries created profitable opportunities to these banks.

Expansion of European banks during this period was surveyed by Feis (1930) and Cameron and Bovykin (1991). Battilossi (2006) offered a comprehensive review of the direction of multinational banking during the first modern globalisation. The second wave, which is beyond the scope of this study, commenced in the 1960s with the introduction of Eurodollar and witnessed a very different geographical concentration.

4.2.2 British overseas banks

Britain was the pioneer in introducing multinational banking. British overseas banks enjoyed the largest branch network in the nineteenth century up to the onset of the First World War. According to Jones (1998a, p. 344), 28 British overseas banks existed and maintained 1,286 branches outside Britain in 1913. These banks had larger geographical diversification than overseas banks following from other countries such as France and Germany (Jones, 1990, Ch. 3; Battilossi, 2006, p. 363).

Many reasons contributed to the supremacy of British overseas banks. They benefited from Britain's position in the nineteenth century as the leading industrial, trading and financial nation. British overseas banks were established at a time when British foreign trade was flourishing, representing the largest share of the world trade. Sterling was used to finance two-thirds of this trade (Jones, 1993, p. 379). British overseas banks played an important role in maintaining the volume of British foreign trade through providing finance to exporters and importers (Baster, 1935). Much of the trade was in the form of exporting raw materials and primary commodities from underdeveloped countries and importing manufactured goods from Britain or elsewhere. Britain was the leading capital exporter across the globe until the onset of the First World War (Dunning, 1983; Corley, 1994, 1997). The British financial sector enjoyed comparative advantage in terms of a strong position in the world evidenced by the Sterling and affluent British financial institutions. This was even linked to British imperialism by writers such as Cain and Hopkins (1993). They argued that British imperialism was driven mainly by the unique position of the British financial sector that tried to capitalise on and advance this comparative advantage. The large British Empire certainly contributed to the expansion of British overseas banking. On the other hand, these banks benefited from the liberalisation of the British company law that enabled banks from 1857 to be founded as limited liability companies (Cottrell, 1991, p. 32).

British overseas banks and their role in financing foreign trade have been well documented in the literature dating back at least to the general survey on these banks by Baster (1929) on the British banks operating in the countries under the British Empire, and (1935) on the British banks operating in other foreign countries. Jones (1990, 1992, 1993) offered new insights to the discussion on multinational banking by employing theories of international business to construct an explanatory analytical framework for the emergence and expansion of British overseas banks.

Jones' comprehensive study (1993) has been the most detailed analysis of British overseas banking, their sources of competitive advantage, strategies, response to changing environments, and their performance between 1830 and 1990. The experience of the Ionian Bank in Egypt, along with the other foreign commercial banks in the country, was different in almost every aspect from the majority of British overseas banks covered by Jones (1993), and therefore it offers a rich and different context. These distinctive features are thoroughly discussed throughout this chapter, and are briefly summarised below.[74]

First, British overseas banks enjoyed supremacy in financing foreign trade of exporting raw materials and primary commodities from underdeveloped countries, and importing manufactured goods from Britain or elsewhere. In many places such as Latin America and Asia, later on, these banks diversified their activities beyond foreign trade finance and became more involved in domestic lending. However, financing foreign trade remained, by and large, the core business (Jones, 1993, pp. 89-93). Foreign banks in Egypt, including the Ionian Bank, did not have foreign-trade finance as their main line of business. They deliberately specialised in domestic lending for cotton cultivation and movement.

Second, British overseas banks globally benefited from a first-mover advantage and thrived in the absence of competition in underdeveloped host countries.[75] At least until the early years of the twentieth century, these banks were mostly established by means of monopoly concessions and exclusive privileges granted by host governments, such as note issuing. Moreover, early foreign banks often received support from, and some were even sponsored by, their respective governments (Baster, 1935, p. 34). In response later to the growing competition from the fledging indigenous financial institutions, these banks tried to co-operate or even collude rather than to compete.[76] This included agreements on levels of interest rates charged and gentlemen agreements on not poaching other banks' customers

[74] The business of British banks in Egypt was put in a broader context in Jones' study (1993).
[75] China in the nineteenth century was an exception. Brown (1990) showed that Chinese business groups had conducted banking activities before British banks penetrated the country.
[76] There is limited evidence in international business literature, however, on the impact of competition on the strategies adopted by Western firms in developing countries (Jones, 2010).

(Jones, 1993, p. 203; Austin and Uche, 2007). This was perceived as the best strategy to contain the new entrants.[77] The Ionian Bank in Egypt, in contrast, never enjoyed a monopolistic position in any instance. It engaged from the very beginning in severe competition against a large number of foreign banks from different nationalities, and there was room neither for cooperation nor for collusion.

Third, British overseas banks enjoyed nation-specific factors that supported their development. They maintained good reputation for security and stability to the extent that depositors in host countries opted for these banks at the expense of the less stable indigenous banks in Asia and Africa (Jones, 1993, p. 390). When higher returns could be secured in London, British overseas banks transferred the collected deposits from overseas to London. Furthermore, branches of British banks abroad were filled by trained personnel with accumulated experiences gained from the developed domestic banking sector in Britain. On the contrary, the Ionian Bank in Egypt was not able to collect domestic deposits. In essence, lack of domestic funds was a persistent challenge the Bank encountered throughout the entire period it operated in Egypt. Additionally, the Bank had to rely on local staff with local knowledge, and this posed a genuine problem to the Bank and impacted on its growth trajectory.

Fourth, when British overseas banks transacted with the indigenous sector in host countries, in China for example, they did that through hiring indigenous compradors. These intermediaries were responsible for transacting with the indigenous community that had very different language and business culture. The comprador was also responsible for recruiting local staff, paying for them, and was financially liable for any shortages caused by his hires. In addition, the comprador frequently engaged in business on his own account, and had to provide security and a guarantor for British overseas banks before acting as a comprador (Jones, 1993, pp. 91-92). Consequently, the comprador was an agent rather than an employee of the bank. In Africa, British banks kept themselves away from indigenous merchants and restricted their activities to expatriate firms (Jones, 1993, p. 93; Uche, 1996; Austin and Uche, 2007). Both strategies were different from what foreign banks did in Egypt as they transacted mostly with native borrowers and employed local representatives in the Egyptian provinces who were employees of the banks.

[77] Nevertheless, the market share of these banks dropped sharply following the continuously increasing competition from the fledging indigenous financial institutions (Jones, 1993, p. 100).

Fifth, many British overseas banks acted as a vehicle to influence British foreign policies in the Empire, and maintained close relations with the British Foreign Office. For instance, the Imperial Bank of Persia, according to Jones (1986, 1987), was a vehicle not only for exporting British capital, but also to advance British political interests in Iran. On the contrary, the involvement of the British government in aiding British banks in Egypt was very limited. For example, the Bank of Egypt, that occupied a symbolic position as the first ever British joint-stock bank to operate abroad, failed in 1911 without any British intervention to prevent so. The Ionian Bank transacted in Egypt, as the chapter illustrates, without any unusual support from the British administration in the country.

4.3 Ionian Bank foundation & expansion

The Ionian Bank was one of the oldest British overseas banks. It was founded in 1839 with a subscribed capital of £100,000 in the United States of the Ionian Island, a British protectorate at that time. Its foundation was an initiative of the Ionian States' resident agent in London, and was blessed by the British government (Orbell and Turton, 2017, p. 294). The founders included some London merchant bankers, and the leader was John Wright of the London bank of John Wright & Co. In 1844, the Bank received a Royal Charter in Britain. The Ionian Islands were united with the Kingdom of Greece in 1864 and a few years later the Royal Charter was given up and the Bank was registered in Britain as a limited liability company.

The original prospectus in 1839 envisaged the Bank as "the nucleus of a great and important undertaking operating in the Mediterranean, the Adriatic, and the Levant". Its main purpose was to finance international trade, not only in Greece, but in the Easter Mediterranean, particularly where there were Greek population.[78] The Ionian Bank expanded into Egypt in 1907, Turkey in 1922, and into Cyprus in 1926. The Turkish business was short-lived and it was sold in 1928 to the Deutsche Bank. In Egypt, the Bank operated until 1956 when its assets were sequestrated by the Egyptian government. The sequestration of the Egyptian business was likely a turning point for the Bank. Its venture in Cyprus had been of little success, and in 1957, the Bank's business there was sold to the Chartered Bank. In the same year, the business in Greece was sold to the commercial Bank of Greece. The Bank withdrew completely from the Eastern Mediterranean and thereafter it operated as a UK based merchant bank. Finally, the Bank voluntarily gave up its banking licence in 1977.

[78] Ionian Bank. (1953). [Ionian Bank Limited: A History]. IB, 9/9, p. 34.

There are two observations on the Bank's expansions. It operated exclusively in the Eastern Mediterranean region. The Ionian Islands (later Greece), Cyprus and Egypt were under informal British colonial rule and influence throughout the period; although they all had, at least on the surface, sovereign governments. This was perceived as a guarantee for a stable political environment and for anticipated privileges. In addition, the Bank followed its original prospectus and tried to capitalise on what it was familiar with i.e. the Greek commercial networks abroad. Egypt and Cyprus were very good candidates for expansion. The decision to commence business in Cyprus was justified by the fact that the majority of its population were Greeks. Moreover, the main trade partners to Cyprus were Britain and Greece (Apostolides and Gekas, 2012). The case for starting business in Egypt is discussed in greater detail later.

The Ionian Bank maintained a Greek taste during its years of operations. For instance, Sir John Stavridi, who served as the Bank's chairman between 1920 and 1948, was born in Britain to a Greek father. He was the doyen of the Greek community in Britain. In addition, he served as the Consul-General for Greece in London for many years and enjoyed great prestige and influence in Greece.[79] On the other hand, Greek shareholders were influential. No precise data are available on the shareholding structure. However, one example can illustrate their power. In 1905, the Ionian Bank provisionally agreed to sell its note issuing rights to the National Bank of Greece for a cash payment of £62,800. The offer seemed attractive and was approved by the Bank's Court of Directors in London, given that the last renewal of the privilege granted to the Ionian Bank of note issuing in Greece was to expire in 1920. However, the Greek shareholders, who regarded the Bank's privilege jealously, voted against the sale.[80] The Bank, accordingly, remained a bank of issue for another 15 years. In 1920, the privilege expired and was transferred, without compensation, to the National Bank of Greece.

As the financial sector in the Ionian Islands was underdeveloped, a British overseas bank was a profitable venture. The Ionian Bank enjoyed an exclusive right of note issuing since its foundation in 1839. Financing international trade between the Ionian Islands and Britain was the principal activity of the bank during the first years of operations.[81] However, within a few years, the Bank was under pressure to lend to the Greek government and to engage in

[79] Ionian Bank. (1953). [Ionian Bank Limited: A History]. IB, 9/9, pp. 44-45.
[80] Ibid, p. 33.
[81] Ibid.

agricultural and mortgage lending and financing the cultivation of currant and olive oil. The Bank was obliged to do so in return for its note issuing privilege. According to an agreement with the Greek government, the Bank had to employ 40% of its paid-up capital in agricultural loans and 25% in mortgage lending (Jones, 1993, p. 37). The Bank was heavily involved in Greek economic concerns. For instance, it had to open new branches and to reduce interest rates on loans in some instances as a sign of the Bank's commitment to the welfare of the Greek economy.[82]

Some years later, conditions changed in Greece. The Bank lost its monopoly of note issuing as the rival National Bank of Greece was granted a second note issuing privilege in 1900. Competition between the two banks was intensifying, and the management of the Ionian Bank was under the impression that its Greek charter would not be renewed again.[83] Furthermore, a national bankruptcy in 1893 was enough to reveal signs of weakness in the Greek economy. The Bank's management sought for geographically diversifying the activities of their bank that had been operating in one country and connected with only two industries, currant and olive oil. On the other hand, flourishing world trade, and consequently its finance, urged the Bank to go beyond the Greek borders.[84] Egypt was the answer.

4.4 Egypt as a potential field for finance

The Ionian Bank's chairman Falconer Larkworthy visited Egypt in 1905, as per the board's request, to discover the prospects for the Bank to open a branch there with the aim of financing cotton and foreign trade.[85] Larkworthy spent two weeks in the country where he met with fellow bankers, lawyers, Lord Cromer the Consul-General in Egypt, and other highly regarded British colonial officials.

The final report Larkworthy presented to the board benefited from the increasingly available data provided by the Egyptian government, mainly through its British advisers, on land values and rates of indebtedness in the country. In each point Larkworthy articulated, he compared the figures of Egypt to these of Greece, the Bank's main area of expertise.

[82] Ionian Bank. (18 July 1902). [Court of Directors minutes no. 13]. IB, 13/9.
[83] Ionian Bank. (6 May 1902). [Report of Proceedings of the Annual General Meeting]. IB, 3/24.
[84] Larkworthy, F. (18 April 1905). [General Meeting Minutes]. IB, 2/23.
[85] Larkworthy started his career at the age of nineteen by joining the overseas service of the Oriental Bank Corporation in Mauritius. Two years later, he was sent to Australia and was appointed as an accountant and then a manager of the first agricultural branch established by the Oriental Bank in Victoria. In 1860, Larkworthy took up a job with the Bank of New Zealand in Auckland and soon became the Bank's Managing Director in London (Bostock, 2004). Larkworthy joined the court of the Ionian Bank in 1898 and served as the Bank's chairman between 1900 and 1920 when he retired at the age of 87. He exercised a dominant influence over the fortunes of the Ionian Bank. Ionian Bank. (1953). [Ionian Bank Limited: A History]. IB, 9/9, p. 31.

Larkworthy reported that the British occupation made a good legal reform for bad debt recovery. Accompanying this with the uninterruptedly increasing values of land, he argued that it was unlikely for the Bank to incur losses in case of foreclosure. The report was very promising and urged for the opening of a branch in Egypt as soon as possible based on his worries about competitors racing towards the country. He pointed out "there is to me no room for surprise that at present so many banks are hankering after the flesh pots of Egypt".[86] What Larkworthy referred to was the economic boom in the early years of the 1900s.

The Ionian Bank opened its first Branch in Alexandria in 1907, amid a severe financial crisis hitting the country and affecting many banks there. The timing of the Ionian Bank's expansion into Egypt, according to Baster (1935, p. 71) was not opportune. However, it could be argued that commencing business in Egypt amid the crisis turned out to be very advantageous to the Bank. In essence, it seized the opportunity offered by the crisis.[87] While the financial resources of the existing foreign banks in the country had been exhausted and had been already drying, the Ionian Bank was making a fresh start with a healthy financial position. The Bank was free of liabilities and with its capital and credits intact.

The idea of extending operations into Egypt was discussed for some years before entry, evidenced by Larkworthy's visit to Egypt in 1905. However, as different views were expressed by the members of the court in London on the advisability of doing business in Egypt, it was decided that no action should be taken.[88] In March 1907, the proposal to open a branch in Egypt was reconsidered. Some members in the court had the opinion that it was not the right time to establish a bank in a new field during a severe crisis, given the difficultly for strangers to appraise the creditworthiness of potential borrowers.[89] Nonetheless, the final decision was to proceed, and the secretary was authorised to make the necessary preparations to open a branch in Alexandria.[90] Therefore, when the Bank commenced its business in Egypt it had been aware of the severity of the financial crisis there.

The Bank's entry decision into Egypt can be can be analysed using international business theories, more specifically their application to multinational banking. Casson (1994, 1998) argues that a competitive advantage a firm should capitalise on is not necessarily built in the

[86] Larkworthy, F. (24 March 1905). [Report on Egypt as a Field for Banking Business]. IB, 10/18.
[87] Ionian Bank. (20 April 1910). [Report of Proceedings of the Annual General Meeting]. IB, 2/6.
[88] Ionian Bank. (18 May 1905). [Court of Directors minutes no 14]. IB, 3/10.
[89] Ionian Bank. (7 April 1908). [Report of Proceedings at the Ordinary and the Extraordinary General Meeting]. IB, 3/24.
[90] Ionian Bank. (13 May 1907). [Court of Directors minutes no. 14]. IB, 3/10.

domestic market. A multinational bank could emerge out of a privileged access in one place while maintaining a local advantage in another place. Therefore, a combination of advantages in two different countries may explain multinational banking.

A local advantage in a home country could be, for example, a privileged access to finance. Indeed, some British overseas banks, maintaining their headquarters in Britain, did not conduct any domestic business, rather controlling overseas activities, raising funds and serving as a guarantee for their bank's reputation (Casson, 1990, p. 26). On the other hand, a bank may enjoy a different advantage in the host country. Firm ability to internalise from pervious experiences is very important for its growth (Casson, 1990, p. 23). However, skills or experience in lending could be acquired by other competitors. Personal contacts, according to Casson (1990, p. 14), are the main source of monopolistic advantage in multinational banking. A bank may develop the ability to synthesise information from different sources through maintaining personal contacts and information networks that could help the bank to spot profitable opportunities.

This framework could explain the expansion of the Ionian Bank into Egypt. When the Ionian Bank commenced its business in Egypt, it capitalised on its familiarity with the Greek commercial networks, taking advantage of the position this network maintained in Egypt. In essence, the eminent Greek presence in Egypt was likely one of the strongest drivers behind the Ionian Bank's entry decision into Egypt.

Historically, Egypt maintained strong ties with Greece. The size of the Greek community in Egypt grew progressively in the second half of the nineteenth century making them the largest foreign community in Egypt at the onset of the twentieth century. It was estimated in 1910 that one quarter of the population in Alexandria, the city with the majority of Egyptian trade, were Greeks (Egyptian Ministry of Finance, 1910, pp. 30-33). The first foreign treaty that Egypt, under the British occupation, signed was the Greek-Egyptian treaty that opened a new lucrative and privileged market for the Greek merchants and industrialists. Egyptian-Greek trade was thriving, and the wealthy Greek merchants founded a Greek chamber of commerce in Alexandria in 1902 (Kitroeff, 1989, p. 134). For the first part of the twentieth century, the aggregate Greek investments in Egypt were ranked fourth after the major European investing countries in Egypt: Britain, France and Belgium (Tingor, 1984, p. 42).

The Greeks almost completely dominated the cotton sector for many decades and they were prominent in each stage of producing, financing and exporting cotton.[91] Moneylending had a long history with cotton in the Egyptian provinces, and moneylenders were predominantly Greeks. With the cotton boom in the 1860s, the Greeks penetrated the villages where cotton had been growing and acted as moneylenders. According to the Egyptian census of population in 1907, they were the only foreign community that heavily broke through into the countryside; other foreigners preferred to reside in the large cities (Egyptian Ministry of Finance, 1909). The Greeks were also very active in the ginning industry and maintained large investments in this business (Karanasou, 1999).On the other hand, many of the prominent cotton exporters in Alexandria were Greeks. In essence, the Greek maintained a sophisticated network in the cotton sector (Kitroeff, 1989).

All of the above factors had an impact on the organisational structure of the Ionian Bank in Egypt as Greek staff held senior positions. The policy of the Bank was that an Englishman was to be at the top of the management in Egypt. The second in command used to be a Greek of good standing.[92] In addition, the cotton department, which was the most important unit for the Bank in Egypt, was headed by a Greek.

4.5 Operations and organisational structure

With staff of 49 and within five months from starting operations, the Bank's financial resources were fully employed in financing cotton cultivation.[93] Two years later, seven other agencies were fully operative. Six out of them were in the delta region, and one in Upper Egypt, where cotton was grown. The Bank's business in Egypt grew rapidly within a short period, and within a few years, the Bank enjoyed a position among the top financiers of Egyptian cotton. The management of the Bank in London was very optimistic about the prospects of the country. The financial and mechanical arrangements for marketing and exporting the cotton crop in Egypt was believed to be better than arrangements in other cotton-producing countries such as the U.S., the country that produced more than one half of the world's cotton supply.[94]

[91] Along with the cotton industry, the Greeks in Egypt enjoyed a monopoly in tobacco trade and its industry, one of the most successful industries in the country until World War I.
[92] Caridia, P.N. (15 October 1922). [Report from the General Manager for London on Alexandria]. IB, 6/100.
[93] Ionian Bank. (7 April 1908). [Report of Proceedings at the Ordinary and the Extraordinary General Meeting]. IB, 3/24.
[94] Ionian Bank. (14 March 1911). [Report of Proceedings of the Annual General Meeting]. IB, 2/6.

Larkworthy made the case in his 1905 report for doing business exclusively based on mortgages on high-class urban properties and estates of land. He argued that this would ensure an easy sell if the Bank needed to foreclose the asset. Moreover, he referred to the fact that extending loans to small landholders and peasants would put the Bank in direct competition with the Agricultural Bank of Egypt that was privileged by the government.[95]

When the Bank started operations in Egypt, in fact, it limited itself to offering cotton loans to medium-sized merchants / middlemen between the Bank and smaller cultivators. In some instances, the Bank dealt with medium-sized cultivators, rather than middlemen.[96] However, the only disadvantage compared with dealing with middlemen was that it took longer in the event of legal proceeding.[97] In all cases, the class of clients remained the medium-sized segment. The Bank's management in Egypt believed that a lucrative business would come from a reasonable number of relatively small customers rather than a few large landowners.[98] This vision explains the Bank's preference not to lend to large landowners and exporters.

Another reason that could explain the Bank's reluctance to transact with large landowners, apart from large loans concentration risk that the Bank tried to minimise, might be the position of these large landowners in the Egyptian society. They were some two thousand large-estate holders during the first half of the twentieth century up to the 1952 revolution (Owen, 1986, pp. 69-71). This class was very active in politics. For instance, they were represented by 43% of parliamentary deputies and 58% of cabinet members between 1923 and 1952 (al-Disuqi, 1975). Therefore, they were potentially risky borrowers that would have added a political risk factor to the Bank's lending portfolio.

Initially, the Bank lent to a limited number of exporters. However, these accounts were less profitable than the business of financing cotton in the provinces, and by 1922, all exporters' accounts were closed down.[99] Exporters were less favourable to the Bank for their large financing requirements. In addition, when large export firms bought cotton directly from the provinces, as highlighted in Chapter Three, they put themselves in direct competition with the Bank.[100] Furthermore, the Bank found it always difficult to ascertain the true position of exporters. For example, an exporter purchased Egyptian cotton at £40 and agreed to sell it

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[95] Larkworthy, F. (24 March 1905). [Report on Egypt as a Field for Banking Business]. IB, 10/18.
[96] Caridia, P.N. (20 March 1930). [Letter to Colin Marshall]. IB, 6/84.
[97] Ibid.
[98] Atkinson, H. (14 January 1923). [Letter to P.N. Caridia]. IB, 24/1/5.
[99] Atkinson, H. (6 July 1922). [Letter to P.N. Caridia]. IB, 24/1/20.
[100] Ionian Bank. (13 March 1934). [Inspection of the Alexandria Office & Egyptian Agencies]. IB, 31/8/7.

at £45 in Liverpool. If the market for this cotton had gone up to £60 before shipment was made, the Bank could easily advance £50 on this cotton. Once the shipment was made, the purchaser abroad would only have to pay £45 and therefore the margin of the account would disappear.[101]

For these reasons, lending for cultivation in the Egyptian provinces was the main business of the Ionian Bank. Along with refraining from financing cotton export, the Bank was not interested in any other foreign trade activities. For instance, Egypt was one of the largest importers of Greek tobacco, and this offered excellent prospects for trade finance opportunities to the Bank (Jones, 1993, p. 71). However, financing tobacco imports from Greece was extremely limited and constituted only a trivial part in the Bank's lending portfolio.

As explained in Chapter Three, there were two types of credit the Bank could make. The first was to advance credit before the cotton harvest where the borrower would pledge to send to the Bank during the season a specific amount of cotton for sale. The other method was to base the loan on actual cotton deposited in ginning factories as a security. The Bank opted for the second method and confined its activities almost entirely to financing the cotton crop by lending against cotton in ginning factories. In very limited cases the Bank granted credits in anticipation of the crop; however, this system was entirely discontinued by the Bank in 1930.[102]

The Bank extended advances against two types of security: credit against mortgage, and credit against personal guarantees. In the first case, credit was covered by first mortgage for double the amount of the credit. The mortgage was not to exceed one third of the valuation of the property, which had to be an agricultural land.[103] For the second type, credits were based on the mortality and fortune of the borrower and a guarantor. The latter had to be wealthier than the borrower. Maximum credit granted was 1/10th of the total net worth of the signatory. Credits against mortgage were better secured but less liquid.[104] The Ionian Bank

[101] Luard, J. (14 February 1924). [Letter to P.N. Caridia]. IB, 24/1/10.
[102] Ionian Bank. (29 November 1932). [Memorandum summarising Mr. Dickson's conversation with the committee and management in Alexandria]. IB, 6/97. The following year, other banks discontinued this type of credit and therefore, fierce competition arose for the business on a covered basis.
[103] Luard, J. (20 June 1922). [Letter to Herbert Atkinson]. IB, 24/1/20.
[104] Ionian Bank, Alexandria. (20 February 1926). [Letter to P.N. Caridia]. IB, 24/1/7.

maintained both types of credits in its portfolio. In 1926, for example, 60% of total credits were against signature only and 40% against mortgage.[105]

Specific margins had to be maintained against the cotton loans. In most cases, the margins were not less than 25%. This margin was calculated based on the cotton selling price in Alexandria. When a client's margin fell, the Bank would sell futures contracts to bring the account again into regularity.[106] In some years, the Egyptian government supported higher cotton prices. This was advantageous to the Bank as it could now dispose the entire holdings of the season at good prices. However, the risk was in calculating margins based on artificially high prices. The Bank tried in these instances to increase the percentage of margins required, or taking the cotton prices in Liverpool as the basis for valuation.[107]

The management in Alexandria had to employ local agents in the provinces. The Bank's agencies had to be situated in promising provinces in terms of cotton quality and productivity, and where competition was least keen. The Bank avoided long-term leases, so that agencies in districts in which circumstances had become less favourable could be easily closed and re-opened in more advantageous locations.[108] Business in unprofitable agencies was transferred to correspondents.[109] The agents were Greeks who could speak Arabic, along with some indigenous Egyptians.[110] Loans were managed by those agents, and certain skills in advancing loans to the middlemen were needed. The agent had to enjoy local knowledge in order to fix the value of cotton tendered for an advance, and to determine the creditworthiness of both the borrower and the guarantor. When the Bank extended credits in anticipation of the crop, the agent had to ensure that the cotton contracted for with the Bank was sown. Moreover, he had to estimate the prospective yield and whether it would cover the promised quantity.

The agents were responsible for hiring competent and reliable classifiers to establish the grade of the cotton and supervise the crop during the ginning process in factories. The classifier was the second highest paid in the agency after the agent.[111] Each agency consisted of the agent, a sub-agent, a cotton classifier, accountants, clerks, and collectors. The agency

[105] Caridia, P.N. (15 October 1922). [Report from the General Manger for London on Alexandria]. IB, 6/100.
[106] Atkinson, H. (12 May 1923). [Letter to P.N. Caridia]. IB, 6/84.
[107] Caridia, P.N. (18 June 1930). [Letter to Colin Marshall]. IB, 24/4/5.
[108] Atkinson, H. (26 April 1923). [Letter to P.N. Caridia]. IB, 6/84.
[109] Atkinson, H. (13 October1922). [Letter to P.N. Caridia]. IB, 28/2/1.
[110] Ionian Bank. (19 March 1912). [Report of Proceedings of the Annual General Meeting]. IB, 2/6.
[111] Atkinson, H. (13 October1922). [Letter to P.N. Caridia]. IB, 28/2/1.

system in Egypt was different from the classical definition of "agent" in the British banking system. In the UK, an agent was not typically an employee of the bank and maintained a degree of freedom to enter into loan agreements with borrowers on the bank's behalf (Barnes and Newton, 2018, p. 449). In the Egyptian case, the agency was a branch that was controlled by the head office. Therefore, the agent was, in simple terms, a branch manager.

The Ionian Bank was often entrusted with the sale of clients' cotton. Apart from the interest rates earned on cotton loans, therefore, the Bank received commissions on selling the produce for the clients' accounts. Accordingly, after ginning the cotton in specialised factories in the interior, the produce was then railed to Alexandria and stored in the Bank's warehouse located in the cotton marketplace.

Along with a warehouse, the Bank had its cotton selling office in the marketplace. The selling office was central to the Bank's success. It had to accelerate the liquidation of clients' accounts thus contributing to a quicker turnover. When cotton was carried over from one season to another, it was not only difficult to sell it, but the probability was that a lower price would have to be accepted.[112] One of the strength points behind the Ionian Bank's success in the Egyptian cotton sector was its cotton selling office in Alexandria. The Ionian Bank's operations in the marketplace, led by skilful staff and sound policies, were often praised by the management in London. The organisation of business and the way clients and exporters were handled were believed to be superior to that of any other bank in Egypt, with the exception of the Anglo-Egyptian Bank (later Barclays DCO).[113] As will be discussed later in this chapter, the Bank maintained a conservative lending policy. The management of the Bank adopted a strategy to maintain efficiency in every branch of the business. Therefore, clients would feel assured that in return for paying rather higher charges and complying with rather more rigid conditions compared to other banks, their cotton would be handled and eventually sold to the best of their interests without any troubles.

Agencies in the provinces, the sales office in the Alexandria cotton market, and the head office in Alexandria, that managed both, had to be kept tuned to high level of competence and intelligent collaboration in order to ensure quick returns.[114] First, jurisdictions and judicial procedure in the country with regard to foreclose proceedings or mortgage on land, if the Bank had one, were very slow and defective. Therefore, the creditworthiness of

[112] Luard, J. (17 January 1928). [Letter to Colin Marshall]. IB, 24/1/20.
[113] Luard, J. (15 December 1924). [Letter to P.N. Caridia]. IB, 24/1/7.
[114] Caridia, P.N. (15 October 1922). [Report from the General Manger for London on Alexandria]. IB, 6/100.

borrowers was a crucial point, and the relationship between the Bank and its cotton customers had to be well defined.[115] Second, a quick turnover of funds was a key for maintaining a good financial performance. The quicker the turnover, the more commissions and brokerage fees the Bank would earn. The lower the cotton price, the larger must be the turnover to maintain the same level of profits. A fall in cotton price meant that the Bank might have not been able to cover its expenses by maintaining the same turnover. The volume of business, and consequently turnover, was dependent, in turn, on the size of the crop in a given season and on the proportion of the entire crop the Bank handled. The latter point was determined by the level of competition between banks. It should be noted that a quick turnover had no impact on the amounts of funds needed. It was almost inevitable that at one point of time during the season, however short that period was, that all the funds would be out simultaneously. Therefore, while a quick turnover was important for financial performance, it was not related to the level of employable funds the Bank maintained.

4.6 Challenges in the Egyptian business

4.6.1 The agency system

As illustrated earlier, the efficiency of the Ionian Bank's agencies in the Egyptian provinces was determined by the quality of the agents themselves who had to be chosen for their competency and reliability.[116] Larkworthy made the point to the shareholders in the 1912 annual meeting that:

> *In regard to management, and to the question of up-country agents each bank has to find its own way out of the difficulty. Success or failure turns on its methods and on its choice of men of local experience, and on their prudence and faithfulness in adhering to instructions; and on the effectiveness of the bank's system of inspection. As in other parts of the East, personality is everything in Egypt and the personal equation, or the liability of human agents, who are not altogether machines, to aberration, or to get out of gear, has always to be borne in mind.*[117]

Lloyds Bank had the same problem and found it impossible to work agencies through English agents owing to their lack of knowledge of the country and facility in dealing with natives.[118] The Bank employed local born European (Levantines) who, in the words found

[115] Ionian Bank. (19 March 1912). [Report of Proceedings of the Annual General Meeting]. IB, 2/6.
[116] Caridia, P.N. (7 April 1923). [Letter to John Stavridi]. IB, 6/100.
[117] Ionian Bank. (19 March 1912). [Report of Proceedings of the Annual General Meeting]. IB, 2/6.
[118] Lloyds Bank Egypt. (19 February 1923). [Memorandum on Egyptian Branches]. LBG, A/S6/C/155 (7/10).

in a report on the Egyptian cotton business "require a lot of watching and control…and for this purpose there is an English inspector".[119]

The principal-agent problem can be extended to include the hierarchical relations at lower levels, rather than the interests of stockholders versus managers only (Lamoreaux and Raff, 1995, p. 4). Agency problems have negative consequences on firm expansion (Arrow, 1985). As a firm expands in scale or scope, costs associated with agency will increase. One solution would be to limit the discretion enjoyed by the agents (Casson, 1990, p. 22). In this instance, performance could be monitored and compared to given simple rules. Therefore, whether rules have been followed by delegates, could be easily established. A Principal-agent problem was acute in the Ionian Bank case. The problem was two-fold: agency problems between the management in London and the management in Egypt, and on a lower level between Alexandria Office and its agents in the Egyptian provinces.

When the Ionian Bank commenced its business of financing cotton cultivation in Egypt, it was a completely new sphere for the Bank, with which it had no experience. Financing and selling Egyptian cotton, as illustrated in the previous section, required an organisation, which materially differed from that of an ordinary banking organisation. This was a difficult work for an English bank manager.[120] Management from London seemed impossible and the court directors could not control such a business. After all, they were not cotton men, and they had to rely on the views of the management in Egypt.[121] P.N. Caridia, the General Manager of the London headquarters between 1921 and 1935, made frequent visits to Egypt.[122] In one of his reports on a visit to Egypt in 1922, Caridia reported his impression on each member of staff in Alexandria branch.[123] On the other hand, the Alexandria office had fed the head office in London with weekly detailed circulars covering the political and economic news in Egypt.[124] However, Agency problems between the management in Egypt and the court in London were evident in some instances. For example, Herbert Atkinson, the General Manager for Egypt, often made fresh advances against the court's instructions to reduce his commitments. Atkinson was often blamed of continually following his own lines of policy, which occasionally ran contrary to the lines laid down by the court.[125] The court instructed

[119] Ibid.
[120] Ibid.
[121] Caridia, P.N. (6 October 1927). [Letter to Colin Marshall]. IB, 24/1/27.
[122] Ionian Bank. (26 January 1926). [Report of Proceedings of the Annual General Meeting]. IB, 2/7.
[123] Caridia, P.N. (15 October 1922). [Report from the General Manger for London on Alexandria]. IB, 6/100.
[124] Caridia, P.N. (23 April 1923). [Letter to Herbert Atkinson]. IB, 24/3/3.
[125] Caridia, P.N. (17 May 1923). [Letter to John Stavridi]. IB, 6/100.

Atkinson several times to reduce his overstaff, a point that will be discussed later. However, he kept himself away from taking definite measures in this regard contrary to the court's instructions.[126]

On a lower level, there were often tensions between the management in Alexandria and the agents in the provinces. A report on special inspection of the Egyptian branches in 1924 attributed the low turnover in that year to the limited autonomy enjoyed by the agents and to the excessive centralisation in Alexandria.[127] Another inspection report in 1934 noticed that the business was run from Alexandria, as each facility had to be approved by the management in Alexandria, usually over the telephone.[128] However, judgment from the side of the Ionian Bank agents was inevitable. Given the very nature of credit lending, judgement was an integral part of the process. Accordingly, it was impossible to set rules for every possible situation. This, in turn, complicated performance appraisal, as it had to be decided whether an agent's judgment was sound. Therefore, rules were of little practical value, at least until the results at the end of the cotton season became known. Even at the end of the season, it was sometimes difficult to discover if instructions had been adhered to. For example, an advance was made to the full estimated value of the cotton and the quality turned out to be inferior. Yet, owing to a rising market, the sale might cover the advance.[129]

The problems surrounded the agency system in Egypt had negative consequences on bank growth. Foreign commercial banks in Egypt neither expanded organically by opening new branches in the cotton growing areas nor did they expand aggressively by mergers and acquisitions. This was in spite of the fact that there were no effective regulations in the Egyptian banking sector that prevented growth. The personal nature of the agency system was likely the main reason behind the unwillingness to expand. The agency system was not a scalable model i.e. banks were not able to handle their agencies effectively once a certain number of agencies was reached. Had the number of branches / agencies increased, a bank would have had to embrace a highly formalised system for managing branches. This includes standardised control systems and performance indicators so that authorities could be delegated with confidence. In the Ionian Bank case, therefore, it strived to generate more profits from the existing agencies rather than expanding through opening new agencies.

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[126] Caridia, P.N. (17 May 1923). [Letter to John Stavridi]. IB, 6/100.
[127] Ionian Bank. (10 August 1924). [Special report on the inspection of the Alexandria office & Egyptian Agencies as at the 13th March 1934]. IB, 31/8/7.
[128] Ionian Bank. (13 March 1934). [Inspection of the Alexandria Office & Egyptian Agencies]. IB, 31/8/7.
[129] Ionian Bank. (19 March 1912). [Report of Proceedings of the Annual General Meeting]. IB, 2/6.

Table 4.1 Number of agencies: The Ionian Bank & Barclays DCO

Ionian Bank		Barclays DCO	
Year	**No of Agencies**	**Year**	**No of Agencies**
1909	7	1931	14
1937	8	1937	15
1941	9	1939	16
1944	8	1944	16
1952	7	1952	19

Source: Stock Exchange Year-Book of Egypt; Annuaire des Sociétés Égyptiennes par Actions: various years.
*The data excludes the branches in Cairo and Alexandria as the focus here is on the branches in the cotton-growing provinces.

Table 4.1 compares the number of branches of the Ionian Bank and Barclays DCO across years. As the table reports, the number of agencies of both banks remained almost stagnant. Arguably, this was a typical classic example of the limited capacity of the firm to grow as posited by the resource-based view of the firm (Penrose, 1959). Penrose's main argument was that the limit to firm growth is not necessarily associated with external factors such as market demand. Rather, she defined the firm as a bundle of resources, and postulated that growth constrains might be inside the firm i.e. internal resources.

Foreign banks in Egypt did not manage to impersonalise their relationships with their agencies, and the style of management remained informal. Consequently, this posed an internal constraint on growth. In essence, these banks were not akin to Chandler's modern corporation (1962, 1977, 1990). This was in sharp contrast with, for example, the expansion of domestic banks in Britain in the late nineteenth century. These banks managed successfully to move from a personal relationships system towards codifying knowledge and consequently they were able to expand. This was evidenced by the wave of mergers where larger banks acquired numerous smaller banks during this period (Capie and Rodrik-Bali, 1982; Newton and Cottrell, 1998).

4.6.2 Sources of funds

Lack of domestic deposit was a constant problem the Ionian Bank in Egypt encountered. In essence, there were no deposits of any significance made by the public with banks in Egypt. The triviality of private deposits can be explained by many factors. Some indigenous Muslim people avoided banks, following the Islamic principles of forbidding usury (Crouchley, 1936, p. 28). Issawi (1947, p. 121) argued that the Egyptians did not entrust their savings to banks until World War II. Private savings and surpluses made by the indigenous population found their way into land purchase, or were turned into gold and jewellery for hoarding purposes (Tignor, 1981, p. 108).

No historical statistics on the deposits maintained by banks in Egypt are available. However, the scattered data reveal the modesty of deposits in the Egyptian financial sector. For example, the Post Office Saving Bank, a state-owned enterprise, maintained total deposits amounted to £325,000 made by 59,084 depositors at the end of 1906.[130] Deposits held by Cassa di Sconto di Risparmio, an Italian bank in Egypt, stood at £E45,726 in 1930 compared to capital of £E367,662 (Job, 1930, pp. 103-105). Large domestic deposits came from the government ministries and departments such as municipalities, customs, and the railway administration. These deposits were mainly maintained by the National Bank of Egypt. For instance, this bank maintained £20.5 millions of government deposits in 1925.[131] Crédit Lyonnais, on the other hand, was the banker for the Caisse de la Dette Publique and held its deposits.

Banking deposits slowly grew by time as the Egyptians acquired banking habits (Crouchley, 1936, p.100). For instance, non-government deposits held by the National Bank of Egypt rose from £E 0.5 million in 1913 to £E 12.8 million in 1921 (National Bank of Egypt, 1948, p. 122). Yet, the problem with private deposits, even if they were hypothetically abundant, was that these deposits would be withdrawn just at the time when banks needed the money i.e. during the active time of the cotton season. This could be attributed to the fact that many people had cotton interests of some sort or another, so that they would want their money back during the cotton season.[132]

It became evident for the Ionian Bank within a short period of time that attracting local deposits was not an easy task, and that the Bank in Egypt had to rely on funds provided by the headquarters, either from its own resources or borrowed funds in London. A capital of £315,510 was too insignificant for extending operations in Egypt, and for this reason, paid-up capital was raised to £485,580 in 1910, and later in 1925 was raised again to the authorised maximum of £600,000.[133] Throughout the period of the Bank's presence in Egypt, deposits did not show any signs of expansion, expect for a handful number of years. This

[130] Ionian Bank. (7 April 1908). [Report of Proceedings at the Ordinary and the Extraordinary General Meeting]. IB, 3/24.
[131] National Bank of Egypt. (9 January 1925). [Memorandum by National Bank of Egypt, London]. Bank of England Archives [hereafter BoE], ADM16/3.
[132] Atkinson, H.E. (16 March 1922). [Letter to P.N. Caridia]. IB, 24/1/19.
[133] Ionian Bank. (1953). [Ionian Bank Limited: A History]. IB, 9/9.

was constantly disappointing to the court in London. Almost no single correspondence between London and Alexandria did not conclude with a request from the court in London that the management in Egypt should exert every effort to attract local deposits. No solid data are available on the level of deposits maintained by the Ionian Bank in Egypt. Yet, for example, fixed deposits in 1922 stood at £E23,000.[134] This was absolutely incomparable to the level of business conducted.

In several instances, it was clear that funds, not business, were lacking. A curtailment of lending activities in Egypt was inevitable in many years, given the absence of reasonable level of domestic deposits.[135] In many seasons, the Bank in Egypt was obliged to suspend further potential advances owing to the lack of funds, thus losing clients to their competitors. The management in Egypt was worried that those clients would not return again to the Bank in the next season for fear of repetition.[136] In 1922, for example, the Egyptian business exhausted £800,000 placed at their disposal by the court in London. Caridia, the General Manager in London, advised the management in Egypt to go slow in face of pressing demands from the agencies. This was in spite of the fact that cotton reaching Alexandria for sale at that season was being snapped up immediately.[137] The agents continuously complained of the restricted limits granted to them. The management in Alexandria were aware that these limits were sometimes inadequate and were not proportionate to clients' needs. However, the management was bounded by the funds put at their disposal from London. In many seasons, these funds were often inadequate to finance all the business that was offered.[138]

The Ionian Bank in Egypt tried different routes to attract local deposits. For example, it developed ordinary banking business on a small scale in 1926.[139] The court authorised £100,000 for this business. The target was to engage with purely banking business of a liquid nature. These included discounting and advancing against local trade bills, advances on goods and documentary credits, and advances against well-chosen first class securities.[140] The operations, results and reporting of the banking business was strictly separated from the cotton business. It was well known in the ordinary banking business that loans and advances

[134] Caridia, P.N. (15 October 1922). [Report from the General Manger for London on Alexandria]. IB, 6/100.
[135] Caridia, P.N. (4 September 1930). [Letter to Colin Marshall]. IB, 24/4/5.
[136] Marshall, C. (13 October 1922). [Letter to P.N. Caridia]. IB, 28/2/1.
[137] Caridia, P.N. (15 October 1922). [Report from the General Manger for London on Alexandria]. IB, 6/100.
[138] Ionian Bank. (1953). [Report of Alexandria Branch for the year 1953]. IB, 28/2/6.
[139] Luard, J. (23 December 1925). [Letter to P.N. Caridia]. IB, 24/1/7.
[140] Caridia, P.N. (21 January 1926). [Letter to John Luard]. IB, 24/12/1.

create deposits.[141] Transacting with wealthy individuals and firms in the form of, for example, advances against securities and documentary credit could get these clients inclined to make deposits with the Bank.[142] Therefore, the Bank tried, through this line of business, to attract more deposits and hoped that the new business would not be a drag on the cotton business i.e. not to exhaust the already limited funds for cotton business. On other occasions, the Bank tried to get involved in some lucrative business banking transactions such as financing petroleum shipments by the Alexandria branch through the Athens office.[143] Moreover, the Bank solicited part of the business of Ford Motor Company in Egypt in the form of documentary collection.[144] In 1927, a slightly satisfactory increase in the deposits of the ordinary banking department was witnessed. However, the requirements of the cotton department exceeded these deposits by far.[145]

Although banks in Egypt had official interest rates paid on deposits, private arrangements with clients to increase these rates by up to 1% were not uncommon.[146] In many years, the management of the Ionian in Egypt was authorised to pay high interest rates on deposits in order to attract funds. In 1922, for example, the Egyptian business was charged 4% p.a. on funds borrowed from the headquarters. The General Manager for Egypt was given an authority to pay up to 5% interest on fixed deposits covering the busy cotton season.[147] The Court in London even authorised the management in Egypt to independently look for funds wherever they could find them cheaper.[148]

Therefore, the Ionian Bank's management in Alexandria looked for possible loans from other banks in Egypt against depositing British government securities in London. This option had a cost advantage compared to borrowing from the headquarters through transferring money from Britain and returning the same funds back after the cotton season. Borrowed funds from Egypt would have the advantage of being at the Bank's disposal at any time, and therefore the management in Egypt could run the business with an absolute minimum of unproductive cash bearing no interest. In addition, John Luard, the Ionian Bank's Acting General Manager for Egypt, made the case that capital could be obtained from one of the big banks in Britain, but the great objection was that as it had happened in several cases, the

[141] Caridia, P.N. (7 April 1923). [Letter to John Stavridi]. IB, 6/100.
[142] Marshall, C. (21 July 1927). [Letter to P.N. Caridia]. IB, 24/2/8.
[143] Caridia, P.N. (17 September 1931). [Letter to Colin Marshall]. IB, 24/2/8.
[144] Marshall, C. (10 October 1927). [Letter to the General Manager for Greece]. IB, 24/2/8.
[145] Marshall, C. (21 July 1927). [Letter to P.N. Caridia]. IB, 24/2/8.
[146] Marshall, C. (25 August 1925). [Letter to P.N. Caridia]. IB, 6/89.
[147] Caridia, P.N. (15 October 1922). [Report from the General Manger for London on Alexandria]. IB, 6/100.
[148] Caridia, P.N. (23 July 1931). [Letter to Colin Marshall). IB, 6/84.

British bank might try to absorb the Ionian Bank and control over its business.[149] Caridia, in London, approached Barclays Bank and the Anglo-Egyptian Bank for lending money in Egypt but they did not welcome the idea on the plea that they would require funds at the same time the Ionian Bank would utilise it.[150]

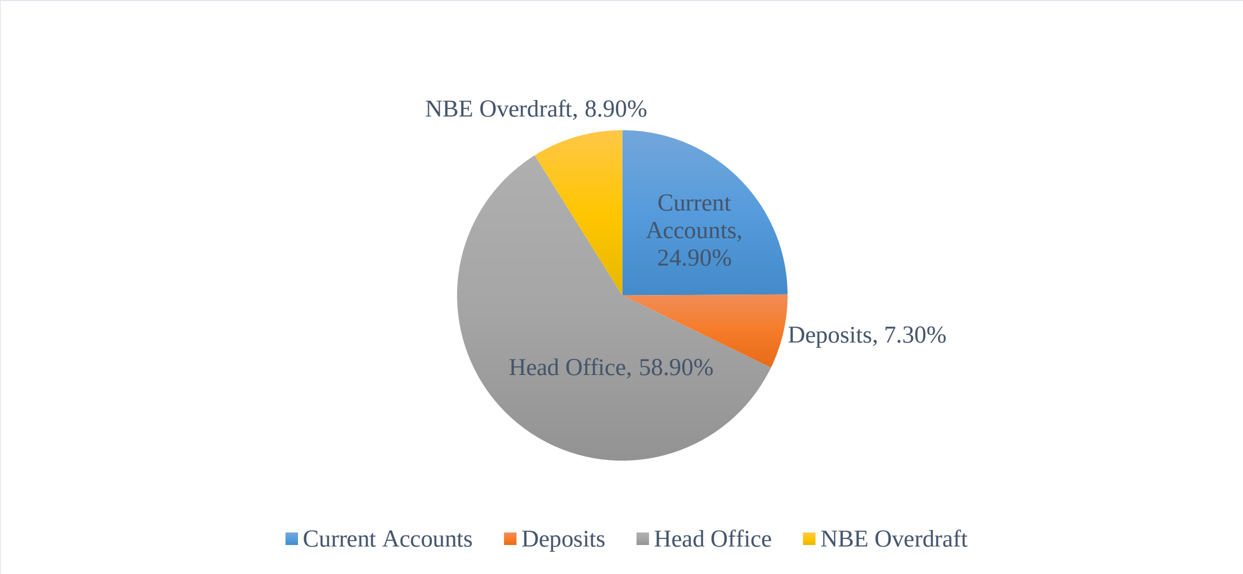
In 1923, the management in Egypt approached Sir Bertram Hornsby, the Governor of the National Bank of Egypt.[151] The latter did not undertake the same class of business done by the Ionian Bank i.e. advances on cotton in the interior. It was probably the only bank in Egypt that focused more on financing the export side of the cotton business. Accordingly, the Ionian Bank was not a competitor to the National Bank of Egypt. Luard suggested an agreement with the National Bank of Egypt by which the latter might have some kind of control but of a nominal nature, such as appointing one director on the Ionian Bank's London Board and another member on the Alexandria Advisory Committee.[152] The directors of the Ionian Bank in London agreed on the appointment of a representative of the National Bank of Egypt on the bank's Alexandria Advisory Committee, provided that such an appointment would in no way be detrimental to the Bank's interests by revealing business specifics to another bank. However, they rejected Luard's proposal of appointing a director of the National Bank of Egypt on the London board. This appeared disproportion to the facilities suggested of £E500,000.[153] The proposal was not successful.[154]

The Bank's management in Egypt succeeded, however, in 1925 to obtain an overdraft from the National Bank of Egypt for £200,000 without any special arrangements.[155] The facilities obtained were against British government securities deposited in the London Branch of the National Bank of Egypt. The overdraft was renewed several times within the range of £200,000 to £300,000, and the Ionian Bank maintained a good working relationship with the National Bank of Egypt throughout the period. During the 1930s, one of the Ionian Bank's directors, Arthur Dickson, served in the London Committee of the Agricultural Bank of Bank, an affiliate to the National Bank of Egypt (*The Financial Times*, 7 November 1929). However, interest rates charged by the National Bank of Egypt on the successive overdrafts were inflexible, reflecting a British banking tradition of rigid interest rate policies (Hansen,

149 Luard, J. (5 December 1925). [Letter to P.N. Caridia]. IB, 24/1/7.
150 Caridia, P.N. (31 January 1924). [Letter to John Luard]. IB, 6/84.
151 Luard, J. (29 November 1923). [Letter to P.N. Caridia]. IB, 6/84.
152 Luard, J. (5 December 1925). [Letter to P.N. Caridia]. IB, 24/1/7.
153 Caridia, P.N. (17 December 1925). [Letter to John Luard]. IB, 21/1/7.
154 Caridia, P.N. (14 January 1926). [Letter to John Luard]. IB, 24/1/7.
155 Caridia, P.N. (18 January 1926). [Letter to John Stavridi]. IB, 6/100.

1983, p. 877). In some instances, their rate seemed to be equal to what they would charge their good commercial customers. In this way, the Ionian Bank was not favoured.[156] Hawtrey (1938) argued that a minimum was in place so that in some cases British banks did not follow Bank of England rates, a practice that was common among British overseas banking during the nineteenth and early twentieth centuries. Figure 4.1 depicts the sources of funds for the operations of the Ionian Bank in Egypt in 1930. Funds supplied from London were at a cost of 5% p.a. Cost of domestic deposits were recorded at 4.7%. p.a. An overdraft obtained from the National Bank of Egypt carried a cost of 7.17% p.a.

Figure 4.1 Ionian Bank's sources of funds in Egypt in 1930



Source: IB, 5/86

The Ionian Bank in Egypt seemed deprived of ancillary business associated with being a British bank. For instance, the business of the Anglo-Egyptian Bank boomed during the First World War as the Bank acted as the official banker to the Army. Barclays DCO inherited the function of the Anglo-Egyptian Bank and acted as the banker to the army in Egypt and the Middle East during the Second World War. The accumulation of military power in the Middle East progressed at a phenomenal rate during World War II. The turnover at Barclays' Cairo branch, which in 1939 was less than £6 million, rose to approximately £300 million during the four subsequent years. Moreover, at the beginning of the war, the branch had 5,600 accounts, with 67,000 new accounts opened up to 1943 (Crossley and Blandford, 1975, pp. 127-128).

[156] Sub Manager, Egypt, Ionian Bank. (10 October 1931). [Letter to P.N Caridia]. IB, 6/84.

To sum up the above discussion, lack of domestic funds was a constant problem that the Ionian Bank faced in Egypt. In 1930, Caridia warned the management in Egypt that

> *It is disappointing that the deposits of the bank do not show signs of expansion. This means that the bulk of your business must depend either on you getting large credits from local banks, or on you depending on head office for important facilities. It is inconvenient for it to earmark sums representing a large percentage of the bank's capital for temporary employment in a single market. The proper function for the capital of a bank doing a deposit business such as ours, is for it to be available in a readily realisable form, to meet an emergency anywhere. It is feared that in the absence of a substantial increase in your deposits, a drastic curtailment of lending activity in Egypt is inevitable.*[157]

Table 4.2 Ionian Bank's liabilities & assets in the Egyptian & Greek branches in 1921

Selected Liabilities %			Selected Assets as % of Total Liabilities		
	Egypt	Greece		Egypt	Greece
Deposits	12	28	Cash + Treasury Bills	34.8	16.4
			Bills Discounted	10	17.9
			Advances on Securities	4	19.5
			Advances on Goods	78.4	27.6

A comparison between the financial position of the Ionian Bank's branches in Greece and Egypt reveals the problems of the Egyptian business of the Bank. Table 4.2 shows a comparison of the operations in Greece and Egypt in terms of the composition of liabilities and assets as of end of 1921. The calculations are based on a letter sent by Caridia to the Chairman in London.[158] The Bank in Greece was able to attract more deposits than Egypt in both relative and absolute terms. Deposits in the Egyptian branch recorded 12% of total liabilities, whereas deposits in Greece represented 28% of total liabilities. In absolute figures, deposits in Greece recorded some of £800,765, compared to £28,976 in Egypt. Moreover, many of the deposits in Greece were for long maturity, two to three years or more. In contrast, the composition of liabilities in Egypt, apart from the head office loans, was skewed towards current accounts. These accounts were not reliable to the Bank in Egypt, as they would swell during the slack season when money was not required, and would be withdrawn when it was most required by the Bank.[159] As mentioned earlier, cotton was the backbone of

[157] Caridia, P.N. (4 September 1930). [Letter to Colin Marshall]. IB, 24/4/5.
[158] Caridia, P.N. (23 August 1922). [Letter to John Stavridi]. IB, 6/100.
[159] Ibid.

the Egyptian economy at that time. Many Egyptians, therefore, had cotton interests during the season.

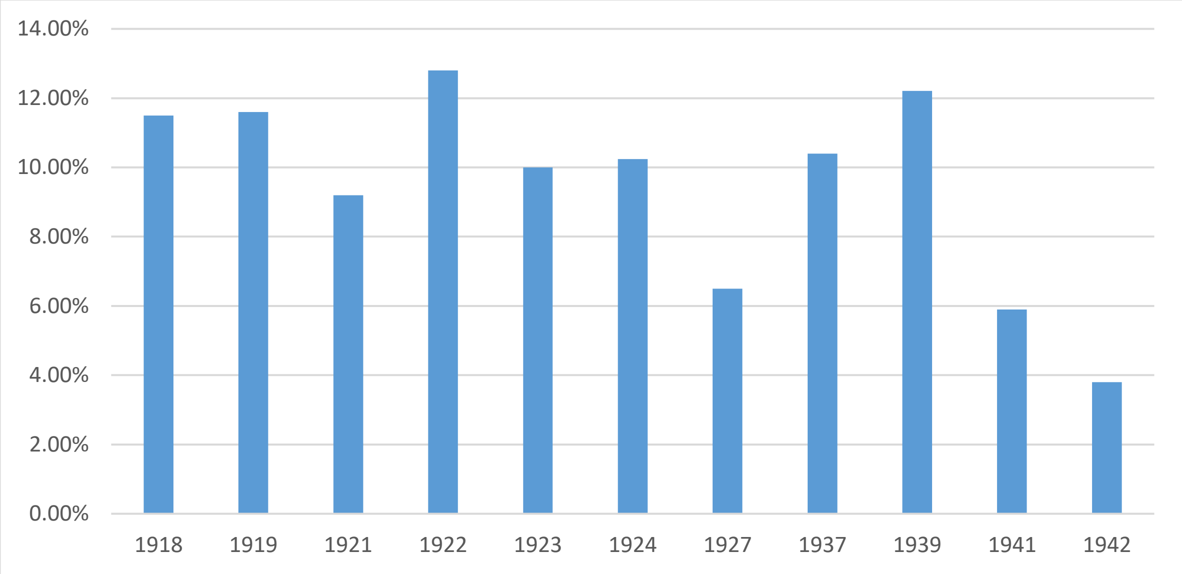
Another implication arising from the small base of deposits can be spotted on the assets side. The percentage of cash to total liabilities in Egypt stood at 34.8%. This excessive percentage is explained by the fact that cotton loans were almost entirely financed by London, and accordingly, the Egyptian branch had to hold a considerable amount of cash in order to be prepared to finance cotton advances. Another observation is the diversified investment in Greece. On the contrary, more than 78% of total liabilities in Egypt were advances on cotton that would normally stand for five to six months.

4.6.3 Competition in the banking sector

When the Ionian Bank ventured into Egypt, it entered a highly competitive sphere, and the Bank's management was aware that the Bank was commencing business in a country that offered an open door for foreign banking. However, severity of competition was likely beyond calculations. The Bank found itself in a market with unrestrained competition from other foreign and, later, Egyptian banks. All of the foreign commercial banks focused on the same business of financing cotton cultivation and trade, and this led to fierce competition between banks. The early years for the Ionian Bank in Egypt proved satisfactory and in several years, the Bank was ranked the first of the official list of cotton handling in Alexandria. However, when cotton prices had begun to drop and fluctuate from the beginning of the 1920s, competition became more aggressive and the Ionian Bank suffered accordingly. The Ionian Bank's chairman speech in the Annual General Meeting in 1919 included for the first time clear reference to the unhealthy competition the Bank faced in Egypt and the rates cut by competitors.[160] Figure 4.2 illustrates the percentage of cotton handled by the Ionian Bank in Alexandria in various years.

[160] Ionian Bank. (4 June 1919). [Report of Proceedings of the Annual General Meeting]. IB, 2/6.

Figure 4.2 Percentage of cotton arrival at Alexandria handled by the Ionian Bank



Source: Report of Proceedings of the Annual General Meeting, various years

Excessive competition between banks led to deterioration in the terms on which business was conducted. The rivalry to obtain a large proportion of the cotton business led to generous rate cutting, especially by the Italian Banks and Banque Misr.[161] These banks secured large turnover by offering abnormal and blank credits with little or no margins, governed by loose credit terms, and at low interest rates.[162] In addition, they accepted all kinds of cotton offered.[163] In the provinces, banks adopted low banking standards as banks' employees went out into the villages touting for business and forcing money on potential borrowers.[164] Some of the smaller foreign banks, which were often represented by agents with no real banking experience, were bent on pushing business at any cost.[165] The Ionian Bank's policy remained conservative and the Bank adopted a policy of watchful waiting in face of the excessive competition. The management in London held that view that "safety first", even at the price of a temporary reduction of turnover.[166]

Banque Misr was aggressively involved in the cotton business. The entire economy at that time was running around cotton, and even when the Bank had ambitious industrialisation plans, it was not wise to avoid any engagement with the cotton banking business. In the same year the Bank was established, it built a large portfolio of cotton advances and it purchased

[161] Marshall, C. (30 November 1926). [Letter to P.N. Caridia]. IB, 24/2/8.
[162] Atkinson, H. (14 January 1923). [Letter to P.N Caridia]. IB, 24/1/5.
[163] Marshall, C. (7 May 1926). [Letter to P.N. Caridia]. IB, 24/1/5.
[164] Cook, E. (11 December 1939). [Memorandum to Bank of England]. BoE, OV9/45.
[165] British Consular Agency, Beni Souef. (19 January 1931). [Letter to Grafftey-Smith, the residency, Cairo]. TNA, FO 141/763/2.
[166] Ionian Bank. (26 January 1926). [Report of Proceedings of the Annual General Meeting]. IB, 2/7.

a large cotton warehouse at the cotton marketplace. Between 1924 and 1926, the Bank was ranked first in terms of the percentage of cotton handled in Alexandria marketplace (Banque Misr, 1972, p. 232).[167]

Several examples illustrate the severity of competition. Banks with large expenses could not withstand the competition the certainly reduced bank returns, and some of them were short lived. For instance, Lloyds Bank commenced operations in Egypt in 1923 through acquiring the business of Cox and Company. However, the Egyptian business was not profitable and the Bank quickly withdrew from Egypt disposing its business to the National Bank of Egypt in 1926. In 1924, the Bank had 300 ordinary employees along with 126 native servants.[168] This was a large number of staff compared to other banks. During six months in 1926, Lloyds Bank ended with £3,000 profits on business that employed £1.25 million of London money. The risks taken were out of all proportion to the profits earned where bad accounts and high expenses were believed to be the reason behind the Bank's failure.[169] Lloyds Bank was the second bank to retire from the cotton business after Banque Belge et Internationale en Égypte had dissolved its cotton business in 1926 after suffering from competition.[170]

A letter by the management of Lloyds Bank in Egypt summarised the situation in the Egyptian banking sector.[171] Judged by the English standard, Egyptian business methods and practices were completely different and poor. The entire absence of customers' balance sheets, with a consequent lack of knowledge of their commitments with other lenders, and the inadequate margins or lack of margin were common across banks in Egypt. A clearing house did not exist and no general supervision of banks was in place. No cooperation between the various banks was maintained, and none seemed possible. The competition for business was intense and customers made the most of it by endeavouring to squeeze rates and get other concessions. The report wondered how far the existing business would be lost, if English banking standards were applied. The management in Egypt offered two possible future directions for Lloyds Bank. The first was to continue the business of advancing large amounts of clean credits with the additional incidental charges and with the accompanying risk of occasional losses. The alternative was to conduct the business on English line, but

167 A few years later, the Bank established many industrial companies concerned with cotton ginning and processing.
168 Lloyds Banking Group. (24 July 1924). [Memo]. LBG, A/S6/C/165 (1/2).
169 Marshall, C. (4 November 1926). [Letter to P.N. Caridia]. IB, 24/2/8; Hornsby, B. (22 December 1926). [Letter to Montagu Norman]. BoE, G1/9, TNA.
170 Marshall, C. (4 November 1926). [Letter to P.N. Caridia]. IB, 24/2/8.
171 Bell, H. (26 April 1923). [Letter to G. Johns]. LBG, A/S6/C/155 (9/10).

the results would not likely justify the premises and organisation existing in Egypt. The management in Egypt recommended that if they were to remain in Egypt and make a profitable business, they had to do what other banks in Egypt did. However, within a very short period, Lloyds Bank incurred large losses and left the country.

In 1925, Barclays Bank became Barclays DCO through gaining control of and merging the three banks of the Colonial Bank, the Anglo-Egyptian Bank in Egypt and the National Bank of South Africa. Crossley and Blandford (1975) noticed the sharp contrast between the working of the Colonial Bank with branches in the Caribbean and West Africa on one hand, and the Anglo-Egyptian Bank on the other hand. The Colonial Bank in the Caribbean was accompanied by only two other banks. In West Africa, the only other major bank was the Bank of British West Africa. Understandably, comprehensive banking agreements on rates charged by those banks were in place, given the very limited number of competitors.[172] Crossley and Blandford compared this to the conditions surrounding the business of the Anglo-Egyptian Bank and its successor Barclays DCO that were based in a cosmopolitan area where financial activities of all manner existed. Among the three banks constituting Barclays DCO, the Anglo-Egyptian Bank was the weaker in terms of performance. Crossley and Blandford attributed this to the high competition in the Egyptian banking sector.

Another example was the Deutsche Orient Bank. This German bank opened a branch in Egypt in 1906 as a manifestation of the rivalry relationship between Britain and Germany for the period prior to the First World War. During the first years, the Bank relaxed its credit policy and successfully attracted customers of other banks, so that the capital at the disposal of the Egyptian branches would scarcely suffice for the business. For its cotton financing business in the provinces, the Bank was accused of conceding lower terms and working at a lower rate than its competitors and even at a loss. The Bank did things that hitherto was looked upon as beneath the dignity of the banking profession e.g. they would send cashiers to collect money from customers instead of allowing the customer to pay in to the bank, and would allow business over the counter to go on either before or after recognised banking hours and on holidays.[173]

[172] Austin and Uche (2007) argued that these two banks colluded and formed an alliance that came at the expense of market dynamism.
[173] Cecil, E., the Financial Adviser, Egyptian Ministry of Finance. (5 November 1916). [Letter to Henry Momahon, High Commissioner in Egypt]. TNA, FO 141/633/2.

Sir Edward Cook, the Governor of the National Bank of Egypt during the 1930s, wrote a comprehensive memorandum on the impact of competition on lending conditions in the country, and the unsound banking principles followed by many banks.[174] He warned that credit facilities were too abundant, and this in turn reflected on borrowers' behaviour. Cook noted that some merchants entered into risky engagements in excess of what was justified by their own capital by obtaining unsecured credits from four or five banks at once. He pointed out the poor standards of commercial integrity where non-payment of a debt on due date was not negatively regarded. He compared this to the conditions in Britain where a trader with an unpaid bill on maturity would have to wait a long time before getting credit again.

The numerous foreign banks operating in the country did not cooperate, at least because they were controlled from many different European capitals. Absent cooperation between banks meant that no exchange of credit information or solidarity in times of financial anxiety were in place. Moreover, these banks acted in a secretive way. For instance, Baster (1935, p. 72) found it impossible to obtain accurate figures of the total deposits held in the Egyptian banking sector. Some of these banks never publicised their annual reports. Only a handful number of banks in Egypt published their annual reports separating the results of financial activities in Egypt (Tignor, 1981, p. 115).

Another implication for the absence of cooperation between banks was the difficulty to assess the creditworthiness of potential borrowers. Landowners had the options to either apply for mortgage loans from mortgage banks such as Crédit Foncier Egyptien, if their lands were free of mortgage; or apply to commercial banks for advances against cotton. Furthermore, when banks restrained their loans following the Great Depression in the 1930s, borrowers resorted to moneylenders again. Although moneylending had shrunk after the First World War, it became popular again in the early years of the 1930s. Borrowers who reached their limits with a bank tried to hide their further borrowings from their banks by resorting to a lender whose dealings were kept secretly between the borrower and the lender.[175]

The National Bank of Egypt remained a hybrid institution or a quasi-central bank with part of its activities carried out as a central bank and the rest as an ordinary commercial bank.

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[174] Cook, E. (11 December 1939). [Memorandum to Bank of England]. BoE, OV9/45.
[175] British Consular Agency, Beni Souef. (19 January 1931). [Letter to Grafftey-Smith, the residency, Cairo]. TNA, FO 141/763/2.

The Bank neither acted as lender of last resort nor did it control credit supply in the country. In fact, no law governed its central banking function (Issawi, 1963, p. 266). There were calls for the National Bank of Egypt to refrain from its commercial activities and to act as a typical central bank. For example, in his 1905 report on Egypt (p. 32), Lord Cromer suggested that

> *it is most advisable that an institution should exist in this country which will to a certain extent be what is termed bankers' bank and which in the event of a commercial crisis would be able to afford assistance to other institutions which might find themselves in temporary difficulties.*[176]

This seemed, however, against the desire of the National Bank of Egypt's management that regarded this move as unprofitable (Bankers' Magazine, 1906, p. 485). Sir Bertram Hornsby, the Governor of the Bank in the 1920s, held the view that in a country whose inhabitants were mostly engaged in agriculture and a country that only exported cotton and imported its necessaries, banking affairs would not sufficiently be important so that one bank could stand aside from general business to limit itself to act as a pure central bank. In addition, there were established banks in the country, such as the giant Crédit Lyonnais, with which the National Bank of Egypt was relatively small.[177] Another concern for the National Bank of Egypt was that as long as banks operating in the country could import and export funds at the same rate in either direction, it would be impossible to exercise full control over credit affairs and money supply in the country. In addition, there were no obligation on these banks to retain a proportion of their funds in Egypt as they all had their headquarters elsewhere.[178]

The Egyptian banking system was fully controlled by foreign banks from various nationalities. Antonini (1927, cited in Baster, 1935, p. 72) described Egypt as the *Babel of banking*. Therefore, the operations of foreign banks in Egypt were determined, to a large extent, by the financial conditions in their home countries. Consequently, the domestic banking sector in Egypt was exposed to what was happening in Europe. Any banking crisis in Europe had repercussion in Egypt. For example, following the German banking crisis in 1931, bank run on the Deutche Orient Bank was witnessed in Cairo (el-Gritly, 1947, p. 96). Ahmed Abdel Wahab Pasha, the Egyptian Minister of Finance, described the situation of the banking sector as follows

[176] Earl of Cromer. (1906). [Report on Egypt for 1905]. TNA, FO 371/65/54.
[177] Hornsby, B. (13 January 1922). [Letter to Montagu Norman]. BoE, OV43/65.
[178] Cook, E. (5 November 1938). [Memorandum]. BoE, OV43/69.

Egypt has been suffering from a defective banking system….most banks are branches of French, Italian, Belgian, Greek, or British banks, and receive their instructions from Paris, Rome, Brussels, Athens, or London. It is not so much the state of credit in the country which regulates the extent of their transactions as the prices of money in their own home markets.

(Abdel Wahab, 1933, p. 619)

With the increasing nationalist sentiment in Egypt and the laws enacted by the Egyptian government to lessen the dominance of metropolitan finance from the 1920s onwards, many of these foreign banks, responding to the new economic nationalism, changed their status from foreign branches of European banks to Egyptian firms. For instance, Banque Belge pour l'Etranger became Banque Belge et Internationale en Égypte in 1929. The Egyptian branch of Banco di Roma became Banco Italo-Egiziano. However, these banks remained largely managed from their headquarters. It is worth noting that the British and French banks, the largest foreign investors in Egypt, were slow to change and remained branches of foreign banks.

Throughout the period, there were limited initiatives within the Egyptian banking sector to regulate competition. For example, Banco Italo-Egiziano, a bank notoriously known for rate cutting, began a campaign in 1926 to convince other banks to sign an agreement to prevent banks from accepting lower conditions in the cotton business. However, the principal banks refused to support such a proposal.[179] Several meetings between the managers of banks were convened at the request of the Governor of the National Bank of Egypt, but nothing of practical value resulted.[180] Through an initiative from Crédit Lyonnais, an association called Conference des Banques was created in 1937. The founders included 16 banks, and the Ionian Bank was one of them. The chief objectives were maintaining regular relations between members, exchanging information, and determining acceptable tariffs for banking services (National Bank of Egypt, 1948, pp. 102-103). Although competition was still keen during that period, the coordination managed by the Conference de Banques regularised the market to a good extent.[181] For instance, the members of the Conference de Banques met with representatives of the government in 1946 to discuss the handling of the new crop, where it was agreed that certain interest rates would be charged by all banks.[182]

[179] Marshall, C. (29 April 1926). [Letter to P.N. Caridia]. IB, 24/3/3.
[180] Marshall, C. (30 November 1928). [Letter to P.N. Caridia]. IB, 24/1/20.
[181] Maeder, A. (22 May 1946). [Letter to Head Office]. IB, 6/97.
[182] Assistant Manager, Ionian Bank Egypt. (22 May 1946). [Letter to the Secretary, London]. IB, 6/97.

The two world wars offered some opportunities to the Ionian Bank following the withdrawal of German and Italian banks. For instance, the Deutsch Orient Bank was seized by the British authority in Egypt as an enemy property in 1914 (Crouchley, 1936, p.77). In the early years of the 1940s, the German and Italian banks in Egypt were either liquidated or sequestrated following the outbreak of the Second World War. The Ionian Bank took the advantage of the opportunities offered by the retirement of those banks.[183]

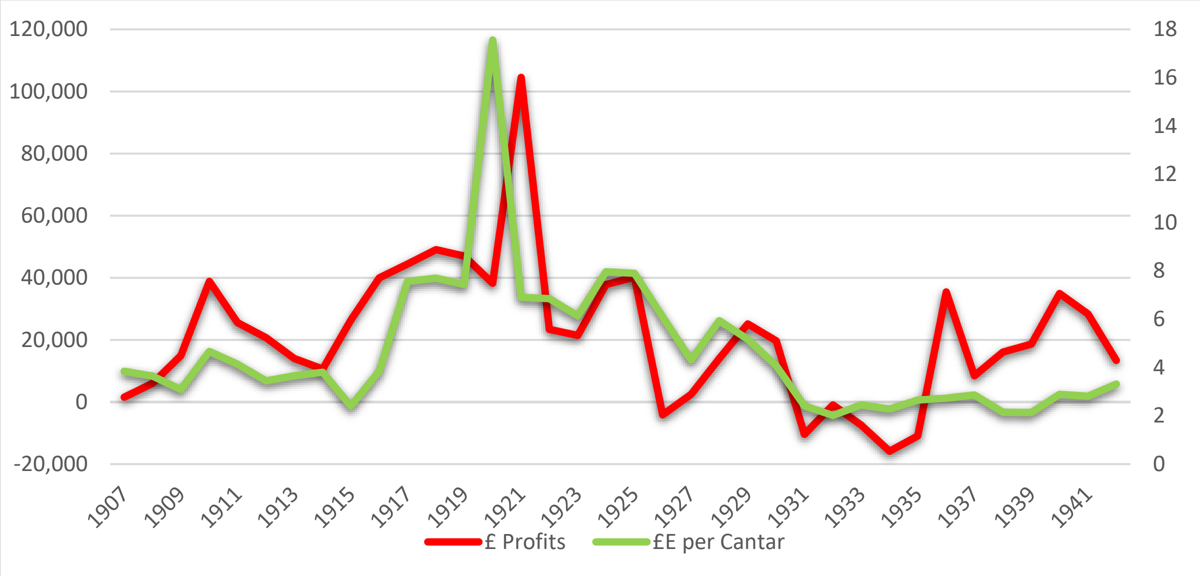
4.6.4 Cotton fluctuations

The above difficulties the Ionian Bank faced in Egypt could have been, at least theoretically, mitigated. Other external factors were totally beyond control. The obvious example was the fluctuations in cotton prices. As mentioned earlier, profitability of banks were determined, to a large extent, by the price of cotton. The cotton business required a careful handling because of price fluctuations. A slump in cotton prices meant that growers, middlemen and banks all suffered as large stocks would pile up both in the provinces and in Alexandria.[184] Furthermore, clients would suffer losses, and this in turn would affect their solvency.

A sharp drop in cotton prices was witnessed in many instances, such as during the two world wars and the Great Depression in 1930. During World War I, the demand for the Egyptian cotton, and consequently its prices, dropped significantly. Furthermore, the British authorities cut Egyptian cotton exports to the enemies, and up to the First World War, almost 25% of Egyptian cotton had been exported to those countries (Tignor, 1976, p. 42). With the depression of 1929, cotton prices fell by 50%.[185] Compared to its value in the late 1920s, cotton lost almost two-thirds of its nominal value between 1931 and 1933 (Hansen, 1991, p. 94). Figure 4.3 illustrates the close movement of the Ionian Bank's profits with the prevailing cotton prices. The figure shows the Bank's profits on the left axis and the average price of the Egyptian cotton on the right axis across selected years.

[183] Ionian Bank. (30 December 1935). [Report of Proceedings of the Annual General Meeting]. IB, 2/7.
[184] Ionian Bank. (26 April 1921). [Report of Proceedings of the Annual General Meeting]. IB, 2/6.
[185] Ionian Bank. (16 December 1930). [Report of Proceedings of the Annual General Meeting]. IB, 2/7.

Figure 4.3 Ionian Bank's profits in Egypt* & average cotton prices**



Sources: Bank's profits: IB, 2/6 & IB, 2/7 & IB, 3/24; cotton prices: National Bank of Egypt (1948).
* Profits are before interest paid on head office loans. 1907-1917: mid-January financial year-end (1917 ends in mid-January 1918); 1918-1921: December year-end; 1922-1935: August year-end; 1936 – Onwards: December year-end.
**Cotton price is for one cantar.

Another problem with the decline in cotton prices was that of loan margins. For instance, during the cotton season 1920/21, owing to a rapid heavy fall in the price of cotton, many customers' accounts became uncovered. Lloyds Bank, for example, covered the positions by sale of contracts or sale of actual cotton to avoid further losses. When prices increased afterwards, some clients blamed the Bank on the ground that the greater part of their losses was caused by the Bank's action.[186]

Along with fluctuations in cotton prices was the volatility of the quantities produced. Volatility in the volume of the annual crop was mainly attributed to the Egyptian government intervention in the market. In general, such interventions in the cotton market were limited. However, measures taken by the government in some years affected the cotton market in Egypt. For example, the Egyptian government decided in 1920 to reduce the cotton planation area by one third in order to free more land to food production, driven by pressures from the increasing population.[187] This, as a result, decreased the volume of cotton trade. In essence, any changes in the volume of the annual crop certainly impacted on banks' profitability. In

[186] Lloyds Bank Egypt. (5 February 1923). [Report of contract losses season 1920/21]. LBG, A/S6/C/155 (3/10).
[187] The British saw the decision as a deliberate attempt by the Egyptians to starve the British textile industry (Onyeiwu, 2000).

certain years, the British and the Egyptian governments arranged to buy the whole cotton crop at fixed prices. Exporters, and their financiers, consequently suffered.[188] Nevertheless, this did not affect the Ionian Bank's business since the backbone of the Bank's transactions in Egypt were lending on cotton in the Egyptian provinces.

4.7 Financial performance

Historical analysis of corporate performance, which is probably the most important aspect for any business, has received limited attention from business historians (Cassis et al., 2016, p. 3).[189] The limited available data on the Ionian Bank's financial performance in Egypt do not allow for portraying a complete picture for the entire period. However, some scattered data provide useful pointers. The impact of the inherited risks in the Egyptian banking sector was manifested in the profitability of the Ionian Bank throughout its years in Egypt. The early years were profitable to the business in Egypt. During the period 1912-1917, the average return was 16% on capital borrowed from London, representing 11% net profit after paying interest of 5% on the borrowed funds.[190] Between 1907 and 1929 the average percentage earned on funds supplied from the headquarters, before deducting interest on these funds and before reserves, was 8%. The interest charged by the head office on their loans to Egypt was in the range of 5% to 6%. Net profits since commencing business in 1907 until 1927 stood at 3.25% of capital employed after deducting losses incurred.[191] Results were, therefore, arguably low when taking into consideration the risks which always surrounded the business in Egypt. The main problem the Bank faced in Egypt was how to attain stability. The result of the Egyptian branches fluctuated greatly from a year to another and from net profits to large net losses.[192]

The management in London held the view that any net profit less than 2%, after paying interest on the funds provided by them, was not satisfactory.[193] Caridia was not satisfied with the profitability of the cotton business. He argued that better profit margins could be earned by banking business alone. Banking business seemed to be more profitable as it enjoyed cheaper funds obtained from the public. In a typical year, in 1930, cost of funds obtained for

188 Ionian Bank. (4 June 1919). [Report of Proceedings of the Annual General Meeting]. IB, 2/6.
189 There is still a number of business history studies on business performance. Jones (1993) comprehensively evaluated British multinational banking's performance between 1830 and 1990. Cassis (1997) compared the business performance of large British, French and German firms during the twentieth century. Cassis et al. (2016) studied firm performance in various European countries in the twentieth century.
190 Caridia, P.N. (23 August 1922). [Letter to John Stavridi]. IB, 6/100.
191 Caridia, P.N. (6 October 1927). [Letter to Colin Marshall]. IB, 24/1/27.
192 Caridia, P.N. (19 August 1931). [Letter to John Stavridi]. IB, 6/100.
193 Caridia, P.N. (7 December 1928). [Letter to Colin Marshall]. IB, 6/90.

the banking business was 3.42%, while the funds provided for the cotton business, mainly from London, were charged 6.03%.[194] However, the view was that a concentration on banking business would have to result in a complete policy shift and an organisational change.[195]

The court in London and the successive managers in Egypt had contradicting views on how to enhance profitability. This was a common theme in the correspondences between the two parties, especially until the end of the 1930s. The court, most notably Caridia, was constantly bringing to the management's attention in Egypt how important it was to reduce expenses to the lowest possible level.[196] Caridia always urged to enact a programme of economies to decrease general expenses and overhead charges drastically, through cutting salaries, reducing the number of staff and considering closure of unprofitable agencies.[197] More generally, the court saw that profitability could be improved through one or a combination of the following methods: increasing the funds employed through attracting more domestic deposits; increasing the yield on assets; or by radical reduction in salaries and general expenses to bring them back to a reasonable proportion of assets and gross earnings.[198]

The management in Egypt viewed the situation differently. They believed that the objective should be set to maximise the profits rather than to reduce the expenses. To boost profits, this in turn depended on the funds provided by the head office. A common complaint from the Alexandria office was that covering expenses and making profits were hard with the level of funds supplied to them by the headquarters. The city of Alexandria was a borrowing centre and all banks operating there would borrow some time in the year either from their head offices or from the National Bank of Egypt. Moreover, deposits were seasonal and withdrawal would take place just at the time when the banks needed funds. Wealthy residents in Alexandria did not prefer to deposit their surplus with banks. Rather, they opted to invest in stock exchange securities that gave them higher returns plus a speculative possibility.[199]

Therefore, the management in Egypt often rejected the idea of staff economisation, arguing that the staff of the Bank were on a lower level of pay compared with other banks in Egypt. Further cuts were declined by the management in Egypt on the ground that this would put

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194 Caridia, P.N. (17 December 1930). [Letter to Colin Marshall]. IB, 6/90.
195 Ibid.
196 Marshall, C. (17 January 1929). [Letter to P.N. Caridia]. IB, 6/90.
197 Caridia, P.N. (4 September 1930). [Letter to Colin Marshall]. IB, 24/4/5.
198 Caridia, P.N. (15 November 1927). [Letter to Colin Marshall]. IB, 6/90.
199 Marshall, C. (17 January 1929). [Letter to P.N. Caridia]. IB, 6/90.

the staff on a starvation basis.[200] The ratio of current expenses to gross profits reached 45% in 1922 meaning that the bulk of earnings were absorbed by general expenses. The ratio in Greece in the same year stood at 19%.[201] However, Atkinson, the then General Manager for Egypt, in order to defend his case, made a comparison to some other banks operating in Egypt in the same year. The ratio in the National Bank of Egypt stood at 45%, while it was 72% in the Anglo-Egyptian Bank.[202]

Following the great depression and the plummet of cotton prices, the management in London thought of terminating the business in Egypt; the final decision, however, was to give a further trial for three years.[203] Caridia in London wrote to the General Manager in Egypt that "It is proposed that the period of trial should be provisionally fixed at 3 years starting August 1931, during which time every effort would have to be made by the Egyptian organisation to effect further economies as and when become possible say 10% cut in salaries".[204] It is not clear what happened afterwards. However, the Bank remained fully operative in Egypt.

The profitability of British overseas banks were measured by Jones (1993) as published or real profits as a ratio of the market value of paid-up capital or as a ratio of shareholder funds (paid-up capital plus published reserves plus retained profits). However, profitability is measured in this chapter by relating profits to the funds lent by the headquarters to the Egyptian business. Apart from an overdraft line from the National Bank of Egypt along with a modest level of local deposits, the Bank had to rely largely on its head office for funding. The rationale behind the ratio, it could be argued, is that the headquarters could have, rather than transferring funds to Egypt, invested these funds comfortably in London if the Egyptian business had not existed.

British overseas banks sometimes disguised their profits by maintaining high reserves or transferring to a secret reserves account before reaching their published profits (Jones, 1993, p. 75). In this way, real profits might have been understated. Jones found for the sample banks he surveyed, for which information on inner reserves were available, that the real profits were often higher than the published ones, especially until the outbreak of the First World War. In calculating inner reserves, Jones tried to exclude the figures within the inner reserves made for contingencies, bad debts and other specific needs. Therefore, his figures

[200] Marshall, C. (11 November 1931). [Letter to P.N. Caridia]. IB, 6/84.
[201] Caridia, P.N. (7 April 1923). [Letter to John Stavridi]. IB, 6/100.
[202] Atkinson, H.E. (14 April 1923). [Letter to P.N. Caridia]. IB, 6/85.
[203] Caridia, P.N. (19 August 1931). [Letter to John Stavridi]. IB, 6/100.
[204] Caridia, P.N. (25 June 1931). [Letter to Colin Marshall]. IB, 6/84.

for inner reserves represented the free reserves that were held off-balance sheet and were not against any known contingency. For the Ionian Bank, he calculated inner reserves based on accounting ledger. Yet, it was not possible, in the current study, to derive these figures for the Egyptian business on a standalone basis.

To partially address this problem, two measures could be taken. First, profitability ratios in Table 4.3 below are derived from net profits before reserves, as it could be the case that published reserves overestimated bad debts and losses. Second, figures can be estimated for the Egyptian branch of the Ionian Bank by analogy. The ratio of inner reserves for the entire Bank, as a percentage of real profits, can provide an estimate of the Ionian Bank management's appetite in this respect on how these reserves were large compared to real profits. Making some calculations from Jones's data, the average difference between published profits and real profits as a percentage of published profits for the years 1907-1956 was 96% i.e. the real profits were higher than the published figures by this percentage. If this same ratio of underestimated profits was the case in Egypt, then the Bank generated decent levels of profits in Egypt, but not, however, substantial.

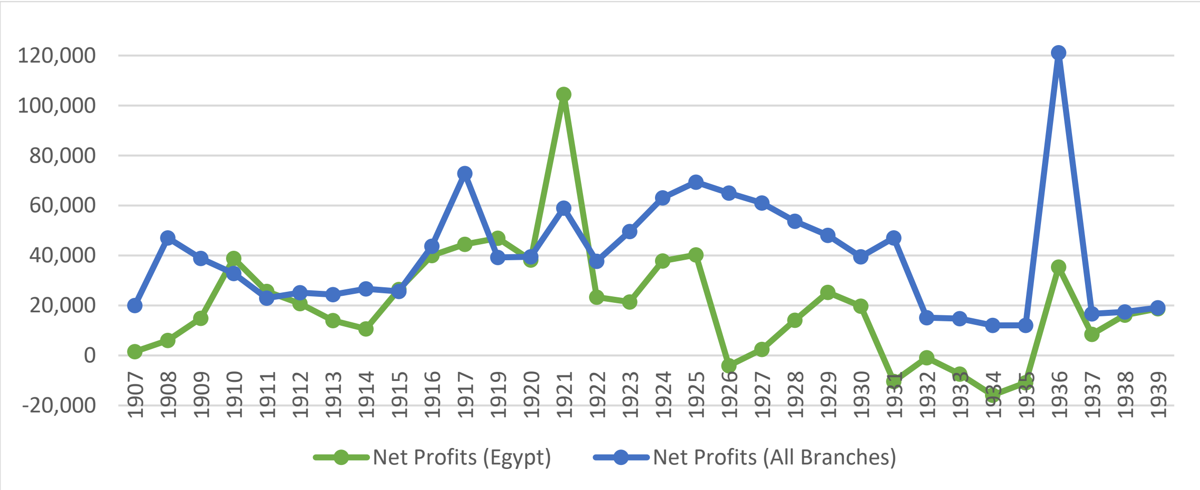
Table 4.3 Profitability of the Ionian Bank in Egypt on capital supplied by the Head Office (before interest & reserves)

Year	% earned on HO Capital
1907	1.18%
1908	4.41%
1909	9.83%
1910	10.34%
1911	6.85%
1912	4.46%
1913	3.54%
1914	3.51%
1915	7.14%
1916	11.63%
1917	13.16%
1918	13.29%
1919	17.25%
1920	10.18%
1921	12.82%
1922	3.77%
1923	5.07%
1924	9.80%
1925	10.20%
1926	-2.17%
1927	7.09%
1928	8.55%
1929	10.90%

Source: IB, 6/90; IB, 24/7/1; IB, 2/4; IB, 5/86; IB, 6/3; IB, 24/1/25

Although the profits generated from the Egyptian business of the Ionian Bank was not enormous, Egypt as a field of business remained justified. Figure 4.4 reveals that the Egyptian business offered some diversification benefits to the Ionian Bank when the results in Greece were poor. In some years, such as between 1920 and 1922, net profits obtained from the Egyptian business exceeded those for the entire bank, meaning that the business in Egypt was profitable, while the branches in Greece incurred losses. During World War II, the Greek business was idle. Greece was occupied by Germany, and the Head Office of the Ionian Bank in London was severed completely from what had been in the past the principal sphere of activity and the main source of profit to the Bank. The Egyptian economy, during the same period, benefited from an inflationary boom caused by the huge allied military expenses. Moreover, the British government guaranteed the purchase of the Egyptian cotton crop in order to prevent a further deterioration in its value. The Ionian Bank in Egypt certainly benefited from these circumstances and the Egyptian business contributed to the Bank's aggregate profits.[205]

Figure 4.4 Ionian Bank's net profits: Egyptian branch & entire bank



Source: for the entire bank: Report of Proceedings of the Annual General Meeting, IB, 2/2, IB, 2/4; for Egypt: author's calculations based on the following files: IB, 5/86; IB, 6/3; IB, 6/90; IB, 24/1/25; IB, 24/7/1

4.8 Last years in Egypt

By 1952, signs were not promising to the Ionian Bank in Egypt. A series of riots, burning and looting of the buildings owned or associated with Europeans took place in Cairo in January 1952. These events negatively affected the staff, especially in Cairo Branch, and a

205 Ionian Bank. (1953). [Ionian Bank Limited: A History]. IB, 9/9, p. 40. No precise data is available on profitability during this period.

mood of dejection prevailed among the staff.[206] Following the military coup of 1952, growing nationalism by the government was underway. For instance, in 1954 the Egyptian government urged the foreign banks to put further capital into their business in Egypt.[207] As for the cotton financing arrangements, the Egyptian government insisted that the foreign banks should sell foreign exchange to the National Bank of Egypt against Egyptian securities and that such foreign exchange would not be returnable at the end of the cotton season.[208] Barclays was asked in mid-1956 to produce their programme for training Egyptians and for replacing Europeans by Egyptians.[209]

In 1953, negotiations between the Ionian Bank and the British Bank of the Middle East started for considering a possible merger. However, negotiations stopped for a while and resumed in April 1956. The Ionian Bank was prepared to consider in principle a merger between the two banks, an arrangement whereby the shares of the two banks would be exchanged. However, the British Bank of the Middle East sought a full acquisition of the Ionian Bank's entire share capital, thereafter acquiring the business of the Ionian Bank in Egypt and Cyprus and to dispose of the Greek business. The British Bank of the Middle East requested an access to information about the internal accounts of the Ionian Bank so it would be prepared to make a cash offer to the Ionian Bank's shareholders.[210] The management of the Ionian Bank was not comfortable with the request and asked for a legal opinion.

A few months later, before concluding an acquisition agreement with the British Bank of the Middle East, the Ionian Bank was destined to full sequestration of its assets in Egypt following the Suez Crisis and the Israeli-British-French invasion of Egypt. The list prepared for the Foreign Office on the British companies with claims in excess of £500,000 lost assets in respect of sequestration included both Barclays DCO and the Imperial Ottoman Bank, but the Ionian Bank did not qualify to the list given its limited size.[211]

4.9 Conclusions

As central actors that contributed to the dynamism of the first global economy, this chapter has analysed the business of foreign commercial banks in Egypt through the lens of the

[206] Ionian Bank Egypt. (22 January 1953). [Inspection of Cairo Branch]. IB, 31/9/4.
[207] Loombe. (3 June 1954). [Letter to Serpell, Treasury Dep., London]. BoE, OV43/67.
[208] Loombe. (1 June 1954). [Letter to Overseas & Foreign Office]. BoE, OV43/67.
[209] British Embassy Cairo. (7 July 1956). [Letter to C.B. Reynolds, Commercial Relations & Exports Department, Board of Trade, London]. TNA, FO 371/118927.
[210] Ionian Bank. (26 April 1956). [Letter to A.H. Reid]. IB, 7/1.
[211] Accountants Division. (19 April 1962). [Letter to W.H.G. Fletcher]. TNA, FO 371/125581.

Ionian Bank. Unlike the general literature portraying foreign banks in developing countries as mere manifestations of imperialism and exploitation of host countries, this chapter has showed that the history of these banks in Egypt was different from this rhetoric. It has been shown that the Ionian Bank was a business enterprise that sought profits, and faced many risks and challenges. The Bank managed to mitigate some of them, while other uncontrollable risks negatively affected its performance. Such performance was shaped by trade-off between opportunity and risk appetite.

The chapter has demonstrated the salient features of the Egyptian banking system. These features were manifested in the risks encountered by the Ionian Bank in Egypt. The risks were, in many cases, difficult to fully control. Although these risks could have been easily recognised before entry, their magnitude could not be fully identified in advance. The Bank had to employ local agents in the Egyptian provinces. The nature of the agency system in Egypt meant that the managerial style remained informal. This, in turn, posed an internal constraint on the potential growth of the successful banks. Other risks arose mainly from the nature of the Ionian Bank's operation, for example shortage of funds and risks arising from the business environment, such as competition. The Bank maintained a conservative policy that certainly impacted on materialised returns. Severe competition was challenging to a bank that maintained the British traditions of placing safety as the highest priority. In general terms, risk management strategies include prevention and mitigation. Many British overseas banks in the British Empire successfully adopted prevention strategies to discourage new competitors from entering the market through concessions and exclusive privileges (Casson and Lopes, 2013, p. 390). This was not available to the Ionian Bank. Furthermore, mitigation was not attainable to implement in the face of competition. Finally, the entire Egyptian economy was centred on the cotton crop, and the Ionian Bank had to underwrite economic risk related to the quantity and quality of cotton in every season.

This is not to say that all risks were unmanageable. On many averse occasions, the Ionian Bank was able to conduct normal business with no losses. For instance, with growing national sentiment in the early 1920s, some criminal incidents against British subjects in the country were witnessed, and there were attempts by extremists to boycott British goods and British undertakings.[212] However, the Ionian Bank was not negatively impacted by these instances. Cotton was not the Ionian Bank's property and the Egyptians had nothing to do

[212] Luard, J. (29 November 1923). [Letter to P.N. Caridia]. IB, 6/84.

with cotton rather than exporting it.[213] In addition, the Bank was predominantly transacting with native borrowers, many of whom had been doing business with the Bank for a number of years.[214] In essence, the Bank retained the goodwill with its clients, with the result that the business during that period did not suffer.[215] Jones (1993) found that the performance of British overseas banks was negatively affected in many underdeveloped countries with growing nationalist sentiments and government hostility and discrimination against these banks. This chapter has showed that the Ionian Bank's performance in Egypt was impacted by external factors not related to government's intervention, and that the Bank maintained its business without significant disruption from nationalist movements.

No single foreign bank in Egypt was privileged with a first-mover advantage or enjoyed a monopolistic position. Foreign commercial banks in Egypt deliberately specialised in domestic lending for cotton cultivation. These banks adopted the same method of doing business. Therefore, the Egyptian banking system was a highly competitive sphere, and unrestrained competition meant that no bank, or even a group of banks, were able to make monopolistic profits through cooperation or collusion. A classic example is the British domestic banking sector in the interwar period. Profitability of the major players i.e. clearing banks were superior compared to other sectors, such as the British manufacturing sector, given the monopoly position and collusive oligopoly these banks enjoyed (Capie and Billings, 2001; Scott and Newton, 2007). Therefore, the prediction of the neoclassical economic theory on the high monopolistic profits is not applicable to the Egyptian banking sector. This refutes, or at least is contradictory to, the notion of exploitation that certainly flourishes in the absence of competition. In addition, the profitability of the Ionian Bank in Egypt does not support the literature that refers to substantial easy profits generated by foreign banks in developing countries.

Yet, it is difficult, based on the available evidence, to ascertain whether foreign banks in Egypt were exploitative. No precise data are available on how the surplus from the cotton trade was distributed across the various participants in the network. For instance, we do not know at what price foreign banks sold Egyptian cotton and how much commissions they charged. Rather, what this chapter has tried to show is the crucial function performed by these banks in relation to financing and marketing Egyptian cotton.

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[213] Ibid.
[214] Ionian Bank. (13 January 1925). [Report of Proceedings of the Annual General Meeting]. IB, 2/7.
[215] Ionian Bank. (27 April 1922). [Report of Proceedings of the Annual General Meeting]. IB, 2/6.

A common argument found in the development literature is that during the imperialist and colonialism eras, foreign banks operating in the underdeveloped parts of the world extracted large amounts of capital from these countries to the benefit of their respective developed states. Foreign banks in Egypt certainly tried to attract local deposits. However, the majority of their funds to maintain ordinary operations in the country came from their own capital and accumulated reserves, along with other foreign sources such as borrowed funds. This observation is not novel. Tignor (1981) maintained that the Egyptian experience with foreign banks offers a contradicting case to the argument of the development literature. He referred to the funds provided by the European capitals to their banks in Egypt to compensate for the lack of domestic deposits. However, his argument was general and was not based on a concrete evidence.

The discussion on the Ionian Bank has demonstrated that the Bank did not extract domestic capital from Egypt to London. On the contrary, it had to rely almost entirely on funds provided by the head office in London. The problems associated with the lack of domestic deposits were a constant theme in the correspondences between the Bank's management in Alexandria and London throughout the entire period. Therefore, this chapter has supported Tignor's observation through a detailed examination of a certain case. Furthermore, Egypt enjoyed the advantage of a ready supply of funds to finance cotton cultivation. Hansen (1983) found that, between 1882 and 1914, interest rates charged by foreign financial capital in Egypt declined by 2 to 2.5% compared with the interest rates prevailing in Europe. He argued that the country was supplied with cheap capital, a fact that contradicts the generally accepted argument that higher returns on foreign capital invested in colonised countries was an indicator of imperial exploitation.

Although this chapter is not concerned with whether foreign banks in Egypt should have supported an indigenous industrialisation in the country, a very brief reference can be made in this respect. After their trade mission to Egypt in 1931, Department of British overseas trade proposed the formation of an Anglo-Egyptian Finance organisation in Egypt for the purpose of promoting suitable industrial projects. Montagu Norman, the Governor of the Bank of England, was supportive to the idea. His view was that it was helpful to British trade if certain arrangements were created to link British finance and industry with opportunities in Egypt. The proposal was that two or three finance houses in London representing the British side along with some kind of Egyptian capital should venture together. The report pointed out that banks in Egypt are rather too many than too few and that they gave ample facilities to trade. Although the proposal was of a little success, the British traditions were evident: it is a wrong method of using deposit banks to promote industrial enterprises, a practice that would endanger banks, the industry and the depositors.[216] The National Bank of Egypt's governor held the view that "for deposit banks to assist in the creation of industries or in the development of existing ones would…lie the seeds of trouble" (*The Economist*, 30 March 1940, p. 933).

Building on the discussion of Chapter Three on the instrumental role played by foreign banks in the Egyptian cotton network, and on the evidence presented in this chapter, conclusions can be drawn. The chief concern of the European banks operating in Egypt between the second half of the nineteenth century and the first half of the twentieth century changed from lending to the state up to the 1870s to lending to landowners and merchants thereafter. Nevertheless, the ultimate objective remained almost the same. They sought to integrate the country into the world economy through promoting cotton cultivation and export. Their scope of activities of financing cotton cultivation and foreign trade was well defined from the very beginning. Given the short-term nature of the loans provided by these banks, they were not concerned with transforming the country through providing long-term capital for industrial development. Through providing finance, these banks played a role in developing the cotton-based export sector, the main source of economic prosperity in the country at that time. Although it is difficult to ascertain whether this was in Egypt's favour in the long term and whether it contributed to its economic development, we do not know what other paths to development would have been if those banks had not existed.

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[216] Foreign Office. (18 May 1931). [Letter to Percy Loranine]. TNA, FO 141/766/1.

Chapter 5 Business Networks: Evidence Using the Interlocking Directorates Technique, 1924-1948

5.1 Introduction

The number of foreigners residing in Egypt, as mentioned in Chapter One, rose significantly in the nineteenth and early twentieth centuries. The upper strata of those local foreigners, which made Egypt their home and place of residence, dominated the business sector in the country during the first half of the twentieth century. Many writers agree that the first wave of globalisation ended after 1914; foreigners in Egypt, however, remained key players in the Egyptian economy until early 1950s. Gradually between the 1920s and 1956, many indigenous elements penetrated the corporate sector driven mainly by changing institutional environment and by growing nationalist sentiments. During this period, the influence of foreign communities started to decline and an emerging local capitalism was underway.

This chapter is concerned with the business networks in the Egyptian corporate sector. More precisely, it focuses on the interlocking directorates of the largest joint-stock companies in Egypt between 1924 and 1948. Through analysing the structure and dynamics of the network, the chapter provides a fresh perspective on another aspect of the first global economy: foreigners, their roles in the business networks of host countries and their interaction with the indigenous business people. The chapter leverages on social network analysis as an analytical tool to study these networks. The study addresses the role of formal network analysis in business history, where the application of improved techniques of analysis is illustrated. The concern of this chapter goes beyond describing the shape of the network, as numerous studies on corporate networks have achieved. The corporate relationships between the various economic sectors and inter and intra sectoral ties are investigated. Through detailed examination of these connections, insights into the organisation of this capitalist system and the key important sectors for the configuration of the entire network will become clear. The major developments in the network over time are analysed in conjunction with explaining the historical context associated with these changes. In addition, the network of interlocking directors is discussed.

A key feature of corporate networks is interlocking directorates. This refers to the situation when more than one company are connected by a director who serves on the boards of these companies. Networks of interlocking directors generate two types of networks and therefore could be studies from two perspectives: first, an inter-organisational corporate network of firms that are connected by interlocking directors and, second, an interpersonal network of interlocking directors who are connected to each other by firms. In essence, both networks are two-sides of the same issue but might reveal dissimilar properties (Breiger, 1974). Both networks are analysed in this chapter, and the terms interpersonal network and elite network are used interchangeably in this study to refer to the network of directors who were linked together by their board seats on various companies.

The first part of the question that is posed in this chapter is what the corporate network in Egypt was for. To explain why network structures vary, it is necessary to recognise that different types of networks coordinate different types of activities. The structure of a network emerges for a certain economic logic and is likely to be a response to coordination problems (Casson and Della Giusta, 2007). For instance, corporate networks in many Western European countries were historically organised around financial institutions. Banks had to monitor their investments in non-financial companies through interlocking directors. Companies, on the other hand, sought to retain good connections with the financial sector to facilitate access to financial resources. Finance in Egypt was not the main force behind the structure of the corporate network. As elaborated earlier in this thesis, banks were only interested in financing the cultivation of Egyptian cotton and in agricultural mortgages. This is with the exception of Banque Misr and its affiliated companies since the Bank acted as a universal financial institution to support the fledgling industry in Egypt.

The second part of the research question of this chapter is how entrepreneurial activities were linked to the corporate elite network. The chapter tries to establish whether the structure of the elite network supported, at least in theory, better investment decision making, what benefits, if any, this structure brought to the key interlocking directors in terms of entrepreneurial opportunities and how the dynamics of business elites were maintained.

The chapter makes a number of contributions to the extant literature. First, the literature on corporate networks and interlocking directorates, until recently, had focused on developed Western European and Anglo-Saxon countries. The majority of these studies have shown that banks were at the centre of corporate networks. Yet, a body of research has emerged in recent years to study the history of corporate networks in some Latin American and Asian countries such as Mexico and Brazil (Musacchio and Read, 2007; Musacchio, 2009), Chile (Salvaj and Couyoumdjian, 2016), Argentine (Lluch et al., 2014) and Japan (Okazaki et al., 2005). Therefore, this chapter contributes to the limited literature on interlocking directorates in the less-developed countries. In addition, finance, as mentioned earlier, was not the main factor in the Egyptian network's structure. Therefore, the chapter enriches the studies on interlocking directorates by adding a new dimension to the drivers of corporate and elite networks.

Second, most of the theoretical and empirical works on corporate networks have been on countries characterised by a stable institutional environment. Notable exceptions include Salvaj and Lluch (2011) who compared corporate networks in Argentina and Chile during turbulent periods of their history. The current study focuses on a narrow period with changing capitalism and changing economic and political conditions in Egypt. Therefore, the impact of institutional change on the corporate and elite networks and how entrepreneurs organised their networks accordingly are examined.

Third, firms, along with corporate linkages, occupy an important position in the theoretical framework pioneered by Hall and Soskice (2001) on varieties of capitalism. One of their core arguments is that economic behaviour and organisation are embedded within a wider institutional setting of, for example, financial system, role of the state, and labour market. The literature on varieties of capitalism has been largely dominated by studies on Western countries, and more recently in the developed Asian countries. Limited works outside this sphere include Schneider (2013) who studied capitalism in contemporary Latin America. His argument is that capitalism in this region has a distinct form where business groups and multinationals are the key economic actors in the various countries in the region. Through analysing interlocking directorates, this chapter sheds light on what type of capitalism was developing in Egypt during this period. Studying interlocking directorates is a useful tool to analyse the evolution of capitalism and to evaluate the structure of economic power and organisation of a country (Carroll and Fennema, 2002; David and Westerhuis, 2014).

Fourth, the chapter responds to recent calls by Lopes et al. (2019) to bring indigenous entrepreneurs to international business through linking international investment with indigenous entrepreneurship. International business studies have mainly focused on the multinational enterprises and have paid little attention to the question of people who founded firms in foreign countries and the interaction with indigenous entrepreneurs in the countries they invested in.

Fifth, Egypt enjoyed a dynamic private sector in the early twentieth century, and the limited-liability firm has had a long history in the country. Nevertheless, the history literature on the economic activities of corporate elites in Egypt has been confined to exploring the socioeconomic role played by local foreign minorities in the country. There has been a lack of historical scholarship to examine systematically the shape of capitalism in Egypt, and the Middle East and Africa in general, with the use of rigorous methods such as social network analysis. To my knowledge, this is the first attempt to study the Egyptian modern economic history through the formal application of social network analysis and interlocking directorates technique.

This chapter has its own limitations. A theoretical link could be established between corporate networks and economic transformation and development. Corporate networks could foster higher levels of trust, and this in turn increases the capacity of various firms and entrepreneurs for collective actions, which are perceived to be an important factor for economic development. However, the main interests of this chapter are in firms and entrepreneurs. The viability and measures of success of a given investment from the entrepreneur's point of view could be different from the social point of view (Casson and Godley, 2005, p. 54). Therefore, this chapter does not address the issue of corporate networks and economic development. Furthermore, while corporate and elite networks are certainly connected to other types of networks such as ethnic networks, the analysis of this chapter confines to these two networks.

The remainder of this chapter is organised in five main sections. Section 5.2 reviews the literature relevant to the subsequent analysis. The main concepts, terminologies, and measures of social network analysis are explained in the third section. Section 5.4 discusses the data and methodology. The penultimate section, 5.5, summarises the main findings derived from the application of social network analysis of the corporate and elite networks in Egypt. The characteristics of the system are illustrated using several indicators, typical of social network analysis, such as network cohesion and density, centrality and connectedness of actors. In addition, the findings on the elite network are linked to the theoretical underpinnings of entrepreneurship, information economics and social network analysis. Section 5.6 concludes the chapter by comparing the findings on the corporate and elite networks in Egypt to those of other selected countries.

5.2 Theoretical & historical considerations

The structure of this section takes the form of four sub-sections. It begins with discussing the theories that have commonly been employed to explain corporate networks and interlocking directorates. Section 5.2.2 establishes the theoretical role of the board of directors in corporate control. Section 5.2.3 briefly summarises the key literature on business groups in developing countries. Finally, section 5.2.4 provides a background on the main business groups that dominated the corporate and elite networks in Egypt. This section serves as the basis for discussing the main findings in section 5.5.

5.2.1 Why interlocking directorates exist

Institutions are composed of firms, markets and the state (North, 1981). Networks, which include actors that are connected to each other, could be viewed as a fourth type of institutions (Casson, 2010, p. 116). Firms could be linked through various types of networks. Examples include suppliers and buyers networks, capital networks where a firm owns other firms, financial networks where firms borrow from banks, and corporate networks where firms are connected through interlocking directors (Windolf, 2002, p. 14).

Corporate networks have been extensively studied by historians, economists, sociologists, and contemporary management scholars over the last few decades. The extant literature offers two main explanations to the origins and causes of corporate networks and interlocking directorates. According to Windolf (2002, p. 8), the theories that have been employed to explain corporate networks are categorised as either functionalist or power theories. The former perceives corporate networks as an inter-organisational coordinating tool to achieve an economic end i.e. better corporate performance. Consequently, networks are explained by the economic function they fulfil. This group of theories includes institutional economics and resource dependency theories. The second group of power theories rests around the idea that interlocking directorates are a sociological phenomenon.

5.2.1.1 *Functionalist theories*

Institutional economics and transaction cost theory postulate that markets function properly within a framework of institutions such as political, social and economic rules that govern production, exchange and distribution (North, 1990). Effective institutions in any capitalist system are those that reduce transaction costs (Williamson, 1985). Acquiring information in a competitive market incurs costs and, as a result, networks emerge as a mechanism for obtaining, coordinating and handling information (Casson, 1997c, p. 811). Therefore, networks could be viewed as an institutional arrangement to minimise transaction and information costs. From a different perspective, Granovetter (1985) acknowledged the role of institutions; however, he argued that the various actors in a market are embedded in a preexisting framework of social networks. Networks then are an integral part of the institutional structure of a market as they coordinate behaviour and competition, create trust between market participants, and consequently reduce uncertainty (Fligstein, 1996; Uzzi, 1996).

Firms are embedded in numerous networks and institutions. One example is the embeddedness of firms within political institutions (Granovetter, 1992). The state organises the framework of regulations and legislations within which firms operate. Depending on the degree of state intervention in the economy, the state could decide who should own firms and who could serve on the boards on these firms. An interventionist state often promotes coordination between the largest firms in order to reduce competition, and it might favour a centralised corporate network because this provides an easier space to control (Fligstein, 1996; Cárdenas, 2012). On the other extreme, the state only creates the institutions that ensure an efficient and competitive market, but without strong intervention. In countries with minimal state intervention, therefore, the existence of institutions such as antitrust law, and the restrictions on large holdings mean that corporate networks are inclined to be less dense.

As proposed by the literature on varieties of capitalism, firms develop different arrangements as a response to the prevailing institutional conditions in their respective countries (Hall and Soskice, 2001). Firms in coordinated market economies often opt to resort to non-market relations to coordinate their activities. Examples include managed capitalism by stakeholders, e.g. Central European countries, and Asian capitalism that relies on business groups to coordinate market activities. On the other hand, coordination in liberal market capitalism, the Anglo-Saxon economies for instance, is maintained through competitive market arrangements.

Consequently, the structure of a corporate network is in itself a result of an underlying institutional mechanism in a given society. For instance, Windolf (2002) explained corporate and elite networks in the United States and five Western European countries employing institutional contingency theory, a well-known theory in sociology. The main argument he presented (pp. 10-11) is that the existing environment has a direct influence on the structure of networks and that this structure is the product of an adaption process to the social and political institutions.

A second functionalist theory that has widely been employed in the literature to explain corporate networks is resource dependency. The emphasis is on the relationships between firms and the exchange of resources among them. Firms, through interlocking directorates, could reduce uncertainty, minimise information and transaction costs, maintain coordination, and gain access to valuable sources such as financial resources e.g. bank loans, raw materials, new markets and knowledge. This strand of literature perceives interlocking directorates as a firm-strategic phenomenon where interlocks are believed to be transmitters of valuable information and resources that are exchanged among firms across the network (Dooley, 1969; Pfeffer, 1972; Pfeffer and Salancik, 1978; Caswell, 1984; Scott and Griff, 1984; Mizruchi and Stearns, 1988; Boyd, 1990; Mizruchi, 1996; Podolny and Baron, 1997; Windolf, 2009; Carroll and Sapinski, 2011). Resource dependency might be linked to Granovetter's idea of weak and strong ties (1973). His main argument is that weak ties could transmit more valuable information than strong ties that are typically found in the close circles of connections. In this sense, information is potentially exchanged within corporate networks through interlocking directors who are not necessarily very close to each other.

Under the resource dependency explanation, three approaches, differentiated by the type of power relation between firms, are offered by Mizruchi (1982). Firms in a non-hierarchical relation coordinate with each other for mutual benefits. In the second case, one firm controls and steers the policies of the other firm, therefore, the relationship between the two organisations is hierarchical. In the third case, the relationship is still hierarchical but the influence runs in the opposite direction. Firm A seeks to appoint board members from Firm B that controls resources necessary for the operations of Firm A.

A prime historical example of the resource-dependency approach is the relationship between banks and borrowing firms in many Western countries. An interlocking director who was on the board of both industrial and financial firms served to reduce information asymmetries between the bank and the industrial company. Gerschenkron (1962) was one of the earliest scholars to argue that interlocking directorates among universal banks and industry in Germany were one of the key drivers of the German industrialisation in the nineteenth century. A large number of studies, afterwards, focused on the links generated by interlocking directorates between financial institutions, mainly banks, and non-financial firms, mainly industrial firms. The major countries studied using this framework include the US (Mizruchi and Stearns, 1988; Boyd, 1990; Davis and Mizruchi, 1999), Great Britain (Scott and Griff, 1984; Scott, 1990; Scott, 1991; Wilson et al., 2018), Germany (Fohlin, 1999; Windolf, 2002), and Sweden (Ottosson, 1997), to mention a few examples. This body of research centred on the argument that corporate networks were mainly controlled by banks that exercised power over non-bank firms in the networks.

According to the "finance capital model" firstly developed by Hilferding (1910, cited in Scott, 1985), bank financial capital and industrial capital merged and hence some powerful groups of companies came into existence. The model was further specified in the 1970s where the ties between banks and industrial companies were believed to be directed from the former to the latter (Zeitlin, 1974). Mintz and Schwartz (1985) advanced the model further by suggesting that financial hegemony had the power to control the entire economy. As banks controlled the flow of capital to various firms and as their directors sat on the boards of these companies, banks were able to control and steer the entire economic activities of the respective countries.

5.2.1.2 *Sociological theories of power*

The second approach to theorise interlocking directorates underscores the concept of intra-class cooperation and the social relationships among the corporate elites. This elite perspective can be traced back to Mills (1956) who posited that elites are a unified group. According to Useem (1984), interlocking directors are elites who belong to the same upper class, often share the same beliefs and political views, and strive, through interlocking relations, to secure their hegemonic power. A stream of literature, building on power and control theories, has argued for class hegemony theory where the upper elite class form networks for a verity of reasons. These include maintaining cohesion, protecting the collective interests of the class, monopolising markets and excluding potential actors from these markets (Zeitlin, 1974; Koenig et al., 1979; Useem, 1980; Koenig and Gogel, 1981; Useem, 1984; Walker et al., 1997). Interlocking directorship is then perceived as a fundamental constituent of the cohesion of this social class.

5.2.2 Board of directors and control

Three schools of thoughts are distinctive with regard to the importance of the board of directors for corporate control. The first school, mainly driven by theories of managerial control, argues that management is fully in charge of the control function. The board of directors is isolated from any operational role, and directors therefore are only figureheads that act as an image for the firm (Koenig et al., 1979). The second view of theorists of resource dependency perceives the board of directors as a key for optimising firm behaviour and performance through facilitating access to resources, information and markets (Pfeffer and Salancik, 1978; Burt, 1992). A third perspective is offered by Granovetter (1993), who refuted the idea that the analysis can support any of these theories ex-ante. Rather, he postulated that the analysis of interlocking directorates is useful in itself to understand a range of issues in history. For example, the prevalence of large shareholding indicates that firms are run by these shareholders, rather than by professional managers that are typically found in firms with a large number of minority shareholders (Berle and Means, 1932). Consequently, in a country with the majority of firms controlled by large shareholders, boards of directors are occupied by those shareholders who control the decision-making. Furthermore, corporate networks in this case, as a result, tend to be cohesive and dense.

5.2.3 Business groups in developing countries

Business groups have been main economic actors within the corporate networks in developing countries. A widely used definition in the literature, and the one that is adopted in this chapter, is that of Khanna and Yafeh (2007, p. 331) who define business groups as "legally independent firms, operating in multiple (often unrelated) industries, which are bound together by persistent formal (e.g. equity) and informal (e.g. family) ties". Business groups encompass various organisational forms such as diversified investments in unrelated businesses, pyramidal groups and network type (Colpan and Jones, 2016, p. 69). According to transaction cost economics, business groups are a hybrid organisational form between the firm and the market (Williamson, 1991; Khanna and Rivkin, 2001; Khanna and Yafeh, 2007).

The business and economic historiography of many non-western countries, as traced by business historians, has demonstrated that business groups have been a well-established and prevalent phenomenon in many countries in Latin America, Asia and the Middle East since the second half of the nineteenth century onwards. Examples include Argentina, Chile, Mexico, India, and Turkey, to mention a few examples (e.g. Colpan et al., 2010; Lluch and Salvaj, 2014; Bucheli and Salvaj, 2014; Bucheli, 2015; Colpan and Jones, 2016; Salvaj and Couyoumdjian, 2016; Erçek and Günçavdı, 2016; Bucheli et al., 2019). Moreover, the literature suggests that business groups have thrived under various forms of public policies such as import substitution industrialisation in Latin America and export-oriented growth in East Asia (Schneider, 2009, 2010).

The literature on business groups in developing countries dates back, at least, to Leff (1978) who argued that business groups in these countries were a natural response to the underdeveloped market mechanisms. Using various examples from different countries, Leff made some generalisations on business groups. First, he observed that the capital and management in these groups have tended to come from wealthy families that are often linked by interpersonal relations based on similar personal or ethnic background. Second, he argued that these groups have been entrepreneurial in their investment decisions and that they have been active in different economic sectors where entry into new sectors has often been through cooperation with foreign firms. Since then, many theories have been employed to explain the emergence of these groups. The main question that has arisen within the literature is why and how these groups emerged. The origins of these groups have been largely explained through the lens of the political and economic environment prevailing in a country. Institutional voids and government-business relations have been the main explanation for their prevalence (Khanna and Yafeh, 2007). To a limited extent, entrepreneurship and resource-based view have also been discussed as an explanatory factor behind the emergence of business groups.

Market imperfections have been widely employed to refer to institutional voids that have given rise to business groups. To a large extent, this view has been dominant in theorising the existence of business groups in developing countries. Khanna and Palepu (1997, 2000) argued that institutional voids in developing countries such as inefficient regulatory and judicial framework, and where many institutions necessary for conducting business do not exist, justify the emergence of business groups as a replacement to these institutions. Therefore, business groups internalise some of the functions provided by the market such as mobilising capital and providing managerial resources. In Chile, for example, business groups emerged as a response to an inefficient market dominated by strong state participation, and when multinationals penetrated Chile they became business groups themselves and created links with other indigenous business groups (Bucheli and Salvaj, 2014; Bucheli, 2015; Bucheli et al., 2019).

Other scholars have emphasised the role of entrepreneurship. Leff (1979a), for example, suggested that business groups in developing countries might be understood from an entrepreneurship perspective. Chang (2006), in a study on the evolution of business groups in Taiwan, emphasised the significance of entrepreneurial founders in diversification strategies. Colpan and Jones (2016) referred to Schumpeterian entrepreneurship that was the reason behind the evolution and growth of the largest business groups in Turkey in the twentieth century. Kock and Guillén (2001), employing an evolutionary perspective, postulated that business groups responded entrepreneurially to the changing environment of the late industrialising countries. Their main argument is that entrepreneurs, in the protectionist environment that was prevalent in the post-World War II period, leveraged their contacts with indigenous and foreign actors to combine both international knowledge and local markets. In some cases, Argentina for example, business groups served as connectors between foreign and local financial markets during the interwar period (Lluch and Salvaj, 2014). Granovetter (2005) questioned whether business groups should be explained by market failure or by entrepreneurial capabilities to mobilise resources. He, therefore, called for more historical studies to understand this phenomenon.

Other explanations to business groups have been offered. Many authors explained the evolution of business groups through government and politics. For example, political science scholars often refer to the role of government in extending exclusive privileges to certain business groups in particular industries (Schneider, 2010). Guillén (2000, p. 368) argued that business groups benefit from asymmetric trade and investment conditions where the groups are protected, through public policies, from foreign competition. Others attribute business groups to socio-cultural heritage (e.g. Hamilton and Biggart, 1988 on the Far East). Granovetter (1995, 2005), stressing the embeddedness of business groups in their historical and social context, offered non-economic explanations for the emergence and growth of business groups. He referred to the formal and informal ties that foster cohesion and trust between the members of these groups, allowing them to build collaborative networks. Finally, a limited body of management literature has relied on the resource-based view to explain the phenomenon (e.g. Guillén, 2000; Kock and Guillén, 2001; Hoopes et al., 2003). This builds on Penrose's view (1959) that the firm is a bundle of resources where a diversification of employing these resources is beneficial to the firm. These resources could include, for instance, managerial and financial resources.

5.2.4 Business groups in Egypt

Similar to many developing countries as discussed above, business groups in Egypt were the most eminent actors in the corporate network. Two main business groups, Jewish and Greek, were prominent between the late nineteenth century and the first decades of the twentieth century. The groups were, in essence, family or, at least, quasi-family groups. These families formed powerful business groups, and the core of each group was bounded by personal, family and ethnic ties (Vitalis, 1995, P. 19). Within each group, members formed strong alliances through inter-marriage relations that were translated later into business relations. It was evident that within both the Jewish and Greek groups, family and business relations were intertwined. Both groups held diversified investments, and competent family members often held several board seats on the companies owned and run by these groups.

The two groups had their families residing in the country for many generations. These families made their fortunes in Egypt during the cotton boom in the nineteenth century. This was in contrast to other European entrepreneurs such as the Belgians and the French who brought their capital, accumulated elsewhere, to Egypt in the early twentieth century (Tignor, 1980b, p. 426). In addition, many families within these groups, through local business houses and merchants bankers, played the most important role in arranging foreign loans to the country's rulers in the nineteenth century. When investments in Egyptian public debt came to an end, these groups re-emerged again as promoters of banking, trading, and industrial undertakings from the 1880s onwards (el-Gritly, 1947, p. 19). The promoters enjoyed access to foreign capital as they maintained strong connections to Europe's financiers and cooperated with foreign capitalists in many of the largest ventures in Egypt.

The first business group consisted mainly of the Alexandria-based elite Greek families such as Salvago, Zervoudakis, Choremi and Benaki (Kalkas, 1979; Kitroeff, 1989). The group was led by the Salvago family. Konstantinos Salvago moved to Alexandria from Marseilles, France in 1865 as a cotton merchant. After accumulating large profits during the cotton boom he expanded into several sectors. The Salvago group was associated with establishing the cotton ginning and pressing industry in Egypt, founding the Cotton Bourse in Alexandia, and with establishing a number of utilities, transport, land and building companies in Alexandria, along with banking and financial enterprises (Crouchley, 1936, p. 44). The group's investments included many of the most important undertakings in the country such as the Alexandria Water Company, Alexandria Ramleh Railway, the Société Anonyme du Béhéra, La Filature Nationale d'Egypte, Societe Egyptienne des Industries Textiles, Egyptian Salt and Soda Company and various other joint-stock companies.

The Salvagos collaborated with British capital in Egypt. One of these British collaborators was the Barker family. The Barkers, an Anglo-Levantine family, had been residing in the Middle East since the middle of the eighteenth century. Henry Barker, and later his son Harry, were among the most successful British entrepreneurs in Egypt. Along with several investments with the Salvago group, they ran their family business of Barker and Company. This shipping company transported cotton, grain and coal between Egypt and Britain (Mak, 2011, p. 32). The family was very influential in the British circles in Egypt. For instance, Harry Barker served as the head of the British community in Egypt for many years during the interwar period (Tignor, 1980b, p. 430).

The second group consisted of some of the most influential Jewish families in Egypt: Suarès, Rolo, Mosseri and Cattaui. The Suarès family, originally from Spain, had settled in Livorno (Italy) before moving in to Egypt in the early years of the nineteenth century (Grunwald, 1972, p. 13). Later, they established a bank in Egypt in partnership with some members of the Rolo family. This bank was in close connection with another bank founded by the Cattaui family. The Rolo family initially settled in Cairo, before moving into Alexandria around the mid of the nineteenth century (Guerin, 2010). The Mosseris arrived from Spain and settled in Egypt around the 1750s (Landau, 1969, p. 127). The families were firmly bonded by intermarriage and personal relations (Krämer 1989, pp. 41-43).

These families began their entrepreneurial activities in Egypt as moneylenders in the nineteenth century. Following the cotton boom in the 1860s, their activities were gradually transformed into modern banking. The lack of organised financial sector and the averting of the Muslim majority to banking, offered lucrative opportunities to these families. Their merchant banking houses became the host of European capital in Egypt in the late nineteenth century (Guerin, 2010). This was later accompanied by expansion into other investments in many sectors. They closely collaborated with both British and French capital in a number of ventures operating in diversified sectors such as banking, infrastructure, transportation, rural land development, urban real estate investments, and the textile industry. Members of these families were usually the heads of the Jewish society in Egypt for many generations.

The nationality of these families remains a complex issue and is hard to define. For instance, although the Mosseri family had been residing in the country since the 1750, they were, legally, foreign residents and obtained Italian passports in the nineteenth century (Landau, 1969, p. 21). The Rolo family were British and many members of this family were among the elites of the Anglo-Egyptian community in Egypt (Miccoli, 2015, Ch. 2). Other Jewish families held Austro-Hungarian and French nationalities (Tignor, 1980b, p. 427). For two main reasons, the distinction of who was foreigner and who was indigenous Egyptian is not always clear. First, as mentioned earlier, foreigners enjoyed special treatment in the Egyptian law through the Capitulations system that was gradually abolished after 1937. Therefore, some indigenous Egyptians sought to secure a foreign nationality. Second, up to the twentieth century, large waves of migration across provinces in the Ottoman Empire occurred. For example, many Turco-Circassians and Syrians migrated to Egypt and became its ruling elite from the fourteenth century (Kalkas, 1979, pp.51-52).

Beinin (1998a) argued that the business skills that the Jews in Egypt enjoyed were attributed to their history of being diasporic people. A comparison between the position of the Jewish community and their entrepreneurial success in Egypt, and their presence elsewhere reveals similar characteristics. The Jewish community remains one of the most prominent religious communities that played a very important role in the capitalist enterprises in many parts of the world. The factor of human capital and their entrepreneurial capabilities were evident in this regard (Botticini and Eckstein, 2007). In many countries, they were disproportionately well represented in the economic life. Supple (1957) studied the German-Jewish financiers of New York in the nineteenth century. He documented the high cohesion of the group where Jewish families who migrated to the USA between the 1830s and the 1850s were bounded by common business interests and intermarriage relations.

From a sociological point of view, foreign minorities, such as diaspora, were often denoted as strangers who were neither fully integrated in the local culture of the host country, albeit their understanding of this culture, nor were they foreigners (Bonacich, 1973). However, historical evidence suggests that these minorities were very successful entrepreneurs in many parts of the world. In their eclectic theory of entrepreneurship, Casson and Godley (2005) argue that entrepreneurs are sometimes ethnically, socially or religiously outsiders and this could be beneficial for an entrepreneurial act that requires independent judgement. The Jewish diaspora networks, as highlighted above, are a typical example. In Egypt, the upper strata of local foreigners who were corporate elites, although familiar with local habits, often underscored their European cultures and values (Tignor, 1984, p. 6). Therefore, they remained, by and large, foreigners in the eyes of indigenous Muslim Egyptians.

Casson (1991) and Casson and Godley (2000) argue that "an entrepreneurial culture" in a society can explain the level and quality of entrepreneurship in a given country. Of particular importance is the level of trust prevailing in the society. For instance, firms in many non-Western countries did not manage to grow beyond a certain size as these firms could not trust nonfamily members as managers and shareholders (Jones, 2013, p. 26). Godley (2001) examined the impact of business culture on entrepreneurship. He compared the entrepreneurial activities and success of a unified group of Eastern European Jews, immigrated to two different destinations, London and New York, in the late nineteenth century. Godley argued that as the American and British cultures were dissimilar in terms of their entrepreneurship culture, the Jewish immigrants to New York had higher probabilities to become entrepreneurs compared with their counterparts in London.

In Egypt, local foreigners, mainly the two business groups, dominated the corporate sector between the late nineteenth century and the first half of the twentieth century. Along with the Jewish and Greek business groups, many directors of the largest joint-stock companies in Egypt were foreigners of many nationalities such as British, French and Belgian. Given the diversity of directors in terms of ethnic and national origins, a question that arises is how business networks were managed when the members of these networks had different business cultures. An answer to the question posed in this chapter on the main reasons and forces behind the specific structure of the corporate network in Egypt will shed light on this issue.

Another prominent foreign business network was the Levantine one. The Levantine community in Egypt came from Syria and Lebanon and moved in to Egypt in two waves (Hourani, 1947; Philipp, 1982). The first took place in the mid nineteenth century amid civil unrest in Syria. The second wave was associated with the penetration of cheap East Asian imports of silk into France. In response, many Levantine silk spinners and weavers migrated to Egypt. Between the middle of the nineteenth century and up to World War I, the number of Levantines in Egypt increased. The census of 1907 estimated that approximately 34,000 'Syrian Ottomans' lived in Egypt. More than half of them resided in Cairo and Alexandria, while the remaining lived in the Canal Zone and the Delta (Egyptian Ministry of Finance, 1909). Levantines in Egypt enjoyed the advantage of a mystery of Arabic over other foreigners living in Egypt, such as the Greeks and other Europeans (Hourani, 1992). Therefore, their integration into the Egyptian community was easy.

Many of the Levantine immigrants to Egypt were merchants, cotton traders, importers of European textiles and machinery, retailers and moneylenders. While early Levantines in Egypt were small merchants and retailers, some families such as Ayoub, Eid, Sorsock and Tawil became influential directors in joint-stock companies in the early decades of the twentieth century (Tignor, 1980b, p. 423). However, their presence and activities in the Egyptian joint-stock companies remained, by far, on a smaller scale than the aforementioned Jewish and Greek main business groups. As none of these families' members featured in the list of top central interlocking directors, they are not covered in this chapter.

5.3 Key concepts of social network analysis

The two main types of data that are commonly used in social sciences are attributes and relational data. The former often involves using variable analysis to investigate the properties of actors. Relational data, on the other hand, are an integral part of the sociology tradition that is largely concerned with investigating social structures. These structures are fabricated from relations i.e. ties between the various agents in society. Social network analysis is the most appropriate analytical approach to investigate this relational aspect of social structures (Scott, 2013, p. 8).

The majority of studies on corporate networks have employed social network analysis as a tool to investigate these networks. The advances made in developing sophisticated and powerful techniques have enabled scholars to get greater insights into the nature of corporate networks. Through social network analysis, one could identify the features of a network and its distinctive trends, the flow of resources across boards, clustering and industry preferences amongst the big interlocks. Social network analysis provides a means to determine the firm and its directors' quantity and quality of connections, and to analyse and visualise the characteristics of the network.

Social network analysis is mainly based on graph theory, a mathematical language that transfers relational data into usable concepts. Relational data represent ties / lines that connect one node (point) to another. When nodes are directly connected by a line, they are said to be adjacent. However, nodes could be indirectly connected through a sequence of lines. The latter is called a path. Therefore, the number of steps taken by one node to reach another one is the path length (Scott, 2013, Ch. 4). As there might be various routes to connect a node to another, the distance between any pair of nodes is measured by the shortest path that connects them. Within social network analysis, different levels of analysis could be employed. For instance, the whole network or a sub-set of actors within the network could be analysed. Each is discussed below.

This section introduces the key concepts of social network analysis. Emphasis is given to the different measures of centrality and what do they mean. Given the duality of networks discussed in this chapter, i.e. corporate and elite networks, these key concepts could be applied to both types of networks. The desirable properties associated with efficient networking and the properties and strategies one would expect to see in the most successful firms and by the most successful directors are identified.

5.3.1 Network characterisation

The entire network could be described from several perspectives in terms of, for example, cohesion, closeness and centralisation. There are two main measures to identify the cohesion of a network. The first measure is density. This is defined as the number of lines (relationships) in the network divided by the number of maximum possible lines. When the ties between firms increase in number, the network becomes more cohesive. A dense network could indicate that economic interests are coordinated more easily (Windolf, 2002, p. 13). Average degree of the network is a better measure than density for characterising the whole network in terms of its cohesion. It is the average number of ties each node in the network has and is derived by counting the number of ties of each node and then the sum is averaged. Average degree is easier to interpret than density, and it is main advantage is that it is not affected by the size of the network.

Network closeness is identified using two main measures. Closeness centrality approximates how nodes are close to each other. Average distance provides an indication of the network's communication structure. So long as corporate networks are meant to transfer information between the various actors, the speed of information transfer is captured by this measure.

Centralisation, according to Freeman (1979), indicates to what extent a network is organised around a focal point. The value ranges from zero to one. For instance, a network with a high degree of centralisation suggests that the network is monopolised by a few central actors. Conversely, a network with a low centralisation is a one with many cores / focal points and this indicates fragmentation. Centralisation has a strong impact on the configuration of the network. The spatial feature of the network could be configured, for example, as a star, a pyramid or a circle (Windolf, 2002, p. 13). A network, with a star shape, signifies a highly centralised network where the entire network is reliant on a very few actors.

5.3.2 Node centrality

One of the main concepts of social network analysis is that of centrality of nodes. This simply refers to the node that is at the centre of attention or the most popular. A distinction should be made between local and global centralities (Scott, 2013, Ch. 5). Local centrality is identified through degree of centrality. The degree of a node's centrality is the number of connections this node has in its immediate neighbourhood; it is the size of the immediate neighbourhood that this node is adjacent to. The calculation of degree of centrality can be done without any information about the entire network. As this measure does not consider any indirect connections, it, therefore, could be seen as a measure of local centrality. The two main drawbacks of this measure are that it is always larger in smaller networks and that it ignores any indirect relations in the network. For example, if a node is connected to a large number of other nodes that have no other ties, its degree of centrality will be higher than a node that is connected to a fewer nodes that are very well connected themselves.

A node is considered globally central if it has a prominent position within the overall network and, accordingly, enjoys intermediation power. This is derived through betweenness centrality (Freeman, 1979). Its calculation is more complicated than degree of centrality. Betweenness centrality quantifies to what extent a node lies between the other points of the network. More precisely, it is a measure of how frequently a node falls along the shortest path (geodesic line) of each pair of nodes. Accordingly, the shortest distance between each pair of nodes, apart from the node under investigation, is calculated and then this point's betweenness centrality is the proportion of all shortest paths that pass through this focal node. For example, a node with a zero betweenness centrality means that it is not along any shortest paths between any pair of nodes.

Betweenness centrality, in essence, measures the brokerage / bridging power of an actor; however, it ignores whether this actor is directly connected to other important actors in the network. A node might be very central in terms of intermediation across the network, even if this node has a low degree of centrality i.e. limited number of immediate connections. Conversely, a node that is not at the centre of the network (not globally central), could be locally central i.e. has a large number of direct connections. It should be noted that there is potentially a positive relationship between density and betweenness centrality as both measures are affected by the size of the network and, consequently, the number of connections.

5.3.3 Sub-groups

A useful tool that is employed in social network analysis is the idea of sub-groups within the network. A sub-group is "any collection of points selected from the whole graph of a network, together with the lines connecting those points" (Scott, 2013, p. 99). Any sub-group forms a sub-graph that has some defining characteristics. Therefore, it is "the largest sub-graph that can be formed in the graph without this defining quality disappearing" (Scott, 2013, p. 100). These sub-groups / sub-graphs include components and ego-nets.

A sub-group that could characterise a network is the main component. The bigger it is, the greater the cohesion of the network. A component of a network contains the points that are all linked to each other through continuous chains of connections. The main component of a network includes the "maximum connected sub-graph" (Scott, 2013, p. 100). From this perspective, all the nodes in the sub-graph are connected together through paths. Isolates, on the other hand, are the nodes that are not connected to any component and consequently cannot reach any member of the components.

A more in-depth analysis of a network could be done through the concept of m-core. It is based on the idea of line multiplicity. An m-core can be defined as a maximal sub-graph in which each line has a multiplicity greater than or equal to m (Scott, 2013, Ch. 6). M-core allows for analysing the sub-areas of high density where firms maintain close relations. For instance, the 2m-core is the subnetwork in which firms are connected by at least two ties (directors). They are the firms remaining in the network once lower than two ties are hypothetically removed. Multiplicity is a proxy for the strength of ties. Two firms could be linked by a single interlocking director or multiple directors (two or more directors). With multiple interlocks, information between the two firms could be redundant, and this suggests a control and influence mechanism from one firm over the decisions and strategies of the other firm. Conversely, a network with a limited number of multiple ties could indicate a network for communication rather than control.

Another micro level, actor-centred, analysis is ego-net analysis. It is the sub-network built around a particular point (Crossley et al., 2015, p. 1). Therefore, it comprises all points (alters) that share a relation with a specific actor (ego). Alters could be connected to one another or not. What they must have in common is that they are all connected to the ego under observation. If the ego's alters are not connected to one another, that could be in the ego's favour and he / she can control the flow of information and resources between alters (Crossley et al., 2015, p. 19). In addition, the independence of alters from one another means that they could have access to various flows of information. This could be linked to Granovetter's idea of weak and strong ties (1973) where useful information tend to come from intransitive ties, alters that are not connected to one another in this case (Crossley et al., 2015, p. 19).

Ego-net research is best used to analyse weak ties (Crossley et al., 2015, p. 35). One measure captures the size of ego-net which is the number of alters in the network. Another measure is to calculate the density within the ego-net that is the number of ties between alters divided by the total number of possible ties. It should be noted that ego himself is removed from the calculation. A higher density suggests that ego's alters are well connected to each other. Other measures are discussed later in section 5.5.2.3.

5.4 Methodology

The corporate network in Egypt is investigated in three benchmark years: 1924, 1937 and 1948. As mentioned in Chapter One, data for the first benchmark year were constructed from "L'Egypte Economique et Financière" and from the Stock Exchange Year-Book of Egypt for the years 1937 and 1948. With only a few exclusions, as highlighted below, almost the entire population of firms listed in the sources of 1924 and 1937 are included in the dataset. This totalled to 104 firms in 1924 and 207 firms in 1937. The Yearbook of 1948 contains information on 392 firms. In order to facilitate comparison across the three benchmark years, only the largest 10 banks and the largest 200 non-bank firms, in terms of assets, are included in the dataset. Therefore, it is worth mentioning that the overall density and degree of cohesion of the network could be overestimated, as these companies were the largest in Egypt and most probably with a large number of directors.

The firms included in the dataset are those that were listed in the Egyptian Stock Exchange and had their main business activities in Egypt, even if they were incorporated abroad. The Egyptian subsidiaries of multinational firms are also included. Firms incorporated in Egypt with their main business abroad e.g. in Sudan and Palestine are excluded. Branches of foreign firms, such as the branches of the foreign banks operating in Egypt are excluded from the dataset, as they were not Egyptian companies. Companies under liquidation are also excluded given that the sources did not include the names of the board directors of these companies. The Suez Canal Company is not included in the dataset given the special nature of the company. Its profits were received and dividends were paid in Europe, and therefore it was not firmly associated with the Egyptian economy and the corporate sector. In addition, the majority of its board directors were based abroad.[217]

[217] See Piquet (2004) on the history of the Suez Canal Company in Egypt.

The analysis confines itself to the corporate network of joint-stock companies. Therefore, the analysis has a number of limitations. Other types of networks that connected the various actors in the elite network, such as kinship or memberships in ethnic organisations, are not part of the analysis. Furthermore, while the corporate network of joint-stock companies might have been responsible for the largest share of output and capital, a thriving business sector in the form of partnerships was in place. In essence, the majority of enterprises were partnerships during the period under study. The only detailed study on this sector is Artunç (2019). The author constructed a dataset of around 12,000 partnerships that were founded between 1910 and 1949 in the major urban cities in Egypt. The study found that most of these partnerships were family firms and had only two partners that came from the same ethic-religious group. Yet, these partnerships are not part of this chapter, which is only concerned with quoted joint-stock companies.

Another important type of business is not covered in this chapter. A common practice among foreign firms that sought lucrative contracts in Egypt was to resort to indigenous agents with local knowledge (Tignor, 1977b, p. 201). The prime example was Ahmad Abboud who was one of the wealthiest and most powerful businesspersons in the country and who acted as an agent for many foreign firms in Egypt. Abboud represented several British manufacturing firms, especially in heavy machinery and construction.[218] A report by the British Embassy in Cairo estimated that he was an agent for some 32 British companies.[219] Although the agencies commercial business in Egypt was large at that time, it was mostly not in the form of joint-stock companies and, as a result, this line of business is not covered in this chapter.

The choice of 1924, 1937 and 1948 as benchmark years covers the widest spectrum of the critical period of Egyptian capitalism in modern history that began in the early 1920s and ended with the 1952 military coup. As mentioned earlier, the influence of indigenous elements gradually amplified at the expense of the position of local foreigners. The 1920s seems to be a good historical point of departure. A nascent industrialisation beyond cotton export, which had dominated the economy for several decades, was underway in the 1920s. A more dynamic private sector emerged with the foundation of Banque Misr and the Federation of Industries. The concluding benchmark year of 1948 is the latest year where data are available before 1952. With the military regime coming to power in 1952 and

[218] Vitalis (1990, 1995) extensively covered Abboud's activities in the Egyptian economy and his collaboration with foreign capital.
[219] Campbell, R. (27 February 1935). [Letter to Miles Lampson, the British High Commissioner in Cairo]. TNA, FO 371/19088.

overthrowing the monarchy, a series of government interventions in the economy were witnessed. Within a few years, all the large private enterprises in the country were sequestrated and nationalised. Overall, the three dates provide good coverage of the period under study – the first half of the twentieth century.

A combination of quantitative and qualitative research approaches are employed in this chapter. The dataset is analysed using UCINET, a social network analysis software that was developed by Borgatti et al. (2002). The software reveals the network's characteristics as it generates many measures such as the network's cohesion and the centrality of each actor, and furthermore it visualises the network. The analysis is supported by using a qualitative evidence on these companies and their directors drawing on a wide range of secondary sources. In order to keep the analysis simple, the classification of firms does not follow any standard industrial classification (SIC) codes. Instead, firms are grouped into seven key economic sectors. They are namely: financial institutions, land, utilities, transportation, industry, trading, and miscellaneous companies (mainly services).[220]

Below is a brief account of the steps followed to prepare the data for entry onto the software. The first step was to construct an affiliation matrix. This is a two-mode matrix as the rows and columns each represent a different set of data. The columns represent the directors and the rows are the firms in which these directors are associated with. This is illustrated in Figure 5.1 below. Then, this two-mode matrix was broken down into two adjacency matrices of one-mode data i.e. one for directors and the other for firms. The first one-mode matrix connects directors by firms and the second matrix connects firms by directors. The data in these adjacency matrices are directly derived from the binary data of the one-mode affiliation matrix. In essence, both types of matrices i.e. the two-mode matrix and the pair of one-mode adjacency matrices are equivalent but could be seen as two different ways of organising relational data.

In the first matrix of Figure 5.2, directors are listed on both the rows and the columns. The individual cells show whether each pair of directors is related through a common affiliation of sitting on the board of a firm. The absence of a relationship between each pair of directors (or firms) is represented by zero entry in the corresponding cell. The existence of a link is

[220] The land sector includes the firms that had their main business in rural land reclamation and urban real estate investments.

represented by a numerical value greater than zero. This is one if the two directors are connected by one firm or two if they share directorships in two firms and so on.

Figure 5.1 Two-mode affiliation matrix

	Firm A	Firm B	Firm C
Director 1	1	0	0
Director 2	0	1	1
Director 3	1	1	1

Figure 5.2 One-mode matrix

One-mode matrix (directors)

	Director 1	Director 2	Director 3
Director 1	-	0	1
Director 2	0	-	2
Director 3	1	2	-

One-mode matrix (firms)

	Firm A	Firm B	Firm C
Firm A	-	1	1
Firm B	1	-	2
Firm C	1	2	-

The relational data in the one-mode adjacency matrix can be dichotomised as either binary or valued. In unvalued networks, the relations between nodes are only modelled as present or absent, one or zero entries, so that the strength of the relation is ignored. Valued data, on the other hand, mean that the intensity of the relationship is considered and therefore is represented by a numerical value that could be greater than one. For instance, firm B, in the above firm matrix, is connected to Firm C by two directors. The relationship between a pair of firms with two directors in common is certainly stronger and closer than the relationship between two firms with one director in common. It should be noted that the network density when the data are valued is always greater than the density of a network with binary data.

Relational data and the ties between the nodes could be directed or undirected. In the first case, the direction of the relation is important. For example, firm A appoints one of its directors on the board of Firm B to exercise control, and therefore the influence runs in one direction only. On the other hand, an undirected relation means that there is no hierarchy in the relation between the two firms. The data used in this chapter are undirected data, as we do not have information about the direction of ties between firms.

The main theoretical concern of this chapter is the flow of information across the network, rather than the flow of material products among firms. Given the unavailability of companies' archives and the absence of minutes of board meetings, networks presented in this chapter are built using structural data. This means that no information on actual behaviour is included. Directors met with each other in board meetings. However, it is impossible to know exactly what directors said, how they communicated with each other, and what entrepreneurial opportunities were offered to them through these networks. Therefore, the discussion of this chapter indicates potential opportunities or "latent forces" created by interlocking directorates, not actual seizure of such opportunities, which remains another question (Windolf, 2002, p. 14). In addition, the outcomes of the network in terms of corporate performance are difficult to evaluate given the lack of data and the problems of measurement.

It is not possible to identify precisely what influence board members had on the direction of their companies. However, board members in the corporate network in Egypt were, most likely, powerful in terms of steering companies' activities. Tignor (1984, p. 191) offers two reasons why this was the case. First, most firms at that time were not complex to the extent that board members could not understand the operations of these firms. Second, the separation of ownership from management was not a common practice in Egypt during this period. Tignor (1980b), in his study on the economic activities of foreign minorities in Egypt, considered the directors of the joint-stock companies in terms of their nationalities. He sought to analyse whether firms were administered by a cohesive national group or by directors of mixed nationalities. He found in many cases that control of firms, through their boards of directors, merged with ownership since the largest founders and shareholders of a firm were usually board directors. Many directors were key shareholders who held large stakes in their firms. This is an important building block in order to operationalise the idea that these directors were in constant look for accessing information. On the other hand, some outsider directors were elected, not mainly for their technical capabilities, but for other factors such as their ability to secure access to resources and information through their political connections.

Although social network analysis and its application to interlocking directorates research, as employed in this chapter, is very useful tool, it has its own limitations and is not without criticism. Borgatti et al. (2014) referred to two main criticisms, among others, to network research. First, critics of social network research have argued that the focus has always been on the structure at the expense of explaining what flows through the ties. In this sense, ties are confused with the functions they serve. Second, network research is often criticised for focusing on the consequences of the network, where the antecedents of how a network is formed is often ignored. In addition, analysts of interlocking directorates have implied favourable outcomes such as better commutation and better corporate performance. However, the evidence on better firm performance remains opaque (Mizruchi, 1996). The process by which interlocks affect firm behaviour remains less understood (Pettigrew, 1992; Fligstein and Brantley, 1992). Stinchcombe (1990) criticised research on interlocking directorates on the ground that little is known about the actual dynamics and operations of interlocks. However, there are no clear-cut answers to address these criticisms.

5.5 Main findings

5.5.1 The corporate network

To highlight the most central firms in the network, the top 10 firms according to degree of centrality for each benchmark year are presented in the following sections in tables 5.1, 5.2 and 5.3. These firms were the largest hubs in the network, and they maintained the largest number of ties with other firms.

5.5.1.1 *The corporate network in 1924*

The corporate network in 1924 was headed by the National Bank of Egypt as shown in Table 5.1. Commercial banks in Egypt were not connected at all, through arm-length transactions, with industrial firms, as was the case in many Western countries. Banks in Egypt, as mentioned earlier in Chapters three and four, were not interested in financing any economic activity rather than cotton cultivation and movement and mortgages. Only a handful number of firms enjoyed credit lines from banks. The only exception was Banque Misr that, by nature, financed industrial concerns. The National Bank of Egypt featured along the key central firms in the network in the three benchmark years. A brief history of the Bank could explain its centrality that was not, by any means, associated with lending relations with other firms in the network.

Table 5.1 Top 10 most central companies in 1924 (according to degree of centrality)

Firm	Sector	# Ties
National Bank of Egypt	Financial	27
National Insurance Company of Egypt	Financial	27
Société Anonyme du Béhéra	Land	24
Egyptian Bonded Warehouses Co., Ltd.	Miscellaneous	23
Crédit Foncier Egyptien	Financial	21
Les Grands Hotels d'Egypt	Miscellaneous	21
Alexandria Water Company Ltd.	Utilities	19
Société Fonciere d'Egypte	Land	19
Société Fonciere du Domaine de Cheikh Fadl	Land	19
Societe des Automobiles et des Omnibus du Caire	Transportation	19

Up to the late years of the nineteenth century, a state bank akin to central banks in the developed world was missing in Egypt. The British financial adviser to the Egyptian government in the 1890s repeatedly called for some kind of central banking, and the bank that was destined to take this role was the National Bank of Egypt. With the blessing of the Consul-General in Egypt, Lord Cromer, the Bank was founded in 1898. It was Rapahel Suarès, the Jewish merchant banker, who obtained the concession from the government to establish the Bank. However, the actual foundation was made possible as a result of financial assistance from Sir Ernest Cassel and some of his British business acquaintances (National Bank of Egypt, 1948, pp. 15-16). Out of £1 million subscribed capital, Sir Cassel in London subscribed half of the Bank's shares. Along with Cassel, the Suarès and Salvago families subscribed one quarter each of the Bank's shares. The foundation of the National Bank of Egypt exemplified the fact that many enterprises were established in Egypt during this period through initiatives from local foreigners and with the financial support of foreign money.

Ernest Cassel, an international financier, was a German-Jewish banker who emigrated from Cologne, Germany, to Britain in 1869 (Thane, 2004). He undertook lucrative business ventures across the Ottoman Empire. Cassel was a close business partner to Lord Cromer's brother who served as the director of Baring Brothers in London for some time. Along with his involvement in establishing the National Bank of Egypt, Cassel was involved in financing many infrastructure projects in Egypt such as Aswan Dam in 1902.[221] As will be mentioned later, Cassel participated in many private enterprises in Egypt that were promoted and floated by the Suarès Group. Yet, the most important undertaking was the National Bank of Egypt.

The National Bank of Egypt soon became the banker for the government, and was privileged with exclusive rights of banknotes issue. Its first governor was Sir Elwin Palmer who had acted as Cromer's financial adviser to the Egyptian government for many years (Crouchley, 1936, p. 33). The Egyptian government supervised the Bank through appointing the governor and two deputy governors. However, the Bank was chiefly managed by a London Committee of four British members. The National Bank of Egypt put the Egyptian economy within the British orbit as it maintained close relations with Bank of England and with the influential financial circles in London (Tignor, 1981). In addition, the Bank was the main British financial institution in the centre of the British business community in Egypt.

Many local board directors of the Bank were also directors on the boards of other large British companies in Egypt. Furthermore, the board of the National Bank of Egypt included

[221] See Thane (1986) on the business of Sir Cassel in Egypt and the Middle East.

representative of the two business groups in the country. For instance, the directors in both benchmark years in 1924 and 1937 included Robert Rolo, Michel Salvago, and Harry Barker. Therefore, it could be argued that the Bank served the purpose of coordinating activities between the different actors. This in turn explains its centrality in spite of the fact that the Bank was not in close business relations with other firms in the network.

Another central company was the Crédit Foncier Egyptien. A legal reform in 1875 for registering mortgages and for using lands as security against loans paved the way for establishing the company in 1880. It was founded by some of the most important financial houses in France, the Crédit Foncier de France, the Société Générale and the Crédit Lyonnais. A group of Alexandria and Cairo bankers participated in the undertaking. Rapahel Suarès succeeded in promoting the foundation of the company to the French financiers. He was joined by three Alexandria bankers and merchants. One of them was Constantin Salvago. Therefore, the two main business groups were involved in the company.

The business of the Crédit Foncier Egyptien expanded rapidly and within a few years of operation, the company made loans worth over £E1 million (Cannon, 2001, p. 35). Later, it became the largest mortgage lender in Egypt. Tignor (1981, p. 109) estimated that total mortgage loans extended by the Crédit Foncier Egyptien amounted to more than one-fifth of the aggregate value of mortgage properties in Egypt. The company soon became the most heavily capitalised enterprise in the country. According to Saul (2015), the Suez Canal Company had the largest equity across companies in Egypt; the Crédit Foncier Egyptien, however, issued more debentures. The undertaking was one of the largest French investments in Egypt and the managing director of the company was often regarded as the head of the French business community in Egypt.

The foundation of both the Crédit Foncier Egyptien in 1880 and the National Bank of Egypt in 1898 marked a new era of collaboration between the Jewish and Greek business groups. Egyptian capitalism during the second half of the nineteenth century was built upon a framework of minority ethnic groups. For instance, separate networks of Jewish, Greeks and Copts were prevalent. During the most part of the nineteenth century, members of each group tended to isolate themselves from other groups and to work independently. Companies' boards had rarely hosted members of the two main business groups (Kalkas, 1979, p.188). The establishment of the Crédit Foncier Egyptien and the National Bank of Egypt successfully broke this pattern of isolation. Following the foundation of the two firms, many other joint ventures were formed by coalitions of Jewish and Greek concerns where the ethnic boundary that had separated them in the past was broken. By 1907, more than half of the major firms operating in Egypt were coalitions of Jewish and Greek concerns (Kalkas, 1979, p.191). In Tignor's words, "persons of different nationalities and religions were learning to cooperate with one another in these economic enterprises" (1980b, p. 418).

Another example of coordination between the various actors was the National Insurance Company of Egypt that appeared among the top central firms in 1924 and 1937. It was founded in Alexandria in 1900 by the owners of almost every leading bank and cotton export house in the city (Owen, 1969, p. 289). Prominent figures such as Robert Rolo, Michel Salvago, Harry Barker, and Elie Mosseri sat on the company's board.

Three concessionaires companies featured in the list, as shown in Table 5.1. Société Anonyme du Béhéra enjoyed concessions of land development in certain areas in the Delta region. Alexandria Water Company supplied Alexandria with potable water. Both companies belonged to the Salvago-British group. To exemplify what these concessions meant, Alexandria Water Company, for instance, enjoyed the monopolistic concession of supplying Alexandria with water. The shareholders were entitled to all profits up to 10% of paid-up capital. Profits beyond that would be divided between the municipality and the shareholders. On the other hand, the Suarès group obtained many concessions where government ownership of several railways lines and transportation links were ceded to the group (Kalkas 1979, p. 230). For example, the group established Société des Automobiles et des Omnibus du Caire, the first public transport firm in the country (Grunwald, 1972, p. 14). This company operated exclusively the passenger bus service in Cairo.

Other important concessionary firms that did not appear in the list of the top central firms include railways and tramways companies that operated the transport services in Cairo and Alexandria. In 1895, Baron Empain, the giant Belgian entrepreneur, headed a Belgian syndicate and secured a concession to operate electric trams in Cairo. His company, Société Anonyme des Tramways du Caire, controlled and operated all town lines. At the same time, another concession was granted in Alexandria to another Belgian group of two tramways companies that exploited the service jointly in the city and were bounded by interlocking directors. Road and railway transport services in lower and Upper Egypt were also monopolised (el-Gritly, 1947, p. 246).

Monopoly in the Egyptian economy dates back at least to Mohamed Ali's era when he based his modernisation plans on state-owned enterprises that enjoyed complete monopoly. The successive Egyptian governments played an important role in creating and fostering monopoly. Granting concessions was a tool used by the Egyptian rulers in the nineteenth century to attract foreign capital to Egypt (Tignor, 1984, p. 181). In addition, to aid the financially-distressed state in the second half of the nineteenth century as a direct result of the accumulated debts by the country's rulers, state concessions were transferred to new private companies that were especially floated to exploit these concessions (el-Gritly, 1947, p. 18). Concessionary companies enjoyed privileges that constituted clear clauses in their act of incorporation. The most important concession was the promise of absence of competition (Tignor, 1984, p. 181).

5.5.1.2 *The corporate network in 1937*

The nationalist movement and the state support for industrialisation, as discussed in Chapter Two, had a remarkable impact on the shape and the composition of the corporate network in 1937. In essence, the network adapted to these new facts. In addition, the Great Depression of the 1930s brought opportunities to entrepreneurs and their firms. This was mainly attributed to the shortage of supplies from Europe and the protection that local firms enjoyed from foreign competition. This was in line with what was happening elsewhere where the Great Depression offered opportunities to domestic firms in many developing countries (Jones, 2013, p. 34).

While the list of the top central firms in 1924 did not include any industrial firm, Table 5.2 shows that five out of the ten most central firms in 1937 were industrial undertakings. Although the National Bank of Egypt and the National Insurance Company of Egypt still appeared in the list, industrial firms were more dominant. With the popularity of industrial firms, subscriptions, however, continued to be drawn from a few wealthy families, as the entrepreneurial elite remained a small group in Egypt (Tignor, 1984, p. 205).

Some heavily capitalised, vertically integrated, firms were in control of the textile industry in Egypt during the 1930s. This was mainly driven by the tariff reforms of 1930. The top two central firms in the list, both industrial enterprises, were the Société Egyptienne des Industries Textiles and La Filature Nationale d'Egypte. The latter was one of the most powerful British-controlled companies in Egypt and the largest textile enterprise in the country at that time. The company was registered in Egypt in 1912 to acquire the concern of the Anglo-Egyptian Spinning and Weaving Company. It owned large cotton mills in Egypt where it manufactured cotton goods, woollens and yarns. Its board of directors included Michel Salvago, Henry Barker and Elie Mosseri. Therefore, it included directors from the two main business groups in Egypt.

Société Egyptienne des Industries Textiles was established in 1934 for cotton spinning and weaving. Half of the capital was held by La Filature Nationale d'Egypte and the other half by Calico Printers’ Association Ltd. of Manchester and the Bleachers’ Association Ltd. During the very early years of the twentieth century, Calico Printers was the fifth most heavily capitalised firm in Britain (Payne, 1967, p. 539). However, the company suffered after World War I and especially during the Great Depression of the early 1930s (Tignor, 1984, p. 159). This joint venture, on the British side, was basically in order to overcome the tariffs on imported cotton goods that were enacted by the Egyptian government in 1930 (Tignor, 1989, pp. 23-42).

Table 5.2 Top 10 most central companies in 1937 (according to degree of centrality)

Firm	Sector	# Ties
Société Egyptienne des Industries Textiles	Industrial	71
La Filature Nationale d'Egypte	Industrial	70
National Insurance Company of Egypt	Financial	65
Société Egyptienne de la Bourse Commerciale de Minet-el-Bassal	Miscellaneous	65
Egyptian Salt and Soda Company Ltd.	Industrial	64
National Bank of Egypt	Financial	60
Anglo-Belgian Company of Egypt Ltd.	Land	58
Société Fonciere d'Egypte	Land	58
Egyptian Copper Works	Industrial	57
Société Viticole et Vinicole d'Egypte	Industrial	55

Another firm that was comparable to the National Bank of Egypt, in terms of fostering coordination among the various actors, was Société Egyptienne de la Bourse Commerciale de Minet-el-Bassal. This company owned and controlled the cotton marketplace in Alexandria. This market, as explained in Chapter Three, was the centre were all official dealings in cotton took place. In addition, the market was the meeting venue for merchants, bankers, exporters and brokers. Therefore, the centrality of the company in the network is attributable to the fact that it encompassed all parties interested in the Egyptian cotton industry.

Among the top central firms that appeared in 1924 and 1937 was Société Fonciere d'Egypte. This company was established by the Suarès, Rolo and Mossseri families, and it controlled a large area of agricultural land purchased from the state domains. Collaboration between the indigenous elites and foreign capital remained strong even with growing nationalist sentiment in the 1930s. The composition of Société Fonciere d'Egypte's board of directors in 1937 illustrates this collaboration. Talaat Harb, the founder of Banque Misr, maintained close relations with the Suarès Group and was appointed the managing director of this company. Later on, he joined the boards of many other companies related to the Suarès group.

British investments in the Egyptian industry were not trivial. This is evidenced by the fact that three firms in the list, out of the five industrial firms, were mainly British-controlled enterprises. For example, the Egyptian Salt and Soda Company was among the top central companies in 1937. This company was founded in 1899 with British funds; its main activities were food processing such as oil extraction, soap, salt and soda. Other industrial British firms were La Filature Nationale d'Egypte and Egyptian Cooper Works, where Imperial Chemical Industries held an important stake. The board of directors of Egyptian Cooper Works included Elie Mosseri and one of the Salvago family. Therefore, the two business groups were represented on the company's board.

The Belgian investments, as explained earlier in Chapter Two, concentrated on a few sectors, mainly suburban land, transport and utilities. The only company in the list that included a Belgian element was the Anglo-Belgian Company of Egypt Ltd. that owned lands and urban buildings. This firm was founded by British and Belgian investors. The Belgian side was part of a larger Belgian group that owned other companies in Egypt and Congo (de Saint-Omer, 1907). The Anglo-Belgian Company was the major shareholder in another important Belgian company in Egypt, the Fayoum Light Railways. The latter had a concession from the Egyptian government for the construction and operation of agricultural railways in Upper Egypt.

5.5.1.3 *The corporate network in 1948*

The corporate network in 1948 demonstrates further significant changes to the composition of firms. The National Bank of Egypt appeared in the list again as shown in Table 5.3. However, its centrality in the network declined as indicated by the number of ties the Bank had to other firms in the network. These ties decreased from 60 in 1937 to 41 in 1948. The

Bank's charter was revised in 1939 and within a few years, Egyptians were a majority on its board. In addition, the overseas committee was abolished. As the shape of capitalism changed and uncertainty increased, formal institutions for maintaining coordination became more important. One of these institutions was the Federation of Industries that was established in 1922. The Federation was a powerful institution during this period and enjoyed an increasing influence within the Egyptian economic sphere. Vitalis (1995, p. 46) argued that the Federation played an important role in coordinating economic activities, organising markets, and exchanging information and that it gradually replaced the National Bank of Egypt as the main institutional form of cooperation in Egypt.

Table 5.3 Top 10 most central companies in 1948 (according to degree centrality)

Firm	Sector	# Ties
Misr Spinning and Weaving Company	Industrial	48
Misr Fine Cotton Spinning and Weaving	Industrial	48
Société Generale des Sucreries et de la Raffinerie d'Egypte	Industrial	43
Crédit Foncier Egyptien	Financial	41
National Bank of Egypt	Financial	41
Tractor and Engineering Co.	Trade	41
Société Anonyme de Wadi Kom Ombo	Land	40
Egyptian Copper Works	Industrial	39
Farghaly Cotton and Investment Company S.A.E.	Trade	36
Banque Misr	Financial	35

Two firms belonged to the Misr group of companies were the top central actors in 1948. Misr Spinning and Weaving Company was the most important of all Misr enterprises, and it was also the largest industrial undertaking in Egypt and the Middle East during this period (Beinin, 1998b, p. 325). The company along with the British firm, La Filature Nationale d'Egypte, dominated the Egyptian textile sector. The second top central firm, Misr Fine Cotton Spinning and Weaving, was founded in 1938 as a joint venture between Misr group and Bradford Dyers, a large but declining British firm that directly invested in Egypt to avoid the tariff on imported cotton goods (Tignor, 1987b, pp. 53-55). On the Egyptian side, Misr group tried to offset the advantage of its main rival La Filature Nationale d'Egypte that ventured earlier with another British firm, Calico Printers.

The textile industry in Egypt was privileged by state support and rebates extended by the Egyptian government. The government steadily raised textile tariffs from the early 1930s onwards. This was deemed necessary in order to encounter the increasing threat of cheap Japanese, Indian and Italian goods and to protect the infant industry (Tignor, 1984, p. 129). The government believed in the advantages of amalgamation in the emerging industry. The

Egyptian Minister of Commerce and Industry in 1946, for example, referred to the government's preference to expand the textile industry at a large scale through the absorption of smaller mills by the larger counterparts. According to him, this would reduce the production cost and thereby would strengthen the industry and allow it to withstand foreign competition (*The Egyptian Gazette*, 6 August 1946). Consequently, monopoly thrived behind the progressive high tariff barriers imposed by the government and the preference to large-scale industry. Indeed, the corporate sector thrived with the support of concessions and monopolies extended and guaranteed by the state.

Cartelisation was also common at that time. For example, the Federation of Industries always advocated the necessity of cartelisation for economic development. Given the limited size of the internal market, the Federation sought to promote a rational division of the market among industrialists (Tignor, 1984, p. 74). It was at the forefront of promoting tariff reforms, concessions, and preferential treatment for Egyptian industrialists. The different chambers that were founded under the Federation fostered negotiations between producers in order to form cartels (el-Gritly, 1947, p. 251).

The rivals Misr Spinning and Weaving Company and La Filature Nationale d'Egypte, the largest two textile manufactures, collaborated with each other to found Societe pour la Vente des Produits Egyptiens. This company owned 16 retail stores across Egypt and was in charge of selling the products of its two parent companies. Another example was the Associated Cotton Ginners Company that was founded in 1915 to bring a unified control to the ginning mills owned by Greek and British firms across the country. The company was owned by Choremi, Planta, Carver and Salvago, the largest cotton exporters in Alexandria.

The third most central company in 1948 was Société Generale des Sucreries et de la Raffinerie d'Egypte, known as the Sugar Company. It was one of the largest heavily capitalised industrial undertakings in the country, and it maintained a near monopoly over sugar domestic production. In the late nineteenth century, the Suarès Group with the financial support of Sir Ernest Cassel and French investors took over the previously state-owned Sugar Company after rescuing it from bankruptcy. By the benchmark year of 1948, the character of the ownership and management of the company changed significantly. Although the Jewish group remained shareholders, the majority and control were then transferred to Ahmad Abboud Pasha, a successful indigenous entrepreneur.

Société Anonyme de Wadi Kom Ombo was another central company in the list. As mentioned earlier, the Egyptian government in the late nineteenth century sought to dispose its state-owned enterprises and assets in order to provide sources of funds. Of special interests were state lands. Many of the land companies were means by which large areas of state lands passed into the hands of private owners. Along with the Sugar Company, the Suarès Group also took over Société Anonyme de Wadi Kom Ombo. This company owned large estates in Upper Egypt, close to the sugar factory's premises, where sugar canes were cultivated. The Suarès Group largely benefited from the transfer of ownership rights during Lord Cromer's years in Egypt between 1883 and 1907. In addition, the group collaborated with Sir Ernest Cassel to acquire large areas of the state's lands in other areas in the Delta region (Grunwald, 1972).

The cross-sectoral diversified holdings were an investment strategy adopted by the business groups mainly as a tool to coordinate business activities and in order to maintain the oligopolistic privately based market (Owen, 1981). The analysis of the density of inter sectoral connections provides an insight into how coordination was maintained in the network and the key economic sectors and their role in the configuration of the system. For the first benchmark year of 1924, the sectors of finance and land had the largest inter-sectoral ties. In 1937 and 1948, these ties were balanced as several sectors across the network maintained strong ties with each other. These sectors were finance, land, industry and transport.[222] Table 5.4 illustrates the distribution of economic activities across the three benchmark years. The table shows a steady increase in the number of industrial undertakings that came at the expense of financial and land firms. This reflected the structural changes of the Egyptian economy between the 1920s and the early 1950s.

Table 5.4 Percentage of firms in the sample by economic sector

	1924	**1937**	**1948**
Financial	16%	12%	8%
Land	33%	22%	18%
Industrial	21%	31%	38%
Transportation	11%	11%	8%
Utilities	4%	2%	2%
Trading	7%	15%	19%
Miscellaneous	8%	7%	7%
Total	**100%**	**100%**	**100%**

[222] The density of inter-sectoral ties between two sectors is calculated by dividing the number of ties connecting the two sectors by the multiplication of the number of firms in both sectors. This provides a measure of the number of ties compared to the number of firms in the two sectors.

A prominent feature of the corporate network in Egypt was the absence of the Egyptian subsidiaries of multinational companies among the top central firms. The fact that most directors of these companies resided abroad may explain why these firms were not central in the network. In addition, with a few exceptions in certain sectors, multinational companies were not key players in the Egyptian economy during the period under study. These exceptions include the oil sector that was dominated by the Anglo-Egyptian Oilfields, a subsidiary of the Royal Dutch-Shell Group. An Egyptian affiliation of Imperial Chemical Industries dominated the Egyptian market for synthetic fertilisers (Vitalis, 1990, p. 300). Another important subsidiary was Ford Motor Company. Yet, none of these firms featured among the top central actors in the corporate network.

5.5.1.4 *Topography, structure and features*

Table 5.5 summarises the main features of the network of joint-stock companies operating in Egypt in 1924, 1937 and 1948. The measures in the table are dichotomised densities so that the values of strength of ties between firms are ignored. Rather, the relationships are represented by binary entries only of zero or one. The dichotomised density in this case serves to avoid overestimating the network density. Compared to 1937, the density of the network decreased in 1948. Misr group of companies (Talaat Harb group), which were founded beginning from the mid-1920s, certainly put an upward pressure on the network density in the second and third benchmark years. The group owned 18 large companies in different sectors and most of these companies were managed by the same board of directors. Isolating this effect, it would become clear that the density of the network significantly declined throughout the period. Density should, however, be interpreted with caution since the result is always affected by the size of the network that became larger throughout the period. In summary, firms were comparatively less integrated in the last benchmark year. This is confirmed by further four measures: the density of the main component, the number of ties between firms that decreased from 5310 in 1937 to 3870 in 1948, the declining closeness centrality, and the increasing average distance between firms.

The percentage of firms in the main component - the network core - increased steadily, and the network became less fragmented. It peaked in 1948, where 96% of all firms in the network were connected to each other. In addition, the main component maintained its cohesion over years evidenced by the almost stable average distance between reachable pairs. The number of firms with two or more ties decreased from 62% in 1924 to 52% in 1948. This means that although the number of connected firms increased across the period, evidenced by a large main component, the strength of these connections became weaker. The latter point could be attributed to the emergence of Misr group of companies. In 1937, these companies appeared in the network and, as explained earlier, most of them were managed by the same board of directors. Therefore, Harb's companies had the highest effect in 1937. Many other industrial undertakings, run by an emerging ingenuous businessmen, penetrated the network in 1948 and lessened the impact of Misr group of companies on the network.

Table 5.5 Topography, structure and features of the corporate network

	1924	1937	1948
Number of firms	104	207	210
Network density	8%	9%	7%
Total number of ties	1182	5310	3870
Network density (main component)	11%	11%	8%
Average degree	8	19	15
% of firms in the main component	85%	90%	96%
Average distance (main component)	2.6	2.4	2.5
Closeness centrality (main component)	31%	29%	22%
% of firms not connected	12%	7%	2%
% of firms in the 2m-core	62%	63%	52%

In the three benchmark years, more than 50% of all firms in the network were connected by at least two directors. The average board size across the three benchmark years was 6.3. This suggests a network that is characterised by institutional ties and a control mechanism that run from a firm to another. Unfortunately, no data are available on the direction of control. Yet, it is plausible to say that more than 50% of the network's firms were controlled by other firms. This confirms the dominant position of a few large enterprises and families on the Egyptian corporate sector. The visualisation of the network is presented in figures 5.3, 5.4 and 5.5 below.

Figure 5.3 The corporate network in 1924

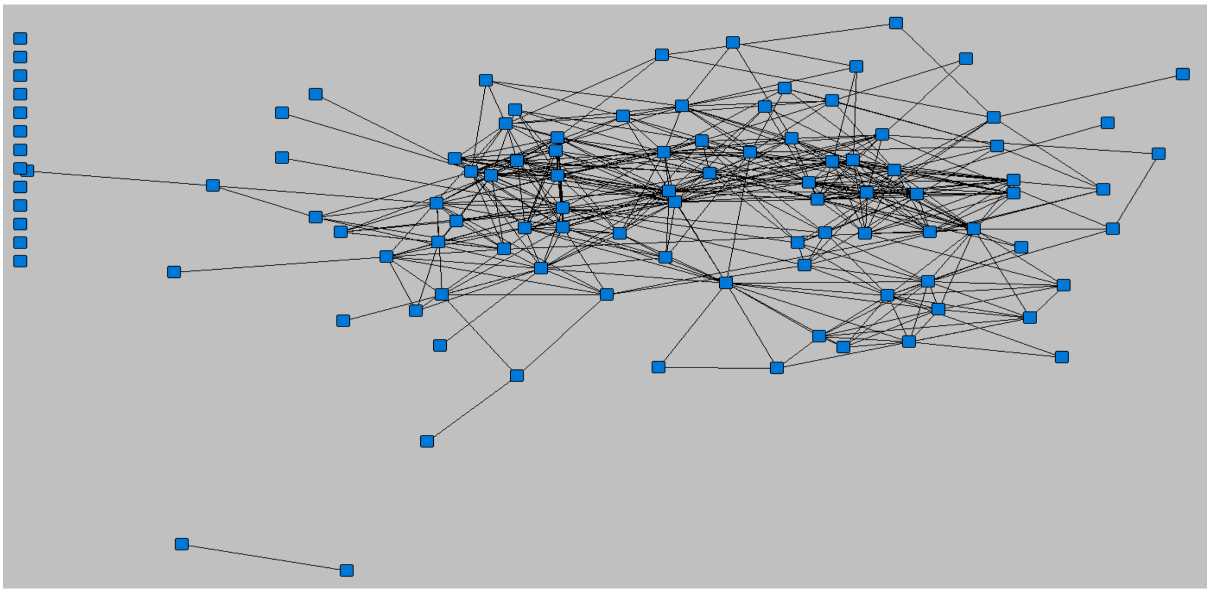

Figure 5.4 The corporate network in 1937

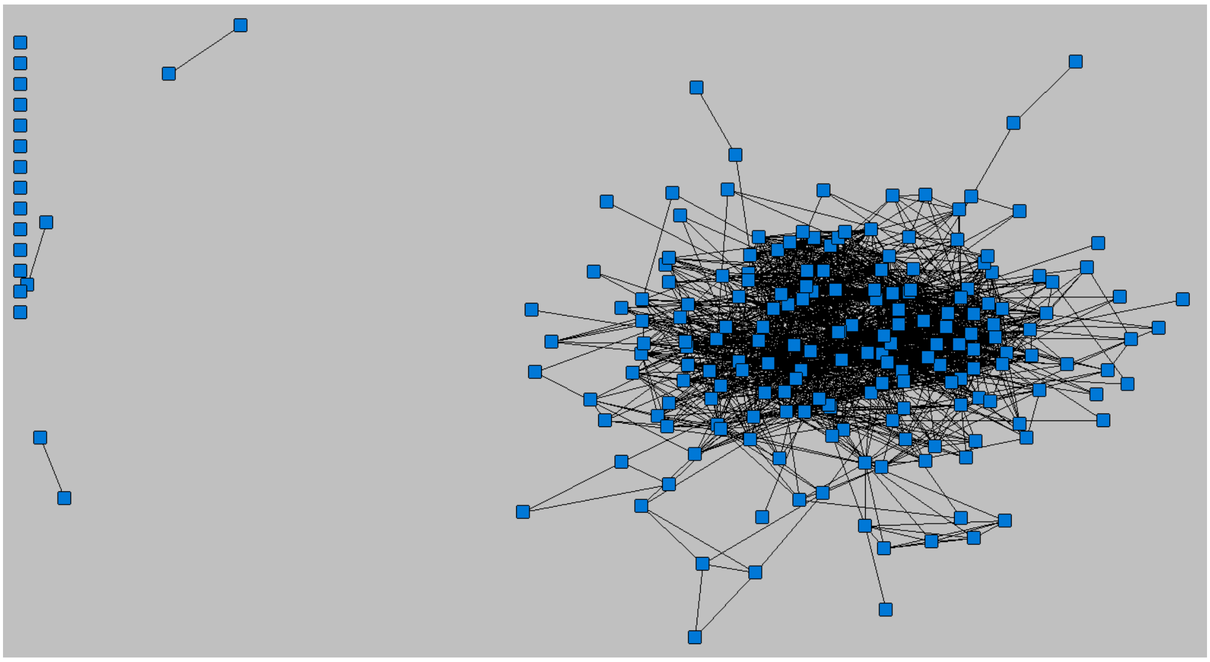

Figure 5.5 The corporate network in 1948

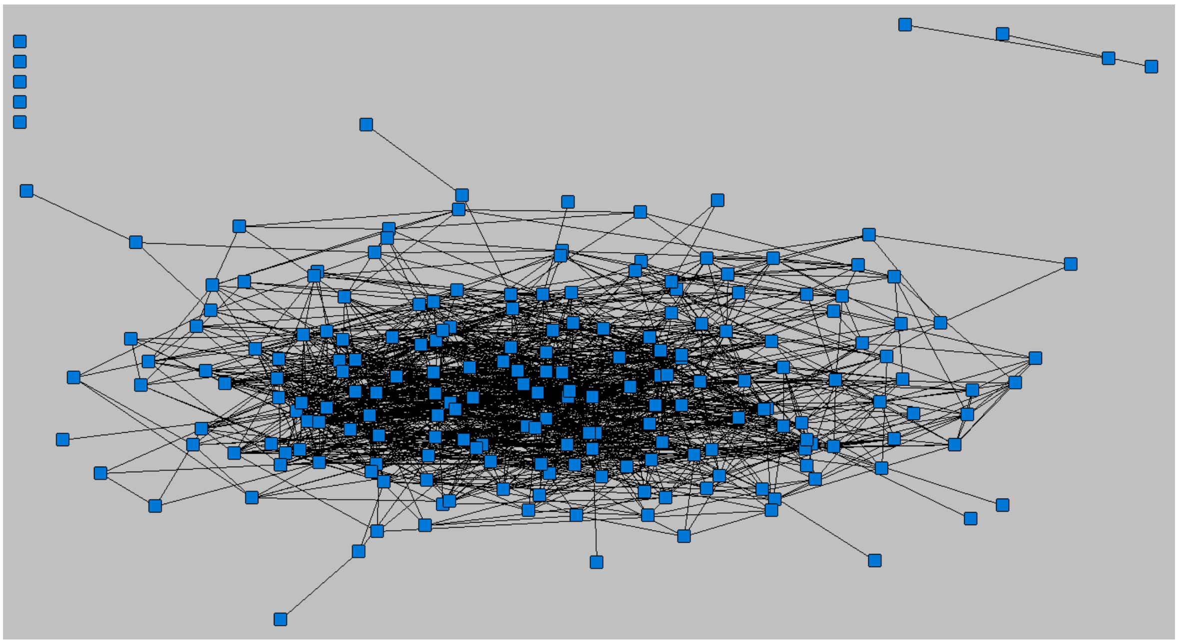

Table 5.6 compares the main characteristics of the corporate network with those of other developed countries in order to highlight whether the network in Egypt, a developing country, had unique features compared to the corporate networks elsewhere. The degree of the reliance of each country's economy on corporate networks could be examined against several factors such as the density of the network and how big was the network's main component.[223] In terms of network density, Table 5.6 shows that the corporate network in Egypt was close to that of Germany. The only unique feature of the corporate network in Egypt was the percentage of interlocking directors as it scored the highest across the countries compared.

Table 5.6 Comparative measures of corporate networks in selected countries*

	Egypt	Britain	Germany	Japan
Network density	9%	2%	10%	4%
Isolated firms	7%	19%	2%	6%
% firms in the main component	90%	79%	97%	93%
Interlockers % of directors	35%	9%	26%	18%

Source: the chapters on the respective countries included in David and Westerhuis (2014)
*Egypt (1937), UK (1938), Germany (1938), Japan (1937)

223 These measures, for example, were used by Musacchio and Read (2007) on their comparative study on the elite networks in Mexico and Brazil and the extent of reliance on these networks by entrepreneurs in both countries.

5.5.2 The interpersonal network

5.5.2.1 *Entrepreneurship, information economics and social network analysis*

Before discussing the main findings on the elite network and trying to answer the question of whether the structure of the network brought entrepreneurial opportunities to the key interlocking directors, it is necessary to establish the theoretical considerations that will guide the following analysis. This section combines the perspectives provided by theories of information economics and entrepreneurship, and then link them to the theoretical underpinnings of social network analysis. This synthesis will allow for drawing conclusions about whether this network was genuinely for entrepreneurial opportunity seeking or had an exploitative nature.

Market transactions require information. In addition, as the volatility of the market environment increases, so as the amount of information that needs to be collected (Casson, 1997a, p. 165). Yet, information is not a free good. For instance, gathering information has an opportunity cost in the form of the time spent in investigation (Casson, 1997a, p. 157). On contrary to the neoclassical assumption, Casson (1982) argues that not everyone has access to the same information. Information is costly to collect and communicate. Therefore, those who are close to sources of information are potentially able to reduce the cost of acquiring information, compared to other (Hayek, 1937; Richardson, 1960). Therefore, there is an economic rationale for the entrepreneur who bases his decisions on the ability to possess better information than other people. The entrepreneur makes judgemental decisions in the absence of complete information (Casson, 1982). In essence, the entrepreneur's personal advantage over others is the ability to gather, synthesise and process costly information (Casson, 1997a, 1997b).

Given the nature of information collected by entrepreneurs, they need to create the firm to exploit the opportunities arising from the gathered information. According to Casson's entrepreneurial theory of the firm (1982), firms are founded by entrepreneurs, and the success of the firm is associated with the personal qualities of the entrepreneur behind it (1997a, p. 152). Extending this analysis to joint-stock companies, an entrepreneurial firm could synthesise information from intelligence supplied by their founders and directors. The directors benefit strategically from sharing information with other board members because they need to work through a firm to implement the ideas and information they supply and make a profit for themselves; this is more efficient than keeping all information to themselves. Therefore, an entrepreneur could benefit from his knowledge through partnership with other groups of entrepreneurs through interlocking directorates. Entrepreneurs and their firms are constantly in need of accurate and timely information to seek opportunities and to plan their business strategies (Casson, 1997a, p. 151). Eventually, better information leads to better decisions. The latter, in turn, lead to better employment of resources and, consequently, to higher social welfare (Marschak, 1974; Casson, 1997a).

Although theorists of entrepreneurship had different emphases on the phenomenon (e.g. Knight, 1921; Schumpeter, 1934; Kirzner, 1973; Casson, 1982), they all agree, in one way or another, that entrepreneurial decisions are made under uncertainty. Knight (1921) argued that, in contrast to objective calculable risks, uncertainty is uninsurable. This uncertainty refers to unique events where a subjective element is necessary to predict their probabilities. In practical terms, the severity of uncertainty is determined by the degree of partial knowledge available to the entrepreneur rather than denoting uncertainty as complete presence or absence of knowledge (Knight, 1921, p. 199).

Historically, founding a new project in an underdeveloped country was likely to bear greater uncertainty, compared with the case of establishing the same project in a more advanced economy. This was due to the lack of reliable information and the absence of reference (Aubrey, 1955). Devices such as market research and collection of statistics reduce the risks associated with investment decision making. As Cole (1949, p. 106) put it "nothing could better illustrate the gulf between a developed country like the United States and an underdeveloped country, where, indeed, the absence of these facilities is one of the greatest obstacles to entrepreneurial initiative". Investment decisions are determined by many factors such as economic, institutional, organisational, social and cultural factors. The decision entails spotting an opportunity, evaluating it, weighing the different alternatives, and then converting such an opportunity into a viable project. Lack of capital was not necessarily the main constraint to entrepreneurial activities in underdeveloped countries. For example, and as will be explained later, investors in Egypt enjoyed constant and abundant flow of foreign capital. The process of investment decision-making, as highlighted above, in the absence of reliable information, could be the largest constraint.

Once the significance of information to the entrepreneur is established, the relevance of networks to entrepreneurship as a facilitator of acquiring information can be easily understood. Information is not easily obtainable from a single source, and an entrepreneur often synthesises information from different sources. Investments decisions, and more generally any economic decision, need to rely on different sources of information. Networks are then an effective vehicle for synthesising information. Entrepreneurs could engage in creating personal networks of contacts that supply them with information that otherwise cannot be obtained from public sources. Moreover, an entrepreneur might acquire valuable information that is considered surplus to others through these networks (Casson and Della Giusta, 2010, p. 159).

In many instances, networks could be more efficient than markets as information are shared easily and communications tend to be more reliable within the network compared to that within the market (Casson, 1997c, p. 812). Casson and Della Giusta (2010, p. 164) made the case that social networks are analogous to the entrepreneur in terms of the intermediation function. As the latter intermediates between suppliers and customers, social networks could be perceived as an intermediator between entrepreneurs and other individuals they want to meet. Therefore, "Who you know is often more important than what you know because the people that you know can plug the gaps in what you know" (Casson, 1997c, p. 813). These people are likely to be those who, in turn, know many other people who possess useful information. Such people could be viewed as brokers who connect the people who have the information to the entrepreneur who seeks valuable information. As a result, networks can serve as a vehicle for entrepreneurship (Popp and Wilson, 2007).

Entrepreneurship is socially embedded in network structures (Aldrich, 1987; Johannison, 1988). From an entrepreneur's point of view, connections between the different actors are fostered by networks that serve two functions. They foster information sharing and trust building. Both are intertwined: the entrepreneur needs reliable information and this, in turn, depends on the level of trust among the various participants in the network (Casson and Della Giusta, 2010, p. 150). Therefore, a network could be equivalent to the notion of social capital (Brown and Duguid, 2002). Economic sociologists such as Polanyi (1957), Granovetter (1985) and Uzzi (1996) propose that networks are not just meant to resolve coordination problems. In an economic sense, they also nurture commitment and trust between the members of a network.

As mentioned earlier, social network analysis is mainly concerned with relational data that are derived from social structures / networks. This analytical method has been linked in the literature to various theories.[224] Yet, one of the most common linked theories to social

[224] See Scott (2013, Ch. 2) on the historical development of social network analysis.

network analysis is that of social capital. As postulated by Putnam (2000), social networks are a form of social capital, as actors could use these social networks to gain. In essence, networks are social structures that could offer opportunities to their participants. The literature on social capital is enormous and the notion has been perceived differently in the literature. Yet, social capital, as a theoretical underpinning to social network analysis, is linked in this chapter to two connected perspectives only: access to resources and brokerage across structural holes.

Social capital as “access to resources” is associated with the work of Bourdieu (1986) who distinguishes between various types of capital: economic, cultural, symbolic and social. The latter is associated with individuals who have better connections to other people than their counterparts do. Therefore, ties per se are not social capital. Only those ties that provide access to other forms of capital are valuable and could be considered social capital (Crossley et al., 2015, 9. 28).

Social capital as “brokerage across structural holes” could be understood through the lenses of “weak ties” (Granovetter, 1973) and “structural holes” (Burt, 1992, 2004, 2005). This perspective is perfectly linked to social network analysis. Granovetter (1973) argues that weak ties could transmit more valuable and unique information than strong ties. His line of argument is based on the observation that individuals in the strong ties category i.e. members of a cohesive and closed group, tend to be tied to one another, have access to the same information and therefore there is no room for novelty of information. In contrast, individuals to whom we are connected though weak ties are more useful. As they move in different circles, these individuals tend to have access to different pieces of information. Burt (1992, 2004, 2005) emphasises the power of links between otherwise disconnected groups. Employing information theory, he terms this phenomenon “structural holes”. This refers to the situation when two nodes are connected through the intermediation of a third point or otherwise are separated by a long path or even not connectable at all. Burt postulates that bridging structural holes in a network is the most valuable advantage an actor might have. If these holes exist, members of the network tend to use indirect connections to reach other parts of the network.

An important perspective of social network analysis is linked to the above discussion. A distinction could be made between closure and brokerage. Closure underlines the cohesion of the network through measures such as degree of centrality. A closed group of directors as evidenced, for instance, by high degree of centrality has the potential to support high levels of trust and to minimise transaction costs (see Coleman, 1988). Relationships among closed groups tend to be strong and overlapping. However, these networks could be inefficient over time given the possible prevalence of group thinking and slowness to respond to external changes (Janis, 1972). The second concept, which is brokerage, emphasises the power of bridging separated parts of the network through betweenness centrality. The relationships in a brokerage situation tend to be weaker and transient compared to the ties that persist in closed networks.

Entrepreneurial activities in a network rest largely on the brokerage opportunities provided by structural holes. A decline in the social closure of the entire network means that more brokerage opportunities for entrepreneurship become available (Heemskerk and Fennema, 2009). Bridging ties can provide access to valuable information that could be utilised to explore entrepreneurial opportunities (Cronin, 2016). This might be linked to Knight's idea (1921) where an entrepreneur profits from bringing different parties together, i.e. otherwise disconnected parts of a network in our case, and then holding the risks associated with failed transactions. Freeman (1979) shows that any two nodes that are only connected through a third node are dependent on this node. Therefore, the intermediary node bridges this structural hole and acts as a broker that can exercise control over others. March (1991) distinguishes between exploitation and exploration. He argues that closed networks are useful for economies of scale and exploiting ideas, whereas networks with opportunities for brokerage facilitate the exploration of new ideas i.e. entrepreneurial activities.

5.5.2.2 *Company promoters*

Many of the key directors were promoters, key founders and large shareholders of the companies they sat on their boards. The promoter in historical context is arguably akin to the term "entrepreneur" that is used today. Thus, before delving into the main findings on the elite network, it is necessary to shed light on the promoters of the large joint-stock companies in Egypt, their promotional activities, their sources of funds and how they symbolised the notion of entrepreneurship.

Firms were often founded in the past by entrepreneurs in order to exploit certain opportunities. Therefore, the firm could be perceived as a systemic means to exploit opportunities that are discovered first, and then the firm was to be established (Casson and Casson, 2013, p. 8). The founders of a large company symbolised the idea of entrepreneurship, where innovation, motivation and vision are mixed (Cassis, 2005, p. 149). In Casson and Casson's words "Entrepreneurship is more fundamental than the firm: the firm exists to support the entrepreneur, and not the other way round" (2014, p. 1236). Although the definition of who is an entrepreneur is a controversial area of enquiry, it is safe to denote the founders of large companies as entrepreneurs (Cassis, 2005, pp. 149-150). This is in line with Casson's definition (1982) of the entrepreneur as someone who makes judgmental decisions under conditions of uncertainty. In contrast to Schumpeter's strict definition of the entrepreneur who undertakes creative destruction, Casson's definition is flexible and could easily accommodate the founders of new firms (Casson and Godley, 2005).

In Egypt, several factors contributed to the prevalence of joint-stock companies. The early joint-stock companies in the country during the nineteenth century were banks, land and utilities companies. These firms were mostly registered and financed abroad. Over time, local enterprises followed. Local promoters emerged with projects that needed resorting to advanced forms of entrepreneurial organisation (el-Gritly, 1947, p. 29). The formation of these companies, in the form of joint stock, facilitated the process of unifying funds under the same management and control. The other factor that led to the popularity of joint-stock companies was the reduction in risk resulting from converting individual concerns and partnerships into joint-stock companies (see for example Knight, 1921, p. 252). The limited-liability company enabled investors to protect their private fortunes. In addition, this ensured the continuity of the enterprise and provided easier ways to raise additional funds for expansions.

Promoters had to oversee every detail and had to rely on their networks in the absence of reliable statistics on, for example, consumption and income distribution among the various strata of population. In essence, these types of data needed for forecasting future demands and for planning purposes were lacking. Therefore, the promoter had to assess the feasibility of the new project from technical, marketing and risk perspectives. Then, he had to plan how to finance the project and how far he should commit his own capital. In addition, he had to decide on how, and in what form, he should secure the needed funds from others.[225] Furthermore, new firms had to offer training programmes for their hires. A common

[225] This was a common practice. For instance, up to World War I, promoters of companies in the UK substituted the role of investment banking, in terms of pricing and distributing, and supported underwriting new issues (Fjesme et al., 2019).

complaint in the reports submitted by industrialists to the Egyptian committee on trade and industry in 1917 was the dearth of skilled labour and the dearth of technical experts of all kinds. In addition, the reports referred to the high costs of importing foreign specialists and experts (el-Gritly, 1947, pp. 24-25). Therefore, promoters in Egypt were entrepreneurs who faced extra difficulties than their counterparts in the more advanced economies.

Founders' shares of no-par value in the joint-stock companies in Egypt were often given to company promoters. This enabled the founding shareholders to participate in profits. According to el-Gritly (1947, pp. 27-28), founders' shares in many economic sectors were entitled to a considerable percentage of net earnings and were highly sought after in the Egyptian Stock Exchange. Moreover, he noticed that the promoters usually sat on the board of the companies they helped to found, even after liquidating their initial interests. Tignor (1984, p. 207) blamed the scarcity of entrepreneurial talents as the reason behind the prevalence of interlocking directors who held a large number of board seats. Given the limited supply of entrepreneurs in the country, and accordingly the limited number of company promoters, the wealth of those promoters grew. All of the above go in line with Knight's argument (1921, p.284) that:

> *"The income of any particular entrepreneur will in general tend to be larger as he himself has ability and good luck but perhaps more important, as there is in society a scarcity of self-confidence combined with the power to make effective guarantees to employees…the condition for large profit is a narrowly limited supply of high grade ability with a low general level of initiatives as well as ability."*

The early promoters in Egypt in the second half of the nineteenth century were almost local foreigners. Local subscribers of capital were often the same groups of the Jewish bankers in Alexandria and Cairo along with the Greek cotton merchants in Alexandria. The field was completely dominated by those entrepreneurs who maintained close connections with European financial circles. They opted for investments in banking, land companies, public utilities, transport, and industries associated with the processing of agricultural raw materials. These sectors secured monopoly profits for them. The early profits were used to expand into these sectors. For example, the profits accumulated from early moneylending, commerce and private banking enabled the Suarès Group to invest in other sectors. On the other hand, the profits realised by cotton merchants enabled some entrepreneurs such as

Salvago, Rolo, Carver, Peel, and later indigenous entrepreneurs, to invest in the emerging cotton industrial sector, which was ancillary to their main business (el-Gritly, 1947, p. 20).

This was identical to what happened in Britain during the late eighteenth and early nineteenth centuries when promoters of railways and canals were those who benefited the most from these improvements in transportation links (Evans, 1936, p. 11). In addition, they combined their extensive industrial undertakings with ancillary activities of shipping, insurance, and cotton trade.

Egyptian promoters during the late period under study came from politics and civil service backgrounds. Their own investments often commenced after periods of apprenticeship on the boards of foreign companies, where they were acquainted with the skills of business administration (el-Gritly, 1947, p. 23). Other promoters included high-ranking British officials in Egypt who undertook these activities after retirement. Following World War I, many wealthy Egyptian landowners became industrial promoters. As mentioned in Chapter Two, in the past, they built their social ranking in the society through the acquisition of land, and this was highly correlated to the rising cotton and land prices between the 1860s and the early years of the twentieth century.

5.5.2.3 *Network characteristics & top central directors*

Tables 5.7 and 5.8 show the descriptive statistics of the interpersonal network and the frequency of board seats' distribution respectively. As Table 5.7 reports, the two main measures of the intensity of interlocking directors between 1924 and 1948 increased progressively. They are namely, the ratio of interlocking directors to total directors and the ratio of big linkers to total directors.[226] Another indication of the increasing concentration of interlocking directorates is illustrated in Table 5.8. The directors holding one seat constituted around 46% of total board seats in 1924, and decreased to almost 30% in the following two benchmark years of 1937 and 1948. The network was occupied by big linkers who were connected to each other through directorship positions in large firms. As shown in Table 5.8, a narrow clique of corporate elites dominated the Egyptian economy. For example, in 1937, Elie Mosseri sat on the boards of 29 companies. In 1948, Mohamed Ahmed Farghaly Pasha, a successful Egyptian entrepreneur and cotton exporter, held 14 board seats.

[226] Big linkers are directors who held three or more seats.

Table 5.7 Descriptive statistics of the network

	1924	**1937**	**1948**
Number of firms	104	207	210
Total board seats	672	1183	1436
Number of directors	423	559	716
Average board size	6.4	5.7	6.8
Average number of positions held by a single director	1.6	2.1	2.0
Average interlocking directors per firm	1.1	0.95	1.3
Number of interlocking directors	112	197	275
Interlocking directors % of total directors	26%	35%	38%
Number of big linkers (three or more seats)	59	113	159
Big linkers % of total directors	14%	20%	22%

Table 5.8 Directors and frequency of seat distribution

	1924		1937		1948	
# Seats	Frequency	Total Seats	Frequency	Total Seats	Frequency	Total Seats
1	311	311	362	362	441	441
2	53	106	84	168	116	232
3	27	81	38	114	60	180
4	15	60	23	92	34	136
5	8	40	12	60	23	115
6	2	12	11	66	10	60
7	3	21	7	49	8	56
8	1	8	7	56	11	88
9	0	0	2	18	8	72
10	1	10	2	20	2	20
11	1	11	1	11	2	22
12	1	12	5	60	0	0
14	0	0	0	0	1	14
15	0	0	1	15	0	0
19	0	0	1	19	0	0
21	0	0	1	21	0	0
23	0	0	1	23	0	0
29	0	0	1	29	0	0
Total	**423**	**672**	**559**	**1183**	**716**	**1436**

Table 5.9 illustrates the main characteristics of the network of directors. The network maintained almost the same level of density across years. As explained earlier, betweenness centrality could capture the extent of abundance of entrepreneurial opportunities through brokerage. A reduction in betweenness centrality, evidenced by a continuous drop in its score through time, indicates a shift in the network towards less brokerage activities. On the other hand, the degree of network centralisation was high throughout the period and peaked in 1937. A high centralisation score reflects a network that was organised around a few certain directors who monopolised the network. This is illustrated further in figures 5.6, 5.7, and 5.8.

Table 5.9 Interpersonal network structure and cohesion

	1924	**1937**	**1948**
Network density	2%	2%	1.8%
Average distance	3.5	3	3.2
Betweenness centrality	13%	12%	6%
Centralisation	10.4%	17.4%	11.5%

Figure 5.6 The elite network in 1924

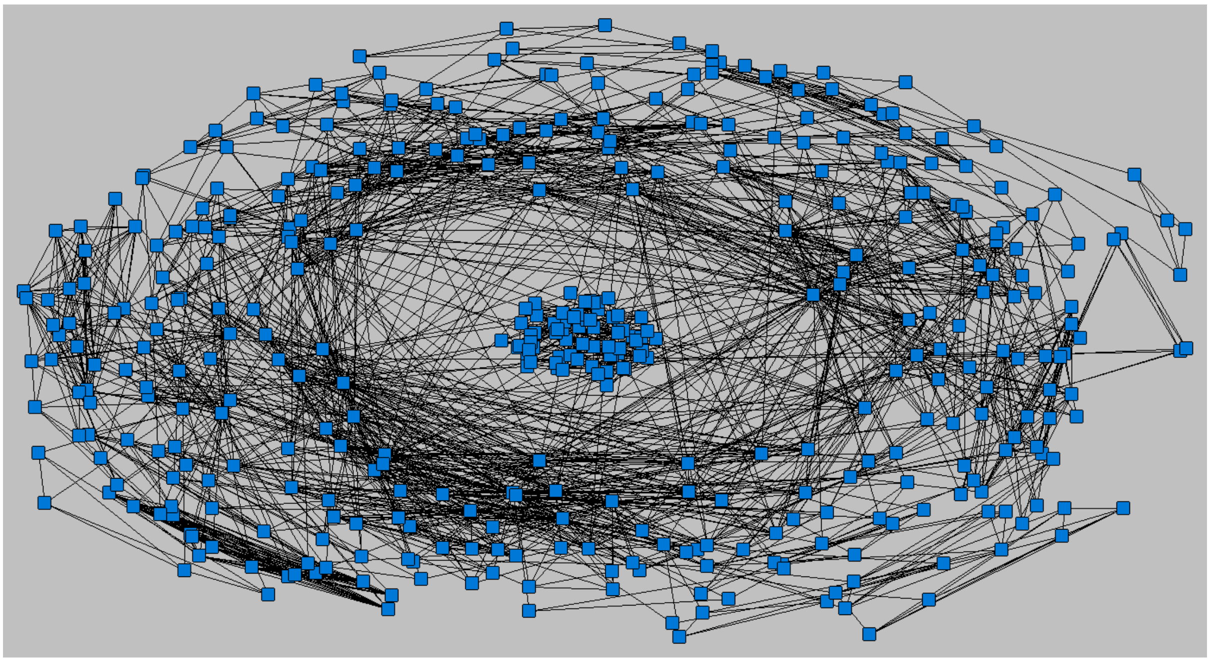

Figure 5.7 The elite network in 1937

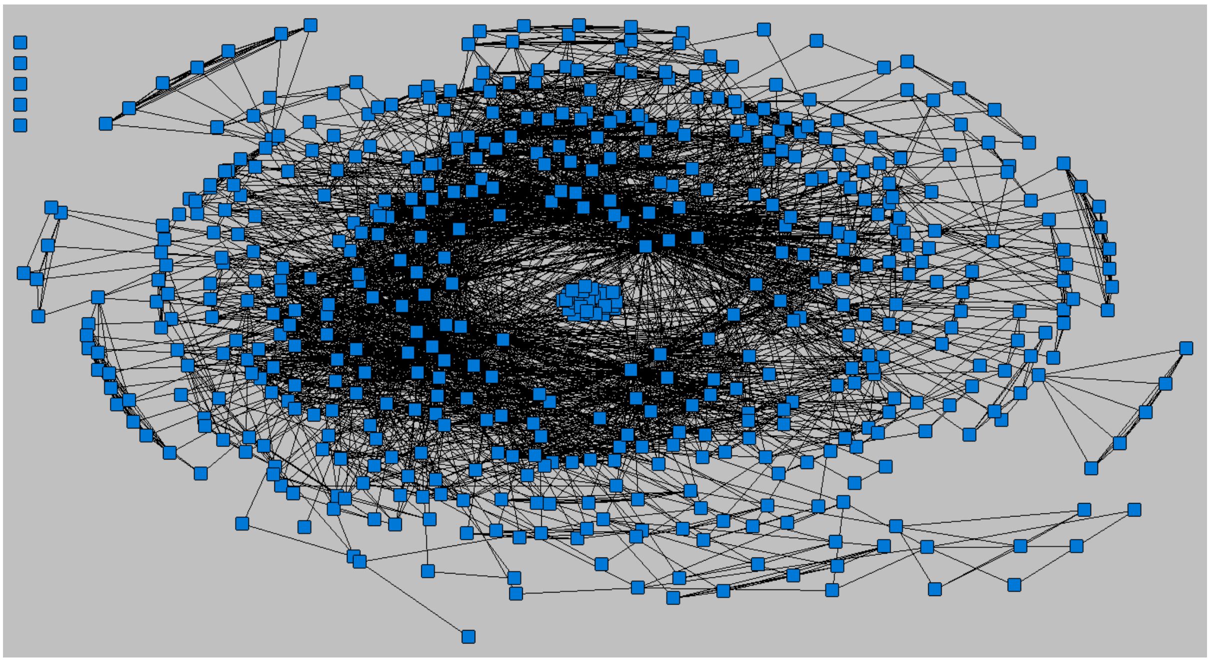

Figure 5.8 The elite network in 1948

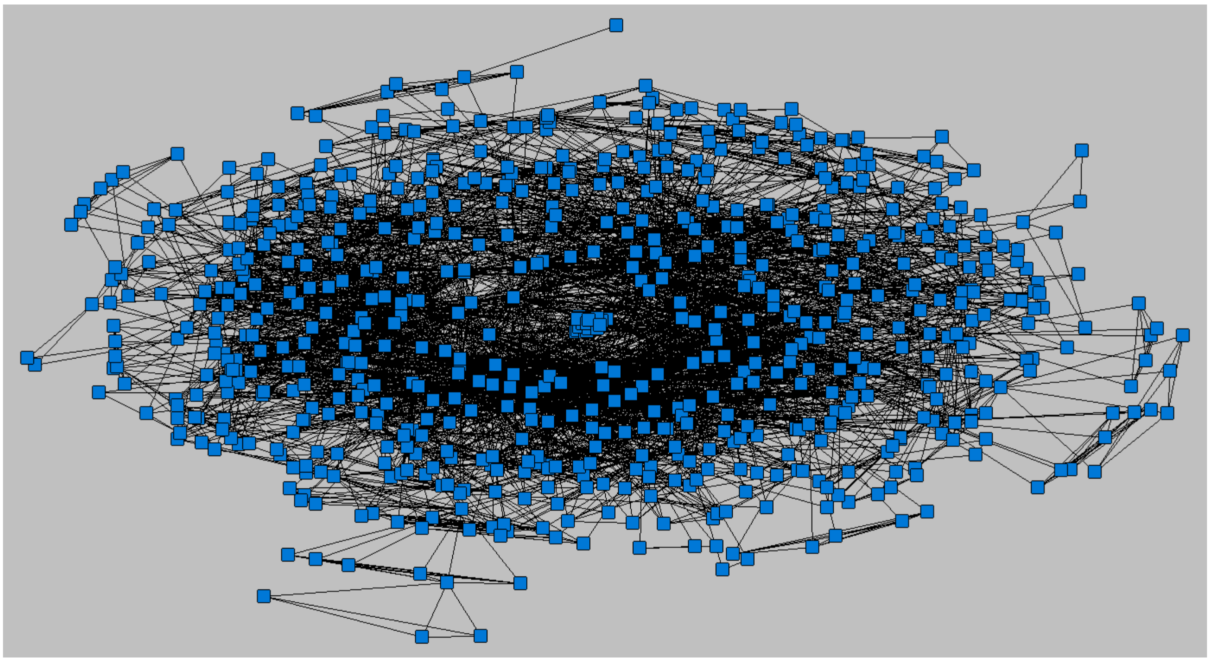

Table 5.10 lists the top five directors in each benchmark year in terms of betweenness centrality. The top five directors in 1924 included Harry Barker, Elie Mosseri, and Robert Rolo. As mentioned earlier, Barker maintained strong ties with the Greek Salvago Group. Mosseri and Rolo both belonged to the Jewish business group in Egypt. In 1937, Elie Mosseri headed the list. Other top central directors included Henry Barker (Harry Barker's son), Michel Salvago and Talaat Harb. The top five central actors in 1948 included three Egyptians. Salvago and Barker lost their positions as top central directors. Only one of the Mosseris family, featured in the list of 1948. In line with the declining betweenness centrality of the entire network, the individual score of betweenness centrality of each director diminished significantly over time. A possible explanation for this decline is that, across the years, more directors who were indigenous occupied the interlocking network and replaced local foreigners. Therefore, what characterised the earlier periods of less culturally homogenous directors vanished gradually. This in turn, might have led to less entrepreneurial opportunities.

Table 5.10 Top five directors according to betweenness centrality

1924		1937		1948	
Director	Score	Director	Score	Director	Score
Harry Barker	13.4	Elie Mosseri	12.2	Mohamed A. Farghaly	5.9
Elie Mosseri	8.5	Hassan Mazloum	7.3	Saba Habashi	4.1
Josse Allard	8.1	Henry Barker	6.9	Jules Klat	3.8
Robert Rolo	7.7	Michel Salvago	6.5	Henry Mosseri	3.5
Leon Rolin	5.9	Talaat Harb	5.6	Tewfik Doss	3.1

In response to the growing nationalist sentiment, the Egyptian government sought to replace foreign labour, lessen foreign dominance on the Egyptian corporate sector, and promote Egyptian control of joint-stock companies. The first Egyptianisation legislation that specifically targeted joint-stock companies was enacted in 1923 and revised in 1927. The law required that at least two directors to be Egyptians and that one-quarter of the shares of new companies to be offered for purchase in Egypt. The elite network in 1924 was almost completely dominated by foreign residents and no single indigenous director featured in the list. However, the structure of the network witnessed major changes in 1937. In this benchmark year, two Egyptians appeared in the top list. According to Deeb's estimates (1976, p. 79), Egyptian directors represented around 16% of total directors in 1937.[227] He argued that, with a few exceptions, they were appointed on the boards of several firms to satisfy the Egyptianisation laws. Most of them were still-in-service or former civil servants and politicians.

Another Egyptianisation law came in 1947 and was more far-reaching than the previous law. The Egyptian government became aware of the concentration of interlocking directorates. The law limited the ability of government's officials to sit on joint-stock companies' boards. In addition, the law required that no person could serve on the boards of more than ten companies or act as a managing director of more than three companies. In essence, the government was trying to dissolve interlocking directorates (Tignor, 1984, p. 180). The law stipulated that at least 40% of the directors of any Egyptian joint-stock company should be Egyptians, the number of Egyptian employees should not be less than 75% and that the total Egyptian workers should not be less than 90%.[228] Moreover, at least 51% of the shares of new joint-stock companies, and of any capital increase, should be earmarked for Egyptians. Firms were granted three years grace period to comply with the law. Although foreigners were very critical of the 1947 law and the three years stipulated by the government, most firms responded timely, especially on the clause related to the percentage of directors, employees and workers (Tignor, 1984, p. 181). Again, these legislations had an impact on the composition of the network. It was estimated that the percentage of foreign directors

[227] There are discrepancies in the total number of directors included in Annuaire des Societes Egyptiennes par Actions complied by E.I. Politi in 1937 (upon which Deeb based his estimates) and the Stock Exchange Year-Book of Egypt. Politi included 496 directors while the Stock Exchange Year-Book included 559 directors. Politi probably did not include all the companies registered in the Egyptian stock exchange.
[228] Exceptions in favour of the most powerful foreign firms were granted. For example, the Suez Canal Company was permitted to maintain a majority of foreign directors (Tignor, 1990, p. 388).

went down from 90% of total directors in the early 1930s to almost 65% of total directors in 1951 (Deeb, 1976, p. 79).

Businessmen and politicians were highly interweaved. For example, Misr group of companies received large subsidies from the government and deposits in the postal office, a governmental body, were placed with Banque Misr. The Bank had to offer something in return for these government's courtesies. Therefore, it was a common practice of the Bank to reward government's politicians with seats on the boards of Misr companies. In addition, the Bank extended large loans to the families that were influential in the political circles (Davis, 1983). Misr group was not alone in adopting this attitude. Many other companies, following the Egyptianisation laws that required a certain number of Egyptians to serve on companies' boards, offered board seats to Egyptian politicians. This was evident during the 1940s when many public servants joined the corporate elite class. For example, two of the Egyptian directors who featured among the top central actors in 1948, Saba Habashi and Tewfik Doss Pasha, were politicians. Habashi was a former minister of commerce and industry, international business lawyer and senator in the Egyptian parliament. He acted as a mediator in a cartel price dispute between the major petroleum companies in the country and the state (Vitalis, 1995, p. 179). Doss Pasha was also a lawyer and prominent Coptic figure in the Egyptian political sphere.

Along with civil servants and politicians, between the 1930s and the last benchmark year of 1948, a new class of native-born Egyptian entrepreneurs emerged and ran major companies. The most prominent were Talaat Harb and his group of companies that were run by Egyptian directors, and Mohamed Ahmed Farghaly who served on 14 companies in addition to his own firm, the Farghaly Cotton and Investment Company. Finally, a new business group, the Yehia Family, headed by Ali Emin Yehia Pasha held diversified investments in banking, shipping and some industrial undertakings such as La Filature Nationale d'Egypte (Tignor, 1977b, p. 203). Moreover, Yehia Pasha was involved in several British-controlled joint ventures such as the Egyptian Salt and Soda Company.

The French and Belgian directors in Egypt were absent from the list of top central actors. The only Belgian director who featured in 1924 list was Josse Allard who served on the boards of many Belgian firms in Egypt such as Banque Belge et Internationale en Egypte and Société Belge-Egyptienne de l'Ezbekieh. Allard was also a board member of giant Belgian firms operating in banking, mining and railways in Congo, Greece, Romania, Italy, Spain and Argentine (Tignor, 1980b, pp. 428-429). The Belgians in Egypt were different to their British and French counterparts. They did not participate in coalitions with local foreigners, such as the Jews and the Greeks. Furthermore, they did not rely on private bankers such as the case of Ernest Cassel that was involved in financing several Jewish undertakings in Egypt. Rather, they resorted to investment banking (Kalkas, 1979, p.178). Their lack of connections with other local foreigners might explain their absence, along with the nonappearance of their firms, from the lists of the main central firms. The French, on the other hand, focused on a few heavily capitalised companies and most of the French directors resided abroad. Again, this plausibly explains their weak connections with other directors in the elite network,

In what follows, a very brief account of the make-up of three of the top central actors in the elite network according to Table 5.10, one in each benchmark year, is given. The three directors are Elie Mosseri who was a top central actor in 1924 and headed the list in 1937, Michel Salvago who appeared in 1937 and was the key figure in the Salvago group, and Mohamed Ahmed Farghaly Pasha who headed the list in 1948. The discussion includes their social background, education and networks of personal relations.

An individual's background plays an important role in perceiving investment opportunities and in doing business. Business elites and entrepreneurs are commonly used in the literature to define businessmen. The major difference, however, lies in the perspective of the study. Business elites are more suited to studies focusing on the social context; while the entrepreneur is more associated with the foundation and management of business (Cassis, 1994, p. XIII). The social background is an integral part in understanding the business performance of an entrepreneur.[229] Cassis (2005, p. 155), in his study on the founders of large enterprises in Britain, France and Germany, paid attention to what he called "decisive moments in the shaping of a business life: birth, education and training, and early career".

The Jewish Mosseri family invested in land reclamation and development companies, railways and tramways, finance, mortgage and insurance companies. The family had large landholdings, estimated to be in the range of 6,000 feddans in the early twentieth century (Wright and Cartwright, 1909, p. 362). Although having Italian nationality, the family retained the Jewish identity. Elie Mosseri (1879-1940), who was a very dynamic

[229] For example, Jeremy (1984) studied the social origins, education and career paths of the British business elite between 1860 and 1980.

entrepreneur sitting on the boards of several companies, studied economics at Cambridge (Krämer, 1989, p. 42). Upon his return to Egypt, he founded Banuqe Mosseri.[230] Elie Mosseri maintained a close personal relationship with Ismail Sidqi Pasha, an eminent politician in Egypt who served as the Prime Minister for several years Therefore, Mosseri was close to the political circles in the country. In addition, he maintained ties with leading Jewish banking houses in Europe such as Rothschild. His wide networks and his directorship in a large number of joint-stock companies led him to become one of the most prominent figures in the Egyptian business circles and the corporate elite network. Mosseri was also the vice-president of the Cairo Jewish community in Egypt for a long time (Krämer 1989, pp. 41–43).

The most energetic member of the Salvago family was Michel Salvago. He was born in Alexandria in 1875 where he received his early education. He then studied law in Paris before returning to Egypt to manage his family's estate (Glavanis, 1989, p. 175). He sought to strength his family ties with British interests and capital further. Between 1919 and 1944, he was the president of the Greek community in Egypt. It was argued that his connections to the British capital influenced the entire Greek community in Alexandria that adopted a pro-British attitude (Glavanis, 1989, p. 176). His relations with British capital facilitated his service as a chairman of some of the most influential British-controlled companies in Egypt. Many of these companies his father, Konstantinos, had helped to establish. Moreover, Michel Salvago was one of the founders of the Federation of Industries in 1922 and became its first vice-president.

Mohamed Ahmed Farghaly Pasha inherited the Cotton and Investment Company that had been founded by his grandfather, an Alexandria-based successful cotton merchant, in 1865 (Tignor, 1984, p.72). Farghaly was educated at both Oxford and Cambridge before returning to Egypt to run his family business (Kalkas, 1979, p.258). He was one of the largest cotton exporters in Alexandria in the 1930s, probably the only Egyptian in this business. Farghaly Pasha built upon his family business of cotton trade and export and turned it to one of the largest investments in the country in the 1930s. His industrial undertakings were mostly associated with the cotton industry. Farghaly maintained close connections to European businessmen and capital (Tignor, 1980b, p. 449). In addition, he was an influential figure in

[230] The upper echelon of the Jewish community in Egypt sent their children to British and French private schools in Egypt or abroad (Tignor, 1980b, p. 422).

the Egyptian politics in the 1930s and 1940s. Capitalising on his political contacts, he was appointed as a senator in the Egyptian parliament during this period (Vitalis, 1995, p. 179).

The three short biographies provide greater depth to the analysis of entrepreneurs in Egypt. The common generalities that could be made about the three entrepreneurs, in spite of the differences in their origins, are that they all were educated in Europe, had familiarity with doing business as they all inherited their respective families' businesses. They had access to capital from their families' wealth and were connected to European financial sources.

The analysis of the corporate network has suggested a control network where more than half of the firms were controlled by other firms. Now we turn to the elite network and try to establish whether there is any evidence of entrepreneurial activities and opportunity seeking across the top central actors. The discussion of section 5.5.2.1 has demonstrated that the notion of social capital is an integral part of social network analysis and that betweenness centrality can capture the ideas of bridging structural holes and weak ties as proxies of social capital. The following analysis is concerned with ego-nets. The networks of alters around the top central nodes, in terms of betweenness centrality, are analysed. In order to benefit the most from his position in a network, we would expect that alters around the ego under study are not well connected to each other and therefore they have access to various flows of information. This will ensure the best brokerage position an ego could have.

Burt (1992, 2005) proposes two measures to capture structural holes: effective size and efficiency. Effective size is more useful than density as it considers the redundancy of ties. For instance, some alters might be substitute to each other i.e. they provide ego with same information. These duplicated alters are removed from effective size. To calculate effective size, average degree of alters (not including their ties to ego) is subtracted from the ego's degree (the number of alters). For instance, if no ties exist between alters, then the average degree of alters is zero and accordingly the effective size of an ego is its degree. This is the optimal position for an ego, as he is connected in this case to unconnected alters. Therefore, his network contains the maximum number of structural holes (Crossley et al., 2015, p. 83). The second measure is efficiency, which is effective size divided by degree. Again, the idea here is that it is better to have ties to alters who are not connected to each other and consequently there is a number of structural holes that could be captured by ego (Crossley et al., 2015, p. 83).

Table 5.11 Ego-nets of top central directors

Director	ego-net size (degree)	Density of ego-net	Burt's effective size	Burt's efficiency
Elie Mosseri (1924)	45	15%	40	89%
Network average in 1924			**4.2**	**36%**
Michel Salvago (1937)	81	22%	68	84%
Network average in 1937			**7**	**44%**
Mohamed Ahmed Farghaly (1948)	95	16%	85	89%
Network average in 1948			**7.3**	**43%**

As shown in table 5.11, the top central directors in terms of betweenness centrality scored very high in terms of Burt's measures, compared to the average of the entire network. A high score in these measures indicate that their alters were not well connected to each other. This potentially offered them entrepreneurial opportunities through bridging structural holes in their respective ego-nets.

5.6 Conclusions

During the three decades preceding the military revolution of 1952, Egypt undertook several measures to diversify its economy that had been dominated by the export of cotton for many decades. This capitalist experiment was built around the private sector. The history of this period has offered an opportunity to analyse the corporate and elite networks of interlocking directorates in a systematic way. The three benchmark years covered by this chapter has enabled viewing the network at three different critical historical points of changing capitalism and fast-transforming political and economic arenas. As the Egyptian corporate and elite networks have been evaluated at three points of time, they were not static networks as the changing positions of firms and directors have been traced over time.

The entire economic landscape in Egypt promoted the establishment of large-scale companies, and the Egyptian state supported a privately based market economy. The major investments in the country in the late nineteenth and early twentieth centuries were dependant on state support through granting long-term concessions and the transfer of public resources, such as state lands, to private hands. Later on, the development of the industry relied primarily on the government to provide privileges and incentives. Cartelisation and monopolies were fostered in several sectors. Therefore, entrepreneurs monopolised exploitation of opportunities. A single entrepreneur could not often cope with the wide range of opportunities found in a volatile economic environment. Casson and Casson (2013, p. 13) differentiate between competition in recognising opportunities and competition in exploiting such opportunities. They perceive competition in opportunity discovery and monopoly in exploitation as a stimulus factor to entrepreneurship. This seemed to be exactly what happened in Egypt during this period.

Oligopoly is often associated with restricting competition through means such as cartelisation (Stigler, 1964). This is a well-established argument in the political economy literature on monopoly rent (e.g. Colander, 1984). Leff (1979b) attributed prevailing monopoly or, at least, oligopoly in developing countries to the small market size and the first-entrant advantage. The domestic market in Egypt was limited so that a small number of families or closely linked investment coalitions dominated the local market and tried to maintain their concentrated power and the oligopolistic nature of the market (Vitalis, 1995, p. 47).

The conclusion that could be derived from the main findings on the Egyptian corporate network is that the structure of the network was mainly for maintaining coordination and preserving collective interests. Coordination was necessary given that there was no homogenous business culture. Directors of companies came from various ethnic and national backgrounds, and this necessitated finding means to coordinate their activities and to manage conflicts. Some of the enterprises that were the most central actors in the network such as the National Bank of Egypt could be seen as a mechanism for coordination. This gradually became blurred when more formal institutional arrangements to maintain coordination, such as the Federation of Industries, gained power within the Egyptian economy. The functions performed by the corporate network in Egypt, as proposed by this chapter, conform to Casson's argument that the key economic role of networks is coordinating activities such as controlling conflicts and maintaining cooperation among the different actors (2010, p. 119).

The narrow size of corporate elites meant that a small circle of persons and families dominated the network of corporate directors. The structure of the elite network in the earlier period under study potentially offered entrepreneurial opportunities to the promoters of joint-stock companies and allowed them to overcome uncertainty and shortage of useful information on business opportunities. The cultural diversity of interlocks might have introduced brokerage prospects to them. The structure of the network changed in the later period when both Egyptian entrepreneurs and firms controlled the scene and pushed the network into more homogenous but less dense nature. This led to a drop in entrepreneurial opportunities, measured by the declining score of betweenness centrality of both the entire elite network and the individual score of the top central interlocking directors. However, in the three benchmark years, the top central directors benefited from their positions in the network through bridging structuring holes in their ego-nets.

The early promoters of joint-stock companies in Egypt were local foreigners who accumulated their wealth from moneylending, merchant banking, and cotton trade. Out of these activities, two main business groups, of Jewish and Greek origins, were formed and almost completely controlled the Egyptian economy in the late nineteenth and early twentieth centuries. They held diversified investments in various economic sectors. The business groups and their family members remained major players in the Egyptian corporate and elite networks at least until the 1930s. Nevertheless, this role shrank as a result of the rising indigenous entrepreneurs and politicians who gained power and influence in the network from the late 1930s.

The experience of business groups in Egypt was comparable to many other cases around the developing world of the nineteenth and early twentieth centuries. During the Meiji era in the last decades of the nineteenth century, Zaibatsu emerged in Japan from the privatisation of state-owned enterprises (Miyajima and Kawamoto, 2010). In Egypt, the business groups benefited from the transfer of state resources, such as land, to private hands. Colpan and Jones (2016) acknowledged the role of institutional voids and government policy in the success of the largest business group in Turkey, Koç, between 1920 and 1990. However, the authors added a new element, namely Schumpeterian entrepreneurship, as an explanatory factor for the group's sustained growth. Business groups in Egypt certainly showed entrepreneurial orientation that allowed them to exploit lucrative business opportunities in the country, not necessarily in a Schumpeterian sense. The historiography of Mexico has showed that business networks were very important during the early industrialisation of the country where entrepreneurs used informal institutional arrangements, such as interlocking directorates, to secure access to resources and information (Maurer and Sharma, 2001; Maurer and Haber, 2002; Musacchio and Read, 2007). Corporate networks in Egypt were a key tool to coordinate economic activities during a period that witnessed the birth of an industrial sector.

Local foreigners in Egypt maintained good relations with European financiers. Similar cases recommend that information network arrangements, based on personal relationships, were used in international business. For instance, mobilising foreign capital for domestic investments in Greece, during the nineteenth and early twentieth centuries, was mainly based on trust (Minoglou, 2002). Business groups in Argentina, during the first wave of globalisation, emerged from medium-sized trading companies into large diversified business groups. Such groups were formed by foreigners and Argentine entrepreneurs of foreign origins. Through contacts with Europe, these groups were able to access sources of funding and knowledge. The reputation of group leaders in Argentina provided security for European investors who funded projects in an emerging market that was characterised by high uncertainty and absence of public information on entrepreneurial opportunities (Barbero, 2013, 2015). The same path was followed by business groups in Egypt. The only difference, perhaps, was that these groups emerged out of moneylending, and later merchant banking, activities. As explained earlier in this thesis, Egypt had lacked an organised financial sector until modern banking was introduced in the country during the second half of the nineteenth century. This might explain the superiority of these groups in the informal, and later formal, financial sector and how their financial activities constituted the basis for the later expansions into diversified sectors.

Chapter 6 Conclusions

6.1 Synopsis

The first global economy was associated with flourishing global trade, capital flows and large waves of foreign migration. Scholars have addressed this historical event from different perspectives. Some have referred to improvements in transport and communication means that facilitated long-distance global trade. Other have highlighted the liberal trade policies adopted by national institutions. Macroeconomic indicators of the integration of markets for commodities and capital have been offered as a source of evidence on globalisation. However, the role of firms and entrepreneurs in explaining the phenomenon remains under researched. Since business history is mainly interested in these two actors, the discipline has the potential to extend our knowledge of the microeconomic dimensions of the first modern globalisation.

On the other hand, historians of the formerly colonised countries have been concerned with investigating the political, social, and sometimes economic, implications of the legacy of foreign colonisation. These research agendas have spanned various countries in Africa, Asia and Latin America. In India, for example, Tripathi (2014, p. 4) observed that Indian historians, for a long time, perceived business as not worthy of their attention. They were interested in understanding post-colonial Indian economy and society from the lens of what happened during the colonial era. Hopkins (1987, p. 125) noted that radical Marxist approaches have had detrimental effects on business history in Africa. Distinguishing what is economic and what is political, according to the Marxist views, is not attainable and therefore the explanatory model does not fit a business history account. More than three decades since Hopkins made this claim, it seems that this has still been the case for the majority of history scholarship on the third world.

The imperial framework has been of great influence on history writing in many parts of the world. A constant theme within the body of research on the political economy of business and colonisation in developing countries has been dependency theory and whether it can explain what went wrong in these countries, compared with the developed West countries. Even when firms entered the debate, the narrative has been, from a narrow lens, on the politics of business and the question of imperialism. Firms have often been employed as a tool to prove or refute certain theories. In this sense, firms and entrepreneurs have only been depicted as a transmitting mechanism for political and economic development /

underdevelopment. This came at the expense of examining the firm itself, as a business enterprise, which has received little attention.

The limited research on firms and entrepreneurs as drivers of the first global economy on the one hand, and the lack of business history account of these actors in developing countries on the other have provided a good opportunity to scrutinise this wave of globalisation and the firms and entrepreneurs involved from a developing country perspective. The history of modern Egypt in the late nineteenth and early twentieth centuries has promised new insights in this regard. The country was firmly integrated into the world economy through cotton exports, foreign capital imports, and the presence of a large foreign community. Moreover, Egypt was not a typical periphery colonised country. Hence, dependency theory, as developed and applied in Latin America, has not been helpful to approach the history of modern Egypt.

This thesis has investigated three aspects of the first modern globalisation. They are namely, commodity networks, foreign banking, and foreigners and business networks. The core of the thesis has been composed of three themed chapters, with each of them discussing one of the three facets through an application on Egypt. The study has sought to answer three questions raised in Chapter One:

I. How was coordination maintained within the Egyptian cotton network?
II. How did foreign banks in Egypt maintain their operations and manage risks, and what was the impact on their financial performance?
III. What were the driving forces behind the specific structure of the corporate network in Egypt, and how were entrepreneurial activities linked to the corporate elite network?

To answer the first research question, the Egyptian cotton network has been carefully analysed. Chapter Three has outlined the activities of the private actors that were involved in the network starting with the Egyptian villages where cotton was grown ending with Liverpool where cotton arrived. It has been demonstrated that the network was sophisticated and hence certain coordination arrangements were essential to keep the functionality of the network, given the fact that market participants were spatially dispersed. The analysis has shown that foreign banks financed domestic cultivation, offered valuable intermediation services and coordinated the flows of commodity, finance and, more importantly, information. These banks were the instrumental actors of the cotton network and provided the most crucial and indispensable function of all actors in order to maintain the dynamism of the network. Foreign banks, their policies and behaviour in developing countries have often been criticised in the development literature. However, it seems that less is understood about the exact functions those banks served. It has been illustrated that financing exports was not the only function foreign banks provided in relation to globalisation and commodity exports. They were active in one-step backward activity, which was financing commodity cultivation. Understanding how a globalised commodity network, such as the Egyptian cotton network, operated has illuminated further aspects of the nineteenth century's capitalism and globalisation.

The answer to the first question has established an influential character for foreign banks in globalisation, and this has raised the second research question on foreign banking in Egypt. A case study on the Ionian Bank has been offered in Chapter Four in order to understand broader issues on the conspicuous history of foreign commercial banks in Egypt. Austin (2017, p. 141) noted that most of what has been written in the historiography of Africa has been on the culture of business and networks rather than on the firms themselves in terms of their strategies and profitability. The Ionian Bank case study has tried to rebalance this tendency. It has focused on the operations of the Bank, risks encountered and to what extent they were successfully mitigated. The chapter has also offered pointers to the impact of these factors on the performance of the Bank.

No solid data are available in order to support or refute generalisations on whether foreign banks in Egypt were exploitative in relation to financing Egyptian cotton and selling it in the Alexandria marketplace. Nevertheless, the limited evidence derived from the Ionian Bank has offered some pointers. No single foreign bank in Egypt, in contrast to the histories of foreign banks in many other developing countries, was privileged with a first-mover or monopolistic advantage. The banking sector in Egypt was highly competitive, and it was incapable of mobilising domestic funds. Therefore, the discussion has departed from the classic argument by historians driven by dependency theory that collusion was an integral part of foreign banks. In addition, an inefficient branching system hindered bank growth. Undoubtedly, foreign banks in Egypt generated profits that were satisfactory enough to justify their presence in the country. However, they did not make substantial easy profits, as suggested earlier by the literature on colonisation and underdevelopment. Any profits made were proportional to their risk taking activities. Some risks were manageable, while others were not. The uncontainable risks negatively affected the performance and the financial results of these banks.

Foreign banks and foreign capital in Egypt were accompanied by a large foreign community that lived in Egypt and considered it their home country. To answer the third research question, Chapter Five has analysed the Egyptian corporate and elite networks applying social network analysis and the interlocking directorates technique to the Egyptian joint-stock companies between 1924 and 1948. The use of this technique has allowed for shedding light on the history of capitalism in modern Egypt. The discussion has not been confined to local foreigners who were the most prominent actors in the network. Rather, it has been extended to link them to their indigenous counterparts. This chapter has returned to coordination but from a different perspective. Since local foreigners in the network came from various ethnic and national backgrounds, they faced the challenge of an absent unified business culture. As a result, the corporate network mainly served as a basis for coordinating and maintaining collective interests.

Egypt seemed to have certain constraints, possibly cultural and religious, on domestic participation in some activities such as banking, financial services and cotton trade. This offered business opportunities for people from outside to take advantage of these lucrative prospects. For instance, Egypt had lacked an organised financial sector until modern banking was introduced in the country during the second half of the nineteenth century. Therefore, local foreigners were active in moneylending to fill this gap. This provided them with a first mover advantage in the financial sector as their activities were later transformed, formalised and developed into modern banking. Others benefited from the cotton boom in the second half of the nineteenth century. This paved the way for these foreigners to expand into diversified investments in various economic sectors.

Promoters of joint-stock companies in Egypt, predominantly local foreigners, epitomised entrepreneurship. The structure of the corporate and elite networks was likely favourable for seeking and exploiting entrepreneurial opportunities, given the cultural diversity of interlocks. Local foreigners responded competently to an economic landscape that promoted large-scale projects led by the private sector, and it was the economic orientation of the state to promote generous concessions and intensives. The market size was small and consequently a handful number of families and closely linked investment coalitions flourished in the domestic market. When an indigenous element of entrepreneurs and well-connected politicians came to dominate the scene gradually between the 1930s and 1952, cultural diversity in the elite network was somehow lost. Entrepreneurial opportunities, as the measures of social network analysis have suggested, dropped.

6.2 Synthesis of findings & contributions

If the main sets of conclusions are put together, the resulting synthesis points out the need to revise the historiography of foreign capital and foreigners in Egypt, specifically during the first modern globalisation. Constructing a counterfactual on what would have happened if Egypt had not been integrated into the world economy through cotton exports, foreign banking, and foreigners is challenging and daunting. Foreign banks helped integrating Egypt into the world economy through fostering the flourishing cotton exports. We do not know how the cotton network could have been organised and how it could have functioned in alternative ways. It is not clear how indigenous institutions would have done if these foreign banks had not existed, more precisely, how Egyptian cotton would have been financed and marketed without the funds and intermediation services provided by foreign banks. What could other paths to development have been followed beyond cotton exports? In addition, Egypt enjoyed constant flows of cheap funds from Europe. How would a modern banking sector have functioned, if any, in the absence of foreign banks? Foreign entrepreneurs were key forces behind globalising Egypt through their entrepreneurial activities in the host country, and facilitating access to foreign funds through the close contacts they maintained with Europe. This ensured that Egypt enjoyed inflows of foreign funds that supported the foundation of many large-scale projects. How could entrepreneurial opportunities have been created and exploited in the absence of local foreigners and foreign funds? These questions remain open to further careful investigation.

This thesis has not claimed to make general evaluation or to debunk myths about what has been previously written about business firms and colonisation in developing countries. Rather, the current study has brought to light some missing pieces of the historiography of Egypt and has established that generalisations about the history of foreign businesses and foreigners in developing countries are not always accurate; other perspectives could reveal different realities. The thesis has contributed to the historiography of Egypt that has never been narrated from a business history perspective. It has sought to rebalance the political narrative of foreign colonisation by offering an alternative view. Instead of following the dominant research agenda and using the same commonly employed political theories and frameworks, this study has demonstrated the value of articulating research on firms and entrepreneurs in a developing country context capitalising on hitherto unemployed theories, methodologies and techniques of analysis and, in the Ionian Bank case, unutilised corporate archival sources. This research has endeavoured to construct a narrative that is backed by solid theoretical foundations and analysis, rather than describing events. Therefore, the findings could be integrated with larger discussions and debates on many topic in business history. Furthermore, a business history perspective on firms and entrepreneurs has revealed the complexity of the first global economy and its rich context that goes beyond macroeconomic indicators of integration of the markets for commodities, capital and labour.

In spite of the historical nature of this study, the findings on the Egyptian cotton system hold relevant implications for our general understanding of supply chains and industrial upgrading in developing countries, the main concern of the contemporary international business research agenda on global value chains. Business networks by nature include a relational dimension, and the network approach adopted in analysing the Egyptian cotton network has facilitated clarifying the relational aspects within the network. Much has been written on global value chains and their efficiency; however, less is understood about the actual dynamics among the members of the chain and how knowledge travels across the chain (Peters, 2008; Yeung and Coe, 2015; Cano-Kollmann et al., 2016). More generally, the network approach in international business literature is not commonly employed (Kano, 2018, p. 685).[231]

The notion of coordination and information flow - advocated by Hayek, Richardson, and Casson - as employed in analysing the Egyptian cotton network might provide new tools to study global value chains. Coordination refers to the problem of allocating resources in an efficient way. Useful insights could emerge if commodity networks and chains are studied using the concept of coordination and how to maintain it in order to achieve the highest level of efficiency. Additionally, rather than focusing only on the flowing goods and services within the chain, viewing the chain as an information system is advantageous in order to analyse how these chains and networks operate.

More importantly, the global value chains literature suggests that the role of firms from developing countries in the chains has often been limited to supplying cheap labour for intensive industries. The question, therefore, has been how to foster industrial upgrading and

[231] A few exceptions include Rugman and D'Cruz (2000) on flagship networks and Buckley (2009) on the impact of the dynamics of global factory on economic development.

more valuable participation of these firms in the chain. The analysis of the Egyptian cotton system has demonstrated the role of foreign banks in intermediating the network, mainly through information. For that reason, a crucial, but often ignored, factor within the literature on global value chains is how domestic firms from developing countries can undertake the role of a market-making intermediary (Casson, 1999). Intermediation, especially between buyers and suppliers dispersed spatially, requires investments in information that need to be collected from various sources and then synthesised. This in turn necessitates investing in information networks, creating networks of buyers and sellers that otherwise could not trade directly with each other. In addition, these firms have to be altered to changes in demand and supply conditions therefore spotting profitable opportunities through the creation of new markets (Buckley, 2009, p. 139). Researching these questions on how to support firms from developing countries to develop these skills would be rewarding.

6.3 Limitations & future research

A historical study, by nature, has a number of inherent limitations. As pointed out by Kipping et al. (2014) and Lipartito (2014), historical sources are fragmented, often incomplete and do not provide complete evidence. Therefore, systematic observations are not often possible to the researcher, and interpreting data that were produced in a certain historical context requires a careful interpretation. Moreover, by researching a single country, a small sample size, it is inevitable that a number of generalised issues have not been addressed. Yet, what this thesis has contributed is that a range of sources has been used; some of these sources have never been consulted before, or have been used for different purposes and not in a systematic way. Meanwhile, the employed theories and techniques of analysis have been little used in the body of research on the legacy of the first global economy in developing countries.

For instance, the discussion of the Egyptian cotton network has benefited from archival materials from two foreign banks, the Ionian Bank and Lloyds Bank, which were active in financing Egyptian cotton. This has provided a new angle that previous writers on Egyptian cotton have not considered. Commodity networks have not been formerly studied using the notion of coordination and the economy as an information system.

Unlike the general literature that have discussed foreign banks as actors within a larger context of imperialism, the archival materials of the Ionian Bank have allowed for taking a different angle from this rhetoric of colonisation and exploitation and studying the activities of foreign commercial banks in Egypt. The discussion has provided in-depth analysis, at an institutional level, of the Ionian Bank and its day-to-day operations. Yet, the current study has approached foreign banks from a certain business perspective, employing economic, business and management theories. Future research can synthesise these theories with the existing political economy literature in order to formulate a more nuanced judgment on the history of foreign banks in developing countries and their precise position in the debate on the history of globalisation.

The unavailability of Egyptian sources, e.g. the records of the various state departments held by the Egyptian National Archive and the over reliance on the Ionian Bank's archival records might lead to potential biases and limitations of the discussion of the activities of foreign commercial banks in Egypt and their place in the Egyptian cotton network. More precisely, the story has been narrated from a metropolitan, non-indigenous, perspective. The findings and portraying the reality of the past would have certainly been more accurate and viable if the Egyptian perspective had been considered. For instance, it would have been fruitful to know how Egyptian politicians and the state viewed the activities of foreign banks in the country. Nevertheless, in order to generate reliable insights into the history of foreign banks in Egypt and to lessen the potential bias of the used sources, triangulation and source criticism have been employed in this study.

Triangulation, through consulting various sources, is often employed in order to corroborate and improve the validity of findings (Denzin, 2010). Therefore, the materials from the Ionian Bank's archives have been supplemented by other primary sources from the Archive of Lloyds Banking Group, the records of the Foreign Office and the Bank of England Archive. Furthermore, source criticism is crucial to depict any potential biases (Toms and Wilson, 2010; Hansen, 2012). Internal sources that are close to the time of events under consideration are more valuable that those sources that are mainly created for public release or those for interpreting historical events (Decker, 2013, p. 166; Kipping et al., 2014, p. 314). For example, statements made to shareholders in general meetings are partly for public relations and not without bias (Armstrong, 1991, p. 15). Therefore, the Report of Proceedings of the Annual General Meetings of the Ionian Bank have been extensively supplemented by the correspondences between the management in London and the top management in Egypt and the visiting reports to the Egyptian branch. In addition, secondary sources have been treated carefully in order to account for their historical distance from the events under study.

Foreign banks in Egypt have been represented by a single case study. Consequently, the thesis has not portrayed a whole picture of the history of foreign banking in Egypt. A possible area of future research would be to investigate foreign banks in Egypt from other countries, rather than Britain, such as France and Italy. The business of British overseas banks in Egypt unquestionably benefited from the fact that Britain was the largest importer of Egyptian cotton. In addition, the financial arrangements of moving funds between London and Egypt was made easy while the latter was part of the Sterling Area. An interesting question is how other foreign banks managed their operations from other European capitals. It would be fruitful to know how their position in the Egyptian cotton network differed, if any, from British overseas banks that were the most instrumental members in the network. It would be useful to ascertain whether their financial performance was better than the Ionian Bank. It would also be interesting to understand the Egyptian cotton network from the lens of the banks in Liverpool that financed exporters in Alexandria. More generally, the discussion on the Ionian Bank has opened new directions to research on the history of foreign banks, such as the relationship between the headquarters and branches in host countries.

The problem of data limitations has been unavoidable and evident in analysing the interlocking directorates. Absence of corporate archives and minutes of board meetings meant that the actual behaviour of board members has not been identifiable. For instance, we do not know in what aspects and to what extent these interlocks benefited from the structure of both the corporate and elite networks. It has been difficult, based on the available evidence, to determine what the actual impact of these networks on the performance of the companies in the network was. The data do not provide pointers to whether these interlocks actually seized opportunities offered by these networks from exchanging information with each other and what level of trust was prevailing inside the networks. All of these questions remain open for further investigation, if corporate archives of some of the foreign companies that operated in Egypt have become available. Yet, the sources used to construct the dataset on the Egyptian joint-stock companies and their directors have never been used in a methodical way, and this has allowed for portraying a closer picture on Egypt's corporate and elite networks.

The thesis has illustrated the role of formal network analysis and the application of improved techniques in studying business history. Systematic examination of interlocking directorates, intercorporate relationships among firms, and interpersonal ties between the corporate elite has been made more accurate and powerful. Social network analysis is a flexible tool and can be employed to analyse a range of issues in business history, beyond networks of interlocking directorates, such as financial and trade networks.

In the final analysis, this study holds implications for future work on firms and entrepreneurs in developing countries, in general, and the Middle East, in specific. The business history field in the Middle East is immature and therefore is fertile for further research. Some countries in the region maintain national archives that could provide new insights on the history of business in these countries. The Egyptian National Archive holds valuable materials, and it will be beneficial if access is granted again to researchers without restrictions. In addition, this research on the Egyptian experience with the first global economy has raised questions and opened a route to study this wave of globalisation from the prism of developing countries. The findings could be strengthened by further work on other developing countries. Synthesising the findings, afterwards, will contribute to better understanding and possible generalisations about the history of firms, entrepreneurs, and their roles in an important historical period such as the globalisation of the early nineteenth and early twentieth centuries.

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