



French Foreign Policy and Financial Institutions in the Process of the Consolidation of Ottoman Foreign Debts*

Osmanlı Dış Borçlarının Birleştirilmesi Sürecinde Fransız Diplomasisi ve Finans Kurumları

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ABSTRACT

This study aims to examine some of the issues discussed in the literature on international foreign debt contracts within the framework of the Consolidation of Ottoman Foreign Debts Project (Tevhid-i Düyün). At the early years of the twentieth century, when the compliance of external debt contracts with the rules of international law was being debated, one of the issues questioned was the situation between states and their citizens who were creditors of another state. The main problematics under examination are as follows: the conditions under which states could intervene in contracts, the expectations of bondholders from their governments, and the points where the interests of the two sides conflicted and met. The answers to these questions will be sought in France's influence on the restructuring of the Ottoman foreign debt and its relationship with French bondholders.

Keywords: Debt contracts, diplomacy, bondholders, France

ÖZ

Bu çalışma, uluslararası dış borç sözleşmeleri literatüründe tartışılan bazı konuları, 1903 Osmanlı dış borçlarının yeniden yapılandırılması projesi çerçevesinde incelemeyi hedeflemektedir. Dış borç sözleşmelerinin uluslararası hukukun kurallarına uyumu tartışmalarının devam ettiği yirminci yüzyılın başında sorgulanan konulardan bir tanesi de devletlerin başka bir devletten alacaklı olan vatandaşları ile arasındaki ilişki olmuştur. İncelenen temel problemler, devletlerin sözleşmelere hangi koşullar altında müdahale edebilecekleri, tahvil sahiplerinin hükümetlerinden beklentilerinin neler olabileceği ve iki tarafın çıkarlarının çatıştığı ve birleştiği noktalarıdır. Bu soruların cevapları, Fransız diplomasisinin Osmanlı dış borçlarının yeniden yapılandırılması sürecindeki etkisi ve tahvil sahipleriyle olan ilişkisi üzerinden analiz edilecektir.

Anahtar Kelimeler: Borç Sözleşmeleri, diplomasi, tahvil sahipleri, Fransa



Introduction

At the very outset of the twentieth century, nearly twenty years after the 1881 Muharrem Decree, the Ottoman government and the representatives of bondholders came back to the table for a financial operation that envisaged several adjustments to the 1881 Decree. For the Ottoman Empire, a previously defaulting state, the project was expected to reduce the financial oppression, which had been decided at an international congress and had undermined its sovereignty. In line with this, Ottoman decision-making will have sought to overcome the post-bankruptcy dispute with its creditors through negotiations and have demanded a reduction in the total amount of debt. After nearly two years of planning, it was decided with the Tevhîd-i Düyûn Decree dated September 14, 1903, which was prepared as an addendum to the Muharrem Decree, to merge the B, C and D series of bonds (since the payment of the A series was completed at this date), to make a significant reduction in the capital of the debt, and to increase the interest income of bondholders from 1% to 4% in return.¹

One of the reforms introduced by the 1903 Decree was that the Ottoman state was entitled to 75% of the annual revenue surplus of the Ottoman Public Debt Administration. By obtaining this revenue as a guarantee to cover the state's urgent borrowing needs, a source of financing for railway investments was found. Specifically, this source was to provide the mileage guarantee for the Baghdad Railway Project.² This development, which was planned at a time when France was uncomfortable with the superiority of the Germans in the capital share of the Baghdad Railway Company, not only made the Consolidation Project a multilayered financial operation but also served as a platform provoking the involvement of political and diplomatic issues. Thus, the project created a new area of conflict in terms of the interests of Germany and France on the Ottoman Empire and brought back to the agenda the evaluation of the Ottoman foreign debts within the framework of the contemporary international politics

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- 1 P. Wormser, *Les fonds Ottomans, Unification de la Dette 1903*, Paris 1903, pp. 45-48; Adib Roumani, *Essai historique et technique sur la dette publique Ottomane*, Paris 1927, pp. 191-202; Grégoire Poulgy, *Les emprunts de l'État Ottoman*, PhD thesis, Faculté de droit de l'Université de Paris, 1915, pp.141-157; Louis Delaygue, *Essai sur les finances Ottomane*, PhD thesis, Université de Paris, Faculté de Droit, Paris 1991, pp. 140-152; Laurent Dupuis, *Le controle financier de la dette publique Ottomane*, PhD thesis, Faculté de droit de l'Université de Paris, 1908, pp. 67-88. Raymond Reynaud-Lacroze, *L'immixtion financière en droit international*, PhD thesis, Université de Montpellier, Faculté de Droit, Paris 1905, pp. 98-110. For the complete text of the decree dated 14 September 1903, see. *Archive Diplomatiques Recueil Mensuel De Droit International De Diplomatie et D'Histoire*, Année 45, Série 3, Tome 94, No. 4, Vol. II, 1905, pp. 506-511; George Young, *Corps De Droit Ottoman*, Vol. V, Oxford 1906, pp. 103-110; Giampaolo Conte, Gaetano Sabatini, "The Ottoman External Debt and Its Features Under European Financial Control (1881-1914)", *The Journal of European Economic History*, Vol. 43, No. 3, 2014, pp. 69-96.
 - 2 André Chéradame, *La question d'Orient, La Macédoine, Le chemin de fer de Bagdad*, Paris 1903, pp. 158-159; Georges Mazel, *Le chemin de fer de Bagdad, étude économique et internationale*, Université de Montpellier, Faculté de Droit, PhD thesis, 1911, pp. 247-251; Shereen Khairallah, *The Berlin-Bagdad Railway And German Penetration in the Near East*, History department of the American University of Beirut, PhD thesis, 1958, pp. 34-48.

and rivalry. In other words, the Consolidation Project emerged as a case mirroring the impact of states on foreign debt contracts in line with their political and economic interests.

In the project of the consolidation of the Ottoman external debt, France had some advantages that privileged it over other states. The financial credibility of the Ottoman Empire was determined in France, as it was one of the great powers of the time, one of the most important financial centres in the world, and the holder of most of Ottoman debt bonds.³ As a result of the accounting made during the consolidation of debts, France had Ottoman bonds with a financial value of 42,746,340 liras. In Belgium, which was in second place in terms of the volume of Ottoman bonds elsewhere, Ottoman bonds with a financial value of 8.872.420 liras were in circulation in the market.⁴ The reasons that led the Ottomans to consult with French financiers and institutions to prepare the debt consolidation project should be reviewed in this light. Accordingly, Maurice Rouvier, a Frenchman with influence in European financial circles, was contracted to prepare and negotiate the project. It is self-evident that the principal reason for the Ottoman Empire's preference for Rouvier, apart from his proximity to financial circles, was to create sympathy for the project in France, which had the largest number of Ottoman bonds, and to facilitate the negotiations with French bondholders.⁵ Even after Rouvier withdrew from the project in 1902 because of his becoming French Minister of Finance, the Ottoman state continued the negotiations with a consortium of French banks.⁶

From the beginning of the negotiations onward, French diplomacy, through the leading role of its financial institutions and individuals, aimed to ensure that the project would provide the conditions that would preserve its political and economic interests in the Ottoman Empire. The fact that the mileage guarantee of the Baghdad Railway Project, which was the most important item on the agenda of the rivalry between Germany and France in this period, was to be financed by the surplus revenue that would be generated as a result of the consolidation of debts, enabled the two projects to be evaluated together. For this reason, French diplomacy, which was in pursuit of preventing a result that would serve German interests in the debt consolidation project, attempted to deploy several coercive arguments. In this respect, the goals of our research are twofold. The first is to investigate both the convergence and divergence of France's political interests and the expectations of French

3 Darina Martykanova, "Public Debt After a Defeat: Negotiating the French Image of the Ottoman Empire as Debtor in the Aftermath of the Russo-Turkish War of 1877-1878", *Journal of European Economic History*, Vol. 48, No.2, 2019, p. 59.

4 *Başkanlık Osmanlı Arşivi (BOA)*, Y.A.HUS, 468/93.

5 BOA, HR.İD, 293/39.

6 The consortium consisted of the Ottoman Bank, Comptoir National d'Escompte de Paris and Banque Française pour le Commerce et l'industrie. Referring to Rouvier's recommendation, the consortium informed the Ottoman Embassy in Paris on 24 December 1902 that they wished to continue negotiations on the unification of debt. After this date, negotiations on the project continued through the consortium. BOA, HR.İD, 1995/19.

bondholders. The second is to throw light on the impact of states on the issues arising from international debt agreements in terms of the arguments that French diplomacy attempted to deploy in the process of the Ottoman debt consolidation project.

Conflicts Arising out of External Debt Contracts

In the 19th century, European markets witnessed two large-scale periods of sovereign default. The first one started in 1822 when Latin American countries resorted to heavy borrowing to finance their military expenditures. This was followed by the suspension of contracts by states without further delay.⁷ The second period of default was triggered by rapid lending that flowed into Latin America, Egypt and Turkey from 1860 onwards. The Great Depression of 1873 brought this cycle of lending to an abrupt halt and defaults began once again.⁸ The default of sovereigns in the last quarter of the 19th century was one of the worst periods in the history of finance until that time. Especially since 1890, countries in Argentina, Brazil, Latin America and Southern Europe experienced bankruptcies that caused significant losses to their investors.⁹

States that had suspended their payments announced plans to restructure them in order to avoid bankruptcy. In the process of restructuring credit agreements, unilateral transactions implemented at the debtor's own will were rejected as a practice that should not be possible without the consent of the creditor.¹⁰ For creditors confronted with this situation, the question has been raised as to what sanctions can be imposed by the contract. Considering the means of restraint available to holders of defaulted debt securities in order to compel the debtor state to comply with the contract, the first idea was the intervention of the judicial power. However, since the courts of a state were an integral component of its internal sovereignty, it was not possible to subject other states to them.¹¹ For a creditor, this situation was bilateral. For example, any French bondholder who was unable to secure a favourable outcome from the Ottoman courts in the event of a dispute found that the door to justice was closed in his own country as well. As a matter of fact, European courts generally refused to exercise their jurisdiction in cases involving citizens holding debt securities of a foreign state.

Where the judiciary has been ineffective, organised bondholders have opted for the path of taking over customs and tax revenues in the defaulting countries, usually through agreements with the defaulting states. In cases of excessive indebtedness, foreign bondholders also

7 Vinod K. Aggarwal, *Debt Games: Strategic Interaction in International Debt Rescheduling*, Cambridge University Press, 1996, p. 19.

8 Aggarwal, p. 27.

9 Juan Flores Zendejas, "Crying on Lombard Street, Fixing Sovereign Defaults in the 1890s", *European Review of History*, 19 (6), 2012, pp. 979-997.

10 Nicolas Politis, *Les emprunts d'État en droit international*, Paris 1894, pp. 164-165.

11 Politis, pp. 210-216.

have taken over the administration of tax and customs revenues. For example, following the defaults of the 1870s, the administration of customs and tax revenues was taken over in Turkey and subsequently in Greece. In some cases, the bondholder organisations have made recommendations on economic policies and have set conditions. Such recommendations and conditions were aimed at improving fiscal sustainability, the capacity of the borrowing country to repay its foreign creditors, and the opportunity for investors to monitor developments in the borrowing country.¹²

When negotiations between the bondholder organisations and the defaulting states failed to reach a compromise, the first method used was the creation of an international arbitral tribunal or the involvement of mediators. For example, Lord Rothschild helped mediate between bondholders and the Brazilian government regarding the Ituana railway debt. However, these methods did not always work in favour of bondholders. In the Venezuelan case, the total claim of bondholders was approximately £10 million, which the arbitrators ordered to be reduced to £1.84 million.¹³

Another method used by the bondholder organisations has been punitive methods. In the first place, the defaulting state could face the denial of access to capital markets. For example, a new bond issue by the Guatemalan government was prevented in 1873 because of its “false promises” to repay old loans. In another example, in 1875, bondholders declared that Colombia “could not appeal for foreign capital” until an agreement was reached on its outstanding debt. A similar approach has been used successfully in the Turkish and Austrian cases. This prevention was usually pursued in co-ordination with other stock exchange markets.¹⁴ In another method of punitive action, bondholders also resorted to harsher measures, invoking their governments’ support for diplomatic action and even military intervention. In this case, creditors demanded the intervention of their own governments as the most powerful means of enforcing their rights.¹⁵

Periods of default and subsequent negotiations by the holders of creditor debt securities led to developments that prepared the way for state intervention in debt contract disputes or restructuring processes. As mentioned above, the intervention of states in the restructuring of foreign debt contracts has mostly occurred when creditors, who were their subjects, sought their assistance because of the illegality inflicted by the debtor state. In some cases, creditors sought the support of their states in order to conclude negotiations in a more favourable way. In this relationship, the expectations of bondholders from their states varied according to the

12 Paolo Mauro, Yishay Yafeh, *The Corporation of Foreign Bondholders*, IMF Working Papers, Issue 107, 2003, pp. 24-25.

13 Mauro, p. 22.

14 Mauro, p. 23.

15 Politis, pp. 217-219.

course of their negotiations with the debtor states. In both cases, however, the relationship between bondholders and the state of which they were subjects was characterised not only by financial considerations but also by political and diplomatic issues.

State Intervention in External Debt Contracts

In the half-century period before the First World War, the so-called first era of financial globalisation, international debt contracts lacked institutional and legal foundations. Most importantly, as mentioned above, the liabilities between debtor states and bondholders were not clearly defined. Therefore, one of the primary objectives in this period was to harmonise the demands of both borrowers and lenders and to provide an institutional basis for international debt agreements.¹⁶ One of the uncertainties in this process was the authority of foreign states to intervene in disputes arising from the non-fulfilment of their citizens' debt contracts by borrower states and the conditions under which this could take place. This issue was particularly discussed at the turn of the 20th century.

According to opponents of the idea of intervention, it was a concept that rarely brings desirable results and should be used only in cases of absolute necessity.¹⁷ It has become a general view that intervention would be a clear breach of international law in protecting the financial transactions of individuals. Sovereignty and independence of both weak and strong states were considered to be the basis of international law and a state should abide by the rule of non-intervention in all disputes that might arise between its subjects and a foreign state.¹⁸ This is because the act of a foreign state's participation in a public debt was not deemed to be in the nature of an international agreement that would allow the intervention of states.¹⁹

According to the idea of non-intervention, foreign borrowing through the sharing of bonds was carried out with the participation of citizens of different states. Bonds were passed from hand to hand, from nation to nation, payable to the holder. Particularly unstable countries with weak economies offered their bonds at undervalued prices and at high interest rates. The bondholder took full advantage of this profitable situation by capitalising on the urgent need of the borrowing state. However, it was widely recognised that the issuance of bonds was an act of sovereignty, that the debt could be repudiated or reduced, that ordinary remedies were forbidden, and that the debtor state was independent in its payments. The investor therefore

16 Rui Pedro Esteves, "Quis Custodiet Quem? Sovereign Debt And Bondholders' Protection Before 1914", *Economic Series Working Papers*, University of Oxford, Department of Economics, No. 323, 2007, p. 1.

17 M. S. Kebedgy, "De la protection des créanciers d'un état étranger", *Journal du Droit International Privé*, Vol. XXI, p. 60.

18 Kebedgy, p. 63; John Westlake, *International Law*, Cambridge University Press, Second Edition, London 1910, p. 332.

19 Edwin Borchard, "Contractual Claims in International Law", *Columbia Law Review*, Vol. 13, No. 6, 1913, p. 478.

bought with full knowledge and assumption of the risks and weighed the possibility of large profits against the danger of loss.²⁰ Foreigners could not complain about a situation in which they had no serious security other than the laws of the debtor state. According to Kebedgy, who analysed the impact of this situation on state intervention, intervention could occur if certain creditors were systematically favoured in the payment of debts to the detriment of others, and if among them there were only subjects of one single state. Even this type of intervention had to be determined by rules and limitations.²¹

While intervention is not considered illegitimate in principle, it is recognised that certain exceptional circumstances based on the regulations of international law may exist.²² As stated by Rivier, who agreed with this view, the wealth of individuals constituted an element of the wealth and prosperity of the state itself. If this wealth was jeopardised by the action of a foreign state that mismanaged its finances, violated the confidence of investors and breached its commitments in relation to these matters, the state claiming the right to intervene was expressly authorised to protect its interests.²³ It was agreed that only diplomatic intervention could be justified if the loan, whose commitments were not fulfilled, was guaranteed by other powers. It was the guarantee clause in the contract that legitimised intervention. Thus, it was thought that disagreements between bondholders and the borrowing state could be resolved by claiming the inadequacy of foreign courts.²⁴ The use of armed force to claim unpaid public debts was considered an excessive intervention.²⁵

In practice, Lord Palmerston's memorandum of January 1848 set out a policy course to be followed in dealing with the defaulting states. At a time when there was public pressure on the British government to intervene with a foreign government for the receivables of its citizens, Palmerston formally declared that the British government had no legal obligation to defend the interests of its subjects in relation to a foreign state. To put it differently, when individuals entrusted their capital to foreign governments, they were acting strictly for profit and had entered into a financial or commercial transaction by participating in their loans or buying their bonds on the stock exchange. Indeed, they were aware of the risks associated with such transactions. Lord Palmerston's statement has been recognized as a doctrine supporting the

20 Borchard, pp. 481-482.

21 Kebedgy, p. 63.

22 Kebedgy, p. 60; *L'Épargne Française et la défense des porteurs de valeurs étrangères*, *Revue Politique et Parlementaire*, Tome XX, 1899, pp. 237-238; Politis, pp. 225-227.

23 Alphonse Rivier, *Principes du droit des gens*, I, Paris 1896, p. 272.

24 Politis, p. 219-225; Phillimore, Robert, *Commentaries Upon International Law*, c. III, T. & J. W. Johnson, Philadelphia 1857, p. 8-12; G.F. de Martens, *Précis du droit des gens*, Paris 1864, p. 298-110; *L'Épargne Française et la défense des porteurs de valeurs étrangères*, pp. 237-238.

25 Edwin M. Borchard, *The Diplomatic Protection of Citizens Abroad, The Law of International Claims*, New York 1925, p. 312; Edwin M. Borchard, William K. Jackson, Ernest H. Feilchenfeld, "International Loans and International Law", *Proceedings of the American Society of International Law at Its Annual Meeting (1921-1969)*, Vol. 26, 1932, p. 157.

non-intervention argument in addressing the question of the legitimacy of intervention for the protection of individuals' financial affairs.²⁶

On the other hand, Edwin Bouchard, who opposed this view, pointed out that the declaration did not actually contain the idea of avoiding intervention. According to him, Palmerston's declaration pointed out that it was entirely up to the discretion of the British government whether to deal with the issue through diplomatic negotiations if debtor states defaulted on their loans. At the same time, he emphasized that it might become Britain's duty to negotiate diplomatically, considering the great damage that its citizens would suffer because of the non-payment of their loans to foreign states. Bouchard therefore stated that this British practice was a political matter and that it would be wrong to interpret it as a doctrine defined as a principle of international law.²⁷ As evidence of this, he pointed to the fact that despite Britain's involvement in interventions against Mexico in 1861, Egypt in 1880 and Venezuela in 1902, the issue was always seen by statesmen as a matter of state policy.²⁸ In a similar vein, H. Feis stated that the British, who were the largest creditors in the world at the time of the declaration, reserved their rights to intervene and did not hesitate to use it when their political and financial concerns were overriding. As an example of this, he pointed out that what appeared to be Britain's intervention in a state in default in Egypt was in fact an imperial policy manoeuvre to control the Suez Canal.²⁹

Even though Palmerston's declaration was evaluated differently in terms of the possibility of intervention, the same disagreement was also seen in practice with states adopting different approaches to the analogous cases. First, states considered non-intervention at their own discretion. France's attitude towards the suspension of payments in Portugal in the autumn of 1891 is an example of this approach. Foreign Minister Ribot explained what France's attitude should be in the matter discussed in the French Senate. Accordingly, as far as the question itself is concerned, there was no legitimate need for intervention. It was anticipated that a mutually acceptable resolution could be achieved through constructive engagement with the Portuguese government and a willingness to consider concessions from its creditors. If the negotiations were unsuccessful, the French government would adjust its approach to align with the evolving circumstances. Thus, in principle, the French government did not recognize its own right or duty to intervene for the protection of French creditors in Portugal.³⁰ Nevertheless, in some cases, they intervened in various ways to secure the repayment of public loans due to their subjects.

26 Henri Marc Imbert, *Les emprunts d'États étrangers*, Paris 1905, pp. 63-64; Kebedgy, p. 62, Politis, p. 221; Borchard, Jackson, Feilchenfeld, p. 158-159.

27 Borchard, *The Diplomatic Protection of Citizens Abroad*, p. 314.

28 Borchard, p. 315.

29 H. Feis, *Europe, The World's Banker, 1870-1914*, Yale University Press, 1931, p. 105.

30 Kebedgy, pp. 67-68.

They approved financial control arrangements between banks, bondholders' organizations, and debtor states, as in the case of Turkey (1881) and Serbia (1904). Sometimes they established a joint intervention undertaking fiscal control, as in Tunisia (1868), Greece (1897) and Egypt (1880).³¹

In some other cases, states directly intervened by resorting to the use of military force. In 1861 in Mexico and in 1880 in Egypt, the most important example of such intervention was the blockade of Venezuela by Germany, Britain and Italy in 1902.³² The direct intervention of states in Venezuela in the form of a naval blockade ended with the Washington Protocol with the mediation of the USA and the matter was transferred to the international arbitration court. The use of force in the collection of receivables arising from the contractual obligations of states made the USA concerned and led it to bring the issue to the agenda at the Second Hague Conference.³³ The statement of Dr. Luis Drago, the Argentine Foreign Minister, against the use of armed force in the collection of public debts on 29 December 1902, following the common intervention of the United Kingdom, Italy and Germany against Venezuela, created a doctrine in international law in this sense.³⁴ As a matter of fact, the original title of the conference, "Limitations of the Employment of Force for the Recovery of Contractual Debts," prohibited the use of force by states in the collection of receivables, except for the refusal of the debtor state to arbitrate.³⁵

It is noteworthy that whatever the form of the interventions implemented by states due to the receivables of their subjects, they were always used against weaker states. This situation was also expressed by some statesmen and writers. According to Mr Pradier-Fodéré, a counsellor of the Cour d'appel de Lyon, the direct intervention was a violation of independence and was the result of abuse, since such intervention had never been used against powerful states.³⁶ Nicolas Politis emphasized this point, stating that, in practice, states intervene with varying degrees of ease and precision, contingent upon whether they are operating within a context of a weak government or a strong government. Politis therefore characterizes the attitude of the great powers in this respect as discriminatory.³⁷ Bouchard underlines that there was no intervention when Spain, Italy and Austria suspended their similar obligations by not fulfilling them and supports the view that intervention is applied against weak states.

31 Borchard, pp. 312-313.

32 Borchard, *Contractual Claims in International Law*, p. 486.

33 "Germany, Great Britain and Italy v. Venezuela et al. 1908", *The American Journal of International Law*, II/4, 1908, pp. 902-911.

34 Luis M. Drago, H. Edward Nettles, "The Drago Doctrine in International Law and Politics", *The Hispanic American Historical Review*, Vol. 8, No.2, 1928, pp. 204-223.

35 George Winfield Scott, "Hague Convention Restricting the Use of Force to Recover on Contract Claims", *The American Journal of International Law*, II/1, 1908, p. 78-94.

36 Kebedgy, p. 65.

37 Politis, p. 219.

Therefore, he stated that intervention against indebted states is a matter of power and politics rather than the rule of law.³⁸

Control Over the Markets: Paris Stock Exchange

State control over markets has been practised since the beginning of the eighteenth century, when the first foreign borrowings started to be made in the Amsterdam market. The Dutch government, which did not want rival countries to benefit from borrowing due to its own political concerns, banned the distribution of foreign loans without permission with a decision dated April 7, 1700. This decision of the Dutch government was subsequently implemented by England and France.³⁹ This attitude continued in the 19th century, and states were in an approach against international capital flight. In fact, in 1848, Lord Palmerston, in the continuation of his famous speech, emphasised that the Great Britain governments did not approve of their citizens investing their capital in the debts of foreign states instead of using it at home. The strongest opposition to the outward flow of savings and the transfer of financial resources deemed necessary for the country's industry was experienced in France.⁴⁰

Towards the end of the century, the intensifying competition in world politics and the expansion of interest objectives resulted in the frequent exercise of official authority over capital flows. This triggered a markedly less favourable attitude toward foreign investment. Control, restriction, and the notion of transforming every loan into a tangible advantage became the prevailing attitudes among policymakers. The increase in the volume of foreign borrowing, which began in the 1890s, was considered disturbing and governments tightened their controls in this respect. In 1909, Prime Minister Aristide Briand revealed the prevailing view in France in stating, "French gold has spread all over the world. Our regret and concern are that this gold does not stay within the country." French investors and banks generally submitted to this governmental control.⁴¹

During the period when governments did not favour capital exports, they steered the planned foreign loans in accordance with their own political expectations. Generally, each case was assessed in its particular circumstances and various methods were used to discourage or prevent the granting of unapproved loans.⁴² The implementation of direct governmental interventions in the markets has occurred through a variety of means. These can be listed as follows: preventing the distribution of loans to foreign countries or encouraging financial

38 Bouchard, *The Diplomatic Protection of Citizens Abroad*, p. 314.

39 George W. Edwards, "Government Control of Foreign Investments", *The American Economic Review*, Vol. 18, Issue 4 (Decembre 1928), pp. 684-685.

40 Jacob Viner, "Political Aspects of International Finance", *The Journal of Business of the University of Chicago*, Vol. 1, No.2, 1978, p. 145.

41 Feis, p. 123-124.

42 Viner, p. 157-158.

institutions to extend loans; guaranteeing the interest and principal payments of the loan; conducting loan transactions under the governmental control; and preventing the trading of the objected loan on the stock exchange.⁴³

Three different methods of intervention were used to harmonise and steer French lending towards France's political interests. First, the government prevented the granting of loans to countries whose political actions were seen as hostile or whose interests conflicted with those of France. Second, the government used its links with the financial community and its influence over public opinion and the press to facilitate loans from allied states or to obtain political advantages in return. Third, the acceptance of the listing of a loan on the Paris Stock Exchange is made conditional on certain guarantees or indemnities in France's interests.⁴⁴ As will be seen later on, the argument that France wanted to use in the Consolidation Project was to prevent the listing on the Paris Stock Exchange. For this reason, the following section will present a critical examination of the fundamental premises of the argument under discussion.

Russia	7.0
Türkiye	2.0
Spain ve Portugal	4.5
Austria-Hungaria	2.5
Balkan States	0.7
Italy	1.7
Switzerland, Belgium and Netherlands	1.0
H. Feis, <i>Europe, The World's Banker, 1870-1914</i> , Yale University Press, 1931, p. 51.	

Before the First World War, Paris was recognised as the world's largest market for government bonds. From 1875 onwards, the Paris Stock Exchange rivalled London in terms of the volume of capital outsourced for the next half century. This capital capacity, supported by stability and low interest rates, made Paris a centre of attraction. From 1875 to 1914, the rate of discount in Paris never rose to 4% and was generally kept at 3%. By the end of the nineteenth century, this rate had fallen to 2%. These were also the lowest rates in the world.⁴⁵ Under these circumstances, other governments made Paris the focal point of their financial plans. They turned to French investors for loans that they could not obtain from their domestic markets and for deficits that they could not cover. Russia provided financial support for the construction of its infrastructure, while the Austro-Hungarian Empire received investment in railways, industry, and banking. Similarly, Italy benefited from French capital in the initial stages of its unification. French banks and syndicates directed French savings to the

43 Hüseyin Al, *Ondokuzuncu Yüzyılda Ülke Riski, Finansal Politik, İngiliz Tahvil Sahipleri ve Babıalı*, İstanbul Üniversitesi Sosyal Bilimler Enstitüsü, PhD thesis, İstanbul 2005, p. 54.

44 Feis, p. 134.

45 Feis, p. 33.

territories of states which were unable to build their own industrial organisations. Railways, bridges, ports, gas and power plants were built in Russia, Turkey and Latin America. They have also made sudden fortunes by acquiring shares in investments such as the South African gold mine, the Royal Dutch Petroleum Company or the Canadian Pacific Railway.⁴⁶

A brief history of the state's control over foreign loans through the stock exchange in France shows that from 1785 to 1823, when this method was first applied, foreign loans approved by France were granted to its politically recognised allies or vassals. These loans were granted to the King of Saxony in 1811, to the Kingdom of Naples in 1818 and to Sicily in 1821. The legal foundations for the official control that the French government could exercise over foreign loans were laid at this time and were later extended. A royal edict of May 29, 1816, gave the minister of finance supervisory powers over the Paris Stock Exchange. The decree of November 12, 1823, authorised the official listing of foreign government bonds on the Paris Stock Exchange, subject to the approval of the Minister of Finance (economic considerations) and the Minister of Foreign Affairs (political considerations). In 1858, the listing privileges were extended to foreign railway securities and in 1859 to foreign corporate securities in general, in each case subject to ministerial approval. A decree of December 15, 1875, gave the Minister of Finance the right to prohibit the public offering in France of a foreign loan other than that of a sovereign state, regardless of whether listing privileges were sought.⁴⁷

After that, in France, the control through the 'official listing list' on the Paris Stock Exchange, which provided the government control over foreign loans, was primarily provided by the *Chambre Syndicale des Agents de Change* under certain headings. Through this organisation, the French government was informed before a loan; thus, according to its decision, the listing of securities on the stock exchange could be prevented.⁴⁸ The decree of February 6, 1880, provided for the official listing of all foreign securities. By decrees of October 7, 1890, August 12, 1896, and June 22, 1898, the *Chambre Syndicale des Agents de Change* was given the right to refuse listing without referring to the Minister of Finance alone. However, the Minister of Finance reserved the right to prohibit the negotiation of a foreign security in France in any case.⁴⁹

An official listing on the Paris Stock Exchange was not always vital but important for the successful listing of a large state loan in France. For a foreign government, the public offering of a loan in France after being denied official listing would signify serious loss

46 Feis, p. 37-38.

47 Henri Becker, *Les emprunts d'États étrangers*, Paris 1880, pp. 24-28; Viner, p. 158-159.

48 M. Georges Guichard, *De la protection de l'épargne nationale et des syndicats de Porteurs de valeurs étrangères*, Paris 1901, pp. 40-44.

49 Guichard, p. 38.

of prestige and devaluation of its credit. The official veto power over official listing was therefore an effective means of control over foreign credit fluctuations in pre-war France.⁵⁰ This intervention method was intensively applied in France from the last quarter of the 19th century until the First World War. In this way, many loans contrary to France's political interests were prevented. For example, Japan's request for a loan from the Paris market in 1901 was blocked due to the growing partnership between Russia and the French government during this period.⁵¹ In another example, when Argentina decided to use the German firm Krupp instead of the French firm Schneider for the purchase of artillery in 1908, it was threatened that its new loan with an interest rate of 5% would not be listed on the Paris Stock Exchange.⁵²

Table 2. Distribution of Series Bonds by Country Before and After The Conversion

Country	January 1902		February 1905	
	Approximate Amount (Turkish Lira)	Percentage	Approximate Amount (Turkish Lira)	Percentage
France	35.000.000	44,9	20.116.740	67,70
Belgium	14.000.000	17,9	2.111.160	7,10
Germany	9.500.000	12,8	2.705.500	9,10
England	8.500.000	10,9	2.819.640	9,49
Türkiye	5.000.000	6,4	881.060	2,96
Netherlands	3.500.000	4,8	435.240	1,46
Austria – Hungary	1.500.000	1,9	22.960	0,07
Italy	1.000.000	1,2	618.020	2,08
Total	78.000.000		29.710.320	

Archives du Monde du Travail (ANMT), Association nationale des porteurs Français de valeurs mobilières, 65/AQ/A/43.

Due to the close relationship between international politics and finance in France, France's influence was more pronounced in the context of the Paris Stock Exchange than in the realms of military conflicts or diplomatic relations.⁵³ According to Jacob Viner, France's blockade of foreign credit access to the Paris Stock Exchange, especially through the Ministry of Foreign Affairs, was a quiet but energetic argument of pressure. It was the Ministry's usual task to keep a close eye on the activities of the big banks in international finance and to communicate the government's wishes.⁵⁴ However, state intervention in money markets, as in the case of the use of the Paris Stock Exchange, was seen as an argument to prevent the emergence of disputes arising from debt contracts. Scholars of jurisprudence posit that a state, recognising its obligation to defend all financial transactions of its subjects, could intervene

50 Viner, pp. 159-160.

51 Edwards, p. 689.

52 Edwards, p. 689.

53 Edwards, p. 688.

54 Viner, p. 162.

to exclude from the market all financial transactions which, albeit carried out on behalf of a foreign government, were not sufficiently secure and whose execution was not sufficiently guaranteed by the solvency of the debtor. In this way, the parties concerned would be warned in advance and a much more prudent and practical behaviour would be adopted than state intervention.⁵⁵

The Prospects of French Bondholders During the Consolidation Project

The right to represent French foreign bondholders was under the control of the major French bankers and stockbrokers at the time when the Muharram Decree was promulgated. The representation consisted of the *Banque de Paris et des Pays-Pas*, *Crédit Lyonnais*, *Comptoir National d'Escompte*, *Société Générale*, and the Ottoman Bank (*Syndicat de Banques et d'Etablissements de Credit*), which formed the committee in Paris.⁵⁶ The establishment of an organisation to represent bondholders in France, as in the United Kingdom, came later in 1898. The *Association Nationale des Porteurs Français de Valeurs Étrangères* was supported by the state in order to protect France from any intervention contrary to its policies in case of a dispute with a foreign state over French investors.⁵⁷

However, the involvement of stockbrokers under the supervision of a commission reporting to the Minister of Finance was criticised on the grounds that decisions were taken in favour of stockbrokers and against the interests of bondholders. Bondholders reacted against the submission to the political objectives of the French government.⁵⁸ An example of this was seen during the conversion of Spanish external debt in 1900. The organisation was accused of being indecisive in its dealings with the Spanish government and other national bondholder organisations, subject to manipulation and bowing to political pressure from the French Minister of Finance. The accusations mainly centred on the fact that the Caillaux administration had encouraged bondholders to accept the terms offered by Spain in order to appease the banking institutions in Paris.⁵⁹ A similar situation arose at the very beginning of the process of the consolidation of the Ottoman external debt. On June 13, 1902, in a telegram to Constans, the French Ambassador in Istanbul, Foreign Minister Delcassé was of the opinion that whatever the consequences of the project for bondholders, they should be directed in the general interests of France.

55 Kebedgy, p. 64.

56 Charles Morawitz, *Türkiye Maliyesi*, Maliye Bakanlığı Tetkik Kurulu Yayınları, 1979, p. 185.

57 Feis, p. 154.

58 Esteves, p. 50.

59 Eugene Lacombe, "La défense des porteurs de valeurs étrangères", *Revue Politique et Parlementaire*, Tome XXVI, 1900, p. 242; For more information on the case; G. Manchez, "La rente extérieure espagnole et le projet de Convenio", *Revue Politique et Parlementaire*, October, 1900.

Thus, it was clear that the interests of bondholders would be overshadowed by the political interests of France, just as in the case of Spain.⁶⁰

In their communiqué to the French Ministry of Finance dated March 3, 1902, the bondholders' organisation, wishing to avoid political pressure, emphasised the quality of representing the holders by protecting their rights and underlined that the project could not be carried out without consulting them as the representatives of the holders in the process of the consolidation of the Ottoman debts. Bondholders recalled the assurance that they had received from the Ministry at the beginning of the negotiations. Thanks to this assurance, the organisation had informed both the holders of Ottoman bonds and the banks and credit institutions carrying out the operation that they were the competent authority on behalf of the holders. At the same time, the Minister of Foreign Affairs, Mr. Delcassé, agreed with the assurance of the Ministry of Finance.⁶¹

In this way, bondholders aimed to preclude the financial institutions representing the holders from prioritising their own interests and to prevent their rights from being ignored for the sake of the political interests of the French government. To this end, they assumed direct representation. They argued that full independence should be ensured and their representation capability should be strengthened; otherwise, the confidence in them would be undermined.⁶² For this reason, the French Ottoman bondholders' committee wanted the French government to recognise that they had the right to represent the holders. In the communiqué they sent to Delcassé, it was reminded that bondholders had been granted the right of representation by the royal decree dated Muharrem 28, 1299 (December 20, 1881) and that they had the right to give their consent to any changes that might be made in the future.⁶³

The main purpose of representation was to determine a board of creditors for each nation. This representation was manifested in different ways in different countries. In England, the Council of Foreign Bondholders was a special organisation to represent the holders. In France, where no such organisation existed at that time, representation was entrusted to the

60 *Archives Diplomatiques du Ministère des Affaires Etrangères (ADMAE)*, Archives diplomatiques, Nouvelle Série, Turquie, Vol. 355, No. 161; In this period when the French politicised all forms of debtor-creditor relations, the Lorando-Tubini Creditor Affair of 1901 can be presented as a good example in terms of its consequences. In this case, approximately two months before Rouvier presented his project, the French navy arrived on Lesbos Island after Ambassador Constans had left Istanbul, claiming that the Ottoman Empire was delaying the payment of the debts of two French families. France found the solution to this issue, which led to a diplomatic crisis between the two countries, in the use of force. As a result of the increasing tension, along with the payment of the receivables, the proposal including the recognition and improvement of France's cultural and charitable institutions in the Ottoman lands was accepted. Metin Ünver, Murat Hulkiender, *II. Abdülhamid Dönemi Osmanlı Fransız İlişkilerinde Krizler ve Çatışmalar, 1901 Hadisesi, Lorando-Tubini Meselesi*, İlgü Kültür Sanat Yayınevi, İstanbul 2018.

61 ADMAE, *Turquie*, Vol. 356, No. 32-36; ANMT, 65/AQ/A/43.

62 Lacombe, p. 259.

63 ADMAE, *Turquie*, Vol. 355, No. 116-120; ANMT, 65/AQ/A/43.

Association of Banks. It was clear that if the French Bondholders' Organisation had existed in 1881, it would have been regarded as the direct representative of the holders, as was done for the Council of Foreign Bondholders, which was a private organisation. The bondholders' organisation therefore informed the French government that it was perfectly reasonable for it to be entrusted with representing the holders in order to consent to any change in the existing situation.⁶⁴

The Committee considered that the legitimacy of the Syndicate of Financial Institutions, which had the right of representation available under the Decree, was no longer valid. First of all, at the time the Decree was made, the syndicate of organisations regulating it no longer existed as before. Following the closure of *Le Comptoir d'Escompte*, *La Société Des Depots et Comptes Courants*, and *La Banque d'Escompte*, the holders represented by these organisations were deprived of representation. Secondly, the credit institutions had a fictitious representation with which the holders could communicate directly and which was not capable of taking official decisions and defending their interests as in England.⁶⁵

On May 23, 1902, the organisation contacted the *Syndicat des Etablissements Financiers* mentioned in the Muharram Decree and their representative in the Ottoman Public Debt Administration, Leon Berger. In their reply, the *Syndicat des Etablissements Financiers* stated that they would consider the bondholders' organisation as a priority. Berger referred to this reply from the Syndicate of Financial Institutions and stated that he would comply. Subsequently, the banks managing the project were notified that, in the opinion of the Ministry of Finance, the organisation was the appropriate body to bring the holders together and gather their views. After nearly a year, despite the changing course of the negotiations, it appears that the assurance that they would be addressed remained invalid. For February 12, 1903, the organisation felt that the role of the organisation needed to be redefined as the direction of the negotiations had changed. Machart, Chairman of the Committee of Ottoman Bondholders, asked Rouvier that if he felt that Ottoman bondholders had a right to follow the negotiations and express their views, the organisation should be informed of the negotiations and given the opportunity to present its views before a final decree was made. This would be done by the Ministry formally presenting the decision to the credit institutions and their representative Berger in Istanbul. However, the British and German shareholders had already set up special committees to reach an agreement, while the French owners were deprived of any direct representation outside the consortium.⁶⁶

The organisation contacted the banks involved in the Consortium and Léon Berger, the French representative at the Ottoman Public Debt Administration. The banks involved in the

64 ADMAE, *Turquie*, Vol. 355, No. 116-120; ANMT, 65/AQ/A/43.

65 ADMAE, *Turquie*, Vol. 355, No. 116-120; ANMT, 65/AQ/A/43.

66 ADMAE, *Turquie*, Vol. 356, No. 32-36; ANMT, 65/AQ/A/43.

Consortium had indicated that they would give priority consideration to the bondholders' association. Berger, referring to this reply from the Consortium, stated that he would abide by this decision. Subsequently, the French Ministry of Finance notified the banks that the association was the most appropriate organisation to bring the holders together and gather their views.⁶⁷ Thereafter, the association would negotiate and vote on behalf of French bondholders.

Another demand of bondholders was the provision of diplomatic protection by the French government. In the meeting held on June 29, 1903, reference was made to the Muharrem Decree and it was pointed out that the decree was also a diplomatic agreement.⁶⁸ French bondholders expected the French government to officially recognise the new decree by their state. In this way, it was hoped that diplomatic protection would also be provided. In this regard, it is necessary to remind the relevant feature of the Muharrem Decree. Although the Muharrem Decree was perceived as a directive issued by the Ottoman Empire, it possessed a distinctive attribute that ensured the protection of interstate law, thereby distinguishing it from other similar decrees. The fact that the negotiations commenced with the Ottoman side's pledge during the Congress, and that the decree was presented to other states in Article 21, lends further support to this assertion.⁶⁹

On November 3, 1903, on behalf of French bondholders who wished to maintain the aforementioned feature of the Muharrem Decree in the new supplementary decree, Leon Berger, the Chairman of the Board of Directors of the Ottoman Empire, informed Constans of his views on the official sharing of the new decree with the major states. Berger, who shared copies of the decree with the embassy, reminded that in accordance with Article 21 of the Muharrem Decree, the decree had previously been sent to the Ottoman state's representative offices in Europe to share it with governments. Since it was not known at the time whether the new fiscal administration had any chance of stabilisation, the great powers did not consider it necessary to receive official notification. After 22 years, conditions were not the same as before. The Ottoman government had fulfilled its obligations, thereby eliminating the rationale that had previously justified the conservative stance of the powers. It was therefore necessary to formally recognise the new decree for the holders of Turkish funds and especially for French savings, which were heavily involved in Turkish affairs. Berger put forth a recommendation based on the rationale he had previously outlined that the French Ministry of Foreign Affairs should officially accept the supplementary decree from the Embassy in Paris.⁷⁰

67 ADMAE, *Turquie*, Vol. 356, No. 32-36; ANMT, 65/AQ/A/43.

68 ADMAE, *Turquie*, Vol. 356, No. 93.

69 Morawitz, p. 189; They, p. 39.

70 ADMAE, *Turquie*, Vol. 356, No. 195.

Following the insistence of bondholders, Constans replied on December 7, 1903, that he had been notified by Münir Pasha of the Decree for official approval.⁷¹ Mr. Delcassé asked Mr. Rouvier's views on the issue of formal approval. Rouvier reminded that the French government was already aware of the entire negotiation process and that French bondholders had unanimously approved the project. Rouvier recommended that the official notification be made, stating that "taking into account an agreement between the Ottoman government and its creditors, we have the opportunity to intervene more effectively in case the arrangements made are not fulfilled."⁷² Delcassé then informed İstanbul that the Decree communicated by Münir Bey would be accepted and recognised as a voucher. The French officially adopted the Annex Decree on February 22, 1904.⁷³

Expectations of French Diplomacy from the Project

In the last quarter of the 19th century, due to the competition in world politics, especially interventions by England, Germany and France in the markets have increased. From this period onwards, they have endeavoured to direct financial issues in line with the political needs and interests of states.⁷⁴ This situation became more evident at the beginning of the twentieth century, when France's rivalry with Germany in the Ottoman territories intensified.

At the beginning of the 20th century, France sought to expand its interests in the Ottoman Empire in two key regions: Anatolia and the Eastern Mediterranean (Levant). This expansion led to competition with other states due to the geostrategic potentials these regions held. The increasing influence of Germany in the Ottoman Empire led France to adopt a more active political attitude, especially since 1898.⁷⁵ The most serious threat to France's interests was the Baghdad Railway Project, which would ensure Germany's presence and expansion in the regions it held. From the end of the 19th century onwards, German companies and banks were engaged in activities to exploit the wealth of the Ottoman Empire. German investors were particularly interested in the wealth of Anatolia and Mesopotamia. However, in order to increase investments, it was also necessary to develop transport activities. The Baghdad Railway Project was conceived to serve this purpose.⁷⁶

71 ADMAE, *Turquie*, Vol. 356, No. 216.

72 ADMAE, *Turquie*, Vol. 356, No. 218.

73 ADMAE, *Turquie*, Vol. 356, No. 201.

74 Miles Kahler, "Politics and International Debt: Explaining the Crisis", *International Organization*, Vol. 39, No. 3 (Summer 1985), p. 362.

75 L. Bruce Fulton, "France and the End of the Empire", *The Great Powers and the End of the Ottoman Empire*, Ed. Marian Kendt, Frank Cass, London 1996, p. 137.

76 İlber Ortaylı, Osmanlı İmparatorluğu'nda Alman Nüfuzu, Kronik Kitap, İstanbul 2018, p. 111. Kemal Beydilli, "Bağdat Demiryolu", *Diyanet İslam Ansiklopedisi*, C. 4, 1991, pp. 443-444; Another development that increased Germany's political pressure on the project was the appointment of Marschall von Bieberstein as the German Ambassador to İstanbul on 15 February 1897. With his arrival, the idea of extending the line was strengthened. Marschall, who endeavoured to increase Germany's influence in the Ottoman lands during his 15-year stay in İstanbul, was one of the strongest supporters of Wilhelm II's weltpolitik ideal. Murat Özyüksel, *The Berlin-Baghdad Railway and the Ottoman Empire, Industrialization, Imperial Germany and the Middle East*, I.B. Tauris, 2016, pp. 46-47.

In this direction, the granting of a concession to the Anatolian Railways Company, which was to be established with German capital, stimulated French diplomacy. In 1888, Alfred Kaula received the concession for the construction of the Izmit-Ankara railway and the French supported and completed the construction of certain lines in Syria and Lebanon within a ten-year period. The railway projects of the Germans were concentrated on Anatolian lands, that is, in areas where French investments were dominant.⁷⁷ During the visit of Wilhelm II to Istanbul in 1899, it was agreed to extend the line from Konya to Baghdad-Basra.⁷⁸ On January 21, 1902, a concession agreement was signed for the project and on March 21, 1903, a contract was signed for the financing of the first 250 km Konya-Ereğli line. On March 5, 1903, the Baghdad Railway Company (*Société Impériale Ottomane du Chemin de Fer de Bagdad*) was officially established. This company was dominated by German capital, while French capital was kept at 30 percent.⁷⁹

Even though the bureaucratic steps for the construction of the line seemed to have been completed, the problem of financing the line always remained topical. From the outset, those with a financial interest in the Baghdad railways were aware that self-financing was not a viable option. Therefore, they tried to take some measures to safeguard their interests. However, the solution found by the Ottoman government to convince them that their capital would be repaid was the mileage guarantee, which had been applied before. In order to provide reassurance to foreign capital, the Ottoman government agreed to offer the company a specified sum per kilometre, taking into account the political and administrative advantages it planned to provide. From 1888 onwards, this system was included in the railway concessions granted in the Ottoman territories and was seen as a *sine qua non* by the investors for the realisation and maintenance of the projects.⁸⁰ In order to overcome this problem, Germany desired to utilise the surplus income of the Ottoman Public Debt Administration, which was proposed by Rouvier with the project of the consolidation of debts.

77 Alexandre Ilitch, *Le Chemin de fer de Bagdad au point de vue politique, économique et financier, ou l'expansion de l'Allemagne en Orient*, Misch & Thron, Michigan 1913, p. 33.

78 Ilitch, pp. 35-36; Özyüksel, p. 65.

79 Kemal Beydilli, pp. 443-444; The company's board of directors consisted of 11 Germans, 8 French, 4 Ottomans, 2 Swiss, 1 Austrian and 1 Italian. The general manager of the company was Von Gwinner, one of the leading statesmen of Prussia, and Deutsche Bank had a significant influence in the company. Ilitch, pp. 115-117.

80 André Chéradame, *La question d'Orient, La Macédoine, Le Chemin de fer de Bagdad*, Plon Nourrit, Paris, 1903, pp. 149-150; Özyüksel, p. 80.

Table 3. Sharing the Revenues and Surpluses of Ottoman Public Debt Administration (Turkish lira)

Year	Revenue	Surpluses	Share of the Ottoman Government (75%)	Share of the Administration (25%)
1903-1904 (6 Months)	2.971.983,81	517.83	338,37	129,46
1904-5	3.046.725,64	336.101,17	252.075,88	84.025,29
1905-6	3.221.528,56	500.181,60	375.136,20	125.045,40
1906-7	3.225.911,66	495.834,58	371.875,93	123.958,65
1907-8	3.919.002,29	1.151.039,72	863.317,29	287.772,43
1908-9	87,.4.191.689	1.401.085,80	1.050.814,35	350.271,45
1909-10	4.543.838,51	1.748.923,40	1.311.692,55	437.230,85
1910-11	4.779.748,74	1.908.936,62	1.431.702,47	477.234,15
1911-12	5.061.335,55	1.969.223,21	1.476.917,41	492.305,80
1912-13	4.536.604,80	1.585.959,04	1.189.469,28	396.489,76
1913-14	5.382.472,16	2.228.538,81	1.671.404,11	557.134,70
Total	44.881.494	13.326.391,78	9.994.793,84	3.331.597,94

Sait Aba, Osmanlı Devleti'nin Dış Borlanması, Vadi Yayınları, Ankara 2004, p. 131.

In this period, France's main concern seemed to be the prevention of German capital, which was heavily represented in the Baghdad Railway Project. France's Charge d'Affaires in Istanbul, Edmond Bapst, who expressed his discomfort to Paris on this issue, also mentioned the increasing role of Germany. According to him, the capital represented by the Anatolian Railway Company and Deutsche Bank was developing directly against French capital. This had a direct impact on France's prestige.⁸¹ At this juncture, the Consolidation Project presented the French with an opportunity that aligned with their objectives. As a matter of fact, Rouvier, who explained the requirements of the project to Foreign Minister Delcassé prior to the start of the unification of the debt negotiations, stated that it would be formed within a template that would serve France's interests in the East. Thus, Rouvier initiated a process that coincided with the aims of French diplomacy.⁸²

In his assessment of the issue, Constans emphasised that the majority of Ottoman foreign debt bonds were held by French bondholders and questioned the political gains for France. Constans argued that even though it was known that the majority of the debt had been provided by securities offered by the French since 1881, this did not bring any significant political benefits to France.⁸³ Constans described the project in stating, "I consider that the consolidation of the Ottoman debts, prepared in France and carried out by Rouvier, will have a great effect, very favourable to our interests in this country." By using it, the project would make it much easier to resolve many long pending issues of interest to France. The

81 ADMAE, *Politique Étrangère, Dossier Général Relations avec les Puissances, Question d'Orient Panislamisme*, Vol. 175, pp. 28-46, (Septembre 1902).

82 *Document Diplomatiques Français (DDF)*, Série II, Tome II, 1901-1911, pp. 35-36.

83 ADMAE, Archives diplomatiques, Politiques extérieures, Vol. 337, No. 105-108.

project would also bring about a rapprochement between the Ottoman Empire and the French government.⁸⁴

Proposal for the Use of the Paris Stock Exchange

Whether the French government would ignore the expectations of bondholders depended on the developments that emerged during the project process. Seeking ways to save the Baghdad Railway Project from the negative impact it would have on French interests, the French government turned to the views pointed out by Constans during the debt consolidation operation. Constans stated that it would not be possible for the Ottoman Empire to undertake a new stabilisation; therefore, it needed the revenues to be obtained from the unification of debts project and that this was essential for the Baghdad Railway Project. The German group was also aware that the realisation of the Baghdad Railway Project was almost impossible without the Consolidation Project. Even if the railway line extended to the Taurus Mountains, the project was likely to come to a halt as the cost would increase after that point. Constans drew attention to French assistance by saying “that is why they need us.” However, they presumed that they would be able to undertake a project that could not be completed without the French financial market, without sharing the benefits with them. France had a pivotal role in the unification process, a fact that was widely acknowledged by the Germans.⁸⁵

Constans held the view that the consolidation of debts should be contingent upon France’s representation on the Baghdad railroad line to a degree commensurate with that of Germany. France’s political position in Turkey could thus be improved by the implementation of a project from a French financier.⁸⁶ The demands that could be presented as a condition for France’s support in the operation of the consolidation of Ottoman debts were as follows:⁸⁷

1. Equal participation of the French group with the German group in the Baghdad Railway Company,
2. Permission to extend the Izmir-Kasaba railway line by Abdülhamid II,
3. Arrangements with the French on matters concerning the Istanbul Docks Company,
4. Guarantee for the extension of the Damascus, Haasan and Maghreb line from Caiffa.

While this was being discussed at the French Palace in Constantinople, a report sent by the Policy Department to the French Minister of Foreign Affairs in Paris, commenting on

84 ADMAE, *Turquie*, Vol. 355, No. 122-124.

85 DDF, *Sérié II*, Tome III, No. 303; ADMAE, *Nouvelle Sérié, Turquie, Chemin de fer de Bagdad*, Vol. 336, p. 131-133.

86 ADMAE, *Turquie*, Vol. 355, No. 162.

87 ADMAE, *Turquie*, Vol. 356, No. 156.

Constans' recent telegram, fully sets out the French approach to the matter. The financial operation in question involved, from a technical point of view, the modification of the interest and amortisation of various Turkish debts, and questions which each of the shareholders' unions and the Ministry of Finance had to consider in this context. At this point, it would not directly concern the French Ministry of Foreign Affairs. It was the political consequences of the project to which the Foreign Office had to pay particular attention. First and foremost, the project would enable Germany to hold most Ottoman bondholders and guarantee its place in the administration, from which it had hitherto been excluded. At the same time, it would add a few more Ottoman delegates, allowing the Ottoman government to impose its opinions.⁸⁸

Th report emphasised that France had always maintained that the Muharrem Decree was not a unilateral act of the sultan but had a real international value. As a matter of fact, the statement in the note given by Russia to the Ottoman government in December 1896 as a measure for the implementation of Article 18 of the Treaty of Berlin, declaring that in case of violation of the Muharrem Decree, "creditors will recover all their former rights" was an important proof of this. Under these circumstances, any development affecting the organisation of the Ottoman public debt could lead to the intervention of foreign powers and had to be scrutinised with great care. It was therefore advisable for French interests to ensure, as Constans had requested, a perfect harmony between Mr. Rouvier's ideas and the attitude of the Embassy. For this reason, the Policy Department indicated to Foreign Minister Delcassé, in favour of the views of Constans, that the attitude to be adopted concerning the negotiations should be as described above.⁸⁹

Delcassé thought that a road map could be followed based on Constans' views. Indeed, he agreed to determine to what extent France's means of action could be preserved and what benefits could be derived from them, both against the German syndicate in the case of the Baghdad railways and for the consolidation of debts in other matters.⁹⁰ Accordingly, on July 11, 1902, Delcassé contacted Rouvier after receiving news that the Ottoman government had accepted Rouvier's project. Stating that the Baghdad railway negotiations had been postponed due to the pending unification of debts, he asked Maurice Rouvier not to offer any incentives or make any decisions regarding the unification of debts without the acceptance of France's demands in the Baghdad railway line negotiations.⁹¹

French diplomacy tried to gain time by preparing sanctions to be imposed on the Ottoman government if its proposals were not accepted. Constans soon advised that the project should not receive the support the Ottoman Empire had hoped for and that the Paris Stock Exchange

88 ADMAE, *Turquie*, Vol. 355, No. 153-154.

89 ADMAE, *Turquie*, Vol. 355, No. 153-154.

90 ADMAE, *Turquie*, Vol. 356, No. 83.

91 DDF, *Sérié II*, Tome II, p. 334.

should not list new Ottoman bonds without concessions in favour of France.⁹² In his reply, Delcassé stated that the new railway lines to be built based on the capital of other states would negatively affect French interests and emphasised some issues in particular. Accordingly, if the line extending from Konya to the Persian Gulf in the Baghdad project reached Aleppo with a section towards the extreme point of the Gulf of Alexandria, the Syrian railways with French capital would become insignificant. It was therefore necessary to take precautions against the foreseen dangers. This measure was, as Constans stated, the rejection of newly issued Ottoman bonds on the Paris Stock Exchange unless France was provided with the guarantees it wanted during the consolidation of debts.⁹³ However, in order to achieve the harmonisation recommended by the Policy Department of the French Ministry of Foreign Affairs, it was necessary to convince Rouvier that it was in France's interests to intervene in the debt consolidation negotiations.

Rouvier's Resistance to the Use of the Stock Exchange as an Element of Repression

Delcassé informed Rouvier that Constans had recommended that the new bonds be rejected in the consolidation of debts unless the necessary conditions for equal rights and privileges over the Baghdad railway could be arranged between the French and German groups. Delcassé emphasised that the French government was free to take whatever decisions it deemed necessary to protect its general interests (*liberté d'action*). Therefore, he asserted that he would not endorse any project for the consolidation of Ottoman debts until a consensus had been reached on the structure and operational framework of the company and on all matters pertaining to the construction and operation of the line. These stipulations demanded absolute equality between the elements with no room for ambiguity. He therefore expressed his belief that the consolidation operation should be suspended until France's wishes were satisfied. Otherwise, the resources obtained from the consolidation of debts would fall into the Sultan's hands and France would lose its instrument of sanction. Delcassé informed him that he would soon send some instructions to Constans on the subject and that he was curious about Rouvier's thoughts before doing so.⁹⁴

Rouvier agreed that the Ottoman government should be asked to provide a fair settlement of the difficulties caused to French companies, but he believed that bondholders, not the Turkish government, would be the ones to take the hit if the operation to consolidate Ottoman debts was blocked.⁹⁵ According to Rouvier, the Consolidation Project depended on the decision of the holders of Ottoman bonds and was in their interests. Constans' suggestion to

92 DDF, *Sérié II*, Tome II, p. 246.

93 ADMAE, *Turquie*, Vol. 356, No. 87-88.

94 DDF, *Sérié II*, Tome III, No. 347; ADMAE, *Turquie*, Vol. 336, No. 175-180.

95 ADMAE, *Turquie*, Vol.336, No. 158.

block the new bonds to be issued in the Stock Exchange in case France's demands were not fulfilled was not totally feasible because this blocking could only be valid when a new bond was introduced to the market. However, *Tevhîd-i Düyûn* bonds would replace the already valid bonds. This situation, which would not harm the Ottoman government, would be more detrimental to bondholders whose bonds were not accepted by the Istanbul Stock Exchange. The right timing for Constans' proposal would have been when the Ottoman government was seeking the admission of bonds for a new loan for the construction of the Baghdad railway to the Paris Stock Exchange. Rouvier indicated that France concurred with the view that it should have equal rights in the Baghdad railway project. However, he also noted that it would be disadvantageous for France to assume responsibility for preventing the unification of debts.⁹⁶

Rouvier seemed to have tried to defend his ideas here and to get them adopted. Therefore, he stated that he would be pleased to explain the consequences of France's decision not to accept the new Ottoman bonds to the Paris Stock Exchange as a trump card. Rouvier first addressed the debate on the admission of the new Ottoman bonds to the Paris Stock Exchange. Accordingly, if a government wanted to have its new securities issued in Paris, the threat of the French government's refusal to accept them could become a means of pressure. If the French holders of these foreign securities had bought them knowing that they would not be admitted to the stock exchange, they could blame themselves. But the situation was quite different when it came to the admission of a foreign security amounting to more than one billion francs, which had been traded on the Paris Stock Exchange for more than 20 years, to the stock exchange after its conversion. Such a reaction would indirectly affect the government which had issued it and which, moreover, was the holder of bonds that were popular in different parts of Europe. On the other hand, since the bonds owned by the French would immediately lose value, they would be the losers here. Thus, the rejection of the offering to the stock exchange would have meant the withdrawal of a right granted to the French holders. According to Rouvier, this was not a matter of introducing a new batch of bonds into the French market, but in fact meant deleting the Ottoman debt from the French Stock Exchange. While France wanted to put pressure on the sultan for its demands, at the same time it should not harm the French bondholders.⁹⁷

Delcassé was cautious about Rouvier's views. For this reason, he was afraid that the unification of debts project would be realised as a *fait accompli* without the demands of France for the Baghdad railway. In this way, he thought that France's hands would be tied. "I shall therefore be obliged to instruct the financial institutions to be warned by your Ministry not to participate in this matter without our approval. In a problem of this kind, the action

96 DDF, Série II, Tome III, p. 361; ADMAE, *Turquie*, Vol. 336, No. 193-195.

97 ADMAE, *Turquie*, Vol. 336, No. 231-232; ADMAE, *Turquie*, Vol. 356, No. 137-138.

of the government should be applied in France as it is applied in England and Germany.” Delcassé directly stated that the French government would effectively control the matter.⁹⁸

Delcassé tried to allay Rouvier’s concerns and stated that his policies would be successful if all departments of the government acted in concert. Delcassé stated that France was not considering measures to de-list Ottoman bonds from the stock exchange in the process of consolidation of Ottoman debts, only a possible postponement. Delcassé elucidated that, in consideration of the prevailing financial circumstances of the Ottoman Empire, the prospect of a loan integrated into the debt consolidation operation afforded the consortium the opportunity to utilize it as a potential instrument of action against the Sultan. Additionally, it appeared that this same process could also be employed as a means of action against Deutsche Bank.⁹⁹

Delcassé listed France’s conditions for the Baghdad railway project as follows:¹⁰⁰

1. The capital of the company to be divided into 45% French, 45% German and 10% other participation shares,
2. The management of the company to be divided between French and German delegates,
3. The members of the company’s board of directors to be equally distributed between the French and the Germans,
4. An official declaration that there would be no secret agreements with the Ottoman government other than the agreement between the French group and the German group.

After the negotiations, despite Rouvier’s opposition, Delcassé informed Constans that he saw no objection to a prudent intervention in the matter of debt consolidation. Constans, on the other hand, experienced some developments that changed his thoughts. Constans was informed by Gaston Auboyneau, the head of the Consortium, that Rouvier had stated that he could not continue to be part of a government that would refuse bonds in a project of which he was the author and which would favour French bondholders. Stating that this claim, rightly or wrongly, had become entrenched, Constans declared that the idea of closing the French market to an operation called the ‘Rouvier Merger’ did not prevent the Ottoman government, the Ottoman Bank or the Ottoman Public Debt Administration from continuing negotiations and therefore would refrain from any intervention unless otherwise stated. “I

98 DDF, Série II, Tome III, No. 374; ADMAE, *Turquie*, Vol. 336, No. 219-228.

99 ADMAE, *Turquie*, Vol. 336, No. 233-234.

100 ADMAE, *Turquie*, Vol. 337, No.2.

accept that it is impossible at the present time to gain any advantage from the financial transaction in order to solve some of our problems with the Ottoman government,” Constans said, but drew attention to the process that would occur for the new borrowing of £2,500,000 that was planned after the merger. Constans postulated that the government’s decision to borrow by pledging its surplus revenue as collateral would introduce complications into the process; however, it was precisely this process that he might utilize to resolve the outstanding issues between the Ottomans and the French government.¹⁰¹

During the negotiations, the French Foreign Office proposed that France offer its support to the project in exchange for certain demands, but in the face of Rouvier’s opposition, the Policy Department realised that it was impossible to insist.¹⁰² On the other hand, Rouvier’s opposition led to assessments in financial circles in France that he was collaborating with the Germans. The fact that the private bank operated by Rouvier was in contact with German financial institutions supported this view. According to the allegations, Rouvier was involved in the project of consolidation of Ottoman debts in agreement with the Deutsche Bank. Since this project was integrated into the Baghdad Railway Project, the German Embassy in Istanbul supported Rouvier’s proposals. According to André Chéradame, French and foreign diplomats in Istanbul also saw Rouvier as Germany’s collaborator in the project.¹⁰³ In support of this view, J. E. Favre drew attention to the shares of German companies in the Banque Rouvier and stated that it was no wonder that Rouvier was one of the most dedicated architects of the realisation of the Baghdad railway.¹⁰⁴ This issue was also brought up in the Paris daily *La Liberté*. The newspaper reported that the operation of the consolidation of Ottoman debts, which should have been carried out in favour of bondholders in Europe, was completely adapted to the interests of the Baghdad Railways Project, and that Rouvier was serving German interests.¹⁰⁵

While the debate between Rouvier and Delcassé continued in Paris, in October 1903, the French capitalists, with support from the Quai d’Orsay, received the best participation offer they could get from Berlin. With the agreement signed on October 1 in Brussels, the French group’s share was reduced to 30%, but 10% was given to the Izmir-Kasaba Railway Company, taking into account the share given to the Anatolian Railway Company. Rouvier, together with Constans, wanted the offer to be accepted. However, Delcassé opposed this. He deliberately brought the matter to a session of the Council of Ministers, which Rouvier did not attend, and the Council decided to reject Germany’s conditions.¹⁰⁶ In the justification,

101 ADMAE, *Turquie*, Vol. 356, No. 163-164.

102 ADMAE, *Turquie*, Vol. 356, No. 192.

103 Chéradame, p. 276-277.

104 J. E. Favre, *La capital français au service de l'étranger*, Paris 1917, p. 28-29.

105 Chéradame, p. 275.

106 DDF, *Série II*, Tome IV, 1901-1911, p. 19.

the failure to ensure full equality was explained by the fact that the presidency was given to the Germans. In order to solve this problem, it was suggested that either a rotating presidency or a dual presidency system should be introduced. With the German refusal to accept this offer, the listing of the Series 1 bonds of the Baghdad railway on the Paris Stock Exchange was prevented. Thus, the battle for the Baghdad railway in France was won by Quai d'Orsay. The French syndicate renounced the concessions it had won in October 1903 and disbanded. Rouvier and his partners announced that they would wait for Delcassé's dismissal before they could re-initiate.¹⁰⁷

The closure of the Paris Stock Exchange to new bonds weakened the hand of the Ottoman Bank, which included French capitalists, and on November 14, 1903, a deal was agreed where Deutsche Bank held a 40% share and the Ottoman Bank 30%. To finance the construction of the line, 100,000 Baghdad railway bonds of 4% interest rate, each worth 500 francs, were placed on the market in Berlin. The transaction was successful, and the process was completed with the opening of the first section of the line on October 24, 1904.¹⁰⁸ While the opposition of the Foreign Office was successful in the case of the Baghdad railway bonds, Rouvier's thesis prevailed in the listing of the Tevhîd-i Düyûn bonds.

Conclusion

The 1903 Tevhîd-i Düyûn Decree provides an illustrative case study for examining the expectations and attitudes of bondholders' associations and states during the restructuring of international foreign debt contracts at the beginning of the 20th century. In this instance, France assumed a leading role, given its dominant presence in the Ottoman bond market and the fact that its project was formulated by its own economists and financial institutions. Furthermore, the project process afforded an opportunity to observe the representativeness of French bondholders, who had formed their association a mere three years prior to the decree's drafting, and their relationship with their government.

Before the commencement of negotiations pertaining to the project, the French bondholders' association articulated their expectations to the French government in a series of distinct categories. The initial category pertained to the transfer of the power of representation from the association of banks, which had previously represented bondholders during the 1881 Muharram Decree, to the aforementioned association. In accordance with the aforementioned request of the association, the developments from February 1902, when Maurice Rouvier commenced negotiations with the Ottoman government, were shared. Subsequently, they participated in the process in a manner that ensured their representation

107 André Autheman, *Bank-ı Osmani-i Şahane*, Osmanlı Bankası Arşiv ve Araştırma Merkezi, İstanbul 2002, p. 188.

108 Autheman, p. 189.

of bondholders and the incorporation of their perspectives into the decision-making process. Indeed, this situation was met with approval by French bondholders.

Another demand of the association from the French government was the application of France's diplomatic protection on the contract in the same manner as in the Muharram Decree. During this period, the rights of states to intervene in foreign debt contracts were not exercised through the application of force, but rather through diplomatic intervention. However, in practice, such intervention was typically directed against weaker states, largely in accordance with political considerations. This judgement was in line with the view of French diplomacy, which was in close competition with Germany to protect and develop its interests in the Ottoman territories at the beginning of the 20th century. French interests should be considered first, regardless of the interests of bondholders.

In order to leverage its position in the project in a favourable manner, the French Foreign Office devised a strategy to impede the advancement of the Baghdad Railways Project, thereby ensuring that its interests would not be diluted by the involvement of the Germans. In order to achieve this objective, an argument that had been previously employed in analogous proceedings was advanced with the intention of preventing the bonds from being listed on the Paris Stock Exchange. Nevertheless, the implementation of this plan was precluded by the adamant opposition of Maurice Rouvier, the Minister of Finance, who asserted that it would inflict harm upon the interests of bondholders. As a result of Rouvier's stance, the bondholders' interests were safeguarded. Furthermore, the French Foreign Ministry's formal endorsement of the Tevhîd-i Düyûn Decree, akin to the Muharrem Decree, served to reinforce this position.

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