

BEYOND BELGIUM:
THE BUSINESS EMPIRE OF EDOUARD EMPAIN
IN THE FIRST GLOBAL ECONOMY (1880-1914)

Tobit Vandamme

Proefschrift voorgelegd tot het behalen van de graad van Doctor in de Geschiedenis

Beyond Belgium: The business empire of Edouard Empain in the First Global Economy (1880-1914)

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List of Abbreviations¹

- ACB**= Archives of the City of Brussels
ACDC= *American China Development Company*
***ACEC**= *Ateliers de constructions électriques de Charleroi*
***ACENE**= *Ateliers de constructions électriques du Nord et de l'Est*
AEG= *Allgemeine Elektrizitäts-Gesellschaft*
AGO= *Assemblée générale ordinaire* [annual general meeting of shareholders]
AMB= *Annexes au Moniteur belge*
ANF= *Ateliers du Nord de la France*
ANMT= *Archives nationales du monde du travail*
ARA= National Archives of Belgium
ARA2= National Archives 2 : Cuvelier repository
BE= Belgium
Bénard&Jarislowsky= *Banque Bénard et Jarislowsky*
***BIB**= *Chemin de fer à voie étroite de Bruxelles à Ixelles-Boendael*
BMFA= Belgian Ministry of Foreign Affairs
BTNG-RBHC= *Belgisch Tijdschrift voor Nieuwste Geschiedenis/Revue belge d'histoire contemporaine*
CA= *conseil d'administration* [board of directors]
CAEF= *Centre d'archives économiques et financières* (Archives of the Ministry of Finance)
***CAEN**= *Compagnie Auxiliaire d'Electricité de Nantes*
***Cairo Suburban**= *The Cairo Suburban Building Lands Company*
Carenero Company= *Carenero Railway and Navigation Company Limited*
CCCI= *Compagnie du Congo pour le Commerce et l'Industrie*
***Cdf Vicinaux**= *Compagnie générale des Chemins de fer vicinaux*
Cdf= *chemin de fer* [railroad]
CEO= chief executive officer
CFAO= *Compagnie française de l'Afrique Occidentale*

¹ Companies are written *in italics*. Those belonging to the Empain group are marked with a *.

**CFL= Compagnie des Chemins de fer du Congo supérieur aux Grands Lacs africains*
 CFS= Congo Free State
 CGER= Caisse Générale d'Épargne et de Retraite
**CGT= Compagnie générale de Traction*
**Chemins de fer de la Banlieue de Reims= Compagnie des chemins de fer de la banlieue de Reims et extensions*
Chemins de fer économiques= Société générale des Chemins de fer économiques (Belgium)
**Cie Générale= Compagnie générale de Chemins de fer et de Tramways en Chine*
Cie impériale= Compagnie impériale des chemins de fer éthiopiens
 CIE= Compagnie Internationale d'Électricité
 Cie=Compagnie
 CIWL= Compagnie Internationale des Wagons-Lits et des Grands Express Européens
**CMP= Compagnie du Chemin de fer métropolitain de Paris*
 CMT= Compagnie Mutuelle de Tramways
 DLC= dual-listed company
 E&H= Electricité et Hydraulique
**Eaux de Caracas= Compagnie générale des Eaux de Caracas*
**Eclairage de Tournai= Eclairage, chauffage et force motrice de Tournai et extensions*
**Econord= Société des chemins de fer économiques du Nord*
 EDF= Electricité de France
**EGN= Electricité et Gaz du Nord*
**Egyptian Mail Steamship= Egyptian Mail Steamship Company Ltd*
 Elec.= Electricité or électrique(s)
**Exploitation économique= SA d'exploitation économique de railways*
 FA= Foreign Affairs
 FDI= foreign direct investment
**Fédération FR-BE= Fédération française et belge de tramways*
 Fr/frs=franc
 FR= France
 FRAN= French Archives Nationales
 FSC= free-standing company
 GDP= gross domestic product
**Heliopolis Palace Hotel= Heliopolis Palace Hôtel du Caire*
**HOC= The Cairo Electric Railways and Heliopolis Oases Company*
Intercom= Société intercommunale belge d'électricité
 IPO= initial public offering
 KMMA= AfricaMuseum (Koninlijk Museum voor Midden-Afrika)
**la Longueville= Forges et Ateliers de la Longueville*
La Métallurgique= La Métallurgique, société anonyme de construction
 MAEF= Ministère des Affaires Étrangères français
**Menzaleh Navigation= The Menzaleh Canal and Navigation Company*

MIM= *Moniteur des Intérêts Matériels*
Mln= million
MNE= multinational enterprise
***Moudania-Brousse**= *Société Ottomane du chemin de fer de Moudania à Brousse*
MP= Member of Parliament
MRM= Musée Royal de Mariemont
Nom. cap.= nominal capital
OLI= Ownership, Locational and Internalization (advantages)
***Ostende-Blankenberghe**= *Chemin de fer électrique d'Ostende-Blankenberghe et extensions*
***Ottomane d'Eclairage**= *Société Impériale Ottomane d'Eclairage par le gaz et l'électricité*
Paribas= *Banque de Paris et des Pays-Bas*
***Parisienne Electrique (PE)**= *Société parisienne pour l'industrie des chemins de fer et des tramways électriques*
***Phosphates du Djebel Onk**= *Société d'Études des Chemins de fer et des Phosphates du Djebel Onk*
***Produits Cibils**= *Compagnie des Produits Cibils*
***Railways&Electricité**= *Compagnie générale de railways et d'électricité*
***RELSE**= *Société anonyme des railways économiques de Liège, Seraing et extensions*
***Réunis**= *Compagnie belge des Chemins de fer réunis*
ROE= return on equity
***Russe-française**= *Compagnie russe-française des chemins de fer et de tramways*
SA= société anonyme
***SBE**= *Société bruxelloise d'électricité*
***SEP**= *Société d'électricité de Paris*
***SERVA**= *Société d'électricité de la région de Valenciennes-Anzin*
SGBEE= *Société générale belge d'entreprises électriques*
***SIER**= *Société industrielle d'électricité pour la Russie*
SNCV= *Société nationale des chemins de fer vicinaux*
***SNE**= *Société nantaise d'éclairage et de force par l'électricité*
Société Belge= *Société belge de chemins de fer en Chine*
Société d'étude= *Société d'étude de chemins de fer en Chine*
Société Générale= *Société générale pour favoriser l'industrie nationale ; Société Générale de Belgique*
Sofina= *Société financière de transports et d'entreprises industrielles*
***TB**= *Tramways Bruxellois*
***TELB**= *Tramways électriques de Lille et de sa banlieue*
***Terrains du Caire**= *Société Égyptienne des Terrains du Caire et de sa banlieue*
***TPDS**= *Tramways de Paris et du Département de la Seine*
***Travaux Publics du Caire**= *Société des Travaux Publics du Caire*
Twy(s)= Tramway(s)
***Twys élec. Damas**= *Tramways et éclairage électriques de Damas*
UEEB= *Union des Exploitations Électriques en Belgique*
UEG= *Union Electricitäts-Gesellschaft*

UK= United Kingdom

UP= University Press

US= United States

***Valenciennes-Anzin**= *Société anonyme des tramways et chemins de fer économiques de Valenciennes à Anzin et ses extensions*

***Voie étroite**= *Compagnie générale de Railways à voie étroite*

WW1= First World War

ZNSM= *Zuid-Nederlandsche-Stoomtramweg Maatschappij*

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General Introduction

By looking through the lens of a global entrepreneur, this dissertation provides insight into a crucial period in world history: the First Global Economy (1870-1914). To tackle the broader issue of the opportunities and limitations in a paradoxical world of economic globalization and political fragmentation, I take an actor-centered approach. The history of the business empire of the Belgian Edouard Empain (1852-1929) is also the story of a complex era characterized by globalization and nation-state formation. By focusing on an entrepreneur originating from a small country but transcending boundaries, the possibilities and risks for international business in this period can be studied.

The expansion of the Empain group perfectly coincides with the peak of globalization before the First World War. Starting in 1880, the business group of Edouard Empain developed into one of the largest in Belgium and became a global player active in various markets on four continents. The Empain group mainly invested in public utilities providing services to citizens and companies in Western Europe, Russia, the Middle East, Latin America, Central Africa and China. The core activities included rail transport in both rural and urban areas, electricity production and distribution as well as manufacturing equipment necessary for the construction and operation of these utilities.

Within this broader context, Empain's Belgian origins lead us to the following operational question: What strategies¹ did a multinational enterprise from a small country adopt to develop a business empire against the background of both economic integration and geopolitical rivalry at a global scale? In other words, how did Empain seize the opportunities and handle the risks of a highly competitive world market? This research analyzes the tensions inherent to the period before WW1 and investigates strategies that have contributed to the successful expansion of the Empain group.

¹ I use 'strategy' in the same way as Dunning: It is "a deliberate choice taken by the entrepreneurs or managers of firms to organize the resources and capabilities within their control (...) to achieve an objective or set of objectives, over a specified time period, that extends beyond the day-to-day operations of the firm." John H. Dunning and Sarianna M. Lundan, *Multinational Enterprises and the Global Economy*, 2nd ed. (Cheltenham: Edward Elgar, 2008), 202.

In the following sections, I argue that the history of the Empain group intertwines with the history of the world before the First World War in several ways. The first section explores the creation of the global economy in the second half of the nineteenth century. It discusses the value of the explanatory framework of foreign direct investment for historical research. Then, it turns to the political processes of state- and empire-building that show the paradoxical nature of the First Global Economy. The second section adds the perspective of smaller states to the globalization debate, using the unique position of Belgium to illustrate their particular position in the international sphere. I show that global studies of Belgian foreign direct investment in general and of the history of the Empain group in particular are lacking. However, they are a perfect way to study the business opportunities and risks arising from the frictions in the First Global Economy.

In the third section, I present the contributions of this dissertation, before moving to a discussion of the sources, methods and outline. I have three arguments to make. First, I will demonstrate the mixture of rational and erratic investment behavior typical of the nineteenth-century entrepreneur. I suggest that the Second Industrial Revolution had a decisive impact on Empain's businesses. Secondly, this historical research joins in with the reappraisal of business groups as a valuable corporate structure. I argue that the business group form had many advantages making it an efficient device for investments in the First Global Economy. Thirdly, I introduce the idea that public utility companies did have to reckon with political risk before the First World War. However, they could design strategies to avoid political risk and seize opportunities related to nationalist opposition. Taken together, this threefold argument sheds new light on the strategies of Empain in particular and on the dynamics of international business in the First Global Economy in general.

Setting the scene: The First Global Economy as an era of economic integration and political fragmentation

The following pages describe the second half of the long nineteenth century (c. 1870-1914) as an era of transformation in business and society. Economic globalization, the Second Industrial Revolution and the rise of modern nation-states all had a deep impact on the world. Let us first consider the period from an economic angle. Economic historians generally label it as a highpoint of worldwide economic integration. From the standpoint of the present globalized world, many contemporary authors refer to the period before 1914 as the "First Global Economy," the "first era of globalization" or the

“golden age of global capitalism.”² Only when viewing this period in a longer timeframe, these labels become meaningful. While examining the last two centuries, most economists distinguish a period of globalization, of deglobalization and of reglobalization. This is reflected in U-shape graphs such as Figure 1. The process of economic integration accelerated in the last decades of the nineteenth century, but was halted by the outbreak of the First World War. The interwar years were a period of protectionism and relative decline, especially during the Great Depression. After the Second World War, international economic relations intensified leading to the “Second Global Economy”. This view has been criticized, e.g. for omitting the recovery of the world economy during the 1920s and some have questioned the legitimacy of the “first” in First Global Economy.³ In addition, even before the First World War imperialism and nationalism set barriers to unbridled economic freedom. Nevertheless, the general trends remain uncontested: before 1914, commodity, labor and capital markets reached a level of integration unprecedented in history and paralleled only after 1970.⁴

² Kevin H. O’Rourke and Jeffrey G. Williamson, *Globalization and history: The evolution of a nineteenth-century Atlantic economy* (Cambridge, MA: MIT Press, 1999); Jeffrey A. Frieden, *Global capitalism: Its fall and rise in the twentieth century* (New York: Norton, 2006); Geoffrey Jones, “Globalization,” in *The Oxford Handbook of Business History*, ed. Geoffrey Jones and Jonathan Zeitlin (Oxford: Oxford UP, 2008); Michael Graff, A. George Kenwood, and Alan Leslie Loughheed, *Growth of the international economy (1820-2015)*, 5th ed. (London: Routledge, 2014).

³ For critical notes on this ‘master narrative’, see Pierre-Yves Saunier, “Globalization,” in *The Palgrave Dictionary of Transnational History*, ed. Akira Iriye and Pierre-Yves Saunier (Basingstoke: Palgrave Macmillan, 2009); Christof Dejung and Niels P. Petersson, *The foundations of worldwide economic integration: Power, institutions, and global markets (1850-1930)* (Cambridge: Cambridge UP, 2013); Pierre Gervais and Cheryl S. McWatters, “Globalization,” in *The Routledge Companion to Business History*, ed. John F. Wilson, et al. (Abingdon: Routledge, 2017).

⁴ Michael D. Bordo, Alan M. Taylor, and Jeffrey G. Williamson, eds., *Globalization in historical perspective*, National Bureau of Economic Research conference report (Chicago: University of Chicago Press, 2003).

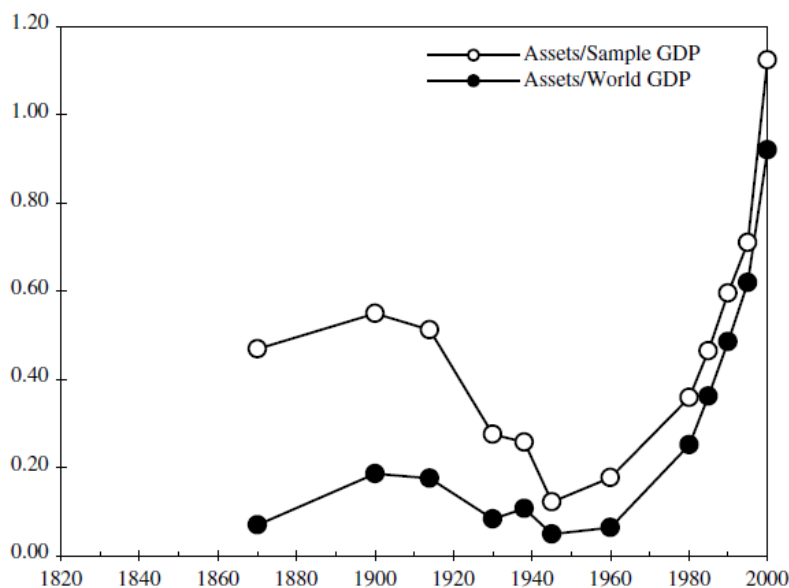


Figure 1 Foreign capital stocks (1870-2000)⁵

Global interconnection was the consequence of several factors. Improvements in communication and transportation technology accelerated the process of worldwide economic integration. Innovations such as the telegraph, railways and steam shipping allowed people, goods, capital and information to circulate faster and cheaper.⁶ The convergence of commodity and labor prices in different world regions points to the birth of a world market.⁷ Besides the considerable reduction in transport costs, the overall political climate favored intense international economic relations. The world's largest military powers (Great Britain, France, Germany and the US) refrained from large armed conflicts. Polanyi even speaks of the “hundred years’ peace” between 1815 and 1914, only interrupted by the Crimean and Franco-Prussian war.⁸ Despite consecutive waves of protectionism, the global free trade regime with low tariffs championed by Great Britain encouraged large-scale international trade. The widespread adoption of the Gold Standard also reduced the risks of financial instability in the international monetary

⁵ Assets/World GDP is the lower bound of the investment ratio, for it includes countries where GDP data is included, but foreign investment data is missing. Assets/Sample GDP constitutes the upper bound of the ratio, as it only includes those countries with data on foreign investment. For a more detailed analysis, see Maurice Obstfeld and Alan M. Taylor, *Global Capital Markets: Integration, Crisis, and Growth* (Cambridge: Cambridge UP, 2004), 46-57 & Fig. 2.1.

⁶ Roland Wenzlhuemer, *Connecting the nineteenth-century world: The telegraph and globalization* (Cambridge: Cambridge UP, 2013).

⁷ Guillaume Daudin, Matthias Morys, and Kevin H. O'Rourke, “Globalization (1870-1914),” in *The Cambridge economic history of modern Europe*, ed. Stephen N. Broadberry and Kevin H. O'Rourke (New York: Cambridge UP, 2010), 7, 21-22.

⁸ Karl Polanyi, *The great transformation: The political and economic origins of our time*, 2nd ed. (Boston: Beacon Press, 2001), 3-5.

system. These factors led to an ever-better match of global demand and supply, resulting in a steep rise in world trade. As a proportion of GDP, the total value of imports and exports nearly doubled between 1870 and the First World War to a degree (nearly 30%) that has only been reached again in 1974.⁹

Closely linked to the increasing world trade, the international flow of capital also culminated in the years before 1914, only being surpassed in the 1990s. Never before, investments across borders in all forms (government loans, corporate bonds, equity) had flourished to such an extent. International financial integration, expressed in foreign investment assets relative to world GDP, reached a level between 20% and 30% (see also Fig. 1).¹⁰ These capital flows consisted of about two thirds portfolio investment and one third foreign direct investment (FDI). As a result, in 1913, total stocks of FDI amounted to more than 10% of world GDP.¹¹ Whereas portfolio investment mainly concerns securities such as government, corporate bonds or small blocks of shares with the mere intention of getting a good financial return, FDI implies a certain degree of managerial control over the invested capital. Scholars usually speak of FDI as soon as the foreign investment in a firm's equity surpasses the threshold of 10%.¹² Another sign of capital market integration was the convergence of the price of capital. Between 1870 and 1914, bond spreads dropped from 5% to 1%. What explains this integration? As said before, the relative peace between the key lending countries created an atmosphere of trust. By removing exchange rate risk and promoting prudent fiscal policies, the gold standard decisively contributed to the stability of the international system. However, the most important was the rising demand for products, especially natural resources and food, in the European markets. Investments flowed into countries where resources could be extracted and transported to other parts of the world.¹³

Although Great Britain dominated the nineteenth-century world, the economic balance of powers shifted in the last decades of the century, which in turn had an impact on international relations. From that period onwards, countries started to closely

⁹ Mariko J. Klasing and Petros Milionis, "Quantifying the Evolution of World Trade (1870-1949)," *Journal of International Economics* 92, no. 1 (2014): 192.

¹⁰ Moritz Schularick, "A tale of two 'globalizations': Capital flows from rich to poor in two eras of global finance," *International Journal of Finance & Economics* 11, no. 4 (2006): 340-41.

¹¹ Geoffrey Jones, *Multinationals and global capitalism: From the nineteenth to the twenty-first century* (Oxford: Oxford UP, 2005), 21; Paul Bairoch, "Globalization Myths and Realities: One Century of External Trade and Foreign Investment," in *States Against Markets: The Limits of Globalization*, ed. Robert Boyer and Daniel Drache (London: Routledge, 1996), 140; Dunning even estimates total stocks of FDI at 11-14% Dunning and Lundan, *MNEs*, 174-75.

¹² However, many authors urge not to be fixated on the threshold of 10, 15 or 25%, for the boundary between FDI and portfolio is often blurred. Rather, scholars should look at the actual behavior of the investor and the ability to directly influence the management of the firm in the host country. William J. Hausman, Peter Hertner, and Mira Wilkins, *Global Electrification: Multinational Enterprise and International Finance in the History of Light and Power (1878-2007)* (Cambridge: Cambridge UP, 2008), 37-38.

¹³ Daudin, Morys, and O'Rourke, "Globalization," 11-13; see also Obstfeld and Taylor, *Global*.

compare the size of their economy and industry to get an idea of their position in international politics. Of course, Great Britain remained the most important player in the global economy, thanks to its large colonial possessions and the centrality of London in worldwide financial services and trade. Nevertheless, the ‘Pax Britannica’ was challenged by two newcomers, who were quickly catching up with Great Britain in terms of economic output. Especially in the industry, the United States and Germany were growing much faster, overhauling Britain at the turn of the century. After the end of the Civil War (1865), the US developed a very productive economy thanks to its enormous internal market opened up by a dense railroad network. The unification of Germany in 1870 had a similar effect. Large manufacturing companies became the driving forces of the US and German economies. Whereas early industrializers such as Great Britain clung to the traditional industries of coal, iron and textile, both Germany and the US rapidly shifted to the technological innovations of the Second Industrial Revolution. Large corporations emerged in new sectors: steel (*U.S. Steel, Krupp, Thyssen*), chemicals (*DuPont, BASF, Bayer*) and electricity (*General Electric, Siemens, AEG*).¹⁴

The diversity of international business

Due to their vast scale, business historians commonly gather these enterprises under the category of big business. It has become a field of study on its own, because big business grew into a significant force in the modern world economy. In some countries, large firms have come to dominate entire industries and exert considerable influence on society and politics.¹⁵ Not only in manufacturing, but also in the first and tertiary sectors, businesses expanded rapidly. As a utility operator and manufacturer, the Empain group in its entirety was big business too. Scholars have called it “without doubt the most important [private banking group]” in Belgium.¹⁶ Even when considering it on a European scale, I

¹⁴ Jeroen Touwen, “Expansie, stagnatie en globalisering: Economische ontwikkelingen,” in *De wereld en Nederland: Een sociale en economische geschiedenis van de laatste duizend jaar*, ed. Karel Davids and Marjolein ‘t Hart (Amsterdam: Boom, 2011), 186-200; Albert Carreras and Camilla Josephson, “Aggregate growth (1870–1914): Growing at the production frontier,” in *The Cambridge economic history of modern Europe*, ed. Stephen N. Broadberry and Kevin H. O’Rourke (New York: Cambridge UP, 2010), 32.

¹⁵ Youssef Cassis, *Big business: The European experience in the Twentieth Century* (Oxford: Oxford UP, 1997); Youssef Cassis, “Big business,” in *The Oxford handbook of business history*, ed. Geoffrey Jones and Jonathan Zeitlin (Oxford: Oxford UP, 2008).

¹⁶ Herman Van Der Wee and Martine Goossens, “Belgium,” in *International banking (1870-1914)*, ed. Rondo Cameron and Valerij Ivanovič Bovykin (Oxford: Oxford UP, 1991), 125.

find that the Empain group as of 1913 belonged to the top 50 largest firms.¹⁷ On the eve of WW1, the Empain brothers owned, either directly or via the main holding companies, assets totaling £9 million (or 230 million francs).¹⁸ At that moment, the Empain group employed a staff of at least 22,000 persons worldwide.¹⁹ Of course, measured by assets, the Empain group remained a lot smaller than the large railway companies of Europe and many big banks such as the *Société Générale de Belgique*. The industrial giants of AEG (£23 million of assets), *Siemens* (£25 million), *Deutsch-Ueberseeische Elektrizitäts-Gesellschaft* (£15 million) and *Koninklijke/Shell* (£30 million) were significantly larger. It was also outclassed by, for instance, the “Very Big” UK companies *Sir W.G. Armstrong Whitworth & Co.* and *Vickers* (both transport equipment), and *Lever Brothers* (oil and chemicals). Each of them had assets worth between £11 and £14 million.²⁰ In contrast, the Empain group surpassed all of its (in)direct competitors in France, the Netherlands and Belgium. These include the French *Cie de Chemins de fer départementaux* (£6 million), *Thomson-Houston* (£5 million), the Dutch *Philips* (£0.6 million) and the main Belgian utility holding companies *Société générale des Chemins de fer économiques* (£2 million), *Cie Mutuelle de tramways*, *Société générale belge d’entreprises électriques* and *Sofina* (all below £2 million).²¹

Most of the above-mentioned firms massively engaged in FDI in the First Global Economy. These firms were not passive vehicles of capital transfers. Business historians increasingly acknowledge the active role of firms, next to states, as drivers of globalization. Internationally active firms fueled economic integration and the spread of capitalism by transferring goods, capital, knowledge and people all over the world.²² But why and how did these firms engage in international investment? Since the 1960s

¹⁷ Based on the database of the “Performance of European Business” project. See the Appendix of Youssef Cassis, Andrea Colli, and Harm Schröter, eds., *The Performance of European Business in the Twentieth Century* (Oxford: Oxford UP, 2016).

¹⁸ To compare the group with integrated firms, we need to add up the assets of the holding companies the *Parisienne Electrique*, *Railways&Electricité*, *Chemins de fer Réunis* and *Cie générale des nitrates* as well as of the industrial firm *ACEC*. However, the portfolio of the holding companies was significantly larger (£6.5 million) than that of an integrated firm such as *AEG* (approx. £4 million). Therefore, one might also consider looking at the assets of all the subsidiaries which the group controlled instead of only looking at the top holdings. In that case, the total controlled nominal capital was even £24 million. Chapter 3 examines this leverage in greater detail.

¹⁹ This estimate is based on exact figures for *ACEC*, *ACENE*, *CMP*, *Tramways du Caire* and *HOC*. The remainder is based on industry estimates for light rail and tramways (staff/km) as well as electricity (staff/kW). Maurice Wolkowitsch, “Le siècle des chemins de fer secondaires en France (1865-1963): Les entreprises, les réseaux, le trafic,” *Revue d’histoire des chemins de fer*, no. 30 (2004): 206.

²⁰ For clarity, all amounts have been converted to British pounds at the exchange rate of 1913. Cassis, Colli, and Schröter, *Performance*, 213-14.

²¹ Figures extracted from Cassis, Colli, and Schröter, *Performance; Recueil Financier*, 1914.

²² Mira Wilkins, “Foreword,” in *The Routledge Companion to the Makers of Global Business*, ed. Maria Teresa Da Silva Lopes, Christina Lubinski, and Heidi Tworek (Abingdon: Routledge, 2019).

International Business theory has tried to develop several explanations on why firms internationalize and why they are successful.²³ This comes with a significant caveat, for the discipline has mainly focused on developments after 1945.

Generally, foreign investment is the result of wealthy savers in one country looking for opportunities to invest their money in markets where returns are higher. In addition, financiers spreading their investments over more than one country reduce the overall risk of their financial portfolio. However, a significant part of these capital flows is FDI involving some kind of control. Hence, scholars believe that entrepreneurs have capabilities to make their investment more productive than financial intermediaries would do through passive portfolio investment. Firms engaging in this type of cross-border investment involving managerial control are called multinational enterprises (MNEs) in business history literature. Firms must have strong incentives to become multinationals. If manufacturing firms want to start producing abroad instead of exporting, they need specific advantages that allow them to overcome the 'liability of foreignness.' This concept refers to the costs of doing business at a distance, caused by poor knowledge of the local market, politics and cultural context among others.²⁴

The most commonly used theory, the eclectic paradigm (OLI) developed by Dunning and others, distinguishes three categories of advantages a firm could have. These are ownership (superior skills and efficiency), locational (avoid trade barriers and exploit price gaps) as well as internalization advantages (reducing transaction costs).²⁵

However, the main theories on multinational enterprise have a severe limitation, for they are based on manufacturing companies. From the 1980s onwards, scholars of international business have started to question the explanatory power of the eclectic paradigm for firms active in the service sector. Service firms very often produce non-tradable goods and therefore cannot export them. Many services offered, e.g. hotel accommodation, repair services, energy, communication and transportation, are location-bound. The firms' only option is FDI, because the production is inseparable from and simultaneous with the consumption of the service. Therefore, they have to be close to their consumers and choose densely populated markets/areas.²⁶ The study of their

²³ Jean-François Hennart, "Theories of the Multinational Enterprise," in *The Oxford Handbook of International Business*, ed. Alan M. Rugman (Oxford: Oxford UP, 2001).

²⁴ Jones, *Multinationals and global capitalism*, 8.

²⁵ For more information on the eclectic paradigm, I refer the reader to Jones, *Multinationals and global capitalism*, 8; See also Dunning and Lundan, *MNEs*.

²⁶ Peter J. Buckley, C.L. Pass, and Kate Prescott, "The Internationalization of Service Firms: A Comparison with the Manufacturing Sector," *Scandinavian International Business Review* 1, no. 1 (1992); Peter Enderwick, "Multinational service firms and global strategy," in *The Handbook of Service Industries*, ed. John R. Bryson and Peter W. Daniels (Cheltenham: Edward Elgar, 2007); Tinne Lommelen and Paul Matthyssens, "The internationalization process of service providers: A literature review," in *Research on International Service*

internationalization motives corresponds better to the reality of the Empain group than the OLI framework. However, up to now historical analysis is largely absent in the business literature on service multinationals.

Fortunately, business historians have expanded the scope of the theory of multinationals to the nineteenth century. Their studies do more justice to the chaotic historical reality than International Business scholarship.²⁷ The modus operandi of many firms in the First Global Economy contrasts with the OLI framework and the theories about contemporary service multinationals. The latter theories start from the idea that a firm first builds up experience at home, constituting an advantage in the internationalization process afterward. In addition, the Uppsala paradigm states that the classic MNE expands incrementally. In its internationalization process, it gradually moves from neighboring to more distant markets, almost as if it followed a pattern of concentric circles.²⁸ In contrast, many investments in the First Global Economy were not even based on previous operations in the home country. They were ‘born global,’ having cross-border operations from the start.²⁹ A very important manifestation of this phenomenon is the ‘free-standing company’ (FSC). This concept, coined by Wilkins, has been crucial for our thinking on FDI in history. It refers to a firm that is owned and controlled in one country, but that operates in another country. This corporate form was frequently used to exploit a specific business opportunity in a particular region, especially in services and resource extraction.³⁰ Although Wilkins initially perceived it as an exclusively British phenomenon, additional research has shown that capitalists from countries such as the Netherlands, Belgium, France and Canada frequently used it as an investment vehicle. Dutch entrepreneurs, for instance, founded hundreds of FSCs before the First World War, mainly for colonial resource extraction in the Dutch East Indies.³¹ The FSC especially served to raise capital on European financial markets. The Western nationality of the company functioned as a screen, as it inspired more confidence in investors than an

Marketing: A state of the Art, ed. Ko de Ruyter and Pieter Pauwels, *Advances in International Marketing* (Amsterdam: Elsevier, 2005).

²⁷ Regarding the history of service multinationals for instance, Jones provides an excellent summary highlighting their importance in the First Global Economy. Jones, *Multinationals and global capitalism*, 109-44.

²⁸ Jan Johanson and Jan-Erik Vahlne, “The Uppsala internationalization process model revisited: From liability of foreignness to liability of outsidership,” *Journal of International Business Studies* 40, no. 9 (2009).

²⁹ Geoffrey Jones and Tarun Khanna, “Bringing history (back) into international business,” *Journal of International Business Studies* 37, no. 4 (2006): 459.

³⁰ Mira Wilkins, “The Significance of the Concept and a Future Agenda,” in *The free-standing company in the world economy (1830-1996)*, ed. Mira Wilkins and Harm G. Schröter (Oxford: Oxford UP, 1998).

³¹ Ben P.A. Gales and Keetie E. Sluyterman, “Dutch Free-Standing Companies, 1870-1940,” in *The free-standing company in the world economy 1830-1996*, ed. Mira Wilkins and Harm G. Schröter (Oxford: Oxford UP, 1998). See also the contributions on other regions in the volume.

exotic firm. The literature regards these firms as isolated units, merely supported by the favorable business environment of the large financial centers of London, Paris, Amsterdam or Brussels.

The historically grounded concept of the FSC can produce useful insights for the Empain group. The other theories are insufficient to explain its internationalization. This dissertation shows that Empain's first operation was across the French border, before starting in Belgium one year later. Later, Empain established other companies to operate specific utilities in foreign cities. It is therefore understandable that Hennart has written that Empain "created a large number of free-standing firms."³² Although true, this statement is largely incomplete. Empain set up far more than a couple of isolated FSCs. I will argue that they were all integrated into a large diversified business group (see below).

Introducing the globalization paradox

The analysis of the economic history and MNE literature has produced a view of the global economy of the late nineteenth century as a golden age for international business. On the surface, it might have looked like a perfectly integrated global market. However, by considering the non-market forces too, historians of the long nineteenth century (1789-1914) have refuted this view. Dejung and Petersson argue that there are power relations in every market. Therefore, political factors should be part and parcel of every analysis of the First Global Economy. The structural inequalities between Western and developing countries inevitably distorted the 'free market.' As a result, although the above-mentioned figures on trade and investment might suggest otherwise, the free global market did not provide a level-playing field for every economic actor.³³

What were the causes of this drawback? In fact, the last decades before the First World War witnessed the development of not one, but two fundamental processes. It was not only "a period of globalization but also one of 'territorialization,' meaning the effort to tie social relations to specifically demarcated political-territorial spaces, usually nation-states."³⁴ This territorialization was the consequence of the formation of nation-states and empires. Driven by the strong political forces of imperialism and nationalism, states pursued an agenda of territorial expansion and consolidation. They exploited their military and economic power to subject large parts of the world population. Besides creating formal colonies overseas, Western states also tried to enlarge their economic

³² Jean-François Hennart, "Transaction-Cost Theory and the Free-Standing Firm," in *The free-standing company in the world economy (1830-1996)*, ed. Mira Wilkins and Harm G. Schröter (Oxford: Oxford UP, 1998).

³³ Dejung and Petersson, *Foundations*, 8.

³⁴ Jürgen Osterhammel and Niels P. Petersson, *Globalization: A short history* (Princeton: Princeton UP, 2005), 90.

influence abroad by other means such as gunboat diplomacy and financial imperialism. This informal empire was perhaps less visible, but a very effective way to bend the economic and political ‘rules of the game’ to their advantage.³⁵

The political objective of establishing colonial power all over the world was often more a matter of prestige than hard economic logic. Nevertheless, imperialist governments actively promoted and protected investments in the colonial and semi-colonial periphery. A well-known manifestation of a government supporting foreign investment is the British one in the late nineteenth century. Cain and Hopkins have famously argued that Britain’s imperialist foreign policy was strongly influenced by the financial interests of the City. Great Britain willingly made “incursions into the sovereignty of independent states” for the sake of “gentlemanly capitalism,” resulting in an “informal empire of finance” in China and Latin America especially.³⁶ According to Fitzgerald, Great Powers in general provided plenty of opportunities to MNEs by enforcing a business environment that favored enterprises from the imperial country over local or other foreign firms. In extreme cases, states used military interventions to guarantee the rights and opportunities of their nationals abroad. However, in most cases diplomatic persuasion sufficed to protect the national interests in otherwise unstable investment contexts.³⁷ The political and economic oppression of Western imperialism unavoidably caused a reaction in other parts of the world. Both in the colonies and states that had resisted or chased the colonizers, a nationalist awareness awakened among the local elite. This resulted in anti-imperialist and anti-colonial movements such as the boycott of foreign products in China and India.³⁸

Not only in the developing world, but also in Europe nationalism was very present. Under the influence of this rising force, nation-states and empires began to consider each other as competitors on the world stage.³⁹ In particular, the overseas expansion of large Western powers inevitably led to tensions among Great Powers. More in general, “reflection of current affairs was predominantly cast in terms of global rivalries between armed forces, nation-states, national economies, or even entire civilizations.”⁴⁰ Territorial states saw no other option than having recourse to power politics to win the

³⁵ John Gallagher and Ronald Robinson, “The Imperialism of Free Trade,” *The Economic History Review* 6, no. 1 (1953).

³⁶ Peter J. Cain and Anthony G. Hopkins, *British Imperialism (1688-2015)* (Abingdon: Routledge, 2016), 697, 719.

³⁷ Robert Fitzgerald, *The Rise of the Global Company: Multinationals and the Making of the Modern World*, *New Approaches to Economic and Social History* (Cambridge: Cambridge UP, 2015), 148-55.

³⁸ See also Immanuel Ness and Zak Cope, eds., *The Palgrave Encyclopedia of Imperialism and Anti-Imperialism*, vol. 1 (Basingstoke: Palgrave Macmillan, 2016).

³⁹ For a very influential interpretation of the force of nationalism, see Benedict R. Anderson, *Imagined communities: Reflections on the origin and spread of nationalism* (London: Verso, 1983).

⁴⁰ Osterhammel and Petersson, *Globalization*, 90.

perceived Darwinian struggle for life. By overtly favoring domestic interests in global interactions, emerging nation-states could also legitimize their existence internally.

In a sense, the wave of imperialism was the external manifestation of a more fundamental phenomenon: economic nationalism. Interestingly, this ideology spurred investments abroad, while countering the consequences of globalization domestically. On the one hand, states adopted a tough foreign policy to come to grips with the uncertain international situation. On the other hand, the large Western economies turned back to protectionism (except for Great Britain). In the wake of the economic crisis of the 1870s, they not only wanted to promote their industries abroad, but also protect them from foreign competition at home.⁴¹

In summary, the four decades leading up to the First World War witnessed two simultaneous and intertwined processes: economic globalization as well as state- and empire-building. This concurrence constituted a paradox: Connections opened opportunities, but also caused international frictions. The more spaces got interconnected globally, the more states tried to intervene and control them. Despite a global openness for investment and trade, imperialist and nationalist forces drew visible and invisible borders. We have to further explore this paradox and its implications, because understanding it is essential to gain insights into the dynamics, risks and opportunities of the First Global Economy. To move forward, let us now turn to the role of small states in this apparently paradoxical world, as they can provide a fresh perspective.

Small countries in a complex world

As the large states set the tone in the globalized world before 1914, they have received the bulk of the attention of economic and political historians. However, we need to take the world view of smaller countries more often, as will be demonstrated. A few works of political scientists and economic historians have produced some valuable insights on the relation of small countries to the world. They introduced the idea that small powers in past and present have different interests to defend and therefore behave differently in the international system. The present dissertation builds on this research and wants to historicize it further. I argue that, especially in the context of the First Global Economy, small states offer a unique perspective on the functioning of the international political and economic system. Especially small European countries fall between two categories in

⁴¹ Dejung and Petersson, *Foundations*, 9.

the late nineteenth century. They are neither the Western hegemonic powers themselves, nor the peripheral weak states subject to (informal) imperialism. It is therefore worth analyzing if they follow the power politics of the Great Powers or play a different game.

Trying to move away from ‘Great Powers’ history,’ a growing body of literature has studied the position of small states in global politics.⁴² Although many definitions circulate, most political scientists agree that smallness is a relative category. Small states are small compared to other countries in their world region.⁴³ In general, small states are those states that are not capable of defending themselves and need to rely on other states for their security. Moreover, small states are aware of their vulnerability and lack of power on the international scene. The main conclusion of this strand of research is that in history, the foreign policy of small countries was always informed by the need to preserve their territorial integrity. Therefore, small states tried to forge alliances to have more impact. In other cases, weak states preferred to remain neutral. This neutrality, for the Belgian case, was imposed by its powerful neighbors. As Belgium did not have a large army, its neutrality depended on the goodwill of its guarantors, most importantly Great Britain.⁴⁴

From an economic point of view, “there is much to be learned from the small economies” according to Joel Mokyr.⁴⁵ Not only large states such as Germany and the US, but also smaller states performed quite well in the First Global Economy, although they did not have the same advantages related to size. Small open economies in Western Europe were more than other countries embedded in the global economic system. In other words, as the defining features of First Global Economy manifested themselves more vividly in these smaller states, they offer a clear research perspective.

The reason small early industrializing countries could still achieve high growth rates is that they opened their economy to the outside world. More than their large neighbors, they needed foreign markets as a source of supply for their population and industries. Not only import, but also export was crucial for small countries. Due to their small population and surface, this type of country could often only specialize in a limited

⁴² Herman Amersfoort and Wim Klinkert, eds., *Small Powers in the Age of Total War (1900-1940)* (Leiden: Brill, 2011); Harald Baldersheim and Michael Keating, eds., *Small states in the modern world: Vulnerabilities and opportunities* (Cheltenham: Edward Elgar, 2015).

⁴³ Neal G. Jesse and John R. Dreyer, *Small States in the International System: At Peace and at War* (Lanham: Lexington Books, 2016).

⁴⁴ Hubert P. van Tuyll, *Small Countries in a Big Power World: The Belgian-Dutch Conflict at Versailles, 1919* (Leiden: Brill, 2016).

⁴⁵ Joel Mokyr, “Successful Small Open Economies and the Importance of Good Institutions,” in *The Road to Prosperity: An Economic History of Finland*, ed. Jari Ojala, Jari Eloranta, and Jukka Jalava (Helsinki: Suomalaisen Kirjallisuuden Seura, 2006), 8.

number of sectors. These industries suffered from diseconomies of scale as they operated in a small domestic market. To reach an optimum scale of production, firms needed to export to foreign markets to sell their surplus. As a result, the economies of the Netherlands, Belgium, Switzerland, Denmark and to a lesser extent Sweden were very keen to trade in the decades leading up to the First World War. In terms of openness, as measured by the value of trade (exports plus imports) relative to GDP, Belgium ranked second after trade champion the Netherlands. This also holds true when only considering exports. In general, the comparison with the world average is striking. By 1913, Belgian imports and exports amounted to more than 100% of its GDP, as opposed to 30% worldwide.⁴⁶ The downside for small economies was that they were surrendered to the fluctuations of the global market and thus vulnerable to external shocks. Moreover, small economies did not have the economic power to substantially influence the prices of vital import and export commodities.⁴⁷

Considering this vulnerability, an edited volume has tentatively historicized the reaction of small European states towards changing economic regimes. Starting in the global economy of the late nineteenth century, the authors analyze the strategies that governments and firms could adopt within a changing international system. However, they focus on economic policy and export-related issues, omitting economic diplomacy and foreign direct investment.⁴⁸ Only scarce literature tackles the issue of cross-border investments originating from small countries. One work focused on the post-World War II era. It seems to suggest that multinational entrepreneurs from small powers had certain disadvantages as well as opportunities. Generally, small states had less influence on geopolitical issues and did not have the size to engage in the imperialist power play to “protect or extend their investments” in peripheral countries.⁴⁹ Harm Schröter is the only one who has covered the period before the First World War. Although he only looked at manufacturing MNEs outside colonial territories, his insights are extremely valuable. Schröter demonstrates that numerous firms in Europe simultaneously invested at home

⁴⁶ Paul Bairoch and Richard Kozul-Wright, “Globalization Myths: Some Historical Reflections on Integration, Industrialization and Growth in the World Economy,” in *Transnational Corporations and the Global Economy*, ed. Richard Kozul-Wright and Robert Rowthorn (New York: MacMillan, 1998), 42; Daudin, Morys, and O’Rourke, “Globalization,” 8.

⁴⁷ Olle Krantz, “Small European countries in economic internationalisation: An economic historical perspective,” *Umeå papers in economic history*, no. 26 (2006), <http://urn.kb.se/resolve?urn=urn:nbn:se:umu:diva-790>; See also Daniël Van den Bulcke and Alain Laurent Verbeke, eds., *Globalization and the small open economy* (Cheltenham: Edward Elgar, 2001).

⁴⁸ Margrit Müller and Timo Myllyntaus, eds., *Pathbreakers: Small European Countries Responding to Globalisation and Deglobalisation* (Bern: Peter Lang, 2008).

⁴⁹ Tamir Agmon and Charles P. Kindleberger, eds., *Multinationals from Small Countries* (Cambridge, MA: MIT Press, 1977).

and abroad. These MNEs were smaller, more flexible and took more risk. Schröter confirms the older insight that they were more vulnerable in the international sphere. However, he argues, MNEs from small countries could distance their products from those of producers from larger countries and use this as a selling point.⁵⁰

In summary, we are only at the start of understanding what role small countries and their firms played in the First Global Economy, but it looks like they had opportunities to act in their own way. In this regard, this dissertation deepens our knowledge about Belgium at least. Historian Carl Strikwerda claims that the country “provides one of the crucial keys to understanding the history of globalization.”⁵¹ However, surprisingly little is known about the place of Belgium and Belgian firms in the international economy during the late nineteenth and early twentieth century. In the next paragraphs, this will be discussed, initially focusing on the entire country and afterward on the firm level.

The place of Belgium

In the Belgian national historiography, it has become a commonplace to state that the late nineteenth and early twentieth century –also known as the Belle Epoque– was the golden age of Belgian capitalism. Belgium had a disproportionate impact during the First Global Economy, thanks to its industrial power. To illustrate this, historians enumerate the countries where Belgian businesses had invested in. However, their sources are often books of famous Belgian economists such as Chlepner, Deschesne, Durviaux and Baudhuin.⁵² Lacking more recent comprehensive economic histories of the nineteenth century, their works, written more than 60 years ago, still set the tone. Younger generations of economic historians have devoted their attention more to the turbulent twentieth century starting with the First World War.⁵³ As a result, Belgium lacks adequate in-depth research into its economic system in the late nineteenth century and early

⁵⁰ Harm G. Schröter, *Aufstieg der Kleinen. Multinationale Unternehmen aus fünf kleinen Staaten vor 1914* (Berlin: Duncker & Humblot, 1993).

⁵¹ Carl Strikwerda, “If All of Europe Were Belgium: Lessons in Politics and Globalization From One Country,” *BTNG-RBHC* 35, no. 4 (2005): 511.

⁵² B. S. Chlepner, *Le marché financier belge depuis cent ans* (Brussels: Falk fils, 1930); Laurent Dechesne, *Histoire économique et sociale de la Belgique depuis les origines jusqu’en 1914* (Paris: Librairie du Recueil Sirey, 1932); Roland Durviaux, *La banque mixte: Origine et soutien de l’expansion économique de la Belgique* (Brussels: Bruylant, 1947); Fernand Baudhuin, “Histoire économique de la Belgique (1900-1914),” in *Scrinium Lovaniense. Mélanges historiques - Historische Opstellen Etienne Van Cauwenbergh* (Leuven: Leuven UP, 1961).

⁵³ André Mommen, *The Belgian economy in the twentieth century*, Contemporary economic history of Europe series (London; New York: Routledge, 1994); Kristof Smeyers and Erik Buyst, *Het gestolde land: Een economische geschiedenis van België* (Antwerp: Polis, 2016).

twentieth century. For a clear yet cursory image of the Belgian economy before WW1, we need to rely on older insights, updated with comparative European literature.

To be sure, the period of 1850 to 1914 was undoubtedly exceptional in Belgian economic history. The country obtained an economic status far beyond its small size. As the first industrializing country in continental Europe, Belgium witnessed a strong industrial growth throughout the nineteenth century. Until 1913, it remained the second most industrialized country in the world, right after Great Britain.⁵⁴ If accounted for population, Belgium ranked among the four most productive countries worldwide, both in 1880 and on the eve of the First World War. It followed the Western offshoots the United States, Australia and New Zealand, but it left behind the UK, Germany, France and the Netherlands.⁵⁵ Even in absolute GDP, Belgium narrowly belonged to the ten largest industrial economies in the world as of 1913.⁵⁶ After the First World War, the country lost its economic strength. This is a fact lamented by many Belgian historians nowadays.⁵⁷ Indeed, the crises and violent conflicts of the twentieth century have been harsh to Belgium. Gradually, the tiny country sunk in the European and global rankings of GDP per capita.⁵⁸ Like J.L. van Zanden has argued for the Netherlands, Belgium also evolved “from a small ‘large economy’ to a large ‘small economy,’” although the Dutch have better maintained their position.⁵⁹

Despite these superlatives for Belle Epoque Belgium, the general figures disguise strong social and regional disparities. Belgium was a low-wage country with a very unequal society. Historically, the heavy industry emerged in the southern part of Belgium. Metallurgy and coal mining in a few Walloon basins spurred industrialization from the 1820s to the 1870s. They specialized in railway equipment, which was highly

⁵⁴ Stephen N. Broadberry, Giovanni Federico, and Alexander Klein, “Sectoral developments (1870–1914),” in *The Cambridge economic history of modern Europe*, ed. Stephen N. Broadberry and Kevin H. O’Rourke (New York: Cambridge UP, 2010), 70.

⁵⁵ Calculated from the latest estimates available Jutta Bolt et al., “Maddison Project Database: “Rebasing ‘Maddison’: new income comparisons and the shape of long-run economic development,”” *Maddison Project Working paper* (2018), <https://www.rug.nl/ggdc/historicaldevelopment/maddison/releases/maddison-project-database-2018>.

⁵⁶ Carreras and Josephson, “Aggregate,” 34; Angus Maddison, *Contours of the World Economy (1-2030 AD): Essays in Macro-Economic History* (Oxford: Oxford UP, 2007), 379 Table A.4.

⁵⁷ Most recently Mark De Geest, *Een dure vrede: Wereldoorlog I: Van Brave Little Belgium naar Poor Little Belgium* (Antwerp: Horizon, 2018).

⁵⁸ In the European ranking of prosperity, Belgium dropped from the 2nd place in 1913 to the 11th in 2005. Stephen N. Broadberry and Kevin H. O’Rourke, eds., *The Cambridge economic history of modern Europe*, vol. 2: From 1870 to the Present (New York: Cambridge UP, 2010), Fig. 2.7, Tables 8.3 and 12.2; For global comparison, see also real GDP per capita data series in 2011 US\$, multiple benchmarks of the Bolt et al., “Maddison”.

⁵⁹ Jan Luiten van Zanden, *Een klein land in de 20e eeuw: Economische geschiedenis van Nederland (1914-1995)* (Utrecht: Spectrum, 1997), 46.

demanded in the context of the development of large railroad networks all over Europe. Flanders, in contrast, remained poor, industrial development being limited to the port of Antwerp and the textile cluster around Ghent.⁶⁰ In the course of the nineteenth century, the Belgian economy also went through a few difficult periods. During the crisis of 1873-1895, the growth of the Belgian industry decelerated. The traditional sectors had difficulties to stand the rise of German and French competitors. Only after considerable investments in steel production, chemicals and electricity, the industry could get back on track. Nevertheless, the Second Industrial Revolution did not revive the Belgian economy as it transformed German business. In summary, Belgian industry underperformed in European comparison. Whereas it had an average growth of 2.5%, other industrialized economies such as Germany, Switzerland, Sweden and Denmark grew up to two percentage points faster between 1870 and 1913.⁶¹

On the level of firms too, systematic research on Belgian business from an international perspective is scarce. Currently, we are only at the start of the debate on why and how Belgian firms engaged in FDI. Whereas historians from the Netherlands have intensively studied the many strong links between Dutch firms and the world economy, historical research on the dynamics of Belgian FDI and the strategies of multinational companies from Belgium is rare.⁶² Certainly, historians of the Belgian expansion have documented Belgian FDI in different world regions (cf. Chapter 1 for a discussion of the distribution of Belgian FDI).⁶³ They have studied the economic, political and cultural relations between Belgium and e.g. Italy, Spain, Russia, the Ottoman Empire, India, China and Latin America.⁶⁴ Besides these country studies, research has been

⁶⁰ Herman Daems, Jan Degadt, and Rik Donckels, eds., *De Belgische industrie: Een profielbeeld* (Antwerp: Nederlandsche Boekhandel, 1981); Erik Buyst, "De evolutie van het Belgisch bedrijfsleven (1850-2000)," in *Nijver België: Het industriële landschap omstreeks 1850*, ed. Michel Oris, Jan Roegiers, and Bart van der Hertten (Antwerp: Gemeentekrediet, 1995).

⁶¹ Broadberry, Federico, and Klein, "Sectoral," 69.

⁶² See the "Dutch Business in the 20th century" (BINT) project, especially the second volume by Ben Wubs and Keetie E. Sluyterman, *Over grenzen: Multinationals en de Nederlandse markteconomie* (Amsterdam: Boom, 2009).

⁶³ For a very descriptive overview of Belgian economic expansion, see René Leboutte, Jean Puissant, and Denis Scuto, *Un siècle d'histoire industrielle (1873-1973): Belgique, Luxembourg, Pays-Bas: Industrialisation et sociétés*, Regards sur l'histoire 128 (Paris: SEDES, 1998), 67-76.

⁶⁴ Michel Dumoulin, *Les relations économiques italo-belges (1861-1914)* (Brussels: Palais des Académies, 1990); Alberte Martínez López, "Investissements belges dans les chemins de fer à voie étroite en Espagne entre 1887 et 1936," *Revue d'histoire des chemins de fer* 38 (2008); Wim Peeters and Jerome Wilson, *L'industrie belge dans la Russie des tsars* (Brussels: Éditions du Perron, 1999); Jacques Thobie, "Intérêts belges et intérêts français dans l'empire Ottoman (1880-1914)," in *Les relations franco-belges de 1830 à 1934* (Metz: Université de Metz. Centre de recherches Relations internationales, 1974); Idesbald Goddeeris, ed. *Het wiel van Ashoka: Belgisch-Indiase contacten in historisch perspectief* (Leuven: Leuven UP, 2013); Ginette Kurgan-van Hentenryk, *Léopold II et les groupes financiers belges en Chine la politique royale et ses prolongements (1895-1914)*, Mémoires de la Classe des Lettres, Académie royale de Belgique

conducted on dozens of Belgian companies that internationalized since the Belle Epoque.⁶⁵

Historians working on nineteenth-century Belgium have repeatedly emphasized the importance of bank-led business groups in the domestic and international economy. Mixed banks engaged both in commercial and investment banking and as such played a crucial role in the core industries of mining, metallurgy and machinery. Their most emblematic exponent, the *Société Générale de Belgique*, not only held deposits and granted short-term loans, but also made long-term investments in the heavy industry. Gradually, the *Société Générale* and other large internationally active mixed banks including the *Banque de Bruxelles*, *Banque d'Outremer*, *Banque Internationale de Bruxelles* and the Brussels branch of the *Banque de Paris et des Pays-Bas (Paribas)* started to invest abroad as well.⁶⁶

The mixed banks used holding companies to control their widespread investments. In essence, holding companies are “financial institutions which manage a portfolio of stocks in order to control the companies in which they hold a share of the equity capital.”⁶⁷ Throughout the nineteenth and twentieth centuries, this corporate structure remained the typical instrument of Belgian capitalism.⁶⁸ The holding companies provided not only financial services but also technical expertise to their domestic and foreign subsidiaries. Furthermore, they allowed making use of the Belgian stock market, which developed into

(Brussels: Palais des Académies, 1972); and the works of Eddy Stols, most recently Roney Cytrynowicz et al., eds., *Brasil e Bélgica: Cinco séculos de conexões e interações* (São Paulo: Narrativa, 2014).

⁶⁵ For an overview of business history in Belgium during the last decades, see the following review essays: Eric Vanhaute, “Sporen en trajecten: Geschiedenis van industrie en bedrijf in de 19de en 20ste eeuw,” in *Geschiedenis maken: Liber Amicorum Herman Balthazar*, ed. Gita Deneckere and Bruno De Wever (Ghent: Tijdsbeeld, 2003); Serge Jaumain and Kenneth Bertrams, “Introduction: Nouveaux jalons pour une histoire du patronat belge,” in *Patrons, gens d'affaires et banquiers: Hommages à Ginette Kurgan-van Hentenryk*, ed. Serge Jaumain and Kenneth Bertrams (Brussels: Le Livre Timperman, 2004); Chantal Vancoppenolle, Joachim Derwael, and Dirk Luyten, “De ondernemingen,” in *Bronnen voor de studie van het hedendaagse België 19e - 21e eeuw*, ed. Patricia Van den Eeckhout and Guy Vanthemsche (Brussels: Koninklijke Commissie voor Geschiedenis, 2017).

⁶⁶ For business histories of these and other financial institutions, see Xavier Mabilie, Charles- X. Tulkens, and Anne Vincent, *La Société Générale de Belgique (1822-1997): Le pouvoir d'un groupe à travers l'histoire* (Brussels: CRISP, 1997); Herman Van Der Wee, ed. *De Generale Bank (1822-1997)* (Tielt: Lannoo, 1997); René Brion and Jean-Louis Moreau, *La Société Générale de Belgique (1822-1997)* (Antwerp: Fonds Mercator, 1998); Paul-F. Smets, *Lambert: Une aventure bancaire et financière (1831-1975)* (Brussels: Racine, 2012); René Brion and Jean-Louis Moreau, *Franz Philippson: Aux origines de la Banque Degroof* (Brussels: Didier Devillez, 2016); Jean-Marie Moitroux et al., *Une banque dans l'histoire: De la Banque de Bruxelles et de la Banque Lambert à la BBL (1871-1996)* (Brussels: BBL, 1995).

⁶⁷ Herman Daems, *The holding company and corporate control* (Leiden: Nijhoff, 1978), 2.

⁶⁸ Ginette Kurgan-Van Hentenryk, “Structure and Strategy of Belgian Business Groups (1920-1990),” in *Beyond the Firm. Business Groups in International and Historical Perspective*, ed. Takao Shiba and Masahiro Shimotani (Oxford: Oxford UP, 1997); Marco Becht, “Belgium: The Disappearance of Large Diversified Business Groups,” in *Business Groups in the West: Origins, Evolution, and Resilience*, ed. Asli M. Colpan and Takashi Hikino (Oxford: Oxford UP, 2018).

an efficient source of finance after 1870. The vivid Brussels Stock Exchange occupied an influent position in the European financial system, ranking fourth after London, Paris and Berlin.⁶⁹

Besides the financial groups, other Belgian multinationals have received attention. They were active in sectors such as transport and electricity⁷⁰, trade⁷¹, construction and engineering⁷² and heavy industry⁷³. Despite the global outlook of many of these companies, the cited works have hardly addressed their internationalization. Only a handful of authors have truly paid attention to the multinational character of their subject. The companies are mainly situated in the innovative sectors that emerged or transformed during the Second Industrial Revolution, especially in modern utilities and transport⁷⁴ as well as in chemicals⁷⁵.

⁶⁹ Wouter Van Overfelt et al., “Do universal banks create value? Universal bank affiliation and company performance in Belgium (1905–1909),” *Explorations in Economic History* 46, no. 2 (2009): 254.

⁷⁰ Frans Buelens and Julien van den Broeck, *Financieel-institutionele analyse van de Belgische beursgenoteerde spoorwegsector (1836-1957)* (Antwerp: Garant, 2004); Michel Dumoulin and Pierre-Olivier Laloux, *Les Stoclet: Microcosme d’ambitions et de passions* (Brussels: Le Cri, 2011); Jean Charlent et al., *Les origines des grandes entreprises de l’électricité: Douze pionniers belges* (Brussels: Cercle d’histoire de l’électricité, 2010).

⁷¹ Stéphane Hoste, *Bunge in de Lage Landen: Twee eeuwen maritieme handel vanuit Amsterdam, Antwerpen en Rotterdam* (Rotterdam: Stad en Bedrijf, 2006); Olivier Boehme and Christian Leysen, *100 jaar Ahlers in Antwerpen: Een familiebedrijf in een wereldhaven* (Brussels: UP Antwerpen, 2009).

⁷² Michel Dumoulin and Marianne De Vreese, *Franki: Een wereld bouwen* (Tielt: Lannoo, 1992); Philippe Busquin, Karima Haoudy, and Guénaël Vande Vijver, eds., *Baume et Marpent: De la Haine au Nil... Itinéraire d’un géant*, rev. and enl. ed. (La Louvière: Ecomusée du Bois-du-Luc, 2008); Patrick Luysterman and Dirk Podevijn, *Ackermans en van Haaren: Een familiale groep met internationale ambities (1876-2007)* (Ghent: Snoeck, 2008).

⁷³ Susan Becker, ‘Multinationalität hat verschiedene Gesichter’: *Formen internationaler Unternehmenstätigkeit der Société anonyme des mines et fonderies de zinc de la Vieille Montagne und der Metallgesellschaft vor 1914* (Stuttgart: Steiner, 2002); Eric Bussière, “La sidérurgie belge durant l’entre-deux-guerres: Le cas d’Ougrée-Marhay (1919-1939),” *BTNG-RBHC* 15, no. 3-4 (1984); Robert Halleux, *Cockerill: Deux siècles de technologie* (Aleur: Perron, 2002); René Brion and Jean-Louis Moreau, *De la mine à Mars: La genèse d’Umicore* (Tielt: Lannoo, 2006); Arnaud Peters, *La Vieille-Montagne (1806-1873): Innovations et mutations dans l’industrie du zinc* (Liège: Éditions de la Province de Liège, 2016).

⁷⁴ Ginette Kurgan-van Hentenryk, *Rail, finance et politique: Les entreprises Philippart (1865-1890)* (Brussels: Éditions de l’Université de Bruxelles, 1982); Luc De Ryck, “Otlet en zonen, projectontwikkelaars en bouwheren van een internationaal imperium in het openbaar vervoer (1864-1914)” (Unpublished PhD Diss., Vrije Universiteit Brussel, 1989); René Brion and Jean-Louis Moreau, *Tractebel (1895-1995): Les métamorphoses d’un groupe industriel* (Antwerp: Fonds Mercator, 1995); Liane Ranieri, *Dannie Heineman, patron de la SOFINA: Un destin singulier (1872-1963)* (Brussels: Racine, 2005); Norma S. Lanciotti, “Foreign Investments in Electric Utilities: A Comparative Analysis of Belgian and American Companies in Argentina (1890-1960),” *Business History Review* 82, no. 3 (2008); Alberte Martínez López, “La vocation d’un holding belge des tramways: la Mutuelle des Tramways (1895-1918),” *Economies et Sociétés (Série “Histoire Economique Quantitative”)*, no. 38 (2008).

⁷⁵ Greta Devos, “Agfa-Gevaert and Belgian multinational enterprise,” in *The Rise of Multinationals in Continental Europe*, ed. Geoffrey Jones and Harm G. Schröter (Aldershot: Edward Elgar, 1993); Michel Dumoulin, *Petrofina: Un groupe pétrolier international et la gestion de l’incertitude*, vol. 1: 1920-1979 (Louvain-la-Neuve: Peeters, 1997);

In the absence of a synthesis of the Belgian business history literature, it is hard to make generalizations on the objectives of Belgian capitalism beyond borders. Although it does not incorporate recent literature, the best overview is written by the political scientist and historian of international relations Rik Coolsaet.⁷⁶ His explanation for the increase of Belgian FDI before WW1 points to the depression of 1873. The following two decades of reduced economic growth incited Belgium's most important trade partners to erect trade barriers. As a result of the French and German protectionism, the Belgian export economy started looking for alternative markets. The domestic market for the Belgian core products steel, coal and machinery was saturated. To create foreign demand, the leading financial institutions linked to the spearhead industries started investing in heavy and light railways abroad.⁷⁷ These export-oriented branches have determined the classic image of the Belgian economic expansion around 1900. However, Coolsaet argues that not all of the Belgian foreign investments did aim to spur domestic production. In general, Belgian capital flowed to those countries where it could earn higher returns than on domestic securities. In addition, FDI was meant to support the import needs, especially natural resources, of Belgian industries and meet the consumption demands of the wealthy middle and upper class. So in reality, opening new markets and guaranteeing production growth was only one, yet important, part of the explanation.⁷⁸

Another important aspect of the history of the Belgian economic expansion is the question of government support. Did the Belgian state, like the Great Powers, promote and protect Belgian investments abroad? Unfortunately, the historical links between the State, business and international politics remain largely unexplored in the case of Belgium. As one of the few, J.-F. Abbeloos has investigated the link between Belgian economic expansion and the colonial ambitions of Leopold II. Abbeloos found out that the Belgian economic establishment pursued its own agenda of internationalization, more or less independent from King Leopold's imperial project. Belgian financiers preferred to invest in the "industrializing areas of the capitalist periphery" rather than in an unstable imperialist venture ruled by their monarch.⁷⁹ Only after the First World War, the

Kenneth Bertrams et al., *Solvay: History of a multinational family firm* (Cambridge: Cambridge UP, 2013); Kenneth Bertrams, *UCB: The First Ninety Years (1928-2018)* (Tielt: Lannoo, 2019).

⁷⁶ Though Dumoulin also provides some useful insights: Michel Dumoulin, "Het ontluiken van de twintigste eeuw (1905-1918)," in *Nieuwe Geschiedenis van België*, ed. Vincent Dujardin, et al. (Tielt: Lannoo, 2006).

⁷⁷ Martínez López makes a similar claim specifically for the transport sector. See Alberte Martínez López, "Belgian investment in tramways and light railways: An international approach (1892-1935)," *The Journal of Transport History* 24, no. 1 (2003).

⁷⁸ Rik Coolsaet, *België en zijn buitenlandse politiek (1830-2015)*, 6th revised ed. (Leuven: Van Halewyck, 2014), 169-78.

⁷⁹ Jan-Frederik Abbeloos, "Belgium's Expansionist History between 1870 and 1930: Imperialism and the Globalisation of Belgian Business," in *Europe and Its Empires*, ed. Csaba Lévai (Pisa: Plus, 2008), 114.

protected market of Belgian Congo became the prime export destination for Belgian capital.

Conversely, Belgian multinational enterprise did not have the systematic support of the Belgian state either. Precisely because of its small-power status, Belgium was not in the position to actively and boldly promote and protect its economic interests abroad. The support was “limited to individuals within the political parties, the diplomatic corps and the Ministry of Foreign Affairs.”⁸⁰ However, Abbeloos formulates the hypothesis that the invisibility of the Belgian State, linked to its neutrality, might have been the key to a successful penetration of fiercely contested markets such as China and Russia.

Very recently, Houssine Alloul and Michael Auwers have opened up the debate.⁸¹ The authors call for a new generation of historians to critically assess the influent role of capital in Belgian foreign policy. In contrast to Abbeloos, their reading of the literature emphasizes that the support for big business was the largest priority of the Belgian State in the international sphere. Citing Coolsaet, Alloul and Auwers find that the Belgian elite consistently implemented the liberal consensus of low taxes, flexible corporate law and low wages to keep the Belgian industry competitive on the international market.⁸² In his PhD, Alloul also stresses the significance of the aid of the Belgian diplomatic and consular apparatus.⁸³ However, Alloul and Auwers argue that these claims need further investigation.

An extensive political and global history of the Empain group could provide new elements to nourish the debate. However, together with the bulk of the Belgian business histories, the historical research on the Empain group fails in addressing the objectives and business-state relations of Belgian multinational enterprise. Although Edouard Empain is used as a symbol of the Belgian economic expansion before World War I, a thorough historical analysis of his expansive business empire still needs to be made. This is all the more surprising, because the Empain group was one of Belgium’s most important multinationals which maintained a clear link with its country of origin. Instead, for decades, the fascinating story of Edouard Empain himself has attracted far more attention. The first short biography of Edouard Empain was written in the 1950s by Célestin Camus, a former director of the group’s main company in Belgian Congo.⁸⁴ His hagiographic entry portrayed Empain as a self-made man, who founded his own bank in 1880 to stay independent from the *haute finance*. Reportedly, his ambitions were only

⁸⁰ Abbeloos, “Belgium,” 120.

⁸¹ Houssine Alloul and Michael Auwers, “What is (New in) New Diplomatic History?,” *BTNG-RBHC* 48, no. 4 (2018).

⁸² Alloul and Auwers, “New,” 121.

⁸³ Houssine Alloul, “Belgium and the Ottoman Empire: Diplomacy, capital, and transnational loyalties (1865–1914)” (Unpublished PhD Diss., UAntwerpen, 2017), 241.

⁸⁴ Célestin Camus, “Édouard Empain,” in *Biographie Coloniale Belge* (Brussels: Librairie Falk, 1951).

tempered by ignorant government interference. According to Camus, Empain was a brilliant entrepreneur who foresaw the benefits of electricity and expanding abroad. This heroic image of the ‘Great Belgian’ has remained dominant in the more popular literature on Edouard Empain. The most extensive biography of the Empain dynasty has not changed this view, although it certainly nuanced some points.⁸⁵ The journalist Yvon Toussaint pointed out that Edouard Empain was supported financially at the beginning of his career by a local noble family, rather than having built up his business empire all by himself. Unfortunately, in Toussaint’s book, the history of Empain’s businesses only served to illustrate the glamour of his private life. Moreover, the author regrettably invented stories whenever the sources lacked. Since he also refrained from citing references, clearly distinguishing fact from fiction remains impossible.

Although fragmented, the geographic extension of Empain’s activities has received more attention in studies on Belgian-foreign business relations, similar to those mentioned above.⁸⁶ In particular, Kurgan-Van Hentenryk produced an excellent study of the investments of Empain and other Belgian entrepreneurs in China. Her work is of great value for this dissertation. She has especially shed light on Empain’s important connections with the Parisian financial market and his friendship with King Leopold II.⁸⁷ Hausman et al. also pointed to the group’s close ties with France, the most important of twelve host countries of Empain’s foreign investments. “In its international business, it hired French as well as Belgian managers and engineers and used French along with Belgian banking services.”⁸⁸ As a consequence, his businesses in France were researched most extensively, in the form of two doctoral dissertations and several articles.⁸⁹ They have received much more attention than the Belgian activities.

However, by studying France or another region exclusively, the previously cited authors have probably produced a biased view of the global business group that needs verification. In fact, the only account covering all continents was compiled by a

⁸⁵ Yvon Toussaint, *Les barons Empain* (Paris: Fayard, 1996).

⁸⁶ On Empain companies in Russia, the Netherlands, Spain, Egypt, Brazil, etc., see Sabine de Massol de Rebetz, “Les sociétés belges de tramways en Russie (1880-1914)” (Unpublished MA Thesis, Université catholique de Louvain, 1986); W.J.M. Leideritz, “De Zuid-Nederlandsche Stoomtramweg-Maatschappij: Een historische terugblik op bijna 100 jaar regionaal openbaar vervoer (1889-1985),” *De Oranjeboom* 44 (1991); Ann Vanderverren, “Belgische investeringen in de Mato Grosso: de “Compagnie Cibils” (1895-1912)” (Unpublished MA Thesis, UGent, 1986); André Azzam et al., eds., *Heliopolis* (Brussels: Fonds Mercator, 2010).

⁸⁷ Kurgan-van Hentenryk, *Léopold II*.

⁸⁸ Hausman, Hertner, and Wilkins, *Global Electrification*, p. 104.

⁸⁹ Pierre Lanthier, “Les constructions électriques en France: Financement et stratégies de six groupes industriels internationaux de 1880 à 1940” (Unpublished PhD Diss., Université Paris X - Nanterre, 1988); Pierre Lanthier, “Les stratégies du groupe Empain: L’exemple de la Parisienne électrique (1900-1940),” in *Réseaux électriques et installateurs: Actes du 8e Colloque de l’AHEF, 14-16 octobre 1992* (Paris: AHEF, 1995); Caroline Suzor, *Le groupe Empain en France: Une saga industrielle et familiale*, Histoire de l’énergie (Brussels: P.I.E. Peter Lang, 2016).

passionate collector, Jacques Simar.⁹⁰ Unfortunately, his brief overview lacks depth, coherence, and critical distance. Simar simply listed all companies Empain founded and sporadically provided information on their development, without embedding them in a broader narrative or in the historiography.

In conclusion, this section has demonstrated that we still know very little about the role of governments and multinationals from small countries in the First Global Economy. Research, including that on Belgium, seems to suggest that small country MNEs profited more of the global economic integration, but were more vulnerable in international relations. The two main trends of the pre-World War I world were thus more pronounced in the case of small countries. With its temporary status as economic giant but rather weak political influence, the history of Belgium particularly embodies the paradox of economic globalization and imperialist and nationalist rivalry. Therefore, the much needed global history of the Empain group can shed new light on the modern history of international business of Belgium in particular and of smaller and larger states in general.⁹¹ By connecting and comparing business operations in very different political settings such as Venezuela, Egypt, China and France, the political aspect of international entrepreneurship in the world economy before 1914 can finally get the centrality it deserves. I argue that, only by bringing political economy back in, we can get an insight into the nineteenth-century rise of multinationals and the market and non-market conditions that shaped them.⁹²

Exploiting the paradox of the First Global Economy: Strategies of MNEs from small states

The historical paradox of globalization and territorialization and its differentiated effects on multinationals from small countries leads us to the following question: What strategies did an international entrepreneur from a small country pursue to prosper in the First Global Economy? From the analysis of Empain's strategies to transform the global

⁹⁰ Jacques Simar, *Edouard Empain: Esprit Fécond, Entrepreneur Conquérant* (Deinze: The Scripophily Center, 2013).

⁹¹ This is corroborated by Marten Boon's plea for a transnational methodological approach. "Combining a global perspective with original business historical research" results in a "business history beyond the firm that does not relinquish the actual history of the business" and that provides insight in the history of globalization. Marten Boon, "Business Enterprise and Globalization: Towards a Transnational Business History," *Business History Review* 91, no. 3 (2017): 528-29.

⁹² See also John's argument in favor of the inclusion of political economy in business history: Richard R. John, "Bringing Political Economy Back in," *Enterprise & Society* 9, no. 3 (2008).

economic and political challenges into opportunities emerges the main thesis of this dissertation: *To understand the development of international business in the First Global Economy, we need to acknowledge the importance of the following three domains at least: (1) geographical and sectoral strategy, (2) corporate structure, and (3) business-government relations including political risk.* With the study of the Empain group, I make a threefold argument that furthers the debate in all three fields.

First of all, this dissertation starts from the main assumption that, contrary to the theories of multinational enterprise, not all large MNEs followed a premeditated master plan. Rather, I argue that Empain acted according to an entrepreneurial logic, making use of the opportunities the global economy offered. To show this, I analyze the activities of the Empain group from a geographical and sectoral perspective.

Regarding the sectoral strategy, in the 1960s Joye established the view of the Empain group as a vertically integrated enterprise of operating companies, banks and holdings. All companies had a different role and could thus profit from a large project such as the development of an electrified urban transport network. Whereas the private bank would finance the operation, the holding companies would give technical advice and would sometimes even carry out the construction work. The group's producer of electrical equipment could provide the necessary material for the rolling stock and for the power station. In addition, a company would be set up to supply the tramway network with electricity.⁹³ Pierre Lanthier and later Caroline Suzor came to very similar conclusions, but embedded them in the French economic context. They also emphasized the importance of horizontal (in the same sector) and vertical (expand upstream in the value chain) integration. The related diversification from 1900 onwards was entirely in function of the new profitable activity: electricity.⁹⁴

However, these earlier business histories of the Empain group either represented the Empain group as a static system (Joye) or did not look beyond the borders of one country (Joye, Lanthier, Suzor). All three ignored the more enigmatic unrelated diversification. In contrast, my combined global approach seeks to explain the genesis and geographical and sectoral development of the business group. On the one hand, I substantiate the claim elaborated earlier in the introduction that internationalization did not always follow a gradual or incremental pattern (Uppsala) in the First Global Economy. Empain invested in a series of core markets and temporarily 'hot' destinations. On the other hand, based on the evolution of the Empain group before 1914, I argue that multinational business had to adapt to the innovations of the Second Industrial Revolution to be able to expand globally and face international competition. At the same time, the group's unrelated

⁹³ Pierre Joye, *Les trusts en Belgique: La concentration capitaliste*, 4th revised ed. (Brussels: Société populaire d'éditions, 1964), p. 168-72.

⁹⁴ Lanthier, "Constructions."; Suzor, *Empain en France*.

diversification suggests that this adaptation did not exclude other entrepreneurial opportunities. As will be explored below, my claim is that this flexibility was also reflected in the corporate structure and political positioning of the Empain group.

The second argument of this dissertation is that the business group form was an efficient and versatile corporate structure in the First Global Economy, perfectly suited for the strategies of the Empain group. A common definition describes a business group as “a set of legally independent firms operating under a common central management, linked by persistent, formal and/or informal links.”⁹⁵ Existing research on the Empain group has concluded that Empain controlled a “rather loose legal and financial structure of his numerous companies while maintaining a strong concentration of the production and management-related decision-making processes.” The strategy “relied on a federation of holding companies,” which were organized internationally to get access to different national financial markets and “were under direct family control.”⁹⁶ Suzor showed that the group was run by the two Empain brothers and a small circle of professional managers, who stayed in the business group for a long period. The strategic management was centralized in the offices in Paris, but daily operational decisions took place on a local level.

This dissertation seeks to verify the validity of these claims on the level of the entire multinational enterprise as well as connect it with the latest history and theory of business groups in general. As mentioned above, recent research has acknowledged the polymorphic character of international investment in the First Global Economy.⁹⁷ Likewise, decades after the first works on FSCs, experts have realized that they are not always that free-standing. They now emphasize that FSCs could have been embedded in larger corporate networks and business groups, linked by interlocking directorships and equity ties.⁹⁸

This in turn ties into the recent reappraisal of the role business groups have played and continue to play in developed economies. In the past, the research on modern business history has been dominated by the idea of the multidivisional firm as the ultimate goal of organizational evolution. According to the theory of the ‘managerial revolution’ that Chandler and his successors formulated, the control of firms shifted from the owners to salaried managers, allowing these firms to professionalize and expand rapidly. Under the management of these professional experts, the firms vertically

⁹⁵ María Inés Barbero and Nuria Puig, “Business groups around the world: An introduction,” *Business History* 58, no. 1 (2016): 7.

⁹⁶ Lanthier’s findings summarized by Kurgan-Van Hentenryk, “Structure,” p. 94.

⁹⁷ See for instance the forthcoming special issue in *Business History* on “Commodity Trading Companies in the First Global Economy, 1870-1929”

⁹⁸ Hausman, Hertner, and Wilkins, *Global Electrification*.

integrated different parts of the production chain instead of leaving them to the market. According to Chandler and management scholars, the ultimate goal for any large enterprise is to transform into an American style multidivisional firm, which constitutes the pinnacle of organizational efficiency.⁹⁹ In this view, other organizational forms such as the business group were a suboptimal solution, merely suited to overcome the shortcomings of the market in emerging countries.¹⁰⁰

The same authors that somehow negatively perceived this corporate form, have very recently revised their view. They now have developed a more general framework including business groups in the West. Colpan and Hikino today argue that business groups “rose to function as a critical factor of industrial dynamics (...) in the late nineteenth century.”¹⁰¹

The reappraisal of business groups links up with the importance of this organization form for the Belgian economy in the last two centuries. Both bank-led and family-centered business groups were crucial players in Belgian economic history. In the past, scholars have frequently highlighted their advantages. They stressed the business group’s ability to diversify into different sectors and countries as well as its coordination function. Controlling various businesses via holding companies, the business group had excellent information on the growth perspectives in each subsidiary. Based on this information, it could very efficiently allocate resources.¹⁰²

According to Colpan and Hikino, business groups emerged in the West in part because their structure facilitated the investments necessary “to keep up with the ever-increasing minimum optimum scale” of production and distribution, a typical feature of the Second Industrial Revolution.¹⁰³ The scale increase of business groups paralleled the rise of large integrated industrial enterprise in the same period. This dissertation will demonstrate that the Empain group perfectly used the business group form to finance its enormous expansion. This type of organization allowed Empain to massively invest in the innovative sectors of the Second Industrial Revolution. As such, I argue that the Empain group is an emblematic case that represents a broader trend in the history of the Belgian economic expansion. Although initially supported by traditional industries, Belgian traction companies all over the world gained a dynamic of their own. Electrification allowed them to prosper internationally. Similarly, scientific improvements supported

⁹⁹ See for instance A.D. Chandler, Franco Amatori, and Takashi Hikino, *Big Business and the Wealth of Nations* (Cambridge: Cambridge UP, 1997).

¹⁰⁰ Asli M. Colpan, Takashi Hikino, and James R. Lincoln, eds., *The Oxford handbook of business groups* (Oxford: Oxford UP, 2010).

¹⁰¹ Asli M. Colpan and Takashi Hikino, eds., *Business Groups in the West: Origins, Evolution, and Resilience* (Oxford: Oxford UP, 2018), v.

¹⁰² Brion and Moreau, *Tractebel*, 8.

¹⁰³ Colpan and Hikino, *Business Groups in the West*, 36.

the expansion of Belgian chemical industry. Both electric traction and the chemical industry were innovations of the Second Industrial Revolution.

However, Colpan and Hikino work with a rather narrow definition of the business group, making it hard to fit the Empain firms in their framework. Their definition presupposes diversification in predominantly unrelated sectors. Other types of business groups, they argue, resemble more the multidivisional enterprise with its clear product focus. The authors concentrate on the most common corporate governance structure: the hierarchical (pyramidal) organization. The archetypal hierarchical business group is a tier-structured pyramid with a holding company at the top, which controls a whole series of subsidiaries. These might in turn also control other subsidiaries. Yet, the Empain group, with its “federation of holding companies” at the apex and its largely related diversification, does not entirely match the criteria. It is, nevertheless, the argument of this dissertation that the main advantages identified by the business group literature (ample finance and hierarchical control) underlie the corporate design of the Empain group too. Therefore, this dissertation advocates a more nuanced approach to business groups grounded in historical reality, beyond the typical unrelatedly diversified pyramids. Moreover, I will claim that business groups had two additional advantages. On the one hand, they presented unequalled flexibility with regard to geographical expansion and (un)related diversification. For every opportunity the First Global Economy offered, Empain could establish a new ‘FSC-style’ subsidiary. On the other hand, the international business group allowed to perfect strategies to mitigate political risk (see below). I argue that Empain could forge interesting alliances with powerful foreign actors without losing control of his business empire.

The third and last main argument of this study focuses on the political aspects of international business. I argue that international relations were not just a matter of states. Above, I have explained that the world market before 1914 was political and that states regarded MNEs as agents and extensions of their foreign policy. This implies that MNEs were actors in international politics too. So to understand the interplay of economy and politics, we need to look at the actions of multinationals. MNEs balanced on the intersection of the integrated world market and the global clash of nations. In particular, the focus on MNEs from small countries allows moving away from a state-centered history written from the perspective of the Great Powers.¹⁰⁴

¹⁰⁴ To our knowledge, the business history of Solvay is the only Belgian one so far acknowledging the centrality of “international (geo)politics and economic relations.” Kenneth Bertrams, *A company in history: Solvay (1863-2013)* (Cambridge: Cambridge UP, 2013), 47.

In contrast to what has been argued above, many business historians claim that in international business before the First World War, nationality did not matter.¹⁰⁵ The consensus seems to be that the national origins of capital and goods were of secondary importance at most. Compared to the interwar years, the First Global Economy as a whole was extremely open to FDI. Only after 1918, foreign business could not escape political risk, including expropriation and exclusion on a large scale. Because of its centrality in this dissertation, it is necessary to clarify the meaning of ‘political risk’. In business history literature, the concept is closely linked to nationalism. It refers to an entrepreneur’s uncertainty about the consequences of “all political actions and governmental decisions” as well as the attitudes and reactions of the local population, possibly inspired by nationalism.¹⁰⁶

The image of the First Global Economy as a golden age for global capitalism has started to show some cracks. First of all, earlier sections of this introduction have nuanced this view. In a world without level playing field, entrepreneurs were subject to the vagaries of imperialism and economic nationalism. Secondly, some business historians now acknowledge that strategic sectors such as natural resources and services were politically sensitive and prone to nationalist reflexes.¹⁰⁷ Especially providers of public utilities had to take political risk very seriously. Whereas manufacturing companies could easily relocate production in case of a hostile treatment, the assets of utilities were immovable. In addition, government interference was inextricably bound up with public utilities. Governments, more often than companies, took the initiative to provide their citizens with decent public services. Especially authorities in urbanizing regions were demanding, but often unwilling or unable to finance these utilities themselves. A solution was to issue a call for tenders, allowing several firms to compete to obtain the right to operate a railroad for instance. The right was granted to companies in the form of a concession, often with strict government regulation.¹⁰⁸

¹⁰⁵ Geoffrey Jones, “The End of Nationality? Global Firms and ‘Borderless Worlds’,” *Zeitschrift für Unternehmensgeschichte* 51, no. 2 (2006); Takafumi Kurosawa, Neil Forbes, and Ben Wubs, “Political risks and nationalism,” in *The Routledge Companion to the Makers of Global Business*, ed. Maria Teresa Da Silva Lopes, Christina Lubinski, and Heidi Tworek (Abingdon: Routledge, 2019), 486-87.

¹⁰⁶ Christopher Kobrak, Per H. Hansen, and Christopher Kopper, “Business, Political Risk, and Historians in the Twentieth Century,” in *European Business, Dictatorship, and Political Risk (1920-1945)*, ed. Christopher Kobrak and Per H. Hansen (New York: Berghahn, 2004), 3.

¹⁰⁷ Ryo Izawa, “Municipalisation, war, tax and nationalisation: Imperial Continental Gas Association in an era of turmoil (1824-1987),” in *Multinational Enterprise, Political Risk and Organisational Change: From Total War to Cold War*, ed. Ben Wubs, Neil Forbes, and Takafumi Kurosawa (New York: Routledge, 2019); For a pioneering study, see Linda Jones, Charles Jones, and Robert Greenhill, “Public utility companies,” in *Business Imperialism (1840-1930): An inquiry based on British experience in Latin America*, ed. D.C.M. Platt (Oxford: Oxford UP, 1977).

¹⁰⁸ On the global significance of the concession system, see Cyrus Veaser, “A Forgotten Instrument of Global Capitalism? International Concessions (1870-1930),” *The International History Review* 35, no. 5 (2013).

The conceding authorities, not the company, had the ultimate power to decide on the fortunes of the public utility. As a result, the operating company always had to reckon with the risk of nationalization or municipalization. Of course, the conceding authorities wanted to secure the best possible service for the population at the most advantageous financial conditions. Yet, as domestic capital markets and technology were mostly insufficient, host country authorities frequently had to choose between companies from different foreign countries. Subsequently, governments could also have political grounds play a part in their choice of a particular company. Because of the ubiquity of the infrastructure in the city and the public character of the services, foreign-owned utilities were very sensitive to the slightest flicker of popular nationalism. Even municipal responsibilities such as urban transport, electricity, gas and water supply became a matter of international politics.

In other words, in the First Global Economy the ‘liability of foreignness’ concerned not only the “costs of bridging distance” and “information asymmetries” but also “discrimination by governments, consumers and other stakeholders.”¹⁰⁹ However, host countries do not discriminate in an undifferentiated way. Lubinski has convincingly argued that “foreignness per se is not a liability but it depends on local perception of the home country.” In her article, she analyzes the position of German multinationals in colonial India. Her conclusion was that “national origin can be a distinct asset at one point and a significant liability at another.”¹¹⁰ Lubinski refers to this as the “liability of home.”

This shows that political uncertainty and discrimination were not only a risk, but also an opportunity, as Wubs, Forbes and Kurosawa have recently contended.¹¹¹ From a business perspective, this duality gives agency to MNEs on the political world stage. The ability of a multinational to better avoid risk than other firms constitutes a relative competitive advantage. Multinational corporations did not just passively let the policy of governments affect their business. For instance, they actively tried to shape the political context via business diplomacy, i.e. seeking and maintaining contact with various actors in domestic and foreign governmental bodies.¹¹² Therefore, this dissertation wants to expand on recent research about the various strategies MNEs could develop to mitigate political risk. I argue that in the globalized world before the First World War, the political fragmentation marked by imperialism and nationalism created risks, but that creative

¹⁰⁹ Christina Lubinski, “Liability of Foreignness in Historical Context: German Business in Preindependence India (1880–1940),” *Enterprise & Society* 15, no. 4 (2015): 723.

¹¹⁰ Lubinski, “Liability,” 723, 52.

¹¹¹ Neil Forbes, Takafumi Kurosawa, and Ben Wubs, “Introduction: Multinational Enterprise in the Century of Total War and Cold War: Political Risk and Organisational Change,” in *Multinational Enterprise, Political Risk and Organisational Change: From Total War to Cold War*, ed. Neil Forbes, Takafumi Kurosawa, and Ben Wubs (New York: Routledge, 2019).

¹¹² For a discussion of different forms of contemporary business diplomacy, see Jennifer Kesteleyn, Shaun Riordan, and Huub Ruël, “Introduction: Business diplomacy,” *The Hague Journal of Diplomacy* 9, no. 1 (2014).

entrepreneurs could transform some risks into opportunities. On the one hand, the political risk was situated in the attitude of the host country towards the MNE. At the same time, the MNE needed to maintain a close relationship with the home country government and sometimes limit the disadvantages linked to its nationality.

By studying the Empain group, I will investigate to what extent the country of origin of the Empain group was a liability or an asset. I will test the hypotheses formulated in the literature: Could Empain rely on the Belgian neutrality when negotiating concessions with anti-imperialist governments? Was there indeed a Belgian “expansionist complex” that supported Empain’s FDI? The above-mentioned literature seems to suggest that big business, the political elite and the King united their efforts to promote Belgian interest abroad. If this was the case, was the economic diplomacy of a small state able to stand its ground against the Great Powers? In a sum, was the small country origin a blessing or a curse?

Did the Empain group develop strategies to escape its ‘liability of home’? Historical case studies have emphasized the practice of altering corporate structures to handle political uncertainty. I will investigate how Empain managed to come loose from its Belgian origins to a certain extent. Arguably, he used the holding company organization as a flexible tool to ‘cloak’ its Belgian nationality. The term cloaking refers to the frequent historical practice of disguising the nationality of the management, shareholders and so on.¹¹³ I will examine in what way this allowed him to rely on the support of Great Powers, especially France, when the Belgian diplomacy was unable to influence the host country government. In return, did Empain permit the French government to use his businesses to pursue national aims in the struggle for global influence if he could maintain ultimate control? And how did the Empain group rely on the local elite of the host country to improve its relationship with the local government and to appease possible nationalist opposition?

In sum, my three arguments will together explain the strategies of an MNE from a small country in the First Global Economy. They will present Empain as an entrepreneur tied to a specific historical context, making use of the economic and political circumstances by developing strategic organizational capabilities.

¹¹³ Forbes, Kurosawa, and Wubs, “Introduction,” 6-7.

Sources, heuristic strategies and methods

Writing a global history of the Empain group with special attention to the political aspects of doing business in the First Global Economy, has proven a challenging task. It means that besides the regular company records, one needs to find sources revealing the actors involved in the complex interplay between businesses and governments. However, the business records of the Empain group necessary to address the questions raised above are fragmentary, to say the least. Fortunately, I was able to cover many lacunae thanks to a combination of creativity and perseverance. As a result, this history of the Empain group is based on a wide array of sources.

For the history of a business group, the records produced by the firms themselves are the most obvious and important sources. In the case of family businesses, one should add the personal archives of leading family members. Unfortunately, both types of sources are private property, of which conservation and accessibility might not be guaranteed. The history of the Empain group was intricately linked to the turbulent history of the family itself. Every transfer of leadership from one generation to the next only took place with great difficulty. Due to much dissension within the family, the personal files of the founder Edouard Empain have been lost. In the past, several researchers have vainly attempted to trace them. Alternatively, they have interviewed descendants about the family history, but the oral tradition is limited to some anecdotes.¹¹⁴ To everyone's regret, the corporate archives have been dispersed and most of them lost as a consequence of the collapse of the group in the 1980s. Even before that period, Edouard-François Empain (heading the business group between 1946 and 1967, son of François Empain) had ordered the destruction of important collections of historical records to make room in the Brussels headquarters, including those of firms operating in France, Russia, Egypt and Congo.¹¹⁵

By chance, the remnants of these fragmented archives have been transferred to the KMMA in 1980 after a campaign for the collection of business archives.¹¹⁶ They include the archives of nearly all of Empain's activities in Russia, as well as very incomplete records of the Congolese railway *CFL*. Fortunately, several of Empain's companies and

¹¹⁴ Interview (Feb 2016) with Alice Gorissen, co-author of the documentary film *Les barons Empain, la dynastie fracassée* (2015). Yvon Toussaint has used many of them uncritically: Toussaint, *Barons*.

¹¹⁵ Albert Duchesne, "Un général pas comme les autres: Le baron Edouard Empain durant la guerre 1914-18," *Revue belge d'histoire militaire* 26, no. 1-2-3-4 (1985): 45; Simar, *Empain*, 7.

¹¹⁶ Patricia Van Schuylenbergh, "Les archives d'entreprises du Musée royal de l'Afrique centrale: Terrains en friche, gisements pour la recherche," in *Colloque Entreprises et Congo. Le destin d'un patrimoine archivistique exceptionnel - Ondernemingen en Congo. Levensloop van een uitzonderlijk archivalisch erfgoed* (AGR, 17 Oct2007).

their archives had already left the group before the archival destruction in the 1950s. France nationalized all electricity companies after WW2, including *SERVA*, *SEP*, *EGN* and *SNE*.¹¹⁷ Other operating companies survived because they were jointly managed by Empain and other business groups with a stronger conservation culture. The latter's archives contain the records of the *Chemins de fer de la Basse-Egypte*, the tramways in Cairo, Damascus, Madrid and Nantes. The *Chemins de fer de la Banlieue de Reims*, the *Chemins de fer du Calvados* and *Cie générale de Chemins de fer et Tramways en Chine* were taken over by other business groups before the 1950s.

Virtually all archives of holding companies such as the *Compagnie générale de railways et d'électricité* have been liquidated together with the companies themselves or even before. However, I was able to trace the former CEO of the French company *SPIE*, the successor of the *Parisienne Electrique*. In the 1980s, a friend had saved the minutes of the board of directors of the first five years of the existence of this top holding company for him.¹¹⁸ The importance of such a unique document cannot be underestimated: the minutes provide insights into the relationship of the holding company with subsidiaries in France and abroad, the criteria determining the investment strategy, etc.

This research worked around the lack of substantial business group records, by collecting information from a wide range of sources in dozens of archives. I found personal correspondence of Empain in the private records of members of the bourgeoisie and the royal house in Belgium and France.¹¹⁹ Close collaborators of Empain had also preserved many interesting documents on the history of the Empain group before the First World War.¹²⁰ Then, the archives of many contemporary businessmen, firms and associations contained details on investment projects, competition and cooperation.¹²¹ A public utility entrepreneur such as Empain had often dealt with the Belgian and French government, both for domestic and foreign matters. Therefore, the archives of the Belgian and French ministries of Foreign Affairs, Finance, Railways and Public Works as well as the Belgian Ministry of Colonies and its predecessor were very insightful on the role of the state in the development of the Empain group. I have systematically gone through all the files regarding projects that could have been of interest to Empain. In an

¹¹⁷ Unfortunately, the nationalization of public transport in Belgium did not result in a similar transfer of the archives of the many local light rail firms of the Empain group. See also e-mail correspondence with Robert Morren and Freddy Coussens (Jan 2017)

¹¹⁸ Telephone conversation (Feb 2017) with Jean Monville, former chairman and CEO (1995-2009) of *SPIE*

¹¹⁹ Charles de Broqueville, Leopold II, Albert I, Henry Carton de Wiart, Bunau-Varilla, Jules Madeline, Comtesse de Greffulhe, Albert Thomas

¹²⁰ Primarily Georges Theunis and Gustave Verniory. Other loyal collaborators such as those of the du Roy de Blicquy family have not left any written traces. See also e-mail correspondence with descendant Axel du Roy de Blicquy (Nov 2018)

¹²¹ Edouard Otlet, Raoul Warocqué, *Tramways Bruxellois*, *Chemins de fer économiques*, *Banque d'Outremer*, *Gaz Belge*, *Electricité de l'Escaut*, *UEEB*, *Banque Philippon*, *Siemens & Schuckert*, *Balser & Cie*

attempt to include the British perspective, I have searched the full-text scans of the Confidential Print series for the Middle East and Africa. Unfortunately, this has not yielded any meaningful results, showing that Empain was not in the center of the attention of the Foreign Office.

Of course, the archives of the conceding authorities, often local municipalities, have conserved much more, but the correspondence concerned almost exclusively the practical execution of the construction works rather than business strategies and politics. Empain's position in the Belgian political arena is also investigated based on the digitized proceedings (*Annales Parlementaires*) and documents (*Documents parlementaires*) of the House of Representatives and the Senate.

The gap created by the destruction of corporate archives was also filled by the abundance of published corporate documents in various media. Fortunately, the business group of Empain was made of dozens of separate legal entities. Nearly all of them had produced public documents, that discussed matters that would have remained internal secrets in a multidivisional enterprise. Since 1873, every limited corporation established in Belgium had to publish its memorandum of association, modifications to articles of association and balance sheets in a special supplement to the *Moniteur Belge*. These documents provide information on topics such as the founders, the board of directors and the financial results of the firm. Recently digitized with full-text search possibility, this source of 200,000 pages revealed stakes of Empain in companies that could not be known otherwise.

To inform their shareholders, the larger listed companies also published annual reports, in which the board of directors explained the general developments of the past year. Although their explanations are unfortunately too succinct to allow an in-depth analysis of the business strategy, they give a rosy yet valuable overview of the company's activities. In some cases, the reports include critical questions of shareholders too. The key data were also summarized in specialized periodicals such as the *Recueil Financier*.

This documentation produced by the companies themselves is completed with articles from the general and specialized press. While the latter focused on financial and economic analysis, the former covered all fields of society. Nevertheless, the general press sometimes offered an interesting view on political decisions involving the companies of Edouard Empain and on new directions of his businesses. In contrast, the financial papers such as the *Moniteur des Intérêts Matériels* were more interested in the latest evolutions of Empain's businesses that could affect stock market quotations or dividends. I searched large on- and offline collections such as those of Gallica, Belgicapress, Delpher, Europeana Newspapers, Hathitrust, archive.org, *Financial Times* and *The Economist*, on the one hand, and of the *Credit Lyonnais*, *Association nationale des porteurs français de valeurs mobilières* and *Bois du Cazier*, on the other hand.

To address the issues raised in this introduction, I will use a mixed methodological approach.¹²² The analysis will be mainly qualitative, although supported by quantitative evidence. First, I will adopt a global perspective. I will look at the business group as a whole through three different lenses: geographical, sectoral and organizational. The data used in the first part has been collected in a relational database (see Appendix 2). For every firm of the business group, I have gathered information on topics including economic activity, ownership, board composition, date and place of incorporation and liquidation, headquarters location, stock market quotations, the evolution of the capital structure and profitability.

Second, I conduct in-depth case studies on particular political investment contexts: Belgium, France, Venezuela and China. I picked these countries, first of all, because the activities in other markets are much less documented. In addition, the selected cases offer the opportunity to study political uncertainty in different geographical and temporal settings. Two important countries might have deserved a case study too: Egypt and Russia. However, a whole literature has already been devoted to the Egyptian case. In addition, the company archives of Heliopolis are currently inaccessible, whereas the existing archival sources do not reveal that much about political strategies. New insights would have required extensive research in archives in London and Cairo. Nevertheless, some crucial elements of the corporate history in Egypt will be included, thanks to a reading of the available literature and sources. For the Russian case, the existing sources do not provide much detail on the political aspects of international business. Here too, based on existing scholarship and archives, the salient elements supporting the general argument will be taken into account.¹²³

This dissertation is limited to the period between 1880 and 1914. Stopping at the First World War might seem artificial, as Edouard Empain only died in 1929. However, this study is not a biography nor a traditional business history. To write an exhaustive biography, the historian needs much more egodocuments.¹²⁴ Lacking these, I acknowledge that I sometimes cannot definitively attribute decisions and actions to Empain himself. However, the pyramidal hierarchy of the business group implies that Empain always had ultimate control. As for a biography, a comprehensive company history requires access to well-inventoried corporate archives. Rather, this dissertation is something in between. Not unlike global microhistory, it studies global processes and

¹²² Recently, business historians have lauded the wide variety of methodologies in the discipline, including corporate history: Stephanie Decker, Matthias Kipping, and R Daniel Wadhvani, "New business histories! Plurality in business history research methods," *Business History* 57, no. 1 (2015).

¹²³ See the historiographical discussion of the Empain group above for literature on both cases.

¹²⁴ On the many interesting insights biographies of entrepreneurs can produce, see Jacques Van Gerwen, Marcel Metze, and Hans Renders, eds., *De ondernemersbiografie : mythe en werkelijkheid* (Amsterdam: Boom, 2008).

connections through the eyes of a historical agent.¹²⁵ Besides, the focus on an entrepreneur and his businesses ties in with the recent trend to see the global market not as an institution, but as a web of relations.¹²⁶ Consequently, this dissertation uses the Empain group to ask a set of questions about the First Global Economy. Extending the timeframe would change the research questions, because in the history of the global economic system, the First World War was a watershed. In the case of the Empain group, it also broke the dynamics of foreign investments. Moreover, the availability of archives for the interwar period is even worse.¹²⁷

Outline of the dissertation

This dissertation consists of seven chapters. Together, they shed light on the dynamics of multinational enterprise in the First Global Economy. The first two chapters of Part I substantiate the first argument. They show that Empain's investments were the result of an entrepreneurial logic combined with the pursuit of economies of scale and scope. In particular, Chapter 1 focuses on the internationalization process of the Empain group. The chapter maps out the geographical spread of the investments of Edouard Empain. It tries to uncover the political, economic and personal factors that explain the choice to enter specific foreign markets. Chapter 2 provides another explanation for the strong expansion of the Empain group. It looks at the diversification strategy of the group before the First World War. The third chapter of Part I makes the second argument. It revolves around the organizational structure of Empain's business empire. In the chapter I analyze the different capabilities that result from the business group structure, concerning finance, control, professionalization and flexibility.

Whereas Part I looks at the entire business group from a geographical, sectoral and organizational angle, Part II takes a case-study approach. To develop the third more complex argument about business-government relations and political risk, we need to compare different investment contexts. Therefore, the four chapters of the second part each study the political strategies of the business group in a specific country. Chapter 4

¹²⁵ For a pioneering example of a global microhistory of business, see Angelika Epple, *Das Unternehmen Stollwerck. Eine Mikrogeschichte der Globalisierung* (Frankfurt: Campus, 2010). See also the conferences organized in Warwick by the Global Microhistory Network since 2018 (<https://warwick.ac.uk/fac/arts/history/ghcc/research/globalmicrohistory/>)

¹²⁶ Johanson and Vahlne, "Uppsala."; Jan Johanson and Jan-Erik Vahlne, "Markets as networks: implications for strategy-making," *Journal of the Academy of Marketing Science* 39, no. 4 (2011).

¹²⁷ Perhaps with the exception of the personal papers of Georges Theunis

on Belgium and Congo investigates the position and personal network of Empain in its home country. Thus, it provides a point of reference for the following chapters on foreign investments. The group's expansion in France is the subject of Chapter 5. It explores the maneuvers of the Empain group to gain legitimacy and support in a nationalist climate. Chapters 6 and 7 concern the investments in Venezuela and China. They provide a differentiated analysis of the impact of Belgian neutrality on FDI. Additionally, both chapters shed new light on the complex interplay between the MNE, the home and the host countries when securing investments. In the general conclusion, I reformulate the three arguments. I show how Empain was able to turn the following aspects of the First Global Economy to his advantage: the worldwide investment opportunities and technological transformations, the organizational flexibility and finally the international political frictions.

Part 1 Business beyond borders, sectors and classic corporations

Chapter 1 The bumpy road to a global business empire

1.1 Introduction

This first chapter investigates the internationalization of the Empain group. It tries to understand the business world from the perspective of a Belgian entrepreneur eager to start his career in the late 1870s. The Empain group was part of this select group of internationally oriented Belgian businesses, in contrast to the bulk of SMEs confined to the domestic market. The question then is why Empain went abroad instead of focusing on Belgium? At first sight, it probably was an economic necessity. By its very nature, the Belgian public utility industry was limited by the smallness of the domestic market. Nevertheless, it needed growth because without economies of scale many public utilities could not become profitable (see Chapter 2). Therefore, international growth was the most obvious step. If any, it bears resemblance to a combination of what Dunning has called ‘efficiency-seeking’ and ‘market-seeking’ motives. Efficiency seekers go abroad to gain “from the common governance of geographically dispersed activities,” whereas market seekers locate their activities in places where there are a lot of customers.¹ Apart from these purely economic reasons, could it be that foreign expansion was also a quest for prestige or the result of an expansionist ideology? Or more generally, was Empain more than others inclined to take a risk and go wherever profits were the highest?

Before continuing, the expansionism hypothesis should be largely ruled out. From the 1890s, some members of the economic elite promoted the ‘greater Belgium’, i.e. the economic and cultural expansion of the country beyond its borders. *L’Expansion belge*

¹ However, market seekers set up production in a new market to substitute exports or to follow competitors (“follow the leader” behavior). According to Dunning, other MNEs resource-seeking among others. Resource seekers try to secure access to strategic necessities for their production. Dunning and Lundan, *MNEs*, 69-72.

wanted to maximize opportunities for Belgian entrepreneurs to invest abroad. Empain was certainly not one of the protagonists, but sponsored the movement in the background after 1900.² Seemingly, heading a global business empire, he had every reason to support it. All the more because other Belgian captains of industry such as Ernest Solvay and Baron Lambert donated too.³ At this stage, it is tempting to conclude that Empain was rather an opportunist than an ideologically pure Belgian patriot. Part II will expand on this issue.

Except for a first attempt to identify the motives of internationalization, this chapter also investigates the internationalization pattern. Where could an ambitious capitalist invest? Which countries appeared on the radar of the Empain group and what explains the eventual geographical distribution of the investments? Corporate sources from the First Global Economy rarely allow to understand the precise reasons for the choice to invest in a particular country. Entrepreneurs mostly did not write down their motives. For the history of the Empain group, this source problem is acute. However, the preserved minutes of the board of directors' meetings of the *Société parisienne pour l'industrie des chemins de fer et des tramways électriques (Parisienne Electrique)* provide a unique insight in one of the crucial board rooms of the Empain group between 1900 and 1905.

The minutes show that holding companies functioned as important hubs of information.⁴ The directors and the general manager proposed opportunities that they had received from their informal corporate network or that they had investigated themselves. The holding's engineers systematically screened these investment options for technical feasibility and profitability. Most importantly, the expected rate of return had to be equal to the current returns in the sector. Only one in three propositions actually passed the study phase and was executed.⁵ Of course, the top managers'

² Empain was mainly involved in two initiatives. First, the establishment of the first royal *Institut national de géographie* (1882-1884) that initially published the *Mouvement géographique*. After the turn of the century, he was the cofounder of the *Société belge d'Expansion nationale* (1909-1911). Empain mainly contributed to the construction of a palace in Brussels that had to gather all the expansionist movements of the country. "Institut national de géographie: Constitution," no. 663, *AMB*, 22 Apr 1882; "Société belge d'Expansion nationale: Statuts," no. 2951, *AMB*, 8 May 1909.

³ Dumoulin, "Ontluiken," 729-32; Laurent Delcourt, "La revue de l'Expansion belge: miroir de l'expansionnisme en Belgique: contribution à l'étude des milieux, des réseaux et des idées expansionnistes en Belgique avant la Première Guerre mondiale" (Unpublished MA Thesis, Université catholique de Louvain, 2000).

⁴ On the role of information gained via the press and business networks in the patterns of investment, see the fifth chapter of Gary Bryan Magee and Andrew S. Thompson, *Empire and globalisation : networks of people, goods and capital in the British world, c.1850-1914* (Cambridge: Cambridge UP, 2010).

⁵ For instance, the group did choose not to horizontally expand to Kiev, Palestine, Shanghai nor to Marseille, Saint-Nazaire, Montluçon, because there was no sound business case to be made. *Parisienne Électrique*, Minutes of the Board of directors, *Virtual Library*, SPIE.

perspective on what was possible was also determined by their ‘mental maps’.⁶ It is important to question how they saw the world evolve economically and politically. Empain’s vision on the global economy and on many other excluded investment options remained, of course, implicit. To make sense of that, the business historian can only look at the ‘revealed strategies’ and put them into context.⁷

Consequently, this chapter embeds the geography of the group’s investments in the bigger economic picture and the general flows of Belgian FDI. Where did Empain’s choices differ from larger capital fluxes in timing, size and direction? In addition, the chapter tentatively takes into account international politics as an explanation for investments in specific countries. However, the case studies in Part II will deal with this theme in detail. Research for France has shown that both economic and political factors have determined the geographical distribution of FDI. Entrepreneurs primarily focused on locations where returns were higher, while also considering political entities which were part of the French sphere of influence or were allies of France.⁸

The graph (Fig. 2) below offers a starting point to understand when, where and how much the Empain group invested before the First World War. For seven sample years, it shows each host country as a proportion of the aggregate nominal capital of all companies controlled by the Empain group.⁹ Before the analysis, a methodological remark is necessary. Nominal capital is only a rough indicator, because it does not indicate the real size of the investments that the companies made. It would have been better to aggregate the liabilities of all companies, for these also include the borrowed capital used for investments. Unfortunately, exhaustive data for all companies is lacking. As many unlisted companies did not publish financial accounts, the calculation of total liabilities would be flawed. By way of experiment, I have calculated the distribution of total liabilities for the sample year 1914. Taking into account the firms lacking financial

⁶ On the concept of mental maps, see the special issues “Mental Maps,” *Geschichte und Gesellschaft* 28, no. 3 (2002); “Mental Maps: Geographical and Historical Perspectives,” *Journal of Cultural Geography* 35, no. 2 (2018). and especially the Dario Musolino, “The mental maps of Italian entrepreneurs: A quali-quantitative approach,” *Journal of Cultural Geography* 35, no. 2 (2018). He shows that rather than being rational economic actors, the geographies of entrepreneurs are influenced by prejudices and subjective information.

⁷ According to Sluyterman, the ‘revealed strategies’ are the decisions that were actually taken. Keetie E. Sluyterman, *Dutch Enterprise in the 20th Century: Business Strategies in Small Open Country* (Abingdon: Routledge, 2005), p. 2.

⁸ Antoine Parent and Christophe Rault, “The influences affecting French assets abroad prior to 1914,” *The Journal of Economic History* 64, no. 2 (2004).

⁹ The aggregates allow for capital increases and decreases. For the following companies where the Empain group was not the majority shareholder, but still had a significant degree of control, I have multiplied the nominal capital with a factor between 0 and 1 equal to the percentage of shares or directors that the Empain group controlled: *TB, Nitrate Railways, TPDS and Eclairage de Tournai*.

reports, the evolution remains more or less the same.¹⁰ Companies without a clear geographical focus (mostly holding companies) have been excluded. To test the data, I have compared the 1914 sample with the aggregate liabilities of all companies. The proportions remain more or less the same. The importance of Congo decreases because it is only financed with equity, whereas China equals the size of Chile and Spain because the Chinese railways were debt-financed.

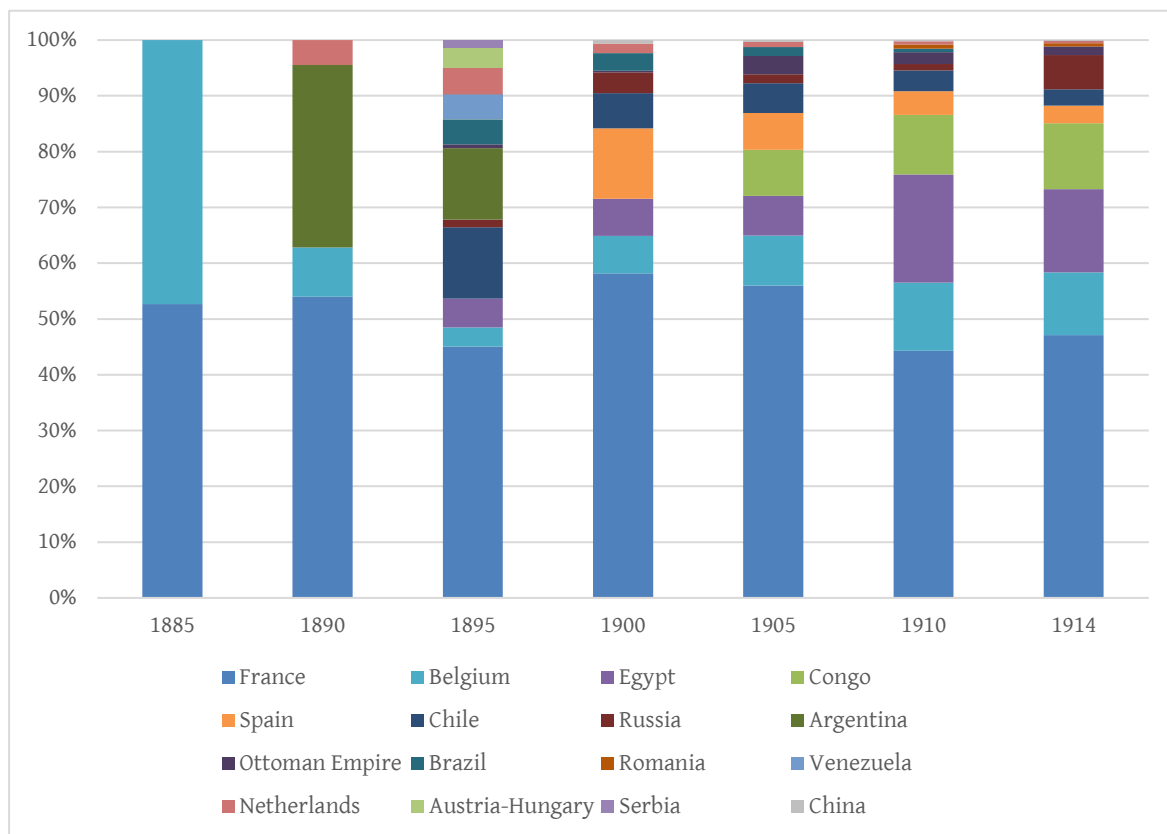


Figure 2 Regional distribution of investments: total nominal capital of controlled companies per country in sample years (1885-1914)¹¹

Up to 1914, the Empain group has effectively entered 16 national markets.¹² Two long and one short period can be distinguished according to the speed of internationalization. The first phase started in 1878 and ended in 1893. In these 15 years, the Empain group set up

¹⁰ Obviously, consolidated accounts for the entire business group would be the ideal basis for balanced interpretations. Unfortunately, the quality and availability of historical financial accounts is too poor to allow this.

¹¹ Sources: financial data collected in the personal database from the AMB, 65AQ series of the ANMT, *Recueil Financier*, Gallica and Henry de Saint-Omer, *Les entreprises belges en Égypte : rapport sur la situation économique des sociétés belges et belgo-égyptiennes fonctionnant en Égypte* (Brussels: Picquart, 1907).

¹² Or even 17 markets if I had not opted to consider Algeria as a part of France and not merely as a colonial possession. Unlike Congo for Belgium and Egypt for Great Britain, France regarded Algeria as national territory and had integrated it in the administrative system of the *départements*.

business in France, Belgium, Argentina, Venezuela, the Netherlands and the Ottoman Empire. In the next two years (1894-95), however, the number of countries in which the Empain group operated doubled from six to twelve, adding Egypt, Serbia, Chile, Brazil, Austria-Hungary and Russia. During the third period, from 1896 to WW1, the Empain group included four more markets in its portfolio (Spain, China, Congo, Romania). What can explain this rapid, yet brief expansion during the second period? Although more context will be provided to clarify each investment in the following paragraphs, the global economic situation in 1894-95 is part of the explanation. After a depression of twenty years ('Long Depression'), the world economy started to recover, with robust growth from 1895-96. This upward economic trend assured entrepreneurs such as Empain to safely make large investments all over the world. In the literature, the Belle Epoque (1895-1914) is also often hailed as the zenith of Belgian economic expansion.

The first thing that draws the attention is the contrasting importance of the two strategically crucial markets Belgium and France. Between 1880 and 1888, these were the only two countries where the Empain group was active in. However, while in these years the capital stocks in both markets grew at the same pace, their paths diverged afterward. The graph shows that from the birth of the Empain group until the First World War, France was by far the most important host country, fluctuating around 50% of total nominal capital. This means that the group has continued investing in France, even if it diversified geographically. In contrast, the relatively modest share of Belgium is remarkable. Although the Empain group made relatively large investments in its home country in the beginning, it did not continue to invest at the same pace after 1885. During the 1890s, the share of Belgium in the total nominal capital had dropped to 3%. Only after the turn of the century Belgium regained importance as a host country for investments. Could it be that the Belgian market was saturated, until technological innovations opened up new possibilities in adjacent sectors (see Chapter 2)? In the end, before the First World War, Belgium was the third most important market together with Belgian Congo, far after France and almost on a par with Egypt.

Secondly, besides France and Belgium, other markets mattered. The weight of Congo can be attributed to a single company, the highly capitalized *Compagnie des chemins de fer du Congo supérieur aux Grands Lacs africains* (75 million francs in 1914). From 1905 onwards, Egypt became the second host country, accounting for 15% in 1914. Latin America has briefly played a prominent role in the business group. In the first half of the 1890s, but only then, the continent (Brazil, Argentina, Venezuela and Chile) accounted for at least one third of all investments. Except for Empain's interests in the Chilean nitrate business, the group divested massively. That same period was also the most international (see above). In relative terms, the share of the core markets France and Belgium also was at its lowest that year: less than half of the investment stock was located there, in contrast to two third on average.

The rapid internationalization of the Empain group between the late 1880s and the late 1900s is remarkable on its own, but to what extent is it the exponent of a broader flow of Belgian FDI in that period? The comparison of the data for the Empain group with general data on the spread of Belgian FDI allows assessing whether Empain's choices diverged in time and space from the average. The stock data presented in Figure 2 have been converted into flows per continent.¹³ Rather than at a given point in time, Figure 3 shows the average yearly investment made in different world regions. Before comparing the two graphs (Fig. 3 and 4) below, there are some important caveats to make. A long tradition of historians has tried to establish accurate estimates of Belgian FDI in the Belle Epoque.¹⁴ From the two most recent estimates, by Dumoulin and by Peeters, I have opted for the latter. Both authors have tried to measure the flux of outgoing FDI every year, in contrast to the more static approach of total capital stocks employed above. However, whereas Dumoulin only looked at the initial nominal capital of the Belgian companies active abroad, regardless of capital increases, decreases and liquidations, Peeters measured the actual investments these companies made every year. He included over 700 companies in his sample, the bulk of it being firms registered under Belgian law listed on the stock exchanges of Brussels, Paris and/or Saint Petersburg. Compared to the sample of Empain companies, Peeters' sample contains some methodological flaws. Unlike Peeters, I included Belgian-owned companies that were registered under foreign law. The French (capital) market was so closely integrated that Belgians directly invested in French companies, without leaving any paper trace in Belgium. Therefore, aggregates such as that of Peeters have underestimated the importance of France for Belgian capital.¹⁵ By integrating Empain's foreign-registered companies, mostly in France and Egypt, I am able to fully account for the group's presence in those two important markets. In addition, the Peeters sample is biased towards listed companies, whereas the Empain sample also comprises the approx. 25 unlisted companies of the business group (Chapter 3 will analyze these companies).

General data series on capital stocks of Belgian FDI do not exist. Therefore, to optimize the comparison, the data on the Empain group have been transformed from capital stocks to capital flows. Investments in Belgium were excluded as they do not count as FDI. The

¹³ Stocks are the result of an accumulation of investment and are measured at a specific time, whereas flows represent the speed of accumulation, i.e. over an interval of time. For e.g. Europe, I have calculated the flows by taking the difference between the stocks in two subsequent sample years A and B, and dividing this difference by the number of years in the interval. As stocks can increase and decrease, flows can also be negative, pointing to a divestment from a certain area.

¹⁴ For an elaborate discussion of the various estimates, including their own, see Dumoulin, *Relations italo-belges*, 111-27; Wim Peeters, "Belgian Investment in Russia (1873-1913): Small country investments in one of largest emerging markets," in *XIIIth International Economic History Congress* (Buenos Aires 2002), 3-14.

¹⁵ See also Paul Michotte, "Quelques aspects de l'expansion économique de la Belgique," *L'Expansion Belge* 4, no. 1 (1911): 33.

flows present the top countries for Belgian FDI per decade and illustrate which destinations were 'hot' in a particular period. To make the comparison more explicit, I interpret the graph as the investment behavior of a fictitious Belgian investor who perfectly imitates the general trend of Belgian FDI. Although the approach is somewhat artificial, as hardly any investor did invest in all regions, it is nevertheless very informative. When comparing the spread of investments of the Empain group with the average Belgian investor, some interesting patterns emerge. In short, the Empain group has mainly invested in, ranked by order of importance, Western Europe, the Middle East, Belgian Congo, Russia and Latin America. This selection of regions matches that of the average, although the importance heavily contrasts. How to explain that Empain's interests in the Congo exceeded the general share? Conversely, the average Belgian investor devoted much more attention to Russia and Latin America over the whole period. Up to 1890, Europe and South America were the two most important regions receiving Belgian FDI. Afterward, the Empain group kept away from the continent, while other Belgian investors continued to see the potential of Latin America. This is something to investigate further in this chapter.

Empain was also totally absent from North America, accounting for 4% of total Belgian investments in the period. Analyzing Empain's absence and the general little interest is beyond the scope of this research. A tentative explanation might be that Belgian entrepreneurs in Canada and the United States mainly focused on natural resources, real estate and chemicals (*Solvay*), whereas the public utility industry was dominated by large American and German groups.¹⁶

¹⁶ Ginette Kurgan-van Hentenryk and Julie Laureyssens, *Un siècle d'investissements belges au Canada* (Brussels: Editions de l'Université de Bruxelles, 1986); Mira Wilkins, *The History of Foreign Investment in the United States to 1914* (Cambridge, MA: Harvard UP, 1989).

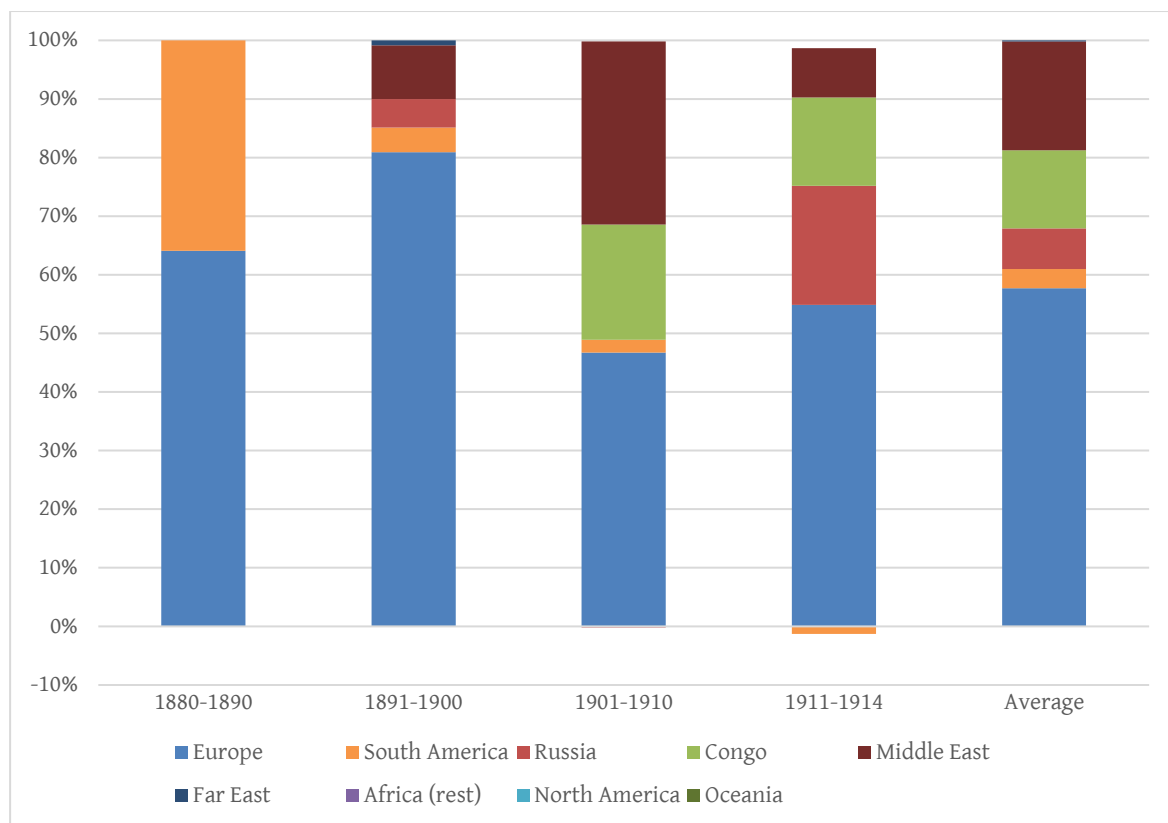


Figure 3 Net capital account outflow through FDI of the Empain group, currently yearly averages in % (1880-1914)¹⁷

What also needs clarification is the discrepancy between the small share of Empain and the massive Belgian investments in Russia during the 1890s. Entrepreneurs particularly focused on urban transport and heavy industry. As the Empain group was active in tramways too, why did the ‘Russian fever’ of 1895-1900 barely captivate it? Only on the eve of the First World War, the proportions of both samples correspond. From the previous discussion of Empain’s investment based on capital stocks data, one might conclude that the 1890s were the group’s most global decade. Surprisingly, this is not reflected in the data on capital flows. Whereas Belgian FDI flew to all continents and especially to Russia, Empain continued focusing on Europe. Keep in mind, however, that the statistics with regard to Belgian FDI in Europe are biased (see above). The capital flows of Empain give a more balanced image than the capital stocks of 1895, which accidentally capture the group’s most global moment. Some investments outside Europe already dated from the 1880s and were soon to be liquidated. The presence in other new markets was not deepened in the following years, as it was often the consequence of a once-only investment. Considered over the years, the efforts in France and Spain were far more decisive. Surprisingly, investments in other traditional European host countries for Belgian FDI such as Italy are entirely absent. Finally, the increasing capital flows to the

¹⁷ Sources: see Fig. 2

Middle East are reflected in the investment behavior of the Empain group. However, it is not as straightforward as to say that Empain merely followed the broader Belgian trend. As mentioned above, the group's interests in Egypt were such that they might influence the general statistics on their own.

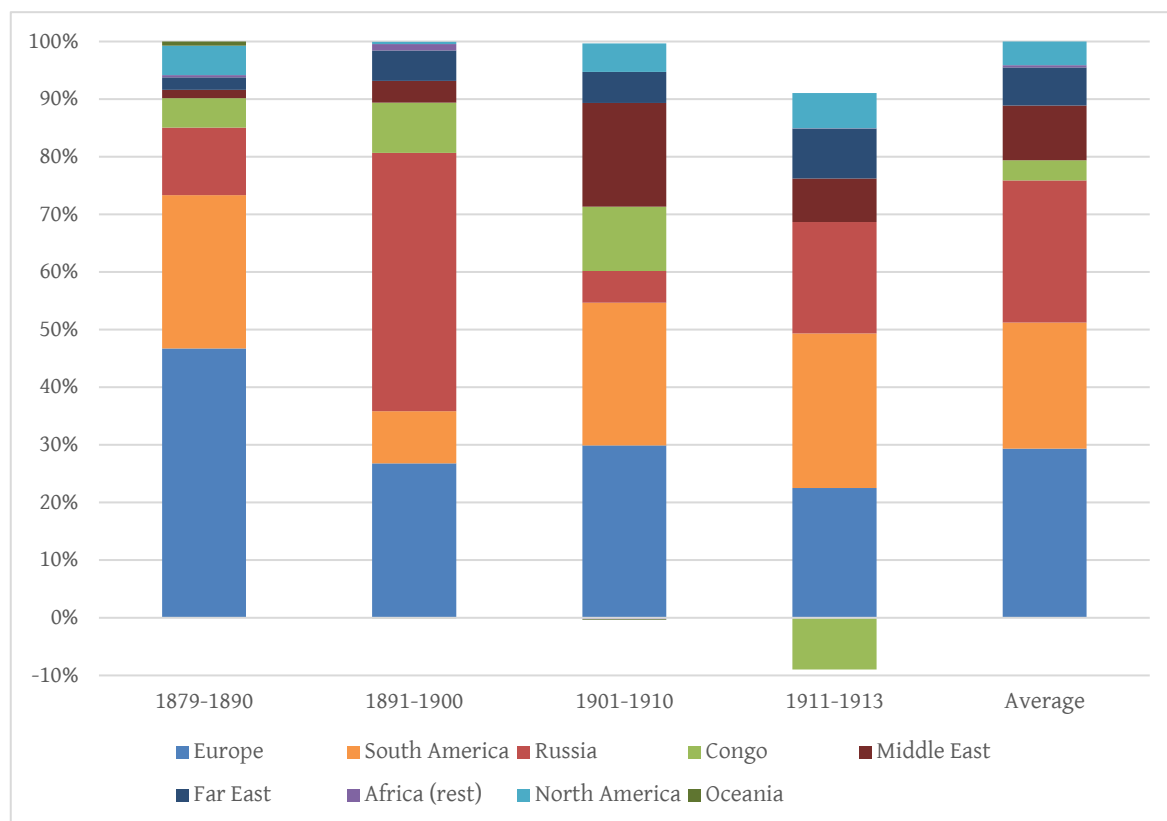


Figure 4 Net capital account outflow through Belgian FDI, current yearly averages in % (1879-1913)¹⁸

Apart from a fictitious average Belgian investor, Empain can also be compared to entrepreneurs of flesh and blood. Edouard Otlet (1842-1907) started in the same sectors as Empain in the early 1870s, earning the nickname “the tramway King”. He set different priorities in the internationalization of his business group. Like Empain, he also invested in Belgium, France, the Netherlands, Russia, Brazil, Argentina, Spain and Egypt. However, he was also active in the popular markets Austria-Hungary, Germany and Italy as well as Persia and Algeria. Otlet cooperated with Empain in the 1880s and early 1890s (see below) and continued to share business opportunities with him. Empain, however, refused any further cooperation afterward and they became fierce competitors. Otlet surpassed

¹⁸ Wim Peeters, “Foreign Direct Investment within a reconstructed balance of payments, Preliminary results for Belgium (1879-1939),” in *Public Debt, Public Finance, Money and Balance of Payments in Debtor Countries (1890-1932/33), B16- Proceedings Twelfth International Economic History Congress*, ed. C.E. Núñez, et al. (Sevilla: Universidad de Sevilla, 1998), 120.

Empain in the risks he took, but his global strategy seemed less systematic. Due to several bad investments, he became dependent on large banks.¹⁹

In the remainder of the chapter, I will discuss the market entry of the Empain group in loose chronological order. I start with the early career of Empain in Belgium and the genesis of the business group. That section simultaneously deals with France, as that is where the foundations of the Empain group are to be looked for surprisingly. The next sections deal with Europe, South America, the Middle East, Russia, China and Congo and try to analyze why Empain chose to invest there or not.

1.1 Belgium, France and Europe (1878/1880-...)

1.1.1 Business in Belgium before the group

In 1851, the *clerc*, organist and freshly appointed local schoolteacher François-Julien Empain (°1822) married Catherine Lolivier (°1825) in Belœil, a small town in the province of Hainaut, close to the French border. François-Julien's and Catherine's ancestors were lower-middle-class artisans. A bit more than nine months later, their first child, Edouard Louis Joseph Empain was born. After Edouard, 5 daughters and one son, would follow. Three more daughters did not make it to their third birthday. Edouard and Marie-Louise (°1856) were born in Belœil, before the family moved to Tongres-Notre-Dame, only a few kilometers away. There, Florence (°1860) and François (°1862) were born. In 1863, father François-Julien was promoted to the municipal school of Blicquy, a small village in the same region. The long-standing mayor of the village, Alexis du Roy de Blicquy supported his appointment, which came with a comfortable salary. In Blicquy, the three youngest daughters, Anne-Cathérine (°1864), Irma (a.k.a. *Emma*) (°1868) and Louise (°1871) were born.

In this environment, Edouard Empain grew up, went to school and church. Having finished primary education at the age of 14, the eldest son got the chance to pursue secondary education. Probably, the du Roy de Blicquy family financed his studies at the *Collège épiscopal St-Augustin* of Enghien, where he stayed from 1867 to 1870.²⁰ Allegedly,

¹⁹ The Otlet group tried to remain a genuine family business, where all family members were involved. Unfortunately, not all of them had good management qualities. Michel Dumoulin, "Edouard Otlet," in *Biographie Nationale* (Brussels: Bruylant, 1979); De Ryck, "Otlet."

²⁰ Guy Waltenier, "Les quartiers d'ascendance du Baron Édouard Empain (1852-1929)," *L'intermédiaire des généalogistes*, no. 235 (February) (1985): 49.

Edouard Empain was not a brilliant student and at the age of 18 he did not pursue higher education. Many biographers have written that he obtained an engineering degree, but his descendants deny this. More likely, Empain tried to find a job. At the end of 1872, he moved to Brussels where he could start as an apprentice draftsman in the *Société métallurgique et charbonnière belge*.²¹ Probably, the relationship with Alexis du Roy de Blicquy, somehow Empain's protector, facilitated the start of his career, as Arthur du Roy de Blicquy, son of Alexis, was the chief engineer of the company at that time.²²

The *Société métallurgique* possessed several workshops for the construction of railway material, especially rolling stock, as well as different coal mines in the province of Hainaut. By studying different projects in railroad construction and mining, Empain gained experience in both fields. Apparently, the directors of the company were pleased with his work. Several contemporaries of Empain report how Empain used to tell the anecdote that one of the shareholders of the *Société métallurgique*, the French banker Henri de Lamontat, asked the company managers to study a stone quarry in Belgium, in which he wanted to invest. They chose Edouard Empain, who wrote a critical report. The quality of the report pleased Henri de Lamontat.²³ De Lamontat's continuous praise of Empain likely contributed to the latter's promotion in the company. Empain is reportedly promoted *chef du bureau d'études* and chief engineer of the company.²⁴

Besides his work at the *Société métallurgique*, Empain was looking for other entrepreneurial opportunities. Possibly during his study work at the company, or at least via its extensive network, Empain took an interest in stone quarries. In October 1878, Empain, who called himself "maître de carriers," entered into partnership with Emile Mestreit. Mestreit was part of a family with strong ties to the *Société métallurgique* and was himself an employee of that company.²⁵ Edouard Empain was responsible for industrial and commercial affairs, while his colleague Emile Mestreit led the company. Arguably,

²¹ In October 1872, the population register of Brussels mentioned him as a "student". The *Société métallurgique et charbonnière* is founded in May 1873 after the merger of several firms of Simon Philippart. Kurgan-van Hentenryk, *Rail*, 249.

²² "Distribution des récompenses accordées à l'occasion de l'Exposition Universelle de Vienne," *Le Bien Public*, 9 Feb 1874.

²³ Also spelled 'de Lamonta', "Tribunaux," *L'Indépendance Belge*, 18 Aug 1876; Toussaint, *Barons*, 23-24; Duchesne, "Général."

²⁴ Although I have not found any primary sources that can prove this promotion.

²⁵ At the time of his marriage, Mestreit worked for the *Société générale d'exploitation de chemins de fer*, which was transformed into the *Société métallurgique et charbonnière* in 1873. Marriage certificate of Emile Mestreit (Schaarbeek), 19 Mar 1870, *Burgerlijke stand: Huwelijksakten - Vlaams-Brabant en Brussels Hoofdstedelijk Gewest*, 42, ARA.

Empain had to look for interesting quarries to exploit. Not more than eight months later, in June 1879, both partners decided to end their collaboration.²⁶

This was probably due to the fact that a month before, Edouard Empain had become a member of the board of directors of a recently founded limited company, the *Société anonyme des marbres*. The founders, among them Edmond Terlinden, brought in a workshop to carve marble and building stones, which had been active for five years in Cureghem-sous-Anderlecht, near Brussels Midi station. Edmond Terlinden and his co-founders received 1000 of the 1200 shares of 500 francs.²⁷ Edmond Terlinden (°1830-†1900) was part of a noble family from Ghent and secretary of the bank *Caisse des Propriétaires*.²⁸ We cannot know for sure how Terlinden and Empain got acquainted. We do know that in 1881, they were both appointed on the board of the *Société métallurgique*, which was renamed *La Métallurgique, société anonyme de construction (La Métallurgique)* in 1880.²⁹

As director of the *SA des marbres*, Empain searched new quarries to supply the mason's yard in Brussels. By the beginning of 1880, he had obtained three marble and stone quarries situated between Philippeville and Couvin in the South of Belgium. Empain sold one of them to another "maître de carrières" and he brought the other two into the *SA des Marbres* in January 1881.³⁰ Consequently, the limited company raised its capital from 600,000 to 1,100,000 francs. As compensation for the quarries, Empain received all the new shares, making him the largest shareowner. A year later, Empain had obtained an absolute majority and proposed to sell all the quarries to another company. Soon afterward, they dissolved the company. The annual accounts do not allow an assessment of the success of the company. At least, it was active at a period of rapid urban development in Brussels. The company undoubtedly had to provide stones and marble for the construction of the new Palace of Justice, finished in 1883. The amount needed for the largest building in the world was colossal.³¹ However, in 1880, the company made a loss of 20,000 francs, the year afterward the loss had accumulated to 500,000 francs. Perhaps Empain proposed the dissolution in 1882 to prevent further losses. It is unclear whether or not Empain himself

²⁶ "E. Mestreit & Cie," no. 1141, *AMB*, 11 Oct 1878; "E. Mestreit & Cie: Dissolution," no. 721, *AMB*, 25 Jun 1879.

²⁷ "Extrait de l'acte de Société en commandite simple sous la firme : H. Bragard et Cie à Cureghem," no. 261, *AMB*, 1 Mar 1875; "Société anonyme des Marbres: Constitution," no. 474, *AMB*, 26 Apr 1879.

²⁸ "Modifications aux statuts de la Société anonyme du Charbonnage de Homvent," no. 35, *AMB*, 7 Jan 1875.

²⁹ "La Métallurgique, société anonyme de construction: Extrait du PV de l'AGO," no. 514, *AMB*, 26 Mar 1881.

³⁰ "Société générale des carrières: Statuts," no. 1378, *AMB*, 19 Sep 1881; "SA des Marbres," no. 93, *AMB*, 16 Jan 1881.

³¹ Bruxelles, Ville d'art et d'histoire: Le Palais de Justice, (Brussels: Région Bruxelles-Capitale, 2001), <http://patrimoine.brussels/liens/publications-en-ligne/versions-pdf/bvah/le-palais-de-justice>.

turned it to his advantage in the end, since he had been rewarded generously for putting in the quarries.³²

Empain's activities in the quarry business must have contributed to his wealth, but the question remains how he had been able to buy these three quarries in the first place. In 1880, he was also wealthy enough to employ a staff of ten (domestic?) workers.³³ Although there is no clear proof, it is very likely that the du Roy de Blicquy family has granted him a loan or even a starting capital to enable him to acquire these quarries. Empain's descendants and biographers believe that the support of the du Roy de Blicquy family essentially launched Empain's career. Later, Edouard Empain is said to have repeatedly instructed his sons: "Whatever a Blicquy might ask, give it to him. We owe everything to this family."³⁴ When Empain started as a private banker in February 1881, the network of *La Métallurgique* most likely provided his first clients. The funds earned with the sale of the quarries could also have formed a basis for his banking activities.

The sale of the three quarries by 1881 marked the end of a brief enterprise in the quarry sector. The development of Empain's business group followed a different course, starting in the railroad industry. However, Edouard Empain did not step out of the quarry business entirely. He remained a small shareholder of the *Société générale des carrières*, a company similar to the *SA des Marbres*.³⁵ Together with Edmond Terlinden, he owned the slate quarry of Saint-Joseph d'Oignies until they dissolved the operating company in 1891.³⁶

1.1.2 Boomerang expansion: To France and back to Belgium

The history of the business group of the Belgian Edouard Empain did not start in Belgium, but in France. Only in a second phase, the Empain group began operating in its home country. This inversion was due to the investment context in both countries. Empain's search for railway concessions started in a period of transition. At the end of the 1870s, Belgium as well as France were reconsidering their policy towards the development of a second rail network. The heavy standard-gauge³⁷ main railroads had been finished and the governments wanted to set up a program to develop a dense network of local railways connecting the countryside to the main lines (for France, see

³² "SA des Marbres: Bilan," no. 763, *AMB*, 31 Dec 1881; "SA des Marbres: Apport," no. 346, *AMB*, 12 Mar 1882; "SA des Marbres: Dissolution," no. 784, *AMB*, 5 May 1882.

³³ *Registre des patentes, Finances et fiscalité*, ACB.

³⁴ "Quoi que puisse vous demander un Blicquy, accordez-lui. Nous devons tout à cette famille!", Toussaint, *Barons*, 21.

³⁵ "Société générale des carrières: Statuts," no. 1378, *AMB*, 19 Sep 1881.

³⁶ "Ardoisière Saint-Joseph d'Oignies: Dissolution," no. 536, *AMB*, 20 Mar 1891.

³⁷ This refers to the space between the two rails of a railroad track. For instance, standard gauge is 1.435 meter.

Fig. 5). In Belgium, this type of railroad was called *chemins de fer vicinaux* or *buurtspoorwegen* (vicinal railways). In France it was known as *chemins de fer secondaires* or *chemins de fer d'intérêt local*, as opposed to *chemins de fer d'intérêt général*. As these local railways were generally constructed using narrow gauge (*voie étroite*), particularly meter gauge, they were better adapted to difficult terrain because they could make tighter curves. Combined with the use of lighter material and rolling stock, this made narrow-gauge railways less expensive in construction and operation. Because of the lighter equipment, they were also called light railways in the past.³⁸ This dissertation uses light rail(ways) as an umbrella term for railroads that are not part of urban transport or the main lines (see also Chapter 2).

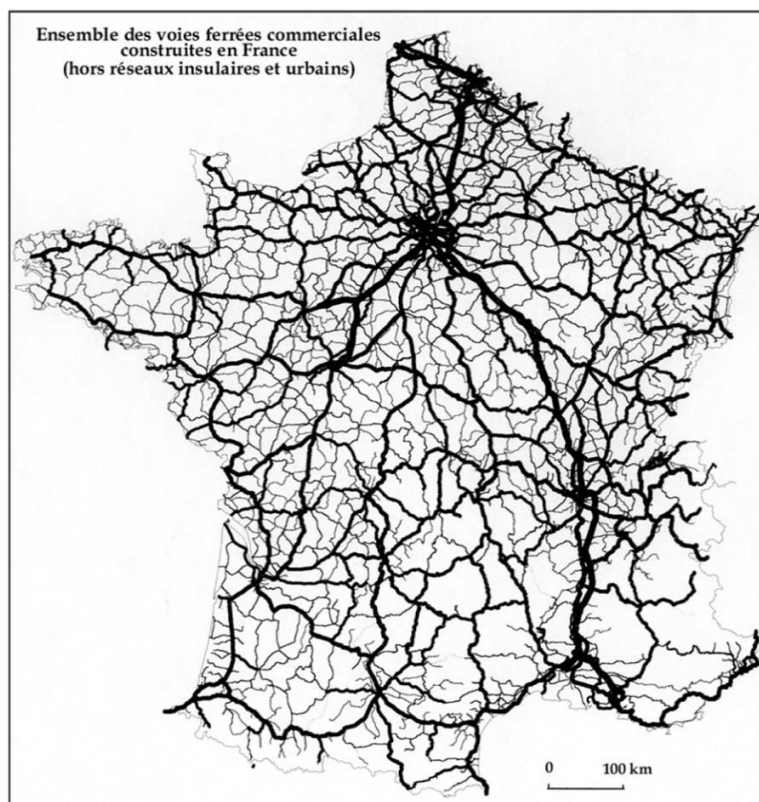


Figure 5 Main and secondary railway lines ever operated in France (1831-2001)³⁹

Most logically, a group of Belgian railway entrepreneurs would start looking for concessions in their home country. From the late 1870s, Empain and his partners had plans to develop light railways in Belgium. Probably, they had put a lot of effort into

³⁸ John Charles MacKay, *Light railways for the United Kingdom, India, and the colonies: A practical handbook...* (London: C. Lockwood and Son, 1896).

³⁹ Etienne Auphan, "L'apogée des chemins de fer secondaires en France: Essai d'interprétation cartographique," *Revue d'histoire des chemins de fer*, no. 24-25 (2002). Image URL: <https://journals.openedition.org/rhcf/docannexe/image/2028/img-1.jpg>

applying for concessions there.⁴⁰ However, the existing Belgian laws on vicinal railroads and the discussion on a possible legal reform severely hampered the development of a light rail system. Lacking better options in Belgium, the network around Empain seized the opportunity to take control of a small light rail network that was right across the French border (see below). The idea arose that the network in Valenciennes could be a gateway to more concessions in Belgium. Empain and partners from the business network of *La Métallurgique* established a holding company, the *Compagnie générale de Railways à voie étroite (Voie étroite)* in 1881 to execute these plans. The *Voie étroite* envisioned a long vicinal railroad connecting Valenciennes with Charleroi, via Quiévrain and Mons. However, applications for this and other projects were rejected and the directors complained about the “imperfect law on tramways” in Belgium.⁴¹

The directors referred to the law of July 9, 1875, organizing the funding and construction of tramways and local railways. This law spurred the development of urban horse-drawn tramways, but not of local light railways. According to Bart van der Herten, projects had low expected profits and were watched closely by the government. In addition, the State did not provide any subsidy to attract investors. Rather, it was very wary of granting concessions. Between 1875 and 1884, only 10% of over 50 projects were approved and executed. Sometimes not one company reacted to a call for tender, at other times the government simply ignored companies’ requests.⁴² On the graph (Fig. 6) below, we can see that only 35 km of track was constructed in that ten-year period. According to the directors of the *Voie étroite*, the limited growth had political causes. The Belgian government was preparing a new law to install a public company controlling a countrywide network of local railroads, the future *Société nationale des chemins de fer vicinaux (SNCV)*. So it preferred not to grant too many concessions to private entrepreneurs. The reorganization only took effect in 1885, but had a tremendous impact, as can be seen on Figure 6.

⁴⁰ However, the Inventory of the archives of the Ministerie van Verkeer en Infrastructuur: Stads- en streekvervoer, I 644, ARA. does not mention Empain, du Roy de Blicquy or van den Bogaerde, although it contains the names of many other applicants.

⁴¹ “loi imparfaite sur les Tramways”, “Voie étroite: Rapport du CA à l’AGO,” *Supplément MIM*, 18 Oct 1882. See also: Lanthier, “Constructions,” 7.

⁴² Bart van der Herten, *België onder stoom: Transport en communicatie tijdens de 19de eeuw* (Leuven: Leuven UP, 2004), 384-89.

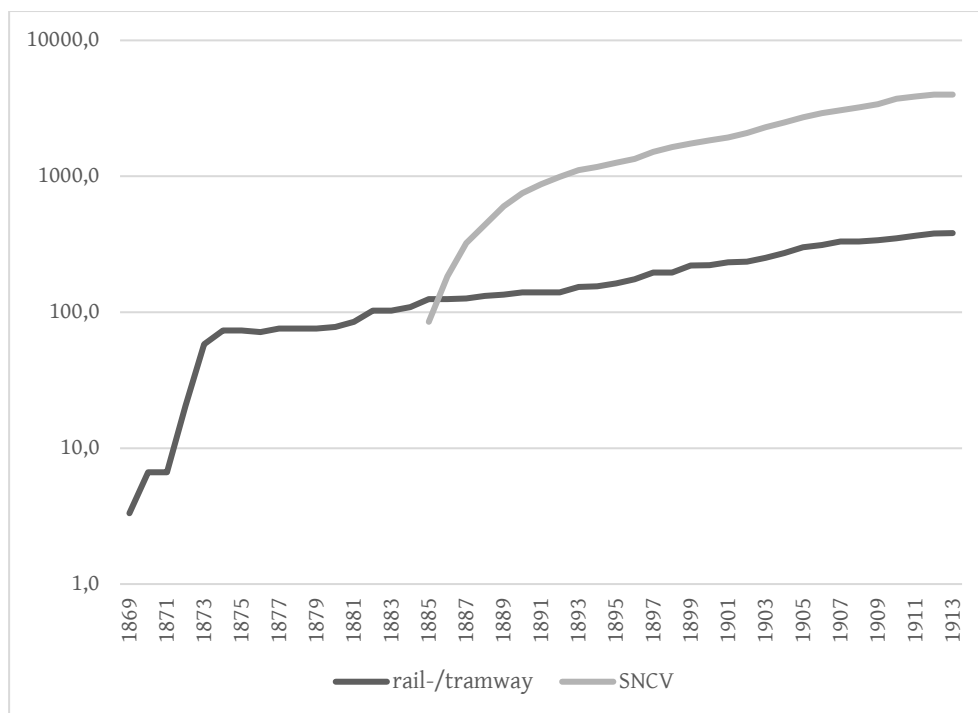


Figure 6 Growth of the local rail-/tramway and SNCV network in Belgium in km, logarithmic scale - base 10 (1869-1913)⁴³

Belgium, the most obvious market, was thus hard to enter. The legal-political situation added to the limited opportunities of what was a small market by nature. Regardless of the business environment in Belgium in that specific period, sooner or later Empain had to look beyond the Belgian market to obtain the desired economies of scale. The neighboring countries were an obvious choice. By focusing on France, Empain and his partners followed the path of many Belgian investors in that period. The Belgian economic elite shared a common language and culture with their southern neighbors. Both trade, capital flows and labor migration between the Belgian and French markets were intensive. For Belgium, France was the most important trade partner and host country of FDI since the Franco-Prussian War of 1870 at the latest. Entrepreneurs such as Simon Philippart and Edouard Otlet invested heavily in local railroads.⁴⁴

Fortunately for Empain and his partners, they arrived in France at a slightly better time than in Belgium. In France too, local authorities had awaited the legal reform to take place. The competent authorities, the *conseils généraux* of the departments, had hesitated to grant new concessions due to the many bankruptcies (e.g. Simon Philippart, see Chapter 5). Most of them simply postponed their initiatives in expectation of the French Parliament to end its discussions on the new law on light rail concessions. Therefore,

⁴³ Based on data from van der Herten, *België*, 497, 500-01.

⁴⁴ Firmin Lentacker, *La frontière franco-belge: Étude géographique des effets d'une frontière internationale sur la vie de relations* (Lille: Morel & Corduant, 1974), 159-88; Suzor, *Empain en France*, 67-73.

between 1877 and 1880 the growth of conceded light railways strongly decelerated.⁴⁵ Precisely in this period, Empain made his first documented attempt to find railway concessions in France. As early as 1878, Empain and the railway specialist⁴⁶ Henri van den Bogaerde proposed to construct a steam-powered tramway in Sète. Two years later, the city refused to grant them the project.⁴⁷ The legal uncertainty might have caused the failure of the negotiations.

Meanwhile, the business circles of *La Métallurgique* had been able to lay their hands on a railway concession in the industrial city of Valenciennes. Right across the French border, the architect Adolphe Thérin had obtained a concession in 1877 for a horse tramway network. Despite having done all the necessary studies, Thérin had failed to find sufficient funds, so he had ceded his concession to the two Parisian entrepreneurs Fresson and Varez. Together with the Parisian *International Chèque Bank*, they wanted to construct and operate the short line. The *Compagnie des Mines d'Anzin* was willing to sponsor, for the line would link the mines with the city center. However, the three parties had not been able to agree about the amount and length of lines and had canceled the partnership.⁴⁸ Most likely, the absence of new policy has contributed to the difficulties.

Early 1880, the *Société anonyme des tramways et chemins de fer économiques de Valenciennes à Anzin et ses extensions (Valenciennes-Anzin)*, founded one month earlier for the occasion, took over the concession and decided to implement steam traction instead of horse traction. Besides Fresson and some of the original Parisian bankers, the founders were Belgian and French financiers and engineers. Somehow, they had a link to *La Métallurgique* for they appointed Edouard Empain on the board of directors and set up headquarters at rue de l'Enseignement 30 in Brussels, Empain's residence. His fellow-engineer Henri van den Bogaerde and *La Métallurgique*-shareholder Joseph Van Dooren were also appointed. The business model was based on the transportation of workers and cargo from and to the industrial districts of Valenciennes.⁴⁹

⁴⁵ Wolkowitsch, "Siècle," 282-84.

⁴⁶ Empain and van den Bogaerde had worked together, probably in the offices of *la Métallurgique*, for they jointly filed an application for a patent on a new rail type in March 1878. Belgian patent granted to Edouard Empain and Henri van den Bogaerde, 15 Apr 1878, *Brevets d'invention*, 44727, ARA2; "Avis aux actionnaires," *Le Bien Public*, 29 Nov 1877.

⁴⁷ "Tramways de Cette," *Rapport de l'ingénieur en Chef*, August 1878; "Tramways de Cette," *Rapports et délibérations*, Aug 1881.

⁴⁸ Lanthier, "Constructions," 6-7.

⁴⁹ "Tramways et chemins de fer économiques de Valenciennes à Anzin et ses extensions," no. 293, *AMB*, 9 Mar 1880; "Tramways et chemins de fer économiques de Valenciennes à Anzin et ses extensions," no. 294, *AMB*, 9 Mar 1880; "Prospect: Tramways et chemins de fer économiques de Valenciennes à Anzin et ses extensions," *L'Indépendance Belge*, 4 Apr 1880; Gérard Urbin, *Un siècle de transports publics dans le Valenciennois (Valenciennes: Semurval, 1983)*.

In contrast to the previous owners, the Empain group could already benefit from the new legislation. Its takeover of the Valenciennes project almost coincided with the promulgation of the new legal framework in June 1880. The law created a fresh dynamic and a positive climate for concessions. By connecting rural France to the main railway system, the authorities believed to generate a lot of passenger traffic and even more transport of goods. To attract private investors, the reform organized a government aid system in case the revenue remained below expectations. Besides a modest income guarantee, the State could offer subsidies for the construction of the lines. However, the Valenciennes-Anzin line was not subsidized. It could easily survive without it, thanks to the intense traffic in a densely populated area. Yet, most subsequent lines were not just as profitable. Chapter 5 will demonstrate that, when Empain as a foreign entrepreneur tried to combine these individual concessions to generate economies of scale, he had to overcome fierce political resistance.

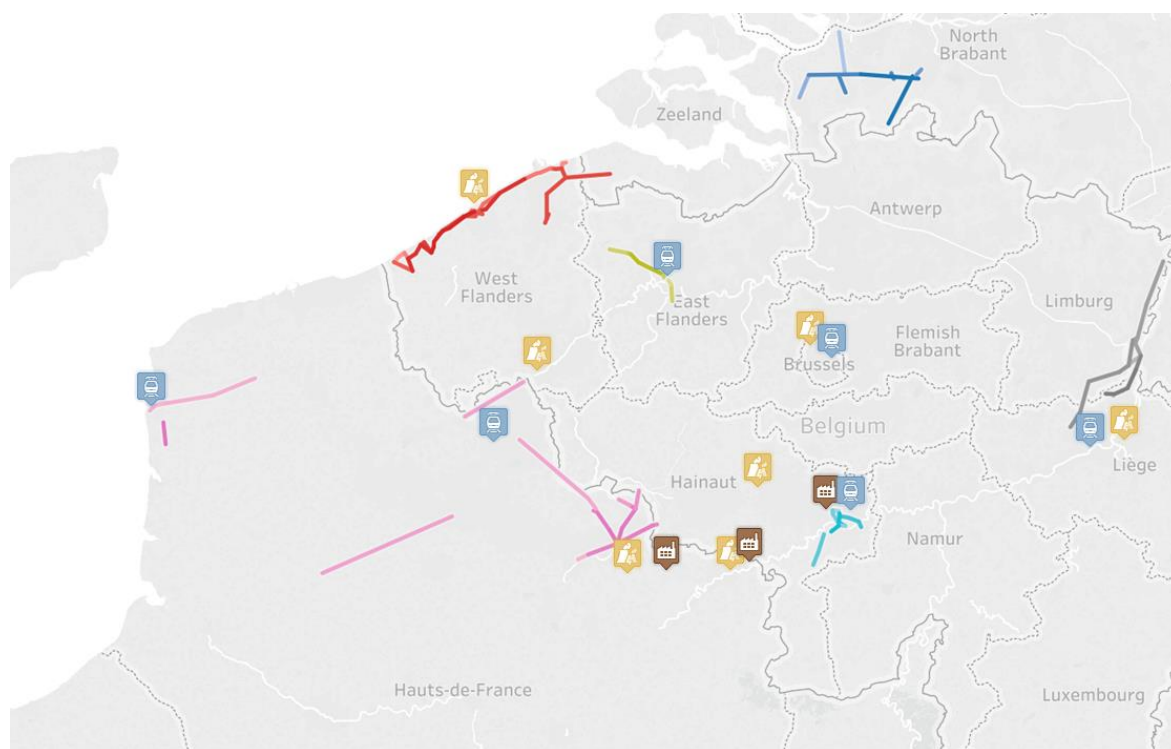


Figure 7 Map of all the investments of the Empain group in Belgium, the Netherlands and northern France (1880-1914)⁵⁰

Because of the Brussels-based free-standing company operating in Valenciennes, the Empain group internationalized from the start. It would go, however, a bit too far to call it ‘born global’ immediately. Although the concession was situated in France, it was merely 30 km away from the home town of the Empain and the du Roy de Blicquy family (see Fig. 7). As mentioned, the early strategy of the Empain group was French-Belgian:

⁵⁰ Designed by the author. Source: personal database

create a transregional cross-border connection between Valenciennes and Mons. This project succeeded on the French side, but fell behind on the Belgian side.

The Empain group only became a real multinational enterprise, i.e. operating in two different countries, in the following years. Despite the bad investment climate in Belgium before the establishment of the *SNCV*, the Empain group managed to secure two steam-powered tramways in Liège and Brussels. It could already rely on its experience abroad to invest at home, like a boomerang returning to its origin. In the spring of 1881, the *Voie étroite* applied for a concession to construct and operate a steam railroad between Liège and the suburb Jemeppe (9 km). This was one of the few calls for light rail concessions in Belgium and also the first suburban line to be completely operated with steam.⁵¹ There was only one other applicant.⁵² The *Voie étroite* obtained it and passed it to a newly established subsidiary, the *Société anonyme des railways économiques de Liège, Seraing et extensions (RELSE)*. The *Voie étroite* acquired total control over the company and reserved the right to construct and arm all the lines operated by the *RELSE*.⁵³ In 1882, managers and directors of *La Métallurgique* also proposed a steam-powered tramway line from the historic center of Brussels to the forested suburb of Ixelles. The municipality of Ixelles agreed, leading to a concession to be operated by the Empain group (*Chemin de fer à voie étroite de Bruxelles à Ixelles-Boendael*) from 1884.⁵⁴

Like in France, the new legal framework of 1885 led to a vivid dynamic in Belgium. The state-owned enterprise *SNCV* decided, in consultation with the municipalities and provinces, which lines would be constructed. Between 1885 and 1914, its rail network yearly grew with 17% on average.⁵⁵ *SNCV* also financed the lines, but it appealed to the private sector for their construction and operation. The Empain group enthusiastically welcomed this steady flow of invitations to tender, for it would provide a more stable income. The *Voie étroite* successfully competed to lease the *SNCV*'s first railroad, between Ostend and Nieuwpoort at the coast. Arthur du Roy de Blicquy's presence on the board of directors of the *SNCV* must have positively influenced the decision.⁵⁶ The lease contract included a guaranteed income plus a share of the gross revenue. The surplus went to the State, the owner of the infrastructure and the rolling stock.⁵⁷

⁵¹ In the same year, another railway was conceded to the *Société des chemins de fer vicinaux belges* in Charleroi. F. Dierick, "Charleroi Découverte: Les tramways à Charleroi," <http://www.charleroi-decouverte.be/pages/index.php?id=434>.

⁵² "L'adjudication du tram," *La Meuse*, 4 Jun 1881.

⁵³ "Railways économiques de Liège-Seraing: Statuts," no. 1208, *AMB*, 21 Jul 1881.

⁵⁴ "Nouvelles du Jour: Ixelles-Boendael," *L'Echo du Parlement*, 15 Jul 1884; "Voie étroite: Rapport du CA à l'AGO," *Supplément MIM*, 15 Oct 1884.

⁵⁵ Own calculations based on van der Hertten, *België*, 497.

⁵⁶ A. du Roy de Blicquy was a director from the establishment in 1885 until his death in 1907. *Recueil Financier*, 1907, 366.

⁵⁷ "Voie étroite: Rapport du CA à l'AGO," *Supplément MIM*, 21 Oct 1885; van der Hertten, *België*, 389-96.

In the following decades, France, not Belgium, evolved into the largest market of the Empain group. Capital flew into different sectors in all corners of the country (see Fig. 8). In Chapter 2, I will discuss in detail how these different branches of industry were vertically integrated. The maps of Belgium and France already show that in some cases the Empain group tried to cluster complementary activities. Also in the expansion of the railroad network, one can observe this geographical concentration. Large clusters of traction and power production were for example situated in Valenciennes, Paris, Brussels, Liège, Ostend and Nantes. In the area of Charleroi, the Empain group even operated manufacturing, electricity and rail companies. In some areas, the Empain group had become a full-service provider, giving them a strong market position vis-à-vis the local authorities. It possibly generated local spillover effects in the operation of these adjacent utilities.

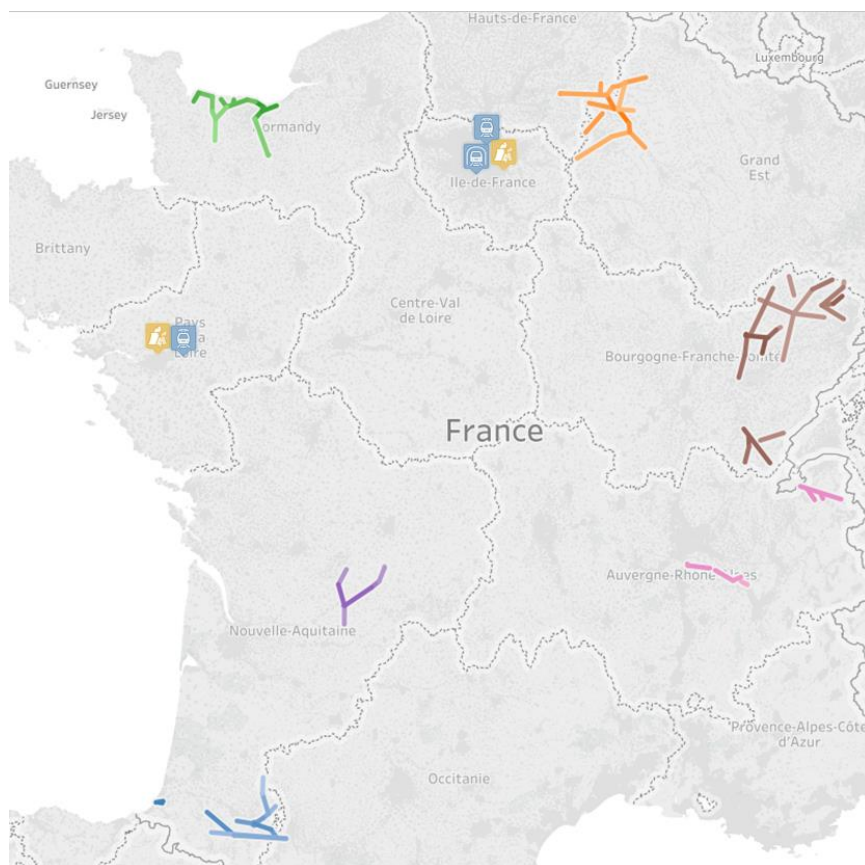


Figure 8 Map of all the investments of the Empain group in France (northern departments excl.) (1880-1914)⁵⁸

⁵⁸ Designed by the author. Source: personal database

1.1.3 The lesser neighbors

The Empain group was far more active in France than in the three other neighboring countries of Belgium. During the 4 decades under study, it was very modestly present in the Netherlands and not at all in Germany and Great Britain. For railway entrepreneurs, the German market was hard to access. Between 1870 and 1914, the German government steadily nationalized all main railroads in the country. On a local level, government interference inspired by municipalism also deterred potential private initiative. A lack of advantageous legislation made investing in light railways unattractive during the 1880s. Only in 1892, a new law on private railways provoked a boom in construction, but even then the financial support of the state remained limited.⁵⁹ Belgian investor Edouard Otlet had operated tramways in Berlin, Düsseldorf and Munich in the 1880s, but he had also gradually abandoned his German businesses due to the unbearable pressure of the municipalities.⁶⁰ In the next decade, potential foreign tramway entrepreneurs had to reckon with a very strong domestic competition. The German electric industry massively took charge of the electrification of tramway networks. By 1902, 91% of the mileage had been electrified.⁶¹ As a result, the Brussels tramway holdings such as the *Société générale des chemins de fer économiques* (*Chemins de fer économiques*), *Compagnie Mutuelle de Tramways* (CMT) and *Société générale belge d'entreprises électriques* (SGBEE) were hardly present in Germany.

The business group was not present in Great Britain either. Britain was Belgium's second trading partner, on a par with Germany. However, Belgian public utility investors including Empain made few attempts to enter the market. This was very much for the same reasons as in Germany. Because of the strong municipalism, the state had taken control of many public utilities in the 1890s. In addition, the solid position of big German and American firms made competition difficult.⁶² Perhaps, cultural differences were also at stake, at least indirectly. One might speculate that, for the French-speaking Empain, the language barrier might have limited his network and opportunities in English and German-speaking regions. However, this does not mean that Empain immediately excluded any collaboration with German or British capitalists abroad (see Chapter 3).

⁵⁹ Winfried Reinhardt, *Geschichte des Öffentlichen Personenverkehrs von den Anfängen bis 2014: Mobilität in Deutschland mit Eisenbahn, U-Bahn, Straßenbahn und Bus* (Wiesbaden: Springer Vieweg, 2015), 271.

⁶⁰ De Ryck, "Otlet."

⁶¹ John P. McKay, *Tramways and trolleys: The rise of urban mass transport in Europe* (Princeton: Princeton UP, 1976), 73; Martínez López, "Belgian."

⁶² Leslie Hannah, *Electricity before nationalisation: A study of the development of the electricity supply industry in Britain to 1948* (London: MacMillan, 1979); McKay, *Tramways*, 163-91; Béatrice Dedinger and Paul Girard, "Exploring trade globalization in the long run: The RICardo project," *Historical Methods: A Journal of Quantitative and Interdisciplinary History* 50, no. 1 (2017).

In the Netherlands, the *Hollandsche Ijzeren Spoorweg-Maatschappij* and the *Maatschappij tot Exploitatie van Staatsspoorwegen* dominated the railroad sector. Not only were they the biggest operators of main railroads, both companies also operated a large share of light railways. However, the specialized *Nederlandsche Tramweg Maatschappij* operated an even larger light rail network. Whereas in France and Belgium the government started subsidizing the construction and/or operation from the 1880s, the Netherlands waited until the turn of the century before awarding financial stimuli for steam tramways. Still, the municipalities interfered to such an extent in their urban tramways that private enterprise had to reckon with high public demands. As a consequence, this limitation of the freedom of enterprise frightened some investors.⁶³

The genesis of Empain's only successful project in the Netherlands resembles the history of the first light rail of the group. Like the *Valenciennes-Anzin* in northern France, the Empain group sought to develop a vicinal railroad network in the Dutch-Belgian borderland. In the 1880s, many local dignitaries had tried to obtain permissions and realize vicinal railroads in the region between Brabant cities Breda and Bergen-op-Zoom. All of them had failed, mainly due to a lack of funding.⁶⁴ The penultimate Dutch-Belgian company trying to do better had ordered material at *La Métallurgique*. However, it went bankrupt before it could pay the manufacturing company. To find a solution for the pending claim, *La Métallurgique*'s board member Jules Carlier went to The Hague at the beginning of the year 1888. He negotiated with the Dutch Minister of Waterstaat to transfer the concession from the bankrupt Dutch-Belgian company to Carlier himself. The Minister of Waterstaat advised him to find a respectable Dutch citizen to officially file the application. Carlier quickly found the mayor of Arnhem, D.-J.-A. van Lawick van Pabst van Nyevelt. However, other Dutch entrepreneurs had heard the news of the failure of the Dutch-Belgian company and competed for the concession too. A little bit pressure from the Belgian Ministry of Foreign Affairs sufficed to convince the Dutch government to choose Carlier and van Pabst.⁶⁵

Carlier tried to interest his partners at the Empain group in constructing and operating the light rail between Breda and the Belgian border in Wernhout. The Empain group had the means and the expertise: The *Chemins de fer économiques du Nord* (*Econord*, est. 1883) had constructed a similar line between Valenciennes and Quiévrain and *RELSE* operated

⁶³ P. Groote, R. Albers, and A. Clemens, "Dutch rail and tramways in a comparative perspective (1838–1913)," *Economic and Social History in the Netherlands (NEHA)* 7 (1996); Augustus J. Veenendaal, *Railways in the Netherlands: A Brief History (1834-1994)* (Stanford: Stanford UP, 2001), 77–78, 84.

⁶⁴ See for example, d'Anethan (The Hague) to Minister of FA (Brussels), 27 Feb 1888, *Chemins de fer vicinaux: Pays-Bas - Belgique*, 2445, BMFA.

⁶⁵ d'Erp (The Hague) to Minister of FA (Brussels), 29 Oct 1888, *Chemins de fer vicinaux: Pays-Bas - Belgique*, 2445, BMFA.

SNCV lines all over Belgium. Nevertheless, Empain only moved forward with the project in November 1889, when he established the *Zuid-Nederlandsche-Stoomtramweg Maatschappij* (ZNSM). Arguably, he had awaited the very recent news that the SNCV authorized the extension of the Antwerp-Brasschaat line all the way to the Belgian side of the border in Wuustwezel. An uninterrupted connection between Breda and Antwerp would certainly generate much traffic.⁶⁶

In the summer of 1893, the Empain group tried to repeat the ZNSM project, but this time in the east of Brabant. A local dignitary and member of the provincial council of Noord-Brabant, J.F. Pompen, had obtained the concession for a vicinal railroad of 56 km from Veghel to the Belgian border via Eindhoven. The plan was to connect with the Belgian SNCV line between Arendonk and Turnhout, which had opened earlier that year. Arguably, a tramway line through the fertile region would contribute to its economic development.⁶⁷ Pompen attracted Empain and other collaborators of the business group to provide the funds for the new company. They gave the firm the very ambitious name of *Nationale Maatschappij der Nederlandsche Buurtspoorwegen*, inspired by the Belgian SNCV. Chairman Pompen, Empain, Brussels banker d'Aoust and mayor of Eindhoven J.-T. Smits van Oijen formed the first board of directors.⁶⁸ Unique for the Netherlands at that time, the investors could count on state subsidies granted by the central and municipal governments.⁶⁹ However, the relations between the Belgian financiers and the Dutch local politicians got quickly blurred. Empain and his partners considered the state contribution too low. Disappointed, they withdrew from the project in 1894 and Pompen continued the project with Dutch financiers only.⁷⁰

1.1.4 Southern and Eastern Europe

Besides the Belgian transborder investments discussed above, Italy, Spain and, to a lesser degree, Portugal were privileged host countries for Belgian FDI. Although Mediterranean Europe was in the process of industrialization and urbanization, the Empain group did not pay a lot of attention to these markets. In Italy, Belgian capital had financed over a hundred tramway and light rail lines before 1914. They were controlled by holding

⁶⁶ W.J.K. Davies, *The Vicinal Story: Light railways in Belgium (1885-1991)* (Scarborough: Light Rail Transit Association, 2006), 87; Leideritz, "ZNSM," 63.

⁶⁷ See J.A.M. Aben, "Transport en agrarische ontwikkeling: De betekenis van een tramlijn voor de agrarische ontwikkelingen in Bladel en Reusel (1892-1902)," *Varia historica Brabantica* 10 (1981).

⁶⁸ "Nationale Maatschappij der Nederlandsche Buurtspoorwegen," *Nederlandsche staatscourant*, 2 May 1894.

⁶⁹ "Stoomtramweg: Veghel - St. Oedenrode - Eindhoven - Belgische grens," *De Peel- en Kempenbode*, 27 Sep 1893.

⁷⁰ W.J.M. Leideritz, *De tramwegen van Noord-Brabant: Een historische terugblik op ruim een halve eeuw tram- en autobusexploitatie in de provincie Noord-Brabant* (Leiden: Brill, 1978), 110-11; Aben, "Transport," 135.

companies similar to the Empain group such as the *Chemins de fer économiques*, the *Chemins de fer secondaires*, *Engetra* and the Otlet group. Perhaps the investment climate was not optimal at the time the *Voie étroite* holding company had liquid assets. From 1888, when the Empain group started entering new markets, the Italian economy went through a severe crisis that lasted until 1895.⁷¹ Even after the economic recovery, the Paris holding company of the group studied interesting offers for electrification in Napoli, but the board decided to reject them because it was too far from the group's core markets.⁷²

The Empain group showed a bit more interest in Spain, although the efforts concretized only once in the establishment of the *Société générale des Tramways électriques en Espagne* (1899). With this company, three Belgian tramway holdings – the *Chemins de fer économiques*, *Tramways Réunis* and the Empain group – wanted to develop and electrify tramway networks in the whole Iberian peninsula. The large share capital of 20 million francs indicated their ambitions. In the end, the company only owned a network in the Spanish capital Madrid and a light rail in the vicinity of Barcelona.⁷³ Finally, an attempt to obtain the concession of the tramways of Porto (Portugal) failed. The joint proposition of the Empain group and other Belgian holdings was rejected in 1905.⁷⁴

The sphere of action of Belgian tramway companies also stretched out to the Balkans and Eastern Europe, albeit less than to the western Mediterranean.⁷⁵ Around the international turn of the Belgian economy in 1895, Empain also briefly considered gaining a firm foothold in the Western Balkans. In 1894-1895, the business group had two opportunities to do so, but decided not to take on a long-term commitment in the region. In 1894, Empain acquired the concession to operate tramways in the Serbian capital of Belgrade from his long-standing business partner Edmond Caze. However, Empain did not see a clear business case for that tramway network and preferred to sell it (see Chapter 2). In the same year, one of the group's holding companies, the *Compagnie belge des Chemins de fer réunis (Réunis)*, became the majority shareholder of the *Kreutz-Belovar* (Hungarian: Kőrös-Belovár, Croatian: Križevci-Bjelovar) railway that had very recently opened. This light railway of 30 km was privately owned, but its operation was outsourced to the

⁷¹ Dumoulin, *Relations italo-belges*, 133.

⁷² Meetings of 10 Nov & 1 Dec 1900, Parisienne Électrique, Minutes of the Board of directors, SPIE.

⁷³ Simar, *Empain*, 61.

⁷⁴ Meetings of 3 Jan & 15 Mar 1905, Parisienne Électrique, Minutes of the Board of directors, SPIE; See also Maria Christina Laurencos Cardoso, "Investisseurs et investissements belges au Portugal (1884-1914)," in *La Belgique et l'Étranger aux XIXe et XXe siècles*, ed. Michel Dumoulin and Eddy Stols (Louvain-la-Neuve: Presses Universitaires de Louvain, 1987), 13.

⁷⁵ Aleksandur Kostov, "Le capital belge et les entreprises communales de tramways et d'éclairage dans les Balkans (fin du XIXe et début du XXe ss.)," *Études Balkaniques* 25, no. 1 (1989).

Hungarian State Railways.⁷⁶ Unlike some other assets of the *Réunis*, this was not a portfolio investment. Empain personally went to Vienna in June 1894 to close the deal.⁷⁷ The Empain group delegated as many as 4 collaborators to the board of directors to safeguard its interests.⁷⁸ However, the railway did not fit in any long-term strategy in the region, so the *Réunis* sold its share in 1899.

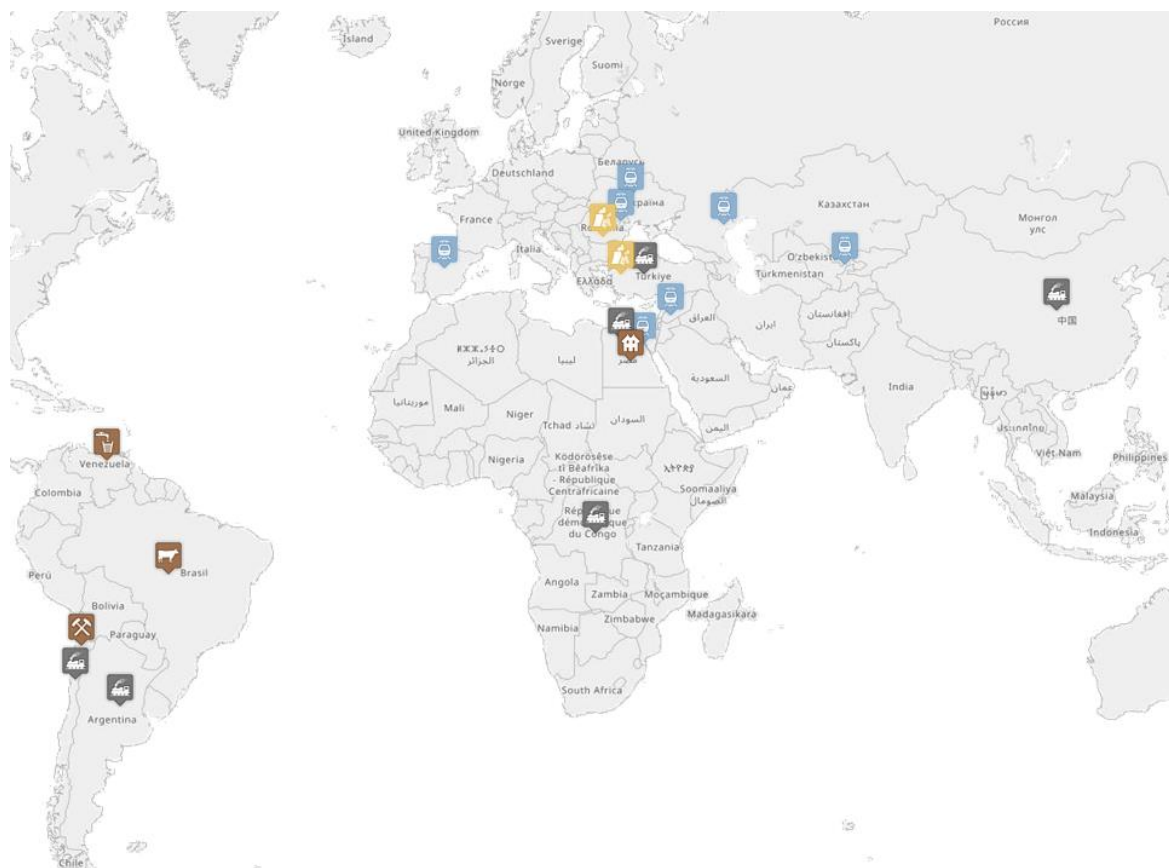


Figure 9 Map of all the investments of the Empain group outside Belgium, France and the Netherlands (1880-1914)⁷⁹

⁷⁶ “Réunis: Rapport du CA à l’AGO,” *Supplément MIM*, 24 Mar 1896; “Réunis: Rapport du CA à l’AGO,” *Supplément MIM*, 28 Mar 1899.

⁷⁷ “Angekommene: Hotel Imperial,” *Wiener Zeitung*, 24 Jun 1894.

⁷⁸ “Kőrös-belovári h.é. vasut.,” *Budapesti Czim- és Lakjegyzék* 11 (1899), https://library.hungaricana.hu/en/view/BPLAKCIMJEGYZEK_11_1899/?pg=287.

⁷⁹ Designed by the author. Source: personal database

1.2 The first steps overseas: Latin America (1888-...)

The internationalization pattern of the Empain group was not a textbook example of incremental internationalization. In 1888, after the group had received a capital injection, the next market to enter after France and Belgium was not another neighboring country or somewhere else in Europe. In contrast, the Empain group participated in two railway businesses in Argentina and Venezuela (see Fig. 9). This resembles the behavior of ‘born global firms.’ Due to a lack of sources such as the minutes of the board of directors’ meetings, we can only look at circumstantial evidence to understand this extraordinary move.

In the late nineteenth century, Latin America consisted of large export economies specialized in agricultural and mineral commodities. To get these primary products out of the country, the Latin American countries needed to construct massive infrastructure works. Transportation and communication were crucial for the export-led growth model to function, but the domestic financial markets were too small to fund these utilities. Therefore, the Latin American governments turned to foreign capital. The capital demands were so high that by 1914 South America was the continent most exposed to foreign investment.⁸⁰ After the turbulent period between independence and the 1870s, Latin America offered a more reliable investment climate. The massive influx of foreign capital reinforced “the basic cultural affinity that gave Latin America closer and broader links with the capital-exporting countries than were enjoyed by Asia, Africa or the Middle East.”⁸¹ In general, the British led the way in financing railroads and public utilities in Latin America. Great Britain and the other large investing countries France and Germany mainly invested in Argentina, Brazil and Mexico, whereas US investors focused on Mexico and Cuba. Besides those already mentioned, Chile and Uruguay belonged to the top receiving countries.⁸² Belgian interests were oriented towards Argentina and Brazil. Especially in Argentina, Belgian firms belonged to the most active group of foreign investors between 1890 and the First World War.⁸³ Besides projects in the large cities of Latin America, Belgian capital also tried to find areas where the competition of British

⁸⁰ *The Economic History of Latin America since Independence*, 2nd ed. (Cambridge: Cambridge UP), 101; Victor Bulmer-Thomas, John H. Coatsworth, and Roberto Cortés Conde, eds., *The Cambridge economic history of Latin America*, vol. 2 *The Long Twentieth Century* (Cambridge: Cambridge UP, 2006), 72.

⁸¹ Leslie Bethell, ed. *The Cambridge History of Latin America*, vol. 4: c. 1870-1930 (Cambridge: Cambridge UP, 1986), 5.

⁸² Bulmer-Thomas, Coatsworth, and Cortés Conde, *Cambridge economic history*, 72.

⁸³ Norma Lanciotti and Andrea Lluch, “Foreign Direct Investment in Argentina: Timing of Entry and Business Activities of Foreign Companies (1860-1950),” *Entreprises et histoire* 54, no. 1 (2009): 46.

and French interests was weaker. While the Great Powers were predominant in the populated centers, Belgian investors explored remote areas such as Mato Grosso and Araguaya in Brazil.⁸⁴

Until the First World War, two boom periods of FDI can be distinguished in Latin America: the first in the 1880s and the second from 1894 to 1914. In both waves, Edouard Empain was among the Belgian capitalists that participated. The first boom period was dominated by British capital. Between 1880 and 1890, total British investment in the region more than doubled.⁸⁵ The Belgian financial world, in search of higher returns, imitated the City and invested in public debt and railroad projects between 1886 and 1889.⁸⁶ As one of the few, Empain went as far as making considerable direct investments during the rush on Latin American securities. As mentioned, Belgian capital faced strong European competition in the region. This explains why Empain's two projects were situated along the Argentinian border with Paraguay as well as in Venezuela.

The first plan concerned a railway concession in northern Argentina. In the fall of 1888, Edouard Otlet contacted Edouard Empain with an offer to set up a joint venture. Since the mid-1880s Otlet had investigated investment opportunities in Latin America. After plans for railways in Cuba, Bolivia and Brazil, Otlet got interested in a railway concession at the Argentinian border with Paraguay. As a part of a larger railway plan, the Argentinian government offered subsidies for connecting Puerto Reconquista with the remote and scarcely populated area of Formosa. Once Otlet had bought the concession from the Argentinian agency A. Pelaez y Co., he and Empain jointly founded a firm (*Grand chemin de fer central sud-américain*) that would construct and operate the 450 km long railroad. They also discussed other interesting concessions in Argentina, such as one for gas distribution in the capital Buenos Aires, but those plans never materialized.⁸⁷

Venezuela, the host country of the second project, was hardly popular among Belgian investors. Foreign businesses in Venezuela, certainly from Belgium, were rare. Nevertheless, the *Voie étroite* holding company ended up in the country in 1888, constructing a railway for the British *Carenero Railway Company*. The motivations of the directors of the *Voie étroite* are easy to identify. Venezuela had a relatively stable political system in the 1880s. Guzman Blanco's government was known for its large infrastructure works and its very liberal policy towards FDI. Some British, German and French entrepreneurs had already been attracted by the dozens of railway concessions and the

⁸⁴ Eddy Stols, "L'expansion belge en Amérique latine vers 1900," *Bulletin de l'Académie Royale des Sciences d'Outremer, Classe des sciences morales et politiques*, no. 2 (1979): 104.

⁸⁵ Bulmer-Thomas, Coatsworth, and Cortés Conde, *Cambridge economic history*, 69.

⁸⁶ Chlepner, *Marché*, 80.

⁸⁷ De Ryck, "Otlet," 155-88.

high state guarantees (returns of up to 7%).⁸⁸ After Argentina and Brazil, Venezuela provided promising opportunities. The 15 years before 1890 had been a period of sustained economic growth. The GDP per capita peaked at an all-time high.⁸⁹

The Empain group availed itself of its presence as a subcontractor to search Venezuela for interesting direct investments. Empain made use of the services of Arthur Le Mye. As one of the few Belgians living in Venezuela at that time, Le Mye acted as some kind of broker for interesting business opportunities.⁹⁰ In 1889, he had already tried to mediate between Empain and Edmond Caze and mining concession owners in Venezuela who were looking for foreign funds.⁹¹ In the autumn of 1890, Le Mye acted on behalf of Empain and Caze to purchase the concession for the waterworks of the Venezuelan capital Caracas.⁹² The *Compagnie générale des Eaux de Caracas* (*Eaux de Caracas*, est. 1891) was a 7 million francs investment, but turned into a financial disaster by 1895 due to insurmountable economic and political troubles (see Chapter 6).

The boom period of the 1880s abruptly ended with the Argentinian crash of 1890, also known as the ‘Baring Crisis’. To finance its infrastructure programs, Argentina had taken up too much external debt. Sustained deficit spending led to a default on sovereign debt, which was especially held by the Baring Brothers Bank in London. This bank had bought a lot of Argentinian government paper and had to be saved by a British consortium. In Argentina, the Baring Crisis escalated into a financial and banking crisis that also affected Uruguay. Only after 1894, the Argentinian economy recovered.⁹³ The shock of the Argentinian default also altered the European perception of Latin American securities in general. Lacking sufficient information to adequately assess the financial situation, British investors did not distinguish anymore between Argentinian and other Latin American securities. Only after five years, they regained trust in the creditworthiness of

⁸⁸ Antonio Santamaría García, “Los ferrocarriles de servicio público en Venezuela (1870-1990),” *Anuario de Estudios Americanos* 55, no. 2 (1998); “Emission Carenero,” *MIM*, 24 Mar 1889.

⁸⁹ Giuseppe de Corso, “The bicentennial of a failure: Venezuelan economic growth from the late colonial age to the Bolivarian Revolution: a quantitative history,” *Economic History Society: Working Papers*, no. 12018 (2012), <https://www.ehs.org.uk/dotAsset/5984c801-314f-4003-9cf4-0eeced04352d.pdf>.

⁹⁰ In the beginning of 1890, Le Mye had also signed a contract with the Venezuelan government for the extraction of gold from the Cuyuni river. *Recopilación de leyes y decretos de Venezuela*, (Caracas: Imprenta Nacional, 1905), <https://archive.org/stream/recopilacindele05venegoog#page/n45>.

⁹¹ Franco Urbani, “Notas biograficas Vicente Marcano (1848-1892),” (1997), http://www.acading.org.ve/info/comunicacion/criterioopinion/sillon_XXVI/Notas_biograficas_Vicente_Marcano_1848-1892-Urbani-1997.pdf.

⁹² European FDI in Latin American waterworks was not uncommon in the period, see e.g. Silvia B. Grippo and Stella M. Visciarelli, “Investissements étrangers et services publics : problèmes et conflits dans la distribution de l’eau à Bahía Blanca (Argentine) aux XIXe et XXe siècles,” *Annales historiques de l’électricité* 1, no. 1 (2003).

⁹³ Bulmer-Thomas, Coatsworth, and Cortés Conde, *Cambridge economic history*, 76-77.

the Latin American countries.⁹⁴ The Latin American economic crisis also fatally impacted Empain's investments of the first boom period. In sum, both the *Grand Central Sud-Américain* and the *Eaux de Caracas* collapsed because of the government default, as they could not survive without state aid.

In 1895 started a second boom period in South America, which coincided with an improvement of the global economic climate. Nevertheless, Belgian investors remained wary of possible financial instability. Therefore, they diversified their investments to land property and real estate.⁹⁵ This time, Empain ventured into Brazil and Chile. As mentioned, the dominant investing countries such as Great Britain pushed Belgium to the margins of the economic heartland of Latin America. Still, Belgian entrepreneurs were the third-largest investor in Brazil in the decade up to 1895.⁹⁶ They focused on the tropical inlands of the Mato Grosso and the Amazon. A group of Antwerp traders and bankers regarded the low land price in this inhospitable area as an opportunity. In 1895, this group, together with the secretary of *La Métallurgique* Jules Carlier, bought a huge estate to raise cattle and extract rubber. After a few months, Carlier, most likely, must have convinced Empain to join the *Compagnie des Produits Cibils (Produits Cibils)*. However, the company went through different difficult periods. Due to boundless ambition, mismanagement and a bad assessment of the local political system, the project remained below expectations before it was sold in 1911.

Chile was not at all a destination for Belgian FDI in the mid-1890s, but Great Britain and Germany controlled considerable parts of the economy. Chile largely depended on the extraction and export of nitrate, a powerful fertilizer. In 1895, British investors controlled 60% and the Germans 8% of this sector.⁹⁷ Meanwhile, the Belgians present in the country were engineers, not entrepreneurs. Since 1889, some 25 railway engineers had followed professor Louis Cousin to assist the Chilean state to construct and manage the country's railroads. This did lead to many contracts for Belgian railway equipment worth millions, but not to a significant inflow of FDI.⁹⁸ At the current state of historical research, it is safe to say that Empain was the first Belgian entrepreneur to invest millions in Chile. After the turn of the century, other attempts were made to construct railroads

⁹⁴ Kris James Mitchener and Marc D Weidenmier, "The Baring crisis and the great Latin American meltdown of the 1890s," *The Journal of Economic History* 68, no. 2 (2008): 492-95.

⁹⁵ Chlepner, *Marché*, 85.

⁹⁶ Domingos Savio da Cunha Garcia, "Território e negócios na 'Era dos Impérios': os belgas na fronteira oeste do Brasil" (Unpublished PhD Diss., Universidade estadual de Campinas, 2005), 90-91.

⁹⁷ Nicolas De Bacquer, "België en de Chileense nitraatboom (1890-1914)" (Unpublished MA Thesis, UGent, 2018), 31-33.

⁹⁸ Eddy Stols and Rudi Bleys, "Belgische aanwezigheid in de modernisering van Latijns-Amerika," in *Vlaanderen en Latijns-Amerika: 500 jaar confrontatie en métissage*, ed. Eddy Stols and Rudi Bleys (Antwerp: Fonds Mercator, 1993), 235-37.

in Chile, but they did not survive for long.⁹⁹ Empain's renewed interest in Latin America met with the desire of 'nitrate king' John Thomas North to partially divest from the Chilean nitrate sector. In this context, Colonel North's main nitrate transport company, the *Nitrate Railways*, had obtained a listing on the Paris Bourse in 1894. North was probably looking for interested parties in Brussels that wanted to take over a fraction of the portfolio he held in the many nitrate extracting companies he controlled.¹⁰⁰ Most likely, North came across Empain because one of the group's holding companies, the *Réunis*, had acquired a small block of shares of *Nitrate Railways* right after its listing in Paris.¹⁰¹ Empain must have seen North's move as a valuable opportunity for at least two reasons. First, making a direct investment in Chile in the form of a new company based on a nitrate concession was hardly possible in 1895. The British had already obtained the best concessions and had monopolized the Chilean market after the Civil War of 1891. Second, Empain did not have a large network in the City of London that would allow him to make substantial investments in nitrate companies that were not listed in Brussels. The offer of the Nitrate King himself at once granted Empain access to and direct influence in the closed nitrate market. North might have appreciated the advantage of tapping an additional capital market. The securities of the various nitrate companies he controlled were not listed in Brussels. However, the newly established investment trust of Edouard Empain was, so interested Belgian investors could indirectly acquire shares of North's companies.¹⁰²

In the end, the nitrate business in Chile was the only long-term project of the Empain group in Latin America. The other attempts in Argentina, Venezuela and Brazil did not produce the profits it hoped for. As a consequence, the Empain group adopted a very conservative strategy towards investments in Latin America after 1895. Only a small share of the total group capital still flew to the continent afterward. On the one hand, these were investments necessary to keep fixed assets productive (*Produits Cibils*). On the other hand, Empain made some smaller investments in Brazilian railroad companies based in Belgium.¹⁰³

⁹⁹ De Bacquer, "België," 41, 51-55.

¹⁰⁰ William Edmundson, *The Nitrate King: A Biography of "Colonel" John Thomas North* (New York: Palgrave MacMillan, 2011), 125.

¹⁰¹ "Réunis: Rapport du CA à l'AGO," *Supplément MIM*, 26 Mar 1895.

¹⁰² See also De Bacquer, "België," 45, 55.

¹⁰³ In particular, the *Compagnie auxiliaire de chemins de fer au Brésil* and a syndicate for the *Chemins de fer Tocantins et Araguaya*. *Recueil Financier*, 1900-1901, 197-99; "Informations financières," *Le Journal*, 1 Jun 1901; See also: Brion and Moreau, *Philippon*, 104.

1.3 Business in ‘the Orient’: the Middle East and North Africa (1891-...)

The Middle East and North Africa were not on the horizon of the Empain group in the 1880s. This started to change in the next decades, with some investments in the Ottoman Empire and Egypt. Only after the turn of the century, the region became a focal point of the group, with nearly 20% of total FDI.

Empain’s first encounter with the region was in 1887, when he and his French partner Edmond Caze in principle obtained a concession of 200 km of light railways in French Algeria. By the time the project had passed the many administrative hurdles and could be executed, Empain had already withdrawn. To construct and operate the network, Caze founded the *Chemins de fer sur route d’Algérie* (est. 1892) without Empain. Empain must have changed his mind, because in 1894, the directors of the befriended holding company *Chemins de fer économiques* consulted Empain about investing in Algeria. Empain then declared that “he was of the opinion that there were interesting opportunities in Algeria, but that he himself had decided not to pay attention to Algerian businesses anymore.”¹⁰⁴ In general, Algeria struggled to attract private capital. Despite a lot of public investments, entrepreneurs stayed away, because they deemed the Algerian market too small and overprotected. Apart from the state-sponsored railroads, only mining could draw the attention of foreign investors.¹⁰⁵ Fifteen years later, when the Empain group retried to enter Algeria, their investment was precisely related to the phosphate mining sector. In 1909, there was renewed interest in exploiting the rich reserves of phosphates in Djebel Onk in the northeast of Algeria. In May of that year, a consortium of entrepreneurs declared wanting to unearth the resource. The Empain group’s small *Société d’Études des Chemins de fer et des Phosphates du Djebel Onk*, established in August 1909, had to study the route of a railway that could transport the phosphate from the mines to the coast. They had been a bit too optimistic, though, as the actual mining did not start before 1926.¹⁰⁶

Instead of staking its funds on Algeria in the early 1890s, the Empain group decided to make its first steps in the Ottoman Empire and Egypt. The Ottoman Empire had been a

¹⁰⁴ “M. Empain, consulté comme le désirait le comité, est d’avis qu’il existe en Algérie des affaires intéressantes, mais que lui-même est décidé à ne plus s’occuper d’affaires algériennes” Meeting of 13 Feb 1894, *Chemins de fer économiques*, Minutes of the Standing Committee, *Electrobel*, I 30/4337, ARA2.

¹⁰⁵ Didier Guignard, *L’abus de pouvoir dans l’Algérie coloniale (1880-1914): Visibilité et singularité*, (Nanterre: Presses Universitaires de Paris-Nanterre, 2010), <http://books.openedition.org/pupo/3122>. Chap 2.

¹⁰⁶ “Une grosse affaire de Phosphates,” *La Croix de l’Algérie et de la Tunisie*, 24 May 1909; “Phosphates du Djebel-Onk,” *L’Écho des mines et de la métallurgie*, 14 Oct 1909; “Entreprises coloniales françaises: Phosphates du Djebel-Onk,” http://www.entreprises-coloniales.fr/afrique-du-nord/Phosphates_Djebel-Onk.pdf.

long-standing, yet unimportant, trading partner of Belgium. Belgian exports to the region came down to machines, textiles, metals, glass and chemicals.¹⁰⁷ Nevertheless, Belgian capital had already managed to gain a foothold in the Ottoman public utility sector. Up to 1892, the following Belgian-owned companies had been founded: *Tramways de Gueuz-Tépé* (1885), *Gaz de Beyrouth* (1887), *Gaz de Salonique* (1889), *Gaz de Scutari* (1891), *Tramways de Salonique* (1892) and *Gaz de Stamboul* (1892). However, urban public utilities were not the preferred destination of FDI. The bulk of German, French and British capital flew into railroads. Despite the excellent reputation of the Belgian railroad sector, Belgian investors had great difficulties to obtain Ottoman railway concessions and mostly failed to gather the large capital if they did. As a matter of fact, “the hunt for Ottoman railway concessions in the 1890s and its intricate political intrigues, proved to be beyond the leverage power of Belgian companies, in the face of overwhelming French and German strategic jockeying.”¹⁰⁸

Notwithstanding the difficult position of Belgian business in the Ottoman Empire, the Empain group managed to partake in the only railway concession a Belgian entrepreneur could obtain and develop. This person was Georges Nagelmackers, the famous founder of the *Compagnie internationale des Wagons-Lits*, operating the *Orient-Express*. Nagelmackers “was very well connected in Istanbul, having personal access to the Great Power ambassadors, high Ottoman officials and even the Sultan himself. His position as a banker and his international standing” allowed him in 1891 to buy an unfinished isolated railroad between the port of Mudanya at the Marmara Sea and inland Bursa (42 km).¹⁰⁹ Nagelmackers reserved a share for the *Voie étroite* in the new *Société Ottomane du chemin de fer de Moudania-Brousse* and a seat on the board of directors for Edouard Empain.¹¹⁰ Ten years later, the *Réunis* also invested. Nagelmackers had a French entrepreneur reconstruct the narrow-gauge railroad. After two years of operational deficit, Nagelmackers charged the *Voie étroite* to take over the operation of the line from 1894 onwards. The *Moudania-Brousse* needed the holding’s expertise to become profitable.¹¹¹ Gradually, the Empain group evolved from the simple operator to the full owner of the

¹⁰⁷ Alloul, “Belgium and Ottoman Empire,” 199.

¹⁰⁸ Marc Van den Reeck, ed. *Belgium in the Ottoman Capital, From the Early Steps to ‘La Belle Époque’: The Centenary of ‘Le palais de Belgique’ (1900-2000)* (Istanbul: Consulate General of Belgium, 2000), 37.

¹⁰⁹ Alloul, “Belgium and Ottoman Empire,” 233.

¹¹⁰ “Voie étroite: Rapport du CA à l’AGO,” *Supplément MIM*, 21 Oct 1891; George Young, *Corps de droit ottoman*, vol. 4: *Droit commercial intérieur - Droit des travaux publics* (Oxford: Clarendon Press, 1906), 188.

¹¹¹ “Légation de Belgique en Turquie,” *Recueil consulaire contenant les rapports commerciaux des agents belges à l’étranger*, 5 Oct 1894.

line. From 1901 until the First World War, the Empain group possessed at least 98% of the subsidiary's capital.¹¹²

The concession included a possible extension of 100 km to Bilecik and thus link the railroad to the Anatolian railway network. This would have generated a lot of additional traffic.¹¹³ However, the Sultan refused any extension as the German and French governments were also putting pressure on the Sultan to obtain concessions in the same area. The unimportant Mudanya-Bursa line had the lowest priority. Despite many attempts by Georges Nagelmackers himself, via the French Ministry of Foreign Affairs, no extension could be constructed. Neither did the *Moudania-Brousse* obtain the electric lighting concession of the city of Bursa.¹¹⁴

The economic relations between Belgium and Egypt in the 1890s resembled those with the Ottoman Empire. Thanks to a trade agreement (1891), Belgium belonged to the ten most important trade partners of Egypt. From a Belgian perspective, though, the trade with Egypt was rather insignificant, except for the rolling stock ordered by the Egyptian State Railways.¹¹⁵ Of the about a hundred Belgians permanently living in Egypt, the Belgian lawyers working in the International Mixed Courts were the most prominent.¹¹⁶ Only two companies had moved from Belgium to Egypt before 1894. F. Lambert et Ralli established a trading house in 1892 and the mechanical engineering firm *Baume et Mercier* set up a production unit in Cairo one year later.¹¹⁷

Given the limited interest of Belgian capital for Egypt, the joint venture of the Empain group and the *Chemins de fer économiques* to obtain the tramway network of Cairo in 1894 was a pioneering initiative. Both business groups had been separately studying opportunities such as the Cairo tramway since 1891. Reportedly, Edouard Empain received advice on investments from the French director of the Egyptian State Railways Victor Prompt.¹¹⁸ Finally, Empain and the Belgian *Chemins de fer économiques* successfully joined their efforts to obtain the concession of the Cairo tramway in 1894.¹¹⁹ For the Empain group, it meant the start of massive investments in Lower Egypt. Actively

¹¹² *Recueil Financier*, 1904, 679; "Compagnie belge des chemins de fer réunis: valeurs du portefeuille," *Moniteur de l'Épargne de Verviers et de l'Arrondissement*, 19 Apr 1914.

¹¹³ "Vice-consulat de Belgique à Brousse: Rapport n°17," *Recueil consulaire contenant les rapports commerciaux des agents belges à l'étranger*, 5 Sep 1894.

¹¹⁴ *Chemins de fer ottomans: Ligne de Moudania à Brousse*, *Affaires diverses commerciales*, 1ADC/456, MAEF; "Dans l'Empire," *Journal de Salonique*, 14 Aug 1899.

¹¹⁵ Youssef Rahimlou, "Aspects de l'expansion belge en Égypte sous le régime d'occupation britannique (1882-1914)," *Civilisations* 38, no. 1 (1988): 118-19, 37; Azzam et al., *Heliopolis*, 101.

¹¹⁶ Rahimlou, "Aspects," 122-25.

¹¹⁷ Azzam et al., *Heliopolis*, 99 note 6; Busquin, Haoudy, and Vande Vijver, *Baume*, 27.

¹¹⁸ Rahimlou, "Aspects," 148.

¹¹⁹ Meetings in 1891-1894, *Chemins de fer économiques*, Minutes of the Standing Committee, I 30/4337, ARA2.

encouraged and supported by the Belgian Consul General Maskens, Empain and the *Chemins de fer économiques* also applied for a light rail concession in the Nile Delta in 1895.¹²⁰ Other Belgian investors also found their way to Egypt and set up businesses in real estate, agriculture and construction. However, the most notable and largest Belgian enterprise in Egypt was the construction of the Heliopolis district near Cairo from 1905 onwards.

From then on, Empain personally started to spend disproportionate attention to his Egyptian businesses. This simply cannot be explained by looking at economic motives alone. It was also a matter of prestige. The Empain brothers got passionate about the history and art of the country. They donated Egyptian artifacts and financed archeological missions. The Empains shared their Egyptomania with a large part of the (French-speaking) elite. Since the *Description de l’Égypte* (1809), fascination for and traveling to Egypt had become prestigious.¹²¹ To the best of our knowledge, Edouard and François have never been to China, Congo or Latin America, but they have resided dozens of times in Egypt during their lifetime. In his testament, Edouard Empain stressed the personal significance of his visionary Heliopolis project. He advised his sons: “Heliopolis is a great work to which my name is attached, and consequently theirs, and which, carefully managed, as I have done so far, will bring them honor and large profits.”¹²²

1.4 Half-hearted rush to Russia (1895-...)

Empain’s investments in Russian tramways starting in 1895 were part of a broader flow of foreign, especially Belgian, capital into the Tsarist empire. From the 1870s, Russia actively pursued an industrialization policy. The government set up a railway development plan and took protectionist measures to support the domestic industry. This, in turn, incited foreign firms that used to export to the country to establish production units in Russia itself. The huge market, with a high demand for industrial

¹²⁰ Maskens (Cairo) to Minister of FA (Brussels), 28 Apr 1904, *Egypte: Correspondance Consulat Général (1901-1909)*, AFRI447, BMFA.

¹²¹ Marie-Cécile Bruwier, “Dans les fleurs de lotus des Empain: Monuments égyptisants au parc et au château d’Enghien,” *Annales du Cercle Archéologique d’Enghien* 31 (1997). See also the ongoing research project *Pyramids and Progress* on the history of the Belgian interest in Egypt, www.pyramidsandprogress.be

¹²² “Heliopolis est une grande oeuvre à laquelle mon nom est attaché (sic) et par conséquent le leur, et qui, gérée avec prudence, comme je l’ai fait jusqu’ici, leur apportera honneur et gros profits (...)” Edouard Empain, Déclaration de succession (copy), 1922-1928, *Fonds Jacques Simar*, Bois du Cazier.

products, was attractive to foreign investors. The policies to stimulate industrial growth and attract foreign capital of Finance Minister Sergeï Witte and his predecessors led to an economic boom culminating between 1895 and 1899. In the 1880s, some Belgian businessmen already invested in tramways in large Russian cities and in the heavy industry of the Donetz in southern Russia. These first movers, especially the steel factory of Cockerill *la Dniéproviennne*, yielded high returns in the decade before 1895.¹²³ The success of *la Dniéproviennne* convinced the heavy industry near Liège to establish mines, metal and steel companies in the Donetz Basin (present-day Ukraine), whereas the Brussels' tramway holdings were attracted by the possibilities of electrifying existing networks in Russia's fast-growing cities. Annaert, Buelens and Cuyvers list other reasons why Belgian investments in the Tsarist empire exploded from 1895.¹²⁴ First of all, investors eager to diversify their portfolio found Russia a stable, trustworthy country with higher expectations concerning financial returns. Secondly, the French-Russian military and financial Alliance of 1894 strengthened the economic ties between the two countries. This even led to a brief "Russia mania" in France. The Belgian and French financial markets were interwoven and Belgian investors had a great affinity with their francophone neighboring country. As a result, Belgian finance enthusiastically invested in Russia, becoming the largest foreign owner of Russian assets at the end of the boom period (1900) before France.¹²⁵

Both from the perspective of the group's history and of the history of Belgian investment in Russia, the Empain group did not seem to play a dominant role. Considering that all of the group's four tramway companies in Russia were established during the boom period (one in 1895, one in 1896 and two in 1897), it seems that the Empain group was rather a follower in this market. In the 1880s, Belgian holding companies had already developed tramway networks in large cities such as Odessa (1880), Warsaw (1882), Kharkov (1883), Moscow (1885), Tbilisi (1885) and Rostov-on-Don (1886). Whereas in that period the Empain group was not yet active in urban transport, its four networks acquired between 1895 and 1897 were part of a general strategy of electrification (see Chapter 2). A large business group with plenty of liquid assets such as the Empain group could have done more in that boom period. Belgian investors had founded a total of eighteen tramway companies in Russia between 1893 and 1900. On the eve of WW1, all Belgian financiers together controlled half of this market, owning some 29 companies in total. In terms of the share of total capital invested by Belgians, the Empain group only ranked fourth (10%). The *Union des Tramways* (23%) of Edouard Otlet, the business group of

¹²³ Jan Annaert, Frans Buelens, and Ludo Cuyvers, "Returns on foreign investment during the pre-1914 era: The case of Russia," *European Review of Economic History* 23, no. 1 (2019): 15.

¹²⁴ Annaert, Buelens, and Cuyvers, "Returns."

¹²⁵ Peeters and Wilson, *Industrie*, 35, 43; Annaert, Buelens, and Cuyvers, "Returns," 8.

Edouard Thys (20%) and the *SGBEE* (17%) preceded it. Other important Belgian tramway holdings were the *CMT* (8% of total capital) and *Société générale de Tramways et d'Application d'Electricité* (6%).¹²⁶ The Empain group clearly did not want to or could not take the lead in the Russian tramway market. What happened?

First of all, the above (abridged) list of tramway holdings active in Russia already shows that Belgian competition was strong and cooperation rather uncommon. In addition, the German electric holding companies ('electroholdings') were also actively searching the Russian market. Secondly, to scan the huge territory for opportunities, a foreign businessman needed qualified local agents. The *CMT*, for example, closely collaborated with the Russian engineer Ivan Likhatschew between 1895 and 1914. With his connections at the court of the Czar, he was responsible on his own for the many concessions and joint ventures of the *CMT* in Russia.¹²⁷ In contrast, Empain could only count on two less efficient agents, and only for a limited time: Edouard Denis and Félicien Maes. Until he took some distance from his boss in 1893, Denis was working for Edouard Otlet in Persia. He was also traveling the Russian Empire for Otlet and informed him about interesting tramway networks. Before Empain acquired the four Russian tramway networks, Otlet had already studied them and assessed their feasibility and profitability based on the information of Denis. For instance, in 1892, Denis had offered the tramways of Tashkent to Otlet, but the latter was not interested. Three years later, Empain, however, had a different view and bought the concession. Denis also delivered him the concession of Chişinău in 1895.¹²⁸ The Frenchman Félicien Maes, who lived in Saint Petersburg and Paris, also brought in one concession. These two perfectly illustrate the rather passive attitude Empain was forced to adopt in Russia. The Empain group depended on the loyalty of its agents for the acquisition of concessions. Unfortunately, both persons were among the least loyal elements in the business group. Denis started on its own in 1898 and Félicien Maes was too busy setting up Russian firms for other Western investors. Maes, a personality of dubious reputation, finally left the group completely in 1901.¹²⁹ Lacking competent agents, the Empain group could not fully exploit the opportunities of the boom period. However, from 1911 onwards, the Empain group had new ambitions in the Russian empire. It called in the managers of its Russian tramway companies to actively search for transport and electricity concessions in Central Asia (Kokand, Baku). The opportunities

¹²⁶ de Massol de Rebetz, "Sociétés," 53, 64, 73, 80, 89, 105.

¹²⁷ René Brion, "Charles Charlier," in *Dictionnaire des patrons en Belgique: Les hommes, les entreprises, les réseaux*, ed. Ginette Kurgan-Van Hentenryk, Serge Jaumain, and Valérie Montens (Brussels: De Boeck Université, 1996).

¹²⁸ Roland Dussart-Desart, "Edouard Denis," in *Nouvelle Biographie Nationale* (Brussels: Academie Royale de Belgique, 2012); John P. McKay, *Pioneers for Profit: Foreign Entrepreneurship and Russian Industrialization (1885-1913)* (Chicago: University of Chicago Press, 1970), 100-01.

¹²⁹ "Tramways d'Astrakhan: Statuts," no. 2910, *AMB*, 20 Aug 1896; McKay, *Pioneers*, 58.

were so promising that Empain established the ambitious *Société Industrielle d'Électricité pour la Russie* (SIER) in 1913. Several projects were on the verge of being realized when the First World War broke out.¹³⁰

1.5 Neutral Belgium in China (1897-...)

In the last quarter of the nineteenth century, the Belgian diplomacy tried to encourage intense economic relations with China. With the conclusion of a trade agreement (1865) and the attempts to establish a shipping connection between Antwerp and a Chinese port, the Belgian government was hoping that Belgian industrialists would gain an interest in doing business with or in China. It also actively promoted Belgian products there to increase direct trade between the two countries. However, to many diplomats' despair, only one Belgian trading company had opened up a branch in Shanghai by 1895. Likewise, the metal giant Cockerill from Liège was the only industrial firm interested in production in China itself. Its plans did not materialize as such, but its engineers oversaw the construction of the Hanyang Iron Works, finished in 1894.¹³¹

In these years, Great Britain dominated Western relations with China. Two thirds of all foreign firms in China belonged to the British, which formed 42% of the foreign population in the treaty ports. With their colony in Hong Kong and their control over Chinese trade and customs authorities, Great Britain had a predominant position in the Far East. Yet, Japan had also come to play an important role. After it severely weakened China in the First Sino-Japanese War (1895), it enlarged its influence on the continent. The defeat of the Chinese Empire opened the door for a struggle for influence of the Great Powers. Russia, France and Germany wanted to obtain the same favors as Great Britain and Japan. This rivalry led to a 'scramble for concessions' where many foreign powers tried to get a piece of the cake. China was forced to give in to claims on territory, railroads, financial deals and the liberalization of trade.¹³²

In this 'scramble', the Belgian government tried to position its country as an innocent industrial nation. The visit of a top official from the Chinese Empire, Viceroy Li Hongzhang, to different European capitals offered a perfect occasion. King Leopold II also

¹³⁰ Tramways de Taschkent, Courrier expédié par le siège social à Bruxelles aux directeurs et administrateurs en Russie, *Archives of the Empain group*, HA.02.01.455, KMMA; Société Industrielle d'Électricité pour la Russie, Minutes of the Board of directors, *Archives of the Empain group*, HA.02.01.792, KMMA.

¹³¹ Kurgan-van Hentenryk, *Léopold II*, 56-69.

¹³² Kurgan-van Hentenryk, *Léopold II*, 24-37.

invited him to Belgium and granted him a private audience. During his visit at the beginning of July 1896, Li was impressed by the factories of *Cockerill*, *Val-Saint-Lambert* and *Fabrique Nationale d'Armes* in Liège. He showed an interest in the advanced technology of Belgium in the field of machinery and weaponry. The visit of Li drew a lot of attention in the streets and was widely covered by all the newspapers. The Ministry of Foreign Affairs seized the opportunity to intensively study the possibilities for Belgian business in China.¹³³ Baron de Vinck, the minister for Belgium in China, and the commercial director of the Ministry of Foreign Affairs Léon Capelle accompanied Li Hongzhang during his whole trip to Belgium. Right after Li left, de Vinck welcomed in the Musée commercial all industrialists and merchants interested in business in China.¹³⁴ The buzz of Li's visit also aroused the interest of Empain. Empain had a conversation with de Vinck before the latter left to China at the end of July 1896. Empain had informed de Vinck about his possible projects in the country. They had agreed that de Vinck would be on the lookout for interesting investments in tramways and would alert Empain so that he could send an engineer to study the opportunity.¹³⁵ Empain clearly wanted to carry on with it, because he founded a new holding company a few weeks after de Vinck left for China. The *Compagnie russe-française des chemins de fer et de tramways* (*Russe-française*) had to focus on tramways and railways not only in France and Russia, but also in China.¹³⁶

In the autumn of 1896, the Chinese government was looking for foreign funds to construct a railroad between the capital Beijing and the inland commercial hub Hankou. Wary of the imperialist aspirations of Great Powers, the Chinese leaders approached smaller or neutral powers such as the United States, Belgium or Austria. No doubt, the promotional tour of Li in Belgium had improved the country's reputation concerning railroads and the steel industry. Chinese decision-makers such as Li Hongzhang, Zhang Zhidong and Sheng Xuanhuai took a benevolent stance towards Belgium, which they perceived as an industrious country without a political hidden agenda. The Belgian government managed to convince the Belgian haute finance to consider the Beijing-Hankou project. In March 1897 the *Société Générale de Belgique* and some railway manufacturers such as *La Métallurgique* founded the *Société d'étude de chemins de fer en Chine* (*Société d'étude*) to finance a technical research mission. The *Société d'étude* sent some engineers to the region who could investigate the technical specifications of the line.¹³⁷

The news of the establishment of the *Société d'étude* must have alerted Empain. Was he perhaps tipped by Jules Carlier of *La Métallurgique* and director of the *Société d'étude* that

¹³³ Kurgan-van Hentenryk, *Léopold II*, 82-89.

¹³⁴ "Aux commerçants et industriels belges," *La Réforme*, 17 Jul 1896.

¹³⁵ Belgian Minister (Beijing) to Minister of FA (Brussels), 7 Feb 1898, *Chine: Tramways*, 2817, BMFA; "de Vinck des Deux Orp," *Le XXe Siècle*, 17 Jul 1896.

¹³⁶ "Compagnie russe-française de chemins de fer et de tramways: Statuts," no. 2928, *AMB*, 24 Aug 1896.

¹³⁷ Kurgan-van Hentenryk, *Léopold II*, 89-125.

the negotiations were close to a breakthrough? In any case, the promising Beijing-Hankou railroad proved to Empain that China indeed had business potential. This urged him to take quick action. Although he had not heard about any opportunity from de Vinck, Empain started to gather financial partners to form the *Syndicat d'études en Chine* in the weeks after the creation of the *Société d'étude*. The syndicate (est. July 10, 1897) hired the railway engineer Armand Rouffart to go to China. Rouffart encountered many difficulties in finding interesting concessions, but in the end he secured an agreement with the Chinese government. This led to the establishment of the *Compagnie générale de chemins de fer et de tramways en Chine* in 1900.¹³⁸

During the next decades, the Empain group even increased its railway construction projects in China (see Chapter 7). Yet, Empain refused to expand to neighboring Siam. In 1900, the Belgian Minister of Foreign Affairs proposed him to invest in the country, but Empain replied that he did not have the financial and human resources nor the time to turn to Siam.¹³⁹

1.6 Prestige in Leopold's Congo (1902-...)

From the foundation of his Congo Free State (CFS) in 1885, King Leopold II wanted to implicate Belgian finance in the economic development of the colony. He feared that too much foreign investment could weaken the position of Belgium in the CFS. Without strong financial ties, Belgium risked losing its claim on the colony, Leopold II believed. Unfortunately, Belgian business showed little interest in the private colonial enterprise of Leopold. Albert Thys, the King's equerry (Dutch: *ordonnansofficier*), had great difficulty to gather the capital for the *Compagnie du Congo pour le Commerce et l'Industrie (CCCI)*. The CCCI, established in 1886-1887, was the first private company to be active in the CFS. Besides Thys, Leopold II was able to interest a select club of private bankers from Brussels

¹³⁸ Projet de convention du syndicat d'études, July(?) 1897, *Compagnie générale de chemins de fer en Chine*, I 394/1, ARA 2; Minutes of the Meetings of the Executive Committee, 1897-1899, *Compagnie générale de chemins de fer en Chine*, I 394/25, ARA2; Meeting of 30 Mar 1897, *Chemins de fer économiques*, Minutes of the Standing Committee, I 30/4337, ARA2.

¹³⁹ Minister of FA (Brussels) to Empain, 18 Dec 1899, *Compagnie générale de chemins de fer en Chine*, I 394/213, ARA2; Minute of letter from Empain to Minister of FA (Brussels), 18 Jan 1900, *Compagnie générale de chemins de fer en Chine*, I 394/213, ARA2.

and Antwerp: Balser, Lambert, Alexandre de Browne de Tiège and Philippson.¹⁴⁰ When lacking external funds, Leopold broke into his personal reserves.¹⁴¹ Noticing that the colonial project was evolving into a personal financial disaster, Leopold II changed tactics in 1891. The *système domanial* and the establishment of various chartered companies such as the *Anglo-Belgian India Rubber Company* and the *Société Anversoise du Commerce au Congo* saved Leopold's fortune, but at a tremendous cost. Based on a system of ruthless exploitation, the extractive economy made huge profits out of the rubber boom. Empain stayed away from the red rubber business, but had followed the Congolese enterprises of Albert Thys closely. Edouard Empain had personally subscribed to a small number of shares of the *Compagnie du Congo pour le Commerce et l'Industrie* and its subsidiary *Compagnie du Katanga* at their incorporation in 1887 respectively 1892.¹⁴² The *Réunis* had shares of the *Chemin de fer du Congo* in its portfolio from 1900 onwards.¹⁴³ Empain's relatively little interest in Congolese business before 1900 can be explained by the absence of railroad projects that had passed the conceptual stage. Even if Empain also ventured into mining and agriculture in Latin America, I assume that he still preferred to invest in the core industry, i.e. traction.

Empain's decision to radically scale up his ambitions in Congo was motivated by his personal relationship with Leopold II. At the turn of the century, the Sovereign of the CFS wanted to gain independence from the small circle of private bankers. Leopold aimed to outweigh the importance of Albert Thys, with whom he had an argument about the economic policy in Congo. Therefore, Leopold turned towards Empain in 1901 to finance the construction of a railroad in the Congolese inland (*Compagnie du chemin de fer du Congo supérieur aux Grands Lacs africains*). Leopold II must have thought he could persuade Empain by offering him the first serious railroad opportunity since the *Chemin de fer du Congo* in 1887. Several elements convinced Empain. He highly valued his relationship with the King and was not averse to the prestige that a large railway investment in Congo entailed. The Belgian press unanimously hailed the plans as "a decisive step in the History of Civilization."¹⁴⁴ Most importantly, the King guaranteed a stable return on investment of at least 4%. A tumultuous failed attempt to construct a railroad in French Ivory Coast

¹⁴⁰ Jean-Luc Vellut, "Réseaux transnationaux dans l'économie politique du Congo Léopoldien (c. 1885-1910)," in *Afrikanische Beziehungen, Netzwerke und Räume*, ed. Laurence Marfaing and Brigitte Reinwald, *Studien zur afrikanischen Geschichte* (Münster: Lit, 2001).

¹⁴¹ Abbeloos, "Belgium," 114-15.

¹⁴² "Constitution de la Compagnie du Congo pour le Commerce et l'industrie," no. 519, *AMB*, 26 Feb 1887; "Compagnie du Katanga," no. 2813, *AMB*, 4 Dec 1892.

¹⁴³ "Réunis: Rapport du CA à l'AGO," *Supplément MIM*, 26 Mar 1901.

¹⁴⁴ "une étape décisive dans l'Histoire de la Civilisation", "Belgique," *L'Indépendance Belge*, 12 Oct 1901; "La traversée de l'Afrique," *Journal de Bruxelles*, 26 Nov 1901; "La traversée de l'Afrique," *Journal de Bruxelles*, 27 Nov 1901.

also incited Empain to accept this investment in a politically protected environment (see Chapters 4 and 5).

Leopold's alliance with Edouard Empain marked the shift towards a closer relationship with the financial establishment of Brussels. In 1906, Leopold II finally convinced the directors of the *Société Générale* to step in the Congolese market (*Union Minière du Haut-Katanga, Compagnie du chemin de fer du Bas-Congo au Katanga, Forminière*).¹⁴⁵ Empain did not make a second large-scale investment in Congo before 1914, but the *CFL* tripled its capital by then. In addition, the *CFL* had given Empain a stronger appetite for Congolese business projects: he personally invested in at least six of them after 1902.¹⁴⁶

From a broader perspective, the colonial turn in the history of the Empain group is remarkable. Jean-Luc Vellut has shown how Belgian entrepreneurs (e.g. Thys) used investments in Leopoldian Congo as a springboard for expansion elsewhere in the world. Empain and the *Société Générale* followed a different path. They only invested in the colony after they had built a multinational business empire.¹⁴⁷

1.7 Conclusion

At the end of this chapter, a first answer can be given on the why, where and how of the internationalization of the Empain group. Basically, the multinational enterprise of Edouard Empain was born out of the need to achieve economies of scale. Why Empain decided not to look for scale in quarrying, but in rail transport will be addressed in the next chapter. In sum, the business environment of *La Métallurgique* presented a lot of opportunities in light railways. However, this chapter has shown that, whereas the marble industry was flourishing in Belgium, the embryonic Empain group had to divert to France to do business. The Belgian political-legal environment forced Empain and his partners to enter the domestic market via a large French detour.

This specific pattern of internationalization shows that, historically, the incremental process starting in the home country was far from universal. Instead, the Empain group emerged from a free-standing company in France, expanded to its home market the year after and evolved into a large business empire active in 16 markets worldwide. This

¹⁴⁵ Guy Vanthemsche, *La Belgique et le Congo: L'impact de la colonie sur la métropole (1885-1980)*, revised ed., vol. 4, Nouvelle Histoire de Belgique (Brussels: Le Cri, 2010), 196.

¹⁴⁶ *Recueil Financier*, 1914.

¹⁴⁷ Vellut, "Réseaux."

‘boomerang’ or reverse expansion once again emphasizes the multiple forms of FDI in the First Global Economy.

The market selection and the mode of entry mainly depended on three factors in the economic, political and personal sphere. First and foremost, the economic logic of high returns guided the decision-making of the top executives. There was no big plan behind it. Empain and his close collaborators just had to allocate the limited available resources and capabilities to the most promising project. This does not mean that they just played safe and imitated the overall Belgian capital outflow. The business group did follow other Belgian investors to regions that were hot at a given moment, but it also set its own priorities. It entered the markets of Venezuela, Chile, the Ottoman Empire, Egypt and China earlier than the average MNE. The Empain group also made clear individual choices. After a series of failed investments, Empain lost faith in Latin America whereas his Belgian competitors continued to believe in its potential. His attitude towards Russia remained conservative until 1911. Other markets were deliberately neglected: Italy for instance and for a while also Algeria.

This wide geographical distribution of assets rather than deepening the activities in a few markets was perhaps typical of Belgian holding capitalism. This was at least Pierre Lanthier’s tentative conclusion for Belgian investment in Canada.¹⁴⁸ Empain also pursued horizontal diversification, but much less international vertical integration. Only in France, Belgium and Egypt, the group’s most important host countries, integrated regional clusters emerged. The issues of vertical integration and risk spreading through diversification are the subject of the next two chapters.

Secondly, international politics seemed to matter for MNEs from a small country such as Belgium. The structure of the First Global Economy determined the choice of countries Empain could invest in. Rather than competing with big business from the Great Powers, Belgian MNEs preferred to focus on Europe and peripheral, less developed regions such as Venezuela and the borderlands of Argentina and Brazil. The geography of the Empain group suggests that Belgian entrepreneurs had to concentrate on the fringes and fault lines of the spheres of influence of the Great Powers. Based on the Chinese case, a tentative conclusion could be that the neutrality of Belgium really played an important role. These essential issues are dealt with in Part II.

Thirdly, local embeddedness, personal relations, ideas and preferences determined the mode and successful entry of a market. The frame of reference of the Empain management was Belgian. Gradually, as France became the most important market, the mental maps also included a more French perspective. Without this Belgian-French worldview, the Empain group would not have (tried to) invest in Congo and Ivory Coast.

¹⁴⁸ Pierre Lanthier, “Kurgan-Van Hentenryk & Laureyssens: Un siècle d’investissements belges au Canada (Review),” *Revue belge de Philologie et d’Histoire* 67, no. 4 (1989).

One should not forget either that countries such as Congo, China and Egypt appealed to the imagination of the investing public and the society at large. Empain was probably not insensitive to the prestige that came with the investments. In Egypt, his personal commitment exceeded potential economic benefits.

Empain's wide network of informal contacts emphasizes the relational character of the First Global Economy. Somehow, it supports the trend, mentioned in the general introduction, to see markets more as networks than as institutions. Whereas the group owed its first concessions in France and the Netherlands to Empain's connections at *La Métallurgique*, the subsequent lack of qualified agents in some areas led to failed attempts to invest. It shows that in most cases, loyal local collaborators were essential to successful internationalization. Finally, the active role of the consular diplomacy also emerged from this geographic overview (e.g. Egypt, Siam). While this will be further investigated in Part II, it is safe to say that diplomats acted as brokers for Belgian business abroad.

Chapter 2 Escaping steam, embracing electricity

2.1 Introduction

The previous chapter provided a geographical historical overview of the global expansion of the Empain group, sketching the investment climate in various world regions. In the present chapter, I situate the business group of Edouard Empain in the broader economic history of industrialization. It is important to study the sectors the business group was active in to understand how its revenue model worked. However, an analysis of the corporate strategies cannot succeed without taking into account the economic conditions determining them. Like the previous chapter, this chapter adopts a board room perspective. It investigates the challenges and opportunities present in the economy of the late nineteenth and early twentieth century. This period coincided with the transition from the First Industrial Revolution to the Second Industrial Revolution. New industries based on innovations such as electricity and chemicals were taking over the position of the old heavy industry as the driving force of the economy. Experts on industrialization and large technical systems theory stress that electricity and its applications formed a new technological system. The components of such a complex system were intricately linked and influenced each other. In the long run, new technological systems or clusters radically transformed the economy. For Belgium, Boschma has shown that 1880 was a pivotal year. In terms of innovation, Germany and the US were overtaking the early industrializers UK and Belgium. The year 1880 therefore marked the end of the dominance of the “steam-transport-iron” cluster and the start of new innovative industries including the “electric cluster”.¹

¹ Joel Mokyr, “The Second Industrial Revolution (1870-1914),” in *Storia dell’economia mondiale*, ed. Valerio Castronovo (Rome: Laterza, 1999); Erik van der Vleuten, “Large Technical Systems,” in *A Companion to the Philosophy of Technology*, ed. Jan Kyrre Berg Olsen, Stig Andur Pedersen, and Vincent F. Hendricks (Chichester:

For the analysis of the corporate strategy² of any large business group, a few concepts are key: vertical and horizontal integration as well as related and unrelated diversification. First, in economic theory, vertical integration is the process where a firm incorporates parts of the production chain. This process is called ‘backward’ when a firm starts to produce specific goods that it previously bought from suppliers. ‘Forward’ vertical integration occurs when a firm takes over the intermediaries that separate it from the end user of the product. So instead of relying on the market of suppliers and distributors, the firm tries to get a grip on the whole production chain. These strategies allow the firm to increase coordination and cost efficiency and control the parts of the chain with the highest profit margins. Historically, backward vertical integration was sometimes useful in new industries. According to David Teece’s reading of Chandler, “when certain inputs are not available in competitive supply, vertical integration [might have been] necessary to assure the quality or quantity of supply.”³ The usefulness vanished as soon as the number of suppliers increased.

Second, the concept of horizontal integration or combination refers to expansion within the same sector. A firm can specialize in a specific branch of industry by intensifying production or acquiring competitors. Increasing the output can generate significant economies of scale and organizational capabilities.⁴ Thirdly and finally, a company can diversify in sectors that are related or unrelated to its core business. The acquired expertise in one field can be used to expand to a related field. Unrelated diversification is often a way to invest in products with higher returns and spread the risk of a bad investment.⁵

Then what is the group’s corporate strategy between 1880 and 1914? In other words, how did Empain anticipate the radical economic transformation powered by electricity? Figures 10 and 11 tentatively answer this question by presenting the businesses the Empain group was active in. For seven sample years, they show each sector as a proportion of the aggregate nominal capital of all companies controlled by the Empain group. The only sector left out of the analysis here is the supply of technical and financial services. The holding companies of the business group employed funds for technical advice, general contracting and financial intermediation. Banking was a lucrative

Blackwell, 2009); Ron A. Boschma, “The rise of clusters of innovative industries in Belgium during the industrial epoch,” *Research Policy* 28, no. 8 (1999).

² A corporate strategy answers the question “What businesses shall we be in?” Ellen Earle Chaffee, “Three Models of Strategy,” *The Academy of Management Review* 10, no. 1 (1985): 89.

³ William Lazonick and David J. Teece, eds., *Management Innovation: Essays in the Spirit of Alfred D. Chandler Jr* (Oxford: Oxford UP, 2012), 77.

⁴ A.D. Chandler, *Scale and scope: The dynamics of industrial capitalism* (Cambridge, MA: Harvard UP, 1990).

⁵ Pasquale Massimo Picone and Giovanni Battista Dagnino, “Revamping research on unrelated diversification strategy: Perspectives, opportunities and challenges for future inquiry,” *Journal of Management & Governance* 20, no. 3 (2016).

activity. However, the investment portfolio of the holding companies formed the majority of their assets. Therefore, they are excluded from the sectoral analysis. Taking them into account would only lead to flawed data. Chapter 3 extensively deals with the holding companies and their crucial features.

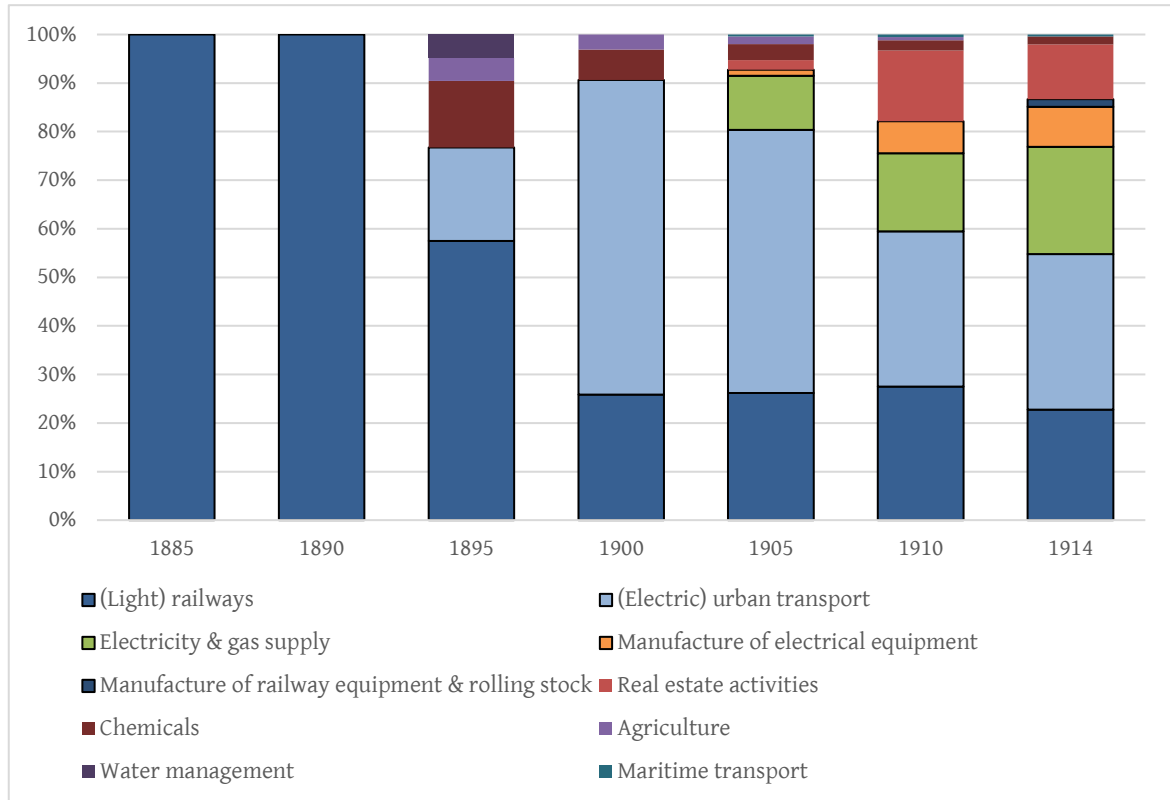


Figure 10 Relative share of sectors for sample years, based on total nominal capital (1885-1914)⁶

The graph shows that in 30 years the business group radically diversified. This raises several questions. They will be examined in the following sections, which discuss every sector in loose historical order. Why did Empain start in railways? What made him diversify in the 1890s? What explains the large but short-lived unrelated diversification into agriculture, water management, chemicals, ...? After 1895 (light) railways only accounted for one quarter of the total nominal capital. Why did the group resolutely diversify to electric utilities in that period? Was it the first to implement this innovative technology? It can be noticed that the step towards electric tramways provoked a thorough vertical integration. After the turn of the century, the business group invested massively in electricity supply and manufacturing. By 1914, both sectors combined had become as important as electric tramways. What reasons were behind these massive investments?

⁶ Source: see Fig. 2

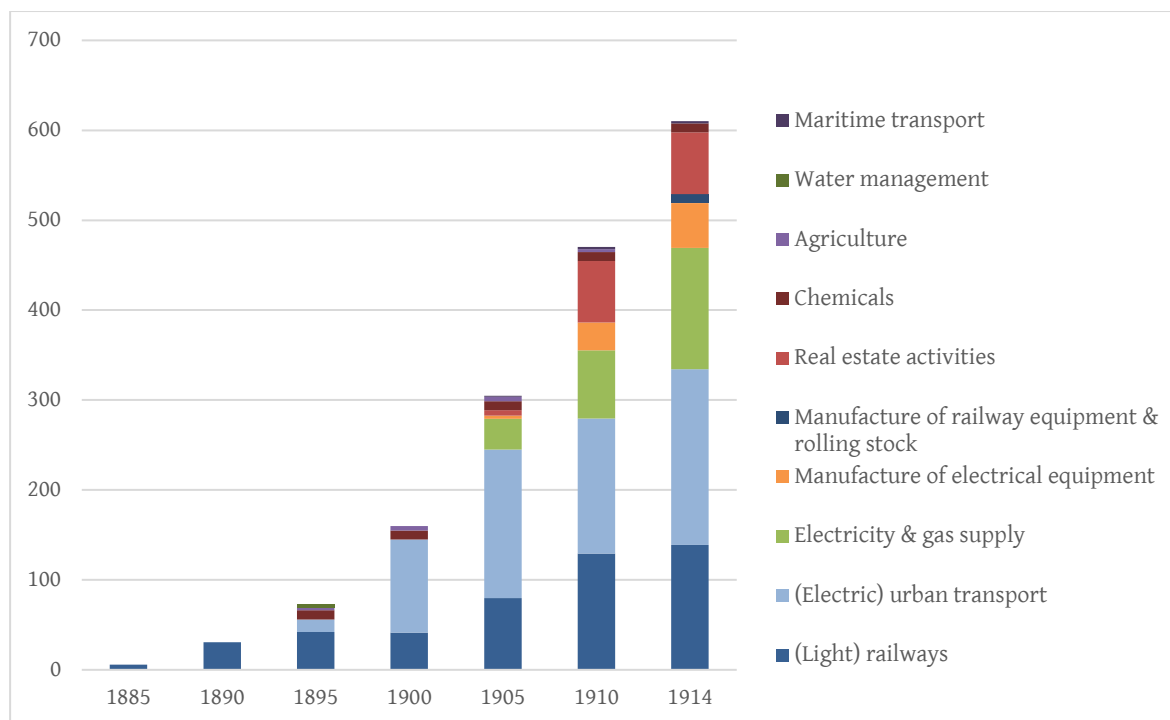


Figure 11 Total nominal capital per sector for sample years in million francs (1885-1914)⁷

Figure 11 explicitly shows that diversification was not incompatible with sustained growth in every sector. Between 1880 and 1914, the group had exponentially grown, especially after the economic crisis of the 1880s and early 1890s. Due to a lack of sources, we have to use aggregated nominal capital instead of turnover as an indicator of the group's size. In absolute figures, the capital gathered to finance the enterprises in the different branches of industry increased tenfold from roughly 6 million in 1885 to 600 million 30 years later. Achieving economies of scale was a must in times of increasing industrial concentration. Yet, why did the Empain group also continue to expand in the 'traditional' railway business, albeit at a slower pace? And how should one interpret the dozens of millions of francs devoted to real estate activities in Heliopolis? Similar to the first unrelated diversification in 1895, Heliopolis tied up many financial resources. However, the vertically integrated industries always constituted about four fifths or more of total nominal capital.⁸

Finally, the diversification raises questions linked to other chapters. Chapter 1 has shown that the Empain group rapidly internationalized and entered markets for economic, political and personal reasons. But to what extent was the global expansion also linked to the electric revolution? To put it differently, did electrification trigger the expansion to specific markets? One also wonders about the organizational form. Where

⁷ Source: see Fig. 2

⁸ On the ratio of vertical integration and its implications, see Richard P. Rumelt, "Diversification Strategy and Profitability," *Strategic Management Journal* 3, no. 4 (1982).

could the Empain group find the enormous amount of capital to finance the exponential growth shown in Figure 11 and how could it manage a diversified enterprise? Chapter 3 will deal with these topics in greater detail.

2.2 Empain's two-track strategy for transportation

2.2.1 Steam-powered railways (1880-...)

Edouard Empain will always be known as a specialist in railroads. However, at the end of the 1870s, Edouard Empain was actually active in two sectors. On the one hand, he had specialized in marble and stone quarries in the south of Belgium. On the other hand, he worked in the heavy industry typical of Belgium as a manager of *La Métallurgique*. As mentioned in the previous chapter, the company possessed three workshops manufacturing railroad material. After a reorganization in 1880, this became the company's core business.⁹ With the acquired expertise in railroads, Empain actively searched for rail concessions on behalf of his employer. The railway equipment boom had ended in the 1870s. After a period of acute recession (1878-1879), *La Métallurgique* urgently needed extra clients. By financing new railroads at home and abroad, the manufacturer hoped to receive equipment orders. This is similar to the *Unternehmergeschäft* typical for German electric holding companies. This style of market expansion by "organizing, financing, equipping and managing new ventures themselves" required a lot of capital.¹⁰ As shown in Chapter 1, the search for and eventual operation of concessions was an integral part of the responsibilities of the managers and partners of *La Métallurgique*. Their ambitious expansion goal directly led to increased sales. After its establishment, the *Valenciennes-Anzin* immediately ordered several locomotive engines as well as passenger and freight cars.¹¹

Empain had the choice: pursuing a career in the marble industry or devote his energy to the ambitious initiative of *La Métallurgique*, where he had been appointed to the board. Empain opted for the latter. He and other entrepreneurs from *La Métallurgique* were

⁹ The production included locomotives, wagons, wheels, switches, ironwork, steel frames and cast iron. "La Métallurgique: Rapport du CA à l'AGO," *Supplément MIM*, 25 Mar 1882.

¹⁰ Peter Hertner and H. Viv Nelles, "Contrasting Styles of Foreign Investment: A Comparison of the Entrepreneurship, Technology and Finance of German and Canadian Enterprises in Barcelona Electrification," *Revue Économique* 58, no. 1 (2007): 195.

¹¹ Urbin, *Siècle*, 26.

actually determined to go beyond the usual *Unternehmergegeschäft* for the benefit of the manufacturing company. They clearly believed that the construction and operation of light rail could be rewarding in itself. This was a long-term strategy, with the need to invest capital for a longer period. Instead, Empain could have taken a large interest in *La Métallurgique* and gradually dissociate himself from the operating companies. He did not, for equity ties between *La Métallurgique* and the Empain group were very weak.¹²

The top management of *La Métallurgique* and Empain in particular now pursued two diverging strategies: constructing and operating railroad concessions as well as increasing the production of railroad equipment. Quickly, the railroad activities grew into a self-sufficient business, with dynamics different from the manufacturer's logic. The business group, run by Empain since 1880, gradually came loose from *La Métallurgique*. *La Métallurgique* stopped intervening in new businesses of the Empain group after 1884. In 1887, Edouard Empain resigned from the board of *La Métallurgique*. Yet, many other director interlocks continued until the First World War. The relationship between the two groups slowly evolved into one between supplier and customer, though embedded in a strong personal business network. Occasionally, this network still served for other business opportunities.

As a result of the shared origins and the strong personal relations, *La Métallurgique* and its French subsidiary *Ateliers du Nord de la France* (ANF, est. 1882) remained the privileged supplier of the Empain group. Between 1880 and 1914, the Empain companies ordered thousands of locomotive engines, carriages, wagons as well as other railway material.¹³ Conversely, Pierre Lanthier has argued that ANF could only survive before 1900 thanks to the orders of the Empain group. In Belgium, *La Métallurgique* had a more dominant position, since it was one of the largest rolling stock manufacturers before the First World War.¹⁴

Were Empain and his partners right to start a business group based on the construction and the operation of light rail? In other words, did the most important branch of industry

¹² In the 1880s and 1890s, the Empain brothers had a maximum interest of 2% in the business group of *la Métallurgique*. "Hauts-fourneaux du Sud de Châtelineau: Statuts," no. 2570, AMB, 19 Dec 1889; *Recueil Financier*, 1905, 772.

¹³ Many orders are undocumented, but a quick non-exhaustive research yielded the following figures : at least 224 locomotives engines for the entire group and 700 wagons and 120 carriages for the *Cie générale des chemins de fer vicinaux* alone. Luc Delporte, "Chemins de fer & Industries: Les clients des Ateliers de Tubize," http://www.museedelaporte.be/patrimoine/?page_id=1076; Sébastien Jarne, "Liste des locomotives construites par Blanc-Misseron jusqu'en 1911," <http://demophile1.free.fr/Blanc-Misseron.doc>; Lanthier, "Constructions," 453.

¹⁴ Although the *Société des Ateliers de la Meuse*, Cockerill and *Etablissements Carels* had a larger total production, *la Métallurgique* was the largest supplier of locomotives for the SNCV. Leboutte, Puissant, and Scuto, *Siècle*, 59; Walter Hefti, *Tramway Lokomotiven* (Basel: Birkhäuser, 1980), 103; Lanthier, "Constructions," 454.

within the Empain group also generate an important return? In 1880, the expectations were high. However, the transport sector was very sensitive to the recession of the 1880s and early 1890s. Also for a later period (1901), Lanthier found French figures showing that running light rail concessions was not very profitable in reality. Most lines had failed to attract the expected goods traffic and the number of passengers remained low. The lines crossed less densely populated rural areas that were very characteristic of France in that period. In fact, the light railways connected small towns rather than cities.¹⁵ Like their competitors, the French operating companies of the Empain group relied on state aid. The *Chemins de fer du Périgord* derived 50% of their gross revenue for 1890 from the government guarantee. Of course, this company had only been established three years before. The French law had designed the guaranteed income precisely to tide over the start-up phase. However, in 1905, subsidies still formed 25% of gross revenue for one of Empain's oldest companies, the *Econord*.¹⁶ In Belgian Congo, the lengthier railroad of CFL also failed to generate the minimal return on equity of 4%, guaranteed by Leopold II. In some years, the CFL did not even manage to earn a quarter of the necessary amount. Year after year, the Belgian state had to pay the difference (see also Chapter 4).¹⁷

On average, the return of the light railways remained low and followed the general business cycle. In France, the steady rise of passenger traffic per km, e.g. +81% between 1901 and 1911, did not result in a general improvement of the operator's performance. The increase was very unequally distributed, also within the Empain group. The historic network of *Valenciennes-Anzin* (*Econord* after 1883) was among the busiest networks in the whole of France, whereas a line of the *Compagnie générale des Chemins de fer vicinaux* near Switzerland transported nearly 30 times fewer passengers.¹⁸

As a matter of fact, due to high sunk costs typical of infrastructure industries, the Empain group was trapped in the light rail sector characterized by low profits. The group's main answer to this problem was growth. Essentially, the diversification to the more lucrative electric tramways after 1894 also fitted in this strategy. Only by creating more and larger networks at home and abroad could the Empain group achieve economies of scale and acquire strategic capabilities. Therefore, the holding companies continuously searched for new concessions and expanded existing rail networks. Up to 1894, most of the growth was realized in Belgium and France (see Fig. 12). In the next decade, the French network expanded from 362 km to 1773 km. This could have been

¹⁵ Lanthier, "Constructions," 171-72.

¹⁶ Table 3 in Georges Ribeill, "Les chemins de fer d'intérêt local à l'épreuve du régime de 1880: De graves pathologies congénitales ?," *Revue d'histoire des chemins de fer*, no. 24-25 (2002), <https://journals.openedition.org/rhcf/2038>; Lanthier, "Constructions," 175.

¹⁷ *Recueil Financier*, 1915, 42.

¹⁸ Wolkowitsch, "Siècle," 363-66.

much more, for the Empain group tried to obtain concessions in at least 28 departments before 1900. Twelve of them eventually granted one or more lines.¹⁹ On the eve of the First World War, the Empain group controlled over 2000 km of tracks, being 10% of the total light rail network. It was the second-largest operator in France, after the French *Société générale des Chemins de fer économiques* (2403 km) and before the Belgian-owned *Cie de Chemins de fer départementaux* (1400 km).²⁰ In Belgium, the Empain group had become one of the largest private operators too. It controlled over twenty SNCV-lines.²¹

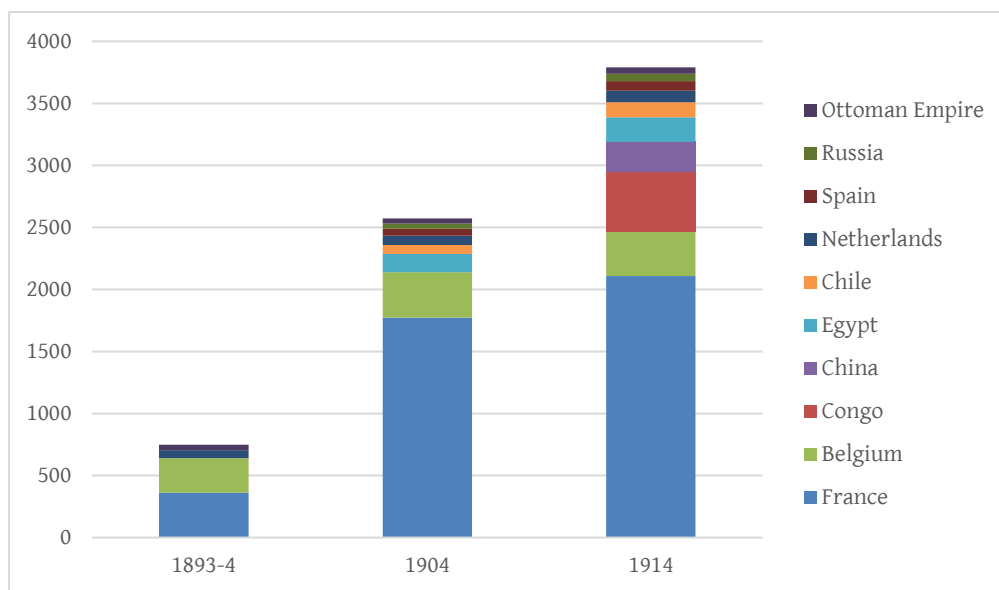


Figure 12 Tramway and (light) railway network per country in km (1894-1914)²²

This growth was the result of more, but also larger networks. The Empain group pursued a strategy of creating economically viable and interconnected networks. Both in light railways, heavy railroads and tramways applied: The larger the network, the higher and

¹⁹ The Empain group vainly applied for concessions in the departments of Seine-Inférieure (1882); Landes, Garonne (1884); Haute-Garonne (1885); Tarn-et-Garonne, Ariège, Vendée, Indre, Gers, Morbihan, Côtes-d'Armor, Drôme (1886); Côte-d'Or (1887); Maine-et-Loire (1888); Rhône, Manche (1889). "Rapports et délibérations," *Conseil général [of French department]* (1877-1900), www.gallica.bnf.fr. For a complete list of concessions obtained by the Empain group, see: "Fédération des amis des chemins de fer secondaires: Liste des chemins de fer secondaires," <https://www.facs-patrimoine-ferroviaire.fr/histoire/les-chemins-de-fer-secondaires/liste>.

²⁰ Wolkowitsch, "Siècle," 96, 100, 290.

²¹ Wim Kusee, "Tramlines in Belgium - NMVB/SNCV," <https://www.kusee.nl/tram/index.html>.

²² 1894 figures: *Recueil Financier*, 1894-1895; "Voie étroite: Rapport du CA à l'AGO," *Supplément MIM*, 17 Oct 1894. 1904 figures: "Parisienne Electric: Rapport du CA à l'AGO," *Supplément MIM*, 30 May 1905; "Réunis: Rapport du CA à l'AGO," *Supplément MIM*, 28 Mar 1905; *Recueil Financier*, 1905.

1914 figures: "Recettes," *Le Messager de Bruxelles*, 31 Mar 1914; "Réunis: Rapport du CA à l'AGO," *Supplément MIM*, 22 Apr 1914; "Railways&Electricité: Rapport du CA à l'AGO," *Supplément MIM*, 22 Apr 1914; *Recueil Financier*, 1915.

more regular the returns will be. In general, expansion improved financial results: whereas 35% of French small-scale (1-50 km) companies suffered an operational loss, this dropped to 20% for larger companies operating 100 km or more.²³ In France and Belgium, almost all genuine light rail networks of the Empain group had attained this critical size (see Table 1). The Empain group had especially applied for concessions in many adjacent French departments, creating interdepartmental networks.²⁴ However, as departments could differ in policy and usually conceded lines in dribs and drabs, developing rational networks was not always easy.

Unlike the French *Société générale des Chemins de fer économiques*, the Empain group did not manage to group all these concessions in one large operating company. Instead, it concentrated its interests in several holding companies and centralized the management in few headquarters (see Chapter 3). In the end, this had the same effect as one large operating company: a large-scale horizontal integration that could smoothe the differences in performance of individual lines. In addition, the Empain group had the particularity to go abroad. Few other light rail operators had expanded beyond one or two core markets.²⁵ After 1904, the Empain group realized most of its growth outside France. By 1914, it (partially) controlled nearly 4000 km of railroads in France, Congo, Belgium, China, Egypt, Chile, the Netherlands, Spain, Russia and the Ottoman Empire (see Fig. 12 above).

The railroads can be divided into three broad categories. Firstly, you have the light rail networks in France, Belgium, the Netherlands and the Egyptian Nile Delta (see Table 1). They are organized in a pattern similar to a web, with a limited number of central nodes. Wherever possible, Empain constructed the tracks on meter gauge to save money. Secondly, there are the more elongated lines going from A to B that cover larger distances. These include the *Chemins de fer du Congo supérieur aux Grands Lacs africains* (CFL) bypassing several unnavigable sections of the Congo River, the *Nitrate Railways* in Chile connecting the mines to the ports, the Pienlo railway in China linking two important cities and finally a shorter line between the commercial town Bursa and the port of Mudanya (Ottoman Empire). The long-distance railroads were more expensive to construct and were built on standard gauge. For economic reasons, the CFL and the Mudanya-Bursa were on narrow-gauge. Thirdly, there are the urban tramway networks in Russia, Spain, but also in France, Belgium, Egypt and the Ottoman Empire. They are the subject of the next section.

²³ Wolkowitsch, "Siècle," 172-73.

²⁴ Wolkowitsch, "Siècle," 119.

²⁵ The Belgian *Société générale des chemins de fer économiques* was a notable exception

Table 1 (Light) rail networks operated by the Empain group worldwide in chronological order²⁶

Operating company (1914)	Location	Operation period	Length (1914, km)
<i>Chemins de fer économiques du Nord</i>	northern & eastern FR	1880-1914	376
<i>Chemin de fer élec. d'Ostende-Blankenberghe</i>	Coast, BE	1885-1914	146
<i>Tramways électriques de Gand</i>	Ghent, BE	1886-1914	54°
<i>Tramways élec. du Pays de Charleroi</i>	Charleroi, BE	1887-1914	74°
<i>Chemins de fer de Pau-Oloron-Mauléon et Tramways de Bayonne à Biarritz</i>	Pyrénées-Atl., FR	1888-1911	193°
<i>Chemins de fer du Périgord</i>	Dordogne, FR	1888-1914	154
ZNSM	N. Brabant, NL	1890-1914	94
<i>Chemin de fer de Moudania-Brousse</i>	Bursa, Ottoman Empire	1893-1914	42
<i>Cie. gén. des chemins de fer vicinaux</i>	eastern FR	1894-1914	671
<i>Chemins de fer du Calvados</i>	Calvados, FR	1894-1914	206
<i>Nitrate Railways*</i>	Chile	1895-1914	605
<i>Chemins de fer de la banlieue de Reims</i>	Marne, FR	1895-1914	399
<i>Chemins de fer de la Basse Egypte</i>	Nile Delta, EG	1897-1914	121
CFL	Congo	1906-1914	482
<i>Chemins de fer et tramways en Chine</i>	Kaifeng-Luoyang, CN	1907-1914	242

If the operation of railways did not become the most rewarding branch of the business group, it still entailed a more lucrative business: general contracting. So from the early beginning, the Empain group integrated backwardly to include a welcome addition to the income derived from railway concessions: constructing the infrastructure. Very often, a government concession for rail or tramways comprised both the construction and operation of the network. Generally, the concessionaire could take higher margins on the former, as the regulator stipulated maximum prices the operator could charge. Therefore, the majority of the different holdings founded by Edouard Empain had an important branch that was responsible for the construction of the railway infrastructure.²⁷ The holding companies prospered the most when the group obtained concessions for new lines or for the transformation of existing lines. On these occasions, their subsidiaries could commission them with lucrative construction works. For instance, Lanthier has shown that especially in its early years the financial performance

²⁶ *= only partially controlled, °= including tramways. Source: same as for Fig. 12

²⁷ Many holding companies active in electric utilities internalized construction. Hausman, Hertner, and Wilkins, *Global Electrification*, 60-61.

of the *Voie étroite* was linked to its activities as a general contractor.²⁸ Similarly, the fourfold increase of *RELSE's* ROE coincided with the electrification of lines in Ghent and Ostend (1896-98). In only one instance, as far as the sources tell, the holding companies constructed on behalf of an external operating company.²⁹ In 1888-1891, the *Voie étroite* worked as a subcontractor for the British *Carenero Railway Company* in Venezuela. This turned into a financial disaster. Only on rare occasions, the concession for operation was not paired with a construction job (e.g. the *CFL*, see Chapter 4).

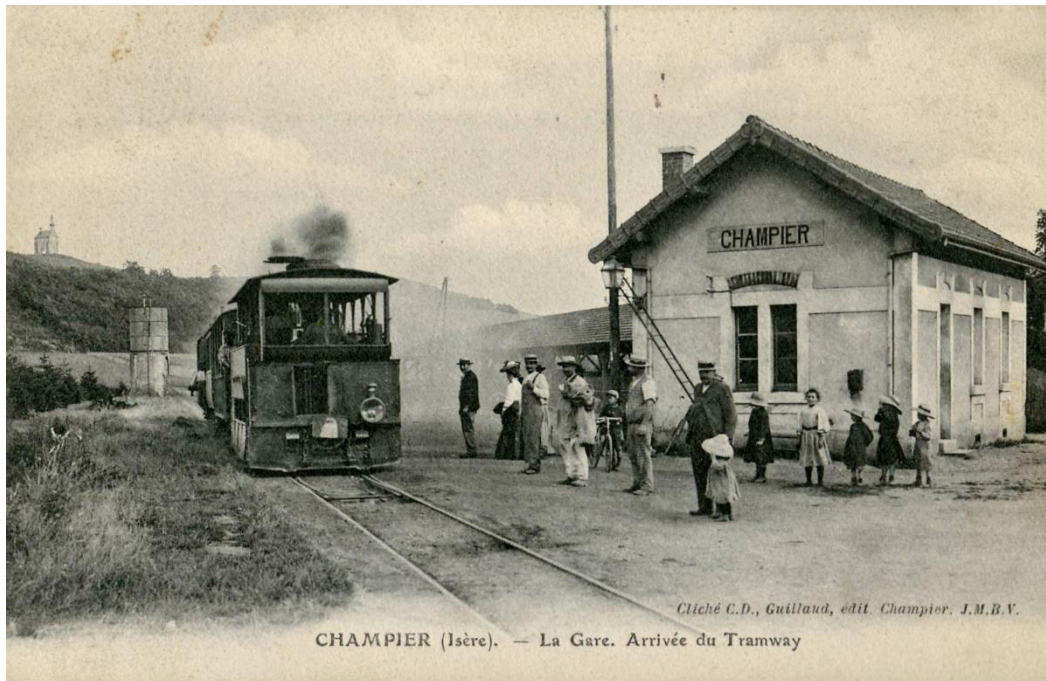


Figure 13 Light railway station of the *Chemins de fer économiques du Nord* in Champier (FR)³⁰

2.2.2 Embracing the electric revolution in urban transport (1894-...)

The mid-1890s marked a turning point in the history of the Empain group. In that period, the business group broke its dependence on technology and products of the First Industrial Revolution. Besides steam-powered light railways, the group now also invested in electric traction. Electricity and its applications were one of the main innovations of the Second Industrial Revolution. By investing in urban tramways, the Empain group entered a market that was undergoing a total transformation due to this new technology. As a consequence, the business group constantly had to keep track of the developments.

²⁸ Lanthier, "Constructions," 456+64.

²⁹ Even the group's French holding *Parisienne Electrique* focused on its own subsidiaries before WW1. Lanthier, "Stratégies," 244.

³⁰ On the line Vienne-Charavines (Isère), c. 1891-1903. CHAMPIER (Isère): La Gare. Arrivée du Tramway, https://commons.wikimedia.org/wiki/File:Guillaud_-_CHAMPIER_-_La_Gare_-_Arrivée_du_Tramway.JPG.

This would ultimately lead to further related diversification, as shown in the next sections.

At first sight, one might expect that the Empain group would already have expanded to urban tramways before the mid-1890s. The tramway business was very similar to operating light railways, basically offering the same service. The urban context only required other material and technical conditions. As opposed to steam-powered light railways, urban tramways were pulled by horses and nearly always constructed on the public highway. However, for such a closely related diversification, the Empain group could use the strategic assets and capabilities it had acquired in its core business. Other transport companies such as the Belgian *Chemins de fer économiques* and the Otlet group controlled both urban and rural networks, but the former did not interest the Empain group before the introduction of electric power as a mode of traction.

To understand Empain's initial reserve towards urban transport and the reversal in the mid-1890s, we need to discuss the economics of horse-drawn tramways and the potential of electricity in the city.³¹ The horse-drawn tramway in itself already was quite innovative when introduced in the 1860s. Before public transport in the city was limited to the omnibus. Put on rails, the tramway could move faster and carry more passengers. Most large European cities quickly welcomed this innovation and installed horsecar systems in the 1860s and 1870s. At the start of his career, Empain was already a bit too late. Taking over established tramway networks was not a serious option, for a familiar reason. Like for light rail, construction rather than operation was the largest source of profit for the horsecar entrepreneur.³² The operating companies needed a large cavalry, soon afflicted with disease and age. Horses were expensive, unreliable and polluted the city.³³ In addition, the number of passengers on horsecars grew only very slowly in the 1880s, despite the general urbanization. Historian John McKay even speaks of stagnation.³⁴

Engineers and entrepreneurs feverishly searched for alternative sources of energy such as steam and electricity. In general, the noise and the smoke made steam engines unsuitable for an urban setting. Steam tram locomotives specially adapted to the severe antipollution restrictions were so expensive that they rarely had a significant advantage over horsecars.³⁵ Tramway companies expected a lot from a new technology: electric

³¹ Costa and Fernandes provide an excellent summary of the literature cited below. They show how electric technology radically changed the structure of the public transport market. Álvaro Costa and Ruben Fernandes, "Urban public transport in Europe: Technology diffusion and market organisation," *Transportation Research Part A: Policy and Practice* 46, no. 2 (2012).

³² McKay, *Tramways*, 16-18, 20-21.

³³ Brion and Moreau, *Tractebel*, 100.

³⁴ McKay, *Tramways*, 22-25.

³⁵ McKay, *Tramways*, 27-32.

traction. The principles of electricity had been known for decades, lighting was the first promising application. Steps towards the use of electricity for rail traction came later. This type of traction needed a constant supply of electricity from a central station to moving vehicles. This was hard to realize and partly explains the slow transformation, but alternatives such as on-board batteries proved unsuccessful in the long run.³⁶

The first successful experiments in Europe took place in Berlin in 1881, under the supervision of Siemens. A few experimental systems slowly spread in the 1880s, but the first large commercial tramway network using overhead electric traction was developed by Frank J. Sprague in Virginia in 1888. At that time, Europe had 35 km of tramway lines with different modes of electric traction, while the United States already had 80 km. Whereas North America decisively opted for the new technology in the next five years, European tramway companies were much more hesitant. As of 1893, the US had electrified 61% of its tramway network, against 3-4% in Europe. In Europe, many rivaling systems next to overhead wire traction had subsisted. Tramway companies and municipalities awaited the results of the different modes before transforming their networks massively.³⁷ Only after 1893, electrification in Europe accelerated. By the turn of the century, Germany had electrified 91% of its tramway mileage, France 44% and Great Britain 38%. In the US, electric tramways made 97.5% of total tramway mileage.³⁸

Many economic advantages underlay the relatively rapid electrification of tramways. Electric motors were cleaner, quieter and more reliable than animals. Compared to steam engines, electric motors were much smaller for the same power, they performed better and enabled to start and stop much easier. A faster service also meant that the expensive rolling stock could be used more intensively. This, in turn, led to lower fares and thus more customers. The powerful electric traction also allowed larger, more comfortable cars. In comparison with horsecars, profitability doubled. Some companies generated profit margins of up to 60%. In terms of economic performance, tramway companies in general also outclassed light rail operators.³⁹

However, electrification required massive capital, to the point that electric utilities belonged to the most capital intensive industries prior to WW1. Before the first tram could even ride, huge amounts of investments had to be done. The owners of small-scale companies operating modest horse-drawn tramway networks (5-10 km) could not raise

³⁶ Hausman, Hertner, and Wilkins, *Global Electrification*, 17.

³⁷ McKay, *Tramways*, 70-73.

³⁸ For the US and Germany, see: Hausman, Hertner, and Wilkins, *Global Electrification*, 17; For France, see: Dominique Larroque, "L'expansion des tramways urbains en France avant la Première Guerre Mondiale," *Histoire, économie et société* 9, no. 1 (1990): 162. For Great-Britain, see: McKay, *Tramways*, 72-73. Hausman et. al. provides alternative figures (59%) for Great-Britain, but McKay's explanations seem more reliable.

³⁹ Brion and Moreau, *Tractebel*, 102-04; Wolkowitsch, "Siècle."

this capital. Only large public companies and holdings were able to finance this transformation.⁴⁰

In this context of higher returns and high capital needs, Empain had enough incentives to invest in tramways too. Commanding a considerable amount of capital (see Fig. 11 above), he could easily gather the necessary funds and technical expertise to secure a strong position in the market of electric tramways. Empain decided to step in by the mid-1890s, because the first operational results of electric traction had shown the increased profitability. For the Empain group, the higher expected returns were also a way to compensate for the poor performance of the light railways. Many other financial groups in Belgium and Europe saw the opportunity too. Almost simultaneously, they founded specialized electroholdings, e.g. *SGBEE* (est. 1895), the *CMT* (est. 1895), *Compagnie générale de traction* (est. 1896) and *Sofina* (est. 1898).⁴¹ Not only large German, French, Swiss and Belgian banks were behind these electroholdings, but also electrical manufacturers. The largest players on the French urban transport market all had their origins in manufacturing. By diversifying to electric utilities, the Empain group had to compete against powerful new players, which were absent in the light railway sector.⁴²

Table 2 Evolution of the rail network of the Empain group, in km (1894-1914)⁴³

	1893/4	1904	1914
Railways	708	2179	3000
Railways (elec.)	0	17	126
Tramways	39	51	67
Tramways (elec.)	0	328	596

The Empain group was certainly not the first Belgian or French group to electrify a network, rather a closer follower. Like the large financial groups, the Empain had waited until the new technology started to prove its worth. Moreover, Empain could hardly pioneer in the electrification in Belgium and France, because he did not possess many horse-drawn lines to electrify, unlike some of his competitors. Except for one, all networks of the Empain group were serviced by steam engines. The lines crossed suburban and rural areas, where steam power was convenient and not contested. The business group had been operating only one horsecar system since 1881. The short line (3 km) in Boulogne-sur-Mer was barely profitable and the *Voie étroite* had repeatedly tried to sell it.⁴⁴ Three other light rail lines in Liège, Brussels and Bayonne could be assimilated

⁴⁰ Hausman, Hertner, and Wilkins, *Global Electrification*, 19-22; Wolkowitsch, “Siècle.”

⁴¹ Brion and Moreau, *Tractebel*, 27-33.

⁴² Hausman, Hertner, and Wilkins, *Global Electrification*, 91-104.

⁴³ Sources are the same as for Fig. 12

⁴⁴ “Voie étroite: Rapport du CA à l’AGO,” *Supplément MIM*, 17 Oct 1888; “Voie étroite: Rapport du CA à l’AGO,” *Supplément MIM*, 17 Oct 1888.

to urban tramways because they crossed densely populated areas. As a result, at the beginning of the year 1894, only 39 km (5%) counted as (semi-)urban tramway network versus 708 km of light rail track (see Table 2). These tramways had been acquired or constructed when electrification was not yet on the agenda.

In contrast, from 1894 the group quickly accumulated electrifiable networks of which the economic performance could be improved. Within a year's time, Empain frenetically scouted for good opportunities. By December 1894, he had taken decisive steps in Boulogne-sur-Mer, Cairo and Lille. Nevertheless, this first year also involved some less successful ventures in Brussels, Belgrade and Paris. While his proposition to install an experimental cable system linking the upper and lower part of Brussels' city center was rejected, Empain managed to buy the partially electrified network of Belgrade (Serbia).⁴⁵ As a consequence, the *Tramways de la ville de Belgrade* was the first electric utility the Empain group operated. Yet, the competing CMT acquired the lighting concession and power station.⁴⁶ Without the synergy of the lighting and tramway concession, the heavily indebted business was not profitable. Empain preferred to get rid of the tramway network. As early as October 1895, he proposed a takeover to Edouard Otlet.⁴⁷ Without any further electrification of the network, Empain finally sold it to the CMT three years later.⁴⁸ In the spring of 1894, Empain also tried to get a foothold in the Paris tramway sector. The group founded the *Société parisienne de tramways intercommunaux* that pursued two electric tramway concessions in the Paris banlieue in particular.⁴⁹ Later on both attempts failed due to fierce competition.⁵⁰

Despite these initial difficulties inherent to diversification, the Empain group somehow predictably forced a breakthrough in the sole horse-drawn tramway it already owned. After many years' negotiations, the *Voie étroite* and the municipality of Boulogne-sur-Mer reached an agreement in May 1894 on important extensions. The new line connecting the upper and lower part of the town had to be electrified, for horses could not pull the tram up the steep slope.⁵¹ In other cities too, hilly terrain was one of the reasons to opt for electric traction.⁵² The Boulogne-sur-Mer project included the

⁴⁵ "Tramway à traction par câble," *Journal de Bruxelles*, 11 Nov 1893.

⁴⁶ "Tramways de la ville de Belgrade: Modifications aux statuts," no. 2464, *AMB*, 4 Oct 1894; "Tramways de la ville de Belgrade: Statuts," no. 1878, *AMB*, 6 Jul 1894.

⁴⁷ Otlet to Union des Tramways, 31 Oct 1895, 35, Archives économiques Otlet, ARA

⁴⁸ See also Kostov, "Capital," 26.

⁴⁹ From the Place de la République to Romainville on the one hand and to Fontenay-sous-Bois on the other hand. "Société parisienne de tramways intercommunaux," *Paris-capital: journal financier*, 27 Jun 1894.

⁵⁰ Henri Zuber, Sheila Hallsted-Baumert, and Claude Berton, *Guide des sources de l'histoire des transports publics urbains à Paris et en Ile-de-France (XIXe-XXe siècles)* (Paris: Presses de la Sorbonne, 1998), 185.

⁵¹ "Voie étroite: Rapport du CA à l'AGO," *Supplément MIM*, 17 Oct 1894.

⁵² McKay, *Tramways*, 54.

construction of a power station in the city. This was the first power plant the Empain group built. Due to disagreements with the authorities, the transformation was only completed in 1898.⁵³

Two other major opportunities succeeded too in 1894. First, Edouard Empain and the Belgian *Chemins de fer économiques* received the concession for a large tramway system in Cairo, to be electrified from the start.⁵⁴ Second, the Empain group acquired the horse-drawn tramway lines of the *Tramways du Département du Nord* in Lille, with the explicit aim to electrify it.⁵⁵ Concrete plans to electrify the existing network of *Bruxelles-Ixelles-Boendael* and to construct electric lines in Astrakhan, Russia followed two years later.⁵⁶

As mentioned before, the overhead wire system did not immediately convince all municipalities and tramway companies in Europe. In 1896, the holding company *Réunis* was of the firm opinion that traction technologies based on “overhead wires or batteries, dry steam, gas and compressed air [were] competing with nearly equal chances of success.”⁵⁷ Therefore, the Empain group bet on different modes of electric traction such as accumulators, the surface-contact system and the overhead wire. Although the overhead wire was the most cost-efficient, many municipalities privileged esthetic solutions that did not need drastic infrastructure works. Tramway companies had to yield to the preferences of the city councilors. That is why, on the one hand, the *Compagnie des Tramways électriques Nord-Parisiens* employed the normal overhead wire in the Parisian suburbs but switched to the surface-contact system (Claret-Vuilleumier) once the tram entered the Paris municipality.⁵⁸ On the other hand, the Empain group received the concession of the electric tramway in Ghent precisely because it could offer an alternative to the overhead wire, considered too ugly by the local city council. The *Voie étroite* and the *RELSE* had experience with another, more esthetic traction system. In June 1897, they had just equipped part of their urban network in Ostend with engines powered by on-board accumulators. A demonstration in Ostend convinced the Ghent bench of Mayor and

⁵³ “Voie étroite: Rapport du CA à l’AGO,” *Supplément MIM*, 16 Oct 1895; “Voie étroite: Rapport du CA à l’AGO,” *Supplément MIM*, 19 Oct 1898.

⁵⁴ Meeting of 13 Nov 1894, *Chemins de fer économiques*, Minutes of the Board of directors, *Electrobel*, I 30/4327, ARA2.

⁵⁵ The company changed its name to *Tramways électriques de Lille et de sa banlieue (TELB)* in 1901. “Tramways du département du Nord,” *Paris-capital: journal financier*, 5 Dec 1894.

⁵⁶ KMMA, HA.02.01.291; “Voie étroite: Rapport du CA à l’AGO,” *Supplément MIM*, 21 Oct 1896.

⁵⁷ “l’électricité par câbles ou par accumulateurs, la vapeur sèche, le gaz et l’air comprimé se disputent le terrain avec des chances presque égales de succès”, “Réunis: Rapport du CA à l’AGO,” *Supplément MIM*, 24 Mar 1896.

⁵⁸ The surface-contact systems such as Claret-Vuilleumier and Diatto were widely used in Paris. For more details, see McKay, *Tramways*, 98-99.

Aldermen.⁵⁹ However, by 1900, the accumulator system had frequently proven its deficiencies. The accumulators, produced by *Electricité et Hydraulique (E&H)*, were not powerful enough, often leading to breakdowns.⁶⁰ Realizing that it had been too ambitious, the *Tramways électriques de Gand* repeatedly requested the city to apply the trolley system everywhere. The municipality was not amused. After a long period of hesitation, the city council agreed to issue a new call for tenders, which the *Tramways de Gand* only won after it had offered better conditions for the city.⁶¹

Table 3 Tramway networks operated by the Empain group worldwide in chronological order⁶²

Last operating company	Location	Operation period	length in 1914 (km)
<i>RELSE & Tramway de Cointe</i>	Liège, BE	1881-1914	21
<i>Twys électriques de Boulogne-sur-Mer</i>	Boulogne, FR	1881-1914	19
<i>Twys Bruxellois*</i>	Brussels, BE	1884-1914	152
<i>Twys électriques de Gand</i>	Ghent, BE	1886-1914	54°
<i>Twys électriques du Pays de Charleroi</i>	Charleroi, BE	1887-1914	74°
<i>Chemins de fer de Pau-Oloron-Mauléon et Twys de Bayonne à Biarritz</i>	Pyrénées-Atl., FR	1888-1911	193°
<i>Twys électriques de Lille et banlieue</i>	Lille, FR	1895-1914	102
<i>Twys de Kischinew</i>	Chişinău, RU	1895-1914	15
<i>Twys du Caire</i>	Cairo, EG	1896-1914	53
<i>Twys de Berditcheff</i>	Berdichev, RU	1897-1914	3
<i>Twys de Taschkent</i>	Tashkent, RU	1899-1914	19
<i>Twys électriques en Espagne</i>	Madrid, ES	1899-1914	77
<i>Chemin de fer métropolitain de Paris</i>	Paris, FR	1900-1914	78
<i>Twys de Paris et de la Seine (TPDS)*</i>	Paris, FR	1900-1914	268
<i>Twys d'Astrakhan</i>	Astrakhan, RU	1900-1914	24
<i>Twys et éclairage électriques de Damas*</i>	Damascus, Ottoman Empire	1907-1914	7
<i>Electric Railways Heliopolis Oasis Co.</i>	Cairo, EG	1908-1914	27
<i>Twys de Nantes</i>	Nantes, FR	1910-1914	38

⁵⁹ Raymond Vancraeynest, *De tram maakte de kust: Geschiedenis van de kusttramlijnen (1885-1985)* (Oostende: Van Craeynest, 1985), 68.

⁶⁰ "Revue financière de la semaine," *L'Indépendance Belge*, 1 Aug 1904; Erik De Keukeleire, *Uitbouw stedelijk tramnet en buurtspoorwegen in de Gentse regio: 135 jaar openbaar vervoer in Gent*, vol. 1 (1870-1907) (S.l.: S.n., 2005).

⁶¹ Joseph Delmelle, *Histoire des tramways et vicinaux belges* (Brussels: Legrain, 1981), 58.

⁶² *= only partially controlled, °= including light rail. Source: same as for Fig. 12

A decade after opening up a new branch of investments, the group already possessed a total of 379 km of tramway mileage, of which 87% was immediately constructed or transformed to electric traction (see Table 2). This shows that the Empain group had made a huge leap in ten years, almost exclusively investing in those tramways that could be electrified. The electrification efforts were far better than the average of 44% in France for 1900 (see above). Before the First World War, the Empain group had acquired a strong position in the tramway sector. Table 3 shows that it was present in 16 cities worldwide. In Belgium it controlled –partially or fully– more than 30% of total tramway mileage. In the much larger French market, Empain still controlled 13% of tramway mileage.

However, the diversification into profitable electric tramways did not mark the end of the other railroad activities. Instead of divesting, the Empain group had kept developing its light railways and heavy railroad networks, motivated by economies of scale (see the previous section). Between 1894 and 1914, it had tripled the total mileage of rail track. Light and heavy rail still accounted for more than 85% of the total mileage. Electric traction only formed 1% of the total. These were some 17 km of vicinal lines in the suburbs of Charleroi, that could be assimilated to passenger tramways.⁶³ Another ten years later, the electrification of the rail network had increased from 13 to 19%, but this can be largely attributed to the sustained electrification of the group's tramways (90% electrified), while only 4% of the railways had undergone the same transformation.

What can explain this discrepancy? Light rail was steam-powered, so the benefits of electric traction were proportionally smaller, despite a higher efficiency than steam traction. Electrification of light rail networks only became a real executable option after 1910, and at that time most of the networks were already extended. Electrifying such long distances came at a very high cost and the extremely low current returns could not justify these exorbitant expenses.⁶⁴ Priority was given to the busiest lines in densely populated areas and in very hilly regions. Within the Empain group, this came down to the already mentioned vicinal lines in Charleroi, the lines from Valenciennes to its suburbs and to the central strip of the touristic Belgian Coast.⁶⁵

⁶³ Davies, *Vicinal*.

⁶⁴ Lanthier, "Constructions," 181-2.

⁶⁵ Econord: Rapport du CA à l'AGO, 11 May 1914, 65AQE518, ANMT; Tramways Electriques du Pays de Charleroi: Rapport du CA, 11 Mar 1915, *Stads- en streekvervoer 1842-2003*, I 644/2142, ARA; Chemin de fer électrique d'Ostende-Blankenberghe et extensions: Rapport du CA à l'AGO, 1 Apr 1909, 65AQE541, ANMT.

2.3 Powering cities, transport and industry (1903-...)

The electrification of tramways strongly pushed the Empain group to diversify into the production of electricity. The decision to invest in electric tramways forced the Empain group to overthink its sectoral strategy. Its new position as an electricity consumer eventually sparked a whole process of vertical integration, from power production to electrical manufacturing. The output of the power plants and workshops was intended for the use of its own operating companies. However, only large-scale production was cost-effective. The group's demand for electricity was not enough to allow this. Therefore, the power plants needed to find other energy consumers. They came into conflict with the gas industry. To compete with gas producers, the Empain group diversified into the gas industry as well. Finally, the group also tried to secure its own fuel supplies by prospecting for coal. This section discusses the economic reasons behind the diversification into electricity and gas production as well as coal mining.

The group's diversification into electric power supply was a textbook example of backward vertical integration when sufficient inputs were lacking. From the mid-1890s, the need for electricity rapidly increased. As soon as the electric tramway rode the streets of Cairo in 1896, the Empain group had become an electricity consumer too. At the turn of the century, the Empain group already had to power some 300 km of electrified tracks. The options for the Empain group were limited: Buy electric power elsewhere or internalize its production. Before the electrification of urban transport, most cities did not have substantial power stations, perhaps except for a small facility for public lighting.⁶⁶ Finding a cheap external electricity supplier was therefore very hard. Only in Paris, where several electricity producers competed, could the *Cie des Tramways électriques Nord-Parisiens* procure its power from *Le Triphasé*. Due to the abundant supply, this was cheaper than investing in a proper power station.⁶⁷ In other cities, Empain's tramway companies had to produce the necessary electricity themselves. Their small production facilities in e.g. Cairo, Boulogne, Ixelles and Ghent generated just enough current for the needs of the tramway service. However, even for small power stations, the investment costs were high. The companies needed to provide a sufficiently large capacity, for tramways had a very irregular power consumption with high peaks during rush hours. At other times, the power stations would practically be idle.

The solution to this inefficiency was to find other customers to maximally exploit the capacity of the power stations. The more customers, the larger the power stations, the lower the production costs of electricity could be. For this reason, whenever possible, the

⁶⁶ Hausman, Hertner, and Wilkins, *Global Electrification*, 14, 58.

⁶⁷ Tramways électriques Nord-Parisiens: AGO, 25 Jun 1903, 65AQ-Q513, ANMT.

Empain group always demanded a concession for public lighting when it operated a tramway somewhere. By day the power station could supply the tramway and by night it could light the streets. This synergy was vital to some companies. For instance, the failure to combine both activities determined the decision to sell the *Tramways de la ville de Belgrade*.⁶⁸ When the *Tramways électriques de Lille et de sa banlieue (TELB)* finally obtained permission to electrify its network in 1900, the management conceived a power station with a capacity of 2600 kW (later even 3500 kW) much larger than necessary for its own consumption (1500 kW at the most). It anticipated future extensions of the tramway lines, but also intended to sell the exceeding power to industrial users in the region. Soon after the *TELB* started selling in 1905, a competing electricity producer in Lille sued them. The judge had their production shut down temporarily because they were legally restricted to produce for the tramway company.⁶⁹ Everything considered the sale of electricity by electric tramway companies remained modest. After the legalization of its situation, it only accounted for 4% of the *TELB*'s total gross revenue.⁷⁰

As the following paragraphs show, only independent electricity producers could fundamentally transform the sector. The inauguration of the Paris Métro was the event that triggered the construction of the first multi-purpose power station in France. In 1898, the Métro's strategy to secure electric power supply did not deviate from the one followed by the other transport companies. The directors of the *Compagnie du chemin de fer métropolitain de Paris (CMP)* could obviously foresee that the Métro would be a large consumer of electricity. Therefore, the plans included the construction of a large power station along the Seine. As new lines were opened, the plant at Quai de la Rapée had to expand. Between 1899 and 1902, the capacity had increased to 6000 kW and afterward another 8400 kW was added.⁷¹ In early 1903, however, the fast-growing *CMP* expected to need an additional 18,000 kW within a few years. The current location, right in the city center, had limited room for such a substantial expansion. Based on these two facts, Empain's French holding *Parisienne Electrique* decided to change its strategy.⁷² By establishing the stand-alone *Société d'Électricité de Paris (SEP)*, the *Parisienne Electrique* split off the production of electricity from the transport companies. An independent specialized firm such as the *SEP* could produce at a much larger scale and conclude contracts with both the *Métropolitain* and other industrial customers such as tramway companies (e.g. *Cie des Tramways électriques Nord-Parisiens* from 1907) and factories.

⁶⁸ The *CMT* pursued the same strategy all over Eastern Europe, for instance in Belgrade where lighting accounted for half of the revenue. see Brion and Moreau, *Tractebel*, 128.

⁶⁹ "De la vente de l'énergie électrique," *Revue Industrielle*, 13 Feb 1909; Lanthier, "Stratégies," 242.

⁷⁰ Lanthier, "Constructions," 151.

⁷¹ Suzor, *Empain en France*, 161.

⁷² Meeting of 1 Apr 1903, *Parisienne Électrique*, Minutes of the Board of directors, SPIE.

Between 1903 and 1905, the SEP constructed one of the most modern power stations in the world and the largest of France.⁷³ From the start, the station counted 4 turbines of 5000 to 6000 kW each, instead of the usual 1000 kW. Situated on large terrains near the Seine in Saint-Denis, the northern banlieue, the SEP had many possibilities to expand. The initial capacity was 24,000 kW, but by 1914 it had tripled to 72,000 kW.⁷⁴

In Belgium, the same evolution towards large-scale multi-purpose power stations took place, almost simultaneously. In 1901, the most important electroholdings, the Empain group included, jointly founded the *Société intercommunale belge d'électricité (Intercom)*. Under the leadership of the SGBEE, *Banque de Bruxelles* and *Paribas*, *Intercom* had to study the potential of electricity distribution on a regional scale. Instead of supplying one town, power stations should increasingly supply a wider area via their own distribution network. This had become possible thanks to recent technological innovations. Transporting electricity over longer distances was far more efficient at a high voltage and using alternating current instead of direct current. In the region of Charleroi, *Intercom* controlled the first company with a regional scope producing alternating current at a high voltage, the *Société d'Électricité du Bassin de Charleroi* (est. 1901).⁷⁵ The Empain group had a small block of shares in both *Intercom* and its subsidiary and delegated one of its executives to both boards of directors.

After 1903, this executive resigned from the board because the Empain group had plans to produce electricity itself. The new strategy in Paris and the takeover of the *Ateliers de constructions électriques de Charleroi (ACEC)* in July 1904 (see below) encouraged Empain to invest in Belgian power plants too. The new power stations could become the first customers of ACEC, an electrical engineering company. In the fall of that year, the Empain group founded the *Électricité du Pays de Liège* and the *Société bruxelloise d'électricité*. Together with the business group of Raoul Warocqué, Empain also set up the *Société d'électricité du Hainaut* and took over the *Compagnie d'Électricité de Seraing*.⁷⁶

On the eve of the Great War, the Empain group had become a major player on the Belgian and French electricity market. In Belgium, the cooperation of the Belgian holding companies in the early 1900s had made way for fierce competition. The group of SGBEE-

⁷³ Alain Beltran, *La ville-Lumière et la fée électricité: Service public et entreprises privées: L'énergie électrique dans la région parisienne* (Paris: Rive droite, 2002), 355–60.

⁷⁴ "Parisienne Electrique: Rapport du CA à l'AGO," *Supplément MIM*, 30 May 1905; Suzor, *Empain en France*, 204; Henri Vigneron, *La science et l'industrie en 1913* (Paris: L. Geisler, 1914); Beltran, *Ville-Lumière*.

⁷⁵ Hausman, Hertner, and Wilkins, *Global Electrification*, 14; Brion and Moreau, *Tractebel*, 145.

⁷⁶ Gaston Vandewalle, "De rol van de openbare en privé-sektor in de produktie en distributie van elektriciteit in België sedert het begin van de 20e eeuw tot heden," *Driemaandelijks tijdschrift van het Gemeentekrediet van België*, no. 139 (1982): 48; "Société d'Electricité du Pays de Liège: Constitution," no. 5086, *AMB*, 21 Oct 1904; "Société bruxelloise d'électricité: Constitution," no. 56, *AMB*, 4 Jan 1905; "Electricité du Hainaut: Constitution," no. 4490, *AMB*, 10 Sep 1904.

Intercom and the *Société Générale de Belgique* were its most important competitors. *Intercom* controlled electricity companies in the provinces of Hainaut (*Bassin de Charleroi*, 1901, *Borinage*, 1903), Brabant (*Louvain*, 1908) Antwerp (*Nord de la Belgique*, 1909), Liège (*Est de la Belgique*, 1910) and West Flanders (*Ouest de la Belgique*, 1911). The *Société Générale* followed by constructing large units in Antwerp (1905) and East Flanders (1911).⁷⁷

Table 4 Electricity production in Belgium before WW1⁷⁸

Producer	Installed capacity (1000 kW, 1914)	Production (million kWh, 1913)
Empain group (total)	49	57
<i>Bruxelloise d'électricité</i>	10	7.5
<i>Électricité du Pays de Liège</i>	12	14
<i>Gaz et Électricité du Hainaut</i>	20.5	35.5
<i>Cdf élec. Ostende-Blankenberghe</i>	6	?
<i>Tramways électriques de Gand</i>	0.6	?
Other private producers	65	83
Municipal power plants	14	28
Self-producing industry	434	1302
GRAND TOTAL	562	1470

Empain, *SGBEE-Intercom* and the *Société Générale* owned the largest power stations in Belgium. The Empain group alone controlled 48,500 kW or 40% of the total capacity installed by private producers (see Table 4). Similarly, it had a share of over 40% in the market of private electricity production. To whom did the Empain group sell their product? Evidently, the group's tramway companies became privileged clients. Technological innovation, however, had realized a whole set of new applications for electricity in industry and even households. Due to the large-scale power stations, the price in Belgium also dropped from 0.4 franc to 0.14 franc per kWh between 1904 and 1914. This resulted in a steeply rising demand.⁷⁹ The Belgian private suppliers responded by multiplying the production from 3.2 million kWh in 1904 to 140 million kWh ten years later.⁸⁰ However, from Table 4 we can also conclude that this market could have been much bigger. The majority of industrial firms produced their energy themselves. The heavy industry such as mining and metallurgy particularly needed a very large quantity

⁷⁷ Vandewalle, "Rol," 47-50.

⁷⁸ Source: For Empain companies: Annual reports & *Recueil Financier* 1904-1915, for the aggregate numbers: Ginette Kurgan-Van Hentenryk, "Honderd jaar elektriciteitsdistributie in België," *Elektriciteit*, no. 185 (1987): 5.

⁷⁹ This is related to the price elasticity of demand for electricity. The price of electric power dropped to an extent that it became an interesting substitute for other sources of energy such as gas.

⁸⁰ Brion and Moreau, *Tractebel*, 152.

of driving power. As private producers could not meet this ever-increasing demand and/or asked a high price, the industry thus had a good reason to integrate electricity production and become ‘self-producing’.⁸¹

Table 5 Electricity production by the Empain group in France (1915)⁸²

Producer	Power station	Installed capacity (1000 kW)	Production (million kWh, 1913/14)
Empain group (total)		159	
<i>CMP</i>	Bercy	11.4	
<i>SEP</i>	Saint-Denis I	72	145.4 ⁸³
<i>EGN</i>	Jeumont	18.4	28.3 ⁸⁴
<i>EGN</i>	Lomme	16.5	
<i>SNE</i>	Chantenay	17.5	14.6 ⁸⁵
<i>SERVA</i>	Valenciennes	20	
<i>TELB</i>	Lille	3.5	
Other thermic power producers		384	
Hydroelectric power producers		368	
GRAND TOTAL		911	1800

The French electricity market before the First World War was different from the Belgian one, although the heavy industry in France also largely produced its own electricity.⁸⁶ Despite the potential size of the market, the French total production was only 22% bigger than the Belgian (see Table 5). This is the result of the relatively slow development of electricity in France. Compared to Belgium, the French market was not mature at all: for the year 1913 the per capita production was about 43 kWh per Frenchman as opposed to 192 kWh for a Belgian inhabitant.⁸⁷ A distinguishing characteristic of France is also the importance of hydroelectric power. As mentioned before, Empain did not invest in this

⁸¹ M. De Schampheleire, “De elektriciteitsvoorziening,” in *Industriële revoluties in de provincie Antwerpen*, ed. Roland Baetens (Antwerp: Standaard, 1984), 425; Steven De Jonge, “De elektriciteitssector in België: Van gemeentelijk tot partikulier monopolie? De totstandkoming van de wet op de elektriciteitsvoorziening van 10 maart 1925,” *BTNG-RBHC* 16, no. 3-4 (1985): 360-61.

⁸² For France, the national figures are probably large underestimates, for they only include large producers. They should be used cautiously but remain useful to discern specific trends. Adapted from Suzor, *Empain en France*, 204; François Caron et al., *Histoire générale de l’électricité en France*, vol. 1: Espoirs et conquêtes 1881-1918 (Paris: Fayard, 1991), 626.

⁸³ “La Société d’Électricité de Paris,” *Le Monde Illustré*, 11 Mar 1922.

⁸⁴ “La Société Électricité et Gaz du Nord,” *Le Monde Illustré*, 24 Jun 1922.

⁸⁵ René Brion, “Le contrôle par les holdings électriques belges de la Compagnie Auxiliaire d’Électricité de Nantes,” in *Electricité et électrification dans le monde: Actes du deuxième colloque international d’histoire de l’électricité*, ed. Monique Trédé (Paris: Presses Universitaires de France, 1992), 329.

⁸⁶ Lanthier, “Constructions,” 231-32.

⁸⁷ Own calculations based on Table 4 and Table 5

type of power generation, concentrated in the southeast of the country. Nevertheless, the business group occupied a strong position in the national market and especially among the thermic power producers. It controlled 17% of total installed capacity and even 29% of the total capacity of thermic power stations.

The diversification of the Empain group into gas was a way of breaking open the market of lighting and power. Due to the backward integration of the Empain group of electric power supply, it had entered the rather closed energy market. In Belgium and France, the gas industry closely and critically watched the expansion of electricity. This is because electricity is a substitute good of gas. For a very long time, the gas producers had dominated this sector. Especially in Belgium and Northern France, gas companies had been supplying cities, industry and households since the 1860s for lighting and power. Different from natural gas, the 'coal gas' or 'town gas' was produced by heating coal in a vacuum and then distributed to households and factories. The vested interests of the gas industry felt threatened by the arrival of electricity producers and tried to stop them at any cost. Many of the companies possessed profitable gas factories and lighting concessions. Their long-term monopolies and distribution rights hampered the development of electricity production in the same region. Therefore, the Belgian and French electroholdings pursued a diversification strategy via two methods: acquisitions and mergers. On the one hand, they could take over the gas factories and concessions to make sure that competition would not oppose the expansion of their electricity business. This is what the *Ateliers de constructions électriques du Nord et de l'Est (ACENE)* has done in the area around Jeumont, where she wanted to sell the surplus production of its power station. Because the sale of both electricity and gas kept increasing, *ACENE* split off these activities and transferred it to a new firm, the *Électricité et Gaz du Nord (EGN, est. 1910)*.⁸⁸ On the other hand, the electroholdings could ask gas holding companies to join their electricity business. On several occasions, the gas companies welcomed this opportunity that allowed them to diversify their interests.⁸⁹

The Empain group made its first steps in the gas industry by pursuing an acquisition strategy. In 1904, it had already founded a first electricity company in Hainaut, together with the local captain of industry Raoul Warocqué (*Electricité du Hainaut*). This formed the basis of an intense collaboration between both business groups. Warocqué was a very prominent owner of coal mines and, to a lesser extent, power stations in the province of

⁸⁸ "Ateliers de construction du Nord et de l'Est," *Le Capitaliste : journal de la banque parisienne*, 16 Jun 1910.

⁸⁹ Serge Paquier and Jean-Pierre Williot, *L'industrie du gaz en Europe aux XIXe-XXe siècles: L'innovation entre marchés privés et collectivités publiques*, vol. 20 (Brussels: Peter Lang, 2005), 56.

Hainaut.⁹⁰ In order to allow their joint venture to expand, in November 1905, the Empain group proposed Warocqué to jointly acquire all gas factories and concessions from the *Société d'Éclairage du Centre* and bring them into their *Électricité du Hainaut*.⁹¹ As a result, the energy company changed its name to *Gaz et Électricité du Hainaut*. Instead of competing with the local historical gas company *Eclairage du Centre*, Empain and Warocqué preferred to start producing city gas themselves. As a coal mine owner, both the gas and electricity business could mean a lot for Warocqué. On the one hand, Warocqué could lay his hands on cheap coal, the raw material necessary to produce the town gas. On the other hand, these coal mines needed the electricity produced by the *Gaz et Électricité du Hainaut*, because the extraction process required a lot of power.

A few years later, the Empain group pursued the strategy of merging with gas competitors by founding two joint ventures with the *Compagnie générale pour l'éclairage et le chauffage par le gaz*. In both cases, Empain threatened to start supplying electricity on a large scale in the Belgian-French border region where the gas company had old lighting concessions. The two groups preferred cooperation over competition, resulting in the establishment of the *Eclairage, chauffage et force motrice de Tournai et extensions* (est. 1910) and the *Société d'Électricité de la région de Valenciennes-Anzin* (SERVA, est. 1913).⁹²

However, the expansion into the gas industry was not merely a way of limiting the competition for electricity production. The Empain group still believed in the potential of gas as an energy source. The gas sector continued growing, as more and more municipalities granted concessions.⁹³ Empain's gas companies tried to keep pace with the growing demand and increase output. The EGN explicitly pursued a strategy of expansion and technical innovation. By unifying independent gas factories and centralizing the management, the company wanted to create economies of scale. In Belgium too, the production sites generally became more powerful.⁹⁴ However, the production figures of the *Gaz et Électricité du Hainaut* put the growth of gas in perspective. Whereas its sales of

⁹⁰ Warocqué controlled the *Compagnie auxiliaire d'électricité*. Marcus Wunderlee, "Raoul Warocqué," in *Dictionnaire des patrons en Belgique: les hommes, les entreprises, les réseaux*, ed. Ginette Kurgan-Van Hentenryk, Serge Jaumain, and Valérie Montens (Brussels: De Boeck Université, 1996); *Recueil Financier*, 1907; Vandewalle, "Rol."

⁹¹ At the same time, the Empain holding *Railways&Electricité* took directly control of *Eclairage du Centre*, as the gas company faced financial difficulties. Ed. Empain to Raoul Warocqué, 15 Nov 1905, *Archives de la famille Warocqué*, 205F, MRM; "Eclairage du Centre," *L'Indépendance Belge*, 15 Jan 1906.

⁹² Jean-Louis Moreau, "Investissements transfrontaliers dans le secteur du gaz : Les destins croisés de deux compagnies en France et en Belgique aux XIXe et XXe siècles," *Revue du Nord* 387, no. 4 (2010): 944.

⁹³ Between 1885 and 1912, the number of municipalities with a gas concession had increased from 115 to 368. Franz Dethier, *Aspects économiques de l'industrie du gaz en Belgique* (Brussels: Van Ruys, 1950), 84.

⁹⁴ Meeting of 19 Dec 1911, *Électricité et Gaz du Nord*, Minutes of the Board of directors, *Ex-Sociétés: EGN*, 756628, EDF; Brion and Moreau, *Tractebel*, 90.

gas witnessed an increase of 62% from 6.8 million m³ to 11 million m³ between 1904 and 1913, electricity augmented with an incredible 2450% between 1907 and 1913.⁹⁵

Still following the same reasoning of securing important inputs, the Empain group attempted to integrate the extraction of coal. Given its electricity production and many railroads with steam engine locomotives, the Empain group had grown into a very large consumer of fuel. Apart from the hydroelectric power station supplying the *Tramways et éclairage électriques de Damas*, all production units were coal-fired power plants.⁹⁶ The choice for coal-fired power stations was a deliberate one. The Empain group very much appreciated the stability of their production. Provided that they had a continuous supply of coal, these conventional thermic power stations could quickly respond to fluctuations in demand. In 1913, EGN had considered buying a large volume of power from a hydropower plant on the Rhône. The instability of hydroelectric power production was the main reason why the board of directors abandoned the plan.⁹⁷ Indeed, hydropower was influenced by natural circumstances, but could produce very cheap on some occasions. In contrast, the profit margins of conventional thermic power stations heavily depended on the price of coal. The SEP, the largest of them, consumed no less than 200,000 tons of coal per year.⁹⁸

A potential next step in backward vertical integration was therefore to secure a cheap and stable supply of fuel. Before the First World War, the Empain group controlled several companies situated in the mining districts in Hainaut. When in 1912 optimistic reports appeared about potential ramifications of coal deposits at the French side of the border, the Empain group saw its chance. The EGN, together with ACENE, ACEC and *Gaz et Électricité du Hainaut*, made drillings in the area around La Longueville at the French-Belgian border. Edouard Empain had bought hundreds of hectares of land to develop a huge rolling stock manufacturer there, as will be explained below. He hoped that this new company could exploit the mines as soon as important coal stocks had been found. However, the war stopped the digging before the engineers had reached the layers estimated to be at a depth of 800 m. The Empain group did not resume the digging after the war.⁹⁹ The question remains to what extent this diversification should be taken seriously. Whereas the lack of supply underlay the other backward integration plans, coal mining was a big

⁹⁵ *Recueil Financier*, 1915, 638.

⁹⁶ Brion and Moreau, *Tractebel*, 133.

⁹⁷ Meeting of 24 Jan 1913, *Electricité et Gaz du Nord*, Minutes of the Board of directors, 756628, EDF.

⁹⁸ "La Société d'Électricité de Paris," *Le Monde Illustré*, 11 Mar 1922.

⁹⁹ "Sondages à la frontière franco-belge," *Journal de Charleroi*, 14 Feb 1913; Meeting of 26 Dec 1913, *Electricité et Gaz du Nord*, Minutes of the Shareholders Meetings, *Ex-Sociétés: EGN*, 756628, EDF; "ACEC: Rapport du CA à l'AGO," *MIM*, 30 Apr 1914; "ACENE: Rapport du CA à l'AGO," *Supplément MIM*, 27 May 1914; *Valeurs nouvelles: Société des Forges et ateliers de la Longueville*, 18 Jul 1914, *France économique et financière*, 65AQK274, ANMT; Suzor, *Empain en France*.

market in Belgium. In the past, coal was widely available at competitive prices. Only in 1910 did the national consumption exceed the national production and had coal to be imported.¹⁰⁰ Although this trend continued in the next years, it is difficult to imagine that the Empain group could have immediately responded to the increasing demand. If it had found coal, it is unlikely that it could have extracted it cost-effectively from the start.

2.4 Becoming its own manufacturer (1904-...)

As discussed in the previous sections, the business model of the Empain group in the first decades was constructing and operating railroads and tramways. With the wave of electrification from 1895, the holding companies also started to construct power stations and electrify urban transport. In this position as an operator and general contractor, the business group had to acquire manufactured goods such as rolling stock, rails, electric locomotives, cables and turbines from external producers. In sum, it found itself at the end of the production chain. Historically, the Empain group even owed its existence to the position of equipment buyer. Its long-standing intimate relationship with the manufacturing industry (*La Métallurgique*) had confined the Empain group to the role of railroad operator. For a very long-time, Empain saw no need or possibility to diversify to manufacturing. However, after the turn of the century, the electric revolution and the long economic boom incited the Empain group to break free and become its own supplier in a specific range of products. These supplies could be split into two categories: electrical equipment in the first place and railway equipment in the second place. They are both discussed in the following paragraphs.

Firstly, electrical equipment was a product of the Second Industrial Revolution and belonged to a different universe than that of the typical steam-powered railways. Electrical manufacturing only became a considerable market in the 1890s. By then, several branches of industry had discovered the various applications of electricity. The electric revolution also affected the customer-supplier relationship with *La Métallurgique*, because of the radically different technology. *La Métallurgique* was specialized in steam locomotives and not at all in electric traction. However, the manufacturer and Empain had jointly tried to get a foothold in the sector of electrical engineering at an early

¹⁰⁰ Paul L. Michotte, "L'industrie Belge du charbon," *Annales de géographie* 38, no. 211 (1929): 50.

stage.¹⁰¹ Previous histories of the Empain group have totally neglected this attempt. In 1882, when the commercialization of electricity was still in its infancy, board members and managers of *La Métallurgique* established the *Walter Electric Company*. This was a small joint venture with the American inventor Hugo Walter to exploit his patents outside North America. Walter's inventions of most interest to *La Métallurgique* were an electromagnetic brake and an electric engine for the traction of tramcars. Walter signed a contract to supervise the testing and production of the breaks in Brussels. Soon after Walter's arrival, he successfully tested the new type of brakes at the tracks of Empain's *Valenciennes-Anzin* company.¹⁰² However, Empain and his partners clearly were hoping for more. By having Walter work for them for several years, they wanted to profit from possible future inventions. Yet, the only traces of new inventions are the filing of two patents. First, Walter filed an improvement of his patented electric motor. Together with Empain, he filed a second patent in Belgium and France on improvements of the light bulb.¹⁰³ After two years, he returned to the United States. Walter's innovations came too early, as it was not yet possible to produce and sell them on a large scale. As the ambitions had failed to materialize, Empain finally dissolved the company in 1891.¹⁰⁴

If *La Métallurgique* had successfully innovated in the 1880s, the Empain group would not have been forced to turn to other manufacturers to supply electric equipment. Now, it had to hire specialized electrical engineering companies to electrify its tramway lines. In Cairo, the *Union Electricitäts-Gesellschaft (UEG)* constructed the group's first power station (1894).¹⁰⁵ The Belgian manufacturer *E&H* was commissioned for the electrification of the *Bruxelles-Ixelles-Boendael* tramway (1896), whereas *Siemens & Halske* installed the group's first Russian power station in Astrakhan (1899).¹⁰⁶ Afterward, the *Tramways d'Astrakhan* ordered its first electric locomotive engines at *E&H*.¹⁰⁷ Even when the group's holding company *Russe-française* itself took charge of the construction of the *SEP's* generation station in 1903, it still had to order the turbines at an external company. The turbines

¹⁰¹ Empain was closely involved. The company established its headquarters in the buildings of the Empain group. At the moment of dissolution, Empain was the largest shareholder. "Walter Electric Company: Nomination des administrateurs," no. 1853, *AMB*, 16 Nov 1882; "Liste des membres fondateurs," *Bulletin de la Société belge d'Électriciens* 1 (1884); "Walter Electric Company: Dissolution," no. 1275, *AMB*, 28 May 1891.

¹⁰² Urbin, *Siècle*, 39.

¹⁰³ Belgian patent granted to Hugo Walter, 7 Mar 1883, *Brevets d'invention*, 60672, ARA2; Belgian patent granted to Edouard Empain and Hugo Walter, 31 Mar 1883, *Brevets d'invention*, 60756, ARA2.

¹⁰⁴ "Walter Electric Company: Dissolution," no. 1275, *AMB*, 28 May 1891.

¹⁰⁵ Meeting of 13 Nov 1896, *Tramways du Caire*, Minutes of the Board of directors, *Electrobel*, I 30/5775, ARA2.

¹⁰⁶ Jacqueline Looze, "Julien Dulait et ses entreprises (1878 - 1926)" (Unpublished MA Thesis, Université Libre de Bruxelles, 1971), 35; Meeting of 20 Apr 1899, *Tramways d'Astrakhan*, Minutes of the Board of directors, *Archives of the Empain group*, HA.02.01.314, KMMA.

¹⁰⁷ Meeting of 28 Jan 1901, *Tramways d'Astrakhan*, Minutes of the Board of directors, HA.02.01.314, KMMA.

were constructed by the French subsidiary of the Swiss multinational *Brown-Boveri* with its own patented technology.¹⁰⁸

Along with the expansion of electricity as the energy source of the future for lighting, traction and power other machines, the demand for electrical equipment was growing quickly. Empain must have jealously observed the large German and American electrical engineering companies conquering the market. According to *Global Electrification*, in business history most equipment suppliers including *AEG*, *Westinghouse*, *Siemens* and *General Electric* became electric utility operators. The common rationale for suppliers to construct and sometimes operate so-called “manufacturer’s satellites” was twofold. First, they could increase sales volumes, because the electric utility needed to buy power equipment. Second, the establishment of a power station led to the spread of electricity in that region. It created a new market of electricity consumers buying electric machinery. These equipment suppliers were looking for short-term profits derived from manufacturing, i.e. *Unternehmensgeschäft*, instead of making profit in the long run by operating the utility. They could not afford to tie up a significant amount of capital for decades. Therefore, most manufacturers loosened the ownership ties after the utility was up and running. Anyhow, these utility companies often remained captive customers due to the specificity of the equipment used for the construction. The utilities depended on the patented technology of the electrical engineering companies. In consequence, these could continue to sell their products at a very high margin.¹⁰⁹

Part of the literature confusingly assimilates the diversification strategy of the Empain group to the German electroholdings. It would take minority stakes in foreign electric tramway companies to sell its electrical equipment.¹¹⁰ However, it is rather the contrary. The Empain group had been a utility operator for decades. Its business strategy was more similar to the one adopted by banks and financial holding companies. They made long-term investments aiming at sustained returns in the long run. Since 1894, the Empain group had increasingly invested in electric transport and power stations. Probably, Empain could not stand to watch the high profits flow away to the manufacturers. Perhaps he would have accepted it if it were *La Métallurgique*, but not the competing electrical engineering multinationals.

Similar to the integrated electroholdings, Empain aimed to create lucrative synergies between construction, operation and manufacturing. This backward vertical integration from operator to manufacturer was rather unconventional. The Empain group moved in the opposite direction of what was typical behavior according to *Global electrification*. The Empain group was an operator of electric utilities starting to manufacture for its own use.

¹⁰⁸ Lanthier, “Stratégies,” 242.

¹⁰⁹ Hausman, Hertner, and Wilkins, *Global Electrification*, 42-45.

¹¹⁰ Hennart, “Transaction-Cost,” 72.

Unlike the electrical engineering companies, Empain simultaneously had the ambition and the ability to tie up capital for a longer period and keep managing the operating companies.

So where and how did Empain become its own supplier of electrical equipment? In 1904, Empain seized an opportunity to take over a large production facility in Charleroi (Belgium) with a branch in Jeumont, right across the French border. It could perfectly supply Belgium and France, the two markets were most of the group's electric utilities were situated. However, the Belgian market was very competitive. The German electrical companies such as *AEG* and *Siemens* occupied a very strong position. Due to their connections with German big banks, they could offer very generous terms of payment and low prices. In contrast, Belgian electrical firms were small and traditionally managed and could hardly win this price war.¹¹¹ To do so, the Belgian electrical industry needed massive capital investments. However, until 1914 the Empain group was the only large Belgian financial group to massively invest in the sector. Some other very important holding companies such as *Sofina*, *SGBEE* and the *Chemins de fer économiques* had strong ties with the German industry and were less keen to follow Empain's example.¹¹²

To be able to successfully compete with the established foreign manufacturers, Empain needed to produce on a large scale from the start. This became possible in the spring of 1904. One of Belgium's leading electrical manufacturers, *E&H*, had gotten in a difficult financial position due to overstretched ambitions in Russia. The Empain group, which had been a regular customer of *E&H*, took over the ailing firm at a bargain and turned it into a new company, *ACEC*. The former owner Julien Dulait had opened an additional large workshop in Jeumont a few years ago to circumvent French import taxes and supply the French market directly. As mentioned, for Empain this French embeddedness was an incredible asset.¹¹³

To give both workshops the chance to reach a critical scale, Empain provided *ACEC* with sufficient capital and leased the Jeumont factory to the *Parisienne Electrique*. Under Parisian management, the Jeumont branch grew rapidly, thanks to many orders from French and foreign customers outside the group. This motivated the Empain group to split off the Jeumont factory entirely and establish it as an independent firm in 1906. Empain predicted a bright future for *ACENE*, for the company was provided with a capital

¹¹¹ G. Gillon, *La renaissance économique de la Belgique: Fascicule XI : Les industries électriques* (Brussels: Goemaere, 1919); Françoise Nollet, "La trajectoire économique d'une entreprise wallonne: les A.C.E.C." (Unpublished MA Thesis, Université Libre de Bruxelles, 1995), 31; ACEC: Rapport du CA à l'AGO, 26 Apr 1906, *Crédit Lyonnais*, DEEF 41146, CA-CL.

¹¹² Charlent et al., *Origines*, I-12; Brion and Moreau, *Tractebel*, 28-30.

¹¹³ "Ateliers de constructions électriques de Charleroi: Statuts," no. 3899, *AMB*, 22 Jul 1904; Loïc Dupont and Pierre Jouret, *Jeumont, un parcours centenaire (1898-1998)* (Jeumont: Jeumont Industrie, 1998), 7-9.

of 20 million francs. At the same time, its older sister company ACEC had only 5 million francs share capital. However, they cooperated rather closely, certainly in the early years.¹¹⁴ ACEC and *Parisienne Electrique* had signed an agreement in 1904 which reserved the French market for the Jeumont workshops and the Belgian market for ACEC. The profits from orders from third countries were shared.¹¹⁵ In later years, ACEC still particularly supplied the Belgian market as well as Belgian firms abroad.¹¹⁶ ACENE's main market was France, but it also exported a lot. Large orders were often shared, for instance the installation of a high-voltage cable of 30 km.¹¹⁷ Although they were primarily manufacturers, ACEC and ACENE also had to provide an integrated installation service. Many public administrations put out the electrification of their territory via a call for tenders. By this means, foreign manufacturers tried to increase their sales. Winning a tender was another way of ACEC and ACENE to face the competition.¹¹⁸

Their research and development departments (R&D) also shared personnel and studies.¹¹⁹ Neither firm invested massively in R&D. They completed their own patents on alternators, a three-phase motor, pumps and hoists with purchased technology. By acquiring specific patents, ACEC and ACENE could specialize in particular domains such as electric machines for mines (Ilgner), pumps (Rateau) and electric traction (the multiple-unit train control system of Sprague). If they did not possess the necessary technology, they were not afraid to cooperate with other firms that were technically more advanced.¹²⁰

In their expansion, both ACEC and ACENE aspired to the model of AEG in Germany. The directors justified their investment plans in the communication to the shareholders. The major investments had to transform ACEC and ACENE into a “complete and autonomous industrial complex comparable to similar large organizations abroad.”¹²¹ Most of the

¹¹⁴ From the start, ACEC and ACENE also had two board members in common. The chairman of ACENE Roch Boulvin and the managing director of ACEC Georges Theunis were both key figures in the Empain group. *Recueil Financier*, 1908; *Recueil Financier*, 1915.

¹¹⁵ Meeting of 19 Apr 1905, *Parisienne Électrique*, Minutes of the Board of directors, SPIE.

¹¹⁶ “L’industrie électrique en Belgique,” *Lloyd anversois*, 11 Dec 1918.

¹¹⁷ ACEC: Rapport du CA à l’AGO, 29 Apr 1909, *Crédit Lyonnais*, DEEF 41146, CA-CL; “ACENE: Rapport du CA à l’AGO,” *L’Information*, 11 May 1909.

¹¹⁸ See also: Lanthier, “Stratégies,” 244.

¹¹⁹ Meeting of 19 Apr 1905, *Parisienne Électrique*, Minutes of the Board of directors, SPIE. See also Dupont and Jouret, *Jeumont*, 18.

¹²⁰ In 1905, the French holding company *Parisienne Electrique* even acquired the *Société française Sprague*, that owned the licenses for inventions of the American in France and continental Europe. Meetings of 3 Jan & 4 Feb 1905, *Parisienne Électrique*, Minutes of the Board of directors, SPIE; “*Parisienne Electrique: Rapport du CA présenté à l’AGO*,” *Supplément MIM*, 30 May 1906; see also Lanthier, “Constructions,” 483-84.

¹²¹ “un ensemble industriel complet et autonome comparable aux grands organismes similaires étrangers”, ACEC: Rapport du CA à l’AGO, 27 Apr 1911, *Crédit Lyonnais*, DEEF 41146, CA-CL.

capital was invested in top-notch machinery and additional specialized workshops. Gradually, both firms depended less on suppliers of finished products by integrating parts of the production process. First of all, *ACENE* added a cable works in 1907, including a copper wire drawing works. As Belgium did not have any of that kind, *ACENE* could supply both the French and Belgian markets. Because of the proximity to the Belgian border and the many Belgian clients within the business group, *ACENE* managed to stand up to the strong German competition in Belgium.¹²² In 1910-11, *ACEC* also built a cable and copper wire works, taking over *ACENE*'s market share. Both cable works also included a plant for tubes and insulating material as well as a rolling mill that all produced cable components.¹²³ Because the irregular supply of metals delayed production, *ACENE*, and later *ACEC*, integrated a bronze and iron smelting facility. *ACENE* quickly started smelting steel too. They produced the metals for internal demand, i.e. the manufacturing of electrical equipment, but not exclusively.

Within a decade, the two electrical equipment manufacturers of the Empain group grew into the largest in Belgium and France in their specific sector. In that period of time, the turnover had increased fivefold to 25 million francs for *ACEC* and 28 million francs for *ACENE* in 1913.¹²⁴ The number of workers was comparable too. On the eve of the First World War, *ACEC* employed nearly 3000 persons, including some 500 engineers and office workers. *ACENE* employed 2200 blue collar workers. This may seem a lot, but it is nothing compared to the German industrial giants. In the same year, *AEG* and *Siemens* both had a turnover of over 500 million francs and a workforce of at least 60,000 persons.¹²⁵ Yet, *ACEC* had become the largest manufacturer in Belgium and twice as large as the second largest, the *Compagnie internationale d'Électricité* from Liège. *ACENE* had also conquered a place among the most important electric manufacturers in France such as *Thomson-Houston* and *Schneider et Cie*.¹²⁶

What can explain the steady growth of both manufacturers? Lanthier advances some arguments in his thesis chapter on *ACENE*. Most of them also hold true for *ACEC*. First of all, both firms could skip the difficult start-up phase typical for industrial enterprises, thanks to the abundant orders they receive from companies within the Empain group.

¹²² Before 1907, Germany dominated the Belgian market for cables. "Belgische Elektrizitätsindustrie," *Berliner Tageblatt*, 24 Jun 1906.

¹²³ "Les ACEC avant, pendant et après la guerre," *A.C.E.C. Revue*, no. 1-2 (1922): 21.

¹²⁴ "ACEC: Rapport du CA à l'AGO," *MIM*, 30 Apr 1914; "ACENE: Rapport du CA à l'AGO," *Supplément MIM*, 27 May 1914.

¹²⁵ "Les ACEC avant, pendant et après la guerre," 2; Dupont and Jouret, *Jeumont*, 19. For *AEG* and *Siemens* figures, see Tōru Takenaka, "Siemens in Japan: von der Landesöffnung bis zum Ersten Weltkrieg," *Zeitschrift für Unternehmensgeschichte*, no. 91 (Suppl.) (1996): 35.

¹²⁶ In 1913, CIE employed some 1000 workers. "La situation des établissements industriels de Liège," *La Meuse*, 14 Mar 1913; Lanthier, "Constructions," 485.

Urban transport firms and electricity producers such as the *CMP*, *SEP* and *Tramways du Caire* –the *clientèle captive* in Lanthier’s words– massively ordered engines and turbo-alternators. However, tramway companies from France and the UK, Belgian coal mines were also important customers. Due to the wave of electrification, *ACEC* and *ACENE* could profit from the rising demand for power cables. For instance, *ACENE* supplied all the cables of the Métro for 15 years. Secondly, the manufacturer’s embeddedness in the business group guaranteed a stable financial situation. Through several capital increases, the group had invested over 90 million francs in the two factories.¹²⁷ These were continuously expanded and equipped with top-notch machines. That way, they could easily keep ahead of the increasing demand. On the other hand, they could freely determine the range of products, as they were not bound to specific important patents. Thanks to this technological flexibility, they specialized in all equipment for electric traction and electricity production. Both factories were very well situated and directly connected to the river Sambre and the railroad. *ACEC* and *ACENE* were each close to the French-Belgian border and could easily serve the core markets. According to Lanthier, *ACENE* profited from the cheap Belgian workforce that was better skilled than most French workers. However, these factors were not sufficient to prosper in a competitive market. *ACEC* and *ACENE* managed to develop a vertically integrated and large-scale production capacity before most of their competitors did.¹²⁸

As mentioned above, the integration of electrical manufacturing was a first step to loosen the relationship with *La Métallurgique*. Subsequently, the Empain group distanced itself more radically from its original supplier network. The establishment of *ACEC* and *ACENE* had been a necessity, because its partner had failed to evolve. Yet, in the early 1910s Empain decided to partially internalize the production of rolling stock and railway equipment. This announced the end of a privileged partnership of 30 years with *La Métallurgique*. Whereas electrical equipment was a product belonging to the Second Industrial Revolution, Empain now decided to compete with them in their own market. Rolling stock and railway material had a long tradition in Belgium and France. Since the First Industrial Revolution, its production was closely connected to the coal and steel industry and had occupied an important position in the economy. However, Empain had noticed that the market for locomotive production was booming. One historian speaks of the “nine years of euphoria” (1905-1914).¹²⁹ The French and Belgian manufacturers even experienced difficulties to cope with the increasing demand. Empain wanted to fill this

¹²⁷ “ACEC: Rapport du CA à l’AGO,” *MIM*, 30 Apr 1914; “ACENE: Rapport du CA à l’AGO,” *Supplément MIM*, 27 May 1914; Lanthier, “Constructions,” 479-85.

¹²⁸ Lanthier, “Constructions,” 479-85.

¹²⁹ Michael S. Smith, “Putting France in the Chandlerian Framework: France’s 100 Largest Industrial Firms in 1913,” *Business History Review* 72, no. 1 (1998): 81.

void by starting to produce rolling stock, especially in steel. To this end, he acquired large forested terrains in 1911, expanded to 375 hectares in 1913. The land was situated on the southern side of the French-Belgian border in Feignies.¹³⁰ By 1914, Empain had transferred the properties to the new *Forges et Ateliers de la Longueville (la Longueville)* and the factories had been finished. These included a hall to process steel plates and sections, an assembly hall, a hall to paint and several offices. Besides rolling stock, the factories could construct other large machines for agriculture, mining and electricity. On the eve of WW1, the company could start producing. The first orders had been placed. *La Longueville* also planned to add a steelworks and blast furnaces. However, the war obstructed these plans. Nevertheless, *la Longueville* was another step towards backward vertical integration. The group increasingly wanted to lay its hands on the whole supply chain. On the one hand, they tried to extract fuels such as coal, as mentioned above, and charcoal (in the woods around the workshops). On the other hand, they also intended to produce steel themselves as raw material for the manufacturing of train cars.¹³¹

2.5 Hop off in a new city: The development of Heliopolis (1905-...)

At a time when Edouard Empain headed a large integrated business group active in rail transport, manufacturing and energy supply, he set himself to an entirely new project: urban development. Between 1905 and 1929, Empain dedicated a great deal of his time and energy to the development of Heliopolis, a new town in the desert near Cairo. He yearly spent several months there for the rest of his life. According to Robert Ilbert, the authority on the history of Heliopolis, it is hard to explain why Empain all of a sudden decided to start an urbanistic project in Egypt. In addition, Heliopolis remained almost totally isolated from the rest of the business empire.¹³² The following paragraphs argue that this is only partly true. Empain ended up as a real estate developer because he wanted to produce and sell electricity in the first place.

¹³⁰ "Forges et Ateliers de la Longueville: Statuts," no. 1317, *AMB*, 11 Feb 1920; Forges et ateliers de la Longueville, 9 Sep 1915, *Messenger de Paris*, 65AQK274, ANMT; "Les bois de Lanières n'appartiennent pas à la Société Krupp," *Le Matin*, 4 Jul 1911.

¹³¹ Lanthier, "Constructions," 489-90.

¹³² Robert Ilbert, *Héliopolis: Le Caire (1905-1922): genèse d'une ville* (Paris: CNRS, 1981), 8.

At the turn of the twentieth century, housing prices in the ever-expanding Egyptian capital were skyrocketing. Many entrepreneurs had transformed into frenetic speculators, as their previous occupation was much less profitable. In some areas, an unbuild surface was more expensive than a large city palace in Paris.¹³³ Land speculators primarily bought large plots directly north of Cairo's old town, because everybody believed that the city was to expand in that direction. A few years later, the speculators hoped to sell the land at a large profit. Many housing projects next to the city center such as Zamalek and Garden City bet on the very same expansion. Other suburbs had been developed further away from Cairo and relied on a railway connection with the capital. In the 1890s Maadi and the spa resort Helwan 15 km more to the south had emerged as satellite cities along the Nile.¹³⁴

As the Cairo-Helwan railway was the lifeline of the two suburbs, it drew the attention of the manager of the group's *Tramways du Caire*, who informed Empain in 1904.¹³⁵ By then, the group had acquired precious expertise in railroad operation and electricity production and had even tried to electrify long-distance railroads (see Chapter 4 on the Brussels-Antwerp interurban). In Cairo, Empain was considering doing all three things. Firstly, he wanted to build a large power station near Cairo to supply electricity to the entire agglomeration. Secondly, he also intended buying the short Cairo-Helwan and Cairo-Matarieh railroads. He would electrify them and supply them from the new power plant. Thirdly and consequently, the Empain group could offer a faster connection with Cairo to the inhabitants of the suburbs. However, this integrated plan failed as soon as the competitor *Delta Light Railways* acquired the railway to Helwan before Empain could make an interesting bid. Moreover, the Egyptian State refused to sell the Cairo-Matarieh line.¹³⁶

If electrifying existing connections to suburbs was not an option anymore, Empain changed his tack. The new concept consisted of constructing an electric railroad to a new town, yet to be developed. However, as opposed to Maadi and Helwan, Heliopolis was much larger and resolutely went against the idea of expansion along the Nile banks. Empain and his local business partner Boghos Nubar Pacha opted for the creation of a garden city in the desert northeast of Cairo. Because no one else was interested and Boghos Nubar had excellent connections, the government sold them 2500 hectares

¹³³ Ilbert, *Le Caire*, 8.

¹³⁴ James Moore, "Making Cairo modern? Innovation, urban form and the development of suburbia, c. 1880–1922," *Urban History* 41, no. 1 (2014).

¹³⁵ Meeting of 28 Sep 1903, *Tramways du Caire*, Minutes of the Board of directors, I 30/5775, ARA2.

¹³⁶ Maskens (Cairo) to Minister of FA (Brussels), 5 Apr 1905, *Egypte: Correspondance Consulat Général (1901-1909)*, AFRI447, BMFA.

(tripled to 7500 hectares in 1910) at a ridiculously low price.¹³⁷ While terrains in the most distant outskirts of Cairo were sold at 1 £.E. per m², they paid 4200 times less.¹³⁸

For Empain, the lucrative combination of electrified transport and electricity production remained the main goal. In the early years of the Heliopolis project, he confided to the French ambassador in Cairo that the electric railway was “what interested him the most.”¹³⁹ It yielded a higher and more stable revenue than real estate development. However, Heliopolis quickly surpassed the power station and the railroad. It became a *Gesamtkunstwerk* in which Empain put his vision and creative urge.

Initially, the plan was to construct a city of leisure for the European tourists and the Cairo elite, as the next section on the Marseille-Alexandria shipping line will also show. Soon, a gigantic hotel, a race court, a Luna Park and an airfield emerged. After the collapse of the Egyptian economy in 1907, the *Cairo Electric Railways and Heliopolis Oases Company (HOC)* shifted the project’s scope to include residential areas for Egyptians of all classes. The housing company especially aimed at middle-class citizens working in Cairo that were looking for an affordable and comfortable place to live. The fares of the electric railway and tramways were kept low to encourage this. By 1914, the city already housed 5000 inhabitants, but the population multiplied to 24,000 at the end of the 1920s.¹⁴⁰

So, contrary to the assertion of Ilbert, the origins of Heliopolis were related to the core business of the Empain group. Only, he had the guts to create a demand for electric transportation by developing a town in the desert himself. The development of Heliopolis shows other links with other investments of the group as well. First, the electric railway, completed by two tramway lines, to the new town perfectly fitted in Cairo’s existing tramway network, operated by the Empain group. Secondly, obtaining a government concession and executing public works was Empain’s core business. Of course, the Empain group had never developed a whole city, including selling land plots and organizing urban life. However, in the last twenty years, the business group had gained the experience to construct a power station and grid, streets, sewers, water supply and other infrastructure. Third, the large scale of these (electric) public utilities provided extra work for the general contracting services of the group as well as a lot of orders for *ACEC* and *ACENE*. Finally, the pursued strategy did not differ from the general strategy of the group. Heliopolis was an all-encompassing project in itself, showing the group’s vertical

¹³⁷ This was larger than the surface area of Paris

¹³⁸ Converted to Belgian francs, the price they paid was 0.06 francs/m² as opposed to the normal price of 25 à 30 francs/m². Ilbert, *Le Caire*, 13.

¹³⁹ For the same reason, he vainly tried to buy the Helwan railroad a second time in 1914. Defrance (Cairo) to Jonnart (Paris), 24 Jan 1913, *Egypte: Établissements de crédit - Chemins de fer - Mines d’or - Sociétés diverses*, B-0031291, CAEF.

¹⁴⁰ Ilbert, *Le Caire*, 23.

integration on a micro-scale. Like for Empain's other public utility companies, the massive investments in infrastructure and housing were meant to pay in the long run. It lasted 10 years before the *HOC* broke even for the first time. Yet, the long-term profits were secured considering their monopoly on transportation, water and electricity distribution in a growing city.¹⁴¹

2.6 Chasing other opportunities (1890-...)

It is hard to identify a strategy underlying the investments in sectors other than railways, electric utilities and manufacturing. The rather modest diversification into agriculture, water management as well as maritime and bus transport seems to answer a different logic. The ventures transcend the process of upward vertical integration that characterizes the history of the business group before the First World War. Instead, they are the result of an entrepreneurial dynamic not unlike the one discussed in Chapter 1.¹⁴² Empain or other top managers identified promising opportunities, without taking account of the complementarity of the activities. However, both the core and unrelated industries still had some features in common. Like in transport, electricity and urban development, the diversified investment projects were based on government concessions. Except for agriculture, they also revolved around a specific public service. They can be divided into two categories according to their relatedness to the group's core services and products.

The first category, i.e. related diversification, included businesses that were natural extensions of existing transport activities. The start-up of bus transport and inland water transport services was a survival strategy for Empain's business in Egypt. As a consequence, they were the initiative of two well-established subsidiaries and as such strongly embedded in the business group. Both the *Chemins de fer de la Basse Egypte* and the *Tramways du Caire* faced powerful competitors. In the first case, the *Basse Egypte* needed to remove a missing link on its main light rail line (Mansurah-Matarieh). The company wished to link this line with the important import-export harbor of Port Said at the other side of Lake Menzaleh. After a rejected request to extend the line on a railway

¹⁴¹ Robert Ilbert, "Heliopolis: Colonial enterprise and town planning success," in *The Expanding Metropolis: Coping with the Urban Growth of Cairo*, ed. Ahmet Evin (Singapore: Concept Media, 1984), 42.

¹⁴² On the entrepreneur as opportunity-seeker, judgmental decision-maker and risk-taker, see Mark Casson, *The entrepreneur in history: From medieval merchant to modern business leader* (Basingstoke: Palgrave Macmillan, 2013), 23-36.

embankment, the *Basse Egypte* was forced to establish a ferry service together with its biggest competitor. *The Menzaleh Canal and Navigation Company* (est. 1904) was vital, for it generated considerable freight traffic for the *Basse Egypte* railways.¹⁴³ In the second case, the *Tramways du Caire* was also forced to react on a move of the competition. Although the company controlled a large flourishing tramway network, other companies in the city provided transportation services too. The *Tramways du Caire* largely dominated the market, as competitors just ran horse-drawn omnibuses. When one of these omnibus companies started early 1906 to transform its service into autobuses, it threatened to take a larger market share. The *Tramways du Caire* had to act quickly and founded *The Cairo Public Motor Car Service*. They reluctantly decided to experiment with a service on a few lines. However, the technology would only become reliable from the 1920s.¹⁴⁴ After a bit more than a year, the monthly loss still amounted to 10,000 francs. Realizing that they could not organize a profitable service and that the competition ceased to pose a serious threat, they preferred to cease activities and sell the buses.¹⁴⁵

The second category concerned rather unrelated diversification. Empain started early with a water management business (1.6.1). In the following decades, the entrepreneur also made excursions into chemicals (1.6.2), agriculture (1.6.3) and steamshipping (1.6.4). These isolated investments were unknown territory for the Empain group. They transcended the statutory boundaries the holding companies had set themselves. In consequence, Empain personally invested in these high-risk enterprises without the financial backing of the holding companies. Yet, they were part of the ecosystem of the Empain group and shared directors, personnel and resources with the other Empain companies. Every investment followed an economic rationale, but for diverse reasons the Empain group hardly succeeded in transforming them into flourishing businesses. Probably, the group lacked relevant technical expertise in these unrelated sectors. In addition, the first three investments took place in Latin America. The continent promised high returns, but also witnessed periods of political and economic instability.

¹⁴³ Maskens (Cairo) to Minister of FA (Brussels), 6 Feb 1902, *Egypte: Correspondance Consulat Général (1901-1909)*, AFRI447, BMFA; Maskens (Cairo) to Minister of FA (Brussels), 3 Feb 1904, *Egypte: Correspondance Consulat Général (1901-1909)*, AFRI447, BMFA.

¹⁴⁴ Simultaneously with the experiments in Cairo, the *Tramways Bruxellois* also briefly tested buses as replacement of horse-drawn omnibuses. “De Tramways Bruxellois,” <http://www.zone01.be/bedrijven/portret/tramways-bruxellois>; See also Brion and Moreau, *Tractebel*, 119-20.

¹⁴⁵ Meetings of 22 Jan 1906 & 13 Apr 1908, *Tramways du Caire*, Minutes of the Board of directors, I 30/5775, ARA2.

2.6.1 Water management

In 1890, for the first time ever, Empain diversified away from transportation to water management through the *Cie générale des Eaux de Caracas*. Together with his usual business partners, he acquired the right to construct and operate a whole system of water distribution and sewers in the Venezuelan capital Caracas. Already present in Venezuela to construct a railway, Empain could easily reuse its staff and local connections for another public utility project. Although the equipment had to be ordered in Belgium, creating a market for befriended companies was not the purpose. There were no ties with the principal supplier *Compagnie générale des Conduites d'Eau* in Liège.¹⁴⁶ To be sure, the expected operational profits were very high. Unfortunately, civil war and fierce political opposition fatally obstructed the development of the *Eaux de Caracas*. Chapter 6 will go more into detail on these political aspects.

2.6.2 Natural nitrate

In the wake of the general renewed interest in Latin American markets, Empain added another sector to its personal investment portfolio: the chemical industry in Chile. Initially, the Empain group had made a portfolio investment in the *Nitrate Railways Company Ltd*, a railroad operator like many others in the group's portfolio. Being part of the group's core business, at later stages other holding companies of the group and Empain himself took an interest in the share capital. By 1914 the *Nitrate Railways* had evolved from portfolio to direct investment, with a combined interest of 20% and 2 out of 8 directors reporting to Empain.¹⁴⁷ All in all, this was just another case of horizontal integration.

However, the *Nitrate Railways* did not just transport anything. Their cargo primarily consisted of nitratine, a mineral that could be used as a fertilizer in agriculture and as a component of explosives. The natural nitrate mining industry was booming in Chile. The South American country possessed a worldwide monopoly on the production of nitratine (aka sodium nitrate). Countries with a large agricultural sector such as France, Germany and Belgium were important importers.¹⁴⁸ Farmers increasingly discovered the benefits

¹⁴⁶ "La Semaine Financière," *Le Soir*, 16 Jun 1891.

¹⁴⁷ Administration et participation à des sociétés, *Papiers Georges Theunis*, I 494/3, ARA.

¹⁴⁸ D.C.M. Platt, ed. *Business Imperialism (1840-1930): An inquiry based on British experience in Latin America* (Oxford: Oxford UP, 1977), 248.

of mineral fertilizers such as nitratine and superphosphate. In Belgium, the demand for such fertilizers quadrupled between 1884 and 1914.¹⁴⁹

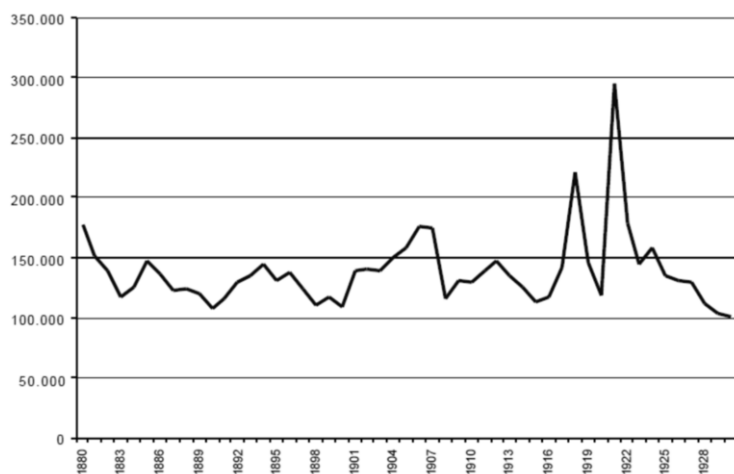


Figure 14 Nitrate price per ton, converted to 1995 US dollar (1880-1930)¹⁵⁰

Empain thus had many reasons to believe in the potential of Chilean nitratine, which supplied almost 80 percent of the nitrogen used in the world in the 1890s. The Chilean nitrate industry boomed, but as a consequence of this quasi-monopoly, the sector frequently faced overproduction crises. As soon as the demand for nitratine in Europe stagnated, the producers tried to limit the supply. Therefore, they united in syndicates, the so-called *combinacions*. Between 1884 and 1909, the syndicates more or less managed to control prices, albeit for short periods. However, the syndicates could not entirely break the cyclical behavior of the market and still faced overproduction crises from time to time (see Fig. 14).¹⁵¹ In 1894-1895, the moment Empain decided to establish a specialized investment fund, the business cycle had reached a high point. Thanks to an effective *combinacion*, the nitrate price stood at its highest point since 1885. The sudden collapse of the syndicate in April 1894 could have been a warning. However, at the incorporation of the investment fund *Compagnie générale des nitrates*, the producers were still optimistic about restoring the price cartel.¹⁵² The negotiations broke down and the nitrate price plummeted the years after.¹⁵³ Until 1914, the industry faced several crises. This resulted in very poor performance for the *Cie générale des nitrates*. A lot of financial years had to be

¹⁴⁹ “Veldverkeners - Uit de oude doos: Evolutie van onze omgang met mest,” <http://www.veldverkeners.be/uit-de-oude-doo-evolutie-van-onze-omgang-met-mest>.

¹⁵⁰ adopted from p. 41 of Rolf Lüders and Gert Wagner, “Export tariff, welfare and public finance: Nitrates from 1880 to 1930,” *Documento de Trabajo: Instituto de Economía Pontificia Universidad Católica de Chile*, no. 241 (2003), <http://economia.uc.cl/publicacion/export-tariff-welfare-and-public-finance-nitrates-from-1880-to-1930/>.

¹⁵¹ De Bacquer, “België,” 34-37.

¹⁵² “Compagnie des nitrates,” *MIM*, 11 Aug 1895.

¹⁵³ “Compagnie générale des nitrates,” *MIM*, 8 Dec 1895.

closed at a loss. By 1903, Edouard Empain had even lost up to 3 million francs. Only from 1910 onwards, the shareholders received a dividend of 2 to 5% because of the steadily increasing demand on the world market.¹⁵⁴

2.6.3 Tropical agriculture

Empain showed an interest in Latin America going beyond the nitrate sector. In 1895, he also got involved in meat production in Central-West Brazil. The Antwerp businessmen Alexis Mols¹⁵⁵ and Auguste Grisar¹⁵⁶, as well as Jules Carlier, had recently acquired a huge ranch in the Brazilian province of Mato Grosso. The newly established *Compagnie des Produits Cibils* paid the seller, the Uruguayan industrialist Jaime Buxareo Cibils, a large block of shares. The domain of 750,000 hectares (one quarter of Belgium) was situated close to Descalvados and housed 175,000 heads of cattle. Previously, Cibils himself had turned the country estate into a modern-run business with a large abattoir, refrigeration and electricity.¹⁵⁷ The Belgian buyers intensified the production of beef and by-products even more.

Albeit at a smaller scale, the *Produits Cibils* were part of a larger trend of internationalization in the meat industry.¹⁵⁸ In response to the growing worldwide demand for meat products, huge ranches in Uruguay, Argentina, the United States, New Zealand and Australia had turned to the export market. In 1865, the Liebig's Extract of Meat Company started to commercialize meat extract on an industrial scale. In the following decades, Liebig Co and competitors such as Kemmerich, Maggi and *La Plata Extract of Beef Co* shipped their products around the world. Antwerp was a very important import harbor for meat extract from the Uruguayan and Argentinian ranches.¹⁵⁹ The first central depot of the Liebig Co and a meatpacking plant were based in the port. The merchant families with German roots Osterrieth and Grisar were among the main financiers of the local Liebig branch. In Belgium, the *Produits Cibils* had been a famous

¹⁵⁴ *Recueil Financier*, 1915, 554; "M. Edouard Empain contre l'Etoile Coloniale," *Le XXe Siècle*, 24 Mar 1903.

¹⁵⁵ Director of an Antwerp shipping company, manager of the chartered company *Anglo-Belgian India Rubber and Exploration Co.* and co-organizer of the Universal Exposition in Antwerp of 1894. *Recueil Financier*, 1894-1895, 394.

¹⁵⁶ Wool merchant, member of a merchant and shipping dynasty established in Antwerp since the beginning of the 19th century, very active in the import of wool, leather and skins from South America. Agentschap Onroerend Erfgoed, "Burgerhuis in neorocostijl," <https://id.erfgoed.net/erfgoedobjecten/7241>.

¹⁵⁷ On Cibils and stock breeding, see: Robert W. Wilcox, *Cattle in the Backlands: Mato Grosso and the Evolution of Ranching in the Brazilian Tropics* (Austin: University of Texas Press, 2017), 57-59.

¹⁵⁸ For a work of reference, see Richard Perren, *Taste, trade and technology: The development of the international meat industry since 1840* (Aldershot: Ashgate, 2006).

¹⁵⁹ Jan Possemiers, "Relaties België-Mexico (1830-1864): Belgische dromen over Mexico," in *De Belgen en Mexico*, ed. Eddy Stols, Avisos de Flandres (Leuven: Leuven UP, 1993), 37.

brand since the 1880s. Their meat extract, boiled and canned beef sold very well to European households, but also to hospitals, armies and poorhouses.¹⁶⁰

These circumstances explain why two Antwerp trans-Atlantic merchants had taken the initiative of the *Produits Cibils*. Directly involved in the trade that made Antwerp the sales hub for livestock products from Latin America, they wanted to integrate a Latin American production facility as a part of the value chain. Meanwhile, Empain was clearly hoping to get a foothold in Latin America. Knowing that Cibils was eager to cash his stocks, Mols or Carlier must have introduced him to Empain. The latter took over the majority of Cibils' interest, becoming the main shareholder of the *Produits Cibils*. However, the Empain group never took care of the management. The group of colonial entrepreneur Albert Thys took control after a few years. Despite their large ambitions, also in rubber extraction, the Brazilian estate had to be sold in 1911. The output had remained well below expectations.

2.6.4 Steamshipping

The last business venture of considerable importance that Empain personally undertook before 1914 concerned a steamshipping line in the Mediterranean. Once more, this was a completely different and highly competitive market. With very high entry costs and an oligopoly of large companies, even giants such as J.P. Morgan had failed to enter the shipping market.¹⁶¹ Yet, Empain's intentions were clear. In the context of the development of Heliopolis as a place of leisure for the European and Egyptian elite, Empain and his partners wanted to attract as many European tourists as possible. The best way to profit from the rising passenger traffic from Europe to Egypt was by establishing a proper shipping line. To this end, Empain and British and Egyptian entrepreneurs founded the *Egyptian Mail Steamship Company Ltd* (est. 1906).¹⁶² The company used almost its entire capital of roughly 17 million francs to order two large passenger steamers, the "Heliopolis" and "Cairo" of 8 million francs each. From December 1907, the ships weekly sailed between Marseille and Cairo. Whereas the direct competitors *Norddeutsche Lloyd* and *Messageries Maritimes* needed four and a half days to cross the Mediterranean, the *Egyptian Mail Steamship* could do it in three days at an average of 20

¹⁶⁰ Vanderverren, "Cibils," 77.

¹⁶¹ Steven H. Gittelman, *J.P. Morgan and the Transportation Kings: the Titanic and other disasters* (Lanham: University Press of America, 2012).

¹⁶² They had a small mail contract between Marseille and Alexandria, hence the name. "New Issues: Egyptian Mail Steamship Company," *Financial Times*, 15 Jan 1907; "Flotation of the Egyptian Mail Steamship Company," *Financial Times*, 5 Apr 1911.

knots.¹⁶³ The founders speculated that the reduced travel time and the luxury would divert many customers from the competition as well as attract additional tourists to Egypt.

This was a big risk, to say the least. Despite an international advertisement campaign and a promotional maiden trip, the ticket sales could not cover the substantial expenses.¹⁶⁴ The size, speed and luxury of the ships came at a high price. The investments were enormous. In addition, an economic crisis broke out in Egypt in 1907, resulting in a collapse of trade with Europe. Soon, the company got into financial difficulties, as a part of the shareholders could not meet the board of directors' demand for extra cash by fully paying in their shares.¹⁶⁵ On top of all that, Empain and his co-founders had underestimated the resistance of long-established shipping companies. After the winter season the *Egyptian Mail's* competitors united in a cartel and collectively lowered their fares by 50%.¹⁶⁶ Finally, after only 7 months in operation, the company was wound up in London in July 1908 and the ships were sold.¹⁶⁷ The financial disaster hit Empain badly. To avoid bankruptcy, he even had used his bank to lend extra cash to extend the company life, but to no avail.¹⁶⁸ The shareholders lost at least 70% of their investment.¹⁶⁹ As the principal promoter, Empain even suffered a personal loss of more than 6 million francs, according to an informal note of the Belgian Ministry of Foreign Affairs.¹⁷⁰

2.7 Conclusion

Edouard Empain made his debut as an entrepreneur at a juncture. In 1880, the First Industrial Revolution was on its last legs, while the technological innovations (steel,

¹⁶³ As a result, the two ships ranked among the fastest in the world, even two years after they were put into operation. "Mediterranean Shipping Prospects," *Financial Times*, 10 Jun 1907; United States. Department of Commerce. Bureau of Navigation, *Annual Report of the Commissioner of Navigation* (U.S. Government Printing Office, 1910), 105.

¹⁶⁴ "Egyptian Mail Steamship Company: Advertisement," *Financial Times*, 23 Oct 1907; "Egyptian Mail Steamship Company: Advertisement," *Le Patriote*, 26 Oct 1907; "Egyptian Mail Steamship Company," *La Meuse*, 29 Jul 1908.

¹⁶⁵ "Egyptian Mail Steamship Company," *Petit Bleu du Matin*, 1 Jul 1908.

¹⁶⁶ Belgian Minister (Cairo) to Minister of FA (Brussels), 17 Dec 1908, *Egypte: Correspondance Consulat Général (1901-1909)*, AFRI447, BMFA.

¹⁶⁷ "Egyptian Mail Steamship Company: Proposed Winding Up," *Financial Times*, 24 Jun 1908.

¹⁶⁸ "Company Mortgages: Egyptian Mail Steamship Company, Ltd.," *Financial Times*, 18 May 1908; "Egyptian Mail Steamship Company," *Financial Times*, 13 Jun 1908.

¹⁶⁹ Belgian Minister (Cairo) to Minister of FA (Brussels), 17 Dec 1908, AFRI447, BMFA.

¹⁷⁰ Internal note of Ministry of FA (Brussels), January 1908, *Egypte: Correspondance Consulat Général (1901-1909)*, AFRI447, BMFA.

chemicals, electricity, ...) leading to the Second Industrial Revolution had not yet reached full maturity. Soon after, the new technological system of electricity radically transformed entire industries. Empain, however, started doing business in one of the traditional pillars of the Belgian economy that developed during the industrialization: the “steam-transport-iron” cluster. A manufacturer of railway equipment launched him as a light railway entrepreneur in the first place. However, it soon appeared that this intimate relationship had forced the Empain group in the role of (light) railway operator, at the end of the value chain of transportation. This business was not so profitable as expected, although general contracting partly compensated this. In the long run, merely transporting passengers and freight was not viable. Realizing this in the early 1890s, Empain pursued two strategies. First, he diversified to unrelated sectors where the predicted profits were higher. This is why he seized the entrepreneurial opportunities in the *Eaux de Caracas*, *Produits Cibles* and *Cie générale des Nitrates*.

As a second strategy, having far more important consequences for the evolution of the business group, Empain invested in urban tramways that could be electrified. The businessman recognized the transformative power of electricity and that it could be the energy source of the future. That is the moment when Empain embraced the huge potential of the innovations of the Second Industrial Revolution, electricity in particular. The Empain group was not the first nor the only enterprise to understand this. Belgian holding companies linked to banks and heavy industry had developed horsecar networks as *Unternehmergeschäft*, not unlike Empain had constructed light railways to the benefit of *La Métallurgique*. These horse-drawn tramway operators welcomed the excellent performance of electric traction. In this new technological system, there were also new competitors that Empain had not encountered in light railways. For German and American electric engineering companies, massive electrification of urban transport was an opportunity to sell more products. Both the tramway holdings and electric engineering firms were slightly earlier than the Empain group to start the transformation. The business group was rather a close follower regarding this process.

However, at least two things make the case of the Empain group exceptional. First of all, the business group was the only in Belgium who carried through the vertical integration to such an extent, able to meet its own needs with regard to equipment. The Empain group was the only Belgian electroholding that controlled a large manufacturing company (ACEC), capable of competing with foreign manufacturers in Belgium and abroad. Unlike other Belgian groups, the Empain group had no strong ties to foreign banks or manufacturers, as will be discussed in Chapter 3. Having remained independent, the business group could copy the strategy of the electrical engineering companies and supply its self-created market. However, whereas other manufacturers at most kept a minority stake in the operating companies they had floated, the Empain group maintained managerial control. This brings us to the second singularity. Empain continued to pursue growth in (light) railways. In other words, rather than ‘escaping

steam' entirely, the Empain group had adopted a two-pronged strategy. Empain was standing with one leg in the First Industrial Revolution and with the other in the Second Industrial Revolution. The Empain group kept expanding its rail networks probably because it still believed it could make the heavy investments pay off by achieving economies of scale. In addition, the top management erroneously believed that electricity would soon revolutionize the railroad sector like it had transformed the tramway business.

As the Empain group anticipated, or at least capitalized on, the radical electrification, it shows its remarkable capacity to adapt. Innovation was not only a matter of Schumpeterian creative destruction, but also of skillful adaptation. By diversifying to electric tramways, Empain entered a new technological system. The interlinked and transformative nature of the electrical system provoked a chain reaction of vertical integration, starting with the production of electricity. As mentioned in the introduction, new industries were often characterized by a lack of sufficient supply. That was the main reason why the Empain group had to generate electric power itself. Subsequently, it pioneered after all by turning this necessity into a new profitable business. Empain used his abundant financial resources to achieve a competitive advantage based on scale. The business group was the first in France and Belgium to construct large power stations able to supply cheap electricity to diverse clients in a wider area. In these two markets, it had a first-mover advantage.

The innovations of the Second Industrial Revolution - and electricity was no exception - also gave rise to the birth of certain industries and the relative decline of others. The strong personal and business connection with *La Métallurgique* did not survive the transition. *La Métallurgique* failed to adapt and remained a classic steam-powered rolling stock manufacturer. This was an incentive to start manufacturing itself. The manufacture of electrical equipment was also the most profitable part of the supply chain, requiring sophisticated innovative technologies. The backward vertical integration did not limit itself to new industries. In the economic boom before WW1, the increasing demand for rolling stock and coal triggered the establishment of *la Longueville* and prospective drillings respectively.

Eventually, the diversification into gas and urban development also resulted from Empain's move into the electric industry. On the one hand, the Empain group started producing gas wherever the vested interests of the gas industry were threatening the growth opportunities for electricity production. On the other hand, the town of Heliopolis was conceived to attract customers that would use the electric utilities controlled by the Empain group. In the end, both the gas companies and Heliopolis also got their own independent dynamics.

The economic track of the Empain group sketched above links up with questions formulated in the previous and next chapters. When combining the spatial and sectoral dimensions of the expansion of the Empain group, it is safe to say that the diversification

had a strong geographic focus. In the end, the vertical integration of electricity-related businesses occurred in the industrialized countries Belgium and France. In the Belgian-French border region, the Empain group could even provide a wide-ranging service (electricity, gas, transport), making it an interesting partner for collectivities. However, electrification, the search for electrifiable tramways in particular, also directed the group's expansion to Egypt, Serbia, Russia and later Spain and Ottoman Syria. In the latter four regions, the Empain group only invested in electric urban transport. The cities outside of Belgium and France where Empain was active in were situated in non-industrialized and industrializing countries. In contrast, the cities themselves –as “portals of globalization”– were open to modern comfort and technology.¹⁷¹ That way, electrification broadened the geographical perspective of the Empain group too.

So far, the Empain group has been characterized by internationalization, on the one hand, and adaptation and innovation, on the other hand. But the global corporate strategy also raises questions regarding organization and profitability. The next chapter needs to study this. It is necessary to explain why Empain chose a particular organizational form. Chapter 3 will examine how the business group made the above-mentioned processes possible and reasonable. It will also investigate the hypothesis that the timely diversification was a success story before 1914. Did Empain's businesses in the constantly innovating electric cluster really yield the highest returns? Before elaborating on business groups in the next chapter, the sectoral distribution depicted above already problematizes its rigid definition formulated in the general introduction. The group had invested 80% of its capital in related and 20% in unrelated products. This already shows that the diversification of a business group was not exclusively related or unrelated.

¹⁷¹ See Matthias Middell and Katja Naumann, “Global history and the spatial turn: From the impact of area studies to the study of critical junctures of globalization,” *Journal of Global History* 5, no. 1 (2010).

Chapter 3 The business group: A corporate structure for worldwide expansion

3.1 Introduction

Hitherto, this dissertation has presented the Empain group as a large enterprise active in related (transport, electricity, manufacturing) and rather unrelated industries. This was accompanied by geographical expansion, extending over 16 markets on four continents. One man, Edouard Empain, seconded by his brother François, founded and ultimately controlled nearly all of these businesses. Figure 11 in the introduction of the previous chapter had already demonstrated the tremendous growth of this family-owned business empire. The share capital of all subsidiaries increased tenfold from 6 to 600 million in a time span of 30 years. The question then is how Empain organized this steady increase in scale and scope without hazarding the unity of the business group and without letting control slip out of his hands.

This issue of corporate governance, finance and management links to the history of family multinationals and business groups in general. One of the major issues in family business studies has been to challenge the alleged superiority of the modern managerial enterprise. Especially since Chandler, family businesses are sometimes believed to be risk-averse small- and medium-sized enterprises, in contrast to large integrated MNEs. Family ownership was said to be incompatible with international growth. Family businesses are therefore frequently labeled as ‘reluctant internationalizers’. However, a recent edited volume on *Family Multinationals* seems to suggest otherwise.¹ It shows that many family businesses were willing to take risks and successfully expanded abroad. However, the editors conclude that they still faced two trade-offs. Generally, the family’s main concern is to preserve independence and control. First of all, it clashes with the

¹ Christina Lubinski, Jeffrey Fear, and Paloma Fernández Pérez, eds., *Family Multinationals: Entrepreneurship, Governance, and Pathways to Internationalization* (Abingdon: Routledge, 2013), 1-20.

large amounts of capital needed to enter foreign markets. Depending on the attitude of the family, ranging from “family first” to “business first,” it has to balance its options. If they remain closed to external resources, this might impede growth. In contrast, if they open to external finance to grow internationally, they will have to share control with the outside investors. Secondly, in a similar vein, family firms have to decide to what extent they attract external managers. Whereas open family firms hire professionals, closed family firms are reluctant to do so, fearing to lose control. However, the current executives, mostly trusted relatives, might not have the technical and managerial skills indispensable to survive in innovative sectors.

In the long run, there have been large family firms that have been able to overcome this dilemma. *The Endurance of Family Business* shows that some family businesses had the capabilities to adapt to the changing external conditions of the twentieth century.² The family ownership and control successfully survived diversification and the professionalization of management. Both edited volumes already tentatively indicate that business groups are an important part of the explanation. In-depth historical case studies such as the present dissertation can contribute to this debate. I argue that the history of the Empain group brilliantly shows that growth, professionalization and family control could go together. The success of this combination is due to the specific corporate form of the business group.

In the business group literature, family-led enterprises are a central category of analysis. Families controlled and continue to control many of the largest business groups of the last two centuries. In the last decade, experts have come to realize that business groups are not just a corporate form suited for emerging countries. Business historians have shown their dominance in early industrializing economies too (see below). The most common advantageous features of business groups cited in the literature are the spread of risk, ample financing options, concentration of ownership and control, and the integration of proprietary knowledge and skills. In this chapter, I investigate the corporate structure of Empain’s business empire. I will explore the common characteristics of the business group and show how they constituted competitive advantages for the Empain group. In addition, I argue that the business group had two more assets. First, they enabled fast organic growth without reorganization. Empain could flexibly respond to opportunities in different sectors and countries. For every new project, he could create a new FSC-like company adapted to the specific regulations and requirements of the host country. Second, the business group developed into a versatile instrument for political maneuvering in the tense international context. A very recent

² Paloma Fernández Pérez and Andrea Colli, eds., *The Endurance of Family Businesses: A Global Overview* (Cambridge: Cambridge UP, 2013), 1-9.

volume on political risk has emphasized the importance of holding companies for political risk management. However, the authors admit that more research into the subject is needed.³ I will contribute to this debate by demonstrating that with holding companies and operating subsidiaries registered in different countries, Empain could skillfully position his businesses to influence local perception in the host country. In addition, Empain could accept foreign capital in selected operating companies to rally the support of a Great Power.

After this introduction follows an analysis of the development of the holding company organization. In the third section, I position the Empain group in the business group literature more extensively and introduce the key features as mentioned above. Afterward, I analyze these key advantages and add political flexibility to the framework. Section 3.4 will explore how the business group form enabled Empain to build up a stable and profitable enterprise. In Section 3.5, I examine Empain's relationship with the banks and his preference for the stock market, which is explained by his desire to remain independent. Section 3.6 discusses the rather limited separation of ownership from control and the related question of whether the Empain group was a genuine family business. Given this complex structure involving several holding companies and over 80 legal entities in a dozen countries, the also question arises how Empain created an efficient management structure. Section 3.7 focuses on how the group pooled managerial and technical resources. Finally, Section 3.8 investigates how Empain politically exploited the presence of his companies in different countries.

3.2 Snapshot and genesis of the holding company maze

In 1914, the businesses of Empain together formed a complex set of firms linked by multiple ownership ties (see Fig. 16). Edouard and François Empain, including Edouard's private bank, stood at the top of a more or less pyramidal structure. Instead of the traditional single exclusive family holding company at the helm (see Fig. 15), the Empain brothers directly controlled the first tier of three (at some point even four) equally important top holding companies.⁴ The Empain brothers closely held the *Réunis*, the *Compagnie générale de railways et d'électricité (Railways&Electricité)* as well as the *Parisienne*

³ Forbes, Kurosawa, and Wubs, "Introduction," 10.

⁴ Following Herman Daems, holding companies basically are "financial institutions which manage a portfolio of stocks in order to control the companies in which they hold a share of the equity capital." Daems, *Holding*, 2.

Electricque. Yet, each top holding also owned substantial blocks of shares in the other ones, also known as cross-holding.

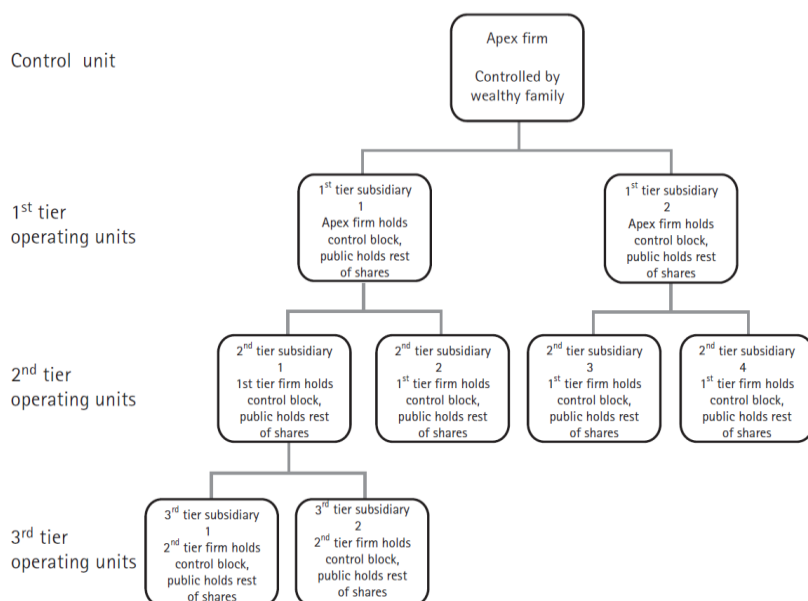


Figure 15 Archetypal structure of a pyramidal business group⁵

The second tier was made of specialized holding companies. These were founded with the specific aim to control a set of operating companies sharing some characteristics. To the category of the specialized holding companies belong the *Tramways de Lille* (est. 1894), *Fédération française et belge de Tramways* (est. 1898), *Société générale de tramways électriques en Espagne* (est. 1899), *Eclairage du Centre* (since 1906), *Compagnie auxiliaire d'électricité de Nantes* (est. 1912) and the *SIER* (est. 1913). The status of the *RELSE* (est. 1881) and the *Cie générale des nitrates* (est. 1895) was more ambiguous. The *RELSE* started as an operating company (Liège-Seraing), before also taking an interest of nearly 50% in the *ZNSM* in 1889. The *Voie étroite* did not have enough liquidity to subscribe to the entire capital of the new firm. However, the *RELSE* continued to operate a large network of light railways. Only between 1896 and 1903, the value of its portfolio and private interests came close to 50% of its productive assets. The *Cie générale des nitrates* was another outsider. It functioned as an investment trust instead of a holding company. It did not have the intention to exercise control over the companies in which it had an interest, except for the *Nitrate Railways*. In addition, it was financially independent of the business group. Empain directly controlled it, without the investment of the top holdings. The firms in the third tier were countless operating companies spread over more than a dozen countries. Their large number was due to the multinational character of the business empire. To abide by

⁵ Adopted from Colpan, Hikino, and Lincoln, *Oxford Handbook*, 22.

the specific regulations of every host country, Empain had to establish local subsidiaries.⁶ For public utilities, this went even further. Sometimes, the Empain group was legally obliged to create a new company for every new concession it obtained: one utility, one company (see below). Although most subsidiaries were the result of organic growth, the business group also made a few acquisitions.⁷ These companies were easily integrated into the loose structure, but with the creation of synergies. In that perspective, the Empain group looked like a collection of free-standing companies, embedded in an overarching structure.

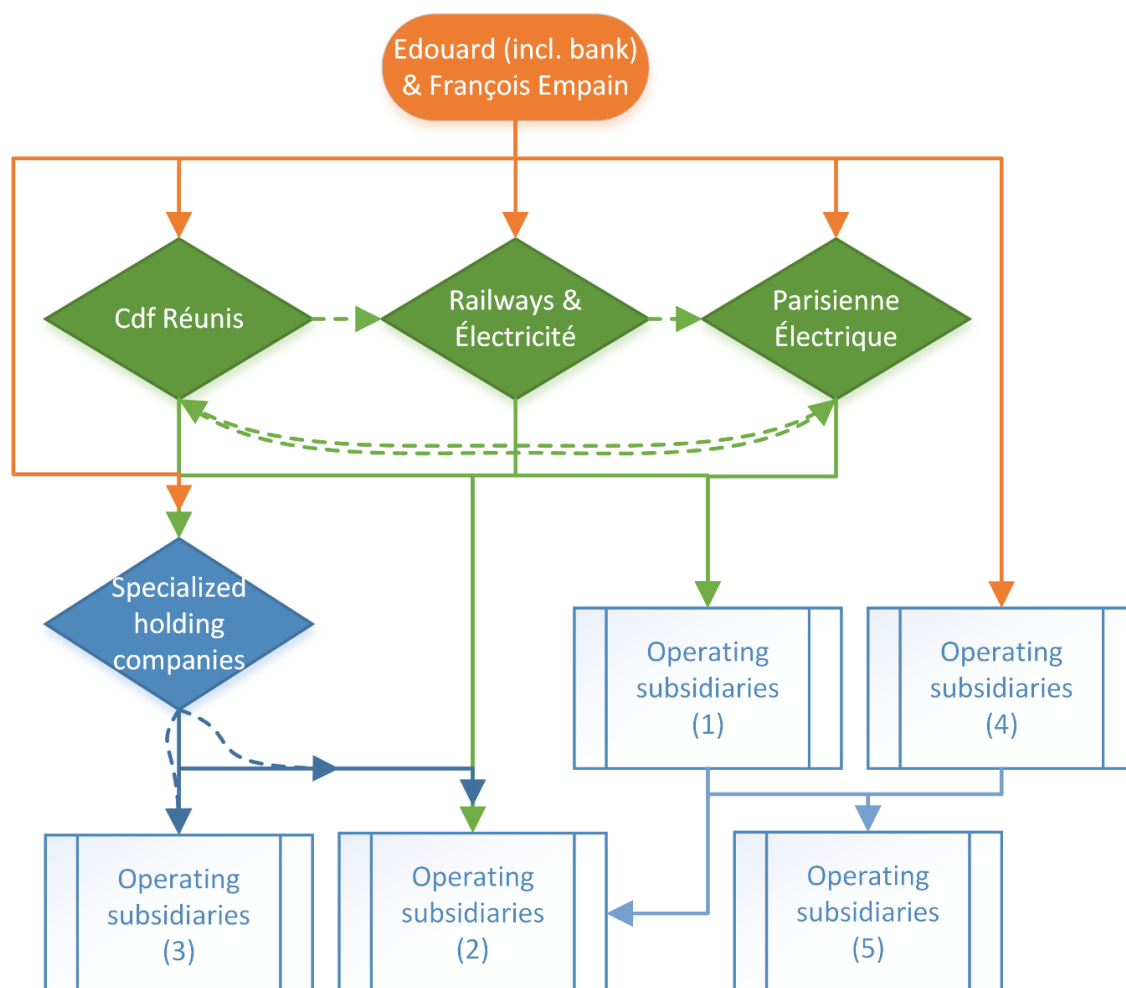


Figure 16 Stylized representation of the ownership structure of the Empain group (1905-1914)⁸

⁶ In the First Global Economy, establishing a limited company was quite straightforward and inexpensive.

⁷ These acquisitions concerned the following Belgian and French rail and electricity companies: *Tramways du Département du Nord*, *Chemins de fer du Calvados*, *Chemins de fer vicinaux* (1894), *Kreutz-Belovar* (1895), *Chemin de fer de Bayonne-Biarritz* (1897), *Cie d'électricité de Seraing*, *Tramway de Cointe* (1904), *Société française Sprague* (1905), *Eclairage du Centre*, *Ottomane d'Eclairage*, *Eclairage de Galatz* (1906), *Tramways de Nantes*, *SNE* (1910), *Eclairage de Tournai* (1913)

⁸ Sources: annual reports of companies, memoranda of association, minutes of the shareholders meetings

Due to the situation explained above, the ownership structure was very complex. Operating companies could be owned in several different constellations. The first, most common possibility was the ownership by one or more top holding companies. This is category (1) on the chart. This ownership was not fixed. Controlling blocks of shares circulated and spread among the parent companies, depending on their liquid assets and projects. Secondly, these top holding companies could also share the ownership of a subsidiary (2) with one or more specialized holding companies. The *Tramways électriques de Boulogne-sur-Mer*, for example, were controlled by both the *Railways&Electricité* and the *Française&Belge*. Similarly, the Empains also owned certain subsidiaries such as the *Bruxelles-Ixelles-Boendael* and specialized holding companies such as the *Tramways électriques en Espagne* together with a top holding company. Thirdly, specialized holding companies such as the *Tramways de Lille* could entirely own its subsidiary (3) the *TELB*. Fourthly, the Empain brothers could directly control an operating subsidiary (4), e.g. *ACEC*. In the past, this had also happened with the *Eaux de Caracas*, the *Produits Cíbils* and the *Egyptian Mail*. These more ‘personal businesses’ largely operated outside of the holding company structures, as mentioned in Chapter 2. Fifthly and finally, some large operating companies also owned other operating companies (5), sometimes with the support of one or more top holding companies. For instance, the *EGN* and the *Tramways électriques du Pays de Charleroi* shared the ownership of the *Gaz et Electricité du Hainaut* with the *Railways&Electricité*, *Parisienne Electrique* and the *Eclairage du Centre*.

This analysis of the ownership structure in 1914 has shown that Edouard Empain had developed a complex corporate group with not one, but many holding companies to finance and control its businesses. What could have motivated the choice to broaden the top of the pyramid by gradually adding holding companies? To fully understand this, it is necessary to retrace the genesis of the corporate structure since 1881 and examine the historical conditions that shaped it.

In 1881, Empain and partners from *La Métallurgique*, the *Caisse des Propriétaires* and the *SA des Marbres* founded the *Compagnie générale de railways à voie étroite* (capital 1.6 million francs). Chapter 1 has demonstrated that they intended to develop the network of Valenciennes-Anzin and search for other concessions. As was not uncommon in Belgium, the *Voie étroite* would function as a holding company to centralize all projects and provide studies and other technical and financial services.⁹ Meanwhile, *La Métallurgique* realized that they needed to actively boost demand for their core product, railway equipment. Therefore, *La Métallurgique* initiated the *Compagnie auxiliaire belge de chemins de fer* (est. 1881) after the example of the French *Compagnie auxiliaire des chemins de fer et travaux*

⁹ “Compagnie générale de railways à voie étroite: Statuts,” no. 222, *AMB*, 13 Feb 1881; “Emission Compagnie générale de railways à voie étroite,” *MIM*, 20 Feb 1881.

publics (est. 1879). The new company lent rolling stock, especially freight cars, and other railway material to operating companies in need. To this end, the *Auxiliaire belge* had to order a lot of material at *La Métallurgique*.¹⁰

A year after its establishment, the *Voie étroite* recognized that it had to cut expenses and rationalize its structure. As the establishment of many subsidiaries to individually operate each transport network increased overhead costs, the directors of the *Voie étroite*, *La Métallurgique* and of the *Auxiliaire belge* decided to cooperate more closely by specializing their companies. Together they founded the *SA d'exploitation économique de railways* (*Exploitation économique*, est. 1882) and provided it with a large share capital of 10 million francs. The new company concentrated the operational services of existing and future railroad projects prepared and constructed by the *Voie étroite*. The *Exploitation économique* in turn would control the operating companies (instead of establishing additional independent subsidiaries) and take over the day-to-day operations. The different networks could share a single management, accountants, personnel and get coal at a cheaper price. In addition, the “grouping of scattered concessions” would result in a “mutual association” that guaranteed a more stable revenue for the shareholders.¹¹

According to Lanthier, the early division of labor within the Empain group via holding companies had two more reasons in the French context. First of all, it is remarkable that the group preferred to establish the separate *Exploitation économique* to centralize operations instead of organizing an operational division within the *Voie étroite*. However, the French State subsidized the operation of some railroads and had the right to inspect the corporate finance. By splitting up construction and operation, the *Voie étroite* could keep its independence. Secondly, France combated the creation of too large networks and speculative enterprises. So instead of merging all concessions into a few large operating companies, the group had no other choice than to legally separate the subsidiaries (see Chapter 5). However, the management and workforce were concentrated as much as possible.¹² On the Belgian side, on the contrary, the *RELSE* effectively clustered the operation of regionally dispersed light rail concessions.

Unfortunately, the entire specialization to improve efficiency proved very vulnerable to economic shocks. Between 1883 and 1886, economic growth strongly declined in Western Europe. The depression hit the industry and financial markets. The Empain group had to scale down its ambitions and consolidate its projects. The *Exploitation économique* was dissolved and *La Métallurgique* sold its rolling stock leasing company *Auxiliaire Belge*. The disappearance of the *Exploitation économique* meant that the

¹⁰ “La Métallurgique: Rapport du CA à l’AGO,” *Supplément MIM*, 25 Mar 1882; “Prospect: Compagnie auxiliaire belge de Chemins de fer,” *Journal de Bruxelles*, 20 Oct 1881.

¹¹ “Voie étroite: Rapport du CA à l’AGO,” *Supplément MIM*, 18 Oct 1882.

¹² Lanthier, “Constructions,” 451-52, 57-60.

development of the *Voie étroite* seriously decelerated. Besides its normal engineering and construction business, the holding company now had to commit more of its liquid assets to prefinance its subsidiaries. These entirely depended on the advances of the *Voie étroite* until the construction of the network was finished. In other words, it again had to assume the role of a financial holding company like in the beginning. With large sums immobilized in its affiliates, the *Voie étroite* had less room for new projects.¹³

Only when the economy recovered in 1887-1888, the *Voie étroite* could triple its financial resources to invest in new large projects. Two of them turned into a disaster by 1890-1891. The failure of the *Carenero Railway* (see Chapter 6) and of the *Grand Central Sud-Américain* caused considerable losses and put pressure on the profits of the *Voie étroite*. The Latin American disaster hindered the *Voie étroite* to gather the new funds it needed for other projects. Therefore, the Empain group founded a second holding company, the *Compagnie belge des chemins de fer réunis* (*Réunis*, est. 1892). From the bad experience of the 1880s, the Empain group had learned that it needed to spread the risk much more. In consequence, it conceived the *Réunis* as an investment trust, a well-known instrument in Great Britain. By spreading its investments over dozens of companies, a trust could establish a “mutuality of risks” and secure a stable revenue.¹⁴ With a total capital of 5 million francs, mostly debt, the *Réunis* mixed long-term interests in subsidiaries of the business group with smaller, more speculative portfolio investments in railroads all over the world. In the first years, the holding company took over part of the portfolio of Empain and of the *Voie étroite*, including some less productive securities. This gave the *Voie étroite* more resources to invest elsewhere. However, the *Réunis* could not assist the *Voie étroite* in every new project. Bearing in mind the failed projects in South America, the portfolio of the *Réunis* limited itself by statute to securities of railroad companies already in operation or that had a guaranteed revenue.¹⁵ The new holding company was to become one of the main financial pillars for the business group, some kind of ‘cash cow’ that could provide intra-group loans if necessary (see below).

The economic boom and the breakthrough of electric traction in Western Europe in the mid-1890s presented the Empain group with a threefold problem. First, the statutes of the *Voie étroite* were written in a time when electricity was not yet an alternative to steam power. The Empain group needed a holding company that explicitly could construct electric tramways as well as sell the surplus electricity of the accompanying

¹³ “Voie étroite: Rapport du CA à l’AGO,” *Supplément MIM*, 17 Jun 1883; Lanthier, “Constructions,” 455-57.

¹⁴ “mutualité de risques”, “Belgique,” *MIM*, 19 Jun 1892. See also Lanthier, “Constructions,” 461-62.

¹⁵ This also explains why the *Réunis* could only invest in the *HOC* (est. 1906) after 1910, when the electric railway was inaugurated in Heliopolis. “Compagnie belge des Chemins de fer réunis: Statuts,” no. 1511, *AMB*, 5 Jun 1892; “Réunis: Rapport du CA à l’AGO,” *Supplément MIM*, 26 Apr 1911.

power station.¹⁶ Second, electrification was very capital intensive and could not be financed by the *Voie étroite* and the *Réunis* alone. Third, the growing world economy created new investment opportunities, especially in Russia. To face these challenges, the Empain group founded a third top holding company: the *Compagnie russe-française de chemins de fer et de tramways* (*Russe-française*, est. 1896) with a capital of 3.5 million francs and 3.5 million francs of bonds. With the new resources, Empain made investments in Russia, France, Belgium, Egypt and China. Most importantly, the business group used this holding company to take control of the *Compagnie du chemin de fer métropolitain de Paris*.¹⁷

The Paris Métro was big business and put France even more center stage in the business empire of Empain. Thanks to the Métro, the business group had become a considerable power in French financial circles. With the creation of a fourth holding company in 1900, Empain hoped to profit from the large Parisian capital market and to support the development of the Métro. The idea was to develop a vertically integrated cluster around rail traction and electricity production. Whereas the *Russe-française* could only produce electricity in cities where it possessed an electric tramway, the new *Société parisienne pour l'industrie des chemins de fer et des tramways électriques* (*Parisienne Electrique*) had a much larger scope including the production of electrical equipment. The *Parisienne Electrique* immediately became the French counterpart of the *Russe-française* as a holding company and general contractor.¹⁸ Not limited to projects in France, it built up a portfolio of various Empain companies in Russia, China, Belgium and Egypt too. Its scope quickly surpassed the electricity business by becoming the French partner of the group's enterprises in Chinese and Congolese heavy railways. Thanks to a cartel with the *Russe-française*, the *Parisienne Electrique* could quickly take part in the ongoing construction of electric tramways in France and Russia.¹⁹ It also constructed the power station of the *SEP* together with the *Russe-française*.

Four years after the establishment of the *Parisienne Electrique*, Empain realized that the opportunities for the large-scale production and distribution of electricity had only expanded, whereas “all the good tramways had been constructed.” Limited to the transport business, the chairman of the *Voie étroite* lamented that it could no longer “find new food for its business,” i.e. new investment projects.²⁰ Looking to France, where the *Parisienne Electrique* had successfully engaged in the electric industry, Empain recognized

¹⁶ “Compagnie russe-française de chemins de fer et de tramways: Statuts,” no. 2928, *AMB*, 24 Aug 1896.

¹⁷ “Russe-française: Rapport du CA à l'AGO,” *Supplément MIM*, 23 Mar 1898; “Russe-Française: Rapport du CA à l'AGO,” *Supplément MIM*, 22 Mar 1899.

¹⁸ Lanthier, “Constructions,” 467-68.

¹⁹ “Parisienne Electrique: Rapport du CA à l'AGO,” *Supplément MIM*, 30 May 1901. See also Lanthier, “Stratégies,” 233.

²⁰ “tous les bons tramways sont construits”, “ne trouve plus d'aliments nouveaux à son activité”, “Voie étroite: Rapport du CA à l'AGO,” *Supplément MIM*, 19 Oct 1904.

the need for a Belgian equivalent of the French holding company. In the spring of 1904, the Empain group had to use the *Parisienne Electrique* to bid for the construction of the Brussels power station, for none of the Belgian holding companies specialized in electricity production. Chapter 4 will explain that, partly due to its foreignness, the *Parisienne Electrique* did not obtain the project.

Instead of adding another holding company, the Empain group rationalized its structure by merging the similar holding companies/general contractors *Voie étroite* and *Russe-française* into the new *Compagnie générale de railways et d'électricité* (*Railways&Electricité*, est. 1904). This merger was part of a broader consolidation movement in Western Europe, as a consequence of the crisis of 1900-1903. *AEG* and *UEG* as well as Siemens and Schuckert had merged their activities in Germany and abroad. Smaller Belgian electric engineering firms had gone bankrupt. Even the holding company *CMT* went through harsh times. Meanwhile, more and more capital was needed to develop the Belgian power grid.²¹ That is why, by 1905, the *Railways&Electricité* was equipped with a capital of 15 million francs in equity and 20 million francs in bonds. It quickly became the most important holding company in the business group.

In conclusion, the history of the Empain group is characterized by a multiplication of holding companies. The sketched evolution has demonstrated that it was more convenient to establish an extra holding company than to reorganize the whole structure. Because the holding companies provided capital, technical services and personnel, the business group survived crises and occasional losses. The *Voie étroite*, *Russe-française*, *Parisienne Electrique* and *Railways&Electricité* all engaged in general contracting to support their income. The *Réunis* tried to achieve the same via portfolio investment. Finally, all top holdings transcended their place of incorporation. They had an international scope, but some of them specialized in certain regions and industries.

3.3 The Empain group, a business group?

The Empain group thus gradually developed into a complex governance structure. The finding that it was organized through a multi-layered system of ownership ties suggests that it can be categorized as a business group. As mentioned in the introduction, business groups abounded in the late nineteenth and early twentieth century. Historically, business groups were not merely a suboptimal solution to overcome the shortcomings of developing economies. Instead they were also key actors able to face the challenges of the

²¹ Brion and Moreau, *Tractebel*, 34.

Second Industrial Revolution in more advanced economies. But what makes a business group a business group? According to a common definition, formulated by Barbero and Puig, it is “a set of legally independent firms operating under a common central management, linked by persistent, formal and/or informal links.”²² A business group offers a diversified range of products and/or services, which can be either related or unrelated. The ownership is mostly concentrated in the hands of a family, bank or State. The legally distinct firms are linked together via “equity or social ties and reinforced by cross-shareholding and interlocking directorates.”²³ Morck and Yeung also focus on corporate governance. They speak of a business group whenever two or more distinct entities are “controlled by a single decision-maker,” being most of the time a family or occasionally a single person.²⁴ The literature distinguishes between horizontal ‘network’ and hierarchical ‘pyramidal’ types of business groups. In a horizontal structure the companies form a loose alliance, but maintain nearly all their strategic and financial autonomy.²⁵ Far more important for this research and more robust as a category are the pyramidal business groups (see Fig. 15). These are based on the principle of a higher authority. This controlling entity at the apex can be of formal or informal nature. In the first case, this is a holding company, which owns and controls the operating companies. In the second case, the family does not establish a formal corporate entity but directly owns the companies underneath.²⁶

The Empain group corresponded to what is defined in the literature as a family-owned pyramidal business group. Typically, family members have a majority interest in the single or several holding companies at the top, that serve as control unit(s). The top managers are recruited both within the family and among salaried experts. However, the family holds a “tight grip on the basic strategic and financial decision-making.”²⁷ The operating units are tiers of listed companies. These are not wholly owned by the business group, for their shares were traded on the stock exchange. Most of the growth is created by forming new listed affiliates in a diversified, yet focused range of sectors.²⁸

The preceding all applies to the Empain group before 1914. However, the editors of the authoritative volume on *Business Groups in the West* combine this governance and finance perspective with a restriction based on the product portfolio. To them, the category of

²² Barbero and Puig, “Business groups,” 7.

²³ Barbero and Puig, “Business groups,” 7.

²⁴ Randall Morck and Bernard Yeung, “Enterprise models: freestanding firms versus family pyramids,” in *The Cambridge history of capitalism*, ed. Larry Neal and Jeffrey G. Williamson (Cambridge: Cambridge UP, 2014), 201.

²⁵ Colpan and Hikino, *Business Groups in the West*, 98-99.

²⁶ Colpan, Hikino, and Lincoln, *Oxford Handbook*, 20.

²⁷ Colpan and Hikino, *Business Groups in the West*, 17.

²⁸ Colpan and Hikino, *Business Groups in the West*, 12, 18.

the diversified business group only includes those having diversified into unrelated sectors. The editors would argue that holding company organizations with a related diversification strategy rather resemble the Chandlerian firm, despite a lesser development of managerial hierarchies.²⁹ As a result, the Empain group strictly speaking did not correspond to the definition of the diversified business group, because it had a clear product focus. The group had invested 80% of its capital in closely linked industries and the other 20% in unrelated sectors (see Chapter 2).

However, I argue that the commonalities are such that the analysis of the Empain group as a business group is still very fruitful. It even demonstrates the flexibility of the business group form, allowing efficient investments in both related and unrelated sectors. This view is supported by Youssef Cassis, who also struggled with the proposed narrow definition in his contribution to the volume. His own concept of the French hierarchical *groupe* led by an all-powerful entrepreneur fits rather well with the image of the Empain group.

The main characteristic of France's leading *groupes* (*Saint-Gobain, Thomson, Compagnie Générale d'Electricité, Schneider, Renault*, and many others) was that a number of their activities—which were mostly in single or related industries—were undertaken through legally independent units, in which the parent company held a majority or a controlling minority stake. Vertical integration, whether backward or forward, usually involved the creation of a new company, which often shared its registered office and senior management with the parent company.³⁰

According to Kurgan-Van Hentenryk, the Empain group could also be compared with the Japanese *zaibatsu*. The *zaibatsu* emerged as pyramidal business groups during the rapid industrialization of Japan between the 1880s and the 1920s. The three largest had their own bank and a private holding company at the apex. The ownership was concentrated in the hands of the family, which exercised ultimate control. The holding company maintained an interest of 65% on average in the subsidiaries. On a functional and operational level, the family appointed professional managers. The biggest differences with the Empain group were that over the decades the *zaibatsu* diversified from paper over mining to banking, i.e. very unrelated industries. They also held very strict control over affiliated firms whereas the Empain group was more loosely organized. In addition, the Empain group did not have a general trading company like the *zaibatsu*.³¹

Now that I have argued that the Empain group shows very strong similarities to diversified business groups, let us examine the competitive advantages linked to this

²⁹ Colpan and Hikino, *Business Groups in the West*, 14-17.

³⁰ Colpan and Hikino, *Business Groups in the West*, 223.

³¹ Kurgan-Van Hentenryk, "Structure," 90. See also Colpan and Hikino, *Business Groups in the West*, 111, 22; Morck and Yeung, "Enterprise models," 203.

particular organizational form. The business group literature has identified a number of possible reasons for its existence. First and foremost, the business group is a way of overcoming the weaknesses of inefficient markets. Like the firm itself, the business group is an institution meant to reduce transaction costs. In economies where information was difficult to access and trust and investor protection was low, business groups could internalize transactions otherwise completed via labor, capital, product and other markets.³² However, in early industrializing economies with generally lower transaction costs, entrepreneurs used the business group structure too. It was their way of getting easy access to the capital market.

“As the Second Industrial Revolution transformed the technological and economic foundation of the modern industrial economy after the late nineteenth century, the amount of financial resources that individuals, families, and kin networks could rally became marginal relative to the amount of investment capital required to exploit economies of scale in those capital-intensive industries which became the driving core of the modern economy. Only with the mobilization and pooling of financial resources available society-wide could the large modern industrial enterprise secure the necessary amount of capital to achieve its potential in the production of goods and services.”³³

Secondly, and linked to the aspect of finance, the business group in its pyramidal form allowed entrepreneurs to maintain a certain degree of control, despite opening up corporate ownership to the broader public. With an initially small private capital, families could still run business empires in capital-intensive sectors. Morck referred to it as the ‘Great Pyramids,’ which mainly exist to “magnify merely large family fortunes into control over corporate assets worth vastly more.”³⁴ These ‘pyramids’ are formed by holding companies, owning a controlling block in the first tier of subsidiaries. These companies in turn hold a controlling block in the second tier of firms and so on. To exercise control, the firms even do not need to own the majority of the shares, because small shareholders usually do not vote and founders frequently rewarded themselves with more exclusive shares giving special voting rights.

Thirdly, business groups are a mechanism to reduce market risks. “By holding individual operating units legally independently, controlling shareholders can isolate those risks.”³⁵ In other words, the failure of one operating company should not contaminate the other subsidiaries, given the limited liability of all the group companies. The holding company,

³² Colpan, Hikino, and Lincoln, *Oxford Handbook*, 41, 58.

³³ Colpan and Hikino, *Business Groups in the West*, 16.

³⁴ Randall Morck, “The Riddle of the Great Pyramids,” in *The Oxford Handbook of Business Groups*, ed. Asli M. Colpan, Takashi Hikino, and James R. Lincoln (Oxford: Oxford UP, 2010), 606.

³⁵ Colpan, Hikino, and Lincoln, *Oxford Handbook*, 58.

clustering several of those operating subsidiaries, could compensate for the losses of one with the profits of the others.

3.4 Risk spreading: ‘Group solidarity’

Section 3.2 already cited annual reports of the Empain group stressing that the holding companies were an efficient device to spread the risk and guarantee a stable revenue. This theory was, of course, in part a marketing strategy. This section investigates what implications the mutualization of risk had in practice. It looks at the survival rate of the group companies, and asks whether the holding companies could generate stable profits. Finally, it analyzes how this profit was composed: which companies produced good financial results and which performed poorly? In other words, which firms filled the financial gap caused by others?

Longevity was a typical feature of family firms, yet not exclusively. To study this, we need to temporarily extend our period. Between 1880 and 1980, only 15 out of 85 firms owned by the Empain group were liquidated due to bad financial results. This implies that more than 80% of the Empain companies survived, suggesting that the financial protection of the business group was effective. The holding companies provided security and stability. For instance, the median life expectancy of firms within the Empain group was 25 years. In other words, half of the firms remained active for more than a quarter of a century from the moment of their creation/acquisition until their sale/liquidation.³⁶ As will be explained below, some firms survived yet performed poorly. Subsidiaries could bridge a difficult financial period with a credit from the holding companies.

Regarding the period of 1880-1914, only in very few cases, the Empain group sold a company. Whereas two small projects in the Balkan (*Tramways de Belgrade* and *Kreutz-Belovar*) did not offer a long-term perspective, the *Chemins de fer de Pau-Oloron-Mauléon et Tramways de Bayonne à Biarritz* and the *Chemin de fer de Bayonne-Anglet-Biarritz* had been part of the business groups for over a decade and were situated in its core market. Although there were no signs that they were making a loss, the Empain group decided to sell the two lines connecting Bayonne with Biarritz as well as a light rail network in the Pyrenees. The two companies were trying to obtain electrification, but faced conflicts with the French authorities. Finally, the holding company *Fédération française et belge de*

³⁶ For a discussion of the relevance of firm demography research, see Leo van Wissen, “Demography of the firm: A useful metaphor?,” *European Journal of Population/Revue Européenne de Démographie* 18, no. 3 (2002).

tramways sold its two subsidiaries arguing that “the sold lines only represented a small business and precisely one that, far from yielding the most, has prevented from distributing higher dividends.”³⁷

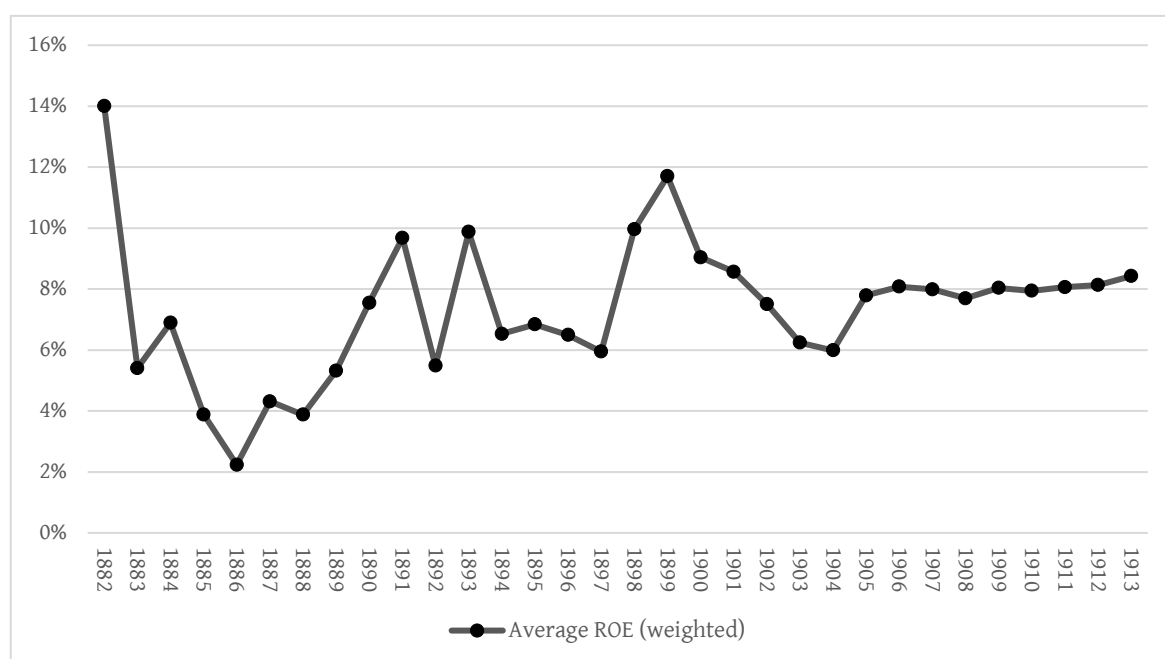


Figure 17 The financial performance of the five main holding companies, weighted average of ROE (1882-1913)³⁸

The holding companies promised their shareholders to provide a stable revenue. Figure 17 shows that that was not always the case. As mentioned above, the holding companies were not immune to the economic crises of the mid-1880s, the mid-1890s and 1901-1904. Despite a very active start, the ROE of the *Voie étroite* dropped to a low of 2.2% in 1886. The worldwide economic boom after 1896 is also quite visible. In 1899 the *Voie étroite*, *Russe-française* and *Réunis* together reached a return of nearly 12%. What strikes is that the more the business group grew, the more the returns stabilized as a whole, especially after 1904. However, the whole period considered, there are some discrepancies between holding companies. On the one end of the spectrum, the *Russe-française*, performing the best with an average ROE of 10.8%, clearly had a profitable business model. On the other end, the

³⁷ “Les lignes cédées ne constituaient qu’une petite affaire et précisément celle qui, loin de rapporter le plus, a empêché de distribuer des dividendes supérieurs”, Fédération française et belge de tramways: Assemblée générale, 10 May 1911, *Le Courrier de la Bourse et de la Banque*, 65AQQ214, ANMT.

³⁸ The return on equity (ROE) is calculated following the method proposed by Cassis, Colli, and Schröter, *Performance*, 6. It is “the ratio, expressed as a percentage, of net profits to shareholders’ equity. Net profits are profits after tax, while shareholders’ equity comprises paid-up capital, reserves, balance carried forward, and other undistributed profits.” Larger firms in terms of shareholders equity weigh more in the average. Data: annual accounts of the *Voie étroite*, *Réunis*, *Russe-française*, *Parisienne Electrique* and *Railways&Electricité*

Parisienne Electrique performed about 4 percentage points worse. It started in a difficult economic period, which put pressure on her financial results in the first years.

The performance of the holding companies can be an indicator of the general prosperity of the business group. All in all, the Empain group performed relatively well compared to several benchmarks. The following benchmark figures are borrowed from the *Performance of European business in the twentieth century* project.³⁹ With their average ROE of 8.2% for the period 1911-1913, the holding companies were situated in the pack of the leading French companies. However, compared to a sample of 17 leading Belgian companies, the Empain group only ranked 15th. But perhaps it is fairer to compare with the sample including the largest European transport and utility companies, the relevant sector. Then we see that the Empain group performed well above the median ROE of 6.3%. Finally, when taking all large European companies as a benchmark, where the median ROE was 8.7%, it can be concluded that the Empain group did not perform particularly brilliantly, but also not bad for a public utilities business group.⁴⁰

To obtain this level of return, the holding companies needed to have a sound business model. The revenue mainly came from three sources. First, most holding companies had their own operational income. They acted as general contractors and financial service providers for their affiliates. Secondly, the holding companies established new companies, which they floated as soon as they were profitable. The capital gains on these shares constituted a fair deal of the parent company's profits. Thirdly, they received the dividends paid out by their subsidiaries.⁴¹

As dividends were one of the three sources of income contributing to the average ROE of 8.2%, the holding companies needed to own subsidiaries yielding much higher as well as much lower returns. In Tables 6 and 7, the best- and worst-performing firms (of which this information is available) are listed. Table 6 shows all the companies of the Empain group that had a ROE of more than 6% on the eve of the First World War.⁴² These twenty-two companies were the backbone of the business group, allowing other less profitable companies to survive. What helped is that the best performing category carried more weight than the worst performing category, as the former contained companies on average nearly twice as large.

³⁹ Cassis, Colli, and Schröter, *Performance*. See also the online database complementing their book.

⁴⁰ Cassis, Colli, and Schröter, *Performance*, 65, 85, 240.

⁴¹ See also the address of the chairman of the *Parisienne Electrique* Berthelot in 1913. *Parisienne Electrique: Rapport du CA: Discussion*, 9 Jun 1913, *L'Information*, 65AQQ483/2, ANMT.

⁴² For new investments, a return of six percent was the minimum target of the *Parisienne Electrique* in 1914. "Parisienne Electrique: Rapport du CA: Discussion," *Vie financière*, 4 Jun 1914.

Table 6 Top 22 best-performing companies of the Empain group (1911-13)⁴³

Company	Sector	Nom.cap. (mln frs)	Avg. ROE, 1911-13
<i>Chemins de fer et tramways en Chine</i>	Heavy rail	1	85.6%
<i>Tramways du Caire</i>	Elec. urban transport	15	17.4%
<i>RELSE</i>	Elec. urban transport°	2.5	13.9%
<i>Tramways Bruxellois*</i>	Elec. urban transport	11	12.6%
<i>Chemin de fer métropolitain de Paris</i>	Elec. urban transport	68	10.9%
<i>ACEC</i>	Elec. manufacturing	12.5	9.9%
<i>Railways&Electricité</i>	Holding company	50	9.6%
<i>Tramways élec. de Gand</i>	Elec. urban transport	3.5	9.0%
<i>Tramways élec. en Espagne</i>	Elec. urban transport	20	8.8%
<i>Tramways élec. du Pays de Charleroi</i>	Elec. urban transport	2	8.2%
<i>SEP</i>	Electricity supply	25	8.1%
<i>Cie. gén. des Chemins de fer vicinaux</i>	Light rail	5	7.9%
<i>Chemin de fer élec. Ostende-Blankenberghe</i>	Elec. urban transport	2.5	7.9%
<i>Parisienne Electrique</i>	Holding company	45	7.8%
<i>Chemins de fer de la Basse Egypte</i>	Light rail	7.5	7.5%
<i>Tramways de Taschkent</i>	Elec. urban transport	3.5	7.3%
<i>Chemins de fer de la banlieue de Reims</i>	Light rail	4.5	7.2%
<i>Cie belge des Chemins de fer réunis</i>	Holding company	25	6.8%
<i>Tramways de Lille</i>	Holding company	10	6.5%
<i>Gaz et Électricité du Hainaut</i>	Electricity & gas supply	18	6.3%
<i>Tramways d'Astrakhan</i>	Elec. urban transport	2.5	6.1%
<i>TELB</i>	Elec. urban transport	30	6.1%

Perhaps surprisingly, the most profitable company before the Great War is the *Compagnie générale de chemins de fer et de tramways en Chine*. As will be further explained in Chapter 7, the small company derived astronomic profits from the issue of a large Chinese government loan. Rather than the operation of the Pienlo railway, these lucrative financial services formed the main source of profit. Except for the *Cie générale*, the top five consists of electric urban transport companies. In fact, half of the 22 companies are active in this sector. Chapter 2 has pointed out that the electrification of tramways had an enormous impact on the operating margin. Hence, efficient transport networks in densely populated cities such as Cairo, Brussels, Paris and Madrid generated a lot of wealth for the Empain group. Among the best-performing companies, one can also

⁴³ * = only partially controlled. Data : Direction d'études économiques et financières, Etude du Groupe Empain, Jul 1914, *Crédit Lyonnais*, DEEF 49107, CA-CL., verified and completed based on the annual accounts of the subsidiaries

observe the group's three top holding companies, one manufacturing company (ACEC) and two power producers in bustling areas. Counterintuitively, the table also contains three light rail companies. Whereas Chapter 2 stressed the mediocre financial results of light rail in France, the two French companies in question were the exception. They enjoyed considerable economies of scale as they each possessed a large and coherent network. Moreover, the *Basse Egypte* connected the Nile Delta, the most economically productive region of Egypt, to the outside world.

Table 7 Top 11 worst-performing companies of the Empain group (1911-13)⁴⁴

Company	Sector	Nom. cap. (mln frs)	Avg. ROE, 1911-13
<i>Tramway de Cointe</i>	Elec. urban transport	0.25	-2.0%
<i>Travaux Publics du Caire</i>	Real estate	6	-1.3%
<i>Éclairage du Centre</i>	Gas supply	6	0.0%
<i>Tramways de Kischinew</i>	Elec. urban transport	1.5	0.3%
<i>Tramways élec. de Damas</i>	Elec. urban transport	6	0.5%
<i>Heliopolis Palace Hôtel du Caire</i>	Real estate	4	1.4%
<i>HOC</i>	Real estate	50	1.5%
<i>Chemins de fer économiques du Nord</i>	Light rail	19.2	2.4%
<i>Cie d'électricité de Seraing</i>	Electricity supply	3	2.9%
<i>Chemins de fer du Calvados</i>	Light rail	3.5	3.0%*
<i>Chemins de fer du Périgord</i>	Light rail	3	3.0%*

In the environment of a business group, some firms could survive despite their poor financial performance. Table 7 gathers all the companies belonging to the Empain group with a ROE of 3% or less. In 1913, Empain and other entrepreneurs would have preferred to invest only in projects yielding more than 3%. Otherwise, they had better bought low risk long-term Belgian and French government bonds with an average nominal interest rate of 3.3% in 1911-1913.⁴⁵ However, the Empain group generally focused on the long term and could wait until projects started to flourish. For instance, the three real estate firms listed in the table formed the core of the Heliopolis project, which was still in its infancy. Empain guessed that the business would pay out in the long run. For the light rail companies, this was also the idea. The *Chemins de fer du Périgord* and *du Calvados* were relatively small and could not survive without state subsidies and an occasional credit from the holding companies. The *Econord* had run up in debt in the past and was now investing to electrify part of its network. However, as these firms were part of the larger

⁴⁴ *-detailed data are lacking, so based on dividends. Data: see Table 6.

⁴⁵ Òscar Jordà, Moritz Schularick, and Alan M. Taylor, "Macrofinancial History and the New Business Cycle Facts," in *NBER Macroeconomics Annual 2016* (Chicago: University of Chicago Press, 2017).

business group, the generated economies of scale allowed them to survive and still yield some profit. In addition, the Empain group had taken over the *Tramway de Cointe* and the *Eclairage du Centre* in the 1900s hoping to rationalize their operation. However, it took more than ten years to digest the accumulated debts from the past. Finally, two larger electric tramways also underperformed. In Chişinău (Kischinew), several economic crises and the resistance of the government against electrification had caused a heavy burden of debt. Damascus suffered from the Ottoman political instability and wars thwarting the large investments made to electrify the network.

3.5 The quest for finance and the concern for independency

The scale increase brought about by the Second Industrial Revolution forced many traditional family firms into a secondary position. In capital-intensive industries such as railroads, public utilities and equipment manufacturing, large joint-stock companies took the lead, for they were best suited to gather funds. However, experts on family business including Andrea Colli have shown that some family businesses perfectly adapted to the new conditions. As mentioned in the general introduction, they made use of business groups to involve external finance in a flexible way and were able to follow the pace of expansion of the large managerial enterprises.⁴⁶ The case of the Empain group brilliantly supports the view that family business groups could be big business too. By 1914, the Empain brothers could control subsidiaries with a share capital of 600 million francs by controlling holding companies only worth 110 million francs. The leverage is significant: for every franc invested in the capital of the holding company, they could control 6 francs of capital in the subsidiaries.⁴⁷ In other words, they just needed to make a decisive investment in the top holding companies to control everything else. Whereas the next section elaborates on the control mechanism, this section investigates the role of finance in this pyramidal structure. In short, where did the companies of the Empain group find the necessary external funds?

⁴⁶ See Chapter 3 of Andrea Colli, *The History of Family Business (1850-2000)* (Cambridge: Cambridge UP, 2003).

⁴⁷ On the leverage of public utility holding companies, see also William J. Hausman and John L. Neufeld, "US Foreign Direct Investment in Electric Utilities in the 1920s," in *The free-standing company in the world economy 1830-1996*, ed. Mira Wilkins and Harm G. Schröter (Oxford: Oxford UP, 1998), 364-65.

3.5.1 Empain, the banks and joint ventures

Unlike most business groups in Belgium, Empain has always kept as much distance as possible from the large Belgian mixed banks. Large bank-centered business groups controlled a considerable part of the Belgian economy before 1914, especially in the coal, steel, traction and electric industry. In 1911, they had acquired large blocks of shares in 41% of all Belgian joint-stock companies.⁴⁸ The mixed banks frequently extended commercial credit to firms whether affiliated or not. This gave the banks a large influence over the business of these firms.

The Empain group, in contrast, preferred not to rely on bank loans in order to keep its independence. Instead, Edouard Empain founded his own bank in 1881. As mentioned in Chapter 1, Empain probably had gathered a starting capital with the help of the du Roy de Blicquy family and by selling quarries.⁴⁹ Several large family businesses, like the *zaibatsu*, established a bank to independently finance growth. The Solvays founded their *Mutuelle* in 1914 for investments in the family business. It became the financial pivot of the Solvay empire in the interwar years. The Turkish family business group Koç, established in the 1920s, had a small private bank too.⁵⁰

As the name suggests, the *Maison de banque E.-L.-J. Empain* was essentially a small private bank, without a separate legal personality.⁵¹ Because Empain did not incorporate its banking activities, these melted into his personal finances. This was typical for the late nineteenth century, when banking still was based on mutual trust and good connections – a broad network of entrepreneurs in Empain’s case. Basically, before the legal reform of the 1930s, anyone could start banking without official permission or leaving a paper trail.⁵² This type of bank mostly operated with great discretion, making it hard to know

⁴⁸ Ginette Kurgan-van Hentenryk, “Finance and financiers in Belgium (1880-1940),” in *Finance and financiers in European history (1880-1960)*, ed. Youssef Cassis (Cambridge: Cambridge UP, 1992), 318.

⁴⁹ See also Anne-Myriam Dutrieue, “Famille Empain,” in *Dictionnaire des patrons en Belgique: Les hommes, les entreprises, les réseaux*, ed. Ginette Kurgan-Van Hentenryk, Serge Jaumain, and Valérie Montens (Brussels: De Boeck Université, 1996), 267.

⁵⁰ Bertrams et al., *Solvay*, 239-40; Halit Gonenc, “How do business group firms utilize internal capital markets?,” *International Journal of Managerial Finance* 5, no. 4 (2009): 363.

⁵¹ On the history of private banking, see Youssef Cassis and Philip Cottrell, *Private Banking in Europe: Rise, Retreat and Resurgence* (Oxford: Oxford UP, 2015). On bankers in Belgium before WWII see Samuel Tilman, *Les grands banquiers belges (1830-1935): Portrait collectif d’une élite*, Mémoires de la Classe des Lettres, coll. in-8°, 3e série (Brussels: Académie Royale de Belgique, 2006).

⁵² Ginette Kurgan-Van Hentenryk, “Le statut juridique des banques et des agents de change en Belgique avant les réformes de 1934-35,” in *La banque en Belgique (1830-1980)*, *Revue de la Banque* (Brussels: Centre d’études financières, 1980), 25.

anything about it.⁵³ Despite erroneous rumors about a possible incorporation already in 1898, Empain only decided to transform his personal bank into a limited liability company after the First World War.⁵⁴ Edouard Empain granted the shares of the *Banque Industrielle Belge* (est. 1919) to his brother François and other close collaborators, while keeping a majority of 71% for himself.⁵⁵

From 1881 onwards, the *Banque E.-L.-J. Empain* was the financial hub of the business group and almost exclusively focused on its development. It seems that *E.-L.-J. Empain* was not really a deposit bank, for group companies also placed their liquid assets with large joint-stock banks.⁵⁶ It was rather the group's own investment bank. Since its establishment, the bank was the main issuer in Brussels of new stocks and bonds of the affiliated companies.⁵⁷ Usually, Empain subscribed to the capital of the firms of the business group, before selling the bulk of it to the broader public. Edouard Empain was also the official banker of the holding companies and subsidiaries, organizing their payments and paying their dividends to the shareholders.⁵⁸ The bank also granted short- and long-term credits to the subsidiaries. For instance, it lent 500,000 francs to the *Produits Cibils* in 1901 and a similar sum to the *Cie Gle de chemins de fer et tramways en Chine* in 1912.⁵⁹ In the 1900s, the capacities of the bank had augmented to such an extent⁶⁰ that she could issue a Chinese loan of 44 million francs.⁶¹ In rare instances, the bank intervened in businesses that did not belong to the Empain group. For instance, Edouard Empain sporadically made small portfolio investments in banks, insurance companies, tramway holding companies, coal mines and colonial enterprises.⁶² He also helped to save two Brussels bankers on the verge of bankruptcy in 1907.⁶³ Finally, the *Banque Empain*

⁵³ The archives of the bank have disappeared with the archives of the family business altogether. See also the fruitless search of previous researchers: Suzor, *Empain en France*, 37.

⁵⁴ "Neues Bankproject in Brüssel," *Hamburger Nachrichten*, 22 Nov 1898.

⁵⁵ "Banque Industrielle: Constitution," no. 909, *AMB*, 3 Mar 1919.

⁵⁶ "Voie étroite: Rapport du CA à l'AGO," *Supplément MIM*, 17 Jun 1883.

⁵⁷ "Prospect: Compagnie générale de Railways à voie étroite," *L'Indépendance Belge*, 17 Feb 1881.

⁵⁸ "Parisienne Electrique: Rapport du CA à l'AGO," *Les assemblées générales*, 30 May 1906; see also *Livre des positions ou situations*, *Archives of the Empain group*, HA.02.01.173, KMMA.

⁵⁹ Meeting of 9 Oct 1901, Comité permanent: Procès-verbaux des réunions, *Banque d'Outremer*, I 301/12, ARA2; Meeting of 3 Oct 1912, Cie Générale, Minutes of the Board of directors, *Compagnie générale de chemins de fer en Chine*, I 394/26, ARA2.

⁶⁰ To give an idea, the share capital of the bank in 1919 was 10 million francs, approx. 2.5 million francs in 1913 prices.

⁶¹ See Chapter 7. Meeting of 2 Apr 1913, Cie Générale, Minutes of the Board of directors, I 394/26, ARA2.

⁶² See e.g. "Caisse des Propriétaires," no. 1688, *AMB*, 20 Oct 1886; "Assurances belges," no. 512, *AMB*, 17 Nov 1892; "Union des Tramways," no. 3158, *AMB*, 4 Nov 1895; "Charbonnages André Dumont-sous-Asch," no. 2714, *AMB*, 30 Apr 1910; "Recherches minières du Bas-Katanga: Constitution," no. 4567, *AMB*, 29 Jun 1910.

⁶³ "Informations financières," *Le Journal*, 30 Mar 1907.

participated in the banking consortium that was formed at the outbreak of the First World War. As one of the twenty contributing banks and as a member of the board of directors, Empain had to help stabilize the Belgian financial system.⁶⁴

To be sure, the Empain brothers could not finance the entire business group without the help of external partners. In the first decade of its existence, the Empain group closely collaborated with *La Métallurgique* and its shareholders and directors. A secretary and a director of the real estate bank *Caisse des Propriétaires*, which also granted credit to *La Métallurgique*, were board members of the *Voie étroite*. The financial involvement of this early network diminished over the years, although ANF, the French subsidiary of *La Métallurgique*, still took an interest of 4% in the *Parisienne Electrique* in 1900.⁶⁵ There were also less successful partnerships in the first decades. In 1888, Empain set up a joint venture with the Belgian magnate Edouard Otlet. After the *Grand Central Sud-Américain* completely failed, Empain refused to cooperate with him in the future, becoming his biggest competitor instead.⁶⁶

With the expansion of the business group in the 1890s, Empain was more keen to cooperate with both private bankers and large banking groups. These banks almost exclusively acted as investing partners, not as money lenders. The business group structure lent itself perfectly to set up joint ventures. The Empain group allowed external financial contributions without necessarily losing full control. On the other hand, partners were placed on an equal footing within the subsidiary, instead of feeling overwhelmed by the size of the total business group.⁶⁷

Since 1894, the group's most important Belgian partner was the *Société générale de chemins de fer économiques (Chemins de fer économiques)*, founded by the *Banque de Bruxelles* and *Paribas*. Together with the Empain group, it established joint ventures for electric tramways in Cairo, Madrid and Damascus as well as a light rail network in the Egyptian Nile Delta. Satisfied by the collaboration so far, Empain even offered the *Chemins de fer économiques* a stake of 1.2 million francs (17%) in the holding company *Russe-française* in 1896. In the end they could not agree on the conditions of the deal.⁶⁸ Ten years later, the *Banque de Bruxelles* itself did take an interest in Empain's Belgian holding companies, the *HOC* in Heliopolis and in the Paris Métro.⁶⁹ Empain also managed to draw the attention of Raphaël de Bauer. He was the manager of the Brussels branch of the mighty French bank

⁶⁴ Van Der Wee, *Generale*, 186-87.

⁶⁵ Industrie Parisienne, 31 May 1901, *Le Paris-Bourse*, 65AQQ483/1, ANMT.

⁶⁶ De Ryck, "Otlet."

⁶⁷ Lanthier, "Constructions," 444.

⁶⁸ Meeting of 7 Dec 1896, *Chemins de fer économiques*, Minutes of the Board of directors, I 30/4327, ARA2.

⁶⁹ Anne-Myriam Dutrieue, "La Banque de Bruxelles au miroir de son conseil d'administration de 1871 à 1914" (Unpublished MA Thesis, Université catholique de Louvain, 1988), 107.

Paribas. In 1895, he had joined the board of directors at the Paris headquarters. Starting with the Chinese projects of Empain, *Paribas* itself or the Brussels branch invested in some large enterprises of the business group. It took stakes of up to 6% in firms such as the *CFL*, *Parisienne Electrique* and *Société française d'entreprises en Egypte*. In the firms where it was represented, the bank occasionally served as a credit provider.⁷⁰

Other large financial institutions such as the *Société Générale de Belgique* and the *Banque d'Outremer* had much looser ties to the business group. In the first twenty years of his career, Empain had managed to stay out of the waters of the old Belgian financial giant. After the first encounter of the two groups in the *Tramways Bruxellois* (1900), it took until 1906 for the *Société Générale* to invest in the Empain companies directly. The *Société Générale* took small interests in the top holding companies *Réunis* (1906) and *Railways&Electricité* (1908). Afterward, the two business groups collaborated in China and established a joint venture (*Cie Auxiliaire d'Electricité de Nantes*) for electric utilities in Nantes. Another sign of rapprochement was the directorate (1909-10) of the French *Cie des Chemins de fer vicinaux* offered to the governor of the *Société Générale* Ferdinand Baeyens. Empain also encountered the *Banque d'Outremer*, led by the colonial entrepreneur Albert Thys, on three occasions at least. Empain partnered up with Thys to save the *Produits Cibils* in 1899. Afterward, the *Banque d'Outremer* declined an offer of shares in the *Russe-française*, but it did participate in the establishment of the *CFL* in 1902.⁷¹

Empain also sporadically allowed and encouraged private bankers from Brussels, Liège and Paris to invest. Many of them were part of well-established banking families: Nagelmackers, Cassel, Balsler, Dubois, Lambert, Stern, Philippson, Goudchaux, ... However, only with the *Banque Bénard et Jarislowsky* (*Bénard&Jarislowsky*) the business group developed a structural partnership. This private bank was founded in 1885 by Adrien Bénard and Sigismond Jarislowsky. They were investment bankers, soon involved in the *Compagnie Continentale Edison*. Thus, they had plenty of experience in the French electricity business. In 1897, Empain collaborated with them to apply for the concession of the Paris Métro. It was the start of an intense, yet far from exclusive collaboration. *Bénard&Jarislowsky* became the business group's main banker in France. It was deeply involved in many new ventures in France or where there was a French component (*Chemins de fer et tramways en Chine*, *Fédération française et belge de tramways*, *Parisienne Electrique*, *CFL*). Like the *Banque Empain* in Brussels, it also took care of the IPOs and official listings of the group firms on the Paris Stock Exchange.⁷²

⁷⁰ Meeting of 17 Feb 1913, *Cie Générale*, Minutes of the Board of directors, I 394/26, ARA2; See also Dutrieue, "Raphaël de Bauer."

⁷¹ Meetings of 10 Feb & 9 Jun 1899, *Comité permanent*: Procès-verbaux des réunions, I 301/12, ARA2.

⁷² Bénard Adrien Léon, *Légion d'Honneur (Base Léonore)*, LH/176/23, FRAN; "Entreprises coloniales françaises: Bénard frères (banque), Paris," http://www.entreprises-coloniales.fr/empire/Benard_freres.pdf; See also

In sum, the Empain group had managed to secure the support of very influential financial institutions, which had considerable leverage to transform projects into successful businesses.⁷³ Yet, Empain always remained master of his own business group. He confined the cooperation with powerful financial groups to specific projects and avoided losing control over subsidiaries.

3.5.2 Going public: Stock and bond markets

More than relying on banks, the broader public was the business group's main source of finance. In this respect, the holding companies at the top of the pyramidal structure serve a twofold purpose. On the one hand, as mentioned in section 3.4, the holding companies reduced the risk and could therefore attract more investors. Those wary of putting their money into one unstable firm could invest in a trust with many securities. Especially the *Réunis* is similar to the many closed-end funds in the late nineteenth century, most famously the *Foreign and Colonial Investment Trust*.⁷⁴ As such, the holding company functioned as an intermediary, protecting subsidiaries from the market and investors from bigger risks. Instead of having the subsidiaries directly address the capital market, the holding companies could raise money on the market with greater ease and then invest it in the daughter companies themselves. On the other hand, they allowed small savers and other investor groups to pump money into a particular subsidiary, without the Empain brothers losing control of the holding company. Usually, when a subsidiary was incorporated or increased its capital, the *Banque E.-L.-J. Empain* and the holding companies subscribed to the capital in its entirety. Only afterward, they would sell their shares to the broader public, but kept a controlling block. To this end, Empain made a lot of publicity, including ads in many Belgian, some French and occasionally Dutch newspapers. For larger businesses, Empain formed a syndicate with befriended banks to issue the new shares, preferably directly at the stock exchange.⁷⁵

Ginette Kurgan-van Hentenryk, "De Clio à la finance: Les origines de la fortune d'André Berthelot," *Revue belge de philologie et d'histoire* 55, no. 2 (1977): 476.

⁷³ Even the Belgian State supported the business group. The state-controlled *Caisse Générale d'Épargne et de Retraite* (CGER) possessed bonds of the *Railways&Electricité* for a value of nearly 5 million francs in 1908. Note on the *Cie générale de Railways et d'Electricité*, 24 Feb 1909, *Belgique*, B/0072864, CAEF.

⁷⁴ David Chambers and Rui Esteves, "The first global emerging markets investor: Foreign & Colonial Investment Trust 1880–1913," *Explorations in Economic History* 52, no. April (2014); See also: Hennart, "Transaction-Cost," 81.

⁷⁵ See for example the syndicate Empain organized to issue 7 million francs in shares of the *Compagnie générale des nitrates* (1895). Documents concernant la participation de la banque Philippson au syndicat constitué pour l'achat d'actions de la *Compagnie générale des nitrates*, 1895, 1822, Archives Philippson.

In fact, the business group was known for its strategy to speculate on the stock exchange with shares of Empain companies. Empain watched their quotation very closely and did not hesitate to inflate the prices of shares, even if the subsidiary was not yet in operation. When the prices had reached a high, Empain or the holding companies sold a part of their shares. Conversely, Empain also tried to support the share price when the speculation had brought it down. Because of its market power and large PR budget, the Empain group could influence the stock markets and maximize the profits derived from its 'agiotage'. This was particularly the case for the highly mediatized *Métropolitain*, listed in Paris and Brussels. The price of a share (nominal value 250 francs) in Paris fluctuated between 400 and 698 francs until the First World War.⁷⁶ The prices did not necessarily run parallel in Brussels, so Empain could also take advantage of this difference.⁷⁷

Despite some speculation, the basic policy of the Empain group was long-term oriented. In his answer to a critical shareholder, the chairman of the *Parisienne Electrique* Berthelot explained the principle. The holding company held shares for a long time, to profit from their value increase and the dividends. "In the important businesses that we consider belonging to our group to a certain degree, we do not have the habit to diminish our stake in times of crisis." He continued by saying that the *Parisienne Electrique* only sold the shares of its subsidiaries when their success was certain. The holding company always kept a minority stake "sufficient to ensure the continuity of the management conceived at the start-up of the enterprise."⁷⁸

Besides equity, the Empain group also issued corporate bonds. This was a way of expanding without diluting Empain's ownership interest or claiming a part of the profits. However, Figure 18 shows that in the 1880s, it was impossible to finance the enterprise with debt. The depression and deflation deterred investors. The Empain group needed to wait until it had enough lines in exploitation that could generate a sufficient and stable revenue. The establishment of the *Réunis* and the *Russe-française* reinforced this tendency, reaching the point in 1896 where bonds were twice as important as equity (75%/25%) in the corporate finance of the holding companies. After 1900, the group again favored equity finance, this time because the business group was doing much better on the stock market (see Fig. 19). The holding companies could issue new shares at a premium of 60%

⁷⁶ "DFIH-Data for Financial History: A comprehensive database on the French stock markets since 1795," dfih.fr.

⁷⁷ Lanthier, "Constructions," 470-71; Ilbert, *Le Caire*, 44; See also Direction d'études économiques et financières, *Etude du Groupe Empain*, Jul 1914, DEEF 49107, CA-CL.

⁷⁸ "dans les affaires importantes que nous considérons comme appartenant dans une certaine mesure à notre groupe, nous n'avons pas l'habitude de diminuer notre participation dans les périodes de crise", "suffisante pour assurer la continuité de la gestion imprimée à l'origine à l'entreprise" "Parisienne Electrique: Rapport du CA: Discussion," *Vie financière*, 4 Jun 1914.

of the nominal value. These premiums formed an important source of finance in the decade up to the First World War.⁷⁹

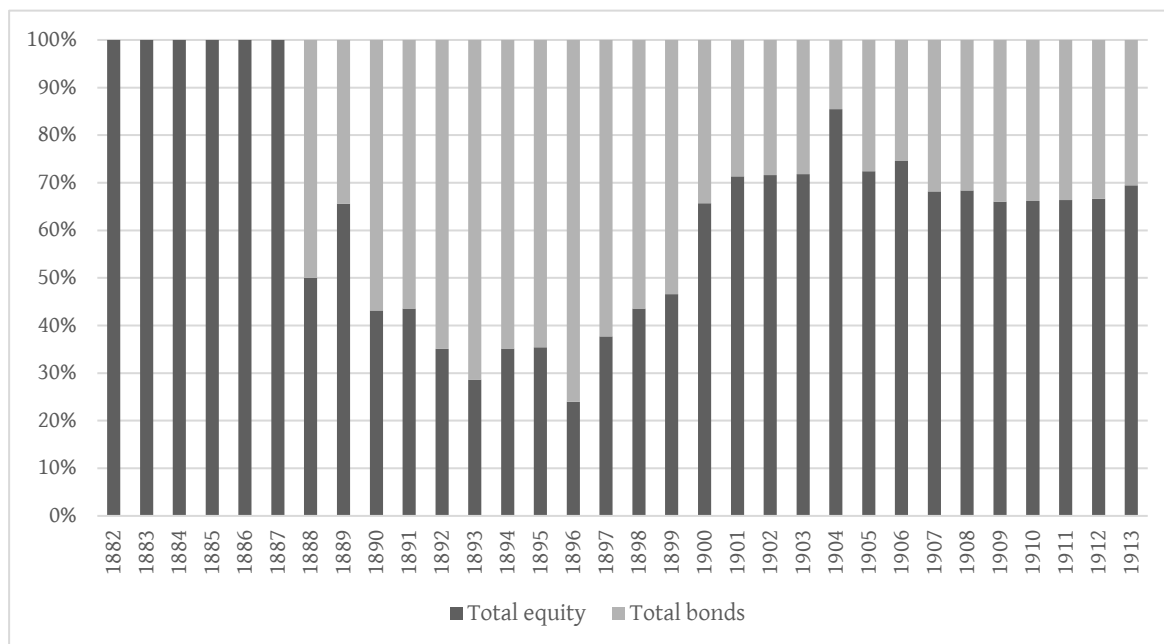


Figure 18 The ratio of equity versus bonds as a source of finance of the top holding companies (1882-1913)⁸⁰

Precisely because the Empain group relied so much on the money of the broader public, it had every reason to list as many of its companies as possible and the sooner the better. That way the largest shareholders (the Empains and the holding companies) could more easily sell their shares. Of the 76 firms for which a listing was conceivable, 64% were listed on a stock exchange.⁸¹ Four out of five of these companies were listed within two years after incorporation or after the takeover by the Empain group if they were not listed already. This is actually more than five years faster than the average company listed on the Paris Stock Exchange.⁸² It took the other 20% Empain companies, mostly in the railway business, much longer to take the step to the stock exchange. Some like the *Tramways électriques du Pays de Charleroi* (3 years) and the *Bruxelloise d'électricité* (4 years) awaited the

⁷⁹ Lanthier, "Constructions," 440. For instance, the *Railways&Electricité* could twice raise 5 million francs, i.e. 50% more than the nominal value during the capital increases of 1906 and 1913. "Railways&Electricité: Rapport du CA à l'AGO," *Supplément MIM*, 27 Mar 1907; "Railways&Electricité: Rapport du CA à l'AGO," *Supplément MIM*, 22 Apr 1914.

⁸⁰ Calculated from the annual accounts of the top holding companies *Voie étroite*, *Réunis*, *Railways&Electricité*, *Parisienne Electrique* and *Russe-française*

⁸¹ The data on the Brussels Stock Exchange are retrieved from the *Studiecentrum voor Onderneming en Beurs* (SCOB) database by Frans Buelens. For data on the Paris Stock Exchange, see the database of "DFIH".

⁸² See the graph 'Age of companies at the time of their initial listings on the official stock exchange' on "DFIH".

completion of the construction works.⁸³ Other tramway and light rail companies needed more than a decade to generate sufficient profits that could attract investors, as analyzed above. Fourteen years after its establishment, the ZNSM distributed a dividend of approx. 2%, which the Empain group deemed enough to charm the Brussels Stock Exchange.⁸⁴

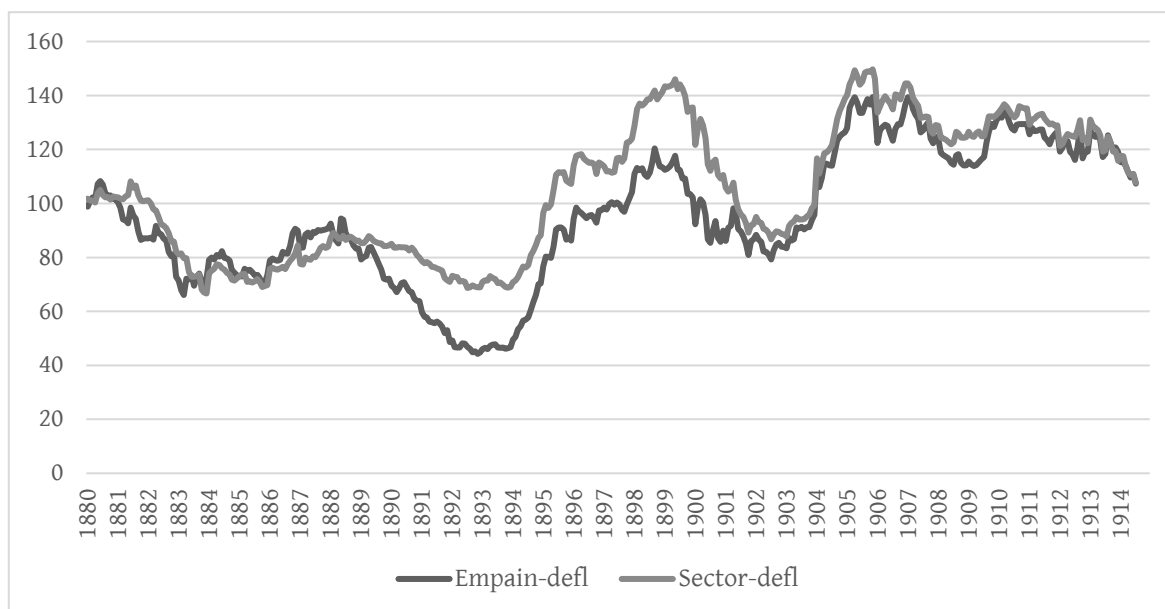


Figure 19 Deflated price evolution of all shares of the Empain group listed on the Brussels Stock Exchange compared to the sector index, 1880=100 (1880-1914)⁸⁵

A bit more than one third of the Empain companies never listed its shares. They can be divided into three groups. The first group contained operating companies of light rail networks (Périgord, Bayonne-Biarritz, Calvados, Moudania-Brousse) that were too small to require a lot of capital or that hardly produced any surplus value for its shareholders. Secondly, some companies had never passed the conceptual stage of their intended project: *Tramways de Neuilly-Montmartre*, *Phosphates du Djebel Onk* and *Tramways de Berditscheff*. The third group included subsidiaries such as the *TELB*, *SERVA*, *Chemins de fer et tramways en Chine* and *Terrains du Caire*, which were so closely held by the holding companies that they did not need external investors.

For the Empain group, with its companies mainly registered in Brussels and Paris, the markets of these two capitals were preferable to float securities. The majority of firms having their registered office in Belgium, the Brussels Stock Exchange seemed a logical choice. As a financial center, Brussels ranked fourth in Europe after London, Paris and Berlin. The Belgian capital market was well known for its very liberal legislation on

⁸³ Réunion: Assemblée générale, 27 Mar 1907, *L'Echo de la Bourse*, 65AQE232, ANMT.

⁸⁴ *Recueil Financier*, 1909, 720.

⁸⁵ Calculated by Frans Buelens (SCOB)

corporations, favorable taxation and “the plentiful Belgian domestic savings.”⁸⁶ In addition, the Brussels Stock Exchange had very low requirements, allowing both Belgian and foreign stocks. The autonomous Stock Exchange Commission used its absolute freedom to accept new listings. In consequence, the number of listed securities steeply rose from 470 in 1880 to 2200 thirty years later.⁸⁷

However, the larger the business group became, the more Empain needed to find additional sources of capital. Like many other Belgian entrepreneurs, Empain turned to France, especially after the turn of the century.⁸⁸ Paris was the second-largest capital market in the world, after London but before New York and Berlin.⁸⁹ However, the listing requirements of the Official Paris Stock Exchange were a lot more rigorous. The application of each company went through a strict procedure. Foreign values were only accepted if they were already listed on an exchange in their home country. Their second listing in Paris was subject to the approval of the French government. The autonomous *Compagnie des Agents de Change* and the Ministry of Finance assessed the financial viability of the firm and the economic interest of a listing. However, the French Minister of Foreign Affairs also had a right of veto. He had to evaluate if the company fitted in the broader foreign policy and was in the interest of France.⁹⁰ The difficulty to get listed in Paris is reflected by the fact that some French companies were listed only in Brussels and not in Paris.

Fifteen of the largest Empain companies received a secondary listing after they had already been traded in Brussels or Paris. These large holding and industrial companies needed a large market to optimally float their shares and could benefit from the additional trade created by a second listing. Whereas the shares of the Belgian *Réunis, Russe-française* and *ACEC* were accepted in Paris after a successful listing in Brussels, the French firms *Chemins de fer vicinaux, ACENE* and *EGN* received a second listing in Brussels. Thanks to thorough preparation, the IPO of the *Parisienne Electrique, CFL,*

⁸⁶ Youssef Cassis, *Capitals of Capital: A History of International Financial Centres (1780-2005)*, trans. Jacqueline Collier (Cambridge: Cambridge UP, 2007), 125.

⁸⁷ Guy Vanthemsche, “Du carcan à la débauche: L’évolution de la réglementation au XIXe siècle,” in *À la Bourse: Histoire du marché des valeurs en Belgique de 1300 à 1990*, ed. Geert De Clercq (Louvain-la-Neuve: Duculot, 1992).

⁸⁸ Ginette Kurgan-Van Hentenryk, “La puissance financière française vue par les milieux d’affaires belges,” in *La puissance française à la Belle époque: Mythe ou réalité ?*, ed. Pierre Milza and Raymond Poidevin (Brussels: Éditions Complexe, 1992), 189.

⁸⁹ Cassis, *Capitals of Capital*, 106.

⁹⁰ Pierre-Cyrille Hautcoeur and Georges Gallais-Hamonno, *Le marché financier français au XIXe siècle: Aspects quantitatifs des acteurs et des instruments à la Bourse de Paris* (Paris: Publications de la Sorbonne, 2007); For a comparative discussion, see Lance Davis, Larry Neal, and Eugene N. White, “How it all began: The rise of listing requirements on the London, Berlin, Paris, and New York stock exchanges,” *The International Journal of Accounting* 38, no. 2 (2003); Samir Saul, *La France et l’Égypte de 1882 à 1914: Intérêts économiques et implications politiques*, (Paris: Institut de la gestion publique et du développement économique, 1997), <http://books.openedition.org/igpde/746>. Chapter 5 §89-100.

Railways&Electricité and *CMP* could be almost simultaneously organized at the Stock Exchanges of Brussels and Paris. The example of the *Tramways de Paris et du Département de la Seine (TPDS)*, the second-largest surface transport company in Paris, perfectly illustrates the policy of the Empain group. The business group had acquired a considerable interest in the company in 1910 as a consequence of a merger. One year later, the Empain group introduced the stocks at the Brussels Bourse, while it had also been listed in Paris since 1891.

That the secondary listing in Paris was not a sinecure is illustrated by the following two cases. The Brussels Stock Exchange accepted the *Econord* (est. 1883) within a year after its incorporation, but the French government was more reluctant to allow the company in Paris due to legal irregularities. It first obtained a listing in Lille in 1886 and only one year later at the stock exchange of the French capital. The *HOC* was even more suspicious in the minds of French officials, because of the alleged speculative nature of the Heliopolis project. Empain had by all means tried to obtain the official listing on the Paris Stock Exchange after the IPO in Brussels. The French government, however, categorically refused. It based its refusal on the poor financial outlook of the company.⁹¹ However, it was listed on the Stock Exchange in Cairo.⁹²

Surprisingly, Empain showed much less interest in British finance, despite the importance of the London capital market. Only when the dominant position of Great Britain in a specific market required this, Empain mobilized British capital. As far as the sources tell, he had made one fruitless trip to London early in his career.⁹³ Afterward, Empain partnered up with British capitalists for the Chilean nitrate and for the *Chemins de fer de la Basse-Egypte*. As soon as the Egyptian activities were assuming vast proportions, he activated this modest British network to invest in the *HOC* and the *Egyptian Mail Steamship*. That is why these two companies also issued shares in London.⁹⁴

Empain did hardly contact German investors. However, while many biographers write that he was too Francophile to collaborate with them, he did not entirely avoid them. In 1898, Empain attempted to have the German-owned *Sofina* invest in his business in China.⁹⁵ Yet, it seems that the German option generally was a lever to encourage France to show more benevolence. For instance, in 1912, the German Dresdner Bank and the Deutsch Orient Bank were interested in acquiring an interest of 40% in the *HOC*. Empain

⁹¹ Saul, *France et Egypte*. Chapter 5 §47-102.

⁹² Ilbert, *Le Caire*, 43.

⁹³ He tried to sell shares of the *Grand Central Sud-Américain* to London investors in 1889. Otlet (Brussels) to Empain (London), 23 May 1889, *Correspondance générale*, T 447/56, Economic Archives of the Otlet Family, ARA.

⁹⁴ Saul, *France et Egypte*. Chapter 5 §51; "New Issues: Egyptian Mail Steamship Company," *Financial Times*, 15 Jan 1907.

⁹⁵ Brion and Moreau, *Tractebel*, 40.

immediately warned the French Ministry of Foreign Affairs. “They feared indeed that the German investors seek to absorb the enterprise completely and to transform the new city into a German city.”⁹⁶ The French government was, of course, very sensitive to this German threat and wanted to preserve the French-Belgian allure of Heliopolis. But as mentioned above, the bad financial performance of the company absolutely excluded a listing.

3.5.3 Lenders within the group: Inter-firm loans

As discussed above, companies affiliated to the Empain group did not rely on banks for credit. Banks merely acted as investing partners. Holding companies, on the contrary, acted as the group’s credit providers, together with the *Banque E.-L.-J. Empain*. These credits were of paramount importance for companies in their infancy. After their establishment, most companies had to heavily invest before earning profits. As a consequence, in the first years they could not easily independently raise money on the market. Some subsidiaries, as discussed, actually never managed to do so in their entire lifecycle. In 1906, Edouard Empain explained to the shareholders of the *Réunis* one of the main tasks of the holding company. The *Réunis* always needed to have enough liquid assets, for it was the “banker of the subsidiaries to which advances on current accounts [were] made to allow them new lines before they issue[d] bonds. That is how the Company has helped the *Vicinaux*, the *Railways&Electricité* [and] the *Tramways de Lille*.”⁹⁷ The other holding companies, specialized in general contracting, also extended credits of several million francs to their subsidiaries, mostly to prefinance the construction works they were executing for the operating companies.⁹⁸

⁹⁶ Defrance (Cairo) to Poincaré (Minister of FA, Paris), 20 Mar 1912, *Egypte: Finances privées (1911-12)*, 156PCOM/83, MAEF.

⁹⁷ “les Réunis sont les banquiers des filiales à qui les avances sont faites en comptes courants pour leur permettre des lignes nouvelles avant qu’elles n’émettent des obligations. C’est ainsi que la Société est venue en aide aux *Vicinaux*, aux *Railways-Electricité*, aux *Tramways de Lille* qui vont augmenter leur capital”, *Réunis: Assemblée générale*, 28 Apr 1906, *L’Echo de la Bourse*, 65AQE232, ANMT.

⁹⁸ *Parisienne Electrique* and *Railways&Electricité* for the *SEP*, *RELSE* for the *Tramways électriques de Gand*. Suzor, *Empain en France*, 313; *RELSE: Rapport du CA à l’AGO*, 6 May 1907, 65AQE401, ANMT.

3.6 Control: The open family firm

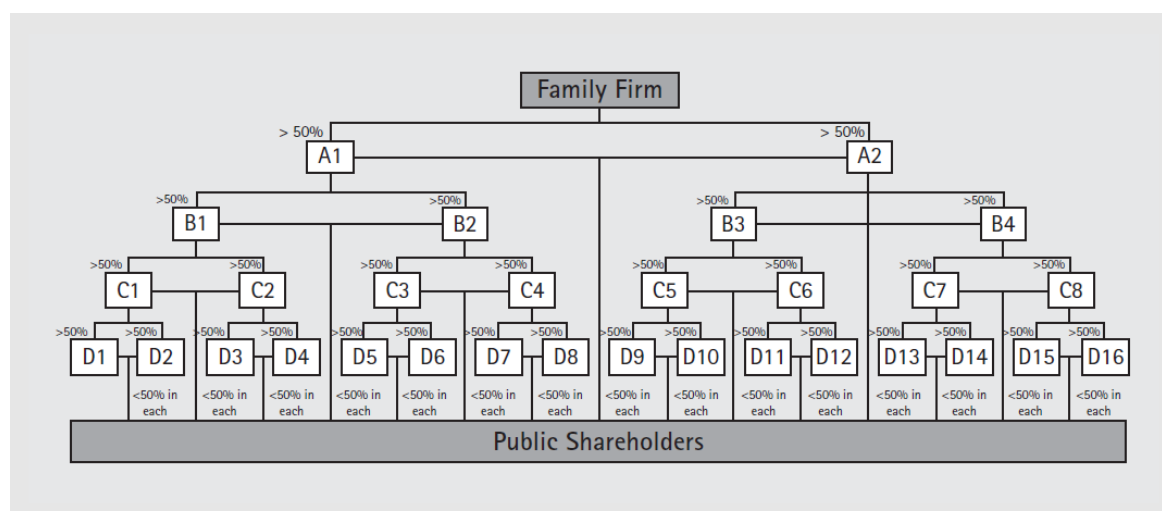


Figure 20 A stylized pyramidal business group⁹⁹

The pyramidal system of the business group allowed Empain to ultimately control a lot of companies with a relatively limited amount of capital. In the business group literature, ultimate control means to be “in a position to control, or materially to influence, the management of one or more other companies by virtue, in part at least, of its ownership of securities in the other company or companies.”¹⁰⁰ Throughout the decades, the Empain brothers closely held the shares of the top holding companies.¹⁰¹ These come down to the theoretical “family firm” of Figure 20. The family ownership was strengthened by a strategy of cross-shareholding among the holding companies, which also limited the risk of a hostile takeover. As the largest shareholders of the firms at the top, the Empain brothers could control all the subsidiaries underneath. Every tier just had to own more than 50% in the next tier, while the public shareholders could provide the rest of the capital of the firms. As mentioned, in the early twentieth century, having a majority was not strictly necessary to control a company. At most general assemblies of Empain’s top

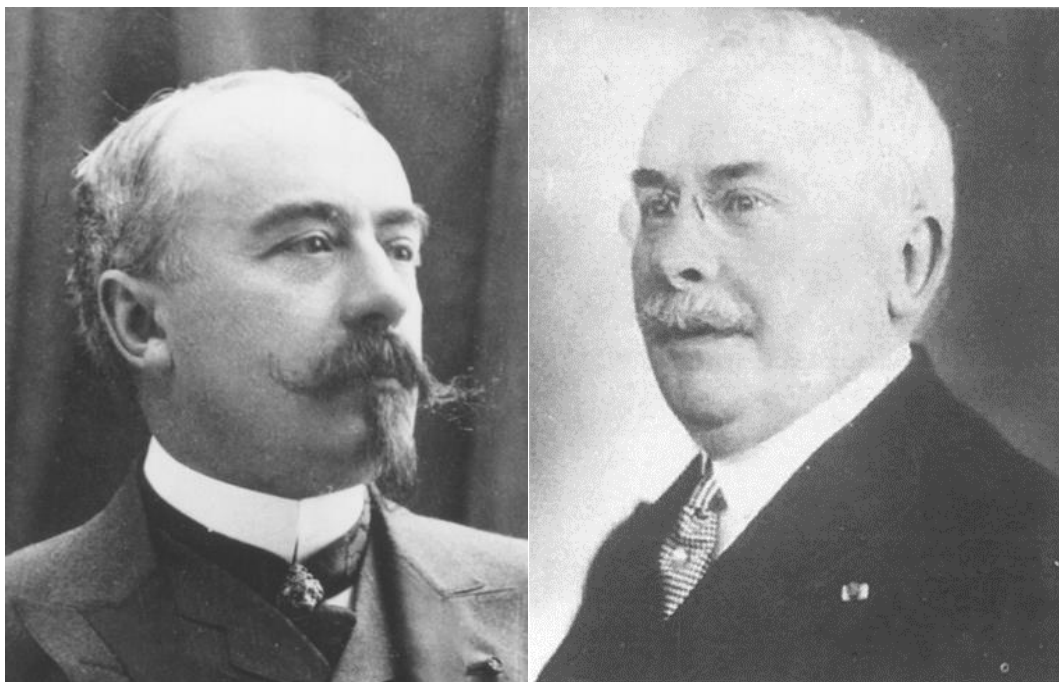
⁹⁹ Colpan, Hikino, and Lincoln, *Oxford Handbook*, 607.

¹⁰⁰ James C. Bonbright and Gardiner C. Means, *The Holding Company: Its public significance and its regulation* (New York: McGraw-Hill, 1932), 32. Cited after Colpan, Hikino, and Lincoln, *Oxford Handbook*, 17.

¹⁰¹ In his testament (1922), Edouard Empain advised his two sons inheriting a “large block of shares” of the *Railways&Electricité* not to divide it, for it “gives them the control of this company and as this possesses the control of the bulk of the businesses I have created, they will in this way have control of a large part of my work.” (“*La possession de ce gros paquet d’actions leur donne le contrôle de cette Cie et comme celle-ci possède le contrôle du plus grand nombre des entreprises que j’ai créées, ils auront ainsi la maîtrise après ma mort, d’une grande partie de mon oeuvre.*”) Empain, *Déclaration de succession* (copy), 1922-1928, Bois du Cazier.

holding companies, only a handful of shareholders showed up.¹⁰² This leads to the remark that, thanks to the control of this pyramid, the Empains could tunnel the profits from the lowest tier to the top holding companies. Via the possession of special shares ('founder's shares'), Edouard and François amassed a fortune despite the occasional bad performance of the business group at the stock exchange.¹⁰³

Figure 21 Edouard and François Empain (early twentieth century)¹⁰⁴



Among historians of the Empain group, there is some debate on the extent to which the business group was a family business. Based on an analysis of French companies, Suzor believes it was not, because the family conserved only part of the power. Family members other than the Empain brothers were not part of corporate boards before 1914.¹⁰⁵ Instead, Empain hired salaried managers. This research follows the definition of Andrea Colli, who states that a family business is an enterprise where one or more family members own a sufficient part of the capital to influence the strategy and appoint senior executives.¹⁰⁶ I argue that, in the case of the Empain group, the degree of control was even higher than required by Colli, for the Empain brothers were in the top management themselves. Not

¹⁰² Réunion: Assemblée générale, 27 Mar 1907, 65AQE232, ANMT; Railways&Electricité: Assemblée générale, 26 Apr 1911, *L'Echo de la Bourse*, 65AQE238, ANMT.

¹⁰³ On tunneling in pyramidal business groups, see Morck, "Riddle."

¹⁰⁴ Source Edouard: "Cent Wallons: Edouard Empain," http://www.wallonie-en-ligne.net/1995_Cent_Wallons/Empain_Edouard.htm. Source François: Toussaint, *Barons*, photo section.

¹⁰⁵ Suzor, *Empain en France*, 241-44.

¹⁰⁶ See Chapter 1 of Colli, *Family Business*.

content with supervising, both brothers were managing directors of the holding companies for a long time. François Empain (see Fig. 21), a doctor of law and political science (1880-1884), had joined the group in 1888-89 after a short career as a lawyer.¹⁰⁷ He immediately became director of the *Voie étroite* and rose to be Edouard Empain's right hand. Together, the Empain brothers were directors of nearly 60% of the group companies (49 out of 84). In more than half of these 49 cases, they were both represented, for instance in the top holding companies. No other top collaborator was a director of all 4 and then 3 top holding companies. In the other half of the 49 cases, Edouard Empain served alone on the board or delegated his brother François. Being too busy, Edouard also handed some of his directorates over to François after 1900. Generally, whenever Edouard was abroad or unavailable, he had his brother replace him and take care of important business.¹⁰⁸

It is true that, as Suzor has written, wherever the Empain brothers were not in the board of directors themselves, i.e. in the other 35 out of 84 companies, they delegated their closest collaborators. Whereas in a classic family business, the leader would appoint relatives to safeguard its interests in the subsidiaries, Empain secured the collaboration of several highly skilled managers. Roch Boulvin combined important positions in the holding companies with directorships in many electricity and gas-producing companies such as the *SEP*, *EGN*, *SERVA*, *Cie d'électricité de Seraing*, *CAEN* as well as the electric equipment manufacturer *ACENE*. The Empain brothers entrusted Alfred de Wandre with a directorship of the *CMP*, the *TPDS*, the *Nitrate Railways* and the *Société française d'entreprises en Egypte*. André Berthelot also supervised the interests of the Empains in some of the same companies as well as in the *Compagnie Parisienne de Distribution d'Electricité* and the *Société d'Études des Chemins de fer et des Phosphates du Djebel Onk*. Finally, Arthur du Roy de Blicquy and afterward his nephew Edouard represented the Empain brothers in diverse companies managed from the Brussels headquarters. Thus, these few top directors were the "eyes" of the Empain brothers in the boards where they were not directors themselves. Generally, Edouard Empain was involved in the start-up of a new company or project and took care of crucial steps such as going public. As soon as the business was up and running, Empain delegated the further strategic management of some subsidiaries to his finest collaborators. However, he retained the right of veto in important matters and intervened if problems occurred. Specific projects such as the *Métropolitain*, the Chinese railway loans and the businesses in Cairo, he followed very closely.

¹⁰⁷ In 1886 he acted as the lawyer of *la Métallurgique* in a court case. "Chronique judiciaire," *Journal de Bruxelles*, 9 Sep 1886.

¹⁰⁸ See for instance DeFrance (Cairo) to Jonnart (Paris), 24 Jan 1913, B-0031291, CAEF.

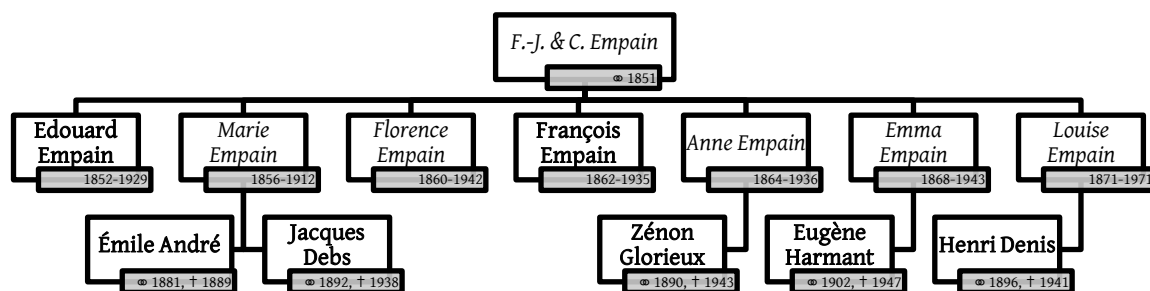


Figure 22 The direct offspring of François-Julien and Cathérine Empain¹⁰⁹

The corporate policy was thus designed and executed by the Empain brothers and a small circle of top directors. Nevertheless, Edouard Empain also tried to involve his relatives in the business as much as possible. Lacking other brothers, Empain gave his five brothers-in-law positions in the business group (see Fig. 22). Already in 1881, Empain paired his oldest sister Marie-Louise with Emile André. André came from Beloeil and was at that time an engineer at *La Métallurgique*. Via this matrimonial strategy, Empain created a reliable loyal collaborator. André became director of the *Bruxelles-Ixelles-Boendael* and went on a mission to Argentina for the *Grand Central Sud-Américain*. After his death in 1889, Marie-Louise remarried. Her new husband was Jacques Debs, an important magistrate in Boulogne-sur-Mer. In the 1890s and 1900s, he was president of the Court of First Instance of Boulogne. He advised the Empain group on a lot of legal issues. He also was the only family member to sit on the board of the *CMP*.¹¹⁰

The most important brother-in-law was also the last to join the Empain family. After his marriage with Emma Empain in 1902, Eugène Harmant relatively quickly became one of the twenty most important directors before the First World War (see below). He had the right profile for it. Graduated as an engineer in 1894, he served in the army as a lieutenant colonel. From 1908, Harmant received mandates in ten Empain companies, even joining the board of the holding companies *Railways&Electricité* and *Réunis* in 1914. He also possessed some shares of the former.

Two more in-laws played a role in the business group. Zénon Glorieux was a medical doctor in Brussels. Having married Anne Empain in 1890, he acquired small blocks of shares in some Empain companies. From 1896 until at least 1914, he was an auditor of 6 firms (incl. *Railways&Electricité*). He also was a director of the *Produits Cibils* in the early years. Finally, Louise Empain married Henri-Louis Denis in 1896. He was an artillery

¹⁰⁹ Waltenier, “Les quartiers d’ascendance du Baron Édouard Empain (1852-1929),” 53.

¹¹⁰ See Minutes ou Carnets tenus par G.V.: Années 1906-1917, *Archives de la famille Verniory*, VII.1, MRM; Suzor, *Empain en France*, 242.

lieutenant in the Belgian army, later being promoted general.¹¹¹ On behalf of Empain and Leopold II, Denis left on a mission to Morocco in 1904. With auditor mandates in only three companies, he did not play an important role in the business group before 1914.

In conclusion, the Empain group has never been a traditional private family business. It was rather an “open family firm,” where family members shared the management with professionals.¹¹² The more relatives were qualified, the more directorships Edouard Empain offered them. So to a certain degree, Empain understood his business empire as belonging to the family. However, the awareness that his legacy had to be passed on to the next generation came rather late. Empain recognized his two sons only at the end of WW1.¹¹³ But as soon as they had reached the age of majority, they received some directorships in the business group. Slowly but surely, Jean and Louis Empain could participate in the strategic management in the second half of the 1920s. However, the first generation stayed in charge until Edouard’s death in 1929. Empain’s understanding of family ownership was perfectly exemplified in his letter to Jean Jadot (*Société Générale*) during the First World War. Empain considered opening up the capital of ACEC to the *Générale*, but “we remain, personally and by far, the largest shareholders of the Ateliers and we hope it will always be a family business and a national business.”¹¹⁴ With ‘family,’ Empain in the first place probably meant himself and his brother.

3.7 Pooling of managerial and technical resources

In terms of corporate governance and management professionalization too, the stereotype about business groups is that they are inferior to large managerial corporations. Allegedly, their diversified product portfolio prevents the generation of competitive advantage in that respect. However, Colpan and Hikino have argued that

As long as the group headquarters continues to take the primary role of effective administrative coordination, it can realize positive spillovers (...) across individual operational affiliates. The business group form may then prove a competitive asset,

¹¹¹ His uncle was the liberal mayor of Mechelen and his father was colonel in the Belgian army. “Letterenhuis: Objectbeschrijving: Portret Florimond Denis,” <https://anet.be/record/opachobj/tg:lhph:26536/N>.

¹¹² See Conclusion of Colli, *Family Business*.

¹¹³ See Marginal note to the birth certificate of Jean Louis Lain Empain, 25 Nov 1902, *Brussels: Registry Office: Birth certificates (digital)*, 84414/0_0005, ARA (Vorst); *Recueil Financier*, 1924.

¹¹⁴ “Nous restons, personnellement et de beaucoup, les plus gros actionnaires dans les Ateliers et nous comptons que ce sera toujours une affaire de famille et une affaire nationale.” Cited after: Brion and Moreau, *Tractebel*, 44.

with its accumulated knowledge in administrative skills, financial capabilities, human resource management, and marketing expertise that the groups acquire through consecutive entries.¹¹⁵

The complex structure of the Empain group, made of eighty legally independent firms, risked being inefficient too. In this section, I argue that Empain tried to overcome the possible inefficiency by achieving a similar “administrative coordination.” He did this primarily by concentrating the group’s senior management, on the one hand, and the physical headquarters of all the companies, on the other hand. In addition, I argue that the holding company organization permitted Empain to recruit external experts and appoint them on the board of directors of specific related subsidiaries. Yet, these managers could not challenge the ultimate control of the family, who owned the holding companies.

3.7.1 The thirty leading executives of the business group

The last section has already demonstrated that the strategies were designed in the holding companies by a small selection of top directors. The group, however, was kept together by more than just the Empain brothers and the deputies Boulvin, de Wandre, Berthelot and du Roy de Blicquy. The crucial instrument to give the subsidiaries a certain coherence and common strategy was the use of interlocking directorates. A director interlock occurs when one person is a member of the board of directors of two or more companies at the same time. This is a common feature of business groups. Vertical interlocks (between parent and subsidiary) serve to monitor and control. Directors of the top holding companies can propagate the general strategy lower in the pyramid. In contrast, horizontal interlocks allow coordinating by sharing information among related subsidiaries.¹¹⁶

I argue that, instead of clear managerial hierarchies, the Empain group intensively used the principle of interlocking directorates to concentrate strategic management in the hands of a relatively small team of top collaborators. As a matter of fact, not more than thirty people held 50% of all yearly mandates available in the history of the Empain group until the First World War (see Table 8).¹¹⁷ The top five directors were even responsible for 25% of all yearly mandates. In their peak year, they each had between ten and thirty interlocking directorates. The concentrated power was such that the thirty key

¹¹⁵ Colpan, Hikino, and Lincoln, *Oxford Handbook*, 57.

¹¹⁶ Ludo Cuyvers, An Rommens, and Marc Deloof, “Interlocking Directorates and Business Groups: Belgian Evidence,” *Research Papers UAntwerpen*, no. 23 (2007): 7-14; Colpan, Hikino, and Lincoln, *Oxford Handbook*, 62.

¹¹⁷ A person has e.g. 50 mandates of one year if he is on the board of 5 companies for 10 years.

figures only formed 9% of all the people having been on the board of an Empain company. The composition of the top management was very stable. Most top directors had a career in the business group of twenty years or more. Mostly, they remained directors until their death.¹¹⁸

When looking closer at their profiles, four categories of top executives can be distinguished. The first group consisted of family and relations from the early days of the business group. Arthur du Roy de Blicquy, Edmond Terlinden, Jules Carlier, Maurice Anspach all came from the business environment of *La Métallurgique* and the *Caisse des Propriétaires*. Alphonse Braem¹¹⁹ (not in the top 30), a long-standing director of the *Voie étroite*, had the same background. Especially in the first two decades, Empain relied on these loyal collaborators, of which some already had an engineering background.

However, the more the business group grew and the more complex the applied technology became, Empain recruited professionally trained specialists and influential figures outside the original network. In fact, the directors from the early years (before 1890) only formed one third of the top 30. Likewise, only three family members held a top executive position. This demonstrates the degree of openness of the family business group of the Empains.

It is thus not surprising that civil engineers formed the second, large group. With their degrees obtained in renowned engineering schools in Belgium and France, these executives brought in specialized knowhow and management skills. The engineers mostly started their career as manager of operating and holding companies of the Empain group. In this regard, Armand Rouffart, Alfred de Wandre, Maurice Dutillieux, Georges Theunis¹²⁰, Louis Genis¹²¹ and Raynald Legouëz should be cited. Roch Boulvin was even a professor teaching the applications of electricity at Ghent University before he was approached to supervise the electric transformation of the Empain group.¹²² Other engineers were rather at the end of their professional career. Auguste Doniol and Auguste Stoecklin were both top officials in the French Ministry of Public Works. In their function, they had written countless reports on applications for concessions, even coming from the Empain group.¹²³ Their expertise and network were extremely helpful when negotiating

¹¹⁸ See also Suzor, *Empain en France*, 269-70.

¹¹⁹ Also known as Alphonse Braemt

¹²⁰ During and after the First World War, Georges Theunis became a very influential politician. He was twice Belgian Prime Minister (1921-25, 1934-35). Rolande Depoortere, "Georges Theunis," in *Dictionnaire des patrons en Belgique: Les hommes, les entreprises, les réseaux*, ed. Ginette Kurgan-Van Hentenryk, Serge Jaumain, and Valérie Montens (Brussels: De Boeck Université, 1996).

¹²¹ Genis Louis, *Légion d'Honneur (Base Léonore)*, LH/1111/68, FRAN.

¹²² "UGentMemorialis: Roch Boulvin 1860-1920," <http://www.ugentmemorialis.be/catalog/000000210>.

¹²³ Doniol was chief engineer of the *Département du Nord* during the first years of the operation of the Valenciennes-Anzin light railway. See Tramways de Raismes à St-Amand et de Bruai à Condé: Résultats de l'enquête d'utilité

utility projects with the French authorities. On the Belgian side, Leopold Garnir (not in the top 30) had a similar high profile. He was the managing director of the Belgian State Railways and advisor of the Railway Minister, before he became a member of the board of five Empain companies in 1906.¹²⁴

Table 8 Top directors holding half of all the directorships within the Empain group (1880-1914)¹²⁵

	Name	Natio nality	# of mandates (% of total)	Entry date in group	Biography in-/outside group
1	Edouard Empain	BE	517 (9.0)	1880	Founder
2	François Empain	BE	430 (7.5)	1889	Brother, right hand of Edouard
3	Arthur du Roy de Blicquy	BE	179 (3.1)	1881	Engineer, director of <i>La Métallurgique</i>
4	Roch Boulvin	BE	161 (2.8)	1899	Academic, became general manager and director of electric utilities
5	Edmond Caze	FR	161 (2.8)	1883	Politician, director of French subsidiaries
6	André Berthelot	FR	118 (2.1)	1902	Politician, starts in <i>CMP</i> and <i>PE</i>
7	Alfred de Wandre	FR	114 (2.0)	1890	Engineer, starts as a general manager of French railway companies
8	Auguste Doniol	FR	94 (1.6)	1900	Top official in French Ministry of Public Works (...-1899)
9	Raynald Legouëz	FR	83 (1.4)	1901	Engineer of the Paris Métro, started as manager of the <i>PE</i>
10	Achille Huart-Hamoir	BE	82 (1.4)	1887	Local politician (Schaerbeek)
11	Maurice Anspach	BE	79 (1.4)	1889	Engineer, director of <i>La Métallurgique</i> and of the <i>CGER</i>

publique, 22 Mar 1883, *Tramway de Valenciennes (Nord)*, F/14/17341, FRAN. See also Doniol Auguste Charles Paulin, *Légion d'Honneur (Base Léonore)*, LH/789/1, FRAN.

¹²⁴ "Léopold Garnir," *Het Laatste Nieuws*, 20 Nov 1906.

¹²⁵ Source: personal database, based on the *AMB, Recueil financier*, the 65AQ series of the ANMT, and the annual reports in the *Supplément MIM*. Representatives of the business group are in **bold**. Biographical information in this table and section comes from the abovementioned sources, completed with Belgicapress, Gallica, Ginette Kurgan-van Hentenryk, Serge Jaumain, and Valérie Montens, eds., *Dictionnaire des patrons en Belgique: les hommes, les entreprises, les réseaux* (Brussels: De Boeck Université, 1996); Assemblée Nationale, "Base de données des députés français depuis 1789," <http://www2.assemblee-nationale.fr/sycomore/recherche>.

Name	Natio nality	# of mandates (% of total)	Entry date in group	Biography in-/outside group
12 Adolphe Dupont- Rucloux	BE	74 (1.3)	1881	Engineer, politician
13 Adrien-Léon Bénard	FR	69 (1.2)	1897	Private banker
14 Léon Janssen	BE	68 (1.2)	1900	Director of tramway companies and of the <i>Société Générale</i>
15 Edmond Terlinden	BE	60 (1.0)	1881	Engineer, secretary of the <i>Caisse des Propriétaires</i> , director of <i>La Métallurgique</i>
16 Jules Carlier	BE	58 (1.0)	1882	Director of <i>La Métallurgique</i> , politician
17 Auguste de la Hault	BE	55 (1.0)	1895	Banker and tramway magnate
18 Maurice Dutillieux	BE	53 (0.9)	1900	Engineer, started as manager of the <i>Voie étroite</i>
19 Georges Theunis	BE	48 (0.8)	1898	Electrical engineer
20 Eugène Harmant	BE	48 (0.8)	1908	Brother-in-law, engineer
21 Edouard Demeure	BE	43 (0.8)	1904	Started as director of <i>E&H</i>
22 Louis Genis	FR	41 (0.7)	1899	Engineering officer (military)
23 Adrien d'Oultremont	BE	39 (0.7)	1881	Nobleman, independent investor
24 Raphael de Bauer	BE	37 (0.6)	1899	Banker of <i>Paribas</i>
25 Jules Jacobs	BE	37 (0.6)	1899	Repr. the holding <i>Chemins de fer économiques</i>
26 Auguste Le Brun	BE	36 (0.6)	1901	Repr. the holding <i>Chemins de fer économiques</i>
27 John Rogers	UK	36 (0.6)	1905	Lieutenant colonel, in Egyptian civil service
28 Armand Dresse	BE	35 (0.6)	1896	Financier/politician/lawyer (Liège)
29 Armand Rouffart	BE	35 (0.6)	1891	Engineer, started as manager of the <i>Voie étroite</i>
30 John d'Oultremont	BE	34 (0.6)	1905	Nobleman, equerry of Leopold II
Other directors	...	2828 (49.2)		

Thirdly, Empain recruited financial and legal experts. People such as Achille Huart-Hamoir, alderman of Finance and later mayor of Schaerbeek and jurist Edouard du Roy de Blicquy were long-standing collaborators. The insurance expert Amédée Begault¹²⁶ and auditor Léon Favresse (both not in the top 30) were put in to coordinate the financial

¹²⁶ "Compagnie Belge d'Assurances Générales," *L'Argus*, 22 Apr 1900.

accounts of the holding companies and its many subsidiaries. Edouard Demeure came from a family of magistrates too. He joined the close circle of collaborators after the business group had acquired the *E&H*, of which he was a director. An anecdote illustrates Empain's need for legal advisors specialized in corporate law. The young Henry Le Boeuf (not in the top 30) was combining his studies with a job in the offices of Empain in Brussels. As soon as he obtained his law degree in 1898, Empain sent him to Sam Wiener, an eminent corporate lawyer. In a letter to a friend, Le Boeuf recalled that Empain explained the objective:

I want you to stay with me. You have done your law studies, you and I need to take advantage of it. Therefore, you are going to do an internship at S.W.'s (it's Empain who told me about this lawyer) and I myself will present you, to make clear what I want. He will have you study cases of finance, public limited companies, etc., he will only give you small stuff just enough to inform you about the procedures, judgments, and other businesses. Do this for three years, while staying at my place every afternoon, and within three years, you will be of value, relatively, that is.¹²⁷

The fourth category comprised top politicians and members of the financial elite. Empain attracted influential statesmen to his business group before the First World War. The three most important were Edmond Caze, André Berthelot and Paul de Smet de Naeyer. In 1883, Empain partnered up with Caze, who was a French MP and senator almost continuously until his death in 1907. He had been a member of the French government led by Gambetta in 1881. Caze joined the board of every French light rail and tramway company founded before 1900. However, he never got appointed as a director of a holding company. After the inauguration of the Paris Métro, Empain recruited André Berthelot to become one of the senior executives of the business group. Berthelot had been a municipal councilor in Paris (1894-1898) and MP (1898-1902) and was afterward granted directorates in French, Belgian, Egyptian and Russian firms of the Empain group. Empain gradually developed a friendship with André and his brother Daniel. This professor in Physics and Chemistry (not in the top 30) also served on the board of nine electric utility companies of the group. Lastly, after his rich political career, the former Prime Minister (1896-1907) Paul de Smet de Naeyer (not in the top 30) joined the board of many Belgian

¹²⁷ “Je désire que vous restiez chez moi. Vous avez fait vos études de droit, il faut que vous et moi en profitions. Pour cela, vous allez faire un stage chez S.W. (c'est Emp. qui m'a indiqué cet avocat) et j'irai vous présenter moi-même, pour bien faire comprendre ce que je désire. Il vous fera étudier des affaires de finance, de Stés ann., etc., il ne vous donnera de petites crottes que juste ce qu'il vous faudra pour vous mettre au courant des procédures, levées de jugement, et autres cuisines. Faites cela pendant trois ans, en restant chez moi tous les après-midi, et dans trois ans, vous serez une valeur, relativement, bien entendu.” Valérie Montens and Etienne Davignon, *Le palais des beaux-arts: La création d'un haut lieu de culture à Bruxelles (1928-1945)* (Brussels: Éditions de l'Université de Bruxelles, 2000), 21.

companies, including the *Société Générale*. Many entrepreneurs wanted to take advantage of his influential network. Empain offered him directorships of the *Réunis*, *Railways&Electricité*, *Tramways électriques de Gand* and *ACEC*, which he held until his decease in 1913.

Some eminent figures of the Belgian elite were also quite present in the boards of Empain companies. Adrien and his brother John d'Oultremont were of wealthy noble lineage. John d'Oultremont was very close with King Leopold II, whom he served as *Grand Maréchal de la Cour*.¹²⁸ The editor-in-chief of the *Moniteur des Intérêts Matériels* Georges de Laveleye (not in the top 30) and the entrepreneurs/politicians Adolphe Dupont-Rucloux and Armand Dresse from Liège also held quite a lot of directorships before the First World War. Other close collaborators of Empain such as Theunis only became famous politicians and captains of industry after 1918.

The fifth and final category (not in bold) included those top executives that were not directors on behalf of Empain. Their presence was the result of the many financial collaborations with other bankers and holding companies. These investing partners defended their own interests before those of Empain: Auguste de la Hault, Adrien Bénard, Léon Janssen, Raphaël de Bauer, Jules Jacobs and Auguste Le Brun. John Rogers Pacha was involved in all businesses of Empain in Egypt, because he had important connections in the Egyptian administration while at the same time he led a large British holding company in the country.

3.7.2 Between Brussels, Paris and elsewhere: The centralization and circulation of human resources

Ever since the establishment of the first company in 1880, the headquarters of the business group was situated in the district of *Notre-Dame-des-Neiges* in Brussels. Empain installed his bank in large offices at the Place de la Liberté in 1881, only two blocks away from the headquarters of *La Métallurgique* (Place de Louvain 1). He had bought a mansion from a wealthy nobleman at the junction of the rue de l'Enseignement, rue du Congrès and the rue de la Presse in Brussels (see Fig. 23).¹²⁹ Every new Belgian company set up its registered office here.

¹²⁸ This is the highest Officer of the Royal Household, comparable to the Lord Chamberlain in the UK.

¹²⁹ Government of the Brussels-Capital Region, "Arrêté du Gouvernement de la Région de Bruxelles-Capitale entamant la procédure de classement comme monument de la totalité de l'ancien hôtel et banque Empain sis rue du Congrès 33-33A, rue de l'Enseignement 91, 93-95 et 97 et rue de la Presse 1-3 et 5 à Bruxelles," (Brussels: Chancellerie, 2003).



Figure 23 Hotel de Knuyt de Vosmaer (rue du Congrès 33-33A)¹³⁰

As Empain was also forming companies in France, he concentrated their head offices in the rue de Courcelles 49 in Paris, where he was also domiciled. In 1895, the Parisian headquarters moved to rue Auber 8. Due to the steady development of Empain's activities in France, the offices in the rue Auber were bursting at the seams. New companies such as the *CMP*, *Parisienne Electrique* and *SEP* set up their headquarters in the Avenue de l'Opéra. Finally, Empain acquired a private mansion at the Rue de Lisbonne 50 and offices at the Boulevard Haussmann 75 in 1907. Afterward, all French companies were concentrated in these two locations, close to *Gare Saint-Lazare*. The area around this station was a classic business district, especially for railway companies.¹³¹ The headquarters in the architectural style of Haussmann had to radiate the power and prestige of the business group. For instance, the offices in the Boulevard Hausmann were next to those of the very prestigious *Compagnie Internationale des Wagons-Lits*.¹³² From a strategic perspective, a strong presence in the capital of a political and financial power was paramount to secure French and foreign investments.

When taking a snapshot in 1914 (see Table 9), it is noticeable that the registered offices of the group companies¹³³ were divided over the headquarters in Brussels, rue de Lisbonne

¹³⁰ Source: "Herman NV: Hotel Empain," <http://hermannv.be/project-view/hotel-empain/>.

¹³¹ Wolkowitsch, "Siècle," 127.

¹³² Cécile Chaumier, "Un patrimoine de la communication d'entreprise: Les sièges sociaux parisiens des anciennes compagnies d'électricité (1889-1946)," *Flux* 82, no. 4 (2010). <https://www.cairn.info/revue-flux1-2010-4-page-8.htm#re2no2>

¹³³ The headquarters of the joint ventures *Tramways du Caire*, *Chemins de fer de la Basse-Égypte*, *Tramways électriques en Espagne*, *Tramways et éclairage électriques de Damas* (*Chemins de fer économiques* group); *Cie Auxiliaire d'Electricité de Nantes* (*Cie Mutuelle des Tramways*); *Produits Cibils* (*Banque d'Outremer*) were situated in the offices of the

(Paris), Boulevard Haussmann (Paris) and at the operation site. The *Banque E.-L.-J. Empain* in Brussels was the primary headquarters of the Empain group for Belgium and abroad. It hosted Belgian holding companies (including the *Tramways de Lille*), power and traction companies and *ACEC*. In addition, similar companies active in Russia, China, Congo, Chile, Romania and Egypt elected domicile at the Brussels premises. The Paris headquarters specialized in French firms. These were distributed over the Lisbonne and Haussmann buildings. The mansion in the rue de Lisbonne hosted almost all traction companies as well as *la Longueville*. The Haussmann building, on the other hand, hosted the *Parisienne Electrique*, the *CMP*, *ACENE* and all French power companies. As opposed to the Lisbonne offices, two firms active abroad (*Phosphates du Djebel Onk* and *SIER*) had installed their management there.

Table 9 The Empain headquarters in Brussels, Paris and locally (1914)¹³⁴

HQ	Active in Belgium	Active in France	Active abroad
Brussels (20 firms)	<i>Eclairage du Centre, Réunis, Railways&Electricité, Fédération FR-BE, Ostende-Blankenberghe, Twys élec. Charleroi, ACEC, Elec. Seraing, Gaz Elec. Hainaut, SBE</i>	<i>Tramways de Lille</i>	<i>CFL, Eclairage de Galatz, Travaux Publics du Caire, Heliopolis Palace Hotel, Cdf et Twys Chine, Générale Nitrates, Twys Kischinew, Twys Astrakhan, Twys Tashkent</i>
Paris-Haussmann (7 firms)		<i>SNE, CMP, Parisienne Electrique, ACENE, EGN, SEP, SERVA</i>	
Paris-Lisbonne (12 firms)		<i>Econord (adm), TELB (adm), Cdf Vicinaux, Twys Boulogne, Cdf Banlieue de Reims, la Longueville, Cdf Calvados, Cdf Périgord</i>	<i>Moudania-Brousse (adm), SIER, Phosphates du Djebel Onk, HOC (adm)</i>
Locally (15 firms)	<i>RELSE, Eclairage de Tournai, Elec. Pays Liège, Twys élec. Gand, Twy Cointe</i>	<i>Econord, TELB</i>	<i>Moudania-Brousse, Twys élec. Damas, Ottomane d'Eclairage, HOC, Terrains du Caire, Cairo Suburban, Menzaleh Navigation, ZNSM</i>

Although the default option was incorporation in Belgium, some companies had to establish their headquarters in the host country. Legal reasons were often behind this. The stipulations of the concession often specified the city where the headquarters had to

investing partners, as they were responsible for the operational management. See also Brion and Moreau, *Tractebel*.

¹³⁴ (adm)= administrative office. Source: *Recueil Financier*, Gallica, annual reports of the firms

be based. Operating companies in Liège, Ghent and Tournai had to respect this rule. The ZNSM office had to be registered in the Netherlands. Ottoman and Egyptian law required that firms had their registered office in the country, i.e. in Istanbul and Cairo. The group tried to work around this obligation by establishing administrative offices, officially or in fact, in order to centralize management nevertheless. Wherever the registered office was, board meetings were always held in Brussels or Paris. The *Econord* managed operations from Paris rather than from Anzin, where it had its registered office. Final decisions on the development of Heliopolis were taken in Paris and Brussels, although the company had large headquarters in the town itself.¹³⁵

Grouping the headquarters of holding companies and subsidiaries had to reduce costs, facilitate interfirm cooperation and help to preserve the unity of the business group. Strategic decision-making, corporate finance and accountancy were centralized, whereas operational management was decentralized to the production/operation site.¹³⁶ The physical concentration blurred the separation between individual companies. In the headquarters, holding companies and subsidiaries shared offices, secretaries, managers, accountants, etc.¹³⁷ The accounting of many French firms was centralized in the Hausmann offices. From 1897 to 1914, the Frenchman Albert Mary was the chief accountant at the headquarters in Brussels. Empain charged him with the organization of the administration and bookkeeping of the entire group.¹³⁸ In this function, he served as an auditor of not less than twenty-three companies. Engineers of the holding companies were in close contact with the personnel of subsidiaries. In 1904, the *Parisienne Electrique* specifically hired an electrical engineer to provide consultancy to its subsidiaries such as the *CMP*, *SEP*, *Tramways Nord-Parisiens*, Bayonne-Biarritz as well as to the holding company itself.¹³⁹ The *Parisienne Electrique* and other holding companies occasionally took over the accountancy, the administration or the supervision of construction works from their subsidiaries.¹⁴⁰ As a consequence of this intensive rationalization, the French *Cie générale des Chemins de fer vicinaux* could operate its light rail network with an administrative staff of only thirteen people, whereas the rival *Cie de Chemins de fer Départementaux* needed the equivalent of 42 staff members.¹⁴¹

¹³⁵ See Chapter 2 of Ilbert, *Le Caire*.

¹³⁶ Suzor, *Empain en France*, 311.

¹³⁷ For instance, the *Tramways électriques Nord-Parisiens* shared its offices with the *SEP* from 1903 until 1905. *SEP* paid part of the rent, maintenance of the offices, general expenses, and the wages of a general secretary and accountant. Suzor, *Empain en France*, 314.

¹³⁸ Mary Albert, *Légion d'Honneur (Base Léonore)*, 19800035/652/75112, FRAN.

¹³⁹ Meetings of 28 May 1904 & 19 Apr 1905, *Parisienne Électrique*, Minutes of the Board of directors, SPIE.

¹⁴⁰ Meeting of 10 Sep 1902, *Parisienne Électrique*, Minutes of the Board of directors, SPIE; Suzor, *Empain en France*, 313-14.

¹⁴¹ Wolkowitsch, "Siècle," 252.

The scale of the business group had other advantages with regard to management. There was in fact an internal labor market for the middle management. In this respect, it is interesting to analyze the successive managers at the *Tramways d'Astrakhan* (est. 1896). When the corporate board needed to find a chief operating officer in 1899, the *Voie étroite* detached one of its engineers, Mr. Groutars. This engineer had already gained experience at the group's tramway company *Bruxelles-Ixelles-Boendael*. Three years later Groutars was replaced by the then manager of the *Chemin de fer Moudania-Brousse* (Ottoman Empire), the Frenchman Jean Faure.¹⁴² Lastly, in 1908, the sister company in Tashkent lacked a manager. It temporarily hired the manager of Astrakhan, Mr. Deltenre. This caused a vacancy in Astrakhan, which was filled in by the chief operating officer of the *TELB* in Lille.¹⁴³ Engineers employed by the business group even circulated outside Europe. For instance, the chief operating officer of the *Chemins de fer de la Basse-Egypte* became the local manager of the *Nitrate Railways* in Chile in 1909.¹⁴⁴

The senior executives did not only capitalize on the experience the middle management had gained in previous positions within the group. They also took advantage of the scale of the business group for training. If practical knowledge that had been acquired in one operating company was common to a certain industry, it circulated among different subsidiaries. In particular, the electrification of urban transport required new skills. On more than one occasion, managers did internships at other operating sites in Boulogne-sur-Mer, Liège, Ostend and Ghent, before taking charge of the recently electrified tramway network in Russia. Likewise, the *Parisienne Electrique* decided to send all its personnel, “of whatever rank and whatever department they belong to, to do an internship as a tram driver at the *Cie des Tramways Nord-Parisiens* and the *Métropolitain*.”¹⁴⁵ On the operational level, subsidiaries transfer knowhow too. The very same *CMP* send two of its senior drivers on secondment to Cairo for three months to train the local staff to be a tramway driver.¹⁴⁶

Wherever internal training did not suffice, Empain attracted highly skilled executives, as mentioned above. They had acquired competencies in previous positions outside the Empain group or by completing studies at prestigious schools such as the *Institut Montefiore* for electricity in Liège (Theunis, A. Della Riccia) and the *Ecole nationale des Ponts*

¹⁴² Meetings of 6 Nov 1899 & 5 Jun 1902, Minutes of the Board of directors, HA.02.01.314, KMMA.

¹⁴³ Meeting of 25 Aug 1908, Minutes of the Board of directors, *Archives of the Empain group*, HA.02.01.315, KMMA.

¹⁴⁴ “Compagnie générale des nitrates: Rapport du CA,” *L’Echo de la Bourse*, 23 Apr 1909.

¹⁴⁵ “de quelque grade qu’ils soient, et quels que soient les services auxquels ils appartiennent, feront un stage de wattman à la *Cie des Tramways Nord-Parisiens* et au *Métropolitain*”, Meeting of 29 Mar 1901, *Parisienne Électrique*, Minutes of the Board of directors, SPIE.

¹⁴⁶ “The Cairo Electric Railways and Heliopolis Oases Company,” *Revue municipale*, 16 Apr 1910.

et Chaussées of Paris (Doniol, Legouëz).¹⁴⁷ As Empain was dependent on qualitative graduates from higher technical education institutions in Belgium and France, he was keen to sponsor them. In 1899, he was one of the main donors of the *Institut électromécanique* at the Catholic University of Louvain. It had to educate mechanical engineers in the applications of electricity.¹⁴⁸ After WW1, the Empain group made a much larger donation to the universities of Louvain and Brussels for the modernization of their engineering schools.¹⁴⁹

3.8 The multinational business group: A political chameleon?

The basic assumption in international business is that “each multinational corporation is headquartered in a single country (...) because a firm can only register its existence in a nation state.”¹⁵⁰ Since the development of corporate law, a company always has to be registered according to the law of a particular country, giving it a corporate nationality. However, even before the First World War the law had many difficulties to deal with the various forms of international investment, for regulation on corporations was very liberal. Legal scholars active in the period heavily discussed the question. The aim was to avoid any possible ambiguity and limit the room for interpretation. In the Anglo-Saxon tradition, the place of incorporation also determined the nationality of a company. On the European continent, the nationality usually corresponded to the country where the firm had its domicile. To be the *siège social effectif*, this registered office effectively had to be used for the meetings of the board of directors and the general assembly as well as host the main company headquarters. The nationality had important consequences: It fixed the national legal framework by which the multinational had to abide as well as the country in which it had to pay taxes.¹⁵¹

Despite the simple rules outlined above, the determination of the corporate nationality was rather complex in the First Global Economy. The mobility of capital and the liberal

¹⁴⁷ On the fame of the Institut Montefiore, see Caron et al., *Electricité*, 1: Espoirs et conquêtes 1881-1918, 279-86.

¹⁴⁸ Kenneth Bertrams, *Universités et entreprises: Milieux académiques et industriels en Belgique (1880-1970)* (Brussels: Le Cri, 2006), 97; See also “Agentschap Onroerend Erfgoed: Thermotechnisch instituut en de Speciale Scholen voor Ingenieurs,” <https://id.erfgoed.net/erfgoedobjecten/209160>.

¹⁴⁹ Bertrams, *Universités*, 187-88.

¹⁵⁰ Jones, *Multinationals and global capitalism*, 221.

¹⁵¹ R. E. L. Vaughn Williams and Matthew Chrussachi, “The Nationality of Corporations,” *Law Quarterly Review* 49 (1933); Paul Pic, “Contribution à l’étude de la nationalité des sociétés,” *Journal du Droit International* 44 (1917): 844.

corporate law complicated the issue. Many firms had their legal domicile in one place, but their production, shareholders and directors were in another country. According to Jones, these substantial enterprises “might well be best regarded as mixed nationality ventures rather than belonging to a single country.”¹⁵²

However, states preferred a clear corporate nationality not only for the rule of law and for taxation, but also for political reasons. In the general introduction, I have argued that investments flowing from a home country to a host country were instrumentalized in the broader geopolitical rivalry, but also raised nationalist opposition. Governments and populations based their perception of the national identity of a firm on more than the legal nationality alone. The ‘foreignness’ of a firm was determined by the name, the place of incorporation, the location of the headquarters and of the markets as well as the national origin of the shareholders, the directors and the employees.

Therefore, it was in the interest of MNEs to control as much as possible all of these factors that might influence their position in politics and society. The design of a flexible corporate structure was key in this respect. Firms could adapt to local markets and make use of the ambiguity surrounding the corporate national identity. For instance, by reorganizing their corporate structure, MNEs could disguise ownership and appear more local (cloaking). Before examining the strategies of the Empain group, it is necessary to put these in the broader context of the First Global Economy by selecting three other cases from that period. The *Compagnie Internationale des Wagons-Lits (CIWL)*, *Koninklijke/Shell* and *Volkart* were three multinationals from small countries, respectively Belgium, the Netherlands and Switzerland. Their histories already show that the management of political uncertainty was crucial in that period.

The history of the *CIWL* is a perfect illustration of the issue.¹⁵³ The Belgian Georges Nagelmackers founded the company in 1876 in Brussels. His aim was to transport wealthy travelers across the European continent in luxurious sleeping cars. Soon, general manager Nagelmackers was able to reach agreements with national railway administrations of nearly all important countries to use their infrastructure. Because of the international political tensions, Nagelmackers had to proceed cautiously. He pursued several strategies to master the political situation. They regard the composition of the board of directors and management, the place of the headquarters and the nationality of the shareholders.

The board of directors comprised not only Belgian friends and relatives, but also French, British, German and Austrian dignitaries. Before 1914, the chairman and top

¹⁵² Jones, “End,” 156.

¹⁵³ Unless otherwise noted, the following paragraph is based on the little historical research conducted on the *CIWL*: Albert Mühl and Jürgen Klein, *Reisen in Luxuszügen: Die Internationale Schlafwagengesellschaft* (Freiburg: EK-Verlag, 2006); Alban Guizol, “Développement spatial et constitution d’un réseau multinational: La Compagnie internationale des Wagons-lits” (Unpublished PhD Diss., Université Paris I, 1995).

management were always Belgians, although Nagelmackers' assistant Napoleon Schroeder was originally German. The bulk of the shareholders lived in Belgium, France, Germany and Great Britain.

So far, the MNE seems to have had an international and slightly neutral Belgian character. However, the company had already moved part of its management to Paris a few years after its incorporation. Paris was a crucial transport hub for the *Wagons-Lits*. The company needed to keep in touch with the French railway companies. French influence increased rapidly after the financial crisis of 1900. The *CIWL* was on the verge of bankruptcy and had to be saved by French big banks. Now, the entire management was centralized in Paris. The legal headquarters in Brussels had been relegated to a regional branch. The French government and press also regarded Georges Nagelmackers as a citizen of France, where he had his permanent residence. The French State also decorated him commander of the *Légion d'Honneur*.¹⁵⁴

The management of the *CIWL* did everything to safeguard its neutrality in the context of the political tensions on the European continent. However, the French interference displeased the German railway administration. In the 1880s and early 1890s, the Prussian railway minister had already temporarily banned *CIWL* from the territory because he did not like to support a company with French interests. As soon as the difficulties were ironed out, the *CIWL* established a subsidiary registered in Germany and with a large financial input from local bankers. When after 1905, the British increased their interest in the company, the general manager Schroeder was worried. The British shareholders might spoil the company's good relations with the different governments and railway administrations on the continent. In addition, Schroeder wrote that if the British dominated the *Wagons-Lits*, this might "spark national aspirations against us."¹⁵⁵

The history of *Koninklijke/Shell* is similar, yet it pursued strategies on a global scale. The *Koninklijke Nederlandsche Petroleum Maatschappij* was based in The Hague, whereas the headquarters of the *Shell Transport & Trading Company* were in London. They each profited from their membership of the Dutch and British empire. The *Koninklijke* needed the proximity to the colonial government in The Hague to obtain oil concessions in the Dutch East Indies, whereas *Shell* made use of the extensive trade network of the British Empire and of the availability of capital in the City. In 1907, the *Koninklijke* decided to merge with *Shell* instead of taking it over. A Dutch takeover would have meant the loss of access to the British Empire. The founder explained the decision by referring to the issue of nationality: "We depend too much on the British government because we have to sell a large share of our products in the British colonies."¹⁵⁶ Therefore, they worked out a dual

¹⁵⁴ "Nécrologie," *Le Matin*, 11 Jul 1905.

¹⁵⁵ Cited after Guizol, "Développement," 240-41.

¹⁵⁶ Joost Jonker and Jan Luiten van Zanden, *Geschiedenis van de Koninklijke Shell 1: Van nieuwkomer tot marktleider (1890-1939)* (Amsterdam: Boom, 2007), 8.

legal structure with a British and a Dutch mother company. The group kept two headquarters. The directors were also either Dutch or British, able to lead the negotiations with their respective governments. The dual structure had two additional advantages. The *Koninklijke* could continue to meet the conditions of the concessions in the Dutch Indies, while *Shell* could provide the group with the power and prestige of the British Empire.

The Swiss-owned multinational merchant house *Volkart* also played with the location of its headquarters. For similar reasons as the *Koninklijke/Shell*, it transferred its main offices from Winterthur to London in 1892. Because of *Volkart's* intensive trade with the Indian colony, it was important that its customers in London and India viewed the company as British. The firm was thus officially British, although the actual headquarters remained in Switzerland. During the First World War, the concern about its corporate nationality was the exact opposite. Now, the multinational decided to stress its Swiss identity in all communication, because of the advantages of neutrality linked to it.¹⁵⁷

Let us now turn to the Empain group. From the analysis in the previous chapters emerged the view of the Empain group as a business group with assets in sixteen countries. It is therefore not surprising that the Empain group has tried to control the national origin of its shareholders and directors as well as its corporate structure, in order to fit with local and international politics. I argue that the multinational character of Empain's holding companies in particular allowed the group to flexibly maneuver between the Belgian, French and local centers of power.

Forbes et al. assert that in Europe, holding companies were often used “in the efforts to deal with political risks.”¹⁵⁸ The case of Empain strengthens this claim. As explained above, up to four holding companies controlled the subsidiaries. Their existence is due to various reasons, but Empain could surely take advantage of their multinational character. Empain's first holding companies were genuinely Belgian. The *Compagnie belge des chemins de fer réunis* even carried the nationality in its name. By mentioning it explicitly, Empain perhaps also hoped to take advantage of the solid reputation Belgium had acquired in railroads and tramways.¹⁵⁹

In 1896, however, Empain called his Brussels-based holding company the *Compagnie russe-française de chemins de fer et de tramways* (*Russe-française*). Surprisingly, the name made the French financial press feel betrayed. They knew that the company, French or

¹⁵⁷ Christof Dejung, *Commodity trading, globalization and the colonial world: Spinning the web of the global market*, trans. Paul Cohen, Routledge International Studies in Business History (New York: Routledge, 2018), 121-22.

¹⁵⁸ Forbes, Kurosawa, and Wubs, “Introduction,” 9.

¹⁵⁹ The financial press also reported that the *Société anonyme belge de tramways* (est. 1896) operating in Italy explicitly mentioned its nationality to benefit from the advantages associated with it. Brion and Moreau, *Tractebel*, 25.

Russian only by name, was on the contrary directed and controlled by Belgian capitalists.¹⁶⁰ The founders had imagined a French-looking company, with offices in Paris and Saint Petersburg. However, it had only one Frenchman (Félicien Maes) and one Russian (Mikhail Annenkov) on the board of directors. On the one hand, the name referred to the company's core markets. On the other hand, it is also very likely that the Empain group wanted to bestow the Belgian company with the prestige of two Great Powers, who had recently concluded a diplomatic alliance (1891/93). In the wake of this partnership, investing in Russia became a trend in France and Belgium. As a result, many companies adopted the predicament *franco-russe*.¹⁶¹

The *Société parisienne pour l'industrie des chemins de fer et des tramways électriques* (*Parisienne Electrique*) was the first holding actually established in France. The name referred to the place where it was both registered and listed as well as where its headquarters were located. In addition, French banks and private investors owned a large part of the share capital. French top officials were recruited on the board of directors. Nevertheless, because the Empain group still had corporate control, some journalists would not recognize the company as French. According to *L'Information*, the *Parisienne Electrique* was Belgian, but Empain "had it naturalized" to obtain tramway concessions and easy access to the Paris stock exchange.¹⁶²

If one looks at the nationality of the directors of the Empain group in general and of the holding companies in particular, the remarks about the corporate national identity were understandable, but too simplistic. Not only three fourth of the top collaborators were Belgian (see above), the directors from the home country were dominant over the whole period. They held more than two thirds of all yearly directorates. Some 20 % was held by Frenchmen.¹⁶³ In the holding companies too, the majority of the directors were Belgian. This started to change slightly with the creation of the *Parisienne Electrique* and certainly on the eve of the First World War (see Chapter 5). Belgians were present on nearly every board, but the second most important nationality differed according to the

¹⁶⁰ "Cie russe-française de chemins de fer et de tramways," *Journal des Actionnaires*, 7 Apr 1901; "Compagnie Russe-française," *La Petite Causerie financière*, 11 Apr 1901; "Compagnie russe-française," *L'Echo des Capitalistes*, 18 Apr 1901.

¹⁶¹ E.g. *Société franco-russe des Houillères de Berestow-Krinka* (1893), *Compagnie Franco-Russe des Ciments Portland de Guelendjik* (1894), *Société Franco-Russe de Produits Chimiques et d'Explosifs* (1895), *Ateliers métallurgiques franco-russes* (1895), *Compagnie générale franco-russe d'accumulateurs* (1898). *Recueil Financier*, 1900-1901.

¹⁶² "Études financières: Société Parisienne," *L'Information*, 1 Jun 1901.

¹⁶³ Nevertheless, in his study of the Empain group in France, Lanthier found that French directors were in the majority in 1913. This illustrates the rising French influence in the group, at least on French activities. The present figures are for the entire business group and for a longer period. Outside France, Belgian directors held a lot more directorships. Pierre Lanthier, "Les dirigeants français du groupe Empain (1913-1940)," in *Patrons, gens d'affaires et banquiers: hommages à Ginette Kurgan-van Hentenryk*, ed. Kenneth Bertrams and Serge Jaumain (Brussels: Le Livre Timperman, 2004).

host country. Firms operating on the French market had a French-Belgian board. In the Netherlands, the Frenchmen were replaced by Dutch notables. In Egypt, the British directors were fewer in number than the Belgians, but outnumbered the French directors. This suggests that Empain adapted the composition of the boards to the specific political circumstances.

From the perspective of ownership too, Belgium clearly had the ascendancy over France in the Empain group. Although the *Parisienne Electrique* was partly created to give a more local image to the businesses in France, no subsidiary of importance is controlled by the *Parisienne Electrique* alone. In most cases, it shared the ownership with the Belgian holding companies. This means that the shareholders of firms in France were never exclusively French. This suggests that Empain did not have the intention to entirely cloak the fact that ultimate control was in Belgian hands. None of the holding companies had a restrictive geographical focus. However, whereas the *Railways&Electricité* and *Réunis* owned many French firms, the *Parisienne Electrique* did not control a single firm in Belgium. In other foreign markets too, the Belgian holding companies were the driving force.

Nevertheless, the fact that the holding companies were based both in Belgium and France, which makes the Empain group special. This binational structure reminds of the 'dual listed company' (DLC).¹⁶⁴ Mostly as a result of a merger, the DLC existed of two companies with separate legal and national identities. Although each mother company had its own headquarters and was listed on the national stock exchange, they still operate as a single economic entity. In the early twentieth century, the DLC was very exceptional. Shell and Unilever are the most famous examples. There are, however, some structural differences between the DLC and the Empain group. On the one hand, there were never two, but three to four intricately linked top holding companies. On the other hand, they were all listed both in Brussels and Paris. Besides financial optimization, the binational structure facilitated political strategies.

The option to have both Belgian and French holding companies invest in an operating subsidiary gave the Empain group the opportunity to ask diplomatic support of both countries. The cases of two Belgian tramway companies in the Russian Empire illustrate this strategy. Since 1890, the city of Chişinău in present-day Moldova possessed a horse-drawn tramway. The Empain group had bought the small network in 1895 with the aim of expanding and electrifying it. However, the negotiations with the local authorities on the electrification appeared very difficult. After several years of trying, the Belgian

¹⁶⁴ 'A dual listed company (DLC) has two distinct but equal parents located in different countries. Each parent is a legal resident in its home country and is listed on its home stock exchange, but the firm otherwise operates as a single entity. The parent companies hold shares in each other or have cross-holdings in each other's subsidiaries and dividends to shareholders of each of the parents are equalized according to the founding agreement.' Mihir A. Desai, "The Decentering of the Global Firm," *The World Economy* 32, no. 9 (2009): 1287.

mother company *Voie étroite* of the Belgian-registered tramway company *Tramways de Kischinew* wanted to request diplomatic support. In order to get the help of the powerful French diplomacy, the *Voie étroite* offered to the group's main French holding company *Parisienne Electrique* to buy into the *Tramways de Kischinew*. As soon as 'French' investors had taken an interest in the tramway company, the Belgian mother company could ask the French Embassy in Saint Petersburg to appeal to the Chişinău Municipality. Apparently, the French intervention did not have the wanted effect, for the company only obtained electrification in 1911.¹⁶⁵

One year later, a similar situation occurred when the sister company *Tramways d'Astrakhan* quarreled with the city council of Astrakhan about the tramway service. Edouard Empain again approached the French embassy in Russia – instead of its Belgian counterpart – to intercede. This time, the French holding company *Parisienne Electrique* owned 50% of the tramway company, while the Belgian *Russe-française* owned the other half. To better their chances, Empain invited the Frenchman Doniol to join the board. The company also replaced the Belgian manager by a Frenchman and opened an office in Paris, in the building of the *Parisienne Electrique*.¹⁶⁶ However, French diplomacy refused any cooperation. “The French government cannot officially grant the support of the ambassador for [the] firm is Belgian, while the influence of French diplomacy is reserved for firms that pay taxes in France.”¹⁶⁷ Finally, the board dismissed Empain's suggestion to transform the *Tramways d'Astrakhan* into a French firm, because it would raise the tax burden.

By 1913, the difficulty to receive the approval of the French government for diplomatic support as well as for access to the Paris Stock Exchange incited the Empain group to change the strategy. For the first time, instead of ordinarily establishing a Belgian free-standing company, the Empain group chose to incorporate the *Société Industrielle d'Electricité pour la Russie (SIER)* in Paris. This new holding company had to control and expand the group operations in Russia.¹⁶⁸ This was not an isolated incident. In the same year, the Empain brothers made an interesting declaration to the French ambassador in Cairo. They were considering establishing a French firm for Egypt, because “more and

¹⁶⁵ Meeting of 20 Jul 1900, *Parisienne Électrique*, Minutes of the Board of directors, SPIE; de Massol de Rebetz, “Sociétés,” 207.

¹⁶⁶ Meeting of 2 May 1902, Minutes of the Board of directors, HA.02.01.314, KMMA; Meeting of 22 Apr 1902, *Parisienne Électrique*, Minutes of the Board of directors, SPIE.

¹⁶⁷ “le gouvernement français ne peut accorder officiellement l'appui de son ambassadeur parce que notre Société est belge, l'influence de la diplomatie étant réservée aux Sociétés qui payent des impôts en France”, Meeting of 5 Jun 1902, Minutes of the Board of directors, HA.02.01.314, KMMA.

¹⁶⁸ Meetings of 11 & 20 Nov 1913, *Société Industrielle d'Electricité pour la Russie*, Minutes of the Board of directors, HA.02.01.792, KMMA.

more, they wanted to do their business on the Paris market.”¹⁶⁹ As a matter of fact, the listing requirements for French firms were less stringent.

To conclude, this section has shown that the business group form had clear advantages to maneuver in the nationally delineated world economy. Like some kind of chameleon, the Empain group tried to adapt to different political environments. The group’s embeddedness in different countries and cities gave it the opportunity to involve the local elite or the hegemonic power, without losing control. On the contrary, the *CIWL* was less organized as a business group. As a result, the integrated firm itself was subject to constant struggles for national influence and nationalist opposition.

3.9 Conclusion

From the early beginning in 1881, the foundations of the Empain group were a bank and a holding company. In Belgium, both types of firms were not uncommon, but Empain has frequently made use of them. While expanding operations in a growing number of countries, the Empain group evolved into a complex multinational business group. Although the structure developed organically and sometimes in an improvised way, Empain had many reasons not to alter it fundamentally. Of course, it was a way to give a certain coherence to the more than 80 companies founded or acquired before the First World War. In particular, it provided three crucial advantages.

First of all, the business group form offered many possibilities with regard to finance. These include the spread of risk and the wide range of funding options. The organization into holding companies and legally distinct subsidiaries was a perfect way to spread the risk and provide shelter to investors as well as group companies. In addition, the best-performing companies compensated the modest yield of others. The Empain group preferred to procure capital via joint ventures and stock markets rather than via bank loans. It tried to remain independent from large financial groups. Empain cooperated with venture capitalists and later with big banks, but confined these joint ventures to specific projects, without them gaining influence in the parent companies. Empain’s private bank and the holding companies replaced the tasks of the large financial institutions. They subscribed to the capital increases of operating companies, extended credits to starting subsidiaries and organized payments.

¹⁶⁹ “de plus en plus, ils voulaient faire leurs affaires sur le marché de Paris”, Defrance (Cairo) to Jonnart (Paris), 24 Jan 1913, B-0031291, CAEF.

Above all, the capital came from Belgian and French savers. To reach them, the Empain group listed as many companies on the stock exchange as possible. Thanks to the listings, the firms could profit from high quotations to increase their capital at a premium. In addition, the holding companies could bolster their coffers by speculating with the shares of their subsidiaries. Besides short-term speculation, the business group aimed to create value in the long term. Therefore, the holding companies followed a “buy and hold” strategy. Until the subsidiary was mature enough to make profits, the holding companies held its shares closely. Afterward, they only kept a controlling block, while selling the other shares, preferably with a profit. Empain had a preference for listings on the stock exchanges of Brussels or Paris, ideally on both of them. That way, the Empain group could tap the capital markets of both countries. His network in the City was very limited, so he only turned to the largest capital market in the world in cases that absolutely required the presence of British capitalists.

Secondly, the business group structure limited the trade-off of external finance versus family control. Running a family business did not exclude growth and professionalization. The complex ownership structure was designed to dominate a maximum number of companies with relatively limited personal capital. Whenever the shares of the subsidiaries were widely dispersed, the Empain brothers merely needed to hold the parent companies more closely and make sure they in turn owned at least a controlling minority interest in the subsidiaries. This means that the financial leverage of the Empains was impressive. Moreover, despite the relatively loose financial structure, the Empain brothers held a tight grip on the strategic decision-making. The Empains took charge of launching new projects, taking important financial measures and allocating managers. In sum, they were responsible for the coordination and organization of the economies of scale and scope within the business group. However, with the geographical and sectoral diversification came the need for professionalization and centralization. Rather than appointing the closest family members, Edouard Empain entrusted skilled managers with the representation of his interests in his or his brother’s absence. Empain’s relatives only received important positions if they qualified. The broader circle of top executives therefore included only one brother-in-law. Instead, the bulk consisted of trained engineers, financial and legal experts as well as politicians and top officials. Even Empain’s original network already contained a lot of highly educated businessmen and not just ‘family, friends and fools’. In sum, the Empain group was not a classic family business and more an open family firm.

Thirdly and finally, business groups were an evident form in the First Global Economy, especially in public utilities, because they provided organizational and political flexibility. On the one hand, the Empain group could flexibly respond to investment opportunities by simply adding another subsidiary or even a holding company to the structure. This enables both organic growth and growth through acquisitions. Thanks to

director interlocks and the centralization in the Brussels and Paris headquarters, the myriad of companies remained manageable.

On the other hand, the business group of Empain was politically versatile. With the principle of one utility, one firm, Empain could adapt to foreign legislation and meet the specific demands of local administrations. This had the additional advantage that e.g. municipalities had the feeling to deal with a single foreign company instead of a multinational business empire. Moreover, the multitude of holding companies allowed Empain to give each public utility the appropriate national identity. Sometimes, it was better to give the subsidiary a local appearance to mitigate political risk. At other times, the Empain group had to involve capitalists from Great Powers to obtain international support. The establishment of the French *Parisienne Electrique* in particular suggests that Empain tried to develop a chameleonic strategy, alternating a Belgian and French image. The country studies of Part II will show how the business group could exploit the above-mentioned capacities, including its versatile multinational identity.

Part 2 Securing investments: Political strategies towards home and host countries

Chapter 4 Belgium and the Congo: A ‘home game’?

4.1 Introduction

This chapter is the first in a series of chapters looking at the political aspects of international business. In the general introduction, I have formulated a number of hypotheses about the liability of foreignness and how multinationals developed strategies to overcome this. Conversely, the concept of liability of foreignness also implied the existence of a ‘liability of home’. Both concepts not only refer to foreign investments, but also suggest that the right national origin could be an asset in the home country. By virtue of his place of birth and the domicile of most of his companies, Empain was considered a Belgian entrepreneur. Therefore, the main question of this chapter is whether the Empain group had a ‘home advantage’ in Belgium. If so, how could Empain successfully exploit his Belgian identity to secure important investments? Furthermore, could Empain extend his ‘home advantage’ to the Belgian imperial space, i.e. the Congo Free State?

There are two crucial aspects to the main question. The first is related to the existence of a business-government nexus in Belle Epoque Belgium. Could it be that Belgian entrepreneurs had to engage in business diplomacy and build up a network in political and business circles to secure important investments? The second transcends the importance of good connections, and questions the significance of nationality. My hypothesis is that nationality mattered depending on the context. In the Belgian small open economy, there were numerous foreign competitors on the market. I hypothesize that Belgians only had an advantage in case of Belgian-foreign competition. Even in that case, there is some reason for doubt, for the following reason.

Most Belgian historians would argue that (economic) nationalism was not a driving force in national politics, as the Belgian state and its elite were ultraliberal and free-trade-oriented. The political struggles were situated in other domains. Fin-de-siècle Belgium

was a very unequal society, where the economic elite had monopolized political power. Large landowners, industrialists, lawyers, etc. dominated local and national politics. The bulk of the working and agricultural classes could not aspire to any social mobility. Society was politically deeply divided between a Catholic majority and a minority of anticlerical liberals and socialists. Catholics had conquered an absolute majority in the Parliament in 1884 and continued to form one-party governments until 1917. The whole of society (education, unions, clubs, ...) was organized along sectarian lines, with a large cleavage between the Catholic, socialist and liberal ideologies (*pillarization*).¹ However, very recent research by Van Ginderachter has demonstrated that there was some popular nationalism in the working class.² Because of the complexity of the issue, this needs further investigation. How could the Belgian Empain capitalize on this latent nationalism?

By focusing on Belgium, this chapter fills a gap in the historiography of the Empain group. Empain's investments abroad have repeatedly been studied, but his position in Belgium is only superficially known. Yet, the Belgian side of the multinational business group should be studied, especially since it serves a point of reference for the following chapters. Only by studying the home country will we be able to compare investment contexts in other countries.

This chapter is structured in six parts. The first section discusses the significance of Edouard Empain in Belgium up to 1900. It sketches an image of an upcoming entrepreneur who establishes himself in the high financial circles of Brussels. In the second section, special attention is given to Empain's relationship with Leopold II. The next two sections discuss two high-profile investment projects: the Brussels-Antwerp interurban and the creation of ACEC. The cases illustrate the privileges the business group derived from Empain's excellent relationship with Catholic politicians. The establishment of ACEC in particular raises interesting points about the role of nationalist rhetoric in Empain's flying start in the emerging electricity industry. The fifth section resumes the overview of the reinforced position of Empain in Belgian business and society. The sixth and final section investigates how the group's activities in Leopold's Congo should be interpreted. Were Empain's privileges and the political circumstances the same in Belgium and the colony? The comparison of both contexts puts the relative importance of personal networks and of Belgian identity in perspective.

¹ Gita Deneckere, *1900: België op het breukvlak van twee eeuwen* (Tielt: Lannoo, 2006).

² Maarten Van Ginderachter, *The everyday nationalism of workers: A social history of modern Belgium* (Stanford: Stanford UP, 2019).

4.2 The rise of an ambitious businessman (1880-1900)

Edouard Empain was an exception to the limited social mobility in late-nineteenth-century Belgium. He belonged to a small new elite that was able to profit from the opportunities offered by industrialization. Other famous contemporary examples are Ferdinand Baeyens and Jean Jadot, successive governors of the *Société Générale*, as well as Ernest Solvay of the eponymous business group.

Born in a Catholic middle-class family and starting as a draftsman in the 1870s, Empain had become a wealthy banker in Brussels by the mid-1890s.³ This rise was exceptional, as three out of four Belgian bankers of Empain's generation (born in the 1840s and 1850s) held a higher education degree, mostly in law or engineering.⁴ Specialized in railways and tramways, Empain was not yet the public figure famous in national political and economic circles. His name appeared in the press in relation to news about his business ventures. For the Empain group, Belgium was at that time a relatively small market in terms of invested capital. The bulk of Empain's resources went abroad. Among the Brussels financial elite, with whom he often partnered up for foreign projects, Empain had a solid reputation. To keep up his standing as a wealthy industrialist, Empain eagerly participated in activities that suited his new social class. He was regularly seen at theater plays, parties and dinners. His brother François was an enthusiastic lover of opera. Edouard and François had their horses participate in contests all over the country, sponsored the first automobile races and donated to charity.⁵ Edouard's appointment as commissioner for the World Exhibitions in Antwerp and Brussels of 1894 and 1897 proves that he too had obtained a certain position in Belgian business circles.⁶

For the early 1890s, there is no proof that Empain was already in the position to influence policy affecting his businesses in Belgium. To be sure, Empain had started to collaborate closely with politicians of different ideologies such as Adrien d'Oultremont,

³ Compared to Solvay, Empain's origins were even more modest, but the du Roy de Blicquy family of course played a decisive role. See Ginette Kurgan-Van Hentenryk, "Mythe et réalité du "self-made man" au sein du patronat belge," in *Bulletin de la Classe des Lettres et des Sciences Morales et Politiques* (Brussels: Académie Royale de Belgique, 1999).

⁴ Tilman, *Banquiers*, 112+23.

⁵ "Le banquet des agents de change," *L'Indépendance Belge*, 6 Feb 1893; "Pôle Nord," *La Meuse*, 31 Jan 1894; "Voitures sans chevaux: Comité de la Course des voitures automobiles de juin 1895," *La Science française : revue populaire illustrée*, 1 Feb 1895; "Souscription au profit des pauvres de l'agglomération bruxelloise," *Journal de Bruxelles*, 3 Feb 1895; "A Mons: Le concours hippique," *Le XXe Siècle*, 16 Jun 1896; "Au Royal Cycliste: Le banquet Annuel," *La Réforme*, 18 Dec 1896.

⁶ "Bruxelles-Exposition: Statuts," no. 1480, *AMB*, 5 Jun 1893; "Exposition d'Anvers," *Gazette de Charleroi*, 2 Oct 1893.

Jules Carlier, Adolphe Dupont-Rucloux and Achille Huart-Hamoir.⁷ In the next decade, he hired the services of politicians/business lawyers Jules Renkin and Georges Grimard, and appointed Victor Fris as chairman of the *Tramways de Lille*.⁸ The presence of politically active people in the business group could indicate some political influence. Yet, the general entanglement of politics and business in the Belle Epoque makes it hard to assess if these individuals were partners of Empain precisely because of their political connection. Their political mandate might sometimes just have been a coincidence. Nevertheless, thanks to Adrien d'Oultremont, the expanding Empain group could count on the support of the Belgian government. In the early 1890s, the Ministry of Foreign Affairs was favorably disposed towards the *Eaux de Caracas* in Venezuela, of which d'Oultremont was a director (see Chapter 6).

Empain's reputation and influence increased only slowly, but this started to change with his tramway plans in Brussels in the mid-1890s. In the entire country, the business group merely controlled some 300 km of light rail and tramway lines in the countryside. With the *Chemin de fer à voie étroite de Bruxelles à Ixelles-Boendael (BIB)*, the group possessed one politically more visible line in the Belgian capital. Because *BIB* was mainly active in the southeastern suburbs, Empain initially did not pose a direct threat to the mighty *Tramways Bruxellois (TB)*, the largest tramway operator in the capital. However, in the 1890s, Empain continued to apply for concessions within the sphere of the *TB*. He aimed to expand to the city center.⁹ As such, Empain started to poach in the territory of large financial groups, the *Société Générale* in this case. In 1893, the *TB* could still avoid competition by offering to cooperate in a project to connect the lower and upper parts of the city. Empain and the *TB* agreed to merge their interests in case one of them was selected, but political discussions indeterminately postponed a decision in any direction.¹⁰ Three years later, Empain again directly confronted the *TB* for the concession of the extension of a *TB* line. Finally, *BIB*, the *TB* and the minister consulted to maintain the privileged position of the *TB*, but the Empain group received prestigious concessions

⁷ D'Oultremont (independent, Chamber of Representatives 1884-1892), Carlier (liberal, Chamber of Representatives 1886-1892), Dupont-Rucloux (liberal, Provincial Council of Liège 1878-1892), Huart-Hamoir (liberal, alderman (1895-1902) and mayor of Schaerbeek (1903-1909), Provincial Council of Brabant (1895(?)-1899)

⁸ Renkin (Catholic, Chamber of Representatives 1896-1934), Grimard (socialist, Municipal Council of Brussels 1895-1899, Chamber of Representatives 1898-1900, Senate 1900-1908), Fris (Catholic, Chamber of Representatives 1884-1900, Senate 1900-1913)

⁹ "Chronique du jour," *Journal de Bruxelles*, 23 Mar 1890.

¹⁰ "Un trottoir roulant," *La Meuse*, 8 Nov 1895; "La Commission," *La Meuse*, 13 Feb 1894; "Les moyens de transport à Bruxelles," *L'Indépendance Belge*, 30 Jan 1894; Luc De Ryck, "De monopolisering in het stedelijk openbaar vervoer te Brussel op het einde van de 19de eeuw," *BTNG-RBHC* 21, no. 1-2 (1990): 246.

in compensation.¹¹ These included two electric tramway lines connecting the city center with the terrains of the Universal Exposition of 1897. One of them followed the track of the newly constructed avenue leading to the Colonial Exposition in Tervueren, conceived by King Leopold II himself. As a consequence of these extensions, *BIB* doubled its tramway mileage and became an important actor in the Brussels transport system.¹²

The *TB*, *BIB* and other tramway companies in Brussels slowly followed the electrification trend that transformed the urban transport sector in the late 1890s. To justify these massive investments, the *TB* wanted to secure its existence in the long run. This is why its parent company, the *Société Générale*, repeatedly approached the central and local government to unify all concessions and extend their validity, as a part would expire in 1909. In 1897, the municipality of Brussels took the demand of the *TB* seriously.¹³ The news of the direct negotiations encouraged competitors to spontaneously submit alternative projects in the absence of an official invitation to tender. Tramway entrepreneur Edouard Otlet published a proposal to establish the *Nouveaux Tramways Bruxellois*, but most politicians ignored or discredited his project. Reportedly, the Empain group also prepared a proposition to take over the expiring concessions of the *TB*.¹⁴ Given both the size of its network and the reputation that it was gaining by being part of the consortium allowed to build and operate the Paris Métro, the *TB* could not ignore that the Empain group was to pose a serious threat to its interests.¹⁵

This made *BIB* an interesting target for a takeover. Realizing that further competition could harm both firms, negotiations between them started in January 1898.¹⁶ Within a month, the boards of directors came to an agreement. The *TB* could acquire the network of the *BIB* if the parliament voted the unification and extensions of the *TB* concessions. In return, the Empain group received about 15 million francs, partly in *TB* shares, for a company worth about 11 million francs. As a result of their secured interest in *TB* of at least 16%, the Empain group received three seats in the board of directors.¹⁷

Whereas Catholic senator Edouard Otlet lacked the power to persuade his fellow party members, the influential directors of the *TB* and the *Société Générale* effectively put

¹¹ "Le tramway électrique de la rue de la Loi," *Le XXe Siècle*, 16 Aug 1896; "Les Nouvelles," *Le XXe Siècle*, 20 Aug 1896; "Les Nouvelles," *Le XXe Siècle*, 21 Aug 1896.

¹² *Recueil Financier*, 1898-1899, 182-84.

¹³ De Ryck, "Monopolisering," 233-35.

¹⁴ Belgian Chamber of Representatives, *Annales Parlementaires*, 10 Aug 1899, 2258; Note, 9 Mar 1898, *Construction d'un nouveau boulevard à Bruxelles, et extension du réseau des tramways*, 1898, T 447/289, Economic Archives of the Otlet Family, ARA.

¹⁵ De Ryck, "Monopolisering," 235-44.

¹⁶ Meetings of Jan-Feb 1898, Minutes of the Board of directors, *Electrobel*, I 30/5429, ARA2.

¹⁷ *Recueil Financier*, 1899-1900, 243-44; *Recueil Financier*, 1900-1901, 249-52; Note, 9 Mar 1898, T 447/289, ARA; Belgian Chamber of Representatives, *Annales Parlementaires*, 10 Aug 1899.

pressure on the municipal council and the national government. The takeover of *BIB* and the reorganization of the network were adopted by the City of Brussels a few months after the deal between both companies. Political protest impeded a steady adoption in Parliament, but the law was finally voted in August 1899.¹⁸ According to De Ryck, the appointment of the Empain brothers to the board of the *TB* was an important asset to put pressure on the Catholic government.¹⁹ However, no contemporary sources can really prove this. Arguably, Empain's soft power at that time was rather limited compared to the channels through which the *Société Générale* could convey its message to leading Belgian politicians.²⁰

What did affect the standing of Empain was his budding collaboration with Leopold II. Edouard Empain, and to a lesser extent François, had become welcome guests at the Royal Palace from 1897 onwards. As this considerably promoted Empain's position in the Belgian elite, the following section investigates it in detail.

4.3 A peculiar friendship: Empain and King Leopold II

King Leopold II, with his unquenchable appetite for business, was always looking for 'accomplices' who could assist him in his business projects in his Congo Free State (CFS) and elsewhere.²¹ More than anything, Leopold II was looking for fresh money to finance his colony. He convinced large Belgian and French banks to subscribe to a lottery loan of 150 million francs in 1888.²² In this context, Empain appeared for the first time in the service of the King, at least indirectly. A year after the issue of the loan, Edouard Empain and his then close partner Edouard Otlet reported from Paris to Comte Adrien d'Oultremont, a business relation of theirs and brother of the King's *Grand Maréchal de la Cour*. Their mission had been to investigate the financial viability of the loan. Otlet and Empain expressed their gratitude for being able to help his Majesty with "the immense

¹⁸ Belgian Senate, *Annales Parlementaires*, 4 May 1899, 423; De Ryck, "Monopolisering."

¹⁹ De Ryck, "Monopolisering," 239-40.

²⁰ Brion and Moreau, *Société Générale*, 485-89; Ginette Kurgan-van Hentenryk, *Gouverner la Générale de Belgique: Essai de biographie collective* (Brussels: De Boeck Université, 1996), 108-09.

²¹ Neal Ascherson, *The king incorporated: Leopold II in the age of trust* (London: Allen and Unwin, 1963).

²² In a lottery loan, the bonds have a double character: they are "at once a deed of loan and a lottery ticket." Bondholders can win a prize when their bond is drawn. Henri Lévy-Ullmann, "Lottery Bonds in France and in the Principal Countries of Europe," *Harvard Law Review* 9, no. 6 (1896).

works that He has undertaken in Africa.”²³ It is, however, unclear to what extent the King himself was aware of this mission. In any case, Leopold II did not particularly notice Empain, although the latter had slowly started to invest in colonial firms around the same period (see Chapter 1). Empain had another connection to the Royal Palace, though it is uncertain if precisely this brought him closer to the King. His close partner Arthur du Roy de Blicquy had a brother Fernand, who was the personal *aide-de-camp* (1870-1905) of crown prince Philippe. Fernand’s son was equerry (1898-1900) of Philippe and afterward of Prince/King Albert (1900-1917).²⁴

The real rapprochement between Empain and Leopold II only happened as soon as Empain took an interest in Leopold II’s second passion: China. Empain started to be invited to the parties at the Royal Palace after the visit of the Chinese Viceroy Li Hongzhang in July 1896 (see Chapter 1).²⁵ In 1898, his brother François Empain was invited to attend a more exclusive dinner in presence of the King, Belgian ministers and Chinese diplomats. From the next year onwards, Edouard Empain was frequently granted this honor too, in a more intimate setting with a limited number of guests. On several occasions, Edouard was even given a seat at the King’s table. During the dinners, he was often in the presence of the King’s favorite partners Lambert, Thys and Wiener as well as loyal government members such as Minister of Foreign Affairs de Favereau and Minister of Finance de Smet de Naeyer.²⁶

With the visits to the Palace, Empain also started to render services to the King. He remained a loyal collaborator until the King’s death in 1909.²⁷ Empain also expressed his loyalty by intimidating critics such as Bunau-Varilla, his acquaintance and editor of the Parisian newspaper *Le Matin*, as well as Jourdain, the editor of the Brussels newspaper *Le Patriote*.²⁸ Gradually, Empain became Leopold’s all-round economic-diplomatic advisor

²³ ““l’oeuvre immense qu’Elle a entreprise en Afrique”, Otlet and Empain to Adrien d’Oultremont, 23 Nov 1889, *Correspondance générale*, T 447/4, Economic Archives of the Otlet Family, ARA.

²⁴ “Ars Moriendi: du Roy de Blicquy Fernand,” http://www.ars-moriendi.be/DU_ROY_DE_BLICQUY1870.HTM; “Ars Moriendi: du Roy de Blicquy Baron Albert,” http://www.ars-moriendi.be/DU_ROY_DE_BLICQUY1914_FR.HTM.

²⁵ The winter parties at the Royal Palace were very popular: more than 2500 invitations were sent each time. In the register of 1896 (n°525), the *Grand Maréchal de la Cour* John d’Oultremont added Edouard Empain’s name in pencil. He is invited for the first time in February 1897 (register n°526). Second series of registers of the soirees and balls in alphabetical order, *Grand Maréchal de la Cour. Règne de Léopold II*, 525-526, KPR-ARA.

²⁶ First series of registers of the dinners in chronological order, *Grand Maréchal de la Cour. Règne de Léopold II*, 462-463, KPR-ARA.

²⁷ Although they did not have any protocol function, Edouard and François Empain were one of the first to pay their last respects to the deceased King the morning after he died. (Empain’s youngest sister still remembered this in the 1960s) “Mort de S.M. le Roi Léopold II,” *L’Indépendance Belge*, 18 Dec 1909; Duchesne, “Général,” 166 footnote 78.

²⁸ Duchesne, “Général,” 266 footnote 107.

and financier. At first, the favors only concerned Chinese businesses, but in the second instance they also included Congolese financial matters. Thirdly and finally, Empain assisted Leopold in projects in Morocco and elsewhere.

Firstly, Empain combined the management of his own project in China with favors for the King regarding the *American China Development Company (ACDC)* and the Tianjin concession. On the one hand, Empain helped Leopold II to secure control over the ACDC, which had obtained the concession for the Hankou-Canton railway. Keeping the entire arterial railroad Beijing-Hankou-Canton in Belgian hands was an obsession of King Leopold, until China bought the Hankou-Canton back in 1904. Empain made payments on behalf of the King and advised him on sophisticated financial constructions. He vainly went to Paris to convince French big banks of investing in the ACDC. On the other hand, Empain gladly acted as a straw man in the efforts to obtain a territorial concession in Tianjin. In 1901, for instance, he becomes the main director of the new *Société Asiatique*. This rather thin construction was meant to financially support Leopold's efforts in China.²⁹

Secondly, by 1901 Leopold II had also started to rely on Empain for financial matters in his private colony. As mentioned in the first chapter, the King's regular collaborator Albert Thys had fallen into disgrace and Leopold II was looking for new businessmen. With his wide and influential network in Paris, Empain was the man after Leopold's heart. Empain was thrilled to contribute to "the great African work of the King."³⁰ Leopold II charged him to unofficially represent the CFS in Paris and to negotiate with the *Chemin de fer du Congo* on behalf of the colony. Most importantly, Empain accepted to finance the *Chemins de fer du Congo Supérieur aux Grands Lacs africains (CFL)*. In addition, he tried to find Belgian and French bankers ready to accept the remainder of the lottery loan of 1888 in their portfolio. He already had done something similar in 1889, but now he could use his influential status in Paris. In November 1902, Empain managed to persuade his close partners *Bénard&Jarislowsky* to take charge of half of the remaining bonds. In turn, Empain personally vouched for a part of the bonds accepted by *Bénard&Jarislowsky*, worth 3 million francs. This way, the King could remain behind the scenes, while still securing access to the Paris Stock Exchange.³¹

Thirdly, Empain assisted the King in his colonial aspirations in the area of Agadir, Morocco.³² Empain organized a covert expedition to Morocco in 1904 that had to obtain a

²⁹ Kurgan-van Hentenryk, *Léopold II*, 231-32+388-89+447-48+58+563+601.

³⁰ "à la grande oeuvre Africaine du Roi", E. Empain to King Leopold II, 12 Jan 1901, *Expansion Léopold II*, 50/2, KPR-ARA.

³¹ Kurgan-van Hentenryk, *Léopold II*, 466-71+560.

³² For the very incomplete correspondence between Empain and the Royal Palace, see Correspondance Edouard Empain, *Expansion Léopold II*, 50, KPR-ARA; Correspondance Edouard Empain, *Cabinet Léopold II*, 1791, KPR-ARA.

territorial concession from the Sultan. The mission was led by collaborators of Empain: Georges Grimard and Henri Denis, respectively a friend and a brother-in-law of the Belgian banker. Despite avoiding any reference to Empain and thus to the King, foreign Powers soon discovered the true royal nature of the mission. After French and Spanish opposition, Grimard and his retinue had to return to Belgium without success.³³



EXCELLENTS AMIS, EXCELLENTS FINANCIERS

Lui. — Article premier : En récompense de m'avoir fait les Grands Lacs, tu reçois de la Chambre, le Bruxelles-Anvers électrique, et on cote immédiatement 700 en Métro et 300 en Parisienne.

Empain. — ... Article deux : Le denier de Saint-Pierre, les 7 millions de Caracas, et la liste civile de 1904 sont affectés à nos prochaines émissions.

Figure 24 Press cartoon depicting Edouard Empain and Leopold II (1903)³⁴

³³ Evidence gathered by Albert Duchesne suggests that Empain organized a second mission in 1906/1907. Albert Duchesne, *Léopold II et le Maroc (1885-1906)*, vol. XXXII-2, Mémoires de la Classe des Sciences Morales et Politiques (N.S.) (Brussels: Académie Royale des Sciences d'Outre-Mer, 1965), 181-228.

³⁴ John Grand-Carteret, *Popold II: roi des Belges et des Belles devant l'objectif caricatural* (Paris: L. Michaud, 1908), 61. The cartoon of C. de Busschere first appeared in the issue of 14 Oct 1903 of *La Finance illustrée*. The text reproduced a fictitious conversation between both men. It represented the popular idea that Leopold II helped

Despite Leopold's efforts to use Empain as a cover, the good relationship between the two was a public secret. From 1901 at the latest, when the *CFL* project took shape, journalists, politicians and diplomats knew that Empain was "one of the businessmen and confidants of King Leopold II"³⁵, perhaps even the "favorite financier."³⁶ On the one hand, Empain's royal friendship conveyed a lot of prestige. The investments of the Empain group suddenly enjoyed the alleged protection of the King. On some occasions, this was not far from the truth. Both in Belgium and China, Leopold II lobbied for Empain, as discussed further in this dissertation. On the other hand, the association with the King also had a drawback. Leopold was a very controversial personality and had many enemies in Belgium and abroad. As a result, Empain's dealings with the King were the object of derision in popular media. Press cartoons such as Figure 24 were one form of criticism. Another one was *Les Carnets du Roi*, a widely circulated satire on Leopold II that cited Empain at length.³⁷ He is staged as one of the important persons the King granted audiences to. The book provided a caricatural, yet not totally inaccurate portrait of the self-made banker. Indeed, Empain was of humble origin. Moreover, he had not always wanted to help the King at any price.³⁸

Mr. Empain will rarely bother you and he will even gladly wait until you send for him. He will seem very charmed and very surprised by the honor you do to him and he will endeavor to persuade you in two words that the long-awaited audience is totally unexpected for him. Mr. Empain does not make sentences and he is devoid of any grandiloquence. He is a laborious and calculating chief clerk and knows the exact price of the services he can offer you. Tell him briefly what you have to say to him and listen to his answer. He will always be precise and clear and will endeavor to appear without ulterior motives. But don't trust what he tells you. Never commit

Empain obtaining the Brussels-Antwerp interurban, was a shareholder of the Métro and could even influence the stock exchange value of the Empain group. In exchange, Empain financed the *CFL* (see below).

³⁵ "l'un des hommes d'affaires et de confiance du Roi Léopold II", Gérard (Brussels) to Delcassé (Paris), 24 Jun 1901, *Chine: Kaifong-Honan Fou (1899-1902)*, 148CPCOM/523, MAEF.

³⁶ "financier favori", Gérard (Brussels) to Delcassé (Paris), 19 May 1905, as cited in: Duchesne, *Léopold*, XXXII-2, 218; See also the intervention of socialist Louis Bertrand in Parliament, Belgian Chamber of Representatives, *Annales Parlementaires*, 18 Jun 1903, 1497.

³⁷ Two years before Mark Twain's *King Leopold's Soliloquy*, a Belgian-German writer anonymously published a satire on Léopold II, disguised as the King's good advice to his successor. Paul Gérardy and Anne Cornet, *Les Carnets du Roi*, presented and annotated ed. (Orléans: Regain de Lecture, 2017 [1903]).

³⁸ He refused for example to save the *Société Générale Africaine* from bankruptcy. van Eetvelde to King Leopold, 25 Jan 1903, *Collection Institut Royal Colonial Belge*, 507, BMFA.

yourself totally. With this man you are always being rolled and your prestige will do nothing against the apparent logic of his deductions.³⁹

Because Empain was so close to Leopold II, his most virulent critic already imagined him a baron in 1903.⁴⁰ Finally, Leopold awarded Empain the title in 1907, removing the last doubts about the excellent ties between both (see Fig. 25 for the coat of arms).⁴¹ No observer really wondered why. As one French newspaper smartly wrote, “the King-businessman owed this great mark of respect to the king of the businessmen.”⁴² Leopold II famously was generous with decorations in recognition for services rendered. He also used decorations to please people from whom he wanted something in return. However, the title of baron was already a token of the King’s particular appreciation. Only close collaborators and dignitaries received the honor to be created baron *ex nihilo*. For comparison, Empain was in the good company of Léon Lambert (1896), who financed Leopold’s colony from the start; Edmond van Eetvelde (1897), the long-standing secretary of the King; Ferdinand Baeyens, governor of the *Société Générale* (1904); and Maurice Joostens (1904), a Belgian diplomat who had distinguished himself in China. Only Paul de Smet de Naeyer, Prime Minister and Minister of Finance and Public Works, was immediately created count in the same period (1900).⁴³

³⁹ “M. Empain t’importunera rarement et il attendra même volontiers que tu le fasses venir. Il aura alors l’air très charmé et très surpris de l’honneur que tu lui fais et il s’efforcera de te persuader en deux mots que l’audience depuis longtemps escomptée est pour lui tout à fait inattendue. M. Empain ne fait pas de phrases et il est dépourvu de toute grandiloquence. C’est un chef de bureau laborieux et calculateur et qui sait le prix exact des services qu’il peut te rendre. Dis-lui brièvement ce que tu as à lui dire et écoute sa réponse. Il sera toujours précis et net et s’efforcera de paraître sans arrière-pensée. Mais ne te fie guère à ce qu’il te dit. Ne t’engage jamais à fond. Avec cet homme on est toujours roulé et ton prestige ne pourra rien contre l’apparente logique de ses déductions.” Gérardy and Cornet, *Carnets*, 169.

⁴⁰ “L’Ogre de la Bourse: le futur baron Edouard Empain,” *L’Etoile coloniale*, 10 Mar 1903.

⁴¹ Minister of FA de Favereau to Secrétaire du Roi, 28 Dec 1906, *Cabinet Léopold II*, 1791, KPR-ARA.

⁴² “Le roi-homme-d’affaires devait cette haute marque d’estime au roi des hommes d’affaires.” “Médaillon,” *Gil Blas*, 4 Jan 1907.

⁴³ Luc Duerloo and Paul Janssens, *Wapenboek van de Belgische adel: van de 15de tot de 20ste eeuw*, vol. 1: A-E (Brussels: Gemeentekrediet, 1992).



Figure 25 Coat of arms of Baron Edouard Empain (1907)⁴⁴

4.4 A private interurban between Brussels and Antwerp? (1900-1903)

The turn of the century marked a watershed in Empain's rise to national fame. His transport enterprises in Egypt, Russia, China, Spain and especially France had added to his aura of an important businessman. The Empain brothers had secured a prominent position in the dominant transport firms of both Brussels and Paris. At the start of the century, the electric revolution offered new opportunities to invest in the home market and give Belgium a central place in the business group. In the late 1890s, the Empain brothers had also established close relations with the Catholic Conservatives. François

⁴⁴ The analysis of the coat of arms reveals much about Edouard Empain's universe. The shield refers to Egypt – his favorite country since he started investing there–; the white stroke symbolizing the Nile, decorated with two lotus flowers at the top and the sun at the bottom. The bundle of lightning above the crest is a classical heraldic charge, signifying power. However, here it could also highlight the importance of electricity in Empain's life. As a motto, Empain chose *Labore*, emphasizing that he had achieved his position *through work*. Duerloo and Janssens, *Wapenboek*, 1: A-E, 753.

Empain was even tipped as the local Catholic candidate for the Senate in 1900.⁴⁵ On top of that, they had been invited several times at the Royal Palace.

Empain's involvement in the plans for the first electric railway in Belgium perfectly illustrates the change in status of the businessman. Empain's excellent relations with the Catholic Party and King Leopold made him a protagonist in the story. Inspired by the evolution in other industrializing countries such as the United States and Germany, the *Société Générale* made the central government a proposition in early 1900. Explicitly referring to the successful electric interurban railways in the US, where thousands of kilometers of such kind had already been finished, the *Société Générale* proposed to construct a direct line from Brussels to Antwerp.⁴⁶ The train would provide a fast link between the two largest Belgian cities. Trains would ride at a commercial speed of at least 100 km/h. Exclusively meant for passengers, these could see their travel time reduced from 55 to 25 minutes. Because of the new technology and the high costs associated with it, the *Société Générale*, together with the *TB*, some banks and the German *UEG*, convinced the central government to rely on private partners to finance and operate the line. This was a very interesting opportunity for investors, because the Brussels-Antwerp line was the busiest of Belgium, with at least 1.5 million passengers a year.⁴⁷ The *Société Générale* wanted to invest 40 million with 4% return guaranteed by the State. It asked for a concession of 60 years, although the State could buy back the railway already after ten years. However, completely convinced of the necessity and urgency of the project, neither the Belgian financiers nor the Catholic government had expected any political resistance. Several MPs, also from the Catholic majority, criticized the hastiness and lack of transparency of the project. At the demand of Belgian business organizations, later drafts of the program contained a closed-market clause, stipulating that the national industry should provide most of the material. However, electrical equipment was exempted because of the sophisticated technology. Most likely, the *Société Générale* wanted to keep its partner *UEG* on board. Consequently, a socialist MP questioned the participation of German electric industry to the detriment of the Belgian electrical engineers.⁴⁸ This was already a forerunner of the protectionism that would lead to the

⁴⁵ "Ce qui se passe à Schaerbeek," *Le Patriote*, 15 May 1899; "Nieuws uit Mechelen," *Het Laatste Nieuws*, 25 Mar 1900.

⁴⁶ Chemin de fer électrique Bruxelles-Anvers, *Ministère des Finances. Ancien fonds. nr. 615-804 (1914-1922)*, T075/682, ARA; George Woodman Hilton and John Fitzgerald Due, *The Electric Interurban Railways in America*, revised ed. (Stanford: Stanford UP, 2000), 25.

⁴⁷ Belgian Chamber of Representatives, *Annales Parlementaires*, 4 Aug 1903, 2323; Chemin de fer électrique Bruxelles-Anvers, T075/682, ARA.

⁴⁸ "Le Tram Bruxelles-Anvers," *La Réforme*, 8 May 1900; "Le Tram électrique Bruxelles-Anvers devant L'Union Syndicale," *La Réforme*, 12 Apr 1900; Belgian Chamber of Representatives, *Annales Parlementaires*, 5 May 1900,

establishment of ACEC. However, the principle of conceding railways to private partners was the hardest to digest for the Catholic MPs. The governments of the last two decades had followed the policy to gradually nationalize private railway networks. This new electric railway would go against that principle. Therefore, the Chamber of Representatives refused to approve the project in May 1900.⁴⁹

The Empain group was not at all discouraged by the voting down of the first proposal of the *Société Générale*. The early success of the Parisian Métro, which had opened with a lot of public attention during the World Exposition in July 1900, was an excellent frontispiece for projects in Belgium.⁵⁰ In October, the Empain group announced its own version of the Brussels-Antwerp interurban.⁵¹ The Empain group proposed to finance the expenses of about 50 million francs, in exchange for a return of 2.5% guaranteed by the State, plus 40% of the net profits. Both the King, the government and most Belgian newspapers greeted Empain's proposal with enthusiasm.⁵² There is a simple explanation for this receptivity. First of all, the King was favorably disposed to Empain's businesses, not only in China and Congo. In addition, the King had a significant influence on several members of the government such as de Smet de Naeyer and de Favereau.⁵³ Finally, the press's interest had been bought.⁵⁴ In any case, journalists did not miss any chance to write about the topic. There were even rumors that Leopold II and Empain were negotiating with the French government and the Chemin de fer du Nord about another electric railway between Brussels and Paris.⁵⁵ The Empain holding *Parisienne Electrique* was said to be behind the two projects, although it seems that the Brussels-Paris railway just was a media stunt.⁵⁶

1413-14; Draft Program for Interurban Railway Brussels-Antwerp, April 1900, *Ministère des Finances. Ancien fonds. nr. 615-804 (1914-1922)*, T075/682, ARA.

⁴⁹ Belgian Chamber of Representatives, *Annales Parlementaires*, 5 May 1900, 1396-420. On the Belgian nationalization of railways, see Buelens and van den Broeck, *Financieel*, 168-93.

⁵⁰ "Bxl-Anvers," *L'Indépendance Belge*, 6 Sep 1902.

⁵¹ "Échos de la ville," *L'Indépendance Belge*, 24 Mar 1900; "Le chemin de fer électrique Bruxelles-Anvers," *Le XXe Siècle*, 18 Oct 1900; "Le trait d'union électrique Bruxelles-Anvers," *Journal de Bruxelles*, 1 May 1900.

⁵² Carlo Bronne, "Léopold II et le comte de Smet de Naeyer. Lettres inédites du Roi," *Revue générale belge*, no. 6 (1966): 18-23; "Le Tram Bruxelles-Anvers," *Le Peuple*, 6 Nov 1900; "De electricie spoorweg Antwerpen-Brussel en de nieuwe zeehavens," *Het Handelsblad*, 31 Aug 1902.

⁵³ Bronne, "Léopold.," Kurgan-van Hentenryk, *Léopold II*, 837.

⁵⁴ Empain reportedly paid the Brussels liberal newspaper *La Gazette* to publish positive articles about the electric railway Brussels-Antwerp in April 1900. Belgian Chamber of Representatives, *Annales Parlementaires*, 28 Jan 1902, 503.

⁵⁵ "Buitenlandse Kroniek," *Algemeen Handelsblad*, 4 May 1901; "Electric Railways in Belgium," *Financial Times*, 7 May 1901.

⁵⁶ "Société Parisienne Electrique," *MIM*, 2 Jun 1901.

Despite the defeat the interurban suffered in 1900, Empain's proposal restored the central government's hope to execute the Brussels-Antwerp project in some way. The government had reached a consensus on the fundamentals of Empain's plan by October 1901.⁵⁷ Although several other entrepreneurs had submitted their application for the line, in the meantime, Empain remained the government's privileged partner.⁵⁸ The entrepreneur had developed a very good relationship with Prime Minister de Smet de Naeyer. In the summer of 1902, several Catholic top politicians willingly accepted the invitation to spend a day on the yacht of the Empain brothers to inspect the port of Antwerp. Among them were ministers de Smet de Naeyer, Liebaert and de Favereau, responsible for Finance, Public Works and Foreign Affairs respectively, as well as several senators and MPs such as Beernaert and Woeste.⁵⁹ Albeit unofficially, this was an excellent opportunity to rediscuss the Empain group's proposal. Keeping up faith in the chances of the electric interurban railway, de Smet de Naeyer's Ministry of Finance kept negotiating with Empain about the terms of the concession at least until December 1903.⁶⁰ To support the project, Edouard Empain, his general manager Roch Boulvin and the head of the Office of the Belgian Minister of Railways traveled to Berlin. There, they visited the facilities of the *Studiengesellschaft für Elektrische Schnellbahnen* in Berlin. This consortium, led by *Deutsche Bank*, *Siemens*, *AEG* and *Krupp*, was testing fast electric tramcars. Wilhelm von Siemens showed Empain around and allowed him to take a test ride reaching 185 km/h.⁶¹

The PR trip to Berlin had to put pressure on the MPs that were opposing the principle of a private concession. This did not have any effect, as Parliament remained heavily divided. Catholic heavyweights such as former Prime Minister Auguste Beernaert could not accept that the current government would reverse the long-standing policy of railway nationalization. In addition, he and other MPs feared that the competitive privately operated electric line would force out the existing state-owned railway between

⁵⁷ "Le projet de tramway électrique Bruxelles-Anvers," *Le Peuple*, 24 Sep 1901; "Electrieke spoorweg Antwerpen-Brussel," *Het Handelsblad*, 4 Oct 1901.

⁵⁸ Were mentioned between 1900 and 1903: the projects of Van de Kerchove, *Société Générale*, Empain, *Cockerill*, De Bie, Hertoghs and *Siemens&Halske*. "L'Electrique Bruxelles-Anvers," *Journal des finances : cote universelle et correspondance des capitalistes*, 12 Jul 1902; "Electrieke trein Antwerpen-Brussel," *Het Handelsblad*, 13 Nov 1902; "La ligne électrique Bruxelles-Anvers," *Journal des Transports*, 13 Dec 1902; Belgian Chamber of Representatives, *Annales Parlementaires*, 28 Jul 1903, 2162.

⁵⁹ "Visite ministérielle," *Petit bleu du matin*, 5 Aug 1902; "Une visite ministérielle," *Journal de Bruxelles*, 6 Aug 1902; "Le Bateau Clérical," *Le Peuple*, 7 Aug 1902; "Brussel-Antwerpen," *De Telegraaf*, 15 Oct 1902.

⁶⁰ Chemin de fer électrique Bruxelles-Anvers, T075/682, ARA; "Brüssel," *Berliner Tageblatt*, 6 Feb 1904.

⁶¹ Historische Gesellschaft der Deutschen Bank, "Eilige Elektriker: Mit Tempo 210 auf preußischen Gleisen," *Bank und Geschichte: Historische Rundschau*, no. 3 (2003); "L'Etat belge et la ligne Bruxelles-Anvers," *Journal des Transports*, 19 Oct 1901; "Die Schnellmotoren der Studiengesellschaft," *Berliner Tageblatt*, 5 Nov 1903; Belgian Senate, *Annales Parlementaires*, 3 Dec 1903, 36.

Antwerp and Brussels.⁶² As a result, the government could not gather a majority in favor of a private concession to Empain and it did not dare to officially put it to the vote.⁶³ Nevertheless, under the pressure of the King, the press and the government, Parliament was occasionally debating it in 1904 and 1905, before it entirely disappeared from the political agenda.⁶⁴ The existing state-owned line Brussels-Antwerp was finally electrified in 1935.⁶⁵

4.5 Local power versus Catholics “saving the national industry” (1903-1904)

The creation of ACEC, the group’s industrial flagship, occurred due to a unique combination of political and economic circumstances. To explain in what way it was the result of an unprecedented coalition of Empain and the Catholic government, it is necessary to discuss the state of the electric industry in Belgium at the beginning of the twentieth century. This is followed by an analysis of the tender for the Brussels power station, because the whole bidding process is crucial to understand the eventual establishment of ACEC.

Between 1900 and 1903-4, the industry in Western Europe and Russia suffered from an economic crisis.⁶⁶ The large electric engineering firms faced lower returns, leading to a difficult financial situation. As a result, the German electric industry consolidated: in 1903-4, *Siemens* and *Schuckert* merged as well as *AEG* and *UEG*. The leading Belgian electricity firms such as *Électricité et Hydraulique (E&H)* and *Compagnie Internationale d’Électricité (CIE)* were struggling to survive. The need to improve and protect their situation was a recurring theme in political debates of that period.⁶⁷ In this context, they

⁶² “Eisenbahnangelegenheiten im belgischen Parlament,” *Zeitung des Vereins Deutscher Eisenbahnverwaltungen*, 30 Dec 1903.

⁶³ See the debates in Parliament in November-December 1903, especially the Belgian Senate, *Annales Parlementaires*, 3 Dec 1903.

⁶⁴ “L’électrique Bruxelles-Anvers,” *Journal de Bruxelles*, 24 Nov 1904; “A la Chambre,” *La Réforme*, 28 Jun 1905; “Le Parlement Belge,” *L’Indépendance Belge*, 29 Jun 1905.

⁶⁵ Buelens and van den Broeck, *Financieel*, 207.

⁶⁶ Wesley Clair Mitchell, *Business Cycles* (Berkeley: University of California Press, 1913), 60-62, 70-72.

⁶⁷ Belgian Chamber of Representatives, *Annales Parlementaires*, 16 Jul 1903, 1987; Belgian Chamber of Representatives, *Annales Parlementaires*, 11 Feb 1904, 581; Belgian Chamber of Representatives, *Annales Parlementaires*, 9 Mar 1904, 902.

referred to Belgium's very liberal trade policy giving foreign manufacturers privileged access to the Belgian market. Import tariffs for products coming from Germany and France had been very low for more than a decade. In 1904, the Belgian government concluded a new trade agreement with its German neighbor. Electrical equipment was part of the negotiations. Although the Belgian negotiators had tried to lower the considerable German import tariffs for products coming from Belgium, the fundamental imbalance between German protectionism and Belgian free trade remained.⁶⁸ For instance, in 1906 Belgium levied about 2% customs tax for German electrical equipment, whereas Belgian manufacturers easily paid over 15% when exporting to Germany or France.⁶⁹

Unsurprisingly, the German electroholdings, especially *UEG* and *AEG* and to a lesser extent *Siemens*, were very active on the Belgian market. Belgium was a fairly important market, its small size considered.⁷⁰ As a result of the technological breakthrough of electric utilities, many large public infrastructure projects were launched or at least considered in the period of 1900-1904: the Brussels-Antwerp interurban mentioned above and power stations in Belgium's largest cities. In the case of Ghent, the Empain group's tramway company had experienced the competition of *AEG-UEG* at first hand. The Ghent city council had searched a company to install and operate a large power station. Despite Empain's very competitive ultimate offer in late 1903, the municipality had preferred to partner with *AEG-UEG* instead of the Empain group's *Tramways électriques de Gand*.⁷¹

So, after the setback of the Empain group in Ghent and while the discussion about the Brussels-Antwerp interurban was still going on, the city of Brussels was about to decide in its tender procedure for a new municipal power station. Since 1893, the capital had operated its own power plant (*regie*). At the turn of the century, the municipality realized that the existing power plant in the city center had reached its limits. Its capacity of 3500 kW was insufficient to face the rising demand for electricity. In January 1903, the municipality invited electrical engineering firms to tender for the construction of the new plant.⁷² The municipal services would afterward take charge of the operation. It

⁶⁸ Marie-Thérèse Bitsch, *La Belgique entre la France et l'Allemagne (1905-1914)*, Histoire de la France aux XIXe et XXe siècles (Paris: Publications de la Sorbonne, 1994), 29-49.

⁶⁹ The exact import tariffs for electrical tramway equipment were: 16.7% tariff to Germany, as opposed to 2.77% to Belgium. Germany levied a tax of 18.75%, France 22.5% and Belgium 1.5% for arc lamps entering the country. Belgian Chamber of Representatives, *Rapport sur le budget du Ministère de l'Industrie et du Travail pour l'exercice 1906*, 30 Mar 1906, 6-7.

⁷⁰ Bitsch, *Belgique*, 222; Manfred Pohl, *Emil Rathenau und die AEG* (Mainz: Hase & Koehler, 1988), 168.

⁷¹ De Keukeleire, *Uitbouw*, 1 (1870-1907), 248; Belgian Chamber of Representatives, *Annales Parlementaires*, 28 Mar 1905, 1085-86.

⁷² Pieter De Raedt, "Laken en de elektriciteitsvoorziening van de stad Brussel: Deel 1 - Van de aanvang tot omstreeks 1905," *Laca Tijdingen* 24, no. 1 (2013): 23.

received six applications reflecting the international character of the Belgian market: One from a Belgian consortium composed of the *Cie Internationale d'Electricité* and of the *E&H*, one from Switzerland and four from German firms including *AEG-UEG*, *Siemens* and *W. Lahmeyer*.⁷³ One year later, the municipality had reduced the competition to two applicants: the Belgian consortium, on the one hand, and the alliance of *AEG*, *UEG* and their Belgian partner *SGBEE* on the other hand. Because of the price, the bench of Aldermen advocated for the proposal of *AEG-UEG*, but due to administrative issues, it did not succeed in having it voted in March 1904.⁷⁴ This, of course, delayed the whole adjudication process.

Meanwhile, the Belgian consortium member *Electricité & Hydraulique* had gotten into financial difficulties. After 1895, *E&H* had massively invested in Russian electric utilities. In addition, the budget spent on research and development had increased year after year. To finance this expansion, *E&H* had taken a large corporate debt. Unfortunately, an economic crisis struck Russia after 1900. In Belgium too, the competition of foreign, especially German, electrical engineering firms did not allow high profit margins.⁷⁵ *E&H* struggled to avoid insolvency. At the end of 1903, the founder Julien Dulait and director Rolin-Jacquemyns were invited to Berlin to talk with Emil Rathenau of *AEG* about a possible takeover.⁷⁶

The rumors about *E&H*'s financial health affected the tender for the construction of the power station. *E&H* considered withdrawing from the competition, but was bound by contract to its partner *CIE*. This put doubt on the creditworthiness and seriousness of the Belgian application. Brussels preferred to deal with a financially stable partner that offered good terms of payment.⁷⁷ Despite the city's intention to receive various competitive offers via an invitation to tender, the doubt about the Belgian consortium made the actual competition rather limited. On top of all that, the *SGBEE* backed by *AEG-UEG* had secretly continued to negotiate a takeover of the weakened *E&H*. In the beginning of April, the news leaked to the press.⁷⁸ By buying the company's two factories in Marcinelle and Jeumont, the German group wanted to realize two goals.⁷⁹ First, it could strengthen its position on the Belgian electricity market in general. Second, the German group could neutralize the application of *E&H*'s consortium partner *Cie internationale*

⁷³ Belgian Chamber of Representatives, *Annales Parlementaires*, 24 Mar 1905, 1063.

⁷⁴ "Au conseil communal," *Le Soir*, 1 Mar 1904; "L'adjudication de la nouvelle usine d'électricité," *L'Indépendance Belge*, 23 Mar 1904.

⁷⁵ The harsh competition is illustrated by the tender for the Brussels power station itself.

⁷⁶ Charlent et al., *Origines*, VII-24.

⁷⁷ "Die Bewerbung der A.E.G.-U.E.G. um die Brüsseler Lichtcentrale," *Berliner Tageblatt*, 24 Mar 1904.

⁷⁸ "La question de l'électricité," *Le XXe Siècle*, 6 Apr 1904; "Electricité et Hydraulique," *MIM*, 7 Apr 1904; "Société générale d'entreprises électriques in Brüssel," *Hamburger Nachrichten*, 10 Apr 1904.

⁷⁹ "Electricité et Hydraulique," *MIM*, 5 May 1904.

d'Électricité and improve its own position in the tender for the Brussels power station. By acquiring Belgian production facilities, it could take the edge of the nationalist argument that a choice for AEG was bad for the national industry. For future projects such as the long-awaited electric railway between Brussels and Antwerp too, the AEG would also place itself in pole position.⁸⁰

As the tender procedure arrived at an impasse, the municipality received two spontaneous proposals at the end of April, albeit not in accordance with the initial requirements. First, the Empain holding *Parisienne Electrique* offered an alternative to a mere construction project. Second, the German firm *W. Lahmeyer* considered the demarche of the *Parisienne Electrique* as an opportunity to reformulate its rejected proposal and to offer a full concession. However, this deviated too much from the outlined policy to stand a chance.⁸¹

After the example of the *SEP*, discussed in Chapter 2, the Empain group wanted to construct a large, multi-purpose power plant capable of supplying the greater Brussels and, in the event, powering the Brussels-Antwerp electric railway. Instead of an entirely public service, the *Parisienne Electrique* proposed a “cooperation of mutual benefit.”⁸² As the planned power station’s most important client, the City of Brussels would buy alternating current at a high voltage. The municipality would merely control (*régie*) the distribution to the end users. *Parisienne Electrique* also agreed to share its surplus profits with the City. After ten years, the municipality could decide to take over the power station or continue the contract for another 40 years. Knowing that this proposal did not fit in the invitation to tender, the Empain group preferred to be on the safe side by coming to an agreement with the members of the German consortium (*SGBEE-UEG-AEG*). They would share the orders among them and *Parisienne Electrique*. Thanks to his connection with Ernest Urban, chairman of *SGBEE* and the *Banque de Bruxelles* but also of the *Tramways du Caire*, Empain could limit the competition. He was also in touch with Dannie Heineman, the manager of *UEG*’s Belgian subsidiary *Union Electrique*.⁸³ The real rivals were now only the *CIE-E&H* proposal and the economically sound but politically difficult concession of *Lahmeyer*. To gain support for the *Parisienne Electrique*’s proposal, Empain met mayor De Mot. During the meeting, he also argued against the Belgian consortium.⁸⁴

⁸⁰ “Bulletin financier,” *Gazette de Charleroi*, 11 Apr 1904; “Die AEG in Belgien,” *Berliner Tageblatt*, 12 Apr 1904; “Die AEG in Belgien,” *Berliner Tageblatt*, 15 Apr 1904.

⁸¹ “La question de l’usine d’électricité,” *L’Indépendance Belge*, 9 May 1904.

⁸² “régime de coopération mutualiste”, Meeting of 7 Jul 1904, *Parisienne Électrique*, Minutes of the Board of directors, SPIE.

⁸³ Meeting of 28 May 1904, *Parisienne Électrique*, Minutes of the Board of directors, SPIE; Ranieri, *Dannie*, 48.

⁸⁴ Belgian Senate, *Annales Parlementaires*, 11 Apr 1905, 274.

Meanwhile, by the beginning of May, negotiations between AEG and E&H about a possible takeover had collapsed. AEG only offered to buy and dismantle the factory. Instead, Julien Dulait was looking for other partners and contacted Prime Minister de Smet de Naeyer. After a visit of several politicians from Charleroi, asking the government to save the factory, de Smet de Naeyer contacted Empain. The Catholic minister was acquainted with Empain and asked for the financier's support.⁸⁵ Reportedly, Leopold II himself was directly or indirectly informed about the threatening bankruptcy of Dulait's firm, whereupon the King would have called Empain to order him to take over the E&H.⁸⁶ Anyhow, the Empain group was familiar with E&H, as the manufacturer had supplied some of its operating companies with electrical equipment. Moreover, Empain must have understood the opportunity of acquiring the factories in the context of the Brussels power plant competition. Like the Germans, the acquisition could strengthen the proposal, integrate manufacturing in Belgium and destabilize the Belgian consortium. If *Parisienne Electrique* obtained the contract for the power station, it could immediately have the equipment constructed at the group's new factories. Without the factories, *Parisienne Electrique* would have to place orders at E&H, CIE or more likely the German electroholdings. So in the first weeks of May, Empain started negotiating with E&H.⁸⁷ Although the financial situation of E&H was pressing, Empain managed to buy time until the end of June. He wanted to await the decision of the Brussels' municipal council.

The debates of the municipal council were passionate, to say the least. The most salient points regarded the cost of each proposal and the extent to which private industry was involved. In the final weeks, there were still 5 proposals in the running. Submissions A (AEG-UEG) and B (E&H-CIE) planned to construct the power station and leave the operation to the Municipality. Since the invitation to tender, socialists had demanded that the city services would construct the plant itself instead of a general contractor (option C). As mentioned before, the *Parisienne Electrique* offered to assure power production and to have the municipality control distribution and sales (option D). Finally, the *Lahmeyer* firm (option E) suggested to construct and operate the whole utility itself.

The bench of Mayor and Aldermen was a partisan of the public-private partnership as proposed by the *Parisienne Electrique*, because the price was very advantageous. However, many councilors advocated for more municipal control. In the last 48 hours before the vote, both AEG-UEG, *Lahmeyer* and *Parisienne Electrique* improved their proposals hoping to gain a majority. Both AEG-UEG and *Parisienne Electrique* pledged to privilege the domestic

⁸⁵ "Le Sénat," *Petit bleu du matin*, 12 Apr 1905.

⁸⁶ Empain's youngest sister Louise recalled in a letter (22 June 1965) to historian A. Duchesne that Leopold phoned Empain saying "Empain, I want it!" Duchesne, "Général," 166; See also Charlent et al., *Origines*, VII/24-25.

⁸⁷ Looze, "Dulait et entreprises," Pt.II Ch.1.

industry when placing orders. The *Parisienne Electrique* would establish a firm of which at least 75% of the board members are Belgian.⁸⁸ In a letter delivered to the council only hours before the vote, AEG contended to guarantee a price of electricity equal to that promised by the *Parisienne Electrique*.⁸⁹

Finally, due to ideology and voting tactics the German consortium won the tender. It was a compromise between those fearing the victory of the full municipal control and those fearing the victory of the partnership with the *Parisienne Electrique*. Apparently, the council was equally divided on the prospect of total municipal control and the *Parisienne Electrique* proposal.⁹⁰ The Catholics supported the *Parisienne Electrique*, but the progressive liberals were more in favor of municipal control.⁹¹ Although economic nationalism was not a decisive factor, afterward many councilors regretted that the choice for AEG implied the decline of the Belgian electrical industry.⁹² Several newspapers less in favor of municipal control also played this argument.⁹³

For the Empain group and the *Parisienne Electrique* in particular, the whole saga was a major setback, not in the least because the future of the E&H factories depended on the deal. Moreover, regardless of the E&H take-over, the failure was evident too. The *Parisienne Electrique* had been unable to secure a deal worth at least 3 million francs. Therefore, the board considered taking legal action against their former partners SGBEE and AEG for breach of contract.⁹⁴ Finally, the Empain group preferred to put their energy in finding a solution for the E&H factories. The failure in Brussels jeopardized the whole acquisition plan. Empain needed to find other guarantees that the factories could be profitable. He received extra time in the negotiations with E&H in exchange for granting more credit to the ailing firm.⁹⁵

To Empain's fortune, the Belgian government was willing to support the takeover. During the first talks with de Smet de Naeyer about saving E&H, the government leader had made two far-reaching promises to Empain. First, the Prime Minister would try to keep electrical equipment out of the ongoing trade agreement negotiations. However,

⁸⁸ "L'Électricité à Bruxelles," *Le Soir*, 6 Jun 1904.

⁸⁹ Ranieri, *Dannie*, 48; "La Question de l'Électricité," *L'Indépendance Belge*, 29 Jun 1904.

⁹⁰ "La question de l'électricité," *Le XXe Siècle*, 23 Jun 1904.

⁹¹ Els Witte, "Gemeenteregies in België (1850-1914): Liberaal interventionisme of socialistisch municipalisme," in *L'initiative publique des communes en Belgique (1795-1940)* (Brussels: Gemeentekrediet, 1986), 105-06.

⁹² "L'adjudication de la nouvelle usine d'électricité," *L'Indépendance Belge*, 23 Mar 1904; "La question de l'électricité à Bruxelles," *Le Soir*, 2 Jul 1904; "La question de l'électricité à Bruxelles," *Le Soir*, 3 Jul 1904; "La question de l'électricité à Bruxelles," *Le Soir*, 4 Jul 1904; "La question de l'électricité," *Le XXe Siècle*, 23 Jun 1904.

⁹³ "Encore l'électricité," *Le XXe Siècle*, 25 Jun 1904; "Bruxelles et la Question de l'Electricité," *La Finance illustrée*, 29 Jun 1904.

⁹⁴ Meeting of 7 Jul 1904, *Parisienne Électrique*, Minutes of the Board of directors, SPIE.

⁹⁵ "Revue Financière de la Semaine," *L'Indépendance Belge*, 27 Jun 1904.

many Belgian export products risked a German tariff increase and de Smet de Naeyer eventually did not manage to exclude it from the list. Second, in the case of a takeover, the government agreed to make public contracts with the Empain group for the supply of electricity.⁹⁶ At the end of June, Empain reminded the government leader of his second promise.

Consequently, together with the minister of Railways Liebaert, Empain worked out a deal that could provide income to the successor of the *E&H*. The starting point was a slightly modified version of the project developed for the City of Brussels. As a result, Empain decided to take over the *E&H* and transform it into *ACEC*.⁹⁷ The proposed deal had the intention to execute a slightly modified version of the project that the *Parisienne Electrique* had designed for the City of Brussels. The agreement stipulated that *ACEC* had to establish a subsidiary that would operate a large multipurpose power station. This subsidiary would be the *Société bruxelloise d'électricité (SBE)*. Liebaert and *ACEC* had further agreed that, for the next 25 years, the government would buy minimally 600,000 kWh per year to light all the railway stations and harbors in a radius of 25 km around the center of Brussels (art. 4 of the agreement). As a consequence, Minister Liebaert planned to dismantle the power stations that had provided electricity to these buildings so far. The *SBE* would replace them. In return for this governmental favor, the power station had to procure all its electrical equipment "from Belgian factories owned by Belgians" (art. 1), i.e. *ACEC*.⁹⁸

The convention between *ACEC* and the Ministry of Railways gives cause to two observations about the stance of the Belgian government towards the electric industry in the country. First, the convention proves that the Empain group continued to enjoy the support of a considerable part of the Catholic government. Without even inviting other firms to tender, the government unambiguously supported Empain's efforts to revitalize and take the lead of the Belgian electrical industry. The support was a fundamental political choice for two reasons. On the one hand, the conservative Catholics were traditionally non-interventionist. Now, in contrast, they decided to save an ailing firm and conserve 500 jobs. However, when the emerging Antwerp electrical industry went bankrupt in 1902, albeit due to mismanagement and illegal practices, the same

⁹⁶ Belgian Senate, *Annales Parlementaires*, 6 Apr 1905, 249; On the trade agreement negotiated in Brussels in April and May 1904, see Bitsch, *Belgique*, 29-49.

⁹⁷ "Ateliers de constructions électriques de Charleroi: Statuts," no. 3899, *AMB*, 22 Jul 1904.

⁹⁸ See the convention of 9 Jul 1904, Belgian Chamber of Representatives, *Rapport sur le projet de loi portant approbation de deux contrats relatifs à des immeubles domaniaux*, 3 Mar 1905; Belgian Chamber of Representatives, *Annales Parlementaires*, 24 Mar 1905, 1062; Belgian Chamber of Representatives, *Annales Parlementaires*, 19 May 1911, 1302; De Jonge, "Elektricitetssektor," 364.

government did not intervene.⁹⁹ On the other hand, the government chose to remove the well-functioning state-owned power production units and rely on private supply, i.e. electricity from the *SBE*, in the future.

Second, the central government used the convention to intervene in local politics. The conservative Catholics were jealous of the success of the municipal electric utilities in the cities, dominated by progressive liberals. Cities such as Brussels relied on the income of municipal services and therefore the liberal mayor De Mot defended them fiercely. By enabling the Empain group to construct a power station in the greater Brussels, the government compensated for the policy of the Brussels municipality, that chose a municipal power station constructed by *AEG-UEG*. Even more, the *SBE* could directly compete with and undermine the success of the municipal power station. Competition of *SBE* would put pressure on the plant's income and would force the city to raise taxes. However, the political credit of liberals was based on low taxes.¹⁰⁰ The government had a political interest in the *SBE* developing into a prosperous business. Article 13 of the convention should be read in this regard. It referred to the contracts that the municipal power station of Brussels had concluded with the State in the past to supply all its buildings in the capital. As soon as the existing contracts expired, these State buildings could be powered by *SBE*.¹⁰¹ If the State opted for the *SBE*, the latter received the right to use the national roads (*grande voirie*) to develop a distribution system to these buildings. In addition, these distribution cables could then also be used to supply other private clients. This possibility obviously frustrated the city of Brussels, who was hoping to supply electricity to private clients other than its inhabitants. In general, the large power station of *SBE* could effectively hurt the municipal power station. For instance, it outclassed the municipal plant in the tender of 1906 for the electricity supply to Brussels *SNCV* lines.¹⁰²

To sum up the case on the creation of *ACEC*, nationality mattered in Belgian industrial policy. The Empain group had effectively positioned itself as a Belgian business in the ideological debate about the 'national electrical industry'. It shows that nationalism was a factor in Belgian politics, to a certain extent. Whereas the protectionist argument was not powerful enough to influence the decision of the Brussels municipal council, it was central to the discourse of the national government. To the cabinet the matter was urgent, for German firms were choking the national industry; a claim which was not even

⁹⁹ Belgian Chamber of Representatives, *Annales Parlementaires*, 22 Mar 1905, 1032. De Ryck, via a very speculative reasoning based on questionable indirect evidence asserts that Empain was behind the failure of the industrial complex erected in Antwerp by the Hutt brothers. De Ryck, "Otlet," 275.

¹⁰⁰ De Jonge, "Elektricitetssektor," 368-69.

¹⁰¹ "La vie politique et parlementaire à l'étranger: la Belgique," no. 45, *Revue politique et parlementaire*, Jul 1905.

¹⁰² "Les régies communales d'électricité," *Le XXe Siècle*, 17 Nov 1906.

false. Protectionism was necessary, because otherwise “we would have become a German province concerning the electric industry,” according to Catholic MP Jules Renkin.¹⁰³ Liebaert stressed his patriotic motivation: They had to save an infant industry from German domination. In this respect, the government justified the deal with Empain for the lighting of State buildings, because receiving electricity from a German-built municipal power station would not have helped the national industry.¹⁰⁴ Empain was perfectly cast as the only Belgian entrepreneur capable of preventing the sector from falling into foreign hands. Ignoring the progressive attacks claiming that the *Parisienne Electrique* was French, perhaps cosmopolitan but certainly not Belgian, the Catholic majority framed Empain as a responsible Belgian captain of industry. Woeste hailed Empain as “one of our most meritorious fellow citizens.”¹⁰⁵

Distinguishing rhetoric from facts is difficult, but the rhetoric had real consequences in any case. The Empain group profited from its home country status to take a significant share of the electricity market. One can only guess at the real motivation of Empain to save ACEC. Was it patriotism or did he just want to please Leopold II and strike a good deal? His leniency towards France in other projects suggests the latter.¹⁰⁶ What is beyond doubt is that Empain skillfully made use of the nationalist tendency and his excellent relations to make a flying start in the Belgian electric industry. The ACEC case also proves that strong political support had been vital. Without the government backing in the crucial weeks after the failure in Brussels, Empain would probably not have been able to jump-start ACEC.

4.6 An uncontested leader in business and society (1904-1914)

After the success of ACEC, Empain became a linchpin in the electrical industry. Empain continued to invest in Belgian electric utilities and at the same time he strengthened his

¹⁰³ “nous devenions au point de vue de la production électrique, une province allemande.” Belgian Chamber of Representatives, *Annales Parlementaires*, 23 Mar 1905, 1055.

¹⁰⁴ Belgian Chamber of Representatives, *Annales Parlementaires*, 22 Mar 1905, 1033-35.

¹⁰⁵ “un de nos concitoyens les plus méritants”, Belgian Chamber of Representatives, *Annales Parlementaires*, 28 Mar 1905, 1091; see also the previous sessions: Belgian Chamber of Representatives, *Annales Parlementaires*, 23 Mar 1905, 1049.

¹⁰⁶ Ginette Kurgan-Van Hentenryk, “Nation et démocratie: Un défi pour le grand patronat ?,” in *Natie en democratie (1890-1921): Acta van het interuniversitair colloquium, Brussel 8-9 juni 2006*, ed. Els Witte and Ginette Kurgan-Van Hentenryk (Brussels: KVAB, 2007), 198.

personal reputation and network. In the following paragraphs, I discuss his prominent position in business, politics and society. His influence manifested itself in at least three areas.¹⁰⁷

Firstly, it was apparent in the electrical industry itself. Throughout the years, the government support for Empain's electric utilities continued. Two events in 1911 demonstrated this. On the one hand, the Brussels municipality wanted to supply to the neighboring municipality Ixelles. The competitor *SBE* protested and gained legal advice from the Catholic party leader Charles Woeste. Woeste's negative advice and the Empain group's pressure stimulated the central government to cancel the contract between Brussels and Ixelles. The *SBE* had successfully defended its competitive position.¹⁰⁸ On the other hand, the government invited Empain to be a member of an advisory board. The context was the lobbying of self-producing industrialists wanting to completely liberalize the electricity market. In the event, these self-producers could start competing with the producers-distributors by supplying electricity, power in particular, to each other's factories as well as to individual customers. As a reaction, Carlo Cicogna of the *SGBEE* had founded the *Union des Exploitations Électriques en Belgique (UEEB)* to unite all producers-distributors. Cicogna presided the association and invited the Empain group to provide the vice-president.¹⁰⁹ The rights of the producers-distributors such as the Empain group were endangered. They might lose their monopoly for distribution in the municipalities. Additionally, the industrial self-producers threatened to poach other industrial clients, that used to be the largest customers of the Empain group and other distributors.¹¹⁰

In that setting, the government asked Edouard Empain, Léon Janssen of the *Société Générale* and Émile Uytborck of the *UEEB* among others for advice. They formed a committee to draft a bill that reorganized the electricity distribution in Belgium. The committee represented the private producers and municipalities, but excluded the industrial self-producers. Unsurprisingly, their draft of 1913 only enabled competition in very limited cases and secured the rights of the existing concession holders. The war hindered any further discussion on the reform and the Belgian power sector only received a new legal framework in 1925.¹¹¹

¹⁰⁷ And this despite Edouard Empain's very unconventional social behavior. From his relationship with Jeanne Becker, Edouard had two bastard sons, born in 1902 and 1908. He only legitimized his children after the war and married Becker in 1921. See Michel Pinçon and Monique Pinçon-Charlot, *Sociologie de la bourgeoisie*, (Paris: La Découverte, 2016). 'Une dynastie avortée'.

¹⁰⁸ Belgian Chamber of Representatives, *Annales Parlementaires*, 28 Jun 1911.

¹⁰⁹ Minutes of Meetings of the Executive Committee, *UEEB/UEGB*, I 251/14, ARA2.

¹¹⁰ Brion and Moreau, *Tractebel*, 156+60.

¹¹¹ "Utilisation de la voirie," *Le XXe Siècle*, 21 Feb 1913; Belgian Senate, *Annales Parlementaires*, 27 Jun 1913, 502; De Jonge, "Elektricitetssektor," 381-83.

Secondly, Empain's status as head of one of the largest Belgian businesses gave him a prominent voice outside the industry. His influence reached into society and politics at large. This had everything to do with his powerful network. As demonstrated above, Empain received the full support of leading Catholics, also from those of a new generation such as Charles de Broqueville.¹¹² Edouard Empain became friends with the influential Catholic family Carton de Wiart too.¹¹³ Henry Carton de Wiart was an important MP, his brother Edmond was the personal secretary (1901-1909) of Leopold II and his cousin Léon was a famous lawyer in Cairo. One of Empain's business lawyers, Jules Renkin, also joined the government in 1907. He was a director of the CFL (see below), but resigned to become the first Minister of Colonies after the transfer of Congo to the Belgian State.

Additionally, Empain increased his influence on society in other ways. For instance, he never stopped donating to charity.¹¹⁴ Arguably, Empain was one of the great philanthropists of that time, at least after the turn of the century. As Tilman has pointed out, only then Empain became part of the "honorary committees of prestigious associations alongside the big names of the Belgian industry."¹¹⁵ What counted was the high visibility of the donations. Like all the extremely wealthy entrepreneurs such as Carnegie and Rockefeller, Empain used these philanthropic investments to gain social, cultural and eventually economic capital.¹¹⁶

Empain supported many initiatives, especially those that showed his loyalty to the Catholic, national and royal cause.¹¹⁷ King Leopold II wanted to have a gigantic basilica constructed in Koekelberg on the occasion for the 75th anniversary of the Belgian State in 1905. The *Sacré-Coeur* of Montmartre in Paris served as a source of inspiration. Lacking support from the Belgian Parliament or Church, he raised the money among the financial elite of the country. Edouard Empain immediately became one of the most important benefactors, right after the King himself. Empain was also part of the financial committee that had to supervise the project.¹¹⁸ The entrepreneur supported the initiatives of Prince

¹¹² de Broqueville was MP (1892-1919) and Minister (1910-1919) in the Belgian government. See Belgian Senate, *Annales Parlementaires*, 3 Aug 1911, 538.

¹¹³ Comte Henry Carton de Wiart, *Souvenirs politiques*, vol. 1: 1878-1914 (Bruges: Desclée, 1948), 153-54; Edmond Carton de Wiart, *Léopold II: Souvenirs des dernières années (1901-1909)* (Brussels: Goemaere, 1944), 170.

¹¹⁴ For instance, he sponsored the Belgian composer Edgar Tinel. Ed. Empain to Edgar Tinel, 9 Oct 1900, *Coll. Tinel*, Mus. Ms. 464 C II 5/34, KBR; Ed. Empain to Minister Helleputte, 1 Mar 1913, Mus. Ms. 464 C V 9/26, KBR.

¹¹⁵ Tilman, *Banquiers*, 269.

¹¹⁶ For this view, see Charles Harvey et al., "Andrew Carnegie and the foundations of contemporary entrepreneurial philanthropy," *Business History* 53, no. 3 (2011).

¹¹⁷ For example, Empain donated the large sum of 25,000 francs to the veterans of the Belgian Revolution of 1830. "Les Combattants de 1830," *Courrier de l'Escaut*, 16 Jan 1902.

¹¹⁸ "Comité de la Basilique Nationale du Sacré-Coeur de Jésus à Koekelberg," *Courrier de l'Escaut*, 7 May 1904; "Koekelberg," *Journal de Charleroi*, 17 Sep 1905. See also: Jos Vandenbreen and Raoul De Puydt, eds., *Basiliek Koekelberg: Art-decomonument* (Tielt: Lannoo, 2005), 14.

Albert too. Before Leopold's nephew acceded to the throne in 1909, Empain already sponsored the Ibis School in Ostend. Prince Albert himself had taken the initiative for this charity and followed its organization closely.¹¹⁹

It should be noted, though, that Edouard Empain only sponsored charities of the right ideology. In 1908, he refused to overtly donate to the *Athénée du Centre*, a middle school founded by Raoul Warocqué and other socialist and liberal members of the local elite. Empain apologized to his friend Warocqué that his Catholic identity prevented him from supporting an anticlerical charitable deed, although he appreciated it, at least unofficially.¹²⁰

Thirdly and finally, the Empain brothers actively shaped Belgian politics too. On the eve of the First World War, they were not content anymore with a role behind the scenes. Through his marriage in 1912 with Ghislaine Descantons de Montblanc, from a Belgian-French noble family, François Empain had achieved a high social status.¹²¹ A few months later, François presented himself at the elections for the Senate as the first successor and eventually became a senator in January 1913. Although François was a member of several committees, his work for the business group prevented him from actively participating in the political debates. In Parliament, he was more than once absent because of his business trips. As a result, he did not present himself a second time at the elections of May 1914.¹²²

The close connection with the Belgian royals even held out the prospect of a career as a minister. In fact, the Empain brothers were also on friendly terms with Leopold's successor. According to his biographer Thielemans, Albert frequently had conversations with Empain after the foundation of the Ibis School.¹²³ Another sign of the good relationship with the new King was the unofficial royal visit to Heliopolis five years later. The King accompanied the Queen to Egypt, who needed to recover from a serious illness. During their stay of several weeks, Queen Elisabeth laid the foundation stone of the

¹¹⁹ Empain delegated one of his managers, E. De Cuyper, to chair the board of directors of the charity. "Weezenschool voor Visschers," *Het Laatste Nieuws*, 10 Jul 1906; Jan Velaers, *Albert I: Koning in tijden van oorlog en crisis (1900-1934)* (Tielt: Lannoo, 2009), 75.

¹²⁰ Ed. Empain to Raoul Warocqué, 14 Nov 1908, *Archives de la famille Warocqué*, MRM.

¹²¹ Suzor, *Empain en France*, 246.

¹²² "Uitslagen der verkiezingen," *Het Laatste Nieuws*, 5 Jun 1912; "F. Empain in Senaat," *Het Volk*, 25 Jan 1913; Belgian Senate, *Session de 1912-1913: Commissions*, Feb 1913. For his parliamentary work, see Belgian Senate: *Annales parlementaires* from January 1913 until May 1914.

¹²³ Marie Rose Thielemans and Emile Vandewoude, *Le roi Albert au travers de ses lettres inédites (1882-1916) suivies de l'édition intégrale des lettres du Roi* (Brussels: Office international de librairie, 1982), 44-45+324.

Basilica of Heliopolis, commissioned by Edouard Empain.¹²⁴ Finally, Albert I also ennobled François Empain in 1913.¹²⁵ The circumstances were, of course, exceptional, but Edouard Empain could have been a member of the Belgian government during the First World War. First, he was appointed colonel in charge of the purchasing committee of the Belgian Army. Because of his good relationship with the Catholic head of government Charles de Broqueville as well as with King Albert I, the latter approached Empain to become the Minister of Armaments and Munitions in 1917. However, the socialist Emile Vandervelde vetoed this decision, arguing that he did not want to have a shameless capitalist as a colleague.¹²⁶ Perhaps by way of compensation, King Albert made Empain general-major and honorary *aide-de-camp* later that year.¹²⁷

4.7 Congo: The interdependence of the King and Empain

As mentioned in the first chapter, Empain made one very sizeable investment in the Belgian colony before the First World War. This allows us to compare the dynamics of investments in the metropolitan space with those in the imperial space. This section therefore analyzes the differences in the political context and how this affected business. Can we speak of a ‘home advantage’ for Belgian entrepreneurs and Empain in particular? Was their competition with Belgian or foreign competitors at all? To answer these questions, we need to find out in what way the opportunities created and conditioned by the imperial setting differed from those in the Belgian market.

At the turn of the twentieth century, Leopold still struggled to attract entrepreneurs ready to do business in his colony. To many investors, the economic conditions were too risky to venture into the CFS. The *Société Générale* reluctantly financed part of the CFS loan, rather out of loyalism to King and Fatherland than out of financial calculation.¹²⁸ The bulk of the investing firms were Antwerp-based trading companies of primary resources. They were attracted to the colony on the basis of large land concessions. A small group of

¹²⁴ “Les souverains belges en Egypte,” *Le Gaulois*, 21 Mar 1911; “Le Roi et la Reine à Heliopolis,” *L’Avenir du Luxembourg*, 23 Mar 1911; “Les souverains belges au Caire,” *Le XXe Siècle*, 22 Mar 1911; “Les Souverains belges en Egypte,” *Journal de Bruxelles*, 23 Mar 1911.

¹²⁵ Duerloo and Janssens, *Wapenboek*, 1: A-E, 753.

¹²⁶ Marie-Rose Thielemans, ed. *Albert I: Carnets et correspondance de guerre 1914-1918* (Louvain-la-Neuve: Duculot, 1991), 115-16. de Broqueville already had a ministerial post for Empain in mind in 1915. Coolsaet, *België*, 219.

¹²⁷ Duchesne, “Général,” 281+87.

¹²⁸ Vellut, “Réseaux,” 135.

entrepreneurs frequently intervened in the establishment of firms in the CFS. The most important financiers were de Brown de Tiège and Thys as well as Grisar, Bunge and Balsler, of German descent. Bound to its liberal trade policy, the CFS also accepted foreign investments. Nevertheless, 86% of the invested capital between 1886 and 1908 was of Belgian origin.¹²⁹

To open up the vast territory and develop an efficient extractive economy, the colony needed a good network of navigable watercourses and railroads. Without a proper transportation system, the resources could not be brought to the coastal harbors for shipment to Europe. Once the long-awaited Matadi-Kinshasa railroad had been finished in 1898, ten years after the first construction work, Leopold concentrated on another possible exit road, this time in the Northeast. Via a railroad, the Congo Basin could be connected with the northern African Great Lakes. The Congo River was navigable until Stanley Falls, but to continue upstream into the inner regions of the colony, railroads were necessary to circumvent major cataracts. Therefore the Belgian King sent colonial engineer Auguste Adam on a mission in 1898 to study two lines connecting Kisangani (Stanleyville) with Lake Albert in the Northeast and with lake Tanganyika in the Southeast.¹³⁰ The projected line had strategic importance, for it could strengthen Leopold's claim on the Kivu area. The Germans in East Africa disputed the territory as the Belgians did not actively colonize it. In addition, by connecting the Congo River to the Great Lakes, Leopold II wanted to accomplish the great "Transafrican Railroad" from Eastern Africa to the Atlantic, as well as be part of the British scheme to connect the Cape to Cairo via the Nile.¹³¹

In the late spring of 1901, Leopold II approached Empain, to see if the Belgian banker was interested to finance the first Congolese railway project since 1887, estimated at 150 million francs in total.¹³² So far, Empain had shown only limited interest in the CFS. Rubber, mineral resources and other colonial goods were not Empain's specialty, but railroads were. By choosing Empain, Leopold II could rely on his expertise as a railway entrepreneur as well as avoid dependence on the usual clan of colonial bankers. The Empain group was actually the first large established financial group to make such a large

¹²⁹ Robert- J. Lemoine, "Finances et colonisation: La concentration des entreprises dans la mise en valeur du Congo belge," *Annales d'histoire économique et sociale* 6, no. 29 (1934): 440; Vanthemische, *La Belgique et le Congo: L'impact de la colonie sur la métropole (1885-1980)*, 4, 212.

¹³⁰ Charles Blanchart, Jacques De Deurwaerder, and Georges Nève, *Le rail au Congo belge* (Brussels: Blanchart, 1993), 212-13.

¹³¹ Frans Buelens, *Congo (1885-1960): Een financieel-economische geschiedenis* (Antwerp: EPO, 2007), 188; "Les chemins de fer du Congo supérieur," *MIM*, 8 Dec 1901.

¹³² André Huybrechts, *Transports et structures de développement au Congo: Étude du progrès économique de 1900 à 1970*, UCL - Faculté des sciences économiques, sociales et politiques (Paris: Mouton, 1970), 12-13; "De Koning," *Het Nieuws van den Dag*, 30 Apr 1901; "Un projet grandiose," *Le Matin*, 23 Jun 1901.

commitment in the Congolese colony.¹³³ In addition, Empain's network in Paris could open up the French financial market to find the initial capital of 25 million francs. Empain had to form a company with Belgian and French investors that could carry the financial burden and operate the railroad, whereas the Congo Free State would carry out the construction work. Empain believed that he could mobilize the investors behind the *Métro* such as the banks *Paribas* and *Bénard&Jarislowsky*.¹³⁴ In comparison with the average businessman in Congo, this is remarkable. Vellut has demonstrated that colonial entrepreneurs reused their networks to exploit opportunities in other parts of the world afterward. On the contrary, Empain had recourse to the partners which he knew from previous business in France.¹³⁵

Table 10 Shareholders of the *CFL* at incorporation (1902)¹³⁶

Investors	Nationality	Share
Empain group (brothers, <i>Réunis, Voie étroite, Parisienne Electrique</i>)	BE/FR	67%
Thys group (<i>Banque d'Outremer, CCCI</i>)	BE	7%
Other Belgian	BE	2%
<i>Bénard&Jarislowsky</i>	FR	10%
Rouvier group (<i>Banque française pour le commerce et l'industrie</i>)	FR	8%
<i>Paribas</i>	FR	5%
Other French	FR	1%
TOTAL		100%

Empain succeeded in attracting French investors, as shown in Table 10. The Empain group had largely invested in the company (67%), but had also gathered the support of Thys, *Bénard&Jarislowsky*, *Paribas*, Maurice Rouvier as well as other wealthy Belgians and Frenchmen. In total, Belgium and France had divided the shares according to a 60/40 ratio. The board of directors reflected the power relations within the company. It clearly showed that Empain and the CFS were in this together.¹³⁷ Leopold II appointed his loyal counselor Edmond van Eetvelde as chairman. Other members with ties to the CFS and its Sovereign were entrepreneurs Albert Thys, Louis Cousin and Henri Simont and politicians Jules Renkin and Auguste Delbeke. Edouard and François Empain and the engineers

¹³³ The *Société Générale* followed in 1906, with the *Union minière, Forminière* and the *Chemin de fer du Bas-Congo*.

¹³⁴ Excerpt from a Letter from Brussels, 24 Jun 1901, *Congo: Chemins de fer (1898-1902)*, 150CPCOM/19, MAEF.

¹³⁵ Vellut, "Réseaux."

¹³⁶ "Compagnie des Chemins de fer du Congo supérieur aux Grands Lacs Africains," no. 176, *AMB*, 4 Jan 1902.

¹³⁷ The CFS possessed all the dividend shares of the company, maintaining a large influence in the general assembly. "Compagnie des Chemins de fer du Congo supérieur aux Grands Lacs Africains," no. 176, *AMB*, 4 Jan 1902.

Legouéz, Doniol and Stoecklin (of the *Parissienne Electrique*) represented the Empain group, but the latter three also served as representatives of France.

The strong presence of French investors in the company rapidly drew the attention of the French government. It wanted written promises from Empain that the French industry could participate in the call for tenders and that part of the directors and personnel would be French. Otherwise, it would block the attempt to offer the shares to the public by means of a quotation on the Stock Exchanges of Paris and Brussels. Empain willingly complied with these demands. He even offered to appoint an experienced French engineer to lead the construction works if the King agreed.¹³⁸ French engineers also played a decisive role in the missions that studied the route of the railroad. In sum, the government in Paris offered capital in exchange for French influence, embodied by French citizens.

As a matter of fact, France was well aware of the *CFL*'s strategic importance in colonial Africa. When the French government asked French engineer Legouéz to justify his active role in a Belgian colonial company, Legouéz explained that his participation indirectly contributed to the containment of the German expansion in the region. The development of railroads in the Belgian colony was thus also in the national interest of France.¹³⁹ The French ambassador in Berlin shared this view. He was pleased that the *CFL* excluded the German colonies from the Cape-to-Cairo railway scheme, to the great disappointment of German colonial decision-makers.¹⁴⁰ German containment in Central Africa remained the official policy of the French Ministry of Foreign Affairs until the First World War. In 1911, on the occasion of a capital increase, the French Minister of Foreign Affairs demanded a fourth French director and the guarantee that Empain would not allow Germans to invest in the *CFL*. The Minister feared that Berlin would try to incorporate the railway in a German transcontinental line from Cameroon to Tanzania. To the complete satisfaction of the Minister, Empain vowed to increase the French influence in the firm.¹⁴¹

¹³⁸ Minister of FA (Paris) to French Minister (Brussels), 12 Mar 1902, *Congo: Chemins de fer (1898-1902)*, 150CPCOM/19, MAEF; French Minister (Brussels) to Minister of FA (Paris), 28 Mar 1902, *Congo: Chemins de fer (1898-1902)*, 150CPCOM/19, MAEF.

¹³⁹ Lanthier, "Stratégies," 232-33.

¹⁴⁰ French ambassador (Berlin) to Minister of FA (Paris), 9 May 1902, *Congo: Chemins de fer (1898-1902)*, 150CPCOM/19, MAEF.

¹⁴¹ French Minister (Brussels) to Minister of FA (Paris), 22 Dec 1911, *Belgique: Banques-Bourses II (1909-13)*, 142CPCOM/27, MAEF.

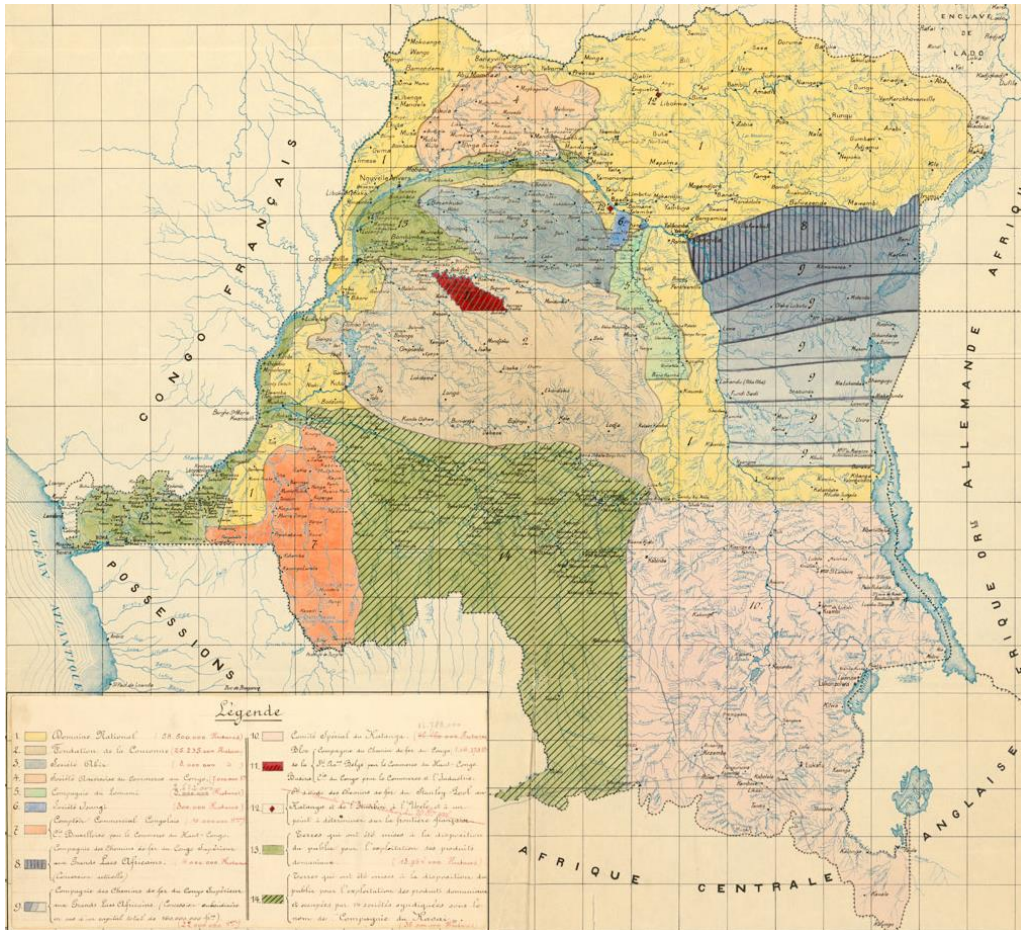


Figure 26 Map of the territorial concessions granted to private companies in the CFS as of 1905¹⁴²

How can we explain that Empain and other bankers were willing to invest in a colonial railroad, deep in the interior of the Congo? As I have mentioned before, Empain was flattered by the request of the King. In addition, he appreciated the prestige associated with the undertaking. Yet, from an economic point of view, the business also had interesting characteristics. After the financial disaster of the Matadi-Kinshasa railroad, the CFS made far-reaching concessions to convince the investors. The CFS generously offered the shareholders a 99-year-long guaranteed return of 4% and the amortization of the shares.¹⁴³ Four percent was certainly not an extraordinary return, as the long-term rate of French government bonds was around 3%. However, the investors probably hoped

¹⁴² All the colors except for the yellow ('national territory') referred to concession areas. The stacked blue ribbons below the top ribbon had also not been awarded to anyone, for the time being. Carte relative à la répartition territoriale par concessionnaire dans l'État indépendant du Congo, 1905, *Hubert Droogmans Papers*, I 410/89, ARA. Digitized: <http://www.expocongo.be/content.php?m=5&r=1&sr=1&doc=16&l=fr>

¹⁴³ The CFL seldomly produced a ROE of more than 4%, so the CFS/Belgian State had to reward the shareholders a total sum of 10 million francs already before the First World War. In the 1920s, profits increased but were kept artificially low by externalizing the more rewarding mining concessions to a separate company in 1922. Buelens, *Congo*, 193+498-99.

for higher profits to be made by exploiting the land. Indeed, as was not unusual in a colonial context, the *CFL* became a chartered company. For a period of 99 years, the company received a concession of 40,000 km² of land alongside the Kisangani-Mahagi railroad. It could keep half of the profits derived from the transport service and of the exploitation of land resources (wood, ivory, rubber, minerals, etc.). On top of that, with each capital increase of at least 25 million francs, the *CFL* could obtain another 40,000 km² of land (which equals the size of the Netherlands). This enormous privilege was only activated once, in 1909. The map (Fig. 26) illustrates the potential territorial expansion of the *CFL*. The upper blue horizontal strip was the first concession area. The strips below were possible extensions. Afterward, the Belgian colonial government desperately negotiated the removal of this clause, in exchange for other advantages. In 1911, despite a third capital increase, the Belgian State and the *CFL* agreed to definitively limit the size of the concession area to 80,000 km².¹⁴⁴

The investors behind the *CFL* did not have to dirty their hands with abusing labor force to construct the railroad. The Congo Free State took charge of the construction, because it could use its *Force Publique* to recruit cheap forced labor. Yet, the *CFL* retained the lucrative right to supply all the building material and rolling stock. As for many other railroads in tropical Africa, the construction of the *CFL* took a severe human toll. Hundreds of workers died or fled. Therefore, the CFS had to import the workforce from West Africa. The working conditions were so terrible that the Belgian Parliament forbade the colonial administration any further use of forced labor for the *CFL*.¹⁴⁵

Table 11 Stages of the construction of the *CFL* railroad (1902-1915)¹⁴⁶

#	Section	Opened	km
1	a railroad between Kisangani (Stanleyville) and Ubundu (Ponthierville) to circumvent the Stanley Falls	Sep 1906	125
2	make the middle reaches of the Lualaba navigable between Ubundu and Kindu	Jan 1906	310
3	construct a railroad bypassing rapids between Kindu and Kongolo, a section nicknamed the <i>Portes d'Enfer</i> (Gates of Hell)	Jan 1911	355
4	preparing the upper reaches of the Lualaba between Kongolo and Bukama	Mar 1911	640
5	linking the Lualaba with Lake Tanganyika via a railroad between Kongolo and Kalemie (Albertville)	Apr 1915	273
	Total		1703

¹⁴⁴ Buelens, *Congo*, 189+497-98.

¹⁴⁵ Blanchart, De Deurwaerder, and Nève, *Rail*, 213; Buelens, *Congo*, 190; Jules Marchal, *E.D. Morel contre Léopold II: L'histoire du Congo (1900-1910)*, vol. 2 (Paris: L'Harmattan, 1996), 50-52.

¹⁴⁶ 1902-1952: *Cinquantième anniversaire de la Compagnie des chemins de fer du Congo supérieur aux Grands Lacs*, (Brussels: L. Cuypers, 1952).

The *CFL* was part and parcel of Leopold's geopolitical strategy. The initial plan was to construct two sections totaling 1400 km of railroads. The first one starting from Kisangani to Mahagi (Lake Albert), roughly 775 km. The second one going from Luango (Kindu) to Albertville (Lake Tanganyika) via Kasongo, equaling 625 km. However, at the beginning of 1902 the mineral resources of Katanga gained increasing attention. The exploitation of the enormous wealth of the Kantanganese soil (including copper, tin, gold, ...) became the top priority for the colonial administration and private enterprise. Therefore the *CFL*'s priorities were redefined. Instead of the connection with the Great Lakes, the *CFL* had to go south and link the Lualaba (upper reaches of the Congo river) with Katanga. The preparatory works for the railroad to Lake Albert had to be ceased. Instead, the company undertook other construction works, as listed in Table 11. To give an idea, until 1915 the rail- and waterway roughly followed the left and lower boundaries of the blue concession zone and the reserved area in Figure 26.

4.8 Conclusion

The objective of this chapter was to examine the supposed home country advantage and consequently provide a point of comparison for the following chapters. The analysis of key evolutions in the history of the Empain group in Belgium has demonstrated that the public utility industry in Belgium was perhaps as political as in an international context. So, a local entrepreneur such as Empain indeed enjoyed a home advantage, but not unconditionally. First and foremost, he needed to move in the highest circles to further his business interests. Before 1900, the Empain brothers quietly expanded their business group while gradually joining the economic elite. This social mobility was remarkable for its rarity. As one of the few, the Empains made their way to the top by combining business, philanthropy and networking. As a result, the Empains became able to approach leading Catholic politicians. This offered plenty of opportunities in Belgian business. Moreover, their ventures abroad enlarged their prestige at home and attracted the attention of the Royal Palace. Edouard Empain's friendship and complicity with his Majesty offered perspectives in Belgium and beyond. In the cases of the interurban and *ACEC*, Leopold and Empain rallied the support of the royalist and business-friendly ministers. Both cases show the possible impact of the connections with the ruling Catholic elite. However, there were limits. The grand schemes of the interurban and the Brussels power station ran aground on the dominant vision in local and national politics. Both the Brussels municipal council and the Parliament favored the prosperity of the state-owned public utilities above private initiative.

In the hyperliberal Belgian State, protectionism and other forms of economic nationalism were indeed rarely a factor. However, in the few cases that nationality did matter, Belgian entrepreneurs had a home advantage. Any locally embedded entrepreneur could try to develop an influential network, but of course only Belgians could use their nationality as an asset. During the discussions about the Brussels power station, protectionist concerns were only lingering in the background. We can merely speculate whether the *Parisienne Electrique* would have won the tender if it had been a Belgian firm. But the nationalist rhetoric dominated the debates about ACEC. Empain perfectly presented himself as a patriot and capitalized on the latent nationalism to legitimate his actions. In Belgium, he was cast as the ‘savior of the national industry’.

The dynamics that contributed to a home advantage in the domestic setting were fundamentally different in the Belgian colony. As it was Leopold’s private territory, the Congo Free State was not a competitive market. Instead of the Empain group applying for a concession and competing with Belgian and foreign players, Leopold II had to request Empain for financial assistance. Empain was in a much stronger negotiating position. At the same time, Leopold determined the concession policy of the colony. So both parties depended on each other. Nationality was only of secondary importance, although Empain’s participation in the larger patriotic effort of colonization of course gave him prestige. In sum, because of the different political constellation, one might rather speak of a personal imperial advantage, derived from Empain’s peculiar relationship with the Sovereign King.

From a global perspective, the association of the Empain group with Belgium and the national elite raises many questions to be answered in the next chapters. First of all, if Empain presented himself as a Belgian at home, what was the impact of this nationality on his businesses in nationalist France? I have shown that a strong network was vital to make use of the home country advantage. Could Empain effectively pursue the same strategies in France? If so, how? Secondly, the intimate relationship of the Empain group with the Belgian government is apparent. Could this be an advantage when investing abroad? Thirdly and similarly, the friendship of Empain and Leopold II was a public secret in the whole of Europe. Did his cooperation with the imperialist King hazard the success of foreign investments?

Chapter 5 France and its empire: From psychic distance paradox to assimilation

5.1 Introduction

Edouard Empain was born in Beloeil in the Belgian province of Hainaut. He moved to the capital Brussels, where he started his career. This simple fact determined both Empain's nationality and the home country of the multinational business group. However, as mentioned in Chapter 1, Empain founded his first railroad business across the French border in Valenciennes, at only 25 km from his birthplace, as the crow flies. Eventually, half of the group's investments went to France. So if Belgium was the home country, then France was the core market.

These basic events form the basis of the present chapter. Seemingly with the greatest of ease, Empain started doing business in France. But were there not any differences between investing in Belgium and in the first host country? If Empain strongly identified with Belgium for domestic businesses, did he not have difficulties to be perceived locally in France? Or did nationality not matter? Even in the home country, business success depended on the right connections. How could he, as a foreigner, do business without an influential network? Or did he just rely on the loyal support of the diplomatic services of the Belgian government? Finally, Empain had managed to obtain a concession in colonial Congo. We know that the Empain group had eventually been able to invest massively in France. Consequently, the Empains must have been capable of expanding to the French empire. If not, then why did it fail?

The main thesis of this chapter is based on the concept of the 'psychic distance paradox'. First of all, 'psychic distance' refers to the tendency of multinational enterprise to prefer expansion to psychically near countries before investing in psychically distant countries. Because markets are geographically close and/or culturally and linguistically similar to the home country, entrepreneurs have the idea that doing business in that country will be similar to doing business at home. However, O'Grady and Lane have

convincingly argued that on many occasions this ‘psychic distance’ gives cause to a paradox. Entrepreneurs tend to underestimate the differences, assuming that closeness equals similarity. So paradoxically, ‘psychic distance’ creates challenges. Due to the preconceived ideas on the ease of doing business in a familiar country, foreign entrepreneurs are not prepared for the critical differences. This might lead to poor performance or even failure.¹

My hypothesis on the history of the Empain group in France is the following. Due to the psychic distance paradox, Empain might have underestimated at least two strong currents in French society and politics. These were nationalism as well as great distrust of the administration vis-à-vis ambitious railway entrepreneurs. I hypothesize that Empain only slowly developed a strategy to overcome the challenges caused by his poor knowledge of the market conditions. Only after the tender for the Paris Métro, the Empain group pursued a far-reaching assimilation. The more it could adapt to French expectations, the more it could mitigate political interference.

This chapter is divided into four parts. The first section examines two trends in French politics and their impact on the business group of Empain: exclusive nationalism, on the one hand, and administrative concerns about the French railway system, on the other hand. The second part focuses on the Paris Métro. It investigates how Empain secured the concession and how the Empain group armed itself against political uncertainty. Thirdly, this chapter deals with the resurging nationalism in the decade before the First World War. It studies the deliberate priority of ‘business before nationality’ determined by the Empain group and its implications. Finally, the fourth section compares the CFL and the French colonial projects. The aim is to analyze the relative importance of nationality and the liability of foreignness in imperial investment contexts too. It reveals the limits of Empain’s intensive assimilation strategy.

5.2 Foreign railway entrepreneurs welcome?

Despite the cultural and linguistic similarities and the large influence of France on Belgian politics, there were substantial differences between the two markets. Two are of importance for the history of the Empain group. Edouard Empain started doing business

¹ Shawna O’Grady and Henry W. Lane, “The Psychic Distance Paradox,” *Journal of International Business Studies* 27, no. 2 (1996); See also Hamid Hosseini, “Psychic distance, psychic distance paradox and behavioral economics: Modeling MNC entry behavior in foreign markets,” *The Journal of Socio-Economics* 37, no. 3 (2008).

in France in the context of both rising nationalism and suspicion towards railway magnates. This setting had its origin in the economic crisis of the late 1870s and the contemporary crash of the Belgian railway entrepreneur Simon Philippart. Regardless of the deeper causes, the hostile climate towards foreign entrepreneurs in general and ambitious railway contractors in particular hampered Empain's entry into the French market. The following two subsections detail the origins and impact of this twofold hostility.

5.2.1 Economic nationalism

From the late 1870s until the early 1890s, a long period of economic crisis provoked opposition to economic liberalism among French workers, farmers and industrialists.² In addition, the world of banking and finance had obtained a bad reputation after the financial crises of 1867, 1882 and 1889. Populists criticized the immorality of cosmopolitan bankers, who survived all financial scandals and unscrupulous speculative behavior. More often than not, their proximity to the political centers of power saved their skin.³ Moreover, due to the influx of foreign labor, especially from neighboring countries, the working class had the feeling that Belgians, Italians, etc. were taking their jobs when times were already very hard. This tension repeatedly led to violent clashes between Frenchmen and foreigners, e.g. with Belgian cross-border workers in the North.⁴ At the same time, the country's defeat by Prussia in 1870-71 had led to revanchist sentiments about the lost provinces of Alsace-Lorraine. This explosive cocktail of xenophobia, revanchism and anti-republicanism had fostered the rise of political nationalism. Consecutive movements united around General Boulanger (1887-1893) and around the Dreyfus Affair (1894-1906) reinforced the call for an exclusive nationalism, that of "France for the French."⁵ The waves of nationalism in the decades before the First World War were a sign that politics in France differed from the economic liberal consensus in Belgium. France had a stronger, more interventionist idea of national policy than the Belgian

² For a general overview on the history of the French Third Republic, see Vincent Duclert and Henry Rousso, *La République imaginée (1870-1914)*, Histoire de France (Paris: Belin, 2010).

³ French economic historian Pierre-Cyrille Hautcoeur in *Le Monde*, 28 Jan 2016.

⁴ Marc Leleux, "Fraternisation et concurrence : liens et limites d'un rapport au travail. L'exemple des ouvriers belges dans le département du Nord du milieu du XIXe siècle à l'entre-deux-guerres," *Revue du Nord* 372, no. 4 (2007).

⁵ Michel Winock, *Nationalisme, antisémitisme et fascisme en France* (Paris: Le Seuil, 1990), 11-28.

'minimal state'. Since the 1880s, a coalition of farmers and industrialists had redirected France towards protectionism to favor French national interests.⁶

Although the contemporary political discourse had some anti-foreign traits, the importance of the nationalist movement should be put in perspective. Foreign labor and capital continued to enter the country. The number of Belgian entrepreneurs in France was increasing. Even cooperation between French and German economic interests was turned a blind eye to. Economic nationalism was not so dominant that the intertwining of interests provoked overt scandals.⁷ Nevertheless, every foreign investor tried to remain as discreet as possible, so as not to offend the nationalists.

Indeed, nationalism already had an impact on Empain's first concession in France. It irritated the French administration that the Belgian *Valenciennes-Anzin* company was operating a French light rail.⁸ The chief engineer Doniol and the prefect of the *Département du Nord* thought it would be better "only to grant railway concessions (...) to companies registered in France and subject to French law."⁹ The directors of the Belgian *Voie étroite* had already set up a French counterpart, the *Compagnie générale de railways à voie étroite française*¹⁰ to do business in France, but the French administration was not convinced of the seriousness of this enterprise. In addition, two former partners of Empain who had become competitors made use of the prevailing nationalist sentiment by writing to the Minister of Public Works that this new company, "although French in name, was exclusively composed of Belgian people"¹¹. Finally, in 1883, the *Valenciennes-Anzin* chose to become a French company with its head office in Anzin.¹² However, the French Ministry of Public Works only hesitantly recognized the *Chemins de fer économiques du Nord* as the new concession owner. This late recognition put the *Econord* in a difficult position, as it was a necessary precondition to issue bonds.

⁶ Yves André Perez, "1892 : l'année où la France est retournée au protectionnisme," *Humanisme et Entreprise* 308, no. 3 (2012).

⁷ Raymond Poidevin, *Les relations économiques et financières entre la France et l'Allemagne de 1898 à 1914*, Histoire économique et financière de la France (Paris: Comité pour l'histoire économique et financière de la France, 1998).

⁸ Tramways et chemins de fer économiques de Valenciennes-Anzin to Minister of Public Works (Paris), 27 Feb 1883, *Tramway de Valenciennes (Nord)*, F/14/17341, FRAN.

⁹ "n'accorder des concession de voies ferrées dans le département du Nord, qu'à des sociétés ayant leur siège social en France et soumises à la législation française." Tramways de Raismes à St-Amand et de Bruai à Condé: Résultats de l'enquête d'utilité publique, 22 Mar 1883, F/14/17341, FRAN.

¹⁰ "Voie étroite: Rapport du CA à l'AGO," *Supplément MIM*, 18 Oct 1882.

¹¹ "bien que française par son titre, est composée exclusivement d'éléments belges" Voruz and Fresson to Minister of Public Works, 27 Dec 1882, *Tramway de Valenciennes (Nord)*, F/14/17341, FRAN.

¹² "Voie étroite: Rapport du CA à l'AGO," *Supplément MIM*, 17 Jun 1883.

The intransigence of the French public authorities started to seriously worry the Empain group. To their shareholders, the directors of the *Voie étroite* complained in 1885 about the frosty welcome they had gotten in France:

The experience has come to demonstrate since a couple of years that we were wrong to try to expand our business more in France. In this country, increasingly, tends to prevail a prejudice to exclude foreigners in favor of nationals. When previously foreign firms managed to obtain the granting of concessions from the government, it is no longer the case today.¹³

This nationalism forced the Empain group to conceal its Belgian identity in France, appear more local and act more on the decision-making. Fortunately, Empain had been able to interest the French lawyer and politician Edmond Caze in the position of chairman of the new French *Econord* since its inception.¹⁴ Caze was an MP almost continuously from 1876 until 1906 and afterward senator until his death in 1907.¹⁵ He had been a member of the government of Léon Gambetta (1881-1882), albeit for three months. As of 1885, he also chaired the board of directors of the *Chemins de fer de l'Etat*.¹⁶ His friend and colleague at the National Assembly Paul Devès also received directorships in three companies of the Empain group (*Econord*, *Chemins de fer du Périgord* and *Grand Central Sud-Américain*) a few years later.¹⁷ Thanks to their privileged position, Caze and Devès had access to the highest political circles and received valuable information at first hand. To obtain concessions, the members of parliament could use their influence to get in touch with local representatives at the department level, as they decided on these matters.¹⁸

Caze was not just a straw man doing business for Empain. He also invested in the French enterprises of Empain and actively searched for concessions. But most of all, Caze immediately and frequently made use of his connections in the administration. Just two

¹³ “L’expérience est venue démontrer depuis une couple d’années que nous avons tort de rechercher davantage à étendre nos affaires en France. Dans ce pays tend, de plus en plus, à prévaloir un parti pris d’exclure les étrangers en faveur des nationaux. Si précédemment des sociétés étrangères parvenaient à obtenir l’octroi des concessions du gouvernement, il n’en est plus aujourd’hui de même.” “Voie étroite: Rapport du CA à l’AGO,” *Supplément MIM*, 21 Oct 1885.

¹⁴ There is only circumstantial evidence that can explain how Empain encountered Caze in the early 1880s. Both were involved in the French *Compagnie auxiliaire des chemins de fer*, with had some connection with the *Auxiliaire belge* of *la Métallurgique*. Caze was chairman of the French company from 1878 until 1881, whereas Empain promoted a bond issue in Brussels in May 1881. *Cie Auxiliaire et travaux publics*, 1878-1885, 65AQE200, ANMT.

¹⁵ For a biography, see Senate, “Anciens sénateurs IIIe République: CAZE Edmond,” https://www.senat.fr/senateur-3eme-republique/caze_edmond0102r3.html.

¹⁶ “Le Piloni,” *L’Intransigeant*, 10 Mar 1885.

¹⁷ For a biography, see Assemblée Nationale, “Pierre, Paul Devès - Base de données des députés français depuis 1789,” http://www2.assemblee-nationale.fr/sycomore/fiche/%28num_dept%29/8141.

¹⁸ Wolkowitsch, “Siècle,” 126.

examples: On the one hand, he personally lobbied the Minister of Public Works to accelerate the recognition procedure of the *Econord*.¹⁹ On the other hand, he helped Empain obtain a French permanent residence permit in 1887. Caze sent a personal letter to the Minister of Justice, a former colleague, to support the demand. This *admission à domicile* awarded Empain civil rights in France and was the first step towards naturalization. Although he never applied to become a French citizen, Empain came to Paris every week since 1876.²⁰ For Empain, this official residence was part of the strategy to appear as local as possible. With his house in the Rue de Courcelles and later in the Rue de Lisbonne, he could always present himself as an engineer from Paris when applying for rail concessions. This was once more part of the strategy to become as French as possible.

Casting Caze as the business group's standard-bearer in France was an attempt to face the nationalist public opinion. However, in 1888, a local nationalist newspaper²¹ of the Département du Nord accused the *Econord* to be a threat to French national interests. "Everyone knows, it wrote, that Caze is a mask, an electoral wreck whose name sadly serves as a French flag covering foreign goods and concealing the infiltration of foreign capital." The manager defended his company, arguing that it was established according to French law, deliberately using French materials and rolling stock as well as employing French workers. The newspaper in return criticized that even the rolling stock supplier ANF was in fact owned by a Belgian mother company (*La Métallurgique*).²²

In the same year, French industrialists drew up a petition against the rise of Belgian light rail business groups in France. The petition cited in particular the monopolistic Empain group and the *Cie de Chemins de fer départementaux*. It criticized the French politicians such as Caze supporting a "Belgian industrial invasion" and going as far as using their influence to obstruct French competition. On top of that, the petition expressed the fear that Belgian railway owners, in case of war, would be "totally subservient to Germany: they [the owners] support with all their strength the clerical and

¹⁹ Caze & Empain to Minister of Public Works (Paris), 19 Aug 1885, *Tramway de Valenciennes (Nord)*, F/14/17341, FRAN; Caze's first intervention for the Voie étroite dated from two years before: Note du Ministère des Travaux Publics (Paris), 3 Feb 1883, *Tramway de Valenciennes (Nord)*, F/14/17341, FRAN.

²⁰ Empain, Edouard Louis Joseph: Demande d'admission à domicile, 19 Nov 1887, *Naturalisations, admissions à domicile, ...* BB/11/2007/12050/X/87, FRAN.

²¹ *Le Nord républicain et démocratique*, created in Lille in 1886, supported the candidacy of General Boulanger, leader of the anti-republican and revanchist Boulangists. Marc Leleux, *Aux sources de la précarité: L'instrumentalisation du travail dans le Nord (1848-1914)* (Villeneuve d'Ascq: Presses Universitaires du Septentrion, 2017), 219.

²² "Tout le monde sait que Caze est un masque, une épave électorale dont le nom sert tristement de pavillon français couvrant une marchandise étrangère et dissimule une infiltration de capitaux étrangers", *Le Nord républicain et démocratique*, as cited in Lentacker, *Frontière*, 165.

German-friendly government of Leopold.”²³ The Belgian entrepreneurs were thus seen as totally hostile to France and a disgrace to French anticlericalism.

This nationalist criticism against the Empain companies was not unique.²⁴ In 1893 Empain was again accused of taking control of French railways and stealing jobs from Frenchmen to give them to Belgians.²⁵ The Belgian chemical firm *Solvay* also faced the complaint in the 1880s that it only hired Belgian workers. Competitors of *Solvay* in France used the argument to prove that the Belgian chemical firm was un-French and should not be supported. Corporate officials refuted this, asserting that the vast majority of the personnel working in the factory were indeed French. The top man Ernest Solvay even stated that he and his partners had “always acted as French industrialists” and that they would “carry on this way.”²⁶

5.2.2 The dark shadow of Philippart

The suspicion of the French authorities towards railway magnates, and Belgians in particular, had its origins in recent history. In the 1870s, the Belgian railway entrepreneur Simon Philippart had tried to form a transnational network of light railways in Belgium, France and Luxembourg. By integrating separate lines into an extensive unified system in whole northwestern France, Philippart hoped to rationalize their operation and compete with the large French railway companies. However bad management and risky financial speculations eventually led to his bankruptcy in 1875-1877, bringing down all his enterprises and ruining hundreds of duped investors. In France, the six leading railway companies as well as part of the financial and political elite fiercely opposed Philippart’s ambitious projects and aggressive methods. Despite his partnership with prominent locals, Philippart’s failure to gain the support of the leading circles in Paris accelerated his fall. The crash of Philippart left a strong impression on French policy-makers and seriously influenced legislation on railroads. It anticipated the plan Freycinet (1878/79), which encouraged the large railroad companies to invest in rural areas.²⁷ The French government also restricted the access to credit for light rail companies, as

²³ “absolument inféodés à l’Allemagne; ce sont eux qui soutiennent de toutes leurs forces le gouvernement clérical et germanophile de Léopold.” “Une pétition,” *L’Intransigeant*, 12 Oct 1888; See also “Les sociétés belges en France,” *Le Radical*, 12 Oct 1888.

²⁴ The Belgian financial press also observed in 1901 that Belgian companies had to conceal their foreign identity when operating tramways in France. Especially local administrations and municipalities during election time were reluctant towards foreign companies. Brion and Moreau, *Tractebel*, 113.

²⁵ “Struggle for life,” *La Petite République*, 12 Dec 1893.

²⁶ Bertrams, *Solvay*, 52.

²⁷ Wolkowitsch, “Siècle.”

stipulated in the new law on light railways of 1880. To protect small bondholders, it set a limit to the number of bonds a company could issue.²⁸

Since the beginning, the legacy of Simon Philippart had cast a dark shadow over Empain's relationship with the French national and local authorities. Not more than two years after the bankruptcy of Philippart, Empain started to hunt for light rail concessions in the North of France. According to Kurgan-van Hentenryk and Lanthier, the French government met Empain's railway initiatives with suspicion, regarding him as the successor of Philippart. The more the Empain group expanded its network in France, the more the authorities investigated its businesses and financial situation.²⁹ Due to this opposition, the Empain group had great difficulties to develop an economically viable and well-financed rail network in the first fifteen years of its existence.

The tensions between the Empain group and the French administration came to a head in the late 1880s. When the Empain group considered to profoundly reorganize its railway businesses in France, an overt clash was inevitable. As discussed in Chapters 2 and 3, the Empain group wanted to achieve a light rail network as efficient as possible by grouping different operational sites under a single management. In 1888, this vision encouraged the business group to rename the *Chemins de fer de Bayonne-Biarritz* as the *Chemins de fer à voie étroite du Midi* and have it apply for concessions in other southern departments. However, despite the protest of Caze, the central administration refused this, stating that "it is in the interest of the State that tramways are owned by small separated firms, and not by a certain number of companies that would have formed networks between the meshes of those of the general railways."³⁰ Through the refusal, the State also wanted to protect the department where the Bayonne-Biarritz line was situated. By keeping companies small, they could not add speculative investments to their portfolio. These might hazard the excellent profitability of the originally conceded lines. If consequently, the company made a loss, the department would be responsible for guaranteeing a minimum return.

As the Ministry of Public Works refused to approve this expansion strategy, the Empain group tried a different approach. In 1890 it merged the *Chemins de fer du Périgord* and the *Chemins de fer à voie étroite du Midi* with the *Econord*. As such, the *Econord* could centralize

²⁸ Kurgan-van Hentenryk, *Rail*; See also Ginette Kurgan-van Hentenryk, "The Groupe Philippart: An Experience of Multinational Enterprise in Railway and Banking in Western Europe (1865-1880)," in *Multinational Enterprise in Historical Perspective*, ed. Alice Teichova, Maurice Lévy-Leboyer, and Helga Nussbaum (Cambridge: Cambridge UP; Editions de la MSH, 1986).

²⁹ Kurgan-van Hentenryk, *Rail*, 354.

³⁰ "Il est de l'intérêt de l'Etat que les tramways soient entre les mains de petites sociétés séparées, et non d'un certain nombre de compagnies qui auraient constitué des réseaux entre les mailles de ceux des chemins de fer d'intérêt general", Rapport de l'Inspecteur général, 3 Oct 1889, *Fusion des Chemins de fer du Périgord, des Voie étroite du Midi et des Econords (1889-1892)*, F/14/15137, FRAN; See also Lanthier, "Constructions," 458.

the operation of light rail networks in several departments all over France. Caze, in a letter to the Minister, explained this would create scale economies and ensure a better public service.³¹ However, the authorities were not keen to endorse the creation of a large operating company active in several regions in the country.

In fact, the group's horizontal integration of light rail networks reminded the French government of the practices of Simon Philippart. In 1892, a lawyer of the Conseil d'Etat observed: "Perhaps the senior administration will recall that similar attempts that have originated in the North too [i.e. Philippart], consisted in opposing a vast network of light rail lines to the general railway lines."³² The Conseil d'Etat and the Ministry of Public Works thus maintained the view that only small separate companies could guarantee the interests of the investors and the local population.³³ The Ministry feared the scenario that the *Econord* would interconnect all its sites of operation in a department and would become, like Philippart had been, a serious competitor to the large railway companies such as the *Compagnie du Nord* and the *Compagnie Paris-Lyon-Méditerranée*. If this competition put pressure on the large companies' profits, these firms might have claimed subsidies from the State.³⁴

Time and again, the government in Paris withheld applications for concessions by the Empain group because the network under scrutiny was too far from the existing network.³⁵ In the end, the Empain group gave up its plans to merge all railway operations in France. Instead, it developed several operating companies whose networks were regionally concentrated. As required, the business group preserved the apparent legal distinction of the firms, while centralizing the management and personnel in Paris. The group still expanded its railway activities to other departments, but frequently acquired existing concessions or even railroads in operation. In this way, it could partly circumvent the potentially discriminatory procedure and the protest against foreign concessionaires.³⁶

³¹ Caze to Minister of Public Works, 9 Aug 1890, *Fusion des Chemins de fer du Périgord, des Voie étroite du Midi et des Econords (1889-1892)*, F/14/15137, FRAN.

³² "Peut-être l'administration supérieure se souviendra-t-elle que de semblables tentatives qui elles aussi avaient pris naissance dans le Nord, consistaient à opposer un vaste réseau de lignes secondaires aux lignes d'intérêt général", Observations by the Conseil d'Etat, 18 Feb 1892, as cited in Lanthier, "Constructions," 459.

³³ "Tramway d'Annemasse à Samoëns," *Rapports et délibérations*, 1892.

³⁴ Note of the Direction des Chemins de fer on Econord, 4 Feb 1895, *Demandes d'émissions d'obligations*, F/14/13518, FRAN.

³⁵ Suzor, *Empain en France*, 118.

³⁶ In 1894, Empain acquired the *Compagnie générale des chemins de fer vicinaux* (established by Félix Vellut in 1888), the *Chemins de fer du Calvados* (established by Decauville earlier that year). In the same year, he also founded the *Chemins de fer de la Banlieue de Reims*, after he had taken over the concession Alfred Lambert had acquired in 1893. Suzor, *Empain en France*, 100-01.

The analysis so far leads to two additional observations. Firstly, the reaction of the Empain group to nationalism and political distrust was to appear more local by appointing a French politician. However, given the group's strong ties with the Belgian government, it could have solicited the Belgian Minister of Foreign Affairs to intervene. The diplomacy frequently offered aid to entrepreneurs having difficulties with foreign authorities. Yet, compared to the files on other firms in France and compared to the correspondence of Empain on his businesses in other parts of the world, there is nearly nothing in the diplomatic archives on the Empain group in France.

Secondly, the organization of the French railway companies confirms and improves the insight gained from the third chapter on the business group form. The business group was necessary to coordinate international operations not only in different legal spaces, but also within a single national market such as France. The multiple acquisitions from the 1890s also incited the Empain group to pursue the chosen path. The Paris headquarters could perfectly take care of the newly acquired firms and integrate them into the existing administrative structure.

5.3 The breakthrough: The Paris Métro

For the Empain group in France, the last years of the nineteenth century were a turning point. For large projects outside Belgium and France (e.g. China), Empain started to rely more on the Parisian financial market. In Paris itself, the Empain group submitted a tender for what was going to be the largest and most prestigious transport business of the century: the Métro. In addition, the business group patiently continued to invest all over France. For instance, in the light rail branch, the total mileage in operation grew from 362 km in 1894 to 1772 km in 1904 (see Fig. 12 in Chapter 2). Empain also managed to make large investments in the electricity business. Empain's public fame also increased rapidly after 1900. His public exposure even multiplied by five. Whereas in the first twenty years the newspapers barely mentioned him, afterward a Frenchman could read about him at least twice a week.³⁷

³⁷ This analysis for the period of 1880 to 1914 is based on the frequency of the term "Empain", corrected for stock exchange information (term: "valeurs du groupe Empain"), in the digitized press database of the *Bibliothèque nationale de France*. "Retronews: le site de presse de la BnF - Frequence du terme," www.retronews.fr/frequence_terme.

However, what had changed compared to the first two decades? In other words, what caused the definitive breakthrough of the business group in France? I argue that it was due to a combination of external and internal factors. Externally, the external market conditions had improved. In 1896, the long economic crisis was definitively over. It was the start of a boom period, which was reflected in the light rail and electrical industry too. After fifteen lean years, France witnessed a boom in the concession and construction of light railways and tramway networks. The market grew twice as fast in the period of 1895 to 1910 than in the period of 1880 to 1895.³⁸

Internally, the strategy of the Empain group changed as well. In the first two decades, Empain had to recover from the shock caused by the phenomenon of the psychic distance paradox. However, as I argue in the following two subsections, the Métro constituted a turning point. Empain skillfully managed to be part of the winning coalition, despite nationalist criticism. Moreover, he developed a strong network with influential politicians and high government officials. Through financial partnerships with powerful businessmen and with the press, Empain could secure the support that was vital to the success of his growing business in France.

5.3.1 The “cosmopolitan coalition” and nationalist opposition

After thirty years of debates and fantastic plans, the city of Paris still did not have a well-functioning underground transportation system. In the mid-1890s, realizing that Paris needed it to transport the millions of visitors to the Universal Exposition of 1900, the Municipality managed to convince the central government of a project designed by councilor André Berthelot and municipal engineer Fulgence Bienvenüe.³⁹ For the City, it was a political victory that it could organize an underground transportation system under municipal control. The City was to construct and own the infrastructure (tunnels, stations, bridges, ...), whereas it appealed to a company to construct the superstructure (tracks, electrical equipment, rolling stock, station entrances, ...) and operate the utility.

Six consortia reacted to the invitation to tender in early 1897. One consortium was headed by the *Compagnie générale de traction (CGT)* and also comprised the Empain group. In April of that year, the municipal commission selected the application of the *CGT*. Only they accepted all the important conditions. The *CGT* was capable of financing the 50 million needed for the construction, offered low prices and declared to be ready to cede

³⁸ Wolkowitsch, “Siècle,” 289-90.

³⁹ For more information on the lengthy political discussions preceding the approval of the Bienvenüe project, see Alain Cottereau, “Les batailles pour la création du Métro: Un choix de mode de vie, un succès pour la démocratie locale,” *Revue d’histoire du XIXe siècle* 29 (2004), <http://journals.openedition.org/rh19/702>.

the power station back to the authorities at the expiry of the concession. The other 5 applicants were rejected for various reasons. Two did not inspire confidence at all, one was insufficiently financed and another one refused to operate the entire network. Only the submission of Mr. Lalance, supported by the Parisian electricity company *Secteur de Clichy*, the bank *Paribas* and the German *Siemens*, qualified too. However, the commission ranked it second because of its high price and the refusal to cede the power station.⁴⁰

So who was behind this winning consortium in reality? The *CGT*, a one-year-old tramway holding company founded in Paris by French, Belgian and British financiers, had partnered up with the French constructor *Schneider* and relied on the technology of the American *Westinghouse*. The French shareholder of the *CGT* was the Parisian banker Henrotte (*Banque internationale de Paris*, *Banque française de l'Afrique du Sud*). The Belgian component existed of the *Banque Nagelmackers* and the Empain group (via the *RELSE*), whereas British bankers and mining companies such as the *Exploration Company* also joined the *CGT*. However, the capital of 17.5 million of the *CGT* was widely insufficient to finance the operation of the Paris Métro. Therefore, the French businessman Henri Gènevois organized a partnership between Empain and the private bank *Bénard&Jarislowsky*.⁴¹ As mentioned in Chapter 3, they had plenty of experience in the electricity business.

The convention between the City and the *CGT* led to a law voted in Parliament in March 1898 that ordered the *CGT* to cede the operation of the Métro to a subsidiary with a capital of 25 million francs, being the *Compagnie du Chemin de fer métropolitain de Paris (CMP)*. Empain and *Bénard&Jarislowsky* each provided 24% of the capital, whereas the *Banque Internationale de Paris* (24%), the *CGT* (24%) and *Schneider et Cie* (4%) provided the remainder. However, Empain quickly became the largest shareholder. In the following years, all founding partners except for Empain had gradually sold the bulk of their shares. The *CGT* was forced to liquidate its interests in 1901, for it stood on the edge of bankruptcy. Pleased with the capital gains on their shares, the *Banque Internationale* and *Bénard&Jarislowsky* sold too, keeping an interest of about 2%. Finally, *Schneider et Cie* had to do the same because it could not finish the Métro's power station in time. By that time, via the holding companies, the Empain group had increased its share to 27%. This dropped to 15-20% over the next ten years, but Empain still preserved a fair degree of control.⁴²

In 1897, some newspapers and municipal councilors were forced to accept that the majority had awarded the concession to a consortium dominated by foreign investors. The *Journal des Transports* called it the “Anglo-Belgian Métro” and would have preferred the

⁴⁰ Lanthier, “Constructions,” 187.

⁴¹ Kurgan-van Hentenryk, “Clio,” 476.

⁴² Lanthier, “Constructions,” 187-88.

exclusively French Coignet & Grosselin as a winner. Lalance, who received support from German *Siemens* was not to be trusted. Similarly, even if *Schneider* was an irreproachable company, it was unacceptable that the jewel of the City of Paris ended up in the hands of Belgian and British financiers, including Empain.⁴³ To counter this criticism, the agreement between the City and the *CGT* included a clause on the French origin of the board members, material, rolling stock and personnel of the operating company (art. 3). The nationality of board members had already been a condition in previous projects for the Parisian subway, but it certainly pointed to a nationalist sensitivity.⁴⁴ For some councilors this was not enough. They fundamentally disagreed with the choice of the *CGT*. Mr. Clairin warned for the “danger for the City to put itself in the hands of a company that operates with the support of foreign capital.”⁴⁵ Councilor Gay demanded additional measures to control the origin of the material. *ANF*, the French subsidiary of the Belgian *La Métallurgique*, supplied the rolling stock. He suspected *ANF* of importing Belgian parts and merely assemble them in France to give them a French label. Above all, the councilor wanted to “protect the interests of the French industry against the importation of foreign manufactured goods into France.”⁴⁶ Although these remarks of the opposition did not hazard the future of the Métro project, it was a symptom of the strong tendency towards protectionism in French politics. Ultimately, the protectionist restrictions in the conventions of the Métro and other public utilities as well as the high French import tariffs incited the Empain group to open production plants at the French side of the border. As explained in Chapter 2, the Empain group split off *ACENE* (established in 1906 in Jeumont) from the Belgian *ACEC* and founded the rolling stock manufacturer *la Longueville* in 1913.

In terms of governance, the nationality restrictions caused a problem for the Empain group. If Empain could not be on the board of the *CMP* himself, who should he delegate? The senior executives of the Empain group were Belgian at that time, so not eligible for the job. The only top-ranking Frenchman was Edmond Caze, director of many other

⁴³ “Le Métropolitain anglo-belge,” *Journal des Transports*, 1 May 1896; “Simple réflexions sur les demandeurs en concession du Métropolitain,” *Journal des Transports*, 17 Apr 1897; “Le Métropolitain et la Compagnie générale de Traction,” *L’Écho des Mines et de la métallurgie*, 20 Jun 1897.

⁴⁴ “Loi déclarant d’utilité publique le chemin de fer métropolitain,” *Journal officiel de la République française*, 1 Apr 1898; “Etablissement d’un tramway tubulaire souterrain du bois de Boulogne au bois de Vincennes,” *Bulletin municipal officiel de la Ville de Paris*, 28 Jun 1892.

⁴⁵ “le danger qu’il y a pour la Ville à se mettre dans les mains d’une société qui fonctionne à l’aide de capitaux étrangers”, “Construction d’un chemin de fer métropolitain (Suite et fin de la discussion),” *Bulletin municipal officiel de la Ville de Paris*, 11 Jul 1897.

⁴⁶ “sauvegarder les intérêts de l’industrie française contre l’introduction en France de la fabrication étrangère”, “Construction d’un chemin de fer métropolitain (Suite et fin de la discussion),” *Bulletin municipal officiel de la Ville de Paris*, 11 Jul 1897.

transport companies. However, this time he might have thought that the conflict of interests was too apparent, all the more because the Métro received so much political attention.

Table 12 Initial composition of the board of directors of the *CMP* (1898)⁴⁷

Director (FR)	Representative of
Adrien Bénard (chairman)	<i>Bénard&Jarislowsky</i>
Sigiswald Jarislowsky	<i>Bénard&Jarislowsky</i>
Henri-Louis Gènevois	<i>Bénard&Jarislowsky/independent</i>
Maurice Lichtenberger	<i>Schneider et Cie (Le Creusot)</i>
Ernest May	<i>Banque internationale de Paris</i>
Jacques-Frédéric Kulp	<i>Banque internationale de Paris</i>
Albert Olry	<i>CGT</i>
Firmin Rainbeaux	<i>CGT</i>
Alfred de Wandre	Empain group
L.-Charles de Tavernier	Empain group
Henri Maréchal	Empain group

Finally, Empain filled the three directorships he was entitled to by appointing three engineers: de Wandre, Maréchal and de Tavernier (see Table 12). De Wandre was the general manager of several French subsidiaries. Maréchal and de Tavernier had been engineers in the service of the City of Paris. In fact, Maréchal had only left the municipal administration in early 1897 to consult the *CGT* that was preparing its bid for the tender. Their knowledge of the project and of the inner workings of the city administration was of great value in this public-private partnership. As general manager, Bénard and Empain appointed Charles Roederer, with a lot of experience in managing railroads and urban transport systems. Roederer closely worked together with the Parisian administration in the persons of Fulgence Bienvenüe and André Berthelot. Public engineer Bienvenüe headed the construction works in charge of the City, whereas councilor Berthelot was in permanent contact with his colleagues of the municipal Métro commission.⁴⁸

For the rest, the initial composition of the board of directors mirrored the interests of the investing partners. The private bank *Bénard&Jarislowsky* received two directorships including the chairmanship. Gènevois was rewarded with a directorate for bringing the investing partners together. The *Banque internationale de Paris* and the *CGT* were also

⁴⁷ "Compagnie du Chemin de fer Métropolitain de Paris," *AMB* 6837 (19131005).

⁴⁸ Claude Berton, Alexandre Ossadzow, and Christiane Filloles, *Fulgence Bienvenüe et la construction du métropolitain de Paris* (Paris: Presses de l'École Nationale des Ponts et Chaussées, 1998), 69-70.

represented twice. Only one member of the board represented *Schneider et Cie*. The French metallurgist was rather a privileged supplier/contractor than an important financier.

In reality, the imposed French character of the board was not a significant obstacle for the Empain group. Even if Empain could not be a director of the *CMP* himself, he still pulled the strings behind the scenes. This quickly manifested itself in two ways. First of all, Empain demonstrated his dominance when he himself instead of Bénard, the French chairman of the board, led the visit of the Belgian King Leopold II to the Métro.⁴⁹ Secondly, Empain had a tight grip on the board of directors. If necessary, he imposed his own view. Before the opening of line 1 in July 1900, general manager Roederer demanded measures to improve the safety of the rolling stock. Roederer had managed to convince some directors of the urgency of the matter, very much to the dislike of Empain. During the next board meeting in late June 1900, Empain asked to be heard as the largest shareholder. He did not tolerate the critique on the rolling stock provider *ANF*. Roederer saw no other option than to resign, while Empain demanded the replacement of the directors that had supported Roederer.⁵⁰ Olry, May and Lichtenberger had to leave the company, which reflected the changing ownership. Reportedly, Empain declared in the meeting: “Most of you have sold their shares; and while they were selling, I was buying.”⁵¹ Therefore, Empain claimed three additional directorships for the Belgian investors. He appointed the French straw men Gustave Orens, Joseph Kermina and Gaston Leroy de Lenchères.⁵²

Empain’s straightforward intervention led to additional questions about the French character of the enterprise in the municipal council. In 1901, the nationalist councilor Colly pretended that foreigners were on the board of directors and that material from Belgium was used. He accused Empain to exert a much too large influence in the senior management. “We find here a cosmopolitan coalition. (...) In the board, which should only be composed of Frenchmen, there are very dangerous people and ready for the most dishonest undertakings.”⁵³ He blamed Empain for being the cause of all problems. However, the Prefect replied that they had systematically verified the nationality of all

⁴⁹ “Le roi des Belges,” *Le Matin*, 18 Oct 1900.

⁵⁰ Berton, Ossadzow, and Filloles, *Fulgence*, 82.

⁵¹ “La plupart d’entre vous ont vendu leurs titres : et pendant qu’ils vendaient, moi, j’achetais. De telle sorte que, désireux devoir rétablir la proportionnalité convenue”, “Le Métropolitain: M. Empain et la finance belge,” *Journal des Transports*, 17 Nov 1900.

⁵² Not four, as stated in the contemporary press and repeated by Berton, Ossadzow, and Filloles, *Fulgence*, 82. Jarislowsky stayed in office.

⁵³ “nous nous y trouvons en présence d’une coalition cosmopolite. Je vous ai déjà dit qu’il y avait des cas où j’étais nationaliste. (...) dans ce conseil, qui ne devrait être composé que de Français, il se trouve des éléments très dangereux et prêts aux entreprises les plus malhonnêtes”, “Question de M. Colly sur la violation par la Compagnie du métropolitain de son traité avec la ville de Paris,” *Bulletin municipal officiel de la Ville de Paris*, 2 Jul 1901.

the board members. Directors de Wandre and Jarislowsky were born respectively Belgian and Polish, but naturalized in a distant past.⁵⁴

In short, Empain had managed to be part of an international consortium that obtained the Métro concession. During the bidding process, the municipal Métro commission eventually was not susceptible to nationalist criticism. However, the recurring discussions in the municipal council indicated a weakness of the *CMP*, common to all public utility companies of the Empain group. The success of the enterprise depended on a good relationship with the conceding authorities. The City administration and the *CMP* had to work closely together, but this collaboration was sometimes taxed, for instance after the Couronnes Disaster in 1903.⁵⁵ To put it differently, securing the concession was merely the first step. Much more important for the prosperity of the highly politicized Métro was an influential personal network.

5.3.2 Building a local network for resilience

The Métro marked a juncture. Until the tender in 1897, the Empain group in France basically was a Belgian business group with a simple French cover. It had only one important French executive: Edmond Caze. Empain realized that he needed more of the kind of alliances he had with Caze. As mentioned in Chapter 3, Empain consequently mobilized French capital through partnerships with Parisian bankers such as Bénard. The offensive to overcome the mistrust of the administration culminated in the establishment of the French holding *Parisienne Electrique*. This allowed him to secure the support of high-profile French directors. This strategy of Frenchification succeeded. The shift in the ratio of Belgian and French directors of group affiliates in France is telling. Whereas in 1897 60% of the directors were Belgian, by 1903 Frenchmen held 66% of the positions.⁵⁶ The following paragraphs discuss the impact of this improved French network.

Empain offered directorships and management positions to influential figures of the Paris elite. Most of them have been briefly mentioned in Chapter 3. Auguste Stoecklin and Auguste Doniol became directors of the *Parisienne Electrique* from its establishment in

⁵⁴ Suzor, *Empain en France*, 240-41; Pierre Zembri, D. Larroque, and M. Margairaz, *Paris et ses transports (XIXe-XXe siècles): Deux siècles de décisions pour la ville et sa région* (Paris: Éditions Recherches, 2002), 85.

⁵⁵ On August 10, 1903, a fire broke out in a car of the Métro in the station of *Couronnes*. Eighty-four people died, shocking the entire city. It took months before the Paris population regained trust in the Métro. A special municipal commission investigated the case and forced the *CMP* to take drastic safety measures. Sheila Hallsted-Baumert, François Gasnault, and Henri Zuber, eds., *Métro-Cité: Le chemin de fer métropolitain à la conquête de Paris (1871-1945)* (Paris: Paris-Musées/RATP, 1997), 106-13.

⁵⁶ Ratio calculated based on the composition of the boards of directors of all the French firms in 1897 and 1903. Source: author's database.

1900. Stoecklin had been the vice-president of the Conseil Général des Ponts et des Chaussées, the highest position a civil engineer could get in the administration, whereas Doniol had been a member of the Conseil d'Etat and of the Conseil Général des Ponts et des Chaussées.⁵⁷ One year later, the *Parisienne Electrique* hired Raynald Legouëz. He had been the right hand of Fulgence Bienvenüe until Legouëz had to leave the city administration in December 1898.⁵⁸ Together, they had designed and executed the construction of the Métro. Stoecklin, Doniol and Legouëz perfectly knew the central and municipal administration from within and had excellent technical expertise.

Without a doubt Empain's most valuable relationship was with André Berthelot.⁵⁹ This socialist had played an essential role in getting the Métro project voted in the municipal council. In 1898, Berthelot moved from the municipal council to the French Parliament. Meanwhile, via his friend Henri Gènevois, Berthelot invested almost all his money in shares of the *CMP*. Probably via Gènevois as well, he had become friends with Edouard Empain by 1901. After Berthelot had inspected the *Tramways du Caire* and the *Chemins de fer de la Basse-Egypte* during a trip to Egypt, Empain offered him an important position in his business group. In June 1902, only weeks after he had not been reelected as MP, Berthelot became chairman-managing director of the *Parisienne Electrique* as well as managing director of the *CMP*.⁶⁰ In that capacity, he frequently had to negotiate with the Métro commission of the municipal council. Towards his former colleagues, he was a fervent defender of the interests of the *CMP*.

With regard to other businesses in Paris, Berthelot's connections were of great help to the Empain group as well. Looking back in 1922, Berthelot declared himself that his "knowledge of the Parisian municipal circles provided hope to obtain the large concessions for electricity, gas and omnibuses that expired from 1906 to 1910."⁶¹ Indeed, in the decade before the First World War, the Empain group was able to become the privileged partner in public transport and the production and distribution of electricity in the French capital. By 1912, the *SEP* was the most important supplier of the *CMP* and of Paris in general. Berthelot was a board member of *SEP* and of the *Compagnie Parisienne de*

⁵⁷ Willi Hager, *Hydraulicians in Europe (1800-2000)*, vol. 2 (CRC Press, 2009), 1022; Henry Carnoy, ed. *Dictionnaire biographique international des écrivains*, vol. 9 (Hildesheim: G. Olms, 1987 [1907]), 25-27.

⁵⁸ Bienvenüe and Legouëz had written a politically sensitive report and Legouëz was forced to resign. Legouëz went to Algeria 'to be forgotten' until 1901. Suzor, *Empain en France*, 239; see also: Legouëz Raynald Louis Henri, *Légion d'Honneur (Base Léonore)*, 19800035/269/36019, FRAN.

⁵⁹ His father was the former minister of Foreign Affairs (1895-1896) and respected scientist Marcellin Berthelot. For more information on the political and business career of A. Berthelot, see Kurgan-van Hentenryk, "Clio."

⁶⁰ Meeting of 7 Jun 1902, *Parisienne Électrique*, Minutes of the Board of directors, SPIE.

⁶¹ "Ma connaissance du milieu municipal parisien permettait d'espérer recueillir les grandes concessions de l'Electricité, du Gaz, des Omnibus qui expiraient de 1906 à 1910." as cited in: Kurgan-van Hentenryk, "Clio," 478.

Distribution d'Electricité (est. 1907).⁶² In addition, Berthelot represented the Empain group in the TPDS, the second most important tramway company of Paris after a merger in 1910. Moreover, the Empain group recruited a great asset to the business in Paris in 1913. The incumbent president of the Parisian municipal council Félix Roussel resigned in 1912 to become director of the *Parisienne Electrique* and the *Econord*. Like Berthelot, Roussel had closely followed the development of the Métro and the electrification of the capital.⁶³

Except for politicians and top officials, others aided Empain too. Empain's friendship with the entrepreneurs Maurice Bunau-Varilla and Henry Poidatz simplified business in France. They helped him to promote the companies of the business group and expedite certain procedures.⁶⁴ In this respect, the press was a very useful instrument, as we have already seen in the Belgian case. Bunau-Varilla, a business relation of Empain since 1894 at the latest, owned the newspaper *Le Matin* with Henry Poidatz. Poidatz possessed the majority of the shares and was the editor since 1897. Via Bunau-Varilla, Empain acquired a relatively large block of shares of *Le Matin* in 1899. Poidatz, Bunau-Varilla and Empain also received the support of *Bénard&Jarislowsky*. In turn, Henry Poidatz became a shareholder of the *Parisienne Electrique* and the *Compagnie générale de chemins de fer et de tramways en Chine*. Therefore, it is no surprise that *Le Matin* is a loyal supporter of the *Métropolitain*. In 1900, Poidatz and Bunau-Varilla decided to dedicate a special illustrated issue to the Paris Métro, that was about to open.⁶⁵ Empain was, of course, delighted with this 'free' advertisement.⁶⁶ The Empain brothers also kept in contact with editors such as

⁶² Beltran, *Ville-Lumière*, 298-307.

⁶³ As a municipal councilor (1900-1912), Roussel had written the municipal report on the Couronnes Accident (1903) as well as a report on the organization of the electricity distribution in Paris (1908). In 1910, he had become president of the municipal commission supervising the Métro. He had also been president of the *Conseil Général de la Seine* (1907-1908). Nohubito Nagai, *Les conseillers municipaux de Paris sous la Troisième République* (1871-1914), (Paris: Éditions de la Sorbonne, 2002), <http://books.openedition.org/psorbonne/1309>. Chapter 9 footnote 32; Roussel Félix Joseph Guillaume Marie, *Légion d'Honneur (Base Léonore)*, LH/2402/74, FRAN.

⁶⁴ In 1901, Empain asked Bunau-Varilla to contact his friends in the Ministries of Finance and Foreign Affairs to accelerate the decision-making concerning the listing of the holding company *Russe-française*. Ed. Empain to M. Bunau-Varilla, 31 Mar 1901, *Fonds Bunau-Varilla*, 18AR/2, FRAN.

⁶⁵ Dominique Pinsolle, "Un patron de presse méconnu : Henry Poidatz (1854-1905)," *Le Temps des médias* 18, no. 1 (2012): 219; "L'Album du 'Matin': 'Les Travaux du Métropolitain,'" *Le Matin*, 1 Jan 1900; See also the online reproduction, "Le Métropolitain de Paris - Supplément illustré du Matin - 10 mars 1900," http://journal-le-matin.over-blog.com/pages/Le_Metropolitain_de_Paris_Supplement_illustre_du_Matin_10_mars_1900-2639429.html.

⁶⁶ Ed. Empain to M. Bunau-Varilla, 1 Jan 1900, *Fonds Bunau-Varilla*, 18AR/2, FRAN.

Bunau-Varilla and Jules Madeline to suggest them interesting articles related to businesses of the Empain group including the CFL⁶⁷ and the SEP⁶⁸.

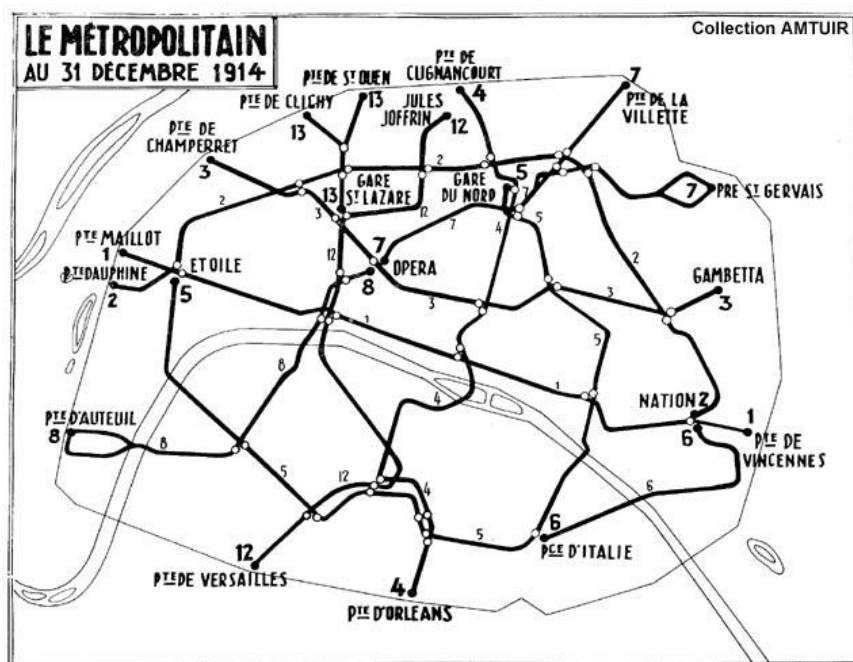


Figure 27 Map (drawing) of the network of the CMP and Nord-Sud (lines 12-13) as of 1914⁶⁹

Empain's large and diverse network of French prominent figures certainly contributed to the success of the business group after 1900. Its power should, however, not be exaggerated. The following case shows that the strategy of Empain was quickly put to the test, but eventually it did not pose an existential threat to the CMP. The case concerns the arrival of a competitor in the underground transport in Paris. Preventing this was beyond the power of the Empain group. The competitor could settle in Paris because the Métro was a profoundly political idea that emerged out of an autonomist vision of the French capital. Alain Cottureau has convincingly shown how right-wing councilors had always opposed the municipalist, almost socialist, project of a subway constructed by and for the City. In the municipal elections of May 1900, in the midst of the Dreyfus affair, the Nationalists triumphed over the political majority that had voted the development of the

⁶⁷ Empain sent Bunau-Varilla a translation of a German article on the CFL, of which Bunau-Varilla owned shares. Ed. Empain to M. Bunau-Varilla, 21 Jan 1902, *Fonds Bunau-Varilla*, 18AR/2, FRAN; He published it two days later: "Au Congo Belge," *Le Matin*, 23 Jan 1901.

⁶⁸ On his own proposal, Empain personally accompanied the journalist of *Le Matin* to the new power station in Saint-Denis to assure a good story. Ed. Empain to M. Bunau-Varilla, 5 Oct 1905, *Fonds Bunau-Varilla*, 18AR/2, FRAN; See the laudatory result: "La plus belle usine d'Europe," *Le Matin*, 20 Oct 1905.

⁶⁹ "Paris-Métro-Plan: Situation du réseau au 31 décembre 1914," https://amtuir.org/04_htu_metro_paris/cmp_1910_1914/images/1914_12_31_cmp_plan.htm.

Métro. For the first time in history, conservatives and nationalists could form a coalition.⁷⁰ Their victory in 1900 gave them the opportunity to fight the bad example of the Métro, which even favored foreign investors such as Empain, by giving a new lease of life to a genuinely French and private initiative. The new majority granted a concession to Jean-Baptiste Berlier and Xavier Janicot, who had been advocating similar plans since the 1890s. They were allowed to construct at their own expenses an underground railway between Montparnasse and Montmartre, connecting different large railway stations and in competition with the projected line 4 of the CMP (see Fig. 27).

Not only the then political opposition, but also the losers of the tender in 1897 felt betrayed by the municipality and the winning bid of CGT-Empain. As opposed to the other transport and electricity companies, Empain had accepted to largely follow the course the municipal council had set. Contrary to the expectations, the Métro had become extremely popular and a tremendous financial success.⁷¹ Therefore, Thomson-Houston, the *Comptoir d'Escompte, Paribas* and the *Société française de Constructions Mécaniques* were keen to take revenge and finance the *Société du chemin de fer électrique souterrain du Nord-Sud de Paris* (est. 1902). The project had to demonstrate the superiority and efficiency of private enterprise. However, Berlier and his partners repeatedly had to scale down their high ambitions, because the construction costs turned out to be much higher than estimated (it exceeded the costs for the CMP by 40%). In addition, the political groups in support of the concession had lost their majority again in 1904. As a result, only after long delays and a lot of bribes, the first sections of the line opened in 1910. Of course, the CMP had done everything possible to prevent the arrival of the *Nord-Sud*, a potentially fierce competitor. Both companies maintained strained relations. In the beginning, the CMP refused to cooperate with the *Nord-Sud*. The CMP did not intend to allow passengers coming from the *Nord-Sud* to use the Métro free of charge. Finally, the Parliament and the Municipality pressurized the company to accept this, in exchange for financial compensation. Moreover, the CMP accused the *Nord-Sud* of being responsible for the damage of the 1910 Great Flood. Probably the CMP had hoped that the *Nord-Sud* was so unprofitable that the CMP could immediately take over its competitor.⁷² In general, the two subways and many tramway companies continuously tried to expand their network, leading to competition harmful for all. The Empain group favored intensive coordination or even concentration of the different transport systems, but the Municipality did not share its view. Finally, the Empain group was proved right about the poor performance.

⁷⁰ Cottureau, "Batailles". §119-21; on Parisian municipal politics, see also Nagaï, *Conseillers*. Chapter 3 §22-24.

⁷¹ Cottureau, "Batailles". §117-18; see also: Roger-Henri Guerrand, *Mémoires du Métro* (Paris: La Table Ronde, 1961), 131-32.

⁷² Cottureau, "Batailles". footnote 40; Hallsted-Baumert, Gasnault, and Zuber, *Métro-Cité*, 137-41.

In 1930, the *Nord-Sud* went down after two decades of disappointing financial results. With the permission of the Municipality, the *CMP* acquired its competitor.⁷³

5.4 Accepting French influence to face pre-war nationalism

On the eve of the First World War, Empain's interests in France had attained a critical size that made him a crucial figure in the French economy. Decorated as Officer of the *Légion d'honneur* since 1900, Empain had accumulated a lot of economic, social and political capital. In the light of the political struggles surrounding public utilities, the Empain group had started to assimilate to France. However, in the following I argue that this dynamic of assimilation and lenience accelerated to cope with the resurgence of nationalism after the first (1905-1906) and certainly the Second (1911) Moroccan crisis.⁷⁴ Politicians, economists and writers adhered to this financial and economic nationalism and wanted to protect France from German and other foreign investments and imports. Within the government, the vision prevailed that any concession to a foreign company (e.g. opening of the French financial market) had to be compensated with commercial or political advantages.⁷⁵ To be successful, Empain had to abide by this anti-German and 'France First' policy. Three cases illustrate the French nationalism while at the same time showing Empain's willingness to yield to French demands.

First, there were the continuous attempts of the Empain group to have Belgian companies listed on the official Paris Stock Exchange. At the beginning of the century, the Empain group could have shares of the *Russe-française* listed, although the entire board was Belgian. Some minor lobbying by French collaborators sufficed. To justify the demand, Empain simply referred to his important position as the owner of various companies in France.⁷⁶ Ten years later, this relaxed attitude of the French government had made way for a 'quid pro quo' philosophy. The fact that the French diplomacy was favorably disposed towards Empain did not change a thing about the new maxim.⁷⁷ In

⁷³ Lanthier, "Constructions," 197.

⁷⁴ *Almanach national : annuaire officiel de la République française*, 1900, 571.

⁷⁵ Poidevin, *Relations*, 413-38+546-49+727-31.

⁷⁶ Minister of FA (Brussels) to Belgian Minister (Paris), 11 Apr 1901, *France: Divers*, 2850, BMFA; de Wandre to Ed. Empain, Apr 1901, *France: Divers*, 2850, BMFA.

⁷⁷ Note about ACEC of Ministry of Foreign Affairs (Paris), 7 Jul 1913, *Belgique: Banques-Bourses II (1909-13)*, 142CPCOM/27, MAEF.

exchange for access to the French capital market, the government now wanted direct influence in the board of directors.

For the first time, Empain had to accept the presence of French directors in Belgian holding and operating companies. During the negotiations for the *Réunis*, the *Railways&Electricité* and *ACEC* in 1913, Empain promised the nomination of one or two French members in each board to André Luquet, member of the Conseil d'Etat and director of the *Mouvement general des Fonds*.⁷⁸ The *Mouvement general* was the office in the Department of Finance responsible for the stock exchange. As the replacement of the late Paul de Smet de Naeyer, Empain proposed the Frenchman Pierre Marraud.⁷⁹ This was once more a top state official, a colleague of Luquet in the Conseil d'Etat and in the Ministry of Finance. Empain probably met him at the Ghent World Expo of 1913. Marraud was the general commissioner for France, whereas Empain co-organized the section dedicated to electricity.⁸⁰ Empain fitted the entry of Marraud in five Empain companies (*Réunis*, *Railways&Electricité*, *ACEC*, *CFL* and *SIER*) in with the general French-Belgian rapprochement after the 1913 Exhibition. In the rhetoric of Empain, Belgium was moving away from Germany and desired a “more intimate mutual cooperation” with France, “in a great sense of trust.” For his part, Marraud was flattered and accepted the directorships in order to further the influence of France in the Belgian economy.⁸¹

Secondly, anti-German rumors nearly sabotaged the expansion plan of the Empain group in the North. In late June 1911, German newspapers spread the rumor that the steel giant Krupp had planned to set up a subsidiary in northern France. Dozens of newspapers all over France sounded the alarm, speaking of a German invasion and a threat to national security. The most virulent already imagined how German workers would quickly seize the vital defensive structures in the neighborhood and occupy important railways to transport German troops in case of a war.⁸²

For Empain, this media panic was a disaster, for he was the real buyer of the forests in Feignies, next to La Longueville. The business group planned to construct large workshops there. As always, Edouard Empain had preferred to keep as discreet as possible in doing business. However, to refute the rumor, Empain for once had to extensively brief the public. He immediately contacted his friends at *Le Matin* and gave an interview.

⁷⁸ Empain (Paris) to Luquet (Paris), 18 Jul 1913, *Belgique*, B-0072864, CAEF; Note of Luquet (Paris), 19 Jul 1913, *Belgique*, B-0072864, CAEF.

⁷⁹ The other French director was Daniel Berthelot (brother of André), who had been director of various companies since 1902.

⁸⁰ Bitsch, *Belgique*, 309; Charles Mourlon, *Notes et souvenirs d'un electricien belge* (Brussels: Bruylant), 143.

⁸¹ “une pénétration réciproque de plus en plus intime”, “dans un grand sentiment de confiance”, Marraud (Paris) to Luquet (Paris), 25 Sep 1913, *Belgique: Sociétés*, B-0031179, CAEF.

⁸² *La Libre Parole*, 3 and 4 July 1911. For the broader fear of a German economic invasion, see Poidevin, *Relations*, 511-16.

Empain stressed that he did not represent the German Krupp, but rather headed “a group of French capitalists.” The article also stressed his Francophile feelings.⁸³ Nationalist newspapers, however, kept asking why the government had allowed foreigners to cut the strategically important forest at the border.⁸⁴

Just to be sure, Empain also paid a visit to the French Minister in Brussels to reassure the government in Paris. The entrepreneur blamed Krupp of having spread the rumor to discredit a competitor and obstruct Empain’s expansion plans. The Minister did not doubt Empain’s good intentions, as his previous initiatives had been generally favorable for France.⁸⁵

Thirdly and similarly, the cooperation set up in Belgium between the Empain group and the CMT threatened to collapse in 1913/14 due to nationalist criticism in France. The Empain group and the CMT jointly controlled the Belgian holding company *Cie Auxiliaire d’Electricité de Nantes (CAEN)*, which in turn owned the *Société nantaise d’éclairage et de force par l’électricité (SNE)*. Consequently, the board of directors was composed of representatives of both business groups. In December 1913, as a result of a shift in ownership, Charles Cicogna, Dannie Heineman and Josse Allard among others joined the board. They represented the Belgian-German electroholdings *SGBEE* and *Sofina*. The Italian Cicogna was said to be an ardent defender of German interests. André Berthelot could not reconcile his chairmanship with the presence of directors with strong ties to Germany. That is why he decided to resign one month later. However, Empain convinced Berthelot to reclaim his position in the board. Empain promised him to liquidate the *CAEN*, as to reinforce the French share ownership of the *SNE*. This could also remove the suspicion of the public authorities. The negotiations of the *SNE* with them encountered difficulties, because the *SNE* was so openly controlled by the *CAEN*, a foreign company. However, the outbreak of the war hindered the execution of the reorganization plans.⁸⁶

In sum, all three cases demonstrate that Empain was increasingly prepared to be lenient towards French political sensitivities. However, the analysis of the projects in the French empire will show that leniency did not suffice in the colonial context.

⁸³ “Les bois de Lanières n’appartiennent pas à la Société Krupp,” *Le Matin*, 4 Jul 1911.

⁸⁴ “Notes sociales,” *Le Gaulois*, 11 Jul 1911; “L’affaire du Bois de Lanières,” *La Libre Parole*, 5 Jul 1911.

⁸⁵ French Minister (Brussels) to Minister of FA (Paris), 4 Jul 1911, *Belgique: Industrie (1911-18)*, 142CPCOM/42, MAEF.

⁸⁶ During the war, M. Schwob, a public figure of Nantes and director since 1911, resigned. He could no longer stand the dominant influence of the *AEG*, since the appointment of “Germanophiles” in the board in 1913. In addition, the authorities refused to *SNE* to build a high tension cable in the Nantes area, because German capital is involved in the business. After the Armistice, the French government even asked to reserve the ownership to French investors. Suzor, *Empain en France*, 194-98+289-92.

5.5 Contrasting colonial contexts: Ivory Coast, Ethiopia and Congo

As mentioned in the first chapter, the establishment of the *Parisienne Electrique* added a French perspective to the entrepreneurial mental maps. As it widened the geographical range of investments, the French colonial territories became a possible sphere of action, albeit a politically sensitive one. This happened before the Empain group took a serious interest in the Congo. That is, at the moment when King Leopold II contacted Empain to finance the CFL, Empain was already negotiating with the French Minister of Colonies Albert Decrais about the construction of railroads in French Africa. As early as February 1901, the *Parisienne Electrique* and other holdings of the group were considering the establishment of a company of 25 million francs to finance the operations.⁸⁷ Soon after the preliminary negotiations with Decrais and around the time Empain had seriously started negotiating about the CFL with Leopold II, the *Parisienne Electrique* submitted an official application for a railroad concession in the Ivory Coast. Côte d'Ivoire had been made an independent French colony in 1893, but in reality the French only controlled the coastal strip. They laid a claim on the rest of the territory, but it took decades to occupy the entire colony. In the meantime, local kingdoms rebelled against the French military presence.⁸⁸ The administration realized that they needed a railroad to efficiently colonize the territory. After a period of study (Houdaille mission), the French Ministry of Colonies finally found a solid financier in Edouard Empain.⁸⁹

The proposed project was very similar to the concession Empain later acquired in Congo as it involved the joint financing of a railroad in exchange for large land claims. The colonial government had to construct the infrastructure and the *Parisienne Electrique* the superstructure. The *Parisienne Electrique* would finance its own construction work and lend the government money to finance its part, approx. 7 million francs. The Public Works Committee of the Ministry of Colonies was quite pleased, as it would finally have a railroad in the Ivory Coast at only half of the cost.⁹⁰ The railroad of 200 km would run

⁸⁷ Meetings of 28 Feb & 26 Apr 1901, *Parisienne Électrique*, Minutes of the Board of directors, SPIE.

⁸⁸ Catherine Coquery-Vidrovitch and Odile Goerg, eds., *L'Afrique occidentale au temps des Français: Colonisateurs et colonisés (c. 1860-1960)* (Paris: La Découverte, 1992), 289-98.

⁸⁹ Gbodje Sekre Alphonse, "Le rail en Côte d'Ivoire: Un facteur de développement de villes et de l'économie coloniale 1903-1929," *Africa: Rivista trimestrale di studi e documentazione dell'Istituto italiano per l'Africa e l'Oriente* 62, no. 1 (2007): 25.

⁹⁰ Discussion du projet de convention pour la concession d'un chemin de fer à la Côte d'Ivoire, 22 Jul 1901, *Ministère des Colonies. Comité des travaux publics des colonies*, FR ANOM 94 COL 4TP9, Archives Nationales d'Outre-Mer.

from the Comoë River at the coast in Bingerville to an inland region up north in the direction of Kong, thus connecting the natural resources with the Ocean. Empain was ready to invest millions, because Decrais also granted him valuable rights to prospect mineral resources alongside the railroad for two years. The area covered a territory of 40,000 km² (i.e. larger than Belgium) between the Comoë River and the meridian running through Jacquville, of which 6000 km² would become the Empain group's exclusive property. The recent discoveries of many precious ores such as gold made this offer very promising.⁹¹

In return, the Minister of Colonies asked Empain for financial and technical assistance in another French sphere of influence: Djibouti (French Somaliland). Since 1896, the French-owned *Compagnie impériale des Chemins de fer Éthiopiens* (*Cie impériale*) had been building a railroad to connect the port of Djibouti with the Ethiopian hinterland. Ethiopia was an independent kingdom, but also a subject of colonial rivalry. Both Germany, France, Italy and Great Britain wanted to incorporate the area into their sphere of influence. Even Leopold II had made an attempt in the mid-1890s. He dreamt of a united kingdom of Congo and Abyssinia. This failed due to the resistance of the Great Powers, but Leopold II kept trying to enlarge his influence via Belgian investments in Ethiopian firms and via foreign agents. Like Mozambique, Ethiopia was of strategic interest because it was one of the possible stages in the Cape-to-Cairo railway and one of the many possible export routes for Congolese goods. It was hardly surprising that some shareholders in the *Cie impériale* had traces to Leopold II.⁹² By 1901, the *Cie impériale* had proved to be underfinanced and British capitalists had taken over. Recurring financial difficulties had restrained the company from finishing its railroad between Djibouti and Dire Dawa (close to Harar). Instead, the British planned to connect the railroad to the port of Zeila in British Somaliland.⁹³ To prevent this loss of French influence in Ethiopia, the French government considered an intervention to increase the French share in the business. However, despite a campaign of the colonial lobby group *Comité de l'Afrique française*, no French financial institution was ready to help. Therefore, Minister Decrais set up an interministerial committee with representatives from the Departments of Foreign Affairs and Finance to find a comprehensive solution. The committee agreed on a scheme ordering the *Parisienne Electrique* to finish the section to Harar at the company's expenses. The French holding

⁹¹ "French in West Africa," *Financial Times*, 7 Sep 1901; Meeting of 15 Nov 1901, *Parisienne Électrique*, Minutes of the Board of directors, SPIE; "Côte d'Ivoire: Chemin de fer," *La Quinzaine coloniale : organe de l'Union coloniale française*, 10 Nov 1901.

⁹² Coolsaet, *België*, 156; Rosanna Van Gelder de Pineda, *Le chemin de fer de Djibouti à Addis-Abeba* (Paris: l'Harmattan, 1995), 181-93+313.

⁹³ "Les chemins de fer franco-anglo-belgo-ethiopiens," *Journal des Transports*, 19 Oct 1901.

company sent a study mission to Ethiopia, which estimated the construction costs at 7.5 million francs.⁹⁴

Decrais wanted to kick out the British by asking the *Parisienne Electrique* for help. This shows the large credit that the Belgian financier enjoyed with some members of the French government including Decrais, Prime Minister Waldeck-Rousseau, Minister of Commerce Millerand, Minister of Finance Caillaux and Minister of Foreign Affairs Delcassé.⁹⁵ The French government would have approved the concession, if the news had not leaked to the nationalist newspaper *La Libre Parole*, provoking animosity among local colonists, merchants and colonial politicians.⁹⁶

French colonial entrepreneurs could not believe that their government was considering granting vast and exclusive mining concessions to a Belgian investor, who was even close to King Leopold.⁹⁷ In addition, they themselves had been looking for gold and other mineral resources for years and were keen to exploit them in the near future. However, the government had temporarily frozen all permissions to prospect the Ivory Coast for gold because of the concession to Empain. Above all, the Ivorian-Ethiopian combination of Decrais upset the colonists. The Ivory Coast did not want to be the victim of financial problems in another French colony. Then there was the nationalist argument⁹⁸: Why save the Djibouti-Harar railroad from the British to give it to a Belgian capitalist afterward?⁹⁹ In fact, within the *Cie impériale* both the French founder and British shareholders were themselves unhappy with the proposed arrangement. They discretely wanted to get rid of all interests linked to Leopold II and they regarded Empain as yet another representative of the Belgian King. However, no documents can prove that Empain acted on behalf of the King in this matter.¹⁰⁰

In the public sphere, the *Union coloniale*¹⁰¹ led the resistance. Secretary General Joseph Chailly-Bert, a very influential colonial lobbyist and editor-in-chief of the *Quinzaine*

⁹⁴ Meeting of 10 Aug 1901, *Parisienne Électrique*, Minutes of the Board of directors, SPIE; "Informations financières," *Le XXe Siècle*, 1 Nov 1901.

⁹⁵ "Pour Léopold," *La Presse*, 31 Oct 1901; Hubert Bonin, *CFAO: Cent ans de compétition* (Paris: Economica, 1987), 46, 50.

⁹⁶ Albert Monniot, "Nos Colonies livrées à l'étranger," *La Libre Parole*, 6 Sep 1901.

⁹⁷ "Pour Léopold," *La Presse*, 31 Oct 1901; "Djibouti et Côte d'Ivoire," *La Justice*, 11 Jan 1902.

⁹⁸ Nationalism was widespread among groups in favour of colonialism. Peter Grupp, C. Andrew, and A. Sydney Kanya-Forstner, "Le mouvement colonial français et ses principales personnalités (1890-1914)," *Outre-Mers. Revue d'histoire* 62, no. 229 (1975).

⁹⁹ "Djibouti et Côte d'Ivoire," *La Justice*, 11 Jan 1902.

¹⁰⁰ Van Gelder de Pineda, *Djibouti*, 320-30.

¹⁰¹ The Union Coloniale (est. 1893) was a lobby group, representing the most important colonial merchants from Marseille, Le Havre, Nantes, etc. active in the French colonies. The association had not more than thousand members, but was very influential due to its magazine *La Quinzaine Coloniale*. "After 1897, the Union became the

*Coloniale*¹⁰², organized a meeting in October 1901 with discontented colonial entrepreneurs. The general manager of the *Parisienne Electrique* Raynald Legouéz tried to appease them, but the *Union coloniale* decided to send a delegation to personally express its griefs to the Minister of Colonies.¹⁰³ This delegation included Chailly-Bert himself and Julien Le Cesne of the *Compagnie française de l'Afrique Occidentale (CFAO)*.¹⁰⁴ Afterward, the colonial entrepreneurs continued their campaign and rallied the support of the general governor of the Ivory Coast and of several high officials within the Ministry of Colonies.¹⁰⁵ Also, already in June 1901, the Empain group had pushed up its price for helping out the French government beyond the acceptable. Empain desired extensions of the railroad into other colonial territories, demanding a much longer line than was conceded. It looks like Empain had slightly overplayed his hand. However, when the tide was totally turning, in November 1901, Empain had already lost his initial interest in the Ethiopian-Ivorian combination, because he had definitively secured the enormous CFL deal by then.¹⁰⁶

Nevertheless, fearing that Empain's chance had gone by, MP André Berthelot published an article on the front page of *Le Matin*, the befriended newspaper. Referring to the Belgians in Congo (CFL) and the British and Germans in their colonies, Berthelot urged the French government to take immediate action and invest in colonial railways. There were excellent opportunities in Guinee, Dahomey (Benin), the Ivory Coast and Ethiopia.¹⁰⁷ The open call was, however, too little too late. Due to the very effective opposition of the *Union coloniale* and the CFAO, Decrais had abandoned the Ivory Coast-Ethiopia plan altogether.¹⁰⁸ Finally, the French government decided to finance both the Ethiopian (1902-1915) and Ivorian (1904-1912) railroads from the colonial budget.¹⁰⁹

As announced above, the analysis of the political dimensions of the CFL and the French colonial projects is best done comparatively. In particular, the comparison of the projects in Leopoldian Congo and the French empire reveals a lot about the place of (foreign) entrepreneurs, Empain in particular, in the colonial political system of both worlds. It might explain why Empain succeeded in Congo and failed in the Ivory Coast and French

central propaganda organ and political pressure agency for the entire colonial lobby." Stuart M. Persell, *The French Colonial Lobby (1889-1938)* (Stanford: Hoover Institution Press, 1983), 26-36, here 28.

¹⁰² Stuart M. Persell, "Joseph Chailly-Bert and the Importance of the Union Coloniale Française," *The Historical Journal* 17, no. 1 (1974).

¹⁰³ "Interview de M. Chailly-Bert," *La Presse*, 26 Oct 1901; "Côte d'Ivoire: Chemin de fer," *La Quinzaine coloniale : organe de l'Union coloniale française*, 10 Nov 1901.

¹⁰⁴ The CFAO had been opposing the concession system since the early 1890s. Bonin, CFAO, 48-49.

¹⁰⁵ "Chemins de fer coloniaux et garanties d'intérêt," *Journal des Transports*, 21 Dec 1901; Bonin, CFAO, 46, 50.

¹⁰⁶ Van Gelder de Pineda, *Djibouti*, 320-30; Belgian Chamber of Representatives, *Annales Parlementaires*, 30 Mar 1911, 1058.

¹⁰⁷ André Berthelot, "Chemins de fer africains," *Le Matin*, 16 Dec 1901.

¹⁰⁸ Meeting of 15 Nov 1902, *Parisienne Électrique*, Minutes of the Board of directors, SPIE.

¹⁰⁹ Alphonse, "Côte d'Ivoire," 25-26.

Somaliland. On the surface, there were many similarities. The Empain group was very active in the Belgian and French markets. It had invested millions there and had built up a solid reputation. At the turn of the century, Empain's relationship with the relevant decision-makers was excellent. Empain kept in close touch with Leopold II and with important French ministers. However, more fundamentally, the negotiating position of Empain differed on three crucial points.

First of all, in the Congolese case, King Leopold himself was desperately looking for funds for a second railroad. In contrast, Empain took the initiative in France. He filed an application with the French Ministry of Colonies for a railroad in the Ivory Coast. To be sure, the colonial administration already had plans in that direction and had received spontaneous applications before. However, only the linking of the Ivorian railroad to another pressing issue had convinced the French government. The beneficial combination incited the French government to circumvent the official procedure and directly grant the *Parisienne Electrique* the concession.

This intention clashed with a second fundamental difference. The French colonial system totally differed from the autocratic rule in the Congo Free State. King Leopold ruled the CFS as his personal possession, supported by a relatively small administration and a few loyal financiers. His powers were only limited by the sporadic resistance of the CFS' State Secretaries and by his difficult relationship with Belgian public opinion. If Leopold II wanted to grant Empain a concession of the size of the Netherlands, nobody could really stop him.¹¹⁰ The French empire functioned differently. The Ivory Coast and French Somaliland depended on the Ministry of Colonies. They were administered by colonial governors. The democratically elected *Assemblée nationale* held the executive power accountable. Decision power therefore was divided over ministers, governors and parliament. In addition, compared to the Belgian lack of interest for the CFS, French colonists and entrepreneurs were keen to do business in the French colonies. Influential pressing groups actively guarded French interests and had a ramified network within the colonial administration.¹¹¹ As a result, a similar concession in the Ivory Coast did clash with the vested interests of relatively powerful colonists, whereas the CFS had virtually no colonists and the Congolese had no voice.

Thirdly, Empain's nationality complicated his investments in these strategic regions. In Congo, his Belgianness was an advantage, although the CFS was more open to foreign capital than the French colonies.¹¹² As opposed to the 'independent' Congo, the Ivory

¹¹⁰ See the Conclusion of Pierre-Luc Plasman, "L'État indépendant du Congo et Léopold II (1876-1906): Étude sur le paradoxe de la gouvernance léopoldienne" (Unpublished PhD Diss., Université catholique de Louvain, 2015).

¹¹¹ Jacques Thobie, "Le bilan colonial en 1914," in *Histoire de la France coloniale (1914-1990)*, ed. Jacques Thobie, et al. (Paris: A. Colin, 1990), 7-16.

¹¹² This is a hypothesis, though, as further research is needed on non-French investments in the French colonies in general.

Coast and Somaliland were the outposts of French influence in the world. Many wanted to reserve these colonies for French investors. Despite the use of the French *Parisienne Electrique*, Empain's maneuvers were denounced as a foreign interference or, even worse, machinations of Leopold II.

In sum, the comparison shows that the Empain group had had high hopes in the French colonies. The railway in the Ivory Coast even was Empain's first idea. Because of the anti-foreign colonial opposition, the slow decision-making as well as the imperialist rivalry in the Horn of Africa, Empain decided to withdraw to the politically protected environment of the CFS.¹¹³ There, Empain did not encounter serious opposition to the CFL project. On the contrary, he could repeat the proven recipe by involving French capital, with the approval of Leopold II.

5.6 Conclusion

Looking back, the psychic distance paradox certainly applied to the Empain group's first years in France. Empain and his Belgian partners wanted to do business in Belgium just like in their home country. As a Belgian, he directly negotiated with the local authorities and did hardly appeal to the Belgian diplomacy for help. However, unlike in his native country, his Belgian nationality impeded the development of the business group. The top executives soon admitted that they had underestimated the political resistance against foreign railway entrepreneurs. Whereas the small bursts of nationalism in Belgium generally were in favor of Empain, he did not 'play a home game' in France. At least nationalist discourse was strongly present. A foreign business group such as the Empain group had to try its best to avoid giving cause to nationalist criticism.

This chapter on France is thus the first piece of evidence supporting the thesis that nationality mattered in international business before the First World War. It also demonstrates that foreign business groups were able to develop strategies to control political uncertainty. In the case of the Empain group in France, it reads like a history of adaptation. The group's strategy was threefold. The first concerned Empain's personal network. The founder forged valuable relationships with members of the French elite. Initially, he only recruited Caze, but after 1897 he directly recruited loyal directors and managers from the executive and legislative branches of government (Legouëz,

¹¹³ This can be compared to the preference of London financiers to invest in the dominions, because they had more information about the opportunities and more trust in the safety of the investment. Magee and Thompson, *Empire and globalisation*, 170-231.

Berthelot, Stoecklin) and bankers (Bénard). Secondly, Empain invested in public relations. He used his close ties with *Le Matin* to give the business group good press.

Thirdly, Empain was willing to accommodate the corporate governance to French political sensitivities. The more the Empain group invested in France, the more its leaders, firms, networks assimilated to France. It set up an entire French branch with local holding companies, manufacturers and managers. Yet, Empain kept pulling the strings. On the eve of the First World War, the business group had to adapt itself once more to the growing nationalist sensitivity. Empain went to great lengths to please the French government and public opinion. He even accepted French directors in Belgian (holding) companies, because he had too much to lose to be a stubborn Belgian patriot.

From a broader perspective, the history of the Empain group shows that it could emphasize its Belgian nationality at home, while trying to mold a French identity at the same time. By stripping the firms in France of their foreign elements as much as possible, the group could positively influence local perception. Ultimately, the aim was to make France its second home country, albeit with great difficulty. Although as far as the period before 1914 is concerned, the significance of Belgium and France was different. Despite the binational foundations of the business group akin to a DLC, both countries were not placed on an equal footing. Only on the eve of the First World War, France started to have a decisive impact on the business group.

The new French status was precarious and conditional, as both the case of the *CMP* versus the *Nord-Sud* and the projects in the Ivory Coast and French Somaliland extensively demonstrate. First of all, a voluntarist political coalition less sensitive to nationalism had granted the jewel of French public transport to a French-foreign firm. However, the creation of the nationalist *Nord-Sud* has shown that corporate success still depended on political goodwill. In the second case, the result was less positive. The comparison of the projects in Leopoldian Congo and French Ivory Coast ultimately proves that the assumption of a French identity had its limits. Merely having political friends did not suffice, in contrast to the situation of the *CFL*. While the Belgian colony was a politically protected environment, a mighty public opinion defended local economic interests in the French colonies. Additionally, in the imperialist struggle for foreign spheres of influence, national origin mattered even more than at home. Building on the discussion in the general introduction, this leads to the crucial insight that a specific nationality could be an asset in one imperial context but a liability in another. In short, what was beneficial in the Belgian Congo, was bad in French Africa. In a similar vein, the association with a ruler, whose imperialism and unscrupulous methods were criticized, could be positive as well as negative. The personal relationship with Leopold II yielded a fortune in the Congo. However, it backfired on Empain's projects in the French colonies.

To be sure, the hypothesis of France as a second home country needs to be further explored. To successfully make this claim, it should become clear that Empain could count on France as a home country when investing in a third country. So was the dual footing

the basis for further expansion abroad? This chapter has demonstrated that Empain never applied for French citizenship, although he was domiciled in Paris. Accordingly, the French government appreciated everything that he had done for France, but did it consider Empain as a Frenchman deserving diplomatic support?

Chapter 6 Venezuela: Failing forward?

6.1 Introduction

After investments in France and Belgium, the business group expanded overseas in 1888. Empain took a leap in the dark by starting to operate in Venezuela, the first host country beyond the immediate surroundings of Belgium. The focus on Venezuela connects with the research objectives of this dissertation in different ways. Apart from the fact that the Caracas waterworks was the first unrelated diversification of the Empain group, the case raises interesting questions about business-government relations and the management of political risk. Venezuela turned out to be an unstable business environment. Due to civil war, political unrest and financial instability, both the railroad construction and waterworks resulted in a fiasco.

Therefore, it is an excellent case to test the early strategies of the Empain group concerning political uncertainty. Why precisely did it fail? How did Empain assess the risk of doing business with the Venezuelan government? As it was the first time that the group had to manage an overseas investment, what precautions did it take? Moreover, Venezuela was an independent republic. Due to the vicinity of the US and the British informal empire in Latin America, it had a strong nationalist current. Therefore, the question is: In this international political background, what were the options for an MNE from a small neutral country? How did the business group handle the conflict with the Venezuelan government? Did it receive the protection of the Belgian diplomacy? However, what was Belgium capable of in an international conflict? Finally, looking to the other regional cases, we should ask what the Empain group could have done and whether it learned from its first experience overseas.

This chapter is structured as follows. The first section puts Empain's investment in the Caracas waterworks in the context of European FDI in Latin America. It particularly explains how the Empain group ended up in Venezuela in the first place. It can also be regarded as a prelude to the political problems the Empain group faced later. The second section elucidates the motivations and the organization that underlie the investment in

the waterworks. Thirdly, this chapter deals with the political risks that finally led to the nationalization of the concession in 1895. The section tries to understand how the Empain group assessed the risk and why it ultimately failed. The final section studies the role of the Belgian *Eaux de Caracas* in the financial dispute between Venezuela and several European powers. It focuses on the limited agency of Belgium, despite the far-reaching cooperation between the company and the Belgian government.

6.2 Prelude: General contracting of a Venezuelan railway

To understand why Empain invested in the Caracas waterworks, we need to study the entire trajectory of the Empain group in Venezuela and put it in the broader context. As mentioned in Chapter 1, in the 1880s Latin American countries witnessed a growing demand for their primary resources in Western industrialized societies. At the same time, many cities in Latin America were bursting at the seams. These two phenomena forced the local governments to develop transport and urban facilities. This need for modern infrastructure met with European capital looking for higher returns. Whereas large capital exporters such as Great Britain, France and Germany mainly invested in the successful economies of Brazil, Argentina and Mexico, Belgian capital also looked for niches with less foreign competition: Venezuela and remote areas in Argentina and Brazil. Unlike in Amsterdam and London, Venezuelan securities were not particularly in vogue at the Brussels Stock Exchange. Empain was actually the first one to introduce Venezuelan securities in Brussels. The bonds of the *Carenero Railway Company* were the first ever to be officially listed there.¹ In addition, the trade between Belgium and Venezuela was inexistent.² In other words, Venezuela had so far been unknown ground for Belgian entrepreneurs, including Empain.

The very beginning of Empain's activities in Latin America can be situated in 1888. Apart from its venture with Otlet in Argentina (see Chapter 1), the Empain group started doing business in Venezuela. In the winter of 1888, the holding company *Voie étroite* accepted the general contracting of a Venezuelan railroad for a British company. General contracting was one of the *Voie étroite*'s core businesses. However, in the past it had only constructed railways that belonged to the Empain group. Now, the *Voie étroite* signed a

¹ "Bulletin des Bourses," *Journal de Bruxelles*, 25 Mar 1889.

² Between 1880 and 1914, Belgian-Venezuelan trade only amounted 0.01% of total Belgian trade. See the Ricardo Database (Dedinger and Girard, "RICardo.")

contract with the London-based *Carenero Railway and Navigation Company Limited*, established a few months earlier.

The Empain group disembarked in Venezuela during the reign of General Antonio Guzmán Blanco (1829-1899). In the 1880s it was a relatively peaceful, economically prosperous and stable country. Guzmán Blanco invested a lot in the modernization of the federal republic. He planned the development of an extensive railway network and other means of communication to boost agricultural exports. Thanks to a very liberal policy towards FDI, consisting of dozens of railway concessions and high state guarantees (up to 7%), the government of Guzmán Blanco had already attracted British, German and French investors.³ With the increased revenues from coffee production, Guzmán Blanco could promote public works in different Venezuelan cities and appease protests in the states. However, regionalist opposition frequently united against the federal government. In 1888, while Guzmán Blanco was making one of his long trips to Paris, one of these anti-Guzmán revolts forced him to resign. The civilian Rojas Paul (1826-1905) succeeded him as president, but he was soon replaced by the civilian Raimundo Andueza Palacio in 1890. Andueza Palacio's attempts to change the constitution caused political turmoil across Venezuela. "Under the banner of the *Revolución Legalista* (Legalist Revolution), former president Joaquín Crespo marched on Caracas in June 1892 and took control of the government until 1898."⁴

The Carenero railway perfectly fitted in this bigger picture of attractive railroad concessions to increase exports. The first part of the light railroad between San Jose de Rio Chico and Carenero (34 km), indicated in Figure 28, had been constructed in 1885 by the *Compañía Anónima de Navegación y Ferrocarril de Barlovento*. The aim was to transport cacao and other agricultural products from the fertile inland to the port of Carenero. In July 1888, Guzmán Blanco had conceded a new line from Altagracia de Orituco to the coast to a local entrepreneur. Both this concession and the existing line between Carenero and Rio Chico were quickly bought by the *Carenero Company*. With the two concessions, the British company also acquired the right to establish a shipping service between Carenero and the larger port of La Guayra.⁵

³ Santamaría García, "Ferrocarriles.;" "Emission Carenero," *MIM*, 24 Mar 1889.

⁴ Hollis Micheal Tarver and Julia C. Frederick, *The History of Venezuela* (London: Greenwood Press, 2005), 71. See also: Frederick Norbury, "Venezuela," in *Tropical Development (1880-1913): Studies in Economic Progress*, ed. William Arthur Lewis (Abingdon: Routledge, 2006); Richard A. Haggerty, ed. *Venezuela: A Country Study* (Washington: GPO for the Library of Congress, 1990), <http://countrystudies.us/venezuela/5.htm>.

⁵ Jesús Sanz Fernández, ed. *Guía histórica de los ferrocarriles iberoamericanos (1837-1995)* (Madrid: Ministerio de Fomento, 1998); "Compagnie de chemins de fer et de navigation de Carenero (Limited)," *Journal de Bruxelles*, 26 Jun 1889; "Compagnie générale des Railways à voie étroite: Rapport du CA présenté à l'AGO," *Supplément MIM*, 16 Oct 1889.

The British *Carenero Company* was probably attracted by the interesting financial conditions. The Venezuelan government had guaranteed a minimal return on investment of 7% for 99 years.⁶ This state guarantee must also have reassured subcontractor *Voie étroite*. The *Carenero Railway and Navigation Company* entrusted her with the construction of the extension (80 km) through the hills to Altagracia. The *Voie étroite* was also expected to supply a couple of steamers for the shipping line and all the material necessary to operate the railway.⁷ This last obligation explains why the befriended company *La Métallurgique* had delivered 3 locomotives in 1889.⁸ As part of the deal with the *Carenero Company*, the *Voie étroite* took control over the existing line and had to operate it during the time of construction of the extension.⁹ It was also financially involved since it was responsible for the servicing of a slice of the corporate bonds issued in 1889.¹⁰

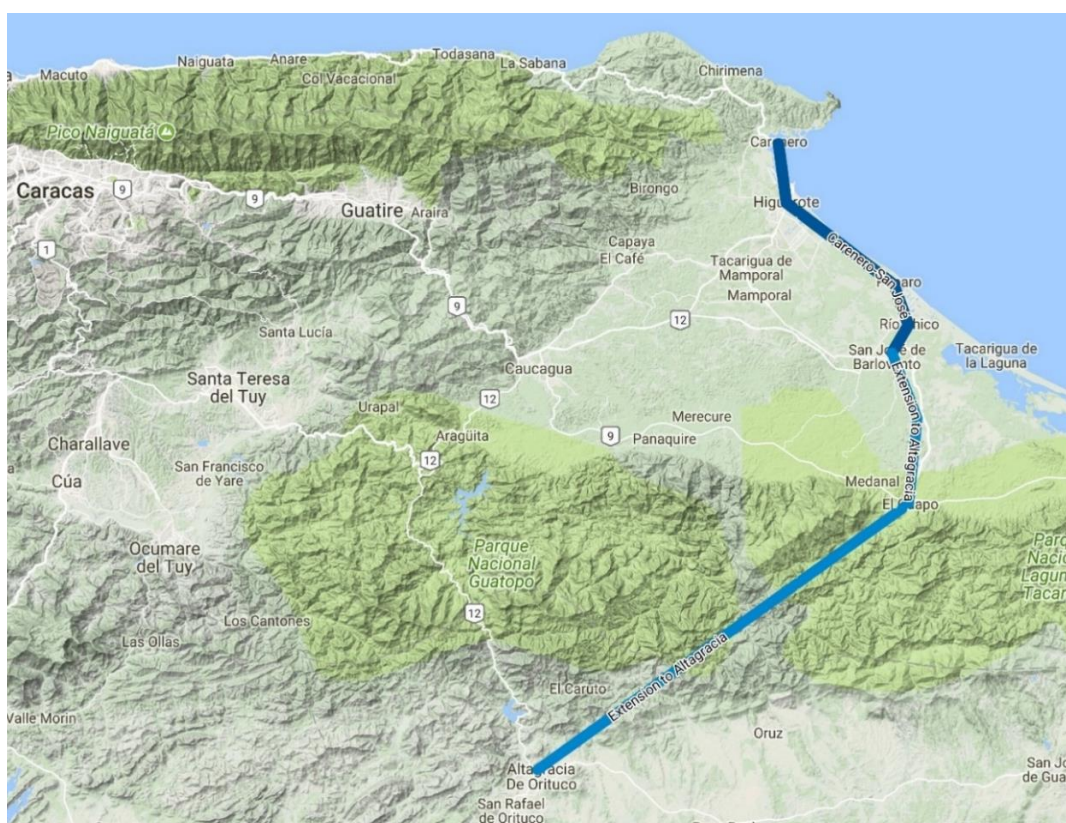


Figure 28 Carenero railway (Carenero-San José) and extension (San José-El Guapo-Altagracia de Orituco), 1886-1891¹¹

⁶ “Emission Carenero,” *MIM*, 24 Mar 1889.

⁷ Wiener to Minister of FA (Brussels), 12 Jan 1892, *Vénézuéla. Chemins de fer 1886-1910*, 2926, BMFA; “Carenero R’way and Navigation Comp.,” *Algemeen Handelsblad*, 13 Jan 1891.

⁸ Luc Delporte, “Ferrocarril Carenero-El Guapo - Patrimoine Industriel de Tubize,” <http://www.museedelaportebelge.be/patrimoine/?p=1908>.

⁹ “Carenero-Company,” *De Maasbode*, 8 Jan 1892.

¹⁰ “Financieele Mededeelingen,” *Leeuwarder courant*, 27 Jun 1889.

¹¹ Designed by the author

The *Voie étroite* sent some engineers to Venezuela to study the line and make construction plans. However, in the winter of 1889 floods ruined the railroad in operation between Carenero and San Jose. The floods also restrained the engineers from prospecting the extension. In addition, the old line had to be repaired. Therefore, the *Carenero Company* signed another contract with the *Voie étroite* to repair and broaden the old line. These reparations, including the reconstruction of a 40m-long bridge over the river “Tuy”, had priority over the extension and were completed at the end of 1890. At completion, the *Voie étroite* was to be paid in preferred shares of the *Carenero Company*. Nonetheless, the *Voie étroite* considered it better to sell its rights. The *Venezuela Public Works and Credit Company Ltd*, a British company established in 1890 by the shareholders of the *Carenero Company*, acquired the contract for the construction of the extension and the supply of all the rolling stock. It had to pay the *Voie étroite* with *Public Works* shares for the work the Belgian company had already done.¹²

However, when signing the initial contract in 1888, the *Voie étroite* had not adequately analyzed the risks. In the prospectus, the *Carenero Company* had largely exaggerated the potential of the railroad and its extension, for in practice it could not survive without the state guarantee. This dependency did not have to be fatal, were it not that the state guarantee had not been entirely secured. In the prospectus and the convention with the *Voie étroite*, the *Carenero Company* had falsely stated that it had obtained a concession for the extension to Altagracia, which was “duly ratified.”¹³ However, the company omitted that the Venezuelan Congress, the official legislative power, had not yet approved the extension and the accompanying subsidies. In fact, in the last years of his reign Guzmán Blanco had conceded over 2000 km of railroads, which the Congress had refused to legalize.¹⁴ This refusal was partly due to a general opposition against highly subsidized concessions granted by Guzmán Blanco, who had fallen into disgrace.

The lack of Venezuelan state aid implied that the *Carenero Company* and its subcontractors were in deep financial trouble.¹⁵ As a result, neither the *Public Works* nor the *Carenero Railway* could pay the *Voie étroite*, so the Belgian holding company sued them in different courts. In July 1891, both the *Public Works* and the *Carenero Company* were condemned by the Commercial Court of Brussels.¹⁶ They had to pay back the advances

¹² “Compagnie générale des Railways à voie étroite: Rapport du CA présenté à l’AGO,” *Supplément MIM*, 15 Oct 1890; “Carenero R’way and Navigation Comp.,” *Algemeen Handelsblad*, 13 Jan 1891.

¹³ “dûment ratifiée” Ledeganck (Caracas) to Minister of FA (Brussels), 24 Dec 1891, *Vénézuéla. Chemins de fer 1886-1910*, 2926, BMFA.

¹⁴ Blanchard de Farges, “Vénézuéla: Situation économique,” in *Bulletin consulaire français : Recueil des rapports commerciaux adressés au Ministère des affaires étrangères* (Paris: July 1890), 101-02.

¹⁵ Ledeganck (Caracas) to Minister of FA (Brussels), 24 Dec 1891, 2926, BMFA.

¹⁶ “Compagnie générale des Railways à voie étroite: Rapport du CA présenté à l’AGO,” *Supplément MIM*, 21 Oct 1891.

made by the *Voie étroite* “for the research, provided material and engineering works,” 1,140,000 francs in total.¹⁷ The execution of the sentence was hard to enforce. First of all, the Carenero railroad was hardly profitable and close to bankruptcy. It even stopped servicing its debt. The promised government subsidies could only be granted when significant progress had been made with the extension, but due to the conflict between the British company and the *Voie étroite* only a few kilometers had actually been constructed. Secondly, the company’s case before the Venezuelan Federal Court did not progress. Desperately, the *Voie étroite* turned to the Belgian Ministry of Foreign Affairs for support. The company’s lawyer Sam Wiener asked the Minister to send instructions to Ledeganck, the Belgian envoy in Caracas.¹⁸ Ledeganck lobbied the Venezuelan government but had to record that the political turmoil in Venezuela made the rule of law impossible. He reported that the British *Carenero Company* had even bribed the judges of the High Federal Court. The Venezuelan Minister of Public Works advised H.E. Boyer, the official representative of the *Voie étroite*, to do the same.¹⁹ Finally, after several years of litigation, the *Voie étroite* gave up its claim for compensation and had to book the losses.

The Empain group clearly lacked detailed data on the solvability of the British contracting company or on the state of political affairs in Venezuela. Admittedly, the year 1888 only marked the end of a long period of political stability under the reign of Guzmán Blanco. Seen from Belgium, probably few investors thought that the modest political unrest due to the elections would be the start of four chaotic years. In the recent past, reports had been rather positive about the state of affairs in Venezuela, compared to that of other Latin American countries.²⁰ Still, Empain’s Belgian competitor Edouard Otlet had asked around about the climate for investment in Venezuela in 1888. In the absence of a Belgian consul²¹, his US colleague gave negative advice: The change of presidency could destabilize the country. He warned that the Venezuelan government might want to bully investors until they would hand the public utility over to the State.²²

¹⁷ “pour études, fournitures et travaux”, Wiener to Minister of FA (Brussels), 12 Jan 1892, 2926, BMFA.

¹⁸ Wiener to Minister of FA (Brussels), 12 Jan 1892, 2926, BMFA; Ministry of FA (Brussels) to Sam Wiener (Brussels), 16 Jan 1892, *Vénézuéla. Chemins de fer 1886-1910*, 2926, BMFA.

¹⁹ Ledeganck (Caracas) to Minister of FA (Brussels), 25 Feb 1892, *Vénézuéla. Chemins de fer 1886-1910*, 2926, BMFA.

²⁰ Thiessé, “Vénézuéla: Situation économique en 1886,” in *Bulletin consulaire français : Recueil des rapports commerciaux adressés au Ministère des affaires étrangères* (Paris: 24 Apr 1887).

²¹ Belgium only sent a diplomatic agent to Caracas in 1890. Blanchard de Farges (Caracas) to Minister of FA (Paris), 25 May 1890, *Vénézuéla: Correspondance politique*, P595, MAEF.

²² Note from Secretariat to Edouard Otlet, 28 Mar 1888, *Correspondance générale*, T 447/4, Economic Archives of the Otlet Family, ARA; See also: De Ryck, “Otlet,” 220.

6.3 The Caracas waterworks: A promising public utility?

The following paragraphs explain why and how Empain significantly expanded his activities in Venezuela in the early 1890s. Ever since the *Voie étroite* had started constructing and repairing the Carenero railroad, Empain and his French railway partner Edmond Caze had been on the lookout for other interesting business opportunities in Venezuela. The railway engineers of the *Voie étroite* in the country could gain information about other projects. They might enter into contact with local agents such as Arthur Le Mye. As one of the few Belgians living in Venezuela at that time, Le Mye worked as some kind of broker for interesting investment opportunities. Although he cannot be directly linked to the Carenero railroad, his acquaintance with Empain and Caze went back to 1889. In that year, he had already tried to mediate between the French-Belgian duo and mining concession owners in Venezuela who were looking for foreign funds, as explained in Chapter 1. At the beginning of 1890, Le Mye had also signed a contract with the Venezuelan government for the extraction of gold from the Cuyuni River.²³ In the same year, he had negotiated two concessions for water supply in the cities of Caracas and Maracaïbo.²⁴ Quickly, he managed to interest Caze and Empain for the waterworks in the Venezuelan capital.

Empain's investment in the Caracas waterworks should be seen as an important part of the urban makeover of Venezuela's largest city. In the 1870s and 1880s Caracas was transformed from a provincial town into a European-style capital. Antonio Guzmán Blanco initiated a long list of public works and embellishment projects. He, who often dwelled in the French capital, wanted to transform Caracas into "Petit Paris". He ordered the construction of public squares, boulevards, museums, and theaters.²⁵ As the city of Caracas grew from 55,000 inhabitants in 1881 to 72,000 inhabitants ten years later (90,000 including the suburbs), it needed modern infrastructure.²⁶ Electric lighting and telephone lines were installed. The existing waterworks also proved insufficient, for the rapidly growing city struggled with serious health issues such as tuberculosis and waterborne

²³ *Recopilación de leyes y decretos de Venezuela*. 38.

²⁴ Ledeganck (Caracas) to Minister of FA (Brussels), 23 Apr 1891, *Vénézuéla*, B104/I, BMFA.

²⁵ Lorenzo Gonzalez Casas, "Caracas: Territory, Architecture and Urban Space," in *Planning Latin America's Capital Cities (1850-1950)*, ed. Arturo Almandoz Marte (London: Routledge, 2013), 214-40.

²⁶ "Compagnie générale des Eaux de Caracas: Rapport du CA à l'AGO," *Supplément MIM*, 8 Jun 1892.

diseases.²⁷ Lacking proper water purification and management, the polluted and infected water even was one of the main causes of death in Caracas in the early 1890s.²⁸

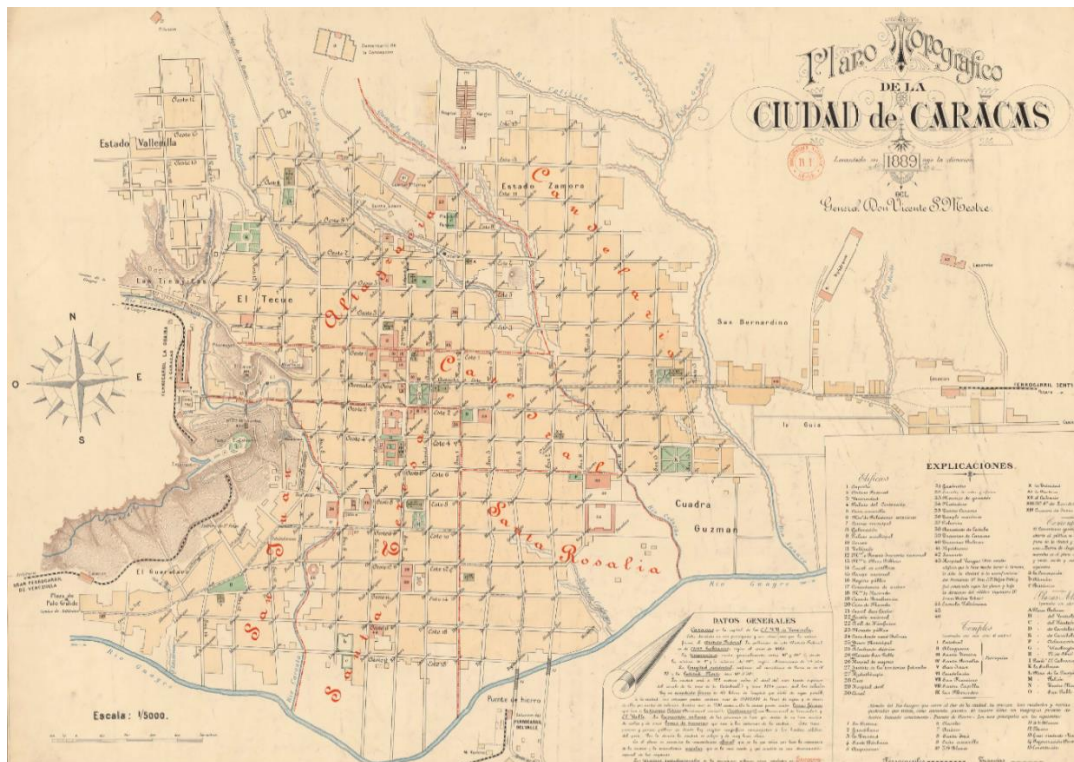


Figure 29 Map of Caracas (1889)²⁹

Already in 1873, Guzmán Blanco had ordered the construction of an aqueduct of 45 km from the Macarao River to El Calvario (see Fig. 29). This had to secure a steady water supply to the southern part of the city, while the existing basin of the Catuche River was supplying the northern part. Guzmán Blanco placed the aqueduct under his direct authority. At that time, 2000 out of 7612 houses were supplied. In 1887, the operation of the water distribution was privatized. The very lucrative contract was granted to Auguste the Duke of Morny, the French son-in-law of the President. Most importantly, the Duke had to replace the aqueduct with an iron pipe. As Rojas Paúl seized power one year later, the government took back the waterworks and continued the modernization of the aqueduct.³⁰

²⁷ These waterborne diseases and the sanitary reforms reacting to it were a global phenomenon, see Jürgen Osterhammel, *The transformation of the world : A global history of the nineteenth century*, America in the world (Princeton: Princeton UP, 2014), 172-76.

²⁸ Arturo Almandoz Marte, *Urbanismo europeo en Caracas (1870-1940)* (Caracas: Fundación para la Cultura Urbana, 2006), 188.

²⁹ General Don Vicente S. Mestre, “Plano topografico de la ciudad de Caracas,” (Brussels: J. Lebègue, 1889).

³⁰ Antonio García Ponce, “La Compañía General de las Aguas de Caracas,” in *Inversiones extranjeras en Venezuela siglo XIX*, ed. Nikita Harwich (Caracas: Academia Nacional de Ciencias Económicas, 1992).

On the 11th of July 1890, the Municipal Council of Caracas decided to privatize water distribution once again. It contracted with the Venezuelan engineer Germán Jiménez, who was at the same time Congress Member and Minister of Public Works under the presidency of Andueza Palacio (1890-1892).³¹ Jiménez received a concession of 40 years to develop, modernize and operate both the water distribution and a sewer system. After that period, all assets would be returned to the Municipality without any compensation. The contractors were aware that this affair required much capital and already included the possibility of a transfer to a domestic or foreign firm. The day after the concession was granted, Jiménez sold the concession to the Belgian Arthur Le Mye for approximately 625,000 francs.³² Some Venezuelan intermediaries were also promised company shares.³³

Clearly, the new buyer of the concession acted on behalf of Empain and Caze. Now in possession of the contract, Le Mye most likely traveled to Europe in the autumn of 1890 and made arrangements with Edmond Caze to gather funds and establish a company. Caze founded the *Compagnie générale des Eaux de Caracas (Eaux de Caracas)* in Brussels in November 1890.³⁴ Despite the name, he had designed the corporate purpose very broadly, according to the high ambitions of the Empain group in Venezuela. The founder took into account water distribution in other Venezuelan cities, such as the possible development of the concession in Maracaïbo. He also considered the possibility to use this water for power. Besides, Caze included concessions for lighting and more generally, public and private construction works. However, for now, the company just officially acquired the concession of the Caracas waterworks.

Why did the Empain group decide to take its chances in a different sector in Venezuela, for the first time in the history of the business group? Obviously, the estimated revenue was very high (see below). That alone made diversification worthwhile. In addition, although it had no experience in the field, the step from railway construction to the development of a water system was less radical than it might seem. Both were public utilities conceded by the Venezuelan government that involved the confection of plans and execution of infrastructure works.³⁵ The *Voie étroite* had been present in Venezuela for two years and had assembled a team of capable construction engineers. Empain could easily reemploy most of the building material, management, and workforce from the

³¹ Alfredo Jahn Jiménez, "Homenaje al Dr. Germán Jiménez," <http://www.jahnweb.com/ajj/gjimenez.html>.

³² García Ponce, "Compañía," 189; Van der Heyde (Caracas) to Minister of FA (Brussels), 7 May 1901, *Vénézuéla. Correspondance politique. Série générale 1866-1902*, P35, BMFA.

³³ Gallegos (Caracas) to Liquidators Eaux de Caracas, 7 March 1908, *Réclamations belges au Vénézuéla*, B104/II, BMFA.

³⁴ "Compagnie générale des Eaux de Caracas: Statuts," no. 2419, AMB, 15 Nov 1890.

³⁵ In 1890 Empain had sent the engineer Charles François to study the possibilities and draw the plans of waterworks both in Caracas and Maracaïbo. "Eaux de Caracas," *L'Etoile coloniale*, 9 May 1903.

Carenero railroad for the construction of the waterworks.³⁶ Like for the Carenero, the rest of the resources had to be imported from Belgium. However, creating a market for an industrial partner was not the purpose of the waterworks investment. Whereas the befriended *La Métallurgique* had provided rolling stock for the railroad, the business group had no ties with the *Compagnie générale des Conduites d'Eau* in Liège, where the waterworks company ordered its metal pipes.³⁷

Without the benefit of hindsight, the general economic climate and the activities of the Empain group in Venezuela did not cause any mistrust. First of all, the outbreak of the Baring Crisis in Argentina in July 1890 did not deter Empain and his partners. Their decision to execute the waterworks project was consistent with the broader trend on the financial market. The news of the debt crisis in Argentina and the crash of the Baring Bank shocked the City in London. From 1890 onwards, British investors strongly distrusted the creditworthiness of Argentina. However, they perceived Venezuelan bonds as less risky. This means that the general sense of the Latin American crisis only slightly reduced the investor's trust in the Venezuelan state finances in the first two years. The Belgian financial press also remained optimistic about the country's state in 1890-91.³⁸

Secondly, the Empain group could not have learned from the bad outcome of the *Carenero Railway* yet. The decision to start up the waterworks came too soon to be informed by the financial difficulties of the Carenero project. Only a few months later, the *Voie étroite* was already involved in several trials against the British contracting companies.³⁹ At that moment at the latest, Empain or his partners could have realized that the climate for foreign direct investment had worsened compared to the Guzmán Blanco years. Especially government subsidies for foreign concessions had become very delicate.

³⁶ "La plainte de M. Le Mye," *L'Etoile coloniale*, 18 Apr 1903.

³⁷ "La Semaine Financière," *Le Soir*, 16 Jun 1891.

³⁸ Mitchener and Weidenmier, "Baring," 476; "Venezuela," *MIM*, 29 May 1890; "Venezuela," *MIM*, 16 Apr 1891.

³⁹ "Effecten- en Geldmarkt," *Algemeen Dagblad*, 22 Feb 1891; "Effecten- en geldmarkt," *Algemeen Handelsblad*, 3 May 1891; "Beurs," *Haagsche Courant*, 23 May 1891.

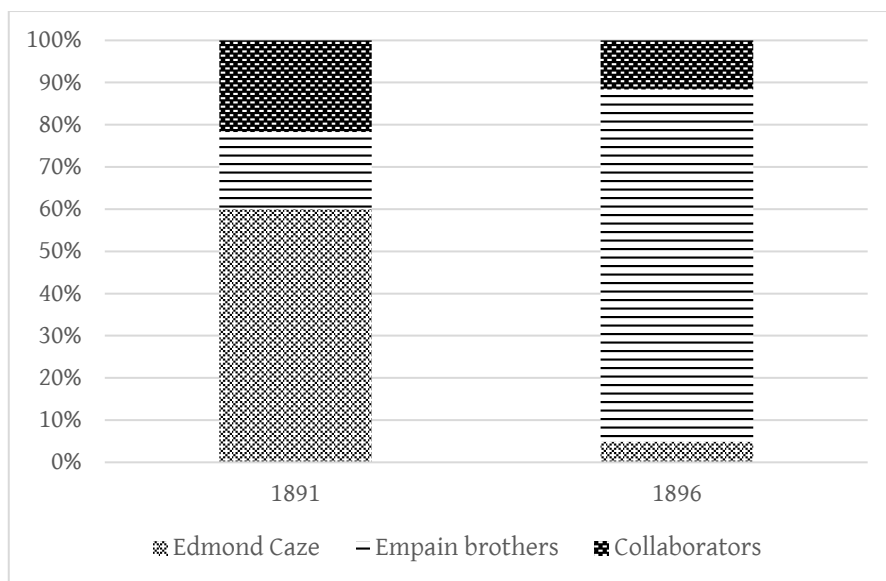


Figure 30 *Eaux de Caracas*: Distribution of share ownership at creation and dissolution⁴⁰

So how did Caze and Empain organize the new Venezuelan investment? The capital of the *Eaux de Caracas* was fixed at 3.5 million francs in 7000 shares of 500 francs. The board was authorized to raise the capital to 7 million francs (to pay the building contractor) and issue up to another 12 million in corporate bonds. Figure 30 shows that Caze himself took a majority interest. He subscribed for a total of 4200 shares (60%), of which 1400 shares were a reward for the studies and efforts to set up the company. Edouard Empain was only the second-largest shareholder with 960 shares. However, he would receive an additional 7000 shares for his job as a building contractor. Other subscribers were his brother François and his usual business partners including Alphonse Braemt, Adrien d'Oultremont, Arthur du Roy de Blicquy, and Maurice Anspach. The founders appointed Caze, d'Oultremont, du Roy de Blicquy and Anspach to the first board of directors, but elected Theodore Verstraeten as chairman because of his expertise (see Table 13). This engineer was currently the general manager of the Belgian *Compagnie générale pour l'éclairage et le chauffage par le gaz* and had been the head of the waterworks of Brussels. He had written extensively about hydrology and water management.⁴¹ His chairmanship had to inspire confidence with external investors.

Unlike most other companies in the Empain group, the *Cie des Eaux de Caracas* was a personal business. Edouard Empain did not invest with the help of a holding company. The statutes of the *Voie étroite* prohibited investments in any sector other than traction. However, the business partners behind both the holding company and the *Eaux de Caracas*

⁴⁰ "Compagnie générale des Eaux de Caracas," no. 315, AMB, 19 Feb 1891; "Compagnie générale des Eaux de Caracas: Dissolution," no. 755, AMB, 12 Mar 1896.

⁴¹ "Séance du 27 février 1889," *Bulletin de la Société belge de Géologie, de Paléontologie et d'Hydrologie* 3 (1889), <https://archive.org/stream/bulletindelasoci3188soci>.

were the same. Except for Caze and Verstraeten, all investors were also at the board of the *Voie étroite*. Edmond Caze was at that time Empain's key business partner in France (*Econord*) and also deeply involved in the Argentinian railway project of the *Grand Central Sud-Américain* (est. 1889). The only newcomer was Verstraeten. So, despite the increased exposure to risks due to the lack of a holding company, Empain and Caze could convince the same people to get involved as investors and directors.

Table 13 Composition of the board of directors of the *Cie des Eaux de Caracas* (1891-1896)⁴²

Théodore Verstraeten	Chairman	1891-1895
Maurice Anspach	Managing Director	1891-1895
Arthur du Roy de Blicquy	Director	1891-1895
Edmond Caze	Director	1891-1895
Adrien d'Oultremont	Director	1891-1895
Edmond Terlinden	Director	1893-1895
Achille Huart-Hamoir	Director; Liquidator	1893-1895; 1896-...
Georges Ruelens	Liquidator	1896-...
Léon Van Keerberghen	Liquidator	1896-...

Managing director Maurice Anspach was entrusted with the supervision of the company from the headquarters in Brussels.⁴³ He had to rely on the local manager in the Caracas office to execute the decisions made by the board. The communication between the offices in Brussels and Caracas was not always reliable. Because extensive reports were slow, the headquarters sent urgent messages via telegraph, very often through diplomatic channels. At the beginning of 1892, Anspach personally spent two months in 1892 in Venezuela to size up the situation.⁴⁴

Although Edouard Empain was officially not in the board of directors, he still pulled the strings. The headquarters were not located in the buildings of the bank or the holding and Anspach was officially in charge of daily operations, but sources suggest that Empain was deeply involved. According to Le Mye, whose testimony can be biased but which is partly and indirectly confirmed, Empain functioned as the general contractor for all the construction works. In addition, his bank provided financial services and issued the bonds. Finally, he centralized all corporate correspondence in his offices and commented

⁴² "Compagnie générale des Eaux de Caracas," no. 315, *AMB*, 19 Feb 1891. as well as *Recueil Financier*, 1893-1896

⁴³ Note that the headquarters was located in the Rue du Gouvernement Provisoire. This was close to, but of course not in the offices of the *Banque E.-L.-J. Empain* (rue du Congrès 33).

⁴⁴ "Compagnie générale des Eaux de Caracas: Rapport du CA à l'AGO," *Supplément MIM*, 8 Jun 1892; "Eaux de Caracas," *MIM*, 13 Dec 1891.

on it before transferring them to the board of directors.⁴⁵ So in reality, the lines between Empain's private enterprise and the staff of the holding companies were blurred.

To construct and operate the utility, Empain had recruited European engineers.⁴⁶ The Frenchman H.E. Boyer was appointed manager *ad interim* of the *Eaux de Caracas* until 1891, because he was already in Venezuela to supervise the construction and operation of the Carenero railroad. Before he came to the country, he had been the operating manager of the *Econord*. In 1892 Boyer was sent to Caracas one last time to represent the *Voie étroite* at the Venezuelan Federal Court in the holding company's case against its British contractors (Carenero).⁴⁷ The Belgian engineer Norbert Paquet succeeded him to serve as the local manager of the *Eaux de Caracas* from August 1891. Paquet had previously worked at the *Société Générale*.⁴⁸ Arthur Le Mye was only briefly in the service of the company, mainly as a reward for obtaining the concession.⁴⁹

The contract included a twofold assignment, i.e. the supply of fresh drinkable water and the drainage of wastewater. The latter implied the construction of a sewer system in the entire city. The former had to be organized by constructing a new iron cast aqueduct, additional water reservoirs and 60 km of water pipes. Before the *Eaux de Caracas* started operating the water service, the water had been supplied by an open sewer of over 40 km. Therefore, the water had to be filtered before consumption. The volumes were largely insufficient since only 3000 of the more than 10,000 houses could be serviced. The distribution infrastructure was rudimentary, not allowing to control nor measure the consumption by the clients.⁵⁰

In their communication towards investors, the directors were very optimistic about their public utility. The project could not fail, because water constituted a natural monopoly without competitors or substitutes. In addition, a very hot city such as Caracas strongly required efficient water supply. While the population would continue growing, revenues would increase automatically, for the government had decided to oblige every household to subscribe. The house owners also had to pay a street tax which was transferred to the company. Moreover, the government had exempted the company of

⁴⁵ "La plainte de M. Le Mye," *L'Etoile coloniale*, 11 Apr 1903. The general contractor was paid with a capital increase of 3.5 million as soon as the construction works were finished. Probably, that is why Edouard Empain possessed 4.5 million francs in shares before the company was dissolved. See: "Eaux de Caracas: Rapport du CA à l'AGO," *Supplément MIM*, 14 Jun 1893.

⁴⁶ "Société française des ingénieurs coloniaux," *L'Écho des mines et de la métallurgie*, 31 Mar 1895.

⁴⁷ Boyer Hippolyte Eugène, *Légion d'Honneur (Base Léonore)*, 19800035/330/44494, FRAN; Ledeganck (Caracas) to Minister of FA (Brussels), 22 Apr 1892, *Vénézuéla. Correspondance politique. Série générale 1866-1902*, P35, BMFA.

⁴⁸ Claim of Norbert Paquet, 18 Jun 1903, *Réclamations belges au Vénézuéla*, B104/II, BMFA; Paquet (Trinidad) to Minister of FA (Brussels), 16 Jun 1903, *Réclamations belges au Vénézuéla. Paquet*, B104/II, BMFA.

⁴⁹ "La plainte de M. Le Mye," *L'Etoile coloniale*, 11 Apr 1903.

⁵⁰ "Compagnie générale des Eaux de Caracas: Rapport du CA à l'AGO," *Supplément MIM*, 8 Jun 1892.

all tariffs and other taxes on materials and construction works. According to the directors, the waterworks had much potential. With the necessary rationalization and gains in efficiency, the directors estimated the minimum yearly gross revenue at 1.26 million francs and 2 million francs when in full operation.⁵¹ Of course, the company also had to reckon with recurring costs and large investments. In exchange for the concession, the city of Caracas demanded an annuity of 200,000 francs in the first ten years, increasing up to 400,000 francs in the last decade. The municipality received 35 public fountains and the daily right to use 1 million liters for free.⁵²

Table 14 Estimated revenues and expenses of the *Cie des Eaux de Caracas* for 1895⁵³ vs actual income in 1894⁵⁴

	1895 (est.)	1894 (real)
Yearly gross income	+1,454,750	+720,000
100 frs subscription fee paid by 5000 households	500,000	
Sale of the exceeding 3.5 million L at the rate of 0.5 frs/1000L	638,750	
Commercial service of installing sanitary facilities	60,000	
Sewer tax (4 frs/m of façade)	256,000	
Yearly expenses	-500,000	-330,000
Municipal tax	200,000	200,000
Maintenance water service	100,000	130,000
Maintenance sewer service	200,000	
Yearly net income	=954,750	=390,000
Debt service	-370,000	-370,000
Net profit	=584,750	=20,000

Although the statement of an annual revenue of 2 million francs was unfounded, Empain and his partners had reasons to believe that the business could be successful in the long term. The company tried hard to achieve full operation as soon as possible. Its engineers installed new ponds and dams, iron tubes for the aqueducts, new water filters, public fountains, etc. By doing so, the company nearly doubled the daily water capacity from 9 million liters to 16 million liters at the most. On completion in 1894, the water conduit

⁵¹ "Eaux de Caracas: Prospect," *L'Indépendance Belge*, 1 Mar 1891.

⁵² "Contract of the concession", in: Claim presented by the Eaux de Caracas, 22 Aug 1903, *Réclamations belges au Vénézuéla*, B104/II, BMFA.

⁵³ Claim presented by the Eaux de Caracas, 22 Aug 1903, B104/II, BMFA.

⁵⁴ "Compagnie générale des Eaux de Caracas," no. 2244, *AMB*, 18 Jul 1895.

system measured 77 km and reached nearly 5000 houses. According to historian García Ponce, this coverage of 50% was not bad, knowing that in 1965 still not more than 65% of the houses were connected. To achieve this, the local office employed a staff of at least 50 people.⁵⁵

After the three-year start-up period, the company claimed to have a net income of nearly 1 million francs in normal circumstances. As Table 14 shows, this figure was calculated rather optimistically to support the company's claim before an international commission in 1903. With an average daily capacity of 12 million liters, of which a million liters was donated to the municipality and 7.5 million liters were for private subscribers (1500L/subscriber), the company could charge another 3.5 million liters as exceeding water consumption. In an ideal scenario, taking into account the early years and a total invested capital of 13.5 million francs to finish the infrastructure works, the company could hope to have written down the entire investment within 20 years. This meant that the last 20 years of the concession would be highly profitable. However, the engineer and initial concession owner Jiménez declared in 1894 that even “with a lot of economy [the company] would barely get what it needs to cover its capital and interests.”⁵⁶ Indeed, the financial statements demonstrate that the company barely made any profit. In full operation, the gross revenue only amounted to half of the estimate.

6.4 A controversial concession

6.4.1 Financial and political risks

Despite the bright future predicted by the management of the *Eaux de Caracas*, I argue that there were a number of foreseeable and unforeseeable risks. These are situated in the financial as well as in the political sphere. A considerable part of the financial risk was predictable. Apart from the external factors that will be discussed below, corporate choices played an important role in the precarious financial situation. The company incurred so much debt that any divergence from the ideal scenario (Table 14) could cause problems. In the five years of its existence, the *Eaux de Caracas* had to borrow more than twice its share capital.⁵⁷ The paid-up capital of the company, which amounted to a

⁵⁵ García Ponce, “Compañía,” 193.

⁵⁶ “con mucha economía apenas sacará lo necesario para cubrir su capital e intereses” Germán Jiménez, *El Contrato de Aguas y Cloacas celebrado el 11 de julio de 1890: Su Defensa*. Caracas, Tipografía al vapor de “El Pregonero”, 1894, p. 93, cited after: García Ponce, “Compañía,” 195.

⁵⁷ “Compagnie générale des Eaux de Caracas: Rapport du CA à l’AGO,” *Supplément MIM*, 8 Jun 1892.

maximum of 2.8 million francs, could not suffice for the construction and maintenance of the entire waterworks. This debt put a heavy burden on the financial health of the company. As Jiménez had stated, the service of the corporate bonds absorbed all the earnings, leaving barely anything for the amortization of bonds and assets.

Despite advertisements and good press in many newspapers, the issue of the first round of 13,700 bonds in February 1891 was not a success. The listing on the Brussels Stock Exchange in April only had a small impact. The second issue of 2000 bonds in December 1892 and the issue of another 1000 bonds in May 1895 were no different. For lack of funds, the company had to contact befriended banks such as the *Caisse des Propriétaires*, who provided loans with corporate bonds as collateral.⁵⁸

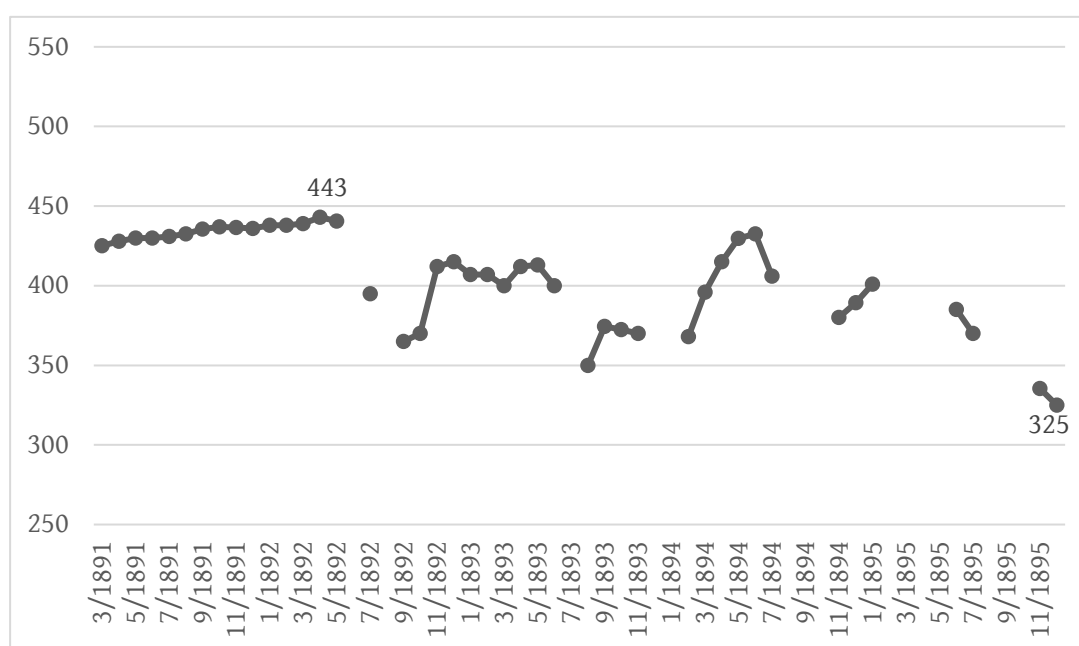


Figure 31 Price evolution of the *Eaux de Caracas* bonds (500 frs, 5%) quoted on the Brussels Stock Exchange, in francs (1891-1895)⁵⁹

In June 1891, Empain complained about the poor result of the first issue in his letters to Arthur Le Mye. Empain contended that he already had to buy 700 bonds himself. A new press campaign with sponsored articles did not have the desired effect. He urged Le Mye to make progress with the construction works, to be able to publish good results in the newspapers.⁶⁰ Yet, at the end of the year still half of the issued bonds had not been sold. The following years did not bring any betterment. The quotation of the bonds reflected

⁵⁸ “La plainte de M. Le Mye,” *L’Etoile coloniale*, 11 Apr 1903; Claim presented by the *Eaux de Caracas*, 22 Aug 1903, B104/II, BMFA.

⁵⁹ Data (1891-1895) collected from various Belgian newspapers via www.belgicapress.be

⁶⁰ Letters of 8 Jun 1891 and 25 Jun 1891, as published in “La plainte de M. Le Mye,” *L’Etoile coloniale*, 18 Apr 1903.

this lack of enthusiasm (see Fig. 31). Despite their nominal value of 500 francs, the bonds were issued at 425 francs. The price reached a peak of 443 francs in April 1892. The bonds were also traded at the Paris Stock Exchange, where they quoted 457 francs at the most.⁶¹

The restraint of small savers was perfectly understandable. For instance, two French financial newspapers advised their readers against the bonds of the *Eaux de Caracas*. Reportedly, the Baring crisis and the general political instability in Latin America had proven the high risk of similar investments. Unlike the Baring Bank, they wrote, Empain would not get support in case of a crisis, as he was not part of the *haute banque*.⁶²

This brings us to the political risks. The evolution of Venezuelan politics had a decisive impact on the prosperity of the waterworks business. (Over)anxious observers indeed realized that the company and its financial success were heavily dependent on the political opinion in Venezuela. The management must have been aware of this from the very beginning. Already a month after the establishment of the *Cie des Eaux de Caracas*, the Belgian consul in Caracas Ledeganck reported many legal and political problems related to the waterworks. In his letter to the Minister, he subtly remarked that Le Mye must have known these issues when he set up the company and must have consciously disregarded them for a good reason.⁶³ Although being underestimated by the management, these issues had a lasting impact on the company's success. The problems can be divided into several categories: (1) popular and political opposition, (2) corruption and (3) civil war.

First, the opposition to the waterworks concession must be seen in the wider discontent about questionable lucrative concessions granted by the former president Guzmán Blanco. Both in the case of the *Carenero Company* and of the *Eaux de Caracas*, Guzmán Blanco had transacted with his son-in-law the Duke of Morny. This nepotism was typical of the corruption during his reign.⁶⁴ Conflicting competences of different government levels cast doubt on the legality of the concession and the accompanying benefits. The legislative power felt passed over by the government who had granted the contract. Many politicians hostile to the ruling government and influential lobby groups made use of this dispute. They especially contested the legality of the obligation to connect all houses to the sewer and water mains and to pay a new tax for this. However, the company's whole revenue model was based on this compulsory subscription.⁶⁵ The managing director Anspach considered these concerns as a normal part of Venezuelan

⁶¹ "Petit Marché en Banque," *Le Matin*, 14 May 1892.

⁶² "Eaux de Caracas," *Le Rappel*, 10 Mar 1891; "Eaux de Caracas," *Le XIXe siècle*, 10 Mar 1891.

⁶³ Ledeganck (Caracas) to Minister of FA (Brussels), 23 Apr 1891, B104/I, BMFA.

⁶⁴ Paul H. Lewis, *Authoritarian Regimes in Latin America: Dictators, Despots, and Tyrants* (Oxford: Rowman & Littlefield, 2006), 62.

⁶⁵ Ledeganck (Caracas) to Minister of FA (Brussels), 15 Aug 1891, *Vénézuéla*, B104/I, BMFA.

politics and remained optimistic about the state of affairs.⁶⁶ Secondly, the Belgian consul Ledeganck explicitly warned for the corruption among government officials and legal uncertainty. As mentioned for the Carenero railway, members of the government suggested to corporate managers that they could bribe judges.

Third, these political issues were overshadowed by the civil war, which was of course not be expected. General Crespo, who revolted against President Andueza Palacio, started an insurrection in March 1892. Within a few months, the insurgents besieged and took Caracas. Despite positive messages of the management at the start of the revolution⁶⁷, the company suffered damage. Warring parties had damaged the aqueduct and pillaged a water pumping station. In addition, the company lost money due to the delay of the construction works and to the payment of arbitrary fines, imposed by the revolutionaries.⁶⁸ On top of that, six months of civil war caused an economic crisis that completely stopped business in Caracas. After peace was restored and the new government of General Crespo installed, a “downpour” destroyed the company’s main aqueduct of the *Macarao*. The costs to repair the damages were very high. To obtain additional funds and to settle relations with the new government, the company sent the politician Jules Carlier as a negotiator in November.⁶⁹ Compared to managing director Anspach, who had paid a visit at the beginning of 1892, Carlier had several assets. He had prestige as former MP (1886-1892) and as the organizer of the Belgian section at the Universal Exposition in Paris. Carlier was well acquainted with Empain, as he was a director of *La Métallurgique*. During his stay in Venezuela, Carlier could combine negotiations for the *Eaux de Caracas* with some business for *La Métallurgique*.⁷⁰ After six months of negotiations, Carlier managed to settle with the Venezuelan government. They signed a new contract at the end of February 1893 which solved all issues between the company and the authorities, including compensation for the war damage and natural disaster.

On the one hand, the company would refrain from its rights to construct and operate a sewer system. As it had constructed only 2 km of sewers, this did not mean a great loss. The *Eaux de Caracas* also dropped all other financial claims against the municipality. On the other hand, the duration of the concession would be extended with 15 years, until

⁶⁶ Anspach to Minister of FA (Brussels), 25 Jun 1891, *Compagnie Générale des Eaux de Caracas*, B104/II, BMFA.

⁶⁷ “Compagnie générale des Eaux de Caracas: Rapport du CA à l’AGO,” *Supplément MIM*, 8 Jun 1892.

⁶⁸ Fines for not finishing the construction works in time. García Ponce, “Compañía.”

⁶⁹ García Ponce, “Compañía,” 200; “Eaux de Caracas,” *La Revue diplomatique : politique, littérature, finances, commerce international*, 24 Dec 1892.

⁷⁰ “La Métallurgique: Rapport du CA à l’AGO,” *Supplément MIM*, 25 Mar 1893. For a biography of Carlier, see : Guy Vanthemsche, “Jules Carlier,” in *Dictionnaire des patrons en Belgique: les hommes, les entreprises, les réseaux*, ed. Ginette Kurgan-Van Hentenryk, Serge Jaumain, and Valérie Montens (Brussels: De Boeck Université, 1996).

1946. The deal also solved the uncompensated overconsumption of water by the public administration. They had been a very bad payer so far, but the company obtained the right to deduct the expenses for the sewer system and the bills for the overconsumption of water from the municipal annuity. The government would also pay the reparation of the iron cast aqueduct of *Macarao* as well as the construction of a second aqueduct. The subsidies amounted to 1 million francs for the reparation and 3.2 million francs for the new pipeline. As soon as all the construction works were finished, in return, the company again had to provide a complimentary 1 million liters of water to the federal government and 2 million liters to the municipality every day.⁷¹ Overall, the additional construction contracts promised a better future for the company, as this would also increase the available water capacity.

Unfortunately for the company, the economic and political problems did not vanish. In 1893-94 the economic crisis continued, which hindered the growth of the customer base. As soon as the company had finished repairing the cast-iron aqueduct, in April 1894, it believed it could start to operate the business in a normal way. However, the new arrangement had not yet taken its full effect, because the municipal council and the National Assembly hesitated to approve it. Both legislative bodies were disputing competence over the matter and were facing heavy internal protests. While the government was quite pleased with the new deal, the waterworks concession as a whole had increasingly provoked animosity in the press and the federal parliament. In March 1893, both of them debated the legality of the concession and the lucrative monopoly of a foreign company. Newspapers such as *El Tiempo*, *El Pregonero*, *El Siglo* and the *Diario de Avisos* campaigned against the waterworks with a xenophobe undertone. To them, the *Eaux de Caracas* was the work of the profiteer Guzmán Blanco. In particular, they criticized the additional 4 million francs of subsidies awarded to a foreign enterprise. They also suspected the foreign company of not hiring Venezuelan workers. In the National Assembly, many politicians pleaded to cancel the contract of the *Eaux de Caracas* and municipalize the utility, often using nationalist arguments. Referring to a petition signed by 12,000 *Caraqueños*, one MP urged to get rid of the “yoke of a foreign company, imposed ‘after we have so long conquered independence.’”⁷² Another MP overtly criticized those “foreign adventurers who come to speculate on the Nation.”⁷³ The National Assembly decided to install a commission that had to write a report on the question.

⁷¹ “Eaux de Caracas: Rapport du CA à l’AGO,” *Supplément MIM*, 14 Jun 1893.

⁷² “yugo de una compañía extranjera, impuesto ‘después que hemos hace tanto tiempo conquistado la independencia’”, cited after: García Ponce, “Compañía,” 203.

⁷³ “aventureros extranjeros que vienen a especular a la Nación”, cited after: García Ponce, “Compañía,” 204.

Given the widespread opposition, the company sent back Jules Carlier in April 1894 to iron out the differences and renegotiate some details.⁷⁴ It is unclear what the outcome of his mission was, but the company could definitely use his influence in Caracas. Many citizens complained about the irregularity of the water supply and the hindrance caused by the construction works. In addition, the municipal and federal government and 80% of the citizens did not pay their water bills. While the company had supplied water with a value of more than 1 million francs in 1894, it had only collected 485,906 francs. It even had to cut off the supply of 400 defaulters.⁷⁵

6.4.2 The nationalization of the *Eaux de Caracas*

Due to an unexpected diplomatic incident, the government plans to work out a definitive arrangement for the *Eaux de Caracas* gained momentum. After the civil war of 1892, Western diplomats had written a memorandum about the establishment of a joint international commission. Distrusting the Venezuelan legal system and the independence of the courts, the diplomats believed this was the best way to receive compensation for damages to foreign property. Ledeganck enthusiastically joined this maneuver, in the hope of bettering the chances of small power Belgium. In March 1895, the Italian government published this memorandum and it quickly found its way to the Venezuelan press. The Venezuelan political elite was furious: the foreign distrust of the Venezuelan legal system was “humiliating for the Nation.”⁷⁶ The government declared the concerning diplomats, including the Belgian consul general Ledeganck, *personae non gratae*. They had to leave the country immediately. The domestic press particularly despised Ledeganck. According to *El Tiempo*, the manager of the *Cie des Eaux de Caracas* had instigated Ledeganck to write the memorandum, solely in the interest of the company. The association with the much-hated waterworks concession devastated Ledeganck’s reputation.⁷⁷ In the opinion of Ledeganck, the incident merely fostered the hatred towards foreigners, always latently present in Venezuela.⁷⁸

Only two months later, the expert committee established by General Crespo at the time of the parliamentary debates in 1893 published its conclusions. Inspired by the claim that

⁷⁴ “Eaux de Caracas: Rapport du CA à l’AGO,” *Supplément MIM*, 13 Jun 1894.

⁷⁵ “Eaux de Caracas,” *MIM*, 10 Nov 1895; García Ponce, “Compañía,” 205.

⁷⁶ “humiliante pour la Nation”, Ledeganck (Caracas) to Minister of FA (Brussels), 5 Mar 1895, *Vénézuéla. Correspondance politique. Série générale 1866-1902*, P35, BMFA.

⁷⁷ Ledeganck (Caracas) to Minister of FA (Brussels), 8 March 1895, *Vénézuéla. Correspondance politique. Série générale 1866-1902*, P35, BMFA. See also: Martine Delsemme, “L’Affaire Ledeganck: Un incident diplomatique au Vénézuéla (1895),” *Revue belge de droit international*, no. 1 (1969).

⁷⁸ Ledeganck (Caracas) to Minister of FA (Brussels), 5 Mar 1895, P35, BMFA.

the profits had to flow back to the municipality instead of out of the country, the committee advised to buy back the waterworks. Of course, the government had to compensate the company's share- and bondholders for all the expenses, assets and lost revenue. However, the United States of Venezuela could not afford to pay this in cash, only in state bonds.⁷⁹ A few weeks later, the government started negotiations with Norbert Pacquet, the local manager of the *Eaux de Caracas*. After five months of negotiating, the Federal government and Pacquet concluded at the end of October 1895. Most likely, Pacquet had to bribe the state officials, including the President, with a couple of company shares.⁸⁰ The Venezuelan government only wanted to pay 4 million francs in cash, while the company demanded more than 7 million francs in cash for the construction works, the material and tools, the price paid to the initial concession owner, the lost revenue and various unpaid bills of the government and individual subscribers.

Finally, they came to a sophisticated financial arrangement, which is reproduced in Table 15. The *Cie des Eaux de Caracas* renounced to the concession and asked to be paid in special government bonds (*Deuda especial interna del 5% anual*). The nominal value of the bonds was 10,792,199.44 francs, more than the corporate management had wished for. However, the market value of the bonds was only 4 million francs, for the *Deuda especial interna* quoted at 37% of the nominal value. The management had accepted this deal, only because it was speculating on a value increase. Indeed, a few months later the bonds were already sold at 80% of their nominal value.⁸¹

Table 15 Financial arrangement between the Venezuelan government and the *Eaux de Caracas* (1895)⁸²

	Nominal value (frs)	Market value (1895)
Purchase price (in Venezuelan bonds)	10,792,199.44	4,004,909.70
Amount used to exchange for corporate bonds issued by the <i>Eaux de Caracas</i>	8,350,000.00	3,101,235.57
Venezuelan bonds left for shareholders	2,442,199.44	976,879.78

Having approved the transfer of the waterworks to the Venezuelan State, the general assembly of shareholders voted the company's dissolution in February 1896.⁸³ Despite the

⁷⁹ García Ponce, "Compañía," 209.

⁸⁰ Van der Heyde (Caracas) to Minister of FA (Brussels), 4 Dec 1900, *Vénézuéla. Correspondance politique. Série générale 1866-1902*, P35, BMFA.

⁸¹ García Ponce, "Compañía," 217; Van der Heyde (Caracas) to Minister of FA (Brussels), 7 May 1901, P35, BMFA.

⁸² Claim presented by the *Eaux de Caracas*, 22 Aug 1903, B104/II, BMFA.

⁸³ "Compagnie générale des Eaux de Caracas: Dissolution," no. 755, *AMB*, 12 Mar 1896.

deal with the Venezuelan State, the shareholders of the *Eaux de Caracas* were ruined. The 16,700 corporate bonds had been exchanged for Venezuelan government bonds, so the bondholders could hope to recover their deposit entirely. In contrast, the remainder of the purchase price, i.e. nominally 2.5 million francs at the most but in reality closer to 1 million francs, could hardly cover the shareholders who invested 7 million francs.

As mentioned above, during the five years of its existence, the business made virtually no profits and could barely service its corporate debt. As a result, the company had no buffers to absorb the millions of losses. A decade after the sale of the concession, the accounts stated an accumulated loss of 9 million francs.⁸⁴ The liquidators were clear: “It is certain that the assets will not be, not at all, sufficient to pay all the debts.” Therefore, the shareholders could not get any compensation.⁸⁵ For Empain personally, who owned 9000 shares, i.e. 4.5 million francs, and 3 million francs of the company’s debt, this was a financial disaster. In 1903 his lawyers estimated his loss at over 7 million francs. François Empain and other business partners also lost hundreds of thousands of francs.⁸⁶

Where did it go wrong for the company? Empain had reckoned on a long-term investment, with a high gain after a couple of years. Despite the very hostile climate, the company directors did not want to lose faith in the project. Again and again, they entered into negotiations with the Venezuelan government. They either entrusted Norbert Paquet with the task or sent an influential Belgian politician such as Jules Carlier. Paquet also defended the merits of the company in the press. Even more, he accused *El Tiempo* of partiality in the matter. This attack of a foreign manager enticed public opinion. What the company really lacked was a Venezuelan business partner who could gain support from the local elite. This was a crucial failure, for the upper classes and politicians were the most radical opponents of the private waterworks. Only after the liquidation, the company appointed a Venezuelan representative in the person of Carlos F. Grisanti, an influential magistrate and professor in International Law. He had briefly been Minister of Foreign Affairs under the presidency of Andueza Palacio.⁸⁷

⁸⁴ “Compagnie des Eaux de Caracas, en liquidation,” no. 3960, *AMB*, 3 Jul 1907.

⁸⁵ Liquidators Eaux de Caracas to Minister of FA (Brussels), 29 Oct 1907, *Réclamations belges au Vénézuéla*, B104/II, BMFA; Liquidators Eaux de Caracas to M. Gallegos (Caracas), 5 Feb 1908, *Réclamations belges au Vénézuéla*, B104/II, BMFA.

⁸⁶ “Compagnie générale des Eaux de Caracas: Dissolution,” no. 755, *AMB*, 12 Mar 1896; “M. Empain contre l’*Etoile coloniale*,” *L’Indépendance Belge*, 23 Mar 1903.

⁸⁷ Fundación Polar, “Grisanti, Carlos F. - Fundación Empresas Polar,” <http://bibliofep.fundacionempresaspolar.org/dhv/entradas/g/grisanti-carlos-f/>; Dilio Hernández, *Historia diplomática de Venezuela (1830-1900)* (Caracas: Universidad Central de Venezuela, 2005), 298.

6.5 The Empain group in the midst of an international conflict

Eventually, the company's deal with the politically and economically unstable Venezuelan State led to an overt crisis in international politics with a special role for the *Eaux de Caracas*. Venezuela continued to service the special *Eaux de Caracas* debt for two years. Simultaneously, the Venezuelan government searched many reasons to escape its obligation to pay or at least to lower the claim of 10 million francs. Its propositions were met with fierce opposition by the company liquidators. Overall, Belgian-Venezuelan contacts were difficult, as the diplomatic relationships had been 'suspended' and Belgium did not have a representative in Caracas. In the first years, the Belgian Ministry of Foreign Affairs followed the harsh French attitude towards Venezuela. France demanded material compensations as a precondition.⁸⁸ Nevertheless, the Venezuelan government repeatedly tried to establish contact with Belgian officials and the company liquidators. In September 1896 it charged Jules Carlier to inquire in Brussels and Paris about the normalization of diplomatic relationships.⁸⁹ At the same time, the *Eaux de Caracas* liquidators met the Venezuelan Minister of Public Works, when he came to Paris. They protested vividly against his proposition to buy back the bonds against 40% of their value.⁹⁰ Empain, the main shareholder, could refuse this and future propositions only because his personal bank and business group provided a large financial buffer. Otherwise, he would already have preferred hard cash instead of risky government bonds.

Elections, an armed uprising, a heavy smallpox epidemic, fiscal mismanagement and the economic crisis sparked by the fall in coffee prices – Venezuela's key export product – forced the government to stop paying the interests on the *Eaux de Caracas* bonds after August 1897.⁹¹ The lack of payments and the continued maneuvering of the Venezuelan government urged the liquidators to seek official support. In a letter to Crespo, the Venezuelan president, they explained that there were bondholders in Belgium, France, and Germany. They threatened to appeal to these governments to ask them to "safeguard the interests of their nationals" that the company was unable to protect.⁹² The liquidators,

⁸⁸ Delsemme, "L'Affaire," 218.

⁸⁹ Note of Ministry of FA (Brussels), 3 Sep 1896, *Vénézuéla*, B104/I, BMFA.

⁹⁰ Liquidators *Eaux de Caracas* to Venezuelan Minister of Public Works (Paris), 11 Sep 1896, *Réclamations belges au Vénézuéla*, B104/II, BMFA.

⁹¹ García Ponce, "Compañía," 218; Judith Ewell, *Venezuela and the United States: From Monroe's Hemisphere to Petroleum's Empire* (Athens: University of Georgia Press, 1996), 100.

⁹² "La sauvegarde des intérêts de leurs nationaux", Liquidators *Eaux de Caracas* (Brussels) to President of Venezuela (Caracas), 31 Jan 1898, *Réclamations belges au Vénézuéla*, B104/II, BMFA.

first of all, wanted the Belgian Ministry of Foreign Affairs to intervene in their favor. Belgium could not officially protest before restoring its relationship with Venezuela. This put pressure on Belgium's stance on the matter. Therefore, the *Eaux de Caracas* bondholders demanded to resume the Belgian-Venezuelan relations, supported in this by the Belgian financial press.⁹³ For the Venezuelan government, this normalization was a precondition to negotiate the restart of the debt service. In 1898 the pressure from the press and *Eaux de Caracas* increased as no progress had been made. Though, the Belgian Minister of Foreign Affairs had already granted its sincere support during an audience with the liquidators.⁹⁴ Gradually losing their faith in a Belgian solution, some financial newspapers lobbied to stake on the power of a neighboring country. France had a considerable army and corresponding political pressure: "This country has the advantage over ours to possess battleships of which the 'voice' would probably have more influence."⁹⁵ The *Belgique financière* strongly regretted that "Little Belgium" did not have gunboats to send to Venezuela. Because of this military weakness, Venezuela could largely ignore the Belgian claim.⁹⁶ These statements perfectly reflected the frustration of Belgian investors over their country's small power status.

The *Eaux de Caracas* also contacted the French and German Ministry of Foreign Affairs for support. Belgian diplomacy urged them to do so. However, it appeared that nearly all bondholders lived in Belgium, making an intervention of France or Germany very unlikely.⁹⁷ Finally, the Belgian government stood up for the *Eaux de Caracas* and sent a diplomatic agent to Caracas in 1900.⁹⁸

The new Belgian representative Van der Heyde tried to negotiate with the new Venezuelan President Cipriano Castro to resume the payments, but Castro only wanted to speak to company officials. Van der Heyde disapprovingly reported that Castro could this way "claim certain personal advantages of a kind that not need to be stressed."⁹⁹ The

⁹³ Note of the Ministry of FA (Brussels), 23 Apr 1897, *Relations avec le Vénézuéla. Mission du Gl Pietré 1897-98*, B104/I, BMFA; "Eaux de Caracas," *MIM*, 13 Jun 1897.

⁹⁴ Note of Minister of FA (Brussels), 23 Mar 1898, *Compagnie Générale des Eaux de Caracas*, B104/II, BMFA.

⁹⁵ "ce pays a l'avantage sur le nôtre de posséder des cuirassés dont la 'voix' aurait probablement plus d'influence", *L'Echo de la Bourse*, 9 Jun 1898, cited after: J. Savygnac, *Le Vénézuéla politique, financier, économique, ainsi que les relations belgo-vénézuéliennes et la question des eaux de Caracas* (Brussels: Economiste belge, 1898), 42-44.

⁹⁶ Savygnac, *Vénézuéla*, 67.

⁹⁷ Indeed, a research in the French diplomatic archives did not yield positive results. Ruelens to Minister of FA (Brussels), 13 Feb 1901, *Compagnie Générale des Eaux de Caracas*, B104/II, BMFA; Note of Minister of FA (Brussels), 23 Mar 1898, B104/II, BMFA; Van der Heyde (Caracas) to Minister of FA (Brussels), 26 Dec 1900, *Vénézuéla. Correspondance politique. Série générale 1866-1902*, P35, BMFA.

⁹⁸ See also Delsemme, "L'Affaire," 218.

⁹⁹ "Il se réserve aussi certains avantages personnels sur la nature desquels il est inutile de trop insister." In the same letter, he wrote that the French Cable Company had to pay 125,000 francs as a bribe to extend its

present representative Grisanti did not sufficiently qualify. At the repeated request of Van der Heyde and the Belgian Minister de Favereau, Huart-Hamoir and his colleagues delegated Ferdinand Goffart, Belgian vice-consul, to represent the company in Caracas. Before departure, he had discussed his mission extensively with Huart-Hamoir.¹⁰⁰

While Goffart was in Caracas, trying to counter the legal objections made by Venezuela, the *Eaux de Caracas* bondholders were rescued by a different event. President Castro had vainly tried to improve the state finances, but the debt burden was too heavy.¹⁰¹ The *Eaux de Caracas* loan only amounted to 5% of total public debt.¹⁰² In 1901, Venezuela finally had to default on all foreign debt. In particular, President Castro continued to refuse to service the large credits granted by Germany and Great Britain. Since 1897, German interest arrears amounted to 6 million francs, as compared to 3 million francs for the *Eaux de Caracas*. Not having faith in the Venezuelan courts, the German government demanded a mixed commission to settle the claims. Castro refused, claiming that the issue fell under Venezuelan jurisdiction. On the 7th of December 1902, having secured the tacit permission of US President Roosevelt, Germany and Britain decided to block the Venezuelan harbors. After Italy joined this ‘peaceful blockade’¹⁰³, warships captured smaller Venezuelan gunboats and sank two. A few days later Castro agreed with the principle of arbitration. However, the three Powers only lifted the blockade two months later. They wanted to keep the pressure on Venezuela to sign the Protocol that arranged the arbitration. Finally, in Washington on the 13th of February 1903, Venezuela conceded to the blocking powers’ wish to dedicate a series of claims to an international commission. The country promised to reserve 30% of its customs receipts to pay off its debts.¹⁰⁴

From the start of the ‘peaceful blockade’, the Belgian vice-consul in Caracas Goffart asked Minister de Favereau what attitude to adopt. Goffart saw the claims of Germany and Britain as an invitation to file the claim of the *Eaux de Caracas* too. He considered it

concession. Van der Heyde (Caracas) to Minister of FA (Brussels), 26 Jun 1900, *Vénézuéla. Correspondance politique. Série générale 1866-1902*, P35, BMFA.

¹⁰⁰ Van der Heyde (Caracas) to Minister of FA (Brussels), 14 Dec 1900, *Vénézuéla. Correspondance politique. Série générale 1866-1902*, P35, BMFA; Goffart (Caracas) to Minister of FA (Brussels), 10 Dec 1900, *Vénézuéla. Correspondance politique. Série générale 1866-1902*, P35, BMFA.

¹⁰¹ Brian S. McBeth, *Gunboats, corruption, and claims: Foreign intervention in Venezuela (1899-1908)* (Westport: Greenwood Press, 2001), 40.

¹⁰² García Ponce, “Compañía,” 219.

¹⁰³ ‘peaceful’ as in ‘without a formal declaration of war’

¹⁰⁴ Jack Greene and Spencer C. Tucker, “Second Venezuela Crisis,” in *The encyclopedia of the Spanish-American and Philippine-American wars: A political, social, and military history*, ed. Spencer C. Tucker (Santa Barbara (California): ABC-CLIO, 2009); McBeth, *Gunboats*, 81-100.

best to join the Belgian claim to the German one.¹⁰⁵ In close consultation with Empain, de Favereau agreed to pursue the establishment of a mixed commission. However, the Minister urged Goffart not to “deviate from the role imposed on Belgium.”¹⁰⁶ In other words, Belgium needed to respect its imposed neutrality, which meant no involvement in armed conflicts with other states.¹⁰⁷ Therefore, the Minister did not want to associate Belgium with Germany directly, as he feared that the blockade could lead to war. Belgium should rather act in parallel with the Blocking Powers and try to obtain a distinct Belgian-Venezuelan commission. In the end, the Belgian government, and six other countries after her, signed protocols with Venezuela.¹⁰⁸

From June to August 1903, a mixed commission composed of a Belgian and a Venezuelan representative as well as an umpire tackled the question of whether the claim of the Belgian State, increased to 14 million francs because of the accumulated interest arrears, was justified. As the *Eaux de Caracas* debt accounted for the lion’s share (97%) of the Belgian claim, the particular interests of the company totally coincided with Belgian national interests. As such, the diplomatic services and the Empain brothers closely collaborated to prepare a solid case.¹⁰⁹ The company’s representative Goffart acted as the Belgian commissioner. The *Cie des Eaux de Caracas* paid the expenses of an additional Belgian lawyer, consul Röhl. The umpire was the Dutch former vice-president of the Court for the Dutch Indies.¹¹⁰ He followed the reasoning of Goffart and decided in favor of the company.

As can be seen in Table 16, the Belgian claim was the most successful of all ten. Belgium was not the largest claimant but obtained the largest recognized claim. Although it is unclear what explains the Belgian success, the fact is that countries could decide themselves what claims they would submit to the mixed commission.¹¹¹ This means that

¹⁰⁵ Telegram from Goffart (Caracas) to Ministry of FA (Brussels), 9 Dec 1902, *Vénézuéla. Correspondance politique. Série générale 1866-1902*, P35, BMFA; Goffart (Caracas) to Minister of FA (Brussels), 24 Dec 1902, *Vénézuéla. Correspondance politique. Série générale 1866-1902*, P35, BMFA.

¹⁰⁶ “sans sortir rôle imposé Belgique”, Telegram from Ministry of FA (Brussels) to Mission Belgique (Caracas), 10 Dec 1902, *Vénézuéla. Correspondance politique. Série générale 1866-1902*, P35, BMFA.

¹⁰⁷ Frederik Dhondt, “Neutralité permanente, interprétations mutantes: la neutralité belge à travers trois traités de juristes,” *Tijdschrift voor Rechtsgeschiedenis* 86, no. 1-2 (2018).

¹⁰⁸ Goffart (Caracas) to Cappelle (Brussels), 20 Jan 1903, *Vénézuéla. Correspondance politique. Série générale 1866-1902*, P35, BMFA; “au vénézuéla,” *Le XXe Siècle*, 5 Mar 1903.

¹⁰⁹ Copy of Note of Minister of FA (Brussels), 13 Dec 1902, *Protection des intérêts belges au Vénézuéla 1902-1903*, B104/I, BMFA.

¹¹⁰ Liquidators Eaux de Caracas to Minister of FA (Brussels), 8 Jun 1903, *Réclamations belges au Vénézuéla*, B104/II, BMFA. For a detailed description of the commission proceedings, see : Claim presented by the Eaux de Caracas, 22 Aug 1903, B104/II, BMFA.

¹¹¹ Kevin M. Anderson, “The Venezuelan Claims Controversy at The Hague, 1903,” *The Historian* 57, no. 3 (1995): 529.

they perhaps reserved certain claims they deemed to have a better chance via diplomatic negotiations.¹¹² By the way, there have been other cases of arbitration commissions that did not rule in favor of the company. The following case proves that even Great Power support was not a sufficient condition for compensation. Like the *Eaux de Caracas*, the French *Chemins de fer vénézuéliens* (est. 1888) was a victim of the political unrest and civil wars in the country. Rebels pillaged the railroad and Venezuela failed to pay the promised subsidies. Finally, the case was brought before an arbitration commission. The arbiter recognized only 0.5 million francs of a claim worth 18 million. The issue cast a cloud on the French-Venezuelan relations for years, but diplomatic pressure from France did not have the desired effect.¹¹³

Table 16 Sums claimed and recognized by mixed Venezuelan-foreign commissions after the 1903 Washington Protocols¹¹⁴

Creditor country	Claimed amount (frs)	Recognized amount (frs)	Success rate
Belgium	14,921,805.11	10,898,643.86	73%
Great Britain	14,743,523.00	9,401,268.00	64%
Italy	39,844,259.00	2,975,906.00	7%
France	17,891,613.54	2,667,079.51	15%
Mexico	2,944,380.48	2,577,328.10	88%
United States	81,410,952.29	2,269,543.63	3%
Germany	7,376,685.00	2,091,909.00	28%
Spain	5,307,627.54	1,974,818.41	37%
The Netherlands	1,069,552.31	544,301.47	51%
Sweden/Norway	1,047,701.35	174,359.08	17%
Total	186,558,099.60	35,575,157.06	19%

Coming back to the results of the 1903 arbitration, it is important to note that several countries had won their case. As a result, the following question arose: Which countries could benefit in priority from the Venezuelan customs income? The Great Powers seized the Permanent Court of Arbitration in The Hague to decide on the matter. In order to defend their claim and plead the rapid repayment by Venezuela, the Ministry of Foreign Affairs had to delegate a lawyer representing the Belgian State. As the *Eaux de Caracas* was the most important interested party, the Minister of Foreign Affairs let the Empain

¹¹² The claims filed for arbitrage formed only half of the total foreign debt and compensation claims.

¹¹³ *Recueil Financier*, 1912, 925-26.

¹¹⁴ García Ponce, "Compañía," 226; McBeth, *Gunboats*, 93.

brothers pick a lawyer.¹¹⁵ Edouard Empain chose Charles Woeste. As a Catholic conservative party leader, Minister of State and lawyer at the Court of Cassation, he was a political heavyweight. Before Empain sent him to The Hague, Woeste had also been one of the two lawyers defending Empain in a libel suit against a financial newspaper.¹¹⁶ The *Eaux de Caracas* paid his fee. In February 1904, the court granted Great Britain, Germany, and Italy preferential treatment. Despite attempts of Venezuela to contest the claim of the *Cie des Eaux de Caracas*, the bond- and shareholders maintained the right to be paid back.¹¹⁷ Finally, Venezuela started paying installments in 1907. Before the First World War, almost the entire Venezuelan debt was discharged.¹¹⁸ However, it took the liquidators another decade to fulfill their duty and close the accounts.¹¹⁹

6.6 Conclusion

With little foreign experience beyond France, the Empain group crossed the Atlantic. Venezuela drew foreign capital with generous state aid and attractive profits. Not discouraged by the lack of in-depth information about the political and economic situation, the Empain group invested in the Caracas waterworks. Eventually, this first adventure overseas went terribly wrong. Therefore, in the broader framework of this dissertation, this was the perfect case to investigate the assessment of non-market factors and the early strategies to mitigate the political risk. I have argued that Empain lacked the experience to deal with complex political regimes. In particular, it did not develop a strong local network and merely relied on the support of the Belgian Ministry of Foreign Affairs.

The Empain group underestimated the political risk of investing in Venezuela. Whereas a civil war was hardly foreseeable, a good assessment of the attitude of the

¹¹⁵ Note for Direction P of Ministry of FA (Brussels), 12 Aug 1903, *Correspondance avec la Mission de Belgique à Caracas depuis 1902*, B104/II, BMFA; Note of Ministry of FA (Brussels), Aug 1903, *Réclamations belges au Vénézuéla. Paquet*, B104/II, BMFA.

¹¹⁶ “M. Empain contre l’“Etoile coloniale”,” *Le XXe Siècle*, 6 May 1903; For biographical information on Woeste, see: “ODIS: Charles Woeste,” http://www.odis.be/lnk/PS_4795.

¹¹⁷ Woeste to Minister of FA (Brussels), 13 Nov 1903, *Eaux de Caracas. Correspondance avec Mr Woeste*, B104/II, BMFA; “Dernière heure,” *L’Indépendance Belge*, 22 Feb 1904. For the full proceedings of the Permanent Court, see: Permanent Court of Arbitration, *The Venezuelan arbitration before the Hague tribunal, 1903. Proceedings of the tribunal under the protocols between Venezuela and Great Britain, Germany, Italy, United States, Belgium, France, Mexico, The Netherlands, Spain, Sweden and Norway* (Washington: US Government Print Office, 1905).

¹¹⁸ “Avis: Dette spéciale intérieure des Eaux de Caracas,” *Journal de Bruxelles*, 22 Sep 1913.

¹¹⁹ “Compagnie générale des Eaux de Caracas: Clôture de liquidation,” no. 7926, *AMB*, 9 Jun 1926.

government was crucial. The previous history of the waterworks had shown that it was a subject of much political discussion. When buying the concession, the many political and legal problems had not disappeared. Le Mye and the company directors repeatedly downplayed the importance of this political uncertainty. Similar to railroads, a long-term investment of this kind entailed many fixed assets. Therefore, Empain could not rapidly withdraw from the market in case of a crisis. What if a government came to power that was less comfortable with the idea of a lucrative waterworks concession operated by foreigners?

Despite this possibility, Empain and Caze did not take sufficient precautions against the risk of a change in policy. First of all, they invested personally. Instead, Empain could have founded another holding company as protection. Now they were personally exposed to a potential failure. Secondly, Empain did not involve a local partner, e.g. an experienced Venezuelan politician. A Venezuelan partner could have warned for political opposition, lobbied the government and bought influence in the press. His presence could also have neutralized the nationalist argument that all the profits of an – in essence – public utility were flowing to Belgian private entrepreneurs. Thirdly, the Empain group did not succeed in gaining the support of a Great Power. The suggestion of the Belgian diplomats to the directors to lobby in Paris and Berlin was in vain. The interest of French and German share- and bondholders was too small to provoke an intervention of their respective governments. Whether the pressure of a Great Power could have saved the *Eaux de Caracas* from privatization in 1895 remains an open question. Other cited company claims prove that Venezuela was always inclined to give in to Great Powers either.

Instead of looking for foreign support, the *Eaux de Caracas* heavily relied on the services of the Belgian Ministry of Foreign Affairs. The company enjoyed diplomatic backing from the start. As a result, the Ministry willingly put its services at the company's disposal. This manifested itself in three different ways.

Firstly, the agents in Caracas lobbied Venezuelan ministers and maintained close contact with the local managers of the company. Despite their astonishment at the optimism of the directors, they kept supporting the cause of the company. The Belgian agents actively looked for solutions to problems caused by the political situation. Ledeganck in particular decided to partner up with the Great Powers to increase the impact of a claim from the small country Belgium. His personal efforts to obtain compensation for the *Eaux de Caracas* even led to a diplomatic incident freezing Belgian-Venezuelan relations for half a decade.

Secondly, the Ministry of Foreign Affairs was a vital information hub for the directors in Brussels. For such a long-distance investment, up-to-date information was a crucial asset. Therefore, the Ministry shared all the information it received from the Belgian agent in Caracas. Conversely, the directors received permission to use diplomatic encrypted telegrams to communicate with their local manager in case of emergency.

Directors, liquidators and ultimately the Empain brothers regularly paid a visit to the Ministry to exchange information and discuss strategies.

Thirdly and consequently, the interests of the Belgian State in Venezuela coincided with the interests of the *Eaux de Caracas*. Empain could effectively dominate Belgian-Venezuelan relations between 1895 and 1914, because his personal interests were immense compared to the relative unimportance of Venezuela for Belgium as a whole. Since no other Belgian company had invested in the country, the economic interests of the Belgian state narrowed down to the interests of the bond- and shareholders of the *Eaux de Caracas*. In consequence, the Ministry of Foreign Affairs became a temporary extension of the services of the Empain group until Venezuela resumed interest payments. The Minister even let Empain choose –and pay– diplomatic representatives (Goffart, Röhl, Woeste). These three features already demonstrate the existence of a strong business-government nexus that is essential for Belgian investments abroad.

Though valuable, this threefold support of the Belgian diplomacy was insufficient. Even with the ability to determine Belgian foreign policy in the matter and thus mobilize all the diplomatic credit Belgium had, Empain could not avoid political risk. To Empain's fortune, investors from large European countries suffered from the Venezuelan default too. Remarkably, even the Great Powers only had their way after a military intervention, i.e. the 'peaceful blockade' of 1902-1903. In the aftermath, Belgium could capitalize on the power play of its European neighbors via quick diplomatic maneuvers. More generally, this episode in the history of European imperialism supports the thesis that the West could set the 'rules of the game' in the First Global Economy. Latin American countries adhered to the view that borrowing to governments had a risk, for which investors get a premium, i.e. interest. This followed from the Drago Doctrine, stipulating that foreign powers could not just send gunboats to collect debts.¹²⁰ The Great Powers, on the contrary, were willing to interfere in this financial market mechanisms and guarantee the investments of their nationals at any cost. The military intervention in Venezuela was yet another proof that many European investors were protected against country risk. In this particular case, Empain and the Belgian government skillfully managed to extend this protection to the *Eaux de Caracas*.

In conclusion, despite the excellent relations with the Belgian government, the Empain group could have benefited from a less antagonistic relationship with the Venezuelan authorities. In addition, it should have involved local investors and politicians. Finally, Belgium was nearly crushed between the rivaling Great Powers. The question then arises: did the Empain group 'fail forward'? The comparison of the Venezuelan failure with the Belgian and French context suggests that the Empain group learned from the experience. In the early 1890s in Venezuela, the business leaders had refrained from taking into

¹²⁰ Anderson, "Claims," 528.

account the three observations listed above. By the end of the decade, in contrast, the Empain group had successfully partnered up with local capitalists and politicians in France. However, did the business group also develop a strategy to overcome the weakness of Belgium in the international sphere? This will be a question addressed in the next chapter on China.

Chapter 7 China: Belgian neutrality with a whiff of French perfume

7.1 Introduction

For the implications of international political relations on multinational business, China provides an interesting case. Many historians of imperialism regard the history of the late Qing Empire as a showcase for the dynamics of Western intrusion in a peripheral country. All Great Powers had their eye on this vast ancient land: Great Britain, France, Japan, Russia and Germany. These and many smaller states were dreaming of carving up the Chinese melon or at least get a piece of the giant market of 400 million customers. At the same time, the Chinese political elite urged the Qing government to adopt a more nationalist policy. This chapter therefore asks what strategies the Empain group did adopt to gain a foothold in this country under great pressure from within and without. What can the Chinese case reveal about the position of a business group from a small country vis-à-vis the Western powers? In a country subject to overt interimperialist rivalry, the support of Belgian diplomacy must have been insufficient. Belgian business undoubtedly had to find alternative ways to stand up to the international competition. How could Empain overcome Belgium's political weakness while at the same time exploiting this as a strength? A form of collaboration was probably key. In Venezuela, Empain failed to cooperate with France. Could the Empain group use France as a second home country in the Chinese case? If so, what was the price it had to pay for that? If not, did Empain's nationality foil this plan, like in the Ivory Coast?

The history of the relations between China and the West around the turn of the twentieth century is a history of imperialism. According to Jürgen Osterhammel, China was a semi-colonial territory before 1914. In a "semi-colonial" system, "a metropolitan country exerts power and influence within an asymmetrical relationship, but does not

assume outright domination and formal sovereignty over the peripheral country.”¹ Not one but many European powers had a semi-colonial relationship with China. It started to be a victim of their informal imperialism in the 1840s. Japan entered the scene half a century later, with its victory in the First Sino-Japanese War (1895). By demanding and receiving large compensations (Treaty of Shimonoseki), Japan left the door wide open for unlimited claims of all Western states present in China. The millennia-old empire was unable to resist the external pressure, due to its “inability to be a modern central government.”² During the “Scramble for Concessions,” European powers tightened their grip on Chinese infrastructure such as railways and ports and took possession of new territories. Japan had received Taiwan in 1895. In 1898, the German navy landed in Jiaozhou Bay (Shandong Province). The British forced the Qing to accept an extension of their Crown colony Hong Kong. France expanded its sphere of influence in Southern China, bordering its colonial possessions in Indochina. Russia reinforced its presence in Manchuria, the place of origin of the Qing (Manchu) dynasty.

Russia, France and Germany aimed at a partition of China or at least a division in clearly delineated spheres of influence. In contrast, Great Britain tried to maintain a strong presence in different parts of the Empire. Finally, the United States successfully advocated its “Open Door” policy. The Great Powers allowed each other to trade in every part of the Chinese empire, regardless of the spheres of influence. After the Boxer Rising (1900), they also came to the consensus that the territorial integrity of China had to be protected.³

In the remainder of this chapter, I first explore how the Empain group stood his ground in the ‘Scramble for Concessions.’ I focus on the political strategies to obtain a concession. The next section investigates what Empain had to do in a changing political context. In what way could he consolidate the opportunities he had created before the Boxer Rising? The fourth and final section studies how the Empain group could take advantage of the situation created by the financial imperialism of the Great Powers. In general, most attention will be given to the business group’s special relationship with Belgium and France.

¹ Jürgen Osterhammel, “Semi-Colonialism and Informal Empire in Twentieth Century China: Towards a Framework of Analysis,” in *Imperialism and After: Continuities and Discontinuities*, ed. Wolfgang J. Mommsen and Jürgen Osterhammel (London: Allen and Unwin, 1986), 308.

² John King Fairbank and Merle Goldman, *China: A new history*, 2nd enl. ed. (Cambridge, MA: Harvard UP, 2006), 221.

³ Jonathan D. Spence, *The search for modern China* (New York: W.W. Norton & Co., 1990), 230-31.

7.2 Mixed up in the Scramble for Concessions

In the year following the Sino-Japanese War, Leopold II and Belgian diplomacy had finally managed to draw the attention of national business on the investment opportunities in China.⁴ Chapter 1 has demonstrated how and why Empain and other investors started to be interested in the promising Chinese market. This growing interest coincided with Chinese plans for railroad construction. Chinese officials eager to reform their country after the defeat of 1895 had realized that China lacked a good transportation network. So far, the Qing government had been rather wary of large railroad projects. They perceived it as a gateway for more Western imperialism. In consequence, as of 1896, China had constructed only 600 km of tracks, compared to 34,000 km in Great Britain. Now, the perception of the use of railroads among the Chinese political elite was changing and some reformers designed a plan for railroad development. However, China lacked a modern domestic capital market to mobilize funds for the construction and had to rely on foreign partners. Foreign powers were increasingly putting pressure on the Qing government to grant them large railway concessions.⁵

Chinese officials were looking for a foreign investment partner amidst of this imperialist power play. As introduced in Chapter 1, they realized that Belgium might be the lesser evil. Sheng Xuanhuai⁶, the Director-General of the Chinese Railway Administration, first intended to collaborate with the Americans, for the United States was a large, but peaceful power that remained independent from the Great Powers. However, Belgian diplomatic agents started negotiating with the Chinese government for railway concessions too. They tried to convince Sheng that the Americans might abuse their power in the future. Belgium, on the contrary, was too small to be dangerous, but technologically advanced. Finally, Sheng changed his mind.⁷

In March 1897, the talks on the main railway between Beijing and Hankou had made such progress that the Belgian negotiators established the *Société d'étude de Chemins de fer en Chine*. This prospective company assembled Belgian and French entrepreneurs and banks under the leadership of the *Société Générale* and *Paribas*. This incited Empain to

⁴ This chapter builds on the groundbreaking work of Kurgan-van Hentenryk, *Léopold II*. However, whereas she focused on the actions of the Belgian King and government, this chapter adopts the perspective of the entrepreneur Empain.

⁵ Spence, *Search*, 250; Jürgen Osterhammel, "Britain and China (1842-1914)," in *The Oxford History of the British Empire*, ed. Andrew Porter (Oxford: Oxford UP, 1999), 166; Kurgan-van Hentenryk, *Léopold II*, 34.

⁶ For a biography of Sheng, see Albert Feuerwerker, *China's Early Industrialization: Sheng Hsuan-Huai (1844-1916) and Mandarin Enterprise* (Cambridge, MA: Harvard UP, 1958).

⁷ Linda Pomerantz-Zhang, *Wu Tingfang (1842-1922): Reform and Modernization in Modern Chinese History* (Hong Kong: Hong Kong UP, 1992), 109; Kurgan-van Hentenryk, *Léopold II*, 112-13.

organize a study mission as well. To this end, he gathered financial partners in the *Syndicat d'études en Chine*. The syndicate did not want to compete directly with the initiative of the *Société Générale*. Whereas the *Société d'étude* searched for large projects, the *Syndicat* focused on the core business of the Empain group: light rail and urban tramways. The strategy was to rapidly gain a foothold in China by obtaining a concession. This could be the starting point for further expansion in the area.⁸

Like the *Société d'étude*, Empain successfully won French and Belgian banks and holding companies over to his plan. Among the French financiers were prominent banks such as the *Banque Russo-Chinoise*, *Paribas* and smaller private bankers such as *Bénard&Jarislowsky* and *Goudchaux&Cie*. Other sponsors were the directors and shareholders of the *Banque Russo-Chinoise* and *Paribas*, some of them belonging to the *haute banque* such as Hottinguer and Stern. At a later stage, people like Bunau-Varilla, Henri Poidatz, Georges Graux and Henri Gènevois, who collaborated with Empain in the Métro, joined too. On the Belgian side, the Empain holding companies (the *Russe-française*, *Réunis* and *Voie étroite* and at a later stage *Parisienne Electrique*) and usual bankers, brokers and collaborators contributed. This included the business group's partner in Egypt, the *Chemins de fer économiques*. The *Banque Liégeoise*, *Balser&Cie*, Paul Dansette and managers of the Brussels branch of *Paribas* also got in.⁹

The sources do not tell why Empain turned to France and how he was able to gather the Parisian bankers. Of course, Empain was already well established in the Parisian financial world. In addition, Empain did only have to reproduce the promising alliance of the *Société d'étude* with France. *Paribas* was keen to be part of both projects. While the *Banque Russo-Chinoise* had been unable to join the *Société d'étude* because it was too busy organizing the Chinese section of the Transsiberian railroad, it now had more flexibility. Empain could get them on board for his project, but only at a considerable price: they would receive 10% of all profits to be made on future contracts.¹⁰

For the first time in its fifteen years of existence, the Empain group had set up an international financial consortium with Belgian, French and Russian big banks. This seemed a deliberate strategy, for the involvement of foreign capital extremely mattered from a political perspective. On the one hand, the *Banque Russo-Chinoise* was founded in 1895 on the initiative of the Russian government and was headquartered in Saint Petersburg. The *Russo-Chinoise* was Russia's most important financial instrument in

⁸ Projet de convention du syndicat d'études, July(?) 1897, I 394/1, ARA 2; A. d'Oultremont to Minister of FA (Brussels), 21 Apr 1898, *Chine: Tramways*, 2817, BMFA.

⁹ A. d'Oultremont to Minister of FA (Brussels), 21 Apr 1898, 2817, BMFA.

¹⁰ Projet de convention du syndicat d'études, July(?) 1897, I 394/1, ARA 2; Banque Russo-Chinoise (Paris) to E. Empain (Brussels), 22 Oct 1897, *Chine: Tramways*, 2817, BMFA.

China.¹¹ The bank's involvement assured the benevolence of the tsarist government. On the other hand, the presence of *Paribas* and members of the Parisian *haute banque* facilitated the access to French diplomatic services. In addition, the Quai d'Orsay often even regarded the *Banque Russo-Chinoise* as French, for French investors had provided the majority of its capital.

The *Syndicat d'études en Chine* gathered 200,000 francs among its members to send Armand Rouffart to China in July 1897. Rouffart, who had to scout for interesting opportunities for at least one year, was one of the Empain group's finest engineers. Since 1891, he had been general manager of the *Voie étroite*, the group's main holding company active in railroad development. He had also proven his competencies as managing director of the *Tramways de Boulogne-sur-Mer* during its electrification (1894-1896) and of the *Chemins de fer de la Banlieue de Reims* (1896). In addition, he had been appointed to the board of directors of the *Russe-française* holding company at its incorporation in 1896.¹²

In the first months after his arrival in China, Rouffart tried to negotiate with a series of Chinese officials. However, he soon realized that the letters of recommendation for specific employees of the Russian Embassy in Beijing provided by General Annenkov¹³ were not enough. Neither did the mere membership of French banks in the syndicate suffice to make progress. The financiers had to accept that despite Rouffart's efficiency and diplomacy, "the energy and handiness of private enterprise are powerless on their own and can only achieve something with the support of one of the European Great Powers."¹⁴ Therefore, the French-Belgian consortium sought the official support of France from the moment Rouffart encountered his first difficulties. The syndicate asked the Belgian Ministry of Foreign Affairs to mobilize its French counterparts.¹⁵ Finally, in May 1898, after months of lobbying, the French government agreed on the condition that the orders resulting from the projects would be equally shared among the French and Belgian industries.¹⁶ The members of the syndicate agreed and vowed to reserve possible

¹¹ Zhang Long, *La Chine à l'aube du XXe siècle: Les relations diplomatiques de la Chine avec les puissances depuis la guerre sino-japonaise jusqu'à la guerre russo-japonaise* (Paris: Nouvelles Editions Latines, 1962), 371.

¹² See Chapter 3 for more biographical information and sources

¹³ General Mikhail Annenkov was director of Empain's holding company *Russe-française* from its establishment in 1896 until Annenkov's death in 1899. He used to be a mighty figure in the Russian and French financial and political circles, but had somehow fallen into disgrace. Belgian Minister (Beijing) to Minister of FA (Brussels), 21 Oct 1897, *Chine: Tramways*, 2817, BMFA.

¹⁴ "l'énergie et l'habileté de l'initiative privée sont impuissantes à elles seules et ne peuvent aboutir qu'avec l'appui d'une des grandes puissances européennes" A. d'Oultremont to Minister of FA (Brussels), 21 Apr 1898, 2817, BMFA.

¹⁵ A. d'Oultremont to Minister of FA (Brussels), 27 Apr 1898, *Chine: Tramways*, 2817, BMFA.

¹⁶ Copy of letter from French Legation (Brussels) to Ministry of Foreign Affairs (Brussels), 24 May 1898, *Compagnie générale de chemins de fer en Chine*, I 394/213, ARA2.

management positions to Belgian and French engineers, whenever they could appoint them themselves.¹⁷

Despite the exactingness of the French Ministry of Foreign Affairs, both France and Belgium were willing to support the Brussels-based company in its search for concessions. How to explain this? As mentioned, the simple presence of investors from both countries was not enough. In fact, the two governments believed that the majority of shares were in the hands of their compatriots.¹⁸ It is possible to verify this impression at the moment the syndicate turned into a public limited company in 1900. According to our calculations, which roughly correspond to those of Kurgan, French investors had provided 35% of the capital and Belgians 65%.¹⁹ The Empain group, however, willingly kept up appearances and did not correct the false impression of French dominance. As the Empain group partly consisted of French investors, it strategically contributed to the ambiguous national identity by having its French holding company *Parisienne Electrique* invest. Overall, the Empain group maintained a firm grip on the enterprise. The shareholders belonging to the Empain group together owned more than 60% of the company.²⁰ More than ten years later, Empain still had, “together with befriended companies, 43% of the capital (...). The rest of the capital [was] very scattered across France and Belgium.”²¹

The French-Belgian character of the enterprise also had to be reflected in the board of directors. At the suggestion of King Leopold II, Raphaël de Bauer was appointed as the chairman. De Bauer personified the binational alliance as he was the manager of the Brussels branch of the French *Paribas* and had the Belgian nationality. Initially, Belgian board members included the brothers Edouard and François Empain, Alexis du Roy de Blicquy and managing director Armand Rouffart. The Belgian *Chemins de fer économiques* had delegated Gustave Kumps. The French representatives were also part of the Empain group: banker Adrien Bénard and Auguste Doniol, who served on behalf of the *Parisienne Electrique*.²²

For Rouffart and the syndicate, the first year was very frustrating. Amidst of the scramble for concessions and fierce inter-imperialist rivalry, Rouffart tried to obtain

¹⁷ Minute of letter from A. d'Oultremont to Minister of FA (Brussels), 13 Jun 1898, *Compagnie générale de chemins de fer en Chine*, I 394/213, ARA2.

¹⁸ Pichon (Beijing) to Delcassé (Paris), 18 Nov 1899, *Chine: Kaifong-Honan Fou (1899-1902)*, 148CPCOM/523, MAEF; Kurgan-van Hentenryk, *Léopold II*, 352-53.

¹⁹ Kurgan-van Hentenryk, *Léopold II*, 337.

²⁰ Meeting of 26 Mar 1900, Cie Générale, Minutes of the Shareholders Meetings, *Compagnie générale de chemins de fer en Chine*, I 394/87, ARA2.

²¹ “ma part avec celle de cles amies est de 43% du capital de la Cie gle de chemins de fer et tramways en Chine. Le reste du capital est très disséminé en France et en Belgique” Minute of letter from Empain to P. Berthelot, 2 Feb 1913, *Chine: Kaifong-Honan Fou (1912-13)*, 148CPCOM/527, MAEF.

²² Kurgan-van Hentenryk, *Léopold II*, 353.

concessions for tramways in Beijing, Shanghai and Canton (Guangzhou) as well as light railways in the area of Canton and Shanghai. A breakthrough did not follow for various reasons. Sometimes the Chinese government refused to award the concession, sometimes Empain rejected projects for lack of profitability.²³ Belgian diplomats in Beijing only hesitantly supported Rouffart's efforts. They did not want to jeopardize the large Beijing-Hankou project by introducing new demands to Li Hongzhang before the definitive contract was signed.²⁴ Moreover, the competition among foreign powers for interesting concessions was very hard and the Chinese authorities were very suspicious after the German occupation of Jiaozhou Bay (November 1897).²⁵

To give an example, Great Power rivalry seriously hindered Rouffart's actions in the case of the Shanghai-Nanjing railroad. Through the intercession of the Belgian minister in Beijing de Vinck, Li Hongzhang introduced Rouffart to Sheng, head of the Chinese Imperial Railways Administration, in March 1898.²⁶ With Sheng, Rouffart discussed the potential of a railroad between Nanjing and Shanghai. Although the affair was promising a return on equity of at least 7%, Empain and the other members of the syndicate's steering committee hesitated because a 350 km heavy railroad surpassed the ambitions that the syndicate had set itself. They encouraged Rouffart to continue negotiations, but without obligations.²⁷ However, the British minister in Beijing got wind of the project and forced Sheng to grant the concession to the *British & Chinese Corporation*. According to the syndicate, the French government was to blame for the failure. Despite the demand of the French syndicate members, the Quai d'Orsay hesitated to support Rouffart in his claim because the syndicate was an ambiguous French-Belgian enterprise. In a note to the Belgian Minister of Foreign Affairs, the syndicate lamented its impotence.

The example of this case shows the difficulties our compatriots are facing to do business in China. The Chinese authorities would be happy to grant businesses to them rather than to nationals of the European Great Powers. They [the Chinese] do not conceal it, but whenever the Great Powers get wind of an important business opportunity they have their representatives intervene and have the business granted to them.²⁸

²³ Kurgan-van Hentenryk, *Léopold II*, 342.

²⁴ Minute of letter from Ministry of FA (Brussels) to E. Empain, 13 Oct 1897, *Chine: Tramways*, 2817, BMFA.

²⁵ Belgian Minister (Beijing) to Minister of FA (Brussels), 31 Dec 1897, *Chine: Tramways*, 2817, BMFA.

²⁶ Belgian Minister (Beijing) to Minister of FA (Brussels), 1 Mar 1898, *Chine: Tramways*, 2817, BMFA.

²⁷ Meetings of 16 Mar, 30 Apr & 7 Jun 1898, Syndicat de Chine, Minutes of the Meetings of the Executive Committee, 1897-1899, I 394/25, ARA2.

²⁸ "L'exemple de cette affaire montre les difficultés que nos compatriotes rencontrent pour faire des affaires en Chine; les Autorités chinoises seraient très désireuses de leur confier des entreprises plutôt qu'à des nationaux des grandes puissances européennes; elles ne s'en cachent pas; mais dès que ceux-ci ont vent d'une affaire

After a year of fruitless negotiations on all kinds of projects, Sheng approached Rouffart in July 1898 with an interesting proposal.²⁹ Sheng was considering constructing an embranchment of the Beijing-Hankou line along the Yellow River (Huanghe). The line would run from Kaifeng (Henan Province) in the East to Sinan (nowadays Xi'an, Shaanxi Province), some 600 km further to the West. Rouffart obtained permission from Empain and his fellow-syndicate members to continue negotiating. However, they considered it better to wait for the political situation to improve.³⁰ The Qing dynasty was in the midst of a palace revolution, which destabilized the country for several months.³¹

The Kaifeng-Sinanfu project made significant progress only in April 1899, when Rouffart met Sheng again. In the meantime, Rouffart had accompanied Li Hongzhang on a mission to inspect the Yellow River and investigate the possibility to protect the environment against floods. Empain and Leopold II had hoped that interesting concessions would result from it, but due to internal political struggles the mission failed.³² After this mission, de Vinck and Belgian consul in Hankou Emile Francqui reintroduced Rouffart to Sheng who repeated his plan for the Kaifeng-Sinanfu. Sheng also made clear that he intended to extend the line eastward at a later stage.³³ With the permission of Empain, Rouffart signed a provisional agreement on the 30th of May and prepared to study the line in detail. If they did not want to arouse suspicion among the other Great Powers, the investigation had to remain secret. Therefore, Rouffart and the Belgian diplomats designed a plan to cover the actual purpose of the mission. Officially, Sheng sent Rouffart to study the way in which the Beijing-Hankou railroad could cross the Yellow River near Kaifeng.³⁴

importante ils font intervenir leurs représentants et se font attribuer l'affaire." Note of Compagnie générale des Chemins de fer et tramways en Chine, July 1898, *Compagnie générale de chemins de fer en Chine*, I 394/213, ARA2; See also Niels P. Petersson, *Imperialismus und Modernisierung: Siam, China und die europäischen Mächte (1895-1914)*, Studien zur Internationalen Geschichte (München: Oldenbourg, 2000), 194.

²⁹ Kurgan-Van Hentenryk erroneously situated the first discussions on the Pienlo railway in April 1899. Kurgan-van Hentenryk, *Léopold II*, 343.

³⁰ Telegram from Francqui (Shanghai) to Ministry of FA (Brussels), 28 Jul 1898, *Chine: Tramways*, 2817, BMFA; Meeting of 2 Aug & 14 Oct 1898, Syndicat de Chine, Minutes of the Meetings of the Executive Committee, 1897-1899, I 394/25, ARA2.

³¹ The young emperor Guangxu led a reform campaign (Hundred Days' Reform) in the summer of 1898 to modernize Chinese institutions. In September, amid of political turmoil the reform government was overthrown by Dowager Empress Cixi and her conservative partisans. To counter imperialism, the Cixi government restricted the leeway of foreign companies searching railway and mining concessions. Spence, *Search*, 229-30.

³² Kurgan-van Hentenryk, *Léopold II*, 342-43.

³³ Francqui (Shanghai) to Minister of FA (Brussels), 7 May 1899, *Chine: Kaifeng-Honanfu*, 2815, BMFA.

³⁴ Telegram from Empain (Brussels) to Rouffart (Shanghai), 4 May 1899, *Chine: Kaifeng-Honanfu*, 2815, BMFA; Kurgan-van Hentenryk, *Léopold II*, 344.

However, Sheng had approached several representatives with his proposal to construct the Kaifeng line, most notably Jean Jadot of the *Société d'étude*. When Jadot heard about the provisional deal of Rouffart, he felt betrayed, as he was also considering to start negotiations with Sheng. Jadot threatened Francqui to emphasize to Sheng that “the Empain company was as French if not more than ours.”³⁵ While fearing the damage of an overt Belgian competition, Francqui kept supporting Rouffart and he also convinced the Belgian minister in Beijing Cartier de Marchienne to stay neutral. The Minister of Foreign Affairs de Favereau could not decide on a clear stance. In the end, the situation de-escalated because Jadot and the *Société d'étude* had demanded stricter terms, so in the end Sheng preferred to negotiate with Rouffart who was more flexible.³⁶ Simultaneously, another Belgian representative had presented to the Zongli Yamen (the Chinese Foreign Office) a project to connect Kaifeng with Lanzhou (Kansu) and had asked the Belgian diplomacy to support him. Due to the ongoing negotiations of Rouffart on the Kaifeng-Sinanfu, Major Fivé did not receive this support. His sponsor Leopold II also warned Fivé to “avoid at any cost to compete with the serious initiatives undertaken by fellow Belgians.”³⁷

After Rouffart's study mission, during which he traversed the provinces of Henan and Shaanxi, he transited to Beijing in September 1899. There, Rouffart met with Sheng who had also moved to the capital to make some arrangements. Francqui had received de Favereau's exceptional permission to accompany Sheng northward, given the large influence he had on Sheng. Sheng wanted to close the deal in Beijing and asked a firm proposition from Rouffart. In addition, he asked a sum of 400,000 francs as a commission in advance of the loan. The personal fee had to be transferred on the day of the Imperial Edict. After one month of pressure by Cartier de Marchienne, Francqui and Rouffart, the Empain Syndicate agreed in principle to transfer the money. The financiers hesitated mainly because they had not yet seen the detailed study of Rouffart.³⁸ They had only received a relatively positive telegram from him, summarizing the results.³⁹

On the verge of despair, the Belgian Minister in Beijing repeatedly stressed that the contract would not bind Empain financially. It was in the interest of Belgian finance to assemble interesting concessions and execute them as soon as the first results of the

³⁵ “Un point que j'aurai soin de signaler à Sheng c'est que la Société Empain est aussi française si pas plus que la nôtre” Francqui (Shanghai) to Minister of FA (Brussels), 4 Jun 1899, *Chine: Kaifeng-Honanfu*, 2815, BMFA.

³⁶ Kurgan-van Hentenryk, *Léopold II*, 344-45; Belgian Legation (Beijing) to Minister of FA (Brussels), 16 Jun 1899, *Chine: Kaifeng-Honanfu*, 2815, BMFA.

³⁷ “... d'éviter à tout prix de se mettre en concurrence avec les initiatives sérieuses entreprises par des compatriotes”, Letter from Cuvelier to Fivé, 16 Aug 1899, cited after: Kurgan-van Hentenryk, *Léopold II*, 204.

³⁸ For the study, see Armand Rouffart, *Projet de Chemin de fer de Singan-fou à Kaïfong-fou: Rapport*, 10 Oct 1899, *Compagnie générale de chemins de fer en Chine*, I 394/396, ARA2.

³⁹ Empain to Minister of FA (Brussels), 29 Sep 1899, *Compagnie générale de chemins de fer en Chine*, I 394/213, ARA2.

Beijing-Hankou could show the financial markets that it was a profitable business. In any case, the contract would include a break clause.⁴⁰ Empain tried to lower the advance, but Sheng refused. Rouffart also emphasized that the name of the company in the contract should conceal that another nationality than Belgian possessed an interest in the company.⁴¹ As Empain refused to pay the whole sum, Leopold II finally intervened and informed the Belgian Ministry of Foreign Affairs he would pay half of the 400,000 francs. However, he tried to couple the railway to the tramways of Beijing and some mines, hoping to kill two birds with one stone. This proposition was firmly rejected by the Belgian diplomat in Beijing. Finally, the 26th of November Empain ceded to the pressure of the Belgian diplomacy and authorized⁴² the transfer of the 400,000 francs and the signing of the contract on behalf of the –yet to be established– *Compagnie générale de Chemins de fer et de Tramways en Chine (Cie Générale)*. Sheng went to the Emperor, who granted him the Kaifeng-Henanfu a.k.a. Pienlo⁴³ railway with an Imperial Edict on the 3rd of December 1899. If the Chinese were to plan an extension from Henanfu (Luoyang) to Sinan (Xi'an), the *Cie Générale* would have a right of preference.⁴⁴

A few days later, Rouffart and Sheng worked out the conditions of the loan contract. Rouffart proposed Sheng to issue a loan of 25 million francs for the construction of the Pienlo railway. Of course, he avoided mentioning France or the *Banque Russo-Chinoise*. The conditions were a copy of the Beijing-Hankou contract. It is important to stress that there were two types of contracts in China at that time. To use the categorization of Huenemann, you had “colonial concessions” and financial concessions.” Whereas the former became the full property of the foreign company and as a result formed a violation of the Chinese sovereignty, the latter railroads remained in Chinese ownership but were financed with foreign debt. The Pienlo, just like the Beijing-Hankou, belonged to the latter, less imperialist category.⁴⁵ Yet, the business entailed more than just the floating of Chinese government bonds in Europe. The *Cie Générale* received the right to construct and operate the railroad for a period of 30 years. To this end, they themselves could recruit personnel and place orders in Europe.

⁴⁰ Telegram from Belgian Minister (Beijing) to Minister of FA (Brussels), 28 Sep 1899, *Chine: Kaifeng-Honanfu*, 2815, BMFA.

⁴¹ Telegram from Belgian Legation (Beijing) to Ministry of FA (Brussels), 16 Nov 1899, *Chine: Tramways*, 2817, BMFA.

⁴² It is unclear whether Leopold II contributed in the end.

⁴³ Some French government files referred to the railway as the “Kaifong Fou – Honan Fou”, but it was most commonly named Pienlo (pinyin *bianluo*), after the old names of Kaifeng (Bianliang) and Henanfu (Luoyang).

⁴⁴ Kurgan-van Hentenryk, *Léopold II*, 346.

⁴⁵ Ralph William Huenemann, *The dragon and the iron horse: the economics of railroads in China, 1876-1937* (Cambridge, MA: Harvard University - East Asian Studies, 1984), 58.

However, Sheng explicitly demanded to include a clause about the nationality of the personnel. The superintendent of the construction works and the future chief of operations could only be Belgian. The rest of the European personnel had to be Belgian as much as possible. In return, the financiers received six months to study the provisional agreement before signing a definitive contract. Anyway, the construction works could only be started in three years, as soon as the Beijing-Hankou line was advanced enough to transport building material to the region.⁴⁶

Inevitably, the provisional contract provoked protest among competing business groups active in Central China. The English *Peking Syndicate* operated some mines in the region and had considered a railway concession to connect its mines to the railroad network. As soon as the Imperial Edict was announced, the British minister in Beijing MacDonald officially protested to the Zongli Yamen on behalf of the *Peking Syndicate*. To the Belgian diplomats, MacDonald proposed to drop his complaints when Rouffart could make a deal with the *Peking Syndicate*. The British diplomat also threatened to withdraw his support from any other Belgian project. When Leopold II was informed of the protest, he pushed the Empain Syndicate to come to an agreement with the *Peking Syndicate*. But in the end, the British entrepreneurs merely wanted the confirmation that the Kaifeng-Honanfu would ask affordable rates to transport their mining products. Leopold II, without even asking Empain, telegraphed Beijing that this was no problem. Only a few days later, the 18th of January 1900, Empain officially agreed, as the mines would be important customers.⁴⁷

The protest of the British government solely served the interests of British capital and did not contest the principle of the concession per se. So far, the concession was not the subject of heavy political debate, as the French ownership stake had been kept secret. The secrecy was so complete that the French government was afraid to be pushed aside. The Minister of Foreign Affairs felt the need to struggle for France's rightful share in the matter, just like he had to do in the Beijing-Hankou project. The French diplomacy especially mistrusted consul Francqui. He allegedly was aggressive and eager to limit French interference in what he believed was a Belgian business. When learning that the provisional agreement contained a clause reserving the management of the Pienlo to Belgians, the Quai d'Orsay was alarmed.⁴⁸ France believed that the Belgian agents, especially Francqui, had inserted this clause, but in reality Sheng and his collaborators did. In fact, Empain had even tried to have the terms "on behalf of a Belgian company in which the French possessed half of the capital" appear on the contract, but the Cartier de

⁴⁶ Sheng to Rouffart, 6 Dec 1899, *Compagnie générale de chemins de fer en Chine*, I 394/285, ARA2; Kurgan-van Hentenryk, *Léopold II*, 347.

⁴⁷ Kurgan-van Hentenryk, *Léopold II*, 344-49.

⁴⁸ For the exact phrasing of the clause, see Sheng to Rouffart, 6 Dec 1899, I 394/285, ARA2.

Marchienne preferred to merely mention Belgium to avoid Chinese unrest.⁴⁹ The Belgian diplomat in China had reason to do so. When his French colleague threatened to officially protest at the Zongli Yamen, Sheng was shocked and he “informed the Belgian Legation that he rather abandoned the project than to have it managed by Frenchmen.”⁵⁰ Only after a joint effort of the Belgian government and the *Banque Russo-Chinoise*, the French Ministry of Foreign Affairs decided to abandon official protest because it would fatally ruin the project.

To appease the opposition of the French government, Empain and Bénard promised to have the clause about the nationality of the personnel modified or removed from the contract at the moment Rouffart was returning to China to sign the definitive agreement. Otherwise Empain would not ratify the contract. Empain also discussed this with King Leopold II, who shared his view.⁵¹ Whereas Belgian diplomacy wanted to make sure that the Belgians had the majority in the company and thus could easily control it, for Empain this mattered much less.⁵² Empain’s biggest concern was to preserve the support of the French government. This is also shown by the many visits he and his partners paid to French government officials in Brussels and Paris.⁵³

In the first months of 1900, Rouffart returned to Europe. While he was in Belgium, Empain dissolved the syndicate and transformed it into a public limited company (see above). The *Compagnie générale de Chemins de fer et de Tramways en Chine* had a share capital of 1 million francs, which does not seem much compared to other railway companies of Empain, but this is because the Chinese government itself would finance the railway via a loan. The choice of the company name also reflects its transnational character and broad scope. Although the company was established in Brussels as a Belgian firm, the name did not contain any reference to a nationality. Although they had not yet obtained a concession by March 1900, the founders were still hoping to invest in Chinese tramways in the future. Finally, no later than 1905 the *Cie Générale* had to conclude that both its

⁴⁹ “Contrat ne peut être signé que par société belge dans laquelle français possèderaient moitié capital” Telegram from E. Empain (Brussels) to Belgian Legation (Beijing), 14 Nov 1899, *Chine: Tramways*, 2817, BMFA.

⁵⁰ “Il avertit même la légation de Belgique à Pékin qu’il préférerait abandonner l’affaire plutôt que d’en laisser la direction à des ressortissants français” Kurgan-van Hentenryk, *Léopold II*, 351.

⁵¹ Delcassé (Paris) to Pichon (Beijing), 12 Jan 1900, *Chine: Kaifong-Honan Fou (1899-1902)*, 148CPCOM/523, MAEF; Bénard to Delcassé (Paris), 24 Jan 1900, *Chine: Kaifong-Honan Fou (1899-1902)*, 148CPCOM/523, MAEF. See also Kurgan-van Hentenryk, *Léopold II*, 353.

⁵² The Belgian envoy in Beijing even wanted to get rid of the “humiliating tutelage of Powers guided by personal political interests” (“tutelle humiliante de puissances guidées par des intérêts politiques personnels”) Belgian Minister (Beijing) to Minister of FA (Brussels) 22 Jan 1900, *Chine: Kaifong-Honanfu*, 2815, BMFA.

⁵³ Delcassé (Paris) to Pichon (Beijing), 23 Mar 1900, *Chine: Kaifong-Honan Fou (1899-1902)*, 148CPCOM/523, MAEF.

efforts in Beijing and Shanghai were doomed to fail. The competition among Belgian and foreign tramway holdings was too harsh.⁵⁴

The deadline for the definitive contract expiring in June 1900, Rouffart quickly had to leave for China again. Though, prior to his departure, he paid a visit to the Ministry of Foreign Affairs in Paris. Accompanied by French banker Bénard, he was received by the *Directeur des Consulats* Bompard. Rouffart wanted to iron out differences before entering into a binding agreement with Sheng. For the French government, the issue of the nationality of the personnel was of utmost importance. Bompard made clear to Rouffart that if the final contract did not please the French government, the latter would not allow the loan to be listed on the Paris Stock Exchange. The French Minister of Foreign Affairs Delcassé was perfectly aware that the *Cie Générale* could not successfully issue 25 million francs without access to the French capital market.⁵⁵

In April 1900, Rouffart arrived in China amid political turmoil. Due to the troubled political climate, Sheng informed Rouffart that it was impossible to sign any contract whatsoever and that it was better to indefinitely extend the option granted in December 1899. Rouffart came back empty-handed in August.⁵⁶ Indeed, while Rouffart was there, a popular revolt, known as the Boxer Rising, was destabilizing the country. Although caused by a mixture of social and political factors, the movement targeted Christian missionaries and symbols of Western imperialism in general. Driven into a corner, Empress Cixi decided to support the Boxers instead of oppressing the revolt. In June 1900, she waged a war against the foreign Powers present in China and besieged the Legation Quarter in Beijing. However, an international coalition of the Great Powers plus Italy, the US and Austria-Hungary crushed the Boxer Rising within months. The coalition enforced immense indemnities on the Chinese government, totaling twice its annual budget. As a result, the Great Powers de facto controlled most of the Chinese debt.⁵⁷

⁵⁴ See the dossier “Projets Empain” on tramway projects in China, 2817, BMFA.

⁵⁵ Delcassé (Paris) to Pichon (Beijing), 6 Apr 1900, *Chine: Kaifong-Honan Fou (1899-1902)*, 148CPCOM/523, MAEF.

⁵⁶ Telegram from Rouffart (Shanghai) to Empain (Brussels), 23 Jun 1900, *Chine: Kaifeng-Honanfu*, 2815, BMFA; Kurgan-van Hentenryk, *Léopold II*, 354.

⁵⁷ Fairbank and Goldman, *China*, 230-32+48.

7.3 After the Boxer Rising: Consolidating and giving in to France

In 1901, peace was restored in China. The Qing Court was forced to sign the Boxer Protocol. The repressive measures it entailed fostered the nationalist feelings of the Chinese population even more. The high charges of the Boxer reparations left little financial room for the reform attempts of the Chinese government. The latter nor the local elite was able to finance the railway development themselves. Therefore, the Qing court was more inclined to accept the railway loans offered by foreign bankers. In fact, China was too weakened to stop the foreign powers from constructing railways in their respective spheres of influence. Although China officially dealt with private entrepreneurs, it could not ignore that these bankers were backed by the Great Powers or even formed extensions of foreign governments.⁵⁸

In the spring of 1901, Empain reconsidered the project, in agreement with Leopold II. However, he did not take concrete actions before the news reached him in March 1902 that the Germans were applying for a concession to extend their Shandong line to Kaifeng, or even to Honanfu. At that time, he was not determined to pursue the Kaifeng-Honanfu project. In reality, Empain was seriously considering transferring the contract to the *Société d'étude*. To Empain, this made sense as the Kaifeng-Honanfu was an affluent of the main Beijing-Hankou railroad. Leopold II followed his view. Therefore, Empain started to negotiate with the *Société d'étude* about some kind of merger. Surprisingly, the *Cie Générale* was subsequently contacted by the German investor Adolf von Hansemann, chairman of the *Deutsch-Asiatische Bank*, to collaborate. Minister de Favereau and Leopold II were willing to investigate this proposition if this meant that Germany would more generally support Belgian enterprise in China, but Empain and his fellow financiers did not jump at the offer. It is unclear why.⁵⁹

Nevertheless, the German interest in railway concessions in the area incited the *Cie Générale* to resume negotiations with Sheng in June 1902. As soon as possible, Rouffart had to travel back to China. Pending his arrival, the *Cie Générale* temporarily appointed Sir de Mélotte, the first director of the *Banque Sino-Belge (Société Générale)* in Shanghai. De Mélotte immediately tried to tackle the hardest question: the nationality of the management. Whereas the Imperial Chinese Railway Administration desired to keep the predominance of Belgian staff in the contract, the French shareholders, incited by the French government, wanted to secure a degree of control corresponding to the share they

⁵⁸ Spence, *Search*, 250-51.

⁵⁹ Kurgan-van Hentenryk, *Léopold II*, 424-25.

owned. In an impasse, de Mélotte had to await Rouffart to continue negotiating. The French Ministry of Foreign Affairs had discussed the issue with him before his departure. Rouffart had promised to erase any mention of nationality from the contract.⁶⁰

Finally, one year later, the *Cie Générale* could sign a definitive agreement with Sheng, not without the necessary bribe money. On the 12th of November 1903, Rouffart contracted a loan of 25 million francs, with an interest of 5%, to be sold at 90% of its nominal value. The bonds had to be reimbursed in 30 years. With the loan, the Chinese government could finance the construction of the 186 km long railroad. The *Cie Générale* obtained the right to construct and operate the line and to receive 20% of the net profits. The contract did not contain any exclusive nationality clause, only that the concession had to remain in the hands of a Belgian company or person. This pleased the French government, but upset the Belgian diplomats. The latter feared that France would try to dominate the management.⁶¹

As a part of the deal, the *Cie Générale* quickly had to advance 1 million francs to Sheng. Because their partner the *Banque Russo-Chinoise* was reluctant, the *Cie Générale* preferred to use the services of the *Banque Sino-Belge*. In addition, the company appointed Jean Jadot, the Belgian *ingénieur-contrôleur* of the Beijing-Hankou, to supervise the first technical studies. These two measures alarmed the Quai d'Orsay. The French Minister warned the company: If it hoped to have its loan of 25 million listed on the Paris Bourse and to retain French diplomatic backing, it had to abide by the following four conditions. The first two had already been agreed upon in 1898. Firstly, the orders for equipment had to be equally divided between France and Belgium. Secondly, the directors needed to respect a fair balance between Belgian and French personnel. Thirdly, France demanded equal representation in the board of directors. Fourthly, to counterbalance the Belgian chairman, the company had to appoint a French general manager in China. These demands surprised the Belgian directors, for they had only thought of the equal distribution of orders and personnel. However, Georges Louis, the new *Directeur des Consulats* summoned Raphaël de Bauer to Paris and emphasized all four as conditions sine qua non. Afraid to lose French official support, the board of directors saw no other solution than to accept the equal distribution of capital and directors too. Concerning the chief engineer in China, they did not promise anything.⁶²

Unfortunately for the *Cie Générale*, the outbreak of the Russo-Japanese War indeterminately delayed the issue of the loan.⁶³ The deteriorated investment climate in

⁶⁰ Kurgan-van Hentenryk, *Léopold II*, 425.

⁶¹ Kurgan-van Hentenryk, *Léopold II*, 426.

⁶² Kurgan-van Hentenryk, *Léopold II*, 429.

⁶³ The Russo-Japanese War was an armed conflict fought out largely on Chinese territory between February 1904 and June 1905. After a series of Japanese victories, Russia and Japan signed a peace treaty in September 1905. As

the Far East as a result of the armed conflict made a successful issue of Chinese government paper very unlikely. At the end of November 1904, the chairman of the *Cie Générale* de Bauer had finally managed to have Edouard Empain accept a French chief engineer, provided the company then could issue the whole loan in Paris.

By February 1905, the trust of the financial markets had largely recovered. This was the sign for Empain to prepare the issue of the loan.⁶⁴ When he informed the Quai d'Orsay that they would apply for an official quotation of the loan, the Quai d'Orsay replied that all promised measures should be immediately executed. Therefore, the *Cie Générale* reshuffled its board of directors to achieve an equal number of Belgian and French members. Table 17 reproduces the new composition.

Table 17 Composition of the board of directors, after the rearrangement of 1905⁶⁵

Affiliation	Belgian	French
Empain group	Edouard Empain	André Berthelot
	Maurice Anspach	Auguste Stoecklin
	Arthur du Roy de Blicquy	Auguste Doniol
	Armand Rouffart	
External partner	Raphaël de Bauer	Adrien Bénard Paul Ristelhueber

François Empain already had to retreat in favor of André Berthelot. Auguste Stoecklin and Paul Ristelhueber were now also added. The French interference was so gross that the envoy in Brussels Gérard momentarily tried to push through another candidate for Ristelhueber's position.⁶⁶ Berthelot and Stoecklin were both directors of the *Parissienne Electrique*. Ristelhueber was the former French consul in Tianjin and the bank manager of the *Banque Russo-Chinoise* in Paris. The *Cie Générale* also recruited a French chief engineer among the staff of the Beijing-Hankou. Via the Belgian chief engineer of the Beijing-Hankou and of the Pienlo Jean Jadot, they found Lenoan. Some French staff in China expressed the concern that the nomination of Lenoan would not really give more power to France. They accused Jadot to have supported Lenoan because Lenoan would not contest the authority of his former superior. Therefore, the French diplomacy reminded

a result, Japan tightened its grip on Manchuria and became an influential factor in the late Qing Empire. Frank Jacob, *The Russo-Japanese War and its Shaping of the Twentieth Century* (New York: Routledge, 2018).

⁶⁴ Meeting of 21 Feb 1905, *Cie Générale*, Minutes of the Board of directors, I 394/26, ARA2.

⁶⁵ *Recueil Financier*, 1906, 689.

⁶⁶ Gérard (Brussels) to Henry (Paris), 21 May 1905, *Chine: Kaifong-Honan Fou (1903-06)*, 148CPCOM/524, MAEF.

Lenoan of “the duties that he, as a Frenchman, ha[d] to fulfill in a company where he represent[ed] [French] interests and where he carri[e]d the [French] flag.”⁶⁷

In preparation for the issue, Empain had formed an issue syndicate, composed of *Paribas*, *Bénard&Jarislowsky*, *Réunis*, *Railways&Electricité* and *Banque E.-L.-J. Empain*. On behalf of the *Cie Générale*, the syndicate members agreed to underwrite⁶⁸ half of the loan, i.e. 12.5 million francs. *Paribas* took charge of 50%, *Bénard&Jarislowsky* 25% and the Empain group 25%.⁶⁹ Finally, in August 1905 the French government authorized the listing of the bonds in Paris. The issue became a great success, inciting the directors to issue the second installment of 12.5 million rapidly afterward.⁷⁰ They additionally listed the bonds on the Brussels Stock Exchange in October.

The construction of the Pienlo railway started at the end of 1905 and progressed rapidly until June 1906. Afterward, floods heavily damaged the line and forced the company to redo some entire sections. The construction workers also faced serious problems crossing a mountainous area. These two factors required significantly higher expenses than had been budgeted. That is why in 1907 the company needed an extra loan of 16 million francs to finish the line. Rouffart had a good relationship with Jean Jadot and his successor Prudhomme. They were the Belgian representatives of the *Société d'étude*, responsible for the Beijing-Hankou line. Instead of appointing a separate delegate, Rouffart asked Prudhomme to lead the negotiations with the Chinese government to obtain the additional loan. The Chinese government quite easily granted permission and *Paribas* completely underwrote it in August 1907.⁷¹

The line could open to traffic at the end of December 1908 (see Fig. 32).⁷² The operation of the railroad was a modest success, especially compared to the busy Beijing-Hankou line. Whereas the earnings per kilometer were as little as 2300 mex. \$ (5900 francs) in 1909, they had more than doubled to 5300 mex. \$/km (13,400 francs) in 1913. On the eve

⁶⁷ “les devoirs que, comme Français, il a à remplir dans une entreprise où il représente nos intérêts et où il tient notre drapeau”, Gérard (Brussels) to Rouvier (Paris), 29 Aug 1905, *Chine: Kaifong-Honan Fou (1903-06)*, 148CPCOM/524, MAEF.

⁶⁸ Underwrite in this case means without initial public offering, but a direct listing. Interested investors could buy it from the syndicate members.

⁶⁹ Kurgan mentioned a distribution of two-thirds for *Paribas* versus one-third for *Bénard&Jarislowsky*, but the final contract clearly stated the participation of the Empain firms too. Final agreement of the issue syndicate for the 1903 loan, 15 Apr 1905, *Compagnie générale de chemins de fer en Chine*, I 394/285, ARA2.

⁷⁰ Meetings of 24 Aug & 26 Dec 1905, *Cie Générale*, Minutes of the Board of directors, I 394/26, ARA2; Kurgan-van Hentenyk, *Léopold II*, 431-32.

⁷¹ Dossier concernant la négociation et l'émission de l'emprunt complémentaire de 16 millions de francs, *Compagnie générale de chemins de fer en Chine*, I 394/289, ARA2; Kurgan-van Hentenyk, *Léopold II*, 757-58.

⁷² Meeting of 7 Oct 1909, *Cie Générale*, Minutes of the Shareholders Meetings, I 394/87, ARA2.

of the First World War, the operating ratio⁷³ had achieved a respectable 47% as opposed to 87% in 1911.⁷⁴ This was good news for the *Cie Générale*, who by contract received 20% of the net earnings.



Figure 32 “Kaifeng-Honanfu line: The first locomotive engine entering Central China”⁷⁵

Looking back to this first period (1897-1907), a few observations emerge. First of all, obtaining a railway concession in China required lengthy negotiations and the capacity to finance them. Nevertheless, Empain’s syndicate had obtained a preliminary contract for a loan of 25 million francs before the Boxer Uprising. This did not quite equal the achievements of their Belgian colleagues of the Beijing-Hankou, who had concluded a definitive contract in June 1898 and issued a loan of 112.5 million in April the next year. They had immediately begun the construction works. Starting from Rouffart’s first visit, it took the *Cie Générale* eight years to negotiate the deal, issue the loan and start constructing the railroad. After the crisis of the Boxers, Chinese officials had hardened their position towards foreign propositions on railroads. But the Chinese government continued to need foreign funds for their construction. Nevertheless, competition among Belgian and foreign companies truly was fierce. In the long run, apart from the *Société*

⁷³ This means the expenses only amounted to 47% of the earnings. For reference, in 1906 the operating ratio of the Beijing-Hankou had dropped to an incredible 30% and the earnings/km had risen to more than 7000 mex. \$ in 1908. Kurgan-van Hentenryk, *Léopold II*, 633-35.

⁷⁴ Meetings of 6 Oct 1910, 3 Oct 1912 & 2 Jun 1914, *Cie Générale*, Minutes of the Shareholders Meetings, I 394/87, ARA2.

⁷⁵ “Ligne de Kaifong à Honan, la 1e locomotive pénétrant en Chine centrale”, photograph (c. 1908) taken and captioned by the French engineer Joseph Skarbek who worked for the *Cie Générale*. “Ecole Française d’Extrême-Orient: Expo Photo: Joseph Skarbek (1879-1961) : la voie ferrée Kaifeng - Luoyang 1906-1909,” <https://www.efeo.fr/Expo/accueil.htm>.

Générale, the Empain group was in fact the only Belgian investor that had managed to obtain and develop a railroad concession during and after the scramble for concessions.

The success of the *Société Générale*'s Beijing-Hankou paved the way for Empain, but also made it harder in some aspects. It showed what a Belgian company was capable of achieving, but it also provoked jealousy and suspicion among the foreign Powers. By deciding to enter the Chinese stage, Empain got involved in a hornets' nest, full of conflicting local, national and international interests. The decisive players were the Chinese official Sheng, Leopold II and the Belgian Ministry of Foreign Affairs, the French Ministry of Foreign Affairs and the *Banque Russo-Chinoise*. Sheng absolutely wanted to deal with Belgians and not at all with French financiers. His aim was to keep some control in Chinese hands and limit French interference as much as possible. The government of Leopold II and the Belgian diplomatic agents were all very convinced of the necessity to support Belgian economic expansion by all means. They wanted to finalize the deal as quickly as possible and maximize Belgian influence both within the company as in China as a whole. Empain had their unconditional support. Certainly in the early years, the *Banque Russo-Chinoise*, as an extension of Russian diplomacy, was crucial for the support of Russia and could effectively put pressure on China and France at decisive moments.

The French government in its turn pursued a nationalist agenda. They realized that, given the hostility of Sheng towards France, the French-Belgian collaboration was the best they could get for the moment. However, the struggle for influence in the *Société d'étude*, where Jean Jadot privileged the Belgian element, incited the Quai d'Orsay to take a hard line vis-à-vis Empain. The French Minister of Foreign Affairs demanded that the French take part in the decision-making of the company at least on a par with the Belgian partners. He regarded the French board members as his subjects through which he could control the corporate policy. In the midst of the discussion on the composition of the board, the French envoy in Brussels wrote: "The presence of Mr. André Berthelot in the board of directors will allow us, I believe, to act with some effectiveness on the Belgian members and on Mr. Empain himself."⁷⁶

The view of the Quai d'Orsay that only French nationals could defend the interests of France also demonstrates the vague mistrust of Empain. In this regard, it is interesting to compare the French attitude towards Empain and Georges Nagelmackers (see also Chapters 1 and 3). Both were Belgian entrepreneurs with many activities in France and abroad. However, Nagelmackers was highly respected by the diplomatic services in Paris. Nagelmackers was frequently doing business in the Ottoman Empire, which was a disintegrating empire and the theater of Great Power rivalry like China. The French

⁷⁶ "la présence de M. André Berthelot dans le Conseil nous permettra, je crois, d'agir avec quelque efficacité sur les membres belges et sur M. Empain lui-même." Gérard (Brussels) to Delcassé (Paris), 24 Mar 1904, *Chine: Kaifong-Honan Fou (1903-06)*, 148CPCOM/524, MAEF. See also Gérard (Brussels) to Rouvier (Paris), 29 Aug 1905, 148CPCOM/524, MAEF.

Ministry of Foreign Affairs thought highly of Nagelmackers. An official wrote that he had furthered the interest of France in the Middle East. Moreover, Nagelmackers, “although a Belgian citizen, has the right to claim to be from France where he has his domicile and all his interests.” Therefore, he deserved to receive the diplomatic support a French citizen would get.⁷⁷ In contrast, in the eyes of the Quai d’Orsay Empain always remained a Belgian, although he was also domiciled in Paris, as indicated in Chapter 5.

To make any progress, Empain and Rouffart had to maneuver between the demands of all these important players, while keeping the business partners pleased. Like Empain, the latter were especially interested in the financial aspect of the project. They were wary of hasty and risky financial commitments. Although not indifferent to political motives, they above all wanted a solid business case. Therefore, Empain was willing to listen to the concerns of the French government to maintain its indispensable support in China and in France. From 1903 until the First World War, the French Ministry of Foreign Affairs was almost obsessed with the nationality of the chief engineer. They always suspected the Belgian government to conspire with the Chinese against the French interests. However, Empain repeatedly assured the French Ministry his sincerity:

I have not seen the Belgian government on this matter for more than two years and neither did [Raphaël de] Bauer. You know by the way that no matter how good a patriot I am, I don’t like [the Belgian government’s] interference in my business when I have engagements.⁷⁸

This proves that the *Cie Générale* wanted to pursue an independent policy in the interest of the firm, not of a particular nation. In the many confrontations with the French government, the directors of the *Cie Générale* did not involve the Belgian Ministry of Foreign Affairs. Moreover, while the *Société d’étude* and Minister de Favereau had jointly tried to bar French influence from the Beijing-Hankou, Empain and chairman de Bauer were much less ill-disposed to the French demands. Both financiers had very strong ties to the French financial market that withheld them from organizing resistance with the help of the Belgian government. Most likely, Empain’s initial opposition concerning the nationality of the general manager was inspired by Leopold II. As extensively discussed

⁷⁷ “bien que sujet belge, Nagelmackers a le droit de se réclamer de la France où il a son domicile et tous ses intérêts”, Note for the Minister, 25 Jun 1904, *Turquie: Chemins de fer*, 51CPCOM/322, MAEF. cited after: Thobie, “Intérêts,” 226. Alloul shows that Nagelmackers indeed collaborated closely with French investors and enjoyed less official support of the Belgian Ministry of Foreign Affairs, but had many informal contacts with Belgian diplomats. see also Alloul, “Belgium and Ottoman Empire,” 233-34.

⁷⁸ “Je n’ai pas vu le Gouvernement belge au sujet de cette affaire depuis plus de 2 ans et Bauer non plus. Vous savez d’ailleurs que quelque bon patriote que je sois, je n’aime pas son ingérence de mes affaires lorsque j’ai des engagements”, E. Empain to P. Berthelot, 17 Jun 1908, *Chine: Kaifong-Honan Fou (1907-09)*, 148CPCOM/525, MAEF.

earlier in the dissertation, the two had been closely working together since the turn of the century. The leniency of the Empain group disappointed the Belgian government. For instance, the envoy in Beijing deplored the many concessions to the French government: “We must not delude ourselves, the Kaifeng-Honanfu railway will be a French enterprise with a Belgian label.”⁷⁹

7.4 Lunghai: A tenfold extension of the Pienlo

After 1905, the foreign control of important railroad infrastructure became a thorn in the flesh of Chinese nationalists. They vehemently campaigned for the nationalization of the most profitable parts of the network. By 1910, the Chinese government had set up a plan to buy out the railway companies but still had to rely on foreign funds to execute it.⁸⁰ This problem is illustrated by the redemption of the Beijing-Hankou railway in 1908-1909. The Chinese successfully bought back the major arterial railroad, but had to accept a loan from an Anglo-French banking consortium to finance the purchase.⁸¹ After the unfortunate loss of the lucrative Beijing-Hankou, the *Société d'étude* transformed into the *Société belge de chemins de fer en Chine (Société Belge)* and had to look for a new project. Thanks to the good relationship between Rouffart and Jean Jadot, who had become director of the *Société Générale* in 1906, the *Cie Générale* and the *Société Belge* were considering establishing a partnership. In September 1908, Empain and de Bauer proposed to Jadot, director of the *Société Belge* to cooperate to obtain an extension of the Pienlo westward to Xi'an.⁸² Together, they could improve their chances. Meanwhile, the *Société Belge* had appointed Jean Jadot's brother Jules as managing director. After the death of Armand Rouffart in April 1909, the *Cie Générale* also chose him as their managing director. Jules Jadot now had to represent the interests of both the *Société Belge* and the *Cie Générale*. Empain charged him with the negotiations for the extension of the Pienlo, but in return the *Société Belge* would share for 20% in all the benefits that would result from it.⁸³

⁷⁹ “Il n’y a pas à nous faire d’illusions, le chemin de fer Kaifong-Honanfou sera une entreprise française sous une étiquette belge”, Gaiffier (Beijing) to de Favereau (Brussels), 27 Apr 1905, *Chine : Kaifeng-Honanfu*, 2815, BMFA. Cited after Kurgan-van Hentenryk, *Léopold II*, 433.

⁸⁰ Spence, *Search*, 252-53.

⁸¹ Ginette Kurgan-van Hentenryk, “Philippe Berthelot et les intérêts ferroviaires franco-belges en Chine (1912-1914),” *Revue d’Histoire Moderne et Contemporaine* 22, no. 2 (1975): 270.

⁸² Kurgan-van Hentenryk, *Léopold II*, 758.

⁸³ Meeting of 10 Jun 1909, *Cie Générale*, Minutes of the Board of directors, I 394/26, ARA2.

Ever since the conclusion of the provisional contract in 1899, Sheng had the ambition to extend the railroad beyond Luoyang (Henanfu) towards Xi'an. In the contract of 1903, the *Cie Générale* received the right to obtain the extension in case the Chinese government was unable to finance it by itself. The Qing Court had attempted to outsource the project to two local provincial companies, but they had been unable to gather the capital. Hearing that China was attempting to sell the concession to the French *Société des Batignolles* and the *Chemin de fer du Shansi*, the *Cie Générale* decided to claim its privilege. The directors designed a plan that could tempt the Chinese government. Knowing that China wanted to take control of as many railroads as possible, they wanted to propose an early repayment of the 1903 loan of 5%, 41 million in total. That way, China could reclaim authority over the Pienlo 5 years before the deadline (1915). In return, the *Cie Générale* would receive the right to construct the extension of 600 km. The funds for the repayment and extension would be secured via a government loan of 100 million francs, issued in Europe by the *Cie Générale*. The contract would include better financial conditions for the Chinese government. For instance, the company was willing to give up the 20% of the profits it used to have of the Pienlo.

In 1911, Ebray, the new chief engineer of the *Cie Générale*, entered into preliminary talks with the head of the Railways Administration Sheng. Yet, the authority of the Imperial Court started to be overtly contested. The subsequent fall of the Qing Dynasty and the institution of the Republic of China made further negotiations impossible. Only when quiet was restored in the capital and Sun Yat-sen had taken charge of the Chinese Railway Administration in September 1912, the *Cie Générale* could hope to resume talks. Meanwhile, the *Société Belge* had instructed its representative in Beijing, Robert Devos⁸⁴, to support Ebray in his negotiations for the loan. Sun's plans for the Chinese railroad network were even more ambitious than those of his predecessor. Devos could convince him of the importance of a large East-West axis of which the Pienlo was only the beginning. Within two weeks, Sun and Devos had agreed on a railroad of not 600 km, but 1800 km stretching from Lanzhou (Gansu Province) in the West to a yet to be developed maritime port in the province of Jiangsu in the East (see the highlighted railroad line in Fig. 33). The Lunghai⁸⁵ line would connect the Pienlo and other finished sections and become the horizontal axis perpendicular to the Beijing-Hankou-Canton line. To finance this large infrastructure project, Devos signed a loan contract of 250 million francs at 5% to be reimbursed in 40 years.⁸⁶

⁸⁴ Devos had been Belgian consul in Kobe, before he was hired as the manager of the *Banque Sino-Belge* in Beijing in 1911. Kurgan-van Hentenryk, *Léopold II*, 766-67.

⁸⁵ Lung Tsing U-Hai or in pinyin *Longhai*, referring to Long and Haizhou, the ancient Chinese names of Gansu Province and the city of Lianyungang respectively.

⁸⁶ Kurgan-van Hentenryk, *Léopold II*, 789.

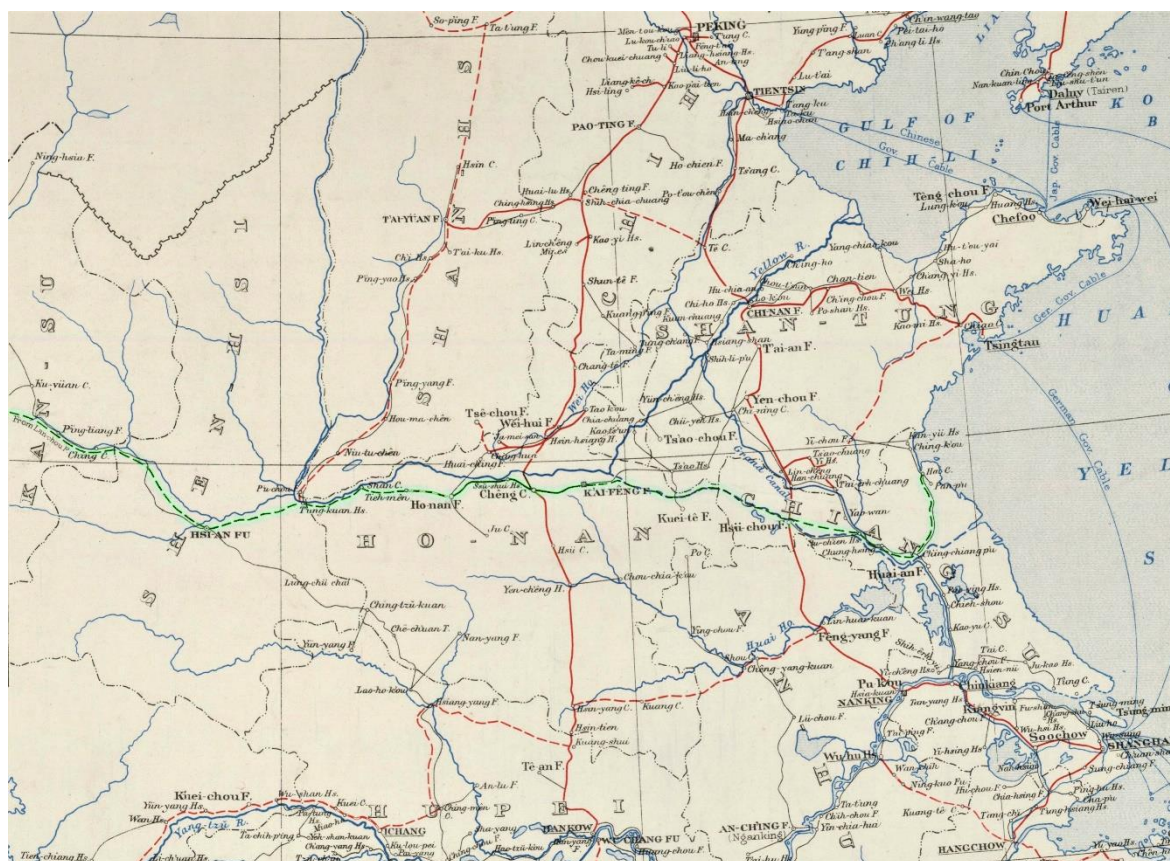


Figure 33 Map of Central China (1913)⁸⁷

The conditions of the loan were more favorable for the issuers than the last railway contracts concluded by the Chinese government. The *Cie Générale* had full freedom to fix the issue price of the loan and would receive a commission of 6%. The loan was backed by the Chinese government and by the railway itself. Unless Chinese factories could produce the equipment, French and Belgian industries could receive the orders. However, once the construction was finished, the French and Belgian industries would not get preferential treatment unless their prices were equal to their foreign competitors. The Chinese Railway Administration was in charge of the management, but a Belgian or French engineer supervised the construction works. As soon as the railway was in operation, a European chief engineer and a chief accountant assisted the Chinese general manager.⁸⁸

Now the Belgian triumph only had to be accepted by the Great Powers, which was very problematic. In the years before the Chinese Revolution, the European financial institutions had united in two rivaling consortia. Both tried to create a monopoly that could impose its conditions on China if the country wanted to raise money on foreign

⁸⁷ This is an edited cutout of the larger "Map of China, shewing railways, telegraphs and treaty ports," (Southampton: E. Stanford, 1913).

⁸⁸ Kurgan-van Hentenryk, *Léopold II*, 789.

capital markets. To negotiate the large loan, which would reorganize the finances of the young Republic, the two consortia merged in 1912. The new International Financial Consortium was now composed of banks from France, Germany, Great Britain, United States, Japan and Russia. The Russian group of banks had formed an alliance with the *Société Générale de Belgique* and some British banks.⁸⁹ As such, the *Société Générale* was the only bank from a small country to be part of the Consortium.⁹⁰

The Lunghai project of the *Cie Générale* interfered with the monopoly desired by the Consortium. Although it was strictly speaking an industrial loan, meant to finance the construction of a railroad, the governments belonging to the Consortium were still upset. The Chinese had negotiated an advance of 50 million francs with an interest of 6% to be transferred within six months after the conclusion of the contract. The Consortium feared that the Chinese government might try to use this advance for other purposes than the railway. If the money flowed into the general budget, this would undermine the monopolistic position of the Consortium.

The Consortium tried to obstruct the execution of the contract, but several banks of member countries of the Consortium were in fact involved. Via various ways, France, Great Britain and Russia were compromised, in the course of Empain's search for potential partners for the issue.

First of all, Empain had obviously looked in the direction of the French capital market. Initially, the *Cie Générale* and the *Société Belge* had totally left the French government out of the talks for the extension of the Pienlo. But as soon as the contract was signed on the 24th of September 1912, Empain informed the French Ministry of Foreign Affairs, and especially Philippe Berthelot, about his achievement. Philippe was the brother of André Berthelot, one of Empain's closest French collaborators. Philippe Berthelot was appointed in diplomatic service by his father, the famous scientist and Minister of Foreign Affairs (1895-96) Marcellin Berthelot. In 1904, Philippe became the head of the China Office of the Ministry. Since then, he was responsible for all Chinese affairs and thus also for the Lunghai loan. Via André Berthelot, Empain developed a friendship with Philippe too. At the end of September 1912, Empain sounded Philippe Berthelot on the possibility of issuing the loan on the French market, which required government approval. The top official did not immediately oppose it. Consequently, Empain quickly approached several French banks: not only *Paribas*, his long-standing partner for China, but also the *Comptoir national d'Escompte de Paris* and the French *Société Générale*. He offered them a 60% share in the loan. The remainder would be divided as follows: *Société Générale de Belgique* 25% and the *Cie Générale, Banque E.-L.-J. Empain* and *Bénard&Jarislowsky* each 5%. In addition, the

⁸⁹ The Russian capital market was not sufficiently developed to float millions of bonds. Hence the dependence on other Western European financial markets.

⁹⁰ Kurgan-van Hentenryk, "Philippe Berthelot," 270.

French banks would receive 25% of the profits resulting from the construction and other financial gains. The *Comptoir d'Escompte* declined it because it had linked its fate to the *Banque de l'Indo-Chine*, who wanted to respect the Consortium. The other banks were more interested. However, the 16th of October the French Minister of Foreign Affairs Poincaré and the French Minister of Finance Klotz forced the French banks to defer negotiations as the offer went against the agreements of the Consortium.⁹¹ Even the offices of *Paribas* in Brussels ceded to the pressure of the French government.⁹²

Secondly, a British bank was also involved, via the *Société Générale de Belgique*. As mentioned, Robert Devos, who had negotiated the loan, was the representative of the *Banque Sino-Belge*. The *Sino-Belge* was supported by the *Société Générale*. Emile Francqui, now part of the environment of the *Société Générale*, had informed the London bank *J. Henry Schröder & Co.* about the loan.⁹³ On the 17th of October, one day after negotiations with the French had been suspended, Schröder proposed to immediately issue the whole sum of 250 million francs in London, together with the largest banks of the City.⁹⁴ This displeased the British Foreign Office, but it could not take action against Schröder because the bank was part of the Russian group of the Consortium via the *Société Générale*. To convince Empain, Schröder offered to pay the second installment of the advance of 25 million, which was due a few days later. Moreover, the banker did care less than the French about the control over the construction and the operation of the railroad and the associated profits. Nevertheless, Empain decided to decline the very attractive offer as he was too closely linked to the French market to turn his back on his French partners. “I have formally declared to the board of directors that either the business had to be done with France or I would resign.”⁹⁵ To gather the 25 million, Empain mobilized his business group in the end. The *Réunis*, the *Banque Empain, Bénard&Jarislowsky* and the *Cie Générale* contributed for at least 16.25 million.⁹⁶

With the offer of Schröder as leverage (see Chapter 3 for a similar strategy in Egypt), Empain reopened negotiations with the French banks and now offered even 65% of the loan. To convince the French government, he also offered half of the industrial advantages, i.e. personnel and orders. The banks could, if they wanted, bring their share

⁹¹ Kurgan-van Hentenryk, *Léopold II*, 791, 805-06.

⁹² Meeting of 7 Mar 1913, *Cie Générale*, Minutes of the Board of directors, I 394/26, ARA2.

⁹³ Schröder had been the *Société Générale*'s financial partner in China since 1908. Kurgan-van Hentenryk, *Léopold II*, 741.

⁹⁴ For more information on the history of this major London private bank specialized in acceptance and underwriting business, see Richard Roberts, *Schroders: Merchants & Bankers* (Basingstoke: MacMillan, 1992).

⁹⁵ “J’ai déclaré d’une façon formelle au Conseil d’administration que l’affaire se fera avec la France, ou que je donnerais ma démission.” Minute of letter from Empain to P. Berthelot, 2 Feb 1913, 148CPCOM/527, MAEF.

⁹⁶ Meeting of 25 Nov 1912, Minutes of the Board of directors, I 394/26, ARA2.

of the loan in the Consortium. If they did not accept, he would return to Schröder.⁹⁷ The proposition attracted several banks, but it was met with suspicion by the Berthelot brothers. The nationalist Berthelot's suspected Empain from using the British competition to pressure the French banks. In addition, they did not want to share the loan with other countries in the Consortium. André Berthelot closely watched Empain. When Empain went to see French Minister of Finance Klotz, André accompanied him. Behind Empain's back, Berthelot "seized a private conversation with the Minister to suggest him diverse objections to the propositions of his associate."⁹⁸ Berthelot could not convince Klotz, but he succeeded in getting Poincaré on his side, who preferred not to undermine the strategy of the Consortium. As a result, the French banks had to definitively abandon the negotiations with Empain.

Only after Poincaré had left the Ministry of Foreign Affairs to Charles Jonnart in January 1913, Empain could retry to gain the favor of the French government. Meanwhile, Philippe Berthelot had also increased his influence in the department. Empain now proposed to sell the first installment of 100 million francs on the French market without a public offering. Empain's message to the French government was that, by contract, he was bounded to issue the loan on the 31st of March at the latest. He could not wait until 6 months after the reorganization loan. Chinese bonds were high-priced and Empain had negotiated a very attractive issue price (91% of the nominal value). He did not want to let this opportunity slip away.

Empain said to understand that the banks affiliated with the Consortium could not participate. Therefore, Empain proposed to have his private bank issue it alone. Afterward, once the deadline of the Consortium had passed, he could ask for an official listing on the Paris Bourse.⁹⁹ Klotz had remained in favor of Empain's plan. Berthelot, after a visit of Empain on the 24th of January, agreed too, provided that all the benefits would be equally divided among French and Belgian partners. Finally, Berthelot easily managed to convince Minister Jonnart. Consequently, France would turn a blind eye to the issue. Empain was very grateful for the support of the French. Therefore, with complete discretion, without even consulting his fellow-board members, Empain gave great leeway to Philippe Berthelot to draft a letter stipulating the commitments of the *Cie Générale*. As a consequence, Berthelot obtained not only that half of the orders and personnel would go to France, but also that the chief engineer would be French, as had been the case for the Pienlo.¹⁰⁰

⁹⁷ Kurgan-van Hentenryk, "Philippe Berthelot," 276.

⁹⁸ "profite d'un apparté avec le ministre pour lui glisser diverses objections aux propositions de son associé", Kurgan-van Hentenryk, *Léopold II*, 806.

⁹⁹ Note of P. Berthelot, 24 Jan 1913, *Chine: Kaifong-Honan Fou (1912-13)*, 148CPCOM/527, MAEF; Minute of letter from Empain to P. Berthelot, 2 Feb 1913, 148CPCOM/527, MAEF.

¹⁰⁰ Kurgan-van Hentenryk, *Léopold II*, 806-07.

Thirdly, there was one last obstacle. The involvement of the *Société Belge* upset the Russian government. They knew that according to previous agreements, the *Société Belge* had in fact the right to issue 31% of the loan. However, the two banks behind the *Société Belge*, the *Société Générale* and *J. Henry Schröder*, were part of the Russian group within the Consortium. If they participated in the loan, they would go against the agreements and undermine the position of the Consortium. In March 1913, the Russian embassy in Brussels therefore protested to the Belgian Ministry of Foreign Affairs, which in turn questioned Empain and the *Société Générale*. Empain personally went to the Russian embassy to reassure the ambassador that the loan served to finance the railroad and not the Chinese government. The *Société Générale* guaranteed that it would not sell the loan at its counter.¹⁰¹

The *Société Générale* would respect the rules of the Consortium. This meant it would block its share of the bonds until the deadline of six months after the reorganization loan. Empain had not deemed it necessary to ask the *Société Générale* to put this verbal promise on paper. “This demand would have been almost offensive for her!!”, he wrote afterward.¹⁰² The 31st of March, the *Banque E.-L.-J. Empain* issued the loan in Brussels. In the days before, it had sold large amounts of bonds to his agents and correspondents in Belgium, France (*Bénard & Jarislowsky*), Switzerland and the Netherlands. The *Cie Générale* had spent 200,000 francs for advertisements, but “in an extremely discrete form.”¹⁰³

However, the *Société Générale* had been offering very attractive prices to intermediaries in Belgium and France and as such directly competed with the *Banque Empain*. Unlike its promise, the *Société Générale* spread printed flyers making it look like a public offering. Empain was furious and officially protested to the *Cie Générale*. However, the damage was already done. Many customers canceled or reduced their orders when they found out that Empain was asking higher prices than elsewhere. Whereas at first sight, the subscriptions would more than cover the whole sum and Empain had to refuse customers, now Empain was left with at least 10.5 million francs of unsold bonds.¹⁰⁴ Although Empain only called it a “careless mistake” (*étourderie*) of Francqui, it is clear that the *Société Générale* had deliberately tried to capitalize on the favorable climate for Chinese securities. By doing

¹⁰¹ E. Empain to P. Berthelot, 25 Mar 1913, *Chine: Kaifong-Honan Fou (1912-13)*, 148CPCOM/527, MAEF; Kurgan-van Hentenyk, *Léopold II*, 795.

¹⁰² “Cette demande eut été presque offensante pour elle!!” E. Empain to A. Berthelot, 31 Mar 1913, *Chine: Kaifong-Honan Fou (1912-13)*, 148CPCOM/527, MAEF.

¹⁰³ “sous une forme extrêmement discrete” Meeting of 7 Mar 1913, Minutes of the Board of directors, I 394/26, ARA2.

¹⁰⁴ Meeting of 2 Apr 1913, Minutes of the Board of directors, I 394/26, ARA2.

so, the directors of the *Société Générale* clearly embroiled themselves with Empain and the French Ministry of Foreign Affairs.¹⁰⁵

Despite the incomplete issue, the promoters of the Lunghai could derive huge financial profits from the advances and commissions on the loan. The *Banque E.-L.-J. Empain* earned at least 6% on each bond. The *Société Générale* had a smaller margin of 4.8%, because of the discount it had given to its agents.¹⁰⁶ For the *Cie Générale*, 1913 was an excellent financial year. It could pay a dividend of 18% and still build up a special reserve of 1.8 million. Since its first turnover in 1905, the ROE had been 20% on average.

7.5 Conclusion

With his investments in China, Empain entered one of the hardest, most competitive and politically explosive markets in the Belle Epoque world. Remarkably, Belgium was the only small state that successfully participated in the Scramble for Concessions. This chapter has focused on the role of the Empain group in this illuminating episode in the history of Belgian FDI. It shows how a combination of external factors and business strategies have determined the fate of Empain's investments in China.

First of all, the efforts of the Empain group in China were actively fostered by the Belgian State. The unremitting attention of Leopold II and the vigor of the Belgian diplomacy created opportunities. The King had the unconditional support of his Minister of Foreign Affairs de Favereau and thus of the diplomatic services. They all pursued a program to promote Belgian economic interests and to grant the country prestige. Both the King and the diplomats pushed Empain to invest as soon and as much as possible. However, the ambitions of the syndicate of 1897 lay in more modest light rail and tramway concessions. By accepting a deal involving a strategic railroad, Empain stepped into a hornets' nest of imperialist rivalry. That made Belgian diplomatic support all the more necessary.

However, after the departure of de Favereau and the decease of Leopold II, the intense collaboration between the government and Belgian finance vanished. From then on, Empain relied much more on the services of the *Société d'étude/Société Belge*, which hired former diplomats as representatives (e.g. Devos). The cooperation with the *Société Générale* was necessary, in view of the harsh competition and the size of the Lunghai project. However, the mighty *Société Générale* proved itself a difficult partner. Fortunately

¹⁰⁵ Kurgan-van Hentenryk, *Léopold II*, 797-98.

¹⁰⁶ Kurgan-van Hentenryk, *Léopold II*, 817-18.

for Empain, by 1913, the financial power of the business group had sufficiently increased. It was now able to handle some challenges independently, without the big banks or the Paris Bourse.

Secondly, most Chinese decision-makers were open for business with investors from smaller countries. That is why the Belgian envoys, Rouffart and Jadot tried to paint a picture of Belgium as an innocent and neutral partner that could help the Chinese realize their railroad ambitions. To the luck of the *Société Générale* and Empain, this strategy succeeded. China absolutely wanted to deal with a neutral power such as Belgium to construct the Beijing-Hankou and the Pienlo. The country feared that a Great Power would take possession of the railway in one way or another. Although the Chinese government knew that French banks actually had an ownership stake in those railways, it guessed that France could not make a direct claim on the railroad. Nevertheless, rising anti-imperialism incited the Chinese to demand that the Belgian identity of the enterprise be guaranteed.

Thirdly, it had been a deliberate strategy to partner up with the Great Powers. An independent Belgian firm had no chances to succeed amidst of imperialist envy. Therefore, Empain formed an alliance with France and Russia to a lesser extent. This was the first large foreign project in which he cooperated with the Parisian high finance and the French government. In a way, Empain bought off potential French and Russian opposition and simultaneously secured additional pressure on China. The British and Germans evidently criticized this Belgian-French alliance. Great Britain even created the myth that Belgium acted as a straw man for French-Russian interests in the region. In reality, the ties between Belgian and Russian interests were very loose. In the long run, the *Banque Russo-Chinoise* only played a minor role in the projects of the Empain group.

The ties with France, however, remained very strong. Realizing that he needed both the diplomatic support and the depth of the financial market, Empain has defended the French connection throughout the whole period. As discussed in the previous chapters, the same French government had to approve French railway concessions and the listing of many other Empain companies on the Paris Stock Exchange. Therefore, Empain has never seriously considered putting his excellent French relations at stake. He had to go great lengths so as to not sever this relationship. That was the consequence of the French distrust of Empain. Whereas Nagelmackers was one of theirs, Empain was not. In consequence, France was strictly not a 'second home country' for Empain's FDI. However, broadly speaking, Empain could get close to this domestic status by giving in to the French nationalist demands. This was not even an extremely high price to pay, for the Empain group in France had reached a critical mass. Empain could perfectly recruit French nationals within his business group and formally meet the requirements of the French government without totally relinquishing control.

Fourthly, if the Empain group did not want to leave the fray, it had to navigate between the contending imperialist powers. Belgium, France, Germany, Great Britain, Russia and

the US struggled for influence in Central China, whereas the Chinese government tried to limit all foreign interference. The *Cie Générale* was part of this struggle and took advantage of it by various means. For instance, in the case of the Lunghai loan, the harsh conditions of the International Consortium had driven China into the arms of Belgian banks. As an independent financier, Empain could exploit the fact that the young Republic was desperately looking for money. Additionally, the Empain group threatened to collaborate with German or British capital on some occasions. The offer of Schröder and other City banks for the Lunghai loan was the most concrete alternative. Of course, this was merely a tactics game to put pressure on France. In the end, the interests of the firm had priority over any national interests. So, if some European power used the *Cie Générale* to pursue national aims, this did not bother the Empain group. The business group tried to channel these national ambitions in a way that could benefit the *Cie Générale*. For that purpose, Empain and his top collaborators conducted high-level business diplomacy. To please both the Russian, French, Belgian and Chinese officials, Empain behaved more like a pragmatist than like a Belgian patriot. In sum, the Chinese railway business was a complex political game. Empain had to vary competition and cooperation with Belgian and foreign financial groups and their governments to make the most out of it financially.

General Conclusion

*Ayant placé tout le papier, je tire ma révérence à la
nation française en emportant toutes ses économies et je
dis :*

Métropolitain... connais pas !!!

Russe Française... connais pas !!!

La Parisienne... connais pas !!!¹

The cartoon on the cover of this dissertation provides an intriguing perspective on the actions and strategies of a global entrepreneur from Belgium in the world before the First World War. Moreover, it connects with many of the issues discussed in this research. The critical caricature was published in 1903 during one of the rare disputes between Empain and former business associates that were exposed to publicity. It depicts Edouard Empain, sitting on a train that is crossing the border from France to Belgium. With French savings as cargo, the entrepreneur makes a provoking gesture in the direction of France. The French caption of the cartoon is *L'art de rouler*, which means the art of rolling as well as the art of fooling. The anonymous author made Empain say: "Having floated all the stock, I bid farewell to the French nation while going off with all its savings and I say: Métropolitain... don't know! Russe Française... don't know! La Parisienne... don't know!" Even if it might seem a simple cartoon, the drawing and the text raise points that are linked to the three main arguments in my dissertation. All of them show how the Empain group could expand and prosper worldwide by adapting to the challenges of the First Global Economy and by transforming them into opportunities.

Firstly, the cartoon alludes to the horizontal and vertical integration of Empain's multinational business empire. Given the prominent place of the steam train, Empain is rightly depicted as a railway entrepreneur, for steam traction laid the foundations of his business empire. However, Empain went beyond the technology of the First Industrial Revolution and embraced the benefits of electricity. Moreover, the cartoon magnifies the

¹ In the original drawing, this fictitious statement of Empain was standing in the wisp of steam below the train. "L'Art de rouler," *L'Étoile coloniale*, 21 Mar 1903.

almost 'physical' mobility of capital in the First Global Economy. Crossing the French-Belgian border, it emphasizes the importance of internationalization for an MNE from a small open economy. In France and elsewhere, Empain could achieve economies of scale impossible in Belgium.

Secondly, it illustrates the second argument of an entrepreneur moving beyond the boundaries of the limited liability company and of the family firm. By mentioning stocks and the firms *CMP*, *Russe-française* and *Parisienne Electrique* in Empain's fictitious statement, the cartoonist refers both to the business group structure and the preference for the stock exchange as a source of finance. Furthermore, the image of Empain mobilizing French savings to finance its businesses highlights his strategic use of the French capital market. In contrast to Brussels, Paris was the largest financial center on the European continent. If he also wanted to stay independent from the large joint-stock banks, Empain had to attract French investors, notably via the holding companies mentioned in the cartoon. Finally, the author's focus on Empain as a wealthy tycoon with a crowned top hat is not far from the truth, for he could control his empire thanks to the pyramidal organization.

Thirdly, the cartoon hints at the political aspect of international business, which is the third argument of this dissertation. The political world map posed many challenges to Empain: the relative insignificance of the small home country, the rivalry of the Great Powers and the nationalism of the host countries. The cartoon particularly criticizes Empain's special relationship with France and especially the use of French capital. In itself, it is a proof of the prevailing economic nationalism in that country. It expresses the view that the Belgian Empain actually had no business in France. The cartoonist suggests that Empain merely exploited the French public, returning to Belgium where his business group is based. The author clearly has no illusions whatsoever on which country Empain gave allegiance to. Figuratively, *tirer sa révérence à la nation française* also means unashamedly abandoning, even rejecting the French nation.² However, to the frustration of the cartoonist, Empain had developed strategies to create a binational corporate identity. The cartoon criticizes the cloaking of the Belgian control of the above-mentioned firms by making Empain say that he does not know them. Indeed, by hiding all the links to the Belgian owners, Empain could circumvent the local nationalism and take advantage of the political and financial power of France.

The discussion of the cartoon illustrates how, through the lens of his transnational business group, this dissertation has provided insight into the functioning of the First Global Economy. In particular, this research has revealed the strategic interactions of small country MNEs with business, politics and society in a world of change. I have mainly shown that despite the unprecedented possibilities, Empain had to develop creative

² "CNRTL: Définition de RÉVÉRENCE (TLFi)," <https://www.cnrtl.fr/definition/révérence>.

strategies to take advantage of the economic, organizational and political challenges of the First Global Economy. In the following, I discuss these insights and show how all three arguments contribute to global business history.

Moving beyond the small early-industrialized economy

This dissertation has provided a deeper insight into the geographical and sectoral diversification strategy of entrepreneurs in the First Global Economy. The global perspective on the history of the Empain group has demonstrated that historical evidence significantly nuances the dominant theories on multinational enterprise. Mainly, I have argued that we must look not only at economic factors, but also at non-economic factors as an explanation for international investment. Regarding the sectoral strategy, I have shown how the Second Industrial Revolution transformed entire industries and had a deep impact on the business strategies of railway entrepreneurs.

Concerning the economic theories on international business, I have confirmed that the eclectic paradigm (OLI) is insufficient to explain the internationalization of service MNEs. As the services of Empain were location-bound and non-tradable, they could not be exported. The Empain group thus was not a market seeker in the classical meaning, i.e. setting up activities in markets to substitute exports. Rather, the FDI was only market-seeking in the sense that the Empain group went where the customers (governments, citizens, industry) were. The business group invested in utilities in regions where the population was growing (mostly cities) and where returns were higher than at home. These developing regions needed the technology and capital that e.g. Belgian entrepreneurs could provide. The combination of the resulting first-mover advantages in many of these regions, on the one hand, and the efficiency gains caused by a profound horizontal integration, on the other hand, created a profitable dynamic.

This insight has a consequence for the thesis claiming that Belgian FDI, especially in utilities, was for a large part a way to create foreign demand for products of the domestic heavy industry. This research suggests that the statement is incomplete. Of course, the internationalization of the Empain group was initially trade-supporting, driven by a railway equipment manufacturer to overcome the smallness of the Belgian market. However, subsequently the public utility multinational created its own lucrative business model, independent from the alliance with the heavy industry.

Besides, another economic theory about multinational enterprise should be nuanced. The expansion pattern of the Empain group shows that the Uppsala model of incremental internationalization is not applicable to international business in every historical period. The Empain group emerged as an FSC in France, before it invested in Belgium. Instead of

gradually widening its geographical scope, a few years later Empain directly made transatlantic investments in Latin America. Therefore, the Empain group rightly belongs to the category of the 'born global firms.'

If the investment behavior of the Empain group seems unconventional from the viewpoint of classic MNE theory, it would also be wrong to say that the Empain group entered a particular market 'just because it was possible.' Rather, I have argued that purely economic motives are insufficient to explain it. Instead, we also need to look at personal and political factors to understand why Empain invested in specific markets and sectors. First of all, the individual traits of Empain sometimes instigated investments. The quest for prestige, the appetite for risk and perhaps a creative urge typical of the nineteenth-century entrepreneur played a part in many projects, less obvious from the viewpoint of efficiency. Empain's involvement in some other businesses was the result of his wish to please his friend Leopold II.

Secondly, the most important non-economic element influencing the internationalization pattern was the personal network. The many interactions with directors, businessmen and diplomats shaped the mental maps of the Empain group. These relations shared information from the press and personal insights on the latest business opportunities. Sometimes, the broader business environment also played a role. The Empain group imitated fellow Belgian or foreign entrepreneurs to 'hot' host countries (e.g. Russia, Brazil and Argentina). This relational perspective on the world before 1914 corroborates the recent trends in International Business studies to view the global business environment more as personal networks instead of markets. Firms that are embedded in networks internationalize more easily and successfully.

Thirdly, power relations on a global scale also influenced the direction of Belgian capital flows. Like many of his Belgian counterparts, Empain diversified to the peripheral regions neglected by the financial groups of large Western countries. It was a strategy to choose the periphery of the periphery and take advantage of the crumbs left by the Great Powers. Often Empain had to diversify to unrelated sectors, whenever the competition had seized the best railroads. Because of the limited opportunities, the presence of the Empain group was rather superficial in these regions, which included Venezuela, Brazil, Chile, the Argentinian borderlands and parts of the Ottoman Empire. However, the Empain group also managed to be a Belgian forerunner in other territories, where formal and informal empire made the competition fierce. In Egypt and China in particular, Empain held his ground vis-à-vis the financial groups backed by the Great Powers. Below, the third argument explains why. In general, there was no clear strategy for spreading political risk by spreading investments over as many countries as possible. Nevertheless, it is clear that Empain combined focused projects in many countries with a strong presence in selected core markets: France, Belgium, Egypt and Congo.

This combined strategy had everything to do with the vertical integration of the Empain group in the wake of the Second Industrial Revolution. This research has

demonstrated the impact of this phenomenon on business in the First Global Economy. Enterprises that wanted to be resilient had to adapt to the innovations that had the power to transform entire industries. Electricity, the new General Purpose Technology, slowly revolutionized life in the city and the way the world powered transportation and production. The highly innovative electric industry thus became one of the driving forces in several European economies, generating high profits. If Empain started in a First Industrial Revolution industry, he quickly jumped on the bandwagon. As such, he successfully made the transition from the ‘steam-transport-iron cluster’ to the ‘electric cluster.’ However, transition is not the right word. The Empain group did not exit the steam-powered railway sector before the First World War. On the contrary, this is one of two things that distinguished it from other electroholdings. The group continued to invest large sums in the sector and maintained managerial control over the operating companies, unlike the methods of the classic *Unternehmensgeschäft*. The second distinction is that the Empain group integrated backward. The dissertation thus shows that forward integration (*Unternehmensgeschäft*) as the main explanation for the spread of electric utilities should be nuanced.

What also deserves additional emphasis in the literature is the regional clustering of these utilities. This mechanism can explain why some countries became the core markets of the Empain group. In France, Belgium and Egypt, the group could exploit economies of scope and spillover effects on a local level because it had been able to regionally integrate transportation, electricity production and, occasionally, the manufacturing of electrical equipment. This pursuit of synergies also unravels the mysterious genesis of the Heliopolis project. However, the unrelated diversification proves that entrepreneurs such as Empain never missed a good opportunity, even if it did not belong to the core branches.

Transcending the simple family firm

The empirical findings in this dissertation also provide a better understanding of the advantages of business groups. Whereas this literature has its origin in the remarkable omnipresence of business groups in emerging countries in the late twentieth century, the present research starts from a business group in the late nineteenth century. Thanks to this approach deeply rooted in history, I was able to make a more complete analysis of the beneficial aspects of this corporate form. I have mainly made four contributions in this respect. The first is a general remark. The inevitable evolution towards the large integrated corporation seems to be a teleological construct. This research supports the very recent turn in the historiography that regards business groups as a worthy alternative to the multidivisional firm. In fact, many firms with roots in the First Global

Economy, in Belgium in particular, have successfully used the business group form. The Empain group is a case in point, but its competitors (e.g. Otlet, *Chemins de fer économiques*, ...) are too.

Secondly, as the Empain case has many things in common with the family firm, I have linked this research to family business studies. It provides further empirical evidence for the claim that business groups were perfectly suited for the goals of family capitalism. Traditionally, family firms face a difficult choice: remain independent or attract external finance and relinquish control? The business group form resolves this fundamental dilemma. In this dissertation, I have extensively dealt with the possibilities the business group offered regarding finance and control. I have shown how Empain designed a pyramidal structure with an accumulation of companies. He always involved external finance just to the extent that the business could grow, while keeping an interest sufficient to retain control and steer the subsidiary in the right direction. Without this leverage, the Empain brothers, though very wealthy by 1914, could never have controlled one of the 50 largest enterprises in Europe.

Moreover, they could stay in command precisely because they used the stock exchange as the main funding source. It preferred to disperse the stocks of its subsidiaries as widely as possible, instead of relying on the banks. That is why the Empain group tried to go public whenever possible, despite the risk to be exposed to the fluctuations of the financial markets. The quotation was even a source of profit for the holding companies and the private bank, which combined a buy-and-hold strategy with speculation.

I have shown that thanks to the corporate structure, the family, i.e. the two brothers, always remained at the core of the Empain group. However, the business could not have prospered without the intensive collaboration of highly skilled managers. These were engineers, lawyers, top accountants, politicians and high government officials. This openness proves again that in history a partial divorce of ownership and control in large enterprises was also an equivalent possibility.

Thirdly, I have argued that family business groups have other common features such as the spread of risk and rationalization of management structures. This was obvious in the case of the Empain group. By temporarily extending the chronology, I have demonstrated that the longevity of the business group was partly due to the mutualization of risk. The profits of one group affiliate could cover the losses of the other. Again, it is important to stress that in spite of its apparent complexity, a business group like Empain's could be a highly efficient piece of machinery. It offered the flexibility to centralize the strategic and financial management and decentralize the daily operations. The top holdings could keep some subsidiaries close and loosen the control over others. It was also the perfect structure that flexibly allowed organic growth, acquisitions and joint ventures in related and unrelated sectors in different countries. Finally, the concentration of management in the headquarters also facilitated the circulation of technical expertise between the holding companies and the subsidiaries.

The fourth and most important advantage of the business group is the ability to tackle political risk, a central theme in this dissertation. In the public utility sector in particular, the system of legally independent companies offered the possibility to adapt to local regulations and political sensitivities. The group leaders could secure the right political support by tailoring the distribution of ownership and the composition of the board of directors of a specific subsidiary to the context of the host country. The Empain group was structured as a complex organization with holding companies both in Belgium and France. In contrast to the dual-listed companies such as *Koninklijke/Shell*, the binational structure of the Empain group was not the result of a merger. Rather, it was a deliberate strategy, because it allowed rearranging controlling interests in subsidiaries among the Belgian and French parent companies to limit political risk. In addition, the pyramidal structure permitted the involvement of local capital and directors without losing control. In other words, the cloaking never affected the power of the true owners. This capability had been so far underresearched.

Overcoming imperialism, nationalism and the small state

The third contribution of this dissertation is situated on the intersection of business history and the global history of the second half of the long nineteenth century. The aim was to better understand the impact of the paradox of globalization/territorialization on multinational enterprise. This dissertation has focused on the actions of global entrepreneurs and their firms, but it puts the political in the center of the debate about international business. I have argued that the relationship with governments was of utmost importance for public utility companies. Why? Because nationality mattered before the First World War. Public utility entrepreneurs already had to reckon with considerable political risk. They simply could not ignore the non-market forces such as nationalism and imperialism that could impact policy and encourage discrimination or even expropriation. The political risks were, however, not insurmountable. Empain's ability to build and consolidate a global business empire proves this. The hostile nationalism did sometimes merely infiltrate the public discourse, but not the actions of the authorities. Nevertheless, public utility entrepreneurs had to develop strategies to mitigate the political uncertainty as much as possible. To this end, they had to maintain close relations with all political actors involved.

In the classic view, FDI creates a triangular relationship between three actors: the multinational, the home country and the host country. Let us start with the first side of the triangle: the relationship between the MNE and the host country. Although most host countries initially have welcomed FDI, they could at a later stage discriminate against

foreign entrepreneurs. This happened in Venezuela and France. For public utility entrepreneurs, retreating from the market was unthinkable. Another possibility was that the host country was forced to accept the presence of foreign investors, because it lacked their superior technical and financial resources or because Great Powers had opened up the market. The host country could, however, try to discriminate based on nationality. China chose the lesser evil by granting concessions to countries it perceived as less dangerous.

The second side of the triangle is the relationship between the MNE and the home country. Given the unequal power relations in the First Global Economy, the support of the home country was as important for the MNE as the goodwill of the host country. In Belgium, big business that had the right connections with the government could count on the state machinery for its projects at home and abroad. The most zealous diplomats actively promoted and protected business interests in their area. The diplomatic agents were often the local antennae of 'Belgium Inc.' They hinted and advised entrepreneurs on business opportunities as well as assisted in or even led contract negotiations. As a rule, the more distant the market, the more Empain relied on diplomatic services. Both in Venezuela and China, their action was decisive.

Whenever the official economic diplomacy was either insufficient or unnecessary, the Empain group engaged in business diplomacy. As a result, the distinction between the private and public sphere became faint. Empain himself or his closest collaborators frequently contacted ministers and administrations. Conversely, politicians –in office or retired– and former diplomats privately lobbied governments on behalf of companies. The existence of a Belgian business-government nexus was the most evident in the saga of the Caracas waterworks. Private and state interests completely merged when the Ministry of Foreign Affairs almost became an extension of the Empain headquarters in 1903. The MNE-home country side of the triangle became very short, so to speak.

The third side of the triangle connects the home and the host country. The bilateral relations could have a decisive impact on the fortune of the MNE in the host country. Foremost, this dissertation has confirmed for different political settings in a different timeframe the insight that corporate nationality can be an asset in one context and a liability in another. FDI thus was informed by the international political context. The most important characteristics of Belgium as a home country of FDI were its smallness and its neutrality in international politics. Was neutrality a blessing or a curse for Belgian business? I have demonstrated that this depended on the size and power of the host country. In countries subject to informal empire such as China, business from the small country Belgium had an advantage. Its reputation as an industrious, innocent nation reassured the Chinese elite. In Venezuela, the liabilities of foreignness and of smallness converged. A Belgian company did not have the power to force the nationalist Venezuelan authorities to act in the interest of the company. Even the Great Powers could not simply consider Venezuela as their informal empire. Only with gunboat diplomacy

could they achieve their goals. Entrepreneurs from neutral Belgium could only watch and try to take advantage of the Great Powers' military intervention. Egypt was de facto a British colony. While British firms had a prominent position, neutrality did not provide an advantage to Belgian firms compared to other foreign firms. In France and Russia, the neutral status played neither to the advantage nor to the disadvantage of Empain. These were strong industrializing states that did not fear foreign interference. The smallness, however, was a disadvantage. The weak Belgian diplomacy could not accomplish much against overassertive municipalities in the Czarist empire.

Yet, on the basis of my research I have developed the new argument that for the First Global Economy, the triangular view of FDI is sometimes too simple. If host countries preferred companies from one country over those from another, then this created opportunities for multinationals. I show that on a basic level MNEs took advantage of this discrimination by distancing themselves from their competitors from other countries. The Belgian industry willingly portrayed itself as a harmless investor in China. However, on a more complex level MNEs tried to transcend the liability of home altogether. The Empain group forged a multifaceted corporate national identity, using its legal entities in different countries. This versatile multinational identity limited political risk in two interrelated ways.

First, it had shortened the MNE-host country side of the triangle. In other words, to maintain cordial relations with the authorities of the host country, the business group tried to appear as local as possible, notably through cloaking mechanisms. The subsidiaries of the Empain group had to be perceived as Belgian in Belgium, French in France, Egyptian in Egypt, and so on. The preferred method to assimilate was involving local investors and the local political elite. The Empain group had failed to do so in Venezuela, but had learned from this experience. The strong partnerships in France and Egypt prove this. In sum, assimilation was the best way of avoiding adverse policy-making or municipalization/nationalization. The failed attempt in the politically sensitive French colonies, however, shows the limits of this chameleonic strategy.

Secondly, a versatile business group could also transform the FDI triangle into a diamond (lozenge) by adding a fourth actor. In the case of the Empain group, this diamond consisted of the MNE itself, the home country Belgium, the host country and, fourthly, a second home country. Involving a Great Power had a twofold effect for the Empain group. On the one hand, it added more pressure on the host country to accept and afterward respect the investments of the Empain group. In contrast to the limited influence of small nation diplomacy, this powerful state could provide political and financial support to gain a foothold in a particular host country. In Egypt, Empain partnered up with British capitalists because they were the imperial power there. In Russia, the Empain companies appealed to French diplomacy. In China too, the Empain group accepted French influence in the management in exchange for decisive support. On the other hand, by choosing a strong partner the Empain group eliminated the severe competition of investors from the

hegemonic powers. Moreover, on some occasions Empain played high. As European governments regarded business as the extension of national foreign policy, the Empain group could play off one country against another. In the case of Egypt and China, the Empain group put pressure on the French government to support them, threatening to do business with British or German capitalists instead.

Even if the strong alliance with France was an asset in several ways, I have shown that 'Little Belgium' had many advantages besides the limitations. As a result, the Empain group did not abandon its home base. Before the First World War, the roots of the founder determined the national identity of the business group. Moreover, the main headquarters were in Brussels. From there, Empain organized the worldwide expansion of his business empire. The Baron also continued to play a role in Belgian high society. Nevertheless, Empain spent his personal life in the French capital too. Additionally, some of the group's most important firms as well as directors were French. In sum, it is too simplistic to pigeonhole the Empain group as an instrument of Belgian capitalism, although this is exactly what the cartoon tried to do. Rather, its strategic use of this ambiguity has been one of the salient points of this dissertation. Through its strong ties to Belgium and its special relationship with France, the Empain group had become a hybrid multinational business group, running on a Belgian-French double track.

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Other documents of interest on Empain to be found in files on Chile (Cl. B 164/IV), Brazil (Cl. B 164/IV), Turkey (2917, 2918, 2922, 2664 BIS/II), Spain (6360), Syria (7242), ...

African archives

IRCB(507)	Congo	<i>Correspondance Empain-Leopold II</i>
IRCB(720)	Congo	<i>Correspondance Leopold II</i>
IRCB(722)	Congo	<i>Correspondance van Eetvelde-Leopold II</i>

Archives of the City of Brussels (ACB)

Registre des Patentes (industry tax), 1880

Population registers 1866-1900

Musée royal de Mariemont, Morlanwelz (MRM)

Archives of the Warocqué Family	26/1 (205F)	<i>Gaz et Electricité du Hainaut</i> Digitized correspondence of Raoul W.
Archives of the Verniory Family	I 1.3 VII/1-3 VIII	Written history of the family Personal diaries of Gustave V. Correspondence of Gustave V.

AfricaMuseum, Tervuren (KMMA)

Archives of the Empain group

HA.02.01.173	<i>Affaires russes: généralités</i>	Position book (accounting)
HA.02.01.175-.290	<i>Tramways de Kischinew</i>	Extensive company records

HA.02.01.291-.356	<i>Tramways d'Astrakhan</i>	Extensive company records
HA.02.01.357-.455	<i>Tramways de Taschkent</i>	Extensive company records
HA.02.01.792-.793	<i>SIER</i>	Minutes of the Board of directors and accounting
HA.02.01.473	<i>CFL</i>	Reports on operations (1913)

Royal Library of Belgium (KBR)

Correspondence of Edouard Empain with:

Edouard Otlet	Ms. II 7.584/142
Edgar Tinel	Mus. Ms. 464 C II 5/34
Georges Helleputte	Mus. Ms. 464 C V 9/26
Elisabeth Alberdingk Thym	Mus. Ms. 464 C V 7/71

Le Bois du Cazier, Charleroi

Collection J. Simar	Uninventoried duplicate archives and published sources, including a testament and correspondence
Collection ACEC	Published sources and historical overviews

Archives Philippson, Ohain (Lasne)

1062	Tramways de Gand
1531	Congo Supérieur
1822	Compagnie Générale des Nitrates
1873	Syndicat d'Etudes du Chemin de fer de l'Urua
1896	Parisienne Electrique

FRANCE

Archives nationales du monde du travail, Roubaix (ANMT)

Association nationale des porteurs français de valeurs mobilières: Documentation imprimée concernant les sociétés	65AQ	<i>Cdf Bayonne-Biarritz</i> (E73), <i>HOC</i> (E131), <i>Cdf Calvados</i> (E133), <i>Cie Auxiliaire et travaux publics</i> (E200), <i>Cdf vicinaux</i> (E202), <i>Réunis</i> (E232), <i>Railways&Electricité</i> (E238/1+2), <i>Voie étroite</i> (E239), <i>Russe-française</i> (E241), <i>Soc. fr. d'Entreprises en Egypte</i> (E289), <i>RELSE</i> (E401), <i>Moudania-Brousse</i> (E498), <i>Econord</i> (E518), <i>Cdf élec. Ostende-Blankenberghe</i> (E541), <i>Cdf Périgord</i> (E572), <i>Cdf Banlieue de Reims</i> (E604), <i>SBE</i> (G515), <i>La Longueville</i> (K274/M275), <i>ACENE</i> (M335), <i>ANF</i> (M337), <i>Cie générale des nitrates</i> (P89), <i>Tramways Boulogne-s-Mer</i> (Q76), <i>Fédération FR-BE</i> (Q214), <i>Twys Gand</i> (Q229), <i>Twys Lille</i> (Q268), <i>Twys Bayonne-Biarritz</i> (Q386), <i>Parisienne Electrique</i> (Q483/1+2), <i>Twys élec. Nord-Parisiens</i> (Q513) and many more
Daniel Berthelot	2002 026 067	Personal papers

Archives nationales, Pierrefitte-sur-Seine (FRAN)

Ministère des Travaux Publics	F/14/13518	<i>Demandes d'émissions d'obligations</i>
	F/14/15052	<i>Tramways Nord-Parisiens</i>
	F/14/15073	<i>Métro de Paris : fourniture d'énergie électrique (1897-1948)</i>
	F/14/15137	<i>Fusion des Chemins de fer du Périgord, des Voie étroite du Midi et des Econords (1889-1892)</i>
	F/14/17341	<i>Tramway de Valenciennes (Nord)</i>
Légion d'honneur (Base Léonore)	LH/176/23	<i>Bénard Adrien Léon</i>
	19800035/330/44494	<i>Boyer Hippolyte Eugène</i>
	19800035/269/36019	<i>Legouëz Raynald Louis Henri</i>
	19800035/652/75112	<i>Mary Albert</i>
	LH/2402/74	<i>Roussel Félix Joseph Guillaume</i>
Ministère de la Justice	BB/11/2007/12050/X/87	<i>Admission à domicile: E.L.J. Empain</i>
Fonds Bunau-Varilla	18AR/2	<i>Correspondance Empain</i>
Papiers Jules Madeline	29AR/1/1	<i>Correspondance Empain</i>
Papiers Famille de Greffulhe	AP/101(II)/83	<i>Correspondance Empain</i>
Fonds Albert Thomas	94AP/388	<i>Correspondance Empain</i>

Archives nationales d'outre-mer, Aix-en-Provence (ANOM)

FR ANOM 94 COL 4TP9	<i>Ministère des Colonies : Comité des travaux publics des colonies : Register no. 9 : Meeting of 22 Jul 1901 (digitized : anom.archivesnationales.culture.gouv.fr/ark:/61561/bj844uotquc)</i>
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Archives of the Ministry of Foreign Affairs, La Courneuve (MAEF)

Belgium	142CPCOM/26-27	<i>Banques-Bourses 1901-13</i>
	142CPCOM/42	<i>Industrie 1911-18</i>
China	148CPCOM/523-528	<i>Pienlo 1899-1916</i>
Egypt	156CPCOM/57-62	<i>Agriculture. Industrie. Travaux Publics. Chemins de fer 1896-1914</i>
	156CPCOM/82-84	<i>Finances privées 1909-14</i>
Belgian Congo	150CPCOM/19	<i>Chemins de fer 1898-1902</i>
Venezuela	P595	<i>Correspondance politique</i>
Ottoman Empire	1ADC/456	<i>Chemins de fer</i>

Archives of the Ministry of Economy and Finance, Savigny-le-Temple (CAEF)

B-0031176/3	Belgium	<i>Situation économique et financière 1888-1914</i>
B-0031179	Belgium	<i>Sociétés 1891-1913</i>

B-0031261/3	Belgium	<i>Compagnie russe-française de chemins de fer et de tramways 1900-01</i>
B-0031348	Venezuela	<i>Renseignements généraux</i>
B-0031295	China	<i>Chemins de fer 1895-1911</i>
B-0031291	Egypt	<i>Sociétés diverses 1896-1914</i>
B-0066528/1	France	<i>Emission d'emprunts: Parisienne Electrique</i>
B-0067101/1	France	<i>Ateliers de Jeumont</i>
B-0072838	Egypt	<i>Politique économique (1908-1953)</i>
B-0072864	Belgium	<i>Chemins de fer réunis</i>

Archives of Crédit Agricole, Montrouge (CA-CL)

Crédit Lyonnais	DEEF49107	<i>Direction d'études économiques et financières : Etude du Groupe Empain (1914)</i>
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Publicly available documents (articles of association, annual reports, ...) on many French firms of the Empain group

Archives of Electricité de France, Paris (EDF)

756628	EGN	Minutes of the board of directors and shareholders meetings
756893	SERVA	Negotiations prior to incorporation
756899	SERVA	Minutes of the board of directors and shareholders meetings
756943	SERVA	Annual accounts
757027	SEP	Documents produced in the context of the incorporation
757069	SEP	Minutes of the board of directors and shareholders meetings
757160	SEP	Annual inventories

Archives of SPIE, Cergy-Pontoise

SPIE Virtual Library: Collections:	<i>Parisienne Electrique: Délibération du Conseil d'administration</i>
Books: History documents	(Minutes of the Board of directors, 1900-1905) https://lib.spie.com/media/e9d359c0-ee87-496f-901e-ff1448c154e4/#ss=3dbd3776-a724-4f98-a9c4-130d08a2255a

UNITED KINGDOM

National Archives, Kew

Foreign Office Files	Confidential Print: Middle East and Confidential Print: Africa (accessible with full-text search via Adam Matthew Digital)
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- Annales Parlementaires of the Belgian Senate and Parliament*, 1880-1914 (digitized)
- Annexes au Moniteur Belge. Recueil spécial des actes, extraits d'actes, procès-verbaux et documents relatifs aux sociétés commerciales*, Brussels, 1873-1921 (digitized, IFA)
- Belgicapress (*Indépendance Belge, Journal de Bruxelles, Het Handelsblad, La Meuse, La Réforme, Le Peuple, Le Soir, Le XXe Siècle, ...*), 1870-1929 (digitized)
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- Europeana Newspapers (*Berliner Tageblatt, Hamburger Nachrichten, Wiener Zeitung, ...*), 1880-1914 (digitized)
- Financial Times*, London, 1880-1914 (digitized)
- Gallica (*Le Journal des Transports, Rapports et délibérations des conseils généraux des départements, Journal officiel, Bulletin municipal officiel de la ville de Paris, ...*), 1880-1929 (digitized)
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- Moniteur des Intérêts Matériels + Supplément au Moniteur des Intérêts Matériels*, 1880-1914.
- Recopilación de leyes y decretos de Venezuela*. Caracas: Imprenta Nacional, 1905. (digitized)
- Recueil consulaire contenant les rapports commerciaux des agents belges à l'étranger*, Brussels, 1886-1896
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Appendices

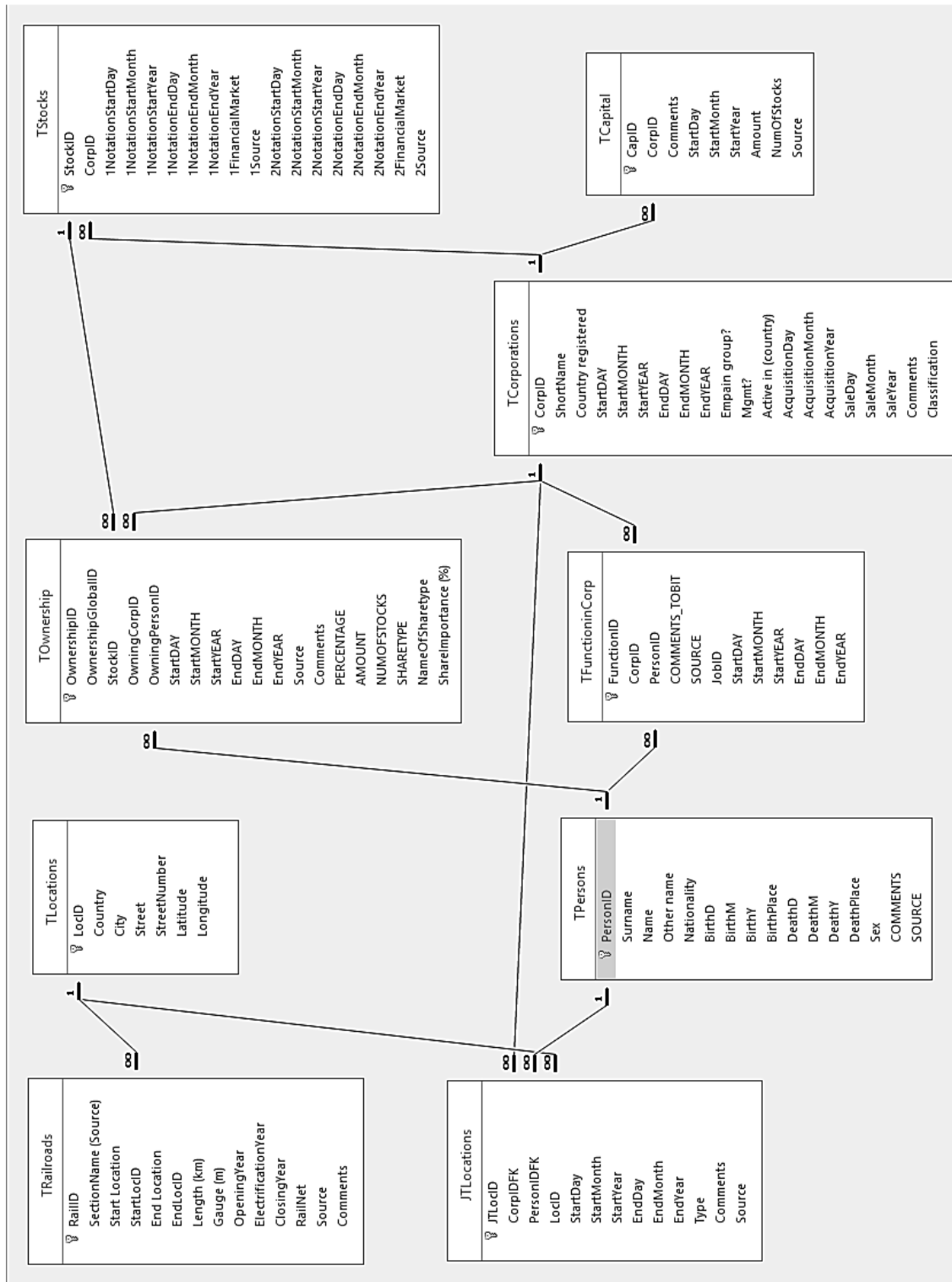
Appendix 1: A note on money and currencies

This dissertation always expresses the monetary value of assets in current prices, unless indicated otherwise. The First Global Economy had a relatively stable monetary system. Compared to 1880, there had been limited to no inflation in Belgium (see Jordà-Schularick-Taylor Macrohistory Database). The country witnessed a period of deflation in the 1880s and 1890s, but the prices restored in the 1900s. Therefore, only few longer time series were adjusted for inflation.

As far as currencies concern, the First Global Economy had fixed exchange rates. In France and Belgium, members of the Latin Monetary Union, the franc was worth the same. Unless noted otherwise, other currencies (Bolivares for Venezuela, Mexican dollars for China) have been converted to francs using the Federico-Tena World Trade Historical Database (see Bibliography).

Appendix 2: Structure of the personal database (MS Access)

The database contains information on persons, firms, board membership, ownership, capital, stocks, locations of HQ and the geographical and temporal development of the railroad network in Belgium, France and the Netherlands.



Abstract (EN/NL)

EN By looking through the lens of a global entrepreneur, this dissertation provides insight into a crucial period in world history: the First Global Economy (1870-1914). To tackle the broader issue of the opportunities and limitations in a paradoxical world of economic globalization and political fragmentation, I take an actor-centered approach. The history of the business empire of the Belgian Edouard Empain (1852-1929) elucidates a complex era characterized by globalization and nation-state formation. By focusing on an entrepreneur originating from a small country but transcending boundaries, the possibilities and risks for international business in this period can be studied. Starting in 1880, the business group of Edouard Empain developed into one of the largest in Belgium and became a global player active on four continents. The Empain group mainly invested in public utilities such as transportation and electricity production as well as in electrical engineering. Within this context, this dissertation answers the following question: What strategies did a multinational enterprise from a small country adopt to seize the opportunities and handle the risks of a world characterized by both economic integration and geopolitical rivalry at a global scale? I argue that, to understand the development of international business in the First Global Economy, we need to acknowledge the importance of the following three domains: the geographical and sectoral strategy, the corporate structure, and the business-government relations. To address these issues, this dissertation uses a wide array of archival sources and secondary literature. It combines a comprehensive approach of the more than eighty Empain companies with selected case studies to understand the dynamics of international business. This allows me to argue that Empain developed strategies in the three abovementioned domains to transform the global economic and political challenges into opportunities. First, his investments were the result of an entrepreneurial logic combined with the pursuit of economies of scale and scope. Secondly, the business group form had many advantages, making it an efficient device for investments in the First Global Economy. Thirdly, thanks to the complex interplay between the multinational enterprise, the home country and the host countries, an entrepreneur from a small country could exploit the international political frictions of the late nineteenth-century world to develop a global business empire.

NL Kijkend door de ogen van een internationale ondernemer verschaft dit doctoraat inzicht in een cruciale periode in de wereldgeschiedenis: de Eerste Wereldeconomie (1870-1914). Dit onderzoek vertelt tegelijk de geschiedenis van het zakenimperium van de Belg Edouard Empain (1852-1929) en het verhaal van een complex tijdperk gekenmerkt door globalisering en de vorming van natiestaten. Vanuit één actor behandelt het het bredere vraagstuk van de kansen en beperkingen van een paradoxale wereld van economische integratie en politieke fragmentatie. De studie van een bloeiende onderneming, die haar kleine herkomstland overstijgt, maakt een analyse van de opportuniteiten en risico's verbonden aan internationaal ondernemen mogelijk. Vanaf 1880 groeide de bedrijvengroep van Edouard Empain uit tot een wereldspeler actief op vier continenten. De Empain groep investeerde hoofdzakelijk in nutsbedrijven zoals transport en elektriciteitsproductie, maar ook in de productie van elektrisch materieel. In dit geschetste kader, antwoordt het doctoraat op de volgende vraag: Via welke strategieën kon een multinational uit een klein land de kansen te grijpen en de risico's beheersen, die eigen waren aan een wereld gekenmerkt door economische integratie en geopolitieke rivaliteit? Ik stel dat, om de ontwikkeling van multinationale ondernemingen in de Eerste Wereldeconomie te begrijpen, we het belang van de volgende drie domeinen moeten erkennen: de geografische en sectorale strategie, de bedrijfsstructuur en de relaties tussen bedrijven en overheden. Om deze vraagstukken te behandelen gebruikt dit doctoraat een brede waaier aan bronnen en literatuur. Het combineert een globale aanpak van de meer dan tachtig bedrijven met selecte casusstudies om de dynamiek van internationale investeringen te begrijpen. Dit laat toe te tonen hoe Empain strategieën ontwikkelde in de drie genoemde domeinen om de wereldwijde economische en politieke uitdagingen om te vormen in opportuniteiten. Ten eerste stel ik dat zijn investeringen het resultaat waren van een ondernemerslogica gecombineerd met een zoektocht naar schaalvoordelen. Ten tweede argumenteer ik dat de piramidale groepsstructuur vele voordelen had die er een efficiënt instrument voor investeringen in de Eerste Wereldeconomie van maakten. Ten derde, dankzij het complexe samenspel tussen de multinational, het thuisland en de gastlanden kon een ondernemer uit een kleine staat de internationale politieke strubbelingen uitbuiten om een wereldwijd zakenimperium uit te bouwen.

