The highest rise and insignificant presence

In 1910 a period of intensive armament of the Serbian army began, and as the country was not financially strong enough to meet all the projected expenses, a new and wide-ranging involvement of foreign capital in Serbia was inevitable. This created a financial contest between the Great Powers for dominance over the country, and was a quiet prelude to the Balkan Wars and the First World War.

1 Diplomatic relations between Serbia and Great Britain were established on 5 June 1837, when Colonel George Lloyd Hodges handed his credentials to Prince Miloš, thus becoming the first British General-Agent in the Principality of Serbia. Hodges’ activities were mainly aimed at supporting the autocratic Serbian monarch in his opposition to the influence of St. Petersbourg and Constantinople. Nevertheless, as it was a period when Russian influence on the Porte was in the ascendant, and as Miloš’s misrule was meeting formidable resistance in Serbia, British diplomacy failed in its efforts. Finally, Prince Miloš was forced to abdicate, and the first British diplomatic representative in Serbia, finding his position untenable, left the country as well.

The next British diplomatic representative in Serbia was T. G. de Fonblanque. This time, British diplomacy decided to avoid any trouble. Nevertheless, Fonblanque was not impressed by the regime established in Serbia: he despised the weakness of Prince Aleksandar Karadjordjević and pointed out in his despatches the high levels of corruption in the powerful oligarchy assembled in the State Council. Above all, he never got used to Serbia and maintained a hostile attitude towards the Serbs. Paradoxically, although alienated and inimically disposed, Fonblanque had been virtually forgotten in Belgrade for almost eighteen years. After the 1848/9 revolution in Hungary, he helped to effect the escape of its leader Kossuth, and so attracted the personal enmity of the Austrian Emperor Franz Joseph. When, at the outbreak of the Crimean War, Russia and Austria threatened to occupy Serbia, it was Britain that temporarily won the greatest influence on Serbian affairs. But, as the Paris Peace settlement did not significantly enhance the position and status of the Principality of Serbia, British prestige promptly decreased.
For Serbia, the question of army modernisation became a burning priority after the report by Colonel Mašin, submitted to the Serbian Government in 1907, reviled the Serbian army not only for lagging behind its mighty imperial foes, the Ottoman Empire and Austria-Hungary, but for

Restoration of the Obrenović dynasty in 1858 did not bring much change in Anglo-Serbian relations. During the 1860's Serbia was trying to win complete independence and to liberate neighbouring districts. The next British consul, Langworth (1860–1875), perceived Serbia as a battlefield for the two equally dangerous movements for the European balance of power: Pan-Slavism and South-Slavism. When, in the Eastern Crisis Russia defeated the Ottoman Empire and Pan-Slavism appeared to be triumphant in the Balkans, Great Britain stood up as the last protector of the Ottoman Empire. Nevertheless, the crisis opened a formidable rift between the approach of British politicians to the Balkans and the attitude of the public. Some politicians, as was the case with Disraeli, were motivated by political pragmatism to support the Porte, and at the same time were almost completely without interest in the Ottoman reform and the position of Christian subjects in the Ottoman Empire. On the other side were the Liberals, strongly supported by the British public, who became very sensitive to any news about unrestrained oppression in the Ottoman Empire. The most famous proponent of this policy was Gladstone.

The 1880's and 1890's were a period when Serbia and Romania, although formally independent since 1878, were gradually becoming politically and economically dependent on Austria-Hungary. Even though, in 1886, the British diplomatic representative in Belgrade was promoted in rank to Minister Extraordinary and Envoy Plenipotentiary, direct political interest in Serbia was in a process of decline. At the turn of the century the situation changed to a certain degree. The Macedonian uprising of 1903 and the assassination of the Serbian royal couple attracted the attention of the British public and government. The Macedonian uprising triggered European mediation and the common reforming action of the Great Powers towards Turkey-in-Europe. On the other side, the brutal murder of King Aleksandar Obrenović and Queen Draga left a long-lasting mark on relations between London and Belgrade. Diplomatic relations were broken for three years, and remained estranged until 1913. The British Government’s conditions for their restoration involved the elimination from public life of the officers who had played major roles in the conspiracy. As the new regime and the Karadjordjević dynasty were still weak, and relied heavily on the support of the army, genuine normalisation required considerable time. Before that could happen, the economic rivalry and political dispute between Serbia and Austria-Hungary had already started, while Britain did not take part in the first stages of the economic contest between the Great Powers over the provision of loans for Serbia and the establishment of an armament programme for the Serbian army. So when in 1906 a new British Minister, John B. Whitehead, was appointed, Britain was lagging behind the other Great Powers as far as influence on Serbian affairs was concerned. The British position improved somewhat during the Bosnian crisis of 1908, but British diplomacy limited the signs of its new benevolence towards Serbia strictly to moral support. Serbia became interesting to the Foreign Office mainly because Serbia’s adversary was Austria-Hungary, a devoted ally of Germany. Beyond that fact there was nothing about Serbia that was attractive for British diplo-
lagging behind Bulgaria as well.\footnote{Whitehead to Grey, General Report on the Kingdom of Servia for the year 1907, Belgrade, 2 April 1908, 291-293, in British Documents on Foreign Affairs: Reports and Papers from the Foreign Office Confidential Print, gen. eds. Kenneth Bourne and D. Cameron Watt, Part I, From the Mid-Nineteenth Century to the First World War, series F: Europe, 1848–1914, ed. J.V. Keiger, vol. 16 (University Publications of America, 1989; further referred to as BdoFA).} Another impulse came with the humiliating Annexation crisis and the Austrian actions in Sandjak, Malissori and the Kosovo-Metohija region. Alongside the military issues, Serbia had felt strong economic pressure from its mighty neighbour Austria-Hungary. The period after 1903 witnessed an intensifying economic contest between the two countries, which culminated in the Customs War in 1906. An economic outlet onto the sea of one of its neighbours thus became the principal political obsession of Serbian politicians and capitalists, and it was usually identified with the independence of the country. As has already been mentioned, 1910 was the year when the idea of a military and political alliance between the Balkan countries attracted once more the attention of local politicians. Whether such an alliance would be anti-Austrian or anti-Ottoman, peaceful or aggressive, was being kept an obscure secret, for Balkan politicians were fully aware that their freedom of action would mainly depend on the complex balance between the Great Powers.\footnote{D. Djordjević, Milovan Milovanović (Belgrade, 1997); Ch. Heilmreich, The Diplomacy of the Balkan Wars, 1912–13 (London, 1938).} Successful reform and armament of the Serbian army was the main precondition that such an alliance would be effectively negotiated, and that Serbian interests would be well placated within it.

When Sir Ralph Paget\footnote{Sir Ralph Spencer Paget (1864–1940) was in British diplomatic service from 1889. He was British Minister in Guatemala, Siam, Bavaria, Serbia and Denmark. In 1919 he was sent to Rio de Janeiro as the first British Ambassador to Brazil. Paget was British Minister in Belgrade from 1910 to 1913 (during the Balkan Wars 1912–13) and in 1915 spent several months in Serbia as High Commissioner of British Red Cross. Ralph Paget was Assistant Under-secretary of Foreign Affairs in 1916, when together with Sir William Tyrell drafted the first official British plan of post-war composition of Europe. Cedomir Antić, “Sir Ralph Paget and British Policy towards Serbia from 1910 to 1913” (MA thesis, Bristol, 2002).} arrived in Belgrade, economic relations between Great Britain and Serbia were twofold. The range of potential financial and commercial activities in Serbia was limited, and that was why...
it only attracted small and not particularly influential British companies. Although occasionally raised very loud, their voice had only a modest effect on the Foreign Office, which found many political obstacles to a wider involvement of British capital in Serbia. Animosity towards the Serbian army, in which the detested regicides preserved much of their previous influence, was still alive, as was an undisguised contempt for corrupt Belgrade politicians and the feeble Karadjordjević dynasty. The Balkans were also a region in which Britain did not have any direct political or economic interest, but this was not the case with British imperial allies and adversaries. In this context, the region had a disproportional importance for British foreign policy. So, it was natural that British diplomats defined Britain's economic relations with Serbia in vague terms. They had tried to explain the apparent political obstacles and pressures for a wider involvement of British capital in Serbia by the absence of any major British investment or any already-existing economic presence.

Above all, Great Britain was very interested in the destiny of the Ottoman Empire, and was naturally anxious about the pro-Ottoman feelings of a hundred million of its Muslim subjects in India. Relations with Russia were also the source of considerable unease for Great Britain and made it very reluctant to become involved. In 1907, an alliance was concluded between the two old adversaries. However, while Persia had been the last and most formidable obstacle to overcome before that alliance was concluded, the Balkans, which were to become the centre of two major crises that ushered in the First World War, were not particularly discussed. When, about 1910, Great Britain tried to move closer to Austria-Hungary, the Foreign Office did not consider that a common stand with Russia over the Balkans was necessary. On the other hand, France, the closest British ally, was eager to take the place of Austria-Hungary as the financial patron of Serbia. The bids to provide Serbian loans thus turned out to be a contest between French and German capital and ultimately resulted in a compromise, which

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6 Paget expressed dissatisfaction with the value of commercial exchange between the two countries, although aware of its potential for steady increase. *BdoFA*, 405.


8 Russia tended to reinforce its political influence on the Balkans with economical involvement, but after the 1905 revolution and the redefinition of its foreign policy aims, this ceased to be a priority. Just before the Balkan War, Russian Balkan policy became highly limited and dependent upon the Straits question.
finally imposed French economic supremacy in Serbia. The participation of France in two major loans that Serbia raised in 1909/10 and 1913 was so significant that France became the owner of more than three-quarters of all the debts of the Serbian State. In the struggle to give loans, Great Britain, which restored relations with Serbia in 1906, was a newcomer. British diplomats did not believe that any expected profits could be worth even the slightly possible deterioration of Britain's otherwise good relations with France.

Although the issue was not important enough to provoke rivalry between Britain and France, the Serbian loans were still a very tempting and attractive investment. The Serbian political elite considered armament and the Danube–Adriatic Railway an urgent matter, crucial for the survival of the State. This was the reason why the Serbian Government was not willing to become economically dependent on Germany or, especially, on Austria-Hungary. So it was almost entirely up to financial syndicates from the countries of the Triple Entente to define conditions and to impose them, without expecting many difficulties. Successive loans of 150 and 250 million francs had been taken mostly from France. Their conditions were so unfavourable that in the case of the second loan the total sum designed to be repaid by 1963 was supposed to reach 677.5 million francs. Aware that its efforts to preserve political independence could have the possible effect of making the country highly dependent on France, the Serbian Government at first tried to attract Russian and British capital, and then to involve industrial investments from both countries, in order to make the French pressure lighter.

The Serbian Government had not been completely frank about its real aims. Although French predominance in Serbian loans and armament had already been decided before Ralph Paget was appointed British minister to Belgrade, the efforts of Serbian diplomats to attract British capital did not cease right up to the beginning of the First World War. However, despite all the promises, British capital largely remained uninvolved, and only few of the smaller orders for military material were placed in Britain. The real aim of Serbian politicians became obvious after a while to the representatives of the British Legation in Belgrade: British financial syndicates and military industry were frequently pursued only with the purpose of using them to negotiate down French conditions, in case they were too harsh. In reality,
British support was rarely seriously considered as an alternative. This made British representatives in Serbia even more suspicious of and closed towards potential offers, even when, as was the case with Sir J. B. Whitehead, Paget’s predecessor, they were personally interested.

At the beginning of 1910, British diplomacy made major efforts to acquire a share in the 30 million franc loan that the Serbian State Mortgage Bank was negotiating with French creditors. Under the burden of previous loans concluded in France, and despite very unfavourable conditions, the Bank finally gave priority to Paris again. As the conclusion of the loan was immediately followed by negotiations for the orders of armaments, British diplomacy was trying to negotiate its involvement directly with the French. The negotiations began informally in Paris, where the British ambassador Sir Francis Bertie received the representatives of the French Bank group, who recommended that he should inquire of the French government whether there was any possibility of part of an artillery order being placed in Great Britain. The share that the French bankers promised to Bertie was moderate but appeared to be satisfactory, for out of 44 million francs reserved for military purchases (of the 150 million franc loan), Britain was promised 5½ millions. However, although first reactions from Serbia were very optimistic, the British plans came to nothing when they met the resolute opposition of French diplomacy and, more surprisingly, the joint resistance of the governing Serbian parties. Subsequently, Whitehead tried to save some smaller orders, namely machine guns, for Vickers, Sons and Maxim Company. Even so, neither the British minister nor his superiors harboured any illusion that the final decision would be in favour of the British applicant. That impression was confirmed only three weeks later,

11 After one such case in February 1910, the British Minister made an official protest, but the Serbian Bank did not abolish the concluded loan, nor did it resume negotiations. Whitehead to Grey, Belgrade, 1 March 1910, FO 371/982. Indicative was the reaction in the Foreign Office. Sir Edward Grey, after a meeting with the Serbian Chargé d’Affaires, remarked that the negotiations were not “a matter in which HMG could intervene diplomatically”. Grey to Whitehead, London, 4 March 1910, Minute.
12 Aleksić- Pejković, Odnosi, 324.
13 Whitehead to Grey, Belgrade, 17 February 1910, Serbia FO 371/982.
14 Bertie to Grey, Paris, 10 January 1910, FO 371/982.
15 Caillard to Bertie, Hotel Chatam, Paris, 10 January 1910, FO 371/982.
16 Whitehead to Grey, 13 January 1910, FO 371/982.
17 In conversation with the Serbian Prime Minister Pašić, Whitehead naturally got assurances that the main guilt for the rejection was on Pašić’s coalition partners, the Independent Radicals. Whitehead to Grey, 18 January 1910, FO 371/982.
18 Hardinge remarked that British “only play the part of letter box in entire affair”, Opt. Cit. Minute.
when the efforts of another British applicant, Armstrong, Whitworth and Company, to sell 32,000 rifles to Serbia met the same fate.\(^{19}\)

On the other hand, sometimes the British government appeared to be the main obstacle for the immediate interests of the British military industry. Sir Ralph Paget had already been formally appointed British minister to the Court of Serbia when a “Dreadnought affair” attracted the attention of the sensitive British public. In June 1910, a Major Maunsell visited Belgrade as a representative of the Vickers, Sons and Maxim Company. Maunsell offered the Serbian Government an opportunity to purchase “one or two powerful gunboats” for service on the Danube and Sava rivers.\(^{20}\) As the border between Serbia and Austria-Hungary was an ambiguous issue, so was the defence of the Serbian capital, and the Foreign Office promptly denied any help or support to the British visitor. Bridge suggests that Whitehead, despite his family ties with one of the company’s owners, strongly warned Grey that the £120,000 contract, however beneficial it might have been for British industry, could cause a serious deterioration in relations with Austria-Hungary.\(^{21}\) The presence of a British major, and his activities in Belgrade, aroused the suspicion of Austrian diplomats. The British ambassador in Vienna was asked for an explanation, while the Austrian minister in Belgrade made it known to his British colleague that the entire operation was being carefully monitored.\(^{22}\) The reaction of the Foreign Office was very tense. As the Serbian government had just asked for some expertise, a form of assistance which the British government had usually given willingly, the response now was negative, and any official connection with Maunsell was again denied.\(^{23}\)

The contract was not concluded. The already-familiar pattern was repeated, but this time it was motivated by British diplomatic priorities. However, the British press, another important factor, interfered almost immediately. The entanglement surfaced in Vienna, where no one expected it would, when Alfred Steed, Austrian correspondent of The Times, made a

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\(^{19}\) Whitehead to Grey, 29 March 1910, FO 368/456.
\(^{20}\) Whitehead to Grey, Belgrade, 6 June 1910, FO 371/982.
\(^{22}\) Count Forgach even mentioned them as “dreadnoughts”, adopting the same term that had been used in offer to Serbian Government. Whitehead to Grey, Belgrade, 6 June 1910, FO 371/982.
\(^{23}\) Edward Grey remarked: “We can not urge… to help Serbia in arms against Austria and it is perfectly futile for her to attempt to do it. Two gunboats on the river, however good, would not save Belgrade from the Austrian army. If Servia orders the gunboats she can do so, but we can not lend opinion.” Opt. Cit. Minute.
carefully premeditated effort to embarrass the British Government. Steed, already well-known as an eager supporter of Balkan Christians, pursued the campaign against Austro-Hungarian policy towards Crete in June 1910, which had much embarrassed Whitehall. This time, probably provoked by the failure of Maunsell’s mission, Steed transmitted in full an otherwise unnoticed article that had originally appeared in Tagblat. The Austrian newspaper had written that official relations between Serbia and Britain had been strained due to the alleged refusal of the Serbian Government to give orders for war material to British firms, and even announced a rupture between the two countries. For Cartwright, the British ambassador in Vienna, it seemed obvious that Steed’s main intention was to suggest to the British public that Austria-Hungary had inspired the rumour. Steed’s manoeuvre was also obvious and unpleasant for the Serbian government, which not only hastened to publish a refutation, but preferred to do so in The Times.

So, for the sake of good relations with Austria-Hungary, the Foreign Office withheld the contract worth a quarter of the annual British export to Serbia, and prevented its conclusion. Even so, in his Annual Report for 1910 the Secretary of the British Legation in Belgrade put the entire blame for the symbolic British presence in the Serbian economy on the “rotten system of placing army contracts in Serbia”. But, while France managed to become the main creditor of the Serbian State, its part in the much more modest Serbian commercial world remained insignificant. When, as a result of recovery after the Annexation crisis, Serbian imports in 1910 increased by 24%, it was the increased British share in it that proportionally overtook the increases of other Great Powers. The decline in commercial exchange with Austria-Hungary, which came as a consequence of her Customs War with Serbia, made the rise in Serbian exports to Great Britain much more spectacular. After Serbia had chosen the British outpost of Malta as the transit station for the export of its cattle, the total amount of Serbian exports to the United Kingdom increased by 750% (from a fairly modest £695 to £52,173). The Serbian enthusiasm for foreign commerce was only temporary, since it was inspired by the strong influence of the

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24 Bridge, Great Britain, 155.
25 Having in mind possible consequences, Grey was outraged. For him, Steed was nothing more than “a mischievous person”. Cartwright to Grey, Vienna, 7 July 1910, FO 371982, Minute.
26 BdeE4, 369.
27 Ibid., 376-77.
28 The rise in British trade with Serbia of almost 70%, from £212,538 to £368,276, can only be compared with that of Germany. Ibid., 377.
Annexation crisis. However, despite the constantly tense political relations with Austria-Hungary, by 1912 the neighbouring monarchy had again become the principal buyer and supplier of Serbia, a trend disrupted only by the Balkan Wars and the First World War. That was why Sir Ralph Paget considered the British share in Serbian commerce to be unsatisfactory, although in comparison with 1909 its increase was evident.29

Despite all this, any increase in commerce with Serbia was to a very high degree related to the readiness of foreign countries to extend credit to her. In 1911, the Ethelburga (Financial) Syndicate competed for a Belgrade municipal loan of 40 million francs.30 As might have been expected, the proposal was rejected even though it was the lowest bid. British diplomats suspected the unwritten provisions and “provisional arrangements” with French financiers as a main reason for this new defeat of British interests. On the other hand, as was the case with the military industry, although it was officially interested in involving British capital in Serbia, the Foreign Office did not show a great deal of intention to support commercial initiatives politically and to harmonise political activities with the fruitless efforts of British capitalists. In 1911 it became apparent that the Ottoman Government was going to reject Serbian proposals for the construction of the Danube–Adriatic Railway. Requested to support the representation to the Porte, HMG declared that it “did not care to take the initiative in any steps at the Porte to promote the enterprise for which is not directly interested”.31 The attitude would soon be seen to be regrettable, for only a year later British diplomacy had to stand behind a British company which was seeking to be contracted to construct the port of Prahovo (one planned terminus of the Danube–Adriatic Railway). The company was J&W Stewart (Mc Laugh-lin), which specialised in concrete constructions and was trying to compete for the contract against the Russian-backed Taburno. There was something minimalist in the approach that the British company assumed. Allegedly backed by certain circles in the British Government, J&W Stewart did not even succeed in establishing a good contact with the British Legation in Belgrade. This was despite the fact that Sir Ralph Paget was tirelessly trying to win over the support of the Serbian Prime Minister Pašić for the application. His efforts were sincere, but Paget, on the grounds of previous experiences, did not even for a moment have any doubts that the fi-

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29 The imports from the United Kingdom had risen by 78% in 1912 in comparison with 1909, but the rise was just 3% in comparison with 1910. At the same time the tremendous Serbian export rise of 7500% recorded in 1910 was replaced with a modest and more realistic, but statistically still fantastic, 500%. BdoFA, 377, 405-406.

30 Ibid., 385.

31 Ibid., 391.
nal response would be negative. Again the British company had offered the lowest price and better conditions, but Paget was strongly convinced that the open favour the Serbian government showed towards Mr. Taburno would be decisive. Paget did not become any more optimistic even when the Serbian Parliament rejected Taburno’s offer. The course of events proved him right, because after the outbreak of the First Balkan War the entire Danube–Adriatic Railway project was abandoned.

On the eve of the First Balkan War, it appeared for a moment that British financiers had finally decided to take a firm position in Serbia by establishing the Anglo-Servian Bank. The sum of £800 000 (20 million francs) that was offered as initial capital seemed to be a firm assurance that the concession would eventually be granted. This time, however, Sir Ralph Paget was doubtful not just about the frankness of the Serbian negotiators. The talks were very long and were eventually interrupted by the war; nevertheless, at the very beginning, even before he received instructions from the Foreign Office, the British minister had not been particularly eager to give any assistance to Mr. Neff, the representative of the British trust (a financial syndicate). Paget’s wariness was ultimately justified, for his initial qualms about Mr. Neff were reinforced by intelligence that the British trust was merely a smokescreen for Hungarian capital. Between October 1912 and August 1913, the Ottoman Empire, one of four European empires that met their demise in the First World War, had begun to crumble. The Balkan Wars were the first Imperial crisis and they ushered in the First World War, which had a direct impact on the European states. The armies of the small Balkan states, which through efforts which had previously been unimaginable brought about the end of Ottoman dominance in the Balkans, had been financed and armed by the Great Powers. In the complicated balance between the Great Powers, those countries only achieved importance when their united armies reached a size that not even some of the Great Powers were able to raise two years later. Serbia was the greatest surprise of the Balkan War for Austria-Hungary, but the Serbian army could never have risen to become a first rate power on the peninsula without French loans and armaments. Among the Great Powers, Great Britain had the weakest economic ties with Serbia, and only indirect political interests. That fact enabled Britain to act as the main mediator in the crisis and to make a

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32 Paget to Grey, Belgrade, 23 September 1912, FO 368/724.
33 BdoEA, 400.
34 Paget to Grey, 16 September 1912, FO 368/724.
35 BdoEA, 400.
crucial contribution to peace negotiations. As has already been mentioned, the main factors in the rapprochement between Great Britain and Serbia were a consequence of the needs of general and internal British policy. The British public, and to a lesser degree British diplomacy, had already become hostile towards the Turks and were to some extent anti-Austrian. However, British diplomacy had many reasons not to become pro-Serbian. The difference between the British and French attitudes rested mainly on the fact that France was economically involved in the region. The absence of economic interests, however, did not exclude the economic factor from British policy towards the Balkans. British industry had interests in expansion in Serbia, and although those interests were in their early stages before 1912, they most certainly existed. But while British involvement was insignificant, the influence of Sir Ralph Paget on the development of economic links between the two countries during the period that he was at the head of the British Legation in Belgrade had a much wider importance. The main characteristics of Paget’s economic policy towards Serbia were caution and restraint. He was careful not to run the risk of competing with Britain’s ally – France, and was far too suspicious of Russia to encourage British rivalry with Germany and Austria-Hungary.

37 In the Annual Report for 1913, the Chargé d’Affaires in the British Legation Dayrell Crackanthorpe expressed his belief that Serbia, which in the War had “proved herself capable of acquiring a solid position among European nations”, would manage to weaken the predominating economic influence of France and Germany on her economy, BdoFA, 411-412. As Serbia had spent a sum of its three annual budgets (370 million dinars) during the Balkan Wars it seems obvious that the country could only become more economically dependent. M. Cornwall, “The First World War”, in Serbia, Decision for War 1914, ed. K. Wilson (London, 1995), 58.