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## ENTREPRENEURIAL POLICY OF THE GERMAN MINING COMPANIES AND ITS IMPACT ON THE GEORGIAN ECONOMY IN THE LATE 19TH AND EARLY 20TH CENTURIES

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**Abstract.** The interest of leading representatives of German monopolistic and financial capital both before and after World War I was related to Georgia. The German iron and steel manufacturers, as well as the heads of the firms employed in other fields, were attracted by the fossil wealth of this area. In this regard, it is very important to analyze their activities, in particular, how their interests were intersect in the Caucasus and how significantly they influenced on the German state policy towards Georgia.

**Keywords:** Industrial and Banking Capital, Manganese Deposits, Mining Joint Stock Companies, Economic and Political Interests, Germany-Georgia Economic Agreements

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**JEL Classifications:** L1, L7

### 1. Introduction

German capital occupied important positions in Georgia, in particular in the manganese industry of Chiatura. The manganese deposit was discovered in 1846 by an academician Abich. Subsequently, a large scientific article was published in the Mining Journal (GCSHA, Fund 264). Great Georgian poet Akaki Tsereteli made a great contributed to popularization of the results of geological exploration of manganese ores in Georgia (Kochlavashvili 1958).

A thorough research has shown that the Chiatura manganese deposit with its reserves, higher quality, favorable possibilities of extraction, as well as due to its proximity to railway and sea nets, was important not only for the

Russian Empire, but for the world in general. The worldwide importance of the Chiatura manganese deposit has increased in particular due to the development of the metallurgical industry in the leading capitalist states, so they became interested in this field from the very beginning, including among them Germany with its special interests to this field. Industrial and commercial firms from these states fled to Chiatura and since 1879 began buying or leasing rich-by-deposit lands there. Prominent Georgian public figures and entrepreneurs have resisted such foreign invasions.

In addition to the Germans, the French, Italians, Greeks and others were trying to strengthen their positions in Chiatura (Dadiani, newspaper "Droeba" 1879). The aliens appeared as soon as the ore was extracted - since 1879. Such their invasion was followed by a heightened rivalry between local and foreign businessmen. Despite the financial advantage of foreigners, this struggle was not in their favor from the beginning. Georgian industrialists were led by such energetic businessmen as Gedevan Chubinidze and Pavle Moseshvili (Chanishvili 1960).

## **2. Methodology**

Both general and specific research methods were used in this article, namely – the methods of analysis, synthesis, historical, logical, induction, deduction, scientific abstraction, comparative analysis, statistics (selection, grouping, observation, dynamics, etc.), static, as well as the methods of experimental evaluation.

## **3. Results**

Prominent Georgian public figures were interested in developing the industries based on the use of the local forces and resources. They have begun taking measures for preventing the transfer of Chiatura manganese deposits to foreigners. Sergei Meskhi also responded in 1879 in the "Droeba" Newspaper to transfer of the local lands to foreigners by their owners and warned them (the locals): "My advice is, not be hurry, do not trust all unknown strangers, do not trust their notarial assurances ... If you tolerated this manganese ore for so long, wait for one or two years too, before everything becomes known in details this ore is needed for such a case that if it is not added afterwards, it will never fall below its price" (Meskhi, newspaper "Droeba" 1880).

Akaki Tsereteli also opposed the transfer of Chiatura deposits to suspicious persons and foreigners. He explained to the owners: "Here's what can happen: some with poverty, some with greed, some with ignorance will lose this glorious job and get into the hands of having to gloat over their necks and" not expecting "and" not thinking, " But that doesn't help them much when black landlords will turn into black workers and start begging" (Tsereteli, newspaper "Droeba" 1880).

### **3.1 Entrepreneurial Activities of Mining Joint Stock Companies: " Gelsenkirchen " and "Caucasus Mining Partnership" in Georgia**

Prominent Georgian public figures who preached the need for industrial and economic development objectively assessed the possibility and consequences of foreign capital invasion in the country. Hence, it is natural that they have resisted against the dominance of foreign capital in Chiatura. Despite the steady lack of domestic industrial capital, local industrialists sustained the entrepreneurship, they have managed to resist the invasion of the foreign capital and maintained strategically important positions in Chiatura industry for a long time. Local industrialists constantly tried to unite the forces in order to resist the foreign capital inflow. This struggle was led by the representative organization - „Shorapani Manganese Industrialists' Congress", the mentioned organization was headed by the prominent representatives of the Georgian intelligentsia: G. Zdanovich (Maiashvili), Ivane (Kita) Abashidze, Nikoloz Gogoberidze, Petre Tsulukidze, Solomon Tsereteli, etc.

It should be noted that the industrialist congress, despite its limitation, has played a positive role in Chiatura's manganese industry. Subsequent attempts to establish aliens in Chiatura have failed. In competitive rivalry, Georgian business people have become dominant (P. Moseshvili, G. Chubinidze, etc.), and they coped with existing challenges. The support of advanced Georgian society was vital to avoid the foreign industrial capital dominance in Chiatura. Georgian business people managed to preserve the best manganese deposits, and they could lease or have the deposits in ownership.

Since 1985 the aliens have quitted Chiatura deposits for some period and moved to other local manganese deposits (Ajamaeti, Chkhari, Nakhshirgele) as they were located near the railway. Due to the failure in the process of manganese extraction, they attacked the local manganese market (mainly Zestafoni, Gomi, Poti, Batumi) and took over the prevailing situation there. So that, foreign capital, including German investments, moved into the field of manganese ore export (Margiani 1988).

Considering mentioned above, only local industrialists positioned in the Chiatura industry, but the vast majority of them due to the lack of working capital could not proceed with the economic activity. With the lack of financial resources of Georgian entrepreneurs, foreign exporters and their agents have benefited most, because of the credit conditions of local entrepreneurs, they were getting ore at a discounted price. Foreign creditors easily trapped local industrialists, they were forced directly or through merchant intermediaries contact to international companies purchasing ores. The Export of Chiatura ore was almost entirely in the hands of foreign actors. Foreign firms artificially created the situation in the ore market when the quantity of extracted ore exceeded demand. By leaving the purchased ore stocks, foreigners were able to lower the price of the ore artificially. Thus, foreign capital through a loan subjugated local manganese industrials by leaving the stock of ore purchased immediately and exaggeratedly dumping its price, correspondingly they received more of its surplus-value as a trading profit.

The German capital, as was mentioned before, has appeared in Chiatura at the initial stage after the discovery of manganese ore, but then could not position steadily. From the 90s of the 19th century, the German capital invasion intensively started in the Chiatura manganese production. Very soon, it takes monopolistic positions competing with local, Russian, and foreign capital (Gavasheli 1957).

The Germans used the economic crisis of 1900-1903 effectively and gradually conquered positions not only in manganese export but also in production. One of the representatives of Berlin manganese syndicate - "Bank of Berlin", or "Accounting Society" was particularly active in Chiatura during this period, which was in a connection to the union of Georgian industrialists "Black Stone" (CSHAL). The Berlin „Accounting Society“ and the joint-stock company, „Arthur Koppel“, now allowed in Russia, have been operating jointly since 1905. After the repeated requests from the society representatives, the government approved in 1906 the company - „Chiatura Trade-Industrial Society of Manganese Elevators and Mechanical Buildings", created by the societies mentioned above. This society has built elevators, conventional, and air-cab ways. Herewith, they signed a preliminary agreement with the, „Frankfurt Iron Ore Society“ which undertook the sale of ore from Chiatura (Margiani 1988). The society has been rejected by the government to build Tsirqval-Kvirila air-cab way and got permission to build a similar road from Tsirkali to Chiatura. The German joint-stock company refused to do the project and did not want to continue working activities. It ceased to exist on November 15, 1911. The actual owner of the German joint-stock company, at first glance, easily decided to liquidate the company, not for the reason that they finished the economic activities, but because earlier it has become one of the shareholders of the influential German business entity's "Gelsenkirchen Mining Company" allowed for operation in Chiatura (Margiani 1988).

It is true the Chiatura's manganese industry was still in hands of local entrepreneurs, but the vast majority of them could not continue their business due to lack of capital. Foreigners, who were gradually using their credits to convert local entrepreneurs into loans, benefited the most from a lack of capital of Georgian businessmen. As a

result of these processes, the German capital was strengthened in the production of manganese in the late 19th and early 20th centuries, represented by the following strong firms: the "Gelsenkirchen Joint Stock Mining Company", the "Kaiser Mining Society of Germany" and the "Caucasus Mining Partnership with Limited Liabilities. Among these, the first name company was especially active which was the largest enterprise in the German mining industry. This company started operating long before the Russian government allowed to carry out operations in Chiatura, and, by help of a German businessman Guillert purchased the manganese deposits on over 82 hectares area in the villages Ithvisi and Mgvime (Margiani 1988). According to numerous authoritative sources, the German Emperor Wilhelm himself was a shareholder of Gelsenkirchen (Central State Historical Archives).

The German firm has undertaken many large-scale operations in the Chiatura industry. First, it began to subjugate and subordinate local entrepreneurs - by providing loans and advances (purchasing and exporting large amounts of ore); Second, the long-term lease and purchase of the manganese ores; Third, rational, technical arrangement of operation of mines, mechanization of ore transportation from the deposits to Chiatura railway branch, construction of ore enrichment plant in the village of Rgani; Fourth, the firm took care of expanding its industrial-trade operations and arranging for its own port in Kobuleti (which was rejected because of resistance by side of the military establishment in 1912), and finally, the firm started industrial operation of the deposits, a bit later.

What was the relationship between „Gelsenkirchen“ company and the local industrialists? The company invested a large amount of capital in Chiatura, intending to purchase ore from the local industrialists at the possible lowest price. To gain an advantage over competing foreign companies, the firm has begun issuing long-term interest-free loans and advances to a local industrialist. Therefore, other export-oriented firms rarely did the same activity, and it was relatively negligible. It should also be noted that „Gelsenkirchen“ company from its purchasers - German metallurgical plants, was supported with a large amount of capital (through Tbilisi Commercial Bank). The German firm never offered these loans and advances to the local industrialists from the disinterested perspective. All of its debtors were obliged to provide the creditor with a notarized signature and declare all documents for property or leased property related to ore deposits. Herewith, they should sell the extracted ore as a whole or most of it to the German company at current market price. When repaying the debt, the creditor returned the debtor all the submitted documents, if the debtor will not repay within a prescribed period, the creditor became the full owner of the mentioned documents. In fact, local industrialists were subjugated and subordinated by the „Gelsenkirchen“ company in this way.

In the Chiatura industry „Gelsenkirchen“ company considered as the most powerful tool to capture the richest manganese deposits for a long period. The company started acting in this direction before the official launch of its operations in Chiatura and enhanced the large capital investments. From 1903 to 1909, the "Gelsenkirchen" company received leased ore deposits on over 76 hectares of land in Mgvimevi and Ikhvisi from the German industrialist O. Gillert. After the formal approval, additionally, the company received leased deposit in Rgani as well, from the famous German company „Shalke“, and spent up to 83.800 rubles (Margiani 1988). From 1909 to 1914, the "Gelsenkirchen" company actively continued to purchase deposits, raw land, and platforms in Rgani, Mgvimevi, Perevisa, Ikhvtisi, and also close to Chiatura treasury railway.

As we have already mentioned, the firm was trying to construct the port in Kobuleti. The company addressed to the Russian government in 1912 for this purpose. Both the viceroy and the king's government were ready to accept the request, but due to the intervention of a military unit that found it dangerous to arrange a foreign port near Batumi fortress, the German company was rejected to construct the port.

Thus, it can be said that the "Gelsenkirchen" company actively was trying to achieve a monopoly position in the industrial district of Chiatura. These aspirations were prevented by World War I. After the war started, based on

the government resolution, the German companies operating in the Chiatura suspended activities. Specially created liquidation division has estimated the "Gelsenkirchen" company's entire real estate in Chiatura totally 2.578.858 (slightly reduced) rubles.

In parallel with "Gelsenkirchen" in September 1911 the second German firm "Caucasus Mining Partnership with Limited Liability" started functioning in Chiatura. The founders and holders of the firm were German merchants and businessmen. (CSHAL, f. 23, inv. 28, c. 514), but, as it revealed later, the actual owner of the firm was Kruppe - one of the largest representatives of German industrial-financial capital. This information became known to the government after the Ministry of Finance notified the Committee of Ministers of the Empire at the end of 1914: "We have learned from reliable sources that the partnership is a major supplier of German military plants, a major supplier of manganese ore to the Krupp plants." (CSHAL, f. 23, inv. 28, c. 507).

Thus, as the German capital sought to capture Georgia's richest manganese deposits, German firms Gelsenkirchen and the Caucasus Mining Partnership have been working vigorously in this direction. They took possession of several hundred acres of manganese-containing and manganese-free landas, invested large amounts of money, and equipped their enterprises with the most advance technologies of that time. At the same time, they managed to subordinate through various means the local entrepreneurs and obtained large quantities of deposits at the reduced prices. As a result, much of the ore extracted in Chiatura before World War I was sent to Germany, which was wholly processed there. It met the demands of a prevailing part of the German industries, while the ferroalloys were exported to other countries, often - to Russia.

### **3.2 Entrepreneurial Activity of Mining Society „German Kaiser” in Georgia**

German steelmakers were primarily interested in the rich manganese deposits. Georgia was the area of the most important manganese deposits in the world. As earlier as before the WWI Chiatura region held the top position in the world in extracting the manganese deposits, This region was far ahead of the deposits found in India and Brazil by that time. More manganese was found in this area than in the major deposits of South Africa, Ghana, Morocco, Congo, Mexico, Japan, and the United States (Benekenstein 1971).

By this time, we can already talk about the purposeful intentions of German capital in the Caucasus. Hugo Grothe, one of the propagandists and "traveler-researcher" of the German Empire, wrote in 1913: "What are the ways for a "peaceful penetration" to the Eastern exploitable areas, that is aimed at exercising cultural, economic and political influences there? First of all, these are the means of scientific research" (Grothe 1913).

Such "scientific research" of the Caucasian region was started in the mid-nineteenth century, by geologists, economists, geographers, ethnographers, historians, and others. These researches have provided more or less complete information on both the problems and the wealth of this peripheral area of the Tsarist Russia to the German state servants and entrepreneurs. Thus, a comprehensive picture was created about the importance of the Caucasus as an economic, political, cultural and military-strategic object (Grothe 1902, Class, Radde 1942).

Our purpose here is to analyze the activities of the entrepreneurs involved in the iron and steel industry, in particular, how their interests were intersect in the Caucasus and how significantly they influenced on the German state policy towards Georgia during the World War I. The Thyssen Concern played a special role in this regard. This company established close, often personal, ties with the Kaiser Germany's state machinery of that time. The purpose of this union was to increase its profits through using the militaristic and political instruments.

August Thyssen (father of Fritz Thyssen) turned out to be successful in his efforts of creation of one of Germany's largest mining companies before World War I - the entire industrial empire, starting with the extraction of raw



materials (coal, iron ore) and ending with the production of steel production, mechanical engineering, own ports and transport. Thyssen was striving to the ever-expanding raw material base that was needed for the operations of his company. Just for the purposes of seizure of new sources of raw materials he was in the hurry to invade into the rich-by-raw materials regions of French Lorraine and Normandy, as well as Ukraine and Georgia (Pinner (Frank Fassland) 1924).

Thyssen was one of those who insisted on annexing foreign territories for the sake of increasing their own profits. This is confirmed by the Memorandum of Understanding of August 28, 1914, which unequivocally expressed the plans of the iron and steel industry. This Memorandum also required the capture of not only France and Belgium, but also the coal and iron ore districts of the Caucasus in order to open the way to the Middle Eastern countries and Iran. The Memorandum stated: "... Given the importance of the minerals, it is just the Caucasus that is essential for Germany. Today, the Caucasus is the region that produces the largest manganese products, without which steel production is unimaginable. Owner of this ore will be able to have a more or less impact on prices even in the American steel industry too, which now imports much of its ferromanganese from Germany or England (DZA Potsdam, Reichskanzlei, N2476, Vorbereitung des Friedensschluss-schlusses, Bl. 67).

The idea that the extraction of manganese ore would reinforce Tysen's dominance in the steel production and enable him to control other industrialized countries, or steelmakers, or manganese raw material owners, or any single owner, was determining significantly Tysen's economic and political activities. In 1914, the Thyssen Concern produced 1/10 of Germany's total steel and steel products, which obviously required a large amount of manganese.

In Germany, manganese was imported mainly from the Caucasus. In 1913 only, about 2/3 of a total volume of manganese imported in Germany, was of the Caucasian origin. The prevailing part of which was for the needs of the Gelsenkirchen Mining Joint Stock Company, which, as we know, was led by Kirchdorf, and the German Kaiser Society, where Thyssen was the sole owner. Both these firms were operating the Chiatura deposits since 1901 through a joint venture. In Nilopolis (Ukraine) too these firms were represented by a single "Pyrolyzite Joint Stock Company", which had been operating in Nicopolis since 1906 and owned 60% of the total ore stock (DZA Potsdam, Auswaertiges Amt, N2094, Volkswirtschaft, Russland, Bl. 195-197).

With 3 million tonnes of steel produced in 1913, which accounted for one-eighth of Germany's total steel production, both these firms strengthened significantly their positions. In 1915-1916, when due to the "War Time Laws" adopted by the Tsarist Russian government, both Gelsenkirchen Mining Joint Stock Company and Thyssen occurred face-to-face with a threat of loss of their properties in Russia, they have tried to avoid the liquidation of their assets by transferring it to the Swedish firm: "Immediately following to enactment of the liquidation laws in Russia, for protecting our multi-million investments in this industry and preserving this critically important field at the disposal of Germany, we without delay transferred all production to the Swedish firm that has good contacts with both the Swedish Government and the privileged circles of Russia, so that Russia could regard this property as Swedish property before the truce". (DZA Potsdam, Auswaertiges Amt, N 2094, Volkswirtschaft, Russland, Bl. 112-119, 124-139, 198-204).

### **3.3 The „Gelsenkirchen” and „Thyssen” concerns negotiations with the Georgian delegation and signed agreements**

The interests of leading representatives of German monopolistic and financial capital even before the World War I had long been associated with Georgia. German iron and steel industrialists, as well as the owners of the firms employed in other fields, were attracted by the fossil wealth of this area.

The Thyssen Concern and the Gelsenkirchen Mining Society, accordingly, took the following steps to seize Georgia's wealth: On May 18, 1918, both of them applied to the Ministry of Foreign Affairs for the State to exercise the rights of German industrialists in ore mining and processing in Chiatura, in order to oppose the anti-German initiatives in the Caucasus: "We find it necessary for the government to intervene for the old owners could get back free their property. The state will be able to transfer the land acquired through the government intervention at favorable prices to the interested firms". (DZA Potsdam, Auswaertiges Amt, N 2094, Volkswirtschaft, Russland, Bl. 199-204). On May 18 of the same 1918, Thyssen and Kirchdorf asked the German Government to entrust Nadolne, the Head of the Eastern Section of the Ministry of Foreign Affairs, with their interests in the Caucasus (DZA Potsdam, Auswaertiges Amt, N 2094, Volkswirtschaft, Russland, Bl. 199).

On June 12, 1918, both these Concerns were advised Ministry of Foreign Affairs by the following telegrams, to apply to the Georgian delegation in Berlin: "It would be useful to establish personal contacts with the Georgian delegation stayed here in the Hotel Adlon, especially with Dr. Nikoladze. The named person is ready for this. Please coordinate in advance a venue of meeting with the Ministry of Foreign Affairs" "(DZA Potsdam, Auswaertiges Amt, N 2094, Volkswirtschaft, Russland, Bl. 206-207).

The personal contacts of both Concerns with the Georgian delegation for the first time revealed their claims on the Georgian manganese and the readiness of the representative of the Republic of Georgia to acknowledge these claims. As it turns out, Dr. Nikoladze demonstrates his firm position before the government of his country for promoting the interests of German companies in Georgia.

The German firms used the presence of the Georgian delegation in Berlin for concluding numerous agreements with the representatives of the Republic of Georgia for the benefit of the German industrial and banking capital. On July 12, 1918, three such agreements were signed, according to which three German-Georgian societies were established. These societies were created for exploiting the Georgian manganese deposits with transferring to their ownership the Shorapan-Chiatura Railway and the Poti Port.

During the negotiations between the Georgian delegation and the German Ministry of Economy, a financial agreement was also signed on the introduction of the Georgian currency for circulation between the Republic of Georgia and the German state. On August 15, 1918, this agreement was signed between one group of German banks and the Government of Georgia. Under this agreement, the Georgian government was to receive 54 million German Marks as loan (with 6% interest rate) and repay it during 28 years. The loan guarantee would be the income that the Georgian government would receive from the societies created under the agreement dated July 12, 1918.

Tactical steps of influence on the Georgian economy were defined during one of the talks at the Spa city between the representatives of the German government and the higher command of the army. Ambassador von Rosenberg formulated the views of the Kaiser government as follows: "I consider our economic relations with Georgia to be hopeful. The "accounting society" has established a consortium of a strong capital that can give this country from 50 to 80 million marks. In doing so, the necessary capital requirement will be covered at first. The monetary loan should be secured by the Poti Port duties and taxes on export of manganese. With this agreement we will gain an influence on Georgia's raw materials, most importantly – on manganese and also on the road system". (DZA Potsdam, Reichswirtschaftsministerium, N 1071, Allgemeines Wirtschaftsabkommen mit Georgien, Bl. 94-99).

Dr. Cindy, a direct trustee of the Thyssen Concern, received a directive from the German Ministry of Economy to ensure the ratification and implementation of these agreements in Tbilisi.

The most interested in influencing Georgia was the Thyssen Concern Therefore, it is not surprising that the first letter from the representative of the German Ministry of Economy was sent to Thyssen soon after his arrival in

Tbilisi on October 17, 1918 (DZA Potsdam, Reichskanzlei, N 2477, Besprechungen ueber Kriegsziele, Bl. 192). In this letter, Dr. Cindy indicates on his negotiations with the Minister of Finance Juruli, as well as with the Minister of Internal Affairs of Georgia and the Acting g Minister of Foreign Affairs Mr. Ramishvili, concerning approval at the Council of Ministers of Georgia of the agreements concluded in Berlin. He informed Thyssen that on October 17, 1918, on the advice of the Georgian Council of Ministers, the Parliament unanimously approved these agreements and instructed the government to secure their entry into the force. Afterwards, Dr. Cindy asked Thyssen to Tbilisi soon to "give the gentlemen some sedative medications during the period of your stay here" (DZA Potsdam, Reichswirtschaftsministerium, N 1071, Wirtschaftsabkommen mit Georgien, Bl. 54-56).

It was due to Cindy's activity that accelerated the loading and sending the manganese to Germany, as well as the recovery of ore mining in Chiatura mines.

Thyssen's visit to Georgia was hampered by Germany's defeat in World War I, and more importantly by the start of the November 1918 revolution in Germany. But, despite this failure, the German delegation led by Kresenstein and Cindy continued to operate in Georgia. On January 17, 1919, the Ministry of Foreign Affairs received in Berlin a report from the delegation, according to which on November 30, 1918 a German-Georgian trade bank was established in Tbilisi, on the basis of the aforementioned 54 MIO Mark Credit (DZA Potsdam, Reichswirtschaftsministerium, N 1071, Wirtschaftsabkommen mit Georgien. 89).

## **Conclusions**

The import of manganese into Germany was mainly carried out from the Caucasus by the Gelsenkirchen Mining Joint Stock Company headed by Kirchdorf and the German Kaiser Society, whose sole owner was Thyssen. Both firms were exploiting the Chiatura field through a joint venture since 1901.

On July 12, 1918, Thyssen and Kirchdorf, on the advice of the German Ministry of Foreign Affairs, met with the Georgian delegation in Berlin and Dr. Nikoladze in person. Three agreements were concluded between the parties, according to which three German-Georgian societies were established. These societies were created for exploiting the Georgian manganese deposits with transferring to their ownership the Shorapan-Chiatura Railway and the Poti Port.

By these agreements, Germany sought to strengthen its economic influence on Georgia, that is, through German firms, concerts, banks, and so on. They would control the whole economic life of Georgia and gain absolute advantage over the most important minerals and transport means, as well as the entire state finances. But, with the victory of the Soviet government, the economic goals of Thyssen and his competitors remained unfulfilled in Georgia.



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