

Banking in Modern China

Entrepreneurs, Professional Managers,
and the Development of Chinese
Banks, 1897–1937

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Contents

<i>List of Tables and Figures</i>	page xi
<i>Acknowledgments</i>	xv
Introduction	1
1 The Coming of a New Force (1897–1911)	10
2 Expansion, Concentration, and Privatization (1912–1927)	37
3 The “Golden Age” and Its Sudden End (1927–1937)	67
4 Government Debts and Modern Banks	102
5 Traditions and Innovations I	136
6 Traditions and Innovations II	169
7 Modern Enterprises, Professional Managers, and the Entrepreneurs with Chinese Characteristics	200
8 Conclusion	240
<i>Appendixes</i>	248
<i>Glossary</i>	254
<i>Bibliography</i>	257
<i>Index</i>	270

Tables and Figures

TABLES

1.1. Capital power in the Chinese financial market (1894)	<i>page</i> 19
1.2. Modern banks during the Qing dynasty	34
2.1. Modern Chinese banks (1912–1927)	42
2.2. Business expansion of modern Chinese banks (1911–1927)	43
2.3. Business expansion of the principal banks (1920–1927)	65
2.4. Business concentration of the Chinese banks (1927)	66
3.1. Business expansion of the Chinese banks (1927–1936)	69
3.2. Concentration of Chinese banks (1935)	70
3.3. The growth of modern Chinese banks (1897–1936)	71
3.4. Capital power in the Chinese financial market (1936)	78
3.5. Industrial loans of the principal banks	85
3.6. Concentration of the principal banks' industrial loans (percentage by industry)	86
3.7. Rong family debts in 1934	88
3.8. Shenxin's debts from modern banks	88
3.9. Strength balance: Private versus public banks (1934)	98
4.1. Bond holdings in the principal banks (1921–1927)	113
4.2. Comparison of bond holdings in the principal banks (1921–1927)	114
4.3. Deficits of the Nationalist government (1927–1936)	115
4.4. Government bonds versus the bond holdings in the principal banks (1927–1936)	118
4.5. Comparison of bond holdings in the principal Chinese banks (1927–1936)	119
4.6. Government debts in arrears by 1935	123

Tables and Figures

4.7. Bond holdings versus total assets in seven major banks	127
4.8. Incomes and origins in four major banks	128
4.9. Security holdings of the Bank of China (1912–1936)	130
4.10. Security holdings of the Shanghai Bank (1915–1937)	133
5.1. Savings in the seven major banks	144
5.2. Increase of deposits in nine major banks	145
5.3. Collateral loans in Shanghai Bank (1915–1934)	154
5.4. Increase of collateral loans in the major banks	155
5.5. Loans and incomes in the nine major banks (1921–1931)	156
5.6. BOC's banknote issuance districts	165
6.1. Bond discounts in the NCB's balance sheet	182
6.2. Shanghai Bank's reserve funds (1915–1936)	186
6.3. Reserve funds and surplus in nine major banks (1920–1936)	187
7.1. Chief executive officers of the major Chinese banks	201
7.2. Capital comparison of banking and industry (1936)	217
7.3. Business connections of the major banks	218
7.4. The prominent Chinese bankers	225
8.1. Changes in capital power in the Chinese financial market (1894–1936)	241

FIGURES

1.1. Comparison of capital power in the Chinese financial market	19
7.1. Chen Guangfu, founder and general manager, Shanghai Commercial and Savings Bank, courtesy of the Shanghai History Museum	203
7.2. Li Ming, founder and general manager, Zhejiang Industrial Bank, courtesy of the Shanghai History Museum	203
7.3. Qian Yongmin, vice general manager, Bank of Communications, courtesy of the Shanghai History Museum	203
7.4. Song Hanzhang, chief director, Bank of China, courtesy of the Shanghai History Museum	204
7.5. Tan Lisun, founder and general manager, Continental Bank, courtesy of the Shanghai History Museum	204

Tables and Figures

7.6. Wu Dingchang, general manager, Yien Yieh Commercial Bank, courtesy of the Shanghai History Museum	204
7.7. Xu Xinliu, general manager, National Commercial Bank, courtesy of the Shanghai History Museum	205
7.8. Zhang Jiaao, general manager, Bank of China, courtesy of the Shanghai History Museum	205
7.9. Zhou Zuomin, founder and general manager, Jincheng Bank, courtesy of the Shanghai History Museum	205

The Coming of a New Force (1897–1911)

“THREE KINGDOMS” IN THE CHINESE FINANCIAL MARKET

Piaohao’s Hegemony in the Domestic Remittance Business

BANKING, the business of dealing with money and credit transactions, is of ancient origins in China. The use of money and of paper representatives for money values was pioneered in China earlier than anywhere else in the world. Scholars have traced the beginning of such banking activities in China to as far back as two thousand years ago, or even earlier.¹ The earliest known credit institution in China appeared in the Buddhist monasteries of the fifth century. The first real banking transaction in the world, in the adopted sense of the word, appeared in China’s Tang dynasty (618–907). In that period, merchants could travel around the country for their business without carrying metal cash. Instead of using silver or copper coins, they carried with them *feiqian* (literally, “flying money”), a government-issued document that was redeemable upon presentation at any of the provincial treasuries.² The world’s first true paper currency, *jiaozi* (exchange medium), circulated in China’s Sichuan province during the early part of the eleventh century, 600 years before the first paper currency appeared in Europe.³ By the

1 Srinivas R. Wagle, *Finance in China* (Shanghai: North China Daily News and Herald, 1914), pp. 145–53.

2 Liensheng Yang, *Money and Credit in China* (Cambridge, Mass.: Harvard University Press, 1952).

3 Some authors believed that the earliest Chinese paper money was the *feiqian* in the Tang dynasty or *bianhuan* (“easy exchange”) in the Song dynasty (960–1279) because they were sort of paper representatives of money values. See Eduard Kann, “Paper Money in China,” in *Finance and Commerce*, July 29, 1936. The earliest paper currency in Europe, called Kreditivsedlar, was circulated in 1661. Edwin Green, *Banking – An Illustrated History* (New York: Rizzoli, 1989), p. 36.

Song Dynasty (960–1279), Chinese financial institutions were already conducting all major banking functions, including the acceptance of deposits, the making of loans, issuing notes, money exchange, and long-distance remittance of money.⁴ China's banking business reached a new high when *piaohao*, *qianzhuang*, and foreign banks developed, accompanying the acceleration of commercialization in the middle of the Qing dynasty (1644–1911).

The first of these institutions, *piaohao* (literally, “ticket store”), were often called Shanxi *piaohao* in Chinese, or Shanxi banks in Western scholarship, because the natives of Shanxi province owned most of the *piaohao*.⁵ A recent study has confirmed that the first *piaohao* originated from the Xiyuecheng Dye Company. Located in the Pingyao district of Shanxi province, the company had several branches around the country. In the day-to-day operations of the business, the Xiyuecheng Company had to transfer large amounts of cash from one branch to another, often over a thousand miles from each other. The primitive transportation system and long distances made such transfers of cash extremely expensive and dangerous, especially in rural areas where the risk of robbery called for the employment of armed escorts. The company developed a clever way to circumvent these extra costs. Whenever it needed to transfer money from one branch, say in Tianjin, to another in Sichuan, the Tianjin branch manager would issue a draft cashable in the company's Sichuan branch, or vice versa. The large number of transactions ensured that the cash flows would balance out. The new method greatly reduced the risks, as well as the company's expenses, for the shipping and handling of cash. Although this new method was originally designed for business transactions within the Xiyuecheng Company, it quickly became a profitable side business for the company when other merchants asked

4 Tamagna, *Banking and Finance in China*, p. 13.

5 By the late nineteenth century, the monopoly of Shanxinese in the *piaohao* business was broken to some extent. The so-called Southern Clique *Piaohao* (*nanbang piaohao*) emerged in Shanghai, Ningbo, Hangzhou, and other southern Chinese provinces. Some of them, such as Hu Guangyong's Hukang Yinghao and Li Hongzhang clan's Yishanyuan *Piaohao*, became big financial powers with huge capital and many branches throughout the entire country. As late as the 1910s, however, the majority of *piaohao* (forty-nine out of sixty) were still run by Shanxinese. See Zhongguo renmin yinhang Shanghai fenghang jinrong yanjiusuo (SHCPB, Institute of Finance, Shanghai Branch, Chinese People's Bank), ed., *Shanghai qianzhuang shiliao* (Historical material on Shanghai's native bank, *Shanghai qianzhuang* hereafter) (reprint, Shanghai: Shanghai renmin chubanshe, 1978), pp. 47–8, 80–1, 88; Chen Qitian, *Shanxi piaozhuang kaolue* (A short study of Shanxi banks) (Shanghai: Shangwu yinshuguan, 1937), pp. 77–8, 98.

for the same service. Xiyuecheng's remittance business became so popular that the owner gave up the dye business altogether and reorganized the company as a special remittance firm, Rishengchang Piaohao, in about 1823.⁶ The profitability of Rishengchang Piaohao attracted more Shanxi people to invest in the piaohao business. In the next thirty years, eleven piaohao were established in Shanxi province.⁷

Throughout the country, all Shanxi piaohao branches were administered under a centralized system, with their head offices in the three districts of Qixian, Taigu, and Pingyao of Shanxi province. The owners of the piaohao in these three districts set up and directed their branches in cities all over the country. Some of them had as many as twenty-four offices in different places by the 1880s.⁸ By the end of the nineteenth century, thirty-two piaohao with 475 branches were in business covering all of China's eighteen provinces, plus Manchuria, Mongolia, Xinjiang, and other frontier areas.⁹

As the spread of banditry endangered the shipping of silver bullion, the piaohao's remittances became more valuable and more convenient for merchants. Where an armed convoy of silver would cost 2 to 3 percent of its value, the piaohao usually charged only three-tenths of 1 percent for drafts.¹⁰ The effectiveness and safety of the piaohao's service earned it a first-rate reputation and attracted increasing numbers of clients.

Starting in the 1860s, piaohao further became involved with official businesses through the delivery of part of the government revenue. In accordance with Qing government ordinances, certain provinces had to submit part of their tax obligation, called *jingxiang*, directly to China's capital, Beijing. Since most revenues of the central government came

6 Huang Jianhui, *Shanxi piaohao shi* (History of Shanxi piaohao) (Taiyuan: Shanxi jingji chubanshe, 1992), pp. 36–9. There are various opinions about the origin of Shanxi piaohao. Wagel said they came into existence as early as the Tang dynasty; see Wagel, *Finance in China*, p. 155. Another author thought piaohao appeared in the middle of the Ming dynasty. See Donghai, "Ji Shanxi piaohao" (Record of Shanxi piaohao), in *Yinhang zhoubao* (Banker's Weekly) 1, nos. 7 and 8. Wei Juxian thought the first piaohao was created by Gu Yanwu, a famous anti-Qing intellectual, in the early Qing dynasty. See Wei Juxian, *Shanxi piaohao* (reprint, Taipei: Suiwen shuju, 1977). The most authoritative study before Huang Jianhui asserts that the first piaohao opened its remittance business in the 1820s. See Chen, *Shanxi piaozhang kaolue*, pp. 30–1.

7 Huang, *Shanxi piaohao shi*, p. 85.

8 *Ibid.*, p. 174.

9 Shanxi Provincial Academy of Social Sciences, ed., *Shanxi piaohao shiliao* (Historical material on Shanxi piaohao) (Taiyuan: Shanxi renmin chubanshe, 1992), p. 474.

10 John K. Fairbank, Edwin O. Reischauer, and Albert M. Craig, *China – Tradition and Transformation*, rev. ed. (Boston: Houghton Mifflin Company, 1989), p. 333.

from jingxiang, the Qing court had strict regulations regarding its collection and shipping. All jingxiang had to be sent as silver in special packages under official escort. The local officials were not allowed to use private services for the jingxiang's shipping. The system was kept intact for more than 200 years. With the spread of the Taiping Rebellion (1851–64), communication between the provinces and Beijing was disrupted and the delivery of jingxiang to the capital became more infrequent. The Board of Households (*hubu*), which was in charge of national finance as well as the census, received only 1 million taels of jingxiang in 1861 instead of the 7 million taels it expected.¹¹ The situation forced the board to ease its ban on the manner of jingxiang remittance and authorize provincial governments to entrust the piaohao to remit jingxiang to Beijing.¹² Even though the government tried several times to reinforce the ban on jingxiang remittances by private concerns later on, more and more jingxiang were transacted by the piaohao because of their safe and reliable services.¹³ During the years between 1872 and 1893, piaohao remitted about 44 million taels, or about 30 percent of the total jingxiang, to Beijing.¹⁴ Taking advantage of their close relationship with government officials, piaohao assumed more and more other official business. Piaohao gradually became government financial agencies by virtue of their role in collecting and remitting taxes, advancing jingxiang payments on behalf of local authorities, arranging foreign loans for the provincial governments, and issuing notes. In addition, piaohao also advanced funds to officials, expecting lucrative appointments for their purchase of government positions or other personal expenditures. Piaohao were so involved in running provincial or district treasuries that one scholar has called them “China's first state banks.”¹⁵

Although piaohao had attended to all branches of banking by that time, domestic remittances were always the main focus of their business. Piaohao conducted all kinds of remittances, including those by drafts, by letters, and by checks, which could be cashed at any of their branches or

11 Peng Zeyi, *Shijiu shiji houbanqi Zhongguo de caizheng yu jingji* (Chinese finance and economy in the second half of the nineteenth century) (Beijing: Renmin chubanshe, 1983), p. 144.

12 Huang, *Shanxi piaohao shi*, p. 203.

13 Shi Ruomin, *Piaoshang xingshuai shi* (The history of piaohao's rise and fall) (Beijing: Zhongguo jingji chubanshe, 1992), pp. 162–76.

14 Huang, *Shanxi piaohao shi*, pp. 210–2.

15 R. O. Hall, *Chapters and Documents on Chinese National Banking* (Shanghai: Shangwu yinshuguan, 1917), p. 3.

by their correspondents throughout the country. Many piaohao also included telegraphic transfers when they became available in China. China's domestic remittances were monopolized by piaohao before the introduction of modern banking.

At its height in the late 1890s, the total paid-up capital of all piaohao had reached C\$42 million. However, this was actually a small portion of their financial assets. All piaohao were organized as single proprietorships or partnerships. The owners carried unlimited liability, and most of them contributed additional working capital in the form of deposits as "protecting capital" (*huben*). Like most commercial banks, piaohao did not operate only on their own paid-up capital but also mobilized the temporarily idle funds of others to run their business. Many piaohao issued notes for the convenience of their business. In addition, a considerable portion of government funds were deposited with piaohao while the officials were doing business with them. Chinese economic historians therefore coined a special term, "capital power" (*zili*), to measure the size of a piaohao or other financial institution. This term indicates the resources a financial institution could mobilize. It includes the paid-up capital it collected, the deposits it attracted, and the banknotes it issued.¹⁶ It was a better measure of their strength in the financial market than was their paid-up capital. By the 1890s, the total capital power of piaohao was estimated at C\$280 million, which included C\$42 million in paid-up capital, C\$210 million in deposits (including owners' "protecting capital"), and C\$28 million in notes issued.¹⁷

Qianzhuang's Dominance in Local Business Financing

Independent of the nationwide network of piaohao there were a large number of small native banks, generally called *qianzhuang*.¹⁸ Qianzhuang first appeared in several cities in Zhejiang and Jiangsu provinces, particularly in Shanghai, Ningbo, and Shaoxing. The first Shanghai qianzhuang came into existence well before 1776, the year in which Shanghai organized an association of qianzhuang (*qianye gongsuo*).¹⁹

16 Yang Yinpu, *Shanghai jinrong zuzhi gaiyao* (Shanghai's financial organizations) (Shanghai: Shangwu yinshuguan, 1930), pp. 11–18.

17 Chen, *Shanxi piaozhang kaolue*, p. 142.

18 The native banks had various names in different areas. For the readers' convenience I will hereafter call all local native banks *qianzhuang*.

19 SHCPB, ed., *Shanghai qianzhuang*, p. 11.

From the beginning, qianzhuang had their own field of business, complementary to, but distinct from, that of piaohao. Piaohao focused on interprovincial remittances and conducted government services, taking high officials and big merchants as their main customers. Unlike piaohao, qianzhuang usually had no nationwide branches. It was not until late in the nineteenth century that several large qianzhuang in South China set up branches beyond their cities of origin.²⁰ Most qianzhuang were local and functioned as commercial banks by conducting local money exchange, issuing cash notes, exchanging bills and notes, and discounting for the local business community. Their methods and services were well suited to the needs of Chinese business concerns. For instance, qianzhuang usually asked for no security when a loan was made. In an emergency, a customer would even knock at the door of his qianzhuang for cash at midnight, as most provided banking services twenty-four hours a day. In the case of a remittance, qianzhuang would send the money to the payee at his residence or office by a messenger, instead of requiring the payee to come in to get the cash. All these services were quite attractive to their customers. Before China was opened to foreign trade, qianzhuang dominated local financial businesses in various areas.

The business territory of piaohao and qianzhuang was also different. While the piaohao's power was centered in the Yellow River Valley and radiated out from there, the qianzhuang concentrated in the South Yangtze delta area. Therefore, these two institutions more often cooperated than competed in China's financial market. Not only did piaohao not oppose the growth of local qianzhuang, they often deposited their idle cash in local qianzhuang that acted as intermediaries between piaohao and smaller merchants in many cities. For example, Shanghai's qianzhuang received "two million to three million taels of silver" from piaohao each year in the 1880s.²¹ The same situation existed in all treaty ports, such as Guangzhou, Hankou, Nanjing, Suzhou, Fuzhou, and Xiamen.²²

Whereas piaohao grew through their involvement in the government remittance business, qianzhuang, particularly Shanghai's qianzhuang, saw their businesses boom through China's opening to the world. Shanghai's

20 Yao Xiangao, *Zhongguo jindai duiwai maoyishi ziliao* (Materials on the history of modern China's foreign trade) (Beijing: Zhonghua shuju, 1963), vol. 3, p. 1577. Also see Huang, *Shanxi piaohao shi*, pp. 192–3.

21 *Shenbao* (Shanghai Daily), January 12, 1884; Huang, *Shanxi piaohao shi*, p. 189; Shi, *Piaoshang xinshuai shi*, p. 207.

22 Huang, *Shanxi piaohao shi*, pp. 191–2.

export and import trade jumped to 381 million taels of silver in 1895 from almost zero in the early 1840s, and represented 52 percent of China's total foreign trade value.²³ Thanks to the dramatic expansion of China's foreign and domestic trade, the qianzhuang business expanded exponentially.

Qianzhuang usually maintained close relationships with Chinese merchants. Since Western banks had not yet spread to the Chinese interior when they first entered China, they began to cooperate with qianzhuang via compradors in the late 1860s.²⁴ In the form of a type of promissory note (*zhuangpiao*), qianzhuang received "chop loans" (*caipiao* in Chinese) from the foreign banks and, in turn, lent this money to Chinese merchants who used it to purchase goods from foreign firms. By 1888 all of Shanghai's sixty-two large qianzhuang were receiving chop loans from foreign banks, totaling several million taels of silver.²⁵ A newspaper of the time commented that "the prosperity of Shanghai's *qianzhuang* resulted from the credits they got from *piaohao* and foreign banks."²⁶

Supported by these funds, the qianzhuangs' financial leverage was increased. Shanghai's newspaper commented at the time that it was quite common for a qianzhuang "to make loans several times its capital."²⁷ A qianzhuang with capital of only twenty to forty thousand taels of silver often made loans totaling a million taels. In one such case, Shanghai's Fukang Qianzhuang had 20,000 taels of paid-up capital in 1907 but held 1,040,867 taels worth of loans in the same year.²⁸ The qianzhuang presence was so pervasive that almost all of the Chinese merchants then engaged in Shanghai's foreign trade relied on qianzhuang loans.

It was estimated that there were around ten thousand qianzhuang in all of China in the early 1890s. Most of them had capital of less than five thousand taels of silver. Like *piaohao*, qianzhuang also increased their capital resources by issuing banknotes, accepting chop loans, and taking deposits. The total capital power of qianzhuang by the end of the nineteenth century was estimated at C\$303 million, a little more than that of *piaohao*.²⁹

23 See Cheng, *Foreign Trade and Industrial Development of China*, p. 23.

24 SHCPB, ed., *Shanghai qianzhuang*, pp. 28–31. 25 *Ibid.*, p. 51.

26 "On the Decline of Money Market," in *North-China Daily News*, February 9, 1884.

27 "On Shanghai's Market Situation," *Shenbao*, January 23, 1884.

28 SHCPB, ed., *Shanghai qianzhuang*, pp. 780–1.

29 Tang Chuanshi and Huang Hanmin, "Shilun 1927 nian yiqian de Zhongguo yinhangye" (On China's banking business prior to 1927, referred to as "Banking before 1927" hereafter), in *Zhongguo jindai jingji shi congshu bianweihui, Zhongguo jindai jingji shi yanjiu ziliao* 4 (1986): 59.

***Foreign Banks' Monopoly in Financing China's
International Trade***

Before the 1840s, large Western trade firms in China performed their own banking transactions as a subsidiary business. But the growth of China's import and export business required appropriate financial services, which piaohao and qianzhuang rarely dealt with. New credit institutions were required to act as intermediaries between growing numbers of Western and Chinese merchants. British and other European banks, which were eager to expand their business abroad, did not miss the opportunity and quickly descended upon China.

The English word "bank," a business establishment dealing with financial affairs, is known in Chinese as *yin hang*. *Yin* means silver, which had been used as major Chinese currency until the 1930s and *hang* a business institution larger than a small retail shop in size. The term *yin hang* appeared as early as China's Tang dynasty. Originally it referred to the guild of silversmiths or the market of silver traders. It was first adopted by a Chinese–English dictionary published in the 1860s as the equivalent of bank.³⁰ The author used this term to refer to modern Western banks in order to differentiate them from traditional Chinese financial institutions. The genius and accuracy of this translation won it wide acceptance. *Yin hang* was commonly accepted after that in China to denote modern Western banks and those Chinese banks that were based on their Western counterparts in organization and business methods.

A British–Indian joint venture, called Oriental Bank, led the way in introducing modern banking into China.³¹ Established in Bombay, India, in 1842, the bank set up a branch in Hong Kong and an agency in Canton in 1845. The bank's Chinese name was Jinbao ("gold treasures") in Hong Kong and Yinfang ("silver house") in Canton. It expanded to Shanghai and set up an agency there in 1848.³² Other British banks followed suit

30 The dictionary was edited by Kuang Qizhao. See Huang Zunkai, "Diaocha bizhi yijian-shu (Report on investigating opinions about the currency system), in Chen Du, ed., *Zhongguo jindai bizhi wenti huibian* (Collection on issues of the Chinese modern currency system) (Shanghai: Shangwu yinshuguan, 1932), p. 663.

31 Chinese Customs Service, *Returns of the Trade of the Various Ports of China for the Year 1847* (Shanghai: 1848), p. 44. The bank changed its name to Oriental Banking Corporation in 1851.

32 Huang, ed., *The Universal Dictionary of Foreign Business in Modern China*, pp. 336–7.

and set up their branches in China one after another.³³ The Hong Kong and Shanghai Banking Corporation (known in China as *Huifeng Yinhang*), established in 1865 in Hong Kong, later became the largest foreign bank in China.

The boom in China's international trade in the late nineteenth century attracted other Western institutions to China's financial market. France's Comptoir d'Escompte de Paris, Germany's Deutsche Bank, and other Western banks also set up their branches in China after the 1860s. All of these, however, accrued little financial leverage, and many went out of business after a brief period in operation.³⁴ The British banks enjoyed a virtual monopoly on modern-style banking in China for forty years. By the early 1890s, Germany's Deutsch-Asiatische Bank, Japan's Yokohama Specie Bank, Ltd., France's Banque de L'Indo-Chine, and Russia's Russo-Asiatic Bank³⁵ opened branches in China and challenged British ascendancy in China's financial market. By the end of the nineteenth century there were nine foreign banks with forty-five branches in China's treaty ports.³⁶

Foreign banks, by virtue of extraterritorial rights, were unrestricted by any regulations of the Chinese government. Not only did these banks completely control China's international remittance and foreign trade financing, but they also exercised the freedom of running other banking businesses in China. They issued banknotes for circulation in China, accepted deposits from Chinese citizens, and made loans to Chinese qianzhuang. Their financial power was further enhanced when China was defeated by Japan in 1894. With China forced to pay huge war indemnities, the Qing government could not help but borrow from foreign banks. It is estimated that the capital that foreign banks actually invested in China was around C\$35 million by the 1890s. By issuing banknotes and accepting deposits, foreign banks mobilized financial resources in China on an average of eight times their paid-up capital. Therefore, the actual

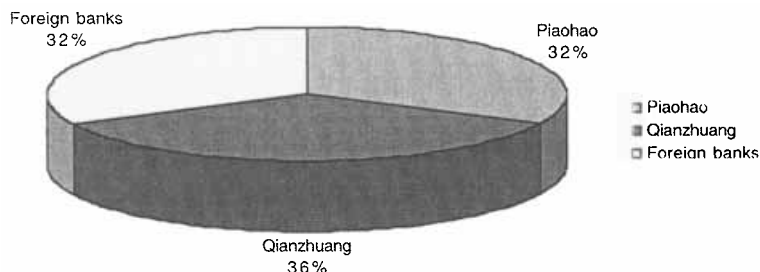
33 Among them, Commercial Bank of India was established in 1851; Chartered Mercantile Bank of India, London & China in 1857; Chartered Bank of India, Australia & China in 1858. See Wang Jingyu, *Shijiu shiji xifang ziben zhuyi dui Zhongguo de jingji qinlue* (Western capitalists' economic invasion of China during the nineteenth century, *Xifang qinlue* hereafter) (Beijing: Renmin chubanshe, 1983), pp. 146–8.

34 *Ibid.*, pp. 145–238.

35 Russo-Asiatic Bank was a Sino-Russia joint venture in name only and totally controlled by Russia.

36 Wang, *Xifang qinlue*, p. 160.

The Coming of a New Force (1897–1911)



1.1. Comparison of capital power in the Chinese financial market

Table 1.1. *Capital power in the Chinese financial market (1894)*

Institution	Capital		Other funding		Total	
	Amount	%	Amount	%	Amount	%
<i>Piaohao</i>	42	19	238	37	280	32
<i>Qianzhuang</i>	143	65	160	25	303	35
<i>Foreign banks</i>		16	245	38	280	32
<i>TOTAL</i>	220	100	643	100	863	100

Note: Unit C\$1,000,000.

Sources: Chen, *Shanxi piaozhuang kaolue*, p. 142; Tang and Huang, “Banking before 1927,” pp. 58–9.

capital power the foreign banks could control in China amounted to a total of over C\$280 million.³⁷

Aside from piaohao and qianzhuang, other institutions, such as the “official money shop” (*guanyinhao*), silver smelter (*yinlu*), and even some retail stores, also engaged in finance in China at the time. They were much weaker, however, both in their capital resources and business scope than the other three institutions.³⁸ The Chinese financial market was thus almost evenly divided by three powers – foreign banks, piaohao, and qianzhuang – at the end of the nineteenth century (see Table 1.1 and Figure 1.1).

³⁷ Tang and Huang, “Banking before 1927,” p. 58.

³⁸ A brief introduction to these institutions can be found in D. K. Liu, *China's Industries and Finance* (Beijing: Chinese Government Bureau of Economic Information, 1927), pp. 41–59.

Foreign banks dominated the financing of China's import and export trade, while piaohao monopolized the domestic remittance business and qianzhuang controlled credit markets for domestic trade throughout China. The situation was most evident in Shanghai, where "[financing of] foreign merchants was assumed by foreign banks; domestic remittance relied on piaohao while business financing depended on qianzhuang."³⁹ Complementing and cooperating with each other these three institutions, like "three kingdoms," monopolized the Chinese financial market so tightly that there seemed to be little room for a modern Chinese bank.

THE TRUSTBUSTER OF THE THREE KINGDOMS

The Call for New Financial Institutions

Little in China was immutable during the late nineteenth and early twentieth centuries as the country confronted unprecedented challenges to its cultural, political, and economic institutions. The dominance of foreign banks, qianzhuang, and piaohao in the Chinese financial market was finally broken in 1897 when China's first modern bank opened for business in Shanghai.⁴⁰

The birth of the first modern Chinese bank was the result of China's new financial demands. After decades of commercial contacts with the outside world and the bitter experiences of military defeats at the hands of Western industrial nations, more and more Chinese realized the superiority of industrialization over the centuries-old handicraft method of production. Starting in the 1860s, Zeng Guofan, Li Hongzhang, and other high officials in the Qing court launched the so-called self-strengthening movement.⁴¹ The government created various munitions works and modern factories for manufacturing commercial goods. Induced by the

39 SHCPB, *Shanghai qianzhuang*, p. 3.

40 Wang Jingyu, ed., "Jindai Zhongguo jinrong huodong zhongde zhongwai heban yinhang" (Sino-foreign joint banks in modern China's financial activities), *Lishi yanjiu* (History research) 1 (1998): 40-2.

41 Between the early 1860s and 1894, a group of influential Chinese officials launched a campaign to revive the Qing dynasty after the Taiping Rebellion by adopting Western diplomatic practices and military and technological devices. During this period, the Qing government established many modern schools, munitions works, factories, and transportation companies. These activities are commonly called the "self-strengthening movement" by scholars. About this movement, see Wellington Chan, *Merchants, Mandarins, and Modern Enterprise in Late Ch'ing China* (Cambridge, Mass.: Harvard University East Asian Research Center, 1977).

high profits that foreign factories in China earned, private industrialists also came into existence in the early 1870s.⁴² Unlike native handicraft workshops, modern industry needed large amounts of capital for long periods of time. For example, the total product value of all of China's more than 2 million handicraft workshops was only a little more than C\$4 billion, or C\$2,000 yuan each, in 1912.⁴³ Obviously, their average capital must be assumed to have been much less. Even by the 1930s, more than 97 percent of Shanghai's handicraft industrial companies had less than C\$2,000 in capital.⁴⁴ However, the average capital of 104 modern factories founded in China between 1872 and 1896 was C\$282,663, and their total capital reached more than C\$29 million.⁴⁵ The capital demand for railroad construction was much larger. The 87.5 kilometers of the Jin-Hu Railroad (Tianjin to Dahu) cost C\$1.82 million in 1888.⁴⁶ To build 106 kilometers of railway from Jilong to Xinzhu in Taiwan, the Qing government spent more than C\$1.8 million in 1891.⁴⁷ In his proposal to build 2,323 kilometers of the Guangdong Railroad from Linxi to Shenyang, Niuzhang, and Yingkou in Manchuria, Li Hongzhang estimated that the total cost would reach C\$28.7 million.⁴⁸ The Jinghan Railway (Beijing to Hankou), completed in 1905, is 1,311 kilometers in length and cost more than C\$68 million.⁴⁹

Where could funding for these new ventures be found? The deteriorating financial situation of the Qing government prevented it from appropriating enough funds to initiate more new projects. Obviously, Chinese entrepreneurs who intended to create modern industrial enterprises had to search for capital in the financial market. Though the existing financial arrangements had previously provided sufficient credit and transfer facilities to support domestic trade and worked well with the

42 The first private modern Chinese manufacturing company was established in 1874 in Canton. See Sun Yutang, *Zhongguo jindai gongyeshi ziliao* (Historical material on modern Chinese industry) (Beijing: Zhonghua shuju, 1962), pp. 1166–70.

43 Peng Zeyi, *Zhongguo jindai shougongye shi ziliao* (Historical material on the handicraft industry in modern China) (reprint, Beijing: Zhonghua shuju, 1984), vol. 2, pp. 431–47.

44 Department of Industry, *Shiyebu yuekan* (Department of Industry Monthly), vol. 2, no. 6 (June, 1937): 211–15.

45 Yan Zhongping, et al., *Zhongguo jindai jingjishi tongji ziliao xuanji* (Selected statistics on modern Chinese economic history) (Beijing: Kexue chubanshe, 1955), p. 93.

46 Mi Rucheng, ed., *Zhongguo jindai tielushi ziliao* (Material on the history of modern China's railways) (Beijing: Zhonghua shuju, 1963), vol. 1, pp. 145–6.

47 Yang Yonggang, *Zhongguo jindai tielushi* (The history of modern Chinese railways) (Shanghai: Shanghai shudian chubanshe, 1997), p. 22.

48 Mi, *Zhongguo jindai tielushi ziliao*, vol. 1, pp. 192–3.

49 Yang, *Zhongguo jindai tielushi*, p. 32.

small-scale businesses in the Chinese economy, they could hardly meet China's new financial demands.

The Incompetence of Existing Institutions

Among the many factors that prevented piaohao and qianzhuang from financing modern industry, the most fatal was their shortage of capital resources. All qianzhuang and piaohao were organized as single proprietorships or partnerships. Though the owners carried unlimited liability, their capital resources were still very limited. Most of Shanghai's qianzhuang, the largest in size in all of China, had only 20,000 taels of silver in capital before the end of the nineteenth century.⁵⁰ To extend their business, qianzhuang in Shanghai and other large treaty ports increasingly relied on the chop loans from foreign banks for their working capital. However, chop loans were made on a daily basis, and foreign banks had the right to call them back anytime without notice. Therefore, most qianzhuang had no choice but to make only short-term loans to merchants, rather than long-term loans to modern industrialists.

Piaohao were also unable to provide modern banking functions for China's economy. Their branch system dispersed their relatively greater capital base. Furthermore, enjoying their superiority in the business of domestic remittances, the owners of piaohao failed to appreciate the potential profitability of the new opportunities. The extremely conservative owners refused to switch from clients with whom they were familiar and comfortable or even to take on new ones. Thus, until the end of the nineteenth century, qianzhuang and piaohao were rarely involved in China's modern industry.⁵¹

The foreign banks were drawn to China by the opportunities for increasing international trade. It is a fair assumption that in the late nineteenth century, these banks were more interested in making quick profits by financing China's international trade and making loans to the Qing government than in the long-term development of industry in China. Furthermore, the complicated Chinese business customs and procedures with which they were unfamiliar constituted a natural barrier to their involvement in the Chinese economy. There were few sources available

50 SHCPB, ed., *Shanghai qianzhuang*, p. 5.

51 Later on, some piaohao and qianzhuang began to issue loans and accept deposits from modern industrial enterprises. But their involvement was still limited until the 1930s. For examples of piaohao's involvement in modern industry, see Shi, *Piaoshang xingshuai shi*, pp. 263–82; for qianzhuang's example, see SHCPB, ed., *Shanghai qianzhuang*, pp. 165–74.

for foreign banks to check the reliability of Chinese companies, and there were almost no laws to safeguard the security of their loans at the time. It made the risk of industrial financing extremely high and thus prevented them from being a capital source for Chinese entrepreneurs.

The Inspiration of Nationalism

Consciousness of foreign banks' intrusion into the Chinese financial market was another significant factor leading to the appearance of the first modern Chinese bank. Indemnity payments to Japan following the first Sino-Japanese War further exhausted government coffers. Foreign debt made up a significant part of the government's budget thereafter. Since its first foreign debt was contracted in 1853, the Qing government had borrowed from foreign banks and syndicates forty-three times before 1894, amounting to around C\$64 million.⁵² During the three years between 1894 and 1896, however, the Qing government borrowed more than C\$350 million from foreign banks.⁵³ It was often stipulated in loan agreements between foreign banks and the Chinese government that the latter had to assign special taxes or revenues earmarked as guarantees for loans. The intense struggle among foreign powers attempting to seize spheres of influence in China meant that these loans also had a strong political connotation.⁵⁴ Many Chinese officials and intellectuals saw the situation as leading to China's possible demise. Therefore, the establishment of modern Chinese banks was seen as one measure for protecting China from economic exploitation and invasion by foreign powers.

The proposal to create a modern Chinese banking institution was presented as early as the 1860s. In 1859 Hong Rengan, a distinguished leader of the Taiping Rebellion, sent a proposal to Hong Xiuquan, the king of the Taiping regime, seeking permission to establish a modern bank to enrich China.⁵⁵ The following year, Yung Wing, the first Chinese student

52 Xu Yisheng, *Zhongguo jindai waizhaishi tongji ziliao* (Statistical Material on the history of modern China's foreign debts) (Beijing: Zhonghua shuju, 1962), pp. 4–13. The currency unit of the original figure is the silver tael. For readers' convenience, I have converted it to silver dollars at T\$1 = C\$1.4.

53 *Ibid.*, p. 92.

54 See Wang Jingyu, "Shijiu shiji guoji jinrong ziben ruqin Zhongguo de xumu" (The prelude for the invasion of international financial capital in China during the nineteenth century), in his book *Xifang qinlue*, pp. 239–60.

55 Hong Rengan, "Zizheng xinpian" (New chapter for aid in government), in Zhongguo kexueyuan lishi yanjiusuo (Institute of History, Chinese Academy of Social Sciences), ed., *Taiping tianguo* (Heavenly Kingdom of Great Peace) (Beijing: Kexue chubanshe, 1964), p. 533.

educated at Yale University, made the same suggestion to Hong Xiuquan.⁵⁶ Though Hong Xiuquan appreciated their ideas, he had no time to put their suggestions into practice because the Taiping regime was suppressed by the Qing government a few years later.

In 1876, Shanghai's newspaper reported that a wealthy merchant and an official in Fujian province planned to establish a bank with 2 million taels of silver as capital.⁵⁷ Li Hongzhang, one of the leaders of the self-strengthening movement, made serious efforts to create a foreign-Chinese joint bank in 1885 and again in 1887.⁵⁸ Li intended to establish an American-Chinese joint bank with equal subscriptions of C\$10 million in capital by both partners. The bank would be given the exclusive right of issuing notes and government bonds on behalf of the Chinese government.⁵⁹ Other Qing officials and merchants also advocated the advantages of modern banking and asked the Qing court to act as soon as possible.⁶⁰ According to them, a modern bank was the panacea for China, merchants would benefit, the deteriorating Chinese currency system would be strengthened, and the government financial situation would be improved.⁶¹ This favorable image of modern banks was shared by many others. As Sheng Xuanhuai, the founder of the first Chinese bank, said, "Should China not establish its own bank, [foreign powers] would seize all China's profit and power."⁶² He believed that "China would not be rich and strong without promoting modern industry; and modern industry would not be promoted without reforming China's financial institutions."⁶³

Although these efforts were in vain in the beginning, owing to the opposition of conservatives, they finally prevailed among many influential officials of the Qing court. When Sheng's proposal to create the Imperial

56 See Fan Wenlan, *Zhongguo jindaishi* (Modern Chinese history) (Beijing: Renmin chubanshe, 1962), p. 191.

57 SHCPB, ed., *Zhongguo diyijia yinhang* (China's first bank, *Diyijia* hereafter) (Beijing: Zhongguo shehui kexueyuan chubanshe, 1982), pp. 92–95.

58 Chen Xulu, Gu Tinglong, and Wang Xi, eds., *Zhongguo tongshang yinhang – Sheng Xuanhuai dang'an ziliao xuanji zhiwu* (Imperial Bank of China – Collection of Sheng Xuanhuai archives, *Tongshang yinhang* hereafter) (Shanghai: Shanghai renmin chubanshe, 2000), vol. 5, pp. 697–9.

59 Ibid. 60 Ibid., pp. 700–6.

61 SHCPB, *Diyijia*, pp. 92–5.

62 Lu Jingrui, ed., *Sheng shangshu yuzhai chungao chukai* (First edition of collected drafts of Board President Sheng Yuzai) (Shanghai: Shangwu yinshuguan, 1939), vol. 25, p. 13.

63 *Zhongguo tongshang yinhang* (IBC, Commercial Bank of China), ed., *Wushinian lai zhi Zhongguo jingji* (The Chinese economy over the past fifty years) (Shanghai: Zhonghua shuju, 1947), p. 2.

Bank of China was criticized by a censor, Prince Gong and Prince Qing, Li Hongzhang, Weng Tonghe, Rong Lu, and other influential officials expressed their support for the establishment of the first Chinese bank.⁶⁴ Their support effectively silenced opposition from conservative officials and paved the way for the birth of China's first modern bank.⁶⁵

The First Modern Chinese Bank – the Imperial Bank of China

On May 27, 1897 (the twenty-third year of Emperor Guangxu's reign), the first modern Chinese bank, the Imperial Bank of China (IBC), finally opened for business in Shanghai.

The IBC had several features that distinguished it from China's indigenous financial institutions. First of all, the bank commenced its business with paid-up capital of C\$3.5 million, plus C\$1.4 million in working capital that the Board of Revenue placed in the bank as a six-year term deposit.⁶⁶ It was the largest amount of capital a Chinese financial institution had ever possessed. The bank expanded its total assets to more than C\$10 million and issued more than C\$8 million in loans in 1899.⁶⁷

Second, the IBC was organized as a joint-stock firm for which shareholders assumed limited liability – far less risk than proprietors in *piaohao* or *qianzhuang* assumed (I will further discuss this issue in Chapter 7).

More importantly, the bank announced that it would not adopt old Chinese customs in running its business. According to Sheng Xuanhuai: "All business methods pursued by the IBC will entirely follow the regulations of the Hong Kong and Shanghai Banking Corporation."⁶⁸ For implementing this policy, the bank hired a British banker, A. M. Maitland, as its first general manager.⁶⁹ Maitland had worked in the Hong Kong and Shanghai Bank for twenty years and had a reputation for financial expertise and integrity. The bank's general accountant and other important positions in Shanghai and other branches were also

64 IBC, ed., *Wushinian lai zhi Zhongguo jingji*, p. 4.

65 The struggle between Sheng Xuanhuai and conservative officials in the Qing court over the establishment of the Imperial Bank of China has been well described by both Chinese and American scholars. See SHCPB, ed., *Diyijia*; and Albert Feuerwerker, *China's Early Industrialization* (Cambridge, Mass.: Harvard University Press, 1958), pp. 225–41.

66 SHCPB, ed., *Diyijia*, pp. 125–6. 67 SHCPB, ed., *Diyijia*, p. 116.

68 *Shiwubao* (Current Affairs), vol. 30, quoted from SHCPB, ed., *Diyijia*, pp. 76–80.

69 The bank's contract with Maitland can be found in Chen, Gu, and Wang, eds., *Tongshang yinhang*, pp. 52–4.

given to foreign professionals. In addition, the IBC became the first Chinese member of the Shanghai Bank Association, which was organized by Shanghai's foreign banks.

Because the IBC was established by a special imperial edict, it was granted many privileges, including the right to issue paper notes, coinage of money, and special protection offered by the government. Backed by its relatively large capital resources and official patronage, the bank quickly fought its way into the financial market. The special status of the IBC also guarded the bank's independence from foreigners. Sheng Xuanhuai rejected French and Austrian proposals for merging the IBC with a French or Austrian bank and insisted on preventing foreign control of the bank.⁷⁰ The inauguration of the IBC was a breath of fresh air to China's financial market and initiated a new era in the domestic financial market.

From its inception, the bank was involved in China's international business financing and made loans to various foreign trade firms, a business long monopolized by foreign banks. Its clients included Britain's Abdullah Ebrahim & Co., America's Standard Oil Co., Germany's Carlowitz & Co., and Japan's China and Japan Trading Co. These trading firms received a total of C\$2,782,000 in loans from the IBC in 1901, making up 73 percent of the bank's total loans that year.⁷¹

While supervising the IBC, Sheng Xuanhuai was then also in charge of all of China's modern ventures in railway, steam navigation, telegraph, and the iron and textile industries founded by the Qing government in the self-strengthening movement. These enterprises naturally became major clients of the IBC and benefited from the loans extended by it. For example, the Huasheng Spinning and Weaving Mill owed the bank C\$935,000 in 1899 and Hanyang Iron Works owed C\$1,050,000 in 1905. In addition, other modern factories were aided by IBC loans.⁷²

Another field in which the IBC competed with foreign banks was the issuance of banknotes. The bank issued China's first banknote in 1898, and the total amount of its banknotes quickly increased to C\$3,238,000 in 1907 from C\$402,220 in 1898.⁷³ Although the amount was much smaller than that issued by foreign banks, it opened the way for Chinese banknotes, which eventually replaced foreign banknotes in most of the country (see Chapter 5).

70 SHCPB, ed., *Diyijia*, pp. 89–90. 71 *Ibid.*, p. 149.

72 *Ibid.*, pp. 24–6. 73 *Ibid.*, p. 158.

More cooperation than competition existed between the IBC and qianzhuang. Since the bank had few business connections, particularly early in its life, the IBC worked closely with Shanghai's qianzhuang. The first Chinese general managers and many staff members of the IBC came from there. In the first six months of operation, the IBC made more than 96 percent of its loans to qianzhuang.⁷⁴ Even in 1911, 36 percent of the IBC's loans went to Shanghai's qianzhuang, which were then suffering from the "Rubber Crisis."⁷⁵

In the years following its founding, the IBC made much progress in its business. By the end of 1899, the IBC had established branches in Hankou, Beijing, Tianjin, Canton, Fuzhou, Zhenjiang, Yantai, Shantou, Hong Kong, Baoding, and Chongqing. Both its deposits and loans increased around 50 percent in only two years.⁷⁶

Unfortunately for the IBC, the Boxer Rebellion broke out just as the bank's business was booming. The bank's Beijing and Tianjin branches were plundered and burned, with hundreds of thousands of dollars lost in the incident.⁷⁷

Before the bank could recover from this disaster, counterfeited IBC banknotes appeared in Shanghai and inflicted nearly irreparable harm to its credit. According to IBC regulations, its banknote was equal to metal cash, and a customer could request the IBC to convert its banknotes to silver dollars at any time. In 1903, when a qianzhuang staff member came to the bank's Shanghai office to convert his IBC banknote, it turned out to be counterfeit. Naturally, the bank refused to pay him silver dollars and sent the person to the government office for investigation. When the news broke the next day, several of Shanghai's qianzhuang misinterpreted the incident and refused to accept any more IBC banknotes. Others took advantage of the situation by discounting the IBC notes. Many Shanghainese people holding these banknotes worried that they would lose value and rushed to the bank to convert them. The first run in the history of modern Chinese banking broke out on February 6 and 7, 1903. To avoid further crisis, the bank prepared more than 1 million taels of silver and extended the bank's working hours for people to convert their banknotes. At the request of Sheng Xuanhuai, the Hong Kong and Shanghai Bank also helped convert

74 *Ibid.*, p. 143. 75 *Ibid.*, pp. 142–3.

76 IBC, ed., *Wushinian lai zhi Zhongguo jingji*, p. 239.

77 "Archives of the IBC board of directors," vol. 2, quoted from SHCPB, ed., *Diyijia*, pp. 170–1.

the IBC notes.⁷⁸ These steps calmed the people's fears and the run waned.

Later on, the bank discovered that the fake notes had come from Osaka, Japan. Several Japanese had counterfeited about C\$300,000 of the IBC notes and smuggled them into China.⁷⁹ The IBC asked the Japanese government to investigate the case and impose "severe punishment" on those criminals. The Japanese government later solved the case and informed the IBC that all counterfeited notes had been burned and all counterfeiting machines and tools destroyed. But the Japanese government could do nothing to punish those people who were responsible because "there were no special laws in Japan to deal with people who counterfeited other countries' banknotes."⁸⁰

The case caused the IBC to lose about C\$100,000 in the run, leaving its reputation severely damaged. The banknotes issued by the IBC plunged in value from C\$885,000 in 1899 to C\$130,000 in 1904.⁸¹ Not until 1905 did the IBC recover from this disaster.

Compounding the external catastrophes were more serious internal problems, particularly the bank's own business strategy. A modern commercial bank builds its business mainly on the funds it absorbs from a community of general depositors. The basis of a bank's success is its ability to attract deposits. From the beginning, however, the IBC saw the business of official remittances as the bank's only base. "Whether or not provincial receipts and payments are transferred through the IBC," as Sheng Xuanhuai said, was "the key to expanding China's commercial strength and recovering our economic rights," as well as the success of the bank.⁸²

Upholding this strategy, the IBC paid little attention to attracting other funds, and practically ignored collecting deposits from the general public. In most years until the end of the Qing dynasty, total deposits in the IBC, including the Board of Revenue's deposit, were always less than its capital.⁸³ When the bank failed to solicit enough official remittance business due to piahao competition and fierce resistance from well-entrenched interests, it ended up with no other financial sources but its own capital to run its business. For example, it is recorded in the IBC's ledger that the bank's total official drafts were 1,154,000 taels of silver at the end of 1897. That figure slowly increased to 1,413,000 taels by 1899. Then it plummeted. By the end of 1905, the bank's official drafts were

78 SHCPB, ed., *Diyijia*, p. 156. 79 *North-China Daily News*, February 11, 1903.

80 *Shenbao*, February 9, 1905. 81 SHCPB, ed., *Diyijia*, pp. 155–61.

82 Lu, ed., *Sheng yuzhai chungao*, vol. 2, p. 32. 83 SHCPB, ed., *Diyijia*, pp. 116–18.

only 646,000 taels.⁸⁴ In contrast, the piaohao's official remittance business vastly increased, jumping more than seven times after the establishment of the IBC, from 939,260 taels in 1898 to 20,390,000 taels in 1905, thirty times more than that of the IBC.⁸⁵

As a result, the IBC fell far short of Sheng Xuanhuai's goal to make the bank into the cornerstone of his vast commercial and industrial empire.⁸⁶ It also failed to become the engine powering a movement "to stop the foreign merchants from controlling [China's] economic life."⁸⁷

From today's perspective, many deficiencies can certainly be found in the IBC's business practices inasmuch as the bank was very weak compared to the established foreign and domestic financial institutions. The establishment and survival of the IBC, however, signaled significant progress toward the modernization of China's financial institutions. The bank's limited achievement simply showed that modern Chinese banks faced considerable challenges in attaining a strong position in the financial market. With the establishment of China's first state bank and a series of provincial and private banks thereafter, modern Chinese banks came to be recognized as a potential power in the Chinese financial market.

OFFICIAL PATRONAGE AND THE INITIAL SURGE

Establishment of the Daqing Bank

The IBC's setback after the Boxer Rebellion discouraged new investors. No other Chinese banks followed in the seven years after the establishment of the IBC. The Boxer Rebellion and the occupation of Beijing by allied forces finally convinced the Qing authorities that the dynasty could no longer survive unless dramatic reforms were carried out. The government initiated a series of desperate reforms, and even though they proved too little and too late to alter the fate of the Qing dynasty, these "eleventh hour" reforms triggered significant changes in Chinese political, economic, and military institutions.⁸⁸

84 Ibid., p. 119.

85 Huang, *Shanxi piaohao shi*, pp. 279–80.

86 Feuerwerker, *China's Early Industrialization*, p. 240.

87 Sheng Xuanhuai, "Qingshe yinhang pian" (Appeal to establish a bank), quoted from SHCPB, ed., *Diyijia*, p. 61.

88 For the reforms after the Boxer Rebellion, see Chuzo Ichiko, "Political and Institutional Reform, 1900–11," in J. Fairbank and Kwang-ching Liu, eds., *The Cambridge History of China*, vol. 11: *Late Ch'ing, 1800–1911* (Cambridge: Cambridge University Press, 1980), pp. 375–415.