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978-0-521-81142-2 - Banking in Modern China: Entrepreneurs, Professional Managers, and the Development of Chinese Banks, 1897–1937

Linsun Cheng

Excerpt

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Introduction

COMPARED to other Western institutions that were introduced into China in the nineteenth century, the modern banking system was adopted by the Chinese quite late. The first modern Chinese bank was established in 1897, more than half a century after a British bank set up its first branch in China.¹ Forty years after its establishment, however, modern Chinese banks had grown into viable and self-sustaining institutions, exerting a growing influence over the course of the Chinese financial market and the Chinese economy as a whole.

The financial system usually plays a critically important role in the activities of all economies. Without some form of capital and credit markets, societies are limited to little more than barter economies. It was a common phenomenon that the expansion of a modern banking system had a pervasive, across-the-board influence on the overall economic development and on the people's lives in various countries. China was no exception.

Given the critical role that financial institutions played in Chinese economic growth, the history of modern Chinese banking merits careful consideration. For all the scrutiny of China's efforts in searching for modernization before the Communist takeover in 1949, very few books are available in English for our understanding of the workings and changes of modern Chinese banking. It was almost excluded from the historiography of the modern Chinese economy altogether. A recently published book, the *International Bibliography of Business History*, has a special chapter listing influential books about banking and finance in more than twenty countries, including China. Among the 496 titles that focus on banking history, however, not a single book is devoted to

1 Huang Guangyu, ed., *The Universal Dictionary of Foreign Business in Modern China* (Chengdu: Sichuan renmin chubanshe, 1995), pp. 336–7.

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modern Chinese banking.² Although this bibliography is far from complete, particularly in non-Western historiography, it gives a rough picture of the limited studies on this subject. Frank Tamagna's book, *Banking and Finance in China*, which was published half a century ago, remains the major source in this field and continues to be most frequently quoted among Western scholars. Focusing on China's efforts to finance the ongoing anti-Japanese war (1937–45), the author used the evolution of China's banking system prior to the war mainly as a historical background. The book, as T. V. Soong said in its preface, is largely "a comprehensive survey," rather than an analytic work.³

During the 1980s, several Western scholars paid attention to modern Chinese banks and bankers in their study of overall modern Chinese history. Parks Coble described how the Nationalist government tried to impose its control over Shanghai's capitalists, particularly prominent Chinese bankers. Although Coble convincingly demonstrated the fundamental conflicts that existed between the Nationalist government and Shanghai's business community and made a great contribution to the study of modern Chinese history, he mainly pursued his analyses of modern Chinese banks and bankers from a political economy perspective.⁴ Taking one of the most prominent Chinese bankers, Zhang Jiaao (Chang Kia-ngau) as a case study, Phyliss Ann Waldman's unpublished dissertation is devoted entirely to the political relationship between the Chinese government and Chinese bankers, further enforcing Coble's argument.⁵

In her classic study of the Chinese bourgeoisie, Marie-Claire Bergère looked briefly at several prominent Chinese bankers.⁶ She also described the history of the Shanghai Bankers' Association in a short paper.⁷ From her perspective on Chinese social history, she primarily analyzed the

2 Francis Goodall, Richard T. Gourwisch and Steven Toliday, eds., *International Bibliography of Business History* (London and New York: Routledge, 1997), pp. 303–74.

3 Frank M. Tamagna, *Banking and Finance in China* (New York: Institute of Pacific Relations Publications Office, 1942), p. xiv.

4 Parks Coble, *The Shanghai Capitalists and the Nationalist Government* (Cambridge, Mass.: Harvard University Press, 1980).

5 Phyliss Ann Waldman, "Chang Kia-ngau and the Bank of China: The Politics of Money," (unpublished diss., University of Virginia, 1984).

6 Marie-Claire Bergère, *The Golden Age of the Chinese Bourgeoisie, 1911–1937*, translated by Janet Lloyd (Cambridge: Cambridge University Press, 1982).

7 Marie-Claire Bergère, "The Shanghai Bankers' Association," in Frederic Wakeman, Jr. and Yeh Wen-hsin, eds., *Shanghai Sojourners* (Berkeley, Calif.: Institute of East Asian Studies, University of California, 1992), pp. 15–34.

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effects of the rising Chinese bourgeoisie, of which the Chinese bankers were a leading group, upon Chinese society in general.

In *Economic Growth in Prewar China*, Thomas Rawski analyzed China's economic history from the late nineteenth century to the Pacific War during the 1940s.⁸ In his opinion, Western-style commercial banking was one of the most important modern sectors in the Chinese economy of the time. Viewing his subject from the perspective of China's macro economy, he expressed appreciation for the improvement of the Chinese financial system and correctly pointed out its positive impact on overall Chinese economic growth. Restricted by his topic, however, he did not give further analysis of the causes leading up to China's banking achievements.

Understandably, the approaches of these scholars prevented them from taking a closer look at modern Chinese banks' business practices and the special characteristics of modern Chinese banking in various periods, as well as the causes that led to their success. The first goal of this study is to fill this void by providing a historical synthesis of modern Chinese banks from their birth in the late Qing dynasty until 1937 when the development of the Chinese economy, as well as modern Chinese banking, was violently disrupted by the Japanese invasion. Within this time period I do not try to describe the history of every Chinese bank in detail. Instead, by concentrating on the principal Chinese banks and several prominent Chinese bankers, I will display the evolution of modern Chinese banking with the support of various statistics and graphics; explore the business practices these banks applied in competing with their foreign and native counterparts; examine the causes leading to their rapid growth; and demonstrate who deserves the credit for the rapid expansion of modern Chinese banking and why.

A study of China's modern banking history is of interest not only for its own sake but also for scholarly completeness of the study of modern Chinese history. This study is necessarily narrow in scope but, hopefully, broad in interest. As an important part of the modern Chinese economy, the development of modern Chinese banking was triggered and stipulated, as well as restrained or sometimes even hindered, by the change in China's overall political and economic situation. A comprehensive scrutiny of modern Chinese banking will certainly shed light on our understanding of modern Chinese economic history.

⁸ Thomas G. Rawski, *Economic Growth in Prewar China* (Berkeley, Los Angeles, and Oxford: University of California Press, 1989).

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Between 1897 and 1937 when the second Sino-Japanese War broke out, China was saddled with a succession of foreign and domestic crises. At the turn of the century, the Boxer Rebellion and the eight-country relief expedition almost destroyed the first and only existing modern Chinese bank. Although the collapse of the Qing dynasty in 1911 and the advent of the Republican era brought great hope to the Chinese, the reality of postimperial China was worse than many had envisioned. Following the 1911 Revolution, China was torn by civil wars in which numerous warlords struggled for domestic control and international recognition. The Nationalist government, established in 1927, did not save China from political turmoil and economic hardship since it was constantly challenged by the Chinese Communist Party, while continually fighting warlords who refused to surrender their power.

Even Mother Nature showed no mercy and added additional misfortunes to Republican China. The North China famine of 1920–21 claimed millions of Chinese lives. The Yangtze and Huai River floods in the summer of 1931 destroyed 35 million acres of agricultural land and cost C\$450 million in property damage.⁹

Outside forces compounded the hardship of the era as the world's Great Depression led to sharp fluctuations in the international value of the Chinese currency.¹⁰ To make things worse, Japanese troops launched their conquest of Manchuria in 1931. Deliberately intending to weaken China's economic power, Japanese troops also attacked Shanghai, China's economic center, in January 1932, causing great damage to factories, utilities, railways, businesses, and residential buildings.

Within this atmosphere of political and economic turbulence, how could the modern Chinese banks experience relatively stable growth while many other new economic ventures during the same period struggled through erratic development? What were the most significant causes leading to this achievement? What broader economic changes were triggered in China's broader economic field by the emergence of these new institutions? These questions cannot be satisfactorily answered without a deep understanding of the practice and nature of modern Chinese

9 Bank of China, "Zhongguo yinhang minguo ershi niandu yingye baogao" (The 1931 business report of the Bank of China), Zhongguo yinhang (Bank of China, BOC hereafter), Zhongguo dier lishi dang'anguan (Chinese Second History Archives, CSHA hereafter), *Zhongguo yinhang hangshi ziliao huibian* (Collection of historical material on the BOC, *Zhongguo yinhang* hereafter), Vol. 3 (Beijing: Dang'an chubanshe, 1991), pp. 2041–2.

10 For a succinct description of this situation, see Yu-kwei Cheng, *Foreign Trade and Industrial Development of China* (Washington D.C.: University Press, 1956), pp. 67–74.

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banking and its adaptability to China's changing circumstances. It is the second goal of my study to answer these questions.

The third goal of this book is to correct several scholarly misunderstandings regarding the history of modern Chinese banking. As early as the 1930s, the rapid expansion of modern Chinese banks was already attracting scholars' attention. In addition to providing chronological narratives describing individual banks on the basis of their published business reports, scholars also debated the causes leading to the expansion of modern Chinese banks and the nature of their impact on the Chinese economy. A dominant claim among these scholars was that the expansion of modern Chinese banks was an "abnormal" phenomenon indicating that the "Chinese economy was beset with crises," and that it hurt, rather than aided, overall Chinese economic development.¹¹

The negative comments were further exaggerated by mainland scholars after the Communist victory in China in 1949. These scholars asserted that the expansion of modern Chinese banks relied solely on their speculation on government bonds, which "caused damage to the national economy and hindered the development of Chinese modern industry."¹² For more than three decades, this opinion prevailed in almost every study of modern Chinese economic history and in college textbooks published in mainland China.¹³ Only after the middle of the 1980s did different opinions appear in Chinese scholars' works.¹⁴

Outside of the mainland, very little research on Chinese banking was conducted, either in Chinese or in Western languages. The single book on this topic, published in Taiwan before the 1980s, simply considered

11 Wu Chengxi, *Zhongguo de yinhang* (China's banks) (Shanghai: Shangwu yinshuguan, 1934), p. 31. Original text is in Chinese and is translated by the author. Unless otherwise noted, all other translations are by the author.

12 Zhang Yulan, *Zhongguo yinhangye fazhanshi* (A history of the development of Chinese banking) (Shanghai: Shanghai renmin chubanshe, 1957), pp. 140, 142.

13 For examples, see Chinese People's University, *Zhongguo jindai jingjishi* (Modern Chinese economic history), 2d ed. (Beijing: Renmin chubanshe, 1979), p. 34; Zhao Dexin, *Zhongguo jindai guomin jingjishi jiaocheng* (Text of the history of the modern Chinese national economy) (Beijing: Gaodeng jiaoyu chubanshe, 1988), p. 173; and many other textbooks.

14 The best of them include dozens of short papers written by Hong Jiaguan, a financial historian whom I consulted with frequently and benefited from greatly. These papers were published in three treatises. See Hong Jiaguan, *Jinrong huajiu* (Tale of finance) (Beijing: Zhongguo jinrong chubanshe, 1991); *Zai jinrongshi yuandili manbu* (Walking in the field of financial history) (Beijing: Zhongguo jinrong chubanshe, 1990); and Hong Jiaguan and Zhang Jifeng, *Jindai Shanghai jinrong shichang* (Modern Shanghai's financial market) (Shanghai: Shanghai renmin chubanshe, 1989).

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fragments of materials from contemporary accounts and put forth very little analytical study.¹⁵

Western scholars more or less held similar opinions. One scholar concluded in 1942 that “the rapid growth of Chinese modern banks was connected with government financing.”¹⁶ A textbook of modern Chinese history, revised in 1997 and widely used in American colleges, alleged that the most important reasons for China’s failure to make real progress in economic construction during the Nanjing decade (1927–37) “was a corrupt banking establishment.”¹⁷ Although the authors of this book provided no supporting evidence, it seems that this opinion was shared by some other scholars.¹⁸

My own research into the records of major Chinese banks has raised questions about the validity of these conclusions and caused me to counter commonly accepted opinions in the seven chapters of this book.

The first three chapters present a narrative description, with statistics, of the development of modern Chinese banks in the later Qing dynasty (1897–1911), the warlord period (1912–27), and the Nanjing decade (1927–37). In addition, each chapter emphasizes a special issue or argument. Chapter 1 stresses the strenuous business environment that the modern Chinese bank confronted in its inception and the causes leading to the birth of modern Chinese banks. Chapter 2 focuses on two important characteristics in the development of modern banking in China: privatization and concentration. It shows that the swift expansion of the modern banking industry should be attributed primarily to a group of private banks that amassed most capital resources available in the Chinese financial market. Chapter 3 concentrates on the power change in the Chinese financial market after the emergence of the modern Chinese banks. The longtime monopoly held by the “three kingdoms” in the Chinese financial markets was shaken and ultimately broken. I refute the contention of Chinese scholars who argue that modern Chinese banks inhibited industrial development prior to the Second World War.

15 Tan Yuzhuo, *Zhongguo zhongyao yinhang fazhanshi* (History of the development of China’s principal banks) (Taipei: Lianhe chubanshe, 1954).

16 Tamagna, Frank M. *Banking and Finance in China*, p. 45.

17 June Grasso, Jay Corrin, and Michael Kort, *Modernization and Revolution in China* (Armonk, N.Y. and London: M E. Sharpe, 1997), p. 106.

18 Wang Yeh-chien, *The Development of Money and Banking in Modern China, 1644–1937* (Taipei: Institute of Modern Chinese History, Academia Sinica, 1981), p. 106.

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The expansion of the modern banking system promoted, directly or indirectly, modern Chinese industry. Chinese bankers, as a group of professional managers of China's modern enterprises, deserved at least as much, if not more, credit for China's economic expansion of that period, as merchants and other industrial entrepreneurs of the time.

In Chapter 4 I reverse previously held arguments and demonstrate that government bonds and other debts only promoted the expansion of modern Chinese banking quantitatively and temporarily but not qualitatively and consistently. In the end, it can be said that the practice of speculating on government bonds actually undermined the healthy development of the modern banking industry. The reasons for the success of modern Chinese banks should therefore be sought elsewhere.

Many factors contributed to the expansion and prosperity of modern Chinese banks. Chapters 5 and 6 focus on one of the most pivotal factors: the banks themselves. I review the reforms that modern Chinese banks made in their business practices (attracting deposits, making loans, and issuing banknotes) and management methods (human resources, worker welfare system, reserve funds management, and interbank cooperation). All these reforms greatly enhanced their power and increased their leverage in the Chinese financial market.

Though operating in the same political and economic environments, why did some banks succeed and others not? Why did these reforms only succeed in certain banks? The answers to these questions are the focus of Chapter 7. I argue that the principal factor, which led to these differing fates, should be attributed to a group of "entrepreneurs with Chinese characteristics." Though many of these bankers were wrongly labeled as China's "robber barons" by scholars, they were the main forces leading to the expansion of modern Chinese banks. Combining the traits of Western entrepreneurship – as defined by Schumpeter and others – with indigenous Chinese business characteristics, such as native-tie connections, Confucian education, and the gentry-merchant consciousness, they successfully turned their banks into a new type of business institution somewhat akin to the "modern enterprises" described by Alfred Chandler.

The relative neglect of Western scholars of the development of modern banking in China resulted partly from their lack of access to the primary sources. All original documents of China's principal banks were kept in Chinese archives, access to which was prohibited to Western scholars before the 1980s. Indeed, until very recently, the most valuable

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documents of Chinese banks were still closed to foreign researchers.¹⁹ It was impossible for a scholar to conduct meaningful research on these banks without studying their original documents.

Fortunately for this study I was able to gain access to a wide range of primary materials preserved in the Chinese Second History Archives and Shanghai Municipal Archives. Most documents relating to China's principal banks were retained by the Chinese People's Bank and stored in its Shanghai Branch Archives until 1993. These documents were not open to the Chinese public, let alone to foreigners. My access to these documents allowed me to read many valuable resources, including these banks' original business reports, market analyses, and correspondence between bank headquarters and local branches and between bankers at various banks. In addition to relying on these original documents, I also made free use of a few source books. The best among them are the studies conducted by the Research Department of the Bank of China. Several recently published document collections of Chinese banks have also provided useful information for my study.

Partly because of the lack of comprehensive and reliable statistics for inland China, my attention has been confined chiefly to Shanghai, China's commercial and financial center. Conditions in Shanghai can be taken only as indicative of the direction, rather than the extent, of similar changes that were expected to occur elsewhere. There is a further limitation. Since so many treatises have been written on the change in modern China's currency and the government's monetary policies, I offer no detailed description of this process, other than references to currency problems as they affect banking reforms.

The final goal of this study is to discover what, if anything, can be learned from historical experience that might be relevant to the problem of financing economic growth in today's China and other developing countries. I sincerely hope that my study provides some lessons for the current generation of Chinese reformers.

¹⁹ Most documents of China's principal banks prior to July 1951 are stored in the Shanghai Municipal Archives, which has promised to open these documents to scholars soon. At the time of this writing, scholars are still prohibited from access to most of these documents.

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Notes to Readers. Spellings of Chinese names and places in English are generally in Hanyu Pinyin rather than Wade-Giles, except where the latter or other familiar spelling is used in a direct quotation or contemporary news account. In the notes and bibliography the source's original spelling is consistently used. Singular and plural nouns are not distinguished in Chinese. Hence, *yuan* and *tael*, for example, could be either singular or plural. I also follow the Chinese order of names for Chinese people, whose surnames precede their given names.

Currency. Before November 1935, the silver tael (*liang*) and the coined silver dollar (*yuan*) were the most commonly used medium of payment in the Chinese financial world. There were hundreds of monetary taels, and, before the 1930s, dozens of silver dollars in use throughout China. For comparison, I am adopting the Shanghai tael, which were most commonly used in the contemporary Chinese financial world, as a standard in my analysis:

C\$ = Chinese yuan

T\$ = Shanghai *guiyuan* (Shanghai silver tael)

1 C\$ = 0.72 T\$

1 T\$ = 1.4 C\$

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1

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 *fei qian* (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. Wagel, *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 *fei qian* in the Tang dynasty or *bian huan* (“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.