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THE CHINESE BANKS IN MALFORMED TRANSITION

WITH A SPECIAL REFERENCE TO THEIR MOVE- MENT IN THE EARLY PERIOD OF THE REPUBLICAN REGIME

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1. RESTRICTED EXIT

The forerunners of the foreign-style banks in China may be classified into those established by foreign countries and those of native creation. The first of the former is the Chartered Bank of India, Australia and China established in 1857, while that of the latter is the Commercial Bank of China (中國通商銀行) established in 1896. Thus, there is an intervening period of forty years between the two sets of foreign-style banks, thereby indicating the fact that at least in formality the banks of foreign nationalities led the Chinese. Concretely, this is shown by the fact that when the Commercial Bank of China was established, its by-laws were modeled after those of the Hongkong and Shanghai Banking Corporation. One motive for the establishment of Chinese foreign-style banks was to develop China's foreign trade in competition with the foreign banks in China. The latter banks offered an opportunity for creating Chinese foreign-style banks.

It appears that the Chinese banks made rather a late start and their establishment followed an urgent demand that something should be done in order to meet the competition of foreign banks in China. However, the backwardness of the Chinese banks is due the special circumstances which were confronted by China and which retarded their development. By these circumstances, I mean the backwardness of

the Chinese industrial life and the early start made by foreign banks in the Chinese financial world, both of which formed the peculiar character of China's period of transition from her modern to present-day period.

Real circumstances in China's industrial and financial phases failed to positively stimulate the development of Chinese foreign-style banks which had to travel not the smooth highway of growth but the rough and tumbling road of abnormality and malformed character.

2. RECKLESS ESTABLISHMENT OF BANKS

Prior to the advent of the republican regime, there was one central bank called The Ta Ching Government Bank (大清銀行), its forerunner being the Hupu Bank (戶部銀行), which was established in 1908. In 1907, the Bank of Communications (交通銀行) came into being. Besides these two government banks, the following representative foreign-style banks were created: the national Commercial Bank, Ltd. (浙江興業銀行), in 1906; the Ningpo Commercial and Savings Bank, Ltd. (四明商業儲蓄銀行), in 1908; the Chekiang Bank, Ltd. (浙江銀行), in 1908, which was the forerunner of the Chekiang Industrial Bank, Ltd. (浙江實業銀行); the commercial Guarantee Bank of Chihli (北洋保商銀行) in 1909. Thus, even towards the close of the Ching Dynasty, the number of foreign-style banks had shown a steady increase which was stimulated further after the advent of the republican regime.

After the establishment of the Republic, the Ta Ching Government Bank was replaced by the Bank of China (中國銀行). The Bank of Communications and several other banks of the old regime continued to exist but with some modifications having been made on their character for obvious reasons.

The Chekiang Bank was established in 1908 as a semi-government organization and was a provincial bank, its head office being located in the city of Hangchow. After the

republican revolution, its name was changed to the Chekiang Bank of Republican China and in 1915 it was again changed to the Chekiang Local Industrial Bank. When the National Commercial Bank, Ltd. was established in 1906, one half of its shares were held by the Chekiang Railway Company (浙江鐵路公司). In 1915, the company was nationalized; its shares were transferred elsewhere; and its head office was shifted from Hangchow to Shanghai. Its by-laws were revised in the same year.

The Commercial Guarantee Bank of Chihli was reorganized into a commercial bank in 1920. The Commercial Bank of China, which once went so far as to employ an Englishman as its manager, soon came to change its attitude towards foreign bankers and replaced its foreign employees by Chinese. This was the new start of its commercial enterprise. A sudden increase in the number of newly established banks was one of the chief features of this period.

New banks continued to increase like mushrooms after rain. There were 185 banks in 1928. This reckless establishment of new banks was made with the First World War as its background. As a necessary result of the speculative motive for this reckless establishment of banks, there were deadlock and suspension of banks, thereby showing their general weakness.

3. ADVANCE OF FOREIGN CAPITAL IN CHINA

The expansion made by financial capital in China placed banking in a superior position over industry, although there existed a close relationship between the two. The truth that banking is not something that transcends the age but that it changes with the development of industry made no exception in the case of China. I shall presently explain how Chinese industry was retarded and how Chinese banks failed to make their proper development.

As a result of the advance of foreign capital into China,

she came to adopt Western institutions and customs, as shown by the introduction of progressive industrial enterprises. The Chinese financial organ developed from the *piao hao* (票號) to the *chien chwang* (錢莊) or the native-style bank and then to the foreign-style bank, but its development was subject to definite limitations. The object of foreign capital in China was to export foreign manufactures and exploit Chinese raw materials; demand was made on the Chinese market for the sale of commodities and investment of capital.

Demand made on China for the consumption of foreign goods and the absorption of foreign investments was bound to stimulate the development of production in Chinese economy. And in this process, foreign investment already made were to become the transfer of Chinese goods into the foreign side. Unless the circulation of these goods and capital be made smoothly, the foreign goods and capital would strengthen the tendency of change from the advance of goods to the control of capital, from the normal track to the abnormal one.

The expansion of the foreign Powers' trade with China had the effect of expanding the demand for China's commercial capital as well as her financial organs. But their sphere of activities was largely limited to the process of circulation of commodities, and they were unable to give rise to any close relation with industry beyond the commercial boundary. When an advance nation makes penetration into a backward country with its vast amount of commodities and an enormous capital, it is usually accompanied by progressive forms inherent in capitalism. However, when viewed from the side of commodities, the progression of such an advanced nation will show unwillingness to give any positive support to the rise of the domestic industry of the backward country. Also viewed from the side of capital, the former nation would check the rising industries of the latter nation, and would impede the sane expansion of her financial organs. The same tendency existing between a home country and its colonies did exist in the case of China.

An observation of the concrete problems of China would reveal that prior to the advance of foreign capital, there existed such native financial institutions as the Shanhsi *piao hao* (山西票號) and the *chien chwang* (錢莊) or the native-style banks which were found both necessary and highly important. After the advent of Western capitalism, the *piao hao* with its strong local colour became unable to meet the demand of the new age and came to be replaced by the native-style banks, which also failed to make territorial expansion required by the new age, because they lacked the technique and management possessed by the modern financial organs. Thus, the native-style banks also came to be replaced, in turn, by the advent of the new form of financial organ, namely, the foreign-style bank with its vast capital, fine organization and universal network of communication. Thus, the foreign-style Chinese banks made their appearance. At first, both the foreign style financial organs and the demands of the time seemed to make a parallel advance, but their course of advance was extremely limited. As has been stated, the advance of foreign capital in China had two objects, namely, the sale of foreign goods and the exploitation of Chinese raw materials. With the advance of their trade with China, the Chinese financial organs as supplementary institutions came to make their development. This was because the Chinese financial organs occupied an advantageous position *vis a vis* the foreign capital and were able to secure exorbitant profits by their business management. The aid given by foreign capital to the Chinese financial organs never went beyond that limit. Nor was such aid restricted to the Chinese foreign-style banks; for similar aid was also given to the native-style banks. The dependence of these two sets of Chinese banks on foreign capital increased in intensity as time passed, and they lacked foundation of their own. Thus, the banks created during this period of transition were either bubble organizations whose birth was due to the effects of the World War, or those which failed to correspond to the basis of industrial development. It was

undeniable from the very inception that the Chinese banks were characterized by weakness.

Examination has been made into the possible causes of the impediments to the development of the Chinese foreign-style banks, especially in connection with the various factors bound up with the advance of foreign financial power in China. In the first place, the opportune circumstances for the establishment of foreign-style banks were brought about by the advance of foreign capital in that country. This foreign advance should have been considered along the same line with the development of the Chinese exchange economy and the expansion of her sphere of commercial credit. But China failed to emancipate herself from the yoke of a semi-colony due to the advance of foreign capital and her native industry was in fetters, making its development impossible. The foreign-style banks were obliged to make a very slow development, as there were restrictions placed on its advancement.

Secondly, while there were circumstances that demanded the establishment of foreign-style banks, even before their establishment, there had already been preparations made by foreign capital in order to meet such demand. Furthermore, there was a field in which the native-style banks attempted to cope with the problems of the time and which had their traditional foundation for business activities. Thus, the area which the expansion of commercial finance opened up for the sake of the development of the Chinese foreign-style banks was extremely limited.

It will be noted that foreign capital in China had its special mission; to secure the Chinese market for foreign commodities as well as foreign investments. Both the sale of commodities and the gathering of raw materials were carried on not in the form of direct exchange, but by means of a third factor. In the process of the movement of foreign commodities into interior regions and of the outflow of Chinese raw materials therefrom, the mechanism of control by foreign capital was expanded, and those Chinese who

acted as middlemen in this process received the lion's share of profits. Therein lay the reason why the Chinese participating in such transactions were placed under the subjection of foreign capital.

The penetration of foreign power was strengthened by the advance of foreign capital such as investments in railways, navigation, industrial enterprises as well as in import and export trade activities. All this stimulated the market relations between the investing and invested countries. Enormous foreign capital greatly expanded the importation of foreign goods into China by means of the comprador, the third factor, and monopolized the purchase of Chinese raw materials. All this formed a chain of relations with other factors such as the price manipulation in purchasing farm products, a great blow on the bye-industries of the farmers, and a heavy pressure on the agricultural handicraft industry. It is said that the process of development for commercial capital in the handicraft industry usually passes two stages, namely, exchange control and production control. With the expansion of market and the development of production as the bases, the whole control process of the handicraft industry by commercial capital is attained. Thus, commercial capital turns into industrial capital and attains the stage of industrial development. In the transition from handicraft production to industrial production, in backward nations as well as in advanced nations, some sacrifice is paid alike. The sacrifice in the case of China was much greater than that of the advanced countries. True, Chinese production itself was faced by depression but the process of selection for the Chinese handicraft industry was keener than in the case of other countries, because it took place under the control of foreign nations. Capitalism in advanced countries dissolved native conditions as its historical mission in each of them, but its process in China wrought just the opposite result. Foreign capital obviously played no such role in China. Although the advance of foreign capital transplanted in China progressive economic forms and abolished old and

obsolete methods and utilized the new processes and displayed modern efficiency; at the same time, it utilized the native power as a convenient means in order to expand its activities. It often happens in history that the export of capital from a mother country to its colonies had the effect of preventing the latter's progressive transformation. A similar phenomenon may be seen in the case of China, as the advance of foreign capital exercised the semi-colonial control on her economic life. Although industrialization is the historical mission of capitalism, the advance of foreign capital failed to stimulate industrialization in the Chinese industry which failed to make any normal development.

Although the inroads of foreign capital into China transplanted there modern productive means which are the progressive factors or forms of capitalism, the thorough-going control exercised by foreign capital from the exchange to production processes proved fetters on the development of the native industries in China.

4. THE CONTROL OF FOREIGN BANKS AND THE FORMATION OF THE COMPRADOR

The main characteristic of the organization of foreign banks may be also taken up from a similar viewpoint. Although foreign investments were not made with the banks of foreign nationalities as their principal object and they extended over the entire branches of industry, these banks, of course, were the central mechanism of control by foreign financiers in China. It is often pointed out that the foreign banks exercised their sway in China in the early period as a kind of colonial banks; that their business management had extended over the passive as well as active enterprises, from the absorption of capital to its operation; and that both in result and function the foreign banks impeded the normal development of the Chinese foreign-style banks. The above statement is made by the critics because they believe that foreign investments such as various political loans and

economic consortiums and others were made by means of those powerful foreign banks, with the unilateral treaties as their background. For the advance of foreign influence or capital in China, it was necessary to utilize Chinese as their instruments. Thus, foreign firms or banks had to utilize capable Chinese merchants as their assistants. On their participation depended the development of foreign firms or banks, while the Chinese received fixed salaries and allowances for the execution of their services. Thus, there came into being the system of compadors.

That China lacked capital and had to import foreign funds for her economic development was recognized by both foreigners and the Chinese themselves. But whereas the foreigners wished to supply capital to the Chinese at the expense of China's subjection to the former, the Chinese wished to secure foreign capital and to maintain their independence at the same time. Thus, both were opposed to each other in policies. If the intention of foreigners was to strengthen the controlling mechanism by means of their investments, the demand of the Chinese was that their financial distress be relieved on the basis of international co-operation. If such co-operation was impossible of realization, the Chinese at least wished to receive foreign capital purely as commercial investment made by foreign countries or individuals. But the intention of the foreigners in their investments was to expand their control over China from the exchange to production process, while the Chinese desire consisted in checking the baneful influence of foreign capital by limiting its activities to a purely commercial nature. Thus, the former's advance for dominion was utterly opposed to the latter's policy of self-preservation and self-help. True, there was some measure of compromise between these two sets of attitudes, but no sign of realization could be seen, mainly because of the profound misunderstanding on the part of the Chinese.

The advance of foreign capital was made chiefly through the foreign banks in China whose activities are highly

complicated both in content and function. But their relations with the Chinese banks may be summarized as follows: from the very inception the Chinese banks continued their one-sided relations with the foreign banks, the latter holding the reins and the former being subjected to their oppressive measures.

As the financial organs of the Chinese lacked the basis of industrial production, they could not escape from the oppression of the superior foreign banks, even though the former maintained their commercial foundation. The Chinese banks were forced to render service to the foreign banks and were required to occupy the position of the compradors. In other words, the foreign banks and the Chinese banks were in the relations of master and servant; the latter had to make their development merely as commercial banks. The Chinese foreign-style banks, too, had to exist as a kind of the comprador. However, it is only a half-truth that these external factors are solely responsible for the malformed transition in which the Chinese banks were placed in the course of their development. We should, indeed, go deeper into a wider scope of the problem under consideration.

It is often pointed out that the inroads of foreign capital into China resulted in the extension of its control over the Chinese native industries from their exchange process to production process, thereby preventing their sane development. An examination of the distribution of foreign capital reveals that its control over Chinese production proved checks thereon, a very negligible portion of investments being made in industrial enterprises. Moreover, industrial investments were limited to a very small number of industries such as the agricultural mineral industry, communication, banking and several light industries. Almost no foreign investments were made in heavy industries, so that China has a very small number of steel, fuel and machinery enterprises.

The greatest portion of foreign capital consisted in non-productive investments. In extreme cases, foreign invest-

ments were made for the sheer purpose of destroying production. The object of the foreign Powers in making such investments was to adjust China to their own demands, the upshot of all this being that she had to remain for a long period of time a sort of dependency for industrial nations. Thus, China could not emerge from her medieval economic stage and was constrained to remain in a semi-civilized condition. It is to be admitted that large-scale industries or industries yielding large profits were largely controlled by foreign capital rather than by Chinese capital. However, there remains the question as to whether Chinese economy, on which the mechanism of control was enforced by foreign capital, was so impotent that it could not defend itself against foreign influence or digest it for its own benefit. I believe it is necessary to elucidate the internal circumstances of China which transformed her status from a semi-colony into a full-fledged colony, instead of discarding, as she should have done, her status of a semi-colony.

5. REMNANTS OF NATIVE ECONOMY

When Chinese economy made its debut as a ring of the chain of world economy, China had to develop itself as a semi-colony under the sway of foreign capital which had placed her under its control. Only those Chinese elements which allied themselves with the foreign Powers could exist and develop themselves both politically and economically and hold the position of control in her domestic life. The old style production of China began to decline from the middle of the 19th century but the remnants of the native power persisted in remaining. As a result of this, Chinese economy became neither capitalist economy nor feudal economy, but a malformed composite economy under the capitalistic economy of the foreign Powers. It has been pointed out by students of Chinese economic problems that Chinese economy is composed of three factors, namely, feudal heritage, capitalism and international capitalism, all of which combined

gave rise to a special evolutionary process in China. Some scholars attach greater importance to native factor than to the other two factors. Others point to the differences between the nature of the Chinese feudal system and that of the Western feudal system. Still other uphold that Chinese economy has already attained the stage of capitalism. Although scholars thus differ in views regarding the nature of Chinese economy, this much is clear that it cannot be grasped by means of single conceptions, and that there are three factors or forces which together form a complicated paradox.

The native remnants, the advance of foreign capitalistic power and the rise of the native capitalistic power are three forces which are contradictory to one another. These forces have so pervaded every branch in the entire economic and social mechanism in China that they have produced a malformed condition in the whole economic society. Nor do financial circles make any exception. These forces naturally are unequal in their strength. As may be expected, the foreign power occupied the uppermost position. The political mechanism came into the ascendancy only when the native force was wedded to the foreign force either directly or indirectly, in addition to its alliance with the native capitalistic force. A similar tendency was seen also on the part of financial circles. As has been stated in connection with the semi-colonial nature of China, the Chinese banks lacked ground for industrial development; and those commercial capitalists, who participated in the management of the banks with which they made an alliance, were negligible in power and influence. The bulk of Chinese capital invested in the banking business came from the military leaders, government officials and landlords. The military leaders and government officials, in particular, occupied the controlling position in the management of banks. Thus, the Chinese foreign-style banks seemed to represent the rising native capitalists, but in reality they were dependent on foreign power. On the other hand, native capital itself was a transformation of the

power of military clique and official bureaucracy, and was unable to develop because of its penetration by foreign capital externally and by native power internally. It was natural that the so-called capitalist class in China failed to possess the absolute ruling power.

If the advance of foreign capital had the effect of impeding the industrial growth of China, her economic development was inevitably restricted because it was based on industrial development. The Chinese foreign-style banks also were prevented from making their development under foreign influence. These banks could not function as either agricultural or industrial banks, and their road of advance was restricted within the category of commercial finance.

Because of the limited sphere for industrial expansion, investments by the military leaders, government officials and landlords were in lands and banks. Even those foreign-style banks which belonged to the native financiers failed to develop industrial enterprises, as their function was strictly circumscribed. The military leaders and government officials not only became shareholders of the banks in which they invested their capital, but also established their own banks, both foreign-style and native-style.

Some of these military leaders and government officials had their banks established in single provinces or in several of them, and tried to protect their own economic interests. Thus, there were provincial or municipal banks by which these leaders and officials exploited the people with the aid of paper money in addition to the exploitation by means of various taxes. The remnants of the native system in the field of finance usually result in the decline of the system itself when the financial system is expanded territorially. As the matter actually stood in the case of China, these native remnants had the effect of abusing the issue system of the provincial and municipal banks. Moreover, profit-making bound up in the issuance of paper money was the main cause of the reckless establishment of banks under the native influence.

6. THE FIELD OF NATIVE-STYLE BANKS AND THEIR CONNECTION WITH FOREIGN- STYLE BANKS

When Chinese foreign-style banks were established, they had to protect themselves against two hostile factors, namely, the foreign banks which had already begun their activities in commercial financial—the field in which the Chinese foreign-style banks were to make advance—and the native-style Chinese banks which had already established their traditional foundation. We have already seen that the foreign banks were allied with the native force and that the so-called financial capital of the foreign-style Chinese banks had an extension of foreign power in China and represented the native remnants. Now, it will be noted that the native-style banks are representatives of commercial capital but essentially they are a financial power of the native remnants.

We have seen the external obstacles to the development of foreign-style Chinese banks, but there were domestic factors which also tended to impede the sane development of these banks. Due to their initial circumstances, the foreign-style Chinese banks could not free themselves from the control of foreign capital, but they also had to overcome the opposition of the native-style banks.

If the native-style banks were clothed in native remnants, as they actually were, the foreign-style banks should have been the financial organ which represented the rising native capitalist class. One may roughly say that the foreign-style banks held their development in servitude to foreign power, while the native-style banks continued their existence as the puppet of local force. There was this common point between them, that both acted as the comprador for the foreign power, and made their development by acting as the hand of the native power. Just as the native power and the foreign power could not exist as separate beings, so the native-style banks could not disregard the native power, and for that matter, the foreign capital. Nor were the foreign-style banks

divorced from native remnants.

7. PERSONAL CONSOLIDATION AND TERRITORIAL TIES

One notable characteristic in Chinese economic life is that capitalistic elements or forms adopted from Western countries and the native elements, or forms within Chinese life did not run in opposite direction but that there were phases in which the two showed inter-relations. Although in actuality, the influence of the capitalistic nations was transplanted in China, China should have adopted capitalistic elements or forms, and should have discarded her native remnants, if she hoped to make modern economic development.

We have seen that the course of advance for the foreign-style Chinese banks had been narrowed by the control of the foreign power and by the restraints of the native force, and that they made their development in the field of commercial finance. Of course, there was another set of foreign-style Chinese banks which were established by the Chinese capitalists without any reference to the above forces, but they were negligible in importance, both political and economic. On the other hand, the foreign-style Chinese banks which were allied with the internal and external forces above noted, possessed strong organization even though their course of advance was limited. Their brief explanation, therefore, is necessary.

The course of advance for foreign-style Chinese banks was menaced, on one hand, by the powerful existence of foreign banks and the traditional native-style banks, on the other. However, these two factors proved a stimulant for the development of foreign-style banks, at the same time. All the Chinese banks whether foreign-style or native-style were subservient to the banks of foreign nationalities for which they acted as the compradors. Now, the native-style banks were in a position to supply experience and technique

to the foreign-style banks, as the former had a long experience, and gave actual assistance in some cases. A notable example along this line is offered by Mr. Hsieh Lun-hui (謝綸輝) the first manager of the Commercial Bank of China, was formerly the manager of a native-style bank in Shanghai named Cheng Yü (承裕錢莊). This personal consolidation between the native-banks and the foreign-style banks forms a relation in which some powerful shareholders or managers of native-style banks assumed the managership or directorship of some foreign-style banks. A similar personal consolidation existed also between the native-style banks and the banks of foreign nationalities. For instance, the influential shareholders or managers of native-style banks often acted as the compradors for some banks of foreign nationalities.

While the personal consolidation between the banks of foreign nationalities and the native-style Chinese banks was made at the subservience of the latter, that between the foreign-style banks and the native-style banks was made at the leadership of the latter, at least in the beginning. All this was a natural outcome of the co-existence of foreign capital, native influence and the rising Chinese capital, and those banks which did not harmonize with these various forces natural selection.

It may be regarded as natural that this personal consolidation between the native-style banks and the foreign-style banks shifted from the former's policy of assisting the latter to their mutual benefit. The personal relations between these two sets of banks was further consolidated by territorial ties.

Such personal consolidation and territorial ties were designed to assure self-protection and persons concerned showed willingness to co-operate. This is why both the native-style and foreign-style banks embodied the native remnants of which they were a continuation or extension. In the recent catastrophe of the native-style banks, although many of them faced bankruptcy, much of the shares of these banks was transferred to foreign-style banks.

Although some may speak of the modernization of the

Chinese financial circles, one cannot regard them as a rising power in China. On the contrary, one may perceive the territorial influence running over their background. A concrete example of this may be found in the fact that important banks in Shanghai are controlled by the financiers of the two provinces of Chekiang and Kiangsu. The foreign-style Chinese banks which lacked the basis of industrial development allied themselves with the banks of foreign nationalities and the surviving native systems. Another notable fact is that the majority of the foreign-style Chinese banks arose in coastal provinces under the industrial and financial restrictions.

8. CONCLUSIONS

In their external relations, the Chinese banks made a subservient development in that they were utilized by the banks of foreign nationalities, receiving excessive profits for the execution of their services. In their internal relations, these same banks also made a subservient development in that their activities centered around local and central financial crises. Generally speaking, their activities consisted in the use of money at exorbitant interest rates and they failed to exploit the territory of normal banking development. Only those who had special reasons for existence managed to survive.