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Imperialism, Globalization, and Public Finance: The Case of Late Qing China

Harriet T. Zurndorfer

Department of
University of Leiden

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Department of Economic History
London School of Economics
Houghton Street
London, WC2A 2AE

Tel: +44 (0) 20 7955 7860
Fax: +44 (0) 20 7955 7730

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Abstract*:*

This paper reviews recent revisionist studies of imperialism that demonstrate the complexities behind the late Qing state's strategy to accommodate to new challenges born out of foreign conflicts exacerbated by domestic crises. These publications have pointed scholars away from the exclusivity of external agency to the making of modern China. But looking at the role of globalization adds anot

the countryside. The installation of telephone and telegraph cables, the creation of public utilities (including electricity), and the building of macadamised roads were further evidence of the late Qing government's efforts to confront new realities, and to endure in a changing world.

Until recently, for many modern historians the nineteenth century transformation of China's physical landscape was a matter of controversy and debate. More than thirty years ago, it was fashionable among some China experts and developmental economists to argue that such modernization, even if under the aegis of the Chinese state or local private initiative, was a facet of a greater 'imperialist' design to exploit and to subordinate pre-capitalist societies. This view was reinforced by Chinese Marxist historians who characterized the nineteenth century and the first decades of the twentieth as one of transition: China was partly a colonial society undergoing the passage from feudalism to capitalism during which time Western imperialism reinforced feudal institutions (thereby inhibiting change) and undermined the handicraft basis of the 'natural' economy. Neo-Marxists also postulated modern China was a case for the 'development of underdevelopment' thesis. Nowadays, scholars are more likely to endorse Paul Cohen's argument that imperialism was 'multiple and layered'. 'China was a Manchu colony, and only a "semi-colony" of the European powers' (Cohen 1984). Like Ottoman Turkey, Qing China was too large to make conquest thinkable.

Cohen's 1984 book asserted that historians should aim to understand Chinese history in its own terms, what he called a 'China-centred history' rather than according to a set of expectations derived from Western history. By advocating that scholars reject Western-centric assumptions about China's long-term development, Cohen's argument also conformed to a vogue that was well underway. In the 1980s, as a series of archives in the

People's Republic of China, and in Taiwan, opened their holdings to a wider public, scholars had the opportunity to access hitherto unavailable documentation and began to consider China 'in parts'; as Cohen advocated, development. And as R. Bin Wong argued in his 1997 book, the Qing state acted as an effective organization that shared with local elites a common agenda to promote public order, moral leadership, and popular welfare. Moreover, several studies did tackle the problems directly ensued by the changes to the coastal economy in the late Qing and early Republic era (Mann 1992, Pomeranz 1993).

Parallel to this historiographical shift in late twentieth century American scholarship on China was another that gained a number of adherents in Asia, principally in Japan. They contested the centrality of the West in any evaluation of China's recent past from an entirely different perspective, and argued the primacy of interaction among Asian countries and cultures over universal, much less Western, paths of historical development. The seven volume series 'Thinking from an Asian Perspective', under the editorship of Mizoguchi Yūzō, has stimulated a total reassessment of China's role within Asia, before and during the Western intrusion, especially with regard to maritime parameters. According to one of these 'revisionists', Hamashita Takeshi, East Asia was a historically constituted region with its own hegemonic structure. East Asia entered the modern era not because of the coming of European powers but because of the dynamism inherent in the Chinese tribute system. For Hamashita, the tribute system did not function exclusively in a single dimension: a country paid tribute to China while it also expetribute p1ewitneighbouramettem.clusiv

The tribute system also functioned as a network for commercial relations: Chinese merchants penetrated Southeast Asia along with labourers from South China which interconnected to other trade contacts. Here one thinks of the 'tribute rice' that Siam owed China and how it became the basi considers one of the primary characteristics of archaic globalization: they bought and brought 'the special products and qualities of distant realms'.

China and Globalization

China played a significant role in the global economy since at least the sixteenth century, if not earlier (Atwell 2002). The discovery of huge amounts of silver in the New World inaugurated the age of proto-globalization: silver flowed into Chi tremendous amount of silv

why the demand for Chinese sugar cane declined; Hong Kong refiners turned to Java and to the Philippines for their supplies of this product. It would seem that before the beginning of the twentieth century the export supremacy of Chinese tea, silk, and sugar gave way to the general stream of internationalizing specialization in commodity exports that endorsed South Asian tea, along with Egyptian cotton, Argentine beef and wheat, Brazilian coffee, Malayan rubber, West African palm oil and cocoa, and Burmese and Thai rice (Amsden 2001).

in Latin America in the early nineteenth century set in motion a set of chain reactions that caused economic recession in Britain and Europe, culminating in the years 1847-49 as the worst financial crisis of the century (Vilar 1984). It is certain that the collapse of the *ancien regime* in Europe, bringing an end of the Spanish empire, aggravated the silver supply problem in China. Moreover, until the discovery of gold in California (1848-50) and in Australia (1851-56), and the revitalization of Latin American silver production, Britain, Europe, and China floundered in economic crises affecting wages, unemployment, and prices. But the 1850s which witnessed Britain and Europe enter a recovery phase, and even the eventual renewal of both the tea and silk industries, did not see China's own economic recuperation. Domestic rebellion, among other matters, countered any chance of a real economic recovery. The amount of opium import into China continued to increase, while British, American, European, as well as Asian traders bought tea and silk, but not necessarily with cash. By then, the use of credit mechanisms in the hands of British and other foreign traders as well as native compradores had penetrated local banking institutions. However, it would take some time before Self-strengthening reformers would realize the significance of this situation for the empire's decentralized public finance administration, a regime based on the collection of land taxes (until mid-century, accounting for eighty percent of the state's revenue) deposited in provincial treasuries.

Banks and the Reform of Public Finance

During the second half of the nineteenth century, British banks had a certain hold on Chinese commercial transactions, but their involvement in China's finance was not exclusive. Foreign banks functioned beside two native forms of banking: *piaohao* (or Shanxi banks because the people of Shanxi in northern China owned most of these institutions), and *qianzhuang* (or *yinhao*, as they were known in north China) (Lien-sheng Yang 1952). The *piaohao*, already in existence long before the nineteenth century, served essentially as remittance organizations for both private and government institutions. They specialized in inter-provincial remittances, transferring funds of large sums from one market to another through their drafts, which were important credit instruments; they also conducted government services, including collecting and conveying taxes to regional depots, and arranging loans for provincial governments. As a consolidated system with head offices in Shanxi and with nearly 500 branches in all of China's eighteen provinces, the *piaohao* were the closest institution Qing China had to a 'state bank' (Huang Jianhui 1992, 1994). From the mid-nineteenth century when the central government began to turn to new sources of revenue such as transit taxes, the sale of offices and licenses for extra funding, the role of the *piaohao* became ever more important.

The *qianzhuang*, originating in the second half of the eighteenth century, controlled most of the commercial lending and domestic monetary exchange. Unlike *piaohao*, *qianzhuang* had no branch system disseminated over the empire--they were concentrated in southern China. Focusing on local services, they conducted local money exchange, accepted deposits, issued private banknotes, lent money--and most frequently, without a security clause--to partnerships among kin or fellow regionals with limited assets (Zhou Yumin 2000). *Qianzhuang* were owned by individuals or a small number of partners (related either by kin or native place) with unlimited liability. It is noteworthy that the two Chinese banking institutions did not compete with one another; *piaohao* were known to deposit cash in local *qianzhuang*. In the treaty ports of Shanghai, Guangzhou, Hankou, Nanjing, Suzhou, Fuzhou, and Xiamen, *qianzhuang* regularly received two to three million taels of silver from *piaohao*. By the 1890s it is estimated there were around 10,000 *qianzhuang*, but most of them had no more than 5,000 taels of silver at their disposal at any given time.

As for foreign banks, until the end of the nineteenth century, British-owned establishments had a virtual monopoly of modern style banking in China, with the Chartered Bank of India, Australia, and China (first opened in 1857), and the Hong Kong Shanghai Banking Corporation (founded in 1865) being the most important (Zhou Yumin 2000). Because foreign banks enjoyed extra-territorial rights and were not subject to Chinese government regulations, they could (and did) easily control the foreign exchange market. Since it was through these foreign institutions that the flow of silver to and from China took place, they also determined the fluctuating gold price of silver. The expansion in the number of *qianzhuang* during the nineteenth century was firmly tied to foreign trade and Western banks. Foreign banks granted 'chop loans' (or in Chinese, *ese,* Zengnian 1993). In this way, the foreign institutions could force down the prices of t ultimately, to afford large-scale projects like wars. But at least one other nineteenth century Chinese reformer did propose the idea of a modern 'Western-style' central bank. Hong Rengan (1812-64), one of the Taiping Rebellion leaders, in 1859 discussed in a treatise 'A New Financial Policy' the advantages of founding a centralized bank which could issue bank notes and serve as a lending institution (Peng Xinwei 1958).

The need for government-sponsored reform of public finance, including the monetary system was also recognized among some of the leaders of the Self-strengthening movement. They saw the solutions the government had employed at the height of the 1850s crises, i.e. money supply expansion with the issue of "big" copper coins (worth ten of the old) and paper money, and the enactment of a tax on goods in transit (*lijin*), as short-term only, and inflationary. They also recognized that the Maritime Customs administration had regularized the collection of duties on foreign trade and channeled the receipts to the Beijing central government rather than to the provinces, and that it had become a certain source of cash for escalating military expenses. But the money system itself was chaotic and much too diffuse. The combination of government-minted copper coins, privately minted silver ingots, foreign silver dollars, and paper bills issued by *piaohao* resulted in a complex and somewhat turbulent monetary system that needed individuals with expertise to manage the exchange between the various forms of money and the monetary standards that varied from one region to another (King 1965).

It was under these circumstances during the 1870s and 1880s, that the Qing government official Li Hongzhang (1823-1901) negotiated with a group of American financiers to establish a Sino-American bank. Not surprisingly, the proposal was vehemently opposed by the other foreign powers, but also by Chinese indigenous bankers, and other Qing administrators: they objected to the powerful combination of an individual Chinese government official and foreign capital within the framework of a modern bank (Yao Sui 1994). One might also add that even at this point in China's history the government officially continued to pursue the goals of an agrarian political economy committed to the welfare of the people in a well-run Confucian state. 'The central government normally confined its economic role to claiming its share of a relatively fixed economic product and to providing the internal order and external defences which would permit that product to be reproduced from one year to the next' (Feuerwerker 1995).

It would take at least another decade before scholars and officials would publicly acknowledge that the Qing government's inability to mobilize funds on a large scale may have actually harmed the people because it deprived them of a sense of financial security. Such an admission may be viewed in the writings of the official Zheng Guanying (1841-1918), one of the primary advocates for a state-administered central bank. In 1892, Zheng wrote in two chapters of his work 'Words of Warning to a Flourishing Generation' of the need for such an institution (Peng Xinwei 1958). Acquainted with how central banks functioned in Western countries, he saw them as organizations for 'bringing good' to the state and the people, and emphasized the positive role of banking in state affairs, including currency issues. Zheng expounded on reforming China's chaotic money system through the issue of paper money supported by the government treasury. Noting how one of the methods of foreign banks was to hold specie reserve to back up the value of paper currency, he concluded that it was essential for the state to stabilize the financial market in order to gain the trust of the people.

In 1897, the first Chinese-owned bank based on foreign models was established in Shanghai. Known as the Imperial Bank of China (IBC), and under the leadership of Sheng Xuanhuai (1849-1916), an industrialist, it had a short history. Sheng avoided Li Hongzhang's earlier plan to petition funds from foreign sources, and attempted to solicit capital from merchants in south China and merchant-officials. Although the IBC received a government charter, the Bank lacked total support from the Ministry of Finance, and it did not gain the lucrative rights to handle government deposits and tax remittances (Yao Sui 1994). Consequently, the IBC never really achieved the status of a state bank, and it remained on the margins of Chinese finance in the early twentieth century, consequently becoming the pet project of the gangster and opium dealer, Du Yuesheng.

The Last Decade of Qing Rule and Legislation for Fiscal Reform

The founding of the IBC may have seemed an innovation at the time, but during the decade of the 1890s, China entered an entirely new phase of its political and financial problems with imperialism. As a result of China's defeat in the Sino-Japanese war 1894-95, foreign powers secured the legal privilege of manufacturing in the treaty ports, and of railroad building and mining in one part of the country after another (known as the 'Scramble for Concessions'). In addition, China found itself in great debt to Japan: the indemnity China paid was so huge, it enabled Japan to go on to the gold standard (Tamaki Norio 1995).

Because the Chinese government lacked the means to finance the indemnity, it had to turn to foreign sources, and so there was now an even greater scale of debit owed to foreign banks (Zhou Yumin 2000). Although estimates vary, it would seem that at least one third to one-half of all of China's central revenue was spent on its financial obligations to foreign countries. The debt increased even more several years later when in the aftermath of the Boxer uprising (1900), new indemnities were levied by the foreign powers, and China was forced to pledge some of its most important revenue sources, including maritime customs and salt taxes, to guarantee payment.

monopolies on salt and iron in order to finance its defence against raids by nomad groups on its northwest borders. And one may also remember the proposed fiscal reforms by the eleventh century statesman Wang Anshi made in response to increasing military problems with China's northern neighbours. In the sixteenth century, the well-known minister Zhang Juzheng centralized government finances and reorganized the system of tax assessments in the aftermath of decades of Mongol incursions on China's northern borders and pirate raids on the coast. His fiscal reforms were so successful that by the 1590s, China had enough wealth to fight wars on three fronts plus subsidize the lavish lifestyle of the emperor and his vast family (Zurndorfer, forthcoming). In sum, while the Qing government had at its disposal a certain precedent for carrying out

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social stability and military security, it was not opposed to monetization and credit expansion.

But once global recession (and illegal opium imports) denied China easy access to silver, new conditions prevailed and China's decentralized public financial regime was never to regain the authority it had once possessed. The recession reduced local purchasing power, and even after global recovery in the 1850s, foreign banks and local credit institutions could claim a certain hold over the government's purse. China's increasing need for cash to repay indemnities and loans, and to foster rearmament programs went way beyond what available income it had at its disposal through the land tax, and even from new excises such as *lijin* and the maritime customs. Lacking a centralized institution to mobilize funds on a large scale, China's economy became ever more vulnerable to the volatility of exchange markets and the influence of foreign banks on local financial institutions.

By the century's close, the context in which the Chinese state operated had entirely changed. Although foreign capital helped change the face of China (hence, the new panorama of modern institutions listed at the beginning of this paper), the body was stuck in its own repertoire of statecraft policies. It was either unwilling or unable to consider the advantages of centralized public finance as once suggested by Wei Yuan or Zheng Guanying. The capital's loss of authority, particularly with regard to provincial military institutions, was the final step leading inexorably to the emergence of modern warlordism. And it would take several decades well into the twentieth century before the centralized state had the means to promote public economic development.

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