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## The History of Chinese Money and Banking: A Mini Explosion

BRETT SHEEHAN

Research on the history of Chinese money and banking is in the midst of a mini explosion. As we enter the twenty-first century, scholars writing in English are combining new archival material and theoretical approaches to set in motion a quantum leap in our knowledge of the field. The year 2003 alone saw the publication of three English language monographs (Cheng, Ji, and Sheehan). In addition, Hong Kong University Press has an edited volume in process (Faure); Georgia Mickey is completing an important dissertation on the Bank of China at Columbia University; and, besides forthcoming book chapters on the history of savings by ordinary people (*chuxu*) and the relationship between banks and the organization of urban systems, I am working on compiling a database with information on the educational background, native place, and career paths of more than 6,000 bank directors and employees in the years prior to 1950. [Editor's note: On this project, see "Panel Report" on page 7 of this issue.]

Although much of this work is still in process, a few important trends are already evident in published or soon-to-be forthcoming books.

The greatest contribution of the new literature comes in understanding the history of Chinese-owned modern banks, especially from the pre-WWII period. Although these banks ostensibly followed foreign models, Sheehan (pp. 38-43) shows that there was no single model and the Chinese system, like the foreign systems it copied, had many idiosyncratic elements (see also Chung). The books point to China's unique pattern of development: the dominance of a small number of banks that achieved success by growth rather than amalgamation (Cheng, p. 64); branch banking; multiple banks of currency issue; and multiple government-sponsored banks, which prior to 1928 engaged in both quasi-central and commercial banking functions (Sheehan chapter 1, Chung, Lee, and Mickey).

Several authors have noted the importance of professional bank managers. Most saliently, Cheng concludes that they were Schumpeterian style entrepreneurs whose actions held the key to the success of Chinese banks during the period up to 1937. Pui-tak Lee's chapter in the Faure volume echoes this conclusion by focusing on the Shanghai Bank's Chen Guangfu. Although the role of

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banking in China's early twentieth-century economy remains a matter of debate, by showing that bank profits did not derive solely from speculation in government bonds, Cheng opens the door to the possibility that modern banks were more involved in industry and commerce than previously thought (chapter 4). In her study of bank loans to the Da Sheng cotton mills, Köll shows how banks became intimately involved, in at least one case, in the management of their corporate borrowers.

Considerable contention has revolved around the relationship between banks and the state. Cheng argues for substantial independence of the Bank of China and the Bank of Communications by the 1920s (pp. 59-63; see also Mickey) and for a strong voice for the banking community as a whole, even under the Nationalists during the 1930s. He presents a model of symbiotic cooperation between the banking sector and the Nationalist government (pp. 92-97). In contrast, Sheehan emphasizes strong ties between the modern banking sector and governments at all levels throughout the 1910s, 1920s and 1930s, especially in terms of direct loans (chapter 4), and he notes a bias for elite professional bankers to promote the centralization and strengthening of state power. He concludes that questions of more or less bank independence do not adequately address banks' complex relations with the state; instead, the dramatic growth of the banking sector changed the institutional framework for state-society relations by forcing the government to take on the role of guardian of public trust in the viability of the banking system (p. 17).

In addition to this work on the Chinese-owned modern banking sector, there are several significant contributions to our understanding of *qianzhuang*, Shanxi remittance banks, and foreign-owned modern banks. Two chapters in Faure make especially noteworthy and revisionist arguments. Nishimura asserts that chop loans from foreign banks were not as important to *qianzhuang* as scholars generally believe, and Faure argues that the Shanxi remittance banks declined because of economic depression in China's interior, not because of its close ties to the fallen Qing government. Oh Doo Hwan writing on the Chosen Bank in Manchuria, and Yasutomi Ayuma on the Hong Kong and Shanghai Banking Corporation in Harbin both show that the connection between banking and politics extends to foreign banks operating in China as well as to their Chinese counterparts.

All authors agree on the close relationship between the growth of the banking system and China's monetary system. In the 1920s and 1930s, banknote issue grew faster than other bank asset or liability categories (Cheng, p. 69). Despite the growth and overall prosperity of the financial system, financial crises frequently wracked the system. These crises and responses to them marked key developments in republican-period economic and political history (Cheng pp. 53-59, Sheehan p. 17, Mickey). Equally important, many of the authors note the vital role of exchange flows between various currencies (both foreign and domestic). The all-pervasive importance of these flows is seen in the decline of the Shanxi remittance banks (Faure), in the *fabi* currency centralization of 1935 (Sheehan, chapter 6), in the battleground between China and Japan over currency acceptability in north China during the early years of WWII, and, quite provocatively, in the Yen bloc in Manchuria and north China. On this last point, Oh argues that Tokyo used currency exchange to withdraw funds from China to finance the war while simultaneously pushing inflation to those parts of the empire farthest from Tokyo.

Like much of the existing literature, a great deal of this new wave of studies concentrates on Shanghai. Ji limits her discussion to Shanghai and Cheng largely presents the view from Shanghai, especially in his discussion of *qianzhuang*. In truth there were well-developed systems of indigenous banks in many parts of China (they were called *yinhao* in the north), but little work has been done on them. In spite of this Shanghai-centeredness, spatial variation and spatial organization figure as important themes in this emerging literature. In Faure alone the subject of space is addressed by Nishimura (trade and funds flow between Shanghai and the interior on one hand and Shanghai and abroad on the other), Faure (shifts in financial institutions based on regional divergences in the Chinese economy), Lee (the Shanghai Bank's reliance on branches in the interior to develop business), Köll (bank branches followed Da Sheng factories into certain areas), Oh (funds flows in the Yen bloc), Yasutomi (Manchuria-Shanghai-London funds flows), and Ooh (Shanghai-Tianjin funds flows, spatial circulation of competing currencies). Clearly this will be a vital area for future study.

In addition to the need to address spatial variation, several other avenues of future research seem ripe for exploration. The ownership of modern banks, for example,

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## Casting Bread Upon the Waters: Researching China's Industrial Response to the Global Flour Trade, 1880-1910

DANIEL MEISSNER

*To suppose that [America] could ever become a dangerous competitor in that [flour milling] respect—could ever display ingenuity enough in inventing machines for making flour, or skill enough in using them, to compel even respectful recognition from the European miller—would have elicited, at a time within the memory of most of our readers, a smile of mingled amusement and contempt from a European listener.*  
—Northwestern Miller, 1881

The concerns of arrogant Europeans and ambitious Americans may seem far removed from early industrial developments in China, but the relationship—as I was to discover—was not at all tenuous. Indeed, the British flour trade played a significant role in the promotion of American flour exports to Asia, which in turn sparked the founding of a modern Chinese flour milling industry. Ironically, American millers would then dismiss their Chinese competitors, who presumably lacked the ingenuity and skill necessary to manage a complex milling industry. Within a decade of its founding, however, native mills would successfully displace American companies for control of China's major urban markets.

Although it is an intriguing tale of international trade, technology transfer and business history, this was not the topic I had set out to investigate. Sifting through corporate records at the Milwaukee Historical Society archives, I stumbled upon a 1900 sales brochure containing a brief description of a Chinese entrepreneur who had purchased an advanced roller mill from the company. The Fu Feng mill which he established in Shanghai was the first native-owned modern mechanized flour processing plant in China. How strange. Why would a Chinese businessman travel to Milwaukee to purchase a flour mill? In a predominately rice-consuming nation like China, how much demand existed for wheat flour? Why import an automated system when labor was so abundant and inexpensive? And what exactly was a roller mill? These questions demanded answers.

Extant company records revealed only one other brief mention of the Chinese mill, and attempts to track down other documents through retired executives of the defunct company proved fruitless. Turning to other sources, I began searching the pages of a leading Minneapolis trade journal, the *Northwestern Miller* for more information. Providently, the journal had published an article on the mill that included the production capacity of the plant and other specifics. More importantly, it provided a rationale for the introduction of such advanced milling equipment into China: to compete with American imported flour. Why would the United States export flour to a rice nation? Who was involved in the trade? Where was the flour produced? How was it transported and marketed? So much still remained unclear.

To understand the origins of flour exports to China, it was necessary to turn to historical accounts of the formation and growth of the American milling industry. These resources traced European and American attempts to improve product quality in order to meet a growing demand among urban populations in the mid-nineteenth



Daniel Meissner

century for purer, whiter flour. I discovered that after decades of experimentation, traditional millstones had finally been replaced by compact roller machines that maximized both product quality and production capacity. The radical shift to rollers had stimulated the industrialization of flour milling. Centered in Milwaukee and Minneapolis, where frontier expansion opened new wheat-producing regions to supply the enormous mills, the new industry stimulated railroad and canal development during the latter decades of the nineteenth century, linking wheat fields to mills, and mills to markets. To adequately understand the dynamics of the Midwestern settlement and commercialization process, I then consulted primary and secondary works on regional immigration, transportation systems, commercial networks, population distribution, sown area, wheat varieties, agricultural and commercial production, etc. However, they did not explain how—or if—Midwestern flour ended up in Chinese markets.

As the industry expanded and flour output began to exceed domestic demand, millers had turned to England as an export market for surplus production. Taking my investigation in that direction, I began a library search for government documents and secondary studies on the state of late nineteenth-century British milling. This revealed that English grist mills of that era still relied on millstones to process readily available supplies of soft wheat, providing major markets with lower quality flour, while producing a small amount of expensive, higher grade flour for more discerning customers. This traditional industry proved incapable of competing with low-priced Midwestern quality flour, which soon dominated the market. Sustained demand for the American product soon turned the trans-Atlantic trade into a valuable—if not indispensable—component of the Midwest industry's continued expansion. But if England provided a stable market for surplus production, why export flour to China?

Articles in trade journals and editorials in Midwestern newspapers provided the answer. The regional media voiced concern that the Midwestern flour industry was being threatened by competition from an unlikely competitor—Pacific Coast firms shipping flour and hard wheat to England. Shifting my investigation to the West Coast, I discovered that post-Gold Rush advances in wheat and flour production had created a vibrant domestic industry and export trade in these commodities. Culling through agricultural production and population figures, export statistics, business reports and trade information found in

British consular reports from San Francisco and Portland, *Statistical Abstracts* and U.S. census tables, *Foreign Relations of the United States* (FRUS), and consular correspondence, Chinese Maritime Customs reports, coastal newspapers, corporate records, personal accounts, diaries, and obituaries, I began to piece together the early stages and subsequent growth of a tremendous West Coast flour industry and the origins of the European and Asian export trades. As it turned out, West Coast shipments of flour were not only directly competing with Midwestern brands in the British market, but exports of Pacific hard wheat were encouraging the British to retool their milling industry.

Responding to this duel threat, Midwestern millers launched a media campaign emphasizing the financial advantages of exporting wheat flour rather than unprocessed grain, and the need to cultivate new markets—specifically those of China. In a Minneapolis *Times* special edition, “Ho to the Orient!” national leaders in industry, commerce, and politics extolled the virtues and potential of the China market. One railway magnate boldly stated the desired outcome: “I look to see the exportations of wheat from Washington and Oregon to the British Possessions almost entirely cease; the product of their fields to be forwarded either in flour or wheat to the Orient.” Pacific millers took up the gauntlet, opening offices in Hong Kong and intensifying flour exports to Asia. By the turn of the century, they had conscientiously built the trade into a vital market for their surplus production, supplying flour to all of China's coastal markets and beyond—from Vladivostok to the Straits Settlement.

At this point, that first clue found in a company brochure had taken my investigation from Milwaukee to Minneapolis, London, San Francisco, Portland and Hong Kong. Archival searches at such diverse depositories as the Newberry, Wing Luke Museum, and General Mills Company, had provided a solid background of information. The research had revealed the role of technology in the American flour milling industry, the significance of British markets to the continued prosperity of Midwestern mills, and the importance of China in alleviating inter-regional competition. Moreover, it had answered that fundamental question of why one adventurous Chinese entrepreneur had traveled so far to purchase a flour milling plant. What, then, was the fate of his project? How could one mill in Shanghai compete with the enormous flour factories of

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Book Review: Sheehan, Brett. *Trust in Troubled Times: Money, Banks, and State-Society Relations in Republican Tianjin.*

Cambridge: Harvard University Press, 2003. pp. 269, xiii.

KRISTIN STAPLETON

Two cases of financial panic serve as temporal book-ends for this account of the rise of modern banks in Tianjin. In 1916, Yuan Shikai's failing regime sought to force China's modern banks to prop up the government with huge loans. As a result, the general public began to lose faith in the value of the paper currency issued by the banks. When Yuan ordered bankers to stop giving out silver in exchange for their outstanding paper money, many of them resisted out of concern for the reputations of their banks. In 1935, on the other hand, after the U.S. silver purchase act had created havoc in Chinese financial markets, bankers for the most part accepted the Nationalist government's creation of a new currency (the *fabi*) that, although backed by silver reserves, could not be converted into silver. Between 1916 and 1935, Sheehan argues, modern banks in China experienced significant transformation, gaining institutional stability but remaining intimately connected to the state.

Central to the book's analysis of the development of modern banks is the issue of how they tried to maintain trust in the paper currency they issued. The introduction evaluates current theories regarding impersonal trust—what makes people come to believe that others whom they don't know will "continue to recognize a given token as money" (p. 5). The problem is particularly interesting and complex in the case of republican China because, before the era of *fabi* began in 1935, paper currency in China was issued largely by private joint-stock banks, on their own authority, not by a government-controlled bank. The six chapters that follow the introduction are organized chronologically, first describing the state of modern banking before 1916, then examining bankers' approaches to financial crises in 1916, 1921, the mid-1920s, the early Nationalist period, and the years after the Japanese seizure of Manchuria. Each chapter concludes with a succinct yet thorough summary, as does the book as a whole.

The history of the institutionalization of the modern

banks—Sheehan focuses particularly on the Bank of China, but also discusses the Bank of Communications and several smaller banks—can be seen in the different ways they promoted trust in their currency over the years. In 1916, for example, Tianjin's political leaders appealed to local pride to head off a run (à la Jimmy Stewart in *It's a Wonderful Life*, although the attempt wasn't as successful in Tianjin as it was in Bedford Falls). By the late 1920s, government-ordered professional audits of bank reserves were more common. Sheehan also makes a convincing case for the growing influence of the banks in Chinese urban life by highlighting the rapid increase in the supply of paper notes circulating in the 1920s. And he argues that bankers developed a set of "rules of the game" in that decade that allowed them to survive in a chaotic atmosphere of warlord politics. For example, banks tried to lend to government institutions (which had more continuity) rather than armies and adopted delaying tactics to avoid lending to weak regimes.

The ease with which the Nationalist government was able to gain control over the Bank of China and other modern banks in the mid-1930s was due to several factors, according to Sheehan: the shift of the capital south to Nanjing, which centralized banking in nearby Shanghai, the crisis situation following the U.S. silver purchase act and the Japanese advances in North China, and, perhaps



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most importantly, the common backgrounds of Nationalist officials and bankers, who shared a belief in the professional values of modern banking. As Sheehan points out in the conclusion, the success of the *fabi* reforms and centralization of currency management ironically made possible the postwar inflation that did so much to undermine the credibility of the Nationalist government.

The book is based on extensive research in Tianjin bank archives, local newspapers, governmental reports, and the diary of Bian Baimei, a manager at the Tianjin branch of the Bank of China. Throughout the narrative, Sheehan uses Bian Baimei's career to illustrate many of the significant developments in modern banking, and Bian's perspective on these developments is emphasized, perhaps excessively. I confess that not too far in I started wondering what Tianjin's industrialists and salt merchants and native bankers and people in general thought about Bian and his bank. Did everyone see him as a neutral professional forced against his will to deal with unsavory warlord administrations? Sheehan does note (pp. 161-162) that modern banks were criticized in the early 1930s for investing mainly in government bonds and real estate, rather than industry and commerce, but he does not explore this criticism in any depth. Since his primary focus is on how the banks promoted trust in the paper currency they issued, perhaps this is beyond the scope of his study. On the other hand, it might have been easier for the bank-

ers to promote public goodwill and trust if they invested more in local industry.

Except in the chapter on the early and mid 1930s, Sheehan downplays foreign influence in China's money markets. I was not entirely convinced that this was warranted. Kwan Man Bun's study of the Tianjin salt merchants showed that they borrowed heavily from foreign banks in the early twentieth century. It would have been interesting to have learned from Sheehan how much local currency these foreign banks held at various times and how they may have used their financial clout to influence the policies of the Bank of China and other modern banks. And one additional complaint: I was surprised that a book about paper currency had hardly a word to say about counterfeiting. Should we assume that it was never a problem? I had had a higher opinion of Tianjin's creative, entrepreneurial underworld.

These concerns aside, this book offers a very valuable account of the institutional history of banking and currency in early twentieth century China. It is well written and concise and comments thoughtfully on a range of issues related to the transformation of Chinese society in the years between 1916 and 1935. The central story of how China's modern bankers managed to maintain a stable paper currency during a time of tremendous political upheaval deserves to be widely known. □

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## Beyond Market and Hierarchy: Cartels and Network Capitalism in Republican China

Panel Report at Association for Asian Studies, San Diego, March 6, 2004  
Sponsored by the Chinese Business History Research Group

ANDREA McELDERRY

The Chinese Business History Research Group met at the Association of Asian Studies in San Diego March 6. In the words of its organizer, Man Ban Kwan, the panel moved beyond Alfred Chandler's "market/hierarchy dyad" to focus "on cartel and network capitalism as alternative business organizations." **Brett Sheehan** (University of Wisconsin) specifically addressed business networks in his paper on links within banking. Papers by **Ning Jennifer Chang** (Academia Sinica, Institute of Modern History), **Man Bun Kwan** (University of Cincinnati), and **Daniel Meissner** (Marquette University) explored cartels which emerged as a result of competition between Chinese and foreign companies. The papers also



Andrea McElderry

addressed another issue which is missing from Chandler's work—the role of government.

Meissner's paper, "Industrial Survival: The Role of the Wheat Purchasing Syndicate in the Shanghai Flour Milling Industry," told a story of competition with and eventual victory over foreign flour imports. Elsewhere in this issue, he writes about his research and discusses some of the materials he has used. The effects of the Russo-Japanese War, the anti-American boycott of 1905, and access to inexpensive domestic wheat opened the way for China's infant flour industry to compete in a market dominated by American West Coast flour brands. But beginning in 1906, a sharp rise in wheat prices (due to floods in wheat growing areas) combined with large supplies of American flour on the market stymied the ability of the Shanghai and Jiangsu milling companies to compete with foreign brands. One response was to turn to the government for help. The Shanghai Chamber of Commerce (which included many millers among its members) requested that the Bureau of Agriculture, Industry, and Commerce place a ten-year moratorium on the establishment of new mills. In 1908, after the request was denied, six mills in Shanghai and one in Wuxi agreed to form a syndicate "to regulate and control wheat purchases" in order to compete with foreign flour. American imports dropped precipitously from 112,510 barrels in March 1908 to only 2,752 barrels a year later. Meissner concluded that the syndicate was only one reason Chinese millers were able to undercut American competition. Other contributing factors were a recovery in wheat production and an increase in transpacific trade.

Both Chang's paper, "The Cartel as a Means of Survival: The Case of the Refrigerated Egg Packers' Asso-

ciation of China, 1930-1950," and Kwan's paper, "Patriots' Game: the Yongli Chemical Co., Ltd. and the Imperial Chemical Industries, 1917-1937," examined instances in which competition with foreign business in China was replaced with cooperation in the form of cartels. Chang examined the formation of two egg industry cartels, the Refrigerated Egg Packers' Association of China (REPA) in Shanghai and the Weal Trust Co. Ltd. in London. These cartels cooperated to maintain a dominance for Chinese egg products in the British market from the 1930s until 1950. Her paper made extensive use of materials from the Shanghai Municipal Archives. In the early years of the twentieth century, foreign companies in Shanghai and other cities processed eggs for export to the European market, and Chinese firms served as middlemen between China's numerous poultry farmers and the foreign-owned egg processing plants. After World War I, foreign companies began to form their own egg collection operations, thus threatening the survival of Chinese firms. In 1923, eight of these firms responded by establishing the China Egg Produce Company (CEPC) and setting up a processing plant in Shanghai and then a sales subsidy in London (1925) and a second plant in Qingdao (1930). With the onset of the Depression, egg prices plummeted as a result of reduced demand and overproduction. Intense competition among CEPC and the foreign egg companies gave way to cooperation and cartel. The Refrigerated Egg Packers' Association of China (REPA) was formed in Shanghai in 1930 and, in 1934, REPA companies set up the Weal Trust Co. in London to control distribution of their Chinese egg products in Europe. Weal Trust gained a monopoly on the import of frozen eggs through Britain's Ministry of Food (MOF). In return, MOF had a hand in setting egg quotas and prices. For a brief period after World War II, the Chinese government also participated in the egg cartel in order to secure badly needed foreign exchange and to help Chinese egg exporters suffering from rising inflation and a low official exchange.

Using extensive records from archives in China and England, Kwan detailed the process which led to a 1937 market sharing agreement between two soda ash companies, the Yongli Soda Company and a subsidiary of the British Imperial Chemical Industries (ICI). Both companies developed business networks in China through informal personal links as well as formal institutional ties.

Yongli, founded in 1917 by Fan Xudong and others, did not fare well in its early competition with ICI, but, in the mid-1920s, Yongli's success in Japan led to a very profitable limited partnership with ICI for the purpose of exploiting the Japanese market. In 1928, the Nationalist government's plans to establish a state-owned soda ash and nitric acid plant threatened both ICI and Yongli. In response, the two companies explored various forms of cooperation with each other and with the government. Yongli eventually received sufficient concessions from the government to reassure bankers and shareholders and, through its network, was able to mobilize major new financing. At the same time, the Depression, higher tariffs as China regained its tariff autonomy, and a decline in silver prices had an adverse effect on ICI. In the 1937 agreement, ICI preserved a 45 percent share of the China market while Yongli commanded a 55 percent share.

Sheehan's paper "Myth and Reality in Chinese Financial Cliques: Structure of Bank Networks in 1936" moved from cartels to business networks in banking. It was based on a "small portion" of a database which will eventually record the background and career paths of more than 6000 bank employees in the pre-1949 period. Sheehan pointed out that identifying a group as a "clique" is only a first step in analyzing networks. In this paper, Sheehan used a methodology from sociology network theory to analyze data on interlocking directorships from the 1936 *All China Directory of Bank Employees* (published by the Bank of China). The sample of 129 banks showed a high level of inclusiveness with 101 banks linked in some way, and these banks held the vast majority of bank assets in 1936. The density of connections was only moderate or just over 10 percent of the possible 5,050 connections. (Density of connections is measured as a percentage of the total possible connections if all of these 101 banks were connected to each other.) By comparison, studies of businesses in general (not only banks) from the 1970s showed densities of 6.7 percent in Great Britain, 14.2 percent in the United States, and 66.7 percent in Belgian/Luxembourg. The "Bank of China" cluster (named after its most connected member bank) of over 40 banks was the densest cluster. Of 1034 directors in the database, only 159 individuals (15 percent) served on more than one board. Nineteen individuals held 5 or more directorships. Of the 159 individuals, most were from



Zhejiang and Jiangsu, and the most prominent were normally considered part of the Zhejiang-Jiangsu financial clique. However, Sheehan's case study of Feng Gengguang, a Guangdong native who held five directorships, demonstrated that "neither parochial solidarities (like native place), professional training and outlook, nor political connections can provide a complete picture of the Chinese networks."

In her comments, Madeleine Zelin noted the differences in structures of the cartels as well as in the companies which formed them. She also pointed out that there is a diversity of networks in Chinese business (viz. particularistic networks and business networks) and raised the question, "What do we mean by networks?" □



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## History of Chinese Money and Banking

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remains obscure. Cheng provides evidence that the major stockholders in the Bank of China were actually other banks (pp. 60-61), but detailed information on exact shareholder composition of this and other banks remains scarce (with the exception of the Jincheng Bank). Likewise, the composition of banks' customer bases (both deposit and lending) needs systematic analysis. Finally, the scholarship has barely scratched the surface of the history of money and banking in the 1940s, leaving a myriad of possibilities. Flows of money between Communist-, Nationalist- and Japanese-controlled areas and a social history of the hyperinflation of the late 1940s are only two of many important topics from the 1940s waiting for research.

We can only hope that the current explosion of research will stimulate study of these and other essential topics.

### New books discussed here:

- Cheng, Linsun. *Banking in Modern China: Entrepreneurs, Professional Managers, and the Development of Chinese Banks, 1897-1937*. Cambridge: Cambridge University Press, 2003.
- Faure, David. Ed. *Money and Banking in Republican China*. Hong Kong: Hong Kong University Press, forthcoming 2004. The book includes the following chapters (in alphabetical order by author):
- Chan, Kai-yiu. "The Attraction of Private Banking: Why Did Liu Hongsheng Set Up the China Development Bank in 1931?"
- Chung, Po-yin. "The Bank of Communications, 1908-1928"
- Faure, David. "What Happened to the Shanxi Banks?"
- Köll, Elisabeth. "Gaining Control Through Investment: Modern Chinese Banks and their Financial and Managerial Involvement in Textile Enterprises, 1900-1930"
- Lee, Pui-tak. "Towards a New Style of Banking: The Formation of the Shanghai Commercial and Savings Bank's Branch Network"
- Mickey, Georgia. "The Shareholders' Association of the Bank of China and the National Bank Moratorium of 1916"
- Nishimura, N.S. "Foreign Banks and Chinese Traditional Banks: The Mechanism of the Chop Loans"
- Oh, Doo Hwan. "The Role of the Chosen Bank in Manchuria"
- Ooh, C.C. "Currencies in North China from 1937 to 1941"
- Yasutomi, Ayumu. "The Hong Kong and Shanghai Banking Corporation in Harbin, 1911-47"
- Ji, Zhaojin. *A History of Modern Shanghai Banking: The Rise and Decline of China's Finance Capitalism*. Armonk, N.Y.: M.E. Sharpe, 2003.

Sheehan, Brett. *Trust in Troubled Times: Money, Banks, and State-Society Relations in Republican Tianjin*. Cambridge: Harvard University Press, 2003. □

## Global Flour Trade

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California, Oregon and Washington?

I set out for China to learn more, but soon found that the amount of scholarly work on this topic was limited. The Shanghai Grain Bureau published a solid history on the formation and expansion of the industry, but Bureau archivists claimed that most older documents had been destroyed to "make room." Newspapers and several relevant works on Chinese industrialization at the Shanghai Municipal and Fudan libraries included short reports on flour milling. Original volumes of the *North China Herald* at the Shanghai Municipal Archives provided additional information on Fu Feng and other native mills, foreign flour milling companies, wheat and flour prices, stock reports, custom figures, etc. A visit to the Fu Feng mill (still in operation!) revealed that the original buildings and power plant remained, but none of the early documents had been preserved. The most detailed information on early mills was found in gazetteers located at the Shanghai Academy of Social Sciences. Remarkably, two of these pertained specifically to the Fu Feng company. Although relatively brief reports, they provided good insight into the motivations, decisions, and actions of the family that established this enterprise.

Based upon these records and accounts, I was able to identify factors which influenced the successful competition of Fu Feng and other native milling companies with American firms. Using Chinese labor and native wheat, Fu Feng began manufacturing a flour equal in quality to foreign imports, but at a lower price. Under innovative wheat procurement programs, hybrid business strategies, and aggressive marketing techniques, the enterprise prospered and expanded, attracting other native entrepreneurs to the trade. Benefiting from selective boycotts, capricious silver-gold exchange rates, and price-fixing syndicates, the native industry drove American firms—city by city—out of their primary position in supply flour for Chinese markets. Within a decade, the modern Chinese flour milling industry had overwhelmed its foreign competition, reducing American flour to a permanently ancillary position. How did American mills respond to the loss of these markets? What was the fate of Fu Feng and the native milling industry during the Republic? After Liberation? The questions continue, as does the search for answers. □

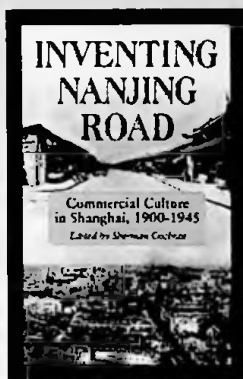
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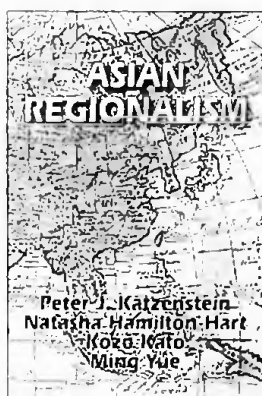
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## Book Review: Elisabeth Köll, *From Cotton Mill to Business Empire: The Emergence of Regional Enterprises in Modern China*

Cambridge MA and London: Harvard University Press, 2003. pp. 422, xvi.

SHANNON BROWN

This is a first class work of scholarship that should be read, with pleasure and enlightenment, by all students of modern Chinese business, economic and political history. Based on extensive archival research in Nantong and Shanghai and personal interviews in China and Taiwan, Köll tells the story of Zhang Jian and the world that he built. Although the bulk of the book addresses the period before Zhang Jian's death in 1926, her study also helps us understand the evolution of modern China from the 1890's to the present. The book is theoretically sophisticated, richly documented and nicely written.

Bracketed by an unusually thoughtful introduction and conclusion are eight substantial chapters whose titles accurately convey their content: "Regional Enterprise and the Corporation as a Concept; National and Regional Context; Setting Up the Mills; The Realities of Industrial Work; The Corporate Structure; Business Performance and Crisis Management; Socioeconomic Control Beyond the Factories; Enterprise in Transition: Dasheng After Zhang Jian."

Before 1895 Zhang Jian's career was both traditional and successful. Born in 1853, he obtained the provincial *juren* degree in 1885, worked in the *mufu* of General Wu Changqing and in 1894 obtained the highest distinction in the competition for the metropolitan *jinshi* degree. That same year he returned to his native place (near Nantong in central Jiangsu) to carry out mourning duties for his father. During his stay there, China lost the Sino-Japanese war and was further humiliated by the Treaty of Shimonoseki in 1895. In that same year, in response to Zhang Zhidong's call for the creation of Chinese enterprises to counter those of Japan, now newly allowed by the treaty, Zhang Jian began to plan the Dasheng Cotton Mill near Nantong.

When the Dasheng Cotton Mill finally began production in 1899, technically speaking, it was a *guanshang heban* enterprise since it combined cotton mill equipment contributed by a government official, Zhang Zhidong, with capital from local cotton merchants. But government involvement quickly faded. By 1907 it had acquired

The Spring 2004 issue of Chinese Business History was mailed in June 2004 and included the following articles:

**Brett SHEEHAN:** The History of Chinese Money and Banking: A Mini Explosion

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the legal status of a private limited liability company and by 1910 it had become a business group of 17 affiliated companies involved in such varied activities as land reclamation, flour milling, vegetable oil extraction, shipping, publishing and distilling.

With respect to the taxonomic discussions about Chinese firms Köll, wisely in my opinion, rejects the appeal to ideal types. Instead, she presents an informed and thoughtful discussion of how the structure and function of the Dasheng Business Group evolved in an effort to continue to meet Zhang Jian's twin goals of economic viability and personal control. The heart of the system was the Shanghai central accounts office which reported directly to Zhang Jian and gave him de facto control over the group despite the involvement of other family members and the supposed rights of other stockholders.

In the appendix Köll includes a large amount of interesting accounting data which she uses in an earlier chapter on business performance to discuss and analyze the changing fortunes of the Dasheng Group, especially during the 1899-1926 era. Based on this data she is able to tell a detailed and persuasive story about the profits, debts and costs of the Dasheng Number 1 Cotton Mill and some of the other enterprises in the group. The use of such data helps to make the firms more concrete and real while supporting her insights and arguments.

Unfortunately, as Köll points out, the accounting data that has survived is apparently not complete enough, or in the right form, to allow the use of modern accounting techniques, such as cost accounting, to determine unit costs for each firm or to determine the cross-subsidization between firms. If such analyses were possible, it would

help us understand more clearly how efficient and profitable these firms were and how Zhang Jian orchestrated them as a group. Information of this sort would also make it easier to compare the firms in Zhang Jian's empire to other firms in the same industry and to understand better how much the difficulties of modern economic development were due to problems at the firm level and how much they were due to political and economic circumstances beyond the control of the firm. This is not a criticism of Köll's book. On the contrary, her book increases our understanding and helps us to clarify what we need to know more about.

The book also contains much interesting information and discussion about life on the shop floor, the management of labor, accounting and other tools of control, Zhang Jian's political and social role in the region and how the business group fared after his demise. Unfortunately, limited space precludes further discussion of these important topics.

Explaining the life of Zhang Jian, and the businesses he built, requires deep scholarship and a sensitive use of many historical and analytical tools. By using her materials and tools well, Elisabeth Köll has crafted us a persuasive history and considerably enhanced our understanding of the evolution of modern business in China. □

*SHANNON BROWN is Visiting Scholar in Economics at Wesleyan University. He is working on a book on the business and economic aspects of the Woosung Railway. He is also working on an interpretive paper on the sources and impediments to economic growth in Late Imperial China, 1860-1911.*

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