

# **CHINA'S LOAN NEGOTIATIONS**

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China's Loan Negotiations by Mr. Willard Straight

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**MR. WILLARD STRAIGHT**

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## CHINA'S LOAN NEGOTIATIONS.

It is the purpose of this paper to explain, if possible, three things: 1st, the significance of Chinese loans; 2nd, the importance of securing and retaining an American interest therein, and 3rd, the peculiar difficulties encountered in the recent loan negotiations.

Dr. Arthur H. Smith, in that able and interesting work "Chinese Characteristics," pointed out that those who, understanding the vernacular, walk in China's streets will hear the passersby talk of little save money. As it has been with the daily life of the people so it is today with the political life of the nation. The question of money is all important. For the last ten years, and especially in the past twelve months which witnessed China's wonderful transformation from the oldest empire to the youngest republic in the world, there has been an incessant discussion of Chinese loans.

China's Loan history may be divided into four periods—

The first, immediately after the Chino-Japan War—when funds were secured from abroad to pay the indemnity exacted by Japan at its conclusion.

The second, following the so called "leasing years" when the great powers encouraged their bankers to finance railway construction in the regions which they had marked out as their spheres of special interest, and when besides acting as the politico-financial agents of their Governments, these bankers secured for the industry of their respective countries the orders for the materials required.

The third, following the Russo-Japanese War, when likin was pledged as security for loans and when a combination to which the American Group was later admitted was formed by



British, German and French financiers for undertaking Chinese loans, and for sharing the orders for materials required for their construction.

The fourth, and present period, in which a combination has been effected between the four Groups named above and Russian and Japanese interests, for jointly financing the reorganization of the Chinese Government.

American bankers were first interested in Chinese finance in the second period, in the Hankow-Canton Railroad; for business, not for politics. Their rights were sold back to China who financed the repurchase by a loan obtained from the Government of Hongkong, which thus for obvious political, because geographical, reasons, secured for British interests a preferential right to finance the construction of this road in case foreign capital should later be required.

During the third period the American Group was organized and became associated with the British, German and French banking groups. The American Group, moreover, greatly contributed to the successful formation of the combination which marks the fourth period, a combination which is the financial expression of John Hay's "Open Door" policy, and which makes of international finance a guarantee for the preservation, rather than an instrument for the destruction, of China's integrity.

Before discussing the most recent phase of China's loan negotiations, however, and the manner in which the American Group at the instance of the Department of State made its entry into this field, it is necessary briefly to review the history of the past few years, and to consider the factors in the creation of what has been called "Dollar Diplomacy."

Because of this so called "Dollar Diplomacy," President Taft, and his Secretary of State, Mr. Knox, have been subjected to no small measure of criticism. The Administration one hears has formed an unholy alliance with the Octopus; and Wall Street, the property scape-goat of our national political drama, is accused of seducing a reluctant and hitherto well-

domesticated Government into the maelstrom of international financial adventure.

As if this were not sufficient, sober and intelligent journals have demanded why American capital should seek foreign fields when there is so much work to be done at home. Others admitting the desirability of foreign investment and the possible necessity of diplomatic support for those who undertake it, have objected to the Administration's assisting certain institutions in Wall Street instead of American bankers in general. It must be remembered, however, that the success of any association of American capitalists undertaking this business depends primarily on their being of such standing as to command respect from financial Groups abroad and upon their willingness and ability to bear the expense of representation through tedious and too often unremunerative negotiations. Without these qualifications American Bankers are not equipped to become the instruments which our Government requires to assist in the extension of our foreign trade.

Another section of the press hails each and every over-sea venture with indiscriminate enthusiasm and rhetorically preens the feathers of the Bird of Freedom, sneering at or condemning our rivals, and lauding American enterprise with an impartial disregard of the real facts.

There has been too much unjust criticism, too much unwarranted praise, and too general a lack of candid exposition and intelligent comprehension of the reasons for, and possibilities of, "Dollar Diplomacy."

"Dollar Diplomacy" is a logical manifestation of our national growth, and of the rightful assumption by the United States of a more important place at the council table of nations. Our export trade is constantly increasing and foreign markets are becoming each year more and more necessary to our manufacturers. The new policy aims not only to protect those Americans already engaged in foreign trade but to promote fresh endeavor and by diplomatic action pave the way for those who have not yet been, but who will later be, obliged to sell either capital or goods abroad.

European diplomacy is engaged in solving a maze of complicated questions immediately political, ultimately commercial in character. France, Germany, Russia, Italy, Austria and Japan are endeavoring to acquire fresh fields for colonization or to create preferential markets for their merchants. Great Britain with her world-wide possessions is involved directly or indirectly, in almost every international question that arises and with these powers too, diplomacy has for years been of the "Dollar" variety.

International rivalry of this character, however, is found only in those countries whose native administrations are either decrepit or which are still militarily too weak to secure that consideration, which, unfortunately, depends not upon international equity, but upon the power of self-protection. In such lands a Government desiring to secure a market for its nationals must because of the pressure of its competitors either acquire territory or insist on an equality of commercial opportunity. It must either stake out its own claim, or, induce other interested Powers, to preserve the "open door." There is no middle course. This is a statement not of benevolent theories, but of political facts.

The people of the United States do not desire fresh territory over seas. The policy of our Government has been to secure for American merchants the "open door." American industry has until recently been too much engaged by our own domestic expansion seriously to set about the establishment of foreign markets. A far-seeing administration has therefore inaugurated a new policy, the alliance of diplomacy, with industry, commerce and finance.

This is "Dollar Diplomacy." It has been active in various ways. In South America it has aided our merchants and manufacturers. In Central America, politics have played a more important part, and the Department of State has attempted to bring about financial reform in these smaller republics, and to prevent the recurrence of the revolutions whose leaders have almost without exception been actuated



solely by a desire to acquire control of the national revenues. In China certain very tangible results have been accomplished and it is to give a more accurate conception of this much discussed, but little understood subject, that this paper is written.

Prior to 1894, China had practically no foreign debt. In 1894-1896, however, she borrowed extensively from England, France and Germany, to finance the war with Japan and to provide the indemnity which she was forced to pay at its conclusion. These loans were secured upon the collections of the Imperial Maritime Customs, a Chinese service under the control of that able Irishman, Sir Robert Hart. In 1898, however, China made a number of contracts for loans for railway construction, with British, German, French, Belgian and American syndicates. Under all these agreements the bankers were entitled to a certain share in the profits of the lines, which were themselves to be mortgaged as security for the loans, and provision was made in almost every case for joint foreign and Chinese management. The railway materials and rolling stock required were purchased from the manufacturers of the countries whose bankers undertook to issue these loans.

The cession of Formosa to Japan at the termination of the Chino-Japanese war, the occupation of Chinese territory by Russia, Germany, France and England, in 1897-8 and the exchange of "diplomatic notes" between these Powers regarding the protection of their respective interests in China, together with the signature of the railway agreements mentioned gave rise to a discussion throughout the European and American Press of the imminent breakup of China and the partition of this ancient empire into "spheres of influence."

In China the broad significance of these events was probably appreciated by but few, even of the leading statesmen of the time, but these men, nevertheless, and the gentry and official classes throughout the provinces felt that their country was becoming dominated by the foreigner. Seaports had been wrested from them, and, not content with this, the

strangers were binding their helpless motherland with rails of steel.

For some years prior to 1898, the Empress Dowager had been in comparative retirement. The attempt of the young Emperor, Kuang Hsü, however, under the advice of Kang Yu Wei, suddenly to introduce widespread reform, brought this redoubtable lady to the front once more. Popular discontent, fomented by bigoted and ignorant officials was winked at if not encouraged by a Court which feared that the extension of Western influence might bring about administrative changes which would curtail their opportunities for illicit gain. The Boxer Outbreak was the result, and in 1900 the reactionaries made one last attempt to sweep the foreigner into the sea. Peking was occupied by the allied troops, the Manchu Court fled to Sianfu, and China was saddled with a fresh debt of about £60,000,000. to pay for her mid-summer madness. This was charged upon the Maritime Customs, upon certain likin collectorates and upon the salt gabelle.

In 1898-1899 the American Secretary of State, John Hay, anxious to prevent the partition of China and to protect the interests of general foreign trade against discrimination in the portions of Chinese territory already occupied by foreign powers, enunciated his "Open Door" policy. His proposition, favorably received at first and reaffirmed in the negotiations which followed the relief of Peking, won the adherence of other nations not because of any particular consideration for China but because of their mutual jealousy and their realization that partition would impose upon them responsibilities which they might find it difficult to bear.

They did not therefore surrender the ports which they had forcibly leased, but their acceptance of the "Open Door" doctrine nevertheless marked the beginning of a financial and commercial, rather than territorial, definition of their respective interests. The Russo-Chinese Bank had been created in 1895 as the chief instrument of Russia's ambition in her Manchurian adventure. This institution and the Hongkong & Shanghai

Bank, the Deutsch-Asiatische Bank, the Banque de l'Indo-Chine and the Yokohama Specie Bank, now became more and more generally recognized as indispensable financial means to the political and commercial ends of their respective Governments.

In contrast to the peaceful rivalry in China proper, the situation in Manchuria became more and more threatening. Russia despite her diplomatic assurances to the contrary did not evacuate this region occupied after the Boxer trouble. She persisted moreover in an attempt to acquire control over northern Korea as well, until Japan, avowedly the champion of China's integrity and the "Open Door" for the trade of all nations, declared war.

Relieved by the defeat of Russia Peking breathed more easily. This satisfaction, however, was short lived, for the Chinese soon became convinced that Japan not unnaturally intended to reap for herself and not assure to China, the fruits of her splendid victory. She had taken from Russia the Liaotung Peninsula, from which she had herself been ousted after the China-Japan War. More than that, she succeeded to Russia's rights in the railway running north from Port Arthur and in the coal mines at Fushun.

When His Excellency Yuan Shih Kai, now President of the Chinese Republic, went to Tientsin as Viceroy of Chihli Province, he had with him a number of officials, notably Tang Shao Yi and Liang Tun Yen, who had been recalled from America in the early 80's, but who had not after their return to China been given much share in the direction of affairs. Yuan soon found himself at the head of what might be called a "Reform" party, and these subordinates of his, able, accomplished and well versed in American and European methods greatly aided him in instilling new force and intelligence into the Peking Government. Administrative reforms were demanded, the Chinese Press, hitherto practically non-existent, began to assert itself, and young men educated abroad returned to direct a "rights recovery" agitation which soon developed