

## The Birth Of The Modern Chinese Banking Industry: Ri Sheng Chang

### Introduction

Pingyao (平遥) is a remote place for a tourist attraction. Located in the centre of Shanxi province, it is some 380 miles from Beijing and further from Shanghai or Hong Kong where the tourists tend to congregate. Yet, despite the isolation, come they do to Pingyao. The nearest airport to Pingyao is in Tiayuan, over one hundred kilometres away, so most visitors arrive by coach or by train; along the poorly paved streets and past the decaying houses until they arrive in the middle of the city. Here the tourists disembark from their coaches and their trains and find themselves transported to the days of the Qing dynasty emperors, surrounded by imperial architecture.

The tourists wander slowly towards West Street. This is the home of the most popular attraction: the headquarters of Ri Sheng Chang (日昇), a late Qing company which revolutionised Chinese banking, now a museum and an increasingly busy tourist attraction. This is the story of how it came to be and how the little city in a small province in China rose to prominence, became the financial centre of the world's largest economy, fell to obscurity and, now, rises again.

### The Origins Of Paper Money

On the first day of the third year of the reign of the Emperor Xuanzong, the first modern Chinese bank opened for business. Ri Sheng Chang, like other financial institutions in China in 1823, took deposits and offered loans. However, Ri Sheng Chang specialised in fund transfers – it was the first draft bank (known as *piaohao* (票号) or, literally, a store *hao*号 that handles monetary notes *piao* 票) in Chinese history. Customers could deposit money in a branch in one city and, on providing a valid deposit note, could withdraw the money in another branch in a different location, all for a transfer fee, of course.

Ri Sheng Chang was by no means the first institution to issue paper money in China. The vast area of land that now makes up modern China has a monetary history stretching back to the seventh century BC. Unlike West Asia and the Mediterranean World, the traditional form of coin in Imperial China, was not based on precious metals such as gold and silver, but, instead, on bronze coinage. The basic monetary unit was a single brass coin, with larger units created by stringing together a hundred or even a thousand coins. In Sichuan, during the Song Dynasty however, iron coins, worth only a tenth of brass coins, were the standard. Iron coin was especially inconvenient: to buy a half a kilo of salt, for example, one would need to carry over two-thirds of a kilo in iron coinage. A severe shortage in iron coins in the mid 990s, coupled with the ever-present inconvenience of their weight, prompted the use of the first paper bills, issued by Sichuan merchants for use in private trade. Over the next ten years the use of “exchange bills” known as *jiaozi* or ‘flying coins’ proliferated, prompting the regional government to subject the notes to official regulation. The government restricted the right to issue the notes and standardised the notes themselves. After decades of instability, in 1023, the government established a state-run Jiaozi Currency Bureau which had the sole rights to issue *jiaozi*.

To maintain stability, paper currency requires strong central control, a fact that the Mongols (the Chinese Yuan dynasty who reigned from 1271-1368) well understood. Their currency was stable, well-managed, and thanks to Marco Polo's descriptions, world-famous. Indeed the paper currency made such an impression on

*This case study was prepared by Vivid Lam. Case study editors: Dr. Oenone Kubie and Prof. Christopher McKenna, University of Oxford.*

*Financial support for this case study was provided by Walter Scott & Partners Limited – a global investment firm based in Edinburgh, Scotland, and founded in 1983.*

Polo that he likened it to alchemy. Yet, within just thirty years of the end of the Yuan dynasty, Ming dynasty mis-management led to a collapse in paper currency. By 1394, the value of the Ming paper currency *baochao* had fallen to less than a fifth of its face value. In light of this crisis, the Ming government took the unlikely step of banning the use of notes. The impact of this collapse was enormous, for five hundred years, the Ming and subsequent Qing dynasties did not issue paper money. When Europe began to adopt paper currencies in the seventeenth century, paper money in China was part of a distant past – a seemingly antiquated, unstable form of currency.



String of 100 Chinese cash coins, Qing dynasty, copper-alloy, 500 g., Ashmolean Museum, Oxford



Mexican dollar (8 real) bearing various chop marks proving that it circulated in East Asia, Spanish Mexico, 1807, silver, 40 mm, 26.8 g., Ashmolean Museum; Large Chinese coin that circulated in China from 1850 onwards, *Heavy treasure of Xian Feng (era)* (Xian Feng zhongbao 咸豐重寶) worth 100 cash coins, Qing dynasty, copper-alloy, 65 mm, 166 g., Ashmolean Museum; The British pound coin is used as a scale of reference

### Trade, Currency, And War

The currency of early nineteenth century China, or to be more precise currencies, were fairly similar to ancient Chinese currencies. People paid for most transactions in copper or brass coins. Coins were measured by the string but a hundred coin string would in reality only contain ninety-eight or so coins. Nonetheless, most small scale transactions done in a local area could be carried out in a fairly simple manner. Both parties would be aware of the value of the coin and the number of coins on the string.

Travelling outside of one region was a different affair. Coins were bulky but travellers would need to carry large amounts of money to pay for expenses. Consider, for example, a young man setting out to the capital to take the Imperial examination. This exam was a civil service examination, used for selecting state bureaucrats and responsible for creating a gentry class of scholar-bureaucrats. It was an integral part of imperial China, but in order to sit it, the young examinee would need to exchange coins into silver ingots before he travelled and then exchange the ingots back into coins on arriving at his destination. Furthermore, although China was one country, the ingots cast in different regions were of different purity and weight meaning there was a quasi-exchange market between the different regions. To change money, the would-be civil servant needed to find a *qianpu* (钱铺) or *qianzhuang* (钱庄). These “money shops” were usually small, family run and often not even specialised shops but, rather, part of a local grocery store. Their primary role was to change coins into ingots and vice versa. They made money much like a *bureau de change* today, by taking a commission for exchanging currencies.

They also offered small-scale loans but only to local businesses or individuals. Borrowing and lending was based primarily on trust, friendship, and fidelity.

For a trader wanting to transport large sums of money, the difficulties were exacerbated. The problem was twofold. In the first place, there was the sheer inconvenience of transporting large amounts of heavy, bulky metal. Secondly, the cartloads of silver attracted opportunistic thieves who thronged China’s trading highways. Security escorts known as *biaojou* (标局) offered the services of teams of armed guards to protect cases of ingots as they moved from place to place, decreasing risk for merchants but increasing the costs.

Despite the difficulties, trade in China expanded in this period. Indeed, by the mid-Qing dynasty, China was probably the most commercialized country in the world. International trade grew throughout the Qing dynasty, bringing in silver coins from the New World. Because their purity was standardized, these coins circulated at a premium within China, being used to pay taxes and melted down into silver ingots of varying purity.

Yet, even the astounding growth of overseas trade after the Opium Wars never rivalled the vast internal trade of the Qing Empire. This was, after all, the largest empire in terms of population the world had ever seen: by 1800 some three hundred million people were ruled by the Qing dynasty, almost double the population

of Europe at this time. The eighteenth and early nineteenth centuries saw interregional trade booming, facilitated by better road and canal networks. For the first time, regions began to specialize in particular export goods: cotton, tea, and rice, for example.

The region where Ri Shang Cheng opened its first branch is known as Shanxi (山西). Shanxi was isolated from the coast, the borders, and over two weeks ride from the capital. Indeed the very name Shanxi, meaning West of the Mountains, suggests distance and remoteness. The province was an unlikely home to the first modern Chinese bank. One academic has suggested that having Shanxi as the home of Chinese banking is somewhat like Fargo, North Dakota being the financial hub of the USA. In addition, Shanxi was a particularly resource-poor province, with dry and infertile soil and frequent droughts. It could compete neither with the fertile farmlands to the South, where rice, cotton, and tea were abundant, nor with the northern highlands, where cattle and sheep grazed on grasslands. Yet, the Shanxi region benefited from its interior position, protected and isolated as it was from the wars and conflicts endemic on China's frontiers. With few resources in the region, Shanxi families, much like people in resource-poor nations around the world, turned to trade to earn a living. Beginning in the late Ming dynasty (early seventeenth century), merchants from Shanxi forged empire-wide commercial and financial networks involving pawnshops, rudimentary banks and merchants associations.

War, and an alliance between state and capital, cemented Shanxi's place at the forefront of Chinese trading. Shanxi was positioned between the Qing capital, Beijing, to the east and the important borderlands to the west, thus making it part of an important supply route for the imperial armies. In the early Qing Empire, to encourage trade along this supply route, the emperor granted eight Shanxi families the title of "royal merchants" and gave them the sole rights to provision the Qing court and over certain state-controlled businesses such as the salt trade and the international copper trade. Under the Qianlong emperor (1735-1796), whose military campaigns doubled the size of China, the Shanxi royal merchants were charged with supplying the emperor's armies. This they did cheaply, effectively and gladly, for the royal merchants made vast profits selling to the imperial armies. After the success of the Qianlong campaigns, the emperor granted titles to the royal merchants and they gained considerable influence within the court.

As trade increased across the country and interregional trade in particular, the amount of money carried on the roads expanded. The trade networks of merchants such as the Shanxi families had grown substantially, so many of the family firms now had branches in cities across China. Employees, merchants, officials, goods, and, above all, silver were on the move, and the stage was set for radical change.

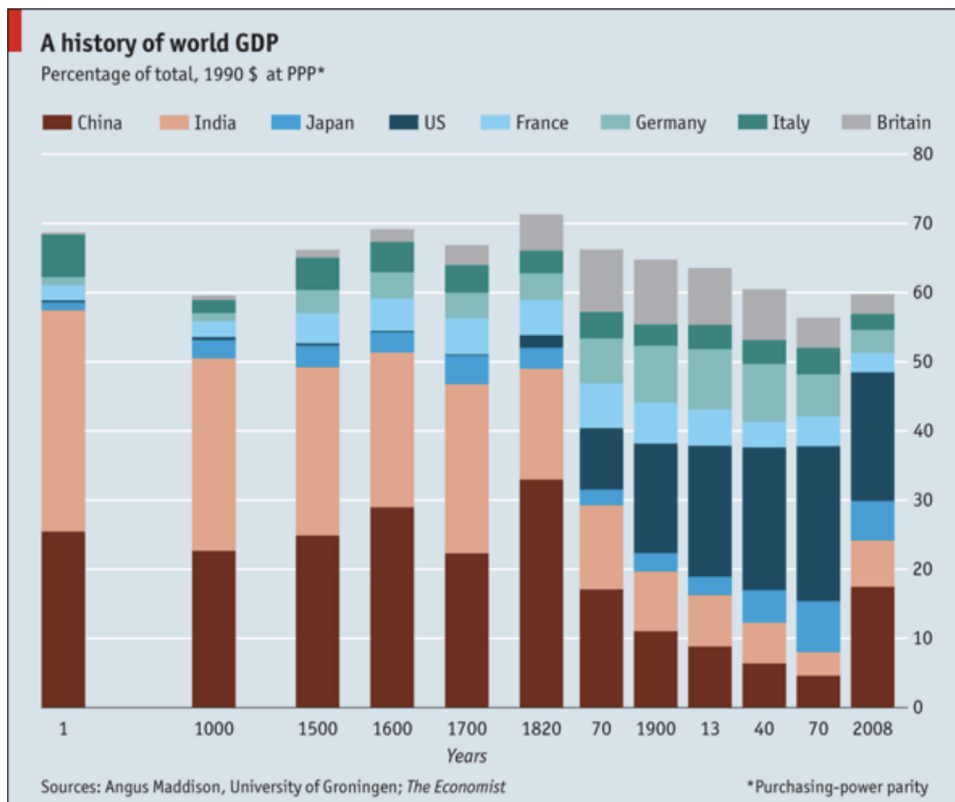
### **Merchant Bankers**

Among the traders on the rise in the late eighteenth century was a young apprentice named Lei Lutai (雷履泰). Lei was born to a middle-class family in Shanxi in the 1770s. The death of his father had forced Lei to end his formal education as a young teenager. Like many ambitious Shanxi youngsters, he became an apprentice, moving between a number of Shanxi companies, learning the skills of trading. While working in a casino in Pingyao, Lei met the heir to the Xi Yu Cheng (西裕成) company, Li Daquan (李大全). Lei impressed Li who convinced his father to hire him.

Xi Yu Cheng was a typical, successful Shanxi company. It specialised in the manufacture of textile dyes as well as the wholesale and trade of raw materials used in dye manufacturing and finished dye products. It was an industry leader in China in the early nineteenth century and had branches in most major Chinese cities. Like most of the big Shanxi mercantile companies, Xi Yu Cheng was a trusted member of trade associations and the Lis had many business and personal connections among the other Shanxi merchants.

With the death of Li's father, Li promoted Lei to branch manager in the Hankou branch of Xi Yu Cheng. At the time, Hankou was one of the busiest trading ports in China. It had an urban population of about 1 million people, and by 1850 it would become the largest city in the world.

To be more precise, Hankou was in fact the largest city in the world, within the world's largest economy. As China's economy re-emerges as the world's largest economy in the twenty-first century, commentators often marvel at this change. Yet China dominated the global economy for a millennium. China's return to economic global leadership is perhaps better viewed as a return to the status quo rather than an anomaly in economic history. Regardless, in the early nineteenth century, China's economy was the largest in the world by a significant margin. And right at the centre of this economy, in one of the busiest ports, was a young man managing a branch of a national dye manufacturer.



<http://www.economist.com/blogs/graphicdetail/2012/06/mis-charting-economic-history>  
(accessed 28/04/2016)

For Xi Yu Cheng, Hankou was where raw materials purchased from the southern part of China were gathered, then sent back to Shanxi for manufacturing, and, following manufacture, brought back again to Hankou for distribution and sale. As products went out, money came in and those coins had to be sent back to Shanxi by the caseload of silver. To save the costs of multiple trips, Lei would send back silver with the raw products to Pingyao.

Sharing a language, an ancestral home and often family members, the business and personal networks between Shanxi merchants were particularly strong and many Shanxi merchants, like Xi Yu Cheng, had branches in all the major Chinese cities. Xi Yu Cheng was certainly not the only company to struggle with the logistics of sending coins and ingots to and from the Shanxi province. Sending in bulk was substantially cheaper than sending many individual shipments of silver and security for bulk shipments could be far greater, so the Shanxi merchants often arranged among themselves to send caseloads of silver to Shanxi together. As Lei and Xi Yu Cheng were trusted members of the Shanxi mercantile community and, in addition, they already shipped goods to Shanxi provinces, the task of transporting money often fell to them. Lei charged a fee for the service but the transaction was fairly informal and the fee varied. Over time, Lei came to realise that the transportation of money for his fellow Shanxi merchants had grown into something more than a small sideline, indeed transferring silver from Hankou to Pingyao had become his most profitable business.

In the early 1820s, Lei followed the trail of silver back to Pingyao to become the general manager of Xi Yu Cheng. During his final few years in Hankou, Lei had realised that there was a substantial market for fund transfer throughout China, not just between Pingyao and Hankou. Furthermore, Lei believed that if one had enough funds in reserve, one could transfer money for a client from one branch to another without physically transporting any silver. Certainly, a branch's reserve might run low and they would need to replenish it but, in general, what did it matter if a client deposited one batch of silver in Beijing and received a different set back in Shanghai? If anything, it would be more convenient for the client as they would no longer have to be concerned with exchanging their ingots or coins into the local currency. For a small fee, the branch could do all that for them.

The key to this process was standardized silver. Ingots cast in Beijing (known as 松江银, meaning silver from the area near the Song river) differed in purity from ingots cast in Shanghai (known as 豆规银) but the trade in ingots was well established. Like the negotiations of what consisted one-hundred coins, silver ingots were routinely evaluated and compared as they travelled. The constant negotiation of silver currency between China's many regions, combined with the standardization of silver from certain regions within China developed concurrently with the large-scale standardisation of commodities (including "sterling"

silver) in Europe in the late eighteenth and early nineteenth centuries.

Back in Pingyao, Lei set about convincing Li that his business idea was not only feasible but likely to be far more profitable than the textile dye industry. In 1822 Li agreed to the idea. The two renamed Xi Yu Cheng as Ri Sheng Chang and transformed all of their branches into money handling shops. This new type of business they named *piaohao*. In their new venture, customers would deposit money in one place and be provided with a bank note *huipiao* (会票) which detailed the date and the amount to be withdrawn in another location.

Lei and Li were the prototypical Chinese merchant bankers: developing out of a need to facilitate their own trade into an organisation which facilitated the trade of other merchants. In Europe, Italian grain merchants had been providing banking services for centuries. The first British merchant banks, however, came into existence only in the early nineteenth century, around the same time as Ri Sheng Chang.

It took the whole of 1822 for Lei and Li to transform Xi Yu Cheng into Ri Sheng Chang, and on the first day of 1823, Ri Sheng Chang finally opened for business.

### **How Ri Sheng Chang Functioned**

In early nineteenth century China, like in Europe, virtually all business owners bore unlimited liability for their businesses, yet many Shanxi merchants operated their companies using a shareholder structure. Shares were either capital shares or labour shares. Unusually, labour shares, while inheritable, generally had a limited lifetime of fifty years or so, making them worth less than the capital shares. In the case of Ri Sheng Chang, Li made the primary investment for thirty shares, while Lei was given thirty labour shares – a 50:50 arrangement.

Li may have provided the capital investment for Ri Sheng Chang but he was rarely involved in day-to-day management. It was Lei, the general manager, who took control of the everyday running of the business. Under Lei, each branch had its own manager who was responsible for the profits and losses at their branch. The branch managers were required to send regular reports to Lei at his headquarters in Pingyao and every three years each branch would be inspected by an employee from Pingyao.

### **Protective Measures: Counter-Feiting And Theft**

Counterfeiting was a global problem in the early nineteenth century: for example, historians estimate that counterfeit money in the USA in the first half of the nineteenth century ranged from anywhere between ten percent to an enormous fifty percent of the total notes in circulation.<sup>□</sup> One of Lei's greatest achievements was his implementation of a system of anti-counterfeiting within the branch network of Ri Sheng Chang.

Firstly, all of the branches used the same paper, specifically made for the company in its own paper mills, to create the deposit notes. To each sheet of paper, expert manufacturers added an exact percentage of silk: both to make the paper more durable and to alter the feel of the notes. Ri Sheng Chang trained apprentices to feel and recognise the specific texture of this paper. Furthermore, Ri Sheng Chang employed a special technique whereby four Chinese characters (日昇昌記) were printed onto the notes when the paper was 70% to 80% dry. These patterns became visible only when the notes were examined under direct light, thus creating an easily recognised, but hard to replicate, watermark.

The second method that Ri Sheng Chang used to tackle counterfeiting was the creation and application of intricate seals. The *piaohao* commissioned expert seal-carvers to carve the intricately designed seals, usually a specific one for each branch. Several seals would be impressed on each note (for example, a seal might be impressed over every handwritten number to ensure that it could not be altered). The Pingyao headquarters would change the combination of seals regularly, and inform the branches of the latest system. By the 1830s, banks in the USA were doing much the same: using elaborate designs and fine engravings to combat counterfeiting.

Ri Sheng Chang's seal technology was complemented by a coding system – on the back of each note, a branch employee would write a coded phrase representing the date and amount of the fund transfer note. The codes were drawn from the characters of a poem which, like the stamp combination, was changed periodically. Only one or two senior employees in each branch had the authority to write fund transfer notes. Each branch had a regularly-updated catalogue of the names and signatures of employees authorised to write notes. When a customer presented a note, an employee in the withdrawal branch could then check





Government note, with denomination in cash coins, *Great Qing Treasure Note* (*Da Qing baochao* 大清寶鈔) for 1,000 wen (cash coins), 1857, paper, 232 x 132 mm, Ashmolean Museum. Briefly, beginning in 1853, the Qing government experimented with a paper currency to meet the financial demands of the TaiPing Rebellion. By the 1860s, the currency had collapsed. This note, from 1857, is one of the government-issued notes circulating at the same time as some Ri Sheng Chang notes.

employees once they retired, encouraging loyalty and honesty.

Ri Sheng Chang's employees benefitted from any success the company had, and, in the nineteenth century, it was very successful indeed. *Piaohao* expanded throughout China and even overseas, in Japan and Singapore.

Building on the close relationship Shanxi merchants had developed with the Qing government, the *piaohao* also took on much government business. Gradually, *piaohao* came to collect and remit taxes, arrange loans for provincial governments, and advance funds to officials. They became so involved in the running of provincial treasuries that one scholar has called them "China's first state banks".

Lei died in his seventies, at his desk, in 1849. His legacy, however, was to transform Chinese financial institutions, enabling trade and the expansion of the Chinese economy.

### Crisis Point: The Battle Of Peking

Li also died in the mid-nineteenth century but Ri Sheng Chang stayed in his family and, by the end of the nineteenth century, Li's grandson owned the business. Ri Sheng Chang was doing well as the nineteenth century turned into the twentieth. In 1886, Ri Sheng Chang had a total of twenty-four branches nationally. While Ri Sheng Chang was facing increasing competition from some thirty or so other *piaohao*, it remained an industry leader throughout the nineteenth and early twentieth century.

the handwriting against the register. Finally, the *piaohao* numbered each bank note and tracked them carefully so that any loss could be accounted for.

Counterfeiting was certainly a problem, both in China and abroad. Yet, more pressingly, direct theft could come from within the bank itself. How could a bank trust employees with such vast amounts of money. The Medicis and the Rothschilds had tackled this problem through blood lines. Who could be more trustworthy to a Rothschild than his brother? As their business grew, however, families couldn't meet the demand for employees. Instead, employing men from the same village or region, who came with recommendations, began to be the norm. It was this latter method, of local networks, which Ri Sheng Chang employed.

*Piaohao* employees might be as young as fourteen. To enter into the business, the *piaohao* required candidates to sit a written examination and to pass a verbal interview. Ri Sheng Chang also performed fairly extensive background checks of both the applicant and of his family, requiring a recommendation letter and the guarantee of another Shanxi company. Personal and familial networks were, therefore, crucial to would-be employees of the *piaohao*. Once in the industry, however, there were plenty of opportunities for advancement. Employees usually began as apprentices and, as they proved trustworthy, worked their way up to more senior roles.

Ri Sheng Chang didn't bond their workers through fidelity guarantees, like other international banks were doing at this time. They did, however, reward honest employees. The longer an employee worked, the more labour shares he received. They also provided a generous pension scheme to faithful



The fortune of the Qing dynasty China at the turn of the century was less secure. Foremost among the problems was the issue of sovereignty. Although no country had formally claimed China as part of its empire, foreign powers had declared large parts of Qing territory as their “respective zones of economic hegemony”. The Russians tacitly controlled Manchuria; the Germans, Shandong and other northern areas; the Yangzi valley was British; Fujian, Japanese; and southeast China was French. In each of these areas the appropriate foreign power had first priority over mineral exploitation, railroad construction and similar activities. The Qing had pledged not to cede these rights to any other foreign power. In the words of one historian “Qing territorial sovereignty... was transparently a myth”.



At the centre of foreign imperialism was banking. The foreign powers’ inroads into China were in many ways driven by the expansion of Western banks into Chinese territory. While the *piaohao* continued to facilitate internal trade and became quasi-state treasuries, foreign banks dominated external trade. Without branches in London or New York like foreign competitors such as the Hongkong and Shanghai Banking Corporation founded in 1865, Ri Sheng Chang and the other *piaohao* couldn’t effectively compete.

Foreign imperialism was not uncontested in the Qing Empire. In the last year of the nineteenth century, a populist, violent, opposition movement appeared, known to the British as the Boxer Rebellion but more accurately translated as the Rebellion of the Righteous and Harmonious Fists. The Boxers objected to foreign influence and, especially, to the work of Western Christian missionaries. After months of increasingly violent unrest in Shandong province, the Boxers converged on Beijing in June 1900.

On June 21, the court of Empress Dowager Cixi declared war on all foreign nations, ordered officials in the provinces to support Boxers and to expel any foreigners. For almost two months, the Boxers and their supporters held Beijing. But it was not to last. On August 14, in what would be known as the Battle of Peking, an army of 18,000 Japanese, British, US, Russian and French troops descended upon the city. The army overwhelmed the Boxer and imperial forces, and the Chinese court fled.

The Boxer rebellion and the Battle of Peking decimated much of the city of Beijing, including the Beijing branch of Ri Sheng Chang and all of its corporate records. Unrest in China had disturbed the managers of Ri Sheng Chang. As war and violence reduced trade and made travel, communication, and transportation of ingots between branches more difficult, the *piaohao* business became a trickle. The Battle of Peking threatened the very existence of Ri Sheng Chang.

A letter survives, written to the general manager of Ri Sheng Chang in Pingyao, Zhang Bingxing, a day or two before the Battle of Peking. It was the monthly management report from the manager of his Beijing

branch. The letter was written during the deepening crisis as allied forces moved ever closer to the city. “...the currency exchanges were robbed yesterday. All stores in the industry were closed. Withdrawals on our deposits were flooding in ... It was non-stop from six in the morning until noon since everybody is leaving the capital. All of them wanted cash.”

Just days after the battle, possibly before the letter even arrived, the manager of Ri Sheng Chang faced the unsettling news that all the Pingyao branches and the headquarters itself were flooded with people who had fled the capital and wanted their cash. Panic demands quickly turned into fully-fledged bank runs and threatened to destroy the firm. Even worse, since the violence of the Battle of Peking had destroyed all the firm’s transaction records in the Beijing branch, the Pingyao branch of Ri Sheng Chang could not verify their customers’ deposit notes.

Bank runs routinely occurred around the world at this time. In the United States, Sidney Weinberg (the future Goldman Sachs partner) was first employed to stand in queues during bank runs in place of other people. In fact, bank runs became such a cultural trope that Frank Capra’s 1946 film *It’s a Wonderful Life* included a famous scene depicting a run on a bank to remind the audience what could happen in an economic crisis.

Faced with the possibility of a bank run and the collapse of Ri Sheng Chang, Zhang announced that the company would honour any withdrawal requests in full for any customer who could present a valid deposit note, even in the absence of the Beijing branch’s transaction records. The company suffered some immediate losses as they struggled to find the cash to meet the demands. However, as confidence in Ri Sheng Chang’s ability to fulfil withdrawal requests rose, the threat of a bank run subsided. The reputation of the bank and trust in the *piaohao* system grew such that when Ri Sheng Chang re-opened their Beijing branch the following year, their business increased dramatically.

### **The End of the Piaohaos**

The good times were short-lived though. The finances of Ri Sheng Chang may have blossomed after the Boxer Rebellion but China’s state finances did not do so well. As commissioners reported to the Qing Court in 1911, nearly all the provinces were running enormous, chronic deficits. Fiscal problems were soon overshadowed by political problems. After the death of Empress Dowager Cixi and the Guangxu Emperor in 1908, the new Manchu court alienated reformist factions and provincial elites. Unfortunately, critical grain shortages and floods exacerbated unrest in the provinces. After revolutionaries instigated a coup in Wuchang Province in October 1911, other provinces also declared their independence from imperial rule. On January 1st 1912, the new Republic of China inaugurated its first president and, just over a month later, the last of the Qing Emperors abdicated.

With the new republic came new rules for the Chinese financial markets. The most important change for the *piaohaos* was the introduction of a common currency. Furthermore, *piaohaos* no longer controlled a monopoly on the remittance business as, thanks to improved transport links such as railways, foreign banks moved more deeply into the domestic Chinese market. Unfortunately, the *piaohaos* had tied their fortunes to the fate of the Qing Empire. When it collapsed in 1911, many Shanxi banks liquidated voluntarily or else, in the words of two economists, “limped into bankruptcy”.

Ri Sheng Chang did the latter. The company made substantial losses in 1911 and 1912. In 1914, the Beijing manager, unable to fulfil a debt, fled back to Shanxi. Still carrying unlimited liability, a warrant was issued for Ri Sheng Chang’s shareholders. New owners took control of the bank, which struggled on until 1932 when the bank finally closed in the depths of the global economic depression.

Here one would expect the story to end after the closure of the *piaohaos* as the once prosperous town in Shanxi facing decline gradually fell into obscurity and poverty. But now, instead of merchants and trade, it is Chinese tourists coming from Beijing and the coastal cities who are bringing money to the town. This is, perhaps, the most interesting part of the story, for the twenty-first century memorialization of China’s most innovative, entrepreneurial *capitalists* is something worth stopping to consider.

### **Capitalism: In Memoriam**

Many years of Civil War and War against the Japanese ended in China in 1949 when Mao Zedong announced the establishment of the People’s Republic of China as a communist country. Mao ruled a country which had, for years, been the object of foreign imperialism. Foreign banks had been the frontline of western imperial ambitions and the bankers became the particular anti-heroes in Mao’s new China. The



Shanxi banks had gone into demise decades before, most had closed, and their once glowing reputation was sullied by the increasingly negative image of banking. Gradually, the history of bankers like Lei LuTai and Li Duquan fell into obscurity, forgotten by the people in the new communist nation.

The rehabilitation of the Shanxi merchants began in the early twenty-first century. In 2004 the Chinese Government hosted a seminar entitled “Promoting the advanced culture of the Shanxi merchants; collaborating to build honesty and integrity in society”. With this, Shanxi merchants gained a new role in China, appearing as inspiration for research, the performing arts, television productions and even business models. As Chinese policy towards entrepreneurialism changes, the Party has begun to promote positive images of private companies: among them, Ri Sheng Chang. This is the image of Ri Sheng Chang tourists see. Ri Sheng Chang, in this received history, ended the backwardness of early imperial Chinese financial systems. The home-grown entrepreneurs held trust, integrity and honesty as their highest principals. Their form of capitalism was honourable and uncorrupted by foreign, colonial capitalism.

Furthermore, the memorialisation of the Shanxi banks allows tourists to see that capitalism has always been a part of Chinese history and, when done with the proper Confucian principals and uncorrupted by foreign imperialism, it can be beneficial for a people and a society. The transition from radical socialist solutions to a money-orientated semi-capitalist system have caused tensions within Chinese society. For the Chinese government, the Shanxi merchants have provided a way to ease these tensions, supplying a history to ground the changes in, to make them appear a continuation and not a break with the past. As we have seen, there is truth behind claims that the Shanxi banks, like many Qing-era businesses, worked on the basis of trust, integrity and personal relationships. Indeed, many of the practices of the Shanxi bankers were not unique to China at all and part of a global development of merchant-banking.

What does the rise of Pingyao as a tourist centre mean? Is the memorialisation of Shanxi bankers like Lei Lutai and Li Daquan simply a propaganda tool of the Chinese government as it tries to open the nation to a semi-capitalist economy? Or does its use by the government make the history of Shanxi merchants any less valid? How should we view the rise and fall of the *piaohaos* like Ri Sheng Chang?

## Endnotes

<sup>1</sup> Joe Cribb, *Money in the Bank: The Hongkong Bank Money Collection* (Spink and Son Ltd, London, 1987), p. 6.

<sup>2</sup> Richard Von Glahn, ‘The Origins of Paper Money in China’, in William N. Goetzmann and K. Geert Rouwenhorst (eds.), *The Origins of Value: The Financial Innovations that Created Modern Capital Markets* (Oxford university Press: Oxford, 2005), pp. 65-90.

<sup>3</sup> Cribb, *Money in the Bank*, p. 7.

<sup>4</sup> Glahn, ‘The Origins of Paper Money in China’, pp. 65-90.

<sup>5</sup> Zhaojin Ji, *A History of Modern Shanghai Banking: The Rise and Decline of China’s Finance Capitalism* (M. E. Sharpe: Armonk, New York, 2003).

<sup>6</sup> For a general history of native banks in China see Zhaojin Ji, *A History of Modern Shanghai Banking*.

<sup>7</sup> William T. Rowe, *China’s Last Empire: The Great Qing* (Harvard University Press: Cambridge, Massachusetts, 2009).

<sup>8</sup> *Ibid.*

<sup>9</sup> Vaclav Smil, *China’s Environmental Crisis* (1993)

<sup>10</sup> Randall Morck and Fan Yang, ‘The Shanxi Banks’, National Bureau of Economic Research Working Papers no. 15884, (Cambridge, Mass., 2010).

<sup>11</sup> For the link between natural resources and slow economic growth, or what has come to be known as the natural resource curse see Jeffrey D. Sachs and Andrew M. Warner, ‘Natural Resource Abundance and Economic Growth’ (1997) available online at [http://www.cid.harvard.edu/ciddata/warner\\_files/natresf5.pdf](http://www.cid.harvard.edu/ciddata/warner_files/natresf5.pdf)

<sup>12</sup> Ho-Fung Hung, ‘Imperial China and Capitalist Europe in the Eighteenth-Century Global Economy’ in *Review (Fernand Braudel Centre)* Vol 24., No. 4, (2001), pp.473-513.

<sup>13</sup> *Ibid.*

<sup>14</sup> John Friedman, *China’s Urban Transition* (University of Minnesota Press, 2005), p. 57

<sup>15</sup> Stephen Mihm, *A Nation of Counterfeiters: Capitalists, Con Men, and the Making of the United States* (Cambridge, Mass., 2007), p.6.

<sup>16</sup> *Ibid.*

<sup>17</sup> Linsun Cheng, *Banking in Modern China: Entrepreneurs, Professional Managers, and the Development of Chinese Banks, 1897-1937*, (Cambridge University Press, 2003), pp. 10-14.

<sup>18</sup> Randall Morck and Fan Yang, ‘The Shanxi Banks’.

<sup>19</sup> Rowe, *China's Last Empire*, p. 237

<sup>20</sup> *Ibid.*, p. 237

<sup>21</sup> Rowe, *China's Last Empire*, chpt 9.

<sup>22</sup> 黄鉴晖 (Huang, 2002 Jun) “明清山西商人研究 (Research on the Shanxi Merchants in the Ming and Qing Dynasties)” 山西经济出版社

<sup>23</sup> Jerry W. Markham, *A Financial History of the United States: From Christopher Columbus to the Robber Barons (1492-1900)*, (2002), p. 164

<sup>24</sup> Rowe, *China's Last Empire*, p. 280

<sup>25</sup> *Ibid.*, Chpt. 10 Revolution

<sup>26</sup> Randall Morck and Fan Yang, ‘The Shanxi Banks’.

<sup>27</sup> *Ibid.*

<sup>28</sup> Shuyu Kong, ‘Cultural Propaganda in the Age of Economic Reform: Popular Media and Social Construction of Shanxi Merchants in Contemporary China’, *The China Journal* 63 (Jan, 2010), pp. 79-99.

<sup>29</sup> *Ibid.*

<sup>30</sup> *Ibid.*

<sup>31</sup> *Ibid.*