
NOTES

The Consortium System in Republican China 1912-1913

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INTRODUCTION

The Reorganization Loan¹ signed in April, 1913 has been assessed by many writers² as merely a tedious and protracted business venture concluded between the Chinese government headed by Yuan Shih-k'ai and the Consortium groups representing Britain, France, Germany, Russia, and Japan. Because of this loan, Yuan was given the financial resources to subdue the Kuomintang challenge in the so-called Second Chinese Revolution

¹ The only major English study of the Reorganization Loan of 1913 is PU SHU, *The Consortium Reorganization Loan to China, 1911-1914; An Episode in Pre-war Diplomacy and International Finance*, Ph. D. Dissertation (Ann Arbor: University of Michigan, 1950), pp. 671. Pu Shu (Pu Yiu-shu) was formerly a teacher of Chinese literature at the Szechwan Normal College in Chengtu and later an instructor of English at West China Union University in Chengtu. See also K.C. CHAN, *British Policy in the Reorganization Loan to China, 1912-13*, «Modern Asian Studies» V (1971), pp. 355-372 and PETER LOWE, *Great Britain and Japan, 1911-15: A Study of British Far Eastern Policy* (London: MacMillan & Co., 1969).

² See such writers as T'AO CHU-YIN, *Pei-yang chun-fa t'ung-chih shih-chih shih-hua* (*History of the Rule of the Northern Warlords*) Vol. I (Peking: San-tien shu-tien, 1958), JEROME CH'EN, *Yuan Shih-k'ai* (Stanford: Stanford University Press, 1972), IKEI MASARU, *Japan's Response to the Chinese Revolution of 1911*, «Journal of Asian Studies» XXV (February, 1966), pp. 226-227, GAIL L. OWEN, *Dollar Diplomacy in Default: The Economics of Russian-American Relations, 1910-1917*, «The Historical Journal» XII (1970), p. 251, LI CHIEN-NUNG, *The Political History of China, 1840-1928*, trans. Teng Ssu-yu and Jeremy Ingalls (Stanford: Stanford University Press, 1967, copyright, 1956), PU, *The Consortium*, CHAN, *British Policy*, LOWE, *Great Britain and Japan*, and C.F. REMER, *Foreign Investments in China* (New York: Howard Fertig, 1968, copyright, 1933).

of 1913. The imperialists were provided with the opportunity of tightening their control of China through financial machinations. Although the Reorganization Loan played a crucial part in Yuan's political and economic plans, many of the Consortium System's decisions were affected by events in Europe as well as by Chinese conditions. The impact of European diplomacy on the Consortium System has, however, not been fully assessed. In fact, European-based intrigues and ambitions gave rise to the difficulties preventing a speedy conclusion of the loan negotiations that began on March 1, 1912. These difficulties were clearly illustrated in the struggle over the selection of advisers. While primarily concerned with the influence of events in Europe on the developmental history, structure and function of the Consortium System, this paper will also study Yuan's response to the system.³

THE CONSORTIUM SYSTEM

Origins and Composition

The architect of the Reorganization Loan was the Consortium System led by the Hong Kong and Shanghai Banking Corporation under the direction of the London manager, Charles S. Addis who chaired all the Consortium conferences dealing with the Reorganization Loan negotiations in such cities as London, Paris, and Berlin. Although this British influence pervaded the loan transactions and the British goal of monopolizing the China loan field under an imperialist-sponsored financial agency provided a quasi-Consortium principle to uphold, the origins of the Consortium System can be traced to the period immediately following the Sino-Japanese conflict of 1895. In that year, obliged to pay an indemnity of 230 million Kuping taels to the Japanese, China sought financial relief from Russia, France and Germany — powers that eagerly welcomed China's predicament. In fact, by playing the role of financial brokers, these imperialists desired to isolate British capital while retarding further encroachment from Britain. During the loan negotiations between China and the three powers in which China realized a Franco-Russian loan of four hundred million francs on July 6, 1895, the Deutsch-Asiatische Bank and the Hong Kong and Shanghai Banking Corporation agreed to amalgamate their financial

³ Of the two studies especially concerned with the Consortium System, PU, *The Consortium* is more interested in how the Consortium System developed without genuinely assessing the impact of European events on the system while CHAN, *British Policy*, as his title indicates concentrates exclusively on the British role in the Consortium. For a discussion of how Shih-k'ai responded generally to foreign powers, see ANTHONY B. CHAN, *Yuan Shih-k'ai's Barbarian Diplomacy*, « Asian Profile », V (February, 1977), pp. 9-29.

forces so that any future Chinese borrowing that either might attain would be equally shared.⁴ In the July Franco-Russian loan agreement, the Chinese government was compelled to agree to a stipulation that was later used as a precedent by the Russians in 1913 in their argument for the inclusion of a Russian adviser in the proposed reorganized salt administration. This was Article 4 which stated that:

In consideration of this loan the Chinese Government declares its resolution not to grant to any Foreign Power any right or privileges under any name whatsoever concerning the supervision or administration of any of the revenues of the Chinese Empire. But in case the Chinese Government should grant to any one Power rights of this character, it is understood that from the mere fact of their being granted, they should be extended to the Russian Government.⁵

This article was, of course, a precise elaboration of the British supplementary (to the Treaty of Nanking of 1842) Treaty of the Bogue signed on October 8, 1843, which set forth the principle of the "most-favoured-nation".

The Franco-Russian loan of which France through six banks (Hottinger, Banque de Paris et Pays-Bas, Crédit Lyonnais, Comptoir National d'Escompte, Société Générale pour favoriser le Développement du Commerce et de l'Industrie en France, Société Générale de Credit Industriel et Commercial)⁶ provided the bulk of the capital also gave financial support to the creation of the Russo-Chinese Bank on December 10, 1895. In 1900, this bank merged with the Banque du Nord and thus became the Russo-Asiatic Bank. Unlike the Hong Kong and Shanghai Banking Corporation and the Deutsch-Asiatische Bank, the Russo-Asiatic Bank was staunchly supported by the Russian government. So entrenched in the mesh of Russian offices, the bank was considered by a Russian diplomat to be a "hybrid political-financial institution which in reality was but a slightly disguised branch of the Russian Treasury".⁷

The governmental support of the Hong Kong and Shanghai Banking Corporation by the British and the Deutsch-Asiatische Bank by Germany was concluded in 1906 and 1909 respectively. La Banque de L'Indochine was also sanctioned by the French government in 1906. Previous to this, the French bank and the Hong Kong and Shanghai Banking Corporation had formed an Anglo-French banking syndicate in 1905. Its amalga-

⁴ Pu, *The Consortium*, pp. 10, 9.

⁵ Article 4 of the Franco-Russian Loan of July 6, 1895 cited in *Ibid.*, p. 12.

⁶ D. GAGNIER, *French Loans to China, 1895-1914: The Alliance of International Finance and Diplomacy*, « Australian Journal of Politics and History », XVIII (August, 1972), p. 231.

⁷ BARON ROSEN, *Forty Years of Diplomacy*, p. 198, cited in Pu, *The Consortium*, p. 13.

mation was strongly influenced by the British-French Entente-Cordiale signed in 1904.

On May 14, 1909, the British, French, and German groups agreed to lend Chang Chih-tung six million pounds for the building of the Hukuang Railway. When the Consortium finally consummated this loan on May 20, 1911, an American group led by the J. P. Morgan & Co. was able to gain equal membership in the railway loan. Its inroad into the hitherto all-European Consortium on May 23, 1910, has been explained as an attempt by the Taft administration to neutralize the "selfish ulterior designs of European diplomacy".⁸ A month before the penetration of the Americans, the Consortium concluded a loan of ten million pounds for currency reform in China. Consequently, "the nature of the consortium [was changed] from an organization interested in railways to one of involvement in other aspects of China's finance".⁹

Immediately following the Wuchang uprising of 1911, discussions for the inclusion of Russian and Japan into the Consortium System began in earnest among the four member Powers. By December, 1911, Britain, France, Germany, and the United States unanimously consented to "invite Japan and Russian to take part in deliberations in a Loan to Yuan Shih-k'ai".¹⁰ This agreement was "based, as the United States minister suggested, on a 'political nature' which should be of as broadly an international character as possible".¹¹ This 'political nature' was conditioned by American currency and industrial developments in Manchuria which in 1912 were the source of continuing political conflict between the United States and the interests of Japan and Russia.¹² Political placation was necessary. The admission of Japan and Russia into the Consortium in June, 1912 was an attempt to diminish unwanted competition. The political aspect was further accentuated by the fact that neither the Japanese nor the Russians had much capital to lend. Such countries as Belgium and Austria-Hungary which were eager to lend, however, were dissuaded from participating as active

⁸ LOWE, *Great Britain and Japan*, p. 121. Cf. ROY W. CURRY, *Woodrow Wilson and Far Eastern Policy, 1913-1921* (New York: Octagon Books, 1968, copyright, 1957), p. 19 who suggested that it was the selfish and ulterior designs of the United States that prompted American participation in the Consortium. See also OWEN, *Dollar Diplomacy* p. 251 who spoke of the «neutralization of the [European] system» by the Americans that opened the «door to United States commercial penetration».

⁹ For a concise analysis of the Hukuang Loan and the four Powers, see CHAN, *British Policy*, pp. 358-359. The Hukuang Railways was the name given to the Hankow-Canton Railway since Hankow is in Hupei and Canton is in Kuangtung.

¹⁰ JOHN JORDAN to EDWARD GREY, FO/371/1310 (508), December 21, 1911.

¹¹ *Ibid.*

¹² T'AO, *Pei-yang chun-fa*, p. 170. Also see CURRY, *Woodrow Wilson*, p. 19 and REMER, *Foreign Investments*, p. 271 for American investments in Manchuria.

Consortium members. When the first draft of the Reorganization Loan terms was submitted to the Chinese in July, 1912, Peking was now confronted with the prospect of a six-power Consortium. After much debate over the number and nationalities of advisers, the loan was signed in April, 1913 by the Consortium with the exception of the United States.

Although it has been suggested that the United States withdrew from the Consortium because it failed to dislodge the British group from its leading position in the Consortium,¹³ the official reasons were stated by Woodrow Wilson on March 19, 1913. With moral indignation, the American president remarked that:

The conditions of the loan seem to us to touch very nearly the administrative independence of China itself and this administration does not feel it right even by implication to be a party to those conditions. The responsibility on its part which would be implied in requesting the bankers to undertake the loan might conceivably go the length, in some unhappy contingency, of forcible interference in the financial and even political affairs of that great Oriental state... The conditions include not only the pledging of past taxes, some of them antiquated and burdensome, to secure the loan, but also the administration of those taxes by foreign agents. The responsibility on the part of our Government implied in the encouragement of a loan thus secured and administered is plain enough and is obnoxious to the principles upon which the Government of our people rests.¹⁴

Thus, the Consortium finalized the Reorganization Loan without its American member. Its vigour as a financial institution began to degenerate following the beginning of World War I. In 1918, the United States sought to supercede the moribund Consortium with its own-inspired syndicate. But 1918 was the dawn of a new Europe. Russia was now communist. Germany languished in defeat and Japan became the principal power in Asia. Furthermore, a new nationalism was emerging in China. If the Americans had hoped to accomplish what the Consortium of 1913 achieved, it was doomed from the beginning.

THE CONSORTIUM SYSTEM

The Rival Syndicates

The development of the six-power Consortium that proposed the terms of the Reorganization Loan did not occur without difficulties.

¹³ T'AO, *Pei-yang chun-fa*, p. 170. For other opinions concerning the rationale behind American withdrawal, see LI TIEN-YI, *Woodrow Wilson's China Policy, 1913, 1917* (New York: Octagon Books, 1969, copyright, 1952), pp. 23-55.

¹⁴ President's statement cited in Enclosure 2 in no. 1 in Charles S. Addis to Foreign Office, FO/371/1592 (13058), March 20, 1913. Also in «Dr. Wilson and the 6 Power Loan, Important Change in Policy», *The Times* (London), March 19, 1913 and «The President's Statement», *New York Sun*, March 19, 1913.

Several factors emerged which proved antagonistic to the system and the eventual composition of six groups from Britain, France, Germany, the United States, Japan, and Russia. The first involved two rival syndicates led by Russian and British financial agencies while the second concerned the attempted penetration into the Consortium system by Belgium and Austria-Hungary. Another factor, while extraneous to the financial aspects of the rival syndicates, was the tone of morality injected into the Consortium's evolution. This was strongly manifested by the American president, Woodrow Wilson whose pronouncement (cited above) of ethical indignation proved a stark contrast to the somewhat morose and solemn financial dealings of the other five groups.

The Russian Syndicate

The first rival syndicate which later resulted in the Anglo-Belgian Loan of March 19, 1912 was led by the Russo-Asiatic Bank represented in Peking by L. de Hoyer. Formed on January 24, 1912, and thought to be closely linked to the Russian Treasury office, the Russian syndicate also included the French group led by the A. Spitzer and Co., and represented in Peking by Bouillard; the Belgian group composed of the La Banque Sino-Belge, the Société Générale de Belgique, the Banque d'Outre Mer, and the Société Belge de Chemin de Fer en Chine all represented in Peking by Robert de Vos; and the British group consisting of E. D. Sassoon and Co., W. Greenwell and Co., the Eastern Bank, (chaired by Lord Balfour¹⁵), Brown Shipley and Co., J. Henry Schröder Co., and Sir Marcus Samuel all represented in Shanghai by E. D. Sassoon and Co.¹⁶

The Russian syndicate which the Russian government hoped to utilize as a tool of its foreign policy and a counterpoise to the Quadruple Consortium, sought to gain at least fifty per cent of the proposed vast loan that the imperialists anticipated would be forthcoming following the abdication of the Manchus.¹⁷ According to German sources, the loan would be approximately eight hundred million marks.¹⁸ While the Russian syndicate sought one-half of the share of the loan with the Consortium, the latter syndicate was inclined to retain its monopolistic

¹⁵ Foreign Office to the Eastern Bank, FO/371/1312 (11383), March 19, 1912.

¹⁶ PU, *The Consortium*, p. 78. See also F.H. SUTTON (London Branch manager of the Eastern Bank) to Foreign Office, FO/371/1312 (11383), March 15, 1912 and H.G.W. WOODHEAD (editor), *China Year Book, 1913*, vol. II (Nendeln: Kraus Reprint, 1969), pp. 350-352.

¹⁷ PU, *The Consortium*, p. 77. The Manchus who swept out of northeast China in 1644 abdicated on February 12, 1912.

¹⁸ KUHLMANN to BETHMAN-HOLLWEG, January 11, 1912, cited in *Ibid.*

tendencies thus denying any Russian intrusions. In the face of such formidable opposition, the Russian syndicate consequently negotiated an independent loan with the Chinese premier, T'ang Shao-i.

The obstinate position of the Consortium in refusing to share the proposed loan to reorganize the Chinese government, however, was not the only reason behind the autonomous path embarked on by the Russian syndicate. In fact, as early as December, 1911, Serge Sazonov, the Russian foreign minister indicated a need for an alternative syndicate "to break up this syndicate [the Quadruple Consortium] by urging the French group Banque de L'Indochine to withdraw..."¹⁹

The French group did not secede from the Consortium. But a rival syndicate did develop. Because of the *officialis* origins of the Russo-Asiatic Bank — the syndicate's chief proponent — such Consortium members as the United States and Germany concluded that the syndicate was merely an instrument of the Russian government.²⁰ Certainly, the government attempted to use the Russo-Asiatic Bank and syndicate group for its own ends. But the bank, now with strong French, British, and Belgian financial support, needed the Russian government only for its political influences. Conversely, the Russian government needed the syndicate's financial influence. The syndicate, then, was never a tool of the Russian foreign ministry. At best, the syndicate's relationship with the Russian government can be described as symbiotic. Each party benefited from the other. This then can explain why the Russian government designated the Russo-Asiatic Bank as its representative once it decided that its machinations could be served by cooperating with the Consortium.

The fact that the Russian syndicate was never a pawn of the Russian government meant that it could seek an accommodation with the Quadruple Consortium while the Russian government sought to destroy the Consortium. In fact, Sazonov who was not only opposed to the Consortium but also to its promise of a huge loan asked the Powers why they were so anxious to conclude such a loan that might prove to be "tantamount to the recognition of the present government and [would] not guarantee that the government would be able to consolidate its position".²¹ No doubt, the syndicate's request to share the proposed loan with the Consortium was an attempt to test its strength. Finding it unified against outside intrusions, it proceeded on an autonomous course. On February 11, 1912, its proposed three hundred thousand pound loan was sanctioned by the St. Petersburg

¹⁹ SERGE SAZONOV to ISVOLSKY, December, 1911, cited in LOWE, *Great Britain and Japan*, p. 126.

²⁰ PU, *The Consortium*, p. 89.

²¹ SAZONOV, cited in GEORGE BUCHANAN to EDWARD GREY, FO/371/1315 (12101), March 17, 1912.

Foreign Ministry. However, Sazonov cautioned the syndicate that the Russo-Asiatic Bank should remain a peripheral member in the negotiations because of its well known connections with the Russian government. The result was the Anglo-Belgian Loan.

Since the British and French groups in the Russian syndicate did not receive approval from their respective governments because of the latter's support of the Hong Kong and Shanghai Banking Corporation and the Banque de L'Indochine, complications inevitably arose. The development of such conflicts was assured by Edward Grey's statement that it is "essential to continue to intervene in any loan negotiations if only to ensure that the advances of the consortium are in fact repaid".²² Consequently, both the British and French governments not only pressured the Chinese government from negotiating with the "outlaw" syndicate, but also attempted to obstruct the dealings of the rival British and French loan agencies. Furthermore, the respective governments instructed their Consortium agents from allocating further advances of previous loans concluded with the Peking regime. This tactic proved to be successful when the Peking government cancelled the extra-Consortium loan on May 21, 1912.

Russia Enters the Consortium

With the demise of the Anglo-Belgian Loan, the Russian syndicate was moribund. Its strength had been tested by the Consortium and proved to be wanting. Its total eclipse was imminent. Of course, the Russians never predicted that the syndicate would fail. Still, they continued to negotiate with the Consortium for participation while encouraging an extra-Consortium loan that might prove to be fatal to Quadruple Consortium. Since Russia was well aware that the Powers in the Consortium needed its participation,²³ it knew that in one way or another, Russian political presence would be felt in any Chinese-foreign financial dealings. The best way, no doubt, was Russian leadership which was implicitly illustrated by the Russian syndicate. Failing this, the Russians would cooperate with the Consortium hopefully on their own terms. This then explains the stringent Russian

²² EDWARD GREY TO JOHN JORDAN, FO/371/1321 (37048), August 30, 1912. Although Grey's statement specifically refers to the Crisp Loan, its tone is also relevant to the Anglo-Belgian Loan and other loans.

²³ See EDWARD GREY TO GEORGE BUCHANAN, FO/371/1315 (12535), March 26, 1912 who stated that «it is impossible for Russia to participate [in Chinese affairs] if [it is] not included in the Reorganization Loan», proposed by the Consortium. Once the Russians were admitted into the Consortium, the British were extremely anxious for them to remain. They were fearful that if Russia "pulled out", Britain expected that France would do likewise and the French markets would be closed to Chinese loans. John Jordan to Edward Grey, FO/371/1319 (26337), June 20, 1912.

stipulations that conditioned their entrance into the Consortium. Enunciated by George Buchanan, the British minister at St. Petersburg, the Russian terms included three items. First, Russia sought a guarantee that the conclusion of the Reorganization Loan did not commit the Powers to recognize the Chinese republic. Second, Russia insisted that Belgium which it knew would supply the bulk of any Russian loan be represented through La Banque Sino-Belge that was syndicated with the Russo-Asiatic Bank. Lastly, the Russians sought the right of censure in regards to loan proposals that were prejudicial to their interests in Manchuria, Mongolia, and the "frontier provinces".²⁴ Later, the Russians modified their demands by concentrating on the third stipulation at the expense of the first two. Although the signing of the Reorganization Loan might have implied *de facto* recognition of the Chinese republic as suggested by one writer,²⁵ the imperialists did not consider the loan tantamount to recognition. As to the second condition, Russia did not pursue Belgium's active participation in the Consortium once it recognized the powers' obstinacy in only admitting itself and Japan — the remaining countries with political influence in China. Furthermore, the Russians were encouraged by the fact that Britain, the most influential imperialist in China, recognized the right of Russian "to safeguard its rights and interests in Northern Manchuria, and Mongolia, and Chinese Turkestan".²⁶ Still, the crucial factor that induced Russia "to safeguard its rights and interests in Northern Manchuria, and Loan. This demise epitomized for the Russians the inadequacy of sponsoring a rival syndicate that could effectively challenge the incumbent Consortium. Participation in the Consortium was now the only recourse for the Russians. Ironically, the Russo-Asiatic Bank that led the rival group against the Quadruple Consortium was the Russian financial agent in the Consortium.

Japan Enters the Consortium

Whereas the Russians were obdurate in their negotiations with the Consortium, the Japanese were "behaving extremely well and entering into the spirit of the thing [i. e. joining the Consortium] admirably".²⁷ In a

²⁴ GEORGE BUCHANAN TO EDWARD GREY, FO/371/1315 (100), March 9, 1912. Also see the comments of Poincaré, the French Foreign Minister to Sazonov's stipulations in *PU, The Consortium*, pp. 188-189.

²⁵ CHAN, *British Policy*, p. 372.

²⁶ EDWARD GREY TO JOHN JORDAN, FO/371/1316 (72), March 29, 1912. Also see EDWARD GREY TO COUNT BENCCKENDORFF, FO/371/1316 (17886), May 6, 1912 for a similar British recognition of Russian rights and interests as well as Michael Stein, « Sir Edward Grey and Imperial Germany in 1914 », *Journal of Contemporary History*, VI (1971), 22 who suggested that « Russian entente needed to be preserved and fostered in order to secure British possessions in the Middle and Far East ».

²⁷ JOHN JORDAN TO W. LANGLEY, *Jordan Papers*, March 5, 1912, cited in Lowe, *Great Britain and Japan*, p. 127.

March 12, 1912 communiqué to Claude MacDonald, the British minister in Tokyo, Edward Grey advised the former to invite the Japanese to participate in the Reorganization Loan negotiations. In the same telegram, Grey states a "forecast" of the loan proposals. He suggested that such a loan would "amount to sixty million pounds spread over five years secured as a second charge on the reorganized salt revenue and that after the redemption of the Treasury bills, payment of existing provincial loans and arrears of indemnities, loan will be applied as to 80% to productive works — chiefly in Central China and railway extension [from] Nanking to Wuhu and twenty per cent for army, navy, and education".²⁸ In April, the Japanese government designated the Yokohama Specie Bank as its group representative in the Consortium.²⁹ During the June 18, 1912 Paris Bank Conference, "the Japanese Bank declared that it takes part in the loan on the understanding that nothing connected with the projected loan should operate to the prejudice of the special rights and interests of Japan in the regions of South Manchuria and of the Eastern portion of Inner Mongolia adjacent to South Manchuria".³⁰ On March 27, 1912, the participation of Russia and Japan in the Consortium was approved by Yuan's regime. At the June 18 Paris Bank Conference, the Russians and Japanese were formally admitted into the « Financial League of Nations ».

The participation of Russia and Japan was not only predicated on the demise of the Russian syndicate, the British insistence on Japanese entry, the Consortium's attempt to obliterate all financial competition (as exemplified by the Anglo-Belgian Loan), and the attempt to politicize the Consortium by allowing those countries with merely political interests to enter, but also on French support for Russia and Japan. France, which hoped to play the role of a mediator, sought to safeguard Russian and Japanese interests in Manchuria and Mongolia mainly to neutralize American advances in those regions. Its support of Russia and Japan was a reflection of its involvement with the European alliance system of Britain, France, Russia, and its Asian associate, Japan.

The crux of Russian and Japanese anxiety was the danger to their spheres of influence³¹ if the capital provided by the Reorganization Loan

²⁸ EDWARD GREY TO CLAUDE MACDONALD, FO/371/1315 (10656), March 12, 1912.

²⁹ Hong Kong and Shanghai Banking Corporation to Foreign Office, April 19, 1912 in Enclosure 1 in no. 1 in EDWARD GREY TO JOHN JORDAN, FO/371/1317 (16298), April 19, 1912.

³⁰ Inter Bank Conference, FO/371/1319 (26876), June 18, 1912.

³¹ A secret treaty was concluded between Russia and Japan on July 8, 1912. In it, the respective spheres of influence and special interests of these countries in Manchuria and Inner Mongolia were confirmed. Later in St. Petersburg, Prince Katsura reiterated to Sazonoff the pledge that « from now on, Japan's actions in China will be in accordance with the polity of the Russo-Japanese Treaty and obligations of the Anglo-Japanese Alliance ». IKEI, *Japan's Response to the Chinese Revolution*, p. 227.

was utilized by China to strengthen its armed forces against foreign intrusions in the northeast. In supporting Russia and Japan, the French upheld their specific rights against American encroachment, especially in Manchuria. France's sincerity was manifested by its opposition, for example, to the United States supported Chinchow-Aigun railway project as well as the success in attaining the support of Britain, Germany, and later the United States for safeguarding Russian interest in China. The Americans who bore the brunt of Russian opposition capitulated only with British urging.

Although France which had initially called for the participation of Russia and Japan was singularly responsible for their admission into the Consortium,³² the Consortium, as a group, recognized that without Russian and Japanese participation it would constantly be faced with financial challenges on the scale of the Anglo-Belgian Loan. The argument for including countries because of their "political nature" was, in reality, a masquerade so that such financial rivals as the Russian syndicate could be effectively isolated. On the other hand, the official approval by the Chinese government was based more on foreign pressure, especially British and not, as one writer has suggested, "for fear lest they (Russia and Japan) should hamper the loan negotiations".³³ Indeed, the Chinese desired to exploit all financial avenues and the entry of Russia meant the elimination of yet another potential source of revenue and revealed a reluctant propensity to deal solely with the Consortium.

The British Syndicate

The attempt by the powers of the Quadruple Consortium to eradicate competition by inducing Russia and Japan to join their monopolistic financial venture did not completely compel Peking to negotiate only with the Consortium. There were several non-Consortium financial syndicates that were more than willing to defy the Consortium on strictly financial grounds. The desire to reap the riches forthcoming in any loan transactions with Peking prompted these agencies to begin negotiations with the Chinese. This desire was further enhanced by their bitterness caused by the Consortium's attempts to monopolize the China loan market thus excluding them from playing their traditional role of money lenders. One such "outlaw" syndicate was a British group led by the C. Birch Crisp Company.

³² PU, *The Consortium*, p. 177.

³³ HUANG YUAN-YUNG, *Chieh Kuan chiao-she (The Loan Negotiations) Yung yen*, I (December 16, 1912), cited in *Ibid.*, p. 204.

Since May 30, 1912, nine days after the Anglo-Belgian Loan was officially cancelled, Yuan's government had been negotiating with a group of British investors representing Lloyds Bank, the Capital and Counties Bank, the London and Southwestern Bank, and the Chartered Bank of India, Australia, and China. This was the Crisp syndicate that concluded a ten million pound loan with Liu Yu-lin, the Chinese minister to the Court of St. James' in London on August 30, 1912. The preliminary agreement was signed on July 12, 1912.

The reaction to the Crisp syndicate by a British government that endeavoured "to intervene in any [non-Consortium] loan negotiations if only to ensure that the advances of the Consortium are in fact repaid"³⁴ was predictable. It explained to C. Birch Crisp that "the Chinese Government was not free to borrow outside the Consortium until repayment of the advances made by the latter had been duly [realized] [The British government will] never support a loan concluded without adequate guarantees for the control of the expenditures of the proceeds and without the same experience and unsupported by any foreign Government would be unsuccessful".³⁵ In reply, Crisp admitted that his syndicate acted "in defiance of the declared policy of His Majesty's Government... But... knew that the public was prepared to take up the loan and... did not see how His Majesty's Government could prevent the transaction [from] being carried out".³⁶ While Crisp was steadfast in his challenge to the British government, Lloyds Bank — one of the syndicate's main investors agreed "to postpone the issue of the loan and... not to proceed further without notifying"³⁷ the British foreign office. This declaration was, however, merely a hollow gesture because the "loan was duly put upon the London market, the subscription list closing at noon on September 28. Public subscriptions amounted to less than £ 2,000,000 and the underwriters took the balance of the £ 5,000,000".³⁸

The British government's attempt to meet the opposition to its China financial policy received staunch criticism, especially in Britain. Its position was extremely precarious in view of the fact that the incumbent Liberal government while principled in *laissez-faire* economics strove to defend a Consortium that did little to encourage free enterprise or free trade. Such parliamentarians as Lawrence Ginnell, the Nationalist and later Sinn Fein member for north Westmeath, Sir Frederick Cawley, the

³⁴ EDWARD GREY TO JOHN JORDAN, FO/371/1321 (37048), August 30, 1912.

³⁵ EDWARD GREY TO JOHN JORDAN, FO/371/1321 (36185), August 23, 1912.

³⁶ Statement by C. BIRCH CRISP in EDWARD GREY TO JOHN JORDAN, FO/371/1321 (38211), September 10, 1912.

³⁷ Statement by the Lloyds Bank in EDWARD GREY TO JOHN JORDAN FO/371/1321 (38211), September 11, 1912.

³⁸ *China Year Book*, II, p. 360.

Unionist member for Gravesend and Norman Craig, the Unionist member for the Isle of Thanet, Kent severely rebuked the Liberals for advocating a contradictory policy.³⁹ Other English and American liberals were suspicious of the motives of Russia and Japan — two debtors countries that had to depend on English, Belgian, and French loan markets.⁴⁰ Even the influential G.E. Morrison supported the Chinese government's right to conclude the Crisp loan. He suggested that in doing so, the Peking regime had always objected to the Consortium, especially after Russia and Japan were admitted.⁴¹ In reply, John Jordan termed Morrison's involvement "pernicious".⁴² Furthermore, such British investors as Baring Brothers and Co., the London County and Westminster Bank, Parr's Bank, and J. H. Schröder and Co. condemned the government's policy mainly on the grounds that if the Liberals were true to their convictions, they would expand the British group in the Consortium.⁴³

With such powerful allies, the Crisp syndicate was certain of success. In spite of this, the British government directed its "attempt to stop the Crisp loan through communications with Lloyds Bank . . ., [failing this, it] would deal with the Chinese Government".⁴⁴ Its efforts to eliminate the Crisp rivalry thereby reinforcing its principle of monopoly finance were almost paranoiac. Sensing a disintegration of a Consortium that it advocated and fostered, the British government was placed in an untenable position. Even its allies failed to see the seriousness of the Crisp loan. The United States suggested that the significance of the Crisp loan was so slight that further extra-Consortium loans were not likely to succeed.⁴⁵ The French stated that the loan "provided the Chinese Government with only a brief respite".⁴⁶ This feeling was also declared by the Russians. No doubt, these powers remembered the ineffectual efforts of the Russian syndicate to defy the Consortium. All the imperialists, nevertheless, concurred that the Consortium must be maintained. They were also confi-

³⁹ LOWE, *Great Britain and Japan*, p. 131 n.

⁴⁰ *Ibid.*, p. 123 n. The United States government also feared Russian intentions. A. MITCHELL INNES (in Washington) to EDWARD GREY, FO/371/1319 (33582), May 23, 1912.

⁴¹ EDWARD GREY to JOHN JORDAN, FO/371/1322 (39574), September 19, 1912. G. E. Morrison was the London *Times* correspondent.

⁴² JOHN JORDAN to EDWARD GREY, FO/371/1322 (39445), September 19, 1912.

⁴³ Even the Hong Kong and Shanghai Banking Corporation suggested an extension of the British group of which it was the lone member. This extension was also urged by the United States and Japan. See Charles S. Addis to Foreign Office, FO/371/1323 (43867), October 18, 1912, Edward Grey to John Jordan, FO/371/1323 (43712), October 21, 1912, Claude MacDonald to Edward Grey, FO/371/1323 (43712), October 16, 1912.

⁴⁴ EDWARD GREY to JOHN JORDAN, FO/371/1322 (37765), September 9, 1912.

⁴⁵ EDWARD GREY to JOHN JORDAN, FO/371/1323 (43712), October 21, 1912.

⁴⁶ *Ibid.*

dent that the Chinese would eventually turn to the Consortium for a larger loan. To prevent any further non-Consortium loans from developing, the imperialists urged the British to broaden its British group.

Since the British government was not only unable to placate British public opinion concerning the Crisp loan, but also to dissuade Lloyds Bank from completing its part of the Crisp transaction, the Foreign Office decided to concentrate on exerting pressure on Yuan's government.⁴⁷ The focus of this persuasion centered round the cancellation of further advances to the Peking government and the immediate repayment of advances previously agreed upon. The Chinese government eventually relented two days before Christmas day, 1912. The loan's cancellation, however, was not fully conditioned by Yuan's capitulation. Certainly, the British government stressed the "breach of faith" by the Peking regime in concluding such a loan. But, the principal factor in the loan's demise was the inability of the Crisp syndicate to issue the full ten million pounds. The five million pounds actually lent, however, was compensated by a 150,000 pound payment by Peking to the syndicate. Thus, Peking's abrogation of the Crisp loan was predicated on financial rather than political considerations.

THE CONSORTIUM SYSTEM

The Question of Belgian and Austria-Hungarian Membership

It has earlier been stated that a British agency composed of Baring Brothers and Co., the London County and Westminster Bank, Parr's Bank, and J.H. Schröder and Co., attempted to persuade the British government to expand its British group led by the Hong Kong and Shanghai Banking Corporation. Later, when it was successful in penetrating the British group as a sub-member, this agency was content with its subordinate status. In contrast to this British agency, the Belgian group led by La Banque Sino-Belge sought equal Consortium status. This was the same group that played a leading role in the abortive Russian syndicate and the Anglo-Belgian Loan. Supported by both Belgian and Russian governments, the Belgian agency was anxious to play a significant role in a major syndicate rather than a major role in a minor syndicate. On March 5, 1912, the Belgian *chargé d'affaires* contacted the Foreign Office in London to ascertain British attitudes.⁴⁸ The British replied that Belgian membership was welcome if the other powers agreed. It was earlier rumoured that Britain

⁴⁷ HOU CHI-MING, *Foreign Investments and Economic Development in China, 1840-1937* (Cambridge: Harvard University Press, 1965), p. 48.

⁴⁸ Memorandum to Count DE LALAING, FO/371/1315 (10387), March 5, 1912.

favoured Belgian participation.⁴⁹ Meanwhile, the Americans magnanimously advocated that the Consortium "be enlarged to include all first class signatories to the Boxer Protocol".⁵⁰ This would mean the inclusion of Austria-Hungary, the Netherlands, and Italy as well.

As expected, Russia supported Belgium's participation. But the obstacle to Belgian membership proved to be the recalcitrant attitude of the Germans who feared that any additional entrants into a Consortium already complicated by six members would induce profound inefficiency.⁵¹ Since the Consortium membership policy stressed unanimous approval for any new applicants, Belgium failed to gain admittance. Nevertheless, the Belgians made one final effort to reverse the Consortium's decision. In May, 1912, the Belgian government while defending its role in the Anglo-Belgian Loan by asking for compensation, suggested to the British that it was, however, prepared to withdraw its portion of the loan if the Belgian group was accorded full and equal status in the Consortium.⁵² This subtle form of financial blackmail proved ineffectual. Belgium remained outside the Consortium until June, 1912 when it was granted subordinate membership. At the Inter Bank Conference held in Paris, it was stated that "for the purpose of the agreement [the Reorganization Loan], the Belgian market shall be considered as part of the market of the Russian Bank subject only to the restriction, viz. that the Russian Bank shall not issue in Belgium more than 1/3 of its participation and only by one or more of the present member of its groups".⁵³

While Belgium was accorded limited participation in the Consortium even though it provided the bulk of the Russian loan burden in April, 1913, Austria-Hungary received a much harsher reception. Unlike the Netherlands or Italy which were financially inadequate in the international loan market, the Austria-Hungarians, like the Belgians, had much capital to lend. The initial overture for their entry was made through the German offices on April 14, 1912.⁵⁴ Austria-Hungary's views, however, were formulated much earlier. In a memorandum to the Powers from Count Mensdorff on March 26, 1912, the Austria-Hungarians emphasized that "we must decidedly declare that we have important economic interests

⁴⁹ PU, *The consortium*, p. 233.

⁵⁰ Memorandum by Mr. PHILIPS (of the United States Embassy in London), FO/371/1318 (22045), May 23, 1912.

⁵¹ PU, *The Consortium*, p. 234.

⁵² EDWARD GREY to FRANCIS BERTIE, FO/371/1318 (19573), May 14, 1912.

⁵³ Inter Bank Conference, FO/371/1319, June 18, 1912. See also G. KURGAN-VAN HENTENRYK, *Leopold II et les groupes financiers belges en Chine* (Brussels: Royal Academy of Belgium, 1972) who stated that Belgian financial agents pursued an independent course and were never connected with French and Russian imperialism.

⁵⁴ PU, *The Consortium*, p. 236.

to safeguard in China and consequently we must claim to take part like other interested powers in all international exchange of views concerning economic conditions of China".⁵⁵ Although the United States also pressed for Austria-Hungarian (as well as Italian) participation because of its desire to rejuvenate the Consortium's initial role as a purely financial agency,⁵⁶ Britain, France, Russia, and Japan — all allies or associates by virtue of the Anglo-Japanese Alliance of 1902, the Entente Cordiale between Britain and France of 1904, and the Anglo-Russian entente of 1907 refused to admit Austria-Hungary.⁵⁷ Since Austria-Hungary, unlike Belgium was not even accorded a sub-membership in one of the incumbent groups, its response to the Consortium's decision was predictably bitter.

Count Mensdorff stated on July 17, 1912 that Austria-Hungary "insist with all emphasis on the maintenance of the principle of the Open Door in China, a principle which the powers have recognized in many different declarations, and which Austria-Hungary herself proclaimed *inter alia* in her agreement to the Anglo-Japanese exchange of notes in November, 1908. This principle seems to be seriously endangered by the arrangements of the loan syndicate".⁵⁸

While the United States attempted to play the role of the "honest broker", the Quadruple Entente of Britain, France, Russia, and Japan recognized the danger in consenting to an Austria-Hungarian entry. In fact, if Austria-Hungary secured admission, the development of "two economically armed camps" would ensue. The Quadruple Entente would then be compelled to face the Dual Alliance of Germany and Austria-Hungary (clandestinely created in 1879). Furthermore, the Germans hoped to include Italy in the Consortium as well. This would enable the Triple Alliance of Germany, Austria-Hungary, and Italy (created in 1882) to counter any proposals by the Quadruple Entente. But Italy had little capital to lend. Austria-Hungary was eventually rejected. Germany thus remained alone against the Quadruple Entente in China. Although the Sarajevo Incident of 1914 can indeed be deemed the catalyst that brought about World War

⁵⁵ FO/371/1316 (12874), March 26, 1912.

⁵⁶ Memorandum by Mr. PHILIPS, FO/371/1318 (22045), May 23, 1912; *Pu, The Consortium*, p. 238.

⁵⁷ The official reason for refusing the admission of Austria-Hungary was stated by Grey who said that its entry « would make it impossible to refuse similar participation to other powers... [and] the increased number of groups would make the combine unworkable ». EDWARD GREY to THEODORE RUSSELL (in Vienna), FO/371/1318 (20516), May 18, 1912. The British refusal had a familiar ring to it. See note no. 51 for the German reason for refusing Belgian entry into the Consortium. Also see EDWARD GREY to FRANCIS BERTIE, FO/371/1318 (20900), May 11, 1912 for the official French refusal.

⁵⁸ Memorandum by Count MENSENDORFF, FO/371/1321 (30624), July 17, 1912.

I, German frustrations in China and elsewhere did little to dampen the sparks that led to "the war to end all wars".

The issue of Belgian and Austria-Hungarian entry clearly illustrated that the Reorganization Loan was not an exclusively Chinese affair. The ramifications of European diplomacy were increasingly evident during the entire course of the loan's negotiations. China was bankrupt, demoralized and an « endangered species ». It could not prevent European « bickering » from erupting on its soil. The China « theatre » was indeed a convenient arena for the superior Westerners and their Japanese associate to test their strength and bring to fruition their machinations that eventually led to the first great blunder of the twentieth century.

THE CONSORTIUM SYSTEM

Structure and Procedure

The structure and procedure of the Consortium System were founded upon a five level principle. At the apex were the foreign ministries of the six countries each negotiating with their respective banking group that formed the second level. On this latter tier, the banks, in turn, negotiated among themselves in Paris, London, and Berlin and with their respective banking representatives in Peking. These Peking bankers encompassed the third level of the Consortium System. The fourth tier consisted of the six foreign ministers in Peking each overseeing the loan negotiations of their respective bank group in Peking. If difficulties arose, these ministers would confer among themselves and, in turn, would communicate with their respective group representative. At the final level were the Chinese ministers who dealt with the foreign ministers and their respective banking representatives in Peking. Of course, not all Chinese-foreign loan negotiations followed the Consortium System. The Crisp loan, for example, was consummated in London between the Chinese minister at the Court of St. James' and the Crisp syndicate. In comparison to the Consortium System, the Crisp loan as well as the Anglo-Belgian Loan negotiations were relatively simple. With the continuous interruption of European diplomatic intrigues and Chinese financial machinations, it was indeed remarkable that the Consortium achieved the level of success that it did.

The structure and composition of the Consortium System can be summarized in the follow chart.⁵⁹

⁵⁹ Sources for this chart include FO/371/1312-1323, 1325; *China Year Book*, II, pp. 365-366, Li, *Political History of China*, pp. 285-290.

THE CONSORTIUM SYSTEM

First Tier-	THE GOVERNMENTS	FOREIGN MINISTER
	Britain	Grey
	France	Poincare
	Germany	Bethmann-Hollweg
	Russia	Sazonov
	Japan	Uchida
	United States	Bryan
Second Tier-	BANKS	REPRESENTATIVES
	Britain - Hong Kong and Shanghai Banking Corporation at 31 Lombard Street, London, England. (Sub-members: Baring Brothers and Co., the London County and Westminster Bank, Parr's Bank, and J. H. Schröder and Co.)	Addis
	France - Banque de L'Indo-Chine at 15 bis Rue Laffette, Paris, France. (Sub-members: Banque de Paris et des Pays-Bas, Paris, Comptoir National d'Escompte de Paris, Paris, Crédit Lyonnais, Paris, Société Générale pour favoriser le developpement du Commerce et de l'Industrie en France, Paris, Société Générale de Crédit industriel et commercial, Paris, Banque de l'Union Parisienne, Paris, Banque française pour le Commerce et l'Industrie, Paris, Crédit mobilier française, Paris).	Simon, Ulmann
	Germany - Deutsch-Asiatische Bank at 31 Unter de Linden, Berlin, Germany. (Sub-members: Direction der Disconto-Gesellschaft, Berlin, S. Bleichroder, Berlin, Deutsche Bank, Berlin, Berliner Handels-Gesellschaft, Berlin, Bank für Handel und Industrie, Berlin Mendelssohn and Co., Berlin, Dresdner Bank, Berlin, A. Schaaffhausen'scher Bankverein, Berlin, Nationalbank, für Deutschland, Berlin, Jacob, S.H. Stern, Frankfurt a/M, Sal. Oppenheim, Jr. und Cie., Koln, Norddeutsche Bank in Hamburg, Hamburg, L. Behrens and Sohne, Hamburg, Bayerische Hypotheken und Wechselbank, München).	Urbig, Rehders
	Russia - Russo-Asiatic Bank at 62 Nevsky Prospect, St. Petersburg, Russia. (Sub-members: La Banque Sino-Belge).	Verstraete, Inchbald
	Japan - Yokohama Specie Bank at Yokohama, Japan.	Takeuchi
	United States - J.P. Morgan and Co., Kuhn, Loeb and Co., the First National Bank, and the National City Bank all of New York City.	Schiff, Whigam, Mechior, Straight, Davison

The Consortium System in Republican China 1912-1913

Third Tier-	BANKS	REPRESENTATIVES
	Britain - Hong Kong and Shanghai Banking Corporation.	Hillier
	France, Banque de l'Indochine	Casenave, Mazot, Saint Pierre
	Germany - Deutsch-Asiatische Bank	Cordes
	Russia - Russo-Asiatic Bank	de Hoyer
	Japan - Yokohama Specie Bank	Odagiri
	United States - New York Banks	Straight
Fourth Tier	THE GOVERNMENTS	PEKING MINISTER
	Britain	Jordan
	France	Conty
	Germany	Haxthausen
	Russia	Krupensky
	Japan	Ijuin
	United States	Calhoun
Fifth Tier	THE CHINESE REPRESENTATIVES IN PEKING	
	Premier's Office	T'ang Shao-i
	Ministry of Finance	Chou Hsueh-hsi Chao Ping-chun Hsiung Hsi-ling

Thus, in the case of the British China loan hierarchy, Edward Grey, the British Foreign Secretary was in constant and direct (i.e. over a glass of sherry) communications with Charles S. Addis, the London manager of the Hong Kong and Shanghai Banking Corporation. In Peking, John Jordan, the British minister, was in constant and direct liaison with E. G. Hillier, the Peking representative of the Hong Kong and Shanghai Banking Corporation. In their respective professions as diplomats and financiers, Grey and Jordan and Addis and Hillier were in constant, but indirect (i.e. by telegraph) communication with each other because of their geographical localities. Consequently, it was more efficacious for Grey and Addis to exchange views in London than for Grey and Jordan who resided in Peking. This, of course, did not mean that the Grey-Jordan liaison was difficult. It was less convenient than the Grey-Addis communications. Still, the telegraphic liaison between Grey and Jordan was efficient enough to ensure exchange of views between London and Peking. The communication hierarchy, therefore, worked as well as could be expected.

THE REORGANIZATION LOAN

The Negotiations

The prelude to the actual negotiations for the Reorganization Loan occurred on November 31, 1911 when Yuan Shih-k'ai conferred with Willard Straight, the Peking representative of the American group about the possibility of a large loan. Since Straight recognized Britain's preeminent position in China, he suggested that Yuan seek out British opinion. The British, along with France and Germany accepted the Chinese proposal of a "reorganization" loan even though it was well known that Yuan needed a vast loan not so much to "reorganize" but to "recover".⁶⁰

The official Consortium announcement of financial support for Yuan's regime was declared on February 28, 1912 when the Hong Kong and Shanghai Banking Corporation — the major issuing bank as well as the principal exchange bank of the Quadruple agency lent the Chinese two million taels to be used by the government at Nanking for troop demobilization and the eradication of outstanding liabilities.⁶¹ This was the first of two advances that the Chinese government received from the Consortium. The second loan occurred on March 9, 1912, a week after Yuan implored the Consortium for another loan totalling 1,015,000 taels of which 500,000 were needed immediately. In his argument, Yuan cited the urgency to meet such expenditures as salaries and expenses of legation consulates abroad and Manchu troops as well as to pacify mutinies in Peking, Paoting, and Tientsin.⁶² The second advance amounted to 1,100,000 taels with a proviso that the Consortium would be the sole issuing agency for potential administrative loans for the months of March, April, May, June, and possibly July and August, as well as for the proposed Reorganization Loan. The four groups meeting in London agreed to the following terms regarding additional advances and the proposed Reorganization Loan:

(i) amount required by Yuan Shih-k'ai under temporary advances estimated and supplied by the four groups-

March (includes 3,100,000 taels already advanced)	11,100,000 Tael
April	6,400,000 Tael
May	6,400,000 Tael

⁶⁰ PU, *The Consortium*, pp. 58-59.

⁶¹ CHAN, *British Policy*, p. 362.

⁶² Enclosure no. 2 in CHARLES S. ADDIS to W. LANGLEY, FO/371/1314 (10329), March 6, 1912.

The Consortium System in Republican China 1912-1913

June	6,400,000 Tael
and if necessary	
July	6,400,000 Tael
August	6,400,000 Tael

(ii) payment shall be made at Shanghai..., at the rate of exchange of the day on receipt of the Chinese Treasury bills in London, Paris, Berlin, and New York for the equivalent amount in pound sterling.

(iii) price for these Treasury bills shall be at the rate of 95½ less 1 per cent to cover all charges or £ 94 10s. to the Chinese for 9 months...

(iv) Treasury bills redeemed out of the proceeds of a large Reorganization Loan, negotiations shall commence as soon as possible — concluding in June, 1912.

(v) Reorganization Loan groups shall enjoy preference not to exceed £ 60 million for 5 years.

(vi) Treasury bills subject to existing charges on the Salt Gabelle.⁶³

Yuan agreed to this proviso and the bankers looked forward with much anticipation to concluding the largest loan in the short history of the Chinese republic. Their delight at cornering the loan market was, however, short-lived. On March 14, 1912, they received word that the Anglo-Belgian Loan was signed. Consequently, the Consortium had no other recourse but to suspend all advances previously agreed upon. Later, Yuan was compelled to cancel this non-Consortium loan because he recognized the need for a much larger loan that only the Consortium sanctioned by the Powers could guarantee.

The Consortium bankers and their respective governments now knew that negotiations with the Chinese government would be difficult. In fact, the Chinese client was proving to be devious, stubborn, unprincipled, and faithless. If the Consortium perceived the advances as positive inducements to render the Chinese government obliged to deal only with its bankers, the « breach of faith » caused by the Anglo-Belgian Loan dispelled this notion. The Consortium had indeed underestimated Yuan's submissiveness. Now it recognized that Yuan was not prepared to fully comply with the part that the Consortium had devised exclusively for him. Nevertheless, Yuan certainly knew that negotiations with the Consortium were inevitable in view of its governmental support. But Yuan sought to circumvent the Consortium at every opportunity in order to secure the best terms in the forthcoming Reorganization Loan.

The official Chinese proposal for a Reorganization Loan was made on March 1, 1912 during the negotiations for the second advance. On that day, T'ang Shao-i approached the Consortium for a "60 million pound loan over

⁶³ FO/371/1318 (19603), March 1, 1912.

five years, secured as a second charge on a reorganized salt revenue which after redemption of the Treasury bills (i.e. temporary advances of 28, February) and repayment of existing provincial loans and arrears of indemnity, should be applied in the proportion of 80% to productive works (land reclamation in flood districts of central China and railway extension from Nanking to Wuhu), 20% for army, navy, and education".⁶⁴

Of course, once the Anglo-Belgian Loan was revealed, the Consortium severed all Reorganization Loan negotiations with the Peking government. On April 19, 1912, representatives of the British group personified the Consortium attitude towards China's financial dealings with "outlaw" syndicates by stating that:

We are willing to reopen negotiations with China only on condition that they frankly recognize their conclusion of the Belgian loan to have been a violation of our contract of 9th March. This being done, the groups will not insist that China immediately repay the sums drawn on the Belgian loan, but we are willing in order to save Chinese government embarrassment, to ignore this advance which we understand to have been 1,000,000£, conditional upon Chinese government notifying the Belgian group that in view of their commitment to us, they are obliged to withdraw from their contract for the large loan on which the 1,000,000 £ was to have been an advance. This requirement having been fulfilled, the groups are prepared to negotiate for further monthly advances pending flotation of the Reorganization Loan, such advances, the purposes of which should be stated, to be made against Treasury bills to be discounted as per our cable of the 13th March.⁶⁵

After T'ang Shao-i had personally apologized for his "faithlessness" to the ministers of the British, French, German, and American legations, thus signifying the demise of the Anglo-Belgian Loan,⁶⁶ the groups prepared to resume negotiations with Peking. Less than a fortnight following the official cancellation of the Russian-inspired loan, the Quadruple Consortium with its Russian and Japanese associates met in London to discuss a draft proposal for the Reorganization Loan. They agreed that:

(a) The Chinese Government shall prior to the conclusion of the agreement for each series of the Reorganization Loan, furnish the groups with detailed statements of the purposes for which proceeds of the same are to be expended.

(b) The purposes of the Reorganization Loan, shall include provisions for the existing deficit of the Boxer indemnities and redemption of outstanding provincial loans.

(c) The Chinese Government engages to employ a foreign official who

⁶⁴ FO/371/1318 (19603), March 13, 1912.

⁶⁵ Hong Kong and Shanghai Banking Corporation to Foreign Office, FO/371/1317 (16505), April 19, 1912.

⁶⁶ In the memorandum to John Jordan from T'ang Shao-i, Hu Wei-te, and Shih Chao-chi, it was stated that the Anglo-Belgian Loan was cancelled and the sums received by the Chinese government were not to be repaid out of the Consortium group advances. FO/371/1318 (21415), April 29, 1912.

shall jointly with the representatives of the financial agents countersign all requisitions for the loan funds, also foreign auditors appointed by China who shall check expenditures and countersign quarterly and annual reports thereof, which shall be published for the information of the public and the banks, also for technical experts who shall supervise industrial enterprises undertaken with foreign loans.

(d) China shall engage to reorganize the administration and collection of the Salt Gabelle or other revenues pledged for security of such Reorganization Loan by placing the administration and collection of such revenues under the existing organization of the maritime customs... the revenues thus pledged shall be paid into the group banks under an agreement similar to that now existing with regard to maritime customs, the balance of such collections after the service of the loan has been met to be handed over by the banks to the Chinese government.⁶⁷

To safeguard their investment, the Consortium also stated that:

The agreement should further contain a *force majeure* clause as follows: In the event of the political or financial situation in China, Europe, or elsewhere rendering it impossible in the opinion of the groups for them to purchase further Treasury bills or the first series of the Reorganization Loan or to take up their option for subsequent series of the Reorganization Loan on the terms named, it is understood and agreed that the groups shall be entitled to withdraw from their engagements...⁶⁸

Although the proposals were drawn up and agreed upon by the Consortium groups, these conditions received their initial inspiration from the British Foreign Office and the British group. In a earlier statement, the British government declared that:

His Majesty's Government have kept before them certain main objects to be secured, viz., the avoidance of unprofitable competition, adequate security for the payment of capital and interest, discretionary power over the purposes of the loan and control over the proceeds of the loan in order to prevent leakage and to secure that they shall be economically expended and exclusively devoted to purposes which have received the approval of the Governments interested.

His Majesty's Government... will not support any loan which does not... answer to the above conditions,...

... with a view to safeguard China's credit and in the interest both of the financiers and of the investing public, the various Governments concerned should agree among themselves to prevent, so far as lies in their power, any return to the unprofitable policy of international competition, which has in the past enabled the Chinese Government to secure loans on terms that prevent the exercise of any proper control over the conditions on which such loans were negotiated, a process that must in the long run undermine the credit of China.

With this objective in view, the Governments should make it clear that they will not approve any other loan by their nationals to the Chinese

⁶⁷ Inter Bank Conference: Minutes of the Six Groups held at the office of the British and Chinese Corporation Ltd. (London) on 15th day of May, 1912, in Charles S. Addis to Foreign Office, FO/371/1317 (21076), May 17, 1912.

⁶⁸ *Ibid.*

Government or to any province or municipal authority in China, pending the final issue of the Reorganization Loan.

In order to render effective the objectives which they have before them, His Majesty's Government are of the opinion that the following conditions should be attached to the Reorganization Loan:

1) the Chinese Government must agree not to negotiate or contract any loan or advance whatever except through the medium of the groups pending the final issue of the Reorganization Loan, or in any other way to impair or prejudice the value of the Treasury bills covering the advances or the market for the various series of the Reorganization Loan.

2) The Salt Gabelle, or whatever other revenues [may be] pledged as security, shall be reorganized by the Chinese Government with the assistance of foreign experts and administered either under the Maritime Customs or under a separate but similar organ; the expert advisers and the foreigners employed in the collection of the revenue being officials of the Chinese Government.

3) The Chinese Government shall furnish the groups and the Governments with detailed statements of the purposes for which the proceeds of the loan or of the series thereof, are to be expended, giving an outline of the various operations and enterprises that may be contemplated and the amounts to be devoted thereof.

4) The repayment of the advances, the payment of all arrears on Chinese Government loans and on the indemnity, and the redemption of existing provincial loans shall be a first charge on the Reorganization Loan. If practicable, it would be desirable to consolidate the outstanding Chinese debt.

5) Appointment of a foreign comptroller-general of the external debt, who might at the same time be the financial adviser referred to later; of foreign advisers and accountants for the supervision of the loan accounts; and of foreign general managers to supervise any industrial enterprises undertaken with the loan funds: such officials to be appointed by the Chinese Government on the recommendation of the Governments or groups.

All general requisitions on the loan funds must be countersigned by the comptroller-general who would thus be in a position to exercise a right of veto over any expenditure not provided for in the programme of purposes. Cheques against a general requisition already approved would have to be signed in the case of industrial undertakings by the foreign general manager, and in the case of administrative expenditure by the comptroller or by a foreign adviser attached by the department concerned...

6) The accounts of the expenditure should be checked and audited by the foreign auditors, who will countersign quarterly and annually statements of account which will be furnished with as little delay as possible to the lending groups and published.

His Majesty's Government are in principle to favour... proposals to [ensure] stability of China's financial position, but they feel that [the reform initiative should come] from the Chinese side. [they propose]:

1) appointment of foreign financial advisers to advise China on general financial policy, foreign assistance in certain departments of the Ministry of Finance to assist in inaugurating a modern system of accounts and framing a budget. The financial administrators and assistants will be appointed by the Chinese Government on the recommendation of the Governments or groups — [with the] threat of "cut off" of supplies if the Chinese Government refused to follow advice of the financial advisers.

2) Appointment of advisers in other departments. Ministries of Commerce, Communications, Education, [and extend] employment of foreigners on railways and other Government industrial enterprises with the view to controlling the expenditure and increase earnings.

3) payment of customs revenue into foreign... banks to be continued.⁶⁹

The fact that the draft proposal resembled the British statement again illustrated the pre-eminent position of Britain and the Hong Kong and Shanghai Banking Corporation.

On June 20, 1912 at the Inter Bank Conference held in London, the loan conditions were formally approved by the six groups — with Russia and Japan now officially admitted at the meeting. The major terms of the June, 1912 Reorganization Loan proposal stipulated that China must employ foreigners to supervise three specific areas: a) the expenditure of the loan, b) the Salt Gabelle which constituted the loan security, and c) the works of reorganization. It was also stated that China must refrain from borrowing capital outside the Consortium until the total sum of 60 million pounds had been transferred to Peking. On June 24, the Consortium groups received word that the Chinese had rejected their proposals, especially the foreign supervision of the expenditure and control of the Salt Gabelle. Five days later, Peking requested a "smaller monthly advance to be covered by a loan of 10 million pounds on easier terms".⁷⁰

Of the foreign participants during the negotiations, John Jordan had predicted that the Chinese would not approve the loan proposals. He attributed this to the nationalistic sentiment against foreign control that had been ascending since March. One such chauvinistic agent that vehemently advocated domestic subscription in order to reduce the reliance on foreign borrowing was the National Subscription Movement (*Kuo-min chüan*) which was mainly supported in the south. Yet, Jordan, who demonstrated an initial reluctance to the efficacy of such a monopolistic agent as the Consortium calling it 'unnatural', 'cumbersome', and 'heterogeneous',⁷¹ suggested to Edward Grey that China still favoured negotiations with the Consortium. In fact, he asserted that if the Consortium was permitted to crumble, internecine financial competition would be the result.⁷² Consequently, despite domestic occurrences in China and the challenge of the Crisp loan, the British Foreign Office was still willing to support the British role in the Consortium.

⁶⁹ Enclosure in no. 1 in Memorandum to M. CAMBON, FO/371/1317 (19442), May 7, 1912.

⁷⁰ EDWARD GREY TO JOHN JORDAN, FO/371/1320 (27170), June 29, 1912.

⁷¹ CHAN, *British Policy*, pp. 359, 365-366.

⁷² JOHN JORDAN TO EDWARD GREY, FO/371/1322 (37246), September 3, 1912.

Although the Foreign Office recognized the impact of nationalistic movements in China, the deciding factor that impelled Edward Grey to modify his China policy was the Crisp loan. With strong support in Britain and in liberal circles, the Crisp syndicate was on the verge of success. To meet this challenge, Grey not only altered proposals dealing with the Reorganization Loan but also expanded the composition of the British group in the Consortium. After receiving Yuan Shih-k'ai's promise that the Crisp loan would be abrogated if easier terms for the Reorganization Loan were presented, John Jordan cabled the Foreign Office urging it to relax the conditions regulating the proposed foreign control of the Salt Gabelle and the expenditure of the capital lent to the Peking government.⁷³ Three days later on September 16, 1912, Edward Grey replied that the Foreign Office would be willing to ease foreign control of the Salt Gabelle. On the other hand, he asserted that the terms governing the expenditure of the loan funds should remain intact.⁷⁴ Grey's reasons for suggesting a relaxation of the foreign administration of the Salt Gabelle was due to the "1) improvement in the financial situation in China and 2) the Chinese government was advised by Dr. Morrison not to permit foreign administration in principle".⁷⁵ To the question of expansion of the British group, the Foreign Office approved the inclusion of Baring Brothers and Co., the London County and Westminster Bank, Parr's Bank, and J.H. Schröder and Co. on December 21, 1912, two days before the Crisp loan was officially cancelled.⁷⁶ The Hong Kong and Shanghai Banking Corporation would still retain the majority share of the loan (33%) while Baring Brothers would be assessed 25% and the rest 14%.⁷⁷

The initial foreign reaction to the Chinese rejection of the Consortium proposals was one of retaliation, especially among the major Powers. This response was succinctly stated by Edward Grey who "agreed with France that the best way to obtain consent of the Chinese government is to suspend any advances".⁷⁸ The German government also agreed with the tactic of suspension⁷⁹ while its financial agent, the Deutsch-Asiatische Bank was adamant in its declaration that "we should stick to the condi-

⁷³ JOHN JORDAN TO EDWARD GREY, FO/371/1322 (38558), September 13, 1912.

⁷⁴ EDWARD GREY TO JOHN JORDAN, FO/371/1322 (38565), September 16, 1912.

⁷⁵ *Ibid.*

⁷⁶ Foreign Office to Hong Kong and Shanghai Banking Corporation, FO/371/1325 (53762), December 21, 1912.

⁷⁷ CHARLES S. ADDIS TO FOREIGN OFFICE, FO/371/1325 (53762), December 21, 1912.

⁷⁸ EDWARD GREY TO FRANCIS BERTIE, FO/371/1320 (28414), July 6, 1912.

⁷⁹ Earl Granville (in Berlin) to Edward Grey, FO/371/1320 (28548), July 8, 1912.

tions already arranged between the six groups".⁸⁰ On the other hand, the Russians were prepared to modify its demands by proposing a smaller loan of twenty million pounds. They also stated they "no longer would insist on the Salt Gabelle"⁸¹ as security. The Americans and Japanese, moreover, agreed with the Russians that a smaller loan would be less formidable to the Chinese.⁸² The Americans, in particular mentioned that they "were indifferent to the amount of the loan, but the loan should be at least 20,000,000 £".⁸³

The response by the foreigners illustrated that the British, French, and German groups were steadfast in adhering to the original proposals and even advocated financial coercion. No doubt, the fact that they were the primary lending groups prompted their recalcitrant attitude. On the other hand, the Russians, Japanese, and Americans had much less to lose and were thus willing to modify their demands. Indeed, what strict financial interests would Russia and Japan have when they were, in effect, debtor countries? Still, the six groups were willing to resume negotiations only if they were approached by the Chinese.⁸⁴

Since the Chinese government under Yuan Shih-k'ai's dictatorship recognized the inevitability of dealing with the Consortium, it presented counter-proposals on September 20, 1912. In an attempt to modify complete foreign supervision of the Salt Gabelle, Peking suggested that:

1) foreign officials [would be] associated with a native superintendent at each of the 18 salt areas in the collection of revenue deposited in banks approved by the groups.

2) Returns checked by a mixed Chinese and foreign audit department in the Ministry of Finance.

3) Appointment of a foreign inspector-general was inadmissible.⁸⁵

The Consortium's reply was terse and direct. It stated that the Chinese proposals would "only receive consideration if the Crisp loan was cancelled".⁸⁶ Still, the Chinese proposals were under scrutiny on an

⁸⁰ Deutsch-Asiatische to Charles S. Addis in Enclosure 1 in no. 1 in Charles S. Addis to Foreign Office, FO/371/1320 (29347), July 6, 1912.

⁸¹ Chantry Inchbald to Charles S. Addis, in Enclosure 1 in no. 1 in Charles S. Addis to Foreign Office, FO/371/1320 (29347), July 5, 1912.

⁸² CHARLES S. ADDIS to Foreign Office, FO/371/1320 (29514), July 11, 1912.

⁸³ J.P. MORGAN and Co. to M. MORGAN, GRENFELL and Co., in Enclosure 4 in no. 1 in CHARLES S. ADDIS to Foreign Office, FO/371/1320 (29347), July 6, 1912. The Americans later decided to hold firm to the original proposals. See J.P. MORGAN and Co. to M. MORGAN, GRENFELL and Co., in Enclosure 1 in no. 1 in CHARLES S. ADDIS to Foreign Office, FO/371/1322 (38716), September 14, 1912.

⁸⁴ CHARLES S. ADDIS to Foreign Office, FO/371/1322 (38558), September 13, 1912.

⁸⁵ JOHN JORDAN to EDWARD GREY, FO/371/1322 (39592), September 20, 1912.

unofficial level. The representatives of the British group, for example, suggested that:

- 1) the salt Gabelle would be reorganized by China with foreigners in advisory posts; collection deposited in "highly satisfactory banks".
- 2) withdrawal of funds to be countersigned by representatives of the groups in accordance with the estimates sanctioned by the National Council.
- 3) Loan account supervised by the Chinese Audit Office; foreigners may be employed.
- 4) In regard to future industrial loans, China rigidly prepared as the occasion arises to discuss employment of foreign experts.
- 5) Further preference [will be given] to the six groups prior to the complete issue of the proposed loan of twenty million pounds.⁸⁷

On November 5, 1912, negotiations resumed between the groups and Peking. The resumption was mainly predicated on the fears of the Consortium Powers that China was drifting away from conducting business with the groups in favour of loan negotiations with non-Consortium agents. The Crisp loan was undoubtedly responsible for this attitude. Secondly, John Jordan was instrumental in persuading his ministerial colleagues in the foreign legations at Peking to devise easier terms so that the Reorganization Loan could be quickly concluded. Thirdly, the financial groups were given more freedom in the negotiation talks which hitherto had been exclusively directed by the banking offices in Europe. This new atmosphere of negotiation was also based on Jordan's persuasion. In fact, the British minister recognized that because each representative of the groups in Peking was a China expert while the Consortium heads in Europe were afflicted with a paucity of knowledge of the daily affairs of China, he was convinced that the groups with their ministers in Peking should be the prime movers of policy regarding the Reorganization Loan.⁸⁸ Since the Reorganization Loan negotiations had reached an impasse, it was not difficult for his contentions to be recommended by his ministerial colleagues to their respective foreign offices which, in turn, persuaded their respective financial agencies in Europe to comply. Jordan was, in effect, attempting to reduce the European impact on the Consortium by adapting it to Chinese financial conditions. Finally, the Chinese government was becoming aware that the Crisp syndicate might be incapable of fulfilling its financial agreement. It then recognized the necessity of re-negotiating the Reorganization Loan. Although the Crisp loan proved to be a financial failure by its cancellation on December 23, 1912, it was readily utilized by the Chinese as an "instrument of

⁸⁶ CHARLES S. ADDIS to Foreign Office, FO/371/1322 (40037), September 23, 1912.

⁸⁷ E.G. HILLIER to CHARLES S. ADDIS, in Enclosure 1 in no. 1 in CHARLES S. ADDIS to Foreign Office, FO/371/1322 (40447), September 26, 1912.

⁸⁸ CHAN, *British Policy*, p. 368.

threat" against the Consortium so that Peking could extract easier terms in the inevitable Reorganization Loan.

After the Crisp loan was cancelled, a general agreement for the Reorganization Loan was concluded between China and the Consortium. The figure of twenty-five million pounds was agreed upon, with the Salt Gabelle pledged as security. The salt administration would be governed by foreign and Chinese officials — an important amendment of strict foreign control stated in the first proposal. A central salt administration, national debt, department for foreign loans, a loan department (solely for the Reorganization Loan), and an audit bureau would be established to supervise expenditure and security.⁸⁹

After the conclusion of the general agreement, difficulties arose over the selection of advisers in the newly created offices. The Chinese proposed that M. Oiesen a Dane be appointed Salt Inspector, Rossi, an Italian, for the post of adviser to the accounts and audit department and Rump, a German, for the directorship of the National Loans department.⁹⁰ No doubt, in suggesting non-Consortium nationals for two of the three most important offices, Peking desired to neutralize further control by the powers.

Following receipt of the Chinese advisory proposals, the French objected to the Oiesen appointment preferring its own national in the salt inspectorship. The Russian claimed "the salt post for a Russian on the grounds that Russia holds 30% of the indemnity for which it was pledged".⁹¹ The Germans also sought the lucrative salt post suggesting that due to the German position "as one of China's biggest creditors, not to mention the fact that Germany has hitherto filled none of the posts of foreign administration in China . . .,"⁹² they were entitled to this office. The other powers, moreover, agreed that "the principle of selection amongst nationals of the Six Powers was desirable as tending to secure more effective control and promotion of objects of the loan agreement".⁹³ The United States, in particular, suggested that the "posts should be allotted to Britain, France, and Germany as the Powers likely to contribute the largest share of the loan".⁹⁴ while Ijuin Hikokichi, the Japanese minister in Peking stipulated that Japanese approval would be conditioned by the fact that "he obtained apart altogether from the question of the

⁸⁹ See Appendix I for the complete terms of the Reorganization Loan.

⁹⁰ JOHN JORDAN to EDWARD GREY, FO/371/1591 (5005), February 1, 1913.

⁹¹ JOHN JORDAN to EDWARD GREY, FO/371/1591 (5457), February 4, 1913.

⁹² German Imperial Foreign Office to E. GOSCHEN, in E. GOSCHEN to EDWARD GREY, FO/371/1591 (6538), February 9, 1913.

⁹³ JOHN JORDAN to EDWARD GREY, FO/371/1591 (5549), February 4, 1913.

⁹⁴ *Ibid.*

loan moral support of his colleagues for a post of adviser in some other department of the Chinese government".⁹⁵ After much controversy, most of the contracts (usually for three years) for the advisers were signed by Peking on April 24, 1913. Not one of the candidates' names were included in the contracts so that the Consortium could fill in the candidates it had agreed upon. This also meant that the Chinese had little influence in the selection of advisers. The final list included five advisers. The appointments were as follows: Sir Richard Dane, the English Associate Chief Inspector of the Salt Gabelle,⁹⁶ Strauch, the German Deputy Associate Chief Inspector of the Salt Gabelle, Rump, the German Director of the Bureau of the National Loan, Padoux, the French auditor, and Konovalov, the Russian auditor.⁹⁷ With the obstacle of advisers now remedied, the Reorganization Loan was duly signed on April 26, 1913.⁹⁸ Although the bankers of the Consortium agreed to accept equal responsibility for the loan (i.e. 5 million pounds each), Britain, France, and Germany actually issued 29.7%, 29.7%, and 24% respectively. This was calculated on the amount remaining after the 6% commission was allocated to the financiers. The 16.6% of the Japanese and Russian share was issued in St. Petersburg, Brussels, London, and Paris. The Belgians, in particular shared 1,338,880 pounds of the Russian total.⁹⁹

CONCLUSION

The Reorganization Loan of 1913 has usually been described as one of the "ugliest crimes"¹⁰⁰ in recent Chinese history. Its entire history has been castigated as infamous and notorious. Yuan Shih-k'ai has been condemned for accepting it because he was then provided with the financial catalyst to render the Kuomintang politically and militarily moribund. The Powers have been condemned because the Reorganization loan reflected once again imperialist infringement of Chinese sovereignty and independence. This loan then has been portrayed as a negative episode in early Republican history. Yuan was always the villain. The imperialists were eager accomplices to his villainy while the

⁹⁵ *Ibid.*

⁹⁶ For Dane's accomplishments, see S. ADSHEAD, *The Modernization of the Chinese Salt Administration* (Cambridge: Harvard University Press, 1970).

⁹⁷ PU, *The Consortium*, p. 49, JOHN JORDAN to EDWARD GREY, FO/371/1591 (8095), February 19, 1913.

⁹⁸ Cf. JEROME CH'EN, *Mao and the Chinese Revolution* (London: Oxford University Press, 1965), p. 33 for a second signing date.

⁹⁹ REMER, *Foreign Investments*, pp. 356, 623, 640, 584, 653.

¹⁰⁰ CHAN, *British Policy*, p. 355.

Kuomintang was the unfortunate victim of his treachery. This school of thought has asserted, moreover, that Yuan and the powers worked "hand in glove" to eliminate the Kuomintang. One writer has stated that "in urging the British government, and through it the other consortium powers, to sanction the Reorganization Loan without insisting on the approval of the Chinese parliament, Jordan can be regarded, and has been condemned by many Chinese, as a party responsible for the 1913 Revolution . . . The Reorganization Loan was the powers' recognition of Yuan's growing strength in republican China".¹⁰¹ Another author has pointed out that "in assessing the effect of the loan, it is important to consider its political as well as its financial ramifications. It came at a time when relations between Yuan and the Kuomintang were at its worst. By giving money to Yuan, the five powers actually encouraged him to intensify his campaign of intimidation against the party".¹⁰²

In contrast, this paper has maintained that Yuan, always labouring from an inferior international position, was actually the victim of the seemingly never ending ambitions of the imperialists and their "loan shark" financial agents. In fact, both the powers and their business nationals had much to gain from the Reorganization Loan. The powers not only desired stability and good order in a China now afflicted with the malaise of revolutionary fervour but also the neutralization and, at best, the evisceration of political competition. At the time of the 1911 Revolution the Chinese "melon" had already been unceremoniously sliced. Britain had interests chiefly in the Yangtze area. France was in Yunnan. The Germans proclaimed the Shantung peninsula as their sphere of influence while the Japanese and the Russians agreed to divide their economic suzerainty in Manchuria and Mongolia. The Americans, late comers to the imperialistic game, sought economic penetration in Manchuria thus complicating the already crowded situation in the north-east.¹⁰³ On the other hand, the loan agencies sought to capitalize on the desperate financial impasse in which Yuan's regime found itself. Vast profits could thus be made on the commission alone if China could be induced to borrow large sums. These rewards were subtly stated by the Peking representative of the Hong Kong and Shanghai Banking Corporation, E. G. Hillier whose blindness did not prevent him

¹⁰¹ *Ibid.*, p. 372. It is difficult to believe that the Powers would even consider seeking Chinese parliamentary approval when the Reorganization Loan was finalized with a Chinese government the five powers did not even recognize.

¹⁰² CH'EN, *Yuan Shih-k'ai*, p. 128.

¹⁰³ For American-Russian relations during this period under discussion, see OWEN, *Dollar Diplomacy*, p. 251. See also GEORGE BUCHANAN (British minister in S. Petersburg) to EDWARD GREY, FO/371/1316 (119), March 27, 1912 who stated that « the Russians held the United States with "fear" ». For the investments of Britain, the United States, France, Germany, Japan, and Russia, see REMER, *Foreign Investments*, pp. 239-652.

from perceiving that "what we want to see is the country pacified, and good government established and trade restored, and if China wishes to accomplish this by a conservative policy of borrowing, we shall be the last people to discourage it".¹⁰⁴

The initial consideration of a sixty million pound Reorganization Loan and the fact that the Chinese government actually received only 8.2 million pounds of the Loan after expenses (of which the Consortium received six per cent of the total sum of twenty-five million pounds) attested to the avarice and misplaced benevolence of the loan agents and their respective governments. Although Yuan's financial troubles were temporarily alleviated by this loan,¹⁰⁵ it was still not enough to discontinue further reliance on foreign loans. This grim prospect was accentuated by the impossibility of domestic loans which was made manifest by the inadequacy of the Chinese monetary and fiscal structures.¹⁰⁶

The imperialists' desire to protect their economic inroads in China may have prompted their desire to eliminate Yuan's nearest rival, Sun Yat-sen and his Kuomintang. In fact, the positive attitude towards Yuan by such important figures as Edward Grey, British Foreign Secretary, John Jordan, British minister in Peking, Ijuin Hikokichi, Japanese representative in Peking, William Calhoun, American minister in Peking and William Jennings Bryan, the American Secretary of State¹⁰⁷ tended to diminish Sun's position in Chinese politics in the eyes of these and other foreigners. The somewhat negative attitude towards Sun was succinctly stated by many American writers who saw him as "visionary in temperament and socialist in creed, he seems to have developed into a chronic fault finder".¹⁰⁸ The fact that Yuan was esteemed as "the man for all seasons" denigrated Sun as a stabilizer of societies. Since one of the recurrent themes confronting Chinese officials after the 1911 Revolution was the defence of China's integrity as a nation,¹⁰⁹ the idea of Sun as unifier of China, defender against further imperialist encroachment as well as pacifier of these same

¹⁰⁴ HILLIER to ADDIS, June 29, 1912, Enclousure 3 in no. 1 in EDWARD GREY to JOHN JORDAN, FO/371/1320 (29785), July 13, 1912.

¹⁰⁵ CH'EN, *Yuan Shih-k'ai*, p. 128.

¹⁰⁶ T'AO, *Pei-yang chun-fa*, p. 170.

¹⁰⁷ William Jennings Bryan not only sent Yuan various texts of Thomas Jefferson's works, but also warmly welcomed him as the chief of state of the «United States of China». JERRY ISRAEL, *Progressivism and the Open Door: America and China, 1905-1921* (Pittsburgh: University of Pittsburg Press, 1971), p. 101.

¹⁰⁸ Cited in IRIYE AKIRA, *Across the Pacific: An Inner History of American-East Asian Relations* (New York: Harcourt, Brace & World, 1970), p. 126.

¹⁰⁹ E.P. YOUNG, *Nationalism, Reform, and Republican Revolution: China in the Twentieth Century*, in JAMES B. CROWLEY (editor), «Modern East Asia: Essays in Interpretation» (New York: Harcourt, Brace & World, 1970), p. 171.

avaricious "barbarians" seemed incomprehensible to many. Indeed, "as had been predicted before 1911 by reformist opponents of Sun Yat-sen, the revolution produced setbacks — in increased foreign influence on domestic institutions and in the loss of territory (Outer Mongolia and Tibet) considered to belong to China".¹¹⁰ This geographical reality as well as Yuan's political and international position prompted the revolutionaries to decide "at an early date that Yuan's cooperation was essential to their schemes".¹¹¹ Ironically, it was the conservative Yuan Shih-k'ai, not the rebel Sun Yat-sen who brought the revolution to its Republican conclusion by ousting the Manchus and the Ch'ing dynasty.

If the Powers viewed Sun Yat-sen as a mere social disrupter, it was not inconceivable that his political removal would have strengthened Yuan's hand in stabilizing China. Whether the imperialists candidly encouraged Yuan to eliminate Sun is difficult to ascertain. In fact, political expediency dictated that Yuan needed little encouragement from any quarter to force a showdown with Sun's party. If the powers wanted Sun's eradication as the first step to Chinese unification and stability, it was only coincidental that the imperialists and Yuan desired the same fate for the "father of the Chinese Revolution" and the Kuomintang. Both the imperialists and Yuan clearly recognized that to eviscerate rivals would mean that China might be saved from the rampant regionalism that threatened to engulf the country in internecine civil war. This meant that Yuan would be the saviour of China. Although his tactics were heavy-handed, especially in the assassination of Sung Chiao-chen, autocracy, at this juncture in Chinese history, was the most propitious answer to chaos. Visionary revolution, idealistic republican government and incongruous parliamentary systems were not enough. A "strong man" was needed for China to survive in the wake of new and further imperialist advances. Yuan was the man most feasible to "assume the purple".

The Reorganization Loan of 1913 was one step towards a unified China. It provided the necessary military expenditure utilized against the Kuomintang.¹¹² "The resulting conflict was the so-called Second Revolution in

¹¹⁰ *Ibid.*

¹¹¹ E.P. YOUNG, *Yuan Shih-k'ai's Rise to the Presidency*, in MARY C. WRIGHT (editor), « China in Revolution: The First Phase » (New Haven: Yale University Press, 1968), p. 442.

¹¹² HSUEH CHUN-TU, *Introduction to the Republican Revolution*, in HSUEH CHUN-TU (editor), « Revolutionary Leaders of Modern China » (New York: Oxford University Press, 1971), p. 93. On the same page, it is cited that the *New York Times* considered Yuan's victory « desirable for the peace of the world » and the *London Times* praised Yuan as « the only man who can prevent the Chinese Republic from

the summer of 1913. His [Yuan's] complete victory over this rising in the lower Yangtze region, which was led by associates of Sun Yat-sen and set off sympathetic movements in Kwangtung and Szechwan, provided Yuan for the first time with real authority over most of the country".¹¹³ Indeed most of the northern *tutu* and a few southern military governors supported Yuan. Those that did not were T'an Yen-k'ai, of Hunan, Sun Tao-jen of Fukien, Ch'eng Teh-ch'uan of Kiangsu, Po Wen-wei of Anhwei, Hu Han-min of Kuangtung, and Li Lieh-chun of Kiangsi. Although these officials were staunch supporters of the Kuomintang, only Li Lieh-chun actively supported Sun Yat-sen's anti-Yuan campaign.¹¹⁴

Although some writers have stated that Yuan could have borrowed money elsewhere in the event the Consortium could not lend,¹¹⁵ this does not square with the fact that the Consortium with its monopolizing tendencies and its imperialist support was the only agency that could lend Yuan large sums. The private and non-Consortium syndicates that resulted in the Anglo-Belgian and Crisp loans met with heavy disapproval from the powers, especially Britain and France. Yuan, therefore, had no other recourse but to deal eventually with the Consortium. In fact, the support of the Consortium by the powers made this inevitable because "the presence of foreign powers in China was so entrenched and pervasive that nothing of importance could happen without being affected by it in some degree; or rather, the presence was an integral part of any large event".¹¹⁶ Yuan's acceptance of the inevitability of dealing with the Consortium, however, was laced with profound reluctance. His attempts to seek foreign revenue elsewhere even during the Consortium's first offer in July 9, 1912 meant that Yuan not only wanted another source of capital but also desired to test the strength of the Consortium. Moreover, he wanted emphatically to demonstrate to the powers that he was not their puppet. Any dealings with Yuan Shih-k'ai would, in effect, not be easy and better terms had to be made before the Reorganization Loan could be finalized.

While Yuan centered his efforts in manoeuvring for better terms in the Reorganization Loan, the Powers were compelled to acknowledge other

falling to pieces ». Economics also dictated the 1913 civil war. See JEROME CH'EN, *Historical Background*, in JACK GRAY (editor), « Modern China's Search for a Political Form » (New York: Oxford University Press, 1969), p. 27-28.

¹¹³ YOUNG, *Nationalism*, p. 174.

¹¹⁴ CH'EN, *Yuan Shih-k'ai*, pp. 131-132. Cf. LI CHIEN-NUNG, *The Political History of China, 1840-1928*, pp. 289-290 who stated that « some of the provincial *tutu* sent telegrams charging the procedure (anti-Sun campaign) of Yuan was illegal; however, many of them, bribed by Yuan, later gave him their full support ».

¹¹⁵ CHAN, *British Policy*, p. 372.

¹¹⁶ YOUNG, *Yuan Shih-k'ai*, p. 432.

conditions in non-Chinese arenas. Even though the Reorganization Loan concerned Chinese finance, ramifications in such distant places as Agadir, Morocco, and the Congo created difficult situations for countries of the Triple Alliance and the Triple Entente. The friction that developed in other continents certainly affected the composition of the Consortium. The case of the Austria-Hungarian proposed entry illustrated such a difficulty. The rivalry between Russia, France, and Germany, moreover, did little to remedy the already tense international situation. Although the question of the impact of the non-China policies of the major Powers is beyond the scope of this paper, certainly the policies of the imperialists outside of the Chinese theatre affected the Reorganization Loan. The Consortium and its resultant Reorganization Loan was European-centred with Chinese interests while Yuan Shih-k'ai always viewed the Consortium, its financial representatives and imperialist governments from a totally Chinese perspective with Chinese interests and goals.

APPENDIX I *

I. — REORGANIZATION LOAN AGREEMENT

This Agreement, made at Peking on the twenty-sixth day of April, 1913, between The Government of the Republic of China (hereinafter called « *The Chinese Government* »), acting through its Premier, its Minister of Foreign Affairs, and its Minister of Finance, of the one part,

And

*The Hongkong and Shanghai Banking Corporation,
The Deutsch-Asiatische Bank,
The Banque de L'Indo-Chine,
The Russo-Asiatic Bank, and
The Yokohama Specie Bank, Limited*
(hereinafter collectively called "*The Banks*"), of the other part,
Witnesseth: —

Whereas the Chinese Government desires to borrow the sum of Twenty-five Million Pounds Sterling (£ 25,000,000) equal to 511,250,000 Marks, 631,250,000 Francs, 236,750,000 Roubles, 244,900,000 Yen, for general reorganization and administrative purposes (hereinafter to be specified) and proposes to evidence the above loan by the issue of its gold bonds for the principal amount above named, and

Whereas the Banks are prepared to issue to the public on behalf of the Chinese Government the bonds of the above-named loan:

Therefore it is Agreed as Follows: —

Article I. — The Chinese Government hereby authorizes the Banks to issue either on one amount or in series, at their option, five per cent (5%) gold bonds, to an aggregate amount of £ 25,000,000 equal to 511,250,000 Marks, 631,250,000 Francs, 236,750,000 Roubles, 244,900,000 Yen.

The Banks have the option to pay the whole or any portion of the proceeds of the loan to the Chinese Government in Pounds Sterling or the equivalent at the above parities in the currencies of the various countries in which the subscriptions have been made. The coupons attached to the preliminary certificates and to the definitive bonds shall be payable in the various countries at the above parities. The definitive bonds shall be subject to the same conditions when drawn, redeemed, or paid.

The loan shall be of the date of the first issue of bonds and shall be entitled « *The Chinese Government Five Per Cent Reorganization Gold Loan of 1913* ».

Article II. — Subject to the provision in Article XIII hereinafter for the payment of the first coupon, the net proceeds of the loan shall be used solely for the following purposes: —

(a) Payment of liabilities due by the Chinese Government as detailed in Annex A to this Agreement.

(b) Redemption in full of outstanding provincial loans as detailed in Annex B to this Agreement.

(c) Provision for payment at due date of liabilities of the Chinese Government shortly maturing as shown in Annex C to this Agreement, including provision for foreign claims for damage and losses arising out of the Revolution.

* *China Year Book*, III, pp. 387-397.

(d) Disbandment of troops as detailed in Annex D to this Agreement.

(e) Current expenses of administration as estimated in Annex E to this Agreement.

(f) Reorganization of the Salt Administration as set forth in Annex F to this Agreement.

(g) Such other administrative purposes as may be mutually agreed upon between the Chinese Government and the Banks.

The aforesaid Annex form part of this present Agreement.

Article III. — This entire loan, and all advances which may be made in connection therewith, are hereby constituted a direct liability and obligation of the Chinese Government, which hereby pledges its good faith and credit for the punctual payment of the principal and interest of the loan and/or advances and for the performance of all the undertakings on its part herein assumed.

Article IV. — This entire loan, together with any advances which may be made in connection therewith, is hereby secured in respect to both principal and interest by a charge upon the entire revenues of the Salt Administration of China, subject to previous loans and obligations already charged on the security thereof and not yet redeemed, as detailed in the statement attached to this Agreement, and it shall have priority both as regards principal and interest over all future loans, charges and mortgages charged upon the above-mentioned revenues so long as this loan or any part thereof shall be unredeemed. No loan, charge or mortgage shall be raised or created which shall take precedence of or be on an equality with this loan, or which shall in any manner lessen or impair its security over the said revenues of the Salt Administration of China, so far as required for the annual service of this loan, and any future loan, charge or mortgage charged on the said revenues of the Salt Administration shall be made subject to this loan, and it shall be so expressed in every agreement for any such future loan, charge or mortgage.

If at a future time the annual collection of the Maritime Customs revenues should exceed the amount necessary to provide for all existing obligations charged thereon or which may have become chargeable thereon under existing agreements by reason of the abolition of likin consequent upon tariff revision, it is understood and agreed that such surplus shall be applied in the first instance to the security and service of this loan, the surplus of the salt revenues being thereby pro tanto increased and made available for the general purposes of the Chinese Government.

Article V. — The Chinese Government engages to take immediate steps for the reorganization with the assistance of foreigners of the system of collection of the salt revenues of China assigned as security for this loan, in the manner which has been determined upon by the Ministry of Finance and which is as follows: —

The Chinese Government will establish a Central Salt Administration (Yen Wu Shu) at Peking, under the control of the Minister of Finance. This Central Salt Administration will comprise a Chief Inspectorate of Salt Revenues (Chi Ho Tsung So) under a Chinese Chief Inspector (Tsung Pan), and a foreign Associate Chief Inspector (Hui Pan), who will constitute the chief authority for the superintendence of the issue of licences and the compilation of reports and returns of revenues. In each salt-producing district there will be a branch office of the Chief Inspectorate (Chi Ho Fen So), under one Chinese and one foreign District Inspector (So Chang) who shall be jointly responsible for the collection and deposit of the salt revenues. The engagement and dismissal of these Chinese and foreign District Inspectors, and of the necessary Chinese and foreign staff at the Chief and Branch Inspectorates, will be decided jointly by the Chinese and foreign Chief Inspectors, with the approval of the Minister of Finance. It will be the duty of the District Inspectors jointly to superintend the issue of licences and to collect all fees and salt dues; and to report all receipts and

disbursements in full detail to the local Salt Commissioner (Yen Yün Ssu) and to the Chief Inspectorate in Peking, which will publish periodical reports of the same after submission to the Minister of Finance.

Release of salt against payment of dues in any District will be made only under joint signature of the Chinese and foreign District Inspectors, the revenues so collected to be lodged by them in a «Chinese Government Salt Revenue Account» with the Banks or with depositories approved by the Banks, and reported to the Chief Inspectorate for comparison with their returns. This Salt Revenue Account shall be drawn upon only under the joint signatures of the Chief Inspectors, whose duty it will be to protect the priority of the several obligations secured upon the salt revenues.

So long as the interest and principal of this loan are regularly paid there shall be no interference with the Salt Administration as herein provided, but if interest and/or principal be in default at due date, then after a reasonable period of grace the said organization shall forthwith be incorporated with the Maritime Customs and the revenues above pledged shall be administered for the account and in the interest of the bondholders.

Article VI. — Pending the reorganization of the Salt Administration and commencing with the first month from the date of this loan, the Provinces of Chihli, Santung, Honan and Kiangsu shall pay monthly into the Banks the funds necessary to meet the service of this loan in accordance with the amounts stated in the Schedule to be attached to this Agreement and fourteen days before the due date of each such amount. The payment of these amounts by the Provinces named is hereby secured by a first charge upon Central Government taxes of the respective provinces to be assigned, and the Chinese Government engages to supply the Banks with evidence that the obligations under this Agreement of the Provinces named are officially recognized by the proper authorities of the said Provinces.

So soon as the revenue collection of the Salt Administration over a period of one year shall be sufficient to cover the service of all loans and obligations now secured thereon, including that of this present loan, together with a margin sufficient to cover a further half-yearly interest coupon of the latter, the said monthly contributions from the Provinces shall be suspended, and the service of this loan shall then be paid from the revenues of the Salt Administration. So soon as the revenues of the Salt Administration shall have been maintained for three successive years at the figure above determined, the aforesaid provincial liability shall be finally released.

Article VII. — The Banks are hereby authorized to issue to subscribers to the loan gold bonds for the total amount of the loan in such denominations, and for such amounts as shall be determined by the Banks. The form and language of the bonds shall be settled by the Banks in consultation with the Ministry of Finance or with the Chinese Ministers in London, Berlin, Paris, St. Petersburg and Tokio.

The bonds shall be printed and/or engraved by the Banks at the expense of the Chinese Government and shall bear the facsimile of the signature of the Minister of Finance, in order to dispense with the necessity of his signing them all in person, and of the seal of the Chinese Government. The Chinese Minister in London and/or Berlin and/or Paris and/or St. Petersburg and/or Tokio at the option of the Banks shall previous to the issue of the bonds authenticate them with a facsimile of his signature and of his seal as a proof that the issue and sale of the bonds are duly authorized by and binding upon the Chinese Government. Representatives of the Banks in London, Berlin, Paris, St. Petersburg or Yokohama, as the case may be, may countersign the bonds as agents for the issue of the loan.

Article VIII. — The rate of interest for the loan shall be five per cent (5%) per annum on the nominal principal and shall be paid by the Chinese Government to the

bondholders half-yearly through the Banks or their designated agents, upon presentation of the proper coupons. Coupons shall be payable in Pounds Sterling or the equivalent in Marks, Francs, Roubles and Yen as provided in Article I. The said interest shall be calculated from the date on which the loan is issued to the public.

Article IX. — The term of the loan shall be forty-seven (47) years. Repayments of principal shall commence with the 11th year, and shall be made by yearly sinking fund of 98397945% equal to £ 245,994 : 17 : 3 equivalent to 5,030,594.94 Marks, 6,211,370.28 Francs, 2,329,571.35 Roubles, 2,409,765.67 Yen, which shall be paid by the Chinese Government to the Banks in monthly instalments in accordance with the amounts stated in the Schedule to be attached to this Agreement, and fourteen days before the due date of each such amount.

If at any time after the lapse of seventeen years from the date of the loan the Chinese Government should desire to redeem the whole outstanding amount of the loan or any part of it not yet due for repayment in accordance with the Schedule to be attached hereto it may do so up to the end of the thirty-second year by a payment of a premium of two and one-half per cent (2½%) on the face value of the bonds, that is to say by the payment of £ 102 : 10/- for each £ 100 Bond, and after the end of the thirty-second year it may make such extra redemption without premium, but in each and every case of such extra redemption the Chinese Government shall give six months' previous notice in writing to the Banks and such extra redemption shall be effected by additional drawings of bonds to take place on the date of an ordinary drawing as provided for in the prospectus of the loan.

When the loan has been fully repaid this Agreement will immediately become null and void.

Article X. — Payments by the Chinese Government for interest and amortization shall be made monthly in accordance with the amounts stated in the Schedule to be attached to this Agreement, and fourteen days before the due date of each such amount in equal shares to the Banks by the Ministry of Finance, which shall hand to the Banks in Shanghai funds in Shanghai sycee and/or coin of the national currency, so soon as the said currency shall have been effectively established, sufficient to meet each such payment in gold in Europe and/or in Japan, exchange for which shall be settled with the Banks on the same day. These payments may however be made in gold in Europe, and/or in Japan, fourteen days before their due date, if the Chinese Government should happen to have gold funds bona fide at its disposal in Europe and/or in Japan, not remitted from China for the purpose, and should desire so to use them. Interest upon the said monthly instalments until they are required for the service of the loan to the bondholders shall be allowed by the Banks to the Chinese Government at the rate of 2% per annum.

In reimbursement of expenses connected with the payment of interest and with the repayment of principal of the loan the Banks are hereby granted by the Chinese Government a commission of one-fourth per cent (¼%) on the annual loan service, the said commission to be paid half-yearly to the Banks as provided in the Schedule to be attached to this Agreement.

Article XI. — All details necessary for the prospectus of the loan, and in connection with the payment of interest and the repayment of principal of the loan and with the withdrawing of bonds for redemption, not herein explicitly provided for, shall be left for arrangement by the Banks in consultation with the Chinese Minister in London, Berlin, Paris, St. Petersburg and/or Tokio.

The Banks are hereby authorized to issue the prospectus of the loan as soon as possible after the signing of this Agreement, and the Chinese Government will instruct the Chinese Ministers in the various capitals named above to co-operate with the Banks in any matters requiring conjoint action and to when requested the prospectus of the loan.

Article XII. — All bonds, coupons and payments made and received in connection with the service of this loan shall be exempt from all Chinese taxes and imposts during the currency of this loan.

Article XIII. — The price of this present loan or of any series thereof to the Chinese Government shall be the price of its issue to the public on the London market less a deduction by the Banks of six per cent (6%) of the nominal value of the bonds, the issue price in London to be not less than Ninety per cent (90%), securing to China a net price of not less than Eighty-four per cent (84%) for the entire loan. The Banks shall be responsible for all expenses connected with the issue of the loan except the printing and/or engraving of the bonds.

It shall be left to the Banks to determine the most favourable moment for issue, and the Minister of Finance shall be notified in advance in order that the necessary instructions may be given to the Chinese Ministers abroad.

The Banks shall retain on deposit in Europe and/or Japan from the first proceeds of the loan a sufficient amount to meet the first half-year's interest and the Banks commission of $\frac{1}{4}\%$ thereon, and the Chinese Government hereby authorizes the Banks to pay the said first half-year's interest and commission from the funds so retained. At the same time the funds to be paid by the Provinces into the Banks in China for service of the loan as provided in Article VI of this Agreement shall accumulate during the six months covered by the first half-year's interest so retained, and shall be held as a reserve fund to provide against any possible interruption of such payments by the Provinces, until the suspension of the latter takes place under the provision of the said Article.

After deduction from the proceeds of the loan of an amount sufficient for the payment of the first coupon and for the repayment with accrued interest of any advances made by the Banks on account of this loan, and after provision has been made for items *a*, *b*, and *c* in terms of Article II of this Agreement, the balance of the net proceeds of the loan shall be placed to the credit of a "Chinese Government Reorganization Loan Account" with the Hongkong and Shanghai Banking Corporation, the Deutsch-Asiatische Bank, the Banque de l'Indo-Chine, the Russo-Asiatic Bank and the Yokohama Specie Bank, Limited, in London, Berlin, Paris, St. Petersburg or Yokohama, in instalments and on dates conforming to the conditions allowed by the prospectus to the subscribers to the loan.

Transfer of loan funds to China from the Banks in Europe and Japan shall be made through the Banks in China as nearly as possible in equal amounts from each of the Banks, the rates of exchange for each transfer from Europe or Japan being settled simultaneously with the transferring Banks on the same day. In the event of equal transfers being found to be impracticable a mutually satisfactory procedure for making the transfers above referred to shall be arranged between the Minister of Finance and/or the Banks.

Interest at the rate of three (3) per cent per annum shall be granted on the balance of loan funds held in London, Berlin, Paris, St. Petersburg or Yokohama: interest on the credit portion of the loan funds kept in China by the transferring Banks will be allowed at the Banks' rate for current accounts to be arranged.

Withdrawals of that portion of the loan proceeds held in the aforesaid Chinese Government Reorganization Loan Account in Europe or Japan shall be at the order of the Ministry of Finance subject to the provisions of Article XIV hereinafter. Transfers of loan funds to China shall be made in amounts to be arranged from time to time with the Banks but shall not exceed £ 500,000 in any one week, and funds so transferred shall be held by the transferring Banks in China until required for the purposes for which the loan is made, and withdrawn as hereinafter provided in Article XIV.

Article XIV. — The Chinese Government engages at once to put into effective operation an Account and Audit Department, under the Provisional Regulations

Promulgated by a Presidential Order dated the 15th of November, 1912, and published in the *Official Gazette* of November 16th, 1912, copy and translation of which are hereto attached in Annex H of this Agreement, subject to the understanding that any modifications which may be found necessary shall not impair their effect in regard to this loan.

The Chinese and foreign Directors of the Bureau of National Loans shall witness their approval of all requisitions for loan funds by their joint signatures thereon. Withdrawals of loan funds from the Banks shall be for amounts corresponding to the actual requirements of disbursements.

Cheques and/or orders upon the Banks for the withdrawal of loan funds shall be signed by a duly authorized representative of the Minister of Finance and shall be sent, together with the supporting requisitions duly signed as above, and the relative "orders to pay" (Fa k'uan ming-ling), to a representative of the Banks to be designed. The said representative of the Banks, after satisfying himself that the expenditure is in accordance with Article II of this Agreement and the Annexes therein referred to, shall forthwith countersign the cheque and return it to the Ministry of Finance for presentation to and payment by the Banks.

Should the said representative of the Banks be in doubt in respect to disbursements of loan funds which have been made, he shall be entitled to make inquiries of the foreign Director of the Bureau of National Loans and to call upon him for the production of receipts and vouchers for inspection.

Article XV. — In the event of any bond or bonds issued from this loan being lost, stolen or destroyed, the Bank or Banks concerned may notify the Ministry of Finance and the Chinese Ministers in London, Berlin, Paris, St. Petersburg or Tokio, as the case may be, who shall authorize the Bank or Banks concerned to insert an advertisement in the public newspapers stating that payment of such bond or bonds has been stopped; and to take such other steps as may appear advisable or necessary according to the laws or customs of the country concerned. Should any bond or bonds be destroyed, or should such lost or stolen bond be recovered after a lapse of time to be fixed by the Banks, the Chinese Ministers in London, Berlin, Paris, St. Petersburg or Tokio, as the case may be, shall execute a duplicate bond or duplicate bonds for a like amount and deliver the same to the Bank or Banks representing the owner or owners of such lost, stolen or destroyed bond or bonds, which Bank or Banks shall pay all expenses in connection with such delivery and execution of such duplicate bond or bonds for the account of the owner or owners of such bond or bonds.

Article XVI. — If before the publication of the prospectus for the issue of this loan any political or financial crisis should occur affecting the money markets or the prices of Chinese Government securities in such manner or to such degree as in the opinion of the Banks will render impossible the successful flotation and issue of this loan on the terms herein named, the Banks shall be granted a period of six months from the date on which this Agreement shall be signed within which to issue the loan to the public. If on the expiration of this period the markets are still unfavourable, then the Banks shall be entitled to ask the Chinese Government for extension of time. If the Chinese Government should refuse to grant the extension of time requested, this contract shall become null and void, subject always to the repayment to the Banks with accrued interest of any advances which may have been made by them on account of this loan. If this loan shall be issued in series under Article I hereof, the provisions of this clause shall, *mutatis mutandis*, apply to the issue of each series of the loan.

Article XVII. — In the event of the Chinese Government desiring to issue further loans secured upon the revenue of the Salt Administration or to issue supplementary

loans for purposes of the nature of those specified in Article II of this Agreement, the Chinese Government will give to the Banks the option of undertaking such loans on a commission basis of six per cent (6%) of the nominal value of the bonds as provided in Article XIII of this Agreement.

The Chinese Government further undertakes that for a period of six months after the complete issue of this present loan and payment of the last instalment thereof in terms of the prospectus it will not proceed to the issue of any other Government loan or loans having a Government guarantee concluded later than April 10th, 1913, without the previous agreement of the Banks.

Article XVIII. — The Hongkong and Shanghai Banking Corporation, the Deutsch-Asiatische Bank, the Banque de l'Indo-Chine, the Russo-Asiatic Bank and the Yokohama Specie Bank, Limited, shall take the loans in equal shares and without responsibility for each other.

Article XIX. — The Hongkong and Shanghai Banking Corporation, the Deutsch-Asiatische Bank, the Banque de l'Indo-Chine, the Russo-Asiatic Bank and the Yokohama Specie Bank, Limited, may, subject to all their obligations under this Agreement, transfer or delegate all or any of their rights, powers and discretions thereunder to any British, German, French, Russian or Japanese Company, Directors or Agents with power of further transfer and sub-delegation; such transfer, sub-transfer, delegation or sub-delegation to be subject, however, to the approval of the Chinese Government.

Article XX. — This Agreement is signed on behalf of the Chinese Government by the Premier, the Minister of Foreign Affairs and the Minister of Finance under authority of a Presidential Order dated the twenty-second day of April, 1913, which has been officially communicated to the Ministers in Peking of Great Britain, Germany, France, Russia and Japan by the Waichiaopu.

Article XXI. — Eight sets of this Agreement are executed in English and Chinese, three sets to be retained by the Chinese Government and five sets by the Banks. In the event of any doubt arising regarding the interpretation of this Agreement the English text shall rule.

Signed at Peking this twenty-sixth day of April, 1913.

Signed by: CHAO PING-CHÜN, *Premier.*
LU CHENG-HSIANG, *Minister of Foreign Affairs.*
CHOU HSUEH-HSI, *Minister of Finance.*

For The Hongkong and Shanghai Banking Corporation,
E. G. HILLIER, *Agent.*

For The Deutsch-Asiatische Bank,
H. CORDES.

Banque de L'Indo-Chine,
HENRY MAZOT. R. SAINT PIERRE.

Russo-Asiatic-Bank,
L. DE HOYER.

For The Yokohama Specie Bank,
M. ODAGIRI.

II. — AGREEMENT FOR ADVANCES

This Agreement for advances on account of the "Chinese Government Five Per Cent Reorganization Gold Loan" of £ 25,000,000 is made between.

The Government of the Republic of China (hereinafter called "The Chinese Government"), acting through its Premier, its Minister of Foreign Affairs, and Minister of Finance, of the one part,

and

The Hongkong and Shanghai Banking Corporation,

The Deutsch-Asiatische Bank,

The Banque de L'Indo-Chine,

The Russo-Asiatic Bank, and

The Yokohama Specie Bank, Limited

(hereinafter collectively called "*The Banks*"), of the other part.

Whereas the above contracting parties have this day entered into an Agreement for a "Chinese Government Five Per Cent Reorganization Gold Loan" of £ 25,000,000 and it has been agreed that the said loan shall be issued to the public as soon as possible at a price in London of not less than Ninety per cent of the nominal value of the bonds, and

Whereas the Chinese Government is in urgent need of funds pending the issue of the said loan to the public,

It is hereby agreed as follows: —

Article I. — The Banks hereby agree to advance immediately upon the signature of this Agreement the equivalent of £ 2,000,000 Sterling as follows: £ 400,000, Marks 8,180,000, Francs 10,100,000, Roubles 3,788,000, Yen 3,918,400 to be held to the order of the Minister of Finance in London, Berlin, Paris, St. Petersburg and Yokohama respectively. The Chinese Government undertakes, if and when requested by the Banks, to evidence the said advances by the issue of Treasury Bills in the respective Currencies to be handed to the Banks.

Article II. — Interest on the said advances of the aggregate equivalent of £ 2,000,000 shall be at the rate of Seven per cent (7%) per annum, calculated from the date of this Agreement, and payable half-yearly, and the principal with accrued interest shall be repaid from the first proceeds of the said "Chinese Government Five Per Cent Reorganization Gold Loan" of £ 25,000,000 when issued, or in any case shall be repaid to the Banks by the Chinese Government within Twelve months from the date of this Agreement.

Article III. — These present advances for the aggregate equivalent of £ 2,000,000, constitute a direct liability and obligation of the Chinese Government and are secured in respect to both principal and interest by the charge upon the entire revenues of the Salt Administration of China, in terms of Articles III and IV of the said Reorganization Loan Agreement.

Article IV. — The said advances shall be used solely for the purposes specified in, and shall be treated as for account of, the Annexes I) and E to the said Reorganization Loan Agreement; their disbursement shall be carried out in accordance with the provisions of Article XIV of that Agreement.

Arrangements will be made between the Minister of Finance and the Banks for the transfer of the said advances to China and the payment of the silver equivalent at the places where required.

Anthony B. Chan

Article V. — The terms of this Agreement shall be officially communicated by the Waichiaopu to the Ministers of Great Britain, Germany, France, Russia and Japan in Peking.

Article VI. — Eight sets of this Agreement are executed in English and Chinese, three sets to be retained by the Chinese Government and five sets by the Banks. In the event of any doubt regarding the interpretation of this Agreement the English text shall rule.

Signed at Peking by the Contracting Parties this twenty-sixth day
of April, 1913.

(Signatures as above)