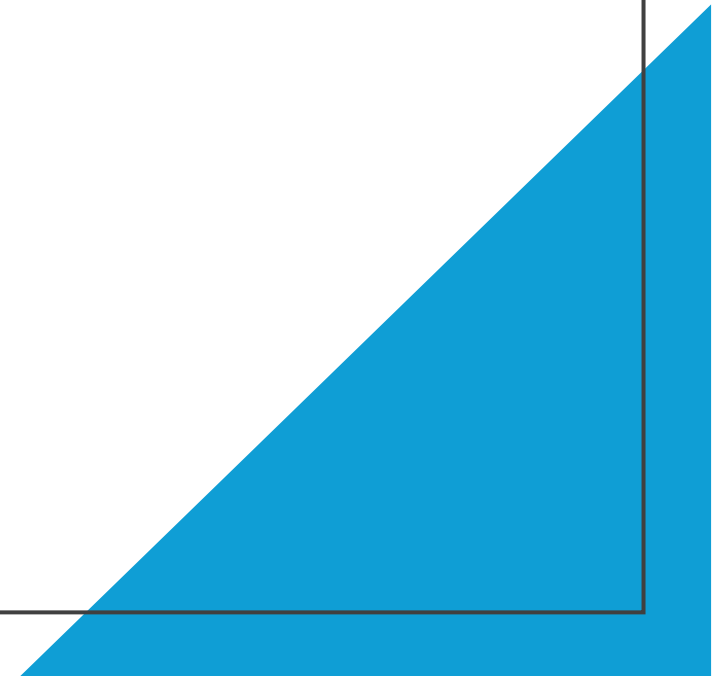


# The Lending Market: Integration and Competition in Late Imperial and Republican China

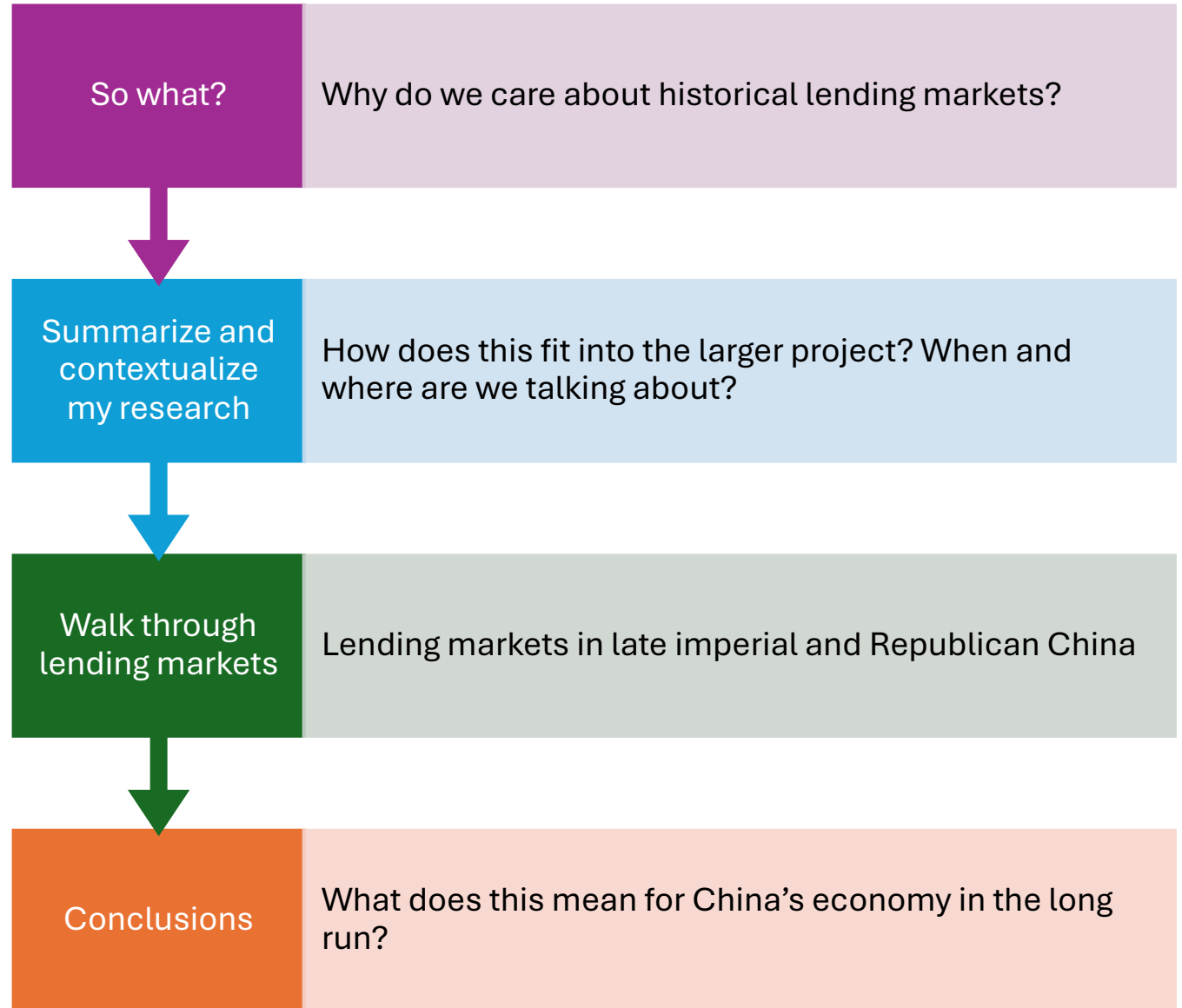
Matthew Lowenstein  
Hoover Fellow  
Hoover Institution



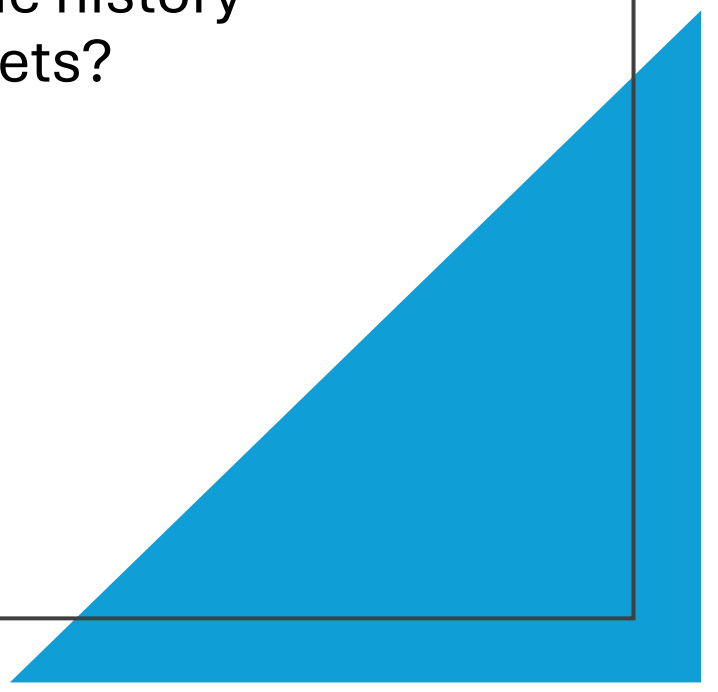
# *Finance and Capital in Late Imperial and Republican China: The Shanxi Merchant System*

1. Background: Finance in Early Modern China and Europe
2. The nature of the Chinese firm: from partnership to joint stock company
3. Hall and household: Investment in Late Qing and Early Republican China
4. Paper Money in the late Qing and Early Republican Period
5. The Biaoqi System: "Settlement fairs" and Interbank Clearing
- 6. Loans and lenders: Specialization, Competition, and Integration**
7. Interregional Capital Flows: From Remittances to Domestic Exchange
8. The Tiger Plate: From Forward Contracts to Futures Markets

# Overview



Why do we care about the history  
of Chinese lending markets?



Well functioning  
financial  
institutions and  
markets are  
associated with  
**economic  
development**

- Hirschman, 1958; Gerschenkron, 1962; Cameron, 1963; Davis, 1965; North and Weingast, 1989; Levine, Loyaza, and Beck, 2000; Rousseau and Sylla, 2001; Davis and Gallman, 2001; Levine, 2001; Levine, 2005; Bordo and Rousseau, 2012; Calomiris and Haber, 2014; Hoffman, Postel-Vinay, Rosenthal, 2019

# Relevance to China

- China's lack of lending markets has long been cited as a cause, perhaps one of the principal causes, in its **failure to develop**
  - Tawney, 1932; Wu, 1936; Buck, 1956; Huang, 1985; Duara, 1988; Pomeranz, 1993; Isett, 2007; Zhang, 2017

Much of the scholarship sees traditional lending as “broken” in some way

- RH Tawney (1932): “...the rates at which loans are made naturally tend to be exorbitant. In reality, indeed, no market rate can be said to exist.”
- John Buck (1956): “There is in no sense a national credit market and funds available for in one part of a province are not to any extent available for lending elsewhere, so that the interest rates vary considerably over short distances.”

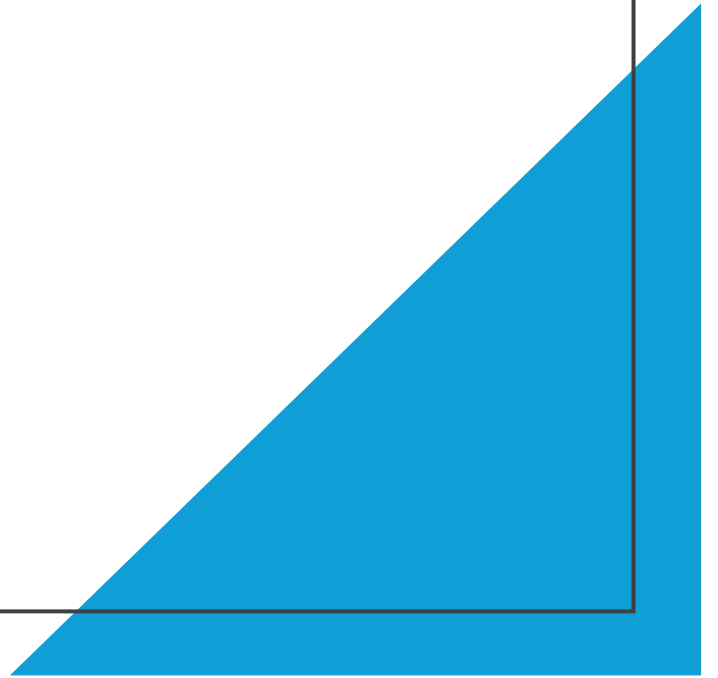
# Relevance to China's political development



- Importance of “usury” in **Chinese Communist Party historiography**
  - “White-haired girl”
  - Hinton, 1966
  - Enduring influence in textbooks, popular culture (甲方乙方)



Newer, alternative view on Chinese lending—largely in the Chinese language literature



# Lending behavior consistent with competitive markets

- Secular decline in interest rates
  - Tang, 2016
  - Peng, Chen, and Yuan, 2023
- New evidence against coercion or monopoly
  - Peng, Chen, and Yuan, 2008
  - Lin, 2021
- New work on land tenure relationships
  - Cao and Liu, 2014
  - Jing and Cao, 2019
  - Cao, 2020
- Related to debate over “modern” Chinese banking
  - Friedman and Schwartz, 1963 and 1992
  - Coble, 1980
  - Brandt and Sargent, 1989
  - Rawski, 1993

# Thesis

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Qing and Republican-era  
China had **competitive  
lending markets.**

---

Markets were **integrated** (in  
the Postel-Vinay, Rosenthal,  
and Hoffman sense).

## Empirical Findings

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**Guarantor system** plays the role of French notaries in Chinese “dark matter” lending

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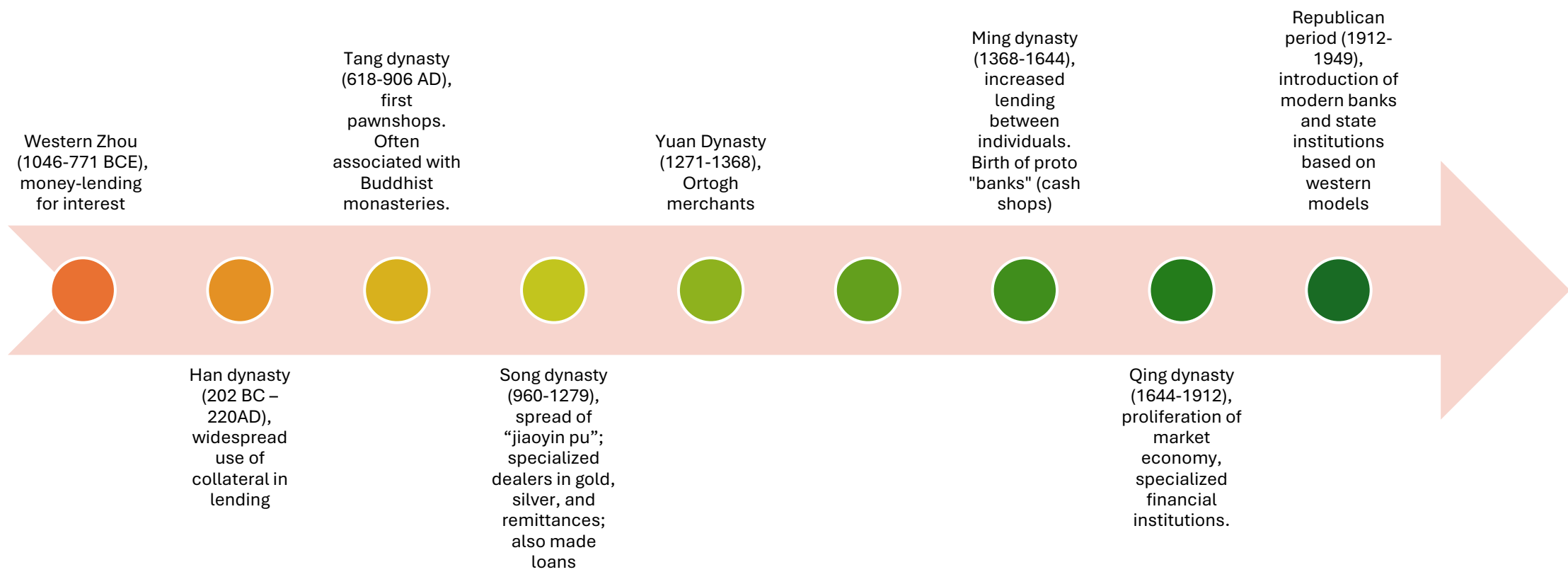
Financial **specialization** leads to different lenders serving distinct niches

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Interest rates influenced by **currency fluctuations** suggests market mechanism

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Statistical evidence for **rural/urban** and **interregional market integration**



Western Zhou (1046-771 BCE), money-lending for interest

Han dynasty (202 BC – 220AD), widespread use of collateral in lending

Tang dynasty (618-906 AD), first pawnshops. Often associated with Buddhist monasteries.

Song dynasty (960-1279), spread of "jiaoyin pu"; specialized dealers in gold, silver, and remittances; also made loans

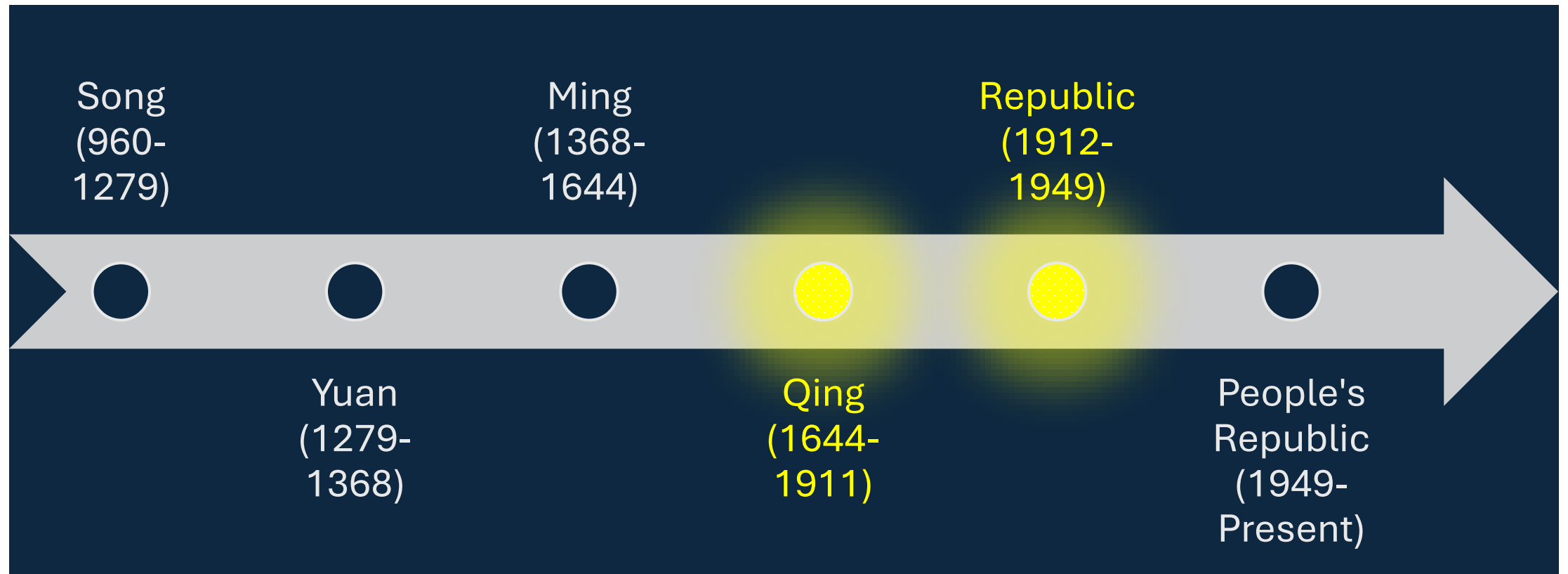
Yuan Dynasty (1271-1368), Ortogh merchants

Ming dynasty (1368-1644), increased lending between individuals. Birth of proto "banks" (cash shops)

Qing dynasty (1644-1912), proliferation of market economy, specialized financial institutions.

Republican period (1912-1949), introduction of modern banks and state institutions based on western models

# Early modern Chinese dynasties



## China's "Venetian" Bankers

- Merchants from Shanxi began to dominate the overland trade from China to Mongolia and Russia beginning in the Ming Dynasty (1368-1644)
- Rapid financial innovation during Qing dynasty (1644-1912)

Present-day Shanxi Province, People's Republic of China



Source: Wikicommons

# Primary sources from Shanxi province

立合同  
張股其  
堂貧  
但力元  
股五厘  
恕堂八  
議定身  
之時天

民國  
三多堂 股銀八厘  
五福堂 股銀七厘  
德遠堂 股銀五厘  
廣豐堂 股銀五厘  
永記 股銀五厘  
宋建禮 人股半條  
宋應林 人股半條  
趙祁 人股半條  
張嘉發 人股半條  
郭學溫 人股六厘  
王立本 人股半條

心協力議定在  
樣趙懷義堂貧  
奉六洋但力元作  
作為股股五厘  
五厘張水興堂  
認定經理股九  
水同中議定二  
恐口毋憑立  
代玉

謝清齋  
劉立志  
謝清齋  
劉立志

中華民國十年九月十五日

|   |   |   |
|---|---|---|
| 月 | 日 | 年 |
|   |   |   |
|   |   |   |
|   |   |   |
|   |   |   |

劉清林 啟

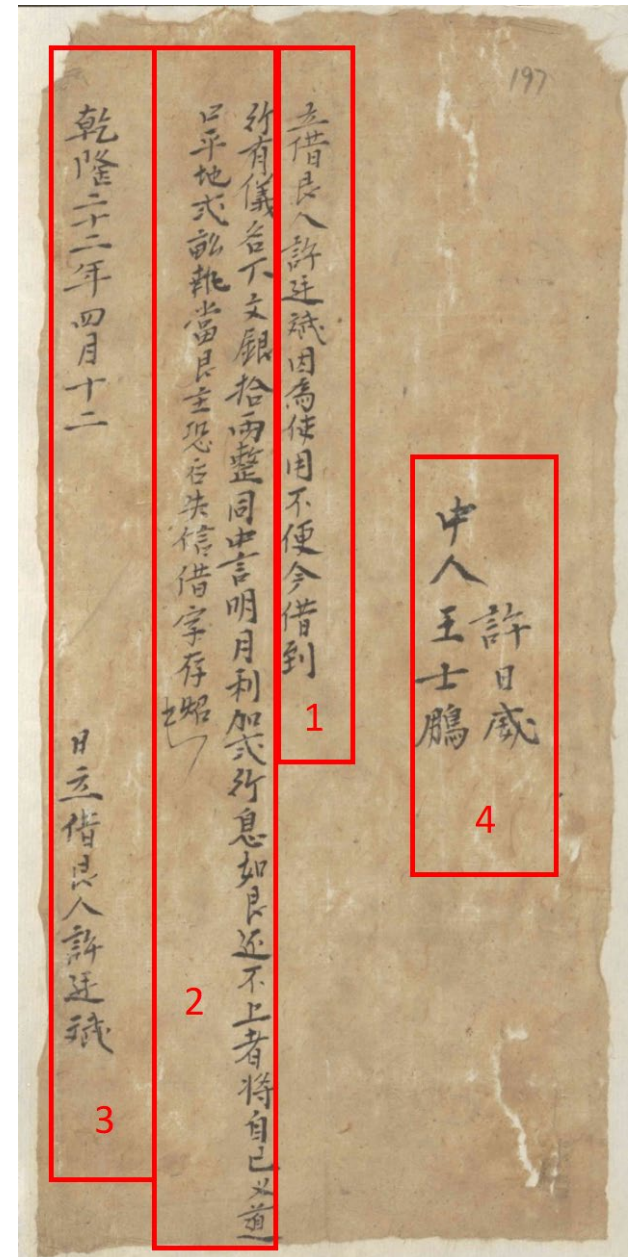
翟改成 種地拾壹畝  
水者廿五斤  
水者廿八斤  
水者廿九斤  
每畝收共銀壹元

東彰  
度遠  
中議定  
張積耀  
奉六洋  
作為股  
厘溫忠



# What was a loan in Qing China?

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# Taxonomizing loans

## Interest

- Zero interest
- Monthly
- Settlement date
- Annual
- “Zero-coupon” (long-term)

## Unit of account

- Silver
- Copper
- Silver dollars
- Grain

## Collateral

- Non-collateralized
- Farmland
- Buildings
- ROSCA shares

## Target market

- Individuals
- Agrarian
- Commercial
- Charity

# Who were the players?

## Individuals

- Merchants
- Landowners

## “Family halls” (*tanghao* 堂号)

- Family asset managers

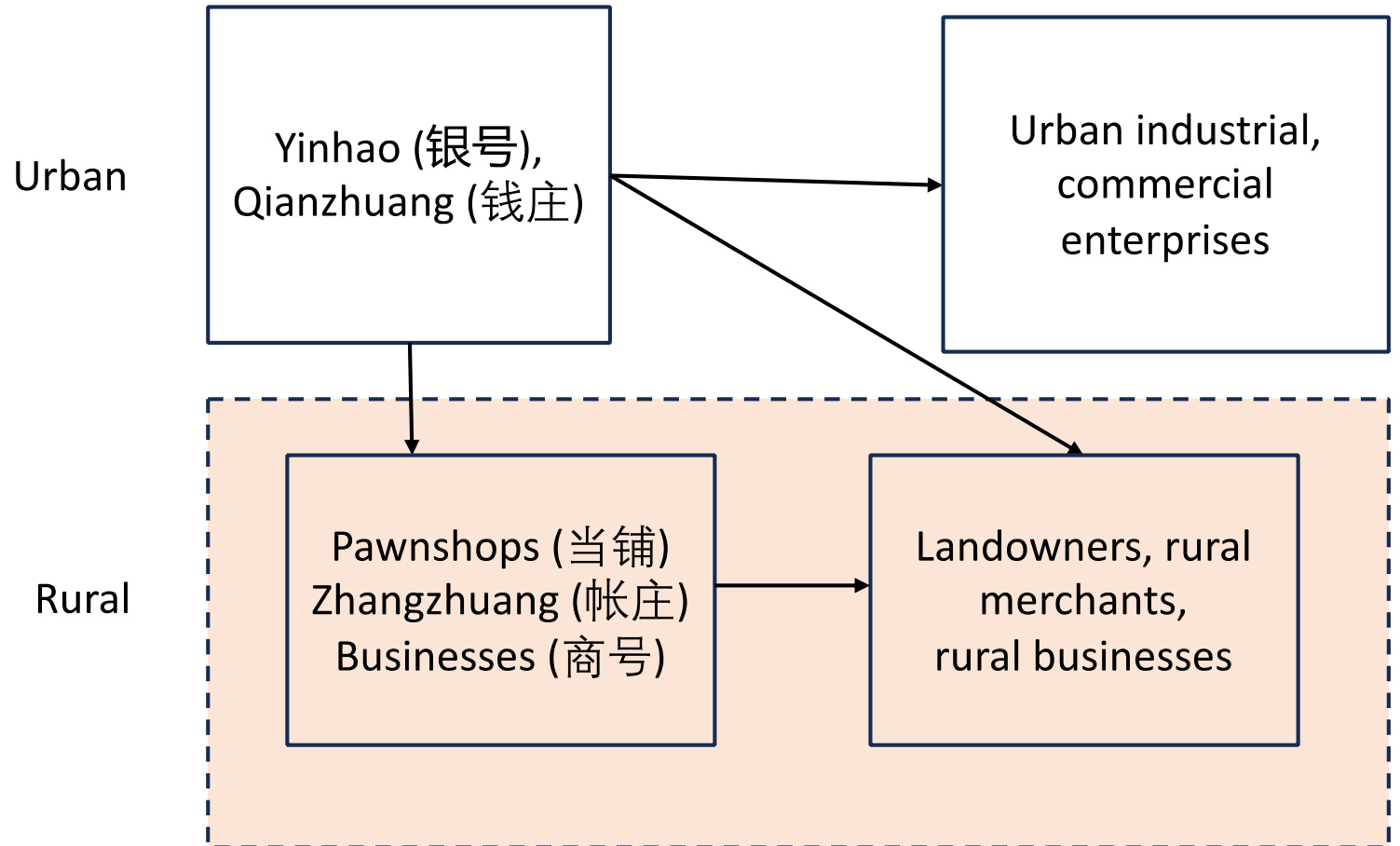
## Businesses

- Pawnshops
- Native banks (钱庄、银号)
- Credit bureaus, shops (账局、账庄、放账铺)
- Business entities (商号)

## Charitable organizations

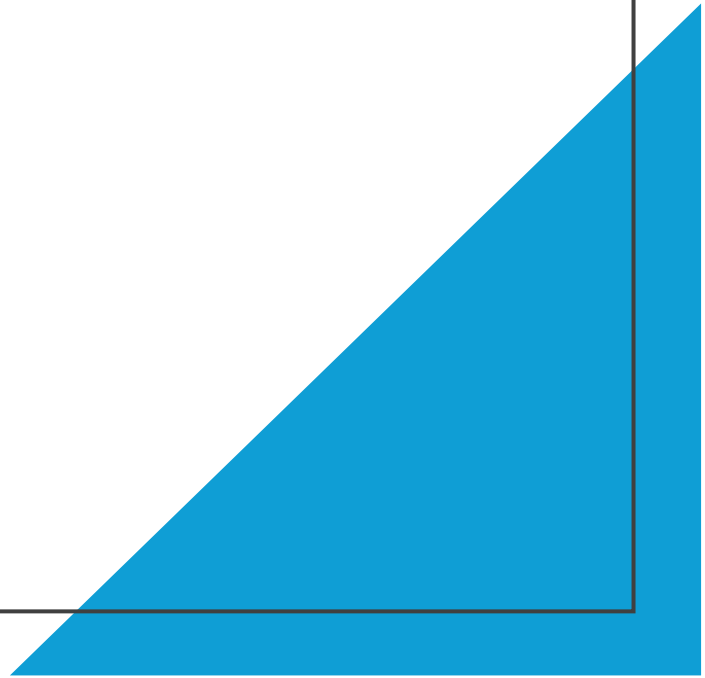
- Buddhist organizations
- Temple shrines (“incense societies”)
- Charitable halls

Market segmentation

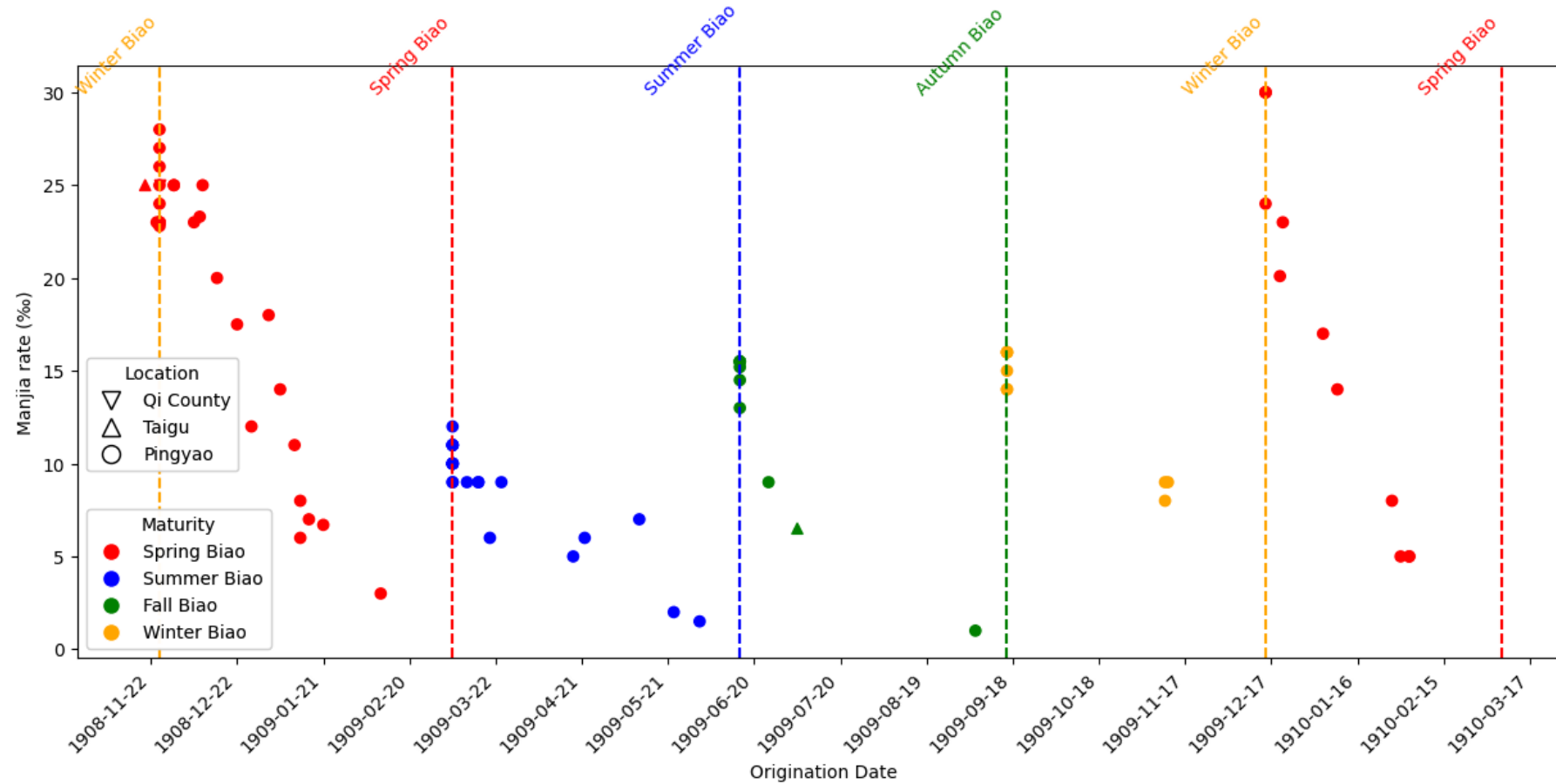


# New data set of loans

- 610 unique, interest-bearing loan contracts denominated in money
  - 464 monthly interest
  - 146 annual interest
- 118 family division contracts



# Commercial lending



# Commercial lending (Tianshunkui, institutional)

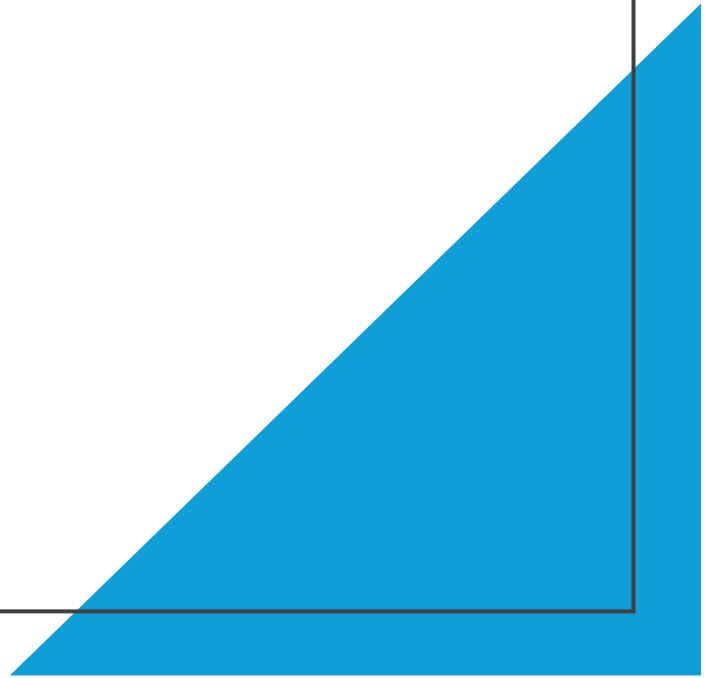
Based on all loans

| Term    | Lending rate | Deposit rate | Spread | Loans extended | Deposits received |
|---------|--------------|--------------|--------|----------------|-------------------|
| Annual  | 6.04%        | 5.55%        | 0.49%  | 25,000         | 29,590            |
| Manjia  | 5.08%        | 4.70%        | 0.39%  | 1,500          | 7,000             |
| Monthly | 18.46%       | 6.93%        | 11.53% | 5,454          | 1,000             |
| Total   | 8.11%        | 5.43%        | 2.69%  | 31,954         | 37,590            |

Based on IRR

| Term    | Lending rate | Deposit rate | Spread | Loans extended | Deposits received |
|---------|--------------|--------------|--------|----------------|-------------------|
| Annual  | 5.70%        | 5.22%        | 0.48%  | 14,500         | 18,790            |
| Manjia  | 5.69%        | 4.86%        | 0.83%  | 1,500          | 7,000             |
| Monthly | 9.30%        |              |        | 3,707          |                   |
| Total   | 6.38%        | 5.12%        | 1.25%  | 19,707         | 25,790            |

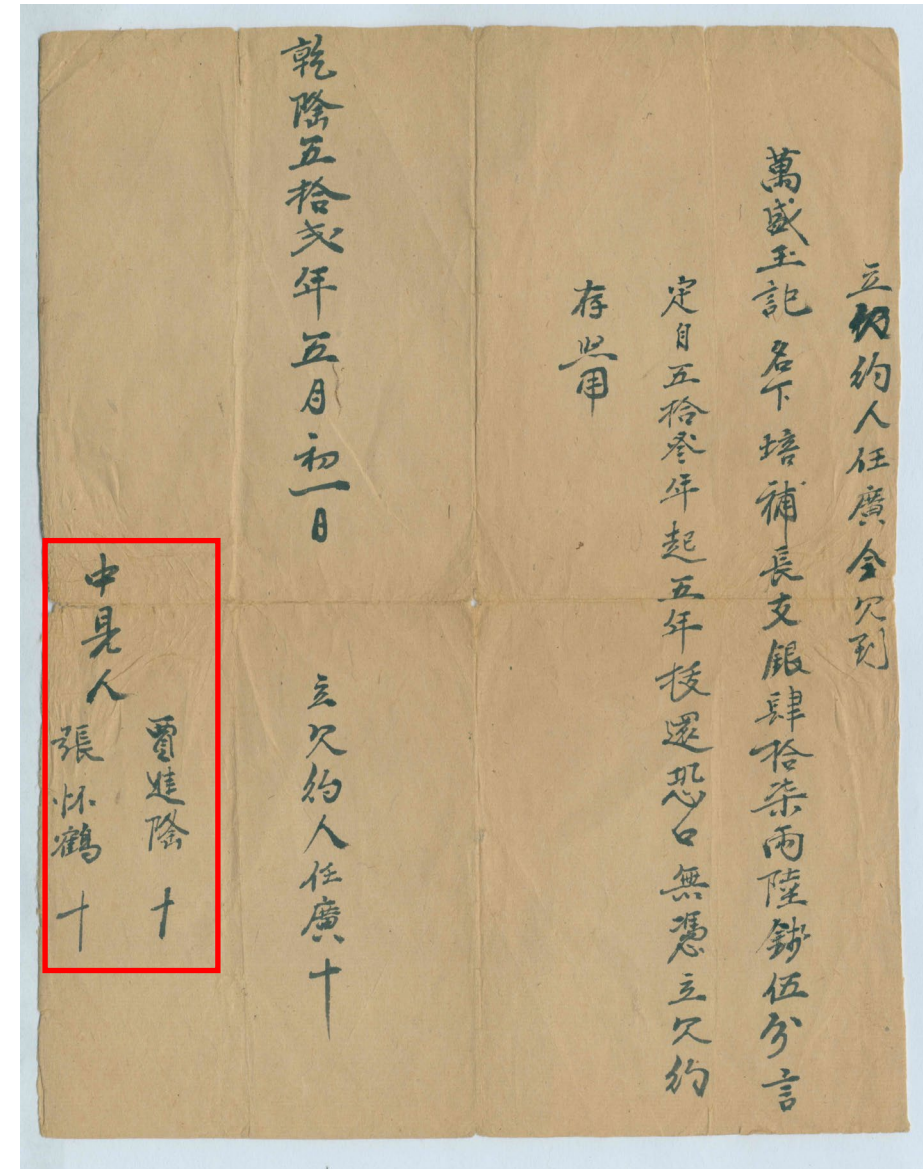
But what about the countryside? What were loans based on?





# “Intermediaries” were the key to the system

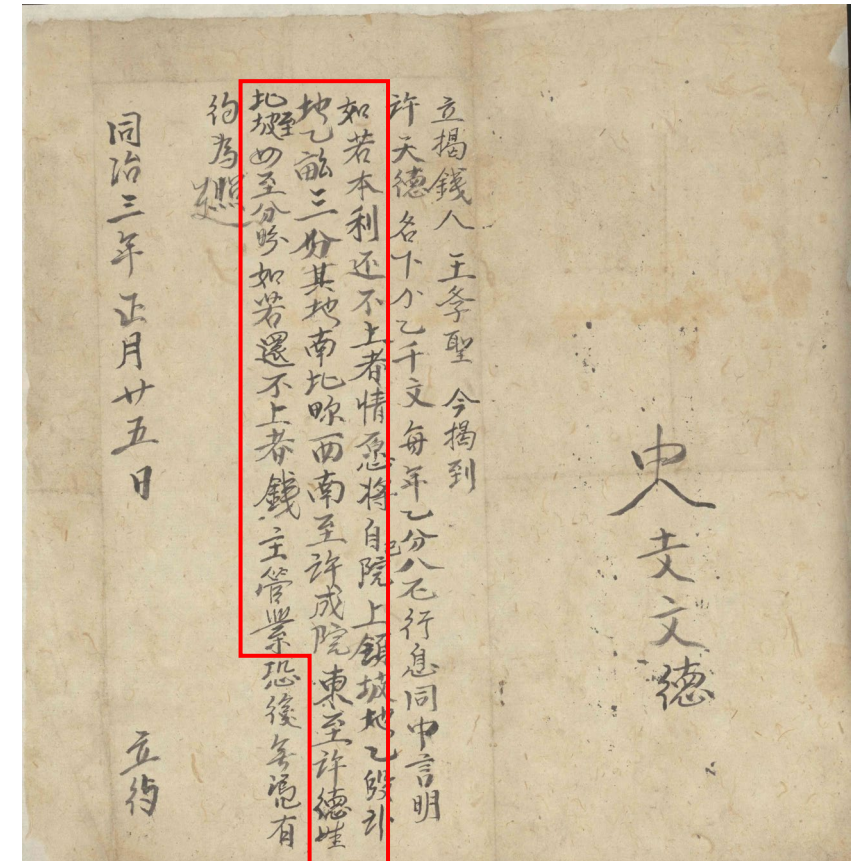
- Depending on contract, intermediary could have several functions:
  1. Put borrower in touch with lender (中人)
  2. State the terms of the loan orally, and vouch for the written contract to be as represented orally.
  3. Witness the loan, confirm terms of the contract (见人)
  4. Guarantee execution of contract (保人)
  5. Usually unpaid, sometimes earned commission
- Over 40 variations
- Compare to notaries in France



中见人：贾建陶、张怀鹤

# Fixed assets as collateral

- Most rural loans were mortgages on farmland
- 同中言明如若本利还不上者情愿将自己院上领坡地一段计地一亩三分，其地南北珍，西南至许成院，东至许德姓，北至城，四至分明，如若还不上者钱主管业
- It is clearly stated aloud that if principal and interest are not returned, the borrower will willingly surrender his plot of land amounting to 1.3 mu next to his courtyard. The plot stretches from north to south, extends to Xu Cheng's courtyard in the southwest, and to Xu Dexing in the north. The four borders are clearly delineated. In the event of default, the lender shall take position of this property.



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But what did rural and urban loans have to do with one another?

江南河南山東放鄉字簿

河南平梁省  
正東

陳留縣  
至有四十里

復和太  
董宗嶺趙及扶溝具  
司事趙全亦  
印桂如

長豆太  
董宗嶺趙

祀縣  
至陳留平東國各在有馬一列

豫豆泰  
支塚頭

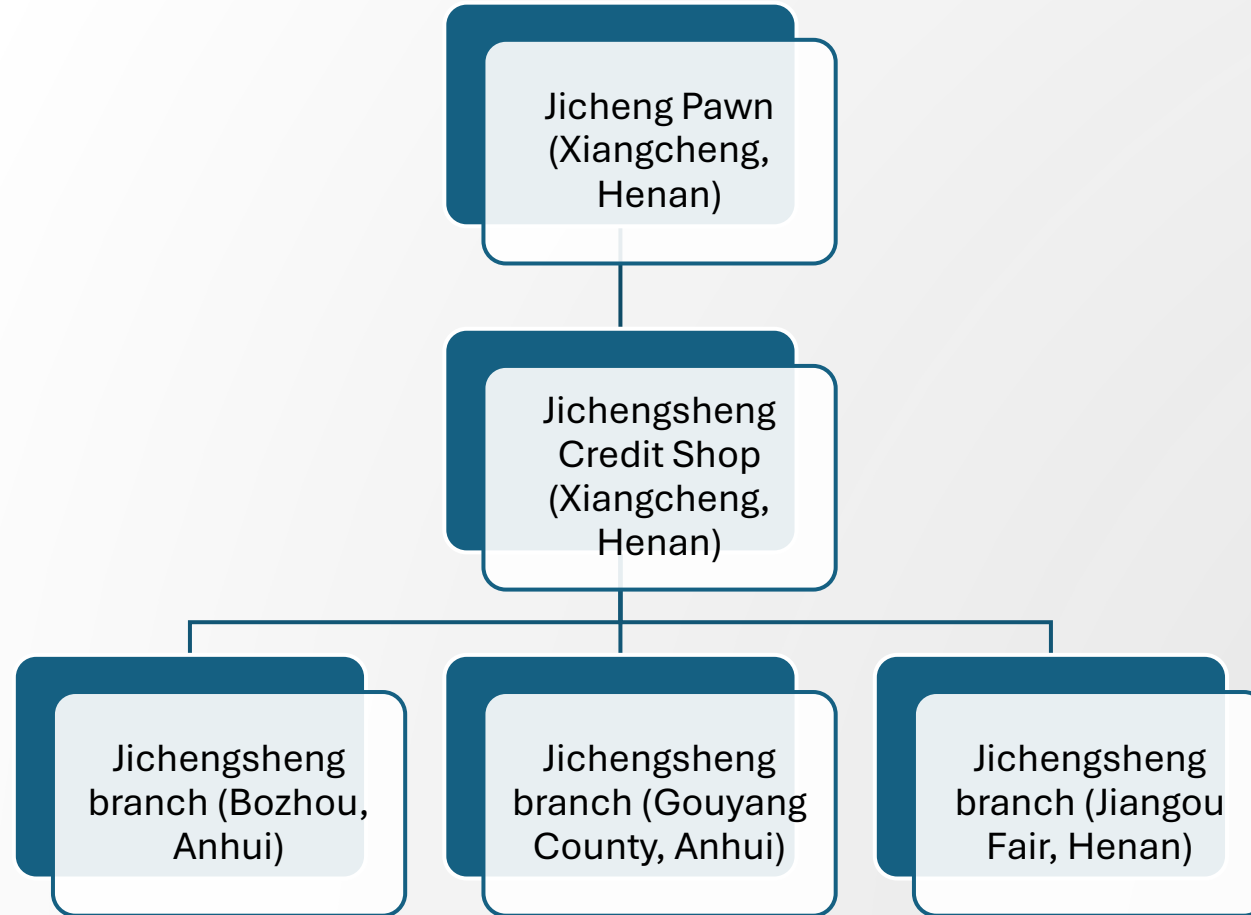
豆泰恒  
董宗嶺趙  
支塚山

豆泰奎  
趙

長豆泰  
趙  
司事耿金城

- Commercial capital flowed freely into the countryside
- Case in point: "Credit shops"

# The Jicheng Co. Network (吉成)



# How do the credit shops do business?

---

Require:

1. Guarantor
2. Farmland as collateral
3. ONLY lend to “honest farming households”
4. No loans to grand families, “gentlemen,” or merchants.
5. Only lend after careful survey of local economy

# How do the credit shops do business?

- “If a loan is to be extended, then the guarantor must be an upstanding person. If the loan is to be used for purchasing farmland or raising livestock, then the loan can be secured by land. But the lender should go in person to the borrower’s home and verify the use of the loan for the stated purpose.”
- “All those who would establish a business must not lend to the grand households in that village, nor lend to any gentlemen at all, nor lend to households without land. You should seek out honest farming households. Do not lend to those engaged in commerce, nor to those without a guarantor.”

- 
- What was the relationship between rural and urban financial institutions?



Urban financial institutions also made rural loans

32

周口天帳局

日昇昌 平遙 滙兌

乾盛晉 介休

存義公 初具

大德通 人

晉泉和 初具

大德亨 人

大德元 初具

日昇厚 平遙

尉盛長 平遙 滙兌

大德厚 人

大德庄 人

新泰厚 平遙 滙兌

隆昌慶 介休

真休

悅來厚 介休 放鄉性錢去古性

悅盛豫 介休 放鄉性錢去古性

榮盛長 介休 估衣舖錢去古性

晉泉和 周口支



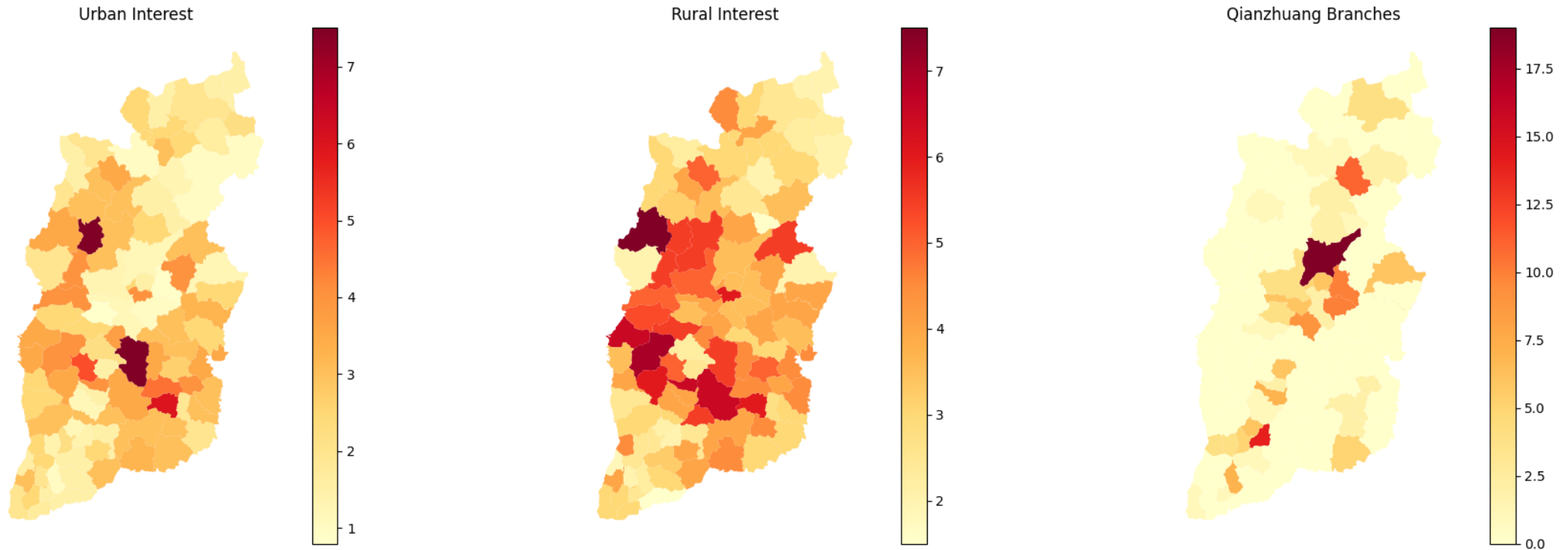
Rural institutions kept  
accounts at urban banks.

|                   | <b>Deposits</b> | <b>Loans</b> |
|-------------------|-----------------|--------------|
| <b>Residents</b>  | 71,509.30       |              |
| <b>Peasants</b>   |                 | 87,620.06    |
| <b>Commercial</b> | 31,814.00       | 50,039.00    |
| <b>Interbank</b>  | 40,166.00       | 44,483.00    |
| <b>Total</b>      | 143,489.30      | 182,142.06   |

Sources and uses of Wenshui credit shops, 1935.

# Rural / Urban integration

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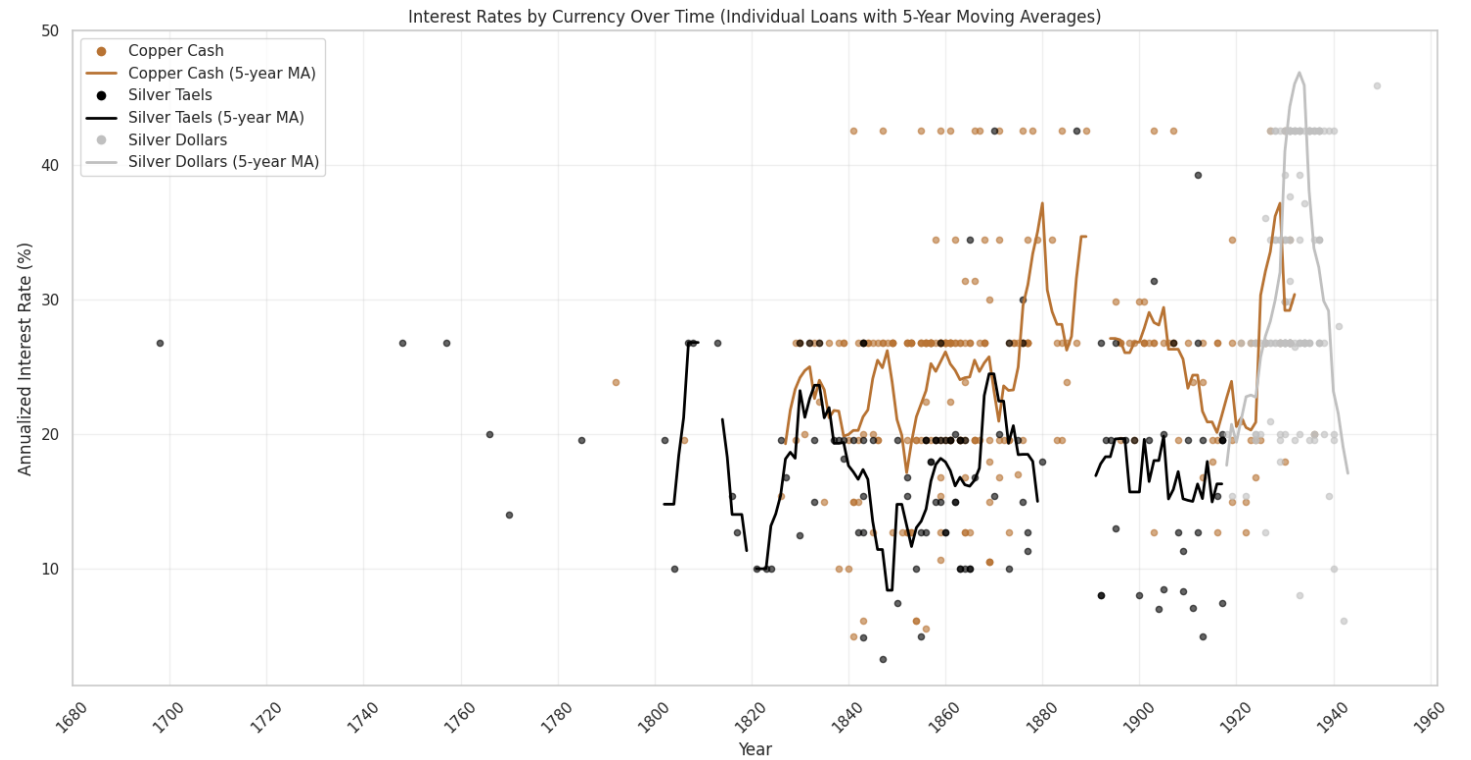
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What about those sky high interest rates?

---

Interest rates were high, but during the Qing not as high as often claimed.

During the Republican period, interest rates spiked.



Interest rates were high, but during the Qing not as high as often claimed.

During the Republican period, interest rates spiked.

|                                      | ALL<br>BORROWERS | INDIVIDUALS | AGRARIAN | BUSINESS |
|--------------------------------------|------------------|-------------|----------|----------|
| Silver Taels Rate                    | 16.87            | 18.40       | 19.19    | 11.04    |
| Copper Cash Rate                     | 22.06            | 22.53       | 23.00    | 12.21    |
| Silver Dollars Rate                  | 34.63            | 35.33       | 34.79    | 26.37    |
| Real Copper Rate (Silver Adj)        | 23.71            | 24.27       | 24.12    | 9.81     |
| Real Silver Rate (Price Adj)         | 15.52            | 16.96       | 16.66    | 10.35    |
| Real Silver Rate (Gold Adj)          | 15.95            | 17.71       | 17.63    | 9.99     |
| Silver Equiv Copper Rate (Price Adj) | 20.64            | 20.86       | 19.98    | 15.18    |
| Silver Equiv Copper Rate (Gold Adj)  | 23.26            | 23.80       | 23.59    | 9.79     |

Institutional lending in the countryside

# Retail lending

|        |             | Borrower   |          |      |       |       |
|--------|-------------|------------|----------|------|-------|-------|
|        |             | Individual | Business | Hall | Other | Total |
| Lender | Individual  | 342        | 13       | 0    | 1     | 356   |
|        | Business    | 93         | 22       | 4    | 1     | 120   |
|        | Hall        | 54         | 19       | 0    | 0     | 73    |
|        | Association | 44         | 0        | 0    | 0     | 44    |
|        | Temple      | 10         | 0        | 0    | 0     | 10    |
|        | Other       | 7          | 0        | 0    | 0     | 7     |
|        | Total       | 550        | 54       | 4    | 2     | 610   |



# Retail lending rates

| <b>Borrower</b>        | <b>Average Interest (%)</b> | <b>Average Principal (taels)</b> | <b>Counts</b> |
|------------------------|-----------------------------|----------------------------------|---------------|
| <b>Business entity</b> | 6.82                        | 541.70                           | 10            |
| <b>Individual</b>      | 16.76                       | 113.83                           | 55            |