

Banking in Modern China: Entrepreneurs, Professional Managers, and the Development of Chinese Banks, 1897–1937. By *Linsun Cheng*. Cambridge, U.K.: Cambridge University Press, 2003. xvi + 277 pp. Index, notes, bibliography, appendix, illustrations, tables. Cloth, \$65.00. ISBN 0-521-81142-2.

Reviewed by Brett Sheehan

Linsun Cheng's *Banking in Modern China* is an archival tour de force. Cheng has obtained access to bank records that have been off limits for decades and that, even today, require connections and finesse to examine. This has allowed Cheng to correct some misperceptions about the history of Chinese banking.

Cheng begins his story at the end of the nineteenth century, when a number of Chinese officials and financiers began establishing “modern” banks, based on foreign models. By the 1920s and 1930s, several of these banks had become the success story of the republican-period economy, growing faster than “even those most important and energetic sectors, such as cotton textiles, cigarettes, matches, machinery, edible oil, and flour” (p. 71). Cheng's book explains this growth, disproving the idea that it derived from speculation in government bonds, and showing that Chinese bankers made a positive contribution to their country's economy.

The first three chapters comprise a narrative history of Chinese-owned modern banks, which originated as government institutions (1897–1911) before the emergence of a private sector and then consolidation into a few, very large, banks. The state sector underwent semi-privatization between 1912 and 1927, but the state nationalized much of the banking industry in 1935. Although the basic outlines of this narrative are familiar, many of the details will be new for English-language readers. In addition, Cheng has unearthed important nuggets of information from the archives that change our understanding of the story.

Cheng's most valuable contribution occurs in Chapter Four, where he has heroically pieced together data and supplied some of his own assumptions on investments in government bonds by China's largest banks. He concludes that, even during the time of the debt-happy Nationalist government of the 1930s, when “government bond holdings

of principal Chinese banks jumped more than four times,” with the result that as much as 64 percent of government bonds was managed by banks, total bond holdings remained less than 8 percent of aggregate bank assets (pp. 117–19).

Chapters Five and Six describe the innovations made by modern banks in operations (i.e., taking collateral for loans, soliciting small deposits from households) and management (personnel recruitment and training). Chapter Seven notes the emergence of a group of professional managers, who, Cheng asserts, were Schumpeterian entrepreneurs. Cheng emphasizes the spirit and professionalism of these entrepreneurs, and he concludes that “credit for the success of these banks should be largely attributed to [this] group of prominent bankers” (p. 243).

Despite its many strengths, the book contains some weaknesses as well. Throughout, the author has had to rely on incomplete statistics, and occasionally his information is contradictory. For example, in Chapter Four, he asserts that the banks’ income from securities amounted to less than 10 percent of their total earnings (p. 128, table 4.8), but in Chapter Six, he notes that banks often did not include the profits they made from securities trading on their balance sheets (p. 183). Specialists may also object to some of his assumptions, but until new information is uncovered, his carefully compiled tables will provide the baseline for discussions of the economic status and importance of the Chinese banking industry in this period.

Cheng successfully refutes the widely held notion that Chinese banks relied on profiteering in government bonds as their main business, but his explanations of the banks’ growth and of their place in the republican political economy are less convincing. He is certainly right that these institutions played a greater role in economic development than has been thought, but many questions remain. For example, in Chapter Four, he notes that the Bank of China, the country’s largest bank, made direct loans to central and local government agencies that often represented from 27 percent to 46 percent of all its loans (p. 131). The fact that direct loans, not bonds, might have been the critical link between banks and the government deserves more attention.

Cheng could also have cited more of the literature on banking history and development. He notes that concentration in the Chinese banking industry resulted from the growth of a handful of very large banks, rather than from amalgamation, as happened

in the United States (pp. 63–4), but he never explains the probable causes of this unique pattern. In addition, he overlooks some important sources. To cite just a few, his discussion of the 1935 government takeover of the banking industry curiously omits both Zheng Huixin's important book, *Gaige yu kunrao* [Reform and Perplexity] (1998), and the debates on whether or not American silver purchases threatened the Chinese economy (see Lauren Brandt and Thomas Sargent, "Interpreting New Evidence about China and U.S. Silver Purchases," *Journal of Monetary Economics* [Jan. 1989]). Zheng, in particular, reveals that a higher degree of hostility was directed by elements of the Nationalist state toward banks than is apparent in Cheng's model of cooperation. Elsewhere, Cheng does not cite Alexander Gerschenkron's work in his discussion of the role of banks in economic development, nor, in expounding his ideas of late development and bank personnel policies, does he acknowledge Wen-hsin Yeh's, "Corporate Space, Communal Time: Everyday Life in Shanghai's Bank of China" (*American Historical Review* [Feb. 1995]).

Finally, Cheng's assertion of the importance of professional managers in creating bank success is cogent but remains incomplete. His model does not explain why banking entrepreneurs were able to succeed so dramatically when entrepreneurs in other sectors were not. The fact remains that banking was somehow different. Cheng fails to supply enough elements to round out the claims he has made for the "visible hands" of professional bankers.

Nonetheless, *Banking in Modern China* provides a much-needed English-language narrative of the history of modern banking before 1937. Its inclusion of heretofore inaccessible archival material should help launch a closer scrutiny of the history of Chinese banking and increase its visibility within the larger history of banking.

*Brett Sheehan is assistant professor of history at the University of Wisconsin–Madison and is the author of a number of books and articles on Chinese banking, including Trust in Troubled Times: Money, Banks and State-Society Relations in Republican Tianjin (2003) and "Warlords, Cadres and Bankers: Private Commercial Banking in the Republican and Post-Mao Periods," Journal of Asian Business (1998). He is currently working on two projects: a history of the Chinese wool industry, particularly the*

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*industrialist Song Feiqing, and a history of professionalization among the ranks of republican-period Chinese bankers.*