

RESEARCH ARTICLE

# Modern China's financial obligations and strategies, 1901–1925: the depreciation of tael, the Austrian loans and the gold franc

Chihyun Chang and Chiu-Ya Kao

School of Humanities, Shanghai Jiao Tong University, Shanghai City, P. R. China

**Author for correspondence:** Chihyun Chang, E-mail: [chihyun@sjtu.edu.cn](mailto:chihyun@sjtu.edu.cn)

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## Abstract

The financial burden of the Boxer Indemnity forced the Chinese government to change its behaviours since 1901. This article re-examines the position that the decision to honour indemnity obligations enabled the Chinese state to maintain peaceful relations with western powers during the first quarter of the twentieth century. The 1901 edict affirming that China would re-examine its capacity to satisfy its international commitments. Before this edict, China had selectively followed its Sino-foreign treaties, but thereafter, China completely assumed all of her financial obligations to foreign creditors. These changes in behaviour helped China restore its deteriorated foreign relations and were followed by Provisional Executive Duan Qirui until 1925. These changes can be illustrated by three cases, namely the depreciation of tael, the Austrian loans, and the gold franc. The cases were highly international as the first concerned eleven foreign creditors, the second concerned two, and the third concerned three. From 1901–1925, foreign powers also provided China with reciprocal favours in exchange for China's responsible behaviours. Eventually, China retrieved its tariff autonomy in 1930.

**Keywords:** Austrian loans; Boxer indemnity; financial policy; gold franc; modern China

## Introduction

The first day of the twentieth century marked a turning point in Sino-foreign relations. Before 1900, the three issues concerning China's international relations were, as Sir Robert Hart indicated in 1865, trade, religious beliefs and international borders.<sup>1</sup> However, after two defeats in 1895 and 1900, another transnational issue arose – China's debts. As China's creditors were either foreign countries or foreign banks, the nature of her debts inevitably became internationalized. This internationalization was rooted in the fact that the Chinese government had to change its previous hostile diplomacy and incorporate itself into the transnational currency market. These two defeats forced China to conduct “responsible behaviours” to duly pay her debts. By constructing an image as a credible debtor, this became China's commitment to its international creditors.<sup>2</sup>

<sup>1</sup>Hart 2007, pp. 13–22.

<sup>2</sup>“Responsible behaviors”, as Douglass C. North and Barry R. Weingast argues, refers to the “financial foundation of long-run economic success” after a series of power struggles between the Crown and the parliament in seventeenth-century England. This relationship of cooperation and competition between the government and institution is also discussed in this article from the aspect of the Chinese government and the Chinese Maritime Customs Service (CMCS). This article also argues that because of the continuous responsible behaviours conducted by the Qing and Northern governments, a long-run economic and diplomatic success was also constituted. However, the context studied by North and Weingast was different in that (1) the relationship between the government and institution in early twentieth-century China was not in rivalry but in coalition compared to the one in seventeenth-century England; (2) the judicial foundation forcing China to be

The bugle call of this change was the famous (or infamous) edict issued by the Empress Dowager Cixi (慈禧太后 cixi taihou). She stated that “I cabled a telegraph to instruct Prince Qing Yikuang (奕劻) to go through the principles cautiously, and he would examine the capacity of China’s resources in order to satisfy foreign countries demands” (量中華之物力，結與國之歡心 liangzhonghua zhi wuli, jieyuguo zhi huanxin).<sup>3</sup> This new course of diplomacy was followed by subsequent Northern warlord Duan Qirui (段祺瑞).

During the terms of the aforementioned leaders, China had opportunities to decrease its debts but chose to honour the original agreement on the indemnities. Contemporary Chinese intellectuals and politicians criticized this as an act of treason since both the Northern warlords and the Empress Dowager used the state’s tax revenues in exchange for the western powers’ help in continuing their reigns. However, this article provides a counter viewpoint to interpret this diplomatic strategy and argues that this strategy could be understood as “diplomacy of appeasement”, which meant that the decision to honour the China’s financial obligations enabled China to maintain peaceful relations with western powers for almost a quarter century from 1901 until 1925. Historians might differ in perspectives regarding this peace through appeasement, but the policy’s contributions to the recovery of the Chinese Republic’s finance and foreign relations during this period warrant re-examination.

### The Boxer Indemnity and the depreciation of tael

China’s foreign financial obligations consisted of two parts: its foreign debts and the Boxer Indemnity.<sup>4</sup> The former resulted from defeat in the First Sino-Japanese War in 1895 and the latter from defeat in the Boxer War of 1900. The principal of the latter was *Hai-Kwan* Taels (*Hk.Tls.*) 450,000,000.<sup>5</sup> The principal and interest of China’s foreign debts were *Hk.Tls.* 672,200,000, and those of the Boxer Indemnity totalled *Hk.Tls.* 982,238,150 (see Table 1). The sum of *Hk.Tls.* 1.65 billion took China forty-two years to discharge. Throughout the forty-two years, the late Imperial, early Republican and Nationalist governments’ financial income, especially customs revenues and surplus, were tightly bound to the international bond, stock and currency markets. China’s currency became unprecedentedly influential to the international

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responsible was not the common law but the international treaties, which can be more pressing than the power of common law in England; (3) the Northern government’s parliament had never become powerful enough to challenge the governmental survival; and (4) the coalition formed by the government and CMCS in China was against the revolutionaries and radicals, but the coalition in England was formed by the parliament and other political institutions against the Crown. In sum, this article sheds light on a different historical course for a country’s economic and diplomatic success by exploring a group of pragmatic Chinese politicians and of professional foreign technocrats. Although their cooperation could not stop the Northern government’s collapse, they still demonstrated the merits in the long run during the Nationalists’ rule.

<sup>3</sup>“Instruct ministers to reorganise thoroughly after dissolving the Kang Faction (新黨既除著諸臣切實整頓政事 xindang jichu zhuzhuchen qieshi zhengdun zhengshi)”, quoted from Hu and Wang (eds.) 1959–1990, pp. 6–7.

<sup>4</sup>The Boxer Indemnity consisted of two parts: the primary indemnity and the local indemnity. The former was negotiated between by the Qing government and the foreign powers and the latter between the local governments and missionaries. The sum of the latter was *Hk.Tls.* 22,272,708. A part of the latter was incorporated into the primary indemnity so the sum decreased to *Hk.Tls.* 16,876,708. See Wang 1972, pp. 25–57. This article discusses the former solely.

<sup>5</sup>H. B. Morse defined the *Hai-kwan* Tael as “a purely fictitious and non-existent currency” and merely “a money of account, and not an existing currency”. Merchants in China used the following three factual silver taels: (1) the Shanghai Convention Tael (規平銀 guipingyin); (2) the Tribute Tael (漕平銀 caopingyin); and (3) the Treasury Tael (庫平銀 kupingyin). However, every silver tael exchange transaction involved in two necessary procedures and every exchange to Shanghai Tael involved in one more procedure. The first two procedures were (1) add for difference in weight (補平 buping); and (2) add for difference in touch (degrees of fineness) (補色 buse). The former meant that the weight of one tael, av., was lighter because of a shorter scale, and the latter meant the standard of silver fineness was lower because of the differentiation of local silver standards. Then an extra fee would be added for other silver tael exchange to Shanghai Convention Tael. See Morse 1902, pp. 40–41.

During the republican era, the CMCS started to levy cheques, silver coinage and Customs Gold Unit (which was a money of account just like the *Hai-kwan* Tael but it was of gold standard). For which sorts of currencies be levied at which Custom Houses, see Wright 1935, pp. 12–21.

For the late Qing’s currency policy, see Battilossi, Cassis, and Yago (eds.) 2020, pp. 549–66.

**Table 1.** The annual instalments of the Boxer Indemnity

	A Series (Hk. Tls.)	B Series (Hk. Tls.)	C Series (Hk. Tls.)	D Series (Hk. Tls.)	E Series (Hk. Tls.)	A, B, C, D, E Series (Hk. Tls.)	Customs and <i>Likin</i> revenues pledged for foreign debts. (Hk. Tls.)	Debts owed to Foreign States (Hk. Tls.)
Principal <i>plus</i> Interest	75,000,000	60,000,000	150,000,000	50,000,000	115,000,000			
Interest Rate	1.106%	1.783%	2.256%	2.401%	9.449%			
Start in	1902	1911	1915	1916	1932			
End in	1940	1940	1940	1940	1940			
Duration (year)	39	30	26	25	9			
1902–1910	3,829,500	2,400,000	6,000,000	2,000,000	4,600,000	18,829,500	23,600,000	42,429,500
1911–1915	3,829,500	3,469,800	6,000,000	2,000,000	4,600,000	19,899,300	22,800,000	42,699,300
1916–1931	3,829,500	3,469,800	9,384,000	3,200,500	4,600,000	24,483,800	18,500,000	42,983,800
1932–1940	3,829,500	3,469,800	9,384,000	3,200,500	15,466,350	35,350,150	7,500,000	42,850,150
In total						982,238,150	672,200,000	1,654,438,150

monetary market due to the fact that before World War I (WWI) China was the biggest country in debt to most of the major powers of the world.

However, the Boxer Indemnity is merely a question of figures, rendering it more of a financial, monetary and statistical issue. The simple question – how China paid its annual instalments – has been and continues to be the most important issue studied by contemporary Chinese bureaucrats. Before the Boxer Indemnity, the payment of the Shimonoseki Indemnity was through British and German banks. China used its customs revenue as a pledge to pay the Shimonoseki Indemnity as a one-time payment and return the annual instalments to the banks. However, the sum of the Boxer Indemnity was *Hk.Tls.* 450,000,000, which was too large for any bank to afford.

Hence, Inspector-General (IG) of CMCS Robert Hart suggested to the Qing Court negotiate a solution with the Eleven Powers.<sup>6</sup> In order for China to implement the Boxer Protocol duly, Hart’s priority was to ensure the fluctuation of exchange rates would not compromise the remittance of the annual instalments. This consideration led to Article VI of the Boxer Protocol, which regulated the exchange rates between *Hai-kwan* Tael and the currencies of the Eleven Powers. Article VI stated:

These 450,000,000 constitute a gold debt calculated at the Protocol’s fixed exchange rates of the *Hai-kwan* tael to the gold currency of each country, as indicated below:

<i>Hai-kwan</i> tael	Marks	3.055
	Austro-Hungary Crown	3.595
	Gold dollar	0.743
	Franc	3.740
	Sterling	3 <sup>s</sup> 0 <sup>d</sup> .
	Yen	1.407
	Netherlands florin	1.796
	Gold rouble	1.412

This sum in gold shall bear interest at 4 % per annum, and the capital shall be reimbursed by China in thirty-nine years in the manner indicated in the annexed plan of amortization [see Table 1]. Capital and interest shall be payable in gold or at the rates of exchange corresponding to the dates at which the different payments fall due.<sup>7</sup>

For Britain, the exchange rate was fixed so that three Shilling was equivalent to *Hk.Tls.* one. This rate made the sum that China would pay fixed to an exact number and this number would not go up or down. Also, the creditors could choose one of the eight currencies, and the sterling and franc were the two main chosen currencies. Britain, Portugal, Sweden and Norway chose sterling, and the Latin Monetary Union (LMU), *i.e.* France, Spain, Italy and Belgium, chose the franc. However, this choice in 1900 was probably a minor issue but it became sophisticated after WWI and the ones chose the latter started to negotiate with China regarding the gold franc issue.

The question of whether the fixed rates and currencies were positive for China can be controversial, but it was obvious that Hart was a cautious bookkeeper – he was averse to any risk of not being able to pay the annual instalments should the exchange rate of the *Hai-kwan* tael depreciate drastically. However, if the *Hai-kwan* tael appreciated significantly, the fixed rates would cause some loss to China. Hart wanted to have a stable, workable and continuous plan to pay back the debts.

However, from 1901–1904, the market price was lower than the fixed rates, and China continued paying its indemnities in *Hai-kwan* taels. Because of the depreciation of tael (see Table 2), the foreign powers suffered serious losses from this depreciation. Led by the US, the foreign powers asked China to pay an additional *Hk.Tls.* 8 million as reimbursement. The US stated:

<sup>6</sup>Chang 2012, p. 29.  
<sup>7</sup>Hertslet (ed.) 1905, p. 365.

**Table 2.** Exchange rates between Hai-kwan Tael, GBP and USD, 1901–1931

	<i>Hk.Tls. to Sterling</i> (Pre-Decimalization)	<i>Hk.Tls. to Sterling</i> (in Decimalization)	<i>Hk.Tls. to Sterling</i>	<i>Hk.Tls. to USD</i>	<i>Hk.Tls. to USD</i>
The fixed rate	3Shilling	0.15	***	0.743	***
1901	2Shilling 11Pence and 9/16	0.148177	−1.2153%	0.72	−2.9650%
1902	2Shilling 7Pence and 1/5	0.130000	−13.3333%	0.63	−15.0943%
1903	2Shilling 7Pence and 2/3	0.131944	−12.0373%	0.64	−13.7466%
1904	2Shilling 10Pence and 2/5	0.143333	−4.4447%	0.66	−11.0512%
1905	3Shilling 1Pence	0.150417	0.2780%	0.73	−1.6173%
1906	3Shilling 3Pence and 1/2	0.164583	9.7220%	0.8	7.8167%
1907	3Shilling 3Pence	0.162500	8.3333%	0.79	6.4690%
1908	2Shilling 8Pence	0.133333	−11.1113%	0.65	−12.3989%
1909	2Shilling 7Pence and 3/16	0.129948	−13.3680%	0.63	−15.0943%
1910	2Shilling 8Pence and 5/16	0.134635	−10.2433%	0.66	−11.0512%
1911	2Shilling 8Pence and 1/4	0.134375	−10.4167%	0.65	−12.3989%
1912	3Shilling 1/16Pence	0.150260	0.1733%	0.74	−0.2695%
1913	3Shilling 1/4Pence	0.152083	1.3887%	0.73	−1.6173%
1914	2Shilling 8Pence and 3/4	0.136458	−9.0280%	0.67	−9.7035%
1915	2Shilling 7Pence and 1/8	0.129688	−13.5413%	0.62	−16.4420%
1916	3Shilling 3Pence and 13/16	0.165885	10.5900%	0.79	6.4690%
1917	4Shilling 3Pence and 13/16	0.215885	43.9233%	1.03	38.8140%
1918	5Shilling 3Pence and 7/16	0.264323	76.2153%	1.26	69.8113%
1919	6Shilling 4Pence	0.316667	111.1113%	1.39	87.3315%
1920	6Shilling 9Pence and 1/2	0.339583	126.3887%	1.24	67.1159%
1921	3Shilling 11Pence and 7/16	0.197656	31.7707%	0.76	2.4259%
1922	3Shilling 9Pence	0.187500	25.0000%	0.83	11.8598%
1923	3Shilling 5Pence and 3/4	0.173958	15.9720%	0.8	7.8167%
1924	3Shilling 7Pence and 15/16	0.183073	22.0487%	0.81	9.1644%
1925	3Shilling 5Pence and 7/8	0.174479	16.3193%	0.84	13.2075%
1926	3Shilling 1Pence and 3/8	0.155729	3.8193%	0.76	2.4259%
1927	2Shilling 9Pence and 13/16	0.140885	−6.0767%	0.69	−7.0081%
1928	2Shilling 9Pence and 1/16	0.146094	−2.6040%	0.71	−4.3127%
1929	2Shilling 11Pence and 1/16	0.132552	−11.6320%	0.64	−13.7466%
1930	1Shilling 10Pence and 11/16	0.094531	−36.9793%	0.46	−38.0054%
1931	1Shilling 6Pence and 7/16	0.076823	−48.7847%	0.34	−54.1779%

Source: Thomas Roger Banister, "Synopsis of External Trade, 1882–1931", *Decennial Reports, on the Trade Industries, etc., of the Ports Opened by Foreign Commerce, and on Conditions and Development of the Treaty Port Provinces, 1922–1931* (Shanghai: Statistical Department of Inspectorate General of Customs, 1933), vol. I, 171.

To extinguish, by means of a lump sum of 8,000,000 Protocol Taels [*Hai-kwan* Taels], the whole of the debt incurred towards all the Powers collectively on account of the payment in silver during the years up to January 1st, 1905. This lump sum shall be divided among the Powers in

proportion to the amount of the sums which remained due to each of them on January 1st, 1905. With regard to these sums, which are determined by converting the balance of each half year into gold and carrying it forward in Protocol *Hai-kwan* Taels, we beg the Ministers to be so good as to let us know what they are, in order that they may be paid by telegraphic transfers to each Power direct, a fortnight after the present proposals have been accepted. These 8,000,000 Taels will bear interest at four per centum per annum from January 1<sup>st</sup>, 1905, to the day of payment.<sup>8</sup>

Apart from asking for *Hk.Tls.* 8 million, the foreign powers also asked China to pay its indemnities “either in silver, according to the price of silver on the London market, or in gold bills, or in telegraphic transfers, at the choice of each Power.”<sup>9</sup> This was then called the “1905 Arrangement”. Instead of endeavouring for exemption, Prince Qing immediately gave in and negotiated another loan with HSBC and reimbursed every foreign creditor in 1906.<sup>10</sup> Thereafter, the 1905 Arrangement replaced the 1901 fixed rates and became the payment method until December 1922, when the issue of the gold franc occurred.

Contemporary Chinese and foreign historians have completely different viewpoints towards the 1905 Arrangement. It seemed to Wright that America’s action was completely legitimate as he believed that “the term ‘gold’ in the context of international loans was *popularly* considered to refer to loans repayable in currencies on a gold or gold exchange standard.”<sup>11</sup> Of course, most Chinese historians argued that this was yet another financial aggression by the foreign powers.

Wang Shu-huai argued that “the Boxer Protocol did not clearly state whether or not China should pay in gold or in silver”,<sup>12</sup> although it stated clearly the indemnity was a “gold debt” in Article VI. The Protocol was indeed unclear but clarification might not lead Chang to exempt the additional payment of *Hk.Tls.* eight million. In fact, China had legal ground to argue for an exemption. Article VI states that “this sum in gold shall bear interest at four per centum per annum, and the capital shall be reimbursed by China in thirty-nine years in the manner indicated in the annexed plan of amortisation”. The “annexed plan of amortisation” means Annex No. thirteen (see Table 1) of the Boxer Protocol, which also had legal status, and it clearly stated that China’s annual payment was approximately *Hk.Tls.* 42 million. Hence, there was certainly precedent for China to fight for exemption of the 8 million. However, if Prince Qing had done so, it would have contradicted the Empress Dowager’s diplomacy of appeasement.

### Post world war I financial issues

By 1917, China’s finances had completely deteriorated, and WWI also went into deadlock. At the urging of the Entente Powers, Anhui warlord Premier Duan Qirui decided to join the war in opposition to President Li Yuanhong. The Chinese public was also against participation in the war, but during the 1910s, foreigners living in China exhibited a positive attitude towards the country’s participation. Among the westerners in China, G. E. Morrison was the most active advocate.

<sup>8</sup>Collective Note, 2 July 1905, quoted from Wright 1935, p. 502.

<sup>9</sup>Collective Note, 2 July 1905, quoted from Wright 1935, p. 504. Although this resulted from the deprecation of tael, this financial issue is called the “depreciation of sterling” (鈔虧 bangkui) in mainland China, and it is called the “pay in gold or in silver” (還金還銀 huanjin huanyin) in Taiwan. See Wang 1974, pp. 185–235.

<sup>10</sup>In exchange for this, three years after China’s reimbursement of *Hk.Tls.* 8 million, US President Theodore Roosevelt “authorised to consent to a modification of the bond for 24,440,778.81 dated December 15, 1906, received from China pursuant to the protocol of September 17, 1901 ... so that the total payment to be made by China under the said bond shall be limited to the sum of 13,655,492.69”. Then the 10,785,286.12 became the foundation of Tsing-hua University. “Joint Resolution Providing for Remission of a Portion of American Share of Boxer Indemnity”, 25 May 1908, quoted from Wright 1935, p. 504, also see Wang 1974, pp. 284–87.

<sup>11</sup>King 2006, p. 673.

<sup>12</sup>Wang 1974, p. 192.

He even wrote to Duan and stated that “it is a heaven sent opportunity. It is the greatest opportunity ever given to China.”<sup>13</sup> The war declaration led to immediate rewards. On 8 September 1917, the Allied Ministers sent the Chinese government a collective note “in which they declared their willingness to agree (1) that the Boxer Indemnity payments might be deferred for a period of five years, 1st December 1917 to 30th November 1922, (2) that the Indemnity payments due to Germany and Austria-Hungary should be regarded as cancelled, (3) that a revision of the import tariff should be made in order to bring the rates up to an effective five per centum level.”<sup>14</sup> The first condition directly related to the issue of the gold franc and the second condition related to the issue of the Austrian loans (the Austrian loans consisted of eight different loans, see Table 3).

Then the Chinese Financial Minister’s arrangement for the Austrian loans issue was complicated by the fact that China’s domestic factionalism politicized this purely financial case so the following Financial Ministers became particularly cautious about the other financial disputes, such as the gold franc. Thus, this section would introduce how the Austrian loans issue was politicized and then explain how political sensitivity led to the delay of the settlement of the gold franc issue.

### *The Austrian loans and Luo Wengan, March 1921–January 1923*

Because of the second condition, China officially terminated its financial obligations of the Boxer Indemnity to Germany and Austria. Moreover, China’s declaration of war with Austria terminated its previous financial obligations to the nation as China “declared that as they consisted of loans placed in enemy countries she no longer recognised them.”<sup>15</sup> But at the end of WWI, the Austrian loans literally became Italian loans, and China and Italy had been allies during the war. “Owing to the territorial changes which took place, the [Austrian] loans could not be regarded as enemy loans any longer, but as having been issued in favour of nationals belonging to allied countries [Italy].”<sup>16</sup> The essence of this issue was that the loans were originally issued by Austrians living in Trieste, a small town located on the border of Austria and Italy. It was an Austrian town but it was ceded to Italy after WWI. Hence, the creditors became Italian citizens and the Italian government. As China’s ally during WWI, Italy exercised its claims over these loans to China.<sup>17</sup>

The outstanding loans were then left to the Li Yuanhong (黎元洪) Administration, and it is not difficult to imagine that Li was not in favor of restarting the payments. The Austrian loans had been raised by Li’s former premier, Duan Qirui. Due to disagreement over China’s participation into WWI, Li dismissed Duan’s premiership and dissolved parliament in 1917. This led to an intervention by Jiangsu Warlord Zhang Xun (張勳) that forced Li to step down from his first-term presidency. However, in July 1920, Duan was defeated by Zhili Warlord Cao Kun (曹錕) for the control of the Beijing government. Cao decided to bring back former President Li, but Duan’s cabinet members remained. This was a calculated political strategy implemented by Cao to balance power between the cabinet and president. Because of Duan and Li’s feud in 1917, Li still had grievances towards all his cabinet members and premiers, who were of Duan’s Anhui clique, during his second term as president. Therefore, although Financial Minister Luo Wengan (羅文幹) was quite right about any outstanding loans would result in a more serious future burden, the fact that Luo was Duan’s man made his active arrangement politically sensitive.<sup>18</sup>

In March 1921, Luo looked into repayment and discovered that just the principal of the Austrian loans had already exceeded GBP 4,320,000. In 1911, the principal of Skoda Loan I was just GBP 750,000, but by 31 December 1915, the principal plus interest had increased to [GBP

<sup>13</sup>Lo (ed.) 1978, pp. 572–73. G. E. Morrison to Tuan Chi-jui, 8 February 1917.

<sup>14</sup>Wright 1938, p. 427.

<sup>15</sup>FO: 371/10938, [F 3485/190/10], Question of the former Austrian Loans (Cosulich and Skoda), 24 July 1925.

<sup>16</sup>FO: 371/10938, [F 3485/190/10], Question of the former Austrian Loans (Cosulich and Skoda), 24 July 1925.

<sup>17</sup>FO: 371/10938, [F 3485/190/10], Chinese Special Customs Tariff Conference: Signor G. Preziosi Italian Embassy to Mr. Wellesley, 24 July 1925.

<sup>18</sup>Jia 1967, pp. 68–71.



Table 3. The Skoda, Arnhold Karberg and Austrian loans

	Interest rate (%)	Principle (GBP)	Approval time	President	Financial Minster
Skoda Loan I	5	750,000	1911	Sun Yat-sen	n.a.
Arnhold Karberg Loan I	6	300,000	1912	Yuan Shikai	Zhou Xuexi
Arnhold Karberg Loan II	6	450,000	1912	Yuan Shikai	Zhou Xuexi
Arnhold Karberg Loan III	6	300,000	3 March 1913	Yuan Shikai	Zhou Xuexi
Austrian Loan I	6	1,200,000	22 April 1913	Yuan Shikai	Xiong Xiling
Austrian Loan II	6	1,500,000	22 April 1913	Yuan Shikai	Xiong Xiling
Austrian Loan III	6	500,000	22 April 1913	Yuan Shikai	Xiong Xiling
Skoda Loan II	8	6,866,046 10/10	30 September 1925	Duan Qirui	Li Sihao

Source: Thomson & Perry eds., *China's Historic Foreign Bonds*, 177–78, 199–203 & 241–251; Jia Shiyi, *National Power and Finance*, 139–143.

1,233,000.<sup>19</sup> However, this redemption scheme was interrupted by WWI. When Luo took office as Finance Minister in 1921, he discovered that the principal plus interest had already gone up to GBP 4,750,000. Luo then decided to cancel the undelivered orders and raised another loan of GBP 5,777,190.<sup>20</sup> This 10-year loan (8%) was signed on 14 November 1922 and replaced all seven of the Austrian loans. The creditors’ representatives, M. M. Cosulich and Rosenthal, were pleased to settle the issue of the outstanding loans so promised to return a GBP 80,000 deposit from a military purchase.<sup>21</sup> While everything appeared to be handled properly, a political scandal immediately emerged because Luo allegedly planned to keep the returned deposit. Thus, it seemed that Luo raised a new loan to line his own pockets.

Congress Chairman Wu Jinglian (吳景濂) reported Luo to President Li who immediately signed an order for arrest.<sup>22</sup> On 14 January 1923, the State Council overruled the new loan, so M. M. Cosulich and Rosenthal did not return the GBP 80,000. The loss of deposit was a minor issue compared to what happened to Luo. Luo “was arrested and put in prison being accused by his political enemies of having obtained a large sum in ‘squeeze’ for signing these agreements against the interests of China.” The whole process of this political scandal was tediously long and Luo was exonerated after the completion of three separate Chinese tribunals that lasted over seven months and all of which found him innocent.<sup>23</sup>

After Luo was found innocent, his lawyer, Liu Chongyou (劉崇佑), posted an announcement, printed all the details of the Luo case in pamphlets and asked all major newspapers to distribute them. The pamphlet was entitled “Welcome All Factual Revisions: Avoid Judgmental Critiques”, and Liu argued:

The Luo case should be investigated from the judicial aspect and the moral aspect respectively. The court should follow all judicial procedures, and if there is any possibility for illegality, every verdict should be carried out carefully. Otherwise, the client would be criticised for groundless reasons, and it would hurt his reputation. The public should look into the case and search for a thorough understanding. The best strategy for Mr. Luo is to disclose all judicial details to the public for the public’s verdict. If the court finally found Luo guilty, Luo’s reputation was

<sup>19</sup>Jia 1930, p. 140.

<sup>20</sup>Jia 1930, pp. 140–41.

<sup>21</sup>Jia 1930, p. 142.

<sup>22</sup>See Ding 2000, pp. 20–36.

<sup>23</sup>FO/371/10938, [F 3485/190/10], “Question of the former Austrian Loans (Cosulich and Skoda)”, 24 July 1925.



still intact ... I personally think the case of Mr. Luo is our country's most unfortunate case. The law should not be manipulated by one or two persons' preference.<sup>24</sup>

While Luo experienced significant damage to his personal reputation despite later exoneration, the criminal case also led to the fact that no one subsequently dared to touch any unsecured foreign loan.<sup>25</sup> In consideration of this, financial scholar Tang Lin (唐林 better known as Tang Youren 唐有壬 in the twentieth century) stated:

The foreign debts of China have already become a historical issue, and China has not paid back the principals and the interests of the debts for quite a while. In the beginning, the government's rhetoric still could satisfy the foreign debtors, but now the government cannot be bothered to play rhetoric and appease the foreign debtors. Recently the Luo case scared the government, and no one dared to reopen any case of foreign loans. Thus, foreign loans have become an untouchable issue.<sup>26</sup>

In addition, since the Austrian loans led to such a political scandal, the following Financial Minister was even more cautious about the issue of the gold franc, which involved a much larger payment.

#### *The gold franc and Wellington V. K. Koo, January 1923–September 1924*

There was another more untouchable issue than the Austrian loans, namely the gold franc issue. This involved much heavier financial losses for China and more countries. Because of participation in WWI, the payment of the Boxer Indemnity was deferred for five years. China had to resume payment to its debtors at the end of 1922. However, the international currency market was completely different from 1917 as the value of the paper franc had dropped significantly and France declared "its absolute commitment to restoration to the franc at pre-war parity on gold" after the Genoa Conference in April 1922.<sup>27</sup> The 1905 Arrangement stated that the Boxer Indemnity had to be paid "either in silver, according to the price of silver on the London market, or in gold bills, or in telegraphic transfers, at the choice of each Power."<sup>28</sup> Regardless of how France's Boxer Indemnity was paid, in any of the aforementioned ways, China could save a lot of money. However, as China had to pay its indemnities to France, Italy, Belgium and Spain in franc (see Table 4), this would cause these four countries significant losses.

Thus, the Diplomatic Body "of Belgian, French and Italian Ministers [contended] that payment must be made in gold," because the sixth article of Boxer Protocol claimed that "total indemnity constitutes a debt in gold and they argue that this must be paid in gold."<sup>29</sup> However, in the eyes of the Chinese government, the depreciated paper franc "does not concern them."<sup>30</sup>

Chinese Foreign Minister Shi Zhaoji (施肇基) asked the British Legation's Counsellor Robert Clive, later British Ambassador to Japan, to "elicit his support of [the] Chinese point of view". But Clive replied that the 'intention of signatories of [the Boxer] protocol was perfectly clear, namely that [the Boxer] indemnity was a debt payable in gold, and it "might not be politic to antagonize the three powers over this question." In addition, IG Francis Aglen held "strongly that [the] Chinese contention [was] not tenable."<sup>31</sup>

Three days after Shi approached Clive, the French Minister to China reached consensus with Belgium, Italy and Spain that "they were unanimous in recognising the Chinese Government's

<sup>24</sup>Liu 1923, 12 June 1923. The Library of Nanjing (ed.) 2014, p. 458.

<sup>25</sup>The Nishihara Loans consisted of eight individual loans and the sum of the eight loans was 165-million Yen. See Suzuki 1972.

<sup>26</sup>Tang (1923), 23 January 1923, p. 48.

<sup>27</sup>Moure 2002, p. 52.

<sup>28</sup>Collective Note, 2 July 1905, quoted from Wright 1935, p. 504.

<sup>29</sup>FO 371/9177, [F 52/4/10], No. 3, Clive (Beijing) to FO (London), 4 January, 1923.

<sup>30</sup>FO 371/9177, [F 52/4/10], No. 3R, Clive (Beijing) to FO (London), 4 January, 1923.

<sup>31</sup>FO 371/9177, [F 53/4/10], Clive (Beijing) to FO (London), 4 January, 1923.

obligation to pay in gold.”<sup>32</sup> In order to persuade the Chinese government act accordingly, the French government requested China to “calculate the French portion of the Boxer indemnity in gold” but, meanwhile, it also would use the sum to provide funds for “the payment of the Far Eastern creditors of the Banque industrielle de Chine [henceforth the Industrial Bank of China]” and “for Sino-French educational institutions.”<sup>33</sup> However, the Chinese government did not take the offer.

Then the French Government thought of two strategies to force China to give in. The first strategy was that France “would refrain from ratifying the Chinese Customs Treaty signed at Washington until such time as the Chinese Government accept[ed] their view regarding the payment of the Boxer Indemnity instalments in gold.”<sup>34</sup> The second strategy was to threaten that the Diplomatic Body would instruct “custodian banks under [the] 1912 agreement to embargo customs revenue deposited with them.”<sup>35</sup>

The “Chinese Customs Treaty”, the first strategy mentioned, was the “Treaty between the Nine Powers relating to Chinese Customs Tariff” (henceforth the Nine Powers Treaty) was discussed at the Washington Conference in February 1922. The Nine Powers Treaty stated:

Article I: for the purpose of making such duties equivalent to an effective five per centum *ad valorem* in accordance with existing treaties concluded by China with other nations, the Contracting Powers hereby confirm the said Resolution and undertake to accept the tariff rates fixed as a result of such revision.

Article II: The Special Conference shall be composed of representatives of the Signatory Powers... it shall meet in China within three months after the coming into force of the present Treaty, on a day and at a place to be designated by the Chinese Government.

Article III: The surtax shall be at a uniform rate of two point five per centum *ad valorem*... [It] can bear a greater increase without unduly impeding trade, the total surtax may be increased but may not exceed five per centum *ad valorem*.<sup>36</sup>

The Nine Powers Treaty allowed China to convene the Tariff Autonomy Conference for boosting its tariff income in two ways, namely the effective 5% *ad valorem* tariff tax and the 2.5% *ad valorem* surtax. However, to convene the Conference needed to have all Contracting Powers’ approval, namely America, Belgium, Britain, China, France, Italy, Japan, Holland, and Portugal. The Conference had already been delayed for over two years because China still had outstanding financial disputes with three of the Contracting Powers. China and Italy still needed to figure out a solution to the Austrian loans. However, the most important matter was the gold franc, as it involved in the LMU members, namely Italy, France, Spain and Belgium. In exchange for the three members’ ratifications, China needed to give in to a certain degree.

The 1912 Agreement, the second strategy mentioned, meant that the Wuchang Uprising in 1911 made the Qing government lose control of southern custom houses’ revenue, and the Qing was worried that the revolutionaries would seize the funds. The Qing government wanted to move the Customs revenue stewardship from the Chinese Superintendents of Customs to the foreign Commissioners of Customs. The Commissioners deposited the revenues into foreign custodian banks and then wired the funds to Aglen. Then Aglen could pay instalments of the Boxer Indemnity to the Diplomatic Body. This temporary alternative then became a permanent regulation.<sup>37</sup> However, this permanent regulation made Aglen deduct the Customs revenue in the rate of gold franc for the French share of Boxer indemnity since 1912. In other words, before France and China reached

<sup>32</sup>FO 371/9177, [F 99/4/10], French Charge d’Affaires. No. Urgent, 7 January 1923.

<sup>33</sup>FO 371/9177, [F 1247/4/10], Macleay (Beijing) to FO (London), 3 March 1923.

<sup>34</sup>FO 371/9177, [F 1247/4/10], 27 June 1923.

<sup>35</sup>FO 371/9177, [F 2598/4/10], No. 272, Macleay (Beijing) to FO (London), 7 December 1923.

<sup>36</sup>IG Circular No. 3310, 1 June 1922.

<sup>37</sup>Chang 2015, pp. 155–97.

**Table 4.** The Eleven Powers' shares of the Boxer Indemnity

Country	Protocol apportionment		Amount of interest ( <i>Hk. Tls.</i> )	Total of principal and interest ( <i>Hk. Tls.</i> )	Protocol rate of conversion ( <i>Hk. Tls.</i> )	Total amount due, principal and interest in currency of payment
	Percentage of Indemnity	Amount of principal ( <i>Hk. Tls.</i> )				
Russia	28.97136%	130,371,120	154,196,630.49	284,567,750.49	Gold Roubles 1.412	401,809,663.69
Germany	20.01567%	90,070,515	106,531,031.72	196,601,546.72	Marks 3.055	600,617,725.23
France	15.75072%	70,878,240	83,831,340.74	154,709,580.74	Francs 3.75	580,160,927.78
Britain	11.24901%	50,620,545	59,871,522.72	110,492,067.72	Sterling 3Shiling or 0.15Pound	16,573,810 3s 4d
Japan	7.73180%	34,793,100	41,151,589.28	75,944,689.28	Yen 1.407	106,854,177.82
America	7.31979%	32,939,055	38,958,714.88	71,897,769.88	Gold Dollars 0.742	53,348,145.25
Italy	5.91489%	26,617,005	31,481,301.11	58,098,306.11	Francs 3.75	21,7868,647.91
Belgium	1.88541%	8,484,345	10,034,871.30	18,519,216.30	Francs 3.75	69,447,061.13
Austria-Hungary	0.88976%	4,003,920	4,735,642.16	8,739,562.16	Krone 3.595	31,418,725.97
The Netherlands	0.17380%	782,100	925,029.91	1,707,129.91	Florins 1.796	30,66,005.32
Intentional Claims	0.03326%	149,670	177,022.41	326,692.41	Sterling 3Shiling or 0.15Pound	49,003 17s 3d
Spain	0.03007%	135,315	160,044.01	295,359.01	Francs 3.75	1,107,596.29
Portugal	0.02050%	92,250	109,108.82	201,358.82	Sterling 3Shiling or 0.15Pound	30,203 16s 10d
Sweden and Norway	0.01396%	62,820	74,300.45	137,120.45	Sterling 3Shiling or 0.15Pound	20,568 1s 4d
	100%	450,000,000	532,238,150	982,238,150		

consensus, Aglen would continue to withhold the French share of Boxer indemnity and China could not get the reimbursement if calculated in paper franc.

The British Minister to China immediately stated that he could not “agree to [the] suggestion of embargo.”<sup>38</sup> This was because customs revenue involved the scheduled payment instalments for every signatory. Any embargo would also hurt the interests of the countries that did not choose the franc as their indemnity currency. The suspension of ratification did not damage any other Power’s direct interests but would hurt China so much that Zhili Warlord and President Cao Kun and Foreign Minister Wellington V. K. Koo (顧維鈞 Gu Weijun) had to deal with it.

Before he had become the Foreign Minister, Koo already realized how sensitive this post could be so he stated that “only after the Luo Wengan case would be cleared, I could take the office of Foreign Ministry.”<sup>39</sup> Koo’s priority was to persuade the powers that China should not have to pay its debts in gold. His second goal was to try to convince the four Latin Monetary members that required payment in francs to accept the paper franc. Thus, he addressed all the signatory powers on the Boxer Protocol in regard to “the Protocol of 1901 as well as the Arrangement of July 2, 1905” and declared it “absolutely clear and indisputable” that “the indemnity of 1900 should be paid in gold”, but then Koo carefully elaborated on his meaning of “in gold.”<sup>40</sup> First, he tried to tackle the issue of payment in franc and explained that the depreciation of the paper franc was an ordinary market fluctuation. He listed the 140-month payments as an example, and he stated:

During 66 months the rate was favourable to China, as it went above the Protocol rate of 3.75 francs per Haikwan tael; and during seventy-four months it was adverse to China, as it went below the said Protocol rate. The biggest and therefore most favourable rate to China was 6.60068 francs per *Haikwan* tael for August 1917 and the lowest and therefore least favourable rate was 3.03008 francs per *Haikwan* tael for November 1914. Although the fluctuations have thus been wide as well as varied, the Powers have always received the stipulated amounts in their respective currencies from month to month and from year to year.<sup>41</sup>

But Koo also understood that it was unlikely that the four Latin Monetary Union members would accept the aforesaid argument, and he remembered that his priority was to ensure that China would not pay in gold. Thus, he furthermore stated:

The word “gold” as used in Article VI of the Protocol of 1901 and in the Arrangement of 1905 cannot be reasonably construed to mean anything other than the currencies of the Signatory Powers issued on the basis of their respective gold standard and that whatever exchange rates prevail at present or are likely to prevail for some time in future, favourable or unfavourable to China as compared with the Protocol rates, they cannot be considered as a valid ground either for placing a new interpretation on the said Article VI or for proposing a radical departure from the mode of payment selected by the Signatory Powers in accordance with the said Arrangement.<sup>42</sup>

After half of a century, whilst he was being interviewed for his memoir, Koo mentioned that “the Chinese Foreign Ministry consulted every section within its ministry and no one could give any suggestion”, so Koo “collected all relevant documents and investigate[d] the case.”<sup>43</sup> The reason why Koo’s diplomatic colleagues could not give any suggestions was due in part to the complexity of the problem. It involved the 1901 Boxer Protocol, the 1905 Arrangement, the IG and the LMU

<sup>38</sup>FO371/9177, [F 2598/4/10], No. 278(R), Macleay (Beijing) to FO (London), 17 December, 1923.

<sup>39</sup>Koo 2013, p. 307.

<sup>40</sup>Hertslet (ed.) 1905, p. 365.

<sup>41</sup>FO/371/9177, Wellington Koo, Wai-chiao Pu (Beijing) to the Doyen of Diplomatic Body (Beijing), 26 December 1923.

<sup>42</sup>FO/371/9177, Wellington Koo, Wai-chiao Pu (Beijing) to the Doyen of Diplomatic Body (Beijing), 26 December 1923.

<sup>43</sup>Koo 2013, p. 305. However, in his memoir, Koo stated that he found that payment in gold franc was unreasonable. This contradicted his note to the Diplomatic Body in 1924.

members. However, the underlying reason is probably more convincing – it was highly politically sensitive.

While British Minister to China Macleay discussed Koo's correspondence with the Foreign Office in London, he was also aware of the political sensibility that Koo confronted in China:

[The] situation seems thus to have changed for the worse inasmuch as [the] Chinese government, instead of appearing to be unable to carry out an admitted obligation in the face of popular and parliamentary opposition, have now come out [in] the open with refutation of our contention, which apparently involves a repudiation of their previous promise to pay the French in gold.<sup>44</sup>

Obviously, Koo could confront an even more dangerous situation than Luo as the profits involved were much larger. At the same time, Macleay also reckoned that “there is a good deal of specious reasoning in Mr. Koo's note” and “the Chinese contention is plausible” but he concluded that “The matter is however really one that ought to go to arbitration.”<sup>45</sup> This solution was proposed to both China and the LMU members.

France accepted the choice of arbitration but, meanwhile, it also kept pressing China. Aglen had played a role of judge at this point. On the one hand, He held “strongly that [the] Chinese contention [to deny the Boxer Indemnity was a gold debt was] not tenable”;<sup>46</sup> on the other, he also thought that the French government was not entitled to “embargo customs revenue” either,<sup>47</sup> because “[the] customs revenues assigned as first security for [the Boxer] indemnity [were] insufficient [to reimburse France, Spain, Italy and Belgium's loss].”<sup>48</sup> If France had embargoed the Chinese Customs revenues, this would have hurt all the relevant party's interests. So Aglen suggested that “the French government [was] entitled to hold up salt revenues under the [Boxer] protocol.”<sup>49</sup> Thus, the French government also “held up releases of surplus salt revenues deposited with the Banque de l'Indo.”<sup>50</sup>

The arbitration certainly provided Koo with a way to make the same mistake done by Luo as Koo could avoid making any sensitive decision of whether China should pay in gold or in gold standard currency. The arbitration and the discussion for withholding the salt revenues postponed the discussions of the gold franc to September 1924, but the Second Zhili-Fengtian War broke out in the same month. This war and the following coup ended President Cao's tenure, and Koo also stepped down.

Koo was a most outstanding diplomat in China, and he also realized the importance of the Nine Powers Treaty and China's financial credibility. He was a suitable candidate to settle the issues of the Austrian loans and gold franc. However, the Warlordism of the Northern government, again, destroyed this possibility as President Cao stepped down because of the Second Zhili-Fengtian War in 1924. Still, the result was more than satisfactory since Cao's successor had restored financial stability to China and saved it from bankruptcy in 1917 – former Premier Duan Qirui. However, he was not as powerful as he had been as the Tiger Premier seven years ago.

### The provisional executive government and the tariff autonomy conference

The revival of Duan Qirui in the Northern government resulted from the Second Zhili-Fengtian War in 1924 – President Cao was put on house arrest, but the victorious Fengtian warlord Zhang Zuolin (張作霖) and Northwestern warlord Feng Yuxiang (馮玉祥) had no intention to become president. Duan was the only acceptable choice to Zhang and Feng. In these political surroundings, Duan was

<sup>44</sup>FO/371/10230, Macleay (Beijing) to FO (London), 31 December, 1923.

<sup>45</sup>FO/371/10230, “Payment of French and Belgian Boxer Indemnity instalments in gold francs”, Macleay (Beijing), 2 January 1924.

<sup>46</sup>FO 371/9177, F 53/4/10, Clive (Beijing) to FO (London), 4 January, 1923.

<sup>47</sup>FO 371/9177, F 2598/4/10, No. 272, Macleay (Beijing) to FO (London), 7 December 1923.

<sup>48</sup>FO/371/10230, Macleay (Beijing) to FO (London), No. 96, 12 April, 1924.

<sup>49</sup>FO/371/10230, Macleay (Beijing) to FO (London), No. 96, 12 April, 1924.

<sup>50</sup>FO/371/10230, British Ambassador to France Lord Crewe (Paris) to FO (London), No. 985, 1 May 1924.

a lame duck from the first day of his tenure. However, although Duan was not powerful, he was still ambitious and capable. He foresaw that the early Republic's difficulties could ascribe its design of the constitution, the president and the parliament. Thus, he was committed to revoking the "old constitution", the "old president" and the "old parliament" in November 1924.<sup>51</sup> Duan decided to form a transitional administration and redesigned a new constitution for the early Republic. Thus, Duan formed the Provisional Executive Government (PEG), and he became the Provisional Executive. Although PEG never succeeded in producing a new constitution for China, it resolved all the outstanding financial issues and convened the Tariff Autonomy Conference, which allowed China to retrieve its tariff autonomy after Duan's reign.

As PEG was almost a new regime in China and Sun Yat-sen in Guangzhou also claimed his government represented China, the priority for Duan was to acquire *de facto* and *de jure* recognition of PEG's international legitimacy by foreign powers. In exchange for which, Duan claimed that he would "honour China's credibility (外崇國信 waichong guoxin)" and this meant he would not unilaterally revoke financial obligations. The Nine Powers Treaty's Signatory Power also responded positively by convening the Tariff Autonomy Conference. Before the convening of which Duan had to resolve the issues of the gold franc and Austrian loans, so all the Signatory Powers would ratify the Nine Powers Treaty.

Obviously, the former issue was more complicated than the latter so Duan decided to tackle the former and then the latter, as it only concerned Italy, would be resolved automatically. Thus, this section discusses the settlement of the more sensitive gold franc issue and then explains why the Austrian loans issue was resolved thereafter.

### *The gold franc, February–May 1925*

Both China and France confronted financial crisis since the beginning of 1925. The PEG, without a strong warlord's protection, could not collect enough tax revenues so Duan had to rely on the potential boost of Customs revenue the Tariff Autonomy Conference might result in. France, since early 1924, made "significant progress in eliminating budget deficit" by "voting new taxes."<sup>52</sup> But this voting for new taxes and the controversies over the Cartel policy<sup>53</sup> led a serious delay for the French parliament to vote the 1925 budget.<sup>54</sup> Both China and France's financial difficulties made the two governments more willing to solve the gold franc issue jointly.

In February 1925, Duan received Macleay and asked for Britain's help to resolve the gold franc issue and accelerate the convening of the Tariff Autonomy Conference. Macleay told Duan that "we could best be of assistance to the Chinese Government in their difficulties by doing all we could to promote the early summoning of the Special Conference", and that he "personally was convinced of the imperative necessity of holding the Conference during the coming autumn or winter if it were possible to do so."<sup>55</sup> Macleay thought Duan "professed to be very much alive to the vital importance of holding the Conference at an early date but explained the difficulties of his situation in the face of the interest which had now been around throughout the country in the gold franc question."<sup>56</sup>

<sup>51</sup>Shenbao, 21 November 1924.

<sup>52</sup>Moure 2002, p. 70.

<sup>53</sup>For its definition, see Hoselitz 1947, pp. 1–27.

<sup>54</sup>"The French parliament voted the 1925 budget on 12, seven months behind schedule, leaving most reconstruction expenditures out of the budget to contrive a nominal surplus of 14 million francs; in the meantime the franc slipped steadily". see Moure 2002, p. 87.

<sup>55</sup>FO/371/10937, [F1257/190/10], No. 114(1406/25), "Chinese Special Customs Tariff Conference", Macleay (Beijing) to FO (London), 15 February 1925.

<sup>56</sup>FO/371/10937, [F1257/190/10], No. 114(1406/25), "Chinese Special Customs Tariff Conference", Macleay (Beijing) to FO (London), 15 February 1925.



Duan's difficulties were attributed to the fact that he was utterly against Koo's proposal to pay in gold or in gold standard currencies.<sup>57</sup> Besides, the usually divided Chinese public, this time, had a rather united opinion towards the gold franc. Editor of *The Bankers Weekly*, Ruan Jingru, (阮静如), stated:

After Feng Yuxiang's coup and Cao's house arrest, the responsibility for reorganizing the government has fallen on Duan Qirui's shoulders. Duan became the Provisional Executive in this most deteriorated financial situation, and Duan probably can satisfy the people's desire to have a capable administration. The Duan administration's future also needs the people's supervision and cooperation, as well as Duan's policies. His policies should help the country to build up strength and refuse illegal loss and obligations.<sup>58</sup>

*The Bankers Weekly* (銀行週報 yinhang zhoubao) was for financial professionals, so its editors usually emphasized the importance of China's financial stability and supported a collaborative policy with foreign powers. However, these pragmatic bankers also felt that the "illegal loss and obligations", which actually meant the outstanding financial disputes with the foreign powers, were not acceptable. The idealistic and nationalistic Chinese intellectuals were more radical. Thus, the editor of *Modern Critique* (現代評論 xiandai pinglun), Tang Lin argued:

The financial difficulty is that there is no money for tomorrow. If the difficulty is just that we have no money for tomorrow, we still could survive. However, the even more pressing issue is the pressure of foreign debts, which were secured by nothing and most of which are due or overdue ... Although the old government has been overthrown, the politicians remained the same and how can they rehabilitate the state? We are waiting to see the authorities' conscience.<sup>59</sup>

The opinion of *Modern Critique* was heavily influenced by Sun Yat-sen as quite a lot of the columnists then became the Nationalists' officials. Obviously, Duan's claims, particularly "honour China's credibility", contradicted Sun Yat-sen's political ideology against imperialism. In Sun's eyes, Duan's claim could simply be interpreted as selling national resources in exchange for *de jure* recognition of PEG at the risk of China's financial future. Even western historians, such as C. Martin Wilbur, shared the same viewpoint and argued that Duan's "decision was inescapable given the financial dependency of the central government upon the powers."<sup>60</sup>

However, the issue of the gold franc was more complicated with France compared to the other three LMU members: Italy, Belgium and Spain. This was because the Industrial Bank of China closed in 1922.<sup>61</sup> *The North China Herald* stated:

This controversy would not have arisen, if it had not been mixed up with the question of payment of the Banque Industrielle's [Industrial Bank of China] creditors. We do not doubt that the French Government's intentions in this matter are perfectly clear, but there is a very general confusion as to what they are, and there has been so much delay in respect of the bank's affairs that any controversial matter connected in any way with them is bound to excite mingled feelings.<sup>62</sup>

If the Chinese and French governments wanted to carry out the payment of the French Boxer Indemnity in gold francs in the same manner as with Italy and Belgium, it was necessary to rebuild a Sino-French bank. Thus, China and France decided to settle the two issues, *i.e.*, the rehabilitation of the Industrial Bank of China and the gold franc, altogether.

<sup>57</sup>Ruan 1925, 28 April 1925, p. 3.

<sup>58</sup>Ruan 1924, 2 December 1924, p. 275.

<sup>59</sup>Tang 1925, 10 January 1925.

<sup>60</sup>Wilbur 1976, p. 274.

<sup>61</sup>For the closure of the Industrial Bank of China, see Li 2003, pp. 15–24.

<sup>62</sup>"The Gold Franc Controversy", *North-China Herald*. 20 December 1923.



However, there was a leak from Chinese and/or French parties. *North China Herald* learnt through a “reliable Chinese source” and disclosed the following “principal items”: (1) payment was to be made by telegraphic transfer; (2) the sum would not be based on the gold franc but is to be converted into gold dollars at the rate specified in 1917; (3) the Chinese Government is to hand the Boxer Indemnity over to the Industrial Bank of China for the revival of the bank; (4) a sum of one million francs would be used for Franco-Chinese education; (5) the sum of about 10-million franc notes deposited with Chinese Maritime Customs is to be used by the Chinese Government as an emergency political expenditure; (6) France would abandon her share of the Boxer Indemnity; (7) Following the formal conclusion of this agreement, the Chinese Ministry of Finance is to notify the acting IG of the Chinese Maritime Customs and is at the same time authorized to use the sum reserved in the Maritime Customs.<sup>63</sup>

This disclosure certainly brought a lot of criticism from Chinese intellectuals because China still needed to pay France in one kind of gold-standard currency. Thus, both China and France denied that no agreement had been reached yet. According to the *Northern China Herald*, “Both the Chief Executive’s [Provisional Executive Duan’s] Office and the French Legation emphatically deny the reports given out in various newspapers and news agencies this morning: to the effect that the gold franc question has been settled.”<sup>64</sup> Four weeks later, the terms of settlement were signed on 21 April and the summary was as follows:

1. The French portion of the Boxer Indemnity remaining unpaid will be remitted for educational and philanthropic uses.
2. The balance of the indemnity should be calculated on the basis of telegraphic transfer ... and together with the superfluous fund created from the transfer, should be converted into the US Currency and lent to the Industrial Bank of China ... to be used as security for the 5% loan bonds issued by the Bank...With the approval of the French government, the Bank shall hand over at one time to the Chinese government the non-interest drawing bonds held by the Far Eastern creditors as security for the said loan.
3. The Bank shall repay the deposits of the Far Eastern creditors ... the bonds should be used in redeeming the noninterest bearing certificates issued to the Far Eastern creditors...
4. The following income should be used in paying the loan: (a) The fund derived from the disposal of the property of the Bank by the Société [the Sino-French board overseeing the Bank]. (b) The income from the disposal of the property of the Bank by the Bank itself. (c) The 95% of the bonus gained by the Société but belonging to the Bank. (d) The interest from the fifty million francs capital handed over by the Bank to the Société. (e) The original income of the Bank. (f) The profits gained by the Bank directly from the business under the charge of the Société.
5. The bonds without interest held by the Far Eastern Creditor should be treated the same as those held by European creditors. At the final balance every half year, the funds received should be equally divided between the creditors in Europe as well as in the Far East under the supervision of the Société.
6. When refunding the deposits of the Far Eastern Creditors, the Chinese government with the qualification of shareholders may send commissioners to inspect the books. And these commissioners may also supervise the handing over of the bonds to the Far Eastern creditors and so forth.<sup>65</sup>

As China and France reached the aforesaid agreement, Italy and Belgium made similar proposals – they wanted their joint banks with China, namely the Italian Bank for China and the Belgian Bank for China, to pay Italy and Belgium in USD and to have Aglen reimburse these two banks from the Customs revenue accounts. At that time, the remaining principal of the Italian and Belgian

<sup>63</sup>“Terms of Settlement”, Peking, *North China Herald*, 30 March 1925.

<sup>64</sup>“Agreement on Gold Franc Issue”, *North China Herald*, 28 March 1925.

<sup>65</sup>“The Gold Franc Settlement”, *China Weekly Review*, 25 April 1925.

Indemnities were respectively FF 91,146,704.50 and FF 29,053,611.15.<sup>66</sup> The money sent from Aglen to these two joint banks could only fund Sino-Italian and Sino-Belgian education, public welfare and infrastructure. The budgets would be controlled by the commissions regulated by the Chinese-Italian and Chinese-Belgian governments.<sup>67</sup>

The issue of the gold franc had lasted three years since mid-1922. But the over three-year negotiations still made China pay France, Italy, Spain and Belgium on the gold-standard USD. Duan understood that the Chinese public would find this hard to accept. Thus, he prepared a series of explanations for the three differences between his and Koo's solutions:

I used to be against President Cao's proposal because Cao did not consider the three following issues: (1) how much China would need to afford if China pays in gold? (2) what China and France's relationship as debtor and creditor would become? (3) would China convene the Tariff Autonomy Conference? If the Gold Franc had been resolved last year [by Koo], it would have violated the 1905 Arrangement completely and this would have led to a series of international disputes ... This is not to say the case of Gold Franc cannot be resolved but this case can definitely not be resolved in the Cao manner.<sup>68</sup>

The Financial Ministry also explained the merits of the terms. "If the terms are not signed, China still needed to pay France in gold Franc and France would have full authority to spend the money,"<sup>69</sup> and "if this issue is not resolved, the Inspector-General still has to withhold this amount and China cannot receive the surplus after the payment. In the past two or three years, this was the reason why the central government did not have enough financial income."<sup>70</sup>

Still, the Chinese public, intellectuals, revolutionaries, etc. did not support the terms because the payment was still made by telegraphic transfer in a gold-standard currency. At the first glance, compared to Koo's proposal, the Duan solution would not produce substantial savings. The only difference, in the Chinese public's eyes, was three superficial titles: China could become the founder of the Industrial Bank, could send Commissioner to supervise the books of the Bank and form a joint "society" to oversee the bank. At this moment the May Thirtieth Incident had not broken out yet, but the Sino-foreign mutual trust had already become deteriorated. It was not difficult to imagine what the Chinese public would feel after the outbreak of the May Thirtieth Incident.

### *The Austrian loans, May–June 1925*

After the gold franc issue was resolved, the only outstanding financial dispute before the inauguration of the Tariff Autonomy Conference was the Austrian loans. Italian Ambassador to Britain Gabriele Preziosi stated:

According to a collective note drawn up by the Representatives in Peking of the Powers signatories of [the] Washington Treaty, on December 9th 1924, the *de jure* recognition of the Chinese Government is not possible until China has complied with her international obligations. In the case in question, such recognition is not possible until the final settlement of the matters for which negotiations are now pending with the Italian Ministry in Peking, and which concern Chinese obligations towards Italy.<sup>71</sup>

<sup>66</sup>Foreign Minister Shen Soeu-ling (沈瑞麟 Shen Ruilin) (沈瑞麟) to Italian Minister, 1 October 1925, quoted from Wright 1935, p. 514; Belgian Minister to Chinese Foreign Minister, 5 September 1925, quoted from Wright 1935, p. 538.

<sup>67</sup>Foreign Minister Shen to Italian Minister, 1 October 1925, quoted from Wright 1935, p. 514; Foreign Minister Shen to Belgian Minister, 5 September 1925, quoted from Wright 1935, p. 536.

<sup>68</sup>Duan 1925, 28 April 1925, p. 98.

<sup>69</sup>Financial Ministry 1925, 28 April 1925, p. 103.

<sup>70</sup>Li 1925, 28 April 1925, p. 98.

<sup>71</sup>FO/371/10918, [F1866/2/10], Recognition of Chinese Government: From Preziosi to Waterlow, 18 May 1925.

The Italian government even stated that before the PEG showed its sincerity of solving the Austrian loans issue “the only possible line of conduct towards China at the present moment on the part of the Powers appears to be that of keeping themselves united in continuing to regard PEG solely as a *de facto* government and of urging it to regulate as quickly as possible the international questions which are still pending between it and the foreign governments, so that the ground may be speedily cleared of the above mentioned questions which will give the Powers the possibility of re-establishing normal relations with China as soon as the necessary conditions have been verified.”<sup>72</sup> Preziosi stated that “until the Italian minister at Peking has reached a favourable conclusion of the negotiations pending with China, the Italian government would, therefore, not be able to consent to ‘*de jure*’ recognition.”<sup>73</sup>

Hence, Duan instructed Financial Minister Li Sihao to pick up where Luo had left off and begin a new round of negotiations with M. M. Cosulich and Rosenthal. Duan approved the Luo resolution on 22 September 1925, and M. M. Cosulich and Rosenthal returned 443,426 Pounds sixteen Shilling and ten Pence. On 30 September 1925, Li Sihao agreed to a new ten-year loan of GBP 6,866,046, which replaced all previous loans.<sup>74</sup> If Luo Wengan had not been arrested and his plan for another loan (GBP 5,777,190) had been carried out, China would have saved over GBP one million as Skoda Loan II was up to 6,866,046 in 1925.

The issue of the Austrian loans was not as sensitive as the gold franc, but it still caught the Chinese public’s attention. *Modern Critique* stated:

Around three years ago, a serious political event broke out and this event led to a series of following cases. It was an extension of the issue of the Austrian loans. Due to this extension issue, the so called “Good Folks Cabinet” (好人內閣 *haoren neige*) formed by Wang Chonghui (王寵惠) and Luo Wengan resigned ... China’s political unrest was actually caused by the extension issue. Wang and Luo had never thought of taking advantage of China, but they were indeed reckless. When they confronted any national matter like the Austrian loans, their recklessness would bring a great deal of public criticism even when their political enemies did not make any accusations. Now PEG takes this opportunity to benefit themselves. The case of the Austrian loans has become an additional condition for Italy to resolve the Italian instalments in gold francs. This case has been handled secretly, and we do not know the details. The resolution of which must be similar to the issue of the gold franc, and we can imagine that only PEG could raise some loans and cover this up!<sup>75</sup>

However, immediately after the Austrian loans settlement, the May Thirtieth Incident and the Shameen Incident occurred. The two events made the social atmosphere extremely hostile to any sort of pragmatic negotiation with the foreign powers. This made the resolutions of the gold franc and Austrian loans look like a PEG and foreign powers conspiracy against the Chinese people.

Finally, after PEG settled the gold franc and Austrian loans issues with France, Italy and Belgium, these three countries gave their support to convene the Tariff Autonomy Conference. Because of this political climate, the conference was put in an embarrassing situation before it commenced in October 1925. The Chinese intellectuals hoped that as China had sacrificed so much, tariff autonomy could be retrieved. However, the Chinese public’s understanding of tariff autonomy was different from the conditions outlined by the Nine Powers Treaty.

The Nine Powers Treaty allowed China to raise the tariff rates to an effective 5% *ad valorem* and levy an additional 2.5% surtax, but it did not stipulate that China could raise its tariff rate more than 5%. The Tariff Autonomy Conference might give China the autonomy to raise the tariff rates to

<sup>72</sup>FO/371/10919, [F 2179/2/10], Recognition of Chinese Government: Note Verbale from Italian MFA, 5 June 1925.

<sup>73</sup>FO/371/10918, [F 1866/2/10], No. 1567, Recognition of Chinese Government: From Preziosi Italian to Waterlow, Translation Memorandum, 18 May 1925.

<sup>74</sup>Jia 1930, p. 143.

<sup>75</sup>“Contemporary Critique: Has the Austrian Loans Been Settled?”, *Modern Critique* 43, 3 October 1925.

beyond 5%, but complete tariff autonomy was not mentioned in either the Nine Powers Treaty or at the Washington Conference.

From Duan's perspective, the Tariff Autonomy Conference was more important than saving funds on the Boxer Indemnity. The Conference would allow China to regain control of its tariff rates and, more importantly, to abolish the *likin* (釐金 the domestic tariff duties collected by provincial authorities). The Conference was convened on 26 October 1925, but Warlordism again destroyed any opportunity for Duan to earn back his reputation through the Tariff Autonomy Conference.

The two warlords who overthrew President Cao in 1924, Fengtian warlord Zhang Zuolin and Northwestern warlord Feng Yuxiang, started a war in December 1925. This war revealed the truth that "the Provisional Chief Executive was only a figurehead without any real authority, and without any decided backing even from the militarist in whose district his Government functioned."<sup>76</sup> In April 1926, Feng Yuxiang was defeated by Zhang and Duan was deposed. Then a so-called Regency Cabinet (攝政內閣 *shezheng neige*) was inaugurated, which meant the Premier would act like the President.

As the PEG was not in a position to act like the central government of China since December 1925, the foreign delegates of the Tariff Autonomy Conference could only carry out informal discussions. After the Regency Cabinet was formed, the foreign delegates issued a joint statement:

The delegates of the foreign Powers to the Chinese Customs Tariff Conference met at the Netherlands Legation this morning. They expressed their unanimous and earnest desire to proceed with the work of the Conference at the earliest possible moment when the delegates of the Chinese Government are in a position to resume the discussion with the foreign delegates of the problems before the Conference.<sup>77</sup>

The Regency Cabinet's position was even weaker than the PEG's, and without a skilful national head like Duan, no one could push forward with the Tariff Autonomy Conference. Thus, the Conference finally "dissolved without the holding of a second plenary session, without even the drafting of a new treaty, and without a formal decision on any of the points coming within the terms of reference laid down in the Washington treaty."<sup>78</sup>

Wang Shu-huai thought Duan's arrangement for the gold franc and Austrian loans was a failure and as he argued "China had its legal ground. Although there is no 100% guarantee to win the case, China still could argue against the foreign powers."<sup>79</sup> Wang probably underestimated the importance of the Conference, which this article argues is by all means more significant than the loss of payment in gold franc, needless to say that the French share of Boxer indemnity had been deducted and withheld by Aglen in the rate of gold franc already. Although the PEG collapsed, Duan stepped down and the Conference dissolved, the Nationalist government finally retrieved tariff autonomy in 1930. Duan's contributions to resolve all outstanding financial disputes with the other eight powers was utterly crucial because the Nationalist government would have had to deal with the same issues if these disputes had not been resolved successfully, and any effective solution to these issues would lead to a political crisis to this newly born regime in Nanjing.

## Conclusion

This article examines four pairs of national leaders and ministers' responsible behaviours from early twentieth century China: (1) Cixi and Prince Qing, (2) Li Yuanhong and Luo Wengan, (3) Cao Kun and Wellington Koo, and (4) Duan Qirui and Li Sihao. Through an examination of their strategies

<sup>76</sup>Wright 1935, *China's Struggle for Tariff Autonomy*, p. 593.

<sup>77</sup>*The Times*, 6 July 1926.

<sup>78</sup>Wright 1935, *China's Struggle for Tariff Autonomy*, p. 598.

<sup>79</sup>Wang 1974, pp. 412–26.

towards China's international financial obligations during the period, namely the formation of solutions to the problems of the depreciation of tael, the Austrian loans, and the gold franc, a reconsideration of China's "diplomacy of appeasement" challenges the notion that these officials engaged in treasonous and corrupt activities, revises the impression that the foreign powers endeavoured to exploit China's finance resources, and finally demonstrates that it would have caused tremendous damage to China's finance by playing rhetoric, ignoring international obligation, sticking to political righteousness or Chinese nationalism. Thus, only sensible and responsible behaviours could have led to a mutual beneficiary result in the long run but probably this result would not demonstrate its value in a shorter period with political and social unrest.

The political and social stability deteriorated because of Chinese nationalism after the 1919 May Fourth Movement, led to the Chinese public's suspicion and hostility towards the Chinese government and foreign powers. Fewer and fewer Chinese citizens would recognize that China's close collaboration with foreign powers could prompt reciprocal favours, although Prince Qing's concession to the US had already resulted in the inauguration of the Tsing-hua University.

The PEG was formed by Duan in 1924, which was a critical moment for Chinese nationalism, enhanced by the May Thirtieth Incident of 1925. The Incident made it more difficult for Duan to resolve all outstanding financial issues. However, Article VI of the Boxer Protocol stated that it was a gold debt so there was no way China could argue against this and all foreign powers would insist China continuously implement its international obligation of Boxer Indemnity. Although there was little judicial space for Duan and Li Sihao to manoeuvre, their solution still allowed China to operate a certain degree of authority for funding domestic education and for reimbursing the losses of the of the Industrial Bank of China creditors.

Although education and reimbursement were important to China, the most important contribution Duan achieved was the Tariff Autonomy Conference. Although Duan was the architect for the Conference, he did not restore tariff autonomy during his tenure. But the Nationalist government restored it in 1930 based on the negotiations at the Conference. Because of the boost of the Customs revenues, China could enhance its state-building and finished the payment of the Boxer Indemnity in 1938 even after the outbreak of the Second Sino-Japanese War.

Then it is necessary to analyse the interrelations between Chinese nationalism and the four pairs' strategies. Among the four pairs, Prince Qing was probably the lucky one as he likely avoided much disgrace by passing away before 4 May 1919. If he had decided to send GBP 8 million to America between 1912 and 1927, he probably would have been attacked, as was Zhang Zongxiang (章宗祥) during the May Fourth Movement, or even impeached and arrested, such as Luo Wengan.

The reasons why Luo's active arrangements for the Austrian loans would become China's "most unfortunate case", Chinese nationalism, politicians' shortsightedness and "irresponsible behaviours". Although he ordered Luo's arrest, Li Yuanhong must have realized that the sum of the Austrian loans would increase phenomenally in the future. Li's deliberate shortsightedness and irresponsible behaviours did not result from his lack for political sense. In fact, his considerations of *realpolitik* led to deliberate shortsightedness and irresponsible behaviours. Because of China's political unrest during the early Republican period, every politician realized that no one's tenure could be long enough to demonstrate the merits of their responsible behaviours in the long run. Thus, it would be safer to secure their short tenures by following the paces of Chinese nationalism. Then a typical vicious circle occurred: political unrest led to unstable tenure, unstable tenure led to shortsightedness, and shortsightedness led to the embrace of Chinese nationalism; but decisions of Chinese nationalism led eventually to further political unrest.<sup>80</sup>

This vicious circle put Luo in jail but it caused a more devastating blow in the long run as no Financial Minister dared to touch any outstanding financial issues with foreign powers. Luo was

<sup>80</sup> Another type of vicious circle is discussed in the North and Weingast article: "When survival was at stake, the sovereign would heavily discount the future, making the one-time gain of renegeing more attractive relative to the future opportunities forgone". See North and Weingast 1989, p. 807.

lucky as he was acquitted by three individual tribunals, though despite attempts by his lawyer to debate the issue in the press, his reputation was permanently damaged. If any other financial ministers were imprisoned, however, their fate may have been different. This was why Koo would not take the office of Foreign Ministry before the Luo case had been resolved.

Koo realized the importance of the gold franc issue and its relations to China's tariff autonomy. He successfully avoided the vicious circle of political unrest but this political unrest made President Cao put in house arrest in 1924. Thus, Koo had to stepped down. If Cao had not been overthrown, Koo would have convened the Tariff Autonomy Conference earlier. However, judging from Koo's memoir fifty years later, it would be difficult to foresee whether he would take active arrangements to resolve the gold franc issue. He was careful in discussions afterwards when interviewed for his memoir in the 1970s. Koo understood China's political righteousness well, and he still enjoyed a good reputation in the 1970s. When he commented on the gold franc issue in his memoir, Koo criticized Duan for acceptance of all terms proposed by France, but did not mention that his note in December 1923 was the official document signed by the Chinese government's Financial Minister and he accepted all terms listed by the French government in his note.<sup>81</sup> Chinese nationalism still affected all these political figures after fifty years.

Among all these historical figures, Duan was arguably the most strategic, responsible and insightful. He aimed to restore tariff autonomy by brining China to the winning side of WWI and resolved all obstacles to convene the Tariff Autonomy Conference by persuading France, Italy and Belgium that China should control the management of the Boxer Indemnity through the IG and the Sino-French, Sino-Italian and Sino-Belgian commissions. However, his historical reputation, in the eyes of the Chinese public in the 1920s and now, is still as a notorious warlord, much less esteemed than Li Yuanhong and Koo. As an experienced politician, Duan must have understood the vicious circle of political unrest but he chose to forsake the potential damage to his political career and reputation. No one could be certain whether all Duan's intentions were absolutely noble, but Nationalist China's restoration of its tariff autonomy was built upon his short tenure as Provisional Executive of the PEG.

Despite its alignment with a rigid nationalistic ideology and practice, the Nationalist government adjusted itself after the reunification of China in 1929. It implemented policies identical to those of PEG to continued paying the foreign indemnities and loans, delegated the management of customs to the foreign Inspectorate and hired foreign advisors. The Nationalist government used the propaganda of Chinese nationalism to attack Duan and the PEG. Immediately when it became the central government, it realized the necessity to continue the previous arrangements but it was cautious enough not to irritate the Chinese public with these issues. This practice became the state's strategy until it discharged the Boxer Indemnity in 1938.

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<sup>81</sup>Koo 2013, p. 307.



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