
A German Bank in China

Early Contact of German Bankers with China from the 1870s to the 1880s

On 16 July 1888, Simon Alfred von Oppenheim, offspring of the renowned German Oppenheim banking house, wrote to his father Eduard von Oppenheim about his travels in China:

You were very right when already at the time of my departure you specifically called my attention to China and to what a German banker can learn there. As I already wrote to you previously, in the other parts of Asia, where the Englishman has the control, trade and all relating advantages in his hands and, supported by his government, will continue to hold them, there is no prospect of secure success for a German Bank. However, East Asia or more specifically China, needs to be named as the field for a German bank.¹

Simon Alfred von Oppenheim had been sent on a world tour by his parents in 1887 and spent July 1888 travelling in China. There he met with German merchants and German ambassador to China Max von Brandt, and had an audience with Zhili governor-general Li Hongzhang 李鴻章.² He reported that not only German merchants but also Li Hongzhang would welcome a German bank sufficiently capitalized and accommodating in business. Convinced of China's increasing need for European capital, especially because of the growing Chinese interest in railway construction, and the preference of both German trading houses and German industry to have their business financed by a German bank, Oppenheim wrote to his father that 'the establishment of a German bank in China, soon, on a big scale and carried out on an accommodating basis, without any doubt seems to me to be a great thing'.³

¹ Simon Alfred von Oppenheim to Eduard von Oppenheim (16 July 1888) (underlined in the original), HSO, A VIII 114 Ostasiatische Geschäfte 1888–1914.

² Simon Alfred von Oppenheim to Eduard von Oppenheim (20 July 1888), HSO, A VIII 114 Ostasiatische Geschäfte 1888–1914; Simon Alfred von Oppenheim to Amalie Heuser and Eduard von Oppenheim (27 July 1888), HSO, A VIII 114 Ostasiatische Geschäfte 1888–1914. On the world tour, see Teichmann, *Mehr als eine Bank*, p. 107.

³ Quote from Simon Alfred von Oppenheim to Eduard von Oppenheim (16 July 1888), HSO, A VIII 114 Ostasiatische Geschäfte 1888–1914; Simon Alfred von Oppenheim to Eduard von Oppenheim (20 July 1888), HSO, A VIII 114 Ostasiatische Geschäfte 1888–1914.

Simon Alfred advised his father to participate in the creation of a German bank in China, or, if a speedy establishment was not realized, to get involved in the China business on his own.⁴

While Simon Alfred von Oppenheim showed a particularly great enthusiasm for China, his letters reflect an interest among German bankers in China and the Chinese market that can be traced back as far as the 1870s. Before the Deutsch-Asiatische Bank (DAB) was established in 1889, there had been several attempts by German bankers to expand their business to China. While most of these attempts failed, they are important for understanding why and how German bankers established a bank in China. This chapter traces these attempts from the 1870s to the establishment of the DAB in 1889. The previous literature has mainly either over-emphasized the role of the German state in the establishment of the DAB or – while acknowledging the agency of German bankers to a certain extent – only discussed the bank's founding in the larger context of the expansion of German overseas banking in the late nineteenth century. Both strands of literature also solely view the bank's establishment from a German perspective and neglect the interdependence between the growing Chinese interest in foreign capital and the establishment of the bank.⁵

In contrast, this chapter focusses on the growing engagement of German bankers with China after 1870 and explains how the establishment of the DAB was a consequence of the growing interest of German bankers in China and their imaging of China as the market of the future, especially for German investment and industry. I also show how closely connected the wish of the German bankers to enter the China market was to the larger rise of German finance and the eagerness of German financiers to gain equal standing with their British peers. While this chapter acknowledges the role the German government played in the establishment of the DAB, particularly as an accelerating and unifying force, it demonstrates that the long-lasting interest of different German banking groups in China was the most important factor for the expansion of German banking to China.

Examination of the growing contact of German bankers with China during the period and the eventual establishment of the DAB also demonstrates that, while enjoying the support of the German state, the bank was a private bank controlled by its founding banks. It was not merely a 'quasi-independent semi-state bank', as is still claimed in some scholarly literature.⁶ Finally, the chapter also situates the establishment of the bank within the larger development of

⁴ Simon Alfred von Oppenheim to Eduard von Oppenheim (16 July 1888), HSO, A VIII 114 Ostasiatische Geschäfte 1888–1914.

⁵ Stoecker, *Deutschland und China*, pp. 190–210; Barth, *Imperialismen*, pp. 24–42.

⁶ This view is still common in the English scholarly literature. For the quote, see Otte, *The China Question*, p. 75. Also see Edwards, *British Diplomacy*, p. 4. This problem is also pointed out in Barth, *Imperialismen*, p. 41.

Chinese public finance and particularly the growing Chinese demand for foreign capital. As we will see, the increasing engagement of German bankers with China was not a one-sided effort, but developed parallel and in reaction to the increasing Chinese openness towards foreign capital and financial markets. German bankers were not only aware of the potential of the Chinese market, but also realized that doing business in China was only possible if China became open to using foreign capital, and if the German bankers could establish contacts with those Chinese officials willing to work with foreign banks to finance Chinese modernization projects.

This chapter first depicts the early interest of German bankers in the China market during the 1870s and early 1880s and the change of their primary interest from trade finance to investment in China, railway construction and direct business with the Chinese government. The chapter then turns to China and shows the growing interest of Chinese officials in using foreign capital, first mainly for military purposes but then increasingly for the funding of railways. We then follow the steps of a German study mission to China, which was dispatched to the China coast by German bankers and industrialists in 1886 to explore the possibilities for German investment there. While the mission returned to Germany without immediate results, afterwards it became clear that German bankers would only be able to enter the Chinese market if they established a German bank on the China coast. The last part of the chapter then explains how different German bank groups planned the founding of a German bank in China and how the German government unified and accelerated these efforts, which eventually led to the establishment of the DAB in 1889.

1.1 German Bankers and the Myth of the China Market

During the nineteenth century, the myth of China as a potentially large market for foreign products was widespread in Germany and the West.⁷ So when a group of German bankers established the Deutsche Bank in 1870 to finance Germany's overseas trade and free it from its dependence on British finance, the 'special magic' that 'of old floated around the trade with the East' meant that Asia became a main priority for the newly established bank.⁸ This was also the reason why the Deutsche Bank hired Hermann Wallich (Figure 1.1) as one of their first directors, who possessed direct experience in East Asian banking, having worked for the French bank Comptoir d'Escompte de Paris as the head of its Shanghai office between 1867 and 1870.⁹

⁷ Leutner, 'Deutsche Vorstellungen über China', p. 422. For Britain, see Forman, *China and the Victorian Imagination*, pp. 5–6; for the United States, see Varg, 'Myth of the China Market', pp. 742–58.

⁸ Helferrich, *Siemens*, 1:235.

⁹ Helferrich, *Siemens*, 1:235; Wallich, 'Aus meinem Leben', pp. 85–104.



Figure 1.1 Hermann Wallich (1833–1928), 1875. Image courtesy of the Deutsche Bank AG, Historical Institute.

In preparation for the opening of branches in East Asia, Wallich asked one of his former German colleagues at the Comptoir d'Escompte de Paris, Julius Mammelsdorf, who had previously worked as the manager of the French bank's Yokohama branch, to draft a plan for the Deutsche Bank's expansion to East Asia.¹⁰ In his report, Mammelsdorf praised the importance of East Asia as one of the 'richest and naturally most endowed areas in the world'. He continued that East Asia's products were 'very manifold and of great trade value' and described the continuous growth of East Asia's foreign trade. Mammelsdorf praised the potential for further growth of international trade with East Asia, which, he explained, possessed '450 Million inhabitants' and a 'richness of mines of all kinds'. Thus, Mammelsdorf felt that the bank could open up new fields of business for trade and industry in China. He then explained that Britain and British banks still dominated East Asian trade.

¹⁰ Mammelsdorf, Untitled Report (1871), HADB, S3918.

Mammelsdorf emphasized the dependence of German traders on British finance, but expressed hope that a German bank could introduce German currency and trade finance to East Asia.

The report proposed that the Deutsche Bank should open three branches in East Asia in Yokohama, Shanghai and Hongkong. Mammelsdorf recognized Shanghai as the port with the greatest significance for China's export and import and saw it as the most important branch to be opened in East Asia, assigning to it 3 million of the total capital of 5.25 million German thalers he proposed for the East Asian branches. Mammelsdorf was optimistic that the three branches would return a very good profit and would play an important role in introducing the German currency in East Asia. His report shows the importance and enthusiasm that German bankers at the time attached to East Asia and China. Deutsche Bank director Georg von Siemens, who, with Wallich, was the driving force behind the Deutsche Bank's expansion to East Asia, mostly followed Mammelsdorf's report in his proposal to the supervising board of the Deutsche Bank in November 1871. Siemens proposed establishing overseas branches in London, Yokohama and Shanghai, assigning the highest capital of 2 million German thalers to the Shanghai branch.¹¹

Following Siemens' proposal, the Deutsche Bank opened branches in Yokohama and Shanghai as their first branches outside of Germany in May 1872. However, the great expectations for the two branches in East Asia were not fulfilled. The global economic depression that started in 1873 had a detrimental effect on trade and led to speculation in tea and silk in China and an oversupply in European commodities in East Asia. At the same time, the falling silver prices caused by Germany's adoption of the gold standard in the same year negatively affected the business of the East Asian branches.¹² By 1875 the Shanghai branch had suffered losses of 245,611 reichsmark and the Yokohama branch losses of 190,821 reichsmark. To avoid further losses, the bank had closed its branches in East Asia by October 1875.¹³ Thus the first attempt to establish German bank branches in China ended after only three years. While the Deutsche Bank pledged that it would continue its 'program for the support of German overseas trade',¹⁴ this negative experience was undoubtedly part of the reason why it took another fifteen years for the next German bank to open for business in China.

¹¹ Helferrich, *Siemens*, 1:241–3.

¹² 'Vierter Geschäfts-Bericht der Direction der Deutschen Bank für die Zeit vom 1. Januar bis 31. December 1873' (April 1874), HADB, Geschäftsberichte, Deutsche Bank; Pohl, 'Ostasiengeschäft', pp. 475–6.

¹³ 'Sechster Geschäfts-Bericht der Direction der Deutschen Bank für die Zeit vom 1. Januar bis 31. December 1875' (April 1876), HADB, Geschäftsberichte, Deutsche Bank.

¹⁴ 'Sechster Geschäfts-Bericht der Direction der Deutschen Bank für die Zeit vom 1. Januar bis 31. December 1875' (April 1876), HADB, Geschäftsberichte, Deutsche Bank.

An important distinction between this first failure to establish a German bank in China in the 1870s and the interest of German bankers in China during the 1880s is that during the former period, the emphasis lay on financing overseas trade with China and not on providing loans directly to the Chinese government. The orders of the Deutsche Bank for its branches in East Asia especially stressed that the branches were to help finance trade between East Asia and other markets, and to introduce German currency there, but did not specifically mention any loan business with governments.¹⁵

This situation changed in the 1880s when German banking interests shifted from trade finance to providing direct loans to the Chinese government, and to what came to be known as the *Regierungsgeschäft* (government business), meaning the financing of purchases of industrial products by the Chinese government. In Germany, the large-scale nationalization of previously privately owned railways that began in the 1870s meant that large sums of capital were injected into the German economy, and government bonds with comparatively low interest rates of about 4 per cent replaced railway shares with high yields from 5 to 25 per cent. Moreover, the interest rates of Prussian and German state bonds were lowered through conversion and German corporatization and stock exchange legislation made it difficult to float new industrial shares. These measures deprived German capital markets of objects for investment and speculation and led German investors to look abroad for investment opportunities that promised higher yields.¹⁶ The German economic depression between 1873 and 1879 had also led German industrial firms to increasingly seek new opportunities to export their products to foreign markets, and German industrial exports continually grew until the First World War.¹⁷ Many German industrialists saw China as a future market for their products, and manufacturers like Krupp, Mauser and Vulcan Stettin began selling arms and ships to China in the early 1870s.¹⁸ More broadly, the decades after Germany's political unification in 1871 also saw its emergence as a major global economic power and capital exporter and the rise of Berlin as a leading international financial centre.¹⁹

¹⁵ 'Geschäfts-Instruktion für die Agenturen der Deutschen Bank in Ost-Asien' (1872), reproduced in Pohl, 'Das Ostasiengeschäft der Deutschen Bank', p. 479.

¹⁶ On German railway nationalization see Ziegler, *Eisenbahnen und Staat*, pp. 172–229. For the significant difference in yields between government bonds and railway shares, see Wehler, *Deutsche Gesellschaftsgeschichte*, p. 72. For the general surplus of capital in Germany, see Helferrich, *Siemens*, pp. 181–6; Tilly, 'Zur Entwicklung des Kapitalmarktes und Industrialisierung', pp. 155–6; Barth, *Imperialismen*, pp. 25–6.

¹⁷ Wehler, *Gesellschaftsgeschichte*, pp. 561–7; Torp, *Globalisierung*, pp. 93–4.

¹⁸ Ratenhof, *Chinapolitik*, pp. 71–88; Jing, *Mit Barbaren*, pp. 70–102.

¹⁹ Torp, *Globalisierung*; Cassis, *Capitals of Capital*, ch. 3; Bersch, *Financial Globalization*, pp. 74–81.

These developments sparked the interests of both traditional German private banks and newly rising universal banks in the Chinese market, as they both were well connected to German industry through industrial financing and – often in consortia made up of several banks – undertook the floating of foreign bonds in Germany.²⁰ Most importantly, one of Germany's biggest banks, the Disconto-Gesellschaft, and its director Adolph von Hanseemann (Figure 1.2), who had taken an interest in China since the 1870s, now made increasing efforts to expand their business to China.²¹ According to his biographer Hermann Münch, the numerous works on China in both German and foreign languages in Hanseemann's private library were testimony to his great interest in the Chinese market. In particular, the works of Ferdinand von Richthofen, a German geologist who had travelled in China between 1868 and 1872 and in his later publications discussed China's rich coal deposits and the importance of making them accessible through the construction of mines and railways, had a great influence on Hanseemann's perception of China.²² For Hanseemann, who had close connections to Germany's steel and coal industries, this was an additional incentive for expanding his business to China.²³

Hanseemann's interest in both Chinese railway construction and government loans for China was the subject of a conversation he had with the German consul in Shanghai, Johann Heinrich Focke, in January 1882. During their meeting, they also discussed the possibility of establishing a German bank in China. Focke supported the establishment of such a bank and predicted a 'brilliant development' for it. After Focke mentioned that he would also discuss this issue with the Deutsche Bank, Hanseemann expressed his willingness to cooperate with the Deutsche Bank in establishing a German bank in China. However, according to Hanseemann, the Deutsche Bank reacted rather coldly to Focke's suggestion, most likely because of their previous failed attempt to establish branches in East Asia.²⁴

Still, this did not mean that the Deutsche Bank was not interested in investments in China. In November 1882 Paul Jonas, board member of the Deutsche Bank, approached Emil Russell, a director at the Disconto-Gesellschaft, with a proposal to cooperate in the financing of Chinese railways. This resulted in a letter both banks sent to the Chinese minister to Berlin, Li

²⁰ On the connection of German banks to industry, see Wehler, *Gesellschaftsgeschichte*, pp. 622–32; Fohlin, *Finance Capitalism and Germany's Rise*. On the floating of foreign bonds, see Schaefer, *Deutsche Portfolioinvestitionen im Ausland*, pp. 28–40. On the involvement of German big banks in both industrial finance and international finance, see also Cassis, *Capitals of Capital*, p. 111.

²¹ Disconto-Gesellschaft, *Die Disconto-Gesellschaft*, p. 82.

²² Münch, *Hanseemann*, pp. 217–18. On Richthofen see Wu, *Empires of Coal*, pp. 33–65.

²³ Münch, *Hanseemann*, p. 273.

²⁴ Müller-Jabusch, *Deutsch-Asiatische Bank*, p. 8.



Figure 1.2 Adolph von Hanseemann (1826–1903), ca.1900. Image courtesy of Deutsche Bank AG, Historical Institute.

Fengbao 李鳳苞, on 31 January 1883. They explained that they would ‘respectfully offer their services’ should the Chinese government decide to construct railways or grant concessions to construct railways. They stressed that any such railway would be constructed under the supervision and control of the Chinese government as a Chinese state railway. The banks with their ‘manifold connections to the German railways and skilful railway technicians on the one hand, and to German industry engaged in railway construction on the other hand’, could provide German capital, materials and engineers for such construction projects. They mentioned their long-standing business relations with the best German ironworks and proposed forming a consortium with these ironworks, conditioned on the approval of the Chinese government. This consortium could then supply the necessary materials, such as ‘rails, points, bridges and other railway construction equipment and moreover locomotives and waggons’ at set prices at the market rate. Finally, they offered to float a loan for the Chinese government in Germany to cover the construction costs.²⁵

²⁵ Deutsche Bank und Disconto-Gesellschaft to Li Fengbao (31 January 1883), quoted in Stoecker, *Deutschland und China*, pp. 191–2.

The letter shows the willingness of the two most important German banks to enter the Chinese loan business. It also reveals the important role Chinese railway construction and possible orders of railway materials for German industrial firms played in the considerations of German bankers. What made railway construction so attractive for German bankers was that potential profits were not only limited to the financing of construction and the purchase of materials, but if a railway project generated large-scale orders for German industry, the banks could also profit from financing the manufacturing of railway equipment in Germany and from the commission for arranging the purchase for China. While Li Fengbao did not immediately reply to the offer of the German banks, they both were to continue their efforts to become involved in China's growing loan business. Eventually, it was only during the Sino-French War of 1884/5 that the Chinese government turned to German financiers for help. However, we can already see the great interest of German bankers in the China market before the war. Although the first attempt to establish a German bank had failed, the interest of German bankers in China continued and, beginning in the 1880s, shifted its focus from trade finance to investment in railway construction and the issuing of Chinese government loans.

1.2 Foreign Capital and the Chinese Search for Wealth and Power

Before we continue to follow the early contacts of German bankers with China, it is important to note that by the 1880s foreign capital had already started to play an important role both in the banking sector and foreign trade of Chinese treaty ports and in Chinese public finance. Foreign cash loans provided to Chinese merchants by Western merchant firms can be traced back as early as the Cohong (Gonghang 公行) system of the eighteenth and early nineteenth centuries.²⁶ Starting from the 1820s, other instruments of credit, such as bills of exchange, promissory notes, letters of credit, bank notes and drafts, also came into use and caused an 'expansion of credit' on the China coast.²⁷ Following the First Opium War and with the growth of China's foreign trade, the first foreign banks entered China. They were predominantly British foreign banks founded on the initiative of individual groups of merchants and investors. These foreign banks focussed on trade finance, which had so far been dominated by the big foreign merchant houses. By the 1860s, these new foreign banks had largely taken over the exchange business in China.²⁸ Yet, as the number of

²⁶ Chen, *Insolvency*.

²⁷ Hao, *Commercial Revolution*, pp. 72–111.

²⁸ Vinnai, *Die Entstehung der Überseebanken*, pp. 16–82; Kanada, 'Chūgoku kaikō-go no gaikoku ginkō', pp. 1559–61, 1574–5; Tamagna, *Banking and Finance in China*, pp. 24–5. As Vinnai points out, before 1839 the East India Company also played a significant role in Chinese trade finance. Kanada mentions that the Bank of Australasia might have already

foreign banks that focussed on providing specialized banking services remained small during this period, it was only after 1890 that the significance of foreign capital for Chinese finance reached its acme.²⁹ However, not only Chinese merchants, but increasingly also Chinese officials discovered the benefits of cheap foreign capital. From the early nineteenth century, rapidly increasing expenses from military costs, river conservancy works and disaster relief drained Chinese government reserves from 81,824,000 Kuping taels in 1777 to only 8,000,000 Kuping taels in 1850.³⁰ The outbreak of the Taiping Rebellion in 1851 further exacerbated these fiscal problems by cutting the government off from important sources of tax income and causing growing military expenses. By 1861, the government reserves had shrunk to only 1,521,784 Kuping taels.³¹ To deal with this fiscal crisis, the Qing increased existing taxes, introduced the commercial *lijin* 釐金 tax and expanded the selling of official ranks. However, it also increasingly relied on foreign loans to raise funds and cover its growing expenses.³²

The establishment of the foreign-led Imperial Maritime Customs Service in 1854 provided China with a new source of income that was transparent enough to be trusted by foreign merchants, bankers and investors.³³ This made it considerably easier for China to contract foreign loans and enabled it to borrow increasing amounts of foreign capital during the following decades. Qing China lacked a functioning domestic market for public debt.³⁴ Moreover, Chinese merchants mainly issued short-term loans and charged interest rates of 7–14 per cent or more per year.³⁵ Furthermore, they were reluctant to provide loans

had an agency agreement with a foreign merchant in Guangzhou before 1836, but does not provide further proof of this. The only long-lasting non-British bank that operated in China before the 1890s was the Comptoir d'Escompte de Paris (see Chapter 2, Table 2.2), in whose establishment the French government had played a role. However, the Comptoir d'Escompte de Paris did not unite all French financial interests in China like the DAB would do in Germany. On the Comptoir d'Escompte de Paris, see Stoskopf, 'La Fondation', pp. 395–411; Stoskopf, 'From the Private Bank to the Joint-Stock Bank'; and Brötel, *Frankreich im Fernen Osten*, pp. 266–72, 320–40. On the issue that French and British financial institutions in China did not unite the financial interests of their countries in the Chinese market, see also Barth, *Imperialismen*, p. 41.

²⁹ On the small number of foreign banks before 1890, see Tamagna, *Banking and Finance in China*, pp. 24–5 and Chapter 2 of the present volume.

³⁰ Ni, *Qingchao jiadao caizheng*, pp. 179, 380–1; Peng, *Shijiu shiji houbanqi de zhongguo*, pp. 107–8.

³¹ Peng, *Shijiu shiji houbanqi de zhongguo*, pp. 104–8.

³² Peng, *Shijiu shiji houbanqi de zhongguo*, pp. 109–26.

³³ Van de Ven, *Breaking with the Past*, pp. 133–8.

³⁴ Ma, 'Financial Revolution', p. 11; Van de Ven, *Breaking with the Past*, ch. 4.

³⁵ Tōa Dōbunkai Chōsa Hensanbu, *Shina kinyū kikan*, p. 449; Yang, *Money and Credit in China*, pp. 99–100; Xu, 'Jiawu zhongri zhanzheng qian', p. 108; Dzen, *Bankwesen in China*, p. 21; Du Ruilian 杜瑞聯 memorial (23 February 1877), *PHSL*, p. 110; Cen Yuying 岑毓英 memorial (1886/7), *PHSL*, p. 110.

to the government, being afraid that it would either not repay the loan on time or simply convert it into a donation.³⁶ Zeng Jize 曾紀澤, China's ambassador to Great Britain, explained that 'when China borrows money from its people, it usually lies and cheats. This causes the ignorant common people to be fearful when they hear news', so that in an emergency, China could not rely on its own people for the borrowing of money.³⁷ In contrast, Chinese officials were normally able to borrow large sums of money at the relatively low interest rate of around 8–10 per cent per year from foreign sources.³⁸ Therefore, foreign loans presented them with a welcome new measure for raising revenue. Zuo Zongtang 左宗棠, who contracted several foreign loans to fund his Western military expedition between 1867 and 1881, praised the willingness of foreign merchants to lend money: '[T]hey do not have the tendency of hoarding and profiteering that Chinese merchants have. Moreover, the more you borrow from them the lower is the interest you pay, which is also completely different from the attitudes of Chinese merchants.'³⁹ Between 1853 and 1884, China borrowed around 33 million Kuping taels from foreign sources.⁴⁰ Importantly, from 1874 the Chinese government also started to issue public loans on the London capital market, mainly with the help of the Hongkong and Shanghai Banking Corporation (HSBC), which made it possible for China to borrow even larger sums of money.⁴¹ By 1884, borrowing foreign capital had become such a common practice for the government that the Board of Revenue included the income from foreign debt and the expenditure for its repayment as new categories in the accounts of China's state finance.⁴²

During this period, foreign loans were mainly used for military purposes and the court maintained that 'the borrowing of foreign money is always only an emergency measure', urging officials to raise money otherwise if possible.⁴³ Yet, some Chinese reformers of the Self-Strengthening Movement (Ziqiang yundong 自強運動) in the 1870s also started to consider using foreign capital productively to finance China's modernization. This was especially the case in the field of railway construction, which was central to the efforts of Chinese reformers to pursue 'wealth and power', but required large sums of money not readily available in China. Starting from the 1870s, a group of officials led by

³⁶ Xu, 'Jiawu zhongri zhanzheng qian', p. 108.

³⁷ Zeng, diary entry (15 April 1879), in Wang, *Zeng Jize*, p. 192.

³⁸ Xu, *Zhongguo jindai waizhai tongji*, pp. 4–8.

³⁹ Zuo Zongtang memorial (10 January 1876), in Zuo, *Zuo Zongtang quanji*, 6:343. On Zuo's foreign loans, see Xu, *Zhongguo jindai waizhai tongji*, pp. 6–7.

⁴⁰ Xu et al., *Cong bainian quru*, 1:517–19.

⁴¹ Van de Ven, *Breaking with the Past*, pp. 136–7; King, *HSBC History*, pp. 547–53.

⁴² Ma, *Wan Qing waizhaishi*, pp. 76–7.

⁴³ Imperial Edict (31 January 1878), QWSL, 1:115. Also see Imperial Edict (June 1884), QWSL, 1:138. On the primacy of loans for military purposes before the mid-1880s, see Xu, *Zhongguo jindai waizhai tongji*, pp. 5–9.



Figure 1.3 Li Hongzhang 李鴻章 (1823–1901), 1870s. Image courtesy of the Metropolitan Museum of Art, New York (www.metmuseum.org/art/collection/search/261590).

Li Hongzhang (Figure 1.3) started to actively support the construction of railways.⁴⁴ However, the problem of how to raise the high construction costs for railways presented an important obstacle right from Li's earliest considerations of railway construction.⁴⁵

In the late 1870s, Ma Jianzhong 馬建忠 and Xue Fucheng 薛福成, two members of Li's *mufu* staff, began to advocate using foreign capital to raise the necessary capital to construct railways.⁴⁶ Ma, who had lived and studied in Paris from 1876 to 1879, enthusiastically supported using foreign capital.

⁴⁴ Quote from Li Hongzhang to Prince Chun (Yi Xuan) (2 February 1881), *ZJTS*, 1:94; also see Li, *Zhongguo zaoqi de tielu*, pp. 4–32.

⁴⁵ Li, *Zhongguo zaoqi de tielu*, p. 27.

⁴⁶ Ma, *Qingmo minchu tielu*, pp. 18–24.

He argued that those criticizing the use of foreign debt 'do not know that among the Western countries there is not one that does not owe debts of several billion taels'. For him, borrowing foreign capital was fine if the interest rate was not excessively high and China repaid the loan on time. Unlike 'borrowing money for the payment of indemnities or interest of previous loans', using foreign loans to construct railways produced new revenue and would therefore be easily repaid.⁴⁷ While Xue was more cautious than Ma, he also argued that 'there is no alternative to borrowing foreign money' if China wanted to construct railways.⁴⁸ Li later stated that he had gained most of his knowledge about foreign borrowing from those who had spent periods of time abroad like Ma. At the same time, it was Xue who drafted many of the memorials that Li submitted to the throne about the use of foreign capital.⁴⁹

In 1880 Liu Mingchuan 劉銘傳, a former general in Li's Huai army, made the first direct proposal to the throne to use foreign capital for railway construction.⁵⁰ Li then submitted a memorial drafted by Xue Fucheng to the emperor supporting Liu's views in December 1880.⁵¹ After explaining that railways were essential for pursuing 'wealth and power', Li agreed with Liu that there was no alternative to borrowing foreign money if China wanted to build railways. Both Liu and Li argued that foreign capital was useful if it was employed for productive purposes that opened new streams of revenue such as the construction of railways. However, the court eventually forbade using foreign loans to construct railways, arguing that 'the required funds [for railway construction] can be up to several million, how we can obtain such large sums? If we borrow foreign money, then this will generate many corrupt practices'.⁵² Evidently, the court was still anxious that using foreign debt might become widespread and escape its central control. Despite this early failure, the openness to using foreign capital for railway construction shown by Li, Liu and other officials became the basis for Chinese cooperation with foreign bankers beyond simple loans for military purposes.

Reformers like Ma also developed a critique of China's early foreign loans, which had mainly been handled by the HSBC. Ma criticized the fact there were 'not more than three or four foreign banks' in China that monopolized the Chinese loan business and offered China unfair loan conditions. 'Even if big foreign banks would send their representatives to China, it would be difficult for them to go beyond their [the foreign banks in the treaty ports] control.' Therefore, China needed to go to Europe directly and approach officials and

⁴⁷ Ma Jianzhong, 'Tiedao lun' (1879/1880), *MJZQJ*, pp. 16–23. On Ma Jianzhong, see Zhongyang yanjiuyuan jindaishi yanjiusuo, *Jindai zhongguo dui xifang*, p. 653.

⁴⁸ Xue Fucheng memorial (1880), in Ding and Wang, *Xue Fucheng xuanji*, p. 139.

⁴⁹ Ma, *Qingmo minchu tielu*, p. 23.

⁵⁰ Liu Mingchuan memorial (December 1880), *ZJTS*, pp. 86–7.

⁵¹ Li Hongzhang memorial (31 December 1880), *ZJTS*, pp. 89–93.

⁵² Imperial Edict (14 February 1881), *ZJTS*, pp. 102–3.

banks there about loans, so that it gained proper access to European capital markets and could fix the price and interest rates of the loans itself.⁵³ While the HSBC played an important role in mediating the issuance of China's first public loans, Ma recognized that China could raise money on better conditions if it could access foreign money markets more directly and if there existed more competition among foreign banks.

Ma's critique explains why Chinese reformers later welcomed the plans of German bankers to establish a bank in China, which would increase the competition among foreign banks there. More broadly, the increasing interest Chinese officials exhibited in using foreign capital shows that the entry of German and other foreign bankers into the China market was not a one-sided effort, but there also existed a growing interest among Chinese elites to engage with foreign financial institutes and markets. In the absence of Chinese institutions that could provide large sums of cheap capital, foreign banks and the capital markets they could access were able to fill an institutional void in the Chinese economy. As we will see, bankers in Germany followed this growing willingness of Chinese officials to use foreign capital for the purpose of modernizing China with great interest, and it played an important role in their assessment of the viability of investing and doing business in China.

1.3 The German Government and the Study Mission of 1886

It was during the Sino-French War of 1884/5 that China started to look beyond London to raise money for its war efforts. For this purpose, the new governor-general of Liangguang province, Zhang Zhidong 張之洞, started loan negotiations with the Deutsche Bank and the Disconto-Gesellschaft through the Chinese legation in Berlin.⁵⁴ The confidence of the German bankers in their ability to float a Chinese loan in Germany now also grew. While the HSBC was only willing to provide the German bankers with a small passive participation for any Chinese loans floated by the British bank in London during the war, the German bankers had no interest in merely participating in the subscription of the loan. They felt that 'the moment has come to start negotiations with the Hongkong Shanghai Bank in the direction that they and we make the deal [for a Chinese loan] together and on the basis of equality'. The German bankers were confident that the German market now was 'able to receive a Chinese loan'.⁵⁵

⁵³ Ma Jianzhong, 'Jiezhai yi kai daolu shuo' (1879/1880), *MJZQJ*, pp. 24–30. As King explains when discussing early Chinese loans, China did not 'send its officials to London' to negotiate loans at the time. See King, *HSBC History*, 1:542.

⁵⁴ Xu to Disconto-Gesellschaft (18 December 1884), HADB, S2585; Xu to Deutsche Bank and Disconto-Gesellschaft (10 January 1885), HADB, S2585.

⁵⁵ Quote from Deutsche Bank (Berlin) to Deutsche Bank (London) (24 December 1884), HADB, S2585; Deutsche Bank (London) to Deutsche Bank (Berlin) (22 December 1884), HADB, S2585.

However, despite the Chinese interest in a loan provided by the German banks and the German bankers' grown confidence, the German bankers eventually failed to float a Chinese loan during the war and China once more raised necessary loans in London with the help of the HSBC and the British China firm Jardine, Matheson and Co.⁵⁶ There were two reasons for the German failure. First, as the London manager of the Deutsche Bank, Gustav Pietsch, pointed out, a key weakness of the German banks' position was that most loans were floated for the Chinese government after advances had been issued to the Chinese government by foreign banks and firms in China. Therefore, he felt that, in the absence of a branch or agent in China, the German banks would have difficulties contracting a loan with China.⁵⁷ This assessment was vindicated by the fact that eventually China cooperated with the HSBC and Jardine, two firms with a long-standing presence in China, in floating loans during the war. Second, while the German bankers considered cooperation with the HSBC in floating Chinese loans, they insisted on absolute parity with the British bankers 'in terms of the relationship to the Chinese government'.⁵⁸ However, the HSBC wished to maintain their monopoly position as 'banker to China' and handle all direct contact and contract the loan with the Chinese government alone. The bank generally showed little interest in the German offer for cooperation.⁵⁹ Thus cooperation with the HSBC, which could have provided the branch infrastructure and contacts in China the German bankers lacked, also seemed impossible for the moment.

After this failure, the German banks turned to the German Foreign Office for support. As early as March 1885, the Deutsche Bank had already written to the German minister in Beijing, Max von Brandt (Figure 1.4), and asked whether he could provide them with information about possible loans the Chinese government wished to contract. Brandt agreed, but he believed that it would 'most likely be those banking institutes that are established in China or at least have agencies there that will be approached by the Chinese government

⁵⁶ Wallich to Bulkeley-Johnson (13 June 1885), HADB, S2585; Matheson to Wallich (16 June 1885), HADB, S2585; 'Chinese Imperial Government Loan of 1885' (27 February 1885), HADB, S2585.

⁵⁷ Deutsche Bank (London) to Deutsche Bank (Berlin) (20 June 1885), HADB, S2585.

⁵⁸ Quote from Deutsche Bank (Berlin) to Koch (telegraph notes after Koch to Deutsche Bank (Berlin)) (1 July 1885), HADB, S2585; Deutsche Bank (Berlin) to Disconto-Gesellschaft (4 July 1885), HADB, S2585.

⁵⁹ Quote from Koch to Deutsche Bank (Berlin), Telegram No. 2 (2 July 1885), HADB, S2585; Koch to Deutsche Bank (Berlin), Telegram No. 1 (2 July 1885), HADB, S2585. In his correspondence with HSBC Hong Kong manager Thomas Jackson, David McLean, London manager of the HSBC, only mentions the offer of the German group to cooperate, but does not indicate any initiative from the side of the HSBC. See McLean to Jackson (1 July 1885), *HSBC Group Archives, London*, HQ HSBC 0008-0001, 285. In their negotiations with the German bankers, the HSBC eventually rejected their request for parity. See Deutsche Bank (Berlin) to HSBC (London) (4 July 1885), HADB, S2585; HSBC to Deutsche Bank (Berlin) (6 July 1885), HADB, S2585.

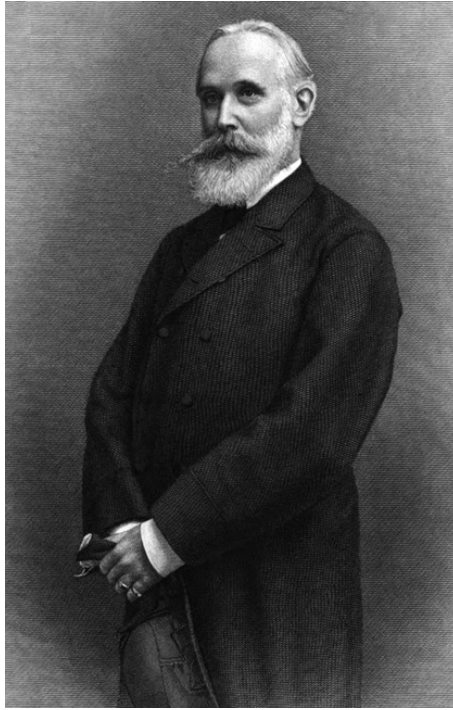


Figure 1.4 Max von Brandt (1835–1920). From Exner, *China*.

or the provincial offices for the mediation of loans'.⁶⁰ This response reflected the great importance Brandt attached to the establishment of a German bank in China. While he was satisfied with the achievements of German merchants in China, he repeatedly complained to the Foreign Office and German Chancellor Otto von Bismarck about the lack of a German bank in China. On the one hand, Brandt believed that a sufficiently accommodating German bank institute was necessary to free German merchants from their dependency on British banks and merchant houses such as the HSBC or Jardine for trade financing. This was especially the case for German merchant houses that represented German industrial firms in China, since they needed to rely on British credit in the absence of a German bank. Consequently, Germany did not only 'suffer financial losses', but the reliance on British credit also 'weaken[ed] the national sentiment' of Germans involved in the China trade.⁶¹ On the other hand, Brandt stressed that the lack of a German bank in China meant that German bankers were disadvantaged in the competition for loans, which were often tied to

⁶⁰ Brandt to Deutsche Bank (29 March 1885), HADB, S2585.

⁶¹ Brandt to Bismarck (15 October 1886), BArch, R901/12986, pp. 4–5.

industrial purchases. This led to a loss of business for German industry, which could not rely on a strong German bank that brought them orders through the loans it contracted with China.⁶² Consequently, Brandt became one of the driving forces behind the establishment of a German bank in China.

Brandt's support for the establishment of a German bank in China suited Bismarck's overall policy of strengthening and supporting German commerce abroad. While Bismarck had originally believed in free trade, from the 1870s he shifted to a more protectionist economic policy, both to appeal to conservative groups in Germany and to strengthen the German economy and find new markets for German exports after the start of the Great Depression in 1873.⁶³ The German government pursued three measures to strengthen German commerce abroad. First, it reformed and expanded the German diplomatic service, tasking it with the support of Germany's foreign trade. Second, it established state-subsidized shipping lines between Germany and China and Australia. Third, it supported the expansion of German overseas banking and particularly the establishment of a global German overseas bank. All these efforts were not only meant to simply support German overseas commerce. They were also specifically aimed at bolstering its independence from and helping it catch up with other countries, in particular Britain.⁶⁴ For Bismarck, China, with its 'vast and highly populated territory', was the overseas market that 'deserved the greatest interest'. As it would 'sooner or later' offer an important market for German industry, especially for railway construction, it would be essential for Germany to have a banking institution there.⁶⁵

Now, following the failed attempt to float a Chinese loan during the Sino-French War or cooperate with British financiers for the floating of such loans, the German banks on 8 July 1885 approached the Foreign Office in Berlin for help. They explained that they had been interested in 'railway construction in China, and, in connection with this, the introduction of a Chinese loan on the German market' for several years. They mentioned that they had made relevant offers to the Chinese, especially with a view to opening a new market for German industry. They then turned to recent negotiations about a Chinese loan with the HSBC and explained that they had insisted on 'coming into direct contact with the Chinese government, not only because of our standing, but especially because in this way we can have real influence on the use of the money, especially with regards to the use of German industry and arrangement

⁶² Brandt to Bismarck (15 October 1884), PAAA, R17.771, 11; Brandt to Bismarck (3 December 1884), PAAA, R17.771, pp. 17–19; Brandt to Bismarck (5 February 1885), PAAA, R17.771, pp. 44–6.

⁶³ Rose, 'Otto von Bismarck', pp. 84–5; Epkenhans, 'Bismarck und die Wirtschaft', p. 239; Canis, *Bismarcks Aussenpolitik*, pp. 209–10.

⁶⁴ Wehler, *Bismarck und der Imperialismus*, pp. 230–57.

⁶⁵ Bismarck to Boetticher (20 May 1888), BArch, R1501/102074, pp. 143–6.

of payments (the remittance of silver, etc.)'. However, the HSBC had insisted to alone be in direct contact with the Chinese government and handle the loan contract and transaction itself. Therefore, the German bankers felt they now needed to 'enter into direct negotiations [with the Chinese government] to open a suitable field of work for German capital and German industry in China'. They therefore asked Brandt to directly inform the Chinese government that German banks were ready to begin loan negotiations and believed that they could offer the same or better conditions than their British competitors.⁶⁶

Brandt relayed the message to the Chinese government. However, this attempt to communicate with the Chinese government from Berlin through the German minister in Beijing also proved futile, as the Chinese government only thanked the banks for their offer and promised to come back to it if necessary. Brandt was certain that the two banks would fail in contracting a Chinese loan in this way. As foreign banks and agents in China made so many loan offers to the Chinese central and provincial governments, these did not need to enter into negotiations with banks in Europe. He therefore strongly recommended that the banks send an agent to China.⁶⁷ As we have seen from the offer Zhang Zhidong sought from the German banks and the writings of Ma Jianzhong, Brandt was wrong in thinking that Chinese officials were not interested in directly approaching European banks that were not present in China. However, Brandt was right that the lack of a branch or agent in China meant that the two German banks were at a disadvantage when it came to entering into direct negotiations with the Chinese government and to quickly reacting to Chinese loan requirements. Yet, at this point there do not seem to have existed concrete plans among German bankers for the establishment of a German bank in China yet.

Nevertheless, the two banks decided to send a study mission to China in 1885 to enter into more direct contact with China and the Chinese government. On 16 June 1885, the Deutsche Bank and the Disconto-Gesellschaft invited several German industrial firms, such as Krupp and Vulcan Stettin, to discuss 'railway construction overseas'. After a meeting on 24 June, the participants decided to send a study mission of three men to China to 'secure for the consortium the conclusion of loans, the provision of railway materials and the construction of railways' in China. To make such business deals possible, the study mission first was to 'acquire the necessary information and ... connections'. A second objective of the study mission was to find a suitable temporary or permanent agent for the interests of the consortium in China.⁶⁸ This study mission reflected

⁶⁶ Deutsche Bank and Disconto-Gesellschaft to Auswärtiges Amt (8 July 1885), PAAA, R17.771, pp. 74–80.

⁶⁷ Brandt to Bismarck (16 July 1885), PAAA, R17.771, pp. 99–102.

⁶⁸ Müller-Jabusch, *Deutsch-Asiatische Bank*, pp. 12–14.

the long-term interest of the banks and the involved industrial firms in Chinese railway construction. However, it was also the result of more recent developments in China.

After the end of the Sino-French War, news had reached Germany that China had now decided to construct railways. In June 1885, German industrialist Friedrich Hammacher forwarded a report by the German merchant Sammer from Tianjin to the Deutsche Bank. In the report, Sammer explained that with the beginning of the Sino-French War the party of Li Hongzhang, who was 'interested in the introduction of railways' but whose repeated railway proposals had been rejected, had now become the leading political party in China. Moreover, the father of the young emperor and head of the Chinese government, who was falsely called Prince Gong (Gong qinwang 恭親王) instead of Prince Chun (Chun qinwang 醇親王) by Sammer, was also interested in the construction of railways. This had already led to competition among several foreign firms, such as Jardine, Matheson & Co., for railway concessions. The Chinese were now becoming more and more convinced that 'railways are necessities of life for China'. Although there still existed opposition to railways among the common people in China, Sammer was certain that the Chinese 'government has to and will solve the railway questions sooner or later' and start the construction of railways. He was optimistic that the Germans could win the competition for railway concessions. However, he felt that uniting the big German banks in a syndicate to provide funds for Chinese railway construction was of key importance to achieve success.⁶⁹

Sammer was correct insofar as in April 1884, after first conflicts with France, Prince Chun had replaced Prince Gong as the head of the Grand Council. He was a close ally of Li Hongzhang and had been persuaded by Li of the importance of building railways. This had already led to reports by Western newspapers in China that China would start the construction of railways.⁷⁰ In October 1885, Prince Chun and Li Hongzhang were put in charge of the new Board for Naval Affairs (Haijun yamen 海軍衙門), which also was to manage the construction of railways.⁷¹ After the end of the Sino-French War, newspapers in Germany also reported that China had finally decided to 'swiftly start the construction of railways' with the help of foreign capital.⁷² These factors all contributed to the dispatching of the study mission to China. The letter forwarded to the Deutsche Bank by Hammacher also shows how closely German commercial and industrial circles followed developments in China and how important the increasing openness of China towards railways was for

⁶⁹ Sammer to Hammacher (20 March 1885), HADB, S2585. The fact that the letter is located among other documents from June 1885 in the archives of the Deutsche Bank suggests that it was during June 1885 that the Deutsche Bank received the report.

⁷⁰ Li, *Zhongguo zaoqi de tielu*, pp. 57–9.

⁷¹ Li, *Zhongguo zaoqi de tielu*, p. 61.

⁷² *BBZ* (22 June 1885, evening edition).

these businesspeople. The dispatching of the study mission, ordered not only to conclude business deals but also to collect information, establish contacts to Chinese officials and hire an agent, was proof that the German bankers were drawn to China by these new developments and wished to understand them more clearly. It also showed that they realized the importance of establishing direct contacts with Chinese officials.

The study mission included August Heinrich Exner, Curt Erich and Karl Bethge. Exner and Erich were employees of Germany's two biggest banks, the Deutsche Bank and the Deutsche Disconto-Gesellschaft, respectively. Bethge was an engineer connected to Krupp.⁷³ The three representatives left Germany in January and first arrived in Hong Kong on 12 February. The German Foreign Office had promised the syndicate the support of the German minister and consuls in China for the study mission.⁷⁴ In China, the first important stop for the representatives was Tianjin, where they were introduced to Li Hongzhang by the German vice consul. On 14 March, they had a long audience with Li. The governor-general discussed the issuing of loans with the representatives and asked whether they would be willing to provide loans for mining projects and regulating the Yellow River. He also expressed his interest in the establishment of a German bank in China, just as he did two years later to Simon Alfred von Oppenheim.⁷⁵ When the discussion turned to the subject of railways, Li explained that China wanted to construct railways, but wanted to do so slowly and without borrowing money.⁷⁶

As we have seen, despite this apparent hesitancy, Li was not opposed to using foreign loans to construct railways. After the establishment of the Board of Naval Affairs, Li quickly contracted a foreign loan for the extension of the Kaiping railways in 1887.⁷⁷ Moreover, both before and after 1886, Li often purchased foreign rails and other railway materials for his Kaiping railway project.⁷⁸ Therefore, Li's hesitant reply was not due to a general opposition to the use of foreign capital, but might have had other causes. One possibility is that he reacted hesitantly because of false reports that were circulating stating that the representatives wished to contract loans with China for the large sum of £35 million for war purposes and railway construction, but only under the condition that funds would be controlled by the German syndicate and used for material purchases in Germany.⁷⁹ Another possible reason for Li's hesitant

⁷³ Müller-Jabusch, *Deutsch-Asiatische Bank*, pp. 12–14.

⁷⁴ *North-China Herald* (24 February 1886); Müller-Jabusch, *Deutsch-Asiatische Bank*, pp. 14–15.

⁷⁵ Exner, *China*, pp. 119–23; Müller-Jabusch, *Deutsch-Asiatische Bank*, p. 17.

⁷⁶ Exner, *Einnahmequellen*, p. 35.

⁷⁷ Ma, *Wan Qing waizhaishi*, pp. 27–8.

⁷⁸ Perry Horace Kent, *Railway Enterprise in China*, pp. 23–35.

⁷⁹ *The Times (London)* (2 January 1886); *BBC* (4 January 1886, evening edition); *Journal des Débats* (3 January 1886); *North-China Herald* (6 January 1886).

response was that he might have simply wanted to avoid making early commitments to the representatives. In any case, even though Li had shown a general interest in cooperating with the German bankers, his reply with regards to the topic of railways naturally was a great disappointment to the study mission, whose main objective was focussed on the financing of railway construction and the provision of railway materials to China.

In Tianjin, the three representatives also met with the Chinese Customs Circuit Intendant (Daotai 道臺) Zhou Fu 周馥, who later went on to become governor of Shandong. Zhou complained to the bankers that he could not buy remittances to Germany in China and expressed his hope that a German bank in China would soon be established, which he would be happy to support.⁸⁰ As both Brandt and Simon Alfred von Oppenheim later stated, such Chinese support for the establishment of a German bank in China was most likely aimed at increasing the competition among foreign capitalists in China to obtain better terms for Chinese loans.⁸¹

On 16 March the three representatives left Tianjin for Beijing. Despite the help of Brandt, Prince Qing (Qing qinwang 慶親王) did not agree to meet them at the Chinese Foreign Office, the Zongli Yamen 總理衙門, and only informed Brandt again that he would contact him if China wished to raise a loan.⁸² As the Inspector General of the Customs Service, Robert Hart, with whom the representatives also met, put it, 'the German Syndicate came, saw, and did not conquer'.⁸³ Most likely because there was nothing more the mission could do for the moment, Erich and Exner were eventually recalled to Germany in the summer and autumn of 1886.⁸⁴ Bethge stayed in China and would later act as agent for the German banks.⁸⁵ After Exner and Erich had returned to Germany, the consortium that had sent them to China met on 7 February 1887. Having read the reports of the study mission, it concluded that 'the preconditions, which had led to the forming of the consortium, at least for the moment do not exist'.⁸⁶ The members of the consortium felt that China would not build railways 'on a large scale' soon. Smaller railway lines that might be built in China were 'suitable for . . . individual' members of the

⁸⁰ Exner, *China*, pp. 126–31; Müller-Jabusch, *Deutsch-Asiatische Bank*, pp. 18–19. For more on Zhou Fu, see Wang, *Shandong zhongyao lishi renwu*, pp. 193–5.

⁸¹ Simon Alfred von Oppenheim to Eduard von Oppenheim (20 July 1888), HSO, A VIII 114 Ostasiatische Geschäfte 1888–1914; Brandt to Bismarck (24 July 1888), BArch, R901/12988, p. 3.

⁸² Stoecker, *Deutschland und China*, p. 196.

⁸³ Quote from Hart to Campbell (3 April 1886), *IGPK*, 1:632. Hart mentions that he met with the representatives in his diary: Sir Robert Hart Diary (24 March 1886), *Special Collections and Archives, Queen's University Belfast*, MS.15.1.31.245.

⁸⁴ Berchem to Brandt (16 July 1886), in Stoecker, *Deutschland und China*, p. 278; Exner, *China*, pp. 208, 216; Stoecker, *Deutschland und China*, p. 197.

⁸⁵ Stoecker, *Deutschland und China*, p. 196.

⁸⁶ Müller-Jabusch, *Deutsch-Asiatische Bank*, p. 20.

consortium but did not require a 'consortium of such a size'.⁸⁷ However, the consortium was not disbanded and decided to stay in contact, while every member was given the right to act independently.⁸⁸

Despite this rather negative assessment, it would be wrong to see the mission as a failure. The delegates succeeded in establishing important contacts in China, and with Bethge remaining in China, the consortium now had a representative there. Moreover, Exner 'collected a great amount of valuable materials' on the prospects of both the German financing of railways and the possible establishment of a German bank in China.⁸⁹ Exner later published two books based on his time in China – a study of the income of the Chinese state and a travel report.⁹⁰ His study of the income of the Chinese state was one of the first Western studies of China's public finance and became so influential that it was even translated into English.⁹¹ It gave a very favourable picture of China's revenues and the ability of the Chinese state to contract and repay foreign loans. His travel report concluded that 'the construction of railways in China is a done deal' and just a matter of time.⁹² He also reported that many Chinese reformers were in favour of railway construction and even provided some of their writings, such as the memorial of Liu Mingchuan, in German translation.⁹³ As such reports were scarce in Europe, they supported the already existing enthusiasm for railway construction in China. Moreover, the particular attention Exner pays to the new Chinese openness towards railways again reaffirms the importance of development in China for the thinking of German bankers. Finally, the delegates had also learned that there was Chinese support for the establishment of a German bank in China. They reported to the consortium in Germany that 'the precondition for everything planned, be it railways, business for German industry or loans, is the establishment of a German bank institute in China'.⁹⁴ This made the importance of establishing a German bank in China clear to the consortium that had sent the mission to China.⁹⁵ Exner later explained that the DAB's establishment was 'the first positive consequence' of the study mission to China.⁹⁶ The study mission represented a meeting of German financial and Chinese interests and actors

⁸⁷ Exner to Brandt (2 January 1887), PAAA, R9208/563, pp. 14–19.

⁸⁸ Müller-Jabusch, *Deutsch-Asiatische Bank*, p. 20.

⁸⁹ Brandt to Bismarck (15 October 1886), BArch, R901/12986, p. 2.

⁹⁰ Exner, *Einnahmequellen*; Exner, *China*.

⁹¹ For the English translation, see Exner, 'The Sources of Revenue', pp. 276–91. Importantly, Exner's account preceded later prominent accounts, such as Jamieson, *Revenue and Expenditure of the Chinese Empire*.

⁹² Exner, *China*, p. 241.

⁹³ Exner, *China*, pp. 242–62.

⁹⁴ Quote from Müller-Jabusch, *Deutsch-Asiatische Bank*, p. 17. Also see Exner, *Einnahmequellen*, p. 49.

⁹⁵ Münch, *Hanseemann*, p. 218.

⁹⁶ Exner, *China*, p. viii.

on the Chinese frontier and laid the basis for the later establishment of a permanent presence of German bankers there.

1.4 The Establishment of the Deutsch-Asiatische Bank

After the return of the study mission, Brandt reiterated his conviction regarding the necessity of a German bank with sufficient capital in China to Bismarck, which for him was the 'necessary complementation' to the German state-subsidized shipping line. While several banks had expressed their interest in China to him, he believed that the 'diverging opinions and wishes' of different interested parties might hinder the emergence of any 'practical result'.⁹⁷ In Germany, the attempts of the German government to further the expansion of German overseas banking and the establishment of a global German overseas bank that could support German commerce abroad had not yielded any results by the middle of 1886. Yet, on 2 October the Deutsche Bank established the Deutsche Überseebank as a subsidiary firm without the participation of the German government.⁹⁸ As the Deutsche Bank explained to Brandt, they hoped to continue to use the connections the study mission had established in China. However, they did not think that the establishment of a bank in China was immediately possible, as such a bank would need to have its capital in silver currency, while German law only allowed stock companies with stock capital in German reichsmark. The Deutsche Bank believed that the Deutsche Überseebank, which was to focus its activities on South America for now, could later possibly extend its activities to East Asia.⁹⁹ The Deutsche Bank and the Disconto-Gesellschaft nevertheless maintained their interest in China. Bethge now acted as agent for the two banks and informed them about possible opportunities for loans.¹⁰⁰

This stance of the Deutsche Bank and the Disconto-Gesellschaft changed in spring 1887, when a German consortium comprising the Berlin banks Warschauer & Co. and Berliner Handels-Gesellschaft and the Frankfurt bank Jacob S. H. Stern floated the first Chinese loan on the German capital market. While the sum of 5 million reichsmark was relatively small, the loan was enthusiastically received in Germany as the first introduction of a Chinese loan on the German capital market and 'the financial basis' for the engagement of German industry in China.¹⁰¹ The loan was issued with an annual interest rate of 5.5 per cent and a repayment period of fifteen years. Li Hongzhang had

⁹⁷ Brandt to Bismarck (15 October 1886), BArch, R901/12986, pp. 3–5.

⁹⁸ Barth, *Imperialism*, pp. 32–3.

⁹⁹ Deutsche Bank to Brandt (20 December 1886), PAAA, R9208/563, pp. 12–13.

¹⁰⁰ Disconto-Gesellschaft to Bethge (28 January 1887), HADB, S2586.

¹⁰¹ *BBC* (9 April 1887, evening edition); *BBZ* (9 April 1887), in HADB, S2585; *BBC* (12 April 1887), in HADB, S2585. The quote is from the *Norddeutsche Allgemeine Zeitung* quoted in *BBC* (12 April 1887) and *BBZ* (9 April 1887).

contracted the loan with the German China firm Carlowitz & Co, who acted as agent for the Warschauer group. In his report to the throne, Li especially stressed that China had never been able to borrow foreign capital at such a low interest rate. Moreover, the German bankers had not even made it a requirement that Customs revenue must act as collateral.¹⁰² Clearly, German bankers had already increased the competition among foreign financiers in China, which improved the loan terms China could obtain.¹⁰³ The floating of the loan was also proof that the German market was able to absorb Chinese loans and was the first public Chinese loan not floated in London.¹⁰⁴

Reacting to their new German competition, the Deutsche Bank and the Disconto-Gesellschaft informed Bethge that they were happy to begin loan negotiations with the Chinese government.¹⁰⁵ They also tried to come to an understanding with the Warschauer group to cooperate for future Chinese loans. However, for now the competition between the Frankfurt house of Rothschild, who was a close ally of the Disconto-Gesellschaft and wished to join the loan business, and their Frankfurt competitors Jacob S. H. Stern, who belonged to the Warschauer group, prevented any cooperation.¹⁰⁶ This rivalry between the two Frankfurt banks became the main obstacle to bringing together two German bank groups during 1887. After the Chinese loan had been floated in Germany, the Foreign Office tried to unite the two German banking groups for future loans in China. Both Brandt and Bismarck believed that the two groups should cooperate and avoid any competition between German banks in China.¹⁰⁷ Ludwig Raschdau, a member of the Foreign Office, thereupon met with Disconto-Gesellschaft director Russell and asked him to unite all German banks in a loan consortium for China. Thereafter, Russell and Hugo Oppenheim, director of Warschauer & Co., met several times. In May 1887 Oppenheim agreed to talk to Jacob Stern and persuade him to forgo any further participation in the consortium.¹⁰⁸

¹⁰² Li Hongzhang memorial (31 January 1887), AIMH, 01-32-012-01-002; Warschauer to Deutsche Bank (12 November 1888), HADB, S2586.

¹⁰³ On this point, also see Brötzel, *Frankreich im Fernen Osten*, pp. 292–3, 302–3. In his brief discussion of the issue, Brötzel seems to overestimate the increased competition before 1895 based on a few loan offers that, except for the German 1887 loan, were eventually not realized.

¹⁰⁴ For an overview of Chinese public loans floated between 1874 and 1895, see King, *HSBC History*, 1:548–9, 557.

¹⁰⁵ Disconto-Gesellschaft to Bethge (22 April 1887), HADB, S2586.

¹⁰⁶ Deutsche Bank (Berlin) to Deutsche Bank (Hamburg) (30 April 1887), HADB, S2586; Wallich to Siemens (7 May 1887), HADB, S2586; Müller-Jabusch, *Deutsch-Asiatische Bank*, p. 25; Disconto-Gesellschaft, *Denkschrift*, p. 220.

¹⁰⁷ Warschauer & Co. to Brandt (28 July 1887), PAAA, R9208/563, p. 28; Rottenburg to Berchem (22 August 1887), BArch, R901/12986, p. 32.

¹⁰⁸ Wallich to Siemens (7 May 1887), HADB, S2586.

Members of the Foreign Office now also brought up the establishment of a global German overseas bank again. While Hanseemann explained that the banks were still not in favour of establishing a global overseas bank, the Disconto-Gesellschaft and Deutsche Bank now planned to establish 'a bank with less capital [only] for China'. Besides the Frankfurt house of Rothschild, the Berlin private bank Bleichröder and the Norddeutsche Bank in Hamburg were also to join these plans.¹⁰⁹ Bismarck had promised early on to support such a German bank in China if it was established, but was not ready to take the initiative for its establishment himself.¹¹⁰ However, despite the efforts of the Foreign Office, by July 1887 the two banking groups interested in China had still not been brought together.¹¹¹

Bismarck and the Foreign Office grew impatient. As Hanseemann later related, Bismarck now 'pushed for the realisation' of the bank project in China.¹¹² In November, Bismarck asked Franz von Burchard, the president of the Seehandlungsgesellschaft, a Prussian state bank, to mediate between the banks and fix the specifics of the future bank institute.¹¹³ Burchard invited the bank group led by the Disconto-Gesellschaft, which also included the Deutsche Bank, Bleichröder and the Norddeutsche Bank, to negotiations on 9 and 10 November. The Disconto-Gesellschaft and the Deutsche Bank agreed to draw up a plan for the bank, which could then act as a basis for further negotiations. The Disconto-Gesellschaft also promised to begin discussions with the Rothschilds in Frankfurt, so that the three banks of the Warschauer group could soon join the consortium.¹¹⁴

When by the end of November still no agreement between the two groups had been reached, the Warschauer group, who had been complaining about the slow progress of the negotiations before, now took the initiative.¹¹⁵ On 27 November 1887 they submitted a concrete proposal for the establishment of a German bank in China to the Foreign Office. The bank was to have a capital of 10 million reichsmark and was to be established in Shanghai. They explained that they were ready to follow the wishes of the Seehandlungsgesellschaft and unite with the other group. They, however, felt that the establishment of a German bank in China could 'bear . . . no further delay' and were also willing to carry out the establishment of the bank on their own if necessary. A condition for a possible independent endeavour was that the German

¹⁰⁹ Foreign Office Note (30 April 1887), BArch, R901/12986, p. 15.

¹¹⁰ Foreign Office Note (25 December 1886), BArch, R901/12986, p. 11.

¹¹¹ Berchem Note (15 May 1887), BArch, R901/12986, p. 16; Warschauer & Co. to Brandt (28 July 1887), PAAA, R9208/563, p. 28.

¹¹² Müller-Jabusch, *Deutsch-Asiatische Bank*, pp. 24–5.

¹¹³ Scholz to Burchard (4 November 1887), GStA, I HA Rep. 109, No. 5363, pp. 1–2.

¹¹⁴ Burchard to Scholz (10 November 1887), GStA, I HA Rep. 109, No. 5363, pp. 4–5.

¹¹⁵ Warschauer & Co. to Brandt (5 May 1887), PAAA, R9208/563, p. 25; Warschauer & Co. to Brandt (28 July 1887), PAAA, R9208/563, pp. 28–9.

government would not support another bank group in the establishment of another competing German bank in China. They hoped that the German government would only support their bank in China and would also carry out its financial transactions between China and Germany through the bank.¹¹⁶ The proposal not only showed that the Warschauer group was very determined to establish a bank in China, which must have increased the pressure on the other German bank group, but also indicated the importance they attached to the support of the German government.

On 2 December 1887, the group led by the Disconto-Gesellschaft submitted their own plan for a bank in China based on the negotiations in November with the Seehandlungsgesellschaft. Their plan was drafted by Deutsche Bank director Wallich and was more cautious than the proposal of the Warschauer group. Wallich possessed first-hand experience of working as a banker in China. Moreover, he was known as the ‘conscience of the [Deutsche] Bank’ and rather cautious in business.¹¹⁷ This explains why the plan focussed on some of the risks involved in establishing a bank. While Wallich believed that there was ‘no great danger’ in establishing a bank in China, the opportunities for profits were limited because of the high expenses of such a bank and the existing competition in China. Nevertheless, the bank group was still willing to establish a bank in China to respond to the wishes of the Foreign Office for a bank institute that could assist German industry in opening a new market in China. Wallich insisted that it was a prerequisite for the establishment of such a bank that ‘all interested German parties’ needed to be united to avoid competition. Wallich saw the fluctuation of the market price of silver as one of the main problems a bank in China would face. Therefore, he hoped that the German government could issue a decree that allowed the bank to denominate its share capital in silver currency. As the bank was to be established in Shanghai, he proposed a capital of 5 million Shanghai taels.¹¹⁸ Wallich’s cautiousness, especially regarding the silver question, is understandable if we recall that the Deutsche Bank’s first attempt to establish branches in China had partly failed because of the fall of the value of silver.¹¹⁹ It was also strategically shrewder to show reluctance and caution when trying to persuade the government that a decree allowing the bank to denominate its share capital in silver currency was necessary. At the same time, Wallich’s proposal taken together with the previous experience of the German bankers during the Sino-French

¹¹⁶ Berliner Handelsgesellschaft to Auswärtiges Amt (28 November 1887), BArch, R901/12986, pp. 38–42.

¹¹⁷ Hermann Wallich, ‘Aus der Frühgeschichte der Deutschen Bank’, p. 410.

¹¹⁸ ‘Promemoria in Sachen Gründung einer Deutsch-Chinesischen Bank’, attachment to Wallich to Auswärtiges Amt (2 December 1887), BArch, R901/12986, pp. 48–58.

¹¹⁹ On Wallich’s cautiousness in the matter of establishing a German bank in China, also see Müller-Jabusch, *Deutsch-Asiatische Bank*, p. 27.

War shows that the German bankers understood that they were not entering a blank space without competition on the Chinese frontier.

At the end of November, Bismarck again asked Burchard to mediate between the groups. Referring to the quarrel between the two Frankfurt houses, Bismarck complained that 'personal resentments between two individual firms' could not inhibit an endeavour of such 'national importance'. In view of the proposal of the Warschauer group to establish a bank independently, he reiterated the importance of uniting German banking endeavours in China because of the 'national character' of competition there.¹²⁰ Burchard invited the representatives of the group led by the Disconto-Gesellschaft to a meeting on 5 December. During this meeting the banks finally agreed to cooperate with the Warschauer group, including the banking house of Jacob S. H. Stern, offering them one-third of the shares of the bank in China. Once the other group had agreed to enter the consortium for the bank, statutes were to be drawn up for the institute by Wallich, Russell, the delegates of the Warschauer group and the president of the Seehandlungsgesellschaft.¹²¹ The Warschauer group promptly agreed to join the consortium.¹²²

At the end of 1887, there finally existed a united consortium for the establishment of a German bank in China. The German government had certainly played an important role in bringing the banking groups together, but the willingness of the Warschauer group to act independently also added pressure to the Disconto group to comply, as it did not wish to have a German competitor in China. While the DAB was only officially established in February 1889, the agreement of the two bank groups was the key event for its establishment. From the end of 1887, the now-united banks already started to make preparations for the bank in China together, such as discussing the appointment of agents and interpreters.¹²³ The banks also acted together as a consortium and started to negotiate loans with Chinese government entities together.¹²⁴ In December 1887, the German Ministry of Justice also informed Burchard that the bank could be established as a bank with stock capital in silver, as the local currency in the consular district in China where the bank was to be established was also a silver currency.¹²⁵

The year 1888 was used to work out the technicalities of establishing the bank.¹²⁶ While the plan of the Warschauer group had proposed a stock capital for the bank in reichsmark, the two groups eventually agreed on a capital of 5

¹²⁰ Bismarck to Burchard (30 November 1887), GStA, I HA Rep. 109, No. 5363, pp. 15–18.

¹²¹ 'Protokoll' (5 December 1887), GStA, I HA Rep. 109, No. 5363, p. 62.

¹²² Burchard Note (8 December 1887), GStA, I HA Rep. 109, No. 5363, p. 63.

¹²³ Warschauer & Co. to Deutsche Bank (25 July 1888), HADB, S2586; Warschauer & Co. to Deutsche Bank (12 November 1888), HADB, S2586.

¹²⁴ Warschauer & Co. to Deutsche Bank (9 March 1888), HADB, S2586.

¹²⁵ Wilke to Burchard (10 December 1887), GStA, I HA Rep. 109, pp. 75–6.

¹²⁶ Müller-Jabusch, *Deutsch-Asiatische Bank*, pp. 26–31.

million Shanghai taels, equal to around 20 million reichsmark, of which at first only 25 per cent was to be paid in.¹²⁷ This showed that the banks did not want to commit too much money and take too much of a risk when first establishing the bank. Before the bankers established the new bank, they asked the German government to support the bank in two ways. First, each time the bank elected a new chairman for their supervisory board, this chairman was to be confirmed by the German emperor. Second, the Seehandlungsgesellschaft was to take a small share of the stock capital and was to act as one of the subscription agents for the shares of the bank.¹²⁸ The purpose of both these requests was the elevation of the status of the bank. Bismarck agreed to the first request, stating that confirmation by the emperor would mean that the bank would 'receive the governmental recognition suitable to raise its reputation'.¹²⁹ Bismarck and Burchard also agreed to the participation of the Seehandlungsgesellschaft as shareholder and subscription agent.¹³⁰

The solving of this last problem cleared the way for the new German bank in China. The DAB was established on 12 February 1889 by thirteen German banks with a share capital of 5 million Shanghai taels. The shareholder banks united most of German high finance. Besides those banks belonging to the original two bank groups and the Seehandlungsgesellschaft, the Bank für Handel & Industrie and Mendelssohn & Co. in Berlin also joined the bank. Eduard von Oppenheim, whose son had spoken so enthusiastically of the prospects of a German bank in China, also joined with his bank. Finally, the Bavarian Bayerische Hypotheken- und Wechselbank also joined the consortium with a small participation, as the German government had expressed their wish that a bank from Southern Germany should also be represented in the bank.¹³¹ The Disconto-Gesellschaft received 16.1 per cent of the shares and became the biggest shareholder in the bank. The second biggest shareholders were the Deutsche Bank and Bleichröder with 11.1 per cent. Following the demand of the bankers, the Seehandlungsgesellschaft received the small amount of 3.5 per cent of the shares. However, the DAB was established as and remained an independent private joint-stock bank controlled by the

¹²⁷ 'Protokoll' (10 December 1887), GStA, I HA Rep. 109, No. 5363, p. 67; 'Protokoll' (19 December 1887), GStA, I HA Rep. 109, No. 5363, p. 79; 'Protokoll' (30 December 1887), GStA, I HA Rep. 109, No. 5363, pp. 82–83; Hansemann to Bismarck (5 December 1888) HSO, A VIII 114 Ostasiatische Geschäfte 1888–1914.

¹²⁸ 'Protokoll' (9 November 1888), HSO, A VIII 114 Ostasiatische Geschäfte 1888–1914.

¹²⁹ Bismarck to Consortium (5 January 1889), quoted in Müller-Jabusch, *Deutsch-Asiatische Bank*, p. 30.

¹³⁰ Rottenburg to Auswärtiges Amt (25 November 1888), BArch, R901/12988, p. 49; 'Protokoll' (23 January 1889), GStA, I HA Rep. 109, No. 5363, p. 158; Burchard to Scholz (1 February 1889), GStA, I HA Rep. 109, No. 5363, pp. 162–4.

¹³¹ Russel to Berchem (12 February 1889), BArch, R901/12989, p. 29; 'Deutsch-Asiatische Bank betr.' (30 January 1889), BArch, R901/12989, p. 80; Oppenheim to Berchem (6 December 1888), BArch, R901/12988, pp. 71–2; *Deutscher Reichs-Anzeiger* (17 May 1889).

founding banks, and the Seehandlungsgesellschaft later sold its shares in the bank. Moreover, despite the relatively broad participation of German banks, Berlin's high finance and especially the Disconto-Gesellschaft were the most important forces in the DAB.¹³²

In April 1890, the shareholder banks established the *Konsortium für Asiatische Geschäfte* (KfAG). This consortium included the same banks that had established the DAB, with the exception that the DAB itself took the place of the *Seehandlungsgesellschaft* and was given a share of 10 per cent in the consortium. The consortium was established to float Asian loans in Germany and, besides the famous *Preußenkonsortium* that floated loans for the German government, became one of the most important and prestigious German consortia.¹³³ In the following years the consortium and the DAB functioned as a dual structure, with the consortium taking over many of the big loans that the DAB negotiated and contracted in China. After two decades of failed attempts to gain a successful foothold in China for Germany's banks, the establishment of the DAB and the KfAG finally gave German bankers a broad and solid basis for their business in China. This made possible their increasing engagement with China and their rising importance for Chinese finance over the next twenty-five years.

1.5 Conclusion

As we have seen, German bankers had been interested in China and the supposedly large Chinese market since the 1870s. This enthusiasm was further spurred on by the growing Chinese interest to use foreign capital, construct railways and tap new sources of foreign finance beyond London and the HSBC in order to obtain better loan conditions through more competition among foreign banks and more direct access to foreign capital markets. At the same time, the growth of German banking and the German capital market meant that German banks were not willing to be only junior partners to British banks and firms engaged in China. The Sino-French War, the study mission to China and the first Chinese loan floated in Germany showed there were increasing possibilities for German financiers to issue loans to China and float Chinese bonds in Germany. However, each of these occasions had also demonstrated that at least an agent – or better, a bank – in China was necessary to compete with the established foreign banks and firms in China. While some banks like the *Disconto-Gesellschaft* in the early 1880s or later the *Warschauer* group expressed their interest in establishing a bank in China, others like the *Deutsche Bank* were more hesitant because of the existing competition in

¹³² Müller-Jabusch, *Deutsch-Asiatische Bank*, pp. 31–2; 'Aufstellung der zur Generalversammlung vom 18. Juni 1909 hinterlegten Aktien der Deutsch-Asiatischen Bank' (18 June 1909), BArch, R901/4989, p. 136.

¹³³ Müller-Jabusch, *Deutsch-Asiatische Bank*, pp. 52–3.

China, the falling silver price and their previous negative experience with establishing a German bank in China.

Here, the German government to a certain extent played the role of a latecomer 'developmental state' wishing to support its own national economic development – in this case, German commerce in the Chinese market – to catch up and be able to compete with economically more developed countries like Britain.¹³⁴ The government acted as a unifying and accelerating element in bringing the banks together for the establishment of a German bank in China. However, the expectations that German bankers had for a bank in China were different from the German government's expectations. Since the 1880s, German banks had been mostly interested in issuing government loans and financing industrial projects for China and not in trade finance for German firms. Therefore, a German bank in China would ideally function as a vehicle and permanent agent for direct communication with the Chinese government. In contrast, the German government saw the bank as a key element in the building of a wider national commercial bloc in China that facilitated independent access for both German trade and industry to the Chinese market.¹³⁵ This contrast was reflected in the form the bank took after its establishment. While the bank unified German banking interests in China, the bankers initially only paid in a relatively small amount of the share capital. At the same time, the KfAG ensured that bigger loans could be taken over by the German banks if they wished. Thus, the bankers avoided taking on too much risk by committing a lot of capital in the bank. Yet, their limited commitment was sufficient to start establishing the infrastructure in China that allowed them to enter into direct contact with the Chinese government and effectively compete for loan contracts. This contrast between the relative risk-averseness of the bankers and the hope of the German government that the bank would financially accommodate the wishes of German trade and industry and cause the increased cooperation and cohesion of German commerce would lead to conflicts between the bank and the government over the following years.¹³⁶

Despite the important role the German government played in shaping the form of the bank, its role should not be overestimated. German banks had a long-standing interest in China and the lack of a bank in China was an obvious and problematic disadvantage. Even if the German government had

¹³⁴ On the concept of the latecomer 'developmental state', see Gerschenkron, 'Economic Backwardness', pp. 5–30; and Woo-Cumings, *Developmental State*.

¹³⁵ Speaking about the establishment of German overseas banks in the 1880s more generally, Barth also notes the accelerating pressure of the German government, but also that eventually the private interests of German economic elites prevailed over the larger macroeconomic motives of the German state of supporting German exports. See Barth, *Imperialism*, pp. 25, 41–2.

¹³⁶ For more on this, see Chapters 4 and 6.

taken no interest in China and overseas banking, it is difficult to imagine that the coming years would not have seen the establishment of a German bank in China. Especially the Warschauer group was keen to establish a bank in China, and other German banks would have needed to follow if they did not want to leave the Chinese market to their competitors. Therefore, there would have most likely been one or several, albeit smaller, German banks in China and they would have possibly been established later after the business for Chinese loans took off following the Sino-Japanese War of 1894/5. The influence of the German government should therefore only be seen as a shaping, but not necessarily decisive, factor in bringing about the establishment of a German bank in China. Moreover, the DAB was established as a private joint-stock bank and the involvement of the *Seehandlungsgesellschaft* was insignificant and had been invited by the bankers themselves. Nevertheless, the fact that, because of the unifying influence of the German government, the DAB united all of German high finance meant that the DAB brought a new type of foreign bank to the China coast. It differed from the HSBC and other foreign banks in China, which had mostly been established by smaller groups of merchants without the influence of their home governments, as it could speak for the entirety of German high finance and the entire German capital market. This advantage later helped the bank to establish itself as one of the leading foreign banks in China within a relatively short time after its founding.¹³⁷

Finally, the early engagement of German bankers with China also reveals that the establishment of the DAB should not only be viewed in the context of the global expansion of German finance during the late nineteenth century, but also as part of the internationalization of Chinese finance and the growing interest of Chinese officials in foreign banks, capital and capital markets. As this chapter has shown, German bankers paid close attention to developments in China, and in their thinking and planning often reacted to the changes that took place there. Moreover, early on they realized the importance of establishing relations with important Chinese officials. The founding of the DAB itself was partly based on the experience of German bankers that it was necessary to have a permanent in-country presence and representatives in China, who could be in direct contact with the Chinese government and thus react promptly to new developments in China. Even before the DAB entered the China coast, the Chinese frontier attracted German financial interests and, in the form of the study mission, was a meeting ground for German and Chinese actors. The interdependent relationship between German bankers, who wished to use Germany's growing financial power for investments in China, and Chinese officials, who developed an ever-growing demand for foreign capital

¹³⁷ On this advantage of unity over the existing British and French banks 'thanks to the help of the [German] state's bureaucracy' (particularly for overcoming the British monopoly), also see Barth, *Imperialism*, p. 41.

and tried to obtain better loan conditions by breaking the monopoly of the HSBC, was to continue after the establishment of the DAB. At the same time, despite the fact that before the 1890s relatively few foreign banks operated in China, the DAB's interactions with the HSBC and Wallich's concern about competition for a future German bank in China showed that the financial sphere of the Chinese frontier was a space not only of converging interests and interaction but also of competition and contention.