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Borrowing without Banks: Deposit-Taking by Early Twentieth-Century Chinese Firms (1920s–1930s)

This article examines how and why renowned Republican-era Chinese firms raised debt capital to finance their businesses by accepting savings deposits from ordinary people instead of borrowing from financial institutions. The article argues that in the absence of a powerful unitary state and centralized financial institutions, Chinese firms innovated sophisticated, decentralized financial instruments capable of amassing large quantities of capital from a broad host of depositors without the involvement of financial intermediaries. Savings deposits not only provided these firms with a cheaper and more flexible source of debt capital than that on offer from banks but also they fueled the Chinese economy by creating a sizable credit supply, a phenomenon that Chinese business and financial history scholarship focusing on the role of indigenous and modern banks has hitherto largely neglected.

Keywords: Chinese firms, deposit-taking, Republican China, banking and finance, state and economy

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> In this age of a rush towards extravagance, earning a living is no easy task. One's very survival is in danger if frugality is not exercised in spending. How can we achieve frugality and obtain the benefits of being frugal? There is no better option to exercise than making a savings deposit.... The Savings Deposit Department of our company aims at using savings deposits to support our industrial enterprise, which in turn safeguards savings deposits. Society should support our savings deposit initiative if it has the determination to protect industrial enterprises. ... Placing a savings deposit with our company serves both the public and private good. We hope our colleagues will consider saving money to obtain such great benefits and will persuade others to do so too.[1]

The Maoxin Fuxin Shenxin Group (MFS Group), a well-known industrial enterprise that owned six cotton mills and twelve flour mills in early twentieth-century China, issued the above announcement in 1929 to encourage its employees to place savings deposits with its newly established savings deposit department to finance the company's industrial businesses.[2] MFS Group headquartered its Savings Deposit Department in Shanghai and successfully raised millions of silver yuan in the 1920s and 1930s not only from its employees but also from outside depositors.[3] MFS Group's appeal to staff members to exercise frugality and save money by opening a savings deposit account was not new. The idea that ordinary people should deposit their surplus income in financial institutions spread quickly in China, along with other foreign institutions and ideas that emerged in the early twentieth century. A number of urban magazines published in the 1910s described saving surplus money and opening a savings deposit account as a "modern" way of living for petty urbanites and families. Depositing savings was sometimes even portrayed as a form of patriotic behavior to rescue the

[1] "勸告同仁儲蓄宣言" [Statement to encourage our colleagues to make savings deposits], in 茂新福新申新總公司三十周年紀念冊 [Thirtieth anniversary memorial volume of the Maoxin, Fuxin, Shenxin Company] (Shanghai, 1929), Appendix.

[2] For works on MFS Group, see Sherman Cochran, *Encountering Chinese Networks: Western, Japanese, and Chinese Corporations in China, 1880–1937* (Berkeley, 2000); Xu Wei-yong and Huang Han-min, *榮家企業發展史* [History of development of the Rong Family Enterprise] (Beijing, 1985).

[3] Prior to China's monetary reform in 1935, coined silver dollars known as yuan were widely used in Republican China, especially in commercial and financial cities. One yuan was approximately equivalent to USD 0.56 cents in 1922, 0.76 cents in 1925, and 0.3 cents in 1930. See Federal Reserve Board of the US government, *Federal Reserve Bulletin*, Jan. 1931, 32.

Chinese nation from financial crisis.[4] MFS Group was also not the only Chinese non-banking enterprise to take advantage of the "new" concept of savings deposits to attempt to finance its industrial operations by attracting deposits from ordinary urbanites in Republican-era Chinese cities. It actually recycled the century-old deposit-taking practice of imperial-era shops and manufacturers, as this article will demonstrate. In fact, MFS Group was a latecomer to the practice. To the dismay of bankers, a number of well-known Republican-era industrial enterprises such as the Nanyang Brothers Tobacco Company and retailers such as Wing On and the Sincere Department Store were already managing huge amounts of savings deposited by urban residents during the 1910s and 1920s.

Such a decentralized financing practice of raising debt capital by accepting savings deposits instead of borrowing from financial institutions took place in the specific historical context of China's political fragmentation in the Beiyang period (1912–1926). The lack of a unitary government during this period of military conflict among regional warlords left the country's major financial markets, most notably Shanghai, self-regulated under the auspices of foreign institutions and such private regulators as bankers associations and merchant guilds. The temporary suspension of centralization under a unitary state made possible the infusion of and experimentation with financial innovations.[5] One such innovation—the savings deposit businesses of the non-banking sector—began to disappear only in the mid-1930s in the wake of the Nationalist government's (arguably nominal) unification of China in 1928. The government allied with modern banks to "illegalize" decentralized financing practices and bring them under centralized economic control during the process of building a regulatory state.[6]

Despite the widespread nature and financial significance of the once common practice among modern Chinese firms of raising debt capital by accepting savings deposits, it has largely escaped the attention of scholarship on Chinese business history. Previous studies on how commerce and industry in modern China were financed focused largely on the role of financial intermediaries, including such indigenous institutions as cash shops (*qianzhuang*), pawn shops, and remittance houses (*piaohao*), and modern Chinese and foreign banks.[7] The

[4] Brett Sheehan, "The Modernity of Savings, 1900–1937," in *Everyday Modernity in China*, ed. Madeleine Yue Dong and Joshua Goldstein (Seattle, 2006), 139–147.

[5] Debin Ma, "Financial Revolution in Republican China during 1900–37: A Survey and a New Interpretation." *Australian Economic History Review* 59, no. 3 (2019): 242–262.

[6] For cases on the impact of the Nationalist government's expanding state capacity on the Chinese market and economy, see Philip Thai, *China's War on Smuggling: Law, Economic Life, and the Making of the Modern State, 1842–1965* (New York, 2018); Ma, "Financial Revolution."

[7] For a recent overview of the roles of indigenous financial intermediaries and modern banks in the development of China's financial markets, see Brett Sheehan and Zhu Yin-gui,

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widespread savings deposit-taking businesses operated by non-banking Chinese enterprises such as heavy and light industry firms, department stores, pharmacies, jewelry shops, and book shops in the Republican era (1912–1949) have hitherto not been fully studied in English-language scholarship, save for Brett Sheehan's chapter on the savings deposit businesses of modern banks, upon which this article is built, along with a handful of brief essays in Chinese.[8]

This article draws on unexplored archival sources, including the accounting journals and financial statements of leading Republican-era Chinese firms in various business and industrial sectors, the Wing On Department Store, Shen Xin Textile of the MFS Group, and Commercial Press in particular, to study how and why such renowned enterprises accepted savings deposits to finance their businesses instead of borrowing money from banks. It also explores the rationale behind depositors' decision to place their savings in shops and factories rather than in banks. It argues that in the absence of a powerful unitary state and centralized financial institutions, Chinese firms innovated sophisticated decentralized financial instruments capable of amassing large quantities of capital from a broad host of depositors without the involvement of financial intermediaries. These firms took advantage of China's urbanization and creatively gave new life to an imperial-era deposit-taking practice to provide themselves with a sometimes cheaper and more flexible source of debt capital than what was on offer from banks. For urban depositors, placing deposits with these non-banking firms made financial sense, as they generally offered better returns than banks. More importantly, savings deposits constituted a significant portion of the working capital of reputable Chinese firms and aggregated a sizable supply of credit for the urban Chinese economy during the 1920s and 1930s, issues that previous scholarship on Chinese business

"Financial Institutions and Financial Markets," in *The Cambridge Economic History of China*, ed. Debin Ma and Richard Von Glahn (Cambridge, 2022), 280–323. Readers may wish to contrast its narrative with conventional narratives that focus on the modernity of banks in, for example, Thomas G. Rawski, *Economic Growth in Prewar China* (Berkeley, 1989), chapter 3; Linsun Cheng, *Banking in Modern China: Entrepreneurs, Professional Managers, and the Development of Chinese Banks, 1897–1937* (Cambridge, 2003), chapters 1 and 2.

[8] Works include Zhu Yin-gui, "論近代中國企業商號吸收社會儲蓄—1930年南京政府禁令頒佈前後分析" [Deposit taking by modern Chinese enterprises – before and after Nanjing government's prohibition order of 1930] *Fudan Journal* (*Social Sciences*), no. 5 (2007): 96–106; Zhang Yue, "近代中國企業商號的融資方式與歷史作用 —基於吸收社會儲蓄存款的研究" [The methods and effects of financing for modern Chinese enterprises—a study on deposit-taking] *Anhui Shixue*, no. 6 (2020): 47–57; Sheehan, "The Modernity." Other works that also mentioned, the existence of the practice, although only in passing, include Madeleine Zelin, "Chinese Business Practice in the Late Imperial Period," *Enterprise & Society* 14, no. 4 (2013): 769–793, 782; Sheehan and Zhu, "Financial Institutions," 320–321; Andrew Godley and Haiming Hang, "Collective Financing Among Chinese Entrepreneurs and Department Store Retailing in China," *Business History* 58, no. 3 (2016): 364–377.

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and financial history have underemphasized. The study reveals that China's indigenous practices had far greater capabilities in influencing the urban financial landscape and the financial decisions of urbanites than scholars have previously assumed. It thus makes an original contribution by uncovering an innovative way that modern Chinese firms raised a substantial amount of capital successfully, in addition to raising equity from investors and obtaining loans from such financial intermediaries as banks and cash shops. This financing practice has few, if any, equivalents in European and North American savings or banking history.[9] This implies that, in the analysis of Chinese business history, one must begin by evaluating indigenous practices on their own terms, rather than looking for the absence of analogs to foreign institutions. The prevalence of the self-regulated deposit-taking practice, however, was at odds with banks' commercial interests and the newly established Nationalist state's determination to control the economy and financial market. With the support of banks, the Nationalist government outlawed the practice of taking savings deposits by non-banking sector firms after a few of these firms had gone bankrupt during the Great Depression. This study's significance also lies in the fact that it contradicts the popular narrative that indigenous Chinese business institutions stifled capital accumulation and industrialization. As this article will show, the expansionary state's capacity in the economy has considerably undermined creativity and innovation in financing Chinese firms.

The remainder of the article is organized as follows. It begins by briefly describing how, in the imperial era, Chinese businesses accepted, and Chinese investors placed, deposits for mutual financial benefit. It then describes how the idea of ordinary individuals opening small savings deposit accounts emerged in early twentieth-century China and how the idea was capitalized upon by leading Chinese firms as a way of funding their operations. The article then uses the Wing On Department Store in Shanghai as a case study to elucidate the reasons for leading Chinese enterprises' preference for funding their businesses through savings deposits over borrowing from modern banks. It also examines

[9] Fifteenth-century Florentine merchant banks took deposits to finance not only their own trades but also other merchants' businesses. Seventeenth-century East India Company issued fixed-interest debentures with fixed maturities to finance its voyages. Industries in the UK and US ranging from manufacturers to railroads to public utilities took advantage of the emerging corporate bond markets to raise substantial debts for expansion during the late nineteenth and early twentieth centuries. All of these debt-financing methods were different from what Republican-era merchants did: they accepted smaller-amount deposits that could be withdrawn anytime for financing their own business operation. Such deposits, unlike bonds, could not be traded in the secondary market. For Euro-American examples, see Jonathan B. Baskin and Paul J. Miranti Jr., *A History of Corporate Finance* (Cambridge, 1997), chapters 1, 2, and 4; Charles R. Geisst, *Beggar Thy Neighbor: A History of Usury and Debt* (Philadelphia, 2013), chapter 5.

who Wing On's depositors were and what financial returns they were offered. The sizable pool of funds collected by non-banking firms through savings deposits was considered a business threat by modern banks in Shanghai. Hence, the article also discusses the efforts by the Shanghai Bankers' Association (SBA) to collaborate with the newly established Nationalist government to bring such an "illegal" financing practice under the control of the increasingly regulatory state, as well as why the practice nevertheless survived into the late 1930s, despite the state's intervention. It concludes by discussing the study's implications for future research on the financial and business history of modern China.

Deposit-Taking by Imperial-Era Chinese Merchants

Accepting deposits was not a novel business or financing practice for Chinese firms. During the imperial era, the state's minimal regulation of private sector financial and business activities enabled Chinese depositors to find their own way of saving money for a financial return, and Chinese firms to finance their businesses in a way other than borrowing from such financial intermediaries as cash shops, pawn shops, or remittance houses.[10] Financial historian Liu Qiu-gen's extensive research on loans and lending activities in imperial China reveals that these Chinese financial intermediaries were not the only entities that accepted deposits from individuals. During the Ming dynasty, wealthy families and shops also accepted them. Chinese local gazettes and litigation templates during the imperial era document the practice of individuals placing deposits with wealthy families and shops to earn interest. For instance, an old woman in Anhui Province placed her savings with a wealthy businessman who operated paper manufacturing and cloth dyeing businesses in return for interest. When she passed away, the businessman returned her deposit to her son.[11] Deposit-taking businesses run by grocery shops and wealthy families existed across China and were particularly common in large cities such as Beijing and Nanjing and in wealthy provinces such as Shandong and Zhejiang.[12]

During the Qing dynasty, deposit-taking businesses developed further and began accepting money from both individuals of the same lineage community and from lineage trusts, which managed lineage funds for communal purposes, such as the repair of clan houses and funding of ancestral mourning events. The types of shops that accepted

[10] For how the state's non-interventionist policies and merchants' private ordering enabled the mobility of goods and money in imperial China, see Zelin, "Chinese Business Practice"; Sheehan and Zhu, "Chinese Business Organization."

[11] Liu Qiu-gen, *明清高利貸資本* [High-interest loan capital in Ming and Qing dynasties] (Beijing, 2000), 135–146.

[12] Liu *明清*, 138.

deposits ranged widely from salt merchants, clothing manufacturers, and rice sellers to grocery stores and jewelry traders. Even the central and local governments placed government funds in interest-bearing deposit accounts with such sizable and reputable businesses as salt merchants in Henan, Fujian, Zhejiang, Shanxi, Guangdong and Guangxi Provinces, a practice known as "earning interest from merchants."[13] The interest income generated from these deposits was used for a wide variety of public purposes, including covering military expenses, repairing dams, funding orphanages, subsidizing candidates for imperial examinations, shipbuilding, and hunting down smugglers. Qing government deposits with salt merchants ranged from as little as 100 taels of silver to more than 10,000 taels.[14] In the late eighteenth century, the interest rate for such deposits was around 10 percent per annum.[15]

Although imperial Chinese firms had a long history of accepting deposits, evidence suggests that, like such financial intermediaries as cash shops, pawn shops, and remittance firms, they generally accepted deposits in only relatively large amounts (at least tens of taels of silver) from well-off individuals, family trusts, business firms, or state institutions.[16] The acceptance of deposits in amounts as small as a few silver yuan from ordinary people was a relatively recent practice for Republican-era Chinese firms, which embraced the practice around the turn of the twentieth century, when people, especially those living in urban areas, were widely encouraged to entrust their savings to third-party institutions to earn interest.

Saving and Savings Deposits in Twentieth-Century China

Ordinary people in China had a long history of saving money to accumulate wealth and plan for contingencies, behavior that dates back to pre-modern times, when valuables and metallic coins were stored discreetly in cabinets, bags, and under the floor. In this respect, the Chinese differed little from their European counterparts, who stored money in a "hiding place under the floor or in the chimney" to provide relief in times of sickness or unemployment and in old age.[17] For ordinary people, depositing money with financial institutions for the purpose of earning interest income is a fairly recent phenomenon connected with urbanization, both in China and the West.[18] Financial

[13] In Chinese, it is known as 發商生息; see Liu *明清*, 138–152.

[14] One Chinese tael is approximately equivalent to 1.33 ounces.

[15] Liu, *明清*, 146–148.

[16] Liu, *明清*, 134–152; Cheng, *Banking,* 137–139.

[17] Liu Yan-sun, 中國儲蓄史話 (Beijing, 1985), 9–13; H. Oliver Horne, *A History of Savings Banks* (London, 1947), 2, 22.

[18] Sheehan, "The Modernity,"122, 128–129; Horne, *A History*, chapters 1 and 2.

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institutions primarily served high-net-worth or commercial clients. Savings banks and societies that accepted small deposits from individuals in eighteenth-century and nineteenth-century England and the United States were initially established as a solution to the "burdensome poor" in the context of an industrial urban society, designed to help poor workers take care of their future needs in the event of sickness and disability.[19] The idea that the average person should exercise thrift and deposit money in financial institutions emerged in urban China at the turn of the twentieth century and spread rapidly in subsequent decades. While the views of urban magazines and newspapers diverged in terms of whether saving was a new and modern idea or one with traditional Chinese roots, there was general consensus in public discourse that saving was a healthy practice that could strengthen personal, or sometimes even national, finances.[20] Both the Chinese state at a time of financial need and emerging Chinese banks took advantage of the phenomenon to establish savings institutions to access the potential capital pool funded by savings deposits during the early twentieth century. In 1918, the Beiyang government established a postal savings system modeled on its European counterparts. The privately funded Shanghai Commercial and Savings Bank was founded in 1915, and four Chinese commercial banks co-founded the Four-Banks Savings Society in 1923.[21]

The state also attempted to gain access to the pooled savings held by private commercial banks. Under the leadership of Yuan Shi-kai, the Beiyang government in 1915 elaborated on the Qing-era law to produce new draft legislation requiring savings deposit banks to use at least 30 percent of their deposits to purchase government bonds.[22] However, the draft legislation was never passed, as Yuan died in 1916 and governance of the Beiyang regime fell into the hands of various regional warlords.[23] The end result was a legal vacuum during most of the Republican period, a vacuum that permitted the savings deposit businesses of a wide variety of entities to flourish without regulation to meet the growing demands of average depositors in major commercial cities, such as Shanghai. Modern banks began to focus on expanding their savings deposit business to petty urbanites in the 1920s, while private and state-sponsored savings banks and societies continued their operations, and the Republican postal system also accepted deposits. The savings deposit-taking businesses

[19] Horne, *A History*, 4, 28; Sheehan, "The Modernity," 128–129.

[20] For a discussion of the idea of savings, modernity, and patriotism in Republican China, see Sheehan, "The Modernity," 122, 139–147.

[21] Sheehan, 124–125.

[22] For regulations in the Qing dynasty and Beiyang era, see, Wang Zhi-hua, *中國之儲蓄銀行史* [The history of Chinese savings banks] (original, Shanghai, 1934) (reprint, Beijing, 2015), vol. 2, 2–6, 113–117.

[23] Wang Jing, *上海銀行公會研究* [A study of Shanghai Bankers' Association], (Shanghai, 2009), 177–178; Wang, *中國之儲蓄*, vol. 2, 3–5.

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of leading industrial and business firms also grew exponentially, a phenomenon largely unnoticed in previous scholarship.

From Ship-Builders to Retailers: Deposit-Takers in Republican China

Wang Zong-pei, a financial expert who researched the financial management of Chinese firms in the 1930s, analyzed the funding sources of one hundred Chinese enterprises, ninety-eight of which were limited liability corporations, based on financial information prepared from 1932 to1939. He found that eighty-nine of them funded their operations in part through savings deposits.[24] Of the enterprises that Wang investigated, the majority were located in Shanghai, although they were also present in many other parts of China—including the coastal provinces of Jiangsu, Zhejiang, and Shandong and inland provinces of Shanxi, Hunan, Hubei, Hebei, and Sichuan. These deposit-takers differed widely in terms of the scale of production and business and industry types. They included heavy industry firms in shipbuilding, railway construction, coal mining, and water and electricity supply; mid-level to light industry firms such as tobacco and match manufacturers and cotton mills; and commercial operators such as department stores and book publishers. Such well-known modern Chinese enterprises as Shen Xin Textile, Commercial Press, Chung Hwa Press, Nanyang Brothers Tobacco, and Shanghai Zha Bei Water and Electricity Supply Company, as well as Shanghai's big four department stores (Wing On, Sincere, Sun Sun, and Da Sun), were among the non-banking deposit-takers.[25] At the time of Wang's investigation, of the more than 440 million yuan in total assets owned by these enterprises, approximately 60 percent was funded by shareholder capital, 26 percent was financed by loans (primarily from banks and/or cash shops), and 14 percent came from savings deposits. The total savings deposits absorbed by the enterprises amounted to nearly 64 million yuan, which is more than one-third (35 percent) of the total debt capital they raised, a not insignificant proportion relative to their total external funding (Table 1).

What motivated Chinese businessmen to accept savings deposits rather than borrow from banks? According to the owner-operator of Shen Xin, raising debt from individual depositors "freed the enterprise from the conditions imposed according to the will of financial capitalists [i.e. banks]" and allowed it to save interest costs to the tune of 200,000

[24] Wang Zong-pei, "中國公司企業資本之構造" [An analysis of the capital structure of Chinese companies], 金融知識 (*Financial Knowledge*) 1, no. 3 (1942): 168–180.

[25] For a complete list of these enterprises, see Wang, "中國公司."

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Table 1
Analysis of Funding Sources of 100 Chinese Enterprises

Type of funds	*Amount/percentage*
Total funding (share capital plus debt)	440,725,300 yuan
Share capital	262,206,767 yuan
Share capital as % of total funding	59.49%
Debt (loan plus deposit)	178,518,533 yuan
Debt as % of total funding	40.51%
Deposit	63,673,735 yuan
Deposit as % of total funding	14.45%
Deposit as % of debt	35.67%
Loan	114,844,798 yuan
Loan as % of total funding	26.06%
Loan as % of debt	64.33%

Source: Wang, "中國公司."

to 300,000 yuan per year.[26] Republican-era Chinese enterprises paid less interest to depositors than they would have had to pay on bank loans. Depositors, in return, earned higher rates of interest on savings deposits than the rates offered by banks. Such a win-win situation for both borrowers (Chinese enterprises) and lenders (depositors) sustained the savings deposit-taking businesses of modern Chinese enterprises throughout the Republican period. Borrowing directly from depositors also dispensed with the aforementioned "conditions" imposed by financial intermediaries, including the need to provide tangible collateral such as real estate at a discounted value, a practice with which Chinese entrepreneurs, who had traditionally been able to obtain unsecured loans based on personal or enterprise worthiness, were uncomfortable.[27] Raising debt to fund business expansion by taking savings deposits also avoided the dilution of existing shareholder interest that would have resulted from raising capital by issuing new shares, as explained by a leading Chinese garment enterprise, the ABC Chinese Garment Company, when it publicly announced its deposit-taking operation in a newspaper in 1931.[28] The following section draws on archival documents from Wing On Department Store to further reveal how leading Chinese firms operated and utilized their deposit-taking businesses to raise debt capital.

[26] Shanghai shehui kexueyuan, ed., *榮家企業史料 (上)* [Historical materials of Rong's Enterprises, Volume 1] (Shanghai, 1980), 276–277; Zhang, "近代," 49.

[27] Cheng, *Banking*, 146–156. Despite its criticism of banks, Shen Xin did borrow from them; see Cheng, *Banking,* 87–89.

[28] Zhang, "近代," 48–49.

Operation of Wing On's Deposit-Taking Business

The Wing On Department Store was founded by the Kwok brothers (Kwok Le and Kwok Chin) in Hong Kong in 1907. Originally from the Xiangshan district of Guangdong Province (currently known as Zhongshan City), the brothers operated a wholesale and retail fresh fruit business in Sydney, Australia, in the late nineteenth century. They opened the first Wing On shop in Hong Kong in 1907, and registered it as a limited liability company with initial share capital of HK$600,000 in 1912. With business flourishing in Hong Kong, Wing On opened its first Shanghai branch, also as a limited liability company registered in Hong Kong, in 1918, with a much larger capital base of HK$2 million.[29] By the early 1930s, Wing On Shanghai had overtaken its parent company in Hong Kong to become the leader of the "big four" department stores in China, with total capital of 10 million Chinese yuan and annual revenue of 14 million yuan, net profit of 2.5 million yuan.[30]

The story of Wing On Shanghai's success in bringing Westernized sales and marketing practices to China has been much studied.[31] Very little, if any, research, has investigated Wing On Shanghai's use of external debt to leverage its business and increase its investment return, possibly because bank financing was never a major source of funding for the company, as revealed by its financial statements from the 1920s and 1930s. However, it would be wrong to assume that Chinese entrepreneurs did not realize the power of leverage in increasing business returns. Instead of borrowing from banks, Wing On Shanghai and other Chinese firms in the early twentieth century took savings deposits directly from ordinary people, allowing them to raise debt without going through financial intermediaries. Wing On Shanghai skillfully combined modern equity financing through share issuance under the English limited liability corporate form and debt financing through taking savings deposits.

[29] Zheng Hong-tai, 永安家族 [Wing On Family] (Hong Kong, 2020), 8; Shanghai shehui kexueyuan, ed.,上海永安公司的產生，發展和改造 [Origin, development and reform of Wing On Shanghai] (Shanghai, 1981), 10–13. One Hong Kong dollar is approximately equivalent to USD 0.56 cents in 1922, 0.53 cents in 1925, and 0.34 cents in 1930. See *Federal Reserve Bulletin*, Jan. 1931, 32.

[30] Yen Ching-hwang, "Wing On and the Kwok Brothers: A Case Study of Pre-War Chinese Entrepreneur," in *Asian Department Stores*," ed. Kerrie L. Macpherson (London, 2013), 57, 64. Wing On Shanghai's data in 1931 was sourced from Kexueyuan, *上海*, 63–65, 70; Shanghai baihuo gongsi et al., ed., *上海近代百貨商業史* [The history of department stores in modern Shanghai] (Shanghai, 1988), 151–152; Yen, "Wing On," 57. Wing On Shanghai's capital was raised in Hong Kong dollars. One Hong Kong dollar during most of the 1920s and early 1930s was equivalent to 0.9 to 1.1 yuan according the *Federal Reserve Bulletin*, January 1931 and January 1941. Wing On Shanghai recorded its financials in yuan based on an exchange rate that one Hong Kong dollar was equivalent to one yuan. This exchange rate is used in this article.

[31] Yen, "Wing On," 58–59; Zheng, *永安*, 3–8, 87–89.

Table 2
Deposits taken by Wing On Shanghai, 1918 to 1921

Year	*Total deposit (yuan)*	*No. of Shanghai depositors*	*Amount deposited by Shanghai depositors (yuan)*	*No. of overseas depositors*	*Amount deposited by overseas depositors (yuan)*	*Average amount deposited per depositor (yuan)*
1918	17,612	2	1,327	14	16,285	1,101
1919	278,813	17	132,254	50	146,559	4,161
1920	335,229	65	54,264	128	280,965	1,737
1921	587,295	292	376,048	106	212,247	1,476

Source: Kexueyuan, *上海*, 75.

Wing On Shanghai began to accept deposits shortly after commencing its department store business in 1918. It was not only local depositors in Shanghai from whom it accepted deposits. Relying on the Kwok brothers' network of overseas Chinese in Australia, Wing On Hong Kong engaged in the business of remitting funds for them to and from China. Wing On Shanghai further leveraged that financial network to also take deposits from overseas Chinese. Table 2 shows that the number of depositors increased more than twentyfold in the company's first few years of operation, rising from just sixteen depositors in 1918 to nearly four hundred in 1921. During the same period, the total savings deposit amount also grew more than thirtyfold, from less than 20,000 yuan in 1918 to more than half a million yuan in 1921, which was equal to nearly a quarter of the company's share capital of 2.5 million yuan. Its deposit-taking business soon extended beyond its existing overseas Chinese network into the general depositors' market in Shanghai. The number of Shanghai depositors and the total amount of deposits from them outpaced those from overseas Chinese during this period.[32] The average amount placed by Wing On's depositors at the initial stage of its savings deposit operation exceeded 1,000 yuan. As the operation developed, the depositor pool expanded to relatively small-scale depositors who deposited as little as a few yuan at a time, as illustrated in the depositor's record shown in Figure 1. Wing On publicly solicited deposits by placing advertisements in mainstream newspapers in Shanghai such as *Shen Bao* and established a Savings Deposit Department in 1921 to specialize in handling depositors' money.[33] Other major industrial and retail enterprises, including MFS Group

[32] Kexueyuan, *上海*, 74–75.
[33] Kexueyuan, *上海*, 75–77; advertisement of Wing On Shanghai in *Shen Bao*, 1 Nov. 1922, 11.

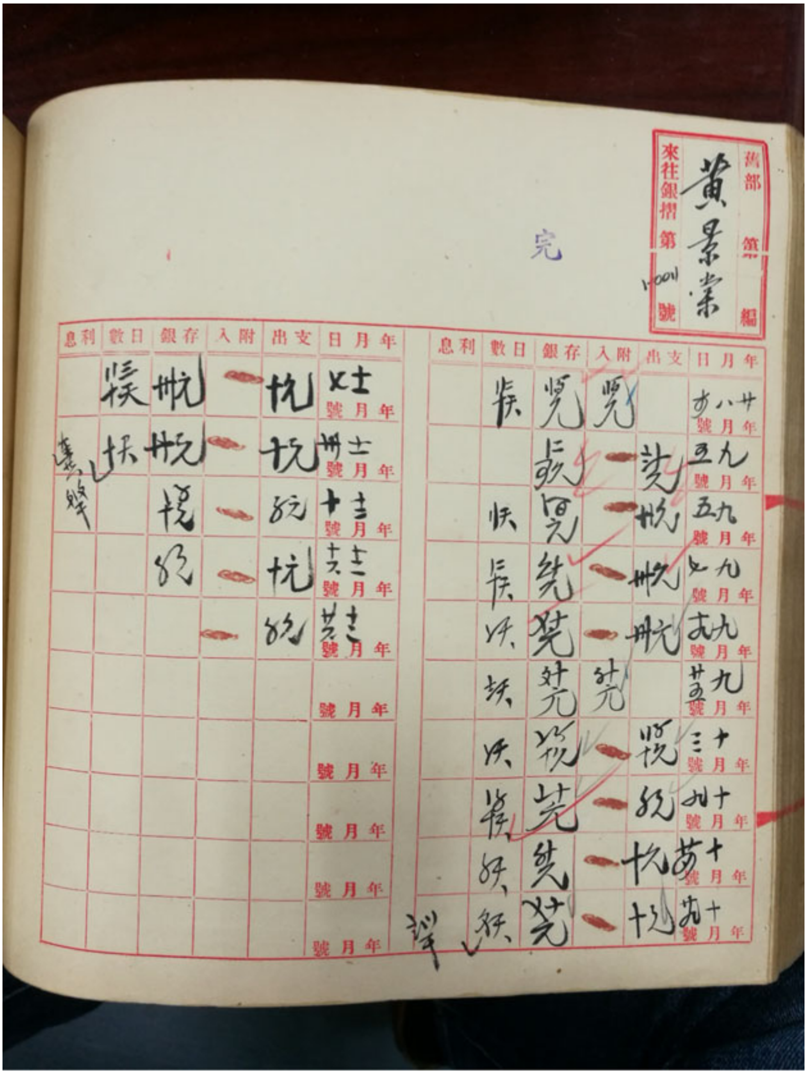

Figure 1. Depositor's record of Wing On Shanghai, 1931. (Source: China Accounting Museum.)

and Sun Sun Department Store, also solicited depositors through newspaper and magazine advertisements.[34] Soon after the opening of the Savings Deposit Department, Wing On Shanghai added to its well-

[34] Wang, "中國公司"; for magazine advertisements of Wing On Shanghai and Sun Sun, see *The Native Bankers' Monthly* 12, no. 12 (1932): 50.

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known success as a department store to become one of the most popular non-bank deposit-takers in Shanghai.[35]

Customers deposited or withdrew money at the special counter located on the ground floor of the department store. Similar to banks, Wing On Shanghai issued passbooks to its depositors to record deposits, withdrawals, and interest payments. The China Accounting Museum (CAM) archived numerous savings deposit journals of Wing On Shanghai. Each of these journals is about 15 centimeters thick. The journals systematically recorded depositors' names, the activities of their funds, and the interest payments made. Figure 2 shows the index page of a deposit journal. Unlike the imperial-era community loans examined in previous studies, the savings absorbed by Wing On Shanghai, as an urban enterprise, came from diverse categories of customers beyond lineage communities. Figure 2 shows depositors with a variety of surnames and of both genders (for example, Mrs. Zhao, 趙太太 at the bottom right-hand corner likely indicates a female depositor). Wing On Shanghai depositors also included business firms and companies such as Qian Ji (錢記) and Zhong Nam Company (中南公司), shown at the top right-hand corner of the index. Each depositor's activities were recorded on a separate page of the journal, as shown in Figure 1. The page for each depositor begins with their name and passbook number, followed by six columns of information: from right to left, the date of the activity, the amount of the withdrawal, the amount of the payment (apparently for a purchase at the department store), the amount of the savings deposit, the deposit period, and the interest amount. From the records available at CAM, it appears that the deposits placed at Wing On Shanghai could be as small as a few yuan and as large as several thousand yuan. Deposit periods ranged from one day to six months. The stamps with the Chinese character 完 (which literally means completion), shown in both the index page in Figure 2 and the depositor's record in Figure 1, possibly indicates the closing of accounts in a particular year. Some depositors' records bore the chop of Wing On's auditor, P. Herve Quann. As the Westernized accounting system was influencing the bookkeeping methods of Chinese firms during the early twentieth century, it is not surprising to find that Hindu and Arabic numerals, Chinese traditional numerals, and Chinese mercantile numerals were used simultaneously in the accounting books of Wing On, including in these savings deposits journals.[36]

35 Wang, "中國公司."

36 For a brief account of the introduction of the Westernized bookkeeping into China, see Shimin Chen, "The Rise and Fall Of Debit-Credit Bookkeeping in China: History and Analysis," *Accounting Historians Journal* 25, no.1 (1998): 73–92.

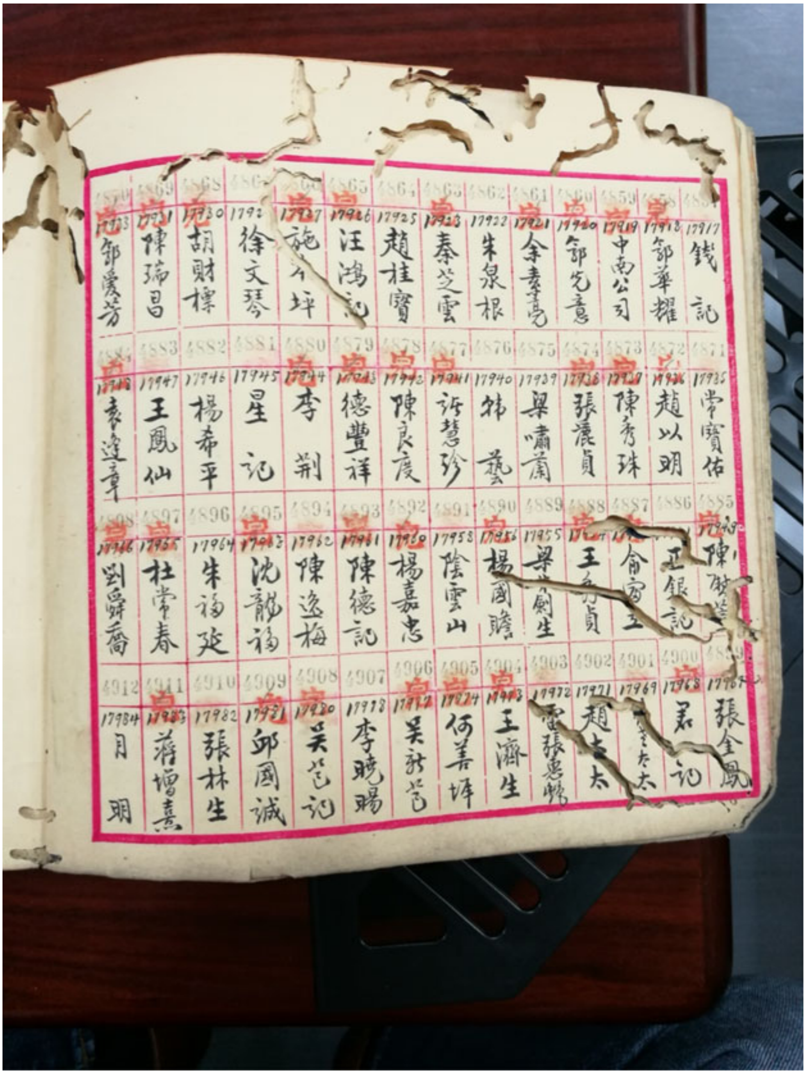

Figure 2. Index page of deposit journal of Wing On Shanghai. (Source: China Accounting Museum.)

Preference Over Banks

These archival records explain how the deposit-taking businesses of Wing On Shanghai and other Chinese enterprises could be sustained for most of the Republican period: the difference in interest rates. Simply put, savings deposits at Chinese enterprises yielded a higher return for

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depositors. Compared with the average annual interest rate of 3 to 4 percent for savings deposits and 7 to 8 percent for one-year fixed deposits offered by banks, the rates for savings and fixed deposits offered by enterprises (6 to 8 percent and 10 to 12 percent, respectively) represented a much better deal for depositors.[37] Another possible reason is that prior to the early 1920s, commercial and savings banks in Shanghai, like indigenous cash shops, focused on serving high-net-worth and commercial clients and were less interested in smaller-than-average depositors.[38] A number of average citizens and factory workers even wrote to the print media to express their discontent with the arrogant and unhelpful attitude of bankers.[39] Some depositors also worried about the safety of their deposits at banks owing to the liquidation of numerous banks in Shanghai, a worry one expressed in a periodical:

> There are tens of banks in Shanghai. An outsider will not know the internal situation [of the banks]. If one does not think carefully before placing a savings deposit with a bank, he/she will regret it if the bank closes down, [as reflected in] the fact that only very few depositors were able to recover their savings deposits after Hui Gong [Bank], Dong Fang [Bank], Hua Shang [Bank] and more recently Hui Tong [Bank] were liquidated.[40]

In fact, of the 257 Chinese banks established between 1912 and 1925, nearly half (115 banks) ceased operations during the period.[41]

Whether because of banks' lukewarm attitude toward smaller depositors or depositors' cautious view of the safety of bank deposits, one thing is certain: savings deposits were not a major form of business for banks in Shanghai until the late 1920s. In 1921, only 3 percent (or 2.5 million yuan) of the total deposits held by the seven best-known banks in China were savings deposits.[42] In the same year, the well-known Shanghai-based National Commercial Bank and Zhejiang Industrial Bank each held only slightly more than 400,000 yuan worth of savings deposits, whereas Wing On Shanghai alone had already absorbed half a million yuan from depositors.[43] Commercial banks'

[37] Interest rates sourced from "Interest rate for principal centres" from 1932 to 1934, published in *Zhongwai shangye jinrong huibao* (中外商業金融匯報) 2, no. 5 (1935): 53; Zhang, "近代," 54–55.

[38] Sheehan, "The Modernity," 134; Cheng, *Banking*, 136–143.

[39] Sheehan, "The Modernity," 134, Wang Zhi-hua, *我的儲蓄計劃* [My saving plan] (Shanghai, 1934).

[40] *常識* [Common knowledge] (Shanghai, 18 July 1928), 270.

[41] Du Xun-cheng, *中國金融通史* [A general history of Chinese finance], vol. 3, 139–140.

[42] Cheng, *Banking*, 46–52, 144.

[43] The amount of savings deposits sourced from Wang, *中國之儲蓄*, vol. 1, 62–66 109–111; Kexueyuan, *上海*, 75.

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savings deposit holdings increased to a notable degree only in the late 1920s and early 1930s, when they began actively innovating smaller-amount savings deposit products to tackle the growing competition among Chinese banks.[44]

By the same token, at a time when modern banks in Shanghai were advancing loans to business enterprises at an average interest rate of 12 percent per annum, Wing On Shanghai had to pay its lenders (depositors) only a fraction of that rate (approximately 4 to 6 percent), not to mention that banks often required real estate as collateral, whereas depositors made no such demand.[45] Even collateral loans could command a lending rate of 10 to 12 percent per annum in the late 1920s.[46] Despite Wing On Shanghai and other leading Chinese firms possessing large portfolios of landed property, collateral loans were not their preferred option for raising debt capital at a time when less cumbersome and cheaper sources of funding were available to them.[47] Yet, we cannot preclude the possibility that retailers such as Wing On Shanghai may not have been able to access bank credit as easily as their industrial counterparts could. Most Chinese banks concentrated their lending on industrial firms rather than commercial and trading firms. Among industrial firms, cotton mills were banks' favorite lending target, although flour mills and mining firms were also frequent recipients of bank loans.[48] In fact, bank lending to industry increased notably only after World War I. The size and breadth of bank loans to industry further expanded between 1927 and 1937.[49] Another Republican-era financial expert, Wang Zu-fang, in 1935 analyzed the degree of reliance on savings deposits of fifteen anonymous Chinese firms in different industrial and commercial sectors, ranging from heavy industry enterprises such as mining and shipbuilding firms to light industry firms such as match and tobacco manufacturers to commercial enterprises such as retailers and publishers. He found that the capital-light retailer and publisher he

[44] Cheng, *Banking*, 136–145; Zhou Qing-xiong, 上海銀行八十年 [The eighty years of the Shanghai Bank] (Taipei, 1995), 24.

[45] The interest rate offered by Wing On Shanghai was calculated from the sampled depositors' record, and it matched the description in Kexueyuan, *上海*, 81. The interest rate of bank loans in Shanghai is sourced from Zhang, "近代," 55. For banks' demand on collateral, see Cheng, *Banking*, 148–156.

[46] For rates of collateral loans, see various loan contracts issued by Kincheng Bank contained in Zhongguo renmin yinhong Shanghai fenhang jinrong yanjiushi, ed., *金城銀行史料*, [Historical materials of Kincheng Bank] (Shanghai, 1983), 161–172.

[47] For Wing On Shanghai's real estates, see its financial statements of the 1930s, SMA documents no. Q225-2-67 and no. Q93-1-72; for Commercial Press's real estate, see its financial statements of 1929 in document no. 17-22-030-01, Archives of the Institute of Modern History.

[48] Cheng, *Banking*, 85–86; Li Yi-xiang, *近代中國銀行與企業的關係* (1897–1945) [Relations between banks and enterprises in modern China (1897–1945)] (Taipei, 1997), 42–45.

[49] Sheehan and Zhu, "Financial Institutions," 307–312; Li, *近代中國*, chapters 1, 2.

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analyzed relied relatively heavily on savings deposits (60 to 80 percent of their total debt funding came from savings deposits), whereas the savings deposits of capital-intensive heavy industry firms, such as mining companies, cotton mills, and ship-builders, represented only about 28 to 38 percent of their total debt funding.[50] Regardless of whether these Chinese firms actively sought to attract deposits to lower their borrowing costs or were somehow "forced" to seek an alternative debt-raising solution owing to the "institutional voids" created by banks' lending preferences, savings deposits had, without doubt, become a major funding source for leading industrial and commercial firms in Republican China, as revealed from the financial statements discussed in the next section.[51]

A Major Funding Source for Leading Chinese Firms

Funds deposited in Wing On Shanghai, similar to deposits with modern banks, were classified as savings deposits, which yielded less interest but could be withdrawn at any time, and fixed deposits of various deposit periods, which paid higher interest rates. Unlike financial intermediaries that used the funds of depositors to advance loans to commercial and industrial enterprises to earn a profit from the difference between the interest rate offered to depositors and that earned from borrowers, however, Wing On Shanghai used customers' deposits primarily to fund the operation and expansion of its department stores and associated enterprises such as the Wing On Textile Company. Wing On Shanghai's deposit-taking business became so significant that in 1929 the Savings Deposit Department began to prepare financial statements that were independent of the company's department store business to account separately for the state of its assets and liabilities.[52]

Table 3 illustrates the expanding significance of deposits as a source of Wing On Shanghai's funding during the 1920s and early 1930s based on archived balance sheets. When the company opened its first store in 1918, it began to take deposits from ordinary citizens, albeit in very small amounts that accounted for less than 1 percent of its 2 million yuan of share capital. Thereafter, deposits at Wing On Shanghai grew exponentially, amounting to more than half a million yuan by 1921,

[50] Wang Zu-fang, "工商業收受存款之檢討" [Review of deposit-taking business of industrial and commercial sectors], 信托季刊 (*Trust Quarterly*) 6, no. 1 (1941): 93–111, cited in Zhang, "近代," 51–52.

[51] Institutional voids refer to the lack of effective market intermediaries (such as banks) to facilitate transactions. Management literature suggests that a firm's reputation might help overcome difficulties arising from such voids. See Cheng Gao et al. "Overcoming Institutional Voids: A Reputation-Based View of Long-Run Survival," *Strategic Management Journal* 38, no. 11 (2017): 2147–2167.

[52] Kexueyuan, *上海*, 75–83.

Table 3
Growth of Deposit in Wing On Shanghai, 1918–1931

	1918	*1919*	*1920*	*1921*	*1931*
Share Capital (yuan)	2,000,000	2,500,000	2,500,000	2,500,000	10,000,000
Total Deposit (yuan)	17,612	278,813	335,229	587,295	6,970,649
Deposit growth vs. previous period		1583%	120%	175%	1187%
Deposit growth vs. 1918		1583%	1903%	3335%	39579%
Deposit as % of share capital	0.9%	11.2%	13.4%	23.5%	69.7%

Source: Kexueyuan, 上海, 75 and Shanghai Municipal Archives (SMA) document no. Q93-1-72.

which was equal to nearly a quarter of its share capital of 2.5 million yuan. Such deposit growth continued for another decade, ultimately reaching nearly 7 million yuan, or 70 percent of its share capital of 10 million yuan. Compared with Wing On Shanghai's fourfold growth in share capital since its opening, its debt capital in the form of deposits grew nearly four hundredfold! Its deposits stopped growing intensively only after 1931 as a result of state intervention, the details of which will be discussed later in the article. Thanks to savings deposits, Wing On Shanghai had little need for bank loans. The abundance of savings deposits sometimes exceeded Wing On's funding needs to the extent that it placed unused deposits in local banks to earn interest.[53] Such an abundance also explains why Wing On Shanghai was able to offer depositors a lower-than-average interest rate (around 4 to 6 percent); it did not need to offer a higher rate to compete with other companies for deposits. Wing On was even able to recoup the interest paid to depositors by earning bank interest on unused funds.

Wing On Shanghai was not the only modern Chinese corporation to raise sizable cheap debt capital by accepting deposits from ordinary people. Sincere Department Store also began to accept savings deposits in 1918, Sun Sun Department Store launched its savings deposit business in 1926, and Zhong Fa Pharmacy followed in 1930. Industrial manufacturers also followed suit, with Nanyang Brothers Tobacco beginning to accept savings deposits in 1920, as did Shen Xin in 1928. Heavy industry firms and public utility providers such as Min Shen Company (a shipbuilding and shipping firm), Shang Chuan Transportation Company (a light-rail builder), Shanghai Zha Bei Water and Electricity Supply, and Liu He Gou Coal Mining Company also accepted savings deposits, and leading Shanghai publishers Chung

[53] Kexueyuan, 上海, 83.

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Hwa, Commercial Press, and Shijie all operated savings deposit businesses.[54] The 1920s were without doubt the golden period of this financing practice. Available sources show that there were nearly one hundred modern Chinese corporations from a wide array of trades and industries running savings deposit businesses that competed against one another and modern banks to attract deposits from China's urbanites, and it is likely that more limited liability corporations and unincorporated firms did the same, though we lack detailed information on them.[55] They learned from banks to offer different types of deposits with terms that were compatible with or even better than those offered by the banks. They advertised their savings plans in major newspapers, with such advertisements sometimes appearing next to those of banks.[56] Not only did these firms compete with banks for deposits by offering better interest rates, but also they offered complimentary products that banks could not. For example, Shijie Book Store offered free stationery and book vouchers to its depositors, while Dashijie Amusement Club offered free touring coupons; and Zhong Fa Pharmacy, free perfumes.[57]

Not only did the savings businesses of these firms take money that could have been placed as deposits with modern banks but also they reduced the firms' own need to rely on bank loans to finance their operations and expansions. The firms with strong demand for their deposits sometimes required no bank loans at all for debt capital. Extracts from the 1930 balance sheet of Wing On Shanghai, shown in Table 4, show no outstanding bank loans but a sizable chunk of deposits as its main source of debt financing. Even during the financial crisis in the mid-1930s when Wing On had to borrow from banks, it repaid its bank loans within one to five months and left no outstanding bank loan in its balance sheet, as shown in its 1936 balance sheet (Table 4).[58] Commercial Press, a leading publisher and printer in Republican China, also relied on deposits as its major source of debt capital. The company owned total assets worth nearly 14 million yuan, of which real estate and machinery accounted for over 2 million yuan, but it had no outstanding bank loan on its year-end balance sheet. Instead, its main funding

[54] Wang, 中國之儲蓄vol. 1, 285–286; Zhang, "近代," 48–54; Wang, "中國公司," Sun Liping, "試析中國近代企業的附屬儲蓄存款機構" [An analysis of associated deposit-taking units of modern Chinese enterprises], *Journal of Fujian Normal University* 130 (2005): 47–50.

[55] From financial periodicals, we can at least know that both joint-stock limited companies and unincorporated firms were engaged in taking savings deposits. See, for example, Ai lu, "一般商家收受存款問題" [The issues of deposit-taking by ordinary stores], *The Bankers Weekly* 16, no. 42 (1932): 4–6.

[56] Advertisement of ABC China Garment, *Shen Bao*, 27 Dec. 1930, 10.

[57] Advertisement of Shijie Book Store, *Shen Bao*, 15 Sept. 1928, 13. For other firms' offers of free gifts, see Zhang, "近代," 48; Sun, "試析," 48 for other firms' offers of free gifts.

[58] For Wing On's short-term bank loans, see Kexueyuan, *上海*, 125–126.

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Table 4
Extract of Balance Sheets of Wing On Shanghai (two years) and Commercial Press (one year)

	*Wing On Shanghai, Jan. 29, 1930**	*Wing On Shanghai Dec. 31, 1936†*	*Commercial Press Dec. 31, 1929‡*
Capital and reserves (yuan)			
Capital	5,000,000.00	10,000,000.00	5,000,000.000
Reserves	3,739,380.38	5,424,405.53	5,653,803.854
Total	8,739,380.38	15,424,405.53	10,653,803.854
Liabilities (yuan)			
Sundry creditors	469,029.39	545,002.36	971,312.442
Deposits	7,571,746.50	3,046,987.84	1,093,582.851
Other payables	998,248.05	2,440,575.65	1,086,831.949
Total	9,039,023.94	6,032,565.85	3,151,727.242
Capital and liabilities	17,778,404.32	21,456,971.38	13,805,531.096

Sources: * SMA document no. Q93-1-72; † SMA Document No. Q225-2-67; ‡ Archives of the Institute of Modern History, Taipei, document no. 17-22-030-01.

Table 5
Breakdown of Shen Xin's Liabilities, June 30, 1934

Type	*Amount (in yuan)*
Long-term liabilities	30,314,210.00
Short-term liabilities	
Secured loans	12,276,120.00
Current accounts	4,494,030.00
Payables	10,231,090.00
Savings and other deposits	6,443,700.00
Total liabilities	63,759,150.00

Source: Kexueyuan, 榮家, 405. Note: Long-term liabilities include bank loans secured by shares and real estates, and other unsecured bank loans. Secured loans under short-term liabilities include bank loans secured by raw materials and bills receivable.

source comprised its 9 million yuan in share capital and reserves and approximately 1.1 million yuan in deposits from its customers, as revealed by the 1929 balance sheet extract (Table 4). In contrast, several other industrial enterprises operating savings deposit businesses relied also on bank loans as one of their major sources of debt. A breakdown of Shen Xin's liabilities comprising both bank loans and deposits in 1934 is shown in Table 5. As of the mid-1930s, when the seven major Chinese modern banks held total deposits of approximately 270 million yuan, the one hundred modern Chinese enterprises investigated by Wang

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Zong-pei held a total of 64 million yuan from depositors, which amounted to almost a quarter of the banks' potential money and credit supply.[59]

The growth in the size of the deposits held by prominent Chinese firms during the early twentieth century attests to a fact that has hitherto been overlooked: raising capital from shareholders or partners and borrowing from banks may not have been the only options available to Chinese firms to fund their operation and expansion. Taking savings deposits, in some circumstances, offered greater flexibility and lower costs than raising equity from investors or obtaining loans from banks.

The Modern Bank Strikes Back

The growing popularity of placing deposits with shops and factories rather than banks met with mounting criticism from the major bankers guilds in Shanghai in the mid-1920s. Chinese bankers represented by the SBA were among the most outspoken advocates for banning these savings deposit-taking businesses. Writers in the SBA's periodical, *The Bankers Weekly*, repeatedly expressed disappointment in the government's failure to pass new laws to supervise, if not eliminate, these non-banking deposit-takers.[60] For them, registered banks were more reliable institutions for accepting savings deposits.[61] The Shanghai General Chamber of Commerce, in contrast, took a more ambivalent view. The chamber, whose members included well-known non-banking deposit-taking enterprises such as Shen Xin, Commercial Press, and Wing On Shanghai, as well as Chinese banks, limited its complaints to the government's inability to prohibit foreign non-banking firms—such as a Portuguese trading company—from accepting deposits from Chinese nationals, arguing that these firms' operations were contrary to the commercial agreements made between European countries and Qing government.[62] It did not publicly object to the deposit-taking practices of non-banking Chinese merchants and endorsed the establishment of Chinese savings banks.[63] However, the politically disintegrated Chinese

[59] Figures of banks sourced from Cheng, *Banking,* 144; figures of deposit-taking enterprises from Wang, "中國公司."

[60] Jing-ru, "取締儲蓄與保障儲蓄" [Eliminating savings deposits and protecting savings deposits], *The Bankers Weekly* 9, no. 16 (1925): 35–38.

[61] Zhuo-ying, "儲蓄事業之濫用與儲蓄觀念之謬誤" [Abuse of savings deposit business and misconception in saving], *The Bankers Weekly* 8, no. 9 (1924): 60–61.

[62] Anonymous, "上海總商會請取締洋商儲蓄會" [Shanghai General Chamber of Commerce asks for elimination of foreign savings societies], *The Bankers Weekly* 9, no. 15 (1925): 52. For a list of members of the chamber in the 1920s, see Zhang Ya-pei, 上海總商會組織史料匯編 [A compilation of historical materials of Shanghai General Chamber of Commerce] (Shanghai, 2004) vol. 1, 390-403.

[63] Anonymous, "四行準備庫與儲蓄會" [Four Chinese banks' funding and preparation for a savings society], *Journal of General Chamber of Commerce* 3, no. 7 (1923): 1–2.

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state was, at the time, unable to heed the advice of either the SBA or the chamber, leaving the savings deposit market outside state regulation for the remainder of the 1920s. Criticisms of the deposit-taking business of non-banking firms mounted in the early 1930s while these firms' deposits continued to grow.

The mounting criticisms have to be read in the context of the market downturn in the early 1930s, especially in such major commercial and financial centers as Shanghai. The downturn was initially triggered by the Great Depression, which was followed by a surge in the silver price that severely hit China's export economy, and then military conflict between the Japanese and Nationalist armies in Shanghai on January 28, 1932, which shattered domestic demand and led to capital flight. The end result was a major financial crisis in Shanghai in 1934 and 1935.[64] The collapse of a number of deposit-taking enterprises during these troubled times further aroused public concern. In January 1931, Huang Chu-jiu, a businessman from Zhejiang Province, who owned two major savings deposit-taking enterprises in Shanghai—Riye Bank and Dashijie Amusement Club—died suddenly. When Huang's family members decided to liquidate his businesses, their accountants discovered that the two enterprises had accepted deposits of more than 3 million yuan but had only 390 taels of silver (equal to approximately 600 yuan) to satisfy the claims of creditors and depositors.[65] It was reported that of the enterprises' several thousand depositors, only sixty had deposited 1,000 yuan or more, meaning that a failure to repay deposits would jeopardize the savings of thousands of citizens, whose deposits ranged from one to a few hundred yuan.[66] The day after Huang's death, hundreds of depositors gathered in front of his residence and business premises, some of them in tears, to demand the repayment of their deposits.[67] One newspaper report noted that an old woman had committed suicide by ingesting opium, apparently because she had more than 2,000 yuan in savings in Huang's businesses.[68] Worse still, during the liquidation process, it was discovered that Riye Bank had

[64] For the impact of the Great Depression, see Tomoko Shiroyama, *China during the Great Depression: Market, State, and the World Economy, 1929–1937* (Cambridge, MA, 2008), chapters 3–5.

[65] Anonymous, "黃楚九逝世後之紛擾" [Disturbances after Huang Chu-jiu's death], *Sheng huo* (生活) 6, no. 6 (1931): 135–136. One yuan was equivalent approximately to 1.4 to 1.5 taels of Shanghai silver. See conversion rate noted by Sheehan, *Trust*, xiii.

[66] Jing cun, "爲日夜銀行宣告清理而作" [Writing about Riye Bank's bankruptcy], *The Native Bankers' Monthly* 11, no.2 (1931): 2–3.; Meng, "日夜銀行倒閉後與儲蓄事業之將來" [The future of deposit-taking businesses after the Riye Bank's bankruptcy], *The Native Bankers' Monthly* 11, no. 3 (1931): 30–31.

[67] *Shen Bao*, 21 Jan. 1931, 15; 22 Jan. 1931, 11; 23 Jan. 1931, 14.

[68] *Shen Bao*, 26 Jan. 1931, 15.

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never registered as a bank in accordance with the law.[69] The following year, Yang Qing He, one of the most famous jewelry retailers in Shanghai, which had also accepted savings deposits, closed down just a few months after the military conflict on January 28. Similarly to the Huang's case, Yang Qing He's closure dragged many depositors into years of litigation over the return of their savings.[70]

A number of SBA members wrote to the SBA to complain that such deposit-taking businesses not only "intrude into banking's business" but also disturb "society's financial situation."[71] The SBA's official periodical repeatedly cautioned depositors who continued to deposit money in shops and factories that had longstanding successful business records in the mistaken belief that these firms and corporations were like a city guarded by "a city wall made of gold and a moat filled with hot water," and were thus "worry-free."[72] In one article in the periodical, for example, the author warned against the practice owing to a number of risks that depositors might have overlooked. First, he wrote, banks were required by law to regularly disclose financial statements, whereas there was no such requirement for deposit-taking firms. Second, banking laws gave depositors repayment priority over other unsecured creditors in the event that a bank closed. Third, banks had to set aside a portion of their assets as a reserve specifically for the repayment of savings deposits. None of these statutory safeguards applied to deposit-taking firms. They thus benefitted from cheap credit from depositors for their business operations and expansion when business was good and the money market was filled with abundant liquidity. Such cheap and easy credit could, the author warned, encourage these firms and corporations to engage in risky and speculative investments. Furthermore, during a market downturn, shops and factories without sufficient reserves might not have the necessary working capital to satisfy a sudden increase in withdrawal demands, and thus be forced into bankruptcy.[73] The community of indigenous cash shops, which maintained its imperial-era business practices and did not accept small savings deposits from ordinary people, joined the SBA in its attack. For example, writing in *The Native Bankers' Monthly*, the official periodical of the Association of Cash Shops in Shanghai, one author discussed a bankrupt deposit-taking company that had only 10,000 yuan in share capital but had

[69] Anonymous, "上海日夜銀行清理問題" [Issues of Riye Bank's liquidation], *Accounting Student* (會計月刊), no. 11 (1930): 36–47.

[70] *Shen Bao*, 30 Dec. 1932, 13; 31 Aug. 1933, 15; Ai lu, "一般商家," 4.

[71] Shanghai Bank to SBA, 20 Feb. 1930, cited in Zhu, "論近代," 100.

[72] The original Chinese quote is "以爲金城湯池之固，可以無憂," from Ai lu, "一般商家," 6.

[73] Ai lu, "一般商家," 6.

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accepted 1.2 million yuan worth of deposits to fund its operation.[74] This and similar articles also contended that the savings deposit businesses of shops and factories not only risked depositors' money but also harmed the national economy. Their authors argued that banks used savings deposits to lend money that supported the growth of a wide variety of industrial and commercial enterprises, whereas shops and factories used them only to fund their own operations and expansion. Hence, the latter were not beneficial to "state building."[75] Despite these alleged shortcomings, many depositors in modern Chinese cities such as Shanghai remained keen to place their money with shops and factories that they trusted, including, as one author noted, pharmacies, jewelry shops, soya sauce manufacturers, and grocery stores, in the belief that such shops and factories would have not only plenty of cash but also plenty of inventory to satisfy withdrawal demands even in the event of business difficulty.[76]

State Intervention and Low-Key Existence of the Debt Financing Practice

Linking the impact of the savings deposit businesses of the non-banking sector to the discourses around building a strong state and national economy was no coincidence. It can be read in the context of the newly established Nationalist government's determination to expand state control over the economic and financial markets after its victory in the Northern Expedition (1926–1928), which nominally united China under the leadership of Chiang Kai-Shek's central government headquartered in Nanjing.[77] Among the many state-managed enterprises and ministries established to assert the state's control over the economy—including the National Economic Council and the National Resources Commission—the Financial Supervision Bureau, formed under the Ministry of Finance, was established to oversee financial institutions.[78] While publicizing the risks of placing deposits with non-banking firms in the public media, the SBA also worked with the ministry to draft a new Savings Bank Law.[79] Meanwhile, in April 1930, the SBA wrote to the central government in Nanjing, pleading for it to prohibit non-banking enterprises from accepting deposits and to allow only registered banks

74 Chen Yan-wei, "商店擱淺與收受存款" [Bankruptcy of shops and deposit-taking], *The Native Bankers' Monthly* 15, no. 2 (1935): 9–13, 11.

75 Chen, "商店擱淺," 13.

76 Chen, "商店擱淺," 10; Ai lu, "一般商家," 5; You fei, "論商號之收受存款" [Deposit-taking by merchants], *The Native Bankers' Monthly* 12, no. 12 (1932): 54–55.

77 Thai, *China's War*, 78–81; Ma, "Financial Revolution," 254–260.

78 Sheehan and Zhu, "Financial Institutions," 297–298; Thai, *China's War,* 81.

79 Wang, *上海銀行*, 177–182.

to do so. In its petition to the Ministry of Finance, the SBA contended that taking deposits had been "banks' responsibility for a long time," without mentioning, of course, the even longer history of shops taking savings deposits before the emergence of modern banks in China. It criticized such a widespread financing practice as something that would "severely harm people's livelihood were there to be any negligence in handling the deposits."[80] The Ministry of Finance, in its reply to the SBA, ordered that deposit-taking businesses by non-banking firms should be prohibited. Such businesses, according to the ministry, posed risks to "the security and livelihood of people and society" because they never disclosed to the public how their savings were used and how much capital they had. The ministry also pointed out that these firms had never obtained approval from the government to run a deposit-taking business.[81] The central government in Nanjing requested the Shanghai municipal government to comply with the prohibition order and close down savings deposit-taking businesses run by non-banking enterprises in Shanghai.

However, after the issuance of that order in April 1930, the Shanghai government remained lukewarm about taking action against the city's numerous deposit-takers. Advertisements soliciting deposits from non-banking enterprises, such as the ABC Chinese Garment Company, still appeared in major newspapers in late December 1930.[82] The death of Huang and the ensuing saga in 1931 prompted the central government to publicly condemn such financing practice and to portray it negatively as "taking advantage of the weaknesses of people by offering higher interest rates and prizes to solicit savings deposits from ordinary citizens."[83] The central government also called on the Shanghai government again to take immediate action to close down deposit-taking enterprises. In response, the Shanghai government issued a strongly worded order in February 1931. The order mentioned Wing On and Sincere Department Stores and ABC Chinese Garment by name, pointing out that they were running illegal deposit-taking businesses. It demanded that these enterprises immediately cease their savings deposit operations and return deposits to depositors within one month.[84]

Despite its strongly worded announcement and order, behind the scenes, the Shanghai government wrote to the Ministry of Finance to

[80] Order no. 11437 of Ministry of Finance, *Municipal Gazette of Tianjin* (天津市政公報), 3 May 1930.

[81] Order no. 11437; Zhu, "論近代," 100.

[82] Zhu, "論近代," 101; advertisement of ABC Chinese Garment, *Shen Bao*, 27 Dec. 1930, 10.

[83] *Shen Bao*, 25 Jan. 1931, 15.

[84] *Shen Bao*, 25 Feb. 1931, 9.

express its concerns about eliminating these savings deposit operations. It warned Nanjing that the hurried implementation of the order would create financial difficulties for some of the deposit-taking enterprises and could even cause them to close down owing to an insufficient cash flow to honor withdrawal requests. The Shanghai government did not view a prohibition order as an ideal way to strike an appropriate policy balance between managing the century-old financial practice of placing deposits with shops and minimizing that practice's negative impact on the banking market. It also highlighted additional problems for the central government that would be difficult to resolve in a short period of time. First, of the eighty-two banks operating in Shanghai, only twenty-four held licenses issued by the Ministry of Finance, partly because Nanjing had not fulfilled its duty to process bank applications in a timely manner. The Shanghai government queried whether it needed to order this large number of "un-licensed" banks to close down their savings deposit businesses as well. Second, there were a number of deposit-taking enterprises run by foreigners, such as the International Savings Club. The Shanghai government asked Nanjing whether the order also applied to these enterprises or only to those operated by Chinese merchants. Third, the current banking law regulated only banks that accepted deposits and advanced loans. There was no law regulating enterprises that accepted savings deposits from ordinary citizens solely to meet their own working capital needs. The Shanghai government also emphasized that such a practice was "a commercial custom that had continued for a long time in history" and asked whether there was a need to draft a new law to regulate it rather than eradicate it completely.[85]

These queries bore fruit in May when Nanjing, largely based on the Shanghai government's proposals, allowed a "modification" of the original prohibition order issued in February. The modified order took into account the concerns of the Shanghai government and softened the February order's implementation with the aim to "regulate savings deposit-taking businesses while maintaining merchants' customary practices." It requested that non-banking enterprises refrain from advertising in newspapers to solicit deposits and required them to accept deposits only from "friends and family."[86] The modified order certainly did not stop reputable Chinese firms such as Wing On Shanghai from continuing to take savings deposits to fund their operation, but they did comply with the order by refraining from posting newspaper advertisements to solicit new deposits. At the end of 1931, the year in which the

[85] Zhu, "論近代," 102–103, citing memorandum nos. 1248 and 1402 of Shanghai government.

[86] Zhu, "論近代," 103, citing order no. 8309 of Shanghai government.

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Table 6
Savings Deposits of Wing On Shanghai, 1937 to 1941, in Yuan of Chinese New Currency.

	1937	*1938*	*1939*	*1940*	*1941*
Total Deposits	2,786,809.68	5,060,494.45	1,483,045.68	3,944,772.80	4,238,086.55

Source: SMA document no. Q225-2-67-64, Q225-2-67-27. Note: The Nationalist government in 1935 issued a new legal currency, fabi, and prohibited conversion of paper money to silver. Sheehan, *Trust*, 163–176.

order was issued, Wing On Shanghai still retained more than 6.9 million yuan in deposits, which represented approximately 70 percent of its 10 million-yuan share capital (see Table 3). In 1934, the central government passed the Savings Bank Law, which made it mandatory for any institution accepting interest-bearing savings deposits to obtain approval from the Ministry of Finance and register as a savings bank. Again, the new law's implementation in Shanghai remained doubtful. Wing On Shanghai, without registering as a savings bank, still managed to maintain a sizable deposit pool of approximately 3 million yuan on its balance sheet at the end of 1936 (see Table 4). Notwithstanding Wing On Shanghai's endurance, the savings deposit-taking operations run by many manufacturers such as Shen Xin closed down in 1933, not so much because of the government's legal intervention but because their core manufacturing business had been severely damaged by shrinking global demand following the Great Depression in the early 1930s. Shen Xin's depositors worried about the company's financial sustainability and withdrew their deposits.[87] For financially stronger enterprises, such as Wing On Shanghai, even the subsequent flight of capital due to the Sino-Japanese War was not enough to bring its savings deposit business to an end. As shown in Table 6, total deposits of about 2.8 million and 4.2 million yuan still stood on its books in 1937 and 1941, respectively.

Conclusion

This article's main contribution lies in uncovering the widespread practice among Chinese firms of financing their operations through the taking of savings deposits, a practice that has been largely overlooked in previous scholarship on Chinese business and financial history focusing on indigenous and modern banks in China. The practice emerged and blossomed in the specific historical context of early twentieth-century

[87] Sun, "試析," 49. For financial difficulties of Shen Xin, see Shiroyama, *China*, 135–138.

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China, a time when indigenous and foreign ideas and institutions were dynamically interacting with and transforming one another. During this period, the idea of saving was vigorously promoted to ordinary urbanites as virtuous and patriotic. Savings deposit-taking institutions were loosely regulated, if regulated at all, by the politically fragmented government. Chinese firms, thanks to the imperial state's light-handedness in regulating the economy, had a long history of accepting deposits in the imperial era. The country's developing modern banks were less than enthusiastic in lending to the commercial and industrial sectors and attracting small savings deposits until relatively late in the Republican era. This unique historical context made the acceptance of savings deposits from ordinary people a viable financing solution for Chinese commercial and industrial firms, a solution that appears to have no equivalent in the history of debt financing in Europe and North America.

From a broad perspective on the trajectory of Chinese business history in the early twentieth century, this study also echoes a recent call in this journal for the "reframing" of Chinese business history by drawing on archives to critically re-examine the popular narrative that indigenous Chinese business institutions stifled industrialization and financial innovation.[88] In contrast to that narrative, the study demonstrates that Chinese businessmen creatively gave new life to an indigenous financing practice that had served imperial-era firms and took advantage of a specific political context to reduce the cost of borrowing. It also raises questions about the common argument that Chinese people did not invest, so there was insufficient capital to develop industries in this period. Although this article focuses on a leading retailer, the majority of the firms that engaged in savings deposit businesses were in fact industrial firms, most of them cotton mills such as Shen Xin, which also borrowed considerable sums through bank loans.[89] Much work remains to be done in future research to better understand Chinese financial and actuarial management skills. For example, how did these firms manage their debt portfolio comprising bank loans and savings deposits of different interest rates and tenures to optimize their funding costs and balance risks and opportunities? How did they determine the optimal mix of debt and equity in financing their operations? Answering these and related questions in the context of Chinese entrepreneurship in relation to the situation in the UK, US, Europe, and Japan will offer a comparative perspective and perhaps

[88] Adam Frost, "Reframing Chinese Business History," *Business History Review* 96, no. 2 (2022): 245–287, 260–265.

[89] Wang, "中國公司."

highlight a significant variation in risk appetites for using debt leverage to increase the investment return.

This article also provides another archival case study to join recent works on the impact of the expansion of state capacity in the economy. Modern bankers leveraged the Nationalist state's desire to create a robust developmental state in the 1930s to illegalize the practice of taking savings deposits by non-banking sector firms. As we have seen, the state's regulatory intervention did not entirely eliminate this financing practice because such an additional funding and savings channel was welcomed by depositors and the business community alike, despite the occasional bankruptcy. In fact, in the opinion of local governments, banning the channel outright to protect the interests of modern banks was not necessarily in the overall best interest of the Chinese economy. Taking deposits as a firm's debt financing practice did not completely fade away because of competition from banks or Nationalist government regulation, but because of the uprooting of the Chinese financial market following the establishment of the People's Republic of China. The emerging modern Chinese state's determination to assert centralized control over the economy and financial market seems to have had a more stifling effect on financial innovation than Chinese indigenous business practices.

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