

THE RAILWAY CONTROVERSY OF 1911:
THE BUREAUCRATIC PERSPECTIVE

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One of the precipitants of the 1911 Revolution was the nationalization of provincial railways and the conclusion of the four power Hukwang loan for their construction.⁽¹⁾ In many respects these policies were a logical culmination

(1) Because of its relation to the Revolution of 1911, most historians have stressed the provincial reaction or else the immediate causes of nationalization: diplomatic pressure by the imperialist powers, the desire of the Manchu nobility to control railway revenues, factional politics and the collapse of the provincial railway companies. For studies of government policy see: Ch'i Lung-wei, "Lun Ch'ing-mo ti t'ieh-lu feng-ch'ao" (Discussion of the controversy over railways at the end of the Ch'ing), *Li-shih yen-chiu* (Historical Studies (Peking, 1964), No. 2, pp. 40-58; Ch'uan Han-sheng, "T'ieh-lu kuo-yu wen-t'i yu Hsin-hai ko-ming" (The nationalization of railways and the Revolution of 1911), in *Chung-kuo hsien-tai-shih ts'ung-k'an* (A collection of reprinted articles on modern Chinese history) (Taipei, 1960), Vol. 1, pp. 209-271; Shen Yun-lung, "Sheng Hsuan-huai, Liang Shih-i chieh-yuan" (The grudge between Sheng Hsuan-huai and Liang Shih-i), *Hsien-tai cheng-chih jen-wu shu-p'ing* (Descriptions of recent historical personages) (Taipei reprint, 1960), Vol 2, pp. 92-96. Hatano Yoshihiro, "Shinmatsu ni okeru tetsudo kokuyu seisaku no haikai" (The background of the Railway nationalization policy at the end of the Ch'ing period), *Nagoya daigaku ronshu*, XVII (1957), pp. 29-66.

of three decades of bureaucratic thinking about railway development. Bureaucratic attempts to promote railways between 1880 and 1898 had convinced railway advocates that successful railway development required both foreign loans and strict government management. Although these same officials were reluctant to accept foreign capital during the high tide of Western imperialism—1898–1904 — they remained convinced that loans on “purely commercial terms” were the only effective means to create a national railway system.

The bureaucratic monopoly of policy making came to an end in 1904 when rising Chinese nationalism and the growth of provincialism offered new alternatives and perspectives on railway development. For a time, Peking welcomed provincial initiatives in rights recovery and the promotion of provincial railway companies as a way to weaken foreign domination of China's railway system. However, the provinces' uncompromising opposition to all foreign loans and their demands for local autonomy in management challenged the central government's prerogatives and long term aspirations. After 1906 the newly created Ministry of Posts and Communications set out to regain control of policy from the provinces and provide a bureaucratic alternative to provincial companies. It recovered *de facto* control of several trunk lines from foreign creditors, succeeded in obtaining new loans on “purely commercial” terms and created a profitable integrated state network out of individual lines built with foreign loans.

The success of the state system confirmed the ministry's belief in the superiority of state management and reliance on foreign capital. If permitted to apply the same policies to lines previously entrusted to the provinces, it argued, China would develop a modern transport system, accelerate the pace of industrialization and eventually free itself from dependence on foreign capital. Nationalism and anti-imperialism, in the eyes of the ministry, required nationalization of private railways and more foreign loans. It also meant that the central bureaucracy would exclude the non-bureaucratic elite from a role in the decision making process.

The Genesis of a Doctrine: 1880-1904

China's railway planners theoretically could draw on three sources of funds: foreign capital, direct government investment from central government or provincial agencies and domestic private investment. Recent studies have suggested that China possessed a potential surplus of 37 percent of net domestic production.⁽²⁾ During the late Ch'ing, however, political and fiscal constraints made it impossible for the central government to mobilize the large sums necessary for railways. An inefficient fiscal system coupled with a concern for vested interests limited the revenues available to Peking while the crushing burden of indemnities and new modernization projects meant stiff competition for the limited funds available. Only after 1904 were a few provincial governments able to secure gentry cooperation in raising taxes for provincial railways, but the sums were relatively small compared to national needs. From the perspective of the railways "experts," it was totally unrealistic to contemplate financing railways out of current government revenues.

Reliance on domestic private investment also was viewed by Peking's planners as unrealistic, a view which was supported by their experience with private investment. In 1898 only Tls. 700,000 of the Tls. 17,000,000 invested in Chinese railways came from private investment; the remainder consisted of government advances and short term loans.⁽³⁾ It is true, as Feuerwerker and others have argued, that merchants were reluctant to invest in *kuan-tu shang-p'an* enterprises because government officials consistently refused to grant the shareholders a real voice in management.⁽⁴⁾ However, the decisive factor was that railways were a bad economic investment for private individuals. Even

(2) Carl Riskin, "Surplus and Stagnation in Modern China," in *China's Modern Economy in Historical Perspective* (Ann Arbor, 1975), pp. 49-84.

(3) Sheng Hsuan-huai, *Yü-chai ts'un-kao* (Collected drafts of Sheng Hsuan-huai) (Taipei reprint, 1963), hereafter cited as YCTK, Ch 3/37-38, Sheng memorial, KH 25/8 estimates Tls. 4,000,000 in government appropriations for the Peking-Hankow railway. *Ch'ing-ch'ao hsu wen-hsien t'ung-k'ao* (Encyclopedia of the historical records of the Ch'ing dynasty), compiled by Liu Chin-tsao (Taipei reprint, 1965), Ch. 364/11083-85 for expenditures on the I.R.N.C.

(4) Albert Feuerwerker, *China's Early Industrialization: Sheng Hsuan-huai (1844-1919) and Mandarin Enterprise* (Cambridge, Mass., 1958).

with guaranteed dividends of 10 percent, *kuan-tu shang-pan* enterprises attracted only limited amounts of share capital. Yet 10 percent was an unrealistically high profit for railways and other aspects of railway finance – the long gestation period and lack of liquidity – were unattractive to Chinese investors. ⁽⁵⁾

Two other aspects of bureaucratic thinking about railways crystallized in the decades prior to 1898. First, officials generally regarded railways as a special case requiring even more stringent control than was true of most *kuan-tu shang-pan* enterprises. Convinced that railways were the key to military, economic and political power, men like Chang Chih-tung argued that “commercial considerations” should not dictate decisions that would affect the fate of the nation. ⁽⁶⁾ Second, there was a stubborn belief that railways once built would provide a new source of government revenues which could be utilized to make good budgetary deficits or finance other projects. ⁽⁷⁾ Hence, it was the state which must take charge of railway development and secure control of future revenues.

Given the assumptions of the railway planners and the economic and political realities of the day, it is not surprising that in mid-1897 Peking acknowledged the failure of post-war efforts to attract private investment and provide government funding. Within a year it assumed direct control of China's two existing railways – the Imperial Railways of North China (I. R. N. C.) and the Peking-Hankow Railway – and initiated talks for foreign loans. Nonetheless, Peking was not prepared to voluntarily accept railway loans which included foreign political control. It is true that during the scramble for Concessions,

(5) Robert Dernberger, “The Role of the Foreigner in China's Economic Development,” *China's Modern Economy in Historical Perspective* (Ann Arbor, 1975), pp. 45-46. Feuerwerker, *China's Early Industrialization*, p. 37; Elsworth Carlson, *The Kaiping Mines (1877-1912)* (Cambridge, 1957), pp. 177-80.

(6) Chang Chih-tung, *Chang Wen-hsiang-kung ch'üan-chi* (Collected works of Chang Chih-tung) (Peiping, 1928), Ch. 37/26a, Chang memorial, KH 21/int. 5/27.

(7) For example, Liu K'un-i optimistically estimated that a single line from Peking to Hankow would earn Tls. 10,000,000 to Tls. 20,000,000. Liu K'un-i, *Liu Chung-ch'eng kung i-chi* (Post-humous works of Liu K'un-i), reprinted in *Chin-tai Chung-kuo shih-liao ts'ung-k'an* (Taipei, 1966), memorial, Ch. 24/23a, KH 21/6/20.

the imperialist powers obtained rights to 6,200 miles of track under agreements that gave them administrative control of the companies and created presumptive spheres of influence. But China granted these concessions only under duress; it was not prepared to push new railway development if it meant a partial loss of national sovereignty.

From November 1898, when the throne ordered a moratorium on new railway concession, until 1904, Chinese officials were willing to see new construction come to a standstill rather than seek out additional foreign capital. A number of final contracts were signed between 1902 and 1904, but in most cases the initiative came from the powers and were for lines for which preliminary agreements had been concluded earlier. In addition to political and diplomatic considerations, Chinese officials also expressed a growing concern that the loans might not pay for themselves.⁽⁸⁾

Despite nagging fears of bankruptcy and further encroachments on Chinese sovereignty, some experts still thought it advisable to pursue a policy of selective borrowing. Sheng Hsuan-huai, the dominant force in railway planning, urged Peking to ban all provincial and private lines except for short branches in order to prevent overcompetition and future defaults. Sheng also resisted most foreign requests for new railway concessions, but he readily agreed to lines serving as feeders to the Peking-Hankow Railway. The profits of the Peking-Hankow system, he argued, would generate sufficient revenue to redeem outstanding loans and thus enable China to regain control of its railways.⁽⁹⁾ Sheng's proposals undoubtedly were designed to enhance his personal power as head of the Peking-Hankow system, but they nonetheless contained two basic elements that were to characterize Peking's subsequent approach: a willingness to accept additional foreign capital in order to create a profitable self financing

(8) Great Britain, Foreign Office, Original Manuscripts of Foreign Office Documents in archives of British Public Records Office, London. Hereafter cited as FO, with additional annotations referring to series and volume. FO 405/135, No. 188, Despt. 228, Townley to Lansdowne, August 6, 1903. It should be noted that the 1903 returns for the I.R.N. C. were reduced by a depression in north China.

(9) YCTK, Ch. 58/28-29a, Sheng to Foreign Ministry, KH 29/9/20.

state network and a tendency to regard private enterprise as a potential threat to the government's program.

The Provinces Versus Peking

In late 1904 and 1905 large numbers of Chinese came to feel that rights recovery and a rapid acceleration of the pace of railway development were among the most pressing problems confronting China. Railways were recognized as an indispensable prerequisite for industrial and military strength, but this had been known for some time. However, Japan's victory over Russia increased Chinese self-confidence and convinced bureaucrats and members of the provincial elite that China could marshal the strength to build its own railways. Public enthusiasm was further fueled by the widespread belief that railways were a highly profitable venture. Undoubtedly the expectation of high returns included a great deal of wishful thinking, but it was given some substance by the spectacular performance of the I. R. N. C. which possessed the most lucrative route in the Empire and reported a spectacular 20 percent return on capital investment in 1905. ⁽¹⁰⁾

The desire to secure personal profit, stimulate the local economy and exclude foreign influence produced a mania for railways throughout most of the nation. Between 1905 and 1908 fifteen railway companies were formed at the initiative of merchants and gentry. ⁽¹¹⁾ Provincial officials such as Hsi-liang (Yunnan), Ch'eng Te-ch'uan (Manchuria) and Ts'ao Hung-hsun (Shensi), who served in provinces where private wealth was inadequate to support a provincial railway, implored Peking to press forward with a government supported railway for their provinces. Even the Mongols called for a comprehensive railway and canal system. ⁽¹²⁾

(10) FO 17/1758, Desp. 413, Satow to Lansdowne, December 3, 1904; FO 228/1214, Desp. 231, Satow to Lansdowne, June 27, 1904; FO 17/1758, Encl. in Desp. 170, Henderson to Boyce-Kup.

(11) Ch'i, "Lun Ch'ing-mo," pp. 41-50.

(12) Ministry of Posts and Communications, China, *Yu-ch'uan-pu tsou-i lei-pien* (memorials of the Ministry of Posts and Communications) (Taipei reprint, 1967). Hereafter referred to as YCP for the Kuang-hsü period and YCP:HP(hsü-pien) for the Hsuan-t'ung period; unless otherwise indicated, all notations are for sections on railways (*lu-cheng*). YCP, KH 33/28-30, Ch'eng memorial, KH 33/3/18; KH 33/52-53, Ts'ao memorial, KH 33/5/29; KH 33/61-65, Hsi-liang memorial, KH 33/6/22, KH 33/18-19, Prince Su memorial, KH 33/2/8.

During these same years two rival approaches to railway development emerged: decentralized private enterprise advocated by the provinces and centralized state management favored by the central government. Administrative reforms initiated by Peking in 1903 were based on the German and Japanese model, one which assumed a centralized bureaucracy should manage the affairs of the Empire with only limited interference from the population. The Ministry of Posts and Communications, established in 1906, epitomized the centralizing trends of the time. It quickly wrested control of a number of government owned railways from semi-autonomous directors-general who had been proteges of leading provincial officials. The ministry also developed a specialized bureaucracy to administer the state railways and to manage their revenues.⁽¹³⁾ The next step was to extend its influence over the provincial railway companies then coming into existence, but here the ministry had to move cautiously in deference to provincial interests and its own lack of investment capital.

In contrast, the massive upsurge of provincial interest in railways was the result of politically conscious socio-economic groups which favored local initiatives and private enterprise free from Peking's regulation. Provincial railway promoters usually were drawn from the ranks of the elite active in a wide range of reformist and industrial activities. In the coastal provinces and treaty ports the Chinese merchant class had grown in wealth and power and now was closely linked with the gentry. Strongly influenced by Western liberalism, the new bourgeoisie regarded capitalism as the most enlightened system.⁽¹⁴⁾ Elsewhere, gentry leaders shocked by China's humiliation threw their support behind political and economic reforms designed to strengthen their own authority and exclude foreign influence from their provinces. In areas such as Hunan gentry involvement in the import-export trade and the provision of capital for that trade became major props of gentry wealth, transforming the more prosperous

(13) Arthur Rosenbaum, "China's First Railway: The Imperial Railways of North China, 1880-1911," (Ph.D. Thesis, Yale University, 1971), pp. 353-63.

(14) Marie-Claire Bergere, "The Role of the Bourgeoisie," in *China in Revolution, The First Phase, 1900-1913* (New Haven, 1968), pp. 229-95.

gentry into "commercial capitalists."⁽¹⁵⁾ Investment in the modern sector, a natural by-product of gentry-merchant activity, included an explicit political component. Development of shipping, mining and especially railways was intended to preempt or limit foreign investment and facilitate the modernization of the province.⁽¹⁶⁾ The conviction that the management and profits of such economic ventures were solely the responsibility of the province promised much trouble for the centralizing bureaucrats in Peking and for foreign interests.

Peking was not totally unsympathetic to provincial aspirations to resist foreign encroachments and promote railways. In 1905 it still viewed foreign railway investment as a threat. Lacking its own investment capital, the central government made a serious attempt to accommodate the gentry-merchants and mobilize their wealth as an alternative to foreign loans. Throughout 1904 and 1905, for example, Chang Chih-tung and Sheng Hsuan-huai actively encouraged gentry-merchant schemes to undertake construction of the Canton-Hankow and Soochow-Hangchow-Ningpo railways.⁽¹⁷⁾

The Ministry of Posts and Communications' authorization of new provincial companies in 1906 and 1907 did not mean that the ministry was committed to the principle of private enterprise or provincial administration of railways. In fact, the ministry regarded private enterprise as a stop gap measure forced upon it by political pressure from the provinces, the financial weakness of the central government and fear of foreign encroachments. In May 1907, for example, Chang Chih-tung sought to find a workable compromise between the need for state control and financial dependence on private investment. Aware that many merchants feared nationalization, Chang urged the government to announce its intention to purchase fifty percent of merchant shares in a company thirty

(15) Nakamura Tadashi, "Shingai kakumei no shozentei-tokuni Konansho o chusi toshite," *Reikishi Gakku Kenkyu* (Studies in History), No. 188 (October, 1955), pp. 1-12; Carlton Lewis, "The Opening of Hunan: Reform and Revolution in a Chinese Province, 1895-1907," (Ph.D. Thesis, University of California, Berkeley, 1965), pp. 110-170.

(16) Joseph Esherick, *Reform and Revolution in China: The 1911 Revolution in Hunan and Hubei* (Berkeley, 1976), pp. 66-105.

(17) E-tu Zen Sun, *Chinese Railways and British Interests, 1898-1911* (New York, 1954), pp. 53-65.

years after it was in operation. Such a plan, he wrote, would facilitate the transfer of power to Peking while assuaging investor fears.⁽¹⁸⁾

The Ministry of Posts and Communications admitted that nationalization was the order of the day in Europe and Japan. However, it was premature to raise the issue when the government, lacking capital, had to choose between foreign loans and private investment. Raising the question would only dampen public enthusiasm.⁽¹⁹⁾

Despite its rejection of Chang's proposal, the ministry nonetheless served notice that it intended to expand its own sphere of operations while exercising greater supervision over private enterprise. The "Comprehensive Plan for a National Railway Network," issued by the ministry on August 21, 1907, set forth the respective spheres of private and state capital. The plan called for the development of four great trunk lines with extensions and branches extending into every province. "Rights recovery" and private companies would be encouraged in south and central China, where the existence of monied classes and commercially feasible lines offered some chance of success. However, the provinces were not given total freedom. Failure to meet government engineering standards and construction schedules would lead to a loss of charters. There also were vague allusions to the utilization of profits from private lines to assist the development of strategic lines in north China and along the frontier.⁽²⁰⁾

Meanwhile, the ministry was designing its own nationalistic program to increase the state's role in railway development: (1) it sought out foreign loans on a purely commercial basis for railways in strategic regions threatened by imperialism but lacking adequate financial resources: (2) it began to integrate the eleven state-owned railways, most of which had been or were being built with foreign loans, into an integrated network.

These programs were modest when contrasted to the ambitious schemes promoted by the provinces and were not necessarily incompatible with continued

(18) YCP, KH 33/36-37, YCP memorial, KH 33/4/9.

(19) Ibid.

(20) Ibid, KH 33/70-73, YCP memorial, KH 33/7/3.

support of provincial initiatives. However, the ministry saw them as laying the foundations for future initiatives. It assumed the state network would generate profits sufficient to liquidate outstanding foreign loans and simultaneously finance new construction. As the government network grew in size and importance, its revenues would displace foreign capital and private investment as the predominant source of railway investment. ⁽²¹⁾

The National Railways of China

In 1906 the state system rested on a narrow financial base. The I. R. N. C., and Peking-Hankow Railway were the only revenue producers. Five other railways — Peking-Kalgan, Shanghai-Nanking, Kaifeng-Loyang, Taokow-Chinghwa and Chengting-Taiyuan — were still under construction while work on three other lines had yet to begin. With the exception of the Peking-Kalgan Railway, the lines were falling behind schedule because of financial difficulties. As a result of a drop in the price of silver and unanticipated costs, loan funds for these foreign financed railways no longer covered the full cost of construction. In these trying circumstances Peking accepted the delays rather than seek supplementary loans which might increase the hold of the creditors. ⁽²²⁾

This policy was reversed in 1907 following a reassessment of railway finances, prompted in large measure by the Tls. 10,000,000 combined net profit after service of debt reported by the I. R. N. C. and Peking-Hankow Railway. The ministry proclaimed further delays in completing the state-owned system were economically countproductive because of fixed administrative and loan charges. It now believed "each day's delay in opening a railway to traffic means the loss of a day's revenue."⁽²³⁾ Thus began the search for new capital. In March 1907 the ministry proudly announced it had transferred \$1,600,000 from the Peking-Hankow Railway to the accounts of the Chengting-Taiyuan Railway and arranged a Fr. 16,000,000 loan to complete the Kaifeng-Loyang

(21) Ibid. Also KH 33/149-154, YCP memorial, KH33/12/24.

(22) Ibid, KH 33/149-154, YCP memorial, KH 33/12/24.

(23) Ibid.

Railway. ⁽²⁴⁾ A more detailed appraisal of the capital needs of the national railway system was submitted to the central government on January 17, 1908:

THE CAPITAL NEEDS OF THE NATIONAL SYSTEM IN 1908⁽²⁵⁾

Completion of construction		
Shanghai-Nanking	Tls.	934, 000
Chengting-Taiyuan		600, 000
Extensions of existing lines		
I. R. N. C., Hsinminting-Mukden		1, 050, 000
Shanghai-Nanking		380, 000
Peking-Kalgan		630, 000
Acceleration of construction		
Peking-Kalgan		1, 000, 000
Deficits on railways		
Taokow-Chinghua		155, 000
	Tls.	4, 749, 000

According to Liang Shih-i, head of the Chief Railway Bureau, the time had arrived for China to break its dependence on foreign capital. The ministry would appropriate another Tls. 2, 000, 000 from the profits of the I. R. N. C. and Peking-Hankow railway and arrange for a temporary loan of Tls. 1, 000, 000 from government banks. The remaining Tls. 1, 700, 000 would be covered by a domestic loan secured by the profits of the state system. The first two points, approved by the central government, were implemented without difficulty. But rather than accept the inevitable delays required for a domestic loan, the government decided to borrow Tls. 2, 000, 000 in short term loans from foreign banks. ⁽²⁶⁾

Under the guidance of the Chief Railway Bureau, the ministry rationalized operations, reduced external calls on railway revenues and increased net profits. Between 1907 and 1908 the ministry abolished exemptions and free passes to gov-

(24) Ibid, KH 33/17, YCP memorial, KH 33/1/27 and KH 33/152, YCP memorial, KH 33/12/24 for the Chengting-Taiyuan railway; KH 33/24-25, YCP memorial, KH 33/2/18 for the Kaifeng-Loyang railway.

(25) Ibid, KH 33/149-154, YCP memorial, KH 33/12/24.

(26) Ibid, KH 34/180, YCP memorial, KH 34/2/7; p. 213, YCP memorial, KH 34/5/29.

ernment agencies, replacing it with a tightly supervised system of discount.⁽²⁷⁾ New regulations governing railway taxes, issued on February 18, 1908, exempted all government railways built with foreign funds until their profits were sufficient to cover loan charges.⁽²⁸⁾ During the same period a campaign was launched to improve the quality of service and operations, including the introduction of new programs to attract additional business, reduce personnel and establish centralized budgetary control.⁽²⁹⁾

In addition, the ministry took official cognizance of the striking contrast between the large profits reported by the I. R. N. C. and Peking-Hankow Railway and the deficits of the other lines, most of which were too short and isolated to develop a sufficient volume of traffic. In late 1907 the ministry began to urge the transformation of isolated lines into major trunk lines supported by feeders and branches to improve performance. A report submitted on the Kaifeng-Loyang Railway concluded that its success was dependent on the rapid completion of the Loyang-Tungkuan and Tungkuang-Sian railways.⁽³⁰⁾ The Ministry's financial report for 1910 delivered a similar verdict with respect to the Shanghai-Nanking and Chengting-Taiyuan railways: additional branches and connecting lines were required to develop an adequate base of traffic.⁽³¹⁾ The financial success of the state railways as well as the modernization of the interior thus required early completion of connecting lines, many of which had been assigned to private companies. As it became clear that the private companies were not meeting their deadlines the ministry's impatience grew.

Due to the acceleration of new construction, rationalization of business operations and the performance of the Peking-Hankow railway and I. R. N. C. ,

(27) Ibid, KH 33/4a-5b, YCP memorial, KH 32/11/28; KH 34/310-13, YCP memorial, KH 34/12/5.

(28) Ibid, KH 34/155, YCP memorial, KH 34/1/17 and pp. 251-52, YCP memorial, KH 34/7/16.

(29) YCP-HP, HT 1/74-81, YCP memorial, HT 1/5/20. According to Liang Shih-i, implementation of these measures increased the revenues of the Peking-Hankow railway by \$700,000 in less than half a year.

(30) YCP, KH 33/70-73, YCP memorial, KH 33/7/13.

(31) YCP-HP, HT; /46-47, YCP memorial, HT 1/int. 2/8; p. 88, YCP memorial, HT 2/11/22; p. 82, YCP memorial, HT 2/11/22, p. 102, YCP memorial, HT 2/12.

the state system slowly climbed out of the red:

REVENUE ACCOUNTS OF GOVERNMENT RAILWAYS FOR 1909⁽³²⁾

Railway	Net operating profits	Net profits after service of loans
I. R. N. C.	\$7, 489, 000	\$5, 601, 000
Peking-Hankow	\$7, 200, 000	\$6, 340, 000
P'ing-Chu	\$ 181, 000	\$ 181, 000
Taokow-Chinghua	Tls. 84, 000	-Tls. 230, 000
Chengting-Taiyuan	\$ 626, 000	- \$ 301, 000
Kaifeng-Loyang	-Tls. 351, 000	-Tls. 1, 033, 000
Shanghai-Nanking	\$581, 000	- \$1, 081, 000

Although the profits obviously were inadequate to finance a national network, they did help to shape future policy. First, the government now had the funds to begin planning the construction of the Peking-Kalgan, Kalgan-Suiyuan and Kaifeng-Hsuchow railways, thereby confirming its belief in the possibility of a railway system that could finance future expansion from existing revenues.⁽³³⁾ Second, the net operating profits of \$16,000,000 indicated that railway loans were self-liquidating. It was now possible to argue the economic advantages of a strategy of foreign loans.

Rights Recovery: The Bureaucratic Model

The growth of Chinese nationalism coupled with the stabilization of diplomatic rivalries following the Russo-Japanese War brought an end to competition for spheres of influence. The powers joined together to secure mutual trade and economic benefits. There also was a new awareness of the need to establish a modus vivendi with Chinese nationalism, one which would facilitate new loans while preserving established rights.⁽³⁴⁾

(32) Ibid, HT 2/56, Peking-Hankow railway; HT 2/66-67, Chengting-Taiyuan railway; pp. 86, Taokow-Chinghua railway; p. 102, I. R. N. C.; HT 3/5-16, P'ing-Chu railway.

(33) Ibid, HT 2/1-3, YCP memorial, HT 2/2/8; HT 3/32a-b, YCP memorial, HT 3/3/28.

(34) As early as 1906 the British conceded the fact that insistence on unrestrained foreign control of Chinese railways would lead to strong Chinese resistance. Since that might delay completion of railways needed to open the interior to British trade, the British were ready to make concessions on the terms of loan agreements and even the nationality of the creditors. FO 405/166, No. 158, Desp. 177, Satow to Grey, April 16, 1906; Desp. 260, Grey to Jordan, August 7, 1906.

At first Peking saw little difference between the new and old imperialism. Efforts to secure the abrogation of preliminary contracts for the Soochow-Hangchow-Ningpo and Canton-Kowloon railways, desired by the government and demanded by the provinces, were successfully rebuffed by the British. Instead Peking was forced to content itself with substantial revisions in its favor. In time Peking came to see the wisdom of accepting the legitimacy of preliminary agreements while demanding improved terms that would eliminate all restrictions on Chinese rights. On January 13, 1908, Chang Chih-tung secured British and German consent to an agreement for the Tientsin-Pukou Railway loan that separated powers of control from the financial transaction.⁽³⁵⁾ The Ministry of Posts and Communications immediately seized on the loan as proof it was possible to employ foreign capital without endangering Chinese sovereignty.

The ministry's program went beyond the immediate goal of moderating foreign demands in new loans and included the idea of rights recovery. It regarded the Tientsin-Pukou terms - especially the subordination of the foreign staff to Chinese direction - as a model to be applied retroactively to existing agreements. In 1908 the ministry completed its preparations to redeem the Peking-Hankow Railway. Unable to locate domestic funds to repay the loan, it floated a new loan which eliminated the costly profit sharing clause and returned administrative control to Chinese hands.⁽³⁶⁾ In a less dramatic fashion the ministry adroitly undercut the powers of the foreign staff on the I. R. N. C. and effectively subordinated it to Chinese management. It was, in the words of one British banker, "a serious surrender of the position conferred on the Corporation by the loan agreement."⁽³⁷⁾

By 1909 the basic objectives of the ministry were being achieved. Seven railways were completed and combined net profits after loan and service

(35) Sun, *Chinese Railways*, pp. 129-137.

(36) *Ibid*, pp. 137-141.

(37) FO 228/2292, Encl. in No. 58, Hillier to Addis, October 21, 1909.

charges amounted to \$5,000,000, most of which was ear-marked for the construction of new lines. Funds were placed in reserve for the redemption of other loan agreements, especially those granting the creditors a share of profits. With the return on investment approaching 8 to 10 percent and the most objectionable clauses deleted from new agreements, the ministry was convinced of the value of foreign loans. It also believed its record in administering the state railways entitled it to a more active role in regulating provincial railway companies. The progressive revelation of the inadequacies of provincial management merely provided an additional stimulation. As far as the ministry was concerned, there no longer was any reason to support private enterprise.

Toward Nationalization

On January 21, 1908, the ministry formally reprimanded the provinces of Hunan and Hupei for failing to meet their quota for share capital. The Kwangtung Railway Company, more successful in its fund raising but torn by internal dissension, was ordered to place its house in order. Unless satisfactory progress was made towards completion of construction within three years, warned the ministry, it would "investigate which provinces are procrastinating and together with the governor-general and governors of those provinces devise other means for raising funds and building the lines."⁽³⁸⁾

Much the same tack was adopted by the throne in an imperial edict of June 27. The edict drew an unflattering comparison between the success of government managed railways and the overwhelming inertia of private companies, which uncharitably were described as "an obstacle to communications." It ordered the ministry to launch a full scale investigation of provincial companies and assume direct control of those failing to meet deadlines.⁽³⁹⁾ Less than one month later the throne named Chang Chih-tung as director-general of the Kwangtung, Hunan and Hupei railway companies (i. e. the Canton-Hankow Railway). Shortly thereafter Chang was authorized to negotiate a foreign loan

⁽³⁸⁾ YCP, KH 33/134a-b, YCP memorial, KH 33/12/18.

⁽³⁹⁾ *Ibid.*, KH 34/6/3.

for the line.⁽⁴⁰⁾ Meanwhile the ministry dispatched investigating teams to the provinces to check on the progress of all private companies.

Reports submitted by these teams provided the empirical data to support the ministry's contention that private enterprise was not a workable solution. The following table provides a rough summary of the financial condition of major railway companies as reported to the ministry in 1909 and 1910:⁽⁴¹⁾

CAPITAL ASSETS OF PRIVATE RAILWAY COMPANIES, 1909-1910

Company	Date	Estimated Cost	Funds Raised
Szechwan	1909	Tls. 30, 000, 000 ^a	Tls. 8, 810, 000
Hupei	1909	Tls. 30, 000, 000 ^b	\$658, 000
Kiangsi	1909	Tls. 4, 500, 000	Tls. 1, 810, 000
Anhwei	1909	Tls. 4, 500, 000	Tls. 890, 000
Lo-T'ung	1909	\$ 16, 000, 000	\$300, 000
Hsi-T'ung	1909	?	\$600, 000
T'ung-P'u	1909	?	Tls. 227, 000
Fukien	1910	\$8, 000, 000	\$5, 534, 000
(3 lines)			Tls. 1, 370, 000
Hunan	1910	Tls. 33, 000, 000	Tls. 3, 856, 000
Hupei	1910	Tls. 76, 000, 000	\$964, 000

a I-chan-Wan section, first of three

b Only for the portion of the Hankow-Szechwan railway passing through Hupei

Although the private companies professed to be making good progress, they were well short of their projected quotas. Provincial administration added to the problems. It did little good for Kwangtung and Szechwan to proceed with construction when it was obvious that Hupei and Hunan were unable to provide the connecting links. Moreover, a large portion of the funds did not come from share capital voluntarily subscribed, but derived from surtaxes imposed by provincial assemblies. Only Kwangtung and the already completed Shanghai-

(40) Sun, *Chinese Railways*, p. 99.

(41) YCP-HP, HT 1/16b for Szechwan; 17a for Hupei, p. 50-51, for Kiangsi and Anhwei; 61-62a for Hsi-T'ung; 84-85 for T'ung-P'u; 62-63 for Lo-T'ung; HT 2/13-14b for Fukien; HT 2/62-63 for Hupei and Hunan.

Hangchow-Ningpo Railway relied exclusively on private investment.⁽⁴²⁾

Even before the results of the survey were in, Chang Chih-tung concluded a massive loan for the Canton-Hankow and Hankow-Szechwan trunk lines. Although the preliminary agreement was signed on June 6, 1909, the loan remained in limbo while the powers quarreled over their shares of the loan.⁽⁴³⁾ When the powers were ready to act in mid-1910, the Ministry of Posts and Communications suddenly sought to delay ratification for fear of provincial reactions. However, the upper echelons of the ministry remained intellectually committed to a strategy of foreign loans. Their official organ, the *Chiao-t'ung kuan-pao* (Communications Gazette) began an editorial campaign in favor of loans. One editorial claimed the minimum of 13,000 miles of rail required by China would cost another Tls. 400,000,000. Even if China could raise this sum, it would absorb capital needed for industry and commerce.⁽⁴⁴⁾ Another estimate set future expenditures at Tls. 1,300,000,000 and concluded the entire wealth of the nation was insufficient to build a national system without outside help.⁽⁴⁵⁾

Although the individual provinces tacitly acknowledged the failure of private investment by increasing surtaxes to support railways, they organized strong protests against the use of foreign loans in their local areas. The ministry's response was uneven, a clear sign that political considerations weighed heavily on its mind. In the fall of 1909 it transferred control of the Canton-Hankow Railway and the Hupei section of the Szechwan-Hankow Railway from the ailing Chang to the ministry. But as E-tu Zen Sun has shown, it backed away from committing itself to the abolition of private companies: "Not only was the Hupei Railway Company established with the Board's sanction, but two months later it also gave encouragement to the railway company of Hunan province."⁽⁴⁶⁾

(42) YCTK, Ch. 18/31-38, Sheng memorial, HT 3/8.

(43) Sun, *Chinese Railways*, pp. 98-116.

(44) *Chiao-t'ung kuan-pao*, No. 7 (HT 1/12), pp. 2a-4a.

(45) *Ibid.*, No. 19 (HT 2/7), pp. 1-3a.

(46) Sun, *Chinese Railways*, p. 116.

Whatever concessions it made to public opinion, the ministry was noticeably unhappy with the growing utilization of local taxes to support private companies. On August 5, 1910, responding to allegations that foreigners were investing in Kiangsu's company, the ministry again spelled out its view of the role of private railway:

"We note that the main purpose of private management is to use the excess strength of the merchants to make good the government's insufficiencies. Stock should be purely mercantile and should not involve local public funds, let alone foreign loans.⁽⁴⁷⁾

Reading between the lines, one senses a deep-seated fear that the provinces were usurping its functions and delaying implementation of its programs. Nor could the ministry ignore the fact that provincial ability to squeeze funds from the countryside was based on provincial fears of central government policy.

Despite desperate attempts by the provinces to accelerate construction, the Ministry of Posts and Communications remained skeptical. By 1911 only three companies could report adequate progress in their fund raising: Fukien (\$8,000,000), Kwangtung (Tls. 14,000,000) and Szechwan (Tls. 14,600,000), yet both Kwangtung and Szechwan had raised less than half of the required capital. Hunan, which brought its share capital up to Tls. 5,000,000 was far from its assigned quota of Tls. 33,000,000 and Hupei had less than one-seventieth of the necessary capital.⁽⁴⁸⁾

Construction also lagged. Kwangtung had laid only 66 miles of track while Szechwan and Hunan had yet to open a single mile to traffic. Moreover, the quality of management was appallingly poor. The Kwangtung railway cost an incredible \$41,000 per li, twice the average of government lines, although work was shoddy and already in need of repairs.⁽⁴⁹⁾ The quality of work was higher in Szechwan, but a local agent had embezzled over Tls. 3,000,000.⁽⁵⁰⁾

(47) YCP-HP, HT 2/46a-b, YCP memorial, HT 2/7/1.

(48) YCTK, Ch. 18/31-38, Sheng memorial, HT 3/8.

(49) Edward Rhoads, *China's Republic Revolution, The Case of Kwangtung, 1895-1913* (Cambridge, 1975), p. 207.

(50) YCP-HP, HT 3/60-66, YCP memorial, HT 3/5/21; Ch'üan, "T'ieh-lu kuo-yu," pp. 216-8. Other estimates for Kwangtung's railway go as high as \$65,000 per li.

On September 24, 1910 the ministry took a major step towards nationalization. It declared railways to be of special concern to the nation and thus excluded from the types of firms protected by commercial law from government interference. It additionally claimed the right to abolish any company and insisted on approving all changes in the directorate of a private company. The Chekiang railway was denounced for failing to comply with an order to dismiss its head.⁽⁵¹⁾

As the Ministry of Posts and Communications hesitantly edged towards a policy of nationalization and foreign loans, the theoretical basis of its policies were gaining a degree of acceptance. Growing numbers of officials agreed that railway development was essential to avert fiscal disaster and the physical extinction of the nation (*wang-kuo*). In frontier regions such as Manchuria and Yunnan, Hsi-liang and Chao Er-hsun warned of the need to consolidate China's position before the powers moved.⁽⁵²⁾ Railways also were seen as a prerequisite to solving China's fiscal problems, especially the Tls. 40,000,000 deficit in the national budget. Impressed by the accomplishments of the state network, Jui-cheng, Tuan-fang and Hsi-liang called for new and massive foreign railway loans. If the loans were applied to productive purposes, wrote Hsi-liang, they would solve China's transport problems, stimulate industrialization and generate sufficient income to repay foreign debts and subsidize government operations.⁽⁵³⁾ Although the most vocal supporters of foreign financed railways were non-Han or officials serving in frontier regions, these assumptions were generally shared by much of the imperial bureaucracy.

There also is evidence which suggests that non-bureaucratic reformers - and revolutionaries - who had been active in promoting private railways intellec-

(51) YCP-HP, HT 2/58a-b, YCP memorial, HT 2/8/21. The ministry also concluded that Kwangtung was incapable of resolving its internal disputes without "effective supervision." See HT 2/47-51, YCP memorial, HT 2/7/1.

(52) Ch'i, "Lun Ch'ing-mo," p. 56; Hsi-laing, *Hsi-liang i-kao* (Post humous works of Hsi-liang) (Peking, 1959), pp. 1204-06; YCTK, Ch. 79/4, Chao to Sheng, HT 3/int. 6/12.

(53) *Ibid.* For Jui-cheng's statement that he had supported nationalization, see YCTK, Ch. 77/11a, Jui-cheng to Sheng, H/T 34/19.

tually accepted many of the ministry's arguments. Conservative constitutionalists such as Chang Chien, T'ang Shou-chien and Cheng Hsiao-hsu, once strong advocates of private management, now led the attack on provincial mismanagement of railways.⁽⁵⁴⁾ A substantial portion of the shareholders in Szechwan, Kiangsu and Kwangtung apparently were prepared to entertain nationalization provided there was adequate compensation.⁽⁵⁵⁾ Even the revolutionary camp contained supporters of international borrowing, although not under the aegis of the Ch'ing. Chan Ta-pei, a veteran member of the T'ung-meng-hui, argued it was appropriate for railways to come under state ownership but not while the Manchus ruled. Sun Yat-sen eagerly proclaimed the need for foreign loans once the Manchus fell from power.⁽⁵⁶⁾

But intellectual acceptance of a principle does not automatically mean political support for a government program based on that principle. Lingering doubts that the alien Manchu dynasty was sincere in its willingness to defend Chinese rights made it difficult for the ministry to convince many that the loans were not a sell-out to foreign interests. Questions of provincial solidarity and constitutional powers were as important as the issue of national sovereignty. As Chang P'eng-yuan has shown, events in late 1910 and early 1911 convinced most reformers that nothing could be gained by cooperation with the court. Already stunned by the rejection of the third petition for immediate summoning of a parliament, they were appalled to find the long awaited cabinet was dominated by princes of the royal blood and non-Han officials.⁽⁵⁷⁾

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- (54) Samuel Chu, *Reformer in Modern China: Chang Chien, 1853-1926*, (New York, 1965), p. 69; Ch'i, "Lun Ch'ing-mo," p. 58.
- (55) Chou Shan-p'ei, *Hsin-hai Ssu-ch'uan cheng-lu ch'in-li-chi*, (My personal reminiscences of the 1911 railway controversy in Szechwan) (Chungking, 1957), pp. 6-7. The evidence is less clear in Canton where shareholders repeatedly voted against nationalization. However, merchant shares had been selling well below 40 percent of their issuing price. According to government sources, sentiment initially favored acceptance of the government offer. But shareholders were swayed by the powerful presentation of the case against nationalization made by Huang Ching-t'arg. See YCTK, Ch. 77/29b-30b, Chang to Sheng, HT3/5/11.
- (56) Howard Boorman, *Biographical Dictionary of Republican China* (New York, 1967), Vol. 1, pp. 9-10; Sun Yat-sen, *Kuo-fu ch'üan-chi* (Collected works of Sun Yat-sen) (Taipei, 1961), Vol. 3, pp. 65-66.
- (57) Chang P'eng-yuan, *Li-hsien-p'ai yü Hsin-hai ko-ming* (The Constitutionalists and the Revolution of 1911) (Taipei, 1969), pp. 62-127.

In most provinces, leaders of the provincial railways and rights recovery movement were members of the new urban elite active in the constitutional movement. (58) The movement for provincial railways had been an integral part of their attempt to secure a larger role for themselves in the new political order and were symbols of provincial pride and provincial nationalism. While a number of the constitutionalists and revolutionaries may have harbored private-doubts about the effectiveness of provincial railways - T'ang Hua-ling in Hupei had to be persuaded to act by Chan Ta-pei - they felt betrayed and outraged by the court's obvious intention to act without the approval of the provincial assemblies or National Assembly. Nor for that matter were they prepared to see control of provincial assets pass into the hands of central government which had shown itself indifferent to the wishes of the nonbureaucratic elite in the provinces. Ultimately only Chang Chien's faction of the constitutionalists, won over by the promised reduction in the preparatory period for establishing a constitutional government, openly supported nationalization and foreign loans. Elsewhere, the provinces sent delegation after delegation to Peking to protest the impending nationalization.

Nationalization

Throughout its brief existence, the Ministry of Posts and Communications had been dominated by the Communications Clique, a group of officials affiliated with Yuan Shih-k'ai and, in 1910, headed by Liang Shih-i. (59) Despite the rapid turnover in personnel within the ministry, the doctrinal basis and pre-conditions for nationalization had been laid down by this core group. Liang and his supporters were alert to the political dangers inherent in nationalization and the Hukwang loan, a fact which was reflected in the ministry's decision in the spring of 1910 to give the provincial companies a final opportunity to

(58) *Ibid*, pp. 105-120. The Hsien-yu-hui (Friends of the Constitution), the militant wing of the constitutionalists led by T'an, T'ang and P'u, insisted that its support of foreign loans was contingent on the introduction of constitutional government by the court.

(59) Stephen Mackinnon, "Liang Shih-i and the Communications Clique," *Journal of Asian Studies*, Vol. 29. No. 3 (May 1970), pp. 581-602.

prove themselves, although it is clear that they expected the companies to fail.

Liang's caution also was apparent in his approach to the Hukwang loan. In October 1910 representatives of France, Britain, German and the U. S. began to press the Chinese Foreign Ministry for immediate ratification of the loan. Both the Foreign Ministry and Liang Shih-i were reluctant to tackle the question. F. E. Wilkenson, British Consul in Chengtu sensibly observed it was foolish to press the issue when the government lacked the force to compel acceptance of its orders.⁽⁶⁰⁾ E. G. Hillier, chief British negotiator, warned that the existence of constitutional bodies created a situation which had not existed when the preliminary agreement had been signed. To facilitate acceptance of the loan, he urged the deletion of a branch line from Ching-men to Hanyang, which had been granted to the Hupei Railway Company.⁽⁶¹⁾ Aware that the provinces regarded provisions for foreign supervision of construction and the assignment of provincial revenues as security as unacceptable, Liang sought substantial revisions. Yet despite the obvious political consequences to the Ch'ing, the powers insisted on strict adherence to the original terms, yielding only on the question of the branch line.

In January 1911, Liang Shih-i and the Communications Clique were removed from office. To a large extent, Liang's dismissal was the result of factional intrigues headed by his arch rival, Sheng Hsuan-huai, who was backed by court nobles hostile to Yuan Shih-k'ai's bureaucratic allies. Although Sheng's views of the loan and of the need to nationalize the railways were not markedly different from those of Liang, he had two serious liabilities: a reputation for personal corruption and a consistent lack of foresight when appraising possible reactions to government policies.⁽⁶²⁾

(60) FO 405/205, Encl. in No. 120, Wilkinson to Jordan, September 5, 1911.

(61) FO 405/206, Encl. In No. 11, Hillier to Addis, January 11, 1911; Encl. in No. 25, March 10, 1911.

(62) Shen, "Sheng Hsuan-huai, Liang Shih-i," pp. 94-95. The Manchu nobles disliked Liang because of his association with Yuan Shih-k'ai and the refusal of the Communication's Clique to support a naval loan secured on the revenues of the railway system. Sheng was anxious to seek revenge for Liang's role in ousting him from power in 1905.

Sheng initially sought the same revisions in the loan agreement that Liang had advocated, but he was unable and unwilling to hold out. Although the powers were partly responsible for forcing his hand, the truth of the matter was that Sheng owed his position to Manchu nobles such as Tsai-tse and Tsai-feng who were determined to see the loan go through. Their interest in railways probably was motivated by a crass desire to make railways the basis for royal finance and free themselves from constitutional bodies such as the National Assembly and Liaison Office of the Provincial Assemblies, which then were pressing for the right to supervise the national budget.⁽⁶³⁾ A nationalized railway system would provide not only revenues but also assets for administrative and military loans to strengthen Manchu power. An outrageous proposal to float a naval loan on the revenues of the state system, made in late 1910, provides a striking illustration of the nature of Manchu interest in railways.⁽⁶⁴⁾

As initially formulated by the Ministry of Posts and Communications in 1909, the doctrine of state management and foreign loans paradoxically proposed to promote rights recovery and develop national strength by seeking out more foreign capital. Under the best of circumstances it would have been difficult to sell to the public. When administered by Sheng and the Manchus, nationalization came to be seen as another ploy of the court to free itself from constitutional restrictions.

Furthermore the court may deliberately have sought a showdown with the provinces on the question of nationalization. At the very minimum, individuals who had just committed the unbelievable folly of naming a cabinet totally unacceptable to the bulk of the population were in no mood to consider possible compromises. Tuan-fang, Jui-cheng and Sheng Hsuan-huai, the men most responsible for administering the program, generally counselled firmness in dealing with the provinces. Provincial officials who urged moderation and

(63) Ch'i, "Lun Ch'ing-mo," pp. 57-58; for examples of the constitutionalists' attempts to secure control of the budget, see Chang, *Li-hsien-p'ai*, pp. 65-76.

(64) Jerome Ch'en, *Yuan Shih-k'ai, 1859-1916: Judas Assumes the Purple* (Stanford, 1961), pp. 107-108.

compromise, and they were in the majority, were bluntly ordered to insure provincial compliance.⁽⁶⁵⁾ According to Prince Ch'ing, the central government intended to carry out its policy "at all costs. If the provinces were to have their own way, there was an end of the Emperor's authority."⁽⁶⁶⁾

The court's intransigence or naive confidence was reflected in its failure to satisfy provincial demands for full compensation. A few feeble attempts were made to win public support. Taxes levied to support provincial railways in Szechwan and Hunan were cancelled, branch lines were reserved for provincial management and the government consistently pointed to alleged improvements over the preliminary agreement.⁽⁶⁷⁾ However, all these paled before Peking's stubborn refusal to provide cash compensation without discounting shares.

In general, the provinces were asked to accept 6 percent interest bearing bonds which also entitled the holder to a share of future railway profits. Merchant shares could be redeemed for cash, but usually at a substantial discount in order to put pressure on shareholders to accept government bonds as compensation. In Kwangtung, for example, shareholders would obtain 60 percent of par value in cash and the remainder in non-interest bearing bonds because the line had squandered half its capital through mismanagement.⁽⁶⁸⁾ The provinces of Hunan and Hupei could exchange merchant shares for cash at par, but to do so they would forfeit rights to interest bearing bonds for half the shares purchased from provincial taxes.⁽⁶⁹⁾ Instead, all three provinces were encouraged

(65) YCTK, Ch. 77-85 in passim. The governors of Hunan (Yang Wen-ting) and Szechwan (Wang Wen-jen) were vocal opponents of government policy, partly because they were intimidated by public opinion. Chang Ming-Ch'i, governor of Kwangtung, banned public meetings but urged Sheng to be more generous in indemnifying Cantonese shareholders. For a classic example of government blindness to public sentiment, see Jui-cheng and Tuan-fang's denunciation of Szechwan authorities for permitting youth and revolutionaries to incite riot and opposition to governmental policy. YCTK, Ch. 79/27b-29a, HT 3/int. 6/24.

(66) FO 405/207, No. 23, Jordan to Grey, September 5, 1911.

(67) YCTK, Ch. 77/9a-b, Sheng to Chang, HT 3/4/19; 24a, Sheng to Wang, HT 3/5/5.

(68) *Ibid.* Ch. 77/9a-b, Sheng to Chang, HT 3/4/19; Ch. 78/7a-9a, Sheng to Chang, HT 3/5/26. Sheng's offer was higher than the current market value of the shares, but still fell short of expectations.

(69) YCTK, Ch. 79.18b-20a, Jui-cheng to Sheng, HT 3/int. 6/22.

to accept interest bearing government bonds which would be allocated on the basis of the book value of the line. Szechwan, which had raised all its money through provincial levies, was appalled to discover the government did not intend to return its Tls. 7,000,000 in cash reserves - naturally they would be covered by interest bearing bonds - nor would it indemnify the Tls. 3,000,000 embezzled by its Shanghai agent. ⁽⁷⁰⁾

Sheng's scheme thus required provincial shareholders to accept heavy losses, either by receiving government bonds of questionable value or heavily discounted cash payments. The financial situation was most serious in Szechwan and Kwangtung. In all fairness, it must be admitted the central government was in a difficult position. Full cash payment meant Peking would have to absorb Tls. 10,000,000 losses incurred by provincial companies and accept a new foreign loan to make possible cash payment. As Sheng pointed out, such a loan entailing more foreign supervision and the assignment of additional provincial revenues as security was unacceptable to the provinces. ⁽⁷¹⁾

Yet when Sheng heatedly insisted the government plan was equitable and eventually would allow the shareholders to recoup their losses by obtaining a share of future railway profits, he was ignoring the fact that few Chinese had any faith in those bonds. Canton merchants properly questioned the market value of bonds redeemable in fifteen annual payments starting in 1916. They even had the audacity to ask whether the central government had the resources to meet its financial obligations to the bondholders. ⁽⁷²⁾

The Anti-Nationalization Movement

A detailed analysis of the provincial response to the government's announcement of nationalization is beyond the scope of this study, but a few comments

(70) Ch'üan, "T'ieh-lu kuo-yu," pp. 214-16.

(71) YCTK, Ch. 77/24a, Sheng to Wang, HT 3/5/5.

(72) *Ibid.*, Ch. 78/7a-9, Sheng to Chang, HT 3/5/25; 3b, Chang to Sheng, HT 3/5/18. In 1908 efforts to float a domestic loan with bonds bearing 7 percent interest and a share of 25 percent of the revenues of the Peking-Hankow railway - terms more generous than those offered in 1911 - were a complete fiasco. See YCP, KH 34/267-67, YCP memorial, KH 34/9/12; YCP-HP, HT 2/92b, YCP memorial on railway accounts for 1909.

are necessary to provide a perspective on popular reaction to the ministry's policies. It has been argued that fear of financial loss was the major motivation behind the movement to protect provincial railways.⁽⁷³⁾ This view is correct only in the sense that the government indemnification proposals eliminated any economic incentive to comply with its edict. Without such incentives provincial hostility to the extension of centralized control and foreign loans into the provinces readily came to the fore. There also was a direct correlation between the intensity of provincial opposition and the losses anticipated under the indemnification schemes.

In Szechwan, ultimately the site of the most violent opposition, the first meeting of the shareholders revealed a surprising willingness to consider the merits of the government offer. Sentiment was equally divided between those favoring and opposed to acceptance. Proponents argued the railway was beyond the capacity of the province and it was best to relieve the taxpayers of all responsibility. Opponents, while more optimistic about the future prospects for a private railway, merely requested deferring action until the full details were known.⁽⁷⁴⁾ One day later Cheng Hsiao-k'o, a leading member of the constitutional party, published an article supporting nationalization. However, this reservoir of good will was predicated on the assumption the government would provide cash payment in full. It also came before the text of the foreign loan had been published.⁽⁷⁵⁾

Even while Szechwan waited for details there were ominous signs of a brewing constitutional and political storm. Various organizations were formed to discuss railway policy, including the "Protect the Railway Association" (*Pao-*

(73) This is the main thesis of Ch'uan Han-sheng. While he is probably correct in relating the level of hostility to anticipated financial losses, the attitudes of provincial officials also was critical. A more determined stand by the Szechwanese officials might have prevented the emergence of a militant opposition. According to Chou Shang-p'ei as late as mid-June the railway's managers were prepared to turn over their files to the government. Only after Chou, the official responsible for supervising the takeover, suggested they refuse did the managers consider defiance of the government. Chou, *Hsin-hai Ssu-ch'uan*, pp. 15-20.

(74) YCTK, Ch. 77/27a-28a, Wang to Sheng, HT 3/5/7; Chou, *Hsin-hai Ssu-ch'uan*, pp. 7-8.

(75) Chou, *Hsin-hai Ssu-ch'uan*, pp. 7-8.

lu t'ung-chih-hui). Shareholders and provincial officials also insisted the foreign loan and edict calling for nationalization were invalid until ratified by the provincial assemblies and/or the National Assembly. ⁽⁷⁶⁾

Once the details of the indemnification scheme reached Chengtu, all support for nationalization vanished. The "Protect the Railway Association" was transformed into a militant party agitating for provincial management (*pao-lu*) and protection of Szechwanese funds (*pao-kuan*). In a highly politicized atmosphere, attention was focused on the alleged illegality of the government's actions. Moreover, people began to discover specific objections to the loan agreement -- especially the provisions for foreign supervision of provincial revenues and construction. Both were deemed to be an infringement of Szechwan's sovereign rights. Cries "the railway is lost; Szechwan is lost!" echoed through the streets during highly emotional meetings in June. ⁽⁷⁷⁾

Protests against government attempts to seize the company's books led to a general strike in Chengtu in August. When after two weeks the new governor-general, acting on orders from Peking, arrested the gentry leaders of the strike, the population moved from passive to active resistance. ⁽⁷⁸⁾

In Kwangtung the shareholders also showed an early interest in accepting the government's offer. However, the charismatic appearance of Huang Ching-t'ang, a former official of the company, turned the tide. Instead the shareholders reaffirmed their preference for the continuation of provincial management. ⁽⁷⁹⁾ Unlike Szechwan, where local officials gave open encouragement to the anti-nationalization movement during the first months, the governor-general of Kwangtung instituted a strict ban on unauthorized meetings. Nonetheless, he continued to urge Peking to be more generous in providing compensation for Kwangtung. ⁽⁸⁰⁾ And recognizing that much of Kwangtung's opposition

(76) *Ibid.*, p. 8.

(77) *Ibid.*, pp. 8-38, Ch'üan, "T'ieh-lu kuo-yu," pp. 230-46.

(78) *Ibid.*

(79) Rhoads, *China's Republican Revolution*, pp. 207-09.

(80) YCTK, Ch. 78/2b, HT 3/5/18. Chang even proposed to borrow from foreign banks so that he could repay in cash.

was to the idea of a foreign loan, he bluntly warned against using the proceeds of the loan to redeem merchant shares. "Otherwise, traitorous people will more easily use 'Oppose the loan; protect the railways' as a pretext to oppose nationalization itself."⁽⁸¹⁾

Even in a province which had little to lose financially, popular sentiment turned strongly against the loan. Although they had raised only Tls. 5,000,000 for railways, the Hunan elite had organized to protect the railway movements as early as 1909 when the preliminary loan agreement was signed. The powerful and very radical provincial assembly quickly made opposition to the foreign loan a major plank in its program.⁽⁸²⁾ As was true elsewhere, nationalization and the foreign loans radicalized the nonbureaucratic elite and public, which believed that Peking had violated the constitutional rights of the province in order to curry favor with foreign interests. Revolutionaries and reformers drew together to plan common strategy. Less than five days after nationalization of Hunan's railway and five days before the publication of the loan agreement, the governor was warning of a possible insurrection. Despite the governor's willingness to support the protest movement, tensions remained high. Massive meetings drew ten thousand participants. In June students went out on strike and a majority of the provincial assembly resigned, making it impossible to conduct business.⁽⁸³⁾

Nationalization of railways completed the alienation of the constitutionalists from the dynasty. In Szechwan, Hunan, Kwangtung and Hupei, "protect the railway movements" found revolutionaries and constitutionalists working together on an individual or organizational basis. Frequently this went beyond mere protest and involved mobilization of the populace in demonstrations and strikes. Equally ominous was the fact that provincial officials in Szechwan,

(81) Ibid, Ch. 81/23b-24a, Chang to Sheng, HT 3/7/15. Translation taken from Rhoads, *China's Republican Revolution*, p. 208.

(82) Esherick, *Reform and Revolution*, pp. 165-170. YCTK, Ch. 77/7a-b, Yang to Sheng, HT 3/4/17; 12a-b, Yang to Sheng, HT 3/4/22.

Hunan and Kwangtung refused to use their prestige or power to enforce the court's wishes. Only the strongest urgings from the court, Sheng and Manchus such as Tuan-fang and Jui-Ch'eng prevented outright defection.

Conclusions

Much of the literature on government policy with respect to nationalization of railways has focused on the factional differences between the Communications Clique and Sheng Hsuan-huai and on the desire of the Manchu nobility to control railway revenues. In fact, those differences were limited to tactical differences over timing, indemnification and government response to popular opposition. As this study has sought to demonstrate, the bureaucratic administrators of China's railway system shared a common perspective which was based partly on technical and financial considerations and partly on the desire of the bureaucratic elite to recover control from the nonbureaucratic elite.

The financial requirements of railway construction and the fiscal realities of China always had convinced railway planners that railways were a special case. Many, if not most, of the themes that emerged in government documents in 1910 and 1911 were not new. Arguments that railways were of special concern to the nation, that self-liquidating foreign loans negotiated and administered by the government were the only financial solution, and that private investment was inefficient and should be supported only to make good insufficiencies of government capital had been voiced in the period 1895 to 1898.

However, the technical arguments in favor of nationalization and foreign loans assumed a new significance after 1906 because they became part of a broader conflict between competing strategies of anti-imperialism, modernization, political mobilization and constitutional arrangements. The Ministry of Posts and Communications, despite changes in its leading personnel, equated industrialization and national power with railway development and bureaucratic centralization. Believing that it was able to control foreign capital, the ministry did not share provincial fears that new foreign loans would lead to partition. To the contrary, the real threat to China's survival was the internal weakness

of the nation, a condition which was prompted in part by the absence of a modern railway system. Foreign loans thus became the favored means of solving problems created by China's chronic underinvestment and lack of an economic infrastructure. And only centralized state management would eliminate the interminable delays caused by the incompetence of the nonbureaucratic elites running the provincial companies and their irrational fears of foreign capital.

Furthermore, the financial, administrative and military arguments advanced on behalf of railway nationalization made sense only if one assumed the central government could and should be strengthened. Bureaucratic arguments about the need for greater efficiency in running railways invariably implied criticism of the behavior of the nonbureaucratic elite, not only as managers of railways but also as obscurantists who used constitutional government and provincial sentiments to block rational centralization administration. When the ministry's program became associated in the public mind with the interests of royal absolutism, as it did irrevocably after Sheng's accession to power, there no longer was any hope that it would be peacefully accepted. By mid-1911, nationalization was being cited in the press as final proof that an alien dynasty was trampling on the rights of the Chinese people. For some it was the failure to submit the issue to the proper constitutional bodies, for others the foreign loan or the indemnification plan or Peking's interference in provincial matters.

The Ministry of Posts and Communications program did not collapse because provincial interest groups still believed that private enterprise was the best way to build railways/nor because the ministry's arguments on behalf of state management and foreign loans were wrong. It collapsed because the country no longer trusted the Manchu dynasty and its central administrative organs to administer programs on behalf of the Chinese people. Under these circumstances, a program based on bureaucratic centralization and bureaucratic mobilization was doomed to fail.

Public opinion was not blind to the government's argument that China could not afford to finance railways on its own nor did it deny that private railway

companies were badly mismanaged. As we have seen, provincial officials, constitutional reformers and even revolutionaries were not necessarily opposed to loan agreements which not entail foreign supervision or control. The actions of provincial assemblies in voting subsidies to railway companies suggests a willingness to accept bureaucratic management, although only at the provincial level and under the supervision of provincial assemblies.

To a large extent, popular opposition to nationalization was an outgrowth of a more general distrust of the motives of the central government. The Ministry of Posts and Communications had assumed that its record in promoting rights recovery not only justified its contention that foreign capital could be introduced without danger, but also that it was acting in the interests of the nation. However it was Peking's failure to abrogate various international loan agreements, not the redemption of the Peking-Hankow Railway or a shift in powers of an engineer-in-chief of the I. R. N. C. that attracted public attention. Even credit for the construction of the Peking-Kalgan railway from the profits of the I. R. N. C., the ministry's model for future development, went to its brilliant engineer and not the policies that made it possible. In short, the provinces were not convinced that the central government and Manchus were committed to anti-imperialism.

