

Joint Venture in China: The Experience of the Peking Syndicate, 1897-1961

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The Peking Syndicate Ltd, as initially conceived and incorporated in 1897 was a financial venture designed to obtain concessions from China and to promote these, as and when obtained, in the form of separate companies. Angelo Luzzatti, the Syndicate's agent, was uniquely successful in his negotiations with the Shansi and Honan provincial authorities; he obtained the coal and iron mining rights with a related railroad concession covering an area of 21,000 square miles [6]. Figures in the range of 900,000 million tons of coal were estimated with expected annual profits of £750,000--and yet in its 65 years as the Peking Syndicate the company paid but one half-year's dividend--in 1936 [1, 8].

All had been procedurally correct. The terms were duly agreed by the governors, subsequently authorized by Imperial edict, supported by the influential Viceroy Li Hung-chang, ratified by the Tsungli Yamen (the Chinese equivalent of a foreign ministry), and registered with the British Legation in Peking. As the Syndicate's Agent General in China would later argue, "Could legalization be more definite, more solid, or fixed by a higher mandate than this?" [2, FO 371/26, f. 189].

As the terms of the concessions prevented their alienation, the Peking Syndicate became perforce an industrial company with an appropriate increase in capital.² The subsequent history of the Syndicate is complex.

¹This essay is part of my longer study of the Peking Syndicate; the project is administered by the Centre of Asian Studies, University of Hong Kong.

²In consequence, the capital of the Peking Syndicate became: Authorized, £1,540,000 in 1,500,000 "Shansi" shares and 39,900 ordinary shares of £1, and 2,000 deferred shares of 1s; issued, £942,559 in 36,100 ordinary shares of £1 fully paid, 2,000 deferred shares of 1s fully paid, and 906,359 Shansi shares fully paid. Shansi shares were issued to finance both the Shansi and Honan concessions. The company's paid-up capital was written down in 1937 (from £1.54 million to £828,548) and again in 1956; in 1961 it lost its historical identity to become the Anglo-Continental Investment & Finance Co. Ltd. [1]

This essay will focus on the history of the two concessions, the Syndicate's only significant direct investment in China.³

Development and Disappointment, The Concessions Under the Original Agreements, 1898-1914

Unfortunately the Syndicate was forced to delay its initial plans for the exploitation of its concessions: the Boxer Uprising in 1900 and subsequent flooding in the mines and other technical problems delayed production until 1905, by which time local opposition based on the principles of "rights recovery" and fuelled by returned students as supplemented by the desire of the new "gentry," that is of merchant--as opposed to traditional scholar-gentry--to mine the minerals themselves, made the concessions inoperable in notoriously anti-foreign Shansi and manageable in neighboring Honan only after major revisions.

The agreements contained a clause making actual mining subject to a permit for each site; the permit was to be issued by the governor *provided local conditions remained suitable* [6, Art. 1]. Thus the justification for refusal appeared to frightened Manchu governors as self-evident; granting a permit would lead they claimed--correctly as it turned out--to revolution. The Syndicate, supported by the British Minister, Sir John Jordan, unsympathetically stressed that part of the article which called on the governors to issue permits without "any delay."

In the several years of discussions which followed, the Peking authorities, under pressure to honor agreements duly authorized and registered--but with which they no longer necessarily agreed--proved unable to force their demands on the provinces. Typically, the Tsungli Yamen urged renegotiating and compromise in circumstances rendered more complex by the fact that the agreements were in two languages, the translations were contested, and neither version had been designated official [2, FO 371/26, f. 192].

As for the provinces, and especially Shansi, they tested virtually every apparent defect in the agreements. The shallowness of their arguments indicated the fact that the post-Boxer Shansi provincial authorities, reflecting articulate public opinion, would under no circumstances sanction the development of mineral resources by foreigners. Indeed, the authorities in cooperation with the gentry took specific steps to block the Syndicate's activities [3; 5, pp. 68-69]. The Syndicate was advised to accept the inevitable; in 1908 Shansi, in what the gentry considered an unwarranted gesture, reluctantly agreed to redemption as opposed to abrogation, the amount, Taels 2.75 million (approximately £350,000), which satisfied neither party, being intended as a reflection of direct costs, not as a compensation for rights forgone.

³The Syndicate's railroad, the 90-mile Honan Railway, was sold to the Chinese in return for bonds--the £800,000, 5% Honan Railway (Gold) Loan of 1905 [4, vol. II, p. 244].

The concession approach had proved unacceptable, but the joint-venture alternative, although consistent with one interpretation of the 1898 agreements, was not considered.⁴ Relative to developments in Shansi, the Syndicate had progressed further with its Honan developments at the Ja-mei-sen [Jamieson] Collieries, Chiaotso, and was seen to have a stronger case; consequently the outcome of the controversies which began in 1907 was less absolute. One mining permit actually was granted. Subsequent renegotiations focused on the specific additional areas (if any) for which an operational permit would be granted and such vital marketing issues as freight rates and availability of cars on the Syndicate-built and managed but, since 1905, Chinese-owned Honan railroad. The Syndicate's demand for a second mining area within the concession eventually precipitated a crisis which led to the creation in 1915 of a joint-venture marketing operation, the Fu Chung Corporation. In the process the Pekin Syndicate accepted various restrictions as the cost of gaining permission, not specifically referred to in the original agreement, to actually sell the coal mined.

The dislocations of the 1911 revolution were a further complication.⁵ In response to the general civil unrest, the Syndicate requested military protection from the Legation; in the event President Yuan Shih-k'ai authorized the dispatch of Chinese troops at the Legation's request.

Fu Chung: Joint Venture Marketing in Honan, 1915-27

The Pekin Syndicate's inability to exploit its concessions was not unique; in the years leading up to the 1911 revolution foreign syndicates in Yunnan, Anhui, and Szechuan were similarly unsuccessful. The British-owned Chinese Mining and Engineering Corporation found themselves in a controversy which was resolved by the formation of a joint marketing organization with the neighboring and rival Chinese Lanchow Company mines. The resulting Kailan Mining Administration provided the model; in 1914 the Pekin Syndicate, having founded its own marketing organization in 1911, agreed to participate on a 51:49 basis with its rival Chung Yuan Company in the Fu [=Pekin Syndicate] Chung Corporation, founded in 1915 with a nominal capital of \$1 million.

The Board of the Fu Chung was composed of three directors from each party, an elected chairman was granted a casting vote. The chairman for the first ten-year period would be a Syndicate director, perhaps a veiled

⁴In the 1905-1914 negotiations neither side seems to have considered either the implications or the possibilities of the joint-venture approach. No reference in the promotional material issued in London or in the presentations of the chairman seems to have been made to this possible path to Chinese ownership.

⁵Military use of the railroad interfered with marketing; as for the 1905 Honan Railway Loan, the Chinese failed to pay interest on schedule and eventually defaulted.

threat that the Syndicate should not anticipate success beyond this period. There were to be joint managers and additional finance was to be raised by debentures, thus providing an avenue for further Syndicate investment.

Accompanying the articles relative to Fu Chung was an agreement with the Honan authorities, sanctioned by both the British Legation and the Foreign Ministry, covering such outstanding problems as mining permits, freight rates, local sales of coal, and railroad extensions. This involved a virtually complete renegotiating of the original, including, *inter alia*, tax rates, responsibilities, length of tenure.

After the signing, all that was left of the Syndicate's vast concessions were approximately 10,000 acres, but it was land that included a permit to mine. Only coal was referred to; despite previous understandings, the right to mine or smelt iron ore had been forgotten, the petroleum rights lost with the Shansi concession.

It would be fair to say that, given the unsettled political situation, the competing foreign pressures (especially Japanese), and the latent local distrust of foreigners, the 1915 arrangements worked reasonably well (but without increase in the joint- or Syndicate-areas to be mined) until politically motivated strikes in 1925 and the consequences of the anti-foreign movement provoked by the 1926 Shanghai Incident. By 1924 Fu Chung had "built up one of the most influential and extensive trading concerns in China." It was disposing of 6,000 tons daily and paid \$2.5 million for rail transport in that year alone [2, FO 371/18128, ff. 326-27].

Despite the spirit of the 1915 agreements, the provincial government withheld permits for new shafts; the Syndicate's temporary loans to placate the provincial authorities in Kaifeng, including one of £34,000 equivalent, would eventually prove inadequate; the presence of revolutionary forces, the Kuominchun [People's Army], and the administration of warlord Feng Y-hsiang forced the evacuation of the foreign staff in 1927, resulting in the closure and consequent flooding of the Syndicate's mines for a period of some five years.

Fu Chung: Destruction and Obstruction, 1927-33

The establishment of a central government in Nanking did not bring political peace to Honan, which would instead witness the final struggles between Feng and Chiang Kai-shek, between the "northern coalition" and Nanking. The latter was not even in apparent control until late 1930. Thus, the return of foreign employees to the Chiaotso mines in 1929 did not in itself mean a return to the cooperation intended in the Fu Chung agreement. The local Chinese gentry even petitioned that the Syndicate had abrogated the agreement by withdrawing its staff and abandoning the region [2, FO 371/15465, ff. 87-88]. Consequently, it was with difficulty that the Syndicate obtained permission even to drain its mines. In 1932 permission was granted to mine and sell coal, although the Chinese soon were to pretend that this had been limited to quantities sufficient to meet running expenses.

The evacuation of Feng's Kuominchun in 1930 had left no power capable of providing protection. The Chinese manager of the restored

Chung Yuan Company was also the banker underwriting provincial operations, possibly including opium, and his influence was seen as pervasive. Initial promises of Kuomintang appointees after the withdrawal of Marshal Feng were favorable, but they fell down in execution. Joint committees were organized but never met. Elements hostile to the Syndicate regained power, and there were charges and counter-charges, threats of troop action (which came close to blackmail and had to be bought off), seizures of mining property and of the Honan railroad.

The Pekin Syndicate eventually succumbed once again to the argument that accommodation could be bought. The solution was to refinance the joint operation through a reorganization of Fu Chung; in May 1933 the chairman, Walter S. Nathan, who was then on a fact finding mission in China, requested, virtually without warning, that the London Board provide funds in excess of \$2 million. The Board reluctantly agreed; the joint-venture administration, in an atmosphere of threats and recrimination, was in June 1933 reestablished and refinanced, but with a Chinese majority--hence the change in order of the name from Fu Chung to Chung Fu.

Chung Fu: Disappointment, Renegotiating, and Success, 1933-38

As a joint-venture company with a nominal Chinese majority equity, the Chung Fu Joint Mining Administration admitted itself subject to general Chinese commercial and mining laws, with the Chinese text of the agreement binding--the irritant of extrality had been removed. The new agreement also required joint working not only of marketing operations but also of the two companies' mines [2, FO 371/17098, ff. 515-18].

As neglect and exploitation in the warlord period had damaged both the Chinese and the Syndicate's mines, the Syndicate's manager in China and the visiting Board Chairman agreed to refinancing through a \$3 million overdraft facility, granted by the Pekin Syndicate's banking subsidiary, the Anglo-Chinese Finance and Trade Corporation, as a necessary risk if the agreed reorganization and the anticipated change in local attitudes were to be achieved [2, FO 371/17098, ff. 519-19a]. The hope was that the hypothecation of the Chung Fu's assets to the Syndicate in consequence of the financial offering would give the Syndicate a degree of control within the now Chinese-dominated, but bitterly divided joint administration through the establishment of a "control" office in Shanghai.

Furthermore, the decision to reorganize the joint venture appeared to have been made in a favorable political climate. The Nanking authorities had been made aware of the Syndicate's problems and sympathetic in the context of their call for foreign investment and the fate of the Anglo/French/Belgian interests in the Syndicate's mines could be a test of Chinese sincerity. The Syndicate had made itself highly visible; this would prove an important asset.

Once again national policy would prove difficult to implement in politically complex Honan. The British minister questioned the probability of success and a junior foreign office official minuted, "The Syndicate will probably find itself in a worse position than it was in before" [2, FO

371/17098, f. 507]. Furthermore the Syndicate's agent-general in China, was, unknown to the Board, too ill with angina to operate effectively, nor was there cooperation at the top. By December 1933 a series of cables to London indicated something was drastically wrong at Chiaotso. The promised reorganization (including rationalization) had not taken place. On the contrary, the new administration had quickly become burdened with political appointees with no relevant function. The overdraft facility had been made available before reform had even commenced; consequently funds were drawn down without results while the security, stocks of coal at the pitheads, turned out either to be worthless dust and/or to have disappeared.

In desperation the Syndicate's Chairman, then still in China, proposed the immediate repayment of the overdraft and recommended abandonment of the enterprise, expenditure on which (less the value of coal sold) totalled £864,000 at the end of 1933 for a company with total footings of £1.95 million (including nonperforming China loans of at least £400,000) [1]. Instead, he was induced to resign, the ailing Porter retired, and a new chairman, Brigadier General Charles R. Woodroffe, with a background as mining manager of the joint-venture Kailan Administration, was sent out to determine the crisis.

At the 1934 general meeting, the presiding director, Sir Osmond Goldsmid, commented, "It had not been possible to make our Chinese associates understand what cooperation really involved, or to make them appreciate that the profits of the Joint Administration would inure to their benefit as well as our own" [1; 2, FO 371/18128, ff. 350-51].

Woodroffe determined that the position in Honan could not be improved except by direct appeal to the highest Chinese and foreign political levels. Even this seemed for a time to be fruitless; Chiang Kai-shek's direct instructions to his close colleague, Liu Chih, the sympathetic governor of Honan, produced only temporary results. An investigative team subsequently despatched from Nanking appeared to be powerless and it seemed that the Syndicate's mines might have to be abandoned after all.

This judgment proved premature. The team, including Chang Ching-wu, the provincial Commissioner of Reconstruction, had indeed disappeared but just as suddenly returned--with martial law and 2,000 troops to enforce it. Within weeks Woodroffe was able to report triumphantly to his London office on the dismissal of the board of Chung Yuan Company, the abolition of the labor unions, the dismissal of some 2,500 redundant employees and political appointees, the collection of debts outstanding, and the arrest of key trouble makers.

Even then Chiang's chief troubleshooter, Chang, despite (or rather because of) initial successes, had to return suddenly to the provincial capital and resume his duties; "face" was involved. Chiang, however, replaced him with the noted geologist Weng Wen-hao, whom he had predetermined should complete the reorganization [9].

The immediate consequence of this intervention was a return to profitability through increased output, decreased production costs, more efficient marketing, and a solution to the railroad freight rate problem. In 1936 Chung Fu produced a peak 1.31 million tons; the Board felt able to

declare its first (and only) dividend [1; 10, pp. 200-01]. That this was not possible in subsequent years was, of course, the fault of the Sino-Japanese War; the threat of Nationalist abandonment of the Province had led to the removal of the machinery in the heroic evacuation back to west China. In 1938 there would follow the forced evacuation of the foreign staff under the Japanese-puppet regime in Peking, the renewed expressions of local hostility to the Syndicate, and a reopening by the provincial puppet authorities of virtually all previously outstanding issues [2, FO 371/23408, f. 248, 384-88, and 342 for 11 unnumbered pages]. Intervention by British diplomatic missions in Peking and Tokyo proved totally ineffective [2, FO 676/452; FO 371/24671, ff. 233-34].

The Syndicate and Chung Fu, Post-1937

Woodroffe had correctly assumed that the Nationalist government could not afford to let the Syndicate abandon its major investment, but even he could not have anticipated the extent of the support he would receive. The support seems to have been at least partly due to the personal assessment Chiang made of Woodroffe as brigadier; it was also due to the appointment of Weng Wen-hao as senior administrator of Chung Fu and the apparently close relationship he developed with the Syndicate's new agent-general, A.J. Bell.

The Peking Syndicate had become a "model company," a showpiece of Kuomintang foreign investment policy. And the Syndicate responded. This, reinforced by personal connections, resulted in the assignment by Weng, then Director of the National Resources Commission, of the management on commission of China's valuable wolfram exports [2, FO 371/23495, ff. 74-75]. Subsequently the Syndicate was made responsible, again by Weng, this time as Minister of Economic Affairs, for handling certain Chinese purchases under wartime British credits, despite protests from such long-established firms as Jardine Matheson [2, FO 371/35751, F4253].

Moreover the Chung Fu Mining Administration "amalgamation" agreement as amended in 1935 was modified in April 1940 by an increase in capital to \$4 million; at the same time the Chinese government took shares in the Chung Yuan Company, which thereby became "semi-official." The new agreement confirmed the long-standing arrangements relative to the Honan mines and extended the period of operation for sixty years from 1940 [2, FO 676/452]. Behind these moves was the specific need for joint ventures with mining companies in Hunan and Szechuan provinces. The operations, however, were undercapitalized, and overall the dividends paid by the joint ventures to the Peking Syndicate were barely in excess of current expenses in inflation-ridden Chungking. The Szechuan investments contributed little and postwar the focus was again on the Honan mines.

By 1946 the Syndicate's mines were in territory controlled by the Chinese Communist Party. A team from Chung Fu visited the area and reported they had been well received; a Foreign Office minute noted, however, the picture of Communist administration in North Honan is reassuring, except for the fact that, after [the team's] departure from Chiaotso, various Chinese who had contacted [the team] appear to have

been summarily executed!" [2, FO 371/53597, F12020]. An interview with Chou En-lai was unrewarding and a post-Liberation report from the Syndicate's Chinese manager was negative [2, FO 371/75933; FO 371/83496]. The Syndicate's China operations were at an end.

Commentary

The Chinese have been extravagantly praised for their commercial integrity, but the references are almost inevitably to business with merchants conducted through compradores [4, vol I, p. 601]. The Syndicate, however, had agreements correctly negotiated with the "responsible authorities" and, although they provided specific benefits for China's resources, revenues, and educational system, they also contained a provision which unexpectedly rendered all other provisions liable to renegotiating. Furthermore they were not complete; they did not cover comprehensively such problems as railroad concessions, freight rates, marketing arrangements. These were seen as logical developments to be negotiated later in good faith. The omissions would prove fatal.

Nor can it be argued that the Syndicate failed to conduct themselves correctly. There was no lack of China expertise; throughout its history at least one member of the Board was a China expert. Furthermore, the Syndicate received diplomatic support not only from the British legation but also, in view of the shareholding pattern, from the French and Belgian.

The Syndicate succeeded only when its high political profile threatened China's attempts to secure foreign investment. Then supporting troops were assigned to the mining area; the Chung-Fu Company would be an example of success, a "model" joint venture; the Syndicate would receive other commercial benefits in the gift of government.

All this highlighted the general problem. Formal agreements, either as originally signed or as subsequently renegotiated, were never "final." Except when key leaders were willing to dispatch special troops, the central authorities proved unable to enforce their policy relative to foreign direct investment; nor could the central authorities afford to dispatch troops to protect a multitude of such direct investments.

In China there must be full and consistent support both within all ranks of the central government and at the local level--regardless of overall national policy as declared by the leader; the presence of foreigners responsible for dealings with Chinese in an economically competitive situation is potentially contentious. If the leader's policy changes or determination wavers, the foreign venture, regardless of agreements, is in danger. But as this was as well-known in 1897 as it should have been in 1979, why then would even the most adventuresome adventurer proceed?

As Jim Mann has written in his story of a 1980s joint-venture, *Beijing Jeep*, "The historical cycle in Western attitudes toward China--of romance giving way to disillusionment and fear--is so firmly established that it may never be broken. The chances are that businessmen, like others in the West, may follow along the same circular path again and again" [7, p. 309]. Indeed it is only a slight exaggeration to say that the history of the Peking Syndicate's mining concessions will seem a rewrite of the Beijing Jeep story

with amended dates. Deng Xiaoping's rescue of the Peking [Beijing] joint venture, for example, has much in common with Chiang's dramatic gestures to Chung Fu.

Thus 1887 and 1979 were the respective dates of two of China's periodic "openings." Western observers, having asserted the necessity of Chinese modernization, were anxious to move immediately when China's willingness to modernize was thought to have been observed. There were concession hunters in the years between China's 1894 defeat by Japan and the 100 Days Reform of 1898; there were corporate vice-presidents in Hong Kong during the 1960s and 70s who justified their expensive existence throughout the Mao years by anticipating the Deng policy of the early 1980s. In both 1887 and 1979 the Chinese indeed had real intentions of modernizing, but with reservations. Whereas the provincial authorities who signed with Luzzatti never intended to turn over their main mineral resources entirely to foreigners, there is evidence that they wanted, or thought they wanted, foreign investment and assistance. But whatever the situation in 1897, it changed in the immediate post-Boxer years. Similarly Deng too wanted modernization, but by 1989 it had become apparent that the political costs of the joint venture approach were too high.

China has from time to time been willing to accept foreign finance. Financial support can be fit into the Chinese system, but not always with results which permit repayment. Direct investment with consequent foreign supervision has never been well received and has been criticized in such terms as "imperialism," "violation of sovereign rights," "interference in internal affairs," or, more recently, the introduction of "bourgeois liberalism."

Just as the Beijing Jeep company continues after Tiananmen, so the Peking Syndicate persisted in its efforts despite frequent setbacks. The very unreasonableness of the Chinese opposition seemed to argue for perseverance; a new governor, a modernizing post-revolutionary regime, the long standing commercial integrity of the Chinese, China's need to attract foreign investment--all or any of these would again bring about the once-promised favorable policy. And indeed there were "breakthroughs." But then yet another unexpected barrier would be raised. (Or, more poetically, "Hills peep o'er hills, and Alps on Alps arise!")

In the 1930s the Syndicate continued its own "rights recovery" struggle; the alternative was loss of virtually its entire capital. Diplomatic pressure continued to be applied but with an ever increasing sense of realism; the central government edicts had occasional effect, but analysis would suggest that several of the much heralded successes were in effect merely delays. One stage would be conceded and, in an atmosphere of friendly receptions, promises of necessary next steps accepted without serious reserve. The actual negotiating advances were in fact only recognition of rights which were properly the Syndicate's without negotiation--and were often accompanied by the payment of additional taxes, the *de facto* financing of Chinese rivals, or loans to the railroad or government--in addition to unspecified contributions to ease daily operations.

In the end it was a combination of central government priorities (new foreign investment needs) and *personal relations* backed by force which provided the Syndicate with its only years of profitable operation. The role

of Weng Wen-hao, a geologist of world repute turned competent government minister, must have been key throughout. Yet even in the active Chung Fu years the Syndicate saw the new spirit of cooperation bought at the cost of fully joint operations and lost payments of interest and principal on fully acknowledged loans. In truth, the Chinese did not easily make net cash payments. Where the Syndicate was in fact reimbursed it was offset against disputed Chinese tax claims; where debt reseriving was agreed it was against the promise or reality of new advances.

As the Pekin Syndicate had other indirect interests, it had greater potential in China than as the operator of coal mines. Behind the struggle to retain the mines lay the dream of a limitless China market--the driving force, as one Foreign Office official noted in the margin, for so many who ventured (and who still venture) into China. It is true that the Syndicate's history is but one case study, but it contains incidents of wider interest particularly relevant to those who today consider China and its vast potential. There have been many attempts to "change China;" this has been the story of one such effort.

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