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The Boxer Indemnity—'Nothing but Bad'[1]

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There was nothing unusual in an indemnity *per se*. Indeed, an indemnity could be seen as a forward step in European civilization, replacing the regime of indiscriminate plunder which preceded it—although it could equally be argued that in their pacification of north China following the razing of the Siege of the Legations in 1900 the Allies, through their looting of the Tientsin and Peking areas in disregard of recently agreed definitions, had acquired both indemnity *and* plunder.[2] Indeed the chaos was such that among the first financial and contradictory consequences of the post-Boxer period was Sir Robert Hart's successful arrangement with the Hongkong and Shanghai Banking Corporation of a loan of Ts10,000 a month for the chief Chinese negotiator, Prince Ch'ing [I-K'uang], on the one hand, while in Shansi the Protestant Church refused to accept any indemnity for the Christian lives lost; consequently the authorities voluntarily agreed to establish a University on Western lines, to be maintained by the authorities, and to operate under joint control for ten years at the annual cost of Ts 50,000.[3]

[1] Sir Robert Hart, Inspector-General of the Chinese Imperial Maritime Customs, to James Duncan Campbell (1833–1907), Hart's London manager, referring to both the gold nature of the indemnity and to its size: 'The future looks very dark indeed and I fear nothing but bad will result.' Postscript to letter 3068, dated 17 July 1902, in *Confidential Correspondence between Robert Hart and James Duncan Campbell, 1874–1907*, Chen Xiafei and Han Rongfang, chief eds (Beijing: Foreign Languages Press, 1993), III. This paper was originally designed for the conference on the Boxer Uprising, held in SOAS in 2001, and rightly considered the indemnity as a 'heritage of the Boxer Uprising'.

[2] E.g., James L. Hevia, 'Plundering Beijing, 1900–1', or as Robert Collins, correspondent for the Associated Press, who witnessed the events, cabled New York, 'the forces of civilized Powers were engaged in an unbelievable plundering of the region.' This essay is written with memories of an old man wasting away in a Southampton nursing home and of a little boy who sat with him.

[3] Prince Ch'ing (I-K'uang or Yi Kuang) referred to in Sir Robert Hart to J. C. Campbell, letter 2897 dated 12 September 1900, in *Confidential Correspondence*, III, 502. The loan was arranged, on the recommendation of Hart, with J. K. Tweed of the

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The indemnity set by the victors following the Boxer Uprising and the relief of the Peking legations had peculiar features, including complexity, a self-defeating economic impact, a continuing diplomatic and political nuisance value, and unexpected innovations which would create confusion and paradox. Negotiations relative to the Indemnity continued into the immediate post World War II period and ended only with the establishment of the People's Republic in 1949.

The specifics of indemnity payment problems have been authoritatively covered by Wright and Cubbon in their official study of customs revenues.[4] This paper provides examples of these specifics in order to rationalize and categorize their history. Not all Hart's determination could prevent the almost fifty-year history of arcane negotiations and abrasive diplomatic annoyances which affected so many aspects of relations between the several Powers and China. Payments consequent to an indemnity set in anger had still to be managed when memories of atrocities had faded and other priorities should have taken precedence, noting especially China's policy of rights recovery with which the Powers were nominally and from time to time in sympathy.

Sir Robert Hart played a role throughout the initial stages. Before there could be consideration of an indemnity as recompense for the 'outrages' during the Boxer Uprising, the Powers had to agree that China would not be divided between them and that its imperial Ch'ing [Qing] government should be considered sovereign. From this it followed that retribution would take the usual form of an indemnity, with this peculiar feature: China was obviously unable to pay any sum likely to be demanded or even to service any open market loan taken in consequence. On the sovereignty decision, Hart's immediate initial contacts with all parties and his influential essays collected as *These from the land of Sinim* were key to a temperate conclusion; his efforts to minimize China's economic burden, that is, the amount of the indemnity, were unsuccessful, although he was able to assist China

Hongkong Bank, see Frank H. H. King, *The History of The Hongkong and Shanghai Banking Corporation* (Cambridge: Cambridge University Press, 1988), II, 317; for the Shansi story, see 'Boxerism, retribution', in Samuel Couling, *Encyclopaedia Sinica* (Shanghai: Kelly and Walsh, 1917), p. 63. The Hongkong Bank is today a wholly owned subsidiary of the London-based HSBC Holdings, plc. All companies of this holding company or group now trade under the name 'HSBC'.

[4] Stanley F. Wright, *China's Customs Revenue since the Revolution of 1911*. Revised and enlarged with the assistance of John H. Cubbon, China: Maritime Customs, II Special Series No. 41, Shanghai 1935. See esp. pp. 169–230.

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even in this extremity by his continued advocacy of tariff reform and through the role played by the Maritime Customs in the collection of duties.[5]

Although the history of the Indemnity is best told in a roughly chronological sequence, the types of problem created can be categorized: first, as noted, the undue size determined in anger and mitigated at leisure over the next thirty-five years; secondly, the method of payment including discussion of the very meaning of the unit in which the Indemnity was denominated; thirdly, the uses and control of the remitted portions; and, fourthly, the capitalization of expected income flows through new loans for doubtful purposes and the consequent by-passing of the international controls through which China's credit-worthiness was to be preserved. Each of these dominated, with overlaps, particular periods in China's post-Boxer history, thus enabling a return to the chronological approach.

The Indemnity, the Customs, and Hart's heritage[6]

An observer in, say, 1911 surveying the role of the Maritime Customs could claim, not without reasons, it had become primarily a debt collection agency for foreign creditors.

The Foreign Inspectorate of the Chinese Maritime Customs was and remained a department of the Chinese Government, but after the imposition of the Boxer Indemnity Chinese perception of that body quite naturally changed. The Inspectorate itself had changed. The hopes that Hart entertained for its role in the modernization of China had virtually ended. Unfairly, Hart's role as disinterested adviser became tainted in retrospect.

A change had indeed occurred. How this came about could not have been foreseen. How a service which did so much to regularize at least one major aspect of imperial China's muddled tax system could become *de facto* the collector of funds to pay international loans arising from war indemnities is an unhappy story. Although many factors and events were involved, it was the Boxer Indemnity which tipped the

[5] *These from the Land of Sinim, Essays on the Chinese Question* (London, 1901 and 2nd impression with additional chapter 1903). For an account of Hart's role in the early post-Boxer negotiations, see my essay 'Sealing the mouth of outrage' in this collection.

[6] This section is taken from my paper 'Robert Hart and China', presented at the Hart Workshop, The Queen's University, Belfast, 27 September 2003.

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balance. While this does not touch Hart's intentions or integrity, the change and the role of the indemnity need to be studied if criticism of Hart's customs service and indeed of Hart himself is to be understood.

Certainly in the mid-nineteenth century provincial officials were in need of temporary funding, usually for non-productive purposes, and they learned that borrowing domestically was not always possible. But borrowing from foreigners could involve the provincial governor in the complexities of the Treaty System, thus drawing the attention of the imperial government in Peking. The financial demands of major internal disturbances and the Sino-French conflict of 1874 were sufficient to force the Chinese to consider issuing public loans through the agency of foreign banks, primarily the Hongkong and Shanghai Banking Corporation. Potential subscribers to such loans either knew nothing of China's resources or, on the other hand, knew too much. In both cases the question of security arose, and the Customs revenues appeared an obvious answer. Since Hart did not allow his local commissioners on their own authority to pledge local port revenues as security in foreign loan agreements, his approval had to be obtained. But Hart acted only on instructions from the Tsungli Yamen, the imperial government's foreign affairs bureau. Consequently, Chinese provincial authorities had first to obtain imperial approval in Peking. Then, with the appropriate edict issued and communicated to Hart through the Chinese authorities, the foreign inspectorate could take note of and act upon the security arrangements.

This relatively protracted procedure would enable the merits of the loan to be more carefully examined. In this way China could preserve its credit-worthiness while confirming that Customs revenues would be offered as security only with central government approval. Hart indeed hoped for more. At the least he wished for the Inspectorate-General to become a clearing house for China's foreign borrowing; beyond that he hoped to be in charge of negotiations. Neither expectation was fulfilled; only in 1894 were the negotiations in his hands, and then but briefly.

That the customs revenues were to play such a key role in foreign borrowing was at first glance surprising. As Hart argued, an imperial edict made the loan a sovereign risk loan, the resources of the Empire were pledged. However, foreigners did not know what those resources were or how to obtain them in case of default. The revenue from the Maritime Customs on the other hand was clearly defined and accurately reported by the foreign inspectorate.

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Logical as all this may seem, there was a flaw. The foreign inspectorate did not actually handle the revenues, not at least in Hart's lifetime. Nor were loans *secured* on the customs revenues necessarily *repaid* from customs revenues. The foreign inspectorate's and Hart's actual interference in the process of debt servicing was minimal and politically tolerable.

Until China faced the need to finance the first Sino-Japanese War and the subsequent Indemnity, the fact that customs revenues were not limitless did not seem relevant. For the Indemnity China faced borrowings of £32 million; the largest previous loan had been some £3 million. This was at a time when silver, the standard for China's currency, was depreciating (16% between 1896 and 1898). When the smaller loans were totalled and the potential burden of the new borrowing considered, security for the loans had to be formalized. The first step was to list the loans in order of priority of payment, an obvious necessity but one which focused international attention on the foreign inspectorate.

In 1895 Russia, Germany, and, of course, France not only demanded the right to become agents for a major indemnity loan (in view of their role in convincing Japan to retrocede China's Liaotung Peninsula) but also insisted on international control of the Maritime Customs. Britain successfully intervened. The service remained Chinese.

But Hart was, over his strong objections, undermined by the British Government, which, firstly, insisted that Hart's successor should also be British so long as British trade with China predominated, and, secondly, that the structure and management of the Customs service should remain unchanged during the 36-year life of a particularly large, projected loan, to be issued and subscribed to in London. These provisions, accepted by China, made it impossible for the Powers to force the internationalization of the Customs without Britain's agreement. On the other hand, the provisions prevented China from exercising sovereign control, although when in 1905 an Imperial Edict did make a potentially significant change in the status of the service, the foreigners questioned and argued, but they were, in any practical sense, powerless.[7]

The Customs, through its role in providing security for foreign loans, was becoming in stages, a debt collection agency. First, the revenue liabilities were formalized, secondly they were hypothecated

[7] See Frank H. H. King, *The Hongkong Bank in the Period of Imperialism and War 1895–1918, The History of the Hongkong and Shanghai Banking Corporation*, II, 349–50.

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and, finally, in 1911 after Hart's death, and with the collapse of the Customs Banks, the Foreign Inspectorate actually collected the revenue itself, depositing it initially with the Hongkong Bank, in accordance with recommendations from the Chinese Finance Minister. Earlier, and given the pressure to ensure debt repayment, the Chinese Government instructed Hart to take responsibility for the supervision of the native customs service in several ports. The creation of a Salt Gabelle with foreign direction seemed but a further development of an Imperialist plot. Certainly, as stated before, the Customs remained a department of the Chinese government, most obviously so after the 1905 edict, but parallel with its role in debt collection was the increase in foreign influence both on Hart's successors and on the Chinese government. The routine operations and their attendant benefits continued much as before, but at higher levels there were changes in relationships which reflected the strains resulting from the demands of the Boxer indemnity.

Defining the Indemnity

Amounts and interpretations

The Boxer Indemnity was embodied in a Protocol agreed on 7 September 1901, following months of heated negotiations among the representatives of the Powers.[8] That a unified demand was in the end found acceptable to all the Powers was a positive factor. The actual amount, Haikwan [Customs] Taels 450 million was at least twice that considered a maximum by Hart, who was caught by surprise. They were totals which, except for the British submission, seem not to have been verified as legitimate claims. And as China could neither pay the sum from its Treasury nor hope to raise a silver loan for this amount, their need to face the international loan market or to obtain an advance from each of the Powers would involve an exchange risk which China would have to bear and what would in turn result in a statement of this tael amount in gold at a fixed exchange rate. Since the Powers acknowledged China's inability to borrow in the market, they indeed, as Hart had advocated, advanced the sum required against Chinese

[8] For the text of this and any agreement (through 1919) referred to in this paper, see *Treaties and Agreements with and concerning China, 1894–1919*, ed. John V. A. MacMurray (New York, 1921), 2 vols.

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government bonds at the rate of three shillings sterling for each tael or £67.5 million, thus confirming that the Indemnity advance was a gold obligation. Each Power was to determine the allocation of their particular share, taking into account the claims of their own nationals. The total sum, however, would prove to be in excess of actual proven claims and expenses, thus providing an argument for subsequent remission.

This essay, therefore, is not so much about the Boxer Indemnity, which was met immediately by an advance from the Allies to China, as it is about the Boxer Indemnity *advance* by which the Indemnity was initially paid. Thus the question of whether China could pay the Indemnity is extended to determine whether China could in fact repay the advance on the terms stipulated. One might argue that China was never put fully to the test. The first payments were for interest only; secondly before the level of annual payments could reach their maximum, the question of remission was under consideration; thirdly, with war and revolution German and Russian portions, constituting some 50% of the total, were cancelled, while payments to the Allied Powers were in temporary suspense. But the remainder created problems enough.

And one should note that, whatever criticism might be made of the Indemnity advance and its terms, this mode of disposing of the Indemnity was infinitely more satisfactory to China than the suggested alternatives of a public loan guaranteed by China with its necessarily higher real interest rate, or yet advances by governments negotiated separately, which would have subjected China to pressures from particular powers with particular although unrelated demands, as the course of negotiations for the 1904 MacKay treaty was to prove. The open market method had been used in the case of the Japanese Indemnity; payment was made with the proceeds of public loans issued by banks which, in most cases, had national political support and hence, in the event of default, political danger for China.

Once the question of China's borrowing on the open market had been resolved in the negative, there followed a brief discussion as to whether, as Hart implied, the indemnity should be accepted as payable in instalments or whether the delay in payment could only be explained as a loan. Acceptance of the former concept might have led to the conclusion that as no loan were involved there was no question of interest. If, however, the 'delayed' payments were seen as repayment of an indemnity advance or loan from the Powers to China, then it was very likely that interest would be charged—as was indeed to be the

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case. [Indemnity advance is quite reasonably referred to simply as the Boxer Indemnity and the term 'Indemnity' in this paper should be so understood.]

The Powers actually recognized that indeed China could not repay, certainly not from available revenues of the Imperial Maritime Customs. Therefore they agreed that administration of certain native customs would be undertaken by the IMC and, more importantly, that China's import duties, over which China itself had lost autonomy (another point of irritation), should be increased some 5% *ad valorem*, thus increasing revenue sufficiently—even before other sources of revenue developed with the hoped for improvement of the economy—for payments to be made as scheduled. In this sense part of the Indemnity was apparently paid by the Allies themselves, a judgement which depends on determination of the incidence of the import duties and the possibility that the Powers would in any case have eventually agreed to an increase in duties, that is, a recalculation permitting duties to rise to a level which would offset the depreciation of silver. This 'tariff reform' has a history separate from that of the indemnity; 'tariff autonomy', China's ultimate objective, was not being officially considered.[9] The Allies further arranged that the advance should be repaid in five series, with the first requiring repayment of principal immediately, the others phasing in so that annual payments increased gradually from 'Protocol Taels' 18.8 million in the years 1902 to 1910, reaching a maximum of 'Protocol Taels' 35 million for the years 1932–40. This was designed to take into account China's expected increased ability to pay, both through an increased revenue and through a pay-down of already existing government-guaranteed loans and Japanese indemnity payments. The day of heavy capital repayment had thus been delayed until, it was hoped, the Chinese economy would be better able to bear the burden.[10]

In this way, however, the Allies damaged their own economic plans for China and opened the way for a series of alternative arrangements which were to cause endless negotiations and eventual defaults.

[9] The British actually vetoed a 10% increase on the grounds that British importers would be financing indemnity payments to other powers, including key trade rivals. This argument is based on the predominance of British trade and the relatively low percentage (11.25%) of the Indemnity payable to Britain. The Chinese proposed a 33.3% increase. See British Parliamentary Papers, *China No 1* (1902).

[10] To illustrate the complexity of the detail, interest was calculated from the date of the Protocol but not payable until 1 January 1902; the arrears could be paid off over a period of 3 years but at 4% interest.

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The fact is that indemnities, including the Japanese indemnity of Tls230 million, all of which were being paid by international loans, virtually exhausted China's credit-worthiness at just the time the Western powers had expected their citizens to make significant capital investment in China, including railways, based on recently acquired Treaty rights. China's early foreign loans had, for the most part, been secured nominally on the Customs revenue, but this security was now largely committed. Nevertheless the IMC revenues, less those already pledged but plus the proceeds from the additional 5% in the rate of duty, would be hypothecated; this amount was supplemented by a sort of miscellaneous shopping list including the revenues of the native customs under IMC control plus the revenues of the salt gabelle less sums already committed.[11] There were three consequences: first, new 'gold' project loans, where appropriate, were seen as having to be secured on the expected income of the project; secondly, alternative security followed the pattern of *ad hoc* collection of miscellaneous revenues less certain than those derived from the foreign supervised Imperial Maritime Customs; and, thirdly, pressure consequently mounted for further foreign control of revenue sources. Depending on revenues from the project naturally led foreigners to seek control, in a meaningful sense, of the entire project, thus aggravating the extra-territoriality problem and leading to opposition during the Rights Recovery movement.

Problems of calculation and payment

But how much was the Indemnity?

The focus of the Protocol, and by 'focus' we mean quantity of detail, was on its Tael value. This was reasonable because the claims would be originally expressed in taels; the indemnity would be the sum of those tael values, in the event Haikwan [Customs] Taels

[11] 'nominally' because the early loans, when authorized by the Tsungli Yamen, were sovereign risk loans and thus secured by the assets of the Empire; the reference to the Maritime Customs was a specific and measurable assurance to the lenders that at least this revenue existed and, since foreign administered, might actually be available for debt servicing. A rough modern credit card parallel: secure a hotel reservation on your credit card but, when paying the bill, pay cash or use a different credit card, a procedure which is not possible if the hotel has already deducted the sum from the original card.

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450 million.[12] This imaginary unit of account could be translated at the fixed rate of HKTs100.00 = ShTs111.4 into Shanghai taels for which rates of exchange were readily available, either directly or through the use of cross-rates. The stress on the tael, a silver unit of account, deceived some, including US Secretary of State John Hay and the Chinese authorities in Shanghai, into interpreting the Indemnity as a silver debt, thereby ignoring completely the clearly but briefly stated provision that the Indemnity was a *gold* debt; the tael value, based on a rate of three shillings sterling, had been provided for internal purposes only.[13] Hart himself, when first writing on China's ability to pay, assumed that payment would be expressed in a silver unit of account, but he subsequently acknowledged that the Powers had determined otherwise.[14] Indeed, to avoid confusion the term 'Protocol Tael', defined as a *gold* unit of account equivalent to a Haikwan Tael at the fixed rate of three shillings per tael, came into use.[15] Thus Protocol Taels 450 million were equivalent to £67.5 million, the real value of the Indemnity.[16]

Or was it?

One could argue that, as the interest rate, set at 4%, was below market rate (especially since the advance would be made at 100), the real value to the Powers was slightly lower. Alternatively, one could argue that the Ts450 million constituted only the principal, contending that one had to add total interest payments to this sum to determine the *real* amount of the indemnity. Indeed, if local indemnities were also

[12] For an explanation of the Chinese monetary system and the terms employed, see my summary in *The Hongkong Bank in Late Imperial China, 1864–1902, The History of the Hongkong and Shanghai Banking Corporation*, I, 35–40.

[13] John Hay to Ambassador Conger, U. S. Minister to China, cited in *Confidential Correspondence*, IV, 461, note to letter 3122 (1903).

[14] Hart to J. D. Campbell, letter 3068 dated 13 July 1902, in *Confidential Correspondence*, III, 658–9.

[15] The rate was not 'arbitrary' on the date of the Protocol; it was the effective market rate. However, the Protocol Tael/sterling rate remained fixed as the market fluctuated, which is why the Protocol Tael is a gold unit of account. This may be compared conceptually with the later Customs Gold Unit. Sir Robert Hart proposed a rate of exchange equivalent to that before the depreciation of silver, say 6s8d, but this would have been difficult to justify on any rational basis—except, perhaps, the economic health of China.

[16] In perhaps his earliest estimate, Hart considered £50 million (but at the higher exchange rate) to be a practical maximum. Hart to Campbell, letter 2912, dated 1 November 1900, in *Confidential Correspondence*, III, 513.

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added, the indemnity could be said to approximate a billion taels! This total is meaningless.[17]

The decision that repayment was to be in 'gold' introduced another apparent ambiguity, apparently insignificant at the time but which caused problems later, as to how much silver China was to pay to meet Indemnity payments. The Protocol states that the debt was a gold debt. However, the term 'gold' in the context of international loans was *popularly* considered to refer to loans repayable in currencies on a gold or gold exchange standard, for example, the United Kingdom, as opposed to those on a silver standard, for example, China. The terms of the Protocol and this ordinary understanding of a 'gold' loan were compatible so long as the signatory or creditor Powers retained the then value of their currencies defined in terms of a fixed weight and fineness of gold. If a 'gold' currency were devalued, however, China would nevertheless be required to pay silver sufficient to purchase the same quantity of gold, which in this instance would require purchase of more units of that foreign currency.[18] This did not become a real issue until 1922, and, except in the case of France, was not a major problem.

Irrespective of the provisions in the Protocol some believed that the debt *ought* to be considered a silver debt, and this for diverse reasons: first, and least supportable, the ambiguity referred to; secondly, as silver was depreciating in terms of gold, an already heavy burden was 'unfairly' increasing; and, thirdly, one suspects, a tinge of conscience. On the other hand, since provisions of the McKay Treaty called for currency reform with some expectation that China would opt for a gold exchange standard, however unlikely, there was a layman's argument

[17] Interest payments would have to be discounted before adding; the concept is unacceptable.

[18] There is a basic confusion arising from the history of monetary payments: many units of account have names identical to a specific weight, e.g. pound, lira, tael, which, if tendered in the correct metal, would satisfy payment of one such unit of account. This presents no confusion as long as the relationship between the weight of metal needed to satisfy the unit of account remains the same. Note also that the actual weight of, e.g., a pound or a tael would vary from place to place. A tael is not a specific weight unless appropriately qualified. Thus in a recent case: Were bonds agreed to be repayable in Shanghai taels repayable in a fixed denominated weight of silver or should one follow the course of the unit of account, noting the exchange into the Shanghai dollar, then the *fapi* and then into gold *yuan* and finally the *renminbi* and thus render the bonds worthless? By stating explicitly that the indemnity was a *gold* debt, the Powers would seem to have determined on the first course, a position they successfully maintained. By stating that a tael is a weight of silver, one is possibly right or possibly wrong, depending on the context.

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for the Indemnity advance being repayable in gold after all. Those opposing rested their case on the assumption that China would remain on silver and that the depreciation of silver would continue, as seemed reasonable but by no means certain.[19] Indeed, on certain assumptions later exchange rate developments suggest that China was better off with a gold debt—or might well have been but for two chance factors: (i) China was granted a moratorium following its declaration of war against the Central Powers and this, as it happened, was during a period of a sustained and dramatic rise in the exchanges, and (ii) the moratorium, in so far as payment was deferred, caused an extension of the period of repayment into years which witnessed an equally dramatic fall in the exchanges.[20] Regardless of other considerations, China had accepted an advance and was being required to carry the exchange risk, a normal procedure.

But the Shanghai magistrate or Taot'ai insisted on paying on a silver basis. By the time the matter was resolved in 1905, China was in arrears. This provided China with the excuse for obtaining a loan of £1 million, the 1905 5% Gold (indemnity arrears) Loan, for which the Boxer Indemnity received the usual unfavourable publicity, although the funds thus obtained were probably used for a purpose other than that stated. At the same time competition between Britain and Germany was revealed in the actual loan negotiations, which were, in fact, between the Chinese authorities and two commercial banks—the Hongkong Bank and the Deutsch-Asiatische Bank.

While this key controversy was under public discussion, the Indemnity created further problems. Given that the debt was in gold, *how* was payment to be effected? This question was resolved by an International Commission of Bankers, who after arguing whether French or English should be the language of discussion, had to consider several technical banking problems, including (i) how, given the narrowness of the market, the rate of exchange was to be fixed in a manner fair to China, and (ii) who paid the commission on the intra-European cross-rates.[21] Furthermore, as the repayment was to be made in monthly instalments in anticipation of a semi-annual

[19] By 1903 £100 would require payment of HKTs750.

[20] For a hypothetical calculation, see King, II, 323n.

[21] The Commission, which met in Shanghai, was composed of one delegate from each of the signatory Powers. The term 'cross-rate' may be thought of as follows: not all currencies were dealt with in, say, the Shanghai foreign exchange market. However one could transfer funds into and out of such currencies by considering the rate of exchange between, for example, Shanghai taels and a traded currency, then

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remittance, questions arose as to the handling of funds in the interim. In a sense these remained Chinese funds, and China argued successfully for the payment of interest while accepting that the funds would be placed in 'depository banks', at first always foreign, designated by the Powers.[22] That the Chinese funds were not handled by Chinese banks was due to the fear that they would be used for speculation, probably in the exchanges, an example of how distrust would shape the course of Indemnity regulations.

These points resolved, the International Commission remained primarily to handle both routine disposition of the funds, for example, paying successful claimants and expenses.

Each of these issues involved the time and the emotion of both governments and citizens, receiving publicity designed to keep the problem of the Boxer Indemnity a continuing source of irritation. The technical agreements were, for the most part, resolved on a business basis, which did not placate strong political sensitivities, and, as with too many later Indemnity arrangements, the whole process was supervised by an international board without a Chinese voting member.

The ability to pay

China met the payments stipulated, at least until the 1911 Revolution, suggesting that a serious political crisis could endanger her payment record and confirming the narrow financial margins involved. But she had maintained payment and it seemed, perhaps, that the debate relative to her ability to pay was moot. Indeed China successfully negotiated further loans during this period, although this, in a sense begs the question. The word 'ability' is capable of more than one definition. If making payment were expected without political and economic chaos, then in this sense China did not have the 'ability'.

considering the rate between the traded currency and the required currency, and reaching an equivalence.

[22] The funds were deposited in the Hongkong Bank and then transferred to each creditor nation's designated bank; the funds payable to the British (and the United States) remained with the Hongkong Bank, the British funds being credited to a British Government account on which the Bank paid 4% interest, hence its reluctance to pay market interest rates to China. Profitability depended on whether the funds could be lent locally, pending the semi-annual transfer, and this depended on circumstances.

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The diversion of native customs revenues traditionally designed for assignment to provincial governments disorganized provincial finances and was arguably an important factor in the disintegration of central rule.[23] This at a time when China, under pressure from the Powers, was nominally developing a central government designed for authoritative rule over the provinces. *Ad hoc* borrowing by provincial authorities tends to confirm this judgement. Furthermore, if all agreed that Chinese revenue were limited, it follows that the indemnity would cause Peking to seek any temporary accommodation possible. One notorious method was consequent on the decision by leading European Powers to remove from the 'China consortium' its monopoly role in *industrial* lending. Consequently, loans could be negotiated by the Chinese with any group willing to be involved, provided they were for an industrial purpose, for example, a railway or a port. Such a loan would include a provision for cash up-front; the cash was accordingly paid over, the project itself never undertaken. Such negotiations were conducted with groups which were outside the Consortium and opposed to the Consortium under any terms. The apparent 'success' of such groups led to a general political questioning of the Consortium and pressure to open up all Chinese attempts to secure additional financing. The Consortium may have had preservation of China's credit-worthiness in mind, but China did not appreciate such patronizing, seen always against absolute standards of sovereignty, and anyway the need for funds, increased by the burden of the Indemnity, was paramount.

Unravelling: Modifications and Redefining to 1932

Interruptions and moratoriums

Having weathered the first decade of Indemnity payments, China now faced the problems arising from the 1911 Revolution, which had disrupted payments to the extent of some £2 million, a sum which was included in the so-called Reorganization Loan of 1913. Indeed as noted earlier, the provision of short-term funds in a long-term loan had become a dangerous pattern, designed in part to circumvent

[23] As argued by Hans van de Ven, 'Military and Financial Reform in the Late Qing and Early Republic', in Lin Man-hoang, ed, *Finance and Modern History* (Taipei: Institute of Modern History, Academia Sinica, 1999), 17–105.

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international consortium restrictions to such an extent that some loans appear to have been negotiated primarily for the up-front payoffs while the loan proper was never in fact issued.

That the disruption caused by the revolution was not more serious is due to the quick response of the Chinese authorities in the face of the failure or simple disappearance of designated 'customs banks'. The initial solution was to place Boxer Indemnity and other hypothecated revenues directly into Customs-controlled Chinese government accounts with the Hongkong Bank; this proving unsatisfactory to the Powers as a long-term solution, the funds were periodically transferred to Chinese accounts in foreign banks designated by the respective Powers as 'depository' banks, decisions which would later be seen as a further loss of sovereignty. The foreign powers would argue, however, that the action, initiated by China, to some extent at least preserved her credit-worthiness. The minimal effect of the temporary default on Chinese bond prices supports this conclusion.

Another solution to easing the burden of payment was the granting of a moratorium. In a sense the schedule of principal payments with a scheduled peak in 1915 was itself a recognition of the reality of limitations to China's ability to pay. However in 1917, when China entered World War I, the Allies granted a five-year moratorium, extended in some cases by a further two years, on all payments (including forgiveness of interest). This was, however, a moratorium only, and provisions for the payment of the deferred Indemnity were complex, with different solutions for practically each creditor nation. The usual variant was to extend the years of repayment; an alternative was simultaneous repayment in the years immediately following the end of the moratorium period.

At the same time the Chinese unilaterally stopped payment to the Central Powers, a situation retrospectively agreed by Germany, the intended recipient of twenty percent of Boxer funds, in 1919. During 1921–22, the new Soviet Government, potentially inheriting the Russian share in the Boxer Indemnity, discussed remission in exchange for recognition of its Peking legation. Officially Russia had suspended only one-third of the payments due during the years from 1917, but China had refused all payment. In 1922 the Soviet Government renounced further payment of its share of the Indemnity, and thus by 1922 China, relieved of the greater portion of the burden, entered a period of negotiations for remission.

A further moratorium was granted by Britain following Japanese bombing, that is the Shanghai Incident of 1932, and all payments

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effectively ceased with the beginning of hostilities with Japan in 1937. The 1943 treaties ending extraterritoriality also ended China's obligations to make further payments, although the Chinese interpretation of this provision would be challenged (see below).

Remission

As countries noted that, after payment of claims, their Boxer Indemnity accounts were still in credit, the question of remission arose. That remission was not a simple process was due to several factors, including the fact that, although the indemnity had been agreed as part of a joint international Protocol, the Indemnity was a consolidation of acknowledged debts to each Power individually. For matters not in the Protocol, and this included remission, separate agreements had to be reached between each Power and China. At one level this simplified the process since a uniform international agreement was not necessary. Each Power had to consider their own political and economic situation, their other commitments in China, and their foreign policy goals. One concern was, however, common to all the Powers, namely the political situation itself and the belief that straight-forward remission would mean simply that the balance between warring parties in China would be unintentionally disrupted. The only way of ensuring beneficial consequences from the remission, it was believed, was to continue the then established payment schedules but to set aside the funds received for specified purposes 'mutually beneficial'. The funds would continue, however, to be overseen by the relevant foreign power.

In 1908 the United States, with 70% of its share of the Indemnity remaining unallocated after payment of all claims and following discussions which had taken more than a year to finalize, was the first Power to determine remission, an important precedent despite the fact that, with only seven percent of the total indemnity, the United States was not the major creditor. The precedent included the provision that China make payments as scheduled, with the U.S. confirming its approval of using the proceeds for educational purposes. In July Prince Ch'ing acknowledged the decision by announcing plans to send 100 students to the U.S. annually, to a maximum of 400. In consequence China established a preparatory college, known in English as 'Tsinghua' (later to be designated a university in its own right) and dedicated the funds for American education, either in

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China or in the United States. Following a 1924 Act of Congress and the establishment of the China Foundation for the Promotion of Education and Culture, President Coolidge in July 1925 authorized the first transfer of payments.

In December 1922 Great Britain, with 11.25 per cent of the Boxer Indemnity, declared that the balance of the British share of the Indemnity would be paid into a China Indemnity Fund and used for mutually beneficial purposes. Initially Great Britain appointed an eleven person advisory committee to the Secretary of State in London to be chaired by a British citizen and composed of at least two Chinese citizens and at least one woman.[24] The more than two-year lag between declaration and Parliamentary action was due to British domestic political priorities.

This could not be considered entirely satisfactory in a nation dominated by principles of nationalism with policy goals including the end of extraterritoriality. In 1931 a revised Act of Parliament redesigned the original advisory committee into a Board of Trustees, resident in China and with a Chinese chairman, but with an agreed frame of reference.[25]

The size of the British share of the Indemnity—in 1922 there were some £11 million in anticipated payments—made such detailed and lengthy negotiations a virtual necessity, given the political situation in both Britain and China. Countries with a smaller share of the Indemnity were able to move with less political impact. For example, in 1925 the Netherlands, building on its strengths, declared that all receipts from January 1926 would be used for conservancy (65%) and cultural (35%) projects, including in the former case provisions for a Netherlands engineer and in the latter a Board of Trustees,

[24] China Indemnity (Application) Act of 1925.

[25] Exceptionally the act called for a transfer of £265,000 to the account of the University of Hong Kong, a provision which is an example of how multi-directional the impact of the Indemnity could be. The Governor and the University's vice-chancellor both made the case that the Colony could not support a full university to serve Hong Kong itself, and outside funding was a legitimate objective, a claim for which support and significant opposition was forthcoming from China. The University first approached the British government for Boxer funds in 1915; formal negotiations began in 1923 and continued as relations with successive Peking governments deteriorated. The amount of the eventual award was a bitter disappointment. See Anthony Sweeting, 'The University by Report', in Chan Lau Kit-ching and Peter Cunich, eds, *An Impossible Dream: Hong Kong University from Foundation to Re-establishment, 1910–1950* (Oxford: Oxford University Press, 2002), pp. 220–5; see also Bernard Mellor, *The University of Hong Kong, an Informal History* (Hong Kong, University of Hong Kong Press, 1980), I, 75 and *passim*.

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two Chinese and one Netherlands citizen, appointed by the Chinese Government. Some 400,000 guilders was set aside for a Trust Fund under a Board in the Netherlands with further grants to the Academia Sinica in China.[26]

In contrast the agreement with Italy called for China to continue payments through the Banco Italiana per la Cina, a joint Sino-Italian venture, to (i) pay off the Italian Government loan to this bank and (ii) for educational purposes. Once the first had been achieved and once into the world depression, the funds were diverted to the purchase of goods made in Italy.[27]

In the matter of joint ventures, there might be a preliminary agreement whereby the Chinese shares would be purchased with the proceeds of a loan either to the Chinese government or to the joint venture. If the venture were to fail or the foreign government wish to cease sponsorship, the loan would be recalled, often with potentially serious consequences. In the Italian banking case, Boxer Indemnity Funds were the source of rescue. The French gold franc crisis arose from a similar if not more complex situation.

The gold franc crisis[28]

Immediate post-World War I Sino-French relations, already soured by arguments over calculations relative to the Boxer Indemnity, were further exacerbated by arguments arising from the devaluation of the French franc. For, at a time when the other Powers were considering the future of deferred payments and of possible remission in the context of projects useful to China, France had to pay off the debts related to the collapse of the scandal-ridden Banque industrielle de

[26] See the relevant volumes of the *China Year Book*, and Yin Ching Chen, *Treaties and Agreements between the Republic of China and other Powers, 1929–54* (Washington, 1957) for information on the treaties with Great Britain, the Netherlands, and Italy. See also Carnegie Endowment, *Treaties and Agreements with and Concerning China, 1919–29* (Washington, 1929).

[27] Frank Tamagna, *Italian Interests in China.*

[28] This subject is covered in two memos with enclosures from Lord Hardinge to Marquess Curzon, Paris, 25 October and 22 November 1922, in FO 371/8021 [? illegible on copy], ff. 21–22, 48–49. See also, *The Times* (10 July 1922), p. 10c. There is a special section in Wright and Cubbon's study, see esp. p. 221. In 1926 the Chinese Ministry of Foreign Affairs published nine volumes covering the controversy and its resolution. These I have not read.

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Chine.[29] It sought to do so using Chinese indemnity payments obtained in excess of damages received during the Boxer Uprising so many years before.

It is reasonable to assume that France would in any case have insisted on a 'gold' interpretation of funds due. In this they were supported by Belgium and Italy whose currencies had also been devalued. The emotional context, however, was in large part due to France's position regarding the debts of the Banque Industrielle, and the relevant provisions had to be drafted with particular care. Indeed the rate of exchange became the focus of attention for populist political purposes and provided over two years of heated debate both in government and popular forums, exposing an abrasive heritage of the Boxer Uprising.

In 1922 after considerable negotiation, all had seemed agreed.[30] The remitted French Indemnity would be used (i) in connection with the debts of the Banque Industrielle and (ii) for educational purposes. Typically, the former took the complex form of a 5% gold loan to China, service of which would be guaranteed from the future stream of Indemnity payments. The rate of exchange was to reflect the relative prices of gold and silver, confirming that the debt was a gold debt and that the rates of exchange noted during the moratorium and based on the telegraphic transfer rate Shanghai on Paris (using the agreed cross-rates with sterling) had been 'pro forma' and without legal basis. The need for an explicit statement relative to the rate of exchange arose from the devaluation of the French franc; the published exchange rates would therefore have been insufficient to purchase the weight of gold implied in the Protocol and further agreed in 1905.

A change in regime and the recall of Parliament in Peking led to the Chinese focusing on this rate of exchange. The Chinese Parliament argued that the Indemnity was to be paid in gold francs, which they understood as being 'francs' however related to gold. As this was contrary to any reasonable interpretation of the Protocol, France found its position supported by all the signatory powers.[31] The depository banks on instructions from the relevant

[29] A useful summary of the impact of the bank's collapse is found in notes contributed to London's *Morning Post* (4 July 1921), by B. Lenox Simpson; clipping found in FO 371/6589, f. 55.

[30] What follows is abstracted and selected from the details presented in, e.g. Wright, *Customs Revenue*, 216–30, from the *China Yearbook*, especially the 1924, 1925 and 1926 editions, and from the sources cited therein.

[31] See the discussion in note 18 above.

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foreign authority refused to accept transfers from the Hongkong Bank customs account based on the old rates, and the Hongkong Bank found itself holding up to Ts1 million on call in a special Gold Franc Indemnity account. The controversy had by then become political, the Chinese Finance Minister was impeached and the cabinet fell. At this point, Francis Aglen, the foreign Inspector-General of the Imperial Maritime Customs, noting that the French position had become firm and was supported by the signatory powers, at the same time recognizing his responsibility to control funds sufficient to meet Boxer Indemnity payments, transferred the necessary additional funds into an interest-bearing special indemnity account.

But Aglen was not Hart, nor was the Foreign Inspectorate seen by the Chinese as a wholly Chinese institution. There was no vestige at the national level of that goodwill which the foreign staffed organization had enjoyed in imperial China. The complex situation became a focus for anti-foreign agitation, a nation-wide *cause célèbre*. Aglen was vilified and his authority questioned, especially by members of parliament who themselves remained unpaid! He acted, however, wholly in the Chinese interest, assuming correctly that the Chinese were not at that time attempting to challenge the basic provisions of the Boxer Protocol itself.

Then in 1924 came the Lincheng Incident provoking a new indemnity, but this was fortuitously met in large part from the interest accruing in the Customs special account. The impasse however was not resolved until April 1925 and after there had been a further change of government and a *de facto* dissolution of parliament. In the final agreement the rate of exchange was not stated, but the French Indemnity was recalculated in U.S. gold dollars at a rate which implied mint parity, that is, the French argument had per force been accepted. The agreement did, however, include provisions relative to debt servicing which allowed China immediate access to Shanghai Ts7.5 million from the special Customs fund at a time when the government was once again in financial straits. The new agreement provided for payment of the Far Eastern creditors of the Banque industrielle, grants to Sino-French educational or philanthropic institutions and, specifically, the settlement of the overdue shares of the Chinese Government in the bank plus the payment of sums owed by the government to the bank.

The Boxer Indemnity had once again provided material for nationalists and a focal issue for Chinese concerned with questions of sovereignty and extraterritoriality, issues technically separate from

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the Indemnity rate of exchange. The debate was further exacerbated by realization that proceeds were being used to resurrect the Banque industrielle de Chine, although in this the Chinese were successful in one point—a new name was to reflect its joint-venture character, it would be the Banque Franco-Chinoise pour le commerce et l'industrie.

The Boxer Indemnity in the 1930s and after

The recognition of China's national government brought to fulfilment many of the policies which nationalists had long sought—although there was not yet an end to extraterritoriality. Boxer Indemnity funds due to Britain were no longer held solely by the Hongkong Bank, and their administration was in the hands of a China-based Board of Trustees. Under the provisions of a 1931 Act of the British Parliament, a Board of Trustees composed of ten Chinese members and five British members was established with instructions to use two-thirds of all accumulated funds (£3.5 million) for railway purposes through the Chinese Government Purchasing Commission set up in Britain for this purpose. The income from the Trustee's investments was to be used for educational purposes. In practical terms this meant that the Trustees had virtually lost control of the funds and that the proceeds for educational expenditure would be minimal. However, the arrangements by then in place would provide China with a new source of credit-worthiness. Nevertheless purchases with Indemnity funds were regularized and facilitated, although even here there was a flaw. The Act was so specific that when, during the conflict with Japan, purchases using other funds were authorized, a separate purchasing system had to be established, albeit with an overlap of personnel and facilities, since the privileges of the Act could not be applied except to Indemnity purchases.[32]

As noted, there was a one-year moratorium following the Shanghai Incident, but otherwise the 1901 advance, that is, the Boxer Indemnity, continued to be serviced, indeed China gave it preference when inadequate receipts prevented the full servicing of the country's debts. There were several reasons for this, the first being that the indemnity debts were payable to sovereign powers from whom benefits

[32] The files of the relevant organizations, discovered in the archives of the Hongkong Bank, are now in the custody of the archives, the Library, School of Oriental and African Studies, University of London.

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were being sought. Secondly, the payments were being used by the foreign powers not to meet debts for past services or products but for present and future requirements. There remained restrictions on their use—educational and cultural projects, purchase of equipment and supplies only in the creditor nation—but they could be used virtually at the discretion of the central government. The obligation to make the payments had become an act of self-discipline on the part of the government, insuring that funds were available for its own developmental priorities.

There was one obvious drawback. The annual payments were but a trickle given China's perceived constructive needs in the face of revenue diversion to non-productive uses. This problem could, however, be partially overcome. Instead of using the funds as they came in, China could use the Boxer Indemnity payments due to, for example, Britain as security for new foreign loans; China could, as it were, capitalize a known stream of income. This realization had already made possible the issue of internal loans on the security of the income streams which would have paid the German and Russian indemnities.[33] That the same principle could be used on the basis of income streams freed by remission would become the subject of specific negotiations with the several Powers. The only restrictions in, for example, the British case would be (i) approval by the Trustees of the purpose of the loan, that it was consistent with the relevant agreement between the creditor power and China, and (ii) the willingness of lenders to accept the security. Neither proved a problem.

This opportunity had another consequence. At the conclusion of World War I, the Powers whose banking institutions had been involved in the various 'groups' jointly responsible for such major foreign loans as the Hukuang Railways Loan and the Reorganization Loan, the so-called Four Power Group or Six Power Group, informally referred to as the 'China consortium', formalized a China Consortium designed to prevent irresponsible foreign public lending to China but also as a hoped-for monopoly through which to control the terms under which such loans were made. By 1931 the Consortium had, in fact, made no loans to China, partly because China refused to recognize its existence, considering it a further attempt to violate the country's sovereign rights. The Consortium, on the other hand, could not find a sufficiently secure project or an adequate security to make a loan offer

[33] See Stanley Wright, *Customs Revenue*, Chapter iv.

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in the first place.[34] An impasse had been reached. And in the early 1930s, with civil strife minimized and opportunity for constructive development apparently existing, the China Consortium came to be seen as a serious impediment. The bankers themselves were beginning to agree, frustrated by the restraints imposed, and anxious to be active in this new era of opportunity.

Without an opportunity for a productive loan, China's objection to the China Consortium had been one of principle only. But now, when opportunity and the means to take advantage of it presented themselves, the Chinese were particularly anxious to circumvent the Consortium; by 1933 negotiations were underway for a loan on the security of the Boxer Indemnity payments.

The Boxer Indemnity loans[35]

The provisions of the China Consortium agreement among the Powers were still in effect. China might have a reasonable project and creditworthiness, but the foreign banks were not necessarily able to take advantage of this, unless a way around the Consortium regulations were to be found. A way around was found, the consequence being the £1.5 million 6% Sterling Indemnity Loan of 1934, made possible by the fact that technically it was not a sterling loan; it was a Shanghai dollar loan domiciled in China. The proceeds were to supplement funds available to meet a loan of £4.5 million from the Board to the Railway for the completion of the Yueh–Han line.

The loan, which was issued at 96, could be subscribed for only in Shanghai with principal and interest also payable in Shanghai at the rate of the day, and, furthermore, the loan could not be quoted on the London Stock Exchange. Thus, although the loan was *denominated* in sterling, those wishing payment in sterling would be involved in two exchange calculations into and out again of Shanghai dollars. The Consortium Agreement had not been violated. The security was achieved through 'irrevocable' instructions to the Inspector-General of Customs to continue the requisite indemnity payments without interruption during the period of the loan. That the loan met with the approval of the Chinese Government may be assumed from the fact

[34] This does not suggest that China did not borrow from foreigners, only that the Consortium prevented borrowing which was in the form of a public loan domiciled overseas.

[35] This material is documented in King, III, 391–3, and the relevant note pages.

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that signatories for the loan agreement included H. H. Kung, Minister of Finance, Ku Meng-yu, Minister of Railways, Hsi Te-mou, Central Bank of China, Chang Kai-ngau, Bank of China, S. M. Tong, Bank of Communications, in addition to A. S. Henchman, the Shanghai manager of the Hongkong Bank.[36]

The term 'irrevocable' is, however, relative. After January 1939 when China ceased servicing her foreign debts, there was principal outstanding of £972,000, which remained forever unpaid.

China had objected to the terms of previous international loans on the grounds, *inter alia*, that control of funds was kept in foreign hands. The implication was that the foreigners did not trust the Chinese. In the case of this Indemnity Loan, funds were controlled by a 'loan service committee' composed of representatives of the ministries and banks involved plus a representative of the Boxer Trustees. The 'Boxer Indemnity' was now connected with a major loan and with its supervision; some would interpret this as a positive step, others would see it as yet another imperialistic loan only necessary because of the continued burden of the Boxer Indemnity. The stigma remained.

Three other loans should be noted under the present category: (i) the £238,000 Huai River Commission 1935 6% Loan, (ii) the 1936 King–Kan (Nanking–Kiangsi) Railway Loan of 1936, although the funds were diverted by agreement in 1938 for the construction of the Hengyang–Kweilin section of the Hunan–Kwangsi Railway, a priority arising from the Japanese invasion and (iii) the Chuchow 1937 Repair Shop Loan for £150,000 at 6%, although, due to the outbreak of hostilities, only £20,500 was utilized. These were not public loans but agreements by the Hongkong Bank and other banks to finance particular materials for agreed purposes. Like the public loan, the Board of Trustees was represented on any control committee, and, also like the public loan, servicing ceased in 1939 with the following amounts remaining outstanding: £190,264, £441.868, and £20,500 respectively. These sums were never repaid.

The potential of the Boxer Indemnity was thus aborted and the stage set for the final years of this heritage of the 1900 Boxer Uprising.

[36] Alternatively, one may assume that none of them approved, thus accounting for the broad spectrum of signatories.

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From 1945 to 1949, the post-war history[37]

In the immediate post-war period China acknowledged her foreign indebtedness but was not in a position to service all debts outstanding; she now gave priority not to the Boxer Indemnity loans but to more recent war-related debts. As the Premier, Chang Chun, stated, 'China pledges her honourable intention to repay those external loans the service of which was suspended in the course of the Japanese war. In no way does the conclusion of new loans in recent years prejudice the security of these pre-war loans or vitiate the rights of holders of such bonds.'[38]

There was, however, a particular problem relative to the Boxer Indemnity security. The 1943 treaties for ending extraterritoriality had cancelled all matters relative to the Indemnity, including repayment. But did this relate only to payments due after the effective date of the treaties or to all indemnity payments outstanding, including, for example, the payments due 1939–43? The Chinese chose the latter interpretation, and the British Foreign Office thought it pointless to make serious representation. The actual state of affairs was obvious.

As to the specific example of the 1934 £1.5 million 6% Sterling Indemnity Loan, repayment presumably remained a charge on the Customs even if Indemnity payments were neither made nor properly due. Was this conclusion negated by the blanket provisions of Article 3 of the 1943 Treaty: 'the rights accorded to HM Government in the United Kingdom under the Protocol and under the Agreements supplementary thereto shall cease'? This the Chinese Foreign Ministry interpreted as including the 1930 agreement relative to the Boxer Indemnity Board of Trustees. In 1947, the British Foreign Office, although doubting the interpretation, wrote to the Hongkong Bank's London manager, 'It seems to us better as a matter of tactics to press the Chinese Government generally to service the loans than to embark with them on what may be a fruitless controversy on the interpretation of the relevant article of the 1943 treaty, and we are instructing our Ambassador in Nanking accordingly, He is, however,

[37] For a general consideration of post-war debt recovery negotiations, see King, IV, 172–5.

[38] Quoted in a memorandum from the Hongkong Bank in FO 371/63345, F12273, a file which contains copies of earlier loan agreements.

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being authorized to make the point orally to the Chinese Government at his discretion.'[39]

Despite the logic of the situation, the Council of Foreign Bondholders and the banks handling Chinese public loan issues had a public responsibility; they had to continue the pressure, thus keeping alive the name of the Boxer Indemnity—and indirectly the Boxer Uprising itself—through to the 1949 inauguration of the People's Republic.

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The Boxer Indemnity was born of outrage and proved in the early years of repayment a heavy burden on China's economy and a disruptive force in the body politic. Although China's credit-worthiness was thereby restricted and despite the efforts of foreign powers to restrain China's borrowing, China was able to continue foreign borrowing through 'rogue' lenders, that is lenders outside the agreed government sponsored 'groups', by taking suppliers' credits, by borrowing on the security of expected revenues from the completed project, by borrowing in silver (not covered by 'group' agreements), and by agreeing to loans for large but probably impractical projects and which contained provisions for a cash advance—the main agreement never then being implemented. When default threatened, China was encouraged to renew servicing of the debt by being granted a new loan which contained provision for funds to make up the missing payments.

The burden of the Indemnity remained considerable even after World War I and the cancellation of German and Russian indemnities, some 50% of the total. Remissions still required full repayments, but their impact on the Chinese economy was potentially positive. Money is, however, fungible; it is difficult to asses how positive the net impact after diversion of other revenue.

There were misunderstandings relative to the Boxer Indemnity advance from the signing of the Protocol itself, including one provision actually written into the Protocol relative to early interest payments. Then came the 1905 Indemnity Arrears loan, provisions in the 1913 Reorganization Loan, the moratoriums of 1917–22 and 1932–33, the remissions of 1908–32, and the final cancellation, whether *de jure* or *de facto*, brought about by the treaties of 1943. The Indemnity turned

[39] From a draft of a response to the Bank, Kitson to H. E. Muriel, November 1947, FO 371/63345, F12273/152/10.

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from a punishment by outraged Powers to a more limited series of payments devoted to projects to which the Chinese gave priority, each of which seemed to give rise to a plethora of committees and trustees all susceptible to political discord.

There was yet another progression of interest, one dealing with control. In the early years payment and expenditure was supervised by an International Committee of Bankers on which the Chinese were not represented. During the period of remission, certainly after 1923, control moved by stages into Chinese hands, subject only to the limitations in broad categories provided by bi-lateral agreements with each relevant power. There was a similar progression relative to the safe-keeping and control of the Boxer Indemnity funds as there was of public external loans in general.

Despite this evolution, the fundamental attitude of foreign governments was that they did not trust China to make the best use of funds remitted nor trust China to keep proper records, except with foreign audits. And most informed Chinese believed that there ought not to be a Boxer Indemnity, certainly not after proven claims had been paid. It was all part of the general 'unequal treaties/extrality' complex with the added sense that, however beneficially the funds might be used, they arose from a Protocol forced on China and following a Chinese defeat. Sir Robert Hart's advice helped determine the survival of the Chinese government but it also led to an indemnity the size and terms of which he could not control. He had been changed from an agent of development to a collector of foreign debts, the Customs Service, which had become the symbol of China's modernization, had, through the circumstances of an excessive indemnity, become instead a symbol of foreign imperialism, its foreign staff, whatever their dedication to China and its people, from modernizers to tax-collectors. Hart's fear that nothing but bad would result had, bar educational grants and benefactions, been too fully realized.[40]

Such was the heritage of outrage.

November 5, 2004

[40] See quotation in note 1. There were, of course, the Boxer Indemnity Scholarships. I recall with gratitude and respect the friendship of the long-time professor of mathematics, University of Hong Kong, Dr Yung Chow Qong [Huang Youzou], who died in 2004, and who, as a Boxer Indemnity Scholar, made so important a contribution to mathematics and to the University. He had earlier been junior ping-pong champion of south China. And there were many like him. Is it a quibble to argue that '*nothing* but bad' is an overstatement or should we revert to the cliché 'the exception proves the rule.'

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