Exploration of the “Bank Consortium” and Shenxin’s Controlled Cotton Mills

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Abstract

Shenxin Textile Company’s involvement in management by other enterprises since its establishment was a special period witnessed by the textile industry. In this study, we analyzed and evaluated the Shenxin textile sector and the bank consortium by studying the interaction between them, as well as the characteristics of society and the attitudes of the national government at that time.

Keywords: Bank Consortium, Shenxin Textile Company, Tse-ven Soong, Rong Family

In view of the sluggish development of the textile industry in the early 1930s, Shenxin was saddled with heavy debts. Moreover, because of its damaged commercial credit and failure in speculation, it had no choice but to initiate a change. In terms of loan methods, the fixed assets and current materials of each mill were generally mortgaged for loans. Initially, banks only implemented supervision over mill Nos. 1 and 8 mills. Thereafter, 8 staff members from various loan houses and Shenxin Company constituted the bank consortium of Shenxin, including 2 representatives from the Bank of China, 1 representative from the Bank of Shanghai, 2 representatives from the bank consortium office, as well as Rong Weiren, Rong Erren, and Rong Hongren from Shenxin. After the establishment of the bank consortium, instead of being content with the initial supervision over Shenxin cotton mills, it began to further grasp part of the management power of the enterprise and conducted in-depth management of Shenxin cotton mills for six months. Subsequently, due to the maturity of the loan from money houses, Shenxin lacked sufficient funds to maintain its operation, so the bank consortium again issued loans to maintain the operation and management of the Nos. 1 and 8 mills. In fact, the bank consortium agreed to offer loans to Nos. 2 and 5 mills as well, but the contract was not concluded because Shenxin refused the bank consortium’s participation in its management. In October 1936, more restrictive contracts for the Nos. 1, 2, 5, and 8 mills of Shenxin were renewed until all of the loans were paid off in 1942.

At present, limited academic research is available on the “bank consortium” of the national government (Note 1), whereas almost no research is related to Shenxin. Despite a few articles on this topic, (Note 2) none has conducted a specialized and systematic study of the bank consortium and Shenxin Textile Mill. By referring to the data in the Historical Data of Rong’s Enterprise (year) as well as newspapers and periodicals from the Republic of China, we analyze the interaction and influence between the bank consortium and Shenxin to explore the causes of the bank consortium’s control and restrictions over Shenxin as well as its assistance during the period of control.

Few studies have been conducted on the standing of Shenxin and the auction of Shenxin No. 7 mill.

1. Tracing Back to the Origins: Exploring the True Causes of the Bank Consortium’s Formation

The involvement of the bank consortium committee in the management of Shenxin’s textile system was unprecedented since Shenxin established its No. 1 Mill in 1915. Why did this happen during this period, and what was the reason for such management being progressively strengthened? By reviewing historical documents, the author analyzed the reasons why Shenxin had been administered first by banks and then by the bank consortium committee with gradually intensified supervision. The reasons were summarized as direct and indirect factors.

For the purpose of observation, the author edited the incentive factors that affect the bank consortium’s gradually strengthened supervision into Table 1.
which meant large investments and small returns. At the same time, Shenxin’s overall performance had stalled due to production, apart from increasing investment, it was also required to build infrastructure for the No. 9 mill, which forced the company to mortgage its fixed assets and current materials of various mills. 2. The most direct reason for establishing the bank consortium committee to execute direct management of Shenxin was that after visiting Shenxin to supervise the use of its funds, the banks found a number of limitations in the company management and operation. In cotton procurement, for example, poor quality cotton was bought at high prices due to lack of effective management.

Table 1. Factors Affecting the Strengthened Management of the Bank Consortium

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<th>Direct Factors</th>
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<td>(I) Natural disasters: Shenxin’s No. 4 mill was damaged in a fire except for the blow room, cloth factory, and warehouse. Although some of the equipment could be repaired, new equipment had to be purchased and the mill had to be reconstructed, thereby resulting in substantial loans and expenditures. (II) Shenxin’s own issues: (1) Due to the expiration of the base lease of the Shenxin No. 9 mill, it had to relocate, build a new mill, and acquire equipment, the total cost of which was approximately 5.2 million yuan. (2) From 1932 to 1935, the annual operation of Shenxin mills was unsatisfactory. In 1932, the No. 1 mill broke even, the No. 2 mill was in the red, the No. 3 mill made a small profit, No. 4 mill made no profit, the Nos. 5 and 6 Mills broke even, the No. 7 mill made a slight loss, and the No. 8 mill broke even. In 1933, only three of the nine Mills were profitable. In 1934, only the No. 3 mill was slightly profitable, while the others were all in the red. Between 1932 and 1934, all but the No. 3 Mill were barely profitable. In 1935, only the Nos. 1, 3, and 8, mills were making a profit, (Note 3) whereas the others were still in the red. However, the profits of the Nos. 1 and 8 mills were negligible. The depression eased slightly only in 1936 due to factors related to Shenxin itself and the social environment. (3) The sudden departure of the general manager led to the suspension of the payment of 5 million yuan loans by the bank consortium. Only 2.8 million was paid, bringing Shenxin to a standstill. (III) Social and economic environment factors: In 1933, the price of cotton yarn plummeted, and the entire textile market remained depressed in 1934 and 1935, with recovery beginning only in 1936. (IV) Government factors: (1) The national government attempted to nationalize Shenxin: After the No. 7 mill of Shenxin was auctioned, Zhou Zuomin wrote to Chen Gongbo, then Minister of Industry, in the hope of obtaining assistance in the reorganization of Shenxin. The Ministry of Industry of the Nationalist Party undertook a series of investigations on the No. 9 mill, with the investigation results being suspected of nationalizing the mills and equipment of the textile system. This effort was followed by an investigation by the Cotton Industry and Economic Committee. Although these measures ultimately ran aground due to various factors, they were undoubtedly a major blow to Shenxin at a difficult time of development. (2) Excessive national government taxes and bank interests: In such a depressed market situation, Shenxin still had to endure years of tax increases. Unaware of the suffering of merchants, the national government raised taxes successively from 1932 to 1934. (3) At the same time, some schemes such as “borrowing ingots from boxer indemnity” also failed one after another. (V) Financial system factors: The financial interest rates were considered too high during this period. (VI) Other factors: At a time when cotton was in short supply, the American Cotton Loan (Note 4) was believed to be a possible solution to rescue Shenxin. Although social media saw the loan as politically motivated, cotton was in short supply at that time. Nevertheless, the plan brought limited effect.</td>
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In short, the most direct reason why Shenxin was supervised by the bank consortium was that it was forced to mortgage part of its cotton mills and accept banking supervision due to its failed overseas investment. Later, banks found that Shenxin had management problems, so the bank consortium was set up to strengthen the management. The two points are regarded as the most direct factors for Shenxin to be supervised and managed by banks. Although Shenxin, which suffered a series of setbacks during this period, deserved sympathy, some defects and problems in its internal management were exposed. In terms of indirect causes, to the best of the author’s knowledge, the social environment and national factors had the greatest influence during this period. In addition to the undiminished tax revenue of the national government in this context, Tse-ven Soong’s assistance to Shenxin had a minimal effect. Besides, the Ministry of Industry was indeed suspected of acquiring the company’s mills. At the same time, in the financial system, the excessive bank interest rate was undoubtedly detrimental for Shenxin. Adverse factors included the fire suffered by the No. 4 mill. Before this incident, Shenxin tended toward rapid expansion, which had worked well without major problems, but when confronted with the context in the 1930s, the problems caused by the rapid expansion of mills were reflected in the joint effect of these factors. Although Shenxin had previously succeeded in easing market pressure by expanding production, apart from increasing investment, it was also required to build infrastructure for the No. 9 mill, which meant large investments and small returns. At the same time, Shenxin’s overall performance had stalled.
because of the lack of commitment of its new manager, who would hold back once his personal interests were affected. Worse still, Shenxin purchased inferior cotton to sell at best quality prices, which had a negative effect on the brand. Furthermore, the national government was indifferent to national capital. Besides Shenxin, one-third of the textile enterprises suffered business difficulties during this period, while the national government continued to raise taxes, which undoubtedly contributed to the Nationalist Party government’s loss of popularity and subsequent decline. To sum up, the aforementioned factors together led to Shenxin’s depression during this period. The bank consortium had continuously strengthened its supervision because of crucial factors such as the concern that Shenxin would not be able to repay its debt due to poor management.

2. Pros and Cons: Advantages and Disadvantages of Banking Organizations to Shenxin

The period when banking organizations involved in managing Shenxin’s system was regarded as a special stage in its development. As the Rong brothers initially registered Shenxin as a company of unlimited liability, they were reluctant to allow others too much involvement in the management and decision-making of the company. Therefore, the establishment of the bank consortium committee caused great dissatisfaction in the Rong family, which resulted in the family’s move to exert a certain influence on the operation of Shenxin during this period.

As Shenxin was supervised by banks until all loans were repaid in 1942, the company’s development was indeed restricted to a certain extent by the bank consortium. The author conducted analysis by referring to specific historical data and summarized the constraints and assistance of the bank consortium to Shenxin by studying the interaction between the bank consortium and Nos. 1, 2, 5, and 8 mills during this period.

In fact, before the Anti-Japanese War, the bank consortium did not pose any significant hindrance to Shenxin. Despite the obstacles, the consortium also provided great help to Shenxin during the period, of which the loan was the most prominent. For example, the No. 4 mill received loans from the Bank of China Shanghai Branch when it launched post-fire reconstruction. After the maturity of the operating loan from money houses in 1935, the bank consortium continued to provide financial assistance to Shenxin, which helped the Nos. 1 and 8 mills maintain their operation during the most difficult period faced by the textile industry. The Nos. 2 and 5 mills could have also obtained funding from the bank consortium. However, as Shenxin’s management was reluctant to be controlled by the consortium, the assistance provided during this period was only for the Nos. 1 and 8 mills, not for the Nos. 2 and 5 mills. 2. One of the important factors in the establishment of the bank consortium was the discovery of loopholes in the management of Shenxin, so it was necessary to strengthen supervision over it. From a third-party perspective, the bank consortium’s solution to Shenxin’s problems was helpful to solve the problems that the company could not find or solve by itself. For example, as Shenxin’s warehouse bought inferior cotton at a high price, the bank consortium implemented control over its purchase system. In addition, the bank consortium expressed concerns about Shenxin’s technological innovation. As proposed in the contract, Shenxin was obliged to implement the innovations suggested by the bank consortium.

For all that the bank consortium’s control over Shenxin was not significant at the early stage of the Anti-Japanese War, the contract signed in 1934 showed the following restrictions: (1) Financial control of the mills; the accountants, administrators, and tellers in each mill were appointed by the bank consortium. (2) Restrictions on the purchase of goods; the purchase and sale of materials and finished products as well as the procurement of necessary materials had to be negotiated with the bank consortium. Nevertheless, as Shenxin had defects in this respect, the bank consortium expected to correct it through such control. (3) Intervention management of the equipment innovation process of Shenxin. During World War II, the development of the bank consortium began to hinder the development of Shenxin, which was mainly attributed to the management contract signed by the bank consortium and Shenxin in October 1936. With the textile industry in the doldrums, the bank consortium was eager to get Shenxin to repay the loans as soon as possible, so it tightened its control over Shenxin through the contract. Article 11 of the contract was the most restrictive: eight tenths of the profits of Shenxin’s Nos. 2 and 5 mills had to be used to repay the Bank of China and the Shanghai Commercial Savings Bank, while the rest was allowed to repay other debts and make equipment improvements. In addition to severely restricting the development of Shenxin’s No. 2 mill during World War II, this provision was also considered to be one of the important reasons why the mill had failed to achieve a “leap-forward” development during World War II.

To sum up, before October 1936, the bank consortium’s management of Shenxin was to a large extent positive and active. The main factors restricting Shenxin’s development were the sluggish market and Shenxin’s own concerns. The depressed market led to the severe deficit of the Nos. 1, 2, 5, and 8 mills of Shenxin in the 1930s, which placed its sustainable operation in trouble. However, a large number of defects in the internal management of the mills mentioned above also contributed to its difficulty in making profits during this period. More importantly, the dissatisfaction of Shenxin’s leaders with the bank consortium resulted in only the Nos. 1 and 8
mills receiving advances in 1935, while the Nos. 2 and 5 mills (Note 5) suffered from a lack of operating funds. The stagnation of the two mills also created serious social problems with thousands of unemployed people. After signing the management contract of the No. 2 and 5 mills of Shenxin in October 1936, the control of Shenxin by the bank consortium restricted its development to a certain extent. In fact, the profits of Nos. 1, 2, 5, and 8 mills of Shenxin from 1932 to 1935 were negligible, and most of their profits occurred after 1936. The operation of the No. 2 mill was particularly smooth during the Anti-Japanese War because the large-scale expansion was eliminated under the control of the bank consortium, while the production and operation were maintained only through small-scale introduction.

Throughout the entire process of the bank consortium’s supervision and management of Shenxin, the company, being caught in financial constraints, could not do without the support of the bank consortium, whether it brought obstacles or help. In fact, although the bank consortium hindered Shenxin’s development to a certain extent during the Anti-Japanese War, the bank consortium insisted on providing advances to Shenxin during the company’s critical moments. The author believes that it would not have been possible for Shenxin to survive the difficulties of the early 1930s without the advances from the bank consortium. Therefore, we have to admit that the bank consortium contributed substantially to the survival of the national bourgeoisie during this period. Shenxin, however, failed to fully utilize the bank consortium during this period. The resistance to the bank consortium’s management led to the shutdown of the Nos. 2 and 5 mills in 1935 and caused massive unemployment, which not only affected the operation of cotton mills but also created a serious social problem.

3. Dust Settled: Bank Consortium Repayment and Experience Summary

3.1 Disengagement from Bank Consortium and Speculation

Nos. 1, 2, 3, 5, 6, 7, and 9 mills in the Shenxin textile industry were saddled with heavy debt. By the end of 1936, the total liabilities of the Shenxin head office and its mills were 80 million yuan. Until May 1942, the arrears still amounted to 20 million yuan. With prices soaring and the Wang Jingwei bogus government pushing through monetary reforms, the Rong family took the opportunity to pay off all debts owed by the Shenxin mills, thus freeing them from the control of the bank consortium.

In May 1942, with the ingenious use of the characteristics of inflation and currency changes, the Rong enterprise completely repaid all the debts of the Shenxin system. According to the pre-war value of gold, 20 million francs were equivalent to approximately 17,400 taels of gold, which were equivalent to only 7,936 taels of gold in May 1942, a difference of more than 20 times.

Although the Rong family paid off all its arrears during the special period of spring 1942, approximately 75% of the arrears actually had been repaid by the Shenxin system before 1942. During this period, the Nos. 1, 5, and 8 mills had stagnated, while the No. 2 mill earned profits every year during the Anti-Japanese War when the textile industry was headed for prosperity, with its profits being mainly used for repayment. Therefore, Shenxin made great contributions to the repayment of the arrears owed to the bank consortium.

3.2 Rampant Expropriation of the National Government

The main reasons for the national government’s disgraceful actions during this period included the following: (1) When the Rong brothers sought assistance from the government, the Ministry of Industry represented by Chen Gongbo attempted to nationalize the cotton mills of Shenxin in the name of investigating it. Compared with the Ministry of Industry represented by Chen Gongbo, Tse-ven Soong proposed a more acceptable initiative to Shenxin, which was to reorganize the enterprise into a limited company “jointly run by government and merchants.” However, as the Rong family had suffered a loss in the Zhenxin Cotton Mill because it is a limited company, and it questioned the mode of “jointly running by government and merchants,” the proposal was finally abandoned because of the disunity of interests within the Nationalist Party. (2) In the early 1930s, the national economy continued to be depressed. However, the national government raised taxes annually regardless of the safety of the country and its people. These two reasons had led to the loss of the national government’s credibility among the public. Specifically, although the Ministry of Industry represented by Chen Gongbo seemed to be merely acquiring the Shenxin system, the incident triggered the panic and distrust of national capitalists toward the national government to a certain extent. In a sluggish economy, higher taxes meant heavier burdens on businesses, while instability in businesses could cause serious social problems. This was a manifestation of the national government’s disregard for people’s livelihood and its excessive expropriation, thereby laying the foundation for the inevitable collapse of the “Chiang dynasty.” Nevertheless, the national government was not good for nothing during this period. Tse-ven Soong and others in the national government offered help at the request of the Rong family, such as the implementation of the policy of “borrowing ingots from boxer indemnity.” (Note 6) The relief policy was proposed by the Ministry of Industry of the Nationalist
Party as a plan to assist Huashang Cotton Mill. The Rong family initially planned to use the policy to buy textile machines but this plan failed. (2) Although the “American Cotton Loan” was believed by some members of the media to have other motives, the Rong family was confident in the policy during the era of domestic cotton shortage, but this project brought minimal effect as well.

3.3 A Brief Comment on the Impact of Bank Consortium on Shenxin and Society

Although the bank consortium found Shenxin’s problems with supervision, its core objective was to enable Shenxin to pay off the arrears as soon as possible without considering its development. It once made sense for the bank consortium to tighten its supervision over Shenxin, whose mills demonstrated almost negative growth in the early 1930s, thereby lacking the capacity to expand production. However, after the economy recovered in 1936, Shenxin began to turn the deficit into a profit, while the intensified management of the bank consortium was constraining Shenxin’s ability to expand production. From the management transformation of the bank consortium, the banking organizations that were set up by the national government held the collection of arrears as their core purpose and were indifferent to the development of the national bourgeoisie.

Nevertheless, at the critical moment when Shenxin suffered losses in successive years and the capital chain broke down due to adverse external conditions and the Rong family’s failure in overseas investments, Shenxin would not survive without the substantial support of the bank consortium. Furthermore, due to the lack of an advance payment from the bank consortium, more than 4,000 workers of the Nos. 2 and 5 mills of Shenxin became unemployed when the mill operations were suspended for a year because of factors concerning the Rong family. This condition demonstrated that without the advance payment of the bank consortium, Shenxin could not continue its operation while serious social problems would also be caused. Therefore, apart from resolving the urgent problems encountered by the national bourgeoisie in business operations, the bank consortium’s advance payment also alleviated the potential social problems to a certain extent. Although the bank consortium assumed certain restrictions on Shenxin’s development, it had not only alleviated the extreme urgency of the company’s controlled mills but also made prominent contributions to prevent potential social problems.

On the contrary, instead of auctioning the assets of Shenxin’s mills, the bank consortium of HSBC maintained the operation of the controlled mills by continuing to provide advance funds until they resumed independent operations.

3.4 Comments on Rong Family’s Practice

Ultimately, the fundamental reason why Shenxin fell into an irreversible predicament in the 1930s was the failure of its overseas speculation. In the context that the national government intended to acquire the company, the Rong brothers sought a way out by actively contacting the national government. It was the Rong family’s persistence that had ensured Shenxin was always in its hands.

However, the family’s resistance to the bank consortium’s management also led to certain missteps. Despite all the difficulties and risks, the Rong brothers kept Shenxin intact in their own hands against the multiple attacks of the government, the bank consortium, and the internal and external pressures from the enterprise.

References


Shanghai Academy of Social Sciences, Historical Data of Rong’s Enterprise (Vol. 2). Shanghai: Shanghai People's Publishing House.


Notes

Note 1. Ma Zhenbo conducted a special study on the “bank consortium” in his article “Harmonizing Fisheries: Establishment and Operation of the Fishery Bank Consortium of the National Government (1936–1948)” published in the Journal of Anhui Normal University (Humanities and Social Sciences Edition), but Shenxin was
seldom involved. The syndicates here are similar to but not exactly the same as Shenxin.

Note 2. Some descriptive words about this period are provided in Section 1 (“Shenxin Enterprise under the Control of Bank Consortium”) of the Development History of Rong’s Enterprise by Xu Weiyong and Huang Hanmin.

Note 3. The total profit of Shenxin Nos. 1 and 8 mills was 91,330 yuan, while that of No. 3 mill was 72,470 yuan.

Note 4. The American cotton loan was a solution proposed by Shenxin at a time when domestic cotton was in short supply, and was submitted to Tse-ven Soong for approval. Despite being approved, the loan had a slight effect due to strong opposition from some parties.

Note 5. According to the records in Lenong Customized Chronology by Rong Desheng, only the No. 2 mill stopped production. However, the production status statistics for that year did not show any cotton yarn output from the No. 5 mill.

Note 6. The balance of the British boxer indemnity was lent to the textile mills for the purchase of textile machines, but the mills were required to repay both the principal and interest.

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