Piaohao were native draft banks which originated in Shanxi Province. The managing style of the piaohao had great influence in modern Chinese banking. This type of bank served local merchants and businesses all over China, as well as Russia and Japan.

The piaohao were draft banks created by merchants in Shanxi Province during the Qing dynasty (1644–1912). During the Ming (1368–1644) and Qing dynasties Shanxi merchants were involved in both domestic and foreign trade ranging from the northeast provinces to Mongolia, Xinjiang, and even Russia and Korea. They made fortunes by distributing salt and iron from their own area to the whole nation and also traded rice, tea, and silk from southern to northern and western parts of China. By that time China had adopted a bimetallic currency system, mainly a silver standard; each trade required the transfer of a large quantity of silver. Although the Shanxi merchants often hired armed men (biaojun) to guard these transfers, robberies still occurred.

The piaohao were created to solve this money transfer problem by Lei Lutai (1770–1849), a Shanxi dye merchant in Tianjin. He used Tang dynasty (618–907 CE) “fly money” (paper draft) methods to invent a money transfer system called huipiao, which was similar to a bank check. Lei established China’s first piaohao, Rishengchang Piaohao, at Shanxi Pingyao in 1823.

Along with the development of Shanxi merchant trade with other provinces, several piaohao opened branches outside Shanxi and established a transregional business network. For example, Rishengchang opened its branches in Shandong, Henan, Liaoning, and Jiangsu provinces only a few years after it was established. In the 1840s Rishengchang expanded its operations to Japan, Singapore, and Russia. Over the next half century more than fifty other piaohao were established throughout the Qing dynasty. Twenty of them had their headquarters in Pingyao, which became a famous financial center in the modern history of Chinese banking.

Piaohao had multiple banking functions, such as remitting trade bills and even taking government transit tax deposits during special periods. Piaohao could provide merchants and long-distance travelers with a huipiao, a check that they could exchange for cash at specified branches after they reached their destination. The check reduced the risk of robberies by eliminating the need to carry large amounts of silver.

Piaohao also received savings deposits and granted loans. All large Shanxi piaohao had branches in Beijing and other major trading cities. They cultivated close personal relations with Qing officials and took private deposits. Piaohao made profits by taking advantage of the time elapsed between issuing huipiao and having to pay the actual remittance; they could loan the money to others and charge interest. Since the quality of silver was different in each location, piaohao also could profit by remitting a lesser silver quality when the huipiao was presented.

Piaohao developed some practices of modern corporate governance by dividing ownership and management functions. Rishengchang hired a general manager
to oversee all business, hired customer relations experts to deal with daily business operations, and established an incentive system by offering stocks and dividends to employees. The incentives increased with the duration of employment, making employees loyal to the piaohao.

In internal management piaohao had a strict personnel system to hire and train new staff members. Each new employee had to have at least two reputable reference persons with a certain amount of money deposited in the bank to act as financial guarantors. Piaohao required all employees to study Confucianism to establish high moral standards of trustworthiness, truthfulness, and loyalty and self-discipline to avoid the temptation of gambling and prostitutes. Thus, efficient internal management reduced operational risks and moral hazards.

Piaohao was the major type of draft bank during the late Qing dynasty, primarily because there was no central bank until the establishment of the Hubu Bank in 1904. Some piaohao served as semiofficial treasury agencies during the Taiping Rebellion period. The managers of these piaohao developed close relationships with Qing officials, for whom they transferred funds for the Bureau of Revenue and served as fiscal agents by collecting local tax revenues and transacting these revenues, such as lijin, the transit tax on goods traveling from provinces to the capital. Thirty-two piaohao banks with more than four hundred branches had paid-in capital of 30 million tael (a unit of value based on the weight of silver) in 1893. This amount, plus the deposits and notes of the native banks, totaled 200 million tael.

Since piaohao held some government deposits without paying interest, they had larger financial resources than some qianzhuang or native commercial banks in various cities. Piaohao lent money to those qianzhuang. The Yangzi (Chang) River usually served as a natural dividing line that indicated that piaohao dominated the financial market in northern China, and qianzhuang dominated the financial market in southern China. Since Shanxi piaohao did not have their trading business base in Shanghai, they could lend money to Shanghai local qianzhuang and make a profit by receiving interest.

Piaohao declined with the collapse of the Qing dynasty in 1912. Due to the overthrow of Qing dynasty, and large quantity of loans made to Qing officials that were never repaid, many piaohao were driven into bankruptcy. The remaining piaohao declined and finally disappeared after private banks were nationalized in 1952. But with China’s financial reform and promotion of microfinance in rural and less-developed urban areas in recent years, some small private cooperative banks have revived. Piaohao are also reviving in Shanxi Province and other places.

JI Zhaojin

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An example of printed money dating to the Song dynasty. The inscription means that the bill can be used in exchange of 77,000 wen, or metal coins.
Further Reading


A man’s greed is like a snake that wants to swallow an elephant.

人心不足蛇吞象

Rén xīn bù zú shé tūn xiàng