

Will China be 'Trumped' by its Railway Bonds?



Regular readers will know that I rarely delve into politics in my articles, preferring instead to treat all politicians, of any flavour, colour and opinion with equal disdain.

That said, just sometimes, history, politics and finance converge to make an interesting story.

Back in May 1911, in the last few months of the Qing Dynasty, determined to nationalise locally operated railways, the imperial Chinese government issued millions of dollars' worth of railway bonds, including the \$6 million Hukuang Railway Bond.



The Hukuang Railway was made up of two routes, the Canton-Hankou Railway and the Sichuan-Hankou Railway, which covered a total distance of approximately 2,545 miles (4,096km). It was one of the country's most complicated railways and united central China with its coasts.

The Hukuang Bond was part of the nationalisation of all locally-controlled railways.

On 20th May 1911, Sheng Hsuanhuai, the Minister of Post & Communications signed the loan agreement with a four-nation (UK, USA, France & Germany) Banking Consortium and pledged the rights to operate the railways.

Initially discussed in 1909, the deal was to be underwritten by a consortium of French, German and British banks, but by 1911 the United States had joined the group, and the bond issue was shared equally between banks of the four countries.

The raising of this capital using foreign banks caused a bit of a stir with the local Chinese, and the 'Railway Rights Protection Movement' was formed to protest, and they protested with gusto, including violent demonstrations in Chengdu particularly - Lots of blood was spilled!



The Qing government transferred much of its army from Hubei to Sichuan province to quell the protests, leaving forces in Hubei weakened. This allowed a new army of revolutionaries to stage a coup, initially in Hubei, against the central government officials.

Known as the Wuchang Uprising, this ended the Qing Dynasty. Ten years later, the British Minister of Peking, J.N. Jordan, declared the Hukuang Railway loan agreement "was the proximate cause of the downfall of the Qing Dynasty."

The Hukuang Bond was one of many grievances driving China towards revolution and the overthrow of the Qing government.

Subsequently, the government of the Republic of China (1912-1928) and Chiang Kai-shek's Nationalist Republic of China (POC) government (1927-1948) came to power, followed in 1949 by the current Communist Party of China government of the Peoples Republic of China (the CCP).

The Hukuang Bond issue was a 40 year bond, with a 5% coupon, due to mature in 1951.

International Law on the topic of revolution, government overthrow or a peaceful change of government seems to support the idea that new governments inherit the debts of prior *governments*, regardless of their differing political and fiscal philosophies.

This inheritance seems to have been embraced by the successor governments, the Republic of China, and Nationalist Republic of China, who made regular coupon payments until the early 1930s and more sporadic payments during the late 1930s.



By the time the bonds should have matured in 1951, the current PRC government had been in power for two years, and it refused to honour bond commitments made 40 years earlier by leaders that it considers to have been 'corrupt exploiters of the Chinese people and country'.

The current Chinese government argues that the bonds were one means by which the imperial government "intensified its oppression and plunder of the Chinese people."

Interestingly, a number of Americans still hold these bonds, presumably inherited from Grandma in most cases. They calculate the total debt to be in the region of US\$1trillion - yes, that's one thousand thousand million United States Dollars, taking into account unpaid coupons, capital value at the 1951 maturity, and inflation rates since then!!!!



The holders have been trying to redeem the debt since 1951, with no success.

The Chinese state-run Global Times claims that when the Communist regime took power in Beijing on October 1, 1949, the government abolished all unequal treaties and cancelled foreign debts. It claimed that it does not have any obligation to pay back any outstanding debts after Chiang Kai-shek fled to Taiwan in 1949 with a number of loans in hand.

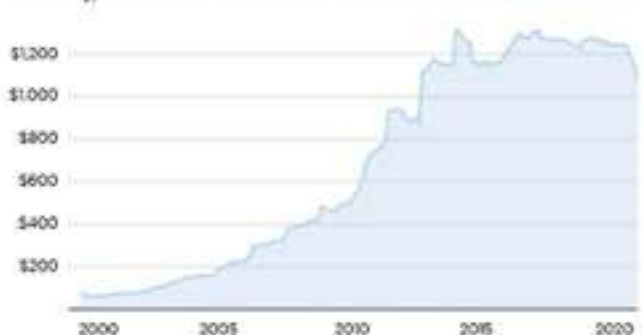
The American Bondholders Foundation (ABF) said; "These bonds were originally issued under the Republic of China, what we know today as Taiwan. For the Communist regime, who went in and took over mainland China and became the official government in 1949, it becomes their responsibility to honour this debt".

Well, if the International laws are correct, so is the ABF. To make matters worse for the CCP, the CCP government claims to be the only legal government in China and has the right to inherit the sovereignty of the whole of China and Hong Kong left by the Qing government.

The government of PRC has also arguably 'shot itself in the foot' by paying the United Kingdom in 1987 for this very bond! (This was in the pre-amble to the hand-over of Hong Kong). This does seem to follow the 'successor government inherits the debts' international legal concept.

US Treasuries Owned by China, in USD Billions - Historical Chart

Currently, China owes 1.08 trillion of total \$22 trillion US national debt



According to the US Treasury Department, as of May 2020, the CCP holds some US\$1.08 trillion in US Treasury bonds, and some in the Trump administration have suggested they exchange bonds with the CCP, that is, use the Hukuang Railway Bonds to repay the U.S. Treasury bonds held by the CCP.

I wonder if 'the Donald' has the front to try this?

With Donald Trump's propensity for 'forceful diplomacy' it will be interesting to see if this develops further. The president is known to have met with members of the ABF to discuss this very topic recently, and the CCP seem to be tying themselves in knots, trying to insist they rule the whole of China, but not its legacy debts.



It is not really surprising that I have difficulty in taking politicians seriously - on the one hand, Donald Trump, firmly and decisively imposing a trade war on the Peoples Republic of China for almost everything (except his rambling incoherent speeches, I suppose), whilst constantly recruiting, and subsequently dismissing White House staff ad nauseum.

Then across the Pacific, in Zhongnanhai, the seat of government in Beijing, Xi Jinping and his gang seems equally consistent in confirming the CCP is the open, progressive caring and legitimate government of China, but not responsible for these debts, but yes, but no, but yes, but no.....who knew Vicky Pollard spoke Mandarin?

It must be said, though- the bond document itself is an exquisite piece of artwork! We may have just added art to the politics, history and finance aspects of this story.

