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The Rubber Stock Crisis in 1910 Shanghai: were the listed companies fraudulent? A look into the financials of Tebong and Tapioca Estates after the crisis

1) Introduction and the Purpose of Study

Financial crises have always been an important topic to study as they seriously affect the social, economic and political lives of the people who went through them. These episodes could cause long term and serious consequences as evidenced by the link between the global depression in the 1930s and the rise of Fascism in Europe and Asia. More recently, the Asian financial Crisis (1997 to 1998) led to the collapse of the Suharto Regime in Indonesia. It is the intention of this paper to study the rubber crisis that happened in 1910. This episode in history involved the major aspects of the country's financial, social and political systems. Some scholars have even linked its happening to the eventual demise of the Qing Dynasty.

With the mass commercialization of motor vehicles, the demand for rubber increased substantially in the US and UK. Rubber imports to car producing countries rose dramatically and the search for additional supply led investors to the Malaysian plantations. International merchants, desiring for further capital raisings for these projects, found Shanghai to be the destination for rubber company equity listings.

Shanghai had a well functioning stock exchange that was managed by westerners and with this background international trading houses began to list and promote rubber companies

where plantations were located mainly in Malaya. The long term investment thesis for investing in rubber stocks was attractive to Chinese investors and they invested heavily into these equity offerings. Stock prices of many of these companies went up 4 fold within a few months from March to July of 1910. Local banks borrowing from their international counterparts, lent 50 to 80% of the face value of the equities to investors for further speculation.¹ Then in July 1910, the US restricted imports of rubber and the international price of the commodity fell. The stock prices of the rubber companies followed the fall of the price of rubber and it was estimated that the Chinese investors lost 20 million taels.² Due to the large amount of margin loans extended to rubber stock speculators, the banking system was also seriously affected.

There are studies on the episode from both Western and Chinese scholars. In English, the most noticeable paper was written by W. A. Thomas who accounted for the mania and bust in great detail. In Chinese, scholars such as Duan Sheng Long, Min Jie and Jiang Ying Chun wrote extensively on the lack of fundamentals of the rubber companies, the financial leverage of investors in the mania and also the incompetence of the Qing officials when facing the banking crisis.

The existing literature has a tendency to stop accounting for the state of the rubber companies as soon as the crisis unfolded in mid 1910 as if they ceased to exist. The Chinese scholars in particular viewed the rubber companies as having very weak fundamentals or were outright fraudulent.³ The common view is that the rubber companies were created in order to take advantage of ignorant Chinese investors.

¹ 張秀莉 Zhang Xiuli, “橡皮股票風潮再研究 xiangpi gupiao fengchao zai yan jiu”, *社會科學 Journal of Social Sciences* no.4(2009):145, <http://tra.global.cnki.net/kns50/detail.aspx?QueryID=7&CurRec=1>.

² 閔杰 Min Jie, “上海橡膠風潮及其對江浙地區民族經濟的沖擊” Shanghai xiangjiao fengchao ji qi dui Jiangzhe diqu minzu jingji de chongji, *中國經濟史研究 Zhongguo jingji shi yanjiu* no. 1 (1989):127.

³ 張秀莉 Zhang Xiuli, “橡皮股票風潮再研究 xiangpi gupiao fengchao zai yan jiu”, *社會科學 Journal of Social Sciences* no.4(2009):145, <http://tra.global.cnki.net/kns50/detail.aspx?QueryID=7&CurRec=1>.

It is the purpose of this paper to examine such a claim by discussing the rubber stock mania as a historical episode and then focus on the corporate development of a leader in the rubber industry in Malaya called Tebong and Tapioca Estates. Utilizing the reports in the annual general meeting of the company published in The Straits Times from before the crisis in 1909 to 1919, the paper will account for the trend of the company's fundamentals. By carefully examining the company's results, one could draw the conclusion that the management did indeed have a strong intention to run the company well. The massive volatility experienced in the market created much wealth and havoc for the Chinese investors and banking system but it had limited long term impact on the Tebong Company.

One could draw an important lesson that it is the liquidity cycle that determined investors' returns in this case rather than the actual state of the company's affairs. This is vital for financial operators and historians alike when analyzing an asset boom and bust cycle: companies or financial products need not be fraudulent to cause massive losses; unrealistically optimistic expectations and financial leverage are sufficient to cause that to happen.

The paper is structured as follows: it will first introduce how Shanghai became a financial center. Then it would analyze the rise in demand for rubber and how Malaya became a production center for the commodity. Then it will discuss the boom and bust mania of rubber stocks in Shanghai. It will then discuss the fundamental trend of the Tebong Company up to 1920 (a decade after the 1910 rubber mania). The paper will then conclude with the lessons drawn from this analysis.

2) Shanghai as a Financial Center

Guangzhou was the only city where trading with Westerners were allowed before the First Opium War (1839-1842). The defeat of the Qing government resulted in the signing of the Nanjing Treaty that allowed foreign trade to take place in four additional ports, including

Shanghai. The city soon became the pre-eminent port and financial center in the ensuing decades. Situated at the mouth of the Yangtse River, the city is located at the prosperous and populated Jiangzhe area where tea, silk and cotton were produced.⁴ Moreover, trade in the inner provinces along the Yangtse River such as Sichuan, Hubei, Hunan, Jiangxi, Anhui and Jiangsu also relied on the waterways that linked to Shanghai.⁵ As such, by 1870 Shanghai's represented 63.6% of the trade between the Qing Empire and the rest of the world with Guangzhou coming at a distant second at 13.4%.⁶

The city's financial infrastructure was built on the foundation of the trade in physical merchandise. This is because the movement of large amounts of goods required large ship vessels which in turn needed a substantial sum of capital investment.⁷ With such demand came the increase in local financial institutions located in Shanghai, especially in the international region of the Northern city. Moreover, foreign institutions were also setting up in Shanghai. The first bank, the Oriental Bank was set up in 1847.⁸ The Taiping Rebellion created an influx of capital and commercial activity as the surrounding province of Jiangsu was affected by the war.⁹ In 1864, the Hong Kong and Shanghai Bank was set up with capital of 5 million yuan.¹⁰ A decade later, its capital had risen by 4 times with a dividend rate of 12%.¹¹ Foreign and Chinese local financial institutions had an abundant amount of transactions. Foreign banks were eager to lend to local financial institutions in order to earn a higher rate

⁴ 段剩龍 Duan Shenglong, “清季橡膠股票風潮與官民因應” qing ji xiangjiao gupiao fengchao yu guan min yinying (碩士學位論文 Master's thesis, 暨南大學 Jinan University, 2010), 中國優秀碩士學位論文全文數據庫 zhongguo youxiu shuoshi xuewei lunwen quanwen shujuku, 8, <http://tra.global.cnki.net/kns50/detail.aspx?QueryID=7&CurRec=1>.

⁵ Ibid., 9.

⁶ Ibid.

⁷ Ibid., 10.

⁸ Ibid., 11.

⁹ Ibid.

¹⁰ Ibid.

¹¹ 黃鑾暉 Huang Jianhui, 山西票號史料 *shanxi piaohao shiliao*, (太原 taiyuan : 山西經濟出版社 shanxi jingji chubanshe, 2002), 71, quoted in 段剩龍 Duan Shenglong, “清季橡膠股票風潮與官民因應” qing ji xiangjiao gupiao fengchao yu guan min yinying (碩士學位論文 Master's thesis, 暨南大學 Jinan University, 2010), 中國優秀碩士學位論文全文數據庫 zhongguo youxiu shuoshi xuewei lunwen quanwen shujuku, 11, <http://tra.global.cnki.net/kns50/detail.aspx?QueryID=7&CurRec=1>.

of interest than what was prevailing in the international market. For example, a local bank with capital of 100,000 taels in capital could borrow chop loans of up to 700,000 taels.¹²

Thus Shanghai had become a financial capital in the Orient by the early 20th century when the rubber crisis occurred.

3) The Rise of the Demand for Rubber and Malaysian Rubber Plantations

The massive commercialization of the automobile was one of the key events in global industry in the early 20th century. The major force behind this trend was the production of Henry Ford's Model T vehicle. With the rise in the number of automobile produced came with the increase in demand for rubber tires. Therefore, "it was....evident that the future demand for rubber seemed infinite as the motor car proliferated in the United States."¹³ With the rise in demand, the price of rubber went from 40 pence to 3 sterling pounds.¹⁴

In order to control production costs associated with the rise in rubber prices, "there was a search for alternative sources of supply and this led to experiments in the cultivation of plantation rubber, centered largely on the Malayan Peninsula."¹⁵ The move to Malaya was with relative ease as there were significant "subsidiary flows between constituent parts of the empire."¹⁶ Capitalists and entrepreneurs could move "capital from tea interests in Ceylon" to the development of Malayan rubber estates."¹⁷

One such company that was created in the midst of this boom was "The Tebong Rubber & Tapioca Estates Co." which made its appearance in 1907.¹⁸ Operations soon began with the acquisition of rubber producing plantations. At the general meeting, management

¹² Zhaojin Ji, *A history of modern Shanghai Banking: the rise and decline of China's finance capitalism*, (New York: M.E. Sharpe, Inc., 2003), 92.

¹³ W. A. Thomas, "An Intra-Empire Capital Transfer: The Shanghai Rubber Company Boom 1909-1912", *Modern Asian Studies* 32, no. 3 (Jul., 1998): 744, <http://www.jstor.org/stable/313165>.

¹⁴ Quentin R. Skrabec Jr., *The 100 Most Important American Financial Crises: an encyclopedia of the lowest points in American economic history*, (California: ABC-CLIO, LLC, 2015), 125.

¹⁵ W. A. Thomas, "An Intra-Empire Capital Transfer: The Shanghai Rubber Company Boom 1909-1912," *Modern Asian Studies* 32, no. 3 (Jul., 1998): 740, <http://www.jstor.org/stable/313165>.

¹⁶ *Ibid.*, 739.

¹⁷ *Ibid.*

¹⁸ *Ibid.*, 740.

remarked that “during the year (ending 31st January 1909), 273 acres of virgin forest and 91 acres of lalang land have been reclaimed and planted with rubber and tapioca, bringing the total area under cultivation up to 2,081 acres.”¹⁹ It was noted that a total of 245,000 trees have been planted from 1905 to the time this was reported.²⁰ That year, “profit of 50,921.28 taels has been made.”²¹ Therefore from the information provided by *The Straits Times*, the company was indeed operating with the intention to produce rubber for the profit of the company.

The company was not without its skeptics. One of the directors and founders was J.A. Wattie and he had brought on the manager of Jarinde Matheson’s Shanghai office David Landale to take part in his operations. Henry Keswick, of Jardines, was not pleased with Landale’s move and his involvement with the rubber companies. On Landale, he wrote from London to his son in Hong Kong: “It is to be regretted that Landale has been associating himself with Companies not under our control or that can be regarded as within the scope of ordinary operations.”²² Be that as it may, investors, especially in Shanghai would become extremely enthusiastic on rubber stocks which led to the mania in 1910.

4) The Boom and Bust of Rubber Stocks in Shanghai

The production boom in Malaya led to a rise in the demand for capital and Shanghai became the natural destination for raising large amounts of equity funding for these capital intensive rubber production projects. The city had an “accommodating legal framework of the local companies Ordinance, and the ability to create and promote companies quickly with

¹⁹ “Tebong Rubber and Tapioca Estate,” *The Straits Times*, 6 Jul. 1909, 7, <http://eresources.nlb.gov.sg/newspapers/Digitised/Article/straitstimes19090706-1.2.67.aspx>.

²⁰ Ibid.

²¹ Ibid.

²² W. A. Thomas, “An Intra-Empire Capital Transfer: The Shanghai Rubber Company Boom 1909-1912,” *Modern Asian Studies* 32, no. 3 (Jul., 1998): 743, <http://www.jstor.org/stable/313165>.

local legal, banking and broking facilities, the institutional framework was in place.”²³ More importantly, “investment in Malaya....was not in any way novel since commercial interests had long had an involvement with sugar and tobacco estates.”²⁴ “Investment capital was (also) available.....from both foreign and Chinese sources.”²⁵ On the debt raising side, foreign banks were eager to lend to local financial institutions. The infrastructure for equity financing was also well established. The “Shanghai Stock Exchange had been formally constituted in 1904...with its rules and regulations modeled on those of several major overseas markets”²⁶ and therefore could support a significant amount of equity listings.

On the back of the rise in price of the underlying commodity and an optimistic outlook, equity capital-raising was met with great enthusiasm. The price of rubber went up from 2 shillings in 1908 to 10 shillings by the winter of 1909.²⁷ “According to the Times, 122 rubber companies were set up from late 1909 to early 1910, of which 40 or so were set up in Shanghai.”²⁸ The total value raised for rubber equity issues in Shanghai was 20 to 30 million taels.²⁹

Given the heated demand for rubber stocks, local Chinese financial institutions considered these issues as collateral for lending and as the prices of these stocks went up, more margin loans were given the investors to purchase additional shares. Moreover,

²³ *Ibid.*, 741.

²⁴ *Ibid.*

²⁵ *Ibid.*

²⁶ *Ibid.*

²⁷ 段剩龍 Duan Shenglong, “清季橡膠股票風潮與官民因應” qing ji xiangjiao gupiao fengchao yu guan min yinying (碩士學位論文 Master’s thesis, 暨南大學 Jinan University, 2010), *中國優秀碩士學位論文全文數據庫 zhongguo youxiu shuoshi xuwei lunwen quanwen shujuku*, 13, <http://tra.global.cnki.net/kns50/detail.aspx?QueryID=7&CurRec=1>.

²⁸ “論橡皮種植會” lun xiang pi zhong zhi hui, *泰晤士報 tai wu shi bao*, 17 Jun 1910, quoted in 閔杰 Min Jie, “上海橡膠風潮及其對江浙地區民族經濟的沖擊” Shanghai xiangjiao fengchao ji qi dui Jiangzhe diqu minzu jingji de chongji, *中國經濟史研究 Zhongguo jingji shi yanjiu* no. 1 (1989):126.

²⁹ 姜迎春 Jiang Yingchun, “1910年上海橡膠股票風潮中的外國金融勢力” 1910 nian shanghai xianjiao gupiao fengchao zhong di waiguo jinrong shili, *遼寧醫學院學報(社會科學版) Journal of Liaoning Medical University (Social Science Edition)* 6, no. 3(Aug., 2008):110, <http://tra.global.cnki.net/kns50/detail.aspx?QueryID=67&CurRec=13>.

investors could also buy future contracts without any down payment for rubber stocks to be delivered at a future date. The ease of credit fueled the rubber equity boom. “In the week 17-24 February the average cash price of 12 rubber estates rose by 26.5%”³⁰ and during “the week 10-17 March..... the average increase for ten leading (rubber) shares was 44.1%.”³¹

However, the rosy scenario for rubber and rubber stocks was not to last indefinitely. The US fearing an outflow in gold from an increased import of rubber, set an embargo on the product. Compounding the problem, the rise in rubber prices itself was to cause a fall in demand. As reported by the *Strait Times*, high prices (of rubber) were “very gratifying to companies concerned” but would “hinder consumption considerably.”³² The paper’s prediction was vindicated as the price of rubber started to fall in early summer 1910 and the stock prices of rubber stocks followed suit. By mid-June, Tebong fell 22% from its peak while others such as Senawang and Alma Estates fell 15% and 50% respectively from their highs.³³ Since most stocks were either purchased on margin or for later delivery, as stocks fell, the financial situation of investors deteriorated which led to a greater fall in stock prices. As it was reported that “large lots of shares are frequently bought or sold by persons who would never be able to take up such shares and pay for them, or make good any appreciable difference in an adverse market.”³⁴

The financial losses sustained by Shanghai traders would prove to be shocking as “the total amount of capital invested into rubber stocks was 60 million taels of silver and Chinese

³⁰ W. A. Thomas, "An Intra-Empire Capital Transfer: The Shanghai Rubber Company Boom 1909-1912," *Modern Asian Studies* 32, no. 3 (Jul., 1998): 746, <http://www.jstor.org/stable/313165>.

³¹ *Ibid.*, 747.

³² “The Rubber Industry”, *The Straits Times*, 5 Mar. 1910, 7, <http://eresources.nlb.gov.sg/newspapers/Digitised/Article/straitstimes19100305-1.2.68.aspx>.

³³ W. A. Thomas, "An Intra-Empire Capital Transfer: The Shanghai Rubber Company Boom 1909-1912," *Modern Asian Studies* 32, no. 3 (Jul., 1998): 748, <http://www.jstor.org/stable/313165>.

³⁴ *North China Herald*, 6 May 1910, 333, <http://search.proquest.com/docview/1369520732?accountid=10371>.

investors made up 70 to 80% of that amount.”³⁵ Moreover, “it is estimated that Chinese investors lost 20 million taels of silver in the crash.”³⁶ The impact on the banking industry due to the rubber stock bubble was detrimental as many of the institutions provided loans for speculators to purchase rubber stocks. Before the crisis, there were 91 local financial institutions in Shanghai and 48 of them or 53% went under due to the crisis.³⁷ Thus, the Chinese financial system was severely damaged and the economy was adversely affected.

What started out as a financial crisis became a political one. The CFO of the Sichuan Railroad company Shi Dianzhang 施典章 embezzled the company’s funds to speculate on margin in the rubber stocks. His losses caused major uproar in the common people in Sichuan, who were shareholders of the company. When Sheng Xuanhuai 盛宣懷 began his railroad nationalization programme in 1911, he stated that he would not compensate for the speculative losses of the company.³⁸ This caused riots in Sichuan known as Bao Lu movement 保路運動³⁹ which then forced the Qing government to send in troops from Wuhan. The troop mobilization gave the revolutionaries an opportunity for military action which then led to the 10th October 1911 revolution and the subsequent demise of the Qing Empire.

³⁵ 菊池貴晴 Kikuchi Takaharu, “清末經濟死慌與辛亥革命之聯繫” qing mo jingji si huang yu xin hai geming zhi lianxi, quoted in 張秀莉 Zhang Xiuli, 橡皮股票風潮再研究 xiangpi gupiao fengchao zai yan jiu, *社會科學 Journal of Social Sciences* no.4(2009):146, <http://tra.global.cnki.net/kns50/detail.aspx?QueryID=7&CurRec=1>.

³⁶ 姜迎春 Jiang Yingchun, “1910 年上海橡膠股票風潮中的外國金融勢力” 1910 nian shanghai xianjiao gupiao fengchao zhong di waiguo jinrong shili, *遼寧醫學院學報(社會科學版) Journal of Liaoning Medical University (Social Science Edition)* 6, no. 3(Aug., 2008):110, <http://tra.global.cnki.net/kns50/detail.aspx?QueryID=67&CurRec=13>.

³⁷ 柳婷婷 Liu Tingting, “1910 年金融危機淺論” 1910 nian jinrong weiji qian lun, (碩士學位論文 Master’s thesis, 中國社會科學院研究生院 Graduated School of Chinese Academy of Social Sciences, 2011), 中國優秀碩士學位論文全文數據庫 zhongguo youxiu shuoshi xuwei lunwen quanwen shujuku, 25, <http://tra.global.cnki.net/kns50/detail.aspx?QueryID=335&CurRec=1>.

³⁸ 段剩龍 Duan Shenglong, “清季橡膠股票風潮與官民因應” qing ji xiangjiao gupiao fengchao yu guan min yinying (碩士學位論文 Master’s thesis, 暨南大學 Jinan University, 2010), 中國優秀碩士學位論文全文數據庫 zhongguo youxiu shuoshi xuwei lunwen quanwen shujuku, 53, <http://tra.global.cnki.net/kns50/detail.aspx?QueryID=7&CurRec=1>.

³⁹ 柳婷婷 Liu Tingting, “1910 年金融危機淺論” 1910 nian jinrong weiji qian lun (碩士學位論文 Master’s thesis, 中國社會科學院研究生院 Graduated School of Chinese Academy of Social Sciences, 2011), 中國優秀碩士學位論文全文數據庫 zhongguo youxiu shuoshi xuwei lunwen quanwen shujuku, 27, <http://tra.global.cnki.net/kns50/detail.aspx?QueryID=335&CurRec=1>.

5) Operations of The Tebong and Tapioca Company after the crisis

As the rubber stocks collapsed and the Chinese financial system were in seriously affected by the bust, it would be beneficial to study the fundamentals of some of the companies after the crisis. As reported by the North China Herald, there were at least 10 to 12 rubber companies that issued dividends.⁴⁰ Focusing on the attention on the Tebong company, the Strait Times reported on 12th August 1910 that Tebong paid a dividend of 0.5 taels per share for the last fiscal year.⁴¹

As the crisis unfolded, second general meeting was convened for the Tebong company on 12th September 1910 where the Chairman Mr. MacGregor remarked that even though the profits have fallen, they should congratulate themselves for “being able to show (a) profit” given the fall in Tapioca prices.⁴² The chairman reported that “6000 (rubber trees) have now been marked and set out in groups for regular tapping operations in the 244 acre block.”⁴³ The bear market in rubber stocks did not seem to affect the growth plans of the company. Moreover, far from being a fraudulent company, management commented that “the profit and loss account shows a credit balance of 62,000.31 taels, including the sum of 16,894.06 taels brought forward from last year.”⁴⁴

The Tebong Company put out a job advertisement on 27th December 1910 where they were looking for a manager with a “thorough knowledge of Chinese and Tamil labor.”⁴⁵ The text further explained that the candidate must have skills in the “organization of rubber estate work inclusive of estate accounts.”⁴⁶ However, “experience in tapioca” was “not required.”⁴⁷

⁴⁰ “The Week’s Finance,” *North China Herald*, 7 Sep. 1912, 702-703.

⁴¹ *The Starits Times*, 12 Aug. 1910, 6,

<http://eresources.nlb.gov.sg/newspapers/Digitised/Article/straitstimes19100812-1.2.22.aspx>.

⁴² “Tebong Rubber and Tapioca,” *The Straits Times*, 22 Sep. 1910, 7,

<http://eresources.nlb.gov.sg/newspapers/Digitised/Article/straitstimes19100922-1.2.61.aspx>.

⁴³ Ibid.

⁴⁴ Ibid.

⁴⁵ “Advertisement Column,” *The Straits Times*, 27 Dec. 1910, 12,

<http://eresources.nlb.gov.sg/newspapers/Digitised/Article/straitstimes19101227-1.2.89.4.aspx>.

⁴⁶ Ibid.

This advertisement illustrated that the company was on an expansion trajectory and the emphasis was put in the growing of rubber rather than tapioca.

Furthering our analysis on the company fundamentals, for the year ending January 31st 1911, which was the fiscal year when the rubber stock boom and bust happened, the Tebong estate remarked that the plantation yielded “900 lbs of rubber for 25 days” of tapping.⁴⁸ The company was clearly operational. The management remarked that “the profit and loss account shows a divisible credit balance of 75,060.68 taels, including the amount of 21,737.65 brought forward from last year.”⁴⁹ In the next fiscal year that ended on January 31st 1912, there was a sale of “21,569 lbs (of rubber) and the company realized \$42,020.67 net.”⁵⁰ Management remarked that “The profit and loss account shows a divisible credit balance.....of 113,423.64 taels, including the 26,617.29 taels brought forward from last year.”⁵¹ The year’s results would go to show that the company did not merely rely on equity financing for the operations of the business. It was in fact fully operational by then.

The Straits Times reported on 13th March 1913 that Tebong Rubber Estate would issue debentures to the amount of 250,000 taels to provide for working capital.⁵² This was most likely a result of the lack of opportunities to raise capital from the equity markets. Therefore, the company had to seek financing opportunities from the debt markets. According to the company, this note was “redeemable at par by annual drawings in January of each year commencing in 1915.”⁵³ This implied that the company was able to borrow beyond 2 years

⁴⁷ Ibid.

⁴⁸ “The Tebong Estate,” *The Straits Times*, 3 Jul. 1911, 7, <http://eresources.nlb.gov.sg/newspapers/Digitised/Article/straitstimes19110703-1.2.70.aspx>.

⁴⁹ Ibid.

⁵⁰ “Tebong Rubber and Tapioca,” *The Straits Times*, 3 Jul. 1912, 10, <http://eresources.nlb.gov.sg/newspapers/Digitised/Article/straitstimes19120703-1.2.78.aspx>.

⁵¹ Ibid.

⁵² “Tebong Rubber Estate,” *The Straits Times*, 13 Mar. 1913, 9, <http://eresources.nlb.gov.sg/newspapers/Digitised/Article/straitstimes19130313-1.2.54.aspx>.

⁵³ Ibid.

which reflected that investors' had faith in the soundness of its financial position in the medium term.

The company when promoting its bonds, remarketed that the estate had "an area of 4,744 acres of which the planted area on January 31 (1913) was 2,230 acres."⁵⁴ Moreover, "accounts for the financial year 1912-1913 are expected to show a profit of over 10,000 Sterling Pounds."⁵⁵ Directing investors' attention to the state of Tebong's balance sheet, management remarked that the company had "debentures outstanding to the amount of 150,000 taels and a bank overdraft in Singapore of Straits \$48,000 and against the latter there is approximately 82,200 lbs of unsold rubber."⁵⁶

Management continued that "for 1914-1915, the revenue is estimated at 50,375 Sterling Pounds and expenditure of 25,000 Sterling Pounds."⁵⁷ The company confirmed that there were "sufficient funds in hand to ensure the payment of dividends from now on and to make possible to commence redeeming the debentures after 1914."⁵⁸ Furthering strengthening the covenant of the debt issue, the company stated that the "Cathay Trust, Ltd., the holders of the outstanding debentures, have agreed to underwrite free of charge 150,000 taels of the new issue."⁵⁹ This debt issuance would provide strong evidence that amidst a difficult equity market environment, the company seeking to continue its growth in the production of rubber, would seek financing from the debt market channel. The belief that rubber companies were fraudulent entities could be refuted with this case.

Continuing with the discussion on the company's fundamentals, the 7th annual meeting of Tebong was held at Shanghai on May 28th as reported by The Straits Times on

⁵⁴ Ibid.

⁵⁵ Ibid.

⁵⁶ Ibid.

⁵⁷ Ibid.

⁵⁸ Ibid.

⁵⁹ Ibid.

12th June 1915,⁶⁰ and the company reported that a “loss of 911.24 taels was sustained through the overvaluation of the unsold stock of rubber on hand.”⁶¹ Rubber plantation was no doubt a capital intensive business as “out of a profit of 86,800 taels no less than 83,575 taels were spent on the capital account”⁶² for “new buildings and machinery.”⁶³ Moreover, the general operational environment must have been dangerous for the people involved as the company reported that “health conditions have given a good deal of trouble, but steps have now been taken to drain the swamps and clear up the areas around the building sites.”⁶⁴

The operations of the Tebong company must have continued to flourish somewhat in the ensuing years as the company “decided to pay a second interim dividend of 0.50 taels per share” as reported by *The Straits Times* on 16th November 1917.⁶⁵ Subsequently during the general meeting of Tebong Estate which was held on June 27th 1918,⁶⁶ management remarked that there was an “additional 392 acres had been planted up.”⁶⁷ This is evidence that the company was continuing to grow and it’s reported that the total “area under cultivation (was) up to 3,400 acres”⁶⁸ at that point. However, the business environment was tough as there was a general oversupply of rubber production. This would provide evidence that in general, the rubber industry was operating for producing actual rubber for the market. The company remarked that the only way to tackle the oversupply of rubber would be “for

⁶⁰ “Tebong Estate,” *The Straits Times*, 12 Jun. 1915, 10,
<http://eresources.nlb.gov.sg/newspapers/Digitised/Article/straitstimes19150612-1.2.56.aspx>.

⁶¹ Ibid.

⁶² Ibid.

⁶³ Ibid.

⁶⁴ Ibid.

⁶⁵ *The Straits Times*, 16 Nov. 1917, 8,
<http://eresources.nlb.gov.sg/newspapers/Digitised/Article/straitstimes19171116-1.2.23.aspx>.

⁶⁶ “Tebong Estate”, *The Straits Times*, 20 Jul. 1918, 10,
<http://eresources.nlb.gov.sg/newspapers/Digitised/Article/straitstimes19180720-1.2.48.aspx>.

⁶⁷ Ibid.

⁶⁸ Ibid.

the Government to bring in the necessary legislation to enforce a reasonable restriction of output.”⁶⁹

During that year, the “profit and Loss account was 240,886.54 tael as compared with 315,702.48 tael.”⁷⁰ Since this was during the First World War, the company reported that it had to pay a War Tax that “was calculated at the rate of 6 percent on the profits of the company.”⁷¹ Apart from a general oversupply of the commodity, the company faced another issue it was that the “staff throughout the year had been inadequate”⁷² due “sickness amongst both the foreign and native members of the staff.”⁷³ The company at the closing remarks, stated that it would issue a “final dividend of 50 tael cents per share to be paid.”⁷⁴

During the Annual Meeting of Tebong which was held on May 23th 1919 in Shanghai,⁷⁵ the company in reaction to the oversupply of rubber in the market remarked that it was not their “intention (to) further increase the area under cultivation.”⁷⁶ Management also reported an output shortfall of 28,250 lbs while the estimate was 900,000 lbs⁷⁷ due to a “tremendous shortage of labor all through the Malay Peninsula.”⁷⁸ Management stated that the balance transferred to profit and loss account was 76,083.28 tael as against 240,886.54 last year.⁷⁹ The fall in profit was due to “low prices (of rubber) which prevailed throughout the year”⁸⁰ and that the fiscal year was the “worst year in the history of plantation.”⁸¹

⁶⁹ Ibid.

⁷⁰ Ibid.

⁷¹ Ibid.

⁷² Ibid.

⁷³ Ibid.

⁷⁴ Ibid.

⁷⁵ “Tebong Rubber Estate,” The Straits Times, 9 Jun. 1919, 10,

<http://eresources.nlb.gov.sg/newspapers/Digitised/Article/straitstimes19190609-1.2.64.aspx>.

⁷⁶ Ibid.

⁷⁷ Ibid.

⁷⁸ Ibid.

⁷⁹ Ibid.

⁸⁰ Ibid.

⁸¹ Ibid.

However, despite the difficult operating environment, the company continued to issue a “dividend of 0.5 taels per share.”⁸²

Tebong and the industry’s plea for the government to limit the supply proved to be effective as the British authorities, seeing stagnation in rubber demand, devised a plan to limit production soon after the First World War. This led to a price increase in the underlying commodity that caused a rise in profits for these rubber companies. On the back of improved fundamentals, rubber stocks rose on average 2 to 3 times from November 1922 to June 1923.⁸³ Fundamentals continued to be solid for The Tebong Company as its stock, with a face value of 1 Yuan, went to a peak of 6.5 Yuan on the stock market and paid a dividend of 0.65 Yuan per share in 1925.⁸⁴

From The Strait Times Reports on The Tebong Company’s announcements of its general meetings from the mania and crisis year of 1910 to the early 1920s, one could conclude that management of the company was indeed sincere in operating the business of growing rubber even though there were many physical and financial difficulties. This would provide strong evidence against the rhetoric that rubber companies in general were created purely for defrauding Chinese investors.

6) Conclusion

The rubber stock crisis in 1910 caused significant losses for Chinese investors and distress for the country’s banking system. It has also been shown that it could be indirectly linked to the 1911 Xinhai Revolution as well. Much of the analysis in the current literature is focused on the financial system of China in the late Qing period and how its setup was partly responsible for the rubber stock boom, then bust and the collapse of the financial system. The

⁸² Ibid.

⁸³張秀莉 Zhang Xiuli, 橡皮股票風潮再研究 xiangpi gupiao fengchao zai yan jiu, *社會科學 Journal of Social Sciences* no.4(2009):151, <http://tra.global.cnki.net/kns50/detail.aspx?QueryID=7&CurRec=1>.

⁸⁴ Ibid.

fundamentals of the rubber companies were general ignored and some scholars even claim that most of these companies are fraudulent entities, created by foreign capitalists with the main purpose to swindle Chinese investors' capital.

This paper seeks to explore such a claim through a study on the corporate announcements of a rubber company The Tebong and Tapioca Estates Ltd from the crisis of 1910 through the end of the 1910s. It has been shown that the company was operating normally and that the management had taken serious steps to grow its operations and provide for investors solid financial results and dividends.

Therefore, one could conclude that financial boom and bust and the subsequent banking crisis in China was due more to the financial leverage and investor optimism than the actual fundamentals of all the companies involved. This could provide an important lesson for financial operators and historians alike. While analyzing an investment, it is just as important to understand the long term outlook of the company as the general psychology environment of the market. Moreover, one must also be mindful of the financial leverage involved in the banking and financial systems. The fundamentals over the long run could be favorable but an excess in optimism and leverage could still cause financial havoc and even the end of a dynasty.

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