

11

RUSSIAN IMPERIALISM IN THE FAR EAST AT THE TURN OF THE TWENTIETH CENTURY: THE COLLAPSE OF S. IU. WITTE'S PROGRAM OF ECONOMIC EXPANSION

IGOR V. LUKOIANOV

It is often claimed that Russian Far Eastern policy at the turn of the twentieth century was determined by the minister of finance, S. Iu. Witte, and that the main focus of Russia's policy was economic expansion in China. Witte's name is directly linked to a new form of colonial policy that supposedly stressed the penetration of capital over the direct annexation of new territories. In keeping with ideas of B. A. Romanov, the eminent specialist on the subject, these ideas have taken root in traditional Russian historiography, but, as this paper shall demonstrate, they are only to a certain extent correct.

The first caveat is that Witte's dominant influence on Far Eastern policy lasted only from April 1895 until 1897, specifically from a special session on Korean issues held on March 30, 1895, when the finance minister insisted that Japan be sent a strongly worded ultimatum, until Nicholas II's decision on December 4, 1897 to occupy Port Arthur, taken over objections from Witte at the insistence of the minister of foreign affairs, M. N. Murav'ev. Beyond this point, Russian policy toward its eastern neighbors was more often than not determined by combining the divergent opinions of several ministers, who squabbled amongst themselves for influence. These ministers included the already mentioned M. N. Murav'ev, foreign minister between 1897 and 1900, as well as A. N. Kuropatkin, minister of war from 1898. A group of pseudo-entrepreneurs, lead by A. M. Bezobrazov, the head of the Guandun region and the future viceroy E. I. Alekseev, whose influence grew in 1903 on, should also be added to this list.

The Minister of Finance always spoke in favor of the peaceful, economic penetration of China, but he never described in detail his views on what the content of a policy of Russian economic expansion in the Far East should entail. Moreover, his views visibly changed over time.

**THE 1890s: WITTE'S LARGE-SCALE PLANS
FOR ECONOMIC EXPANSION AND THE REAL SITUATION
OF RUSSO-CHINESE TRADE**

Witte's first thoughts on the subject date from the beginning of the construction of the Trans-Siberian Railroad in the early 1890s. Witte spoke mostly about how the completion of a railroad running to Vladivostok would encourage the economic development of Siberia and the Russian Far East as well as providing a powerful impetus for the expansion of Russian-Chinese trade. But even at that time, such statements did not seem to be well-founded.

Russian-Chinese trade was not in great condition at the end of the nineteenth century. The import of Russian goods had reached significant proportions in the 1860s, but then steadily declined in the 1870s and practically stopped altogether in the 1880s. The main reasons for this were the relative expensiveness of Russian goods, Russian producers' inability "to adapt to the needs of the customer, and poor knowledge of the Chinese market and [Russian] manufacturers' apathetic attitudes to [the Chinese]."¹ This remained the state of affairs until the 1890s and first decade of the 1900s. As a result, the value of Russian exports to China decreased by almost 50% between 1850 and 1893, from 7.7 to 4.1 million rubles per annum, while imports from China grew almost 4 times, from 7.5 to 33.3 million rubles per year. In 1891, China accounted for only 0.6% of Russian exports, while Chinese goods constituted 4% of Russian imports.² Russia occupied seventh place in China's international trade during these years, being "out-traded" by Britain, whose trade volume was 4 times that of Russia's. The volume of Chinese trade with Japan

¹ K. Skal'kovskii, *Russkaia torgovlia v Tikhom okeane* (St. Petersburg, 1883), p. 256.

² G. N. Romanova, *Ekonomicheskie otnosheniia Rossii i Kitaia na Dal'nem Vostoke v XIX-nachale XX v.* (Moscow, 1987), p. 71.

and Germany was typically 30-40% greater than its trade with Russia. In the first decade of the twentieth century, Russian exports to China rose to between 5 and 7.5 million rubles per year. Given the overall strong growth in Russia's exports, which grew from a total of 30 million rubles per year to 45 million rubles per year, the expansion in trade with China hardly represented a great success. Furthermore, this expansion was due mostly to demand from Manchuria's growing Russian population. Tea was the main item that Russia imported from China. Despite an increase in the purchase of Chinese tea at the beginning of the twentieth century, the future of the Chinese tea trade did not look very optimistic. Already at the end of the 1880s, this most important Chinese export to Russia began to decline slowly, but steadily due to the increasing production and import of tea from India and Ceylon, which was of a higher quality than its Chinese equivalent.³ At one time, cotton fabric had constituted about half of Russia's exports to China, but the standard size produced was too thin for Chinese customers, making sales difficult.⁴ There was a similar situation with the export of Russian broadcloth. Baku kerosene similarly did not manage to establish a sustainable position in the Chinese market due to strong competition from American producers. This meant that the entirety of Chinese imports from Russia was limited to spirits, tobacco, canned food, and textiles. Only Smirnov vodka enjoyed sustainable demand—and even its future was in doubt due to the appearance of cheap local spirits as well as bootleg production of Smirnov by the Japanese and Chinese.⁵

There was a whole array of reasons why Russian businessmen were largely reluctant to pursue opportunities in the Far East. To begin with, delivering Russian goods to China was very expensive. Shipping cargo from Odessa to Vladivostok on the ships of the "Volunteer Fleet" cost between 35 kopecks and 2 rubles, 40 kopecks per pud (one pud equals

³ N. Andrushchenko, "Po voprosu o chainom gruze dlia Sibirskoi zheleznoi dorogi" (Ros-siiskii gosudarstvennyi istoricheskii arkhiv / RGIA, f. 560, op. 29, d. 123, ll. 149-154).

⁴ I. E. Geishtor, *Torgovlia Rossii na Dal'nem Vostoke* (St. Petersburg, 1903), pp. 4, 14.

⁵ "Zapiska D. M. Pozdneeva, prilozhennaia k pis'mu S. Iu. Vitte 2 iiulia 1902 g." (RGIA, f. 22, op. 3, d. 46, l. 4ob.); "Otchet D. M. Pozdneeva o vstreche s russkim kupechestvom Dal'nego Vostoka v Kharbine. 1902 g." (RGIA, f. 560, op. 29, d. 200, ll. 4-9). Russian trade was in a similar condition in Tianjin, see D. M. Pozdneev to S. Iu. Witte from January 30, 1902 (*Ibid.*, d. 113, ll. 61-72).

about 16 kg) – and this was for privileged cargos given preferential rates. Similar shipments from Hamburg or from the coast of the United States cost 14 kopecks per pud, while Japanese cargos cost only 8 kopecks per pud to deliver to China.⁶ It should not be forgotten that the majority of Russian goods also needed to be transported to Odessa in the first place. Shipping goods to China by train was significantly less expensive. The prices established by the Chinese Eastern Railroad (KVZhD, from the Russian *Kitaiskaia Vostochnaia zheleznaia doroga*) before the line's completion in December 1899 amounted to 50 kopecks per wagon per versta (1 versta equals 1.0155 kilometers) with a wagon carrying 750 puds. But cargo trains ran irregularly and proper conditions for the loading, unloading, and storage of goods largely did not exist. As a result, only 196 wagons of commercial merchandise, 70% of which was vodka, was shipped during the railroad's first year of operations (through February 5, 1901).⁷ New rates were introduced on the KVZhD, effective from July 1, 1903 and were lower than the general, all-Russian rates (8.6 kopecks per pud for 100 verstas to the Far East versus 10 kopecks inside Russia and 14 kopecks from Vladivostok). This rate was not lowered, however, for shipments being sent over greater distance as was the practice elsewhere resulting in higher overall costs for many shipments (800 verstas cost 68 kopecks in Russia, 87 kopecks on the Chinese Eastern Railroad, and 1 ruble, 12 kopecks from Vladivostok).⁸ This means that KVZhD officials encouraged the local turnover of goods and did not support long-distance commercial shipping. The railroad authorities completely refused to take responsibility for on-time delivery of goods or for storing goods. All of this made Russian goods, which were, as a rule, already more expensive than imports from America or Japan, exorbitantly expensive. Railroad shipping rates would have to be lowered by not less than twice and

⁶ S. D. Merkulov, *Vozmozhnye sud'by russkoi torgovli na Dal'nem Vostoke* (St. Petersburg, 1903), p. 8.

⁷ "Spravka" [o perezovozke kommercheskikh gruzov iz Port-Artura po zheleznoi doroge], 5 February 1901 (RGIA, f. 1416, op. 1, d. 78, ll. 8-11).

⁸ "Dokladnaia zapiska chlena birzhevogo obshchestva S. D. Kravtsova o tarifnykh stavkakh KVZhD" [1903 g.] (RGIA, f. 1416, op. 1, d. 238). R. Quedstedt believes that the KVZhD's tariffs were on average about 100% greater than average Russian rail shipping tariffs; however, such a supposition raises serious doubts. R. K. I. Quedstedt, *"Matey" Imperialists?: The Tsarist Russians in Manchuria, 1895-1917* ([Hong Kong], 1982), p. 97.

overseas shipping rates by three times in order to make Russian exports to China profitable.⁹ Given such conditions, it was premature to hope for the quick development of a trade that relied on the shipping of goods from European Russia to Asia.

Nonetheless, Witte placed his political bets on the expansion of trade between Russia and China. As it turned out later, he was seeking an external market for Russia's quickly developing industries, which, in his opinion, would be needed in the near future.¹⁰

The Russo-Chinese Bank and the KVZhD became the main instruments of Russian economic policy in China. The bank was created at the end of 1895 under the total control of the finance minister and was justified on grounds that it was necessary to support interests in building the Trans-Siberian Railroad, for fostering economic ties with China, and for fighting British influence in the Far East. Despite such broad goals and the combination of economic and political motives, the bank initially concentrated on providing credit to relatively insignificant trade transactions (up to 25,000 rubles in value per transaction), primarily for Russian tea importers. Attempts to encourage other areas of trade met serious obstacles. For example, neither Baku's oil barons nor Russian oil traders were interested in pursuing kerosene exports to China because of the small margins involved (they required at least 15-20% returns).¹¹

The principal agreement on the creation of the KVZhD was reached during Russian-Chinese talks held in Moscow in May 1896 and the company was founded that same year. The Russian government authorities, including the Ministry of Finance, concluded the agreement with the eventual Russian annexation of part of or all of Manchuria in

⁹ Merkulov, *Vozmozhnye sud'by...*, p. 21.

¹⁰ At the beginning of 1900, S. Iu. Witte wrote, "If energetic and decisive measures are not adopted so that our industry will be in the condition in the next decade to cover demand in Russia and the Asian countries that are or should be under our influence, then fast-growing foreign industry will be able to break through our customs barriers and install itself in our motherland as well in the previously mentioned Asian countries, and, having established deep roots in the nation's consumption habits, it could clear the way for more dangerous foreign political influence" ("Vsepoddanneishii doklad S. Iu. Vitte 'O polozhenii nashei promyshlennosti,' fevral' 1900," *Istoriik-marksist* 2/3 (1935), p. 133).

¹¹ D. D. Pokotilov to P. M. Romanov from December 27, 1895 (RGIA, f. 560, op. 28, d. 9, l. 124 ob.); A. A. Fursenko, "Pervyi neftianoi sindikat v Rossii (1893-1897)," *Monopolii i inostrannyi kapital v Rossii* (Moscow-Leningrad, 1962), pp. 50-55.

mind. The railroad was treated not only as a strategic transit route, but also as the means for Russian influence to penetrate further into China, particularly by expanding trade. Witte succeeded in getting import tariffs on all goods imported by rail for the needs of the KVZhD reduced by one-third (in comparison to goods imported by sea).¹² In practice, this meant that *any* Russian export received an advantaged position vis-à-vis competition from third countries. After all, how could it be determined if this or that good was imported for the needs of the KVZhD? This was a very important achievement for Witte and was characteristic of his methods in as much as it based Russia's economic expansion in China on artificial advantages arranged by treaty that limited free competition. Such limits and privileges, in any case, caused other problems. Witte provoked other powers, economically more powerful than Russia, into action and also provoked their well-founded protest. The minister of finance could not afford to rely on free competition because of the Russian economy's critical shortage of private capital, which he was striving to replace with state funds.

Already in 1897, Witte altered the content of his economic policies in China. The number of branches of the Russian-Chinese Bank grew significantly, not only in China, but also in the Russian Far East. The bank dramatically expanded its activities from the simple granting of trade guarantees in individual trade transactions to the founding of companies of its own, and purchasing of shares of other companies and concessions to exploit Far Eastern natural resource wealth. For example, a consortium ("Mongolor") was formed in June 1897 with the bank's participation for exploiting the riches of Mongolia.¹³ Also in 1897, the Russian-Chinese Bank bought into the Anglo-Russian Company, initially acquiring half

¹² B. A. Romanov, *Rossia v Man'chzhurii (1892-1906). Ocherki po istorii vneshnei politiki samoderzhavii v epokhu imperializma* (Leningrad, 1928), p. 126.

¹³ The Russian-Chinese Bank's activities in Mongolia did not go well. There were "large outlays, large losses, and a complete inability to adapt to local conditions." "Mongolor" temporarily ceased all activities following the Boxer Rebellion in 1900 and a branch of the bank in Urga stopped providing the monopoly with credit. Lacking knowledge of local customs and not having employees who spoke fluent Mongolian, the company's employees were not able to deal with the massive falsification of documents and stamps. By 1908, the branch had losses of 300,000 rubles and its closing was considered (Protokol zasedaniia Obshchestva vostokovedov 27 maia 1911 g. (Otdel rukopisei Rossiiskoi natsional'noi biblioteki, f. 590, op. 1, no. 5, ll. 19-20).

and, by the beginning of 1902, acquiring 90% of the company's shares. This joint stock company was founded in order to compete for the rights to mineral deposits in Manchuria.¹⁴

Witte intended to use the KVZhD to create a railroad monopoly in Manchuria. The minister of finance considered it important to Russia "that railroad lines in South Manchuria either not be built at all or, if it was to be built, then that their construction was given to no one else besides the KVZhD company."¹⁵ In the summer of 1897, he began the decisive attempt to derail the Chinese's plans to build the line from Peking to Manchuria by themselves. China's aims in the project were not economic – the creation of an alternative to the KVZhD did not make any sense from an economic point of view and even one railroad probably would not reach full capacity – but political in character and were a reaction to the threat of Russian expansion. Peking did not have the money for such an undertaking and therefore had to seek foreign loans from, for example, the Hong Kong-Shanghai Bank that was controlled by British capital. In general, the Chinese leaders always sought to mobilize English interests in order to help them withstand Russian efforts to penetrate into South Manchuria.¹⁶ This made Witte extremely worried. In as much as it was impossible to forbid the continuation of such a project (Russian attempts to declare that rights guaranteed by the treaty on the KVZhD had been violated met with a categorical denial from Peking),¹⁷ Russia was forced to try to find a way to participate in any such project, something that required no small expense.

At the end of 1897, Witte's monopoly on Russia's Far Eastern policy was disrupted by the minister of foreign affairs, M. N. Murav'ev. It was on Murav'ev's insistence that Nicholas II decided at the beginning of

¹⁴ L. Grauman to K. M. Iogansonu from August 27, 1903 (RGIA, f. 560, op. 28, d. 265, ll. 88-89). As a result, the Anglo-Russian Company was purchased from the bank by the Manchurian Mining and Industrial Company for 500,000 rubles.

¹⁵ S. Iu. Witte to M. N. Murav'ev from August 20, 1897 (copy) (RGIA, f. 560, op. 29, d. 135, l. 7 ob.).

¹⁶ This action disproves one of Witte's favorite ideas, namely that his policies had allowed friendly relations to be maintained with Peking until Port Arthur. "Friends," however, are not so afraid of each other.

¹⁷ D. D. Pokotilov to S. Iu. Witte from July 26, 28, and 30 and August 5, 1897 (RGIA, f. 560, op. 28, d. 44, ll. 7-11).

December to send Russian ships to Port Arthur. This step meant that Russia chose to employ not just economic, but also military means to achieve its goals in the Far East—in the current situation, to gain control of the port. However, the seizure of Port Arthur did not seem to have any influence on the course Witte pursued in China. This became evident in British-Russian negotiations on Chinese issues held in 1898 and 1899. When M. N. Murav'ev suggested limiting Russia's sphere of influence on the railroad to the line running to Peking, the deputy finance minister P. M. Romanov suggested that the line of demarcation should be extended to the south of Peking "approximately to Huan-he," because of the "successes" of the Russian-Chinese Bank there,—successes that were completely unknown at the Ministry of Foreign Affairs.¹⁸ Witte did not want to make any promises that would interfere with the bank's penetration into the British sphere of influence in the Yantgze River basin in central China, upon which he had placed great hopes. To this end, the finance minister was even ready to allow the British access to the areas that Russia considered its sphere of influence in Manchuria (that is, north of the Great Wall of China). Witte calculated that, more than anything, Russia needed to have a free hand in China.¹⁹ Murav'ev, learning of the finance ministry's ambitions to expand "our financial and railroad enterprises into the current English sphere of influence in the south of China," stated categorically that "the imperial government cannot sacrifice political interests of utmost importance for the profit of a private railroad company and a credit institution." He hinted at the need to concentrate the government's efforts on the consolidation of its position in Manchuria.²⁰ It must be recognized that the foreign minister's objections were completely justified and that Witte's intention to economically conquer central China was a totally fantastic and extremely risky undertaking, for which St. Petersburg simply did not have enough resources.

¹⁸ P. M. Romanov to D. D. Pokotilov [beginning of September 1898] (RGIA, f. 560, op. 28, d. 109, l. 15 ob.); Telegram of P. M. Romanov to D. D. Pokotilov from September 8, 1898 (RGIA, f. 560, op. 29, d. 65, ll. 138-141).

¹⁹ S. Iu. Witte to M. N. Murav'ev from November 25, 1898 (Arkhiv vneshnei politiki Rossiiskoi imperii / AVPRI, f. 143, op. 491, d. 1625, ll. 16-18).

²⁰ Vsepoddanneishaia zapiska M. N. Murav'eva 15 dekabria 1898 g. (AVPRI, f. 143, op. 491, d. 1625, ll. 85-90).

WITTE CURTAILS HIS PLAN:
TOWARDS MANCHURIA INSTEAD OF ADVANCING
TO THE SOUTH CHINA (1900)

Witte's economic policy in China changed significantly in 1900. These changes were caused by two circumstances. The first was the beginning of a global economic crisis caused by the depressed state of the world's financial markets. With the depression, Witte lost the possibility to raise large sums through the issuance of foreign debt and was forced to change economic policy. On July 27, 1900, Prince V. P. Meshcherskii published an article entitled "Thoughts of a Well-Informed Personage," written by someone using the pseudonym "Russian" in the fifty-sixth issue of his journal, *Grazhdanin*. The article was actually written by Witte.²¹ The article marked a sea change in his goals in as much as it contained a rejection of any intentions of getting involved in central China. "Our current interests are located exclusively in the framework of a railroad line between Vladivostok and Port Arthur." Beginning in 1901, the minister of finance's indifference to activities in central or south China is noticeable. If Witte did not give up on his previous plans, then he had certainly decided to put off the further pursuit of these plans indefinitely. The new circumstances also forced the minister of finance to be significantly more pragmatic and careful in claiming concessions in China. Witte changed his tactics in negotiations with the Hong Kong-Shanghai Bank on taking loans for the construction of a rail line from Peking to Manchuria. Already on October 11, 1900, he secured the agreement of Tsar Nicholas II to acquire all of the Hong Kong-Shanghai Bank's railroad concessions in China.²² Only one month later, the finance minister unexpectedly declared that he was not interested in the entire line, as he had been before, but only north of Shanghaiguan. In keeping with his new position, there was no reason to buy anything to the south as any such undertakings would be too expensive.²³ Witte reverted to his

²¹ See the handwritten original of the article in RGIA, f. 1622, op. 1, d. 1018, ll. 236-239.

²² Vsepoddanneishii doklad S. Iu Vitte 11 oktiabria 1900 g. s rezoliutsiei Nikolaia II (RGIA, f. 560, op. 28, d. 170, l. 36).

²³ S. Iu. Witte to P. M. Romanov from November 14, 1900 (RGIA, f. 560, op. 28, d. 170, ll. 88-89). Witte intended to include a point on the awarding of rights to the line north of

previous priority of securing the monopoly position of the KVZhD in Manchuria and not allowing the construction of other rail lines there. In April 1902, A. I. Putilov, the finance ministry's chancellery director, reflected Witte's point of view, writing that it would be preferable if no line was built north of Shanhaiguan and, if China decided to go ahead with construction, that the Americans receive the concessions only on the condition that Russian participation was guaranteed.²⁴ For this reason, Witte did not protest when in 1903 the Chinese turned to the Russian-Chinese Bank to support their plans to build the line themselves, referring the decision to the bank's management.²⁵ But there remained the previous ambition to receive concessions on the line to run from the KVZhD to Peking, that the minister of finance had tried to demand in 1901, including this point in a separate agreement with China.²⁶

This meant that Witte had *de facto* repudiated his plans to penetrate central China, plans that he had insisted on as late as 1900. Debating with A. N. Kuropatkin on the challenges facing the Russian army in the twentieth century, Witte had responded to a declaration by the minister of war that Russia should limit itself to northern China with a notable phrase about all the wealth of China being in the country's south and therefore that should also be Russia's ambition.²⁷

The Boxer Rebellion created a second obstacle to Witte's China plans. The rebellion not only transformed political conditions inside China, but also meant a serious defeat for Witte in the struggle to influence Russian policy in the Far East. The minister of finance was categorically against the introduction of Russian troops into China.

"We did not seize Manchuria. And it would be better if we did not seize any [territory] and if the struggle for markets was given over to commerce. We have penetrated throughout Manchuria without any territorial seizures and the Ministry of Finance asked only that no territory should

Shanhaiguan in a separate agreement with China (B.A. Romanov, op. cit., p. 281).

²⁴ A. I. Putilov to D. D. Pokotilov from April 30, 1902 (RGIA, f. 560, op. 28, d. 171, l. 126).

²⁵ A. Iu. Rotshtein to I. A. Byshnegradskii from June 20, 1903 (RGIA, f. 560, op. 28, d. 171, l. 137); A. I. Putilov to A. Iu. Rotshtein from June 26, 1903 (Ibid., l. 140).

²⁶ B. A. Romanov, op. cit., pp. 287-292.

²⁷ Gosudarstvennyi arkhiv Rossiiskoi Federatsii (GARF), f. 601, op. 1, d. 445, l. 33; B. A. Romanov, op. cit., p. 80.

be seized and that commercial and political influence would be given the chance to work."²⁸

Nonetheless, A. N. Kuropatkin insisted on the decision to send troops and the Russian army not only occupied China's northern provinces, but also took part in an international coalition's march on Peking. The minister of war intrigued against the naming of V. N. Lamsdorf, an intimate of Witte, to the post of minister of foreign affairs in the summer of 1900. Not succeeding in blocking Lamsdorf's appointment, Kuropatkin simply bypassed the new foreign minister, dismissing E. I. Alekseev, who had answered to the Ministry of Foreign Affairs, as the commander of Russian troops in China, and naming General N. P. Linevich to the post. Linevich was sent to Peking in a move that caught Lamsdorf off guard. Kuropatkin's actions indicate that not only did the minister of war have his own views on the role Russia should play in the Far East, but that he was also prepared to act upon these views.

As in the case with the seizure of Port Arthur, S. Iu. Witte not only came quickly to terms with what had happened, but accordingly corrected his own views on China policy. According to Nicolas II's notes on Chinese affairs dating from August 11, 1900, instead of speaking out in favor of economic penetration in China, the Minister of Finance spoke about the difficult situation of the Russian economy and the need to concentrate on the consolidating the Russian position in the treaty on the KVZhd, insisting on its partial review as a condition for the removal of Russian troops from Manchuria.²⁹ This became one of the main drivers of Witte's position on Chinese policy in the second half of 1900 and the beginning of 1901: "We will leave Manchuria only when everyone calms down and all of our demands are met."³⁰ This meant that negotiated commitments, rather than the economic penetration he had championed between 1895 and 1899, was of utmost importance to the finance minister, though he still did not favor force as did the Ministry of War.

²⁸ GARF, f. 601, op. 1, d. 445, l. 52.

²⁹ RGIA, f. 560, op. 28, d. 218, ll. 66-73. The minister of finance intended to award the KVZhd concessions on all gold deposits throughout almost all of Manchuria as well as a monopoly on oil and nickel, and coal in areas "served" by the railroad (B. A. Romanov, op. cit., p. 286).

³⁰ S. Iu. Witte to D. D. Pokotilov from October 25, 1900 (RGIA, f. 560, op. 29, d. 11, l. 1).

For this reason, Witte set his sights on concluding a separate treaty with Peking that would favor Russia.³¹ After the defeat of the Boxer Rebellion, Peking's rulers were in a state of confusion and dismay. In November 1900, Li Hung Chang, returning to government after a previous period of disgrace, was even ready "to realize a plan giving [Russia rights to the] exploitation of all the wealth on [the northern] side of the Great Wall; that is, immense concessions with the right to maintain [Russia's own] security if [Russia] acknowledges the Heavenly Kingdom's [i.e. China] sovereignty [over these territories]."³² As the situation calmed, the Chinese central government showed less and less desire to make concessions. Peking's intractability and the resulting refusal to further pursue a separate treaty led to a significant increase in the reliance on force in Russian policy. Russia increasingly used the continued presence of Russian troops in China to pressure the Chinese. A. N. Kuropatkin even went so far as to send new divisions to Manchuria after the failure to negotiate a separate peace.³³ Russia's demands on China were also gradually changing. Instead of the strengthening of Russia's economic position in the occupied region, with which negotiations started, Russia came to desire *de facto* change in the status of Manchuria that would give it a special status as a foreign border area with a Russian military government and would put the pacification of the territory fully in Russian hands.³⁴

In addition to the fact that the military now had a colossal influence on Chinese policy, there also arose the temptation to bypass China's central government and settle all problems directly with the local administrations in the areas occupied by Russian troops. These administrations had essentially been left in a state of complete dependence on the Russians. Success here was not based on economic means, but rather on agreements that would secure a special, privileged position for Russian subjects. From the end of 1900, for example, the Chinese governors of Manchurian provinces were forced to turn to the Russian-Chinese Bank

³¹ B. A. Romanov, *op. cit.*, pp. 263-292.

³² The telegram of E. E. Ukhtomskii from November 21, 1900 (RGIA, f. 560, op. 28, d. 190, l. 128).

³³ *Krasnyi arkhiv* 2 (63) (1932), pp. 28-29.

³⁴ "Plan uregulirovaniia polozheniia v Man'chzhurii 24 apreliia 1901 g." (RGIA, f. 560, op. 28, d. 100, l. 32).

for any loans. Evidently, the first to do so was the governor-general of Shenyang who received a loan of 200,000 lan.³⁵ The governor-general of Jilin followed suit, and asked to receive a one million-lan loan to be paid back over five to six years with the region's import tariffs serving as collateral.³⁶ The governor-general of Harbin received similar conditions. In return, the Ministry of Finance wanted to receive their support for an array of concessions — awarded either to the Russian-Chinese Bank or for the KVZhD — for the exploitation of gold mines, coal fields, woods and the like. The ministry sought to strengthen the Russian-Chinese Bank's right to be the first to receive the chance at any such concessions.³⁷ Of course, the purchasing of concessions is not normal activity for a bank, especially because the charter of the Russian-Chinese Bank did not foresee the bank undertaking any such activities. These transactions also conflicted with bank policies, here-to-fore followed, that all of its activities should be profitable. This reflected Witte's practice of using treasury resources under pseudo-private enterprises to political ends. The minister of finance supposed that it would be possible to sell the concessions to foreign and Russian businessmen and corporations.³⁸

This created a paradoxical situation. Government bureaucrats and military officials were now more active in seeking concessions than were Russian businessmen. Thus, V. F. Liuba, a representative of the Ministry of Foreign Affairs, lead negotiations to gain concessions in the Jilin region.³⁹ He succeeded to the point that on March 2, 1901, the governor-general of Jilin recognized the Russian-Chinese Bank's privileged position in the awarding of all concessions. But all of Liuba's efforts proved fruitless in the end. One year later, the same Liuba had to report the complete failure of would-be Russian gold miners in Jilin province.

³⁵ D. D. Pokotilov to P. M. Romanov from December 8, 1900 (RGIA, f. 560, op. 28, d. 883, l. 1); A. Iu. Rotshtein to D. D. Pokotilov from December 8, 1900 (Ibid., l. 2).

³⁶ RGIA, f. 560, op. 28, d. 883, l. 4.

³⁷ I. P. Shipov to D. D. Pokotilov from February 6, 1901 (RGIA, f. 560, op. 29, d. 66, ll. 153-154); B. A. Romanov, op. cit., pp. 326-327.

³⁸ B. A. Romanov, op. cit., p. 379.

³⁹ V. F. Liuba to E. I. Alekseev from February 24 and March 3, 1901 (Rossiiskii gosudarstvennyi arkhiv Voenno-morskogo flota, f. 32, op. 1, d. 110, ll. 6-7, 9). V. F. Liuba believed that the Russian-Chinese Bank's monopoly on concessions in Manchuria led Russian private businessmen to lose money (B. A. Romanov, op. cit., p. 371).

Astashev (a Russian gold magnate) the Russian Gold Production Society, and the Upper Amur Company were very cautious and occupied themselves with small projects in realizing the concessions that had been granted them. The Chinese had expected that Russian businessmen would help fill the local government's treasuries and provide good wages for the population. "In reality it turned out to be: trivialism and penny pinching on deals worth millions that required similarly large initial outlays, inactivity, and the tendency procrastination that drew out the prospecting phase over as long a period of time as possible." This resulted in a "defiant and resentful attitude by the Chinese" and left local governments dissatisfied with the Russians.⁴⁰ In the end effect, the bank was not awarded a large number of concessions (about 15 or so in all) and did not play a significant role in Russia's China policy. At the same time, the policy of concluding separate agreements with Manchuria's governors, which not only strengthened Russia's advantageous economic position, but also enhanced Russian control and put certain limits on the Chinese government in the region, meant the establishment of a *de facto* Russian protectorate.⁴¹

Such actions greatly upset the central government in Peking, which did what it could to oppose these and other measures. In 1902, new mining regulations were adopted that made it more difficult for foreigners to be awarded concessions. Simultaneously, in 1901-1902, Peking increased its efforts to settle ethnic Chinese in Manchuria.⁴² Chinese resettlement also began to affect Russian provinces in the Far East, creating fertile ground for fears of a growing "yellow menace" connected with the construction of the KVZhD and Russia's colonization of Manchuria.⁴³ Taken altogether this meant that not only did Witte's new tactics fail to bring him any successes, but were creating considerable additional problems.

⁴⁰ "Donesenie V. F. Liuby v MID 28 marta 1902" (RGIA, f. 560, op. 28, d. 776, ll. 78-82).

⁴¹ B. A. Romanov, *op. cit.*, p. 295; Quested, *op. cit.*, pp. 69-88.

⁴² I. A. Dobrolovskii, *Kheilutshyianskaia provintsiya Man'chzhurii* (Kharbin, 1906); A. P. Boloban, *Zemledelie i khlebopromyshlennost' v Severnoi Man'chzhurii* (Kharbin, 1909) and others.

⁴³ S. D. Merkulov, *Russkoe delo na Dal'nem Vostoke* (St. Petersburg, 1912) and others.

PORTO-FRANCO IN THE RUSSIAN FAR EAST:
PROBLEMS OF ECONOMIC DEVELOPMENT OF PRIMOR'Ė

In such conditions, successful economic expansion would have to be pursued first and foremost through the introduction and the strengthening of Russian goods in Chinese markets. The success of Russian exports to China required that the production of Russian goods take place in geographically adjacent areas, especially in the region around Lake Baikal and in Primorye. The Ministry of Finance, however, took next to no steps to promote the development of the economy of the Russian Far East. Even Vladivostok, the center of the Russian Far East, consisted of little more than the port and the infrastructure serving the port. There were practically no private enterprises in the city. Food processing was completely lacking. The majority of the goods needed in the region were imported, including fire-resistant clay from England (!) and coking coal from Japan.

Having studied the problem in depth, one economist came to the tragic conclusion that the "industrial capital of the region [was] not able to build large-scale plants."⁴⁴ The well-off among the local population preferred to transfer the majority of their savings to European Russia and the Ministry of Finance did not undertake any efforts to meet the credit needs of markets of the Russian Far East.

Regulations freeing goods that were imported through free trade ports of customs duties had existed in the Russian Far East from the middle of the nineteenth century. However, Witte did not use this instrument in the best manner possible. Dalny was declared a free trade port on July 30, 1899 in a tsarist decree, while customs duties were introduced in Vladivostok in 1900. The Ministry of Finance hoped in this way to shift the center of Russian trade to Guandun.

One can argue about the effectiveness of such measures, which were generally in keeping with Witte's policy of industrial protectionism. It is doubtless that, given the severe deficit of capital and the lack of developed production (that is, the lack of a competitive environment), the establishment of the free trade port restrained prices, while the cancel-

⁴⁴ V. E. Gluzdovskii, *Primorsko-Amurskaya okraina i Severnaya Man'chzhuriia* (Vladivostok, 1917), p. 134.

lation of free trade provisions caused prices to surge. Almost everything became more expensive overnight despite the fact that customs duties had only been introduced on a few imported goods. Eggs, for example, had become twice as expensive by 1903; the price of bricks rose almost 50 percent; and timber and sand became one third more expensive.⁴⁵ Moreover, the competitiveness of locally produced goods decreased almost immediately despite the resultant growth in prices. As a result, Vladivostok-based producers of matches, for example, were pushed out of the Japanese market.

This did not give local products, which were expensive in the first place, any chance to penetrate the Chinese market to an appreciable degree. They hopelessly lost market share to less expensive and higher quality goods from America and Japan. Witte's protectionism in the Russian Far East and his plans for economic expansion in China were in essence in conflict with each other. This inconsistency can be explained by the minister's intention to shift the region's economic center to Manchuria, specifically to the Liaodun peninsula which Russia rented from China.

Unsurprisingly, the Ministry of Finance's efforts were directed at the development of Manchuria rather than the development of Russia's own Far Eastern regions. In the ten years beginning in 1895, Russian investment in China exceeded Russia's exports to China by five times. Modernly equipped enterprises were established in Manchuria, including timber mills, construction companies, and agricultural processing plants.⁴⁶ Already in 1903, this strange policy met with the obvious disapproval of businessmen from Russia's Far East, a movement that was even supported by the management of the KVZhD. In their opinion, Russia ought to be exporting products to Manchuria, not building factories.⁴⁷ This is indeed what happened following the Russo-Japanese War.

⁴⁵ A. A. Berezovskii, *Tamozhennoe oblozhenie i porto-franko v Priamurskom krae* (Vladivostok, 1907), pp. 28-29.

⁴⁶ G. A. Sukhacheva, "Vliianie russkogo kapitala na promyshlennoe razvitie Man' chzhurii (1895-1917 gg.)," *Istoricheskie kontakty Rossii i Sovetskogo Soiuzs s Kitaem vo vtoroi polovine XIX – pervoi polovine XX v.* (Vladivostok, 1986), pp. 93-94.

⁴⁷ "Dokladnaia zapiska pravleniia KVZhD po povodu khodataistva Vladivostokskogo birzhevogo obschestva," n/d. [1903] (RGIA, f. 1416, op. 1, d. 238). The memorandum's authors were above all afraid of the penetration of cheaper products from Manchuria into the markets of the Russian Far East.

After 1900, Witte did not do much to further economic expansion even in the border regions of Manchuria. The Russian-Chinese Bank occupied itself with transactions everywhere except in northern China. In Port Arthur, the bank did more to scare off its clients than to develop commercial activities. Having exclusive rights to act in Guandun, the bank refused to provide "the simplest and most essential banking operations, such as the insuring of lottery tickets, and the holding and guarding of securities; moreover, the bank did not pay any interest on current accounts and charged extremely high fees for any money transfers they conducted."⁴⁸ Bank transfers sent by telegram could take up to four months! The bank similarly took a large commission on the sale of bonds and exchange of currency, and made it difficult for clients to get credit even at unfair annual rates as high as eight to nine percent.

The creation of the Manchurian Mining-Industrial Company on July 5, 1902, can only to a limited degree be viewed as the continuation of Witte's policy of economic expansion in Manchuria. Witte argued for the creation of the new company in order to buy concessions, at which the company hardly succeeded. In one year of activity – the company ceased its activities after Witte's dismissal from the position of minister of finance in August 1903 – the company only managed to obtain the rights to six somewhat notable concessions. Three of them involved gold mining, one involved the mining of coal, and the other two consisted of a share of equity in other companies.⁴⁹ Such a result could hardly be explained by the limited funding that Witte had at his disposal for this project, the founding capital of which constituted only one million rubles. As B. A. Romanov had justly noted, the founding of a company by the minister's chief rivals was connected the failure to win timber concessions on the Chinese bank of Yalu river.⁵⁰ Both enterprises were founded in the summer of 1902 and both focused mainly on obtaining concessions – and both were noted for their lack of success. The Manchurian Mining-Industrial Company was created four months after the adoption of new mining regulations in China. The founding of the company at a moment when the chances of foreign-backed ventures seeking conces-

⁴⁸ A. Khvostov, "Russkii Kitai," *Vestnik Evropy* 11 (1902), pp. 182-183.

⁴⁹ B. A. Romanov, *op. cit.*, pp. 377-381.

⁵⁰ *Ibid.*, pp. 383-384.

sion radically worsened is more than a little strange. The most plausible explanation seems to be that Witte's policy of economic expansion in China was by 1902 no longer an independent policy, but an instrument used in his struggle for influence in Far Eastern affairs, in this case with the group of pseudo-entrepreneurs led by A. M. Bezobrazov.

In the second half of 1902, the Minister of Finance once again revised his economic policies vis-à-vis China, this time considering a complete retreat from any active measures, even in Manchuria. This happened after Witte first traveled to the Far East in the autumn of 1902. There he visited a KVZhD construction site as well as the South Manchurian Railroad (IuMZhD), and spent some time in Port Arthur and Dalny. As a result of his trip, the minister prepared a note to all of his subordinates, the main idea of which was that Russia's Far Eastern policy should revolve around the KVZhD. Despite the fact that he still hoped for the development of economic ties between Russia and China and still believed in the key transit role of the Trans-Siberian Railroad, the minister placed his main bets on the active colonization of the strip of land belonging to the KVZhD that ran alongside the railroad (which the minister intended to get extended from one-and-a-half to five verstas on either side of the track), and the attraction of foreign capital.⁵¹ Witte's new economic program was conditioned by an array of political steps: the withdrawal of Russian troops from Manchuria, the reaching of an agreement with the Chinese, and reaching an agreement with Japan on the basis of Petersburg "temporarily" not pursuing its interests in Korea. This note again demonstrates that the minister of finance's interest was concentrated exclusively on control of Manchuria and not focused so much on economic methods as on the use force and colonization.

The complete lack of success of all of Witte's previous policies in China were noted at a meeting with the participation of Tsar Nicholas II held in Yalta on October 27, 1902. The meeting was dedicated to the colonization of the strip of land that accompanied the KVZhD rail line. The notes of this meeting demonstrate yet another change in the minister of finance's position. S. Iu. Witte even partially retreated from his Manchurian plans. If his note on his trip to the Far East spoke about the need to develop the KVZhD at all costs, then Witte refuted the need

⁵¹ RGIA, f. 1622, op. 1, d. 711.

to take any action during the meeting, declaring that the processes of Russification should proceed historically and “not [be] hurried or forced from the natural flow of events”⁵²—this despite stating his belief that Manchuria would definitely become a part of Russia or be fully dependent on Russia. In the framework of this new policy, the minister spoke out against the large-scale resettlement of Russians in the strip of land on either side of the KVZhD, arguing that limiting settlement was in the security interests of the railroad. To strengthen Russia’s position in the Far East, he suggested building the Amur Railroad that would run exclusively through Russian territory. At the same time, Russian colonization was presented as practically the best method for strengthening Russian control over the rail line. For this reason, Witte told Nicholas II that he was in favor of beginning limited colonization along the KVZhD and against the removal of Russian troops from Jilin.⁵³ In order to attract Russians to the region, the government should offer settlers unheard of benefits: not only should they receive significant travel allowances, but also were not to be subject to communal regulations—they were allowed to establish separate farms—and were granted freedom of worship.⁵⁴ A bit later, in June 1903, Witte supported the idea of P. M. Lessar, the Russian ambassador in Peking, that the only way to prevent foreign activity in Manchuria contrary to Russian interests was to annex the territory to Russia. The minister of finance only regretted that the military occupation of Manchuria could not be continued indefinitely.⁵⁵ It turned out that the majority of active political efforts made in the Far East were wasted. Instead of dominating Chinese markets, it was time to discuss plans for returning Russia’s divisions. This was probably also a serious blow to Nicholas II, who had not long before dreamt of

⁵² “Chernovik zhurnala Osobogo soveshchaniia 27 oktiabria 1902 g.” (RGIA, f. 560, op. 26, d. 326, ll. 163-164); P. N. Simanskii, *Sobytiia na Dal’nem Vostoke, predshestvoвавshie rusko-iaponskoi voine (1891-1903 gg.)*, Chast’ 3, “Poslednii god pered voinoi” (St. Petersburg, 1910), pp. 25-26.

⁵³ “Dnevnik A. N. Kuropatkina. Zapis’ 2 noiabria 1902 g.” (copy) (Rossiiskii gosudarstvennyi voenno-istoricheskii arkhiv, f. 165, op. 1, d. 5435, ll. 137-138).

⁵⁴ “Protokol zasedaniia pravleniia Obshestva KVZhD 2 iuliia 1903 g.” (RGIA, f. 323, op. 1, d. 1179, ll. 17-26). On list 17, Witte’s mark—“agree.”

⁵⁵ P. M. Lessar to S. Iu. Witte from June 11, 1903 with the marks of the Minister of Finance (RGIA, f. 560, op. 28, d. 255, l. 199).

Russian supremacy over all of Asia. The realization that large sums of money had been spent on political shenanigans in China made the Tsar's bitter disappointment even worse. The Tsar's desire to salvage at least something from these efforts was natural, as was his growing distrust of Witte, which ended with Witte's eventual removal from the post of finance minister in August 1903.

As a result, Russia's Far Eastern policy boiled down to diplomatic pressure backed up by the threat of force just before the outbreak of the Russo-Japanese War in 1903 and was managed in large part by A. N. Kuropatkin, E. I. Alekseev, and the group of entrepreneurs led by A. M. Bezobrazov. Broad economic penetration into China completely disappeared from the political agenda. To a large degree this meant that Russia's attempt to achieve colonial gains through peaceful, economic means, imitating the successes of other powers, ended in complete failure. The reasons for this failure were the insufficient consideration of the ideas underlying Russia's attempts at economic imperialism and its inability to organize the commercial activity needed (along the way, the superior effectiveness of private capital over treasury funds was proven), as well as the disproportionate size of the declared goals (economic hegemony in the majority of China), given the resources available to achieve these goals. It can be said that these policies were doomed to failure from the very beginning.