The Legal Origins of Financial Development: Evidence from the Shanghai Concessions

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The critical challenge to assessing the legal origins view of comparative financial development is identifying exogenous changes in legal systems. We assemble new data on Shanghai's British and French concessions between 1845 and 1936. Two regime changes altered British and French legal jurisdiction over their respective concessions. By examining the changing application of different legal traditions to adjacent neighborhoods within the same city and controlling for military, economic, and political influences, we offer new evidence consistent with the legal origins view: the financial development advantage in the British concession widened after Western legal jurisdiction intensified and narrowed after it abated.

The legal origins view of comparative financial development stresses that economies with a common law tradition more effectively protect private contracts and investors, enhancing the functioning of financial markets and institutions (La Porta et al. 1997, 1998). The view further asserts that legal traditions developed in Europe were spread to other countries through conquest and colonization. Researchers exploit differences in legal origin as exogenous determinants of legal system differences and financial development. Extensive research confirms the prediction of the legal origins view: countries with a common law tradition have more developed financial systems than those with a French civil law tradition (e.g., La Porta et al. 1997, 1998, 2002, 2006; Beck et al. 2000; Levine et al. 2000; Barth et al. 2004; Durnev and Kim 2005; Djankov et al. 2007, 2008; Morck et al. 2005; Berkowitz and Clay 2005, 2011; Brown et al. 2013; D'Acunto 2019).

However, as stressed in La Porta et al.'s (2008) literature review, the critical challenge to assessing the legal origins view is the degree to which one can interpret legal origin as an exogenous source of variation in the legal framework shaping financial development (e.g., Pistor 2009; Musacchio and Turner 2013). A country's legal tradition could proxy for culture (e.g., Stulz and Williamson 2003; Licht et al. 2005; Voigtländer and Voth 2012; Pascali (2016), Pierce and Snyder 2017; D'Acunto et al. 2019), social capital (e.g., Guiso et al. 2004), politics (e.g., Glaeser and Shleifer 2002; Rajan and Zingales 2003; Pagano and Volpin 2005; Perotti and von Thadden 2006; Roe 2006), or other factors omitted from the analyses. Aware of this overarching concern, researchers have controlled for many potential confounding factors to identify the impact of legal systems on the operation of financial markets (e.g., Beck et al. 2003a; Djankov et al. 2003; Fisman and Love 2004; Jappelli et al. 2005; Safavian and Sharma 2007; La Porta et al. 2006, 2008; Brown et al. 2013). Nevertheless, without randomly assigning legal systems to otherwise similar economies and then assessing the ramifications on financial development, the challenge of identifying the impact of legal origin on financial development remains.

In this paper, we exploit the unique history of Western concessions in China from 1845 through 1936 to assess the legal origins view of financial development. In Shanghai, China granted the British and French concessions over adjacent and very similar plots of land following the First Opium War. The lands were uncultivated and thus had no banks or financial markets before China conceded them to Britain and France. The British applied the common law in their concession, and the French concession used the French civil law. We evaluate the impact of applying the common and civil law on financial development within the same city. Besides the spatial discontinuity in legal traditions, another unique advantage of examining the Shanghai concessions is that there were two pivotal changes in legal jurisdiction over the

concessions. The first change intensified the application of British common law and French civil law in their respective concessions. The second eliminated the application of Western legal traditions in their concessions. Thus, we evaluate two changes in the degree to which the British common and French civil laws shaped financial activities and developments in the respective concessions. Examining the comparative financial development ramifications of changing the application of different legal traditions on similar plots of land within the same city addresses several identification challenges associated with cross-country comparisons.[2]

To motivate and frame our econometric strategy, we briefly describe the two pivotal changes in legal jurisdiction over the Shanghai concessions, offering a fuller description in Section I below. From the founding of the British (1845) and French (1849) concessions until 1869, the respective consulates handled legal cases. During this period, the British and French administered their concessions, but Western powers had yet to operationalize their respective legal systems formally. Over time, more Chinese individuals and businesses moved into the concessions, increasing the number of "mixed" cases involving Chinese and foreigners. In 1869, there was the first pivotal change in the concessions' legal systems: The British and French established their own Mixed Courts to handle the full array of legal disputes, including mixed cases. The British Mixed Court used the common law, and the French Mixed Court applied the French civil law. There was a second regime change in the legal systems governing the concessions in 1926. The Provisional Rendition Agreement, signed in 1926, triggered a switch from the British common law and the French civil law to the Chinese civil law in the respective concessions. While maintaining administrative control, the Western powers returned legal jurisdiction to Chinese-run courts. These two regime changes in the legal systems governing the concessions define the critical breakpoints in the difference-in-differences methodology described below. Since British and French administrative influence over the concessions started to wane with the Second Sino-Japanese War, we end our analyses in 1936.

We manually collect data on financial development. Our primary measure of financial development is the number of banks (per square kilometer) in each concession and year. Although many studies of bank development use measures of credit as a share of gross domestic product (GDP) (e.g., King and Levine 1993), data on bank credit and concession GDP are unavailable. Thus, we focus on bank density. The bank density measure includes data on foreign banks, Chinese modern (joint-stock) banks, and Chinese traditional banks (qianzhuang). We compute the exact location of each

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[2] Brown et al. (2017) examine the implications of imposing federal or state courts on different Native American reservations. We study the impact of imposing different legal systems on different areas of the same city.

bank by combining historical information on street addresses and mapping those addresses to GIS coordinates. We also compile annual information on the stock returns of all traded companies after 1866. Using these data, we assess how financial development changes following changes in legal jurisdiction over the Shanghai concessions.

To assess the impact of the British common law and the French civil law on comparative financial development, we begin by evaluating the first regime change in legal jurisdiction over the concessions using a difference-in-differences strategy. As noted above, creating the Mixed Courts in 1869 was a regime change, as the British and French formally implemented their legal systems in their respective concessions. The legal origins view predicts that financial development in the British concession should grow relative to that in the French concession after 1869. The difference-in-differences analyses include concession and year effects to help isolate the independent relationship between the application of the two legal traditions and comparative financial development. To further distinguish the "legal effect" associated with creating the Mixed Courts from other factors, we control for the "concession effect." Specifically, there is at least a 20-year period from the founding of the concessions until the 1869 creation of the Mixed Courts when Britain and France administered the concessions but did not have complete legal jurisdiction: there was a concession effect but not a legal effect during this period. By controlling for differences in comparative financial development during this pre-Mixed Courts period, we assess whether financial development rose comparatively faster in the British concession after the establishment of the Mixed Courts in 1869 above and beyond any differences triggered by the establishment and administration of two concessions.

Consistent with the legal origins view of comparative financial development, bank density in the British concession grows comparatively faster than that in the French concession after 1869. The British concession had about two more banks per km^2 than the French concession in the average year before the 1869 establishment of the Mixed Courts. This gap increased by 6 to 9 banks per km^2 (in the average year) after 1869 (i.e., between 1870 and 1925). Furthermore, when examining parallel trends, there is no sign of a change in comparative financial development before 1869. However, there is a notable and statistically significant break in the evolution of comparative financial development following the application of the different legal traditions in the concessions. We also address two potential concerns. First, empire-building factors might have shaped foreign bank entry into the concessions rather than legal system differences. Thus, we also conduct analyses on the subsample of Chinese banks. We find that Chinese banks drive the boost in comparative financial development in the British concession, not the entry of foreign banks. Second, although historical

descriptions indicate that Britain and France established concessions on similar, adjacent lands, we control for potential differences by dividing the concessions into 200-by-200-meter grid cells. We repeat the analyses at this more granular level while including grid-cell fixed effects to account for within-concession variation. The results hold.

We extend these analyses to further address a critical challenge to drawing inferences about the impact of the British and French legal traditions on comparative financial development: omitted variables. Although the analyses include concession and year-fixed effects and control for the concession effect, time-varying omitted factors could trigger a break in comparative financial development around 1869. We condition on five concession characteristics and five indicators of Britain's and France's global military, economic, and political power. Regarding concession characteristics, we control for differences in (a) non-legal governance institutions in concessions, (b) population, (c) infrastructure expenditures, (d) international trading companies, and (e) the impact of violent conflict in China on the concessions. Regarding features of the British and French empires, we control for differences in (a) the number of concessions in other Chinese cities, (b) the number of naval ships, (c) the number of war victories around the world, (d) differences in the political systems of Britain and France, (e) the Gross Domestic Product (GDP) of Britain and France, and (f) stock market performance in Britain and France. Furthermore, we were concerned that the formation of the concessions could have set in motion different financial system dynamics not fully captured by concession and year-fixed effects or the array of time-varying control variables. Therefore, we also include the interaction between a British concession dummy variable and both linear and quadratic trends.

The results are robust to controlling for these additional covariates: we find a sharp increase in comparative financial development in the British concession following the establishment of the British and French Mixed Courts. These findings alleviate concerns that an omitted factor drives the break in comparative financial development in 1869. While other historical factors shaped comparative financial development, the findings suggest a robust, independent impact of applying the two legal systems on comparative financial development.

As additional strategies for reducing the potentially confounding effects of other historical events, we conduct the analyses over subperiods and after aggregating the data. First, we limit the sample period to the Qing dynasty (1840-1910) and thereby exclude the tumultuous change to Republican rule. Second, we restrict the sample period to the comparatively peaceful period between the Taiping Rebellion and the First Sino-Japanese war (1864-1894). The subsample analyses assess whether the results hold for narrower windows around the 1869 formation of the Mixed Courts.

Third, we use data averaged over five-year periods. Using these data focuses on the longer-run relationship between legal traditions and comparative financial development. All results hold when implementing these additional strategies.

Next, we investigate the second regime change in legal jurisdiction over the concessions: the rendition of the Mixed Courts in 1926. Without changing the administration of the concessions, the rendition returned legal jurisdiction to Chinese-run courts. The legal origins view predicts that since the British common law provides a comparative advantage over the French civil law in supporting financial activities, the rendition of the Mixed Courts will exert a comparatively strong adverse impact on financial development in the British concession. To test this prediction, we again employ a difference-in-differences approach. The first difference in these rendition analyses compares the British and French concessions. The second difference now compares the years before and after the 1926 rendition of the Mixed Courts to Chinese control. We again include the complete set of time-varying concession and empirical controls. Examining the 1926 rendition further reduces concerns about omitted variable bias, as omitted variables would have to account for the findings concerning both the 1869 and 1926 changes in legal systems.

The results from the rendition analyses are consistent with the legal origins view of comparative financial development, including extensions that examine bank performance and stock returns. The British concession experienced a much sharper decline in bank density following 1926. For this period, we obtained data on individual bank performance, as measured by return on assets (ROA). Consistent with the view that rendition had an especially adverse impact on banking in the British concession, we find a comparatively large drop in ROA among banks in the British concession. Evidence from changes in stock returns further supports the legal origins view. We examine a 24-month window around the August 1926 Provisional Rendition Agreement. We discover that stock returns in the concessions fall materially following the rendition of the Mixed Courts, and the fall is more prominent among firms in the British concession. Our joint findings that (a) the British financial development advantage surged after the 1869 application of the British common and French civil legal traditions in the respective concessions and (b) this gap shrank with the 1926 rendition of the Western legal systems to Chinese-run courts support the legal origins view.

As a final extension, we examine concessions in three cities outside of Shanghai: Guangzhou, Hankou, and Tianjin. We study 16 concessions granted to countries with a common law (Britain and the United States) or civil law tradition (Austro-Hungarian Empire, Belgium, France, Germany, Italy, Japan, and Russia). We analyze these three cities because each contains at least one common law and one civil law concession

within its borders. Thus, we continue to compare financial development across concessions with different legal systems in the same city. There are limitations to examining these 16 concessions, however. These concessions did not experience the sharp intertemporal breakpoints in legal jurisdiction that characterize the Shanghai concessions. This limitation reduces the ability to distinguish the effects of legal tradition on comparative financial development from other features of the concessions that might shape financial development. Nevertheless, we provide these analyses to augment the examination of the Shanghai concessions. Consistent with the Shanghai results, we discover that financial development is materially greater in the common law concessions than in their civil law counterparts.

Our work relates to several lines of research. We contribute to the broad literature on how European colonization influenced comparative economic development by examining the impact of Western legal traditions on financial development in China (e.g., Acemoglu et al. (2001) and the review by Levine (2005)). We also add to a growing body of research on how the West shaped Chinese economic development during the 19th and 20th centuries (e.g., Fairbank 1978; Feuerwerker 1983; Kung 2021). Several recent studies explore how Western influences on international trade and the diffusion of knowledge following the First Opium War (1840-42) affected Chinese economic growth, firm dynamics, and domestic trade, e.g., Jia (2014), Bai and Kung (2015), and Keller et al. (2017), and Keller and Shiue (2021). Xin and Yan (2021) compare risk management by banks in the British and French concessions in the 1930s. They argue that the French concession has a more authoritarian governance structure than the British concession, creating a less stable environment and lower loan-to-deposit ratios. More closely related to our work, Keller and Shiue (2021) examine the connections between Western legal institutions and interest rates across Chinese prefectures between 1820 and 1900. Using the existence of a Western consulate to gauge the presence of Western legal institutions, they find a negative relationship between having a consulate and prefecture interest rates and show that this consulate-rate relationship is driven mainly by whether the prefecture has a British consulate. We focus on identifying the impact of legal origins on comparative financial development by (1) examining two adjacent plots of land in the same city, (2) evaluating the impact of two legal-specific changes (the establishment of the Mixed Courts in 1869 and the rendition of those courts in 1926) on comparative financial development in the two concessions, and (3) analyzing the response of foreign banks, Chinese modern banks, Chinese traditional banks, joint-stock companies, and stock returns to these legal-specific changes. We stress that (a) the British and French consulates administered their respective concessions from before the first until after the second legal-specific change and (b) the analyses condition on an array of

concession and empire factors to isolate the impact of legal reforms on comparative financial development. Finally, we confirm that the results from the Shanghai concessions hold when examining other cities in China with multiple Western concessions.

We organize the remainder of the paper as follows. The next section provides a more detailed history of the Shanghai concessions. Section II describes the data. Section III presents the results analyzing changes in comparative financial development after Britain and France created the Mixed Courts. Section IV details the analyses and findings on changes in comparative financial development associated with the rendition of the courts to Chinese rule. Section V investigates the relationship between different legal systems and comparative financial development in cities outside of Shanghai. Section VI concludes.

I. Shanghai Concessions

In 1845, the British concession in Shanghai was formally established after Britain defeated China in the First Opium War (1839-1842) and demanded greater access to Chinese markets. Britain forced the Qing Dynasty to cede 830 acres of land in Shanghai. This "concession" was an enclave for British settlement, business, and trade, not a region of military occupation. In later years, China agreed to Britain's request to expand the concession as the number of foreign and Chinese settlers increased. The United States also received a Shanghai concession bordering the British concession. The British and American concessions merged in 1863, later named the Shanghai International Settlement. It reached a maximum size of 33,503 acres in 1899. Although more than ten countries had consulates within the Settlement, Britain dominated the administration of the International Settlement. For example, British citizens accounted for about 90% of the executive members of the concession's Municipal Council (Wang 1998). For this reason, we follow the literature and use the term "British concession" in referring to the International Settlement.

In 1849, the French also established a concession bordering the British concession in Shanghai. Specifically, France signed the Treaty of Huangpu with the Qing dynasty, obtaining the same trade and settlement privileges as Britain's concession. Fauvel (1899) notes that the first French Consul in Shanghai, Charles de Montigny, required that the concession be accessible by river and closer to Shanghai than the British concession. The Shanghai Prefect agreed, and the French concession was established on land between the British concession and Shanghai. The Suzhou River forms the border between the two concessions. The French concession also

experienced several expansion waves, from the original 164 acres to over 15,000 acres in 1914. Figure 1 illustrates the geographic expansion of the Shanghai concessions.

After 1936, British and French influence over the concessions waned appreciably with the Second Sino-Japanese War (1937-1945). As a result, we end our analyses of the Shanghai concessions in 1936. Britain and France formally returned the concessions to the Chinese government in 1943.

A. The British and French legal systems in the concessions

Britain and France transplanted their common and civil law legal systems into their respective Shanghai concessions. During the initial decades, the British and French consulates handled disputes involving their citizens. As more Chinese moved into the concessions and economic activity boomed, the British and French consulates struggled to address the burgeoning array of "mixed" cases that involved financial and commercial disputes between Chinese and foreign individuals, firms, and banks. In 1863, officials began negotiating an arrangement to replace these consular courts with legal institutions that could better serve the community's needs (Hudson 1927).

In 1869, a new charter was finalized, and the British and French concessions each established their own Mixed Courts (*Huishen Gongxie*) to handle cases involving Chinese and foreign plaintiffs and defendants. The 1869 Statutes of the Mixed Courts in Shanghai set clear, formal jurisdictional boundaries between the Mixed Court of the International Settlement (British Mixed Court) and the Mixed Court of the French Settlement. The Statutes specified which of the Mixed Courts would adjudicate cases involving people and businesses within the concessions, as detailed in Jernigan (1905, pp. 203-4). There were also detailed rules concerning legal jurisdiction when disputes included people, businesses, or properties outside the concessions. The British and French courts handled disputes involving concession residents (foreigners or Chinese) or their assets (Lee, 1990; Hou, 2017b). For instance, if a bank in the British concession sued a client in another Chinese district, the British Mixed Court would hear the case. When the plaintiffs were creditor banks in other Chinese cities, and the defendants were residents of or businesses in a concession, the corresponding Mixed Court in Shanghai would try the case.

Furthermore, the Mixed Courts worked with Chinese authorities to enforce the law beyond the concessions. For example, the Chinese authorities would apprehend defendants outside of the concessions for the Mixed Courts (Lee, 1990). During the initial decades of the Mixed Courts, Chinese and foreign judges jointly heard cases involving Chinese citizens and foreign residents (see an illustration in Internet Appendix Figure A1), but foreign judges dominated the courts. As noted by the U.S.

State Department (1880, p. 158), Chinese officials mainly assisted in executing decisions. Research by Hudson (1927), Yang (2006), and Cai (2013) notes that the Chinese officials participating in the Mixed Courts (a) tended to have a very low rank within the Chinese hierarchy, (b) were chosen by foreign officials to serve in the Mixed Courts, and (c) had little to no influence over decisions. By 1911, the Mixed Courts had jurisdiction over civil cases, including cases involving only Chinese citizens within the concessions, as well as the appointment, supervision, and payment of Chinese judges, control over prisons, the execution of arrests, etc. (Hudson 1927; Shanghai Shehui Kexueyuan 1981).

Around 1926, there was another "regime change" in the legal system governing the concessions. Due to rising nationalism after the First World War, China began negotiating a plan of rendition whereby the Mixed Courts would surrender legal jurisdiction to the Chinese authorities (Hudson 1927). These negotiations started in 1916 but failed to reach an agreement. In 1925, violent demonstrations in the concessions over foreign "imperialism" reenergized negotiations about rendition. The "Provisional Rendition Agreement" was signed on August 31, 1926, and the formal rendition of the British Mixed Courts to Chinese-run courts occurred on January 1, 1927. This was a significant change as it involved a switch from British common law to Chinese civil law. The French Mixed Court was also materially altered in 1927, as Chinese cases were assigned to Chinese judges and lawyers. Then, in 1931, Chinese courts assumed complete legal jurisdiction over the French concession.

A.1. Common law in the British concession

The historical record of lawsuits demonstrates that the British concession followed a common law tradition. The courts decided cases based on a mixture of statutory law, precedent, and the application of those laws and precedents to emerging cases within the concession.[3] In the concession, the British common laws applied to foreign residents and local Chinese. With the accumulation of court cases in the concession, the Court gradually invoked local cases as precedents in deciding new cases, which is a typical manifestation and evolution of the British common law outside of Britain (e.g., Levine 2005). For example, in a 1911 case, an American publishing house, Messrs, Ginn & Co., sued the Commercial Press of China for copyright infringement. The lawyer cited two verdicts from cases in 1896 and 1907 within the British concession

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[3] We confirmed the operation of the British common law in the Shanghai concession by reviewing commercial and financial lawsuits regarding property rights, financial instrument transactions, bankruptcy, creditors' residual rights after the liquidation of a company, and shareholders' rights and shares in joint ventures. It is worth noting that well-developed law libraries emerged in the Municipal Council of the British concession, which facilitated the law practitioners of the day and our research.

in which Chinese businesspeople were convicted of pirating foreign books. The American publishing house won the case, and Commercial Press had to recompense Messrs, Ginn & Co. This case is discussed in a series of newspaper reports in the *North China Herald*, April 8, April 10, and October 7, 1911.

Another noteworthy feature of the common law is its ability to adapt and consider local circumstances and customs in addressing specific cases, as discussed in Beck, Demirgüç-Kunt, and Levine (2003b) and La Porta, Lopez-de-Silanes, and Shleifer (2008). Evidence of this feature exists in the British concession, as legal practitioners regularly refer to Chinese customs when addressing disputes. Thus, without violating common law principles, the law could sometimes evolve efficiently in the British concession to resolve disputes while respecting local customs. For example, in 1876, Sassoon & Co., Ld., E.D. sued Wang, the owner of a Chinese company, in the mixed court for the overdue payment of a promissory note. Wang argued that the promissory note with 500 tael principal was transferred to the Chinese merchant Guo to purchase opium. However, Guo's opium business went bankrupt, which led to the suspension of the repayment of the note. The verdict was that since there is a stamp of the Chinese company on the promissory note, Wang must repay the note to Sassoon & Co. The judgment was based on the Chinese convention that the validity of notes depends on an official Chinese seal. If there is a default on the payment, the issuer with a seal on the promissory note is financially responsible.[4]

A.2. Civil law in the French concession

Consistent with the French civil law tradition, the French Mixed Court decided cases based on the statutes passed in France, not on precedent or local custom. The Court's archives show that judges resolved commercial cases based on strict applications of French commercial codes.[5] For example, in 1910, a French merchant sued a Chinese broker who traded gold futures for him, charging that the speculative behavior of the Chinese broker resulted in the French merchant losing more than 10,000 silver taels. Citing *Section 1965 of the French Civil Code* on the recovery of debts, the French court rejected the French merchant's argument, reasoning that the contract did not specify precise limits on trading by the Chinese broker. So, there was no basis for classifying the broker's trade as illegal (Hou (2017) cites this case "Séance du 27 November 1907 S. Somekh contre Hi Kai Song" [no. 635PO/C/371] from the Diplomatic Archives reserved in Nantes of France). Also consistent with the French

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[4] Cai (2013) cites this case, which is discussed in the article "Case on opium business promissory note (Zhipiao Fayin)" from the Chinese daily newspaper, Shun Pao, on January 22, 1876.

[5] The cases are reserved in the Diplomatic Archives in Nantes of France.

civil law tradition, judges in the French concession exerted power over investigating cases, calling and questioning witnesses, etc. Accordingly, lawyers in the French concession—as in France—mainly dealt with drafting and submitting documents to the court and replying to judges' queries (Hou 2017). Finally, we reviewed all civil cases in the two concessions. Relative to cases in the British concession, more than three times as many cases in the French courts cite statutory codes, and less than half cite earlier cases, consistent with the comparative law literature's description of the two legal traditions.

B. Financial development

The concessions were established on relatively undeveloped land, with few prior inhabitants and no pre-existing financial institutions or markets. For example, Montalto de Jesus's (1919, pp. 27-29) history of Shanghai describes the land ceded for the British concession as uncultivated, with several creeks and a few small hamlets. Likewise, French settlers described the initial condition of their concession as "primitive, covered with houses in poor condition, graves, and rubbish dumps" (Fauvel, 1899. p.17).[6]

By the late 19th century, however, Shanghai had become the most prominent financial hub in Asia, and the British concession was the financial center of Shanghai. For example, two years after the foundation of the British concession, the English Oriental Bank opened its first branch in China within the British concession. Foreign banks steadily entered the British concession, reaching 30 by 1925. In contrast, the total number of foreign banks in the French concession reached only four in the same period. These foreign banks dominated the foreign exchange market and foreign trade financing.

Over time foreign banks collaborated with Chinese traditional banks called qianzhuang ("money house") to provide a broader range of financial services to local businesses. The qianzhuang were generally small sole proprietorships or partnerships in which the founders were from wealthy merchant families. The qianzhuang blossomed in Shanghai after the mid-19th century. Their activities included providing local currency exchanges for the varieties of metallic currencies circulating in China, note-issuing, and giving credit to firms and households. While foreign banks had abundant capital, qianzhuang had local expertise. The two financial intermediaries formed fruitful business relations in the Shanghai concessions. Indeed, many qianzhuang moved their headquarters into the concessions. The qianzhuang even relocated their

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[6] Furthermore, there is no evidence that the British concession enjoyed a superior location. Indeed, as noted above, the French strategically chose their concession to give it an advantage over the British.

"Shanghai Monetary Association" (Shanghai qianye gonghui) from the Shanghai old city to the British concession in 1917.

According to the legal origins view, the British legal system offered advantages over the French civil law in accommodating the growth of Chinese traditional banks. Before the concessions, Chinese traditional banks developed their own business rules, enforced by their Association. The legal origins view stresses that the British common law tends to adapt to and incorporate local circumstances in enforcing contracts and deciding cases to a much greater degree than the French civil law (e.g., Beck, Demirgüç-Kunt, and Levine 2003b; Levine 2005; Gennaioli and Shleifer 2007; La Porta, Lopez-de-Silanes, and Shleifer 2008). As a result, the British concession would have a comparative advantage in fostering the development of Chinese traditional banks and facilitating collaboration between qianzhuang and British foreign banks. Indeed, British Mixed Court verdicts involving Chinese traditional bankers often cited the rules and customs of the Association of Chinese traditional banks (Du 2006), as shown in the archives of the British Mixed Court.[7]

In 1897, the Imperial Bank of China—the first "modern" Chinese bank—opened in the Shanghai British concession. Unlike the qianzhuang, the Imperial Bank of China was a limited liability, joint-stock company with regular shareholder meetings, a separate board of directors, and financial and accounting disclosure statements based on international standards. Many such modern Chinese banks soon emerged. By 1925, the number of Chinese banks in the British concession reached 194, more than five times that of foreign banks (30). However, the number of Chinese banks in the French concession grew much less rapidly, reaching 29 banks in 1925. Banks in the Shanghai concessions, especially those in the British concession, established branches and made loans outside the concessions. During the 1869-1926 period, 32% of Chinese banks in the British concession had branches outside the Shanghai concessions, whereas only 0.07% of banks in the French concession had such branches.

Besides modern banks, nonfinancial Chinese stock companies with limited liability and traded shares also emerged and flourished in the Shanghai concessions (Wang 1965). Before the concessions, there were no limited liability, joint-stock companies in China. Investors could purchase stocks directly from the company or through qualified brokers (Liu 2004). An active secondary market emerged in the 1860s. The most influential newspaper in Shanghai, *The North-China Herald*, published daily stock prices in "Shares and Stocks" (see Internet Appendix Figure A2). During the early years, stocks were traded mainly through foreign banks and foreign stock trading

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[7] For example, the British Mixed Court in 1918 decided that a promissory note issued by a trade company, Hongyu Hao, was invalid because the company was the subject of fraud. However, British Mixed Court reversed this decision after the Association noted that their rules specify that all certifiable promissory notes are redeemable regardless of fraud. There are many such cases discussed in Du (2006).

companies. The Shanghai Share Broker's Association was founded in 1891, giving rise to The Shanghai Stock Exchange in 1903. Most publicly-traded companies were in the British concession. For example, by 1925, 74 publicly-traded companies operated in the British concession and four in the French concession.

II. Data and Textual Analyses of Cases

This section first defines basic data from the British and French Shanghai concessions, including the unit of analysis and data on banks and stock prices. The section then provides textual analyses of court cases to illustrate differences in the operation of the British and French legal systems in the concessions. Below, when conducting robustness tests, we define additional control variables and discuss the data and details of the non-Shanghai concessions.

A. Unit of geographic analysis

We compare the development of finance in the British and French concessions from the establishment of the British concession in 1845 until the eve of the Second Sino-Japanese War in 1936, which reduced Western dominance over the concessions. We define the geographic boundaries of the concessions as those lands that were part of the concessions before 1861, which we call the "old concessions." The results, however, are robust to using the post-1861 geographic boundaries of the concessions. Figure 1 provides a map of the British and French concessions in Shanghai. As noted above, the British and French established concessions on similar, barren lands. Nevertheless, we account for potential variation in land quality, infrastructure, and other location-specific effects by dividing the concessions into 100 200m × 200m grid cells and including grid cell fixed effects in the analyses below. We exclude grid cells less than 0.001 km², which leaves 100 grid cells. Internet Appendix Table AI provides descriptive statistics of the main variables.

B. Banks and stock returns

We calculate the number of bank headquarters and branches in a concession or grid cell each year, as banks were the primary financial intermediaries in the late 19th and early 20th centuries. We do not have information on each bank's assets (or liabilities). Shanghai banks included foreign, Chinese modern, and Chinese traditional banks (i.e., the qianzhuang described above). Banks took deposits, made loans, and provided transaction services. Only foreign and Chinese modern banks had branches, as the

qianzhuang had only one office (headquarters). For cases where a foreign bank headquartered outside of China has branches in a concession, we count the branch as a bank in the concession. When examining grid cells, we compute the number of headquarters and branches within each grid cell.

We manually collected information on each bank's address and years of operation from the *Shanghai Financial Gazetteer* and other archives and newspapers (Internet Appendix B1 lists the data sources). We then map the addresses to the geographic information system (GIS) coordinates and identify the banks within concessions and grid cells. There were 67 foreign banks, 335 Chinese modern banks, and 264 qianzhuang in the two Shanghai concessions from 1846 through 1936.[8] Figure 2 depicts the distribution of banks across the grid cells of the two concessions, using the boundaries of the "old concessions." The figure provides the distributions of banks in 1868, which is just before the creation of the Mixed Courts, and in 1925, which is just before the rendition of the Mixed Courts to the Chinese courts. As shown, there is much more rapid financial development in the British concession than in the French concession following the creation of the Mixed Courts, which established the British and French legal systems in their respective concessions.

We also collected data on banks' return on assets (ROA), assets, leverage (loan to asset ratio), and age from a 10-year survey by the Research Department, Bank of China (1933) covering the 1921 to 1931 period. Although we could only obtain data on 26 banks, we use them to shed additional evidence on the impact of the rendition of the Mixed Courts on comparative bank performance between the two concessions.

Finally, we assembled data on the stock returns of individual firms from the *North-China Herald* and *China Press.* The *Herald* was founded in 1850. It began to publish stock prices in 1866 and the number of shares in 1894. The *China Press* published stock prices in Shanghai between 1911 and 1949.[9] We manually identified the exact location of 205 stock company's location (coordinates) based on *The Desk Hong List*, a bi-annual survey of all Shanghai firms edited by the *North-China Herald* between 1872 and 1941. The survey provides detailed information on each company's name, location, business scope, and other characteristics. Then we mapped the companies to the grid cells of the two concessions.

C. Court cases: Aggregate data and textual analyses of individual cases

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[8] These numbers omit the 43 Chinese modern bank branches and 86 qianzhuang, for which we could not identify the precise location.

[9] These stock return data do not include dividends, as there are no firm-level data on dividends during this period.

We collected data on civil cases to document differences in the functioning of the British common and French civil law systems in the concessions. We first collected summary information on all civil cases from the Municipal Annual Reports of each concession (1908-1926). Most civil cases in both concessions involve contractual disputes related to business contracts, debts, etc. The British court tried 1,132 civil cases per year, about 2.6 times the number of cases in the French court. To assess differences in the functioning of the two courts, we digitized the texts of the verdicts for 460 commercial cases, 315 from the British concession and 145 from the French concession. For the British court, we found 315 commercial cases from the total of 6,201 cases reported in the Supreme Court & Consular Gazette of the *North-China Herald* from 1870 to 1926. For the French court, we photocopied all court cases from the Diplomatic Archives (1903-1926) reserved in Nantes of France, which provides the most extensive collection of the original verdicts from the French court in the Shanghai concession.

We then conduct textual analyses of the verdicts over the 1870-1926 period. We differentiate by three sets of keywords to gauge differences in how the Britishand French legal systems addressed commercial disputes in the concessions. First, we use keywords associated with custom and convention, as the legal origins view holds that the British common law is more likely to use local customs and conventions in deciding cases than the French civil law. We then calculate the ratio of the number of keywords associated with "custom and convention" to the total number of words in the verdict and multiply by 1,000 to compute the millesimal. Second, we use keywords associated with consult and opinion, as the legal origins view stresses that the British common tends to refer to past opinions and consultations more generally in interpreting the law. In contrast, the French civil law focuses more on statutory laws written in France when deciding cases. We compute a similar ratio of the number of keywords associated with "opinions and consultations" to the total number of words. Third, as a falsification test, we examine the ratio of keywords associated with default, infringement, bankruptcy, etc., to the total words in the verdict. We examine these keywords associated with contractual disputes as a falsification test because the legal origins view does not suggest that there will be proportionally more such disputes in British or French concession. Appendix Table AII provides the keywords from the verdicts. Finally, we test whether the incidence of these three sets of keywords differs between the British and French Mixed Courts.

Table I reports the findings for all cases and the subset of bank-related cases. Compared to cases from the French concession, cases in the British concession are more likely to use words such as custom or convention, consistent with the view that the common law is more likely to consider local customs and general convention in

resolving disputes. Verdicts in the British concession more frequently use words such as opinion and consult, consistent with the view that the common law considers various factors to resolve cases efficiently, not just the statutory law. However, there is not a higher proportion of cases using words like "default" These findings consistent with the comparative law literature's descriptions of the differences between the British common and French civil law. The British common law relies more on local customs and conventions and past opinions, while the French civil law focuses more on statutory laws developed in France.

III. Financial Divergence between the Concessions: 1840-1925

A. Methodological overview

The critical challenge to assessing the impact of the British common law and the French civil law on comparative financial development in their respective Shanghai concessions is isolating the influences of legal system differences from other potential factors. As noted above, the British and French concessions were on neighboring lands of similar quality that had similar pre-concession levels of economic development. Britain and France, however, were different in other potentially important respects besides their legal systems. For example, Britain had a larger economy and a more extensive colonial empire. As a result, commerce and finance might have evolved differently in the British and French concessions for reasons having little to do with legal systems.

In this section, we use a series of analytical methods to isolate the independent role of legal system differences in shaping comparative financial development from other differences between Britain and France. First, we begin with a simple framework in which we explore differences in financial development between the two concessions following the formation of the Mixed Courts in 1869 to assess the "legal effect." We control for the "concession effect" associated with the formation of the concessions in 1845 and year and concession (or grid-cell) fixed effects to isolate the legal effect on comparative financial development. Second, we test the robustness of the findings by (a) using different subperiods to reduce the impact of some major historical events on the analyses and (b) aggregating the data from annual to five-year periods to reduce the impact of annual fluctuations on the findings. Third, we assess whether there is a break in the evolution of comparative financial development around the formation of the Mixed Courts in 1869. Finally, we extend these analyses by conditioning on an array of time-varying concession, China, and empire traits, including measures of the comparative economic, military, and political strengths of Britain and France.

B. Results: The Mixed Courts and bank density

We begin with the following difference-in-differences equation to assess the impact of the two concessions and their legal institutions on comparative financial development:

$$Y_{it} = \beta_1 \times British_i \times Post1845 + \beta_2 \times British_i \times Post1869 + \gamma_i + \lambda_t + \varepsilon_{it}. \quad (1)$$

Y_{it} denotes the number of banks (per km^2) in a concession (or grid cell) i, in year t. $British_i$ is a dummy variable that equals one for the British concession (including all grid cells within the British concession when conducting the analyses at the grid-cell level) and zero for the French concession. $Post1845$ is a dummy variable that equals one after 1845 and zero before then. We also conduct the analyses at the grid-cell level because we were concerned that the British concession might have some especially appealing areas for financial development, perhaps due to land quality, location, or infrastructure. These within concession factors might account for comparative financial development in the British concession and not legal system differences.[10] Given persistence in the dependent variable, we use a Generalized Least Squares (GLS) estimator designed for panel data to account for potential autocorrelation throughout our analyses.[11]

The first interaction term, $British_i \times Post1845$, captures the concession effect, i.e., whether more banks started operating in the British concession relative to the French concession after 1845. Since there were no banks in the concessions before 1845, the estimated coefficient on $British_i \times Post1845$ provides an estimate of the average annual difference in bank density between the British and French concessions following the creation of the concessions. γ_i is a concession (or grid-cell) fixed effect that captures all time-invariant characteristics of the geographic location. λ_t is a year fixed effect and captures the common annual shock shaping financial development in both the British and French concessions.

The second interaction term, $British_i \times Post1869$, captures the legal effect, i.e., whether more banks were opened in the British concession relative to the French concession after their respective legal systems became dominant in the concessions with the creation of the Mixed Courts in 1869. By controlling for the concession effect,

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[10] Since there are only two concessions, we do not adjust standard errors for clustering at the concession level when running concession level regressions. When running grid-cell level regressions, we adjust the standard errors for clustering at the grid-cell level.

[11] The GLS estimation considers the autocorrelation between residuals of the estimates by assuming the residuals follows an AR(1) process and assigning them an autocorrelation parameter that is calculated by $\epsilon \hat{}' \epsilon\_(t-1)/ \epsilon \hat{}' \epsilon$, where ϵ is the vector of residuals.

British$_i$ × *Post1845*, the estimated coefficient on the legal effect, *British$_i$* × *Post1869*, provides information on whether bank density rose comparatively faster in the British concession after the establishment of the Mixed Courts in 1869 beyond any differences in the evolution of bank density triggered by the establishment of the two concessions in 1845. Thus, $\beta_2 > 0$ would suggest that bank density rose in the British concession relative to the French concession beyond the formation of the concessions in 1845 after establishing the different legal systems in the concessions.

As stressed above, the establishment of the Mixed Courts represents a distinct break in the concessions. The creation of these courts deepened and broadened the jurisdiction of the British and French legal systems in their respective concessions. Thus, the "legal origins" view of LLSV (1998) suggests that (1) financial development in the British concession should be comparatively stronger than that in the French concession after 1869 relative to differences in financial development in the two concessions before the establishment of the Mixed Courts and (2) the impact of the legal systems on comparative financial development should hold above and beyond any effects of the British and French global military, economic, and administrative characteristics on comparative financial development. We start our examination of the legal origins view by using data from 1840 through 1925, where the 1840-1845 period is the pre-concession period.

As shown in Table II, the results indicate that bank density in the British concession was markedly greater than that in the French concession after establishing the Mixed Courts in 1869. Consistent with the view that the 1869 imposition of the different legal systems—and not simply the creation of separate British and French concessions—altered comparative financial development, the results on *British$_i$* × *Post1869* hold when conditioning on the concession effect (*British$_i$* × *Post1845*). Based on the coefficient estimates from column (1), the British concession had about 2 more banks per km^2 on average than the French concession before establishing the Mixed Courts in 1869, and this gap increased by about 8 banks per km^2 after 1869. In column (2), we re-do these analyses for the subsample of Chinese banks to net out the comparative number of foreign banks establishing affiliates in the concessions. The estimates indicate a comparatively sharp increase in the density of Chinese banks in the British concession, with the gap increasing by nearly 7 banks per km^2 after the establishment of the Mixed Courts. By comparing columns (1) and (2), the estimates suggest that the legal effect is primarily composed of a large increase in Chinese banks in the British concession following the stronger application of the British common and French civil laws triggered by the establishment of the Mixed Courts. Furthermore, as

shown in columns (3) and (4), these results hold for the full sample of banks and the subsample of Chinese banks when conducting the analyses at the grid-cell level.[12]

We next extend these analyses to address concerns that political, military and economic disruptions differentially shaped financial development in the two concessions by conducting the analyses over sub-periods and using lower frequency data. As stressed above, our analyses focus on comparative financial development. Thus, while political, military, and economic upheavals may have shaped financial and economic activity in the concessions, our concern is whether such disruptions differentially affected financial development in the concessions. In one set of subsample analyses, we limit the sample period to the Qing dynasty (1840-1910), which excludes the tumultuous change to Republican rule starting with the 1911 revolution. In another set of subsample analyses, we restrict the investigation to the comparatively peaceful period in China between the Taiping Rebellion and the First Sino-Japanese war (1864-1894), a period that also excludes the Boxer Rebellion (1899-1901). Both of these subperiods exclude World War I. By examining these subsamples, we test whether the results hold for narrower windows around the 1869 formation of the Mixed Courts and for periods that exclude several major events.[13] As shown in Panels A and B of Table III, all of the results hold during these two subsamples. In a second approach, we use data averaged over five-year periods to abstract from higher-frequency relationships that could confound our ability to isolate the long-run relationship between legal traditions and comparative financial development. As shown in Panel C of Table III, the results hold when using these aggregated data, confirming the earlier results with annual data. In the next two subsections, we employ different strategies for identifying the impact of legal traditions on comparative financial development.

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[12] The results hold when we normalize the number of banks by population size or take the natural logarithm of bank density at the concession level. Consistent with the findings on bank density, we discover that stock market development is comparatively strong in the British concession following the establishment of the Mixed Courts. To measure stock market development, we use the density of stock companies at the concession and grid-cell levels. The sample period begins in 1866, as there were no stock companies in Shanghai before then. This leaves only three years of data before the creation of the Mixed Courts. Therefore, we view the results on stock companies around 1869 as suggestive (not reported).

[13] Another potential confounding event was the 1870 Tianjin Massacre in 1870, in which about 60 French Catholic clergies were killed by Chinese locals. While this incident led to tensions between China and France, it is unclear how it influenced the French and British concessions in Shanghai. On the one hand, the tensions might have discouraged Chinese merchants from investing in the French concession. On the other hand, France demonstrated its influence in China, as the Qing emperor punished officials and others engaged in the massacre. France's demonstrated power might have attracted Chinese merchants into the French concession. We have not found evidence that the power and prestige of France fell in China after the massacre.

C. Dynamics: Comparative financial development and the Mixed Courts

To provide additional evidence on whether there is a break in the comparative evolution of bank density in the British and French concessions after the 1869 formation of the Mixed Courts, we estimate a dynamic version of equation (1). Specifically, we run the following regression at the grid cell level with 1869 as the reference year:

$$Y_{it} = \sum_{t=1865}^{1880} \beta_t \times British_i \times \theta_t + \gamma_i + \lambda_t + \varepsilon_{it}, \qquad (2)$$

where θ_t equals one in year t and zero otherwise, and the other variables are defined above. To limit the effects of heterogeneity over longer periods and focus on a narrower period around the 1869 establishment of the Mixed Courts, we conduct this examination over the window from 1865 through 1880, i.e., five years before the establishment of the Mixed Courts ten years after that. Note, however, that if we conduct the analyses over a longer period, the same results emerge. We then plot the estimated values of β_t and the 95% confidence intervals in Figure 3. If the establishment of the Mixed Courts is associated with a positive change in the comparative evolution of financial development in the British concession, we should see an increase in β_t after 1869. We conduct the analyses for the full sample of banks (Panel A) and for the subsample of Chinese banks (Panel B).

Before the formation of the Mixed Courts, the gap in British-French bank density is close to zero and does not exhibit a significant trend, as shown in Figure 3. There is a notable change after 1869. Consistent with the legal origins view of comparative financial development, the financial development advantage in the British concession starts to grow after the formation of the Mixed Courts. Consistent with the view that it takes time for legal systems to shape financial development, Figure 3 illustrates a growing gap in British-French financial development.

D. Mixed Courts and bank development: Additional controls

In this section, we conduct additional analyses to enhance identification. The findings in Tables II and III and Figure 3 suggest that bank density in the British concession rose appreciably relative to that in the French concession after 1869 while controlling for the pure concession effect, concession (and grid-cell) fixed effects, and year fixed effects. We now control for an array of time-varying factors to reduce concerns that an omitted variable accounts for the surge in comparative financial development starting in 1869. Given the difference-in-differences specification and control variables,

the omitted factors would have to be time-varying and induce a break in comparative financial development around the time of the formation of the Mixed Courts to confound our analyses. Thus, the omitted variables must not just affect financial development; they must differentially shape financial development around 1869 to bias the findings on the legal effect. Data on the concession-level controls that we now add to the analyses start only after the formation of the concessions, so this section's analyses begin in 1846.

We include ten additional time-varying controls. Five control for concession characteristics, and five control for differences in the British and French empires' military, economic, and political power. We first describe the data and then present the results. For brevity, we provide results for the subset of Chinese banks, but all results hold for the full sample of banks as shown in Appendix Table AIII. The summary statistics are reported in the Internet Appendix Table AI.

D.1. Shanghai concession controls

First, Britain and France established different governance institutions in Shanghai, and it could be these governance systems and not comparative legal institutions that shaped financial development (e.g., Xin and Yan 2021). Although we control for concession fixed effects, we extend these analyses by controlling for the dates when the British and French formally established different governance systems in their respective concessions. Historians highlight two substantial changes in the governance of the concessions: the British establishing their Municipal Council in 1854 and the French creating their own Municipal Council in 1862. We test whether the creation of these different governance systems accounts for the divergence in bank density in the concessions. To do this, we create the variable *Municipal Councils*, which equals one after 1854 for British concession observations, equals one after 1862 for French concession observations, and equals zero otherwise.[14]

Second, despite starting from similar economic conditions, factors besides legal system differences may have shaped comparative economic development and hence comparative bank development in the concessions. To address this concern, we control for population per square kilometer (*Population density (lag)*) to proxy for economic development since there are no data on production in the concessions. We use lagged population density at the concession-year level to assess the robustness of our results while recognizing that these population data are subject to several challenges (Zou,

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[14] Another possibility is that the British concession had lower tax rates, fostering greater economic and financial development. However, we find that this was not the case. As Wang (1995) shows, the tax rates on land and property taxes, where land and property taxes accounted for about 80 percent of fiscal revenues in the concessions, are almost identical in the two concessions.

1980; Henriot et al., 2018).[15] Thus, if economic, political, or military events encouraged more people to move into the British concession to engage in commercial transactions, spurring financial development, including *Population density (lag)* will help in identifying the independent relationship between the legal effect and comparative financial development from these other influences.

Third, we were concerned that Britain might have spent more on infrastructure development around the formation of the Mixed Courts, which might have independently spurred economic and financial development. We collected data on annual public spending (measured in 1,000 silver Taels) on infrastructure and government services in the two concessions from their Annual Municipal Reports (Shanghai Municipal Council, 1863-1936; Conseil d'administraction municipal de la concession francaise a Shanghai, 1868-1936). We then control for *Public expenditures* to assess the independent relationship between the implementation of distinct legal systems in 1869 and the subsequent evolution of comparative financial development.

Fourth, the comparative strength of Britain's global military and economic empire might have encouraged relatively more economic activity and trade in its concession. To control for this potential confounding influence, we include *Trade company density*, which equals the number of trade companies per square kilometer at the concession level in the previous year, in the regressions. We obtained this data from the *Desk Hong List* edited by the *North-China Herald* between 1872 and 1941.

Fifth, we control for the possibility that violent conflicts within China differentially influenced financial development in the concessions. We construct the variable *Wars in China*, which equals the number of civil wars and foreign wars in China in the previous year. We then include the interaction term *British*Wars in China* to control for the possibility that conflicts within China differentially shape comparative financial development. We obtain these data from Chen (1992).

D.2. Empire controls

Differences between Britain and France in their military, economic, and political power may have shaped comparative financial development in the Shanghai

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[15] From 1865, both concessions conducted population census surveys every five or ten years. Annual population data start in 1900 in the British concession and the late 1920s in the French concession. Assuming a linear growth rate of population, we interpolated the annual population for the missing years and coded the population as zero in 1845. Another challenge to working with population data is that we do not have separate time series data on the geographic areas defined as the old concessions (our sample areas). Instead, we use the whole population of the British and French concessions, as the districts of the old concessions were the most populous. We make this assertion based on the data illustrated in Internet Appendix Figure A3 for the population distribution at the district level within the concessions in 1935, which is the only year with district-level population data across concessions.

concessions. Omitting such influences could confound our ability to draw sharp inferences about the influence of legal traditions on comparative financial development if those characteristics differentially shaped financial development in the concessions and induced a break in the evolution of comparative financial development around 1869. Thus, besides controlling for the concession-specific factors discussed above, we now also include six "empire controls" to condition out broader features of Britain's and France's global power and influence within China.

First, to the extent that Britain had greater economic influence and connections throughout China, the British Shanghai concession may have experienced comparatively stronger financial development than the French Shanghai concession. Although our earlier analyses controlled for the concession effect (*British*Post 1845*) and concession fixed effects, we control for the number of British and French concessions in China (*Concessions in China*) based on Yan's (1955) statistics.[16]

The second and third controls capture the global military power of the empires. *Naval ships* equals the number of naval ships in the British and French navies in the previous year. We obtain these data from Colledge and Warlow (2010), Demerliac (2013, 2021), Chesneau (1979, 1980), and Gardiner (1985). *War victories* equals the number of military victories involving Britain or France in the previous year, which may influence the relative power and reputation of Britain and France.[17] These data are from Clodfelter (2002).

Fourth, differences in the political systems of Britain and France may also have shaped financial development in the concessions, and it might be these political factors, not legal system differences, that account for comparative financial development in the Shanghai concession. For example, data from the Polity IV database indicate that democracy grew in Britain during the sample period. In contrast, France remained comparatively authoritarian. If democracy fosters greater investor confidence, then

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[16] Hong Kong was an important British settlement, raising concerns that financial development in Hong Kong drove financial development in its Shanghai concession. However, the historical evidence suggests that this is very unlikely. Before the mid-20th century, Hong Kong was much less financially developed than Shanghai. For example, Hong Kong had 10 modern Chinese banks in the 1930s, while Shanghai had 218. Moreover, of the 10 modern Chinese banks in Hong Kong, eight were first established in Shanghai. Then, after many years, they opened affiliates in Hong Kong. None of the 218 modern Chinese banks in Shanghai opened first in Hong Kong. The historical evidence indicates that Shanghai was the region's financial hub during this period, suggesting that financial development in Hong Kong did not spill over to Shanghai.

[17] We are also note France's defeat in the France-Prussia war in 1870. The defeat may have weakened France's influence and reputation in its colonies, potentially reducing economic and financial development. However, the effect of the France-Prussia war on financial development in French Shanghai seems limited. The number of banks, trading companies, population kept growing in the French Shanghai concession after the France-Prussia war. That is, there is no evidence of a decline in economic and financial development. Furthermore, France's domestic stock market capitalization also did not decline after 1870 (see Figure 4 in La Porta et al, 2008).

these political differences occurring at the empire level could have influenced comparative financial development in the concessions. To account for the possible confounding effect of political institutions, we control for the annual Polity IV democracy scores of Britain and France between 1846 and 1925, where the scores range from -10 (strongly autocratic) to 10 (strongly democratic) (Marshall et al. 2020).

Fifth, we control for Britain's and France's GDP per capita since the relative strength of the British economy, rather than the comparative advantage of the British common law, could shape comparative financial development in the Shanghai concessions. Specifically, we include *GDP per capita*, which equals the logarithm of British/French GDP per capita for the British/French concession respectively. Maddison (2010) provides data on GDP.

Sixth, we extend these robustness tests by controlling for differences in stock market performance in Britain and France. We were concerned that Britain's and France's domestic financial performance could have influenced comparative financial development in their Shanghai concessions. Using data from Campbell et al. (2021), Jordà et al. (2019), and Le Bris and Hautcoeur (2010), we condition on *Stock return*, which equals annual stock returns in London/Paris for the British/French concession respectively.

D.3 Results with additional controls

The results hold when controlling for these additional control variables. Column 1 of Table IV presents the baseline regression that only includes concession and year fixed effects. We include this baseline because, unlike Table II, the data used in Table IV start in 1846 when the control variables become available. Hence, we cannot control for *British*Post1845* (as there is no "pre-treatment" period). Column 2 adds the five concession controls, and Column 3 adds the five empire controls. Across the different specifications, *British*Post1869* enters positively and significantly at the one percent level. After adding the ten controls, the Table IV estimates indicate that the British concession averaged about 9 more banks per year than the French concession after the establishment of the Mixed Courts in 1896.

We were also concerned that the formation of the concessions in 1845 might have triggered different dynamics in the evolution of bank density in the two concessions. Such dynamics could impede the ability to draw sharp inferences about the relationship between legal origins and comparative financial development per se. Thus, we control for linear and quadratic trends that are interacted with the British dummy variable to address this concern (*British*quadratic time trend since 1845*). As shown in Column 4, the results hold when including all of the additional controls

and this linear-quadratic trend. Critically, the estimated coefficient on the legal effect, *British*Post1869*, changes little across columns 2-4, suggesting the robustness of the results to the controls. The results also hold when including *Stock return*. Although conditioning on *Stock return* reduces the sample size, Appendix Table AIV demonstrates that *British*Post1869* continues to enter positively and significantly in the financial development regressions.

Finally, we extend the Figure 3 analyses of whether there is a break in the evolution of comparative financial development in the concessions after the formation of the Mixed Courts. Specifically, we augment equation 2 by also controlling for the interaction between each of the control variables in Table IV (fixed in the year 1868) and year dummies. We include these interaction terms to address potential concerns that differences in the concession might create differential trends in comparative financial development. We continue to find a sharp break in. comparative financial development after 1869. However, since most of these individual interaction terms drop from the analyses due to multi-collinearity at the grid-cell level, we report these robustness tests using the first principal component of the Table IV controls in 1868 interacted with year dummies. As shown in Appendix Figure A4, we continue to find a distinct break in the evolution of comparative financial development following the formation of the Mixed Courts, with financial development in the British concession rising appreciably relative to that in the French concession after 1869.

These findings are consistent with the legal origins view of comparative financial development. Namely, they suggest a strong, independent impact of applying the two legal systems on comparative financial development. We do not argue that other factors are unhelpful in explaining comparative financial development in the Shanghai concessions. Rather, the results suggest there was a notable increase in financial development in the British concession relative to that in the French concession with the application of the two distinct legal systems in 1869. We now examine whether there is a similarly notable decrease in comparative financial development in the two concessions with the rendition of those legal systems in 1926.

IV. Comparative Financial Development and Rendition of the Courts

Another legal system break occurred around 1926 with the rendition of the Mixed Courts. Following violent protests in 1925 against Western influence, negotiations intensified about the rendition of the Mixed Courts. The Chinese and the United Kingdom signed an agreement in August of 1926, and the formal rendition of the British Mixed Court to the Chinese authorities occurred on January 1, 1927. Legal

jurisdiction in the French concession was also reformed, and Chinese courts took over cases involving Chinese citizens in 1927 and, later, complete legal jurisdiction.

This section tests whether financial development deteriorated comparatively rapidly in the British concession following the rendition. If the British common law provides a comparative advantage over other legal systems in supporting financial development, eliminating this advantage should have an especially large adverse effect on finance in the British concession. We examine twenty years around the rendition year so that our sample covers from 1917 through 1936.

A. Dynamics: Comparative financial development and rendition

To assess whether there was a break in the evolution of comparative financial development around the rendition of the Mixed Courts, we again estimate the dynamic version of equation (1) at the grid cell level with 1926 as the reference year:

$$Y_{it} = \sum_{t=1917}^{1936} \beta_t \times British_i \times \theta_t + \gamma_i + \lambda_t + \varepsilon_{it}, \qquad (3)$$

where θ_t equals one in year t and zero otherwise, and the other variables are defined above. Following the same method used to construct Figure 3, we plot the estimated values of β_t from equation (3) and the corresponding 95% confidence intervals in Figure 4. If the rendition of the Mixed Courts has a disproportionately negative effect on financial development in the British concession, we should see a decline in β_t after 1926.

As shown, there is a discrete drop in the comparative financial development of the British concession following the rendition of the courts. This result holds for the full sample of all banks, as shown in Panel A, and the subsample of Chinese banks, as illustrated in Panel B. The break in the evolution of comparative financial development is consistent with the legal origins view that moving from the British and French legal traditions to the Chinese courts will have a relatively larger adverse effect on financial development in the British concession, given the superiority of the British common law in fostering finance.[18] Following our analyses of the evolution of comparative financial

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[18] One potential concern is that the May Thirtieth Movement in 1925 may confound the effect of the court rendition on comparative financial development in the two concessions. However, this nationalistic movement influenced both the British and French concessions in Shanghai and other locales. We have not found empirical evidence or historical analyses indicating that growing Chinese nationalism influenced the British concession more than the French concession. Moreover, our data show that population and public expenditures in the British concession did not fall relative to that in the French concession after 1925. To further address this concern, we restrict the sample period to the period after the end of the Movement (Mid-August 1925) and examine stock price changes around the court rendition event (August 1926).

development around the founding of the Mixed Courts, we also augment these dynamic analyses of the rendition of courts by including additional controls. Specifically, we compute the first principal components of the Table V controls. We then include this first principal component (computed in 1925) interacted with year dummies. Appendix Figure A5 shows that we continue to observe a distinct break in the evolution of comparative financial development following the rendition of the courts, with financial development in the British concession falling relative to that in the French concession after 1926.

B. Rendition and comparative bank density, bank performance, and stock returns

We next employ a difference-in-differences strategy to examine comparative bank density and then extend the analyses to bank performance and stock returns. The first difference compares the two concessions. The second difference involves comparing (1) the period from 1917 to the rendition of those courts in 1926 to (2) the period from the 1926 rendition until 1936, when the Second Sino-Japanese War effectively ended British and French influence in the Shanghai concessions. The legal origins view predicts a more substantial decline in financial development in the British concession than in the French concession following the rendition of the Mixed Courts because removing the British common law will have had a larger adverse impact on financial development than removing the French civil law. We use 1926 as the rendition date for the difference-in-differences estimation even though the official rendition occurred on January 1, 1927, because the agreement was negotiated in 1926 and finalized in August 1926. Using 1927 instead of 1926 as the breakpoint date in the regressions yields almost identical results. We report results for the subset of Chinese banks to save space. Results on all banks are similar, as shown in Appendix Table AV.

   Table V shows that the British concession experienced a much sharper decline in Chinese bank density than the French concession after 1926. We again employ the extensive set of controls used in Table IV. Column 1 only includes *British * Post1926* and concession and year fixed effects. Column 2 adds the concession controls,[19] column 3 also conditions on the five empire controls, and column 4 further includes linear and quadratic trends interacted with the British dummy variable to address this concern (*British*quadratic time trend since 1845*). Consistent with the legal origins view, *British*Post1926* enters negatively and significantly across the different specifications at least at the 10-percent significance level. Furthermore, the estimated coefficient on *British*Post1926* varies little when using the different conditioning information sets,

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[19] *Municipal council* is omitted because both councils were established before the sample period in Table V.

highlighting the strong, independent relationship between legal traditions and comparative financial development. The estimated coefficient from column 4 indicates that the gap in bank density between the British and French concessions fell by about seven banks per km^2 due to a drop in bank density in the British concession. This is large, as the gap at the start of the sample period (1917) was about 40 per km^2.[20]

Next, we extend these analyses to examine bank performance. We collected data on banks' return on assets (ROA) between 1921 and 1931 from a 10-year survey by the Research Department, Bank of China (1933). Although we could only obtain data on 26 banks, we use them to shed additional evidence on the impact of the rendition of the Mixed Courts on comparative bank performance in the concessions. We employ two regression specifications in which the dependent variable is the ROA of a bank in a year. The first specification is a simple linear regression that is separately estimated over (a) the pre-rendition period and (b) the post-rendition period. The primary explanatory variable is *British*, which equals one for banks in the British concession and zero otherwise. The regression controls for year-fixed effects and sometimes conditions on time-varying bank controls. The bank controls include lagged values of the logarithm of bank assets, bank leverage, and the logarithm of bank age. This regression provides information on whether average bank ROAs differ in the two concessions before and after the rendition of the Mixed Courts. For example, if the British common law more effectively supports banking activities, it could lower the banking costs in the British concession. This cost advantage could boost bank ROAs if entry barriers limit the extent to which competition eliminates the cost advantages. Second, we employ a difference-in-differences specification. The main explanatory variable is the interaction term *British * Post1926*, and the regressions include bank and year-fixed effects and the same time-varying bank controls discussed above. This regression provides information on whether the rendition of the Mixed Courts is associated with differential change bank ROA in the two concessions.

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[20] There are other potential confounding factors. For instance, Britain's move to the gold standard occurred at about the same time as the rendition of the Mixed Courts. Thus, we cannot include an interaction term of the gold standard and the British concession. However, the analyses condition on many factors that might be associated with adopting the gold standard, including GDP per capita and stock returns in the home countries (Appendix Table AVI), population density in the concessions, and the density of trading companies in the concessions. The estimated coefficient on the *British*Post1927* interaction term changes little when including or excluding these controls, suggesting that omitted variables, e.g., the return to the gold standard, are not significantly biasing the results on the legal origin effect. Another concern is frequent political unrest during this warlord era of China. To address the concern that such unrest disproportionately influenced financial development in the British concession, we control for the interaction between British concession dummy and the annual number of wars. However, we recognize that this control will not eliminate the potential impact of various influences on comparative financial development around 1927. However, we unaware of research showing that such events had more adverse effects on the British concession.

Table VI reports two main findings. First, banks in the British concession had higher ROAs than those in the French concession during the pre-rendition period. As shown in columns (1) and (2), *British* enters positively and significantly during the pre-rendition period when excluding or including the time-varying bank controls. Second, this performance gap disappears following the rendition of the Mixed Courts. As shown in columns (3) and (4), *British* is insignificantly different from zero during the post-rendition period. The difference-in-differences analyses also indicate that the ROA performance gap drops after the rendition of the courts. As shown in columns (3) and (4), *British * Post1926* enters negatively and significantly. The findings in Table VI indicate that while bank ROAs were, on average, higher in the British concession before the rendition of the Mixed Courts, they were no longer higher following the rendition of those courts to Chinese rule.

Another way to shed empirical light on the impact of the rendition of the Mixed Courts is to examine the comparative change in the stock returns of firms in the British and French concessions following 1926, which we offer in Table VII. To do this, we examine the 24 months around August 1926, i.e., between September 1925 and August 1927. This short time window excludes the period of the nationalistic movement that ended in August 1925. The dependent variable is the monthly stock return of each company, defined as the log difference of month-end stock prices. The stock return regressions control for time-varying firm characteristics—the logarithm of the firm's market capitalization and the number of months since the firm went public. Several specifications also condition on firm-fixed effects to control for time-invariant traits. To provide a benchmark, we examine the overall 'event effect' on stock returns without distinguishing between the British and French concessions (columns 1 and 2). Column (1) excludes firm fixed effects, while column (2) includes them. As shown, there is a significant drop in stock returns following the rendition of the Mixed Courts, with returns falling by about 3.3% when including the full set of conditioning variables. We then examine the differential stock return response by including the interaction term, *British*Post-August 1926*, and report the results in columns (3) and (4). In column (3), we exclude the firm fixed effects and include *British* as a separate linear term. We include firm fixed effects in column (4), so *British* drops from the estimation. The results indicate that stock returns fell by more in the British concession following the rendition of the Mixed Courts. Indeed, the stock returns of the average British firm fell by about 4.6% more than that of the corresponding French firm. The Table VII results provide further evidence that shifting from the British common law to Chinese civil law had a more adverse effect on firms than the concomitant legal system changes in the French concession.

V. Beyond Shanghai

In this section, we examine concessions outside of Shanghai. Shanghai was the financial center of China in the late 19th and early 20th centuries, and there are much better data on the Shanghai concessions than those in other cities. However, examining the non-Shanghai concessions enhances our assessment of how different legal systems within one city shape comparative financial development within those cities.

Specifically, we examine 16 Western concessions in three cities—Tianjin, Hankou, and Guangzhou. The cities and concessions, as well as their legal origins and establishment years, are listed in Appendix Table AVII. We chose these three cities because they hosted concessions with a British common law tradition and concessions with a civil law tradition.[21] Therefore, we can compare financial development in common and civil law jurisdictions within the same city. To conduct these comparisons, we implement two strategies. First, we divide these concessions into two groups: those with a common law tradition (Britain and the United States) and those with a civil law tradition (Austro-Hungarian Empire, Belgium, France, German, Italy, Japan, and Russia).[22] We then test whether financial development is comparatively stronger in the common law concessions. Second, we focus only on the differences between British and French concessions in these three cities. This second strategy directly extends our Shanghai analyses to these three cities and avoids combining different civil and common law concessions. This second strategy comes at the expense of excluding the other (non-British and non-French) concessions. As we will show, both strategies yield the same conclusions.

Given these data, we estimate the following equation over the period between 1850 (ten years before the establishment of the first concession) and 1936 (the eve of the Second Sino-Japanese War):

$$Y_{it} = \beta_1 \times \textit{Common Law}_i \times \textit{Post} + \beta_2 \times \textit{Population density}_{i-1} + \gamma_i + \lambda_t + \varepsilon_{it}, \quad (4)$$

where Y_{it} denotes the number of banks (per km²) in concession i, in year t. *Common Law*$_i$ is a dummy variable that equals one if the concession was granted to a common law country and zero if granted to a civil law country. *Post* is a dummy variable that

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[21] Ten other cities in China had concessions between circa 1845 and 1945. These other cities, however, had only one concession, so we cannot compare the impacts of applying the common and civil laws on financial development in those cities. Therefore, we exclude them from our analysis. Moreover, the Qing dynasty also ceded Kulangsu of Xiamen to ten Western powers (and Japan) as an international settlement. However, there were no clear concession boundaries within Kulangsu, so we excluded Kulangsu.

[22] Internet Appendix Table AVII lists each concession, its city, the foreign country (home country) overseeing the concession, and the year it was established. Internet Appendix B lists data sources.

equals one after the concession was established and zero otherwise. The coefficient on *Common Law$_i$ × Post* indicates the estimated average annual difference in bank density between common and civil law concessions. As in the earlier analyses, we control for lagged population density at the concession level (*Population density (lag)*) and concession and year fixed effect. As noted above, we estimate equation (4) for the full sample of concessions (strategy 1) and for the subsample of concessions that includes only British and French concessions (strategy 2).

Table VIII shows that bank density is materially larger in the common law concessions than in their civil law counterparts. When considering all concessions, we find that, on average, the number of banks per km^2 in the common law concessions is 4.4 greater than that in the civil law concessions (column 2). And this gap is mainly driven by differences in the number of Chinese banks, not differences in the number of foreign banks (column 4). While subject to greater data limitations than the analyses focused on the Shanghai concessions, these findings on 16 concessions outside Shanghai are consistent with those comparing the Shanghai concessions. The results are similar when considering only British and French concessions in these cities, as shown in columns (3) and (5). These results provide additional evidence that the common law legal tradition fostered comparatively strong financial development across different concessions within China.

VI. Conclusion

This paper constructs a new database on Western concessions in China from 1845 through 1936 and exploits changes in British and French legal jurisdiction over the respective concessions. We use these data and regime changes to assess the legal origins view of comparative financial development, which stresses that economies with a common law tradition more effectively foster financial development than economies with a civil law tradition. When applied to the Shanghai concessions, the legal origins view predicts that (1) financial development in the British concession should grow comparatively more than that in the French concession after Britain and France established legal jurisdiction over their respective concessions in 1869 and (2) financial development in the British concession should shrink comparatively more after the rendition of the Mixed Courts to Chinese rule in 1926.

The evidence is consistent with the legal origins view of comparative financial development. The financial development advantage of the British concession emerged with the application of the British and French legal systems in the respective concessions in 1869. This financial development gap then shrank after the 1926 rendition of the Mixed Courts that essentially eliminated the application of these

Western legal traditions in the concessions. These results hold when controlling for an array of time-varying military, economic, and political differences between Britain and France and their respective influence within China. Furthermore, when we extend these analyses across 16 concessions in three cities outside of Shanghai, we confirm that financial development is materially greater in the common law concessions than in their civil law counterparts.

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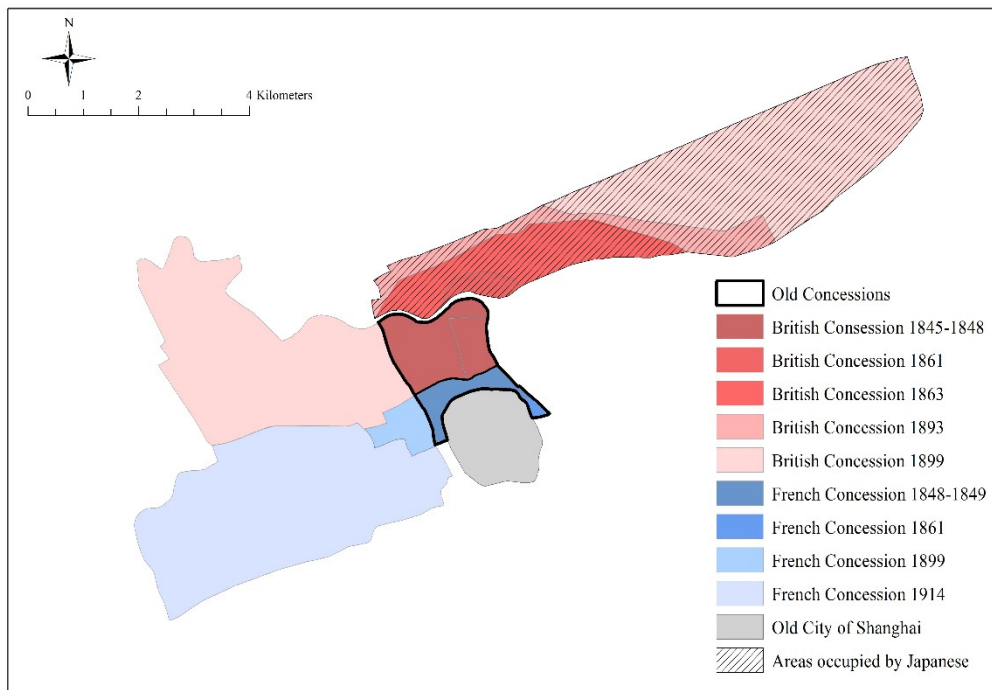
Figure 1
Evolution of the Shanghai Concessions

Notes: The figure shows the expansion of the British and French Concessions between 1845 and 1914. The areas in different shades of red depict the British concession at different dates, and those areas highlighted in shades of blue are the French concession. The grey area denotes the Old City of Shanghai County under Chinese administration. The two areas with boundaries outlined with bold, black perimeters, i.e., the dark red and dark blue locations, denote the concessions in 1860, which we call the "old concessions." The old British concession covers 512 acres (2.07km^2), and the old French concession covers 180 acres (0.73km^2).
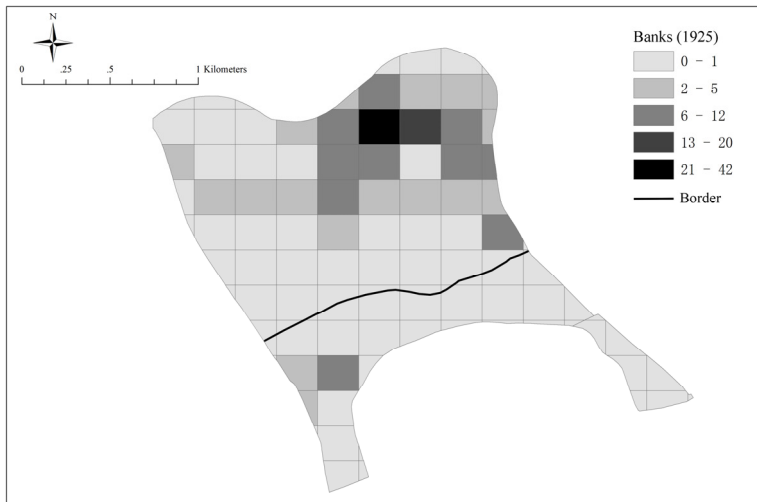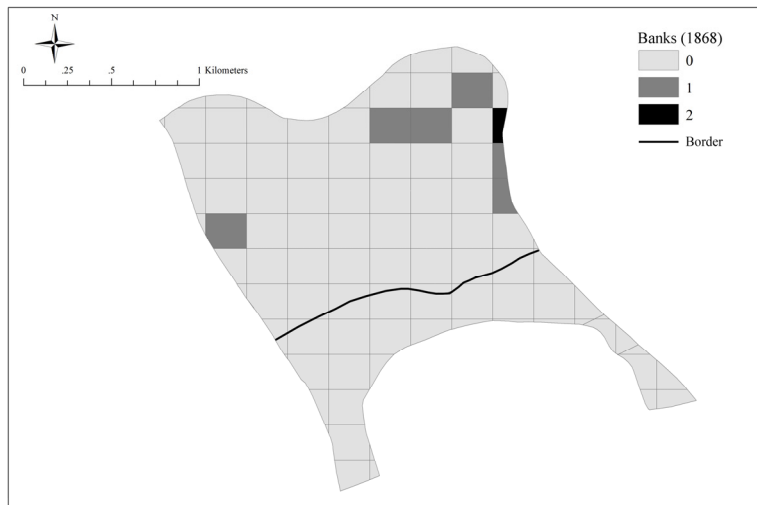
Figure 2

The Grid-cell Distribution of Banks

Notes: These figures show the distributions of banks at the grid-cell level (200m*200m) within the old concessions. Banks are compared before and after the establishment of the Mixed Courts (1868 and 1925). The British Concession is north of the border, depicted with a bold, black perimeter.
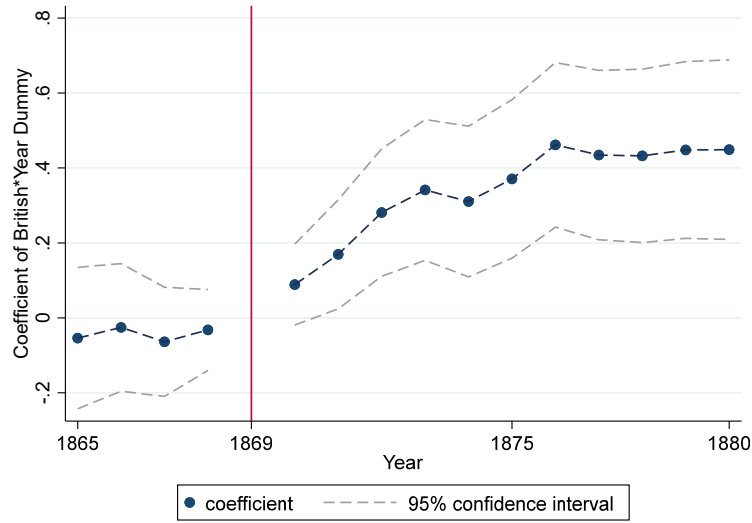
(a) All banks (foreign + Chinese)
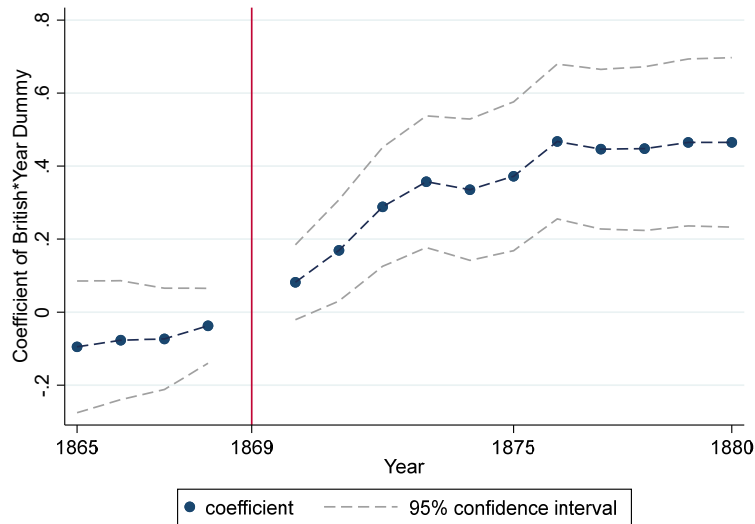
(b) Chinese banks only

Figure 3
Bank Development and the Creation of the Mixed Courts in 1869

Notes: This figure depicts the estimated annual gap in bank density between the British and French concessions before and after the establishment of the Mixed Courts in 1869. Panel (a) uses the number of all banks as the dependent variable, and Panel (b) uses the number of Chinese banks as the dependent variable. We estimate the following regressions at the grid-cell level using the GLS method to address the autocorrelation of residuals:

$$Y_{it} = \sum_{t=1865}^{1880} \beta_t \times British_i \times \theta_t + \gamma_i + \lambda_t + \varepsilon_{it},$$

where Y_{it} is the number of banks within gird-cell i, in year t, and θ_t equals one in year t and zero otherwise, $British$ is dummy variable that equals one for grid cells in the British concession and zero otherwise, γ_i and λ_t are grid-cell and year fixed effects respectively, and 1869 is the reference year. The figure plots the estimated values of and confidence intervals around β_t.

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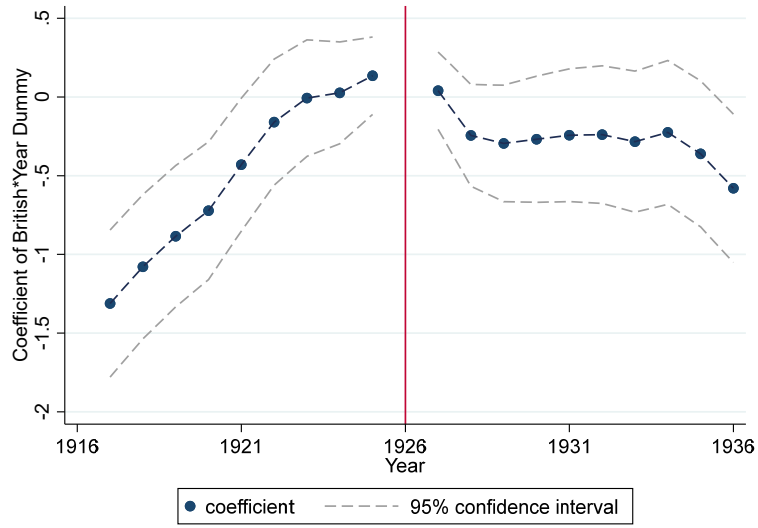
(a) All banks (foreign + Chinese)
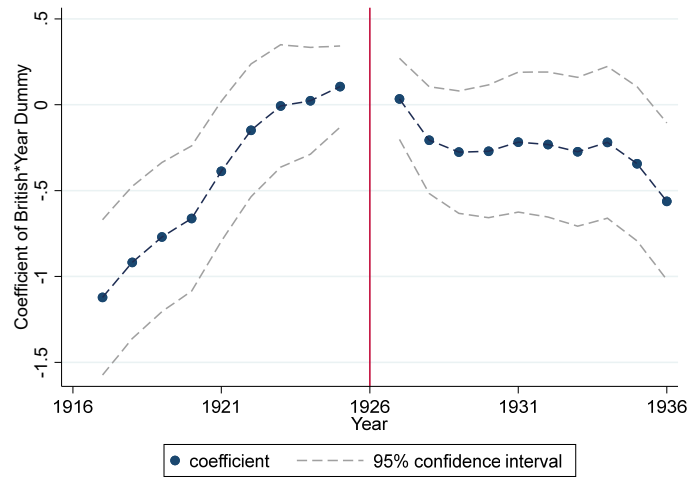
(b) Chinese banks only

Figure 4
The Impact of the Court Rendition (1926) on Banking Development

Notes: This figure depicts the estimated annual gap in bank density between the British and French concessions before and after the rendition of the Mixed Courts in 1926. Panel (a) uses the number of all banks as the dependent variable, and Panel (b) uses the number of Chinese banks as the dependent variable. Specifically, we estimate the following regressions at the grid-cell level using the GLS method to address the autocorrelation of residuals. The estimation is at the grid-cell level with 1926 as the reference point:

$$Y_{it} = \sum_{t=1917}^{1936} \beta_t \times British_i \times \theta_t + \gamma_i + \lambda_t + \varepsilon_{it},$$

where Y_{it} is the number of banks within gird-cell i, in year t, and θ_t equals one in year t and zero otherwise, $British$ is dummy variable that equals one for grid cells in the British concession and zero otherwise, γ_i and λ_t are grid-cell and year fixed effects respectively, and 1926 is the reference year. The figure plots the estimated values of and confidence intervals around β_t.

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Table I
Textual analysis of the verdicts in Shanghai concessions, 1870-1926

This table examines differences in the texts of verdicts in the British and French courts in the Shanghai concessions. The sample includes 406 commercial case verdicts between 1870 and 1926, of which 111 are cases involving banks. For each case, we calculate the ratio of keywords indicated in the first column to the total number of words in the verdict and then multiply by 1,000 to compute the millesimal. We test whether the incidence of these keywords differs between the two Mixed Courts using the indicated t-tests. Internet Appendix Table AI provides details on the keywords. *, **, and *** indicate significance at 10%, 5%, and 1%, respectively.

	British Mixed Court	French Mixed Court	
	Mean	Mean	Difference
Panel A. All commercial cases	(n=315)	(n=145)	
words related to custom and convention	0.46	0.18	0.28**
words related to consult and opinion	0.55	0.20	0.35**
words related to default	0.93	0.80	0.13
Panel B. Bank-related cases only	(n=55)	(n=56)	
words related to custom and convention	0.61	0.10	0.51***
words related to consult and opinion	0.81	0.24	0.57**
words related to default	1.17	0.69	0.48

Table II
Bank Density and the Formation of the Mixed Courts in the Concessions, 1840-1925

This table presents regression results relating bank density to the formation of the Shanghai Concessions and the formation of the Mixed Courts in the British and French Concessions. In column 1, the dependent variable is the total number of banks per square kilometer in the respective concession in a year. In column 2, the dependent variable is the total number of Chinese-owned banks per square kilometer in the respective concession in a year. In column 3, the dependent variable is the total number of banks per grid cell in a year. In column 4, the dependent variable is the total number of Chinese-owned banks per grid cell in a year. We divide the concessions into 200m by 200m grid cells for the grid-cell analyses. *British* is a dummy variable that equals one for the British Concession and zero for the French Concession. *Post1845* indicates the formation of the concessions, so it equals one after 1845 and equals zero for the years from 1840 through 1845. *Post1869* indicates the formation of the Mixed Courts, so it equals one after 1869 and equals zero for the years from 1840 through 1869. The regressions control year fixed effects (*Year FE*) and either Concession fixed effects (*Concession FE*) or Grid-cell fixed effects (*Grid-cell FE*) as indicated. We report the GLS estimates that adjust for autocorrelation of the residuals. Standard errors are reported in parentheses and are clustered at the grid-cell level in columns 3 and 4. *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

	Bank density at the concession level		Number of banks at the grid-cell level	
	All banks	Chinese banks	All banks	Chinese banks
	1	2	3	4
British * Post1845	2.084	1.590	0.082	0.060
	(2.035)	(1.729)	(0.064)	(0.060)
British * Post1869	8.147***	6.667***	0.317***	0.265***
	(1.937)	(1.651)	(0.059)	(0.055)
Year FE	Yes	Yes	Yes	Yes
Concession FE	Yes	Yes		
Grid-cell FE			Yes	Yes
Observations	172	172	8,600	8,600

Table III
Bank Density and the Formation of the Mixed Courts in the Concessions: Alternative Samples

This table uses the same methodology as in Table II except it (1) restricts the period to the Qing dynasty, 1840-1910 (Panel A), (2) restricts the sample to the shorter and more stable period from 1865 through 1894 (Panel B), and (3) uses data aggregated over five-year periods from year -2 to +2 to reduce the impact of higher frequency influences (Panel C). All columns report the GLS estimates that adjust for autocorrelation of the residuals. Standard errors are reported in parentheses and are clustered at the grid-cell level in columns 3 and 4. *, **, and *** indicate significance at 10%, 5%, and 1%, respectively.

	Bank density at the concession level		Number of banks at the grid-cell level	
	All banks	Chinese banks	All banks	Chinese banks
	1	2	3	4
Panel A	Qing dynasty, 1840-1910			
British * Post1845	1.885	1.341	0.048	0.031
	(1.304)	(1.196)	(0.044)	(0.042)
British * Post1869	8.517***	7.720***	0.222***	0.183***
	(1.144)	(1.034)	(0.042)	(0.040)
Year FE	Yes	Yes	Yes	Yes
Concession FE	Yes	Yes		
Grid-cell FE			Yes	Yes
Observations	142	142	7,100	7,100
Panel B	Period without wars,1865-1894			
British * Post1869	4.369***	4.412***	0.126**	0.133**
	(1.266)	(1.192)	(0.055)	(0.053)
Year FE	Yes	Yes	Yes	Yes
Concession FE	Yes	Yes		
Grid-cell FE			Yes	Yes
Observations	60	60	3,000	3,000
Panel C	Five-year data, 1840-1925			
British * Post1845	4.745	3.176	0.194	0.121
	(6.634)	(5.386)	(0.178)	(0.165)
British * Post1869	17.207***	14.777***	0.671***	0.541***
	(5.850)	(4.806)	(0.157)	(0.144)
Year FE	Yes	Yes	Yes	Yes
Concession FE	Yes	Yes		
Grid-cell FE			Yes	Yes
Observations	36	36	1,800	1,800

Table IV
Chinese Bank Density and the Formation of the Mixed Courts in the Concessions: Additional Controls, 1846-1925

This table presents regression results relating bank density to the formation of the Mixed Courts in the British and French Concessions while controlling for time-varying characteristics of the concessions and of the homeland countries. The dependent variable is the total number of Chinese banks per square kilometer in the respective concession in a year. *Municipal council* is a dummy that equals one if a municipal council was established in a concession. The British municipal council was established in 1854, and the French one was established in 1862. *Population density* is defined as the number (in thousands) of total people per square kilometer at the concession level in the previous year. *Trade company density* is the number of trade companies per square kilometer at the concession level in the previous year. *Public expenditure* is the annual total spending on public infrastructures and government services (in 1,000 silver Taels) reported by the Municipal Councils in the previous year. *Wars in China* equals the total number of civil wars and foreign wars in China in the previous year. *Concessions in China* equals the total number of concessions of Britain or France in China in the previous year. *Naval ships* denotes the number of naval ships in service in Britain and in France in the previous year. *War victories* is the number of victories in wars involving Britain or France in the previous year. *Polity score* ranges from -10 to 10, measuring the level of democracy in Britain and France in the previous year, based on the data of Polity IV. *GDP per capita* denotes the logarithm of British GDP per capita for the British concession and the logarithm of French GDP per capita for the French concession in the previous year. All columns report GLS estimates that adjust for autocorrelation of the residuals. Standard errors are reported in parentheses. *, **, and *** indicate significance at 10%, 5%, and 1%, respectively.

	Density of Chinese banks			
	1	2	3	4
British * Post1869	6.417***	9.373***	9.558***	8.482***
	(1.714)	(1.929)	(2.637)	(1.832)
Concession/China characteristics				
Municipal council		-0.739	1.470	0.394
		(1.589)	(2.051)	(1.286)
Population density		0.033	0.020	0.063**
		(0.039)	(0.048)	(0.030)
Public expenditure		0.257	0.563	0.181
		(0.330)	(0.460)	(0.280)
Trade company density		0.340***	0.573***	0.124
		(0.114)	(0.146)	(0.094)
British * Wars in China		-0.209	-0.468**	0.293*
		(0.182)	(0.228)	(0.150)
British/French colonial power				
Concessions in China			1.301**	2.298***
			(0.600)	(0.586)
Naval ships			0.018***	-0.002
			(0.002)	(0.002)
War victories			0.336	0.474***
			(0.276)	(0.171)
Polity score			-0.179	-0.155
			(0.200)	(0.124)
GDP per capita			-32.592***	0.252
			(4.803)	(3.508)
Year and Concession FEs	Yes	Yes	Yes	Yes
British * Quadratic time trend since 1845				Yes
Observations	160	160	160	160

Table V
Chinese Bank Density and the Rendition of the Mixed Courts in the Concessions in 1926

This table examines the comparative changes in Chinese bank density between the British and French Concessions after the agreement regarding the rendition of the Mixed Courts in 1926. The sample covers the period from 1917 through 1937, i.e., twenty years around the rendition year. The control variables are identical to those of Table IV, except that *Municipal council* is omitted because both councils were established before the sample period in the respective concession. All columns report the GLS estimates that adjust for autocorrelation of the residuals. *, **, and *** indicate significance at 10%, 5% and 1%, respectively.

| | Density of Chinese banks | | | |
	1	2	3	4
British * Post1926	-5.021*	-7.346*	-6.533***	-7.326***
	(2.674)	(3.761)	(2.131)	(1.713)
Concession/China characteristics				
Population density		1.193***	0.857***	0.621***
		(0.320)	(0.251)	(0.193)
Public expenditure		-2.346	-16.327***	-15.056***
		(6.200)	(3.567)	(2.683)
Trade company density		2.605***	2.997***	1.681***
		(0.385)	(0.357)	(0.580)
British * Wars in China		0.812	0.853	0.586
		(0.655)	(0.549)	(0.527)
British/French colonial power				
Concessions in China			1.839***	-0.239
			(0.647)	(0.625)
Naval ships			0.002	-0.003
			(0.004)	(0.003)
War victories			-1.904***	-0.470
			(0.401)	(0.380)
Polity score			0.560	0.448
			(1.530)	(1.203)
GDP per capita			-2.055	4.743
			(8.763)	(7.299)
Year and Concession FEs	Yes	Yes	Yes	Yes
British * Quadratic time trend since 1917				Yes
Observations	40	40	40	40

Table VI
Bank Performance and the Rendition of the Mixed Courts

This table examines comparative bank performance in the concessions after the rendition of the Mixed Courts to Chinese jurisdiction in 1926. The dependent variable is the Return on Asset (ROA, *100), i.e., net profit divided by asset, at the bank level. *Bank controls* include the logarithm of assets in the previous year, the leverage (loan to asset ratio, *100) in the previous year, and the logarithm of bank age. The sample consists of 26 major banks between 1921 and 1931. Standard errors are clustered at the firm level and reported in parentheses. *, **, and *** indicate significance at 10%, 5% and 1%, respectively.

	Pre-Rendition period 1921-1926		Post-Rendition period 1927-1931		Difference-in-Differences estimation, 1921-1931	
	1	2	3	4	5	6
British	0.819**	1.136***	-0.194	-0.253		
	(0.363)	(0.393)	(0.401)	(0.460)		
British * Post1926					-1.106**	-1.296*
					(0.525)	(0.669)
Bank controls		Yes		Yes		Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Bank FE					Yes	Yes
R-squared	0.138	0.527	0.028	0.056	0.420	0.393
Observations	138	112	123	119	261	231

Table VII
Stock Returns and the Rendition of the Mixed Courts

This table provides regression results relating stock returns to the rendition of the Mixed Courts to Chinese jurisdiction. The dependent variable is a firm's monthly stock return, defined as the log difference of month-end prices, i.e., $\log(\text{price}_t) - \log(\text{price}_{t-1})$. The sample period is from September 1925 through August of 1927, i.e., a 24-month window around the month of the court rendition announcement (August 1926). Post-August 1926 is a dummy that equals one for the months after the August 1926 rendition announcement. *Firm controls* include the log duration (of months) since the firm went public (listed) and the log market capitalization. *Firm FE* denotes the firm fixed effects that absorb all time-invariant firm characteristics. Standard errors are clustered at the firm level and reported in parentheses. *, **, and *** indicate significance at 10%, 5% and 1%, respectively.

	Stock return			
	1	2	3	4
Post-August 1926	-0.039***	-0.033***	0.004	0.011
	(0.008)	(0.010)	(0.006)	(0.009)
British * Post-August 1926			-0.045***	-0.046***
			(0.010)	(0.011)
British			0.029***	
			(0.008)	
Firm controls	Yes	Yes	Yes	Yes
Firm FE		Yes		Yes
R-squared	0.011	0.081	0.012	0.082
Observations	1,404	1,404	1,404	1,404

Table VIII

Table VIII

Legal Origins and Finance: Concessions in other Chinese Cities, 1850-1936

This table provides regression results relating bank density to the legal origin of the foreign entity with legal jurisdiction over 16 concessions in three cities (Tianjin, Hankou, and Guangzhou). Appendix Table AVII provides details on the countries and legal traditions with jurisdiction over these concessions. In columns 1-3, the dependent variable is the total number of banks per square kilometer in the respective concession in a year. In columns 4 and 5, the dependent variable is the total number of Chinese-owned banks per square kilometer in the respective concession in a year. *Common Law* is a dummy variable that equals one for the concessions ruled by common law countries and zero for the concessions ruled by civil law countries. *Post* is a dummy variable that equals one after the concession was established. *Population density* is the number (in thousands) of total people per square kilometer at the concession-year level. In columns 3 and 5, we restrict the analysis to only the concessions of Britain and France to compare the British common law to French civil law. The regressions control for year-fixed effects (*Year FE*) and concession fixed effects (*Concession FE*) as indicated- Heteroskedasticity robust standard errors are reported in parentheses. *, **, and *** indicate significance at the 10%, 5% and 1% levels, respectively.

	All banks			Chinese banks	
	All concessions	All concessions	British vs. French concessions	All concessions	British vs. French concessions
	1	2	3	4	5
Common Law * Post	5.911***	4.970***	4.511***	4.384***	3.793***
	(1.091)	(1.231)	(1.342)	(1.139)	(1.271)
Population density (lag)		0.135***	0.225***	0.134***	0.227***
		(0.027)	(0.029)	(0.028)	(0.030)
Year FE	Yes	Yes	Yes	Yes	Yes
Concession FE	Yes	Yes	Yes	Yes	Yes
R-Squared	0.354	0.440	0.635	0.436	0.629
Observations	1,392	1,392	522	1,392	522

Internet Appendix

A. Figures and Tables
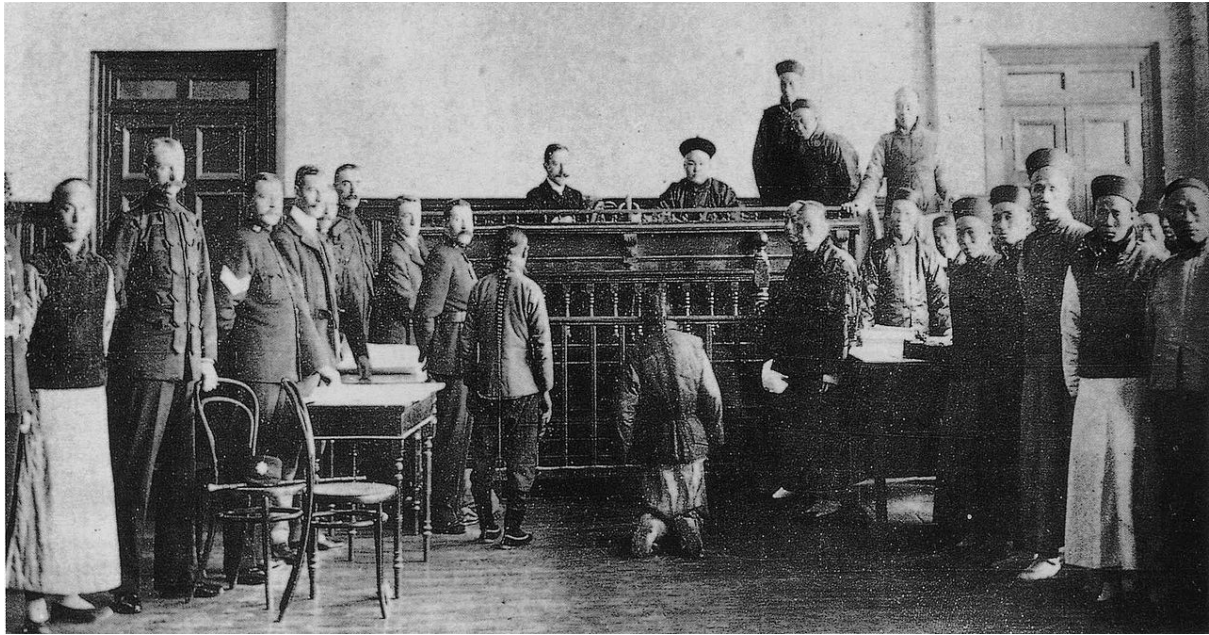
Figure A1. The Mixed Court at the British Concession of Shanghai (1869 to 1926)

Source: Wikipedia,
https://commons.wikimedia.org/wiki/File:International_Mixed_Court_at_Shanghai7.jpg

Figure A2. Record of Stock Quotation in Shanghai Exchange in 1866

Source: The *North-China Herald*, section "Shares and Stocks" on June 9th, 1866.
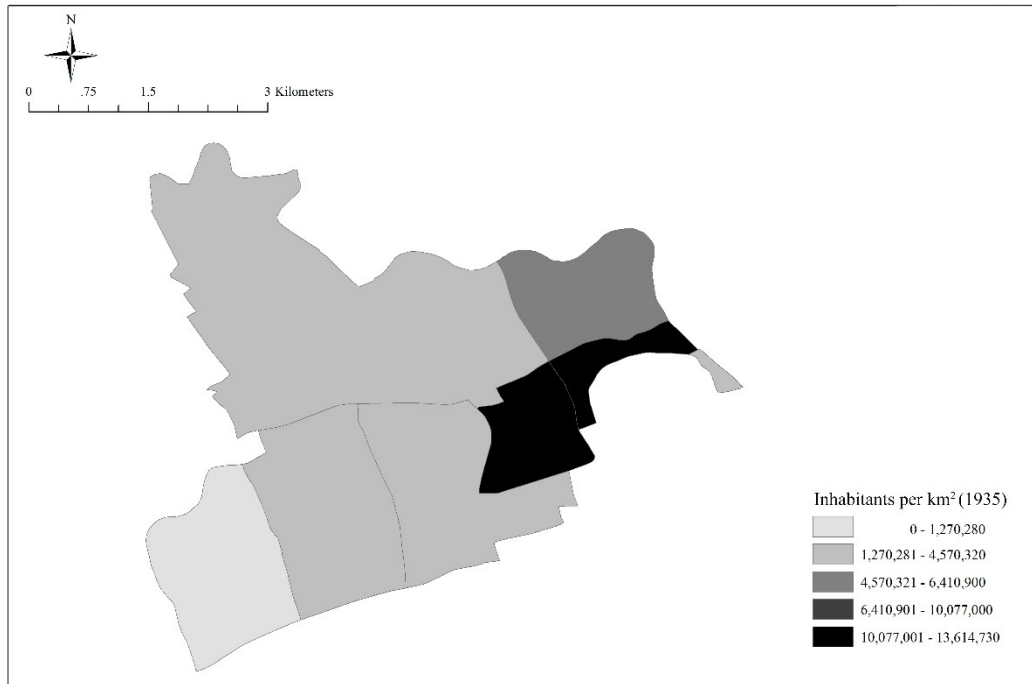
Figure A3. Population Density in 1935

Notes: This figure depicts the population density by census district in Shanghai concessions in 1935, based on Henriot et al. (2018).
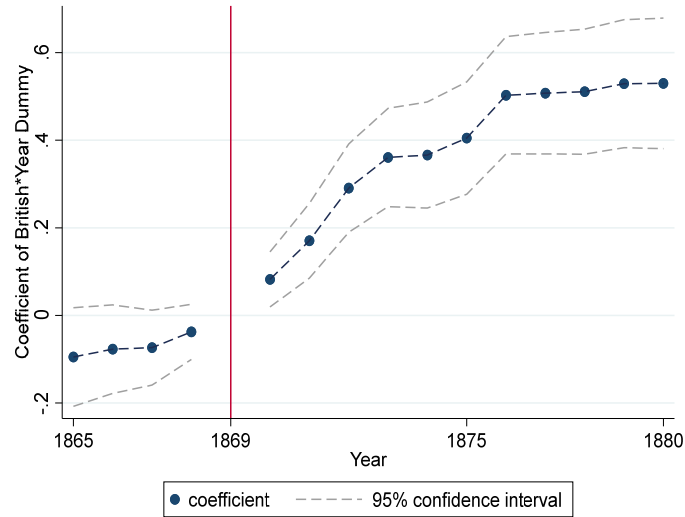
Figure A4.

Bank Development and the Creation of the Mixed Courts in 1869: Additional Controls

This figure replicates Figure 3 (Panel b) but additionally controls for the first principal component of the controls in column (3) of Table IV measured in 1868 interacted with year dummies.

Figure A5.

The Impact of the Court Rendition (1926) on Banking Development: Additional Controls

This figure replicates Figure 4 (Panel b) but additionally controls for the first principal component of the controls in column (3) of Table V measured in 1925 interacted with year dummies.

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Table AI. Summary Statistics

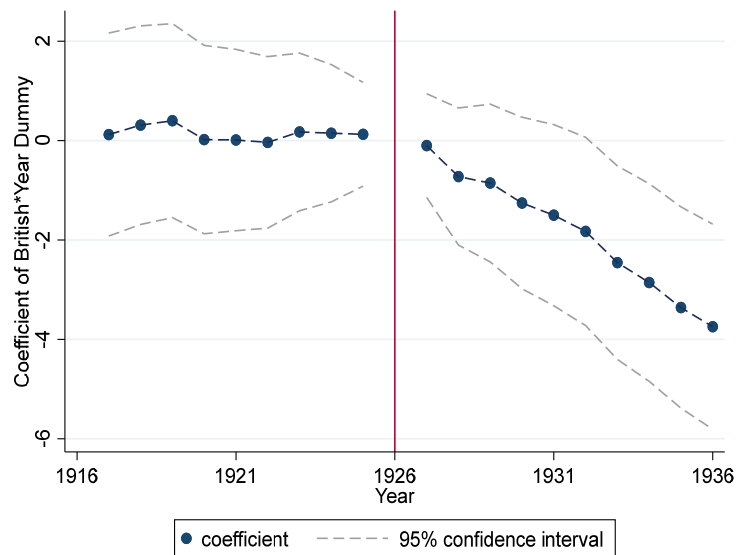| Variable	Obs.	Mean	S.D.	Min	Max
Concession-year level					
Bank density	194	17.8	25.1	0	95.7
Chinese bank density	194	14.8	21.5	0	82.6
Municipal council	182	0.9	0.4	0	1
Population density (1,000 habitants/km²)	182	38.8	19.7	4.6	100.6
Public expenditure (1,000 Taels)	182	1,240.4	2,862.7	0	16,312.6
Trade company density	182	8.3	7.3	0	25.4
Wars in China	182	3.4	4.1	0	15
Concessions in China	182	4.9	3.3	0	10
Naval ships	182	406.0	428.0	7	2218
War victories	182	1.8	1.5	0	6
Polity IV score	182	5.3	4.8	-8	10
GDP per capita (in Int. GK$)	182	3,298.4	1,138.1	1,478.3	6,035.2
Grid-year level					
Number of banks	9,700	0.6	2.6	0	47
Number of Chinese banks	9,700	0.5	2.4	0	47
Bank-year level					
Return on Asset (ROA, *100)	261	2.1	2.3	-23.8	9.9
Firm-month level					
Stock return (Sept 1925-Aug 1927)	1,626	-0.004	0.21	-2.48	3.40
Concessions in other cities					
Bank density	1,392	1.8	8.7	0	85.4
Chinese bank density	1,392	1.7	8.6	0	85.4
Population density (1,000 habitants/km²)	1,392	13.3	27.3	0	246.5

Table AII. Keywords for textual analysis of verdicts

Category	Keywords
Custom and convention	*English:* custom, convention *French:* coutume, usage, habitude
Consult and opinion	*English:* consult, confer, opinion, view *French:* consulter, opinion, avis
Default	*English:* bankrupt, default, unpaid, infringement, breach, non-fulfilment, violation *French:* faillite, non-paiment, violation

Table AIII. Bank Density and the Formation of the Mixed Courts in the Concessions: Additional Controls, 1846-1925

This table replicates Table IV except that the dependent variable is the total number of banks (both Chinese and foreign banks) per square kilometer in the respective concession in a year. All columns report GLS estimates after adjusting the autocorrelation of residuals. Standard errors are reported in parentheses and are clustered at the grid-cell level in columns 3 and 4. *, **, and *** indicate significance at 10%, 5% and 1%, respectively.

	Density of all banks			
	1	2	3	4
British * Post1869	7.817***	11.591***	10.255***	9.802***
	(2.010)	(2.294)	(3.049)	(2.255)
Concession/China characteristics				
Municipal council		-0.829	1.728	0.743
		(1.916)	(2.360)	(1.580)
Population density		0.027	0.024	0.066*
		(0.047)	(0.056)	(0.037)
Public expenditure		0.367	0.675	0.277
		(0.398)	(0.526)	(0.344)
Trade company density		0.449***	0.709***	0.209*
		(0.137)	(0.168)	(0.116)
British * Wars in China		-0.230	-0.465*	0.358*
		(0.219)	(0.263)	(0.184)
British/French colonial power				
Concessions in China			1.841***	3.033***
			(0.697)	(0.721)
Naval ships			0.021***	-0.000
			(0.002)	(0.002)
War victories			0.362	0.545***
			(0.318)	(0.210)
Polity score			-0.205	-0.175
			(0.230)	(0.152)
GDP per capita			-36.304***	-1.370
			(5.520)	(4.300)
Year and Concession FEs	Yes	Yes	Yes	Yes
British * Quadratic time trend since 1845				Yes
Observations	160	160	160	160

Table AIV. Chinese Bank Density and the Formation of the Mixed Courts: Additional Controls, 1855-1925

This table augments the analyses of columns (3) and (4) in Table IV by adding *Stock return*, which equals annual stock returns in London/Paris for the British/French concession respectively. The data are from Campbell et al. (2021), Jordà et al. (2019), and Le Bris and Hautcoeur (2010). Due to the data limits, the sample period in this table is from 1855 to 1925. All columns report the GLS estimates after adjusting the autocorrelation of residuals. *, **, and *** indicate significance at 10%, 5% and 1%, respectively.

	Density of Chinese banks	
	1	2
British * Post1869	7.216**	4.672***
	(3.459)	(1.801)
Concession/China characteristics		
Municipal council	-0.010	0.018
	(0.055)	(0.029)
Population density	2.541	-4.462***
	(3.028)	(1.577)
Public expenditure	0.598	0.106
	(0.495)	(0.249)
Trade company density	0.676***	0.162*
	(0.170)	(0.090)
British * Wars in China	-0.529*	-0.187
	(0.286)	(0.165)
British/French colonial power		
Concessions in China	0.666	1.759***
	(0.974)	(0.559)
Naval ships	0.018***	-0.003**
	(0.002)	(0.002)
War victories	0.339	0.331**
	(0.310)	(0.162)
Polity score	-0.601	-0.979***
	(0.398)	(0.213)
GDP per capita	-35.156***	2.086
	(5.345)	(3.283)
Stock return	-2.786	-1.484
	(3.623)	(1.796)
Year and Concession FEs	Yes	Yes
British * Quadratic time trend since 1845		Yes
Observations	142	142

Table AV. Bank Density and the Rendition of the Mixed Courts in 1926

This table replicates Table V except that the dependent variable is the total number of banks (both Chinese and foreign banks) per square kilometer in the respective concession in a year. All columns report the GLS estimates after adjusting the autocorrelation of residuals. *, **, and *** indicate significance at 10%, 5% and 1%, respectively.

	Density of all banks			
	1	2	3	4
British * Post1926	-4.232	-7.739*	-7.101***	-9.640***
	(3.118)	(4.138)	(2.223)	(1.863)
Concession/China characteristics				
Population density		1.422***	1.013***	0.646***
		(0.351)	(0.268)	(0.210)
Public expenditure		-2.064	-19.157***	-16.103***
		(6.845)	(3.718)	(2.901)
Trade companies density		3.292***	4.038***	1.844***
		(0.415)	(0.394)	(0.644)
British * Wars in China		1.078	1.352**	0.505
		(0.737)	(0.627)	(0.593)
British/French colonial power				
Concessions in China			2.381***	0.013
			(0.731)	(0.685)
Naval ships			0.002	-0.001
			(0.004)	(0.003)
War victories			-1.740***	-0.375
			(0.427)	(0.408)
Polity score			0.218	0.515
			(1.746)	(1.329)
GDP per capita			2.668	3.409
			(9.842)	(8.049)
Year and Concession FEs	Yes	Yes	Yes	Yes
British * Quadratic time trend since 1917				Yes
Observations	40	40	40	40

Table AVI. Chinese Bank Density and the Rendition of the Mixed Courts in the Concessions in 1926

This table augments the analyses of columns (3) and (4) in Table V by adding *Stock return*, which equals annual stock returns in London/Paris for the British/French concession respectively. The data are from Campbell et al. (2021), Jordà et al. (2019), and Le Bris and Hautcoeur (2010). The sample covers the period from 1917 through 1937, i.e., twenty years around the rendition year. All columns report the GLS estimates after adjusting the autocorrelation of residuals. *, **, and *** indicate significance at 10%, 5% and 1%, respectively.

	Density of Chinese banks	
	1	2
British * Post1926	-6.062***	-5.801***
	(2.207)	(1.471)
Concession/China characteristics		
Population density	0.783***	0.429**
	(0.254)	(0.171)
Public expenditure	-16.868***	-15.742***
	(3.609)	(2.221)
Trade company density	2.863***	1.063**
	(0.363)	(0.531)
British * Wars in China	0.705	0.233
	(0.537)	(0.485)
British/French colonial power		
Concessions in China	2.088***	-0.109
	(0.666)	(0.528)
Naval ships	0.003	-0.001
	(0.004)	(0.003)
War victories	-1.784***	0.237
	(0.410)	(0.357)
Polity score	0.949	1.520
	(1.502)	(1.075)
GDP per capita	-6.179	-3.879
	(8.934)	(6.764)
Stock return	3.753	10.056***
	(3.269)	(2.497)
Year and Concession FEs	Yes	Yes
British * Quadratic time trend since 1917		Yes
Observations	40	40

Table AVII. Other Concessions in China between 1860 and 1936

City	Concession	Home Country	Legal origin	Year of establishment
Tianjin	British concession in Tientsin	Britain	Common	1860
	American concession in Tientsin	United States	Common	1860
	French concession in Tianjin (Concession française de Tientsin)	France	Civil	1861
	German concession in Tianjin	Germany	Civil	1895
	Japanese concession in Tianjin	Japan	Civil	1898
	Russian concession in Tianjin	Russia	Civil	1900
	Italian concession in Tianjin (La Concessione italiana di Tientsin)	Italy	Civil	1902
	Austro-Hungarian concession in Tianjin	Austro-Hungary	Civil	1902
	Belgian concession in Tianjin	Belgium	Civil	1902
Hankou	British Concession in Hankou	Britain	Common	1861
	French Concession in Hankou	France	Civil	1896
	Japanese concession in Hankou	Japan	Civil	1898
	Russian concession in Hankou	Russia	Civil	1896
	German concession in Hankou	Germany	Civil	1895
Guangzhou	British concession in Shamian Island	Britain	Common	1861
	French Concession in Shamian Island	France	Civil	1861

Appendix B. Data Sources

1. Data sources for banks

Bank of Communications. 1995. *Zhongguo Jiaotong Yinhang Shiliao, Diyijuan: 1907–1949* (Historical Materials on the Chinese Bank of Communications, Volume One: 1907–1949). Beijing: Zhongguo Jinrong Chubanshe.

Bu, M. 1995. *Zhongguo Yinhang Hangshi, 1912–1949* (The History of the Bank of China, 1912–1949). Beijing: Zhongguo Jinrong Chubanshe.

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