Bridging in Shanghai's Commercial Revolution:
Compradors, Bureaucratic Merchants, and Returned Overseas Businesspeople as Capitalist Middlemen in Late Qing and Early Republican China

by

Frederick Gentz
B.A., University of Victoria, 1993

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Supervisory Committee

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Abstract

Chinese compradors, official managers, and overseas Chinese capitalists have received scholarly attention of late with special notice to studying their contributions to China's industrial modernization. This thesis shifts this emphasis to seeing these three groups of Chinese merchants as types of Chinese capitalist middlemen, whose principal efforts were in the commercial sector during the late Qing and early Republican periods. Specifically, it focuses on their activities within Shanghai's International Settlements, where the openings for entrepreneurial innovation could be made the most of with little interference from Chinese state officials. The market created by Chinese capitalist middlemen is distinguished from the greater Chinese economy by its concentration in Shanghai's International Settlements and its being a commercial revolution.

Particularly, this thesis links entrepreneurial business history with New Institutional Economics by placing the entrepreneur at the heart of Chinese commercial development beginning in the 1860s. It investigates how the above three types of middlemen's commercial activities impacted the structural organization of the traditional family firm, reshaping this organization into a modern operation. As the traditional Chinese family firm emerged in a political institutional framework that both favored firms' risk reduction and official sponsorship, Chinese capitalist middlemen played a part in structurally re-organizing the family firm into the modern firm. Chinese entrepreneurial behavior arose through a social process of *bridging*, which occurred through Chinese middlemen's daily interactive commercial activities in Western firms in Shanghai. In the cases of compradors, these acculturated practices were employed in their own family firms and reflected a novel risk-taking pattern wherein they engaged in new fields of enterprise. In the cases of *guandu shangban* enterprises, official managers evolved these firms to absorb the pricing mechanism and lower transaction costs to benefit customers and the firm's revenue. In the cases of returned overseas Chinese capitalists, in this thesis Australian ones are examined, they capitalized their department stores' operations through reinvesting overseas Chinese surplus income that had traditionally been returned as remittances home to China. All of them fashioned a cosmopolitan view of themselves and fostered a moral view that combined Confucian and Christian ethics giving rise to a notion of human capital as a form of commercial welfare.

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To any reader, I leave just this. In summarizing the conclusion of this thesis as it applies to Chinese middlemen capitalists in Shanghai, I would say, "The entrepreneur is as important to capitalism as Adam Smith."

Dedication

For Tark Hamilton and Edythe Beyer,

for their untiring encouragement, and who will know from where this pareidolic quote came:

"I love humans. Always seeing patterns in things that aren't there."

Introduction

Chinese capitalists in Shanghai can be generally divided into three types. Compradors rising from the 1860s "after the treaties of Tientsin," and defined as a foreign trading house's "purchaser," "merchant-partner," and trading agency's "manager," as well as the western merchant's "interpreter and go-between in every transaction with the native."[1] Official merchant-managers (or bureaucratic merchants) appearing from the 1870s, associated with *guandu shangban* (government supervision and merchant managed) enterprises. They are defined as compradors with expertise in modern management practices, and "some measure of official status" through purchased official titles.[2] Last, returned overseas Chinese capitalists, who are defined as entrepreneurs in western colonial settings and whose outlooks were "cosmopolitan," although their "business community remained socially conservative," of whom those from Australia in the 1910s receive special attention in this thesis.[3] These capitalists were middlemen who bridged the two business cultures of modern China and the West. *Bridging* is but one way western business practices may be acculturated by Chinese commercially allied with western businesses.[4] As Yen-p'ing Hao elaborates, *bridging* as a "cultural interaction is usually effected piecemeal in the workaday world of human affairs, rather than by wholesale abandonment or adoption of fundamental social structures."[5] *Bridging* basically refers to a "professionally constant and intimate association [by Chinese middlemen] with Westerners," influencing their personal values and beliefs, and prioritizing "commercial and industrial development" through combining "the roles of passive owner and

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[1] Yen-p'ing Hao, *The Comprador in Nineteenth Century China: Bridge between East and West* (Cambridge, MA: Harvard University Press, 1970), 44-45. For a contemporary discussion of compradors, see "John Comprador," *Thomas Harper's New Monthly Magazine* (June 1, 1878), 427-434, and "The Chinese Comprador," *Journal of the Royal Society of Arts* 71, no. 3690 (August 10, 1923): 670-671.

[2] Wellington K. K. Chan, *Merchants, Mandarins and Modern Enterprise in Late Ch'ing China* (Cambridge, MA: Harvard University Press, 1977), 49.

[3] Michael R. Godley, *The Mandarin-Capitalists from Nanyang: Overseas Chinese Enterprise in the Modernization of China 1893-1911* (Cambridge, UK: Cambridge University Press, 1981), 2. For detailed conceptual discussion about Chinese capitalism in Shanghai, see Chapter One. The social trend of cosmopolitanism is applied equally to Shanghai compradors and official merchant-managers.

[4] This notion of *bridging* is presented in Hao, *The Comprador in Nineteenth Century China*, 6, 8, 9, 12.

[5] *Ibid*., 219-220.

active manager of capital [and] a readiness to take risks in a new field."[6]

During the 19th century, Chinese businesses faced a daunting problem. Namely, how could a traditional business engage in international markets? This required scalable growth, managerial talent, and professionalizing the business to make it attractive to investors. Much of the argument herein concerns the innovation in family firms by Chinese capitalists. Innovations extended to entrepreneurial activities, managerial operations, or financial capitalization of surplus income. Innovations within a firm were shaped by the market, and it was in the market that these innovations were tested against competitive corporate actors. Generally, why were some innovations better than other innovations, and how did cultural remodeling of business institutions and contracts[7] between parties, and distributing uncertainty[8] through small shareholders, generate positive socio-economic outcomes? An answer in part to this question invokes analysis from an economic perspective, namely, New Institutional Economics (NIE), that accounts for innovations in the firm as outcomes of adoptions of new institutions (namely, rules of the game) that increase net revenues comparative to revenues under older institutions. Chinese firms examined include the China Merchants' Steam Navigation Company, and two Shanghai department stores, Wing On and Sincere. These innovations occurred as a result of Chinese capitalists' *bridging*, or acculturation, of western business practices within a context of western institutions of property rights and systemic trust.[9] This last statement may be reshaped as a hypothesis: as western institutions shaped Shanghai's market, and international trading networks connected Shanghai to the larger world, *bridging* provided the business tools to escape traditional business conventions

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[6] *Ibid*., 220-221.

[7] Contracts were not unknown to Chinese in the Qing period. See, Madeline Zelin, Jonathan Ocko, and Robert Gardella, *Contract and Property in Early Modern China: Rational Choice in Political Science* (Stanford, California: Stanford University Press, 2004), 24-30, and 299-308. At the same time, legal documents and bonds became more prevalent due to foreigners, whereas before oral contracts predominated. On this last of legal documents and bonds, see, "The Chinese Comprador," 670.

[8] 'Uncertainty' is specifically defined apart from 'risk' as in Frank Knight, *Risk, Uncertainty, and Profit* (New York: A. M. Kelley, 1921). Risk is measurable probabilities of randomness, depending on past knowledge of events, whereas uncertainty is unquantifiable.

[9] The notion of *bridging* or acculturation of business practices differs from the nineteenth century interpretation of passivity espoused by the Shanghai General Chamber of Commerce that while Chinese merchants were open to commercial opportunities, "The spirit of enterprise is all on the side of the foreigners and the onus of every forward movement in commerce must necessarily rest on them." This quotation from, Shanghai General Chamber of Commerce, *Report of the Delegates of the Shanghae General Chamber of Commerce on the Trade of the Upper Yangtsze River* (London: [n.p.], 1870), 47. By 1907, this idea of passivity was modified by Sargent to include a cultural attitude of "intense conservatism of the Chinese people" as the cause of commercial stagnation. For this notion of cultural attitude, see, Arthur John Sargent, *Anglo-Chinese Commerce and Diplomacy: Mainly in the Nineteenth Century* (Oxford: Clarendon Press, 1907), 133.

that impeded company growth. It is important to recognize that while the treaty port market was shaped by western institutions, these institutions also encompassed political and social dimensions.

Accordingly, an alternative interpretation suggests that innovations in the nature of the family firm might have been a more gradual adaptation of Chinese practices. There are two counterarguments in the economic literature supporting such an alternate interpretation to a hypothesis of acculturation (*bridging*). The first is commercial modernization resulted from Chinese merchants' imitation of Western practices by observation and without acculturation. This first counterargument generalizes from the "copying to fit for purpose hypothesis," namely Chinese firms specialized parts of the firm to enhance response to customer needs.[10] Innovation in Chinese business practices, therefore, was a matter of cultural sensitivity to consumer demands resulting in reformulating the firm's traditional organization (i.e. the firm's centralization of control in a paternal owner under whom was a hierarchy populated by family members in key management roles) to facilitate the firm meeting these consumer wants, rather than an emphasis on cultural adoption of western business practices through *bridging*. The second counterargument is that competition with western firms compelled Chinese merchants to draw on native cultural resources leading to innovating the family firm. This second counterargument generalizes from the "escape competition hypothesis," namely, that "firms rush to differentiate their products in order to rebuild lost market power."[11] Innovation in Chinese business practices, therefore, was a matter of rapidly, promoting traditional Chinese commercial values that were congruent with innovating business practices rather than hybridizing traditional and western practices. The insight of

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[10] George S. Yip, and Bruce McKern, *China's Next Strategic Advantage: From Imitation to Innovation* (MIT Press, 2016), 13-5. Copying to fit for purpose was already happening in 1890s as illustrated in the following observation: "the British firms in Hankow are merely branches of houses in Shanghai, their Chinese rivals, who have driven them out of the import trade, and Hankow merchants with branches in Shanghai. . . . These wealthy merchants, dealing wholesale, supply the upcountry merchants and local shopkeepers, buying goods through their branches in Shanghai, which employ Chinese brokers speaking 'pidgun' [*sic*] English to buy the particular goods they want from the foreign importers." This quotation from, Isabella Lucy Bird, *The Yangtze Valley and Beyond: An Account of Journeys in China, Chiefly in the Province of Sze Chuan and Among the Man Tze of the Somo Territory* (London: John Murray, 1899), 64.

[11] Gerard Hoberg, Yuan Li, and Gordon M. Phillips, "U.S. Innovation and Chinese Competition for Innovation Production," Working Paper posted to the *Tuck School of Business at Dartmouth College*, 2019, 7, http://faculty.tuck.dartmouth.edu/images/uploads/faculty/gordon-phillips /International_ competition_ in_ innovation.pdf (accessed April 11, 2020). As an instance of escape competition, Isabella Lucy Bird, *The Yangtze Valley and Beyond*, 93, noted that commercial differentiation of junks had "many advantages over the steamer," including freight and passenger charges "lower than those of the steamer," "convenience of their hires," avoidance by Imperial Customs of a "tax on goods levied by steamer," and navigation along "canals [that] pass through towns which offer facilities for both trading a dawdling."

institutions shaping economic agents' business decisions, likewise in the alternative interpretation, applies to the efficacy of traditional Chinese institutions, and regards western institutions within treaty ports as neutral on merchant innovations of the family firm. This brings up the problem of where *bridging* was operational.

The principal prediction of the *bridging* hypothesis is that the scope of innovation was limited to Chinese firms in Shanghai's commercial sector, and had less of an impact on the overall Chinese economy of China. This prediction is framed in terms of the entrepreneurial capitalist facing uncertainty in a future market. Corporate governance falls to the investor-owner, who perceives opportunity and must re-arrange factors of production to maximize profits over a lengthy period. In so doing, the entrepreneurial capitalist innovates the firm to adjust to expectations he perceives will hold in a specific, competitive market. Chinese capitalists were alert to market opportunities in Shanghai's foreign trading, new ways of doing things, and ways of extracting surplus capital for investment.[12] Caution should be exercised, as this interpretation of *bridging* centers development in the family business. Despite this limitation, the preponderance of family businesses in China makes the comparison valuable for historical analysis.

The gradualist interpretation alternatively predicts that Chinese firms maintained a continuity with a past economy and society while undergoing operational innovations. Furthermore, these innovations could be applied to firms that had no direct contact with western competition. Generally, Chinese firms were stable but changeable, with a continuous history of innovation. This formulation of the family firm treats them as expanding the production function[13] without considering the effect on innovation by institutions on the market. However, the gradualist interpretation ignores alternative domestic causes of economic growth in China during the 1870 to 1920 period. Over this time, China's total trade grew seven-fold, while foreign trade represented 17

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[12] There is a close connection between entrepreneurs and innovations on production in the economic literature. The relation of the entrepreneur to capital is weak, as part of being an entrepreneur is securing capital or finding a capitalist. Weiying Zhang, *The Origin of the Capitalist Firm: An Entrepreneurial/Contractual Theory of the Firm* (Singapore: Springer-Verlag Press, 2018), 27-28. Zhang's definition of the entrepreneur is distinguished from Évariste Régis Huc's Orientalist notion of the nature of Chinese as natural "born speculators." Évariste Régis Huc, "Journey Through China,*" Harper's New Monthly Magazine* (June 1855), 81-86.

[13] A 'production function' relates output to input. A simple linear example is Q=K+L, generally between capital, labor, and organization. In neoclassical economics production functions have ignored entrepreneurship as a factor of production. Economics is either studied as consumer choice over scare resources, or the firm as a production function where the firm's strategy in achieving a particular production function results in the structure of the firm. See, Oliver E. Williamson, "The Theory of the Firm as Governance Structure: From Choice to Contract," *Journal of Economic Perspectives* 16, no. 3 (Summer 2002): 172-173. Alfred Dupont Chandler, *Strategy and Structure: Chapters in the History of the Industrial Enterprise* (Cambridge: The M.I.T. Press, 1962, 1990), 13-14. In the family firm, structure affects strategy in terms of pursuing opportunities, control of the firm, and response to exogenous demands.

percent of the national income in 1925-29, in line with contemporary developing countries.[14] Thus, the principal, domestic causes for this developmental period of China's economy were located in China's population growth, government expenditures on infrastructure and arms, and commercialization in agricultural production. Under these expansionary conditions, traditional Chinese firms innovated as their production function increased without attending to the changing structure of the economy. Innovation was a means of stabilizing the Chinese family business under circumstances of a firm's increasing scale. In pre-1949 China, the effect of the family firm was not harmful to economic development and, "It is more likely, that it was positive."[15]

However, this leaves us with the question of entrepreneurial innovation, and the acquisition of western business practices by Chinese entrepreneurs. In Shanghai, Qing government restrictions on interactions with westerners and pursuing capital enterprises were relaxed, and "the traditional merchant gave way to a new class of compradors."[16] What Robert Dernberger said of compradors applies equally to the other two types of Chinese capitalist middlemen:

> Where the old merchant class had clung to traditional values, used traditional methods, and invested in traditional forms of wealth, the compradors were willing to try new ways. Though they relied on existing institutions such as native banks and were not able to escape their traditional value system altogether, they learned and engaged in Western business activities quite successfully. Not only did they become the largest source of investment in modern Chinese industrial enterprises; they ultimately succeeded in replacing the Western trading firms in handling China's foreign trade in the treaty ports. In other words, with their knowledge of the Chinese mentality, language, and market conditions, they were

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[14] Robert F. Dernberger, "The Role of the Foreigner in China's Economic Development, 1840-1949," in *China's Modern Economy in Historical Perspective*, ed. Dwight H. Perkins (Stanford, California: Stanford University Press, 1975), 27, Table 1. Because of the volume of trade through Shanghai, trade figures for the port are proximate as a *National Current Account*. Tabulated values of *Exports Exceed Imports* range from 8,746,204 *Hk. Tls.* in 1882 to 25,598,197 *Hk.Tls.* in 1891, suggesting the balance of trade favored China over international trading nations were reported by R. E. Bredon (Commissioner of Customs), "Shanghai," *Decennial Reports on the Trade, Navigation, Industries, Etc., of the Ports Open to Foreign Commerce in China and Corea, and on the Condition and Development of the Treaty Port Provinces, 1882-1891*, Statistical Series no. 6. (Shanghai: Statistical Department of the Inspectorate General of Customs, 1893), 329. In 1933, China's GDP was 30 billion yuan, which if estimates for domestic prices in 1890s are representative of 30 to 40 percent in 1933, generates a GDP for the 1890s of 9 to 12 billion taels. For this estimate, see, Dwight H. Perkins, "Government as an Obstacle to Industrialization: The Case of Nineteenth Century China," *The Journal of Economic History* 27, No. 4 (December 1967): 487 n. 21.

[15] Dwight H. Perkins, "Introduction: The Persistence of the Past," in *China's Modern Economy in Historical Perspective*, ed. Dwight H. Perkins (Stanford, California: Stanford University Press, 1975), 15.

[16] Dernberger, "The Role of the Foreigner in China's Economic Development," 31. Dernberger's comprador is superficially similar to the entrepreneur in economic literature. However, Dernberger includes the role of capitalist in the comprador, not unlike in Yen-p'ing Hao's notion of the comprador.

able to beat the foreigner at his own game.[17]

Dernberger captures a core idea of NIE in the difference between traditional merchants and compradors, namely, an assumption of individual rationalism. NIE employs methodological individualism as given in analysis. Methodological individualism argues economic actors decide actions on informational asymmetries. Accordingly, traditional merchants operated under constraints shaped by imperial institutions, whereas compradors participated in commercial behaviors prescribed by western institutions. Reinforcement of behavior by imitation and social compliance led to institutions providing conveying information that served to reduce strategic uncertainty. Adhering to methodological individualism is a limitation of this thesis, as it requires assuming Chinese capitalists were motivated as asset maximizers without fully explaining why they became asset maximizers. There is also the implication that traditional merchants were not asset maximizers in the sense of capitalists, but takes as given that traditional merchants strategized innovations in the family firm to grow but not along the lines commonly associated with western firms. [18] For the historian, an interpretation of methodological individualism implies a social world of a certain sort, namely one filled with individuals, and that ontological being may find little relevance in traditional China.

Argument

The argument that follows considers in what ways *bridging* and western institutions contributed to a modern Shanghai by the 1920s. The argument challenges explanations such as the western impact model, as that model overlooked how unsuited foreigners in the mid-19th century were to modernization. Alternatively, the nativist model that naively championed sprouts of capitalism appears anachronistic, as it does not consider the contemporary technology supporting economic life. Neither model explains Shanghai's economic take-off.

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[17] *Ibid*. It is likely that what Lafcadio Hearn meant by 'Chinese businessmen' were compradors and official merchant-managers, which Dernberger distinguishes from traditional merchants: "He knows the value of cable codes, he charters steamers, builds factories, manages banks, profits by the depreciation or the rise of exchange, makes corners, organizes stock companies, hires steam or electricity to aid him in his manufacturing or speculating." This quotation from, Patrick Lafcadio Hearn, "China and the Western World," *Atlantic Monthly* Vol. 77 (April 1896): 461.

[18] This thesis does not deal explicitly with considering if these innovations were growth inducing of China's domestic surplus. The view that entrepreneurs can efficiently invest a surplus in risky ventures and increase NDP (net domestic product) is rejected by Marxist and other economists. This point made by Carl Riskin, "Surplus and Stagnation in Modern China," in *China's Modern Economy in Historical Perspective*, ed. Dwight H. Perkins (Stanford, California: Stanford University Press, 1975), 62-64, and 77-84.

The argument baldly stated is that Shanghai's Commercial Revolution was an outcome of western institutions and of Chinese capitalist middlemen *bridging* western business practices, since institutions reinforced asset maximizing behaviors by capitalist middlemen in their family businesses. It identifies particular historical features for analysis. First is the transformation of the Chinese family business. Second is social transformation due to *bridging* by capitalist middlemen. Third is the localization of this Commercial Revolution to Shanghai. In Shanghai, western institutions played a role in shaping the outcomes for capitalist middlemen. To analyze these outcomes a brief overview of the traditional Chinese family firm must be considered.

In contrast with the western corporation is the traditional Chinese family firm, the nature of which has been examined by Sui-lun Wong. According to Wong, the Chinese family firm is characterized generally by its small size, its brevity of survivability, and want of capital investment.[19] It typically is headed by a patriarch, and the firm tends to dissolve as junior members strike out on their own after the demise of the patriarch. The management of the firm often occurs through lineage networks, and personal trust rather than systemic trust. Typically, the workforce is derived from family members or kin, and native place association is important for increasing labor beyond the family. Investment strategies favor high return for short term, and profits are invested in land rather than expansion of the firm. Strategic innovations to scale the family business involved internalizing, by modelling, traditional practices. For example, in the late nineteenth century China, family firms modelled accounting and management practices on those of Shanxi remittance banks, thereby standardizing their business practices, and securing investors' contracts which transformed family firms into partnerships of two to a dozen participants.[20] Nevertheless, an advantage of the family firm is its flexibility to adapt or take advantage of new opportunities.[21] It is proposed that Shanghai's capitalist middlemen innovated

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[19] Sui-lun Wong, "The Chinese Family Firm: A Model," *Family Business Review* 6, no. 3 (Fall 1993): 327-340. Cheryl Susan McWatters, Qiu Chen, Shujun Ding, Wenxuan Hou and Zhenyu Wu, "Family Business Development in Mainland China from 1872 to 1949," *Business History* 58, no. 3 (2016): 408-409, and 410-416. Yen Ching-hwang, *Ethnic Chinese Business in Asia: History, Culture and Business Enterprise* (Singapore: World Scientific Publishing, 2014), 109-122.

[20] Madeleine Zelin, "A Critique of Rights of Property in Prewar China," in *Contract and Property in Early Modern China: Rational Choice in Political Science*, ed. Madeline Zelin, Jonathan Ocko, and Robert Gardella (Stanford, California: Stanford University Press, 2004), 31-32. Holders of investments were not individuals but the lineage, thereby holding land, buildings, and shares in lineage trusts.

[21] Yen, *Ethnic Chinese Business in Asia*, 112, notes growth in family firms involves "responding to growth opportunities by concentrating their efforts in one main field [i.e. marketing concentration] , and then grow through replicating the same formula or through horizontally spreading into connected fields [i.e. risk averse behavior]."

the operations in the traditional family firm by integrating western business practices, thereby modifying many of the above features outlined.

A secondary aspect of the thesis argument suggests that *bridging* hastened the application of social innovations to Chinese society. Chinese capitalists, acculturated to western values and beliefs, put these into practice by establishing modern schools, friendship associations, and vaccination clinics. On a personal level, they educated their sons in western schools for business careers, and endorsed a cosmopolitan attitude. Australian Chinese capitalists endorsed an interpretation of labor as 'human capital' founded in Christian and Confucian moral values. Several of these individuals examined include the comprador entrepreneur Ye Chengzhong, and the overseas Chinese merchant Ma Yingbiao. Among the compradors, their influence through charitable activities exemplified their acculturation of western values and beliefs. Among the Australian Chinese merchants, their membership in the Chinese Presbyterian Church in Sydney, Australia, exemplified their acculturation of the Australian European business community's norms, values and beliefs.

The analysis is geographically limited to Chinese companies within Shanghai's International Settlements where modern ventures were unimpeded by Chinese officials' interference, and where a spirit of commercial entrepreneurship took hold.[22] This spirit of commercial enterprise was an outcome of western institutions, especially property rights and systemic trust as they were enacted within Chinese-owned companies. Admittedly, these institutions took time to be established, as did *bridging* among Chinese compradors. Compared with other treaty ports, Shanghai was the center for foreign trading firms after 1860, in large part as the city was "ideally located to provide access to the silk and cotton growing areas of China and to move important commodities to the major domestic consumption areas."[23] In addition to handling two thirds of China's foreign trade, in the early twentieth century Shanghai absorbed nearly fifty percent of direct business investment.[24] For our purposes, the direct investment by Australian Chinese capitalists in Shanghai's

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[22] During this period of Shanghai's economy, China did not have a protective policy for industrial development as did Japan. China was the "dumping ground of all the surplus output" of western industry, and annual price decline favored imports. In the face of western competition, Chinese industry fared poorly, but commercial ventures thrived. These ideas and quotation from, Srinivas R. Wagel, *Finance in China*, (Shanghai: North-China Daily News and Herald, Ltd, 1914), 314-315.

[23] Dernberger, "The Role of the Foreigner in China's Economic Development," 33.

[24] *Ibid*.

commercial sector represented a shift in that city's capitalist endeavors, and marked out the overseas Chinese capitalists from their homeland merchants. Outside of Shanghai, before the 1880s foreign businesses were isolated from Chinese consumers by treaty regulations, and inland Chinese merchants were taxed by Qing provincial governors through transit exactions limiting direct urban-rural interactions, while the southern Chinese countryside was subject to instability from rebellion. Although China endeavored, through the Self Strengthening Movement from around the mid-nineteenth century, to make a bid for national wealth and power, this historical event can be left aside as the agents of the Self Strengthening Movement were not motivated by maximizing profit as were Shanghai's capitalists.

Thesis Outline

Each of the three principal chapters below examines the three types of Shanghai capitalist middlemen by interpreting their business behaviors through biographical narratives. The first chapter serves as a review of historical literature concerning compradors, bureaucratic merchants, and overseas Chinese capitalists. Questions pertaining to each Chinese capitalist type are raised by reviewing the literature. At the same time, each of chapters 2 to 4 addresses the changes in their business operations that brought about the development of Shanghai's modern economy and the metropolis' transition from a trading entrepot to a consumer market. Uppermost in these chapters, each provides evidence for the relationship between Chinese entrepreneurs and western firms that provided business models innovated by Shanghai's capitalists.

Data

Statistical accounts of trade data in Shanghai that were prepared by American or British officials provide some of the numerical estimates of trade, shipping, and retail services. A detailed, primary source for numerical trade records for Shanghai are the Imperial Maritime Customs Service reports, authored by Robert Hart, the Inspector General of the Maritime Customs Services. Second in importance to Hart's accounts are the *Jubilees* and *Histories* of Shanghai, which provide generalized explanations for currency, law, taxation, business practices, and biographical sketches of prominent Chinese merchants in Shanghai, as well as the historical sequence of events in Shanghai after 1842. While statistical accounts of trade are important, they

tend to be broad in scope. Their creation was meant principally for revenue collection from maritime trade and was not concerned with the carrying-out of business by Chinese fringe firms. Thus, how *bridging* impacted the larger economy of Shanghai is not demonstrable from this recorded data. The problem is greater as Chinese capitalist middlemen's activities were not confined to market sectors but shifted in response to novel opportunities. Finer numerical data that applies to Chinese middlemen's ventures have been extracted from the secondary literature, including maps, and personal accounts. Newspaper articles, primarily from *The North China Herald*, a British daily business paper published in Shanghai, provide a direct, contemporary impression of business-life among Chinese and western traders. It is worth noting that *The North China Herald* was a paper intended to be read by British residents, and is therefore biased in its reporting towards British commercial supremacy.

Primary sources are difficult to come by. The want of sources, in the secondary literature, suggests they may not exist or are held closely by families, museums or universities. Archives housing business accounts and letters from British and American traders were equally inaccessible. English language sources make up the bulk of the primary sources, comprising of newspapers, commerce reports, or personal accounts by western travelers, officials, or traders. A limitation attributable to the primary sources is that not all Chinese middlemen are represented in these sources. The absence of second and third tier compradors, bureaucratic merchants and overseas capitalists does not resolve how deeply *bridging* penetrated to these lower levels, nor whether they simply adopted western business practices without acculturation. If *bridging* were more effective only among the top tier of Chinese middlemen, then this might suggest that *bridging* had a larger effect on Shanghai's commercial economy than outlined in this study.

In addition to numerical data for specific companies, secondary sources additionally furnish critiques of historiographical interpretations. For example, the challenge of interpreting "capitalism" from secondary sources lies in the variety of analyses historians have used in modeling China's progress from the late 19th century. For instance, Marie-Claire Bergère's *The Golden Age of the Chinese Bourgeoisie 1911* emphasizes an historical outline of this period focusing on the 1920s Industrial Revolution in Shanghai as the Golden Age take-off of Chinese capitalism. She overlooks the significance of the Commercial Revolution in the late 19th century when the base of capitalism developed. *Bridging* was important to the Commercial Revolution. It

reshaped the Chinese family business into a capitalist enterprise. It created new commercial sectors in the economy. And it led to larger companies and the rise of new consumer habits.[25] Other historical secondary sources, such as those by Yen-p'ing Hao and Wellington K. K. Chan, are referred to throughout given the richness in their research.[26]

In Appendix A, Shanghai's commercial history has been condensed to a chronology of events without interpretation or commentary. Included are population statistics, origins of firms, and significant events. Four city maps in Appendix B illustrate the history of Shanghai from 1842 to the early 20th century through urban transformations of the city. Historical details on the maps include the International Settlements and the old walled city of Shanghai, tramlines, and numerous named sites. Comparing one map with the other illustrates the progression of commercial modernization within greater Shanghai.

Methodology

The important aspect of the methodology is the distinction between traditional merchants and Chinese capitalists made by *bridging*. Shanghai's commercial growth was interpreted through an economic historical frame, as providing an alternative explanation for Chinese capitalist middlemen as asset maximizers. This focused the argument of *bridging* on middlemen as asset maximizers in their commercial enterprises. From the outset, the methodology employed defined Shanghai's status as a treaty port. Shanghai was not a miniature model of Anglo capitalism, nor a model of *Shangren* commerce. It was a shared economy, evolving an international center.

The economic frame was that of New Institutional Economics (NIE). A core hypothesis of NIE is that economic agents' outcomes are shaped by prevailing institutions (see above for limitations of methodological individualism). NIE has pioneered a methodology for historical case studies. Biographies of several Chinese capitalist middlemen served as case studies. A limitation of biographical information is the recapitulation of details from earlier to recent biographies. There is a risk of being led into interpretations of merchants that are

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[25] Marie-Claire Bergère, *The Golden Age of the Chinese Bourgeoisie 1911-1937*, trans. Janet Lloyd (Cambridge, Great Britain: Cambridge University Press, 2009a).

[26] Hao, *The Comprador in Nineteenth Century China*. Chan, *Merchants, Mandarins and Modern Enterprise in Late Ch'ing China*.

not a fit with the economic model. For example, Albert Feuerwerker's major study on China's industrialization included a significant biography of Sheng Xuanhuai as an instance of the bureaucratic merchant and his contribution to Mandarin enterprise.[27] However, under the economic model in this study, Sheng is not illustrative of a bureaucratic merchant. Importantly, because he did not employ western management practices in enterprises, nor did he concern himself with capital maximization except to extort as family wealth or expand weaker ventures. His only prosperous ventures enjoyed monopoly status or large official subsidies.[28]

Following the NIE methodology for historical case studies, three types of capitalist middlemen were identified, as outlined above. These three shared the common feature of *bridging*. An assumption regarding *bridging* is that it took place as group acculturation in western settings, which speaks to middlemen's later choices of market sectors in which to invest. Following NIE's emphasis on institutions, two institutions were identified as operating in Shanghai's International Settlements. These were property rights and systemic trust. These institutions were enforced by western bodies and organizations in Shanghai, shaping outcomes for middlemen, and combining with *bridging* to bring about a Commercial Revolution in Shanghai. NIE is also concerned with the firm as a response to lowering transaction costs. The China Merchants' Steam Navigation Company was one instance of the lowering of transaction costs, and is discussed in detail.

The idea of *bridging* by compradors was first studied by Yen P'ing-Hao. *Bridging* is the acculturation of western commercial practices. However, Hao's study did not address longitudinal effects. Deepening the longitudinal features of *bridging* was achieved with reference to compradors' formative years. This was done through comparative biographical studies. As well, broadening the consequences of *bridging* was achieved by examining it within an institutional frame, especially as *bridging*'s effects altered the nature and organization of the traditional family firm. An illustration of this transformation is given in Appendix C, where an economic model of the traditional family business is compared to the capitalist family-controlled business.

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[27] Albert Feuerwerker, *China's Early Industrialization: Sheng Hsuan-huai (1844-1916) and Mandarin Enterprise* (Cambridge, Massachusetts: Harvard University Press, 1958).

[28] Chan, *Merchants, Mandarins and Modern Enterprise in Late Ch'ing China*, 107-108.

Significance of the Thesis

The rise of China as a modern global economy in the late 20th century has raised questions of 'why now', and how does China's current modernizing experience differ from earlier historical experiences under the Ming (1368-1644) and Qing (1644-1912) dynasties? In the current environment, popular historical myths of China's recent rise have taken hold, supporting the interests of both the Chinese government and nationalists.[29] The entrepreneurial activities of Shanghai's capitalists deserve special attention in such a discussion. From the 1860s to 1920s, Shanghai became a capitalist market in which Chinese capitalists' marketing ability in business decisions and ability to bear risk distinguished their business activities from merchant practices in the traditional Chinese economy. They represented a social force through their achievements in economic modernization, and their business activities provided remedies for China's underdevelopment. Although their activities were primarily economic, they were involved in class transformations and political reforms. Marie-Claire Bergère outlines their demise during the nationalist period and elimination under the communists.[30] They sought to keep their enterprises free of state intervention, yet found themselves absorbed into a new professional bureaucracy in the late 1920s and 1930s. During the nationalist period, heavy taxation and a modern banking system founded on financing the regime's public expenditure "alienated" them and imposed on their "autonomous traditions."[31] Initially following the Communist Revolution (1949), Chinese capitalists were treated by the state in a conciliatory manner, but after 1952 their developmental role ended, and after 1956 the nationalization of the economy led to the bureaucratization of the means of production. Marie-Claire Bergère summarizes this history in terms of resurgent processes that constituted the traditional state:

> In the name of national unity, this [centralizing] tradition legitimized the existence of a strong government imposing its authority through a dominant caste. Seen from this point of view, the integration of the old bourgeoisie into the communist bureaucracy seems above all a reflection of the political traditions of the Chinese nation.[32]

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[29] Some of these myths are taken up in the concept of 'Chinese exceptionalism'. On this topic of exceptionalism, see, Howard W. French, Ian Johnson, Jeremiah Jenne, Pamela Kyle Crossley, Robert A. Kapp, and Tobie Meyer-Fong, "How China's History Shapes, and Warps, Its Policies Today," *Foreign Policy* (March 22, 2017): n.p. http://foreignpolicy.com/2017/03/22/how-chinas-history-shapes-its-foreign-policy-empire-humiliation/ (accessed May 16, 2018).

[30] Bergère, *The Golden Age of the Chinese Bourgeoisie 1911-1937*, 272-297.

[31] *Ibid*., 284.

[32] *Ibid*., 296-297.

Chapter 1

Studies of Shanghai Capitalist Middlemen in Modern China

This chapter discusses some of the literature relevant to the topic of Shanghai capitalist middlemen, as outlined in the introduction. The definition of a Shanghai comprador follows Yen-ping Hao's descriptions in his studies, as a "Chinese manager of a foreign firm in China, serving as middleman in the company's dealings with the Chinese."[1] Notably, the comprador was an "entrepreneur," "quick to introduce new ideas," "to enter new fields of business," and to draw "factors of production together to initiate and expand the business enterprise."[2] The second type, official merchant-managers (herein labelled: bureaucratic managers), is discussed in Wellington K. K. Chan's research on officials-turned-merchants in Shanghai. Chan stresses an earlier blurring between merchants and officials in traditional ventures which laid the pattern for bureaucratic managers in the treaty ports in the late 19th century, and he observes that these middlemen represented "many who made use of their wealth to purchase official ranks and titles," and "were called upon by government officials to give expert advice on public finance and to help manage industry."[3] The third type, overseas Chinese capitalists, is researched in Michael R. Godley's study on overseas Chinese in British Malaya and Dutch Indies.[4] Godley highlights how Chinese merchants "caught the spirit of Weber's elusive Protestant ethic," by acculturating western business practices, converting to Christianity, learning the English language, and adopting British commercial law.[5] Taking after Shanghai compradors' cosmopolitan outlook, overseas Chinese capitalists likewise acquired a cosmopolitan outlook, a

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[1] Yen-p'ing Hao, "A 'New Class' in China's Treaty Ports: The Rise of the Comprador-Merchants," *Business History Review* 44, no. 4 (Winter1970): 446.

[2] Yen-p'ing Hao, *The Comprador in Nineteenth Century China: Bridge between East and West* (Cambridge, MA: Harvard University Press, 1970), 147. Factors of production are the inputs into production that result in goods or services. The two principal inputs are labor and capital. Capital is not money, but money purchases machinery, buildings, and pays wages which go toward production.

[3] Wellington K. K. Chan, *Merchants, Mandarins and Modern Enterprise in Late Ch'ing China* (Cambridge, MA: Harvard University Press, 1977), 39.

[4] Michael R. Godley, *The Mandarin-Capitalists from Nanyang: Overseas Chinese Enterprise in the Modernization of China 1893-1911* (Cambridge, UK: Cambridge University Press, 1981), 4-5, and 56-59.

[5] *Ibid*., 57.

world view that "was [at the turn of the nineteenth century] probably a contradictory and paradoxical life-style".[6] Later explorations in Australian Chinese merchants' ventures have broadened the field of study. Notably, Denise Austin has examined Australian Chinese capitalists' adoption of and adherence to Christianity, their competence as English speakers, and their application of class resources to management and finance.[7] To highlight the position of Chinese capitalist middlemen as agents for change, this thesis draws on biographies and studies of noted Shanghai merchants centered on their activities as entrepreneurs, managers, and how they acculturated to western business models. A survey of the literature covering these three types of capitalist middlemen follows below.

Scholarly Literature on Shanghai Compradors

Research literature on Chinese compradors falls into two main divisions. The first division follows Yen-p'ing Hao's works on the comprador-cohort in Shanghai and other treaty ports. Hao's studies attacked earlier impressions of compradors as marginal economic contributors to China's economy, or as collaborators of western imperialists. Other historians' research emphasized the biographies of compradors to explicate how their entrepreneurial activities impacted social and political life in Shanghai and more generally in China.[8] These later studies include numbers of compradors whose activities emphasized

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[6] *Ibid*., 58. These overseas Chinese merchants acculturated to a western lifestyle despite discriminatory racism and beliefs in cultural superiority by British colonial authorities in Singapore and Australia. At the same time, these cosmopolitan Chinese sought a traditional recognition at home in China, while realizing their personal wealth depended on engaging in an international commercial market.

[7] Denise Austin, *Kingdom-Minded People: Christian Identity and the Contributions of Chinese Business Christians* (Leiden: Brill, 2011), 71-106.

[8] Marianne Bastid-Bruguiere, "Currents of Social Change" in *The Cambridge History of China: Volume II Late Ch'ing 1800-1911*, Part 2, ed. John King Fairbank and Kwang-Ching Liu (Cambridge, UK: Cambridge University Press, 1980), 535-602. Marie-Claire Bergère, *Shanghai, China's Gateway to Modernity*, trans. Janet Lloyd (Stanford, California: Stanford University Press, 2009b). Comprehensive biographies of three compradors are presented in Sherman Cochran, *Encountering Chinese Networks: Western, Japanese, and Chinese Corporations in China, 1880-1937* (Berkeley: University of California Press, 2000), particularly Standard Oil's Ye Chengzhong, and British-American Tobacco's Wu Tingsheng and Zheng Bozhao. Studies on individual compradors along selected themes are in Yen-p'ing Hao, "Cheng Kuan-ying: The Comprador as Reformer," *The Journal of Asian Studies* 29, no. 1 (November 1969): 15-22. On the same comprador, see, Guo Wu, *Zheng Guanying: Merchant Reformer of Late Qing China and His Influence on Economics, Politics, and Society* (Amherst, NY: Cambria Press, 2010). Thumbnail biographies of compradors can be found in Arnold Wright, ed., "Prominent Chinese Residents," in *Twentieth Century Impressions of Hong Kong, Shanghai, and Other Treaty Ports*: *Their History, People, Commerce, Industries, and Resources*, ed. Arnold Wright (editor in chief) and H. A. Cartwright (assistant editor) (London: Lloyd's Greater Britain Publishing Company, Ltd., 1908).

traditional and innovative approaches, underscoring the importance of not classifying all compradors as westernized entrepreneurs, nor that they all *bridged* or acculturated western business practices. Nevertheless, these studies promote the idea that revolutionary ideas and practices among compradors prevailed over traditional mercantile routines in Chinese firms between the middle nineteenth and early twentieth centuries.

Hao observes that as "an essential economic middleman and a valuable cultural go-between in the nineteenth century" the compradors "turned their wealth into business and industry and thus became independent businessmen."[9] Their later enterprises were "intimately connected with their [earlier] comprador years, both [considering] the accumulated capital and the special experience [which] resulted from their contact with foreigners."[10] Before 1900, compradors were never numerous compared to traditional urban merchants. Hao estimates that in 1854 Shanghai's foreign mercantile houses numbered 120 agent's houses with one comprador per house, while there were only 203 agency houses in 1870, and similarly 203 major compradors.[11] In 1899, Hao speculates "there may have been over 10,000 compradors in [all] China, not including another 10,000 or so former compradors."[12] In numbers alone the compradors were a marginal entrepreneurial order, and even fewer participated in Shanghai's growing commercial sector. Nonetheless, their economic impact was profound and predominant in Shanghai's International Settlements.

The second division of studies on compradors includes historians who have further explored themes raised in Hao's scholarship. Regarding negative aspects of "compradors monopolistic authority," this topic has been dealt with in Motono Eiichi's essay covering the Shanghai shipping revolution between 1866 to 1875, and Kaori Abe's study of Hong Kong compradors and British colonial officers between the 1840s-1850s.[13] Eiichi interprets comprador monopolistic authority as evolving from the poor management style of

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[9] Hao, *The Comprador in Nineteenth Century China*, 12.

[10] *Ibid*.

[11] *Ibid*., 101-102.

[12] *Ibid*.

[13] Motono Eiichi, "'The Traffic Revolution': Remaking the Export Sales System in China, 1866-1875." *Modern China* 12, no. 1 (January 1986): 75-102. Kaori Abe, "Middlemen, Colonial Officials, and Corruption: The Rise and Fall of Government Compradors in Hong Kong, 1840s–1850s," *Modern Asian Studies* 52, no. 5(2018): 1774-5. Ideas referenced in the paragraph are to Eiichi and Abe two noted essays.

Shanghai's western trading houses which inadvertently created opportunities for compradors to conduct private commercial transactions while fulfilling their employers' inland contracts. According to Eiichi, the consequential negative effects on the commercial sector from comprador monopolistic authority resulted in legal actions against western agency houses, as in the event of bankruptcy of a comprador the affected parties to the transaction did not know who was responsible for unpaid debts. Regarding Hong Kong compradors, Abe notes the compradors acted without institutional supervision as go-betweens for colonial officials and the Chinese merchants. This lack of supervision opened possibilities for corruption on their part, which was made worse by widespread corruption among British officials. The broadening of inland markets by western traders seeking commodities, such as teas and silk, fostered opportunities for the comprador to carry out entrepreneurial activities based on price differentials between the interior markets and out-trading seaports. However, the regional economy showed little sign of increasing development, and threatened the existence of the western trading house.

A possible interpretation of the early lack of innovation on the part of compradors is that the take-off in innovation occurred sometime after improvements in shipping along the Yangtze River transpired. At the same time, comprador specialization in managing western houses' branch ventures stimulated compradors' understanding of broader market economy operations.[14] While much of the literature since Albert Feuerwerker's study has focused on state sponsored industrial enterprise, the nature of comprador entrepreneurial investments following the Shanghai shipping revolution was chiefly in western commercial ventures, that developed after 1870, rather than in industrial production.[15] The compradors' investment strategy paralleled that of traditional Chinese merchants, who had little acquaintance with production, leaving production of goods to specialized market artisans. However, the comprador favored the institutional

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[14] Isabella Lucy Bird, *The Yangtze Valley and Beyond: An Account of Journeys in China, Chiefly in the Province of Sze Chuan and Among the Man Tze of the Somo Territory* (London: John Murray, 1899), 20-21. "The Chinese Comprador," *Journal of the Royal Society of Arts* 71, no. 3690 (August 10, 1923): 670-671.

[15] Jerry L. S. Wang, "The Profitability of Anglo-Chinese Trade, 1861-1913," *Business History* 35, no. 3 (1993): n.p., Gale OneFile: Business, https://go-gale-com.ezproxy.library.uvic.ca/ps/i.do?p=ITBC&u=uvictoria&id=GALE|A14363345&v= 2.1&it=r&sid=summon (accessed May 27, 20202). In the 1840-50s, British traders profited from exports of teas and silk, but this market declined in the 1860s due to Chinese merchant competition. Consequently, in the 1870s, British firms emphasized commercial auxiliaries of trade (import or wholesale).

governance in Shanghai and other treaty ports, where they had a decided advantage over Chinese merchants, and in trying to link their personal commercial ventures to the treaty port they became somewhat of a barrier to Sino-foreign economic interaction.[16]

This interpretation of compradors raises difficulties. For instance, Yen-p'ing Hao raises the question related to Shanghai's compradors' remaking of Chinese life through their intermediary role:

> How did he [comprador] affect cultural interaction in general and . . . in particular? He has been criticized for being unorthodox, but did his significance not lie in the very fact that he deviated from the tradition as middleman? What role did he play in China's modernization, apart from industrialization? To what extent did he, compared with the early Jesuits, affect the Western image of China and the Chinese image of the West?[17]

Hao reminds us that the comprador was an "inadequate" figure, cautioning that "compradors were unable to introduce any more of the West to China than what they had learned."[18] By innovating the organization of the Chinese family firm, a comprador had to overcome the barrier of his own degree of acculturation of western business practices, which in turn affected his own abilities as an entrepreneur.

Scholarly Literature on Bureaucratic Merchants

Wellington K. K. Chan's research on official merchant-managers (bureaucratic merchants) and their roles in state sponsored enterprises in late Qing China is a central study in the literature. This work covers the managerial practice of comprador-official managers, and the administrative and supervisory role of government official managers. At the time Chan's research emerged, the view by leading scholars had "concluded that China's failure to establish a modern economy stemmed from her [China's] anti-mercantile ideology."[19] Quite the opposite, the combination of official supervisors and merchant investors resulted in a "new social stratum of official-entrepreneurs and gentry-merchants . . . emerging from the old gentry class," and "this new group was firmly committed to economic modernization."[20]

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[16] Hao, *The Comprador in Nineteenth Century China*, 11-12.

[17] *Ibid*., 10.

[18] *Ibid*.

[19] Chan, *Merchants, Mandarins and Modern Enterprise in Late Ch'ing China*, 1.

[20] *Ibid*., 9-10.

This new social stratum's commitment to modernizing Shanghai's economy relied on comprador capital and government loans to expand commercial enterprises. Concerning later capital, Chan stresses that from the 1900s "official-entrepreneurs began to raise most or all of the required capital from among themselves or their friends. . . . [and in risking personal wealth] There was greater incentive to run a more efficient business organization."[21] By outlining this theme on capital funding among bureaucratic merchants, this study follows Marie-Claire Bergère's sociological model that identifies a new Shanghai urban elite composed in part by bureaucratic merchants emerging from an older gentry elite.[22]

A second significant source is Albert Feuerwerker's study on Chinese industrialism and biographical study of the government official, Sheng Xuanhuai.[23] Sheng's role in modern China's industrial development explains the strategy of bureaucratic merchant capitalism, namely the mobilization of government sponsorship to secure merchant wealth as capital investment in large-scale enterprises. During the following period (post-1900) state sponsored firms were privatized, and the model Sheng had endeavored to promote declined. Later bureaucratic merchants, following Sheng, retained personal connections with government officials in order to "influence their colleagues in charge of government policy towards modern enterprise."[24]

Complementary literature on the topic of bureaucratic merchants includes studies by Mary C. Wright, Immanuel C. Y. Hsü, and Samuel C. Chu and Kang-Ching Liu.[25] These studies present ideas following the culturalist school, stressing China's traditionalism (i.e., anti-mercantile ideology) as the cause of its failure to modernize. The theme of corruption or "squeeze" by officials is a prominent explanation for the absence of a nativist origin to China's modern development. For example, bureaucratic supervisors and managers

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[21] *Ibid*., 108.

[22] Marie-Claire Bergère, *The Golden Age of the Chinese Bourgeoisie 1911-1937*, trans. Janet Lloyd (Cambridge, Great Britain: Cambridge University Press, 2009a), 37-46.

[23] Albert Feuerwerker, *China's Early Industrialization: Sheng Hsuan-huai (1844-1916) and Mandarin Enterprise*, (Cambridge, Massachusetts: Harvard University Press, 1958).

[24] Chan, *Merchants, Mandarins and Modern Enterprise in Late Ch'ing China*, 109.

[25] Mary Clabaugh Wright, *The Last Stand of Chinese Conservatism: The T'ung-Chih Restoration, 1862-1874*, (Stanford, California: Stanford University Press, 1957). Immanuel C. Y. Hsü, *The Rise of Modern China*, 5th ed. (New York: Oxford University Press, 1995). Samuel C. Chu and Kwang-Ching Liu, ed., *Li Hung-chang and China's Early Modernization*, (New York: Routledge, 2015).

redirected surpluses in successful industries either to their own families or to other traditional ventures, thereby curtailing future reinvesting by the initial corporations. Wellington Chan quotes Albert Feuerwerker as showing how the China Merchants Steam Navigation Co., despite making profits, saw its shipping business decline: "It seems that there was no plowing back of profits. Instead, its shareholders . . . and managers continued to draw their dividends like a miner exhausting a vein of coal or copper."[26] Nevertheless, as noted in the final section in this chapter, there developed several strategies in the Chinese family firm that overcame these cultural barriers to modernization. Furthermore, although many of these cultural barriers are interpreted as solely Chinese, they can also be found in western firms without having detrimentally affected commercial developments.

Scholarly Literature on Overseas Chinese Capitalists

On the theme of restructuring Chinese corporate organizations under Australian Chinese capitalists' control, two essays by Wellington Chan interpret these restructurings as stimulated along conventional lines, namely as expressing Chinese cultural management practices.[27] The research of Denise Austin, Mei-Fen Kuo, and John Fitzgerald on Australian Chinese merchants emphasizes their acculturation to Presbyterianism and adoption of many Christian ethical standards they enacted in their business dealings.[28] As entrepreneurial innovators, overseas Chinese established new routines of business in adjusting to their new environment. Chan's essays draw upon Siu-lun Wong's seminal essay on the traditional Chinese family firm.[29] He emphasizes the resilience of the Chinese family firm in new environments as a means to seize on new opportunities and preserve the core family unit. But the view that the family firm remained

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[26] Chan, *Merchants, Mandarins and Modern Enterprise in Late Ch'ing China*, 117.

[27] Wellington K. K. Chan, "Chinese Business Networking and the Pacific Rim: The Family Firm's Roles Past and Present," *The Journal of American-East Asian Relations* 1, no. 2 (Summer 1992): 171-190. Wellington K. K. Chan, "Tradition and Change in the Chinese Business Enterprise: The Family Firm Past and Present," *Chinese Studies in History* 3, nos. 3-4 (Spring-Summer 1998): 127-144.

[28] Austin, *Kingdom-Minded People*. Mei-Fen Kuo, *Making Chinese Australia: Urban Elites, Newspapers and the Formation of Chinese-Australian Identity, 1892-1912* (Clayton, Victoria, Australia: Monash University Publishing, 2013). John Fitzgerald, *Big White Lie: Chinese Australians in White Australia* (Sydney, Australia: University of New South Wales, 2007).

[29] Siu-lun Wong, "The Chinese Family Firm: A Model," *Family Business Review* 6, no. 3 (Fall 1993): 327-340.

intact in all environments is flawed. The new institutional framework in which Australian Chinese merchants conducted business depended on the new commercial rules. Nevertheless, Chan's traditionalist interpretation of the family firm continues in other studies. These essays and studies represent only a portion of the historical research that has gone into the theme of the development of Shanghai's modern commercial culture.

Chapter 2 of Ching-hwang Yen's regional study of overseas Chinese capitalists provides an in-depth inquiry into the modernization and retention of traditionalism in the Chinese family firm with reference to the Sincere and Wing On department stores. Yen stresses that Chinese business networks are built "on traditional *guanxi* (personal connections) and *xinyong* (trust)."[30] This is in contrast to Austin's argument that the network system of these modern firms depended on systemic trust created through a Christian religious network among Chinese Presbyterians in Sydney, Australia. Without systemic trust, the Chinese entrepreneur could only hope to attract funds through lineage relations or Chinese banks. In Kuo's interpretation, Australian Chinese capitalists learned their trade in Sydney firms. This experience taught the importance of promoting human capital, consistent with both Christian and Confucian moral standards. They went on to apply this approach in the Shanghai department stores which they later founded and developed. Wellington Chan considers this interpretation in his analysis of the business histories of the Sincere and Wing On companies.[31]

Finally, a question in recent scholarship is that, unlike Chinese entrepreneurs who *bridged* western models of company organization, Shanghai's traditional merchants persisted in arranging family firms along traditional organizational structures despite the daily presence of western firms in the International Settlements. William C. Kirby discusses the assumptions behind this in "China Unincorporated."[32] In part,

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[30] Ching-hwang Yen, *The Ethnic Chinese in East and Southeast Asia: Business, Culture and Politics*, (Singapore: Times Academic Press, 2002), vii. Ching-hwang Yen, *Ethnic Chinese Business in Asia: History, Culture, and Business Enterprise*, (Singapore: World Scientific Publishing, 2014).

[31] Wellington K. K. Chan, "The Organizational Structure of the Traditional Chinese Firm and its Modern Reform," *The Business History Review* 56, no. 2 (Summer 1982): 218-235. Wellington K. K. Chan, "Personal Styles, Cultural Values and Management: The Sincere and Wing On Companies in Shanghai and Hong Kong, 1900-1941," *The Business History Review* 70, no. 2 (Summer 1996): 141-166.

[32] William C. Kirby, "China Unincorporated: Company Law and Business Enterprise in Twentieth Century China," *The Journal of Asian Studies* 54, no. 1 (February 1995): 43-63.

Kirby argues that Chinese merchants wished to remain undisclosed to officials, who would seek to squeeze firms for a cut of their increasing wealth. However, this does not answer why commercial opportunities remained unnoticed among traditional merchants. If squeeze resulted in capital loss on a large scale, then there were means of evading such exactions in the organization of the family business, such as appealing to a relation who was an official for patronage. Thus, the threat of official extractions cannot be considered a significant barrier to refrain from exploiting commercial opportunities. In terms of international trade, commerce gave rise to novel ventures that required a business outlook that went beyond domestic commerce. Opportunities depended on market decisions in Shanghai that were linked to markets overseas. And the ability to make these decisions depended on a period of acculturation to new practices, and the ability to perceive how creative routines in the firm can take advantage of a modern market.

Marxist Literature on Chinese Capitalist Middlemen

Marxist historiography on Chinese capitalist middlemen, Huaiyin Li observes, has undergone transformation over past decades, as the revolutionary narrative has been replaced with a modernization narrative.[33] The Marxist perception of compradors as foreign imperialism's collaborators, such as in Hu Sheng's *Imperialism and Chinese Politics*, cannot account for the fact that, from 1867 to 1905, "exports nearly doubled and imports into China nearly tripled." Instead, this attests to comprador contributions to the increase in China's economy.[34]

The idea of "comprador capitalism" first surfaced in Mao Zedong's theory of pre-1949 capitalism in China.[35] During the 1970s, comprador capitalism was a central explanatory concept for underdevelopment

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[33] Huaiyin Li, "Between Tradition and Revolution: Fan Wenlan and the Origin of the Marxist Historiography of Modern China," *Modern China* 36, no. 3 (May 2010): 269. Variations of historiography of Chinese bourgeoisie are summarized in Du Xuncheng and Zhou Yuangao, "Summary of Studies of the Bourgeoisie Since 1949," *Chinese Studies in History* 16, nos. 3-4 (1983): 104-137.

[34] Constance Wang, "Compradors in China's Foreign Enterprises," in *The Subtle Logics of Knowledge Conflicts in China's Foreign Enterprises*, ed. Constance Wang (Köln, Germany: Springer-VS, 2016), 84. Wang derives these statistics of imports-exports from Hosea Ballou Morse, *International Relations of the Chinese* Empire, Vol. II: The Period of Submission, 1861-1893 (London: Longmans, Green & Co., 1918), 397-402.

[35] Stefan Andreasson, "The Resilience of Comprador Capitalism: 'New' Economic Groups in South Africa," in *Big Business and Economic Development: Conglomerates and Economic Groups in Developing Countries and Transition Economies under Globalisation*, ed. A. E. Fernández Jilberto and B. Hogenboom (New York: Routledge, 2007), 292, n. 7. Mao's usage of comprador capitalism occurred in the Sixth Congress of the Communist International. No such organization, do you mean the 6th congress of CCP?

in China in Dependency and World Systems Theories.[36] The comprador, enmeshed in a global capitalist network, was a "capitalist without capital."[37] In the mainstream of Marxist development theories, James Heartfield suggests that comprador capitalism was subordinate to western financial interests and complicit in subverting nationalist movements in favor of western governance. Heartfield chiefly follows Michel Chossudovsky's key logic of comprador capitalism: comprador-western networks promoted "economic balkanization of China's regions."[38] Compradors became a force for domestic dependency rather than national modernization. Marie-Claire Bergère argues the contrary:

> In Shanghai, modernization and, especially, industrialization were only partially financed by foreign direct investments. The principal investors were recruited from among taipans [foreign traders in China], who reinvested their profits locally, and Chinese businessmen, especially compradors. . . . According to contemporary historiography, modern businesses financed and managed by the Chinese blocked the advance of imperialism.[39]

Consequently, there was greater vigor in the Chinese economy than Marxists had presupposed, and according to Carl Riskin, stagnation in the Chinese economy has to be looked for elsewhere than among Chinese capitalist entrepreneurs (one possible explanation is that declines in silver imports in mid-century led to stagnation, which under Monetarism argues that the quantity of money affects economic activity).[40]

Overseas Chinese merchants were studied by Wu Yuzhang, who made the point that they had "few connections with the feudal ruling class in the home country," and, because of imperialist discrimination,

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[36] Dependency Theory is associated with Andre Gunder Frank, *Lumpenbourgeoisie and Lumpendevelopment: Dependency, Class and Politics in Latin America* (New York: Monthly Review Press, 1972). World Systems Theory is associated with Immanuel Maurice Wallerstein, but application of Wallerstein's theory to 19th century China is made in an early essay by Alvin Y. So, "The Process of Incorporation into the Capitalist World-System: The Case of China in the Nineteenth Century," *Review (Fernand Braudel Center)* 8, 1 (1984): 102-4, and 110-1.

[37] Andreasson, "The Resilience of Comprador Capitalism," 277. What needs to be distinguished is the natural growth of long-distance trade relations and global capitalism. Both systems arrange commodities and social relations around production and distribution, but it is not possible to say 18th century trade, as in Canton, was capitalist.

[38] James Heartfield, "China's Comprador Capitalism is Coming Home," *Review of Radical Political Economics* 37, no. 2 (2005): 196, and 199. This version of comprador capitalism owes much to Dependency Theory, with its focus on underdevelopment originating in exogenous factors. Heartfield argues China's GDP was enough to industrialize, but without a well-developed commercial system in which merchants felt confident in investment of native industries, modernization continued to depend on Sino-foreign investments.

[39] Bergère, *Shanghai, China's Gateway to Modernity*, 73-4.

[40] Carl Riskin, "Surplus and Stagnation in Modern China," in *China's Modern Economy in Historical Perspective*, ed. Dwight H. Perkins (Stanford, California: Stanford University Press, 1975), 81-82.

they were "highly dissatisfied with the corrupt and impotent Qing government."[41] Their experiences as victims of imperialist oppression in time evolved a revolutionary spirit, giving rise to Dr. Sun Yat-sen's revolutionary movement:

> Seventy-eight per cent of the members of the Xing Zhong Hui (the Society for the Revival of China), founded by Dr. Sun in 1894, were overseas Chinese and 48 per cent of them belonged to the overseas Chinese bourgeoisie.[42]

This revolutionary narrative denies the possibility of Chinese leadership within overseas Chinese communities. However, Michael Godley highlights prominent expatriate Chinese leadership positions in their overseas community.[43] These Chinese leaders effectively organized their compatriots and instilled a strong identity with the Chinese State.[44] However, Wu discredits these overseas Chinese bourgeoisie as being "still very weak" and argues that the later revolution succeeded only because "the broad masses of the people were revolutionary-minded."[45]

Has Marxist historiography discerned an underdeveloped nationalism among Southeast Asian Chinese, for which claims of modern capitalism attributable to overseas merchant patriotic behaviors, are misplaced? The section below reviews a few responses to this question from the historical literature.

Capitalists Defined and Chinese Capitalists

Marie-Claire Bergère defines Chinese capitalists "in the technical meaning of commercial bourgeoisie, a group comprising entrepreneurs in the modern [style], businessmen, financiers, and industrialists—and not in the more general sense of 'middle class', which would include intellectuals, landowners, and members of the liberal professions, as well as people belonging to business circles."[46] Bergère differentiates the capitalist

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[41] Wu Yuzhang, *Recollections on the Revolution of 1911: A Great Democratic Revolution of China* (Honolulu, Hawaii: University Press of the Pacific, 2001), 8.

[42] *Ibid*., 9.

[43] Godley, *The Mandarin-Capitalists from Nanyang,* 29-31, and 43-46. These men included, the Singapore consul, Hoo Ah Kay, or Justice of the Peace and member of the Legislative Council in Singapore, Dr. Lim Boon Keng, or the Singapore Chamber of Commerce's first president, Goh Siew Tin.

[44] Ching-hwang Yen, "Overseas Chinese Nationalism in Singapore and Malaya 1877-1912," *Modern Asian Studies* 16, no. 3 (1982): 398-99.

[45] Wu, *Recollections on the Revolution of 1911*, 9.

[46] These business circles also include other European nationals, such as French, Italian, Russian, German, Portuguese. On composition of business circles, see, Marie-Claire Bergère, "The Role of the Bourgeoise," in *China in Revolution: The First Phase 1911-*

middleman from "peasantry by [personal] wealth," from "artisans by the scale of [industrial] enterprises," and by the middleman's "close relations with the gentry."[47] As a final feature, Bergère notes "the bourgeoisie was distinguished from other classes by its beliefs and its manner of life, which were influenced by Western ideas and customs."[48] In Bergère's analysis, Chinese capitalists fully appeared in the early 20th century with modern industrialism. This thesis considers reappraising a later emergence of Chinese capitalists and their emergence to around the time of the establishment of the treaty port system nearly fifty years prior.

In her discussion on 'capitalism', Bergère cautions that capitalism "does not spring from a multiplication of markets nor even from more or less organized integration, but from the introduction of mechanization into a highly commercialized society."[49] It is odd that Bergère presages capitalism by a commercial society, because historians suggest China did have a sophisticated commercial society both internally and through the Tributary Trade System. Nevertheless, she highlights Simon Kuznets' designation

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1937, ed. Mary Clabaugh Wright (New Haven, CT: Yale University Press, 1968), 230. Also, Bergère, *The Golden Age of the Chinese Bourgeoisie 1911-1937*, 59, defines the capitalist bourgeois class as "a class which devotes itself to industrial development on the basis of free enterprise and in accordance with the laws of economic rationality."

[47] *Ibid*., 237, and 239. I have replaced Bergère's notion of 'bourgeoisie' with 'Chinese capitalist middleman'.

[48] *Ibid*., 241.

[49] Bergère, *The Golden Age of the Chinese Bourgeoisie*, 17. The theme of industrialization through application of machinery by Chinese merchants does not address another theme of capitalist development, namely Chinese entrepreneurship. Albert Feuerwerker disregarded this possibility, holding an orthodox view that "Chinese industrialists' lack of entrepreneurship was partly due to their ties to the institutions of the Chinese elite, such as the doctrine of responsibility and the experience of taking the civil service examination," quoted from Yen-p'ing Hao, "Entrepreneurship and the West in East Asian Economic and Business History," *Business History Review* 56, no. 2 (1982): 150. Hao, *ibid*., further notes that Marion J. Levy, likewise, attributes this entrepreneurial lack "to the particular nature of the Chinese class structure, specifically the kinship system and familism."

Albert Feuerwerker's criticism of Chinese entrepreneurialism reflects earlier Weberian culturalist ideas about the evolution of capitalism in society. Weberian ideas, in a new direction, have found renewed life in the scholarship of Tim Wright, "The Spiritual Heritage of Chinese Capitalism: Recent Trends in the Historiography of Chinese Enterprise Management" in *Chinese Business Enterprise: Critical Perspectives on Business and Management*, vol. I, ed. R. Ampalavanar Brown (New York and London: Routledge, 1996), 39-63; Wellington K. K. Chan, "Sources of Capital for Modern Industrial Enterprises in Late Ch'ing China," in *Chinese Business Enterprise: Critical Perspectives on Business and Management*, vol. II, ed. R. Ampalavanar Brown (New York and London: Routledge, 1996), 39-55; Yen-p'ing Hao, "Themes and Issues in Chinese Business History," *Chinese Studies in* History 31, nos. 3-4 (Spring-Summer 1998): 106-26; Kent Deng, "A Critical Survey of Recent Research in Chinese Economic History," *Economic History* Review 53, no. 1 (2000): 1-28; and Debin Ma, "Growth, Institutions and Knowledge: A Review and Reflections on the Historiography of 18th-20th Century China," *Australian Economic History Review* 44, no. 3 (November 2004): 259-77. The paper by Wright reflects on the change transforming Chinese business management studies from one focused on capitalist stagnation and failure to one linking market-based economic reforms with management with Chinese characteristics. Chan re-examines the modern industrial period to determine behaviors of investors in Chinese and foreign firms. Ma looks at legal property rights and contract enforcement challenging revisionist themes of resource endowment. Hao and Deng show the power of the comparative method to business history.

of market capitalism as the "extended application of science to problems of economic production."[50] In this sense, the Chinese capitalist differentiated himself from the traditional merchant both by his innovation of the firm's organization and management practices, and his application of technology to increase productivity.[51] The capitalist's application of machinery is evident in steamships, mechanized silk filatures, and small productions supporting department stores.

In Shanghai, Bergère observes that rapid integration of capitalist *nouveau riche* into the ranks of an urban elite "testifies to the mobility of society in which the law of profit was beginning to compete with Confucian values."[52] Nevertheless, the Chinese capitalist lacked differentiation from other elites making "for a measure of osmosis between the different [urban elite] groups," in which it "remained linked [with that elite body] by common sentiments of social conservatism, nationalism and mistrust of the central State power."[53] This Chinese capitalist elite innovated the family firm but did not attack it wholesale, the essential features, especially of managerial control, remaining intact at the core of the firm.

Impact of China's Economy on the Family Firm Organization

Before discussing the types of Chinese capitalist middlemen in the following chapters, it is worth briefly considering China's economy during the late Qing and early Republican era. It is emphasized in this thesis that capitalism is essentially the same everywhere.[54] Eighteenth century China's economy was inherently similar to Britain's economy, namely, in that *potential* economic surplus was not wastefully

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[50] Bergère, *The Golden Age of the Chinese Bourgeoisie*, 17. Kuznets's 'capitalism' emphasizes 'application of technology,' whereas this thesis focuses on *rate of capital accumulation*. *Rate* is different from pure accumulation. For instance, Huang uses capital accumulation in his model of 'capitalism'. Philip Huang, *The Peasant Economy and Social Change in North China*, (Stanford: Stanford University Press, 1985). Huang ignores both efficiencies of capital use and how productive forces may arise without capital.

[51] Hao, "A 'New Class' in China's Treaty Ports," 449.

[52] Bergère, *The Golden Age of the Chinese Bourgeoisie*, 43. Bergère, "The Role of the Bourgeoise," 242, notes "All innovations, whatever they might be, whether Western-style clothing, multistoried houses, the launching of ships with champagne, or driving an automobile, were eagerly welcomed by the Chinese bourgeoisie."

[53] Bergère, *The Golden Age of the Chinese Bourgeoisie*, 59-60.

[54] Michel Aglietta, "Capitalism at the Turn of the Century: Regulation Theory and the Challenge of Social Change," *New Left Review* 232 (November-December 1998): 63-64. Victor Nee and Sonja Opper, *Capitalism from Below: Markets and Institutional Change in China* (Cambridge, MA: Harvard University Press, 2012), 5-10.

consumed, and percentage of national income was limited among the elite.[55] China had a period of capital accumulation because of a Smithian economy, and family firms preserved capital.[56] In spite of this, development pathways are unique to the degree they are a historical consequence.[57] Yet this consequence has determined the organization of Chinese firms relative to the west.

The economic system worked through the political system.[58] The brew of family wealth, elite status, and patronage networks preserved systemic stability and erected a daunting barrier to reform. Under laissez-faire conditions, the markets and the state provided limited governance, creating uncertainty in capital ownership. Limited property rights and an unreformed legal system were consequential for the development of modern financial mechanisms. In terms of firms, limited liability corporations were unknown.[59] Without these governance mechanisms there was no stimulus to create a market for public debt.[60]

The organization of traditional Chinese firms emphasized flexibility to transfer funds based on the decision of a senior firm member. Such flexibility reinforced cross-ownership in other firms controlled by the family or partners. Secrecy regarding business activities and asset flows was conducted without attracting official notice. Unlike limited liability corporations, no board had transparency in analyzing a firm's operations. Guarantors or lineage trusts protected a firm's wealth in cases of bankruptcy or legal

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[55] For *potential* economic surplus, see Carl Riskin, "Surplus and Stagnation in Modern China," in *China's Modern Economy in Historical Perspective* ed. Dwight H. Perkins (Stanford, California: Stanford University Press, 1975), 50-56. For comparison of elite holdings of national income, see Chang Chung-li, "*The Income of the Chinese Gentry* (Seattle, WA: University of Washington Press, 1962), 326.

[56] The arguments for comparative similarities of Britain's and China's economies are presented in Kenneth Pomeranz, "'Traditional' Chinese Business Forms Revisited: Family, Firm, and Financing in the History of the Yutang Company of Jining, 1779-1956," *Late Imperial China* 18, no. 1 (June 1997): 2-3. "Smithian economy," or pre-industrial growth, is characterized by division of labor, regional specialization, and market expansion (a competitive and efficient market across a long distance).

[57] Dwight H. Perkins, "Introductions: The Persistence of the Past," in *China's Modern Economy in Historical Perspective* ed. Dwight H. Perkins (Stanford, California: Stanford University Press, 1975), 1-3, and 5-7.

[58] This paragraph references material in Loren Brandt, Debin Ma, and Thomas G. Rawski, "From Divergence to Convergence: Re-evaluating the History Behind China's Economic Boom," *Journal of Economic Literature* 52, no. 1 (March 2014): 76-80.

[59] Alastair Owens, "Inheritance and Life Cycle of Family Firms in the Early Industrial Revolution," *Business History* 44, no. 1 (2002): 21-46. In Britain, limited liability firms came in after 1855, well after the industrial revolution, and well after Chinese merchants had encountered British trading firms.

[60] Madeleine Zelin, "Informal Law and the Firm in Early Modern China," online paper http://citeseerx.ist.psu.edu/viewdoc /download?doi=10.1.1.585.3923&rep=rep1&type=pdf (accessed May 25, 2020). It should be remembered that before 1900 the New York Stock Exchange chiefly traded only in railroads and utilities, and not in commercial corporations.

demands.[61]

The traditional Chinese firm's organizational structure acted against innovating. First, unaligned investors had reasonable fears of "having their contributions swallowed up in untraceable transfers to the firm's leading family."[62] Second, dividends paid were not reinvested on assets in the firm. Third, guaranteed shares degraded company stock as it did not account for depreciation or portion of surplus for net capital formation. Some firms overcame these through lineage trusts. Unlike western conglomerates, these "non-core holdings [of Chinese firms] represented a sort of firm-managed" dividend reinvestment scheme, through which firms could "diversify their holdings to reduce risks."[63]

Conclusion

The earliest days of Shanghai's International Settlements were not ones of *bridging* as western institutions, especially property rights, had not been established. At the time, compradors pursued a monopolistic authority as up-country traders. Following the Second Opium War, compradors showed themselves able to manage overseas steamers and global trade because of their expertise acculturated through *bridging*. Sponsorship of *guandu shangban* enterprises by officials quickly led them to recognize foreign managerial expertise among compradors and install them as directors. Among Australian Chinese capitalists, *bridging* business practices was multicultural including fluency in English and religious conversion, reflecting the Anglo-cultural context. *Bridging* broadened to reshape a Christian and Confucian moral system into beliefs regarding human capital. Principally, the effects of *bridging* are seen in the innovation of the traditional Chinese family business. The Chinese family business sought stability in the face of national economic growth, continuing efforts to satisfy family demand. Contrastively, the capitalist family business sought to re-organize in response to arising commercial opportunities, which demanded entrepreneurial risk. *Bridging* in

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[61] Madeleine Zelin, *The Merchants of Zigong. Industrial Entrepreneurship in Early Modern China* (New York: Columbia University Press, 2005), 60-63.

[62] The three points and their argument in this paragraph are found in Pomeranz, "'Traditional' Chinese Business Forms Revisited: Family, Firm, and Financing in the History of the Yutang Company of Jining, 1779-1956," 20-25.

[63] *Ibid*.

the capitalist family business led to scalable growth, favoring managerial talent, and professionalizing the business to make it attractive to investors.

The primary sources do not give a sense of exactly when *bridging* took-off, except that it may be inferred to have with the development of Yangtze River shipping. The commercial importance of modern shipping could not have gone far for Chinese middlemen had not property rights reshaped Shanghai's economy. The importance of *bridging* was that it provided a different outlook on property rights and in the context of Shanghai this made the Chinese middlemen stand apart from Chinese society. It is peculiar Marxists do not credit Chinese middlemen as capitalists because of their western-orientation, but dismiss them wholesale as agents of imperialism or as lacking in revolutionary spirit. The broader sense of *bridging* is that it was an element that transformed merchants' traditional beliefs in familism and regionalism.

The primary sources, furthermore, do not provide detailed accounts of compradors' impressions of extraterritoriality, except as they exploited the legal conditions as possibilities for gain. In the case of *bridging*, even an ill-defined notion of property rights, such as extraterritoriality, constituted part of the conceptual understanding of compradors, and how it contributed to international trade. Detached from a regionalist view, compradors began to risk investing personal wealth in productive and commercial ventures rather than in land. NIE claims that shifts in investment patterns reflects institutions installed in the larger society.

NIE also argues that when internal and external institutions are noncomplementary, development is low and economic transactions are conducted in secrecy. This was the case in traditional family firms. Why then did not family firms not innovate once property rights were better institutionalized? Furthermore, why could not property rights be extended into interior China, especially if it were evident to the government that commercial development could continue apace? Perhaps this was one limitation of *bridging*, that its primary effect was in commerce and not agriculture. NIE debates continue regarding the effects of geographic development and institutions. It should not escape attention that China did industrially develop before the early 20th century, but that its growth towards the end of the 19th century may be attributed to population increase, government largesse in military increases, and cash cropping. The main issue of *bridging* does not fit into this macroeconomic picture.

Chapter 2

Comprador Contributions to Shanghai Commercialism

This chapter examines several compradors, how they fulfilled their roles as entrepreneurial capitalists, and how they through philanthropic donations applied their personal wealth to promote for the future western-styled charities and educational institutions.[1] In the aftermath of the First Opium War (1839-1842) and, later, the Taiping Rebellion (1851-1864), Shanghai's commerce accelerated, epitomized by the rise of compradors and the numbers of western trading houses. Extraterritoriality benefited both independent enterprise and business expectations. Compradors accrued personal wealth through their professions and, through their entrepreneurial skills, innovated new enterprises along western lines. In corporate activities, they established new firms whose higher production promoted national income development. Many of their commercial enterprises were in Shanghai, and involved other merchant, official, and comprador investors. In several ways they fulfilled the role of the Chinese capitalist acculturated to western business practices, namely as their activities involved direct capital investment in modern enterprises in Shanghai, while their knowledge of Chinese mentality, language, and market conditions gave them an advantage over foreign capitalists. *Bridging* provided them expertise to respond to new commercial opportunities. Though numerically few, they played a pivotal role in Shanghai's Commercial Revolution.

Origins of Compradors

The origins of the comprador are found in the Canton trading system, where they directly interacted with European traders, and had numerous opportunities for trading on their own under their European employer's business affairs.[2] In the Canton trading system, up to the mid-19th century, the house comprador was part of a

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[1] Conditions underlaying markets change over time, allowing for new allocations of resources to be achieved. As markets change over time, the outcomes of such changes are uncertain. Entrepreneurs do not merely place a bet on future profits, but apply their experience to predict a better possible arrangement of economic resources for the future.

[2] Canton trading system (1782-1842) was implemented by the Qing government to ensure managed international trade through thirteen Chinese merchant houses. Laws of this international trade are in Karl Friedrich August Gützlaff, *China Opened; Or, a Display of the Topography, History, Customs, Manners, Arts, Manufactures, Commerce, Literature, Religion, Jurisprudence, etc. of the Chinese*

group of licensed intermediaries dealing with foreign merchants who were associated with European trading monopolies, such as the British East India Company, and with these merchants' ship captains.[3] Nomination to the position of house comprador depended on personal or native place recommendations by compradors already employed in a European trading house, and involved a system of financial guarantees of candidate compradors by those recommending them, a practice continued in Shanghai.[4] (We should consider that Shanghai did not originate as a capitalist market, in part because lineage 'nomination' created a barrier to total market participation). As the Canton trading system came to an end after the 1840s, Cantonese house compradors assumed a greater role in European trading monopolies, beyond procuring labor, foods, and ensuring household finances.[5] In the 1860s, these compradors evolved to become intermediary commercial agents of western merchant houses, an evolution in commercial expertise rather than instrumental application, namely knowing what to do than copied performance. In this capacity as intermediary commercial agents, compradors became intimately connected to the success of the business operations of their European employers (commercial expertise tied to agency success), and expansion of these trading agencies provided opportunities for compradors to become acculturated to western company operations. It must be supposed that selection of candidates to comprador positions involved the exclusion of merchants that could not be schooled in new ways of doing business.

As intermediary commercial agents, Shanghai compradors adopted their employers' commercial behavior, chiefly, bearing risk in making market decisions. The ability to bear risks when making a marketing decision was an important trait of compradors, as they had to rely on their own experience when making

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Empire, vol. 2, ed. Andrew Reed (London, UK: Smith, Edler and Co., 1838), 76-78, https://archive.org/details/chinaopenedor01reedgoog/page/n88/mode/2up?q=comprador (accessed June 4, 2020).

[3] See, John Robert Morrison, *A Chinese Commercial Guide: Consisting of a Collection of Details and Regulations Respecting Foreign Trade with China* (Canton, China: Printed at the Office of the Chinese Repository, 1848), 201, for an outline of duties of ship and house compradors, as well as payment for obtaining licenses.

[4] Yen-p'ing Hao, *The Comprador in Nineteenth Century China: Bridge between East and West* (Cambridge, MA: Harvard University Press, 1970), 51. After the Canton system, verbal guarantees by compradors were replaced with written contracts, which did "much to standardize the position of the comprador." This quotation from, "The Chinese Comprador," *Journal of the Royal Society of Arts* 71, no. 3690 (August 10, 1923): 671. Legal contracts highlight the precariousness of market activities and the fallacy of *guanxi* as a safe-guard against deception and uncertainty by commercial agents.

[5] For a more complete description of the role of the comprador in Canton, see William C. Hunter, *The 'Fan kwae' at Canton before Treaty Days, 1825-1842* (London: Keagan, Paul, Trench & Co., 1882), general duties 53-56, and payments to Chinese merchants 97.

marketing decisions.[6] They acquired this experience through the workaday world of the European trading house. In promoting a European house's foreign trade, the comprador had to coordinate loans through native banks, negotiate with tea growers in the interior, and conduct business with markets in Japan, England, and America.[7] Furthermore, under treaty rights, extraterritoriality was extended to the compradors through their employers, especially to chief compradors engaged in trading houses. Conferring rights of extraterritoriality on compradors freed them from official squeeze (a conservative force on wealth accumulation) and an ability to conduct their own business under the company's name.[8] Over time, the personal wealth compradors accumulated through service for western trading houses, allowed Shanghai's compradors to purchase official titles or degrees from the Qing government to elevate their social status.[9] By the 1880s, they had transformed into the *nouveau riche* (differing from traditional merchants in 'property relations').[10] In this way, the comprador's social status became elevated relative to officials and gentry-scholars, and their accumulation of wealth financed their entrepreneurial operations or investment in European enterprises (in Marxist terms, comprador property relations were reframed as economic relations organizing social relations). As noted in the Introduction, before 1895 and inflows of foreign direct investment, comprador wealth represented a significant portion of Shanghai's direct business investment, as well as a portion of China's foreign trade.

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[6] The "entrepreneur" is a "high ability and less risk averse person." "Marketing decisions" refers to discovering prices, forecasting markets, and making decisions on speculative opportunities. These entrepreneurial characteristics are discussed in Weiying Zhang, *The Origin of the Capitalist Firm: An Entrepreneurial/Contractual Theory of the Firm* (Singapore: Springer-Verlag Press, 2018), 98, 4.

[7] Hao, *The Comprador in Nineteenth Century China*, 114-117. The extensive degree of dependence by European merchants on their compradors was illustrated in Isabella Bird's observation that British merchants chiefly relied on "pidgin" and could not conduct "a simple affair as cashing a cheque" without calling in the shroff or comprador. For reliance on compradors, see, Isabella Lucy Bird, *The Yangtze Valley and Beyond: An Account of Journeys in China, Chiefly in the Province of Sze Chuan and Among the Man Tze of the Somo Territory* (London: John Murray, 1899), 21-22.

[8] Hao, *The Comprador in Nineteenth Century China*, 98-99.

[9] As the earliest foreign "merchant princes" in Shanghai carried on an immensely profitable trade through exchange only, compradors viewed these agency houses as "simply a means of speculation." These quotations from "The 'Middlemen' of China," *The Board of Trade Journal on Tariff and Trade Notices and Miscellaneous Commercial Information*, vol. XXV, no. 145 (London, UK: H.M. Stationery Office, August 1898), 138-139.

[10] For instance, C. Y. Sun, M. Handl and Co.'s comprador and later director of Soychi Cotton Mills, Shanghai, owned "a magnificent house and garden, built at a cost of over half a million dollars, and furnished with specially imported European furniture." These descriptions quoted from, Arnold Wright, ed. "Prominent Chinese Residents," in *Twentieth Century Impressions of Hong Kong, Shanghai, and Other Treaty Ports of China: Their History, People, Commerce, Industries, and Resources* (London: Lloyd's Greater Britain Publishing Company, Ltd., 1908), 754. Architectural wealth characterized *nouveau riche* 'property relations', that is principal residences in the International Settlements apart from ownership of rural land. This distinguished compradors from merchants. The latter were embedded in a system of small farmers, topped by a rural gentry, who commanded labor and capital. Thus, both labor and capital were tied up in agriculture and could not be shifted to commercial activities. An exception t was Sichuan salt mining monopolies in the 1850s.

As the *nouveau riche*, Shanghai's wealthy compradors became investor-entrepreneurs. Unlike traditional merchants, the comprador was able to draw together factors of production in innovative arrangements to procure higher levels of production. As a Chinese capitalist, major compradors broadened their avenues of investment for private wealth beyond traditional investments such as agricultural lands or native banks. Initially compradors' funds went into the western firms of their employers, but their speculation in new commercial ventures led to their investing in government-sponsored enterprises. The compradors' entrepreneurial skills not only distinguished them from traditional merchants, but also the "new ways of raising the large amounts of capital that were indispensable for the modern, usually large-scale undertakings."[11] At the same time, compradors maintained traditional network relationships with native place guilds, as these guilds could aid in the development of new business ventures.[12] In this manner, Ningbo's native place guilds aided in the development of Shanghai's modern banking sector under a relationship with compradors already connected to native banks or the custom's banks to handle foreign trade.[13] As *nouveau riche*, major compradors reshaped the commercial culture of Shanghai in ways that incorporated their employment experiences in western trading firms, emphasizing investment of personal wealth at levels associated with large-scale undertakings. (Note: economic power does not imply a bourgeoise revolution on the part of compradors, as their consciousness was clouded by Confucian discourses and they supported an Imperial China).

Early Comprador in Shanghai

Much of the picture of 19th century compradors in Shanghai is found in Yen-p'ing Hao's research on the

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[11] Hao, *The Comprador in Nineteenth Century China*, 147, and 115-116.

[12] This favorable construal of Chinese guilds diverges from nineteenth century westerners' views, typified by H. E. Gorst, who wrote that "the Chinese guilds can strike swifter and more crushing blows than any of the millionaire syndicates [in western countries]." To return free competition, T. R. Jernigan recommended the Qing pass antitrust legislation. See, Harold Edward Gorst, *China* (London: Sands, 1899), 188, and, Thomas R. Jernigan, *China's Business Methods and Policy* (London: T. F. Unwin, 1904), 104.

[13] It is noted that capital from westerner traders enriched the Shanghai qianzhuang banks, which otherwise might have remained relatively small operations. The comprador in a foreign bank often began his service in traditional qianzhuang. After 1911 the Republican government required modern banking to service foreign debts.

topic, and serves as a standard interpretation on the activities of Shanghai compradors.[14] Kaori Abe's study of Hong Kong compradors provides comparative insight to Hao's interpretation. One insight arises with respect to the estimated numbers of compradors employed in western trading houses in the nineteenth century. In 1842, censuses in Hong Kong recorded the numbers of foreign trading houses on which number an assumption equating each agency house with one house comprador was made. This method of enumeration calculated, from 1842 to 1851-2, that Hong Kong employed 2, then 6, and finally 10 house compradors over these years.[15] These numbers underscore the importance of compradors in commission houses over the decade, and increasing complexity in commercial business conducted in the British-Chinese market. Hong Kong's comprador population rose from 39 to 76 for the years 1867 to 1870, and increased in 1881 to 95 compradors.[16] One is prompted to ask why this sudden rise after 1870, and why there is no fundamental variance in these estimates when Shanghai is included.

There are four reasons for the rapid increase in the number of comprador's during the latter 1800's. First, from the above paragraph, the population of chief compradors rose after a lag period following the end of the Taiping Rebellion. War torn zones must be repopulated, and commercial agriculture had to be reestablished, along with interior trading parties. Second, western firms branched out into varied ancillary enterprises, requiring compradors specialized in managing these new ventures. With the increasing number of steamships passing through the newly opened Suez Canal, western firms expanded their operations into maritime

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[14] Marxist studies of the Chinese bourgeoisie have applied "very broad connotations" to the term comprador, including "big compradore bourgeoisie" or "bureaucratic compradore bourgeoisie" or defining compradors as "any Chinese who directly served the interests of the imperialist [Western or Japanese] aggressive activities and was willing to act as their agent," or as a "reactionary who served the foreign capitalists." This raises questions of bias in the use of Marxist vocabulary pertaining to class struggle, capitalist, and the structure of history as outlined in Marx's and Lenin's writings to define the comprador in terms of a "political definition, or . . . a class definition having a specific economic connotation?" On this topic see, Du Xuncheng and Zhou Yuangao, "Summary of Studies of the Bourgeoisie Since 1949," *Chinese Studies in History* 16, nos. 3-4 (1983): 104-7.

[15] Kaori Abe, *Chinese Middlemen in Hong Kong's Colonial Economy, 1830-1890* (London and New York: Routledge, 2018), 56, Table 3.1.

[16] *Ibid*. Using a similar method, I count 672 firms in 1896 in Shanghai and all other treaty ports, supposing at least an equal number of house compradors. For these numbers, see "Privileges of Foreigners in Treaty Ports," in *Commercial China in 1899: Area, Population, Production, Railways, Telegraphs, Transportation Routes, Foreign Commerce, and Commerce of the United States with China* (Treasury Department, Bureau of Statistics, 1899), 2191, http://www.chinacultureandsociety.amdigital.co.uk.ezproxy.library.uvic.ca/Documents/SearchDetails/Z203_04_1001#Snippits, (accessed August 30, 2019).

insurance and finance banking.[17] Third, Abe entertains the idea that "The demand for compradors to act as commercial intermediaries increased concurrently with the rise of Hong Kong as a trading centre."[18] Significantly, foreign trade increased with telegraphy as telegraphy "facilitate[d] the carrying on of trade with small or almost no capital; it promote[d] a sharpness in business and a keenness in competition which tend[ed] to make getting business a more important consideration than how it is got."[19] Fourth, the compradors' ability to accumulate wealth began to attract potential recruits to the comprador ranks, eager to participate in the lucrative opportunities afforded by foreign trade.[20]

Associated with the increasing numbers of compradors was the introduction into western businesses of technological advances, chiefly, the Suez Canal, improved steamships, and telegraphy. These advances transformed the nature of business in Shanghai, upsetting traditional trade practices. The fact that the numbers of compradors increased so rapidly after 1870 indicates that acculturation of western business practices was not a barrier to many Chinese. This is likely because south China had from the eighteenth century been a trading center through the Canton trading system, and that European trading firms' recruitment of house compradors drew on south Chinese families with business histories involving significant trade with foreigners.[21]

Shanghai's commercial sector located in the International Settlement[22] was served by three types of

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[17] Arnold Wright, ed. "Finance and Banking," in *Twentieth Century Impressions of Hong Kong, Shanghai, and Other Treaty Ports of China: Their History, People, Commerce, Industries, and Resources* (London: Lloyd's Greater Britain Publishing Company, Ltd., 1908), 438-450.

[18] Abe, *Chinese Middlemen in Hong Kong's Colonial Economy*, 57.

[19] R. E. Bredon (Commissioner of Customs), "Shanghai," *Decennial Reports on the Trade, Navigation, Industries, Etc., of the Ports Open to Foreign Commerce in China and Corea, and on the Condition and Development of the Treaty Port Provinces, 1882-1891*, Statistical Series no. 6 (Shanghai: Statistical Department of the Inspectorate General of Customs, 1893).323.

[20] Marie-Claire Bergère, *The Golden Age of the Chinese Bourgeoisie 1911-1937*, trans. Janet Lloyd (Cambridge, Great Britain: Cambridge University Press, 2009a), 38-41.

[21] *Ibid*., 145-147.

[22] The several treaties signed after the First Opium War (1839-1842) were known as *concessions* because they imposed demands on the Chinese government. With the establishment of five treaty ports (Canton, Xiamen, Fuzhou, Ningbo, and Shanghai), provisions for foreign settlements became known as *concessions*, although they were *settlements*. *Concessions* were a grant of land to a foreign nation through treaty by the Chinese government, the *concession* being governed by these nations' consular representatives, the consul making a payment of rent to the Chinese State, and subleasing plots to Chinese or foreigners. *Settlements* were a foreign controlled areas in which nations signatory to the treaty had equal rights, and foreigners could lease directly from Chinese land-holders, but title remained with individual Chinese owners. On this distinction, see William C. Johnstone, "International Relations: The Status of Foreign Concessions and Settlements in the Treaty Ports of China," *American Political Science Association* 31, no. 5 (1937): 942-948.

compradors. During the 1850s and 1860s, compradors were generally house stewards, in the direct employ of foreign enterprises with roles as in the Canton trading system, namely: house maintenance (renting, repairing, cleaning, land purchase, supervision of servants), while also acting as a treasurer handling currency transaction, money exchange, and bills and drafts.[23] In the 1860s chief compradors managed import-export transactions for the firm, serving as an in-house banker. In time, the house steward handled more diverse activities, managing business connected with steamships, insurance, and factories. Foreign banks employed a bank comprador who was able "to transact business for the bank to look after all monetary matters. This included: receipt and payment of money and the collection of cheques, drafts and notes; to offer advice to the bank regarding the condition of the local market, to compile commercial information, and to recommend, control and guarantee Chinese staff of the bank."[24] Larger commission houses employed a comprador as a business assistant, for market intelligence on goods' pricing, customs, and dealing with government officials. In this role, the comprador also acted "to guarantee the solvency of native banks and Chinese businessmen."[25] In a less than positive role, the comprador could "leak his employer's internal information and embezzle the company's money as an unfaithful business assistant,."[26] Nevertheless, the business assistant-comprador was still relevant in 1923, identified at that time as a "merchandise comprador."[27] His responsibilities were to "guarantee the firm's Chinese customers, to advise concerning market conditions, to assist in obtaining business, and, in general, to act as a go-between and as the Chinese manager for the firm in its relations with the Chinese business public."[28]

In assessing the development of the comprador in Shanghai we must consider the role of the foreign trader. The western trader introduced new technologies to Shanghai's commercial market, and introduced

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[23] Hao, *The Comprador in Nineteenth Century* China, 16, and 64f.

[24] "The Chinese Comprador," 670. A detailed outline of bank compradors' activities and an *Agreement for Services* form, which had become common, enumerating functions, responsibilities and renumeration of a comprador are found in Julean Arnold, "The Comprador," in *China, A Commercial and Industrial Handbook*, Trade Promotion Series-No. 38 (Washington, D.C.: Bureau of Foreign and Domestic Commerce, 1926), 386-391.

[25] Hao *The Comprador in Nineteenth Century China*, 68-75.

[26] Abe, *Chinese Middlemen in Hong Kong's Colonial Economy*, 125.

[27] "The Chinese Comprador," 670.

[28] *Ibid*.

innovations in business practices. Technological innovations did not remain foreign for compradors, whose daily usage of telegraphs, steam ship, transport for international trade, and foreign banking relations quickly acculturated them to a new practice in business. Some acculturation was already a part of the comprador's experience from having been raised in a region in south China where foreign commerce was abundant and accepted. Further, this was not just an acculturation to technology, but acculturation to western values and beliefs transmitted in the workaday world of daily human interactions. Contrary to the gradualist interpretation, the foreign trader was the instigator and crucial to this transformation in Shanghai's commercial economy.

Three Major Compradors

This section of the thesis examines the biographical context of several comprador entrepreneurs and focus on their activities in founding modern ventures beginning in the 1870s. Shanghai's commercial sector was limited in size, with Shanghai's economy adopting technology primarily for government sponsored industries. The model of development was "copying to fit for purpose" as outlined in the Introduction. Under this developmental model, managerial hierarchies, labor relations, production methods, and financing continued much as they had in the past, along familiar lines. Western technology was applied for manufacturing munitions without the influence of technological knowledge to modernize Chinese industry. Within conservative groups in the government, the response to western firms' developmental schemes was a deep suspicion of economic innovation as threatening of traditional economic activities upon which government control was founded.[29] This section examines the biography of Ye Chengzhong guided by the acculturation hypothesis of this thesis. The topic of innovation is stressed in contrast to the "copying to fit for purpose hypothesis" with examples from Ye's formative years, his charitable work, and his commercial career. This study contributes to business biographies on the Chinese capitalists by emphasizing evidence of *bridging* as it contributed to modern business practices in Shanghai.

In addition to Ye Chengzhong's biography, reference is made below to biographies of two other Shanghai comprador entrepreneurs, Zheng Guanying and Yu Xiaqing, who shared western influenced

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[29] Edward Le Fevour, *Western Enterprise in Late Ch'ing China: A Selective Survey of Jardine, Matheson and Company's Operations 1842-1895,* (Cambridge, MA: Harvard University Press, East Asian Research Center Harvard University, 1968): 60-63.

business traits with Ye. In illustrating several aspects of *bridging* by these compradors, emphasis is drawn to their ability to engage in new commercial enterprises outside their expertise. Also included are examples of their formative years and their charitable donations as a means of promoting economic development.

In the late 19th century, Standard Oil's Ye Chengzhong[30] (Yeh Ch'eng-chung, 1840-1899), Butterfield and Swire's Zheng Guanying[31] (Cheng Kuan-ying, 1842-1922/3), and Nederlandsche Handel-Maatschappji Bank's Yu Xiaqing[32] (Yu Yah-ching/Chia-ching, 1856/67-1945) acted as chief compradors for their respective western companies, while also establishing family businesses or managing Chinese-owned firms. From the historical literature, the commercial lives of these compradors are reconstructed. Ye Chengzhong's service as Standard Oil's marketing agent in the Lower and Middle Yangtze and North China is found in chapter two of Sherman Cochran's comparative study of corporate hierarchies and social networks in large scale western, Japanese, and Chinese corporations.[33] The life of Zheng Guanying is mentioned in Yen-p'ing Hao's essay on Zheng as a societal reformer, and in Guo Wu's study on Zheng's role as a political reformer and bureaucratic manager of the China Merchants' Steam Navigation Company.[34] Studies in China's Banking history present information on Yu Xiaqing, are from Linsun Cheng's study of China's banking history, while references to Yu appear in previously mentioned studies.[35]

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[30] Wright, ed. "Prominent Chinese Residents," 560-562.

[31] Guo Wu, *Zheng Guanying: Merchant Reformer of Late Qing China and His Influence on Economics, Politics, and Society* (Amherst, NY: Cambria Press, 2010).

[32] Wright, ed. "Prominent Chinese Residents," 538.

[33] Sherman Cochran, *Encountering Chinese Networks: Western, Japanese, and Chinese Corporations in China, 1880-1937* (Berkeley: University of California Press, 2000), 12-19.

[34] Yen-P'ing Hao, "Cheng Kuan-Ying: The Comprador as Reformer," *Journal of Asian Studies* 29, no.1 (1969): 22. Wu, *Zheng Guan-ying*, 3, and 11-34. See also, Key Ray Chong, "Cheng Kuan-ying (1841-1920): A Source of Sun Yat-sen's Nationalist Ideology?" *The Journal of Asian Studies* 28, no. 2 (February 1969): 248-250.

[35] Linsun Cheng, *Banking in Modern China: Entrepreneurs, Professional Managers, and the Development of Chinese Banks, 1897-1937* (Cambridge: Cambridge University Press, 2003). Biographical episodes of Yu's life are to be found in Hao, *The Comprador in Nineteenth Century China*, 53, 101, 105, 124, 151-152, 179, 188-190, 193-194, and 214; and also in Bergère, *The Golden Age of the Chinese Bourgeoisie 1911-1937*, 142-144, 194, 216-217, 235-239, and 277.

Family Backgrounds

Formative background and later business success are weakly correlated, as evidenced in surveys of European and American entrepreneurs from the nineteenth and early twentieth centuries.[36] D.C. McClelland, *The Achieving Society*, and E. E. Hagen, *The Theory of Social Change*, stressed the supportive influence of family, while social status had a part in the development of entrepreneurs. Thus, whether a father was present, age in setting to work, or degree of family wealth weakly measured entrepreneurial outcomes. Hagen emphasized that social groups which experienced insecure social status redirected efforts into entrepreneurial activities. They are "a group of individuals, creative, alienated from traditional values, driven by burning passion to prove themselves, seek for an area being so far untouched, preferably an area where they can gain more power."[37] Hagen's hypothesis may be applicable to overseas Chinese whose societal position was insecure, but it inadequately predicts entrepreneurs among Christian Chinese and Shanghai's capitalist middlemen. What stands out is that Chinese entrepreneurs were not chiefly born into wealthy families, nor started their working lives later than 15 years old. Among compradors, in general, lineage and personal relations, the place they spent their formative years, and education in the Morrison Education Society's schools in Hong Kong had a greater influence on their career choices than insecure social status.[38]

Family backgrounds varied widely between Ye Chengzhong, Zheng Guanying, and Yu Xiaqing. Ye Chengzhong came from an impoverished family, and at 8 years of age had received only 6 months of education "before going to work to help support his mother and his four sisters and brothers."[39] In contrast, Zheng Guanying, who went to a Confucian school, belonged to a family of first generation compradors with the family's patriarch Zheng Wenrui (1812-1893) being a "Confucian scholar who earned his living as a

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[36] T. A. B. Corley, "Business History and Biography in the United States1925-2000," in *The Oxford Handbook of Entrepreneurship*, ed. Mark Casson, Bernard Yeung, Anuradha Basu, and Nigel Wadeson (Oxford: Oxford University Press, 2008), 142-145.

[37] Everet. E. Hagen, "How Economic Growth Begins: A Theory of Social Change", in *Entrepreneurship & Economic Development*, ed. Peter Kilby (New York: The Free Press, 1971), 134.

[38] One of those educated at the Morrison Education Society School in Canton was Tang Jingxing, later executive director of the China Merchants' Steam Navigation Co. Evans notes western traders pressured the Morrison Education Society for school pupils able to speak English, as these were sought after as clerks and compradors. Stephen Evans, "The Morrison Education Society School and the Beginning of Anglo-Chinese Education in Hong Kong," *Hong Kong Journal of Applied Linguistics* 3, no. 1 (1998): 36-37.

[39] Cochran, *Encountering Chinese Networks*, 14. Arnold Wright, "Prominent Chinese Residents," 560, said, "he started upon his career with few advantages, and but poorly equipped by education for the battle of life."

merchant after failing the imperial civil service exam."[40] Yu Xiaqing came from a tailor's family in the village of Longshan, Zhenhai, near Ningbo.[41] These compradors also differed in native place, although their native homes were close to coastal regions. Ye's family resided in a village neighboring Ningbo prefecture, where the death of the family's patriarch left its members impoverished.[42] In the mid-nineteenth century, Ningbo endured an economic decline, compelling Ye "to set out as a sojourner to seek his fortune in Shanghai."[43] Zheng's family originally descended from Guangdong natives, and he was born in Yongmo Village to the north of Macao, of Xiangshan County in Guangdong Province.[44] In comparison with Ningbo after 1842, the area of Xiangshan prospered commercially, "Located adjacent to the ocean and exposed to commercial activities, the people of Xiangshan embraced the tradition of migration."[45]

Diverse reasons led to each of these men becoming compradors. This finding disagrees with the claim that background is ever inherently a shortcoming, but that it is more of a trigger to develop in a different way. There is nothing in Ye's father's background to suggest a future as a comprador, though the decline in Ningbo's economy may have pushed Ye in such a direction. Susan Jones remarks that "Ningpo traders who had no access to lineage support found the role of the comprador attractive."[46] Yu lacked connections with better families, which would have given him influence in the Ningbo guild. Zheng's family consisted of merchants, though the father's aspirations were traditional in that he attempted the Civil service examination.[47] It is not surprising that Zheng's family being from Guangdong that his father found a post as comprador in

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[40] Wu, *Zheng Guanying*, 13.

[41] Wen-Hsin Yeh, *Provincial Passages: Culture, Space, and the Origins of Chinese Communism* (Berkeley and Los Angeles: University of California Press, 1996), 295, n. 33.

[42] Following the death of his father, a poor farmer in Chekiang Province, Ye began "hauling and selling kerosene; when he died in 1899 he left 8 million taels." This quotation from, Marianne Bastid-Bruguiere, "Currents of Social Change," in *The Cambridge History of China: Volume II, Late Ch'ing1800-1911*, ed. John King Fairbank and Kwang-Ching Liu (Cambridge: Cambridge University Press, 1980), 552.

[43] Cochran, *Encountering Chinese Networks*, 14.

[44] Wu, *Zheng Guanying*, 12.

[45] *Ibid*.

[46] Susan Mann Jones, "The Ningpo *Pang* and Financial Power at Shanghai," in *The Chinese City Between Two Worlds*, ed. Mark Elvin and G. William Skinner (Stanford, California: Stanford University Press, 1974), 86.

[47] Chong, "Cheng Kuan-ying," 248, says, "[Zheng Guanying] tried in vain to pass civil service examinations as a youth."

Shanghai.[48] Further, none of these families were engaged in a family business which could employ any of their members. (But it may be a surprising comparison when wondering why these three were attracted to Shanghai as compradors, unless we think of that treaty port as a Chinese Liverpool, a place of trade and grubby commerce, but also a place of ready employment and quick wealth).

Each of these three young men started their commercial apprenticeships at close to 10 years of age in local businesses, and in their early teens moved to Shanghai to take up employment in western firms. Ye began working three years following the death of his father. He first apprenticed at an oil mill in Ningbo, and by eleven years of age "was earning 1,000 copper cash and a picul of fuel per annum."[49] At age thirteen Ye set out from Ningbo for Shanghai to obtain work as an apprentice at a Shanghai grocery in the French Concession, finding a position through a family friend, Mr. Ni.[50] Similarly, Zheng, at age sixteen, migrated to Shanghai, and through the help of his uncle, a comprador for Overweg and Co., found a position as a junior employee there.[51] Zheng learned English from his uncle, and later at the English-Chinese College from the missionary, John Fryer.[52] Yu's early employment experience began as a "shop assistant in his native city" and later to a cosmetics firm in Shanghai, remaining in this position for ten years before serving as comprador to the German firm of Messrs. Reuter, Brocklemann and Co.[53] While working for the cosmetics firm, Yu attended night school to learn English.[54] The formative years for compradors shows that most compradors' initial business experience was in the context of local firms, and only later, finding employment in western companies. In the 1860s, Shanghai went through a period of economic expansion, which provided compradors with opportunities to learn English and participate in the business of foreign enterprises. English

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[48] Yi, Huili, "Zheng Guanying and His Family," [Zheng Guanying he ta de jiazu] *Linnan Wenshi* issue 3 (2002), quoted from Wu, *Zheng Guanying*, 13, n. 8.

[49] Arnold Wright, "Prominent Chinese Residents," 560.

[50] Cochran, *Encountering Chinese Networks*, 14. Mr. Ni lent Ye 2,000 copper cash for travelling expenses is documented in Wright and Cartwright, *Twentieth Century Impressions of Hongkong, Shanghai, and Other Treaty Ports of China*, 560.

[51] Wu, *Zheng Guanying*, 14.

[52] Hao, "Cheng Kuan-Ying: The Comprador as Reformer," 16. For instance, Zheng's English was competent for him to read *Wan Guo Gong Bao* (*A Review of the Times*), a Methodist mission sponsored journal, containing discussions on religious and scientific topics. Chong, "Cheng Kuan-ying," 248, emphasizes Zheng's ambition around 1860 to study Western learning.

[53] Wright, "Prominent Chinese Residents," 538. Jones, "The Ningpo *Pang* and Financial Power at Shanghai," 86.

[54] Jones, "The Ningpo *Pang* and Financial Power at Shanghai," 86.

may have been a way of distancing traditional merchants from *bridging* of western business practices, resulting in for the latter copying behaviors rather than possessing expertise in knowing what to do.

These comprador apprentices operated in a commercial environment that included traditional Chinese firms alongside western firms. This would have provided a broader scope of comparison for these apprentices. At the time, the social conditions were altering as wealthy merchants and compradors were precipitating into new urban ranks of *nouveau riche*. According to Marie-Claire Bergère, "In Shanghai, tradition—the tradition of merchants, money lenders, and manufacturers—was not an enemy of modernization. The two went hand in hand and interacted, unaffected by any ideological constructions."[55] In other words, traditional merchants benefited from the activities of compradors through transactions, while comprador expertise generated new opportunities for transactions, enriching them. The marketplace in Shanghai emerged from the society formed by merchants, bankers, compradors, and foreign traders, increasing the wealth of commercial participants.[56]

Acculturation of capitalist' beliefs and values were a part of these compradors' business experiences. Shanghai's markets exuded an atmosphere of risk-taking by many western merchants to 'get-rich-quick': profit maximization acted as the rational of Shanghai's market. In turn, compradors adopted the value of profit maximization as a rational for investment. Gone then were the models of the old merchant and his values. This profit-maximization value was upper-most in the real estate market that emerged with the influx of wealth from the Chinese gentry in the 1850s Taiping period. For example, two-thirds of the Shanghai tycoon Xu Run's 3.3 million tael fortune came from real estate.[57] Acculturation was also a matter of degree. For instance, Zheng retained traditional religious beliefs regarding financial wealth as ephemeral compared to lineage: "I see wealth and prestige as flying clouds. . . . Great wealth and prestige [are] pre-determined by your previous life

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[55] Marie-Claire Bergère, *Shanghai, China's Gateway to Modernity*, trans. Janet Lloyd (Stanford, California: Stanford University Press, 2009b), 59. On defining that the period between 1820 and 1880 is known as China's commercial revolution, see Wu, *Zheng Guanying*, 18.

[56] The wealthy were the foreign *taipans*, the comprador tycoons, the landlords such as the Sassoon family, the officials that acted as mediators in dealing with foreigners, and the guilds that organized labor. Increasing wealth is reflected in increasing land values in the International Settlements, while rent followed this trend.

[57] Bergère, *Shanghai*, 58. Xu Run was comprador for Dent and Co. Silver was not coined in China, but exchanged as ingots (*sycee*). As ingots were of variable fineness, weighting in grains was employed. A measure of 555.6 grains (1.0413 ounces) represented a *tael*. However, there was variability in exchange of silver for cash and among cash crops. For measures of and values of *sycee*, see Frederic E. Lee, *Currency, Banking and Finance in China* (Washington, DC: Bureau of Foreign and Domestic Commerce, Government Printing Office, 1926), 14.

and the virtue of your ancestors."[58] While Zheng held to traditional Chinese values regarding wealth, in his career he had nonetheless prioritized business within the workaday world of human affairs.

It is worth considering the evidence that this youthful generation of compradors possessed favorable sentiments towards merchant beliefs and values. For instance, Guo Wu stresses that following Zheng's failure to pass the Civil examination, "Zheng Guanying's quick withdrawal from the academic-official world demonstrated his father's strong identification with commerce as a career, and this can be seen as a result of a more commercially oriented culture in the late Canton and Shanghai regions."[59] Wu's modifier of "late Canton and Shanghai" implies there had been by this time a shift in values favoring a mercantile career in the population of south China. Comprador identification with profit motivation is illustrated in the following example. Cochran highlights that Ye Chengzhong capitalized on his employment with Standard Oil to develop "one of China's biggest businesses and used his [eighteen hardware] stores as wholesalers and retailers to distribute Standard Oil's kerosene."[60] Analogously, in Shanghai's commercial culture a relationship arose between entrepreneurial success and social status. For example, Bergère emphasizes that Yu Xiaqing became "one of the main merchant shipping entrepreneurs of Shanghai, and president of its [Shanghai] Chamber of Commerce."[61] The acculturation of western values and beliefs were not uncritically adopted as a way of behavior, but compradors' ways of doing business were also rooted in community interests and identities.[62]

The favorable sentiments towards merchant values and beliefs by compradors weakly separated compradors from their traditional Chinese identities. For example, the ability of these Chinese capitalists to

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[58] Quoted in Wu, *Zheng Guanying*, 224. C. Spurgeon Medhurst, "A Review," *The Chinese Recorder and Missionary Journal* XXX (Shanghai: American Presbyterian Mission Press, 1899), 196-197, said of Zheng that he was "an uncompromising opponent of Christianity," and of Chinese converts that they "enter the Church for the express purpose of developing their nefarious schemes under the protecting banner, and the missionaries aid them in their evil designs."

[59] Wu, *Zheng Guanying*, 14.

[60] Cochran, *Encountering Chinese Networks*, 16.

[61] Bergère, *The Golden Age of the Chinese Bourgeoisie*, 142.

[62] The ability to critically distinguish between religious imperatives and technical knowledge is demonstrated in Zheng's distinction between learning through Protestant missionaries from that of Catholics. Medhurst, "A Review," 197, noted that Zheng "absolves [Protestant branches] from the condemnation of his wholesale strictures, even citing as missionary authors worthy of commendation Dr. [Young John] Allen [American], Dr. [John] Fryer [British], Dr. [Ernst] Faber [German], and the Rev. Timothy Richard [British]."

adopt western business values while retaining Chinese interests is most clearly illustrated in Yu's support of the Ningbo Guild's right to land in the French Concession against French merchants and consul that wished to appropriate the land.[63] Yu's participation in the May 13, 1889, Ningbo boycott put him forward as a new power leader. Jones notes that as a comprador, Yu invoked personal ties with western merchants to explain the Ningbo grievances, while his childhood background of poverty allowed him to appeal to Ningbo laborers for cooperation in reaching a negotiated settlement that legitimated the property rights of the Ningbo Guild. Yu's position in the eyes of westerners improved, and he accepted a position in the Banque Russo-Asiatique, and a year later the Bank Nederlandsche Handel-Maatschappij. In this example, Yu's cultural interactions with western businessmen facilitated his interactions with Ningbo workers to negotiate a resolution to the boycott. As a capitalist intermediary, Yu *bridged* the two cultures of modern China and the West.

Official Titles, Degrees

Compradors used their personal wealth to purchase official titles to elevate their social position and to advance their businesses.[64] This practice reflected a traditional approach by the state to attract revenue at times of national need, especially in the nineteenth century. For example, the Qing government's demands for financing state-sponsored industries stimulated by the Self Strengthening Movement (1860-1895) provided such an opportunity for Shanghai's compradors to progress into a newly forming urban elite, whose public roles as "honorary gentry" facilitated their interaction with government officials in business transactions.[65] Purchased titles did not offer equivalence in status between compradors and officials, because such official titles were unequal to the degrees earned through Civil service exams. Towards the end of the nineteenth century, purchased official titles and degrees declined in social value, though they continued to be cherished by their holders. Wellington Chan characterizes the later nineteenth century as a period in which "China's political and social elite were engaged in an ideological reappraisal of the merchant class," while traditional values held

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[63] Yu's activities in the boycott and its subsequent effect promoting Yu's status among Ningbo residents and Western businessmen is taken from Jones, "The Ningpo *Pang* and Financial Power at Shanghai," 87-88. Arnold Wright, "Prominent Chinese Residents," 538 presented another example of Yu's negotiation ability in the Shanghai Mixed Court Riots of 1905.

[64] Examples of merchant purchase of official titles in Hao, *The Comprador in Nineteenth Century China*, 6-7, 184, and 186.

[65] Wu, *Zheng Guanying*, 15-16.

by compradors were "still tied to their disparate loyalties [i.e. native place, clan interests, guilds] and traditional symbols [i.e. state examinations, titles, honorary arches]."[66] In this sense, titles and degrees promoted a comprador's business enterprise, allowing him to interact with merchant guilds, and conferring on compradors a recognizable social identity. In several cases, comprador-acquired titles imparted a rank of gentry, allowing these compradors to participate as part of the governance system.[67] It is misleading to see in the compradors' purchases of official titles and degrees support for the gradualist interpretation. The purchase of official titles was most effective in the commercial arena in Shanghai, rather than as a continuation of a traditional pattern of merchant behavior. Even with degrees in hand, compradors did not abandon their careers in business, nor did they discourage their sons from careers in business.

Yen-p'ing Hao associates the purchase of titles by compradors with their own economic pursuits. Hao claims that "Not only [were official titles] valuable when conducting business with other merchants, but it also was essential in dealing with officials on behalf of the foreign house, because only merchants with official titles could talk to mandarins on a socially equal basis."[68] For some compradors, earlier prospects of earning a degree or title through the civil service examination did not materialize. For example, Zheng Guanying's early failure to pass the examination redirected his career into business, but his later commercial wealth provided him the opportunity to socially elevate his status to official rank while simultaneously investing in commercial opportunities. For example, in 1887 the *North China Herald* named Zheng an "expectant taotai," when he was at the time a shareholder in a cloth weaving enterprise, the Jen-t'ai-ch'ang firm. [69]

In ways, the old hierarchies tended to reproduce themselves. However, conditions in Shanghai provided new opportunities for introducing innovations in these hierarchies. During the 1860s, the influx of Chinese migrants from neighboring Zhejiang province and nearby rural areas recreated the traditional social hierarchy in Shanghai's International Settlement. Marie-Claire Bergère notes that population congestion in the

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[66] Chan, *Merchants, Mandarins and Modern Enterprise in Late Ch'ing China*, 236-7. The honorific arch (*Páifāng*) was a memorial gate constructed by the court to honor an individual for charitable activities.

[67] Hao, *The Comprador in Nineteenth Century China*, 7.

[68] *Ibid*., 186.

[69] "A Trading Company's Indebtedness," *North China Herald*, August 19, 1887, 210, https://newspaperarchive.com /north-china-herald-aug-19-1887-p-14/ (accessed September 1, 2018).

International Settlements resulted as native residents were "supplanted by competitors" from other provinces, resulting in the formation of "regional and professional solidarities," and native place associations (*huiguan*) "organized in accordance with a strict hierarchy" that accommodated respected commercial professionals.[70] This restoration of the rural hierarchy (and their Confucian institutions) reaffirmed traditional merchant investment practices, business pursuits, and merchant values. In contrast, Shanghai compradors were not organized into formal guilds until 1890, but "were able fully to utilize the existing guilds for their own purposes."[71] After 1890, as the role of the comprador declined in Shanghai, they formed their own guild associations "with a view to avoiding competition among themselves."[72] Otherwise, compradors tended to join Chambers of Commerce. For example, the *North China Herald* reported on Yu Xiaqing's election to the Shanghai Chamber of Commerce.[73] Yu shifted political power away from traditional hierarchic guilds during the Ningbo boycott, while during the early twentieth century the growth of western-style organizations "acted to destroy or permanently weaken the hierarchical order," as the "new organizations presented a wider range of social and political options to the Ningbo merchants in Shanghai."[74] Thus, under the competitive market conditions in Shanghai, innovations in native place guilds and organizations reformulated the political and social hierarchy in which the compradors actively participated. Furthermore, innovations in commercial organizations, shifts in political power, and the rise of Chambers of Commerce all dispel the gradualist interpretation.

In their purchase of official degrees and titles, Shanghai compradors distinguished themselves from traditional merchants who retired from commerce to a gentry lifestyle. Hao reflects that "the traditional Chinese merchant tried to raise his family out of the merchant class by educating his sons to pass the civil

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[70] Bergère, *Shanghai, China's Gateway to Modernity*, 99-101.

[71] Hao, *The Comprador in Nineteenth Century China*, 178. Reference to a guild of compradors as a "commercial institution in China" is dated to August 1898 in the entry, "The 'Middlemen' of China," 138.

[72] Hao, *The Comprador in Nineteenth Century China*,179.

[73] "Municipal Affairs," *North China Herald*, November 23, 1906, 419, https://newspaperarchive.com/north-china-herald-nov-23-1906-p-13/ (accessed September 2, 2018). The joining of the two associations was accomplished alongside another merchant, Yuen Hong-kee.

[74] Jones, "The Ningpo *Pang* and Financial Power at Shanghai," 88.

examinations."[75] Compradors tended not to abandon their business careers, and "unlike other merchants, [a comprador] was quite content to remain a merchant."[76] This behavior suggests that many compradors were content to identify themselves as merchants. Their new identity was one that included a cosmopolitan nature associated with Shanghai, and one pronounced by a social openness uncharacteristic of the traditional hierarchical system.

From Charitable to Philanthropic Activities

Since compradors pursuit of social identity through official-titles paralleled their pursuit of commercial wealth, in their charitable activities they, likewise, represented a link between gentry notions of social responsibility and western notions of philanthropy. Their managerial skills and western outlook directed their charitable activities towards enhancing human capital. They shrewdly hybridized institutions in a mixed social welfare by complementing a western styled institutional system with Confucian morals. Their brand of philanthropy benefited social classes while increasing productivity and social wealth. Compradors applied their experiences in *bridging* to more than alleviating social misfortune, as during famines or floods, but they endeavored to found new social organizations which promoted socio-economic development.

China's history shows that "Confucianism and Buddhism are both examples of social awareness applied to economics."[77] In America, an aspect of the Carnegie 'social welfare' model "was the importance education and social development contributed to industrial productivity, as well as social wealth."[78] Christopher Marquis, Qi Li and Kunyuan Qiao's review of contemporary Chinese entrepreneurial philanthropy indicates a fostering of a "group philanthropic model" that aims at core outcomes favored in the

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[75] Hao, *The Comprador in Nineteenth Century China*, 8.

[76] *Ibid*.

[77] Gary Mulholland, Claire MacEachen, and Ilias Kapareliotis, "Rise, Fall and Re-emergence of Social Enterprise," in *Social Entrepreneurship as a Catalyst for Social Change* ed. Charles Wankel and Larry Pate (Charlotte, NC: Information Age Publishing, Inc, 2013), 46. Further on this topic, see, G. Davies, "For China Business Charity Helps," *China-Britain Business Review* (July/August 2008): 22-23.

[78] Mulholland, MacEachen, and Kapareliotis, "Rise, Fall and Re-emergence of Social Enterprise," 52.

Carnegie model.[79] They note that "collectivist charity not only brings positive benefits to the firms and entrepreneurs that are engaged in this model, but also increases entrepreneurs' personal social capital, extends their social networks, and helps create a harmonious environment for the entrepreneurs and their employees."[80] Two features distinguish late Qing philanthropy. First, promotion of education, rather than alms. Therefore, "philanthropy functioned like a cure rather than a palliative for chronic social problems."[81] Second, "the western model of philanthropic organizations was introduced in China . . . . exemplified by the Shanghai International Red Cross Society founded in 1904."[82] Compradors' philanthropic and charitable practices embody mixed features of native and acculturated western values that favored core outcomes in the Carnegie model.

In their charitable activities, compradors favored the promotion of community interests "in a spirit of social openness" that represented a disintegration of the traditional gentry dominated political system.[83] Comprador charitable donations went to improve their native places and to establish modern educational institutions.[84] For example, Ye Chengzhong's Ningbo charitable donations included building several elementary schools and a vaccination clinic in Ningbo.[85] For example, the eponymous Chengzhong Elementary School (1899) adopted western textbooks and curricula. As well, Ye promoted female education at a time there were limitations on female schooling beyond the elementary level.[86] Bergère interprets comprador donations in light of how they saw Shanghai, as a place to permanently reside rather than sojourn,

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[79] Christopher Marquis, Qi Li, & Kunyuan Qiao, "The Chinese Collectivist Model of Charity," *Stanford Social Innovation Review* (Summer 2017): 42-43, https://ecommons.cornell.edu/bitstream/handle/1813/49923/The%20Chinese%20Collectivist%20Model%20of%20Charity.pdf?sequence=2&isAllowed=y (accessed April 30, 2020).

[80] *Ibid*., 47.

[81] Liu Baocheng and Zhang Mengsha, *Philanthropy in China, Report of Concepts, History, Drivers, Institutions* (Geneva: Globethics.net, 2017), 32-33 https://www.globethics.net/documents/4289936/17452664/GE_China_Ethics_7_isbn 9782889311781.pdf (accessed April 30, 2020).

[82] *Ibid*. Another societal influence on compradors in terms of education was the Anglo-American missionary school, Saint John's University, in Shanghai. Ye Chengzhong's son-in-law, Liu Hongsheng, attended St. John's, indicating an investment in education that was not Confucian-based.

[83] Bergère, *The Golden Age of the Chinese Bourgeoisie 1911-1937*, 51-60.

[84] Zheng Guanying was reported to have been of a "high opinion of the training to be obtained at the Universities of England and America," quoted from, Wright, "Prominent Chinese Residents," 552.

[85] Cochran, *Encountering Chinese Networks*, 17. Wright, "Prominent Chinese Residents," 560.

[86] Female schooling likely was a Guangdong sentiment as Sun Yat-sen was as well a proponent of developing women's education.

and overcome the allure of native place: "Did these communities [of merchant elites] identify their own particular destinies with that of the Shanghai metropolis?"[87] Like the overseas Chinese capitalists, compradors adopted a cosmopolitan outlook, identifying with an acculturated urban setting rather than a simpler traditional native home place. Nevertheless, there remained a sentiment for native place among compradors.

The wealthy urban elite in Shanghai began to emulate foreign customs in the International Settlements. Bergère observes that this western influence could be felt in terms of wealthy compradors adopting a western lifestyle, schooling girls, and embracing leisure activities, such as sports and horse racing, that were associated with westerners.[88] This influence in adopting western social practices continued in comprador charitable activities. For example, Ye Chengzhong's contribution of 200,000 taels towards a school in Shanghai shows "traces of a new mentality" among Shanghai compradors who donated to "schools offering Western curricula and hospitals using Western medicine."[89] Likewise, Zheng Guanying funded the International Institute of China, a western-Chinese institution established by Reverend Gilbert Reid as a friendship movement aimed at China's higher classes.[90]

The philosophy of western institutions, like the International Institution of China, was based on

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[87] Bergère, *Shanghai, China's Gateway to Modernity*, 102-3.

[88] *Ibid*., 107.

[89] Bastid-Bruguiere, "Currents of Social Change," 553. Also see Wright, "Prominent Chinese Residents," 560 and 562 for an account of numerous charitable acts by Ye, as in the following quotation: "In addition to many private bequests, he [Ye] accorded liberal support to a number of philanthropic and educational institutions. He established several public schools and vaccine departments in his native place, and contributed Tls. 30,000 towards the cost of constructing and maintaining the Ningbo Cemetery at Shanghai. At the wish of his mother he reserved 400 mow [mu] of land for his ancestral temple. He gave 20 mow of land in the northern part of the International Settlement as a site for the Ching Chong Primary School, and afterwards furnished more than Tls. 100,000 towards the upkeep of the institution. He spent Tls. 20,000 in building the Huei Teh Tang [Huai De Tang] for the widows and children of those who had been in his employment, and distributed rice and clothes among the poor each winter. . . . [Ye] obtained, also, by special Imperial Decree, the highest praise for his relief work during the famine in the Fengtien Province of Manchuria."

[90] "[No Title]: List of the Subscribers to the Fund of the International Institute," *North China Herald*, August 27, 1897, 40, https://newspaperarchive.com/north-china-herald-aug-27-1897-p-23/ (accessed September 1, 2018). For the International Institute of China, see John Gilbert Reid, "The International Institute of China," *The Open Court*, XLIII (No. 12), no. 883 (December, 1929): 705-14, https://opensiuc.lib.siu.edu/cgi/viewcontent.cgi?referer=http://www.google.ca/url?sa=t&rct=j&q=&esrc=s&source=web&cd=2&ved=2ahUKEwjV2r-nsprdAhWIHXw KHYcBDs8QFjABegQICRAB&url=http%3A%2F%2Fopensiuc.lib.siu.edu%2Fcgi %2Fviewcontent.cgi%3Farticle%3D4177%26context%3Docj&usg=AOvVaw1o4ASNIKIcmV3tajXCX7qq&httpsredir=1&article=4177&context=ocj (accessed September 1, 2018).

encouraging "transactions between people outside of existing relationships and networks."[91] Supporters of the Institution hoped this philosophy would aid the increasingly complex social and commercial environment of Shanghai to replace the personal networks that organized traditional mercantile relationships. As the comprador's new social outlook began to extend to his native place, he endeavored to modernize its institutions. For example, Yen-p'ing Hao observes that "Yü Hsia-ch'ing [Yu Xiaqing] spent about one million taels . . .in his native district of Chen-hai, Ningpo, for building modern schools, parks, wharfs, highways, railroads, and telegraph lines."[92] Hao distinguishes the compradors' charitable activities with those of the traditional gentry: "the ordinary gentry promoted the Confucian doctrine and public morals, maintaining the local Confucian temple as well as proper social behavior among the masses. In contrast, the compradors seem to have cared little about the Confucian doctrine, for their rise to power was based on a departure from orthodox Confucianism . . . they were interested instead in the development of commerce and industry."[93] The comprador's championing of western education reflected his acculturated values which suited him for a commercial lifestyle.[94] For some compradors, donations to western-schools was born of their own experiences in Christian schools, which taught them English, necessary for posts as compradors. Additionally, championing western education may have been a response to rising Chinese middle-class demands for English language education. In comprador families, education in Chinese and English provided their children with the skills for taking over posts from their fathers upon retirement.

Innovations in Wealth and Networks

On what were a comprador's entrepreneurial activities shored up on? In a word, personal wealth. The "rapidity and magnitude of [the comprador's] earnings," Marianne Bastid-Bruguiere stresses, were secured

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[91] *Ibid*. In a report for 1896, the Institute stated its purposes was an independent native government, friendliness and religious toleration, and Western learning for economic improvements (increasing societal liberalization for Christian missionary work), taken from Gilbert Reid, Reverend, *The Fifth Report of the Mission Among the Higher Classes in China* (Peking: American Board Mission Press, 1896), 19-24.

[92] Hao, *The Comprador in Nineteenth Century China*, 188.

[93] *Ibid*., 189.

[94] Promoters of the International Institute of China chiefly advanced schools less given to missionary work than social benefit. On this, see, Reid, *The Fifth Report*, 11, 19, 47, and 63.

"by the wealth, relations, advice and protection which association with foreigners procured."[95] Bastid-Bruguiere observes that those Shanghai's compradors who had personal wealth could not be extorted by government officials, showed a readiness to invest in modern enterprises, and demonstrated a confidence in their managerial skills. Thus, between 1878 and 1910, "thirteen of the most noteworthy compradors had been associated as promoters or large investors" of 105 companies.[96] This number does not include mixed enterprises, which, although registered as foreign businesses, "were in truth Sino-foreign firms."[97] These mixed businesses played an important role in Shanghai's commercial modernization: "They constituted the crucible of the economic modernization [of Shanghai] for which the *Chinese compradors*, alongside the foreigners, *were the principal agents*."[98]

Wealth that accrued to family suggests that compradors did not wholesale abandon traditional beliefs, but did structure their wealth and businesses in western ways. Ye's personal Will, published in the *North China Herald*, referenced his sons as heirs to property rents, of which "three tenths shall be set aside as family capital to bear interest."[99] To supervise any violations, Ye specified that the property be transferred "under the agency of a foreign lawyer at Shanghai," to ensure instructions in his personal Will were carried out. In Ye's personal Will we see Ye's western influenced attempt to continue the operations of his business beyond his death, a legacy pattern that differs from the traditional family firm which quickly dissolves with the demise of the family's patriarch. However, Ye's legacy did not last for long, as in October 1911, family members approached the comprador of the Commercial Bank of China to obtain a loan by offering to transfer title of the deeds from Ye's Ta Banks. In this sense, the family members enacted a traditional approach to wealth transfer. But even in this, legal complications arose for Ye's sons, two of whom were Portuguese citizens, and two other were Japanese. This invalidated the Chinese courts' jurisdiction in the matter. Furthermore, the

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[95] Bastid-Bruguiere, "Currents of Social Change," 550-551.

[96] *Ibid*., 551, n. 33.

[97] Bergère, *Shanghai, China's Gateway to Modernity*, 74.

[98] *Ibid*. Italics in quotation author's emphasis.

[99] "Bench and Bar: Judgement," *North China Herald*, November 22, 1913, 573-574, https://books.google.ca/books?id=VZYhAQAAMAAJ&pg=PA573&dq=yeh+ching+chong&hl=en&sa=X&ved=0ahUKEwibhcLZwuboAhWAFjQIHW66D74Q6AEIJzAA#v=onepage&q=yeh%20ching%20chong&f=false (accessed April 18, 2020). References to the Will in the above paragraph are to this citation.

mortgaged property was registered with the British Consulate General, therefore registered as British property, and required adjudication in a British Court. Intentional or not, these complications allowed for protection of Ye's wealth from his family's intentions of dispersing it. Ye's actions reflect a western influenced cosmopolitan outlook to supersede a nativist one, suggestive of a certain familiarity on Ye's part with western business law and customs.

Besides securing a businessman's personal wealth under British law, an additional distinction between traditional merchants and Shanghai's compradors was the latter's abilities to sort through technology and machinery in order to ascertain its scientific application to per capita productivity. For example, Yen-p'ing Hao cites Zheng Guanying's monograph, *I-yen*: "As for the 'machinery' which has a vogue in China, besides ships and guns, if they are wasteful items such as watches, music boxes and toys, the Chinese love and buy them; if they are useful things like telegraphs, trains, as well as machines for agriculture, textile manufactures, and mining, then Chinese hate and disparage them."[100] This shows a traditional distrust of new foreign machines which have particular application or purpose that change the way manufacturing or business is done. Also, traditional merchants' "marked reluctance to enter a new [business] field" may have "reflected the traditional attitude to competence."[101] Business competence arose from experience in a trade, and after a merchant "had become established in a particular line, he dared not jeopardize his career by shifting into new and unfamiliar undertakings."[102] In contrast, compradors demonstrated the ability to risk personal wealth in unfamiliar ventures. They did so by adapting western technology and business practices they had *bridged* in western firms. In order to realize the opportunities of new enterprises, the comprador entrepreneur began to consider such ventures as he engaged in over a long run. In this way of conducting his business, Marie-Claire Bergère argues how the comprador differed from his traditional merchant: "Unlike traditional merchants, the [comprador] did not hesitate to throw themselves into long-term projects and to increase their fortunes through such productive investments."[103] Through a comprador's entrepreneurship he introduced innovations derived

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[100] Hao, "Cheng Kuan-Ying: The Comprador as Reformer," 18, n. 20.

[101] Hao, *The Comprador in Nineteenth Century China*, 4.

[102] *Ibid.*

[103] Bergère, *Shanghai, China's Gateway to Modernity*, 73-74.

from western business practices, including the application of employing machinery in a profitable fashion, rather than naively adopting technology without scientific awareness. The undertakings of comprador entrepreneurs, especially pertaining to western machinery in new marketable fields, generated opportunities for other Chinese capitalists to make capital investments, Shanghai's economic development supported through the accumulation of comprador-entrepreneurial direct business reinvestment.

For example, during his long career, Ye Chengzhong advanced his new enterprises by reinvestment of earlier profits from commercial ventures. At an early age, Ye delivered goods as an apprentice at a Shanghai grocery in the French Concession in the store's sampan on the Huangpu River.[104] At the age of 16, he opened his own export-import store, and six years later, in 1862, opened the Shunji Foreign Goods Store, the first such hardware store opened in Shanghai. He later followed that store with the Nanshunji, Kechi, Xinshunji, and Yichang Metal Shop after 1870.[105] Larger scale enterprises included the Xiechang Match Factory (1890), and the Lunhua Filature Factory (1893), as well as investments in five native banks and one foreign bank. These business enterprises arose because Ye reinvested profits from successful operations, rather than, as traditional merchants did, expending surplus money on leisure or other gentrified pursuits. Furthermore, Ye endeavored to pursue enterprises beyond his own personal experience, as he did in silk filatures, paper matches, and native banking. As a representative figure of Shanghai's wealthy compradors, Ye's strategy of reinvestment in new opportunities was complemented by his competence as a manger in a modern firm. There were entrepreneurial limitations to comprador activities, particularly in managing staff, which required that compradors follow traditional arrangements of staffing.

In this sense, Ye's commercial endeavors relied on managing personal networks and family relations, much as in the traditional family firm. Ye employed a Ningbo family-network, and "at the highest managerial level of his operation, Ye entrusted fellow Ningbo men with the responsibility for distribution of Standard Oil's kerosene."[106] Even lower-level staff positions, Ye favored recruiting Ningbo youth into the operations.

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[104] Cochran, *Encountering Chinese Networks*, 14. Cochran discusses reinvestment. Also see,Wright, "Prominent Chinese Residents," 560.

[105] Ding Richu and Shen Zuwei, "Foreign Trade and China's Economic Modernisation," in *The Chinese Economy in the Early Twentieth Century: Recent Chinese Studies*, ed. Tim Wright (London: St. Martin's Press, 1992), 171.

[106] Cochran, *Encountering Chinese Networks*, 16, and 17.

Although Ye's employment networking strategy represents a continuance of traditional merchant practices, Bryna Goodman argues that the necessity for Chinese compradors, such as Ye, to rely on native place networks enabled them to pursue unfamiliar ventures.[107] Accordingly, Ye's election to Shanghai's Ningbo Guild allowed him a close association with other Ningbo groups scattered in distant Chinese cities and the ability through this network to coordinate commercial activities on a "multiport scale."[108] It must be pointed out that Ye's management of Ningbo networks for employees was prefaced on a unique business situation. Sherman Cochran stresses that Ye's delegation of responsibilities to Ningbo men was dependent on his own subordination as Standard Oil's agent, and this terminated when Ye was replaced by Standard Oil by Ding Shen'an, Ye's Ningbo associate.[109]

In analyzing the new bourgeoisie of the 1920s, Bergère observes that "Family solidarities gave the emergent capitalism flexibility, dynamism and buoyancy when faced with crises."[110] Ye's business successes as comprador and entrepreneur arose from his position within a family network that "was part of a [greater sized] network of kinship and clientship hinging on a common ancestor."[111] For comprador entrepreneurs, such as Ye, their association with native place guilds benefited them as it provided access to inland merchants who dominated regional markets. In Ye's case, Ningbo men dominated Shanghai's native banks (*qianzhuang*) through their guild operations. For example, Ye and Xu Chunrong, comprador for the Deutsche Asiatische Bank, formed a partnership to found four native banks after the 1884 banking crisis. Under the stipulations of the Ningbo Guild, Cantonese financiers were nearly excluded from the banking sector, and the Ningbo guild monopolized the sector for Zhejiang entrepreneurs. The dependence by foreign firms on Chinese native banks in the 1880s further ensured a near-monopolistic dominance of Shanghai's financial sector by Ningbo financiers. For an entrepreneur, such as Ye, regional networks could be innovated to organize their operations

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[107] Bryna Goodman, *Native Place, City, and Nation: Regional Networks and Identities in Shanghai, 1853-1937* (Berkeley and Los Angeles: University of California Press, 1995), 138.

[108] *Ibid*., 12.

[109] Cochran, *Encountering Chinese Networks*, 17.

[110] Quotations in this paragraph and discussion of Ye's business strategy are from Bergère, *The Golden Age of the Chinese Bourgeoisie 1911-1937*, 141, and discussion 141-146.

[111] *Ibid*., 141.

and to extend commercial ties into interior markets and outward into international markets.

Conclusion

This thesis argues that Shanghai's compradors were Chinese capitalist middlemen, that they were entrepreneurs, and that, as a social group, formed a *nouveau riche*. Through a comprador's workaday experiences in Western firms, the comprador acculturated commercial values and beliefs inherent in western business practices. Much the same claim can be made for compradors' competence in business management, chiefly the management of enterprises that required the application of technology to improve production. A limitation of the primary sources is details of compradors' management decisions are not readily available to ascertain managerial expertise due to *bridging*. NIE is also less valuable as a guide here, as its interpretation of the firm is grounded in how contracts reduce transaction costs. The details of management are more a subject of business history than economics.

In reality, compradors continued to build and to rely upon local contacts and capabilities of officials. To do so, they purchased lower-level official titles and degrees. One outcome of these purchases was that compradors elevated their social status, which facilitated their business interactions with government officials. Likewise, as with purchases of honorifics, compradors donated large sums of their personal wealth to establish educational, friendship, and health institutions in their native place and in Shanghai. Their philanthropic activities modernized the public outlook in a political sense, spurring nationalism among an urban population. As well, philanthropic activities improved the human capital of workers, which fed-back as improved productivity in comprador business enterprises. Whether this was directly attributable to *bridging* is uncertain from the primary sources. The primary sources lack personal accounts of why compradors engaged in philanthropic activities, whether they arose because of national sentiment, as remedies to social marginalization, or as purely business-driven decisions. At the same time, compradors' western-orientation may have made them more sensitive than other Chinese to the shifting world they inhabited. NIE treats philanthropic goods as public goods. In the case of compradors, some work needs to address whether gentry donations can be classified as contributions to common resources, while comprador philanthropy as creation of new resources. Further, does comprador philanthropy suggest how the Shanghai market was inefficient in

allocating public goods?

Shanghai's compradors were a model of enterprise entrepreneurialism. They reinvested surplus capital from earlier enterprises to fund later businesses. They interacted with western merchants by purchasing shares in Sino-western ventures, and they were the principal stockholders in State-sponsored joint-stock companies. One by-product of their managerial expertise was their valuing long run enterprises. The institutions of private property, nascently, as extraterritoriality, incentivized long term investing. NIE points out that institutions are rules that constrain behavior. In the case of extraterritoriality, it constrained official exactions. Knowing this, compradors could freely act because extraterritoriality reduced the uncertainty of official squeeze. However, as far as geographical distribution of comprador enterprises, they were primarily localized to Shanghai's International Settlements.

This chapter challenged the gradualist interpretation. That interpretation argues that innovations in Chinese firms represent a continuance of past business practices, and, that the innovation of managerial techniques in traditional family businesses are independent of western acculturation. That is, innovation under traditional business firms is a reinforcing of managerial arrangements through lineage ties, centralization of control in a patriarchal owner, and increasing investment or labor by drawing from family resources. NIE does not dismiss growth among family businesses but suggests the pattern of growth differs from capitalist family businesses. NIE predicts growth through intensification of personal networks but increased cost in coordinating networks, which limits growth trajectories. Another limitation is that family property is limited, and so funding expansions is limited. The capitalist family firm overcame some of these problems.

Comprador biographies have shown that the process of *bridging* transpired over a long period in the lives of three chief compradors. They did not wholly abandon traditional Chinese beliefs or values, but reshaped their native beliefs to accommodate western values and beliefs. Compradors did not leave their businesses and elect for government occupations, nor did they direct their sons into civil service or other gentry occupations. Shanghai's compradors rose into an emerging urban elite, their wealth transformed them into a *nouveau riche,* and their western values and beliefs informed their outlook on the world from a cosmopolitan standpoint. The counterargument that compradors were of little importance to Shanghai's economy, because they were numerically marginal and dependent on western capital ignores what has already been outlined above.

Objections that stipulate China's inevitable economic development without comprador input, or the impact of nativist sprouts of capitalism in the economy, seek to debase compradors into a second-hand spokesman of western ideas. However, compradors were not spokesmen of an idea. They introduced and implemented commercial innovations into the economy.

Chapter 3

Bureaucratic Merchants and State-owned Enterprises in Shanghai

This chapter examines how Tang Jingxing [Tong King-sing], a comprador manager of the China Merchants' Steam Navigation Co. (CMSNC) redirected the firm into a modern, corporate operation. After the Second Opium War (1856-1860), new treaty ports opened along the Yangtze River. Western firms introduced Mississippi river steamers in rivalry with Chinese junks. To compete, the CMSNC was organized in 1872 as a state-sponsored—merchant-managed (*guandu shangban*) venture. The organization of this Chinese steamer company created the second type of Chinese middleman, the bureaucratic merchant. There were two types of bureaucratic merchants: comprador managers and official executives. The comprador manager possessed modern expertise in managing steamers and could attract investment capital. The official executive favored careers in commerce and industry over political advancement. Besides this, they exploited political contacts for attracting merchant capital or government loans.

A Shanghai based company, the CMSNC provided freighting of merchant goods along the Yangtze River (although the company had a coastal branch, this branch is not discussed here). As a modern firm, this Chinese shipping company differed from traditional Chinese family junk companies because of its ability to successfully apply western steamer technology to operations, and also because it incorporated into the firm's capital structure the market pricing mechanism for freightage rates. The former was an outcome of *bridging* which acculturated managers to western steamer technology and its management. The latter was an outcome of securing property rights within the company to attract investors. Under NIE, property rights can include right to use, to benefit paid as dividends, or to transfer of goods. Property rights also allows a firm to make contracts with rivals to lower transaction costs. NIE has considered how markets can be divided between rivals. NIE has found that where markets exchange is based on institutions, higher levels of cooperation are more likely between competitors.[1]

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[1] Joseph Heinrich, Robert Boyd, Samuel Bowles, Colin Camerer, Ernst Fehr, Herbert Gintis, and Richard McElreath, "In Search of Homo Economicus: Behavioral Experiments in 15 Small-Scale Societies," *American Economic Review* 91, no. 2 (2001): 73-78.

Tang's managerial strategy accorded with findings from NIE. Tang provided customers with a locked-in price, by absorbing the market pricing mechanism for freightage rates. This proved beneficial for merchants who repeatedly transacted shipping contracts with the company. In the end, the CMSNC and rival European shipping companies came to a freightage rate agreement, and divided the riverine shipping industry among themselves. This agreement lowered costs to the companies, secured customers' patronage, and retained a high profit from shipping. Russell and Co.'s Shanghai Steam Navigation Co. serves as a model for representing features of a modern steam shipping firm, and to compare similarities between that firm and the CMSNC.

Introduction to Bureaucratic Merchants and State-Sponsored Enterprises

In this section, the *bridging* origin of bureaucratic merchants is explained and noted are several features of their managerial skills taken from western companies and their methods of doing business. Also presented is the history, including both the origin of the bureaucratic merchants and their demise as State-sponsored firms became privatized. Two topics are examined in this section, namely, financing of the China Merchants' Steam Navigation Co., and *bridging* of Tang Jingxing's managerial skills. At this point, a problem of nomenclature is dealt with. The bureaucratic merchant is the overall term for the second type of Chinese capitalist, namely, 'official merchant-managers'. This type is divided into two groups: the 'comprador manager', and the 'official executive'. These two groups are considered in separate sections below.

The bureaucratic merchant is associated with the state sponsorship and development of *guandu shangban* enterprises (Chinese firms under official supervision and merchant management), in Shanghai during the late 19th century.[2] Most of the bureaucratic merchants were official supervisors (i.e., official executives) in these enterprises. However, among the bureaucratic merchants, some bureaucratic managers were compradors who possessed purchased official titles or degrees and conducted managerial duties in these

[2] The arrangements for management are discussed by Cheng Kuan-ying, *Sheng-shih wei-yin*, from "Doc. 30. The Criticisms of Cheng Kuan-ying, c. 1892," quoted from *China's Response to the West" A Documentary Survey, 1839-1923*, ed. Ssu-yü Teng and John King Fairbank (Cambridge, MA and London, England: Harvard University Press, 1982), 113-116. In that quotation, Zheng [Cheng] objected to "The Chief managers, whose duties are only slightly concerned with government matters, are appointed and given orders by high officials, who disregard whether they are competent or not and look only for men whose rank is comparatively high and who suit their own ideas. Then they are considered qualified to fill the posts."

enterprises. These compradors were initially solicited either as investors or as comprador managers by Governor-general Li Hongzhang, a pioneer reformer in late Qing China.[3] As government revenues were insufficient to capitalize the *guandu shangban* enterprises, Li envisioned a semipublic corporate structure (public-private joint enterprise) that provided investors "profitable returns in exchange for overall official supervision."[4] In the 1870s, compradors responded to the founding of these semipublic corporations by purchasing shares in the enterprises for themselves, while a limited number of compradors were placed by Li Hongzhang in positions of management. The compradors' *bridging* experiences in western businesses allowed them to transform the *guandu shangban* enterprises into modern commercial operations, and, by the end of the 1870s, three major modern enterprises had been launched. For one of these enterprises, the CMSNC, Li recruited Tang Jingxing to manage the freight shipping business along the Yangtze River. Through similar appointments, Tang and other compradors who had accepted executive managerial roles in the new enterprises "were no longer merely private, 'non-productive' [i.e., import-export] traders; they had become semi-official manufacturing industrialists [i.e., bureaucratic merchants]."[5]

Under Tang's management, the CMSNC showed features of a modern company. Importantly, Tang's managerial innovations decreased transportation costs for the company's steamers and preserved the freight price of goods paid by customers by forming a "pooling agreement" with rival western steamer companies on the Yangtze River.[6] In line with Ronald Coase's interpretation of a modern firm, the CMSNC absorbed into

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[3] John Wharton Maclellan, *The Story of Shanghai, from the Opening of the Port to Foreign Trade* (Shanghai: North-China Herald Office, 1889), 74, noted, "Chinese merchants would have little to do with the company, but some natives who had been brokers and compradores to foreign houses joined it, and with a few officials became its management." The relationship of Li Hongzhang, as Superintendent of Northern Trade, with the firm's officers was one of sponsorship, securing monopoly of freights for tribute rice, and preventing the Governor of Formosa from competing in shipping. On Li's relationships see, John Otway Percy Bland, *Li Hung-chang* (London, England: Constable and Co., 1917), 120.

[4] Wellington K. K. Chan, *Merchants, Mandarins and Modern Enterprise in Late Ch'ing China*, (Cambridge, MA: Harvard University Press, 1977), 8. The three major firms launched by the end of the 1870s were the China Merchants' Steam Navigation Co. (1872), Kaiping Mining Co. (1877), and Shanghai Cotton Cloth Mill (1878).

[5] *Ibid*., 49.

[6] James Harrison Wilson, *China: Travels and Investigations in the "Middle Kingdom," A Study of Its Civilization and Possibilities, with a Glance at Japan* (New York: D. Appleton and Co., 1887), 87. Pooling did not only apply to freighting prices, but also to tickets, which could be changed indiscriminately on Yangtze River steamer lines, and receipts for cargo are shared proportionately, as noted in "Shipping on the Yangtze," *Monthly Consular and Trade Reports* Issue 316 (Washington, D.C.: U.S. Government Printing Office, January 1907), 87-88.

the firm the pricing mechanism that was set by the open market.[7] In other words, bargaining to arrive at a pooling agreement between rival steam ship companies eliminated the need for government action to set pricing or allocation of the market to each firm. (Traditionally, with a necessary good, such as salt, government action conferred a monopoly status on producers).[8] The need for Tang to engage in bargaining arose for two reasons. First, as monopoly status could only be applied to Chinese firms, such a strategy was unsuitable as the CMSNC's rivals were European shipping firms.[9] Second, alignment of interests among the rival firms created an informal monopoly condition in freight pricing that imposed a high cost on smaller shippers.[10]

In the 1880s, comprador managers in *guandu shangban* enterprises were replaced by government officials. Marie-Claire Bergère stresses that, following the earlier period of Shanghai's state-sponsored enterprises when compradors were appointed to managerial positions, in later years they were replaced by official supervisors, and ultimately these enterprises "suffered the same drawbacks as the imperial administration: insufficient funds, corruption, and nepotism."[11] Wellington Chan also defines this later period as a time of comprador "disenchantment," because most compradors "withdrew [from] new investments [in modern state businesses] and forced the official supervisors, who by then had become managers, to depend more and more on the limited amounts of state revenue as well as their own personal wealth."[12] In 1884, the

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[7] Ronald H. Coase, "The Nature of the Firm," *Economica* 4, issue 16 (1937): 386-405.

[8] The elimination of monopolies was outlined in the French Treaty of 1858, Article 14: "No privileged commercial society shall hence-forward be established in China, and the same shall apply to any organised coalition having for its end the exercise of a monopoly on trade." On the French Treaty, see, Charles Denby, "The Chinese Guilds," *Reports from the Consuls of the United States* XXIII, no. 83 (Washington, D.C., Government Printing Press, September 1887), 463-464.

[9] Hankou merchants had purchased a steamer to ensure the China Merchants' Steam Navigation Co. not be sole native steamer company on the Yangtze. For Hankou merchants' purchase, see, "China: Shanghai," *The London and China Telegraph*, March 3, 1877, 195.

[10] It is important to realize that bargaining between rival firms can provide a public good for outsiders. For example, Shantou merchants expanded their distribution of sugar coincident with the treaty port system and arrival of steamers, which offered cheaper shipping rates, and the distribution of sugar as an international commodity, thereby allowing Shantou merchants the ability to wholesale sugar cheaper than competitors in Fujian and Sichuan. On this example of Shantou merchants, see, Gary G. Hamilton, "Nineteenth Century Chinese Merchant Associations: Conspiracy or Combination?: The Case of the Swatow Opium Guild," *Ch'ing-shih wen-t'i* 3, no. 8 (1977): 64-65.

[11] Marie-Claire Bergère, *Shanghai, China's Gateway to Modernity*, , trans. Janet Lloyd (Stanford, California: Stanford University Press, 2009b), 83. The commercial malfeasance were pointed to by Maclellan, *The Story of Shanghai*, 75, who noted that in 1877 Sheng Xuanhuai overpaid for Shanghai Steam Navigation Co.'s wharfs and steamers, and in a few years not improving the China Merchants' condition but putting it on the verge of ruin.

[12] Chan, *Merchants, Mandarins and Modern Enterprise in Late Ch'ing China*, 8. Also see David Faure, "A Historical View of Chinese Enterprise," in *Comparative Entrepreneurship Initiatives: Studies in China, Japan and the USA*, ed. Chikako Usui (New York: Palgrave MacMillan, 2011), 25.

CMSNC passed into the official Sheng Xuanhuai's hands, as did the Shanghai Cotton Cloth Mill and several other major enterprises.[13] Under Sheng's management the CMSNC became fully bureaucratized through the promotion of officials to executive positions in the company, replacing former comprador managers. Under Sheng, these firms acquired a monopoly status, as, for example, occurred with the Shanghai Cotton Cloth Mill in 1882, which was given a ten-year monopoly on machine cotton spinning.

According to Wellington Chan, the official executive differed from traditional merchants and comprador managers in his "[ability] to control and manipulate not only [his] own capital, but also that owned by the state and private investors."[14] However, the investment abilities of the official executive, "offered only a limited solution" to the capital problem as "massive industrialization on the national level required the building of a modern economic infrastructure . . . a system of modern banking, marketing and an easy flow of 'risk' capital from large segments of the citizenry."[15] Yet, both the comprador manager and the official executive resembled each other in their abilities to resolve economic problems inherent to their state-sponsored companies.

The chief economic problem bureaucratic merchants encountered was raising enough capital to finance the enterprise. In the steamship business, capital invested by Chinese compradors was approximately 20 percent to 30 percent in four of five European firms, but 78 percent in the CMSNC.[16] From 1872 to 1893, compradors' investment still amounted to 54.5 percent of the total capital in this state-sponsored steamship enterprise. This level of investment by compradors had much to do with Tang Jingxing's standing in

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[13] Bland, *Li Hung-chang*, 121. A biographical sketch of Sheng Xuanhuai and his business dealings is in Arnold Wright, ed. "Prominent Chinese Residents," in *Twentieth Century Impressions of Hong Kong, Shanghai, and Other Treaty Ports of China: Their History, People, Commerce, Industries, and Resources*, (London: Lloyd's Greater Britain Publishing Company, Ltd., 1908), 526.

[14] Wellington K. K. Chan, "Bureaucratic Capital and Chou Hsüeh-his in Late Ch'ing China," *Modern Asian Studies* 11, no. 3 (1977): 438.

[15] *Ibid*., 439.

[16] Hao, *The Comprador in Nineteenth Century China*, 124, Table 13, and 125, Table 14. Part of this difference may be attributed to the average dividend paid of 20 percent per year by the China Merchants' Steam Navigation Co. For dividend payments, see, John King Fairbank, Martha Henderson Coolidge, and Richard J. Smith, *H. B. Morse, Customs Commissioner and Historian of China*, (Lexington: University of Kentucky Press, 1995), 71-72.

Shanghai's mercantile world.[17] After Li Hongzhang had appointed Tang to the directorship of the CMSNC, Tang's first task was to seek financing for the new firm. Yen-p'ing Hao comments that "[Tang's] successful fund-raising role was noteworthy in the light of the fact that other enterprises, both foreign and Chinese, were having serious trouble in raising capital."[18] If comprador investment in Chinese and foreign businesses was significant to funding these enterprises, their role as managers was equally significant to the operations of the state-sponsored enterprises.

The compradors' managerial abilities were learned in their handling European firms' business contracts and daily operations. Yen-p'ing Hao identifies the shortcomings of traditional gentry-merchants who, too often, "proved incompetent when confronted with what were essentially management problems of an enterprise, such as making advance plans and calculations, determining the cost structure, pricing the product, and predicting its profitability of the enterprise."[19] Tang Jingxing's management of the CMSNC involved his gaining support from the Cantonese merchant guild "to develop an effective system of attracting freight from the Chinese traders in the treaty ports."[20] His experience with Jardine, Matheson Co.'s steamship business prepared him to garner "the advice of foreign captains and engineers" in matters "relating to navigation personnel and steamship repairs."[21] Likewise, "in matters relating to business operation and business organization [Tang] made use of the talents of Chinese compradors."[22] The effectiveness of Tang's managerial skills is evidenced in the company's profits and share value, which rose from "869,210 taels in 1878-1879 [to] 2,000,000 taels in 1883."[23] Thus, as a comprador manager of a state-sponsored enterprise,

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[17] Srinivas R. Wagel, *Finance in China,* (Shanghai, North-China Daily News and Herald, Ltd, 1914), 32, noted the China Merchants' Steam Navigation Co. "owes its existence and influence to the enterprise of one merchant [Tang Jingxing], who took no part in politics or in the teachings of the Young China reformer."

[18] Hao, *The Comprador in Nineteenth Century China*, 126.

[19] *Ibid*., 138.

[20] *Ibid*., 141.

[21] *Ibid*.

[22] *Ibid*., 142.

[23] *Ibid*., 143. Following Tang's management, the value of the company would rise to 25 million taels, 13 million from land and wharfs, and 12 million from steamers. On value of the company, see, Arnold Wright, ed. "Shipping, Commerce, and Customs," in *Twentieth Century Impressions of Hong Kong, Shanghai, and Other Treaty Ports of China: Their History, People, Commerce, Industries, and Resources*, (London: Lloyd's Greater Britain Publishing Company, Ltd., 1908), 466.

Tang Jingxing demonstrated a business competence absent among many traditional merchants.

Overall, the appointment of comprador managers to managerial positions in *guandu shangban* enterprises was short lived. Among the earlier compradors, such as Tang Jingxing, they tended to "regard their posts under the [*guandu shangban*] pattern as temporary ones, [and] they lacked an all-embracing and long-term program of development."[24] After the 1870s, the "younger generation [of compradors] gradually turned toward managing [their companies] privately and independently, for they were too wealthy to remain financially subordinate to foreign firms, and they disdained official supervision and interference."[25]

Likewise, official executives pursued careers as official supervisors with the intention of remaining within officialdom. Over time, they began to make "a formal exit from the official world to devote full time to enterprises."[26] Wellington Chan argues that these officials' insistence on the need for state control in companies took them beyond the original vision of the *guandu shangban* enterprise, and led them "directly into management and capital campaigns for these enterprises. As official managers and investors, they had a natural tendency to confuse state and bureaucratic control, and to lapse from working for the national goal to looking after their own personal interest."[27] David Faure offers an alternative reasoning for officials turned corporate owners. Faure notes that appointments to executive positions depended on the backing of a higher official in government to secure an official executive's appointment to such a position, and when this backing was lost official executives came to a view they should be appointed by shareholders.[28] During the 1870s and 1880s, these state-sponsored companies resembled less the modern idea of a company than a chartered company in early Europe, based on imperial appointment. Faure summarizes this business history: "It took China three decades, therefore, to learn the essentials of company governance, and government enterprises such as the China Merchants' Steam Navigation Company were very much the experiments conducted in the

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[24] Hao, *The Comprador in Nineteenth Century China*, 150.

[25] *Ibid*., 151. For brief accounts of compradors that early served both foreign and government companies, and later established private firms, see several examples in Wright, ed., "Prominent Chinese Residents," Mr. Soo Pao Sun 538, Mr. Yih Ming Tsah 540, Mr. Chai Lai-Fong 548, Mr. Zee Way Zung 548, Mr. Wong Su Ping 552, and Mr. Tong Chong Leong 554.

[26] Chan, *Merchants, Mandarins and Modern Enterprise in Late Ch'ing China*, 50.

[27] *Ibid*., 84. Bland, *Li Hung-chang*, 121, identified the negative consequences as exhibited by Sheng Xuanhuai.

[28] Faure, "A Historical View of Chinese Enterprise," 26.

process."[29]

Comprador Managers as the First Type of Bureaucratic Merchant

This section examines in greater depth the features and activities of comprador managers. This includes the reasons behind comprador investment in state-sponsored enterprises, namely, why government officials sought out comprador wealth as the basis for such enterprises. Also examined is the competencies in comprador manager's business experiences, illustrated through Tang's managerial activities in the CMSNC. This section concludes by outlining what controls Li Hongzhang exercised on the activities of comprador managers to ensure the companies were not directly managed by compradors for their own ends.

The first group of, bureaucratic managers, were drawn from Shanghai's wealthy compradors. Yen-p'ing Hao identifies the comprador as an entrepreneur and "a risk-taker, experimenter, and profit-maximizer."[30] Historian Wang Ching-yü, conversely argues that the comprador, in his position as a comprador manager of a *guandu shangban* enterprise, was given "special treatment" by the Qing government, and that he was allowed "to engage in feudalistic monopolies and to stifle the free development and competition of the average middle and small capitalists."[31] For example, both the Shanghai Telegraphic Company and the Shanghai Cotton Cloth Mill were monopolies protected from Chinese competitors. Wang's reinterpretation of the past utilizing communist historiography biases the historical facts about compradors and needs to be positioned in a framework of Maoist revolutionary narrative.[32] Nevertheless, Wang has identified a bias in the Qing government development program, namely, the influence of the 'feudal' past on favoring monopolies[33] to achieve industrial modernization and stabilize the market economy. But to agree entirely with Wang's interpretation, one has to agree that the compradors can be blamed for complicity in stalling China's

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[29] *Ibid*.

[30] Yen-p'ing Hao, "Themes and Issues in Chinese Business History," *Chinese Studies in History* 31, no. 3-4 (1998): 109.

[31] For Wang Chiung-yü's argument, see Du Xuncheng and Zhou Yuangao, "Summary of Studies of the Bourgeoisie Since 1949," *Chinese Studies in History* 16, nos. 3-4 (1983): 111.

[32] On the unchanged vocabulary of class struggle against the bourgeoisie, and how such categories confirmed the homogeneity of historical time, see Marie-Claire Bergère, *The Golden Age of the Chinese Bourgeoisie 1911-1937*, trans. Janet Lloyd (Cambridge, Great Britain: Cambridge University Press, 2009a), 294-295.

[33] Monopoly on shipping tribute-rice liquidated loans and interest on those loans held by the China Merchants' Steam Navigation Co.

industrial development, because the special treatment given *guandu shangban* ventures operated as barriers to a path of economic development that would have occurred independently in the wider market economy. The point is that as western capitalists in Shanghai introduced western business practices to their compradors, these compradors as managers in state-sponsored enterprises furthered this introduction of business practices into these Chinese-owned firms.[34]

In their assessments, both Hao and Wang identify the shift in comprador business capacities away from the business capacities of China's traditional merchant associations, which "laid the moral, legal, and social foundations for a continuous, predictable commerce."[35] In the Shanghai market of the mid 1800's, a new system of commercial regulation (i.e., institutions) arose that challenged the traditional competitive market system. Under the traditional system, "Merchants and artisans understood that the role of their associations was to stabilize the marketplace."[36] The introduction of the *guandu shangban* into Shanghai's western enclave sought to regulate the market.[37] Political patronage assured investors of the business worthiness of the enterprises, while government assurances guaranteeing dividend payments on shares assured investors of a profitable return.[38] This is pure monetary policy. In response to western competition, the *guandu shangban* was an innovation on the traditional Chinese firm as it was founded on an emphasis of the "patronage system that had evolved from family ties and religious corporations."[39] In this sense, the idea behind the

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[34] The point of business practices is made in Article 2 by Tang Jingxing: "Since this undertaking [China Merchants' Steam Navigation Co.] has been put under merchant operation, it seems that the government should condescend to comply with the regular practices of the business, so that these practices may be more easily followed," from *Jiaotong shi: hangzheng pien* (History of communications; shipping) (Nanjing, [n.p.], 1931), chapter 2, 145, quoted from Chi-Kong Lai, "Li Hung-chang and Modern Enterprise The China Merchants' Company, 1872-1885," *Chinese Studies in History*, 25, no. 1 (1991): 34.

[35] Hamilton, "Nineteenth Century Chinese Merchant Associations," 66.

[36] *Ibid*., 63.

[37] In a *regulated market* government policy governs transactions untaken. In a *stabilized market* government policy seeks to eliminate crises. On this distinction, see, John Kenneth Galbraith, "Market Structure and Stabilization Policy," *The Review of Economics and Statistics* 39, no.2 (May 1957): 124-133. Galbraith stressed the rise of oligopolies in markets controlling price of consumption, while oligopolistic banks set interest rates to control the level of borrowing.

[38] Faure, "A Historical View of Chinese Enterprise," 25, notes that "In those early days of share dealing, Chinese imperial monopolies retained two Chinese characteristics: The shares were guaranteed a dividend, which gave them a character more similar to a bond, and the emperor retained his right to appoint the chief executive." This was a dangerous policy as reported on by Bland, *Li Hung-chang*, 116, since such business was "conducted on lines calculated to produce the maximum of immediate profit for the officials concerned without any consistent regard for sound business methods and honest finance."

[39] Faure, "A Historical View of Chinese Enterprise," 24. This is in contrast to western experiences of 'state making' as 'market formation' and economic interests pitting capitalists against governments.

establishment of *guandu shangban* enterprises agrees with the "escape competition hypothesis" outlined in the introduction. Whatever the government intention, its actions influenced investor expectations, but did not by itself increase aggregate demand, excepting in the case of coastal shipping of rice where the government assured future purchases.

However, this assessment of the *guandu shangban* focuses only on the government side of government-sponsored enterprises, and does not take account of the entrepreneurial side of comprador involvement in these enterprises. For instance, we must consider the difference in scale of investments in these enterprises by compradors in contrast to traditional merchants. For example, in 1890 the Shanghai Cotton Cloth Mill was capitalized by wealthy merchants with $204,444 Mexican dollars and by compradors with $490,000 Mexican dollars.[40] In the period of 1873, compradors financed up to 77 percent of the China Merchants' Steam Ship Navigation Co., and, in 1890, 70 percent of the Shanghai based Hung-an steamship company. Beyond scale of investment, there was also depth of investment. For example, Yen-p'ing Hao itemizes the investments of two compradors, Chai Lai-fong (Chu Ta-ch'un) and Chu Chih-yao, from the 1870s to 1913, in 17 modern enterprises that included plant-based oil mills, machinery companies, rice, flour, and cotton mills, and an electric light company.[41] Though compradors invested in foreign enterprises to a greater degree than in state enterprises, in both sectors of investment they "realized the importance and profitability of modern enterprises, and were willing to invest in them before any other class had a similar intention."[42] Their experience with western technology played a decisive role in their eagerness to finance modern enterprises. For example, in the first proposal to set up the Shanghai Cotton Cloth Mill, P'eng Ch'i-chih "planned to copy from England the latest methods of weaving and spinning."[43] Another example of

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[40] Hao, *The Comprador in Nineteenth Century China*, 129, Table 18, 125, Table 14, and 134-135. Citation for dates and percentages in sentences.

[41] The adoption of electric light as a technological innovation only occurred with western transplanting of machinery. Hydro-electric power requires modern hydraulic turbines (post 1827, France) and electrical conversion and storage (post 1878 England). The idea from the first Northumbrian electric light spread globally within 20 years. An example of Chinese acculturation of Western technology relative to continued usage of Chinese waterwheels, since the Han dynasty (202 BCE- 9CE). On electricity, see, Weblog entry on "A brief history of hydropower: From its earliest beginnings to the modern era," *International Hydropower Association* (London, United Kingdom: Hydropower.org, n.d.) https://www.hydropower.org/a-brief-history-of-hydropower (accessed May 3, 2020).

[42] Hao, *The Comprador in Nineteenth Century China*, 146.

[43] *Ibid*., 120.

Chinese adoption of foregoing native technologies. In view of the scale of compradors' investment of personal wealth in modern enterprises, their choice of investment may be regarded as their viewing western innovations in enterprises as more efficient and profitable compared to traditional forms of enterprise.[44]

The remainder of this section considers two reasons why Qing government officials solicited compradors to manage state-sponsored enterprises. The first reason concerns the contrast between the traditional nature of commercial enterprise and the changing world of Shanghai's economy during the second half of the nineteenth century. In the traditional enterprise, it was not uncommon for the gentry to hire merchants to oversee gentry-owned concerns.[45] Merchants actively managed these firms, whereas the gentry remained passive owners. In the changing market setting of Shanghai, managerial advisors reached prominence as "increased government spending during and after the Taiping Rebellion [1850-1854] led to the need for new fiscal policies and a new group of men with the proper financial expertise to manage them."[46] Accordingly, these managerial advisors, drawn from the comprador ranks, began to assume a degree of official status.

The second reason was that state-sponsored enterprises demanded from executive managers a prerequisite level of expertise, which in turn acted as a barrier to traditional merchants who had little experience in managing nontraditional enterprises. Greg Clydesdale observes that the initial appointment of the traditional merchant, Zhu Qiang (Chu Ch'i-ang), as manager of the CMSNC proved a poor choice, as Chu's "knowledge of Chinese junks was to little avail when confronted with steamships. His old routines and decision-making skills did not carry over to the new technology."[47] His replacement, Tang Jingxing had an "intimate knowledge of the steamship business" from his time at the Jardine, Matheson and Co., and he

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[44] Anecdotally, the China Merchants' Steam Navigation Co. was the first Chinese firm to adopt the telephone in China. This anecdote recorded in, Henry Noel Shore, *The Flight of the Lapwing, A Naval Officer's Jottings in China, Formosa, and Japan* (London, England: Longmans, Green and Co., 1881), 393-394.

[45] Chan, *Merchants, Mandarins and Modern Enterprise in Late Ch'ing China*, 22. The Taiping Rebellion was another historical context-point in which acculturation of Christianity through missionaries transpired. Hong Xiuquan burial near the Ming Imperial Palace may reflect unconscious sentiments for the Ming dynasty among southeastern Chinese supporting the rebellion.

[46] *Ibid*., 46.

[47] Greg Clydesdale, "Economic Decline and the Failure of Chinese Entrepreneurs," *The Quarterly Journal of Austrian Economics* 10, no. 2 (Summer 2007): 160-179, 173. For Zhu over paying for two steamers in 1872], see entry, "China," *Appletons' Annual Cyclopaedia and Register of Important Events*, vol. 7, and vol. 22 (New York: D. Appleton and Company, 1883), 101,

"brought to the [Chinese] company other Chinese compradors with experience in the treaty ports, as well as American and English captains, engineers, and marine superintendents whom he employed to run the ships."[48] Tang's experienced managerial career was common among many compradors as "By 1894 Chinese investors shared managerial responsibilities in three-fifths of the foreign firms, in which they had invested about 400 million taels."[49] The government's awareness of the compradors' managerial skills ensured their being placed in executive positions in State-sponsored enterprises.

Some restrictions were applied to comprador management of state-sponsored enterprises. While these restrictions appeared to generate official interference in comprador management, there were underlying rationales to such institutional supervision. Wellington Chan notes that in Li Hongzhang's supervision of the CMSNC, he "did not intend to leave the running and management of the [*guandu shangban*] enterprises to the merchant [comprador] investors."[50] Li's intentions were that investors and managers would be separate, so that shareholders would be powerless to direct management through Boards, whereas the firm's managers had "much freedom of action in carrying out their roles as entrepreneurs."[51] This organizational structure of the firm's executive division permitted supervisory officials to be able to replace the firm's comprador managers without loss of investor confidence if the latter showed themselves unfit in the firm's operations.

Nonetheless, under Li's supervision, comprador managers could take risks by introducing new innovations into the business. However, managerial freedom for comprador managers to act as they saw fit was not indicative of a *laissez faire* attitude as the firm's operations were still supervised by bureaucrats, and the company's accounts were expected to show a profit from which officials could draw funds. Wellington Chan notes that a firm's official supervisors protected against "excessive official squeezes" by outside bureaucrats, but they themselves participated in "financial irregularities" as there was "no independent auditor" to check the business accounts.[52] It is reasonable to contend that the organizational structure of the company

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[48] *Ibid*., 173.

[49] Hao, *The Comprador in Nineteenth Century China*, 136.

[50] Chan, *Merchants, Mandarins and Modern Enterprise in Late Ch'ing China*, 70, 72-73.

[51] *Ibid*., 72.

[52] *Ibid*., 72-3.

reflected Li's preference that the CMSNC be a source of revenue from which the he and supervisory officials could draw funds, over the company being foremost an entrepreneurial firm developing riverine infrastructure and increasing business transactions between China's interior merchants and outlying ports.

Shanghai's compradors participated in state-sponsored companies as both investors and managers until around 1885, and thereafter their disenchantment with government officials' supervision and interference diminished their involvement in these enterprises. Wellington Chan identifies several reasons for this trend towards disenchantment, and the replacement of comprador managers by official supervisors. First, the "large size of capital and the profitability of modern industry made it a desirable target for officials to gain control."[53] This is similar to corporate buyouts today in taking control of profitable enterprises. It suggests a profit maximization motivation at play on the part of official executives. Second, bureaucrats "had acquired experience in management and in arranging several loans from the government."[54] This was a gradual improvement through which managerial officials effected institutional innovations in privatized *guandu shangban* firms.[55] Third, officials tapped alternate sources of capital including official friends and through modern banks in addition to government loans.[56] Instead of officials relying on shifting capital from one business project to another, as Sheng Xuanhuai tended to do, their seeking funds from the investment market and banks improved the financial health of firms. Thus, capital would be deployed to profitable firms. Unlike with *guandu shangban* firms, capital was positioned optimally rather than politically. Fourth, "officials shifted from their advisory, protective roles to become official managers" and into capitalist entrepreneurs as the firms were transformed, after 1900, into private enterprises.[57] With the departure of comprador mangers, supervisory officials became initially official executives and later owner capitalists. For example, Wellington

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[53] Chan, "Bureaucratic Capital and Chou Hsüeh-his in Late Ch'ing China," 430. Reasons for disenchantment and official supervisor management in this paragraph to this page in citation.

[54] *Ibid*.

[55] Juanjuan Peng, "Changes and Continuities: The Technological and Institutional Development of a Privatized State-owned Enterprise in Late Qing China," *American Journal of Chinese Studies* 20, No. 2 (October 2013): 133-134.

[56] One of these modern banks was the proposed Imperial Chinese Bank of International Commerce. On this bank, see, Charles Denby, "The Imperial Bank of China," *Consular Reports: Commerce, Manufactures, Etc.,* (Washington, D.C.: Government Printing Office, 1897), 240.

[57] Chan, "Bureaucratic Capital and Chou Hsüeh-his in Late Ch'ing China," 430.

Chan observes that between 1887 and 1893, the Shanghai Cotton Cloth Mill's capitalization tripled by "use of official loans and the transfer of funds from" productive ventures, with nearly "no new merchant capital."[58] The disenchantment of compradors in state-sponsored enterprises emerged from declining opportunities to optimally allocate capital to these enterprises. Several of these firms continued to appropriate organizational structures from traditional enterprises, especially the lack of independence of accounting divisions from the owner-manager's family wealth. Political interference continued in cases, and official squeeze limited growth of these firms. Those firms that were privatized and independent in their operations were large scale and required access to a capital market beyond just personal comprador wealth.

Official Executives as the Second Type of Bureaucratic Merchant

This short section outlines the features and activities of official executives. This includes the principal reason for their emergence, namely the application of bureaucratically controlled government capital to finance state-sponsored enterprises. It also touches on how official executives applied this capital to private business goals, and the implication of this fiscal activity. The transformation of the *guandu shangban* enterprise into a new corporate form encouraged the official executive to become a capitalist entrepreneur, risking personal wealth to acquire profit through the reformed enterprise. The section concludes by noting that the changing political environment after 1900 contributed to the decision by official executives to pursue a business strategy apart from their political role as official executives.

The second group of bureaucratic merchants appeared in the 1890s as the Self Strengthening Movement (*yangwu*) collapsed following the Sino-Japanese War of 1894-1895.[59] During the earlier decade of official supervision and management, it became clear that the capitalization of a modern economy would require investments exceeding what was achievable with private capital. The solution to this funding problem,

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[58] *Ibid.*

[59] In the earlier nineteenth century, China suffered intrusion by western powers, limited to port cities, with little direct effect on China's handicraft industries. The First Sino-Japanese War and later Boxer Rebellion allowed imperialist powers to set-up factories in country. China responded by imitation or acculturation of the new technology. The Russo-Japanese War and later Great War favored China's growth in export contracts and reduced foreign competition. Conversely, the loss of the Korean peninsula and takeover of Manchuria imposed Japanese industrial dominance. China's fate was to either Westernize or face takeover by others like Japan.

as Wellington Chan argues, was bureaucratic capital, "that is, capital accumulated through public office, or state revenue diverted by individual officials for capital investment."[60] It was the redirection of public funds to private business goals that distinguished the second group of bureaucratic merchants. Wellington Chan argues that, by redirecting public funds, official managers acted both in the role of investors and political protectors, and thereby they "eliminated the old problem of trying to convince any merchant investor that his interests would not be sacrificed by bureaucrats."[61] In this sense, the ability by official executives to access bureaucratic capital guarded their business interests and insulated them from government interference, as bureaucratic capital allowed them to take the firms private.

Through this process of accessing bureaucratic capital, the *guandu shangban* enterprises after 1900 became *shangban* (merchant managed) enterprises led by official executives.[62] Wellington Chan defines these *shangban* industries as "private enterprises, [that] had full official protection but a minimum of official control, for they often were owned by the very officials who made government policies on commerce and industry."[63] For example, an official executive, like the comprador investor, took on the financial risk in organizing these firms by advancing his personal wealth in *shangban* enterprises. Under these conditions, the official executive was less interested in promoting government interests, than his own business interests. Wellington Chan posits that this change in the official executives' commercial behaviors is accounted for by the reason that as "political chaos intensified [post-1900], the world of officialdom became less attractive."[64] However, Chan's association between political chaos and profit motivation is assumed. Instead, managerial experience is associated with marketing ability (i.e., decision making in markets). Under a condition of increasing risk-bearing, official executives acculturated western capitalist values of profit motivation. The change in official executive behavior was because of an association between their marketing ability and profit motivation once

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[60] *Ibid*., 427, and 435, both where Chan outlines the four types of bureaucratic capital: individual officials' investment, authorized state revenue, loans of public funds, transfers of public funds to individual officials' accounts then invested as private capital.

[61] *Ibid*., 428.

[62] This was so for provincial railways, such as the Kwangtung Canton-Hankow Railway Co. in 1905 and 1906, and cotton mills in Shanghai, such as the Dah Sun Cotton Mill. *Shangban* firms retained official protection with a minimum of official control. Nonetheless, they were few growth breakthroughs because they relied on government loans and gentry or officials' personal wealth.

[63] *Ibid*., 9, and ideas in next two sentences in above paragraph 238-9, and 239.

[64] Chan, *Merchants, Mandarins and Modern Enterprise in Late Ch'ing China*, 108.

investment capital was available. In Shanghai, the emergence of an urban elite of *nouveau riche* made becoming a capitalist more attractive for official executives.

Russell's Shanghai Steam Navigation Co.

The principal model of a modern Chinese-owned company in 1870s Shanghai was the CMSNC (est. 1872).[65] The Chinese-owned company was established in competition with Russell and Co.'s Shanghai Steam Navigation Co. (est. 1861-2).This section will outline the administration and financing of Russell and Co.'s steamship enterprise in a subsequent section to illustrate how the operations of a modern firm resolved pricing problems created by a competitive market pricing mechanism, and how those managerial solutions to marketing were also adopted by the CMSNC. Three essays by Kwang-ching Liu investigated the history of Russell and Co., focusing on financing and administration of the steamship company, and the freighting market in nineteenth century China along the Yangtze River.[66]

In 1862, Russell and Co. organized the Shanghai Steam Navigation Co., which was financed not from the partnership in Boston nor the Shanghai commission house itself, but "among subscribers mainly composed of Chinese comprador-merchants and British traders residing in China."[67] The company was "unincorporated and individually liable," with revenue going directly to the owners, a western style business arrangement by now familiar to Chinese investors.[68] Kwang-ching Liu observed that "Since the development of foreign-owned mines, cotton textile mills, and railroads did not begin until the 1890s, the steamship business was long the only significant field of activity in which Westerners set an example of modern entrepreneurship."[69] It was

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[65] An outline of the commercial history of this Chinese steamer company is given in "Testimony taken before the Committee on Expenditures in the State Department," *House Documents* 2, no. 306 (Washington, D.C.: Government Printing Office, 1878), 72, 224-228.

[66] Kwang-ching Liu, "Financing a Steam-Navigation Company in China, 1861-62," *The Business History Review* 28, no. 2 (June 1954): 154-181, "Administering a Steam-Navigation Company in China, 1862-1867," *Business History Review* 290, no. 2 (June 1955): 157-188, and, "Steamship Enterprise in Nineteenth-Century China," *Journal of Asian Studies* 18, no. 4 (August 1959): 435-455.

[67] Liu, "Financing a Steam-Navigation Company," 156. Testimony by Mr. Merrick before the State Department identifies the majority shareholders as Chinese, "Testimony taken before the Committee on Expenditures in the State Department," 224.

[68] Robert Bennet Forbes, *Personal Reminiscences*, 2nd rev. ed. (Boston, MA: Little Brown & Co., 1882), 366.

[69] Liu, "Steamship Enterprise in Nineteenth-Century China," 436. The first railroad in England was not till 1825, whereas steamboats were earlier. The river steamships with flat-bottomed on the Mississippi allowed travel with little draft for the boat.

the prospects of profits that could be reaped from riverine transportation that attracted foreign entrepreneurs.[70] Overland transport of 200 miles cost as much as it did to grow cash crops, whereas Yangtze freighting rates were one third to one fifth as much.[71] Lower transportation costs and longer transportation distances made the opportunities for the Shanghai Steam Navigation Co. attractive.

Liu's claim of an example of modern operations was not entirely true, as Chinese reformers were familiar with the Imperial Maritime Customs Service (est. 1861), an efficient bureaucratic structure whose tariff "revenue increased, from 8.3 million taels in 1861 [*sic*] to 12 million taels in 1875 to 14.5 million taels in 1885."[72] Li Hongzhang certainly benefited from the insights into modern administration of civil services that Robert Hart provided, but importantly Hart's status as a chief administrative western-middleman kept him in daily touch with his Chinese counterparts, some of whom reported to Li Hongzhang.[73] It was Hart's opinion that the Customs be a model of the modern civil service.[74] Hart viewed "his own Foreign Inspectorate as the logical modernizing model for the empire as a whole." However, it is true the Imperial Maritime Customs Service was not entrepreneurial, but bureaucratic.

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[70] Danby noted "the stimulus the opening of Chungking would give to the consumption of British manufactures. . . . we shall find . . . hundreds of miles of great waters, whose navigation by steamers will be sought for by the Chinese . . . . we shall find a large population of active, industrious, well-to-do people, able to buy and having much to sell." "The Upper Yangtze as a Trade Route," *Weekly London Times*, March 4, 1887, n.p. quoted from Charles Denby, "The Upper Yangtze Steam Navigation Company," *Reports from the Consuls of the United States* XXIII, no. 81 (Washington, D.C.: Government Printing Office, July 1887), 65.

[71] Dwight H. Perkins, "Government as an Obstacle to Industrialization: The Case of Nineteenth Century China," *The Journal of Economic History* 27, no. 4 (December 1967): 482. Wagel, *Finance in China*, 403, reported sail freight pricing from Shanghai to Hankou was comparable to freight pricing from Manchester to Shanghai.

[72] Ting-Yee Kuo, "Self-Strengthening: The Pursuit of Western Technology," in *The Cambridge History of China, Volume 10, Late Ch'ing 1800-1911: Part 1*, ed., John King Fairbank (New York: Cambridge University Press, 1995), 514. There is a dating error in the above quote, identified by sic. Kuo attributes these above statistics to Srinivas R. Wagel, *Finance in China*, Appendix B (Shanghai: North-China Daily News and Herald, Ltd, 1914), 466. The Customs Revenues should be for 1865 (not 1861) at 8,289, 281 taels, 1875 at 11,968,109 taels, and 1885 at 14,472,766 taels.

[73] Richard J. Smith, John K. Fairbank, and Katherine F. Bruner, eds., *Robert Hart and China's Early Modernization: His Journals, 1863-1866* (Cambridge, MA: Council on East Asian Studies, Harvard University, 1991), 26.

[74] Robert Hart, "Circular No. 8 of 1864 (first series)," *The Maritime Customs* (IV. Service: No. 69) *Documents Illustrative of the Origin, Development, and Activities of the Chinese Customs Service* (Volume I: Inspector General's Circulars, 1861 to 1892) (Shanghai: Statistical Department of the Inspectorate General of Customs, 1937), 37, https://archive.org/details/in.ernet.dli.2015.206919/page/n61/mode/2up (accessed October 17, 2019). To quote from that page in Hart, ". . . it is not, of course, to be expected that any one [foreign personnel of the Customs] will forget that he is a representative of a civilization of a progressive kind, that differs in almost every respect from that of this country; nor will he be expected, as such, to suppress the inclination that naturally will lead him to seek to awaken some interest in that in that civilization, and to introduce such of its appliances as the experience of the West has shewn [shown] to be productive of generally beneficial results." These experiments in modernization of China were ancillary to the Maritime Customs primary purpose of administration of trade and tariffs.

Along the Yangtze River, the launch of an American-design steamship company was meant to compete with Chinese sailing craft.[75] In the1860s, native shipping of goods on junks persisted for a while as riverine trade was mainly in Chinese hands, but after the 1890s tonnage of steamships increased, accompanied by very low transportation rates, which undermined Chinese-controlled freighting.[76] In the freighting depression of the 1880s, British and Chinese "concerns cooperated directly . . . with firms attempting to monopolize the trade through a 'conference'."[77]

In the 1860s, the Shanghai Steam Navigation Co. found itself competing with rival competitors along the Yangtze. Two problems troubled the Shanghai Steam Co., namely, financing and administration. Financing was not forthcoming from Russell's Boston partnership, and although steamers might make "an annual gross profit of $342,000" the Shanghai agency was still short of funds.[78] Initially, Edward Cunningham, a partner in Russell and Co., sought to risk the trading house's capital, but fellow partner, Warren Delano, Jr., was for retaining these revenues to be used during declining times. In a letter dated June 1861, Cunningham lamented the "want of money" and how "times having changed since we could depend on Houqua for floating a balance."[79] Cunningham proposed a plan for subscription of $170,000 in Shanghai, the main portion of which was paid as $75,000 in Hong Kong and $75,000 reserved for partners not in China.[80] P. S. Forbes, head of the trading house in America, did not invest his wealth in the Shanghai Steam Co., but supervised purchase and construction of three steamers, acting "in the capacity of an agent" for the Shanghai house.[81] From 1861 to 1862, Edward Cunningham revised the plan for subscription, raised 1,000,000 taels

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[75] Joseph Earle Spencer, "Trade and Transshipment in the Yangtze Valley," *Geographical Review* 28, no. 1 (January 1938): 120-121.

[76] Wagel, *Finance in China*, 188-190, reported total tonnage of ships in China for 1867 to 1912. In 1912, Chinese tonnage was 12,873,098 of which junks were 4,404,309, still nearly one third that of the total.

[77] Gregor McMillan, "Trading on Chinese Shores: The Indo-China Steam Navigation Company and change in the China coastal shipping market, 1880–1900," *The International Journal of Maritime History* 28, issue 2 (2016): 296-7. Liu, "Steamship Enterprise in Nineteenth Century China,"445-6. In the early twentieth century "intensive rate cutting" imperiled the financial health of shipping firms, reported in, "Shipping on the Yangtze," *Monthly Consular and Trade Reports* issue 316 (Washington, D.C.: U.S. Government Printing Office, January 1907), 88.

[78] Liu, "Financing a Steam-Navigation Company in China," 159.

[79] *Ibid*., 159 n. 11.

[80] *Ibid*., 162.

[81] *Ibid*., 166.

and purchased waterfront property at Yangtze treaty ports.[82] Subsequently, he proposed an increase in the number of steamers. Subscribers in this second phase were Chinese friends of Cunningham. Three of these subscribers, Ahyune, Chongfat, Koofunsing, were compradors of Russell and Co. Cunningham offered the three compradors a shared ownership in one of the steamers.[83] He also applied to attract British subscribers from smaller houses by offering them warehouses in treaty ports "available to the shareholders of the company under a special arrangement of pro rata return of profits" helping the shareholders reduce costs of shipping.[84]

As well, Edward Cunningham's steamship administration during the company's start-up phase had to confront the problem of inflated business costs borne by the company on freightage, due to Chinese competition in the Yangtze River transportation market.[85] The solution, as found by Cunningham, was to absorb the costs within the company, a commercial response pursued by modern firms that wish to set transaction costs rather than pay the open market price. The primary role of a modern firm's administration is that the administrators must seek ways to absorb the functions of the market pricing mechanism into the firm in order to stabilize costs paid by the firm, and prices paid to the firm over the long run. The first problem Cunningham faced was one of obtaining funds to purchase steamers overseas in the U.S. and wharfs along the Yangtze River from the shipping market. He did this by relying on his network of comprador friends and by distributing to them property rights which provided them revenue. Likewise, he lowered the costs of shipping for British traders who subscribed to purchase shares. In China's open freighting market, freight costs to the company were high.[86] But with the firm absorbing those costs, it was able to lower freighting costs to a level at

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[82] *Ibid*., 168.

[83] *Ibid*., 169-170. There were other avenues to shared ownership. In "Testimony taken before the Committee on Expenditures in the State Department," 224, Mr. Merrick noted an earlier variant practice, as when lorchas owned by Chinese were put on the company register, the Chinese owner taking a mortgage on the vessel, while the company nominally owned the boat.

[84] Liu, "Financing a Steam-Navigation Company in China," 171. When the Shanghai Steam Navigation Co. was sold, there were 22,500 shares outstanding, the sale being worth 2 million tales. For share numbers, see, "China: Shanghai," 195.

[85] Forbes, *Personal Reminiscences*, 366. Shortly after the company was established, freightage rates fell exceptionally low. Forbes, *ibid*., wrote that "Russell & Co. held the best wharf positions and commanded throughout the choice of the Chinese trade, having also a fair share of the foreign freightage, through their English shareholders. . . . After four years, . . . the Shanghai Steam Navigation Company came out first, bought the rival steamers of their various owners, and established a first-class line which flourished for seven to eight years."

[86] Forbes, *Personal Reminiscences*, 365, noted £6 to £7 sterling paid for one ton to move 600 miles along the Yangtze in 1861-1862. Wagel, *Finance in China*, 405, reported charges per ton from Shanghai to London were about 35 shillings.

which a profit could be made by attracting increasing numbers of customers. According to this interpretation on the administration of modern corporations, Edward Cunningham's administration of the Shanghai Steam Navigation Co. followed that outlined in the Coase Theorem. That is according to the theorem:

> The main reason why it is profitable to establish a firm would seem to be that there is a cost of using the [market] price mechanism. . . . if one contract is made for a longer period, instead of several shorter ones, then certain costs of making each contract will be avoided. . . . A firm is likely therefore to emerge in those cases where a very short-term contract would be unsatisfactory.[87]

Thus, commercial parties with contracts with the Shanghai Steam Navigation Co. avoided multiple shorter-term contracts which relied on pricing through the market, and benefited the contractual parties by sharing in the freighting resources owned by the firm. In general, Ronald Coase observed that "Outside the firm, price movements direct production, which is co-ordinated through a series of exchange transactions on the market. Within a firm, these market transactions are eliminated and in place of the complicated market structure with exchange transactions is substituted the entrepreneur-co-ordinator, who directs production. It is clear that these are alternative methods of co-ordinating production [and profit]."

The China Merchants' Steam Navigation Co.

The initiation of the CMSNC emanated from fiscal difficulties in the Foochow Naval Shipyards in dealing with maintenance costs on naval ships for the Jiangnan fleet. According to David Pong, "in the middle 1860s a "handful of officials . . . took a leap into" the arms race with Europe "amidst persistent opposition from within the government itself."[88] As Pong notes, this called into question the "adaptability of the traditional Chinese state to accommodate a modern economy" through a "traditional financial administration."[89] The historical trend of the Qing government was toward deregulation in merchant shipping, merchant construction of freighting ships, and leasing of such ships for government service. However, government financing and construction costs for ships built with timber led to a "sorry state" of government ships' maintenance, as Moll-

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[87] Coase, "The Nature of the Firm," 388, 390, 391, and 392.

[88] David Pong, "Keeping the Foochow Navy Yard Afloat: Government Finance and China's Early Modern Defence Industry, 1866-75," *Modern Asian Studies* 21, no. 1 (1987): 122.

[89] *Ibid*., 123.

Murata observes, "proof of the decline of the state's coercive and fiscal power."[90] For example, "In 1844 [*sic*], a sober account of the situation of the Jiangnan fleet states that of its 275 ships, none was actually well maintained," while "in 1872 [Li Hongzhang] suggested giving up traditional [naval] shipbuilding altogether."[91] The lynch-pin failure of the government scheme for naval ship construction fell for the problem of maintenance, which quickly exceeded the budget of the Foochow Navy Yard. The government scheme then shifted to Li Hongzhang's suggestion that the government form a steamship company and supply merchants with steam transportation.[92]

The CMSNC, as a "joint-stock enterprise was organized within an agency of the government, the Bureau for Inviting Merchants to Operate Steamships," and was to "serve purposes of state policy" and compete with foreign shipping firms.[93] Greg Clydesdale observes that Li Hongzhang's principal advisor for the new firm was Zhu Qiang (Chu Ch'iang), "a gentry-merchant who personally owned junks and was a commissioner of the Chekiang Bureau of Sea Transport."[94] Zhu's main responsibilities lay in establishing the Chekiang Bureau and convincing merchants to purchase shares in the new steamship company. Apart from the capital invested by merchants, the CMSNC, for most of its existence under Li Hongzhang's supervision, acquired borrowed capital from the government. As Kwang-ching Liu noted, Li expected private capital to amount to 1,000,000 taels, but by 1877 this amounted to only 751,000 taels. So, in 1877, when the company purchased steamers from Russell and Co.'s shipping firm, the government provided the CMSNC with a 1,000,000-tael loan.[95] In provisioning the CMSNC with steamships and wharfs, Zhu Qiang overpaid on two occasions for steamers that did not meet the specifications he had expected.[96] Zhu Qiang was not intentionally

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[90] Christine Moll-Murata, *State and Crafts in the Qing Dynasty (1644-1911)* (Amsterdam, Holland: Amsterdam University Press, 2018), 174. The date of 1844 may be an error, as this is too early for the Jiangnan works. A likely date is 1864.

[91] *Ibid*., 135-136. Revenues from enterprises to maintain deprecations and dividends was a problem for the China Merchants Steam Navigation Co. in early days. On this problem of revenues, depreciations, and dividends, see, Wilson, *China*, 87.

[92] Pong, "Keeping the Foochow Navy Yard Afloat," 126-34.

[93] Liu, "Steamship Enterprise in Nineteenth-Century China," 436-7.

[94] Clydesdale, "Economic Decline and the Failure of Chinese Entrepreneurs," 173.

[95] Liu, "Steamship Enterprise in Nineteenth-Century China," 439-40. See entry, "China," *Appletons' Annual Cyclopaedia and Register of Important Events*, Volume 7; Volume 22 (New York: D. Appleton and Company, 1883), 101, which noted the trepidatious position, given "The share capital [of the Chinese Co.] stood at 751,000 taels and the borrowed capital at 3,800,000 taels in 1878."

[96] Hao, *The Comprador in Nineteenth Century China*, 139, and 274 n. 112. See note 46 above this text for Zhu's initial overpayment.

financial negligent in his position, but he was certainly out of his depths. And yet, how did this short period under Chu's management promote a modern enterprise?

The CMSNC was a joint-stock company rather than a family business.[97] The intention from the beginning was to attract private wealth, in much the same way the Shanghai Steam Navigation Co. derived its working capital from merchant and comprador subscribers. The fact that share subscriptions did not meet expectations indicates that comprador investors perceived other investment opportunities.[98] Alternatively, Wellington Chan suggests that Zhu Qiang's failure to raise capital was "apparently because his contacts were with the wrong kind of merchants—traditionalists . . . who hesitated to enter into modern ventures."[99] Concurring, David Faure stresses a cultural reason for insufficient funding, namely that, among traditional merchant investors in the 1870s, the novelty of shares as an instrument for holding a portion of a company was unfamiliar to merchants accustomed to partnerships.[100] Faure's reasoning overlooks that in the past Chinese unlimited liability companies offered shares, and Chinese merchants were familiar with these means of investment. Nevertheless, both interpretations overlook the possibility that there existed a barrier to comprador investors' subscriptions of its shares. In this respect, financing for the CMSNC *could* have been completely private. That the company was not completely privately financed indicates an immaturity in the Shanghai financial-investment market to raise the necessary capital. The fact that Russell's Shanghai Steam Navigation Co. was privately subscribed proves this point. This raises the further question about 'why this difference between the two shipping companies'?

One interpretation of the difference is related to the nature of investment uncertainty. Russell and Co.'s Edward Cunningham raised investment capital through Chinese friends, namely compradors associated with

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[97] It is suggested that the concept of a joint-stock company was more often conflated with the notion of a partnership. This is most clearly brought out when considering responsibility in cases of company bankruptcy: "A company of this kind [joint-stock] would probably be regarded, as in fact it is, as a huge partnership in which the directors would represent the ostensible or managing partners and the shareholders the dormant partners. The former would be responsible for the whole of the debts, while the latter would be most likely held blameless." This quotation from, George Jamieson, "[Reply] Chinese Partnerships: Liability of the Individual Members," *Journal of the China Branch of the Royal Asiatic Society* XXII (Shanghai, 1888): 48.

[98] Lai, "Li Hung-chang and Modern Enterprise," 219.

[99] Chan, *Merchants, Mandarins and Modern Enterprise*, 76.

[100] David Faure, "Beyond Networking: An Institutional View of Chinese Business," in *Chinese and Indian Business : Historical Antecedents*, ed., Malik Kudaisya and Chin-keong Ng (Leiden and Boston: Brill Academic Publishers, 2009), 49-50, https://ebookcentral-proquest-com.ezproxy.library.uvic.ca/lib/uvic/detail.action?docID=634913 (accessed October 15, 2019).

the Shanghai commission house, and through networks of associated compradors. Thus, the steamer company's promised future dividend per each company share seemed a certainty to comprador investors given that past payouts by Russell and Co. to comprador investors were paid. Likewise, price uncertainty for freightage costs and goods storage at wharfs for merchants was alleviated by Cunningham's promise of such services to both British and Chinese shareholders. Furthermore, shareholders in the Shanghai Steam Navigation Co. knew that their participation as shipping customers benefited them, as a portion of their personal transportation costs on their own goods was recouped from the dividends paid to them. The flexibility afforded merchant customers of the Shanghai Steam Navigation Co. secured for the company the necessary funds to establish its steamship trade. Nonetheless, in terms of its initial capitalization, the CMSNC was a model of a modern enterprise, because it bore similarity to the Shanghai Steam Navigation Co.'s program of funding.

Zhu Qiang's misfortune was less troubling to the administration of the CMSNC than we might assume. Zhu allocated the company's subscription funding to capital resources for the CMSNC, as did the Shanghai Steam Navigation Co. However, Zhu also anticipated that shipping revenue from the monopolized rice transit along China's coast would provide the company with a steady revenue stream, whereas the Shanghai Steam Navigation Co. could not have relied on similar guaranteed returns in a competitive freighting market.[101] Zhu's misfortune came from overpaying for capital factors, and government officials quickly recognized that he was unsuitable to administrate a modern steamer company. As Liu recounted:

> Sometime in May 1873, Lin Shih-chih, an official of the Tientsin native customs, and Prefect Chu held conversations at Shanghai with two Cantonese compradors, Tong King-sing [Tang Jingxing] and Hsü Jun. Tong went to Tientsin to see Governor-general Li in June and returned to Shanghai to resign his comprador post in July. Prefect Chu relinquished the management of the steamships but continued to handle the tribute rice business.[102]

Under Li Hongzhang's directorship, he reassigned Zhu Qiang and appointed Tang Jingxing to the

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[101] Liu, "Administering a Steam-Navigation Company in China," 165.

[102] Liu Kwang-ching, "Two Steamship Companies in China, 1862-1877," (PhD. Thesis, Harvard University, 1956), 112, quoted in Hao, *The Comprador in Nineteenth Century China*, 274 n. 114. Tribute rice, *caoliang*, was a grain tax applied chiefly to the lower Yangtze region. It was used to feed the court and military garrisoned around Beijing. Transport was along the Grand Canal, until it began to silt up. In the nineteenth century, the rice was shipped along the coast. On the history of tribute rice and shifting shipping thereof, see, Harold C. Hinton, "The Grain Tribute System of the Ch'ing Dynasty," *The Far Eastern Quarterly* 11, no. 3 (May 1952): 339-354.

position of director of the firm. David Faure cautions that "It is unfortunate that the literature on the CMSNC is saddled with a moralistic overtone that does not take into account the realities of business."[103] What then were these realities? First considered is Tang's shipping career before examining his westernized managerial style in the CMSNC.

A summary of Tang's business career as a comprador for Jardine, Matheson and Co. is presented in Yen-p'ing Hao's study of compradors.[104] Tang began his shipping experience in 1870 managing Jardine, Matheson and Co.'s steamers, which the trading firm later reorganized in 1873 into the China Coast Steam Navigation Co. Tang acted for "soliciting both capital and freight," for which Jardine, Matheson and Co. rewarded him 350-400 shares of the China Coast Steam Navigation Co.[105] As with Russell and Co.'s shipping firm, the China Coast Steam Navigation Co. depended on comprador investors and small traders for subscriptions, even though Jardine, Matheson and Co. itself invested 191,750 taels.[106] Aside from the China Coast Steam Navigation Co., Tang Jingxing invested in "steamship enterprises independent of Jardine's," and was nominated by a group of Cantonese shareholders "to be a director on the boards of two of these firms (the Union Steam Navigation Company founded by Glover and Company in 1867, and the North-China Steamer Company founded by Trautmann and Company in 1868)."[107]

Tang Jingxing's placement as manager in the CMSNC suited the expectations of government reformers in the Zongli (Tsungli) Yamen as Tang "was an expectant sub-prefect (*t'ung-chih*) in 1873," but during Tang's supervision of the company he never achieved the rank of gentry official nor was "ever a substantive

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[103] Faure, "Beyond Networking," 49.

[104] Hao, *The Comprador in Nineteenth Century China*, 22-23. Liu ,"Administering a Steam-Navigation Company in China, 159 n. 3, outlines Jardine, Matheson and Co.'s 1864 operations of two steamers on the Yangtze, and one between Shanghai and Ningbo. In 1867 the company set up a line between Shanghai-Hong Kong then in 1868 two steamers in North China. A biographical sketch of Tang Jingxing is given in J. R. Black, ed., "Mr. Tong King Sing," *The Far East : A Monthly Illustrated Journal* Volume IV, New Series (Shanghai: The Far East Printing Office, January—June 1878): 143-144.

[105] *Ibid*., 32. Tang was traveling agent for Jardine, Matheson, and Co. in 1862, becoming comprador in 1863. Black, "Mr. Tong King Sing," 143.

[106] Kwang-ching Liu, "British-Chinese Steamship Rivalry in China, 1873-85," in *The Economic Development of China and Japan*, ed. C. D. Cowan, (New York: Routledge, 1964, 2006), 52.

[107] Albert Feuerwerker, *China's Early Industrialization: Sheng Hsuan-huai (1844-1916) and Mandarin Enterprise*, (Cambridge, Massachusetts: Harvard University Press, 1958), 111. See, Black, "Mr. Tong King Sing," 143.

official."[108] Albert Feuerwerker infers from this that, because of Tang Jingxing's limitation in official rank, his management of the company was no more than "mercantile."[109] Consequently, the CMSNC was never separate from its government official patrons in the Zongli Yamen, "the seat of attitudes and practices which stood in direct contradiction to the requirements of modern industry and commerce."[110] Consequently, the increasing dominance of officials in the firm's management led to increasing siphoning of financial capital for private purposes. Feuerwerker's inference agrees with the gradualist interpretation, namely, that any modern innovations implemented in the CMSNC were limited, and that the business practices in the company followed traditional practices under official governance. Feuerwerker's inference depends on how one values Tang's managerial contributions in the company.

Tang Jingxing's immediate staff consisted of Xu Run who served as deputy chief, Zhu Qiang, who was in charge of tribute rice, and Sheng Xuanhuai, who was an assistant manager.[111] Although the appointment of comprador management in the CMSNC under Tang and Xu heralded an enterprise initiative absent in Chu's earlier administration, comprador management was not always efficient. Thus, while H. B. Morse, customs commissioner in the Imperial Maritime Customs Service, praised Tang Jingxing's business acumen, he had worse to say about Xu "for a 'sinful waste of money' in building godowns at Chin-li-yuan wharf in Shanghai with a 'third storey' which is and will be useless."[112] (Where these godowns' added floors useless? The primary sources do not say.)

But Tang's managerial competence was already accepted from his experience as a comprador manager in Jardine, Matheson and Co.'s steamship business. He was also held in esteem by Shanghai merchants who rewarded him with shares in the shipping company and a position as a director in another shipping company.

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[108] *Ibid*., 111. *Zongli Yamen* was a government division in charge of foreign policy in late Qing China. It was the first instance of modernization in Qing bureaucracy. That Tang achieved expectant Taotai and honorary second rank, see, Black, "Mr. Tong King Sing," 143.

[109] Feuerwerker, *China's Early Industrialization* , 23.

[110] *Ibid*., 26.

[111] *Ibid*., 112. Zhu Qiang died in 1878. Sheng reduced his ties in 1875 when he took charge of mines in Hupei and left for a position as *taotai* in Tientsin. Both Tong and Xu were dismissed in 1884 for misappropriating company funds.

[112] *Ibid*., 19. The godown was a warehouse, and historically went back to the Indian warehouses of the British East India Co. and as far as 1500s. The word itself may be Malayan (*gedong*), which itself may have a root in Southeast Asia and India as far back as 7th to 11th century, attesting to the temporal depth of merchant trade in this region.

On the point that Tang's management was under the governance of the Zongli Yamen, had this branch of government been conservative it would likely have retained Zhu Qiang as manager.[113] The Yamen's intention was for the CMSNC to become profitable in competition with European shipping firms. To that end, Tang was appointed as a director to solicit capital investments from compradors and efficiently organize the company steamers and wharfs. This was a complicated commercial enterprise, and required someone of Tang's managerial abilities and *bridged* experience to organize the steamship company for maximizing profit.

Next for examination is the problem of market pricing as evidence of Tang's innovation of the CMSNC. Both western and Chinese shipping companies' operations made their profits by receiving fees for transporting merchant goods as freight on their steamships or storing goods in their godowns. This freighting profit for the major shipping companies was limited by the "capacity" of the company to meet the demands of merchant customers.[114] Specialization and division of labor in the company was the solution Tang applied. Innovations in family firms' organizational structure tended to maintain the boundaries of pre-western influenced configurations. The demands of a sophisticated commercial venture required reform of the organizational structure and introduction of professional management for the company's divisions.

Division in the operations in the company were allocated between the directors, such as Tang Jingxing and his staff, the navigation of the steamers along the Yangtze River by foreign captains and mechanical engineers, and the management of wharf storage facilities in treaty ports by the companies' Chinese branch managers.[115] Beyond the company's own administration, Shanghai's Cantonese guild assisted, through merchant connections in other ports, to provide patronage to the CMSNC.[116] Chiefly, Tang relied on his leadership in the Cantonese guild to connect Cantonese merchants to the company's freight brokerage system.

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[113] Additionally, had there been a severe conservative element in the Zongli Yamen, Tang would never have been allowed to reform the Chinese steamer company's official management in 1877. As evidence for Tang's reform abilities, see entry, "China," *Appletons' Annual Cyclopaedia and Register of Important Events*, Volume 7; Volume 22 (New York: D. Appleton and Company, 1883), 101, in which was noted 3 years after reforms debt fell to equal the fleet's capital, net profits of capital rose to 21 percent from 7 to 8 percent, shares in 1881 were 1 million tael, and the company was endeavoring shipping to San Francisco and London.

[114] Liu, "Administering a Steam-Navigation Company in China," 167-177. "Capacity" included not just steamers but godowns (storage), wharfs for docking and freighting, percentage "rewards" to captains and personnel, schedule departure and arrival times, and a "full line" of steamers which includes repairs and maintenance and allocation of a minimal number of ships to maximize available demand.

[115] Liu, "Steamship Enterprise in Nineteenth Century China," 442.

[116] *Ibid.*

As well, Tang relied on other compradors "who served as his deputy managers in Shanghai and at other ports:"

> In 1879 a system was adopted limiting the administrative expenses of each branch office to 4 per cent of its receipts plus 1 per cent of the charges on freight delivered from other ports. Because the Chinese managers did not always have faith in their compatriots, foreigners were employed not only as officers aboard ships but also as superintendents at warehouses and wharves.[117]

As in foreign shipping companies, the CMSNC transformed its port mangers from branch office administrators into commission agents.[118] Only after 1877 did corruption and squeeze significantly infiltrate the CMSNC operations, and "particularistic" abuses resulted in the employment of "two to three times the number of men actually needed," a common practice for officials and compradors.[119] The pattern of installing professionals within company divisions was complemented by merchant guild participation, thereby, broadening the transportation market along the Yangtze River. Professionalization within divisions lowered the firm's transaction costs, improving the gap between outgoing costs and revenues received. Thus, from 1872 when the CMSNC was established until around 1884, Tang structured the organization of the firm along westernized lines, while accommodating traditional merchant network associations. On the whole, the increasing occasions of official intervention in employment and graft suggests that the company was not protected under any company law, and that it was futile to resist increasing bureaucratization of company management. Moreover, the firm was structurally reorganized at the top level with Sheng Xuanhuai replacing Tang, and comprador managers replaced by official executives. The profitability of the company declined.

At what level of profit had the CMSNC benefited? Liu Kwang-ching believed that the return rates for the CMSNC for 1877 and 1878 were inflated, and he considered that the "capital accounts had been doctored to enable the working account to show a profit."[120] Nevertheless, Tang Jingxing benefited the company's

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[117] *Ibid*., 443.

[118] *Ibid*. 443 n. 6.

[119] *Ibid*., 444.

[120] *Ibid*., 445 no 10. There may be some truth to this, as by proximate comparison Russell's Shanghai Steam Navigation Co. had made the decision to sell to the China Merchants' Steam Navigation Co. based on falling revenues. The entry, "China: Shanghai," 196, recorded Mr. W. S. Fitz, Shanghai Steam Navigation Co.'s Chairman's reasons for the sale: "While fully conscious that the general position of the company was one of great strength, and that increased prosperity might follow from the early opening of new ports, they could not shut their eyes to the fact that for several years past our dividends had been reduced, or to the chance that our profits for the near future might continue low, under the influence of close competition on all our lines."

revenue inflow in 1878 by bargaining with the company's foreign rivals. Together with Butterfield and Swire's China Navigation Co. and Jardine's China Coast Steam Navigation Co., the CMSNC agreed to "conference [freightage] rates" set at higher levels than in previous years.[121] With set rates, the three steamship companies made sizable profits from 1879 to 1893.[122] In these conference rates, Tang overcame the difficulty that market pricing through competition would drive rates lower. Lower freighting rates had been a problem due to increasing freighting capacity on the Yangtze as small shipping firms entered the market. By bargaining the three larger firms removed the freighting pricing mechanism from the open market, instead placing it in the control of the three shipping firms. Although a higher rate may appear detrimental to merchants shipping goods with the three firms, they benefited because the price was stable, and they could access other services from the companies which saved costs.

Conclusion

This thesis claims that bureaucratic merchants were instrumental in managing the modern firm, and identified the bureaucratic merchant as composed of two groups, namely, comprador managers and official executives. In this chapter, focus has been on Shanghai comprador managers hired as directors to manage *guandu shangban* firms because of their acculturated expertise in western managerial practices. Unlike the comprador entrepreneur, who invested and managed private businesses, comprador managers served as administrators in *guandu shangban* firms under official supervision. There is some question as to the efficacy of comprador management, as the two successful state-sponsored companies were both managed by Tang Jingxing. On the other hand, the later failure of these companies was confirmation for Harvard's historians of official malfeasance and incompetence. However, adhering to the hypothesis of *bridging* reconstructs this period of state sponsorship of companies vindicating the argument of *bridging* as providing the business tools for managing competitive firms on an international scale.

In the case of the CMSNC, Tang Jingxing and his staff applied western business strategies that were in

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[121] Liu, "Steamship Enterprise in Nineteenth Century China," 445.

[122] *Ibid*., 446.

keeping with running a modern steamer company. These strategies were broader than the narrow practices inherent in traditional management of junks. These western business strategies including solving the problem of raising significant start-up capital among compradors, resolving the problem of shipping costs due to excessive competition, and the administrative problem of specialization of labor for divisions within the company. As a comprador for Jardine, Matheson, and company, Tang had to address similar problems of asset accumulation, high transaction costs, and coordinating company members. *Bridging* prepared him both for coordinating employees' behaviors to act as a team and, in his capacity as comprador, familiarized him with western steamship technology and administrating operations of a steamer company. While the primary sources provide for major decisions on the part of Tang, the daily administration and coordination of the parts of the CMSNC is lacking. How skilled was Tang's labor force, and how did he distribute his resources between riverine ports? What exactly were Tang's long-term goals for the company? Behind these questions the topic of *bridging* is a touchstone to add weight to any answers.

Tang's *bridging* of western business practices applied to the operations of the CMSNC resulted in the success of that company during his tenure. One way of measuring managerial effectiveness is in measuring increases of the CMSNC's physical assets. The NIE approach that considers a firm as a collection of assets is called the property rights approach to the firm.[123] Assets confirm the boundary of the firm, provide for lock-in effects where the market costs are too high, and transfer of assets create incentive effects. Tang internalized property rights within the CMSNC as a strategy to incentivize comprador investors, and to coordinate behaviors within the market with rival shipping firms. In many ways, Tang's managerial strategy was similar to the organizational strategies of Edward Cunningham, director of the Shanghai Steam Navigation Company. If the two men's administrative strategies were similar, then NIE's analysis on property rights is a powerful method for explanation.

Property rights resolved both the problems of insufficient start-up capital and competitive freightage, the latter which depressed market pricing on shipping. Property rights was at the heart of the CMSNC's rival, the Shanghai Steam Navigation Co. which sought to resolve the same problems in much the same way.

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[123] Oliver Hart, "An Economist's Perspective on the Theory of the Firm," *Columbia Law Review* 89, nol. 7 (1989): 1770.

Cunningham attracted start-up funds from the company's compradors and smaller British traders, who were reimbursed in dividends and property rights to a steamer, to docks, and to storage. Compacts with foreign rivals lowered freightage costs, and, thereby, stabilized operating costs. Likewise, Tang's prominence as a comprador and his managerial expertise persuaded other compradors to invest in the start-up of the CMSNC. Of the total money paid for start-up, 77% came from compradors. NIE reasons that property rights incentivize shareholders to maximize their investments. Likewise, Tang negotiated pooling of shipping, allocating percentages of the market among the CMSNC and its rivals. Tang's achievement was exceptional and long lasting. For instance, even though the Shanghai Steam Navigation Co. was the predominant Yangtze steamer company, Tang purchased the Shanghai Steam Navigation Co.'s entire fleet in 1877. Further, the CMSNC endures to this day as three firms in the PRC, Taiwan, and Hong Kong.

The strength of this analysis above answers to the objection of why invoke *bridging* when either, market behavior or traditional conventions, coordinated CMSNC's performance. The answer is Tang's *bridging* of western business practices provided him with the expertise to address problems of steamer start-up capital and coordinating competition among rival steamer companies. Furthermore, market efficiency did not motivate traditional junk owners to replace their sailing craft with modern steamers. Finally, nowhere has the argument been made that *bridging* resulted in a separation between traditional and modern commercial markets. Guilds were as important to expanding shipping as steamers. On the basis of the primary and secondary sources used, the efficacy of *bridging* combined with property rights undergirded the performance of the CMSNC. To broaden this analysis, it would be worthwhile to address merchant contracts from the other side, to see who contracted with the CMSNC and who did not.

Chapter 4

Returned Overseas Chinese Merchants and the Capitalist Firm

In the 1880s, a small number of emigres to New South Wales, Australia, began initial *bridging* by learning English from British employers. Their first steps as business owners began when they formed produce wholesale companies. In this way originated Australian Chinese capitalists. They acculturated to capitalist conventions in Australia. Decades later, they exported these institutions with themselves to Shanghai. This chapter examines how Ma Yingbiao, Guo Biao, Guo Luo and Guo Quan, four Australian Chinese entrepreneurs, contributed to the modernization of the family firm through their innovations in Shanghai retail department stores. As the third type of Chinese middlemen capitalists, these overseas Chinese capitalists efforts produced the *capitalist firm*, primarily distinguished from the Chinese traditional family firm by an entrepreneur's role in the enterprise, and the lower cost of investment capital.[1] Commonly, the capitalist firm is a solution to the problem of moral hazard in capital markets where contracts are made between entrepreneurs and shareholders.[2] Shanghai's retail department stores, Sincere Co. and Wing On Co., were capitalist firms in which shareholder wealth contributed as much or greater to the firms' venture capital than the owners' personal wealth.

In firms where the price of liability is reduced for the entrepreneur, the cost of bankruptcy is borne by the shareholder. This problem of moral hazard for shareholders is alleviated through systemic trust (i.e., market governance mechanisms).[3] Under conditions where systemic trust is low, investors have less trust in managers (i.e., malfeasance, incompetence) and seek more direct control over the firm. For simplicity, in modern markets where systemic trust is high, investors purchase shares not because the entrepreneur can expend more

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[1] In chapter 2, n. 5, the entrepreneur is theorized as a "high ability and less risk averse person." Cost of investment capital is the interest paid on borrowed loans or dividend rate paid to shareholders. Weiying Zhang, *The Origin of the Capitalist Firm: An Entrepreneurial/Contractual Theory of the Firm* (Singapore: Springer-Verlag Press, 2018), 4, and 98. Se Appendix C.

[2] Moral hazard is a known concept in economics, namely, asymmetric risk in which a borrower engages in higher risk activities, as he does not suffer all negative consequences for his behavior. The lender assumes the consequences of such higher risks on the part of the borrower. Shareholders reduce moral hazard by appointing boards to control entrepreneurs' behavior.

[3] Market governance mechanisms are rules that change business behaviors towards a rule-based system. For example, the regulation of contract through contract law increases systemic trust. Stock shares are a form of contract in which payments and obligations by the firm to shareholders are defined.

effort than the shareholder, but because shareholders are convinced the entrepreneur is more competent than they are.[4] These Australian Chinese entrepreneurs managed their Shanghai stores on the basis of systemic trust, namely a social trust system that "is independent of individuals' motivations" and is founded on institutional structures, such as the judiciary system, governments, and commercial enterprises.[5] Systemic trust was the basis for Chinese shareholder's belief in the competence of Australian Chinese entrepreneurs operations in Sincere Co. and Wing On Co.

The problem of generating systemic trust was resolved through employers' responsibility to employees, by promoting 'human capital' as an example of social welfare.[6] By resolving this problem of systemic trust, Sincere Co. and Wing On Co. increased their economies of scale of operations in Shanghai compared with Hong Kong, and developed their economies of scope by establishing manufacturing factories that supplied the retail department stores with consumer goods modeled on Western goods.[7] These innovations in production and human capital developed in these department stores were not an instance of the "copying to fit for purpose hypothesis" (see Introduction). The innovations developed by Ma Yingbiao, Guo Biao, Guo Luo, and Guo Quan in their Shanghai department stores were borrowed from European managerial models in Australia. Their commercial success stemmed not from derivative imitation of western business practices, but through *bridging* by fashioning business practices to suit their own marketing decisions. In their direct investment in Shanghai's commercial sector, these Chinese capitalists differed markedly from traditional Chinese merchants. By employing overseas Chinese investors money, these Australian Chinese capitalists injected significant investments in the treaty port International Settlements, and broke the merchant-official relationship that had

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[4] Zhang, *The Origin of the Capitalist Firm*, 6, and 23. In partnerships, allocation of equity is matched by symmetric risk. In traditional family firms, risk is lowered by investing personal wealth in high interest returns, directly monitoring performance of family business, and centering authority in the firm in a family manager-owner. Because of the generally small size of partnerships and traditional family firms, labor and capital are symmetric, and their respective returns are governed by their corresponding contributions to production.

[5] Siu-lun Wong, "Chinese Entrepreneurs and Business Trust," in *Asian Business Networks*, ed. Gary G. Hamilton (Berlin and New York: Walter de Gruyter, 1996), 14. Oliver E. Williamson, *The Mechanisms of Governance* (New York and Oxford: Oxford University Press, 1996), 262-263.

[6] See this thesis chapter 2, discussion on Carnegie welfare model and group philanthropic model as examples of social welfare.

[7] Economies of scale refers to lowering costs of production by increasing output of a commodity or service. Economies of scope refers to decrease in average costs per unit produced when varieties of commodities or services are increased.

underscored large scale enterprises in late nineteenth century China's economy.[8]

Australian Chinese Capitalists: Networks and the Chinese Presbyterian Church

The following sections examine how Ma Yingbiao, Guo Biao, Guo Luo, and Guo Quan applied *bridged* European managerial practices to their Shanghai department stores' business organization. These innovations were *bridged* managerial innovations they had previously developed in their Australian firms. It was in Australia, and later British Hong Kong, that a modern business environment emerged, one in which western-style law courts, a professional civil service, and an international banking system influenced Chinese merchants to transform themselves into "entrepreneurs more ready to build large-scale production facilities as long term investments."[9] Undoubtedly under the British settlement of Hong Kong there evolved a sophisticated commercial market, which played an important role in the rise of Chinese entrepreneurialism. Yet the sophistication in that market was paralleled in southern Australia, where Chinese merchants seized on opportunities for business success.[10] This study does not examine Hong Kong's commercial market and its impact on Chinese entrepreneurs, but instead will concentrate on the social and commercial environment in Sydney, Australia. There, the conditions that facilitated Chinese entrepreneurism were met. Particularly, conditions for institutional innovation of the Chinese family firm, which occurred through the influence of the Chinese Presbyterian Church in Sydney.

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[8] Mei-fen Kuo reports that Chinese in Australia remitted to Hong Kong about 5 million gold sovereigns from 1903 to 1916. On remittance numbers see, Chang Zengshu (常增書), "Aozhou taojin Huagong de 'yinxin'" ("The Australian goldminers' 'silver letters'"), in Wang Weizhong, ed., (2008): 455-60. See, Mei-fen Kuo, "Jinxin (金信): The remittance trade and enterprising Chinese Australians, 1850-1916," in *The Qiaopi Trade and Transnational Networks in the Chinese Diaspora*, ed. Gregor Benton, Hong Liuand Huimei Zhang, (New York, NY: Routledge, 2018), 455-460. Value of a gold sovereign was £1 in 1901 or £123.72 in 2020, *ibid*., 10. Note the buying power of £1 remained stable from 1860 until 1914, after which it collapsed to £0.36 in 1920. Kuo, 14-15, highlights that, overall, Chinese Australian remittance bureaus in Sydney, the hub of the Chinese Australian remittance trade, handled more that 80% of remittance trade in Zhongshan.

[9] Wellington K. K. Chan, "Tradition and Change in the Chinese Business Enterprise," *Chinese Studies in History* 31, nos. 3-4 (1998): 136. Chan notes that traditional merchants in family firms and partnerships tended to short-term investment thinking.

[10] In Australia, Chinese firms tended initially towards the traditional family firm or partnership, and exploited the banana industry, as banana crops could be quickly turned over for revenue. Scaling of the firms involved much the same enterprise as family firms, drawing capital from partners, as banana wholesaling and distribution represented a natural expansion to the founding firms. Sophie Couchman, "The banana trade: Its importance to Melbourne's Chinese and Little Bourke Street, 1880s-1930s," in *Histories of the Chinese in Australasia and the South Pacific*, ed. P. Macgregor (Museum of Chinese Australian History, 1995), 29-45.

Modern Service Retailing and Systemic Trust

Chinese capitalist middlemen developed the department store in Shanghai, which through its popularity among Shanghainese consumers accustomed people to modern business methods (i.e., service retailing). At the Sincere department store in Shanghai, Mr. Hollington K. Tong categorized the store's operations, its introduction of fixed-sales price, western double entry accounting, and multiple independent retailers. [11] Likewise, in modern retailing, Sincere department store managers focused on displaying goods in windowed store fronts or behind glass cases[12], promoting either foreign branded goods or imitation Chinese manufactures, and emphasized personal service by staff when interacting with customers.[13] Many of these modern business practices had been earlier learned in Sydney, Australia, either through *bridging* of western commercial practices or directly through entrepreneurial ventures, including wholesale stores, banking, and shipping. But Sincere and Wing On department stores also differed in their organizational structure compared to traditional retail establishments.

Traditional retail stores sustained a more centralized control through personalized management, required planning and strategy to be developed through personal networks, and eschewed machinery for handicraft production.[14] As an example, Meng Luochuan's (Meng Lo-ch'uan) *Jui-fu-hsiang* retail stores, which had

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[11] Thomas Sammons, "Department Store Quickly Wins Chinese Favor," *Commerce Reports*, vol. 1, no. 56 (Washington, DC: Bureau of Foreign and Domestic Commerce, March 8, 1918), 888. Additional to fixed prices Chinese department stores "made full change on the market subsidiary coin value of the [$1 silver] dollar," according to, "Chinamen as Merchants: Modern Department Stores with Hotel Annexes in Shanghai," *New York Times*, December 1, 1918, 35, https://search-proquest-com.ezproxy.library.uvic.ca/docview/ 100080135?accountid =14846&pq-origsite=summon (accessed June 19, 2020).

[12] The effect of goods displayed behind glass promoted the modern consumer habit, as "When people visit department stores, they first notice the large advertisements and window decorations, which are arranged meticulously, and customers cannot help staying. Initially, people may not have the intention to buy; however, after indulging themselves in front of the display of merchandise and advertisements, their appetite for shopping emerges." On goods display and customer indulgence, see Qu Xiwen, "Shangye guanggao zhi yanjiu" (The study of the commercial advertisement), *Shangye yuebao* (Business Monthly Report), 14, no.1 (January 1934), 2, quoted from Lien Ling-ling, "From the Retailing Revolution to the Consumer Revolution: Department Stores in Modern Shanghai," *Frontiers of History in China* 4, no. 3 (2009): 364.

[13] Wing On department store's exterior in Shanghai was made of artificial granite vertically attached to pilasters on which goods sold were written in Chinese characters to avoid "the usual haphazard plastering of characters all over the front and consequent disfigurement." On modern store front advertising, see, "Wing On Department Store: A Prosperous Enterprise Newly Established in China," *Far Eastern Review* 14, no. 5 (October 1918): 425.

[14] Conversely, Sincere Co.'s department stores in Shanghai, Hong Kong, and Canton, were independent, except in name, each with its own board of directors. They purchased goods together to reduce costs, though the Shanghai store purchased all products in Shanghai for the other stores, which paid a commission of 2 percent, and vice-versa. As with traditional family retail stores, Ma Yingbiao retained

branches in several cities including Shanghai, innovated chiefly in their strategy to capture a growing market through introducing imported merchandise lines, but remained "fairly constant in its organizational layout."[15] Traditional Chinese retailers employed managers whose social status was dependent on owners rather than stock ownership, applied traditional accounting methods over double entry, and did not foster a managerial class (experienced in technical and managerial skills). For traditional retail, the western import trade had no direct effect on innovations in organizational structure, because these innovations were amplifications of traditional organizational structure and managerial practices.

Wing On Co. and Sincere Co. adopted a western corporate structure and managerial strategy, which the owners' acculturated to during their years in Sydney, Australia. Wellington Chan summarizes the influence of the western business culture in Sydney, Australia, on Guo Quan: "Guo Quan's autobiography includes a chapter on 'Speaking of Experience' in which he compares western and Chinese practices in the retail business and shows how the western ways were far stronger because of their systematic organization and careful attention to market trends and to employees' education and training."[16] These acculturated lessons arose from Guo Quan's frequent visits to Sydney's Hordern & Sons department store. Chan summarizes that private entrepreneurs were more supple minded when confronted with production problems and willing to adapt many foreign features into their own enterprises.[17] In the case of Ma Yingbiao, his personal acquaintance with Anthony Hordern, Jr., who established Australia's largest retail department store beginning in 1869, inspired him to follow in this style of business.

Ma Yingbiao modelled Sincere Department stores in Shanghai after Anthony Hordern and Sons' Palace Emporium, a three-story building in Sydney's Haymarket. For Ma, the Emporium's commercial appeal lay in

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managing directorship in all three stores. On goods purchases, see, Sammons, "Department Store Quickly Wins Chinese Favor," 888-889.

[15] Wellington K. K. Chan, "The Organizational Structure of the Traditional Chinese Firm and its Modern Reform," *The Business History Review* 56, no. 2 (Summer 1982): 235, and on managers in traditional operations 223-227. It is significant that the new department stores, Sincere and Wing On, were regarded as intricately linked with China's commercial and industrial modernization, whereas traditional retailing was not. On department stores and national modernization, see, Sammons, "Department Store Quickly Wins Chinese Favor," 888.

[16] Wellington K. K. Chan, "Personal Styles, Cultural Values and Management: The Sincere and Wing On Companies in Shanghai and Hong Kong, 1900-1941," *The Business History Review* 70, no. 2 (Summer 1996): 160-161.

[17] Chan, "The Organizational Structure of the Traditional Chinese Firm and its Modern Reform," 228-229.

the possibility that this type of business venture could remain a family firm while "Its employees numbered several thousands, and its annual receipts from sales grossed in the millions and billions."[18] As well, the appeal for Ma as an entrepreneur in a retail department store lay in the low requirement for start-up capital. In 1900, the Sincere department store was founded on "25,000 HK$, and 25 employees, . . . a 2-store front and two floors in mid-town Hong Kong."[19] In Hong Kong, the real problem was not funding, but a managerial challenge. In Shanghai, the problem was one of funding, as personal wealth and banking loans needed to be supplemented with capital from shares sold to a wide public for the needs of such large operations as the Sincere department store.

Ma Yingbiao, Guo Biao, Guo Luo and Guo Quan, began their commercial careers in the late nineteenth century in the wholesale fruit business, supplying Sydney, Australia, with bananas, fruits, and vegetables. Their businesses in Australia provided them with accumulated personal wealth[20] to venture in the early twentieth century into the retail sector in Hong Kong. Before this later period, overseas Chinese entrepreneurs *bridged* Australian society through both their Chinese Christian network and the influence of the Presbyterian Church. Their association in the Chinese Presbyterian Church in Australia, and especially with the Reverend John Young Wai (Zhou Rongwei) (1847-1930), was instrumental in their adopting western cultural values alongside western managerial skills which they later applied in their Shanghai department stores. Furthermore, the Reverend John Wai promoted adoption of systemic trust (i.e., trust in the institutional values of the Church) among Australian Chinese businessmen. Like other overseas Chinese merchants, Australian Chinese merchants primarily interacted through personal trust (*guanxi*) networks, in which "coordination [i.e., contracts between parties] is via the interpersonal trust bonds of key individuals and exhibits the rare combination of

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[18] Wellington K. K. Chan, "Selling Goods and Promoting a New Commercial Culture: the Four Premier Department Stores on Nanjing Road, 1917-1937," in *Inventing Nanjing Road: Commercial Culture in Shanghai, 1900-1945*, ed. Sherman Cochran (Ithaca, NY: East Asia Program, Cornell University, 1999), 25. The description of these receipts is certainly an exaggeration.

[19] *Ibid*., 26.

[20] "Sydney's Fruit Trade: A Chinese Monopoly: Some Startling Statements," *Sydney Evening News*, February 22, 1908, 8, https://newspaperarchive.com/sydney-evening-news-feb-22-1908-p-8/ accessed March 28, 2019. In this article, same page, the un-signed reporter stated that in 1908, an Australian fruit agent reported "that over 80 per cent [of the New South Wales banana trade] was in the hands of the Chinese."

flexibility and reliability."[21] To the point, traditional personal network relations secured commercial relationships with Chinese partners. Membership in the church reinforced partnerships as trust was based on common religious affiliation. Systemic trust ensured overseas Chinese investors to purchase shares in the Shanghai department stores because they were convinced in the competency and trustworthiness of the entrepreneurs.

The appendage of Chinese Christian networks extended trust relations among participants through a wider membership in the Presbyterian Church. The Church aided Chinese migrants' *bridging* by teaching English and business mathematics. As well it provided Chinese merchants a social outlet into the Australian British society, and introduced them to marriage partners through Reverend Wai. Christian ethics were not far different in terms of philanthropic interests from Confucian morals, and so *bridging* between the two cultural systems was facilitated by these similarities. In this sense, the Chinese Presbyterian Church introduced the first model of systemic trust to overseas Chinese merchants.

Guo Biao and Wing Sang Co.

Commercial advancement in Australia was reliant on the acquiring of entrepreneurial skills to breakout from ethnic niche markets.[22] These *bridged*, or acculturated, western skills distinguished Australian Chinese entrepreneurs from traditional Chinese retail merchants in Shanghai. Above all, the adoption of western-oriented entrepreneurialism as a cultural system was achieved in Australia for these Chinese merchants. These western values and beliefs were subsumed under acculturated institutions, namely, English language, Christianity, and class resources (i.e., benefits and incentives).[23] This section discusses learning English by

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[21] S. Gordon Redding, *The Spirit of Chinese Capitalism* (Berlin: Walter De Gruyter, 1996), 237. There has been an overemphasis on Chinese personal networks as defining family firm and partnership operations and success. First, networks pervade on a global scale business interaction between small firms. Second, weak network ties may be more significant than strong linkaages, according to Mark Granovetter. Third, guanxi as a competitive advantage for a business is a fallacy. Mark Granovetter, "The Strength of Weak Ties," *American Journal of Sociology* 78, no. 6 (May 1973): 1360-1380. Ying Fan, "Questioning *Guanxi*: Definition, Classification, and Implications," *International Business Review*, 11, no. 5 (October 2002): 543-561.

[22] Yurong Wang and James Warn, "Break-out Strategies of Chinese Immigrant Entrepreneurs in Australia," *International Journal of Entrepreneurial Behavior & Research* 25, no. 2 (2019): 217-8.

[23] Institutions are a set of rules that order recurrent interactions, and are linked to constraints to ensure compliance. Christianity internalizes moral rules, and defines beliefs as to agents' worth. English possesses beliefs and values in rules for regulating social interaction. Class resources prescribe benefits and incentives (more fully described below).

Guo Biao as a part of his repertoire of entrepreneurial skills acquired through the Chinese Presbyterian Church.

The Chinese Presbyterian Church converted Chinese emigres in Sydney to Christianity, and this created the opportunity to learn English. English language proficiency was often taught in the church's night school, where business mathematics and managerial classes were also held. The rules of British economic institutions, as class resources, were conveyed through the church, the school, and the English language.[24] Nonetheless, *bridging* these western values and beliefs did not necessarily lead Chinese merchants to innovate the nature of partnership firms. Reforms in the firms continued to follow traditional Chinese methods, whereas *bridged* (i.e., acculturated internalized) values and beliefs promoted new business capabilities.[25] Western style reforms in partnership firms resulted in increasing the commercial scale of the operation, pioneering new lines of commerce, and increasing capital accumulation. Proficiency in English was a part of this success. In Shanghai, competency in English contextualized Guo Biao's management of Wing On department store within the institutional framework of British and American market society. While Chinese merchants in Shanghai's International Settlements had equal access to capital and retail opportunities, the development of modern, Chinese-owned retail department stores awaited introduction by overseas Australian Chinese capitalists, whose business capabilities went beyond the thinking associated with traditional partnerships. While there were four English owned department stores in the International Settlements at the same time, they mainly serviced foreign customers and likely had reduced effects in providing direct business models for Chinese merchants to copy.[26] A brief biography of Guo Biao's experiences illustrates his *bridging* of western values and their effects in his business activities.

An early entrepreneur in the Sydney Chinese banana trade, Guo Biao (George Kwok Bew), (1868-1932), was a partner in the fruit distributor, Wing Sang Company (*Yongsheng* Co.), and later the Sang On Tiy,

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[24] Sefan Voigt and Daniel Kiwit, "The Role and Evolution of Beliefs, Habits, Moral Norms, and Institutions," in *The Merits and Limits of Markets*, ed. Herbert Giersch (Berlin: Springer, 1988), 86.

[25] Partnerships (or family firms) are flexible to business opportunities, and reform the traditional enterprise to achieve fast paced growth. Reforms mirror innovations without structural changes in formalized features of the firm.

[26] Chan, "Personal Styles, Cultural Values and Management," 142. The four British department stores were: Whiteaway, Laidlaw and Co., Hall and Holtz, Lane Crawford and Co., and Weeks and Co. Whiteaway began in Calcutta in 1879, Singapore in 1894, Hong Kong and Shanghai in 1904. These four British stores did little to transform Chinese consumer habits as they primarily catered to foreign clientele. These British department stores did not spread western material achievements as did the Chinese department stores; a point made by Mr. Hollington K. Tong. On this last point, see, Sammons, "Department Store Quickly Wins Chinese Favor," 888.

after the two firms merged. Adrian Chan and Frank Farrell note Guo Biao was born in the "Chung Shan district near Canton, China, son of Chap Hing, farmer," and migrated to "New South Wales in 1883, [where Biao] worked as a door-to-door salesman at Grafton and later as a produce merchant in Sydney."[27] Significantly, Guo Biao "married 16-year-old Darling Young, daughter of Ma Tin Young, a Bourke merchant, at the Presbyterian Chinese Church in Foster Street, Sydney, on 16 September 1896; he became a Christian."[28] For many Chinese migrants, there were no opportunities to learn English as their time was occupied with work, and interaction with Europeans required interpreters.[29] Arriving with little English, some migrants learned the language from their employers and later in night classes held by the Presbyterian Church, as part of a business education curriculum.[30] As Mei-Fen Kuo observes, "Because almost all the Chinese who came to Sydney were from rural villages and without education, the church night school had an invaluable role in helping them not only to improve their English, but also to learn the culture and general knowledge they needed to thrive in a predominantly Western society."[31] Through his association with the Chinese Presbyterian Church, Guo Biao became integrated into the overseas Chinese commercial world through his marriage to a Christian Chinese girl, his learning English, and his partnerships in two Chinese owned Australian fruit distribution companies.

The Wing Sang Co. controlled the banana market in both New South Wales and Queensland, with an "annual turnover of some £36,000 from the Queensland banana trade" in 1899.[32] It was founded in 1897 by the Guo brothers, Guo Luo (Kwok Lock) (1872-1956) and Guo Quan (Kwok Chuen) (1879-1966), cousins of

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[27] Adrian Chan and Frank Farrell, "Kwok Bew (1868–1932)," *Australian Dictionary of Biography*, n.p. (National Centre of Biography, Australian National University), http://adb.anu.edu.au/biography/kwok-bew-7002/text12173 (accessed online November 13, 2019).

[28] *Ibid*.

[29] Bou-Wai Chou, "The Chinese in Victoria: A Longterm Survey," (MA thesis, University of Melbourne, 1993), 95-96.

[30] Guo Quan learned English during his time in Hawaii, while Ma Yingbiao studied the language from the daughter of his employer in Australia. Guo Biao's children, born in Australia, had no Chinese proficiency when they went to Shanghai. On Ma Yingbiao, see Mark O'Neill, "Chapter Ends for a Sincerely Chinese Rags-to-Riches Story," *South China Morning Post*, November 5, 2004, n.p., https://www.scmp.com/article/476852/chapter-ends-sincerely-chinese-rags-riches-story (accessed November 22, 2019).

[31] Mei-Fen Kuo, *Making Chinese Australia: Urban Elites, Newspapers and the Formation of Chinese-Australian Identity, 1892-1912* (Clayton, Victoria, Australia: Monash University Publishing, 2013), 46.

[32] Chan and Farrell, "Kwok Bew (1868–1932)," n.p. Europeans favored renting land to Chinese planters or gardeners in Queensland rather than growing bananas on themselves.

Guo Biao. Later, Biao played a role in the formation of the China-Australia Mail Steamship Line in November 1917, and, in that year, he returned to China to establish the Wing On emporium in Shanghai.[33] Guo Biao was not alone in Shanghai, as between 1915 and 1939, 9,000 Australian Chinese emigrated on average every five years to Shanghai and Hong Kong, the majority second or third generation, Christian, educated, and English first speakers.[34] Guo Biao's seventh daughter, Daisy, (Guo Wanying), recounted the effect of English on business life in Shanghai: " . . . at the time Shanghai was a city ruled by the foreign imperialists. Everyone spoke English. It seemed more important to know English than Chinese. . . . In the big department stores attendants had to know English to get a job."[35] Acculturation to the English language was a marker for employment in western-styled department stores for many Chinese. Moreover, the resulting migration of Australian Chinese to Shanghai evolved a new commercial community in Shanghai that was English language based. In Shanghai, the Australian Chinese formed an outward looking community separate from Shanghai's merchants.[36] The biographical business history of Guo Biao is intertwined with that of the Guo brothers, and with the Guo family's strong links to the Chinese Presbyterian Church.

Australian Christian Partnerships

Partnerships were the organizational structure of Chinese firms in Australia, and they were an attractive

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[33] Some 4,000 shares in the Steamship Line were purchased by Chinese merchant owners of Wing San Co., Wing On Co., and Sand On Tiy fruit wholesale firms in Sydney, Australia. Ching Fatt Yong, "The Banana Trade and the Chinese in New South Wales and Victoria 1901-1921," *Australian National University Historical Journal* 1, no. 2 (1965-66): 31. In the "Send Off to Mr. Bew," *The Daily Telegraph*, October 25, 1917 (Sydney, NSW, Australia: National Library of Australia, 2020), 4, https://trove.nla. gov.au/newspaper/article/239245114?searchTerm=george%20bew&searchLimits= (accessed June 19, 2020), it was noted Guo Biao carried with him credentials from the Lord Mayor of Sydney and Acting Premier of New South Wales. This indicates the degree to which Guo Biao was accepted into the European business elite in Sydney.

[34] Sophie Loy Wilson, *Australians in Shanghai: Race, Rights and Nation in Treaty Port China* (London and New York: Routledge, 2017), 16-17.

[35] Daisy Kwok, *Shanghai Daisy: The Autobiography of Daisy Kwok*, ed. Tess Johnston and Graham Earnshaw (Hong Kong: Earnshaw Books, 2019), 24, quoted from, Wilson, *Australians in Shanghai*, 26. Daisy left for Shanghai with her family in 1917. Sales staff were trained in both English and French, and encouraged to attend the Presbyterian Church.

[36] Wilson, *Australians in Shanghai*, 25.

model in establishing Shanghai's department stores. Traditional partnerships[37] were unstable and rarely outlived the partners. Partnerships were also a bulwark against societal discrimination, but risked being locked into ethnic niche markets. Australian Chinese merchants overcame the first problem by forming partners with fellow Christians, ensuring trust among partners.[38] They resolved the second by emphasizing class resources over ethnic resources.

Migration to a foreign country had its perils, but if a migrant came with family money opportunities to enter into business were more likely. Both Guo Biao and his two cousins, Guo Luo and Guo Quan, came "from a relatively well-to-do peasant family in Zhongshan county," and possessed wealth enough "for the several brothers [in the family] to have some schooling, and for the father to provide them with passage money when they later decided to go overseas."[39] However, family money was not alone a motivating force to emigrate.

Natural catastrophes, labor declines, and the pull of overseas family networks were relevant conditions that motivated migration of individuals to foreign countries. In 1892, following a flood in Zhongshan county, Guo Luo went to Australia with HK$280 and "arrived in Sydney a free immigrant."[40] Guo Luo found employment through Guo Biao with fellow Zhongshan natives, who were owners of the fruit wholesaler, Wing Sang Co. (*Yongshenghao*). Three years later he formed a partnership with seven native place fellows, together pooling capital of £1,400 to buy the fruit wholesaler, Wing On Co. (*Yong'anzhan*).[41] This partnership

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[37] An outline of the chief characteristics of the Chinese traditional partnership was presented by the Consul General of Hong Kong, George E. Anderson, "Chinese Partnerships," *Daily Consular and Trade Reports* no. 147 (June 24, 1911), 1331-1332. Significantly, the intertwining of the firm and family property is identified, with descent of the business as family property to the extant family in China, including shares and dividends.

[38] An advantage of stores having large numbers of partnerships was that under the Immigration Restriction Act of 1901 in Australia, Chinese who were partners in a firm were more readily granted visas to enter and extend their stays in country. Additionally, limited family members were resident in Australia, which would have generated limited numbers of partnerships. Thus, partnerships with non-family members became a way to structure businesses, a pattern continuing with the department stores in Shanghai. Janis Wilton, "Chinese Stores in Rural Australia," in *Asian Department Stores*, ed. Kerrie L. MacPherson (London and New York: Routledge, 1998), 93-94, 98.

[39] Wellington K. K. Chan, "The Origins and Early Years of the Wing On Company Group in Australia, Fiji, Hong Kong and Shanghai: Organisation and Strategy of a New Enterprise," in *Chinese Business Enterprise in Asia*, Rajeswary Ampalavanar Brown, ed. (London and New York: 1995), 81-2.

[40] Ching-hwang Yen, *The Ethnic Chinese in East and Southeast Asia: Business, Culture and Politics*, (Singapore: Times Academic Press, 2002), 84. A free immigrant was an immigrant whose travel costs had been fully paid out before his arrival.

[41] Chan, "The Origins and Early Years of the Wing On Company," 82. Chan lists a low figure of £14,000 as their capital, which does not accord with the account in Yen, *The Ethnic Chinese in East and Southeast Asia*, 86, of £1,400, which seems more reasonable as

was remarkable as Guo Luo had "worked on a vegetable farm, 18 hours a day, for 12 ½ shillings per week which he carefully saved, so that two years later he purchased a wheelbarrow from which to hawk fruit and vegetables."[42]

Why then did Guo Luo become successful, whereas other Chinese migrants who endured years of hard work had little savings, or never could realize their opportunities? Denise Austin argues Guo Luo's commercial success began when he converted to Christianity, especially after his cousin, Guo Biao, invited him into a commercial partnership with a fellow native place Christian, Ma Yingbiao.[43] Membership in the Sydney church opened opportunities to a Chinese Christian network that put merchants in association with one another. Through the church network, merchants could organize themselves together in partnerships.

In China, partnership businesses generally procured financing through familial relations or native place associations, and formed firms through partnerships with clansmen or with siblings. In this respect, the formation of these two Australian fruit wholesale companies was modeled on a traditional pattern of small, partnership firms in three ways: first, through the accumulation of personal capital through savings from income paid for labor, second, the formation of partnerships with native place or lineage relations by pooling small scale investment capital to finance the firm, and, third, a symmetric relation between capital and labor (wherein the owners provided both capital and labor). Under the conditions of a foreign market, personal trust of partners in a firm became paramount, because generally traditional partnerships were not long-lived as one partner exercised greater and greater control over the firm and its capital.[44] The church connection became a means to overcome this problem. Access to a network that linked like-minded Chinese Presbyterian Church members provided investment capital and faithful commercial partners experienced in the Australian

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the Wing On Grocery in Sydney was established on £1,800 in 1898. On this, also see "The Kwoks of Wing On," *Asian Finance* vol. 3, (Hong Kong: Asian Finance Publications, 1977): 53.

[42] Denise Austin, *Kingdom-Minded People: Christian Identity and the Contributions of Chinese Business Christians* (Leiden: Brill, 2011), 86. Even as a fruit hawker, Guo Luo would have required a Hawker's and Peddler's License, which had to be signed by the Justices, who authorized him "to carry *on his own person or god only without house drawing trader* [in script] goods, ware, and merchandise, for the purpose of sale travelling." Snjezana Cosic, "Ah Ming's Hawker License,[historical photograph]," *Chinese NSW Farm Produce*, (La Trobe University: n.d.), https://colouredcolonials.yolasite.com/chinese-in-the-nsw-vegetable-and-fruit-industry.php ,(accessed October 14, 2020).

[43] *Ibid*.

[44] Wong Siu-lun, "Chinese Entrepreneurs and Business Trust," 331.

marketplace. As Denise Austin notes, Chinese Christian businessmen held strong religious convictions which they consciously brought into their commercial activities.[45] Christianity as a western institution provided a set of rules that ordered recurrent interactions, and linked these rules to constraints to ensure compliance. In this sense, forming partnerships with fellow Chinese Christians safeguarded high levels of trust and cooperation, while avoiding corruption and defection. Through Christian association as a basis for trust, Guo Luo and his partners maintained a partnership organization of the two wholesale fruit firms. In doing so, they intensified ethnic patterns of organization (i.e., ethnic resources) as a business strategy to increase their market share.

Ethnic resources were important to preserving overseas Chinese businesses because they faced racial discrimination by Australian Europeans. Leon Glezer observes that "The tendency of some ethnic groups to have a proportionately larger presence in small business than British migrants and the majority population has often been as much the product of constraints and limitations as of their preferences, skills and cultural assets."[46] The choice to organize a Chinese firm in the pattern of traditional partnerships reflects on the ability of these partnerships to withstand negative societal discrimination as much as exploiting niche market opportunities. For example, ethnic resources as an effective commercial strategy in preserving merchant businesses was represented by the appearance on banknotes from the Commercial Bank of Australia of printed Chinese characters.[47] In forming the Wing Sang Co.'s partnership, the partners emphasized a distinctive ethnic partnership organization in order for the firm to successfully adapt to an unfavorable societal condition. This pattern continued as an organizational model in Shanghai.

Ma Yingbiao modelled Sincere retail department store in Shanghai after Anthony Hordern and Sons' Palace Emporium, a three-story building in Sydney's Haymarket. For Ma, the Australian Emporium's appeal lay in the possibility that department stores could remain a registered partnership with a steadily growing annual revenue. Within traditional partnerships there were no formal mechanisms to ensure fiscal discipline

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[45] Austin, *Kingdom-Minded* People, 73.

[46] Leon Glezer, "Business and Commerce," in *The Australian People: An Encyclopedia of the Nation, its People and their origins,* ed. James Jupp (Sydney, Australia: Angus and Robertson, 1988), 861. Glezer 's observation is quoted from Jock Collins, "Chinese Entrepreneurs: The Chinese Diaspora in Australia," *International Journal of Entrepreneurial Behavior and Research* 8, nos. 1 & 2 (2002): 117.

[47] Geoffrey Oddie, "The Lower Class Chinese and the Merchant Elite in Victoria, 1870-1890," *Australian Historical Studies* 10, no. 37 (1961): 67.

and hold entrepreneurs accountable. Traditional merchant social-value systems emphasized trustworthiness, but personal networking in family firms and partnerships often contributed to later defections and fracturing of networks as partnerships dissolved. Ma faced such a possibility in Hong Kong when the Sincere department store encountered resistance to innovations in retailing and sales from partners in the firm.[48] Within one month of opening, Sincere Co.'s partners wished to dissolve the business, but Ma enforced a partnership contract. As Sincere Co. expanded in Shanghai in 1914, and further diversified in insurance and investment in 1915, and life insurance in 1923, the basic organization of the company retained a partnership model. The important innovation in Sincere Co. was that its partnership was organized among Chinese Christians, overcoming some of the problems by ensuring cooperation and trust over the long term. Through trust and cooperation in a partnership, Sincere Co. could take advantage of economies of scale and scope as the company expanded its Shanghai department store beyond its simple initial retail structure.

Conversely, class resources allowed for learning business models within a new commercial environment. Yurong Wang and James Warn define class resources as opposed to ethnic resources in terms of "human capital (e.g. education, skills, work or business experience) and financial capital."[49] These two resources allowed Chinese Australian entrepreneurs to shift away from low-profit businesses, characteristic of ethnic firms "clustered in [neighborhood] enclaves [and] likely to fail . . . because of market saturation and fierce competition" among ethnic firms.[50] To this extent, the Wing Sang Co. as a banana and fruit wholesale partnership escaped its niche market because its partners had *bridged* the cultural gap between Chinese business culture and European business culture. Through membership in the Chinese Presbyterian Church, Guo Luo and the Wing Sang Co. partners ensured long term stability by securing trust against defection from the partnership, and they achieved a commercial break-out into a wider Australian consumer market through managerial innovations within the firm (discussed below). Several of these managerial innovations, that arose through class resources, were expanded upon in their Shanghai department store. The next section will

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[48] Chan, "The Organizational Structure of the Traditional Chinese Firm and its Modern Reform," 230. Wing On Co. expanded in a similar fashion in these enterprises. Chan, "Personal Styles, Cultural Values and Management," 152.

[49] Wang and Warn, "Break-out Strategies of Chinese Immigrant Entrepreneurs in Australia," 219.

[50] *Ibid*.

consider the nature of class resources in terms of human capital and management innovations.

Entrepreneurialism and Human Capital

This section deals with two main aspects of managerial innovations. The first, exemplified through the managerial innovations by Guo Luo, apply to the cultivation of consumers and benefits to producers that he dealt with. His managerial innovations imparted a quality of integrity others saw in him, which benefited him in minimizing costs for the firm. The second aspect focuses on human capital interpreted from a nineteenth century perspective. Guo Quan's Christian religious principles underlined his treatment of Wing On's employees. In practice, his management of Wing On's retail employees reproduced traditional apprenticeships, yet he applied a Christian valued supervisory system. From their origins in the firm's Australian fruit wholesale ventures to their Shanghai department store, these organizational innovations were sustained and amplified.

The cultivation of consumer demands played a major part in Guo Luo's approach to managerial entrepreneurism. His innovations promoting consumer satisfaction went beyond simply expanding into new products. By reconsidering who the firm's consumers were, Guo Luo cultivated consumers outside the Sydney market. Through the Sang On Tiy Co., he acquired banana supplies at lower prices, "[diversifying the firm] into other products, selling dried coconuts to local British soap manufacturers, exporting sea shells, dried seas slugs, leather and plywood to China, and importing Chinese native products such as peanuts, walnuts and dried lychee fruits for the Chinese immigrant workers."[51] The company acquired labor by contracting Chinese laborers "in Hong Kong and Guangdong directly by helping them with proper immigration documents and advances for their passage to Fiji."[52] Together, he and his brother Guo Quan collected information on clients and the firm's commercial competitors in markets across Australia "to offer better terms [to consumers] and to win over business."[53] Guo Luo provided popular services, including "delivery service, charge accounts for his

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[51] Wellington K. K. Chan, "The Origins and Early Years of the Wing On Company Group in Australia, Fiji, Hong Kong and Shanghai," in *Chinese Business Enterprise in Asia*, Rajeswary Ampalavanar Brown, ed. (London and New York: 1995), 83.

[52] *Ibid*.

[53] *Ibid*., 84.

most trusted customers and a remittance department."[54] He also diversified and expanded the firm's business into financial services, by opening savings accounts in Sydney for his customers.[55]

Likewise, Guo Luo innovated managerial practices that benefited the firm's fruit producers. This allowed him to expand access to bananas beyond eastern Australia to Fiji, where the company later purchased plantations.[56] Establishing reliable interactions with producers, Guo Luo accrued to himself an aura of integrity while improving the firm's competitiveness in the market. Wellington Chan attributes Guo Luo's "forceful management style and entrepreneurial talents to transform[ing] the Wing On Fruit Company into a fast-paced and highly competitive enterprise."[57] He points out that Guo Luo "cultivated and earned a reputation for integrity and an openness to learn new ideas and techniques."[58] A reputation for integrity was important in Australia because many European Australians harbored prejudices towards Chinese entrepreneurs. Integrity as a business value offered Guo Luo financial benefits. For example, his integrity impressed his bank manager, who taught him to open an overseas account in Fiji, and thereby as most of Guo Luo's business was involved in buying bananas from Fiji, and paying cash for the crop, learning how to establish a bank account on the island "saved him a considerable amount of money, in terms of the remittance charges he did not have to pay,

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[54] *Ibid*. In Hong Kong, remittances were paid into Wing On's cashier office for safe keeping, but paid no interest to savers. In 1921 in Shanghai, the company created a Finance Department for depositor. By 1929 it held $1 million silver dollars, and by 1931 held $6.4 million which was used for operating capital. On the Finance Department, see Yen Ching-hwang, "Wing On and the Kwok Brothers: A Case of Pre-war Chinese Entrepreneurs," in *Asian Department Stores*, ed. Kerrie L. MacPherson (London and New York: Routledge, 1998), 59-61. The practice of banking remittances has a longer history, with *piaopiju* offices taking deposits at little to no interest and lending at no less than 10 percent, according to "A Chapter in Chinese Banking History," *The Chinese Economic Bulletin* VII, no. 230 (Shanghai: The Chinese Government Bureau of Economic Information, July 18 1925): 30. For a more recent discussion, see Lane J. Harris, "Overseas Chinese Remittance Firms, the Limits of State Sovereignty, and Transnational Capitalism in East and Southeast Asia, 1850s-1930s," *Journal of Asian Studies* 74, no. 1 (February 2015): 129-151.

[55] The Reverend Josiah Cox identified these 'customers" of wealthy Chinese merchants as Chinese laborers up-country. He wrote, "in Sydney and Melbourne are the Chinese merchants, who supply the up-country shopkeepers with Chinese produces and act as agents for the remittance of money and other interchanges of the Chinese emigrants with their native land." (Josiah Cox, *Wesleyan Missionary Notices*, (London: August 1872): 17-18.

[56] The shift to purchasing plantations on Fiji had to do with the unreliability of transporting bananas from Queensland. Chinese fruit merchants told the Royal Commission on the Fruit industry in 1913 that fruit flies, typhoons, protectionist policies, and labor reactions to shipping Chinese bananas contributed along with the choice of the Gros Michael banana, which was more saleable to Australian customers. *Commonwealth Parliamentary Papers*, Royal Commission of Fruit Industry 1913, No. 4, Part 1 (1913): 532-535.

[57] Chan, "The Origins and Early Years of the Wing On Company Group in Australia, Fiji, Hong Kong and Shanghai," 82.

[58] *Ibid*.

and the capital he did not have to tie up."[59] In sum, Guo Luo's managerial innovations were in both the vending market and the factors market. He increased sales in the vending market and lowered costs in the factors market.

Guo Luo's innovations benefiting consumers were sustained in Shanghai in the Wing On's department store. As the Wing On department store modeled both its Chinese predecessors, Ma's Sincere department store, and Sydney's Anthony Hordern and Sons, Guo Luo evolved retail innovations that were neither imitations of western practices nor strictly Chinese. In Ma's Sincere department store, retailing innovations followed western acculturated models and Christian moral beliefs. As Guo Luo was a devoted Christian, he similarly practiced morally inspired supervision strategies. These included closing on Sunday while the owner preached sermons to his staff at religious services.[60] Also, Luo modelled Ma's adoption of the aspects of the traditional apprenticeship system.[61] Traditional apprenticeships involved no formal training but learning through observation and job tasks. Similarly, department store staff were trained on the job. Both Luo and Ma selected their store's trainee candidates from their Zhongshan native place. Unmarried staff lived in dormitories and ate in the mess hall.[62] Notably, staff were to be courteous to the customer. Orderly appearance, and punctual turnout at work, were amongst the innovations in retailing initiated in the Sincere and Wing On Shanghai department stores. Modern retailing services were overlain with human capital values. In 1911, Sincere's Hong Kong department store offered evening classes for its employees, teaching English, Chinese, and business mathematics.[63] Evening schools broadened to include drama, group sports, and weight training.

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[59] *Ibid*., 83. Similarly, the fixed prices and courteous salespeople impressed customers of Ma's integrity in running his Shanghai department store.

[60] Chan, "Personal Styles, Cultural Values and Management," 152.

[61] Chan, "The Organizational Structure of the Traditional Chinese Firm and its Modern Reform," 229. The traditional apprenticeship system was the guild apprentice system, wherein "The boy who plans to enter manufacturing or selling ordinarily starts his training when he is 14 or 15 years of age. At that time he is bound to a master by contract, drawn according to the rules of the guild. . . . During the time of his apprenticeship, the boy is entirely under the control of his master. . . . the reports telling of the duties of the apprentice state that he is to sweep out the store, make his master's bed, do the cooking and other menial tasks, and then work at his trade." This quotation from Sidney David Gamble and John Stewart Burgess, *Peking: A Social Survey Conducted Under the Auspices of the Princeton University Center in China and the Peking Young Men's Christian Association* (New York: George H. Doran Company, 1921), 187-188.

[62] Chan, "Personal Styles, Cultural Values and Management," 152.

[63] *Ibid*., 153. Chan, "The Organizational Structure of the Traditional Chinese Firm and its Modern Reform," 232.

As a retailing business, the stores make available comparable educational services to those in Christian missions.

Human capital is so strongly associated with managerial innovations that it offers an explanation for Australian Chinese capitalists' success in Shanghai. Although the modern theory of human capital emphasizes rational choice on the part of labor (i.e., labor as a self-investor in education and skills), in the 19th century human capital was usually equated with machinery, as part of fixed physical stock which generated revenue.[64] Nineteenth century European political economists applied the concept of human capital "to provide justifications for the care and maintenance of laborers," an attribute which distinguished Australian Chinese family firms.[65] For example, as manager in Wing On's Shanghai department store, Guo Quan's modelled notions of human capital along *bridged* Christian values, including "generous wages," and raising "employee morality," while also following ideals in Chinese Confucianism "such as encouraging strict household management, monogamy, filial piety, respect for the elderly, hard work, honesty, and punctuality."[66] But was human capital as practiced by the owners of Shanghai's Sincere and Wing On department stores a factor in their commercial success?

Wellington Chan argues that Guo Luo and Guo Quan's personalities were reflected in their business acumen and not *bridging*. He also stresses their Confucian heritage as a significant factor, more so than their acculturation to western Christianity.[67] Contrarily, Denise Austin has emphasized the importance of Christianity in the direction Australian Chinese capitalists innovated in business management. There appears also the role of human capital as expressed through the lens of Christianity and Confucianism as a factor to

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[64] In department stores, the shop girl was a form of physical stock, depressingly hired for six day shifts and twelve-hour days, a counter-culture forbidding sitting, and no allowance for lunch or dinner breaks. Cashier machines ended hand-writing bills of sales into ledgers, increasing efficiency so that one shop girl could handle 264 customers per day. Australian sociologist and lawyer, Dorothea Proud advocated remedies for women's industrial conditions through teaching "ethical or moral or [Christian] religious ideas of life." She intended to humanize the industrial arena and boost productivity. On remedies for labor, see Emily Dorothea Proud, *Welfare Work: Employers' Experiments for Improving Working Conditions in Factories* (London: G. Bell and Sons, 1916), 57, quoted from Sophie Loy-Wilson, "The Gospel of Enthusiasm: Salesmanship, Religion and Colonialism in Australian Department Stores in the 1920s and 1930s," *Journal of Contemporary History* 51, no. 1 (2016): 102.

[65] Elaine Hadley, "Human Capital," in *From Political Economy to Economics through Nineteenth-Century Literature Reclaiming the Social*, ed. Elaine Hadley, Audrey Jaffe, and Sarah Winter, (Cham, Switzerland: Palgrave Macmillan, 2019), 32.

[66] Austin, *Kingdom-Minded People,* 92.

[67] Chan, "Personal Styles, Cultural Values and Management," 153.

consider. Importantly, business knowledge did not derive only through *bridging* commercial experiences in the market, but was also transmitted through education.

Christian missionaries added business education to their spiritual curriculum. Denise Austin points out that "Guo Quan considered Christian ethical values as integral to modern and successful business practices."[68] Quoting Guo Quan, "All my life I worked very hard, in private life and public life, no matter what I do, I give all I have and treat people with honesty, so I can receive God's blessings," underscores how he regarded Christian ethical behavior as integral to the prosperity of business institutions.[69] Ma Yingbiao's devotion to Christianity is illustrated by his return to Hong Kong in 1894 not to set up a business but to begin missionary work with his wife around Guangdong. He set Sincere Co. up on January 8, 1900 as a partnership with twelve partners.[70] Through the influence of his Christian educated wife, Ma hired women for sales, but relented after conservative protests shut down the store. Ma stressed a missionary zeal in his setting up of night schools for employees, charity donations through the drama club, and the evangelical education of Christian morals to convert employees. Through their acculturation to Christianity, in their business operations, Guo Quan and Ma Yingbiao favored a style of human capital that was modelled on the behavior of Christian missionaries.[71]

While Austin emphasizes a Christian identity, contrarily, Wellington Chan acknowledges the business talents of the Guo brothers may have been more natural. The success of the Wing On Fruit Co. may have had less to do with Christian ethics or business mathematics education than personal style. Chan identifies the success of the retail wholesale firm in the combination of strengths of the two brothers: "While Guo Luo fashioned out dynamic and innovative strategies for the company, Guo Quan maintained a smooth running

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[68] Austin, *Kingdom-Minded People*, 92.

[69] Guo Quan, *Yongan Jingshen Zhi Fazhan Ji Changcheng* (The Growth and Ripening of the Wing On Spirit) (Hong Kong, 1961), 22, quoted from Austin, *Kingdom Minded People*, 92.

[70] Chan, "The Organizational Structure of the Traditional Chinese Firm and its Modern Reform," 229.

[71] Ma Yingbiao and Guo Quan may also have had Anthony Hordern's welfare model in mind. By 1921, the fulfillment of Hordern's welfare program included a" medical officer and nurse, a library, a musical society, dancing, sports, a provident fund, and classes in commerce and salesmanship, physical culture, cooking, drama, psychology, literature, hygiene, home nursing and millinery." On Hordern's welfare program, see Sophie Loy-Wilson, "The Gospel of Enthusiasm," 104. Like Ma and Guo, Hordern's welfare "starts where government legislation leaves off," according to M. Cunningham, "Welfare Work," *Shops Assistants Magazine* (July 1926): page not given, quoted from Gail Reekie, "'Humanising Industry': Paternalism, Welfarism and Labour Control in Sydney's Big Stores 1890-1930," *Labour History* no. 53 (November 1987): 15.

operation for the growing organization."[72] In other words, the brothers' personal styles may account for their success. He attests through interviews with former workers in the Sincere and Wing On department stores that personal styles in management account for the successes of the two department stores in Shanghai.[73] Guo Luo was described by former workers as able to lose his temper if he found things amiss, reliant on Cantonese to staff supervisory positions, tough and hard driving, dynamic and boldly innovating.[74] Guo Quan was described as meticulous, self-disciplined, calm, leading a highly ordered life, and most skillful at improvisations.[75] These personal styles had at their base a set of cultural values derived from Confucian culture that "taught that a good and strong leader is not simply paternalistic or benevolently authoritarian, but also loyal and personal to his staff and junior partners."[76] The managerial style of Ma Yingbiao was described as being possessed of "camaraderie and spontaneity," although it was known Ma could engage in "bruising battles with his partners and senior staff."[77] While Chan's claim of personal style as influencing managerial innovations is certainly a part of the answer to why Australian Chinese entrepreneurs were successful, a difference exists between the earlier Shanghai entrepreneurs who made their business careers through their personal wealth and connections with officials, and later overseas Christian entrepreneurs who formed a modern generational bourgeoisie.[78] A number of this later bourgeoisie were those returned Australian Chinese for whom a weak if positive association existed between religion and organizational innovation.

Chinese Christian Network

This section examines the class resource of financial capital. In discussing financial capital, it examines how systemic trust by overseas Chinese investors contributed to the success of Sincere Co. and Wing On Co.

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[72] Chan, "The Origins and Early Years of the Wing On Company," 85.

[73] Chan, "Personal Styles, Cultural Values and Management," 162.

[74] *Ibid*., 162-163.

[75] *Ibid*.

[76] *Ibid*., 159.

[77] *Ibid*., 163.

[78] Marie-Claire Bergère, *The Golden Age of the Chinese Bourgeoisie 1911-1937*, trans. Janet Lloyd (Cambridge, Great Britain: Cambridge University Press, 2009a), 123-131.

in attracting overseas Chinese investors to subscribe to shares in the Shanghai department stores. At this point, it is worth summarizing the association between systemic trust and *bridging* of western values and beliefs. First, the Reverend John Wai acculturated Chinese businessmen to institutional values of the Presbyterian Church through marriages, and a Chinese Christian network. Thus, Australian Chinese entrepreneurs' religious beliefs assumed the value of systemic trust through the transnational church administration. Second, acculturation of western commercial practices accrued the attribute of integrity to Guo Luo and Ma Yingbiao. The public's perception of integrity in these businessmen's transactions were conducive to a growing sense of systemic trust contributing to a successful modern retail sector. Finally, the acculturation of Christian ethos to human capital resulted in increasing employee welfare. Overseas Chinese propensity to systemic trust improved with respect to the institutional governance associated with these transnational Chinese firms.[79] To some degree, trustworthiness is associated with the likelihood of a firm's success. In the case of family firms or partnerships, a customer's personal experience of the owner is sufficient to instill a sense of trustworthiness. Systemic trust involves trustworthiness at the institutional level, and the governance of the operations of firms following these institutions (i.e., rules of the game). For the firm, systemic trust on the part of potential investors can lower costs of financial capital, as the dividend rate on a share is inversely associated with the level of systemic trust.[80]

In the first instance, the association between systemic trust and *bridging* of western values and beliefs was through the Chinese Presbyterian Church, through marriages and a Chinese Christian network. At its core, the religious diaspora was initially begun through marriage connections between church members. These

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[79] It would be informative to compare overseas Chinese experiences of systemic trust between Australia and Southeast Asia as in the latter there was a different system of governance, especially the *kaptain* system in the Dutch Indies.

[80] Where the motives of entrepreneurs are difficult to predict, trust is poor. There are then costs to investors to seek out information, coordinate contracts, and police an entrepreneur's market decisions. Costs can be mitigated if market governance mechanisms (i.e. internalized or external rules designed to change marketing behavior) are ensured or corporate governance is enacted (i.e. investors influence management). Systemic trust is based on governance systems. Investors' likelihood to invest depends on the level of systemic trust. If systemic trust is high, investors are faced with the question of whether the company will survive for the long term or not. If the long term, investors will remain loyal and continue to hold the share, accepting lower rates of dividends they can reinvest over the period of holding. These ideas are discussed in Douglass North, *Institutions, Institutional Change, and Economic Performance* (Cambridge and New York: Cambridge University Press, 1990), and Francis Fukuyama, *Trust – The Social Virtues and the Creation of Prosperity* (New York: Free Press Paperbacks, 1996). However, limited-liability company bankruptcies in Shanghai were not limited to Chinese managed firms, but included a significant number of western firms, leading to Japanese consolidation in trade in China. On bankruptcies, see "The Week's Finance," *The North China Herald*, September 23, 1911, 761, https://newspaperarchive.com/north-china-herald-sep-23-1911-p-27/ (accessed March 31, 2019).

marriage networks became the basis to form commercial partnerships. For example, the Reverend Wai married Ma Yingbiao to Huo Qingtang (Fok Hing Tong) (1872-1957).[81] This marriage created a larger familial network between Sydney, Australia, and Hong Kong, since Ma's wife was the daughter of Huo Jingshan (Fok Ching Shang), Vicar of Saint Stephen's Anglican Church in Hong Kong. Likewise, Ma's business partner, Ma Yongcan (Ma Qing Chan) married Qingtang's younger sister, Huo Xuru (Fok Shui Yue) (1877-1961), and Guo Kui married the youngest daughter, Huo Fengjiao (Fok Fung Kiu). In 1890 Ma Yingbiao first formed a business partnership with Cai Yinghui (James Choy Hing), Ma Huanbiao (Ma Hoon-Bew), Ma Yongcan, Guo Biao, and Ma Zurong (Mark Joe or Ma Joe Young) to establish the Wing Sang Co. in Sydney.[82] In 1894 Ma Yingbiao and Huo Qingtang returned to Hong Kong and "toured village markets in Hong Kong and neighboring Guangdong province, singing praises to the Lord and illustrating his good works" with a lantern show and piano performance?.[83] To some degree, these marriage ties fell under the institution of Christian marriages, and the couples shared in the beliefs and values of the church. As entrepreneurs, the church members knew other members also shared in these values and beliefs through their marriages. In a sense, in entering into commercial partnerships the church members knew where their business partners already stood. As well, commitment to acculturated religious values was illustrated by Ma Yingbaio's missionary work when he returned to southern China.

The Chinese Christian network in Australia became the basis for the coalition of entrepreneurial enterprise investment back in China. Mei-fen Kuo remarks that "the Chinese Presbyterian Church provided a space for Chinese to build networks with other Chinese and Europeans in order to enhance commerce and the mobilization of social resources."[84] For example, the Guo brothers' decision to open a department store in

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[81] The list of arranged marriages can be found in Lee Pui Tak, "Fok Hing Tong," in *Biographical Dictionary of Chinese Women: v. 1: The Qing Period, 1644-1911*, ed. Lily Xiao Hong Lee, Clara Lau, A.D. Stefanowska, assisted by Sue Wiles (London and New York: Routledge, 2015), 41.

[82] Kuo, *Making Chinese Australia*, 44, 50, 49-50. It is significant that these marriages effectively created kinship ties between individuals who were not family relations. As well, these businessmen could generate personal ties in short order, whereas *guanxi* relationships required extensive time and frequent transactions between partners.

[83] John Fitzgerald, *Big White Lie: Chinese Australians in White Australia* (Sydney, Australia: University of New South Wales, 2007), 196.

[84] Kuo, *Making Chinese Australia*, 49.

Hong Kong was realized through partnerships that raised HK$ 160,000. This network stretching back into Hong Kong facilitated the Guo brothers' connection with the comprador, Robert Ho Tung, who aided them in securing a sizable loan from the Hongkong and Shanghai Banking Corporation.[85] In 1900, Ma Yingbiao formed a partnership with Ma Yongcan, his brother-in-law, to establish the Sincere Co. in Hong Kong. In 1905, proprietors of Wing On and Wing Sang in Sydney, Australia, strengthened this transnational network when they donated funds to establish a church at "Shiqi [township]. . . in the Zhongshan County, Guangdong province, which was sustained by profits from Sincere and Co. and Wing On and Co. until 1949."[86] In 1908, Ma Yingbiao, Ma Zurong, Cai Yinghui, Guo Biao, and Choy Chang also formed the Li Man Hing Kwok Weaving and Manufacturing Company, Ltd. in Hong Kong.[87] While such Chinese Christian networks proved instrumental in raising start-up capital for department stores in Hong Kong, entry into Shanghai required restructuring Sincere Co. and Wing On Co. into new corporate entities that could attract significant capital through overseas Chinese shareholders. Nonetheless, Christianity signaled a new form of transnational community integration and social networks in the overseas Chinese community "mark[ing] the turning from earlier forms of association based on kinship and native-place to new forms of organisation involving cooperation among different groups and wider public service."[88]

In 1916, the Shanghai Sincere department store rivaled the company's Hong Kong parent store by adding to its building a roof garden for tea service, two lifts to convey customers, and an adjoining five story hotel.[89] In 1917, Wing On constructed a six-story building occupying an entire block in Shanghai.[90] Ma

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[85] Yen, "Wing On and the Kwok Brothers," 52.

[86] *Ibid*., 49-50.

[87] Kuo, *Making Chinese Australia*, 161.

[88] *Ibid*., 50.

[89] "Mammoth Store for Shanghai: Chinese Company's New Venture," *The North China Herald*, April 8, 1916, 22, https://newspaper-archive.com/north-china-herald-apr-08-1916-p-34/ (accessed March 20, 2019). Also see, "New Department Store and Hotel for Shanghai," *The Far-Eastern Review* XIII, issue 7 (December 1916): 254-256.

[90] "China's Adoption of American Ways: Their Big Retail Establishments are Now Run Like Those in This Country," *The New York Times*, September 7, 1919, 7, https://newspaperarchive.com/new-york-times-sep-07-1919-p-32/ (accessed April 8, 2019). Wing On and Sincere were not the sole example of entrepreneurial spirit. In 1917, Huang Chujiu built the Great World (*Da Shijie*), an indoor arcade. Of the Great World, Charles Ewart Darwent, *Shanghai: A Handbook for Travelers and Residents*, 2nd ed. (Shanghai: Kelly & Walsh, 1920), 29, said that inside was "an amazing agglomeration of halls, theatres, menageries [including a tiger], distorting glasses, refreshment rooms … roof gardens on different levels where hundreds of people drink tea and eat and there is always something new. Changing China is indeed seen here."

Yingbiao founded the Shanghai branch store as a four story building, with a construction cost of $300,000 HK.[91] The Guo's department store started in Shanghai with $2,500,000 HK startup capital. In all these stores, the bulk of their shares was purchased by overseas Chinese investors.[92] However, in venturing into the retail business, the spirits of the entrepreneurs were far greater than what shareholders were accustomed to.[93] Traditional Chinese retailing establishments tended to be two stories in height, and crammed among other establishments. Raising capital to fund foreign and domestic owned firms had been a familiar practice in Shanghai, borne out by the compradors purchase of shares in foreign enterprises and state *guandu shangban* enterprises. The *North China Herald* in 1898 attested to the degree of the size of shareholdings by Chinese when it editorialized on the legality of such holdings in foreign companies, specifying that the practice was not uncommon.[94] However, native investors were circumscribed to direct investment of personal wealth, rather than through financial markets. Furthermore, the Shanghai Share Broker's Association only traded shares in foreign-registered companies and, excepting ten Chinese members on the Association, "Chinese were prohibited from trading through the SSBA."[95] Through their interactions with Anthony Hordern in Australia, it was realized by the Chinese entrepreneurs that there existed a business model, namely, retail department stores, that could maximize returns if access to underutilized pools of venture capital could be acquired.[96] To acquire access to this capital through overseas Chinese was testament to the Australian entrepreneurs' competencies "at investment banking [over] retailing."[97]How did the Australian Chinese entrepreneurs access overseas Chinese in Australia and America as investors?

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[91] "Mammoth Store for Shanghai: Chinese Company's New Venture," 22.

[92] Yen Ching-hwang Yen, "The Wing-On Company in Hong Kong and Shanghai: A Case Study of Modern Overseas Chinese Enterprise, 1907-1949," in *Chinese Business Enterprise, Volume 1: Critical Perspectives on Business and Management*, ed. Rajeswary Ampalavanar Brown (London and New York: Routledge, 1996), 380.

[93] In 1917, the entrepreneurial spirit was alive in Sincere Co. Beyond manufacturing factories, it planned wholesale departments to handle Chinese products in treaty ports and the interior. Sammons, "Department Store Quickly Wins Chinese Favor," 888.

[94] "The Bank of China, Japan and the Straits, Limited, and Their Chinese Shareholders," *The North China Herald*, September 5, 1898, 455, https://newspaperarchive.com/north-china-herald-sep-05-1898-p-35/ (accessed March 21, 2019).

[95] William N. Goetzmann, Andrey D. Ukhopv, and Ning Zhu, "China and the World Financial Markets 1870–1939: Modern Lessons from Historical Globalization," *Economic History Review* 60, no. 2 (2007): 272.

[96] Andrew C. Godley and Haiming Hang, "Collective Financing among Chinese Entrepreneurs and Department Store Retailing in China," *Business History* 58, no. 3 (2016): 365-6.

[97] *Ibid*., 366.

First, as Richard Godley and Haiming Hang observe, "Investors typically do not share the same judgement as entrepreneurs about the relative merits of an opportunity."[98] For the Chinese investor there were no formal mechanisms to ensure fiscally discipline by entrepreneurs, and without such assurances they would not risk personal wealth in a large venture. Second, the Confucian value system emphasized trustworthiness on the part of leaders, but partnerships often led to nepotism, corruption, and dissolving of partnerships. This implies correctly that Chinese investors would have subscribed to shares in firms in which familial relations were involved with, or in state ventures which guaranteed returns. Third, "the new associations of Sydney Chinese merchants were built on trust and promoted trust as a fundamental principle of business practice."[99] According to what has been discussed above, among Australian Chinese entrepreneurs, their association in the Presbyterian Church, marriage relationships among members, partnerships based on religious association, integrity relationships with transnational clientele, and increasing employee welfare through human capital, generated this idea of trust to a marked degree. Furthermore, Guo Quan's and Ma Yingbbiao's ethical supervisory paternalism over employees "forged positive personal relationships with their employees and facilitated the development of trust."[100] Fourth, accordingly, "Ma and his fellow entrepreneurs could rely on their employees' personal networks to raise additional funds for further expansion." [101] These personal networks of employees stretched across the Pacific into Australia and America. This could have been easily modelled by Shanghai merchants or compradors.

Of the Australian Chinese entrepreneurs, Ma Yingbiao was the first to solve the problem of capital investment from overseas. Godley and Hang argue that Ma tapped into a large source of overseas surplus capital returned to south China as remittances by laborers, the "overriding function of such transfers [being] to fund [home] consumption."[102] However, Ma and his partners were able to raise capital for investment from these

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[98] *Ibid*., 371.

[99] Kuo, *Making Chinese Australia*, 155.

[100] Godley and Hang, "Collective Financing among Chinese Entrepreneurs and Department Store Retailing in China," 372.

[101] *Ibid.*

[102] *Ibid*., 369. Wealthy Chinese merchants in Victoria, New South Wales, as the Guo brothers and Ma in Sydney, benefited from handling volumes of gold remittances for Chinese goldminers. Some sense of the volume is given in Rev. Richard Fletcher remark in a letter on the values: "some idea of the extent of the commercial intercourse between the Chinese of Victoria and their connection in

overseas Chinese because they changed Sincere Co.'s registration. In 1909, Sincere Co. was changed to a limited liability firm registered under Hong Kong's Companies Act, and thereafter raised its capital holdings from HK$200,000 to 2 million by 1916, the investors for this registered company being overwhelmingly found in overseas Chinese communities in Australia and North America.[103] Ma's innovation in shareholder funding was a significant departure to the practice of family funding of firms.

The difference between the Australian Chinese firms and traditional family firms in China rests on the administration or governance of the market. Cheryl McWatters *et al*. observe that the family firm as the principal corporate form during the late-Qing was due to its self-regulating activities, its reliance on guilds to discipline market transactions, and appeals to Chambers of Commerce to resolve commercial disputes.[104] In the traditional Chinese economy there existed a strong relationship between social relationships and market institutions. Overseas family firms followed a contrastive development, as they were embedded within a context that facilitated organizational and financial experimentation. Innovation in the management of the firm and financial experimentation occurred overseas because the economy operated as an autonomous sphere. Certainly, the intrusion of western powers into China transformed the country's economy. In response, mainland family firms evolved a "kinship-based Confucian capitalism."[105] However, overseas firms engaged competitively in the western markets, which were deemed to be self-regulating through strategies of economizing by firms seeking to maximize wealth. The difference, then, between mainland family firms and overseas firms is the degree to which the overseas firms resembled a capitalist firm understood as a difference in their relative strengths.[106] In

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China, … that upwards of 100,000 ounces of gold are sent by them annually, or a full half-million (*pounds sterling*) of the precious metal." Richard Fletcher, *Australian Correspondence*, (Victoria, Australia: London Missionary Society, 1 February 1859).

[103] *Ibid*. There was an advantage to registration. For example, Wing On Co., registered as limited liability in 1912, continued to be run as a family firm by broadening shareholding through "extended family, their overseas and native-place networks, interlocking directorships, and intercompany loans," according to William N. Goetzmann and Elizabeth Köll, "The History of Corporate Ownership in China: State Patronage, Company Legislation, and the Issue of Control," in *A History of Corporate Governance around the World: Family Business Groups to Professional Managers*, ed. Randall K. Morck, (Chicago: University of Chicago Press, National Bureau of Economic Research, 2005), 164.

[104] Cheryl Susan McWatters, Qiu Chen, Shujun Ding, Wenxuan Hou and Zhenyu Wu, "Family Business Development in Mainland China from 1872 to 1949," *Business History* 58, no. 3 (2016): 410-11, 415, 416.

[105] As McWatters *et al*., *ibid*., 422, argue, for family firms "reliance on these [Confucian] shared social norms reduced the transaction costs of doing business."

[106] On the idea of capitalism and types of firms, see Michael Joffe, "The Root Cause of Economic Growth Under Capitalism," *Cambridge Journal of Economics* 35, no. 5 (2011): 881-887. Joffe delineates the following ideas, namely that capitalism is a competitive

this context, trust becomes another calculation for risk as a measure of market mechanisms of governance.[107] Such a difference in markets calls attention to why overseas Chinese shifted surplus money from remittances to investment as a reflection of increasing systemic trust.

As a special mention, it was overseas Chinese investors who perceived systemic trust and converted some of their remittances into capital shares, and not Shanghai Chinese who might have done so. William Goetzmann and Elizabeth Köll justify this difference between the two populaces in terms of the 1883 market crash of Shanghai's stock exchange, which "was particularly unfortunate, for . . . it removed one of the major motivations for entrepreneurs and managers to cede control to outside shareholders."[108] The effect of the crash was that institutional trust declined among investors, as following the crash "privately held shares were worth relatively little in the public market."[109] Consequently, financing was determined by the structure of the firm, namely, family firms received personal wealth from kin, while the government or wealthy merchants invested in *guandu shangban*. Larger infrastructure projects, such as railways and mines, depended on European banking loans. After 1895, new forms of enterprises developed, structured as incorporated, limited liability, but without an accessible stock market, raising capital for entrepreneurial ventures was a major problem. Thus, Goetzmann and Köll argue the problem of modernization of Shanghai's domestic firms was not an issue of property rights or cultural aspects such as personal networks, but the cumulative negative effects on investors' trust because of a "series of booms and busts" impacting the efficiency of a modern stock market.[110]

Conclusion

This thesis argues that Chinese Australian capitalists *bridged* western business practices and

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struggle between firms, that market relations under capitalism are not culturally defined, and that market expansion results from differences in the relative strengths between firms.

[107] Williamson, *The Mechanisms of Governance*, 256-275.

[108] Goetzmann and Köll, "The History of Corporate Ownership in China: State Patronage, Company Legislation, and the issue of Control,"156.

[109] *Ibid*., 156-7.

[110] *Ibid*., 151. Marie-Claire Bergère notes the creation of a Chinese Stock Exchange in 1920 "served only to create a great wave of speculation" ending a year later in a debacle. On the Chinese Stock Exchange, see Marie-Claire Bergère, *Shanghai, China's Gateway to Modernity*, trans. Janet Lloyd (Stanford, California: Stanford University Press, 2009b), 151.

acculturated to the western religious institutions through the Chinese Presbyterian Church. The nature of the fruit wholesale firms they established in Sydney, Australia, were reproduced on a larger scale in their Shanghai department stores. They were able to do this because they generated in overseas Chinese laborers a sense of systemic trust, which institution facilitated their acting as bankers for remittance payments to Hong Kong. In terms of this western institution compared to personal trust, systemic trust answered problems of moral hazard overseas Chinese investors might have had regarding intentions of capitalist owners. As members of the Chinese Presbyterian Church, they developed Chinese Christian networks that provided a foundation for establishing partnerships that were more secure and lasting than traditional partnerships in China. In part this was through the mentorship of Reverend Wai, whose guidance reinforced their conversion to Christianity and marriageable partners linking many of these Chinese businessmen as in-laws. Mentorship and personal association with Anthony Hordern Jr., a Sydney department store magnate, gave them insight into modern retailing practices, and distinguished Sincere and Wing On's department stores in Shanghai from traditional Chinese retailers. Whereas *bridging* by compradors resulted mainly in acculturation to western business practices, *bridging* in Australia broadened this acculturation to a new entrepreneurial spirit of innovation that embraced a modern model of labor welfare as human capital.

According to NIE, institutions characterize firms. Whereas with bureaucratic merchants, the China Merchants' Steam Navigation Company's organization and investment scheme was shaped by property rights, in the Australian wholesale companies and later Shanghai department stores systemic trust played a similar role in shaping these firms. Importantly, systemic trust played a role in the shift from the traditional family business to the capitalist family business. Distinctive to the latter type of firm, in the capitalist family firm the role of the entrepreneur and manager was more prominent. Through the activities of the entrepreneur or manager capital assets were maximized as these firm' agents coordinated the firm's operations. In one instance, as noted above, they captured remittances by offering banking services and redirected these savings as investments. This was not a matter of misappropriation, but the pioneering of systemic trust among overseas Chinese laborers. It would be worth investigating how systemic trust differed among overseas Chinese laborers in different locations. NIE suggests the context of the Dutch Indies would have held different institutions that would have shaped laborers' perceptions of trust compared with laborers in Australia. In

Australia, systemic trust arose because of prioritizing employee's welfare, many of whom were family members of overseas laborers. However, it is important to stress that systemic trust was in service of capital growth.

Although *bridging* had begun initially after arriving in Australia, for Chinese Australian emigres Christian sponsored educational classes provided them with an opportunity to learn English and acquire business knowledge. What the contents of such classes, conducted by Reverend Wai, consisted of is uncertain. Yet another limitation is in determining how much was learnt. Reverend Wai's mentorship was important to the learning experience, and the experience may have reinforced networks among the participants. On this the primary sources, such as they are, remain silent. That it was significant is attested to in Guo Quan's autobiography in his comparison of traditional Chinese retailers and modern retailers, among whom he places his business. After all, the rapid rise of the twin department stores in Shanghai was unprecedented, let alone the means by shareholder investment among such large numbers of overseas shareholders. This chapter has traced out how Chinese capitalists in their fruit wholesale companies inaugurated, with a Midas touch, retail and Christian *bridged* practices. Banking integrity and customer satisfaction cultivated increasing sales. Consequently, capital growth increased commercial scale and promoted new commercial lines. In their department stores in Shanghai, *bridging* was equally relevant to success. By the 1920s, Australian Chinese capitalists had accrued international businesses including department stores, banks, hotels, fruit plantations, and manufactures. Their Shanghai department stores were multi-million-dollar enterprises.

While it may appear self-evident, a key element in *bridging* is learning English. In Shanghai, English became a requirement for employment, and was a language spoken among returning Australian Chinese to China. Among compradors, English was important, as many European traders could not speak Mandarin and therefore relied on their comprador's linguistic abilities. Languages were a valuable link between the two cultures of East and West. Even linguistically skilled speakers, such as the Australian Chinese capitalists served as middlemen between their fellow Chinese and their wider European social community. In this one respect they differed from the compradors. Compradors had few if any domestic associations with westerners, as their primary activities were economic. The same cannot be said among the Australian Chinese businessmen. They were certainly more western-oriented, and in large part this was due to the broadening of

bridging and the British capitalist society they found themselves in. A comparative analysis of Chinese capitalists in Dutch Indies or former Spanish held colonies with British colonial Chinese capitalists would go some way to challenge culturalists interpretations of Chinese capitalists.

This chapter has attempted to deal with several objections that have been raised in other studies, namely, arguments that remittances, family lineages, and personality better explain commercial outcomes for Australian Chinese capitalists. One finding of this chapter is that remittances were important, as the Hong Kong stock market was underfunded, but remittances had neither a direct impact on managerial innovations from *bridging*, nor on the effects of systemic trust as an institution. Regarding, family lineages, one conclusion of the chapter is that lineages should reinforce traditional retail conventions, and in overseas markets restrict retail to a niche ethnic market. However, it was found that Australian Chinese fruit wholesale firms pioneered modern retailing, thereby escaping the niche market. This pioneering of modern retail continued with the Shanghai department stores, setting these retailers apart from traditional retail merchants. Concerning personality as an explanatory variable, it is possible to turn this objection on its head. How can diverse personalities arrive at similar modern retailing solutions? Above all, Australian Chinese businessmen were bicultural middlemen, whose economic activities served interactions between South China and Australia. They did so by generating systemic trust, and this is the important fact.

Conclusion

Most historians focus on China's century of humiliation and economic decline as key to interpreting China's modern history. However, there is an alternative narrative. This thesis has put forward a narrative in which Chinese capitalist middlemen founded commercially diverse enterprises, included banking, manufacturing, shipping, and retail sales, that evolved a modern metropolis. It claims that their commercial activities intimate there were two development pathways open to China: a capital growth pathway, and a traditional innovation pathway. From the case studies outlined in the above chapters, this thesis has hopefully shown that *bridging* transformed capitalist middlemen into agents of modern commerce. This had five effects: modern consumerism, a cosmopolitan outlook, the value of human assets, systemic trust as an institution, and ensured property rights under extraterritoriality and British Company Law. Overall, Chinese middlemen *bridged* the commercial cultures of East and West, and introduced a new economic way of doing things that was neither western nor Chinese, and in the process remade themselves as Chinese capitalists. However, as a caution, there are two provisos: first, *bridging* was more transformative in commercial settings. *Bridging* was less effective in modern, industrial enterprises, where these ventures required managerial and technical expertise that were dependent on professional schooling. Second, the effects of *bridging* were very much limited to treaty port markets, and largely absent from the larger Chinese economy. The Commercial Revolution that *bridging* brought about was a Shanghai phenomenon. By the 1920s, Shanghai was on display as a spectacle of the modern, and Wing On and Sincere were commercial centers for this modern world.

The agents of this Commercial Revolution, Chinese capitalist middlemen, were, namely, compradors, bureaucratic merchants, and Australian Chinese capitalists. As part of a commercial market in Shanghai's International Settlements, Chinese capitalist middlemen retained control over their ventures as they found protection from official interference under rules of extraterritoriality, security in holding shares in Sino-western joint-stock companies, or legal protection in British registered companies. These protections could not have applied to Chinese capitalist middlemen had not western institutions embedded themselves within the Shanghai system of governance, fundamentally as rules of market behavior and as legal protections

following British Company Law as it appeared initially in Hong Kong. The analysis of these institutions within the market economy of the treaty port, as a node in a larger international trading network that stretched throughout Southeast Asia to Australia and westwards to Europe and Atlantic America, revealed that Chinese capitalist middlemen responded to changes in the metropolitan economy in ways their traditional counterparts could not. Their activities, while mainly economically-oriented, also included social and welfare features that were an indirect outcome of *bridging*. In this context, they fashioned a cosmopolitan view of themselves and fostered a moral view that combined Confucian and Christian ethics, giving rise to a notion of human capital as a form of commercial welfare.

As asset maximizers, Chinese capitalist middlemen evolved their own identities as marginal figures between a western-oriented outlook and a Confucian outlook yet retained a core identity as businessmen seeking to maximize capital growth in their ventures. The chapters in this thesis elaborated on this theme of asset maximization by initially defining *bridging* as the encounter by middlemen with western business practices in the work-a-day-world of the western trading company or western banking firm. In their own ventures, modelled on the traditional family business, middlemen reshaped the nature of this firm by reorganizing its operations and in the process shifted the family firm from a condition of steady state, organized to satisfy family consumption, to a growth pathway involving reinvestment of revenue in capital. This led to scalable growth, the hiring of managerial talent, and professionalizing the business to attract investor capital (rather than rely on funds from lineage members). *Bridging* provided the tools to escape traditional business limitations that impeded company growth. This development pathway culminated in novel commercial sectors in the Shanghai market in which large scale enterprises dwarfed domestic forms, and created an urban elite of which Chinese capitalist middlemen were a part alongside gentry, officials and expat Chinese returned to Shanghai.

Alongside *bridging*, the role of western institutions was of equal importance to explain the outcomes of middlemen's activities, and the analysis of institutions relied on the methodology of New Institutional Economics. NIE provides a methodology using case studies to interpret historical periods during which economies underwent transformation from one phase to another, in particular during the period following the Second Opium War of the 1860s when the Yangtze ports opened up and western traders established

branch firms employing Mississippi river steamers to rival Chinese junks. The compradors who had initially arrived with western traders following the First Opium War engaged in a trading system that favored their linguistic knowledge and meant they could exploit their positions to their own credit over that of traditional merchants or their employers. In the 1860s, Chinese young men in their teens migrated to Shanghai in hopes of finding posts with western traders, and it was these individuals who were singular in *bridging* business practices as they were in their formative years, in cases they found mentors who aided them in their later ventures, and they spoke fluent English.

Longitudinal examination of compradors' formative years found them employed in domestic firms in their native places around ten years of age, reinforcing a Confucian sensibility that was manifest in their charitable donations to their natal homes after they acquired wealth, although the shape their philanthropic activities took was more in line with western-oriented philanthropic activities, such as outlined in the Carnegie Model of philanthropy. *Bridging* influenced their philanthropic outlook, basing it on creating opportunities for social classes, which in turn resulted in increasing economic productivity and social wealth. The gentry's Confucian Model prioritized benevolence flowing from the ruler, resulting in a harmonious society. The compradors' philanthropic endeavors promoted education and social development, founding western curriculum schools and vaccination clinics. At the same time, they endeavored to promote traditional charities as a means of acquiring official titles or other honorifics, which elevated them in social status to a lower level of the gentry.

As a particular case, the comprador, Ye Chengzhong, utilized Ningbo guilds to advance his commercial operations, and established one of the largest retail businesses in China, pursuing enterprises in silk filature, match manufacturing, and native banks. Ye's Ningbo connections were reciprocally matched by charitable donations, showing a new mentality that favored western-styled organizations and inspired by a new urban cosmopolitanism reflected in a modern sensibility towards social welfare (e.g., he spent 20,000 taels in building the Huei Teh Tang for the widows and children of those who had been in his employment).

The institution of property rights, outlined through NIE analysis, safeguarded comprador investments from official extractions. How deeply and how broadly property rights impacted Chinese merchants in Shanghai is still up for interpretation. Its role among compradors certainly shaped their investment strategies

in terms of the firms they purchased shares in, and their accumulation of personal wealth, but property rights played a significant role in the efficiency of the China Merchants' Steam Navigation Company. Established as a rival to the Shanghai Steam Navigation Company, the CMSNC's director, Tang Jinxing, resolved problems of start-up capital and competitive freightage costs by applying property rights associated with the company to attract investors and coordinate by pooling riverine market in shipping. In their capacity as asset maximizers, bureaucratic merchants, especially the initial type (namely, comprador manager) innovated the shipping firm to efficiently operate modern steamers. While *bridging* provided the managerial tools employed by comprador managers, property rights as a western institution created the conditions in which managers could transact contracts and allocate asset rights to shareholders.

The empirical evidence of daily operations of the CMSNC are absent, and only the broader implications of management are provided for in the primary sources. Thus, how shareholders and comprador managers thought of their property rights of the CMSNC's assets is unclear. Nor is there a clear understanding of whether these notions of property rights extended beyond the CMSNC. Was it a singular case of a firm? Did many interpret the CMSNC as a monopoly? In later years, as the second type of bureaucratic merchant emerged (namely, official executive), had increasing interaction with western ideas of property reshaped collectivist ideas? Traditional beliefs of merchant commerce are founded in native place systems, as for instance, the artisan apprenticeships restricted to regional villages, the provincial guild system, or the singular association of trades with different provinces. After the Boxer Rebellion, the state began a program of reforms, and these also included company reforms through legal registration. That many Chinese firms did not register reflects on merchant beliefs that property rights would not be strictly held up by the state. Equally, company registration opened businesses to examination for taxation, and, given the tradition of family businesses keeping financial records in secrecy, there may have been limited incentive by family businesses to adopt modern practices including registration.

Whereas the Shanghai compradors numbered around the same number as trading houses, comprador managers amounted to a handful limited to the few *guandu shangban* enterprises. Jardine's Tang Jingxing, as CMSNC director, attracted comprador wealth by offering property rights to shareholders, and lowered company transaction costs by forming agreements to pool the steamer market. Property rights were at the

heart of the CMSNC's success, reflecting a core belief of NIE, that institutions (i.e., property rights), are internalized in a firm where externalities are associated with social net benefits (namely, efficient shipping).

The institution of systemic trust, outlined through NIE analysis, encouraged overseas Chinese laborers to invest a portion of their remittances in Chinese department stores. In China, the legitimation of contracts was based on personal trust (i.e., *guanxi* networks), which operated well-enough in a domestic market populated by family businesses and guild organizations. But overseas in Australia, trust had to be redefined according to a novel network system that was generated through the Chinese Presbyterian Church in Sydney and its home Church in South China. Concomitantly, the Reverend John Young Wai reinforced a Chinese Christian network through his marriage ceremonies of members with potential wives, some of whom were the daughters of Huo Jingshan, Vicar of Saint Stephen's Anglican Church in Hong Kong. Had such a Chinese Christian network been the extent of systemic trust it would have been limited in its efficacy to instill trust outside of Sydney's Chinese community. An important point is that the Chinese Christian network enforced partnerships among Sydney's Chinese fruit wholesalers, who as Church members absorbed Christian moral beliefs that propagated their cooperation when they amalgamated their separate wholesale firms.

The case for growth of their businesses is attributable to their *bridging* western business practices, through the mentorship of Anthony Hordern Jr. and the Reverend Wai. The breakthrough of the Chinese Australian capitalists came with the *bridging* of human capital and social welfare. The nature of systemic trust broadened by incorporating these two features of business: human capital created the outlook of seeing labor as family, and social welfare incorporated philanthropic designs into the company operations. Although this has been discussed from an institutional perspective under the NIE umbrella, it is possible many southern Chinese labor-sojourners and their family members interpreted this through the lens of Confucian responsibility. Whatever the outlook, the outcome was the redirection of a portion of remittances to shares in establishing department stores in Shanghai. Further investigation may address this duality from rational choice theory, considering whether the Chinese capitalists and Chinese investors aligned their self-interests. NIE could address this question through its analysis of bounded rationality.

Australian Chinese capitalists, Ma Yingbiao, Guo Biao, Guo Luo, and Guo Quan *bridging* of western

business practices innovated retail in Shanghai in five ways: fixed prices made sales transactions efficient and conveyed honesty to customers, store front windows and advertising encouraged window shopping and displayed mass-produced merchandise, store profit margins enticed capitalists to enter the market, customer satisfaction and producer diversification of commercial merchandise was improved through data collection, and English was employed to encourage émigré Chinese Australians in Shanghai. Why other Chinese retailers did not innovate in the same manner is still a question to be answered.

The attention given to *bridging* and western institutions (property rights, systemic trust) makes the Commercial Revolution in Shanghai an outcome of the activities of Chinese capitalists beginning in the 1860s. Comparatively, Marie-Claire Bergère's historical outline focuses on Shanghai's 1920s Industrial Revolution as the Golden Age of Chinese capitalism. It overlooks the significance of the Commercial Revolution as a base of this later industrial take-off. *Bridging* was important to the Commercial Revolution. It reshaped the Chinese family business into a capitalist family enterprise. It created new commercial sectors in the treaty port economy. And it led to larger companies and the rise of new consumer habits. Arguments focusing on parallels, most recently by Kenneth Pomeranz, emphasize parallels in the economy of Jiangsu province with industrial Britain. Such arguments entail artificially seeing Jiangsu's economy separate from the international capitalist economy. Further, they emphasizes Smithian growth as endogenous growth. *Bridging* highlights the importance of western institutions in Shanghai's economic development, and how different institutions gave rise to different economies.

The general conclusion of this historical thesis is that through the work-a-day world in western agency houses Chinese middlemen *bridged* the business culture between East and West. They proved capable of competing with western firms in Shanghai's open-market, and as managers in *guandu shangban* ventures. Australian Chinese entrepreneurs *bridged* the commercial culture in Sydney, and thereby escaped their ethnic niche markets by acculturating to British business society. Indeed, Chinese capitalist middlemen possessed a cosmopolitan view of society and business, and an urbanite outlook in Shanghai. *Bridging* proved a barrier to guild merchants as it carried social opprobrium. That this was largely a commercial revolution implies that *bridging* was easier when applied to commercial business practices, if we accept that industrial manufacturing, namely, manufacture engineering and industrial design, required professional

engineers and teams of specialists, most of whom learnt their skills in vocational or academic settings.

Thus, the activities of Chinese capitalist middlemen were most apparent in their entrepreneurial risk taking in the international market in Shanghai. Ultimately, their effects in the larger Chinese economy were not deeply felt and as they were confined to the treaty ports. Against a wider horizon, this thesis implicitly raises some economic questions for future examination. For example, how do institutions result in information asymmetries and, therefore, improve marketing ability by entrepreneurs accustomed to these institutions? Or, to what extent is *bridging* a typical feature in other developing economies?

Appendix A: Chronology of Commercial Shanghai

18th century-1842	Canton System of trade operated between Qing-licensed merchant brokerage (*hongs*) and foreign traders. Principal foreign traders included British (East India Company), Portuguese, Dutch (Dutch East India Company), French and Americans. Trade was supervised by officials and tightly controlled. Compradors were licensed, and their duties circumscribed.
1756	Frederick Pigou (1711-1792), of the Br. East India Co. visits Shanghai. Reports to superiors the desirability of location for trade.
1832	Mr. Hugh Hamilton Lindsay (1802-1881) of the British East India Co. negotiated to pursue free trade in Shanghai. The Qing court still kept foreign trade to Canton alone. Lindsay was one of the British hands that sought war to open China. In 1841, he entered Parliament, remaining until he stepped down in 1847. His voyage of 1832, which touched Shanghai, was part of a six-month trip that extended along the northwestern coast of China, past Shandong to Korea, and back to Canton via the Ryukyuan islands.[1]
1833	British government abolish British East India Company's monopoly. Tea shipped to Britain in 1834 increases by 40% accompanied by a huge influx of opium to China.
1839-1842	First Opium War happened because British traders sought to open China to free trade, including opium, but the Qing government tried to control inflow of opium and outflow of silver. William Jardine acted as architect of the war in its contact with Lord Palmerston.[2]
August 29, 1842	Treaty of Nanking (Nanjing) ended Canton System and opens 5 treaty ports, including Shanghai. Compradors no longer needed licenses. Qing government later signed other foreign treaties based on Treaty of Nanking.
1843	Yao, Cantonese businessman, provides 52 room mansion for rent to George Balfour as a makeshift British Consulate while construction underway.
1844	50 foreigners arrived in Shanghai. On November 29, 1845 Land Regulations was ratified by Taotai Gong Mu Jiu and Consul Balfour establishing rule for foreign renting of land through British Consul. Revised in 1852, allowing land rental through the American consulate.
1850	210 foreigners in Shanghai.
1851-1864	Taiping Rebellion springs from radical interpretations of Christianity. An anti-Manchu peasant rebellion, it spreads across south-eastern China. Loss of Yunnan to the rebels terminated copper supplies needed by the Qing government for producing 'cash'. In 1853,

[1] Robert Bickers, "The Challenger: Hugh Hamilton Lindsay and the Rise of British Asia, 1832-1865," *Transactions of the Royal Historical Society*, Sixth Series 22 (2012): 141-169.

[2] Benjamin Cassan, "William Jardine: Architect of the First Opium War," *Eastern Illinois University Department of History*, [online] 14, no. 1 (2005): 107-117, http://www.eiu.edu/historia/Cassan.pdf , (accessed May 13, 2019).

	Taiping revolt expanded to the Yangtze Delta, denied crucial land tax revenues, salt tax, and tributary rice needed by the Qing state. Refugees, including wealthy landed-gentry and merchants, seek refuge from the Taiping revolutionaries for the security of Shanghai.[3]
3 August 1850	*North China Herald* (*Bei hua jie bao*), an English language newspaper in Shanghai, founded and edited by Henry Shearman (British) until his death in 1856. Charles Spencer Compton took it over after Shearman's death.
1851-1862	*Xianfeng* (Hsien-Feng Inflation) inflation due to currency depreciation because of increased government military expenditures and reduced revenues. Introduction of *likin*, an excise tax in Shanghai, to raise additional revenues.[2]
1851-1854	'Cantonese ascendancy' in Shanghai officialdom in the period of Taotai rule of Wu Jianzhang; Shanghai Municipal Council formed to manage foreign areas.
September 1853	Small Swords Rebellion happened in Shanghai in support of Taiping revolutionaries. Many, including the taotai, flee to the foreign concessions.
1854	120 foreign mercantile houses at Shanghai, implying 120 major compradors. 250 major compradors in China.
June 29, 1854	Imperial Maritime Customs House in Shanghai is established to collect tariffs on behalf of the Qing government. It is run by both foreigners and Chinese. 'Chekiang-Ningbo ascendancy' in Shanghai Chinese community following failure of Small Swords Rebellion. Beginnings of Shanghai Municipal Council (first meeting July 11, 1854), a semi-independent civil government, to regulate rentals of land, taxation, and plan and oversee improvements in concession areas. French concession and Chinese city operated independent of English and American concessions. The Huangpu Bund road established and kept a public thoroughfare under the taotai's insistence.
1855	243 foreigners in Shanghai.
1856-1860	Second Opium War opened new treaty ports.
1861	Trade resumeed along the Yangtze River.
1862	Russell & Co. floated monies for the Shanghai Steam Navigation Co. In 1865, Lindsay & Co. had steamers along the Yangtze, including a thousand ton, *Fire Cracker*, and a paddle-steamer, *Fire Queen*.[4]
1863	British and American concessions joined to form International Concession.
1860-1865	American Civil War, northern states blockade of cotton from southern states forced British and French textile industries to seek cotton from China, resulting in an export boom in Shanghai. With the end of the civil war, Shanghai firms went bankrupt, including Hugh

[3] Jerome Ch'ên, "The Hsien-Fêng Inflation," *Bulletin of the School of Oriental and African Studies* 21, no. 3 (1958): 578-586.

[4] Bickers, "The Challenger: Hugh Hamilton Lindsay and the Rise of British Asia," 154.

	Lindsay Hamilton's Lindsay & Co. in 1865.[5]
1861-1895	Self-Strengthening Movement led by Qing officials to borrow Western technology while maintaining Chinese ideology. Li Hongzhang pursued entrepreneurship with Shanghai compradors to establish various Chinese managed enterprises. The Movement was fostered during the T'ung-chih (Tongzhi) Restoration (1862-1874), a restoration of Confucian oriented government, to correspond with the T'ung-chih Emperor's reign.
1865	Hong Kong and Shanghai Bank branch established in Shanghai in April. Shanghai Gas Company (British operated) formed to supply gas lighting. Wenxiang discussed extraterritoriality with Sir Rutherford Alcock to see if it could be removed in place of British traders operating inland. *Shen Bao* criticizes extraterritoriality in 1872. Anglo-Chinese School (*Yinghua Xuetang*) founded by Church Missionary Society. Foreign settlement population: 2,297 foreigners in Shanghai, 1,372 British, and 90,587 Chinese.
1866	Panic of 1866, in London, Overend, Gurney and Co. failed causing global-financial crisis. Foreign banks and native banks in Shanghai suffered bankruptcy.
1867	Civil case of *E-kee v. Jardine, Matheson & Co.*
1869	Suez Canal opened reducing costs of transport and shipping time for foreign traders in Shanghai.
1870	Foreign settlement population: 1,666 foreigners in Shanghai, 894 British, and 75,047 Chinese. During the 1870s arrival of Baghdadi Jews, who continued to use Judaeo-Arabic in the Shanghai Stock Exchange. The firm of E. D. Sassoon & Co. founded 1867, later having branches in Baghdad, Bombay, Hong Kong, Ningbo, Hankou, Tianjin and Yokohama. In 1929, Sir Victor Sassoon built the Cathay Hotel (later Peace Hotel) in Shanghai kicking off a real estate and building boom.[6] 203 mercantile houses at Shanghai, 202 at Hong Kong, about 350 major compradors.
1871	Speculative on the Shanghai stock exchange bubble burst triggered by monetary panic. First telegraph cable connecting Shanghai to London.
1872	China Merchants' Steam Navigation Co. founded (1872-1902), public joint-stock company supervised by government officials and managed by Shanghai merchants. Administration of the company occurred in two periods, from 1872 to 1884 when it was administered by merchants, and following the Sino-French War (1885) the company was reorganized to permit increasing government administration. Shares of the company were traded on the streets, the first stock market exchange in China.[7]
1873	Shanghai financial crisis bankrupted Chinese merchants as loans by foreign banks called

[5] *Ibid*., 143-4.

[6] Chiara Betta, "From Orientals to Imagined Britons: Baghdadi Jews in Shanghai," *Modern Asian Studies* 37, no. 4 (2003): 999-1023.

[7] Chi-Kong Lai, Review of "China's First Modern Corporation and the State: Officials, Merchants, and Resource Allocation in the China Merchants' Steam Navigation Company, 1872-1902," Ph.D. Dissertation, University of California, Davis, 1992, *Journal of Economic History* 54, no. 2 (1994): 432-4.

and silver circulation decreased. Cantonese Tong King-sing directs Chinese Merchants' Steam Navigation Co. from 1873-1883. During this period, Chinese government subsidized the steamship company more than 100,000 taels silver per annum.

1874 Rickshaws became mode of transport in Shanghai.

1876 The Wusong-Shanghai railway clandestinely built by Richard Rapier purchased by the Qing government on October 20, 1877, and shortly thereafter dismantled, the rails intended for use at a salt mine in Taiwan.[8] A petition by 145 Shanghai, Woosung, and Kangwan merchants implored the court to preserve the rail.[9] Foreign settlement population: 1,673 foreigners in Shanghai, 892 British, and 95,662 Chinese.

1877 Shanghai Cotton Cloth Mill initiated 1878, given 10-year monopoly in 1882. China Merchants' Steam Navigation Co. purchased 16 ships from Russell & Co. Kaiping Coal Mine initiated.

1880 Foreign settlement population: 2,197 foreigners in Shanghai, 1,057 British, 230 American, 285 Portuguese, and 107,812 Chinese.

1883 Credit crisis resulting from speculation in Chinese companies. Sino-French hostilities broke out, Qing finances redirected from Li Hongzhang's Self Strengthening Movement projects, including subsidies to China Merchants' Steam Navigation Co. Hu Guangyong tried unsuccessfully to corner the silk market causing a banking crisis and numerous bankruptcies.

1884 Tong King-sing resigned control of Chinese Merchants' Steam Navigation Co. to the mandarin, Sheng Xuanhuai (Hsüan-huai). Li-Fournier Convention ended French-Chinese hostilities. Li denounced by conservatives in Beijing as cowardly; Qing aggressively engaged French forces. August 23rd, French naval forces destroyed entire Chinese Southern fleet at Fuzhou Shipyard.

1885 Foreign settlement population: 3,673 foreigners in Shanghai, 1,453 British, 595 Japanese, 274 American, 457 Portuguese, 216 German, 232 Spanish, and 125,665 Chinese. End of Sino-French War in April 1885.

1889 First cotton mill, Shanghai Cotton Cloth Mill goes ahead after American gunboats in 1882 and Sino-French War disrupts finances of mill, followed by others in 1895. Deutsche-Asiatische Bank established.

1890 Bank crisis initially started in Hong Kong. Foreign settlement population: 3,821 foreigners in Shanghai, 1,574 British, 386 Japanese, 323 American, 564 Portuguese, 244 German, 229 Spanish, and 168,129 Chinese. Summer, cholera outbreak.

1893 Yokohama Specie Bank established agency in April, but suspended operations in

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[8] Hsien-Chun Wang, "Merchants, Mandarins, and the Railway: Institutional Failure and the Wusong Railway, 1874-1877," *International Journal of Asian Studies* 12, no. 1 (2015): 31-53.

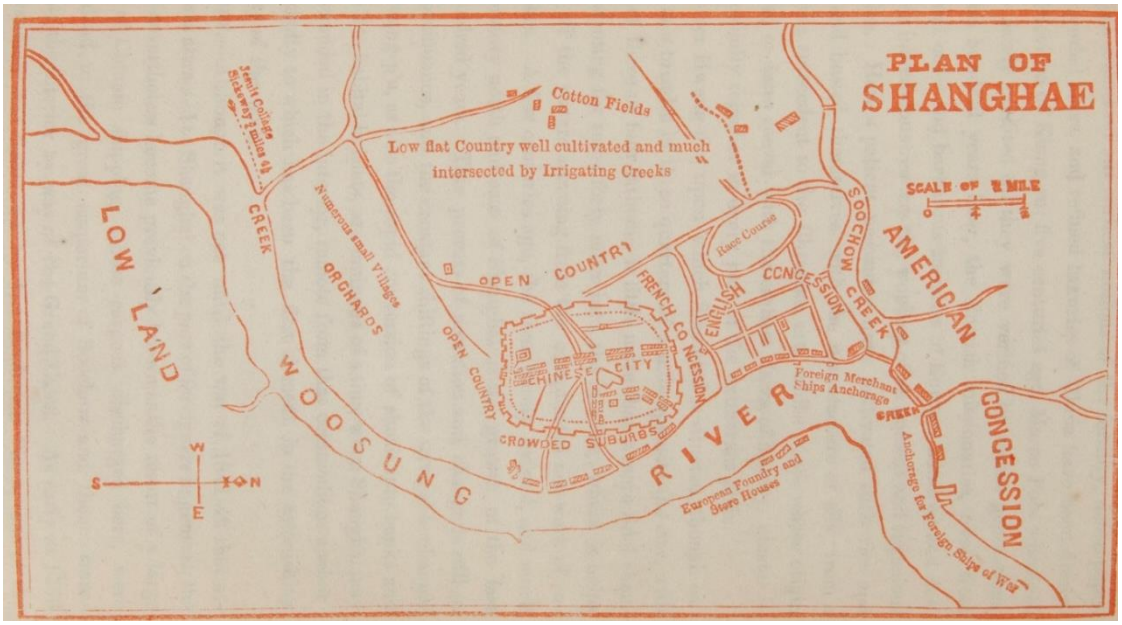
[9] The petition (translated) can be found in Richard Christopher Rapier, *Remunerative Railways for New Countries with some Account of the First Railway in China* (London: E. F. Spon, 1878), 113.

	September 1894 due to the Sino-Japanese War. The agency resumed operations in July 1895.
1894-1895	Sino-Japanese War.
1895	Foreign settlement population: 4.684 foreigners in Shanghai, 1,936 British, 250 Japanese, 328 American, 731 Portuguese, 314 German, 119 Indian, and 240,995 Chinese. Treaty of Shimonoseki signed.
April 17, 1895	Treaty of Shimonoseki, followed by a supplementary treaty between the combatants signed on July 21 of the year, outlined rights of Japanese trade and industries in free treaty ports within China. Treaty opened inland navigation routes. Chinese native banks (*qianzhuang*) represented nearly 52 percent of China's foreign trade value.
1897	British cotton mill opened. Imperial Bank of China established by Sheng Xuanhuai in Shanghai, modelled on Hong Kong and Shanghai Bank.
1898	Rail link from Shanghai to Woosung built by Chinese themselves was a branch line of Shanghai-Nanjing Railway. Part of the railways building schemes of the British and Chinese Corporation.
1899-1901	Boxer Rebellion.
1900	Sun Duosen imported flour milling machinery from America and employed American miller, Frank G. Morse, to oversee project, founding Fu Feng Flour Milling Company in Shanghai as response to American domination in the industry. Between 1900 and 1904, six Chinese owned flour mills founded in or near Shanghai.[10] 6,774 foreigners in Shanghai, 2,691 British, 736 Japanese, 562 American, 978 Portuguese, 525 German, 296 Indian, 157 Malay.
1901	New Reforms led to elimination of official examination system.
1902	Jesuit priest, Ma Xiangbo, set up Aurore University, including departments in mathematics, literature, and natural sciences. Expanded in 1914 to include medicine and civil engineering. In 1905, Ma established Fudan University after disagreement with French fathers.
1905	11,497 foreigners in Shanghai, 3,713 British, 2,157 Japanese, 354 Russian, 991 American, 1,331 Portuguese, 785 German, 393 French, 568 Indian, 171 Malay.
May 10, 1905	Shanghai Chamber of Commerce called for boycott of chief American imports, including kerosene, flour, and cotton textiles.
December 18, 1905	Riots in Shanghai attributed to students returning from Europe, America and Japan, stimulated by speeches held at the Ningbo Guild the previous day by Koo Bang Yuan (Yan

[10] Daniel J. Meissner, "The Business of Survival: Competition and Cooperation in the Shanghai Flour Milling Industry," *Enterprise & Society* 6, no. 3 Special Issue: Business History in Modern China (September 2005): 364-394. Provides a biography of Sun Duosen and flour milling industry in China and America.

	Chengye), a coal merchant, and Nyi Zung Nyih (Ge Pengyun), leaders of the Boycott Movement. Twenty Chinese laborers were killed in the riots, the riots followed on a decision by the Mixed Court.
1907	W. Edwards proposed to ship oak timber from Shanghai to San Pedro, California. Edwards represented a company with 15 steamers from Seattle to Shanghai.
1908	Shanghai-Nanjing railroad completed. Reported the International Settlements held a foreign combined population of 13,700, and 510,000 Chinese.
1910	13,536 foreigners in Shanghai, 4,465 British, 3,361 Japanese, 317 Russian, 940 American, 1,495 Portuguese, 811 German, 330 French, 804 Indian. Zhou Xiang established Shanghai Oil Painting Institute, teaching Western style painting.
October 30, 1910	Seven banks failed in Shanghai, linked to branches inland.
1916	Ma Yingbiao (Ying-piew) established Sincere department store on Nanjing Road.
1917	The Guo brothers established Wing On across the street from Sincere.

Appendix B: Four Historical Maps of Shanghai



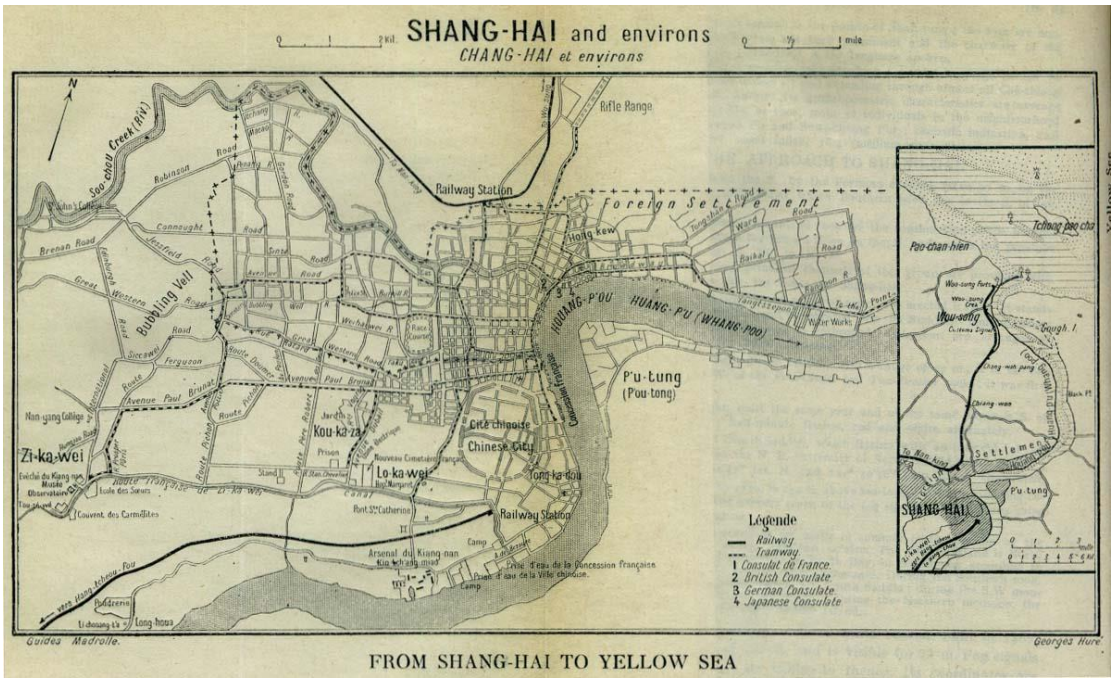


Figure 1. and 2., historical maps of Shanghai. Figure 1. Map of Shanghai, 1854, William Fred Mayer, Nicholas Belfield Dennys, and Charles King, *The Treaty Ports of China and Japan* (Hong Kong: A. Shortrede & Co., 1867), map inserted between 350-1. The Internet Archive, American Library Association, https://archive.org /details/ treatyportschin00unkngoog (accessed May 14, 2018). Figure 2. Map of Shanghai, 1912, showing Wusoong Railway, Claudius Madrolle, *Madrolle's Guide Books: Northern China, The Valley of the Blue River, Korea* (Hachette & Company, 1912). University of Texas at Austin, University of Texas Libraries: Perry- Castañeda Library Map Collection, https://legacy.lib.utexas.edu/maps /historical/shanghai_evirons_1912.jpg (accessed May 14, 2018).

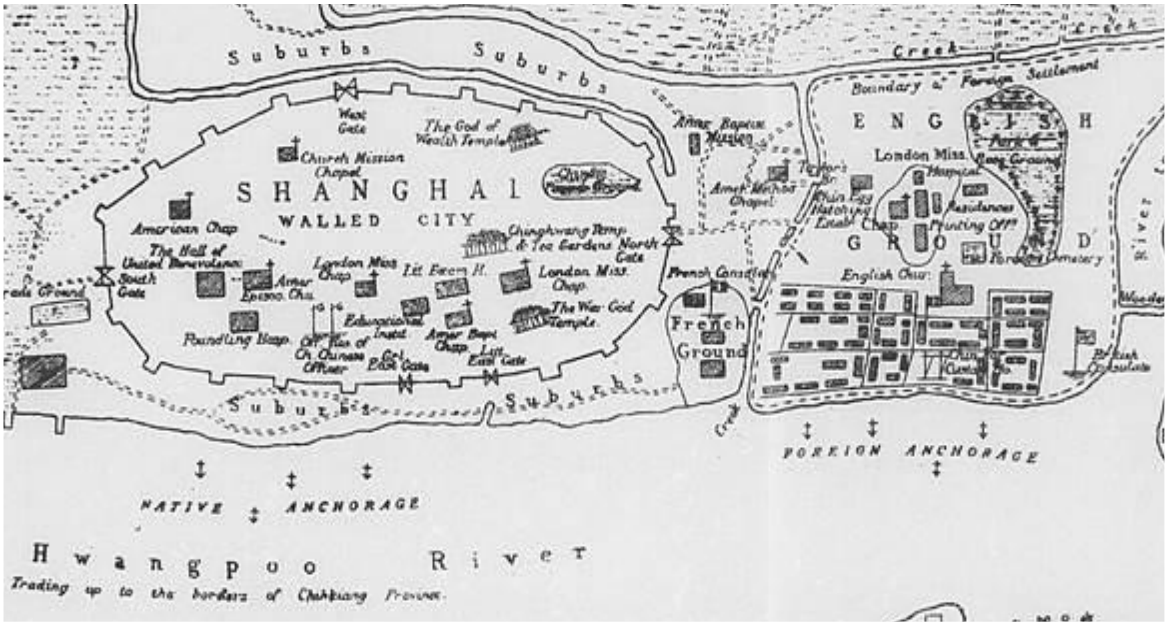
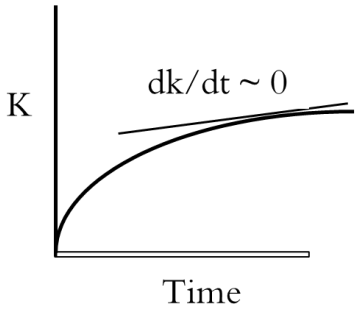
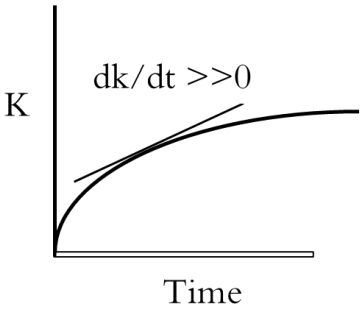


Figure 3. and 4. Two detailed maps of Shanghai. Figure 3. Map of Shanghai, 1853, (modified) dated to about 1853, showing details of old Shanghai and English concession, in G. Lanning and S. Couling, *The History of Shanghai, Part 1* (Shanghai: Kelly & Walsh, Ltd., 1921), map insert between 304-5. Figure 4. Map of Shanghai, International Settlements, 1930s, showing details of English concession (business district) with English named buildings, author, date and place of publication unknown. "Central District-International Settlement [no original title]," http://www.virtualshanghai.net /Asset/Preview/vcMap_ID-192_No-1.jpeg (accessed May 14, 2018).

Appendix C: Model of Traditional Family Firm vs. Capitalist Family Firm





$$\frac{dk}{dt} + c = F[L, K]$$

Traditional Family Firm: max[c]

Capitalist Family Firm: $\max\left[\frac{dk}{dt}\right]$

Figure 5. Model of Traditional Family Firm Versus Capitalist Family Firm. The model of the small firm is given in the equation bottom left. Revenue can be modelled as the contribution of labor and capital. Revenue can be divided into c, or consumption, and the rate of capital accumulation, dk/dt. In the traditional family business, the principal reason for revenue is to extract as much consumption as possible. Ideally, if the rate of capital accumulation falls to zero, then the entire revenue will be consumed for the family benefit. In the capitalist family firm, a larger portion of revenue is reinvested in the firm. The principal reason to maintain a high rate of capital accumulation is to increase revenue by increasing capital, or K. Over time, the curve for the capitalist family firm moves upwards as K accumulates. Ideally, dk/dt will remain the same. Thus, the limit of the rate of capital accumulation is set by other factors apart from this model. Conversely, the traditional family firm results in a steady state (the curve remains stagnant). That is the limit of growth to this firm is provided by max[c]. (Growth increases occur because labor is increased). I have contended that *bridging* is associated with the formation of the capitalist family firm. This is reflected in the unique transformation of dk/dt, which is an acculturation to western commercial values for capital growth.

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